

CHAPTER - ONE

1. Introduction

1.1 General Background

Now a days, the prime concern of every nation of the world is rapid economic development and Nepal is not exception to this ever-continuing process. For the economic development, government has huge responsibility towards the people. To fulfill the responsibility of government toward the people, government has to spend a lot of money . The responsibility may be either for security, health, education and other development activities. Government spends a lot of fund for protection of common people and for the creation of various socio-economic infrastructures. There are three types of expenditure, which are incurred by the government i.e. protection, commercial and public expenditure¹. If the nation has sufficient fund, it will be able to achieve maximum social welfare. For the fulfillment of country's need , government expenditure is increasing day to day .

Government expenditure is increasing because of demand of time, increase in population, social progress, increase in price etc . To meet the growing public expenditure , the government has to manage its fund . It is received form different sources. They are external and internal sources .

External source of fund is foreign grants and loans . Such external sources are uncertain , inconvenient and not good for healthy development if there is heavy dependence on them . It is used for economic development, reconstruction. foreign exchange , to recover form crisis condition , for productive use etc². Because of different weaknesses of external sources the internal sources should be mobilized

Developing countries try to mobilize their internal source to finance necessary fund for regular and development activities. But past experience shows that Nepal has not mobilized its internal resources, which was expected.

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

Tax is the main source of financing government activities. In every country, the largest part of government revenue is raised through taxation. Tax may be imposed on a

¹ M.C Vaish , and H.S. Agrwal : Public Finance Wiley estern Ltd. New Delhi 19921

². Neelam Kumar Sharma and Chakra Pani Luitel: Micro Economic, Money , Banking , Public Finance and International Trade: Pairavi Prakakashan Ktm 2059 (B.S). P. 526

person's income. Tax is a compulsory contribution imposed by public authority using the right given by law. Tax payer does not expect any return for his tax paying. It is neither an exact amount nor a penalty for any legal offense.

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

Income tax is the most popular direct tax. It is charged on person's income according to the law of nation. Income includes all the income which are received from business, investment and employment. Income tax is superior to indirect tax because it is imposed on the basis of paying capacity of the taxpayer. People whose income is under the taxable income are free from the incidence of income tax.²

It will be possible to reduce the gap in income by imposing higher rate to those who are having higher income and from that collected amount, providing necessary assistance to the people with very poor condition. Hence, it will help to make equitable economic distribution in the society. Balance regional economic development is also possible through the provision of income tax. The government should charge higher, income tax on the income from urban area and less on the income from remote areas. Income tax holiday and incentives would help to develop the priority sector of a national economy. "Income tax has become an effective instrument to ensure balanced socio-economic growth"³.

Income tax plays a very important role in the Nepalese economy. It is the major source of government revenue. It is recognized as a good financial tool to make narrow the inequality in income. It helps to reduce regional economic imbalance by providing tax concession and holiday to business or industries. Which are established in remote areas, It is also helpful for generating the concept of social responsibility toward the nation and keeps the people vigilant to see the public money may not be misused.

Income tax is main source of government revenue. To balance economic development is usable. No body can doubt that the equal distribution of income is also possible through progressive income tax. It is being realized that contribution of income to the revenue of government must be increased in Nepal. Nepal has adopted the income tax system for last four and half decades. But Nepal's past experience shows that the government is unable to maximize the share of income tax to the public fund as per expectations.

The taxation has been taken as an instrument of redistribution and stability. But experience has revealed that the developing countries have placed more emphasis on the

² Dr. Ashok Kumar Saxena Income Tax Act 1961, Law agency, Allahabad 1986.

³ BB Lal Direct Taxes Practice and Planning, Konark Publishers, Delhi : 1991 P.1

role of taxation as an instrument of resource mobilization in the initial stage of their development and its role as an income redistribution has been given a subordinate importance. Tax system is the subsystem of total economy. Tax policy is changed with the change in economic policy of a country. Change in world economic policy and advancement in information technology has a vast impact of Nepalese economy tool. Small economic like Nepal have to adopt the economic policy followed by World Bank, International monetary fund, Asian Development and other international agencies. Especially, after 1990s , there is reemergence of the liberalization, globalization and privatization system that focuses on the minimum intervention of the state on private economic matters. The 1950s concept of 'high incentive, high tax rate' is changed to the concept of ' low rate, wide net'. This trend in tax system is followed by most of the countries of the world. Nepal is also not an exception in his respect and Nepalese administrators and policy makers too have tried to change the tax policy of the country. Income Tax 2058 is the result of the change in all these matter, Before this act, Income Tax Act, 2031 was enacted, Since 19th Chaitra 2058, Income Tax Act, 2058 has been introduced in Nepal. This act was brought in Nepal to avoid the following defects of Income Tax Act , 2031.

- a. Narrow base of tax.
- b. Taxing only the income originating sectors in Nepal.
- c. Dispersion of tax related acts i.e. income tax related provisions were given in different acts.
- d. Low penalty to tax evaders.
- e. Incompatibility in self assessment system and
- f. Unsuitable to modern economy.

In Nepal , there are various problems to collect tax although the legal provision has been made and updated timely . there are various problem in income tax practice in Nepal such as : narrow coverage , unscientific tax assessment , deviation form the basic principles of income taxation , long time - lag , no adjustment for inflation , defectives system from the prospective of international

Taxation ⁵ Some other are - feeling of people about tax as a penalty , leakage in tax , lack of consciousness of people , inability of tax administration of cover new taxpayer , delays in computation and collection , lack of accuracy and unity in accounting system etc .Within the income tax system , fine and penalties are relevant to review . To make up to date knowledge about income tax system it should be known. Raising more revenue is the main objectives of taxation. Fines and penalties play important role to collect the tax revenue with in the time. It also measures the cleverness of taxpayer about

⁵ Rup Bahadur Khadha, Nepalese taxation: Path for reform Management, Margurg consult for self - help promotion 1994. P - 124 - 137

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

1.2 Historical Perspective

1.2.1 Origin of taxation.

The history of taxation dates back to antiquity, In early days taxes were not collected in monetary terms but were collected by tribal rules, community heads etc. for communal service and at time of emergencies.

In Hindu tax system, tax was levied on the basis of welfare of the people and people were eager to pay tax because not to pay tax was taken as a treat sin. According to Hindu holy scripture: Vedas, the duty of king was to serve and secure people, maintain peace and carry out social works. In order to perform all those activities, the king used to collect crops and cattle from farmers, gold , silver, copper from trades. These ancient forms of taxation were expanded from time to time under the influence of various economic, political and ethical forces.

In the early Roman Society, the citizens had to pay taxation even for the polling rights. "Ancient Athens used to derive its revenue from taxes like customs , sales and pole tax on aliens and salves. One Who was taxed and failed to pay was guilty of a capital offence:⁶. After the end of public war in 146 B.C , They reveled from the poll tax. They started to levy tax on the people of the captured areas instead of their citizens. At the time of Julius Ceaser, 1% sales tax was imposed to the people and he was the ruler who started to collect taxes through government institutions.

Kautilyas " Arthasastra" of the fourth century B.C has classified the tax receipt into three types.⁷

- i. Income earned through taxes on goods produced within the country.
- ii. Income earned through taxes on goods produced in the capital.
- iii. Income earned through taxes on imports and exports.

Land revenue was an important source of taxation in ancient India. Kautilya mentioned. " The tax system should be such as not prove a great burden on the public (Prajā), the king should act like the bee which collects honey without inconveniencing the plant 11 (Garola : Kautilya's) Arthasarstra) His economic though was guided by social welfare concept. He suggested heavy taxation for luxuries and other articles, which were not in favour of public welfare. Kautiya classified the main items of public expenditure.

- i. National Defence
- ii. Public administration
- iii. Salaries of ministers and expenditure on government department and.
- iv Expenditure on maintenance of armies.

⁶ Grolic Ins. Encyclopedia International, New York 1975.

⁷ V. Lokanath, A History of Economic thought. New Delhi: S. Chanda and Company Ltd. India 1998.

1.2.2 Income tax in the International context.

Great Britain was the first country in the world that introduced modern income tax in 1799 in order to collect revenue to finance Napoleonic war with France.⁸ Great Britain was adopted global principle of income tax system when it introduced income tax at first. In USA the first federal income tax was imposed in 1862 to finance civil war. The federal corporation income tax was introduced in 1909. In India, modern income tax was adopted in 1860 and the systematic income tax legislation was enacted in 1986. In Nepal income tax was introduced in 1959.

1.2.3 Taxation in Ancient Nepal

In ancient Nepal, tax was collected in the form of kinds, cash and labour service. In the Lichhave period also, the main source of revenue was tax. At that time taxes were known as "Trikar" which means three kinds of taxes. The three taxes were "Bhaga", "Bhoga" and "Kara". The Bhaga tax was levied on agriculture, the Kara tax was on business income and Bhoga was on animals. Irrigation tax and religious monuments preservation taxes also existed at the time of king Anshuman of Nepal.⁹ Fixed portions of agricultural product were payable to the king as tax. Compulsory labour work from small artisans and labourers were also common way of paying taxes.

1.2.4 Taxation in Unified Nepal (1769-1846)

During the following unified period, land tenure system was divided into five main forms: Raikay, Birta, Gouthi, Sera and Kipat.¹⁰ The major source of revenue were; Birta and Kipat taxes on land, royal palace levies like walk, Gadimubark, Chumanwan, Godan, Government levies like Darshan Bhet, Salami, Local levies on forest and water source, commercial taxes like customs, transit and market duties, mines and mints, export products like wildlife, herbs, drugs, was, birds, elephants, and Judicial fines. Maximization of revenue was the prime objective of the fiscal during the period. Taxes were collected at three levels. Royal palace levies, government levies and local levies.

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

⁸ R.B. Khadha, Income taxation in Nepal, Ratna Pustak Bhandar Nepal, 2001

⁹ G.R. Agrawal, Resource Mobilization for development. The reform of income taxation in Nepal. Kirtipur CEDA, T.U. 1978 P, 115.

¹⁰ MC Regmi. A Study in Nepalese Economic History, New Delhi, Manjuri Publishing house India 1971

Taxes were imposed primarily on occupations and economic activities not on property. Tax base was very narrow. The Birta owner class had much influential role in political and administration. However, poto tax introduced by Prithivi Narayan Shah in 1772 was regarded as revolutionary measure in Nepal's fiscal system. It was not based on progressive tax principle. It was limited on small Birta owners and privileged members of the nobility person did not pay poto, Only common people who lived on Raikar lands paid the homestead taxes and other poto levies. There was not taxation of income in the modern sense of income.

1.2.5 Taxation in Rana Nepal (1846-1950)

During the period of Rana Regime, There was no any hard and fast rule relating to taxation. However, the main aim of the rulers was to earn as much as they could be taxing people, Income and expenditure of the state were not transparent. No budget was framed at the time. There was no difference between the income of the state and the income of the prime minister. Taxes were levied according to the will of the rulers. There were three traditional sources under which the state was able to acquire goods and utilize manpower without using money as a means of exchange.

- i. Mineral resources belong to the state.
- ii. The state paid emoluments to its employee and functionaries partly or wholly through assignment of "Jagir" of taxable land and village tax rather than through payment in cash and
- iii. The "Jhara": system entitled the nineteenth century Nepali state to exact porterage and other labour service from its subject without paying wages.

There were four main categories of agencies which collected revenues: Rajya, Birta, Guthi and Kipat. The royal family traditionally acquired income from special such as Darshan Bhet, Tika Bhet and Fattemubarak. "Tika Bhet" was collected on the occasion of the Vijaya Dashami festival " Fattemubarak" was collected at the time of the Indrajatar festival, commemorating Prithive Narayan Shah's Conquest of Kathmandu in September 1768. Other three levies known as Chumawan, Godimubarak and Goddhawa were collected on a countrywide basis on special royal occasions. Soune and Fagu were the most important levies which were collected for meeting festive, ceremonial or extraordinary expenses at the royal palace. Main source of state revenue were:

Taxes During the Rana regime, incomes were not taxed for raising regular revenues of the state treasury but for meeting specific expenditure of the royal household or extraordinary expenditure of the royal household or extraordinary expenditure necessitated by war or other emergencies. During 1855-56 Nepal - Tibet war, Jung Bahadur had imposed a tax on the incomes of selected groups. In 1891, Bir Shamsheer imposed a levy of 1% on the official value of Jagir assignment of government employee to finance transportation of water pipes supply in the

capital. In 1882, Ranodip Singha imposed a 50% tax on the income made by fisherman in Deukhuri in the western inner Tarari from the sale of fish.

Receipts from the state sectors, The government got revenue from the state ownership of natural resources mainly agricultural lands, mines, and forests.

State intervention in Trade: There were two main forms of state intervention in trade namely, monopoly and state trading. The government conducted the activities of buying and selling of specific commodities for raising revenue and supplied the scarce commodities itself.

Kausi Tosakhana had been established after political unification. Its main functions were to receive and disburse revenues, obtain, store and issue supplies required by the government and perform other general function related to fiscal administration. In the Rana regime, Jung Bahadur created new development treasury known as Sadar Mulikikhana to receive and account for government revenue.

There was no direct tax in the country except land tax collected on a contractual basis and 'Salami' Which the government employees used to pay out of their salaries at a very small percentage. The salami was abolished in 1951. The Rana rulers did not think of developing an effective revenue administration system.

1.2.6 Income tax in modern Nepal

It was the first income tax act in Nepal. It had 22 sections. The main features of the act were as follows,¹¹

- a. The source of income for tax purpose was limited only to business profit and remuneration thus , the coverage of income tax was too narrow.
- b. Tax on remuneration was to be deducted at source but the specified deduction was not provided.
- c. Salary of any diplomatic representative, foreign citizen , dividend of shareholders, profits to be spend on religious or public welfare activity, profit of local autonomous organization, allowances granted by Government Of Nepal to ministers, Assistant ministers, speakers, Deputy speakers, chairman , government chief whip and leaders of opposition, crop fro mown land , money drawn from provident or saving fund were exempted from tax.
- d. The basis for calculation the tax liability for remuneration was the income of the current year whereas for business profits, it was the profit of the preceding fiscal year.
- e. There was a provisions of official assessment based on best judgment estimation in case of false statement or in absence of income tax return.

¹¹ Business profits and Remuneration act 2017 Ministry of Finance.

- f. In case of defaults the fines ranged from Rs. 500 to Rs 5000 and for informants, there was a provision of 20% of total tax realized if the information had been proved.
- g. The tax payer had a right to appeal against the tax officer's assessment to the local 'Bada Hakim' or "Magistrate". If he had not satisfied with the decisions. He could appeal to the revenue and tax court" after depositing fixed amount. Profits from large industries were granted a rebate of 25% and profits from small industries were granted a rebate of 50%. Thus in the beginning, the government servants were the main taxpayer.

1.2.6.1 Income tax act 2019

This act had defined a wider base for income tax than the former income tax act. This act had 29 sections. It was amended in 2029. The additional features of this act were as follow.¹².

- a. Income was defined as all kind of income including income from business, salaries, any professions, rents from houses or lands, investments in cash or king, agriculture , insurance, agencies and any other sources.
- b. Income tax was defined as the tax on the net earning.
- c. The Status of taxpayers was defined personally as well as residentially.
- d. The basis was specified for assessing tax on the best judgment estimate of the tax officers.
- e. There was additional provision of exemption to income of Nager Panchayat, Village Panchayat, Public organization ,Income of Nepal Rastra Bank , Deposit of employees saving from salaries, any income notified in the Nepal Gazette.
- f. The provision was made to constitute the net income assessment committee with five members.
- g. There was special provision for newly opened industry in which the Government Of Nepal might wholly exempt income tax for 10 years and 25% exemption after 10 years.
- h. Tax payment could be installment as well as advance payment.
- i. Agriculture income was brought under the scope of income tax for the first time.
- j. In agricultural income, only $\frac{1}{4}$ of the total income was taken as net earning and remaining $\frac{1}{4}$ of the total income as expenditure, while in case of net earning from Rent of house and land, from investments and from professions 90% of total income was taken as net earning and 10% as expenditure.

The Finance act 2023 exempted the agriculture income fully from income tax. The finance at 2030 restored agriculture income under the scope of income tax. Ten Big has of lank were exempted and presumptive value of income based on the

¹² Income tax act 2019 Ministry of Finance:

classification of land was also specified. The finance act 2034 again exempted the agriculture income from income tax.

1.2.6.2 Income Tax act 2031

The income tax act 2031 had 66 section. Its basic framework had been derived from the income tax act 2091. Some of the salient features of this act. as amended area as follows.¹³

1. It had clarified certain definitions specially relating to tax. Tax payer taxable income gross income, gross income, net income , personal status of the taxpayers and non-resident taxpayers, assessment of tax, philanthropic work , non - resident etc.
2. Source of income were classified into five categories (a) agriculture (b) industry, trade, profession or occupation, (c) remuneration (d) house rent and compound rent and (e) others.
3. This act had made provision for self - assessment of tax for the first time and if any mistake arise or lower tax was assessed, tax officer might make final assessment.
4. There was additional provision of exemption from income tax than the former act as follows: income of Guthi, income of village development committee, municipalities, compensation for life insurance or after the expiry of the life insurance policy.
5. The punishment provisions were specified in different heading i.e, failure to submit particulars of income, false particulars, not maintaining the accounts, obstructions and others.
6. The tax payers had to register their industry, business, Profession or vocation in tax office before starting the work.
7. Carry forward of loss was allowed for subsequent three years.
8. The process of assessment, reassessment, advance payment of tax, deduction of tax at source and refund of tax had been specified.
9. The Government of Nepal might form an income assessment committee consisting five members by publishing notice in the Nepal Rajpatra.
10. The punishment limit to persons for violating laws and regulations was up to Rs 10,000.

1.2.6.3 Income tax act 2058

Income tax act 2058 is implemented from 19/12/058 B.S. This act replace the income tax act 2031, and other acts related to income tax. There are various additional provisions in the new act.¹⁴

1. Income tax act 2031 had classified income tax into five headings whereas this act divides only into three headings.

¹³ Income tax act 2031 ministry of finance government of Nepal.

¹⁴ Income tax act 2058, Ministry of finance government of Nepal.

Provisions Against Default Of Tax Payment In Nepal

2. When income tax act 2031 was in practice, there were several exemptions and deductions provided by the act and other related acts. But now, there are not more exemptions and deductions except the ones provided for by the act.
3. Subject to this new act, income is defined as "a person's income from any employment, business or in accordance with this act." It includes all kind of income received for the provision of labour or capital or both in whatever form or nature in the taxable income.
4. The act has given the option for husband and wife as a separate natural individual until they don't accept as a couple.
5. A resident person may claim a foreign tax credit for any income year for any foreign income tax paid by the person to the extent to which it is paid with respect to the person's assessable income for that year.
6. There is a provision of functional division of work among tax officers. The division is to be made under the direction of Government Of Nepal and other tax officers are under the direction of Government Of Nepal and director general.
7. The penalties are divided into two parts. The tax officers can levy only fines and interest and the court can levy penalties & imprisonment.
8. This act has guaranteed the rights and secrecy of taxpayer through the act and strict punishment for non maintaining the secrecy are provided.
9. This act has determined the rate of income tax itself for the first time, which used to be determined by the finance acts in the pervious years.
10. For the purpose of calculating a person's income from any business or investment, there are provisions of deduction relation to overhead costs.
11. The governmental allowance to widows, elder citizens or disable individuals, gift , bequest, inheritance, scholarship, income of foreign officials government bodies and non - profit organizations have been exempted from the income tax net. Amounts of a person privileged under bilateral or multilateral treaty, an agricultural income , income of a co - operative society based on agricultural products and divided of such society etc, also exempted from income tax.
12. A person had defined as a resident whose place of abode is in Nepal and who presents in Nepal at any time or who presents Nepal for 183 days or more within the income year, or who is in employee of Government Of Nepal posted abroad during the income year.
13. Under this act, resident, individuals and domestic companies are taxed on their worldwide income while non - resident individuals and foreign companies are taxed only in their income sourced in Nepal.
14. According to this act, a company is liable to tax separately from its share holders. The bonus share , loans and advances to directors and shareholders, distribution made on liquidation etc are also brought under the tax net in order to plug loopholes fro avoidance.

Provisions Against Default Of Tax Payment In Nepal

15. The income of an approved retirement fund is free from tax. But retirement payments in the hands of employees are taxable.
16. Capital gains are taxed explicitly under this act after four & half decades of the introduction of income tax. In case of business capital gains, gains on the disposition of business properly are taxed as an ordinary income and in case of non- business capital gains; only the gains from the casual sales of real property (land and building) and securities are subject to capital gains tax at a flat rate of 10 percent. There is also a clear provision for adjusting net loss during the fiscal year.
17. The act is based on global income tax principle and brought all sources of income into the tax net and has treated in an equal manner. This act has abandoned the itemized system of deduction and expenses are taken into account on a global manner not on a line by line basis.
18. The act has adopted a pooled system of depreciation in which assets are broadly classified into five categories. The depreciation rates are 5% , 25% , 20% , 15% for class A,B, C and D respectively. Which are based on diminishing balance method of depreciation and for class E, the rate is based on straight line method.
19. The act has introduced the concept of medical tax credit under which resident individuals may claim a medical credit of 15% of the amount of approved medical costs.
20. This act focuses on the self - assessment system, and every assessment is treated as a self - assessment. The tax officers can determine only the amended tax assessment within four years. The jeopardy assessment is essential when a person becomes bankrupt, is wound - up , or goes into liquidation , a person is about to leave Nepal forever or to close down activity in any department or in Nepal. There is no time limit in the case of Jeopardy assessment.
21. Presumptive tax is limited to the small taxpayers whose annual net income is upto Rs 100000 or annual turnover is up to Rs 1 Million and are subject to flat annual taxes.
22. This act has introduced the concept of administrative review to correct the administrative mistakes. The Inland Revenue department should give its decision within 9- days of the submission of objection and if the department does not give its decision within the given time limit, the taxpayers can appeal to the revenue tribunal.
23. According to this act, the Inland Revenue department is responsible for the implementation and administration of this act.

1.3 Legal Provision Relating to Fines and Penalties.

1.3.1 Interest and Penalties.

Income tax act 2058 has made the following provisions of interest and penalties.

1.3.1.1 Penalty for failure to maintain documentation or file statements or return of income (See. 117)

- a. Where a tax payers falls to file a statement for an income - year, file a return for an income - years shall be liable to pay a penalty for each month and part of a month calculated as the higher amount of 1.5% per annum of the person's assessable income with a gross of any deductions and all amounts required to be included in calculating the taxpayers income for year, or Rs 100 per month.
- b. Where taxpayers fails to maintain proper documentation for an income years shall be liable to pay a penalty for the year during which the documentation is not maintain calculated as the higher amount of 1.5% per annum of the person's assessable income with a gross of any deductions and all amount required to be included in calculating the person's income for the years, or Rs 100 Per month.
- c. A withholding agent who fails a statement is liable to pay a penalty for each moth and part of a month during which the failure continues calculated as 1.5% per annum applied to the amount of tax required to be withheld from payment made by the agent during the month to which the failure relates

1.3.1.2 Interest for understanding estimated tax payable by installment (See 118)

Where an installment of pay paid a person under (1) is less than tax payable by the person under(ii), the person shall be liable to pay an interest at standard interest rate for each month and part of a month (the period) form the date the first installment for the year is payable until the date tax is payable on assessment of the person for the year

- i. An installment payer's estimate or revised estimate of tax payable for an income years.
- ii. 90% of the tax payable by the person for the years.

1.3.1.3 Interest for Failure to Pay tax. (See 119)

A person who fails to pay tax on or before the date on which the tax is payable is liable to pay interest for each month and part of a month for which any of the tax is outstanding calculated as the standard interest rate applied to the amount outstanding.

1.3.1.4 Penalty for making false or misleading statements (See 120)

A person who makes a statement to the Department that is false or misleading in a material particular, or omits fro ma statement made to the department any matter

or thing without which the statement is misleading in a material particular, shall be liable for a penalty as follows.

- i. Where the statement is happened to be false or misleading without knowingly or recklessly, 50% of the under payment of tax: or .
- ii. Where the statement is made false or misleading knowingly or recklessly, 100% of the underpayment of tax.

1.3.1.5 Penalty for aiding and abetting. (See 121)

A person who knowingly or recklessly aids or abets another person to commit and offence of a type or counsels or induces another person to commit such an offence shall be liable for a penalty equal to 100% of underpayment of tax.

1.3.1.6 Assessment of Interest and Penalties (See 122)

The department shall make an assessment of the interest and penalties for which a person is liable. Liability for interest and penalties is calculated separately for each section. The imposition of interest and penalties under this chapter is in addition to any other tax imposed by this act and relieve any person from liability to criminal proceedings under chapter 23 (offences) where an assessment has been made under this section the Department shall serve on the person a written notice of assessment stating the followings.

- i. The reasons why the department has made the assessment of interest and penalty.
- ii. The amount of interest or penalties payable.
- ii. How the amount is calculated; and
- iii. The time, place, and manner of objecting to the assessment.

1.3.2 Offences.

1.3.2.1 Offence of failure to pay tax (See 123)

Any taxpayers who without reasonable excuse fails to pay any tax on or before the date on which the tax is payable shall be liable on conviction to a fine of not less than Rs., 80,000 and not more than Rs. 30,000 or an imprisonment for a term of not less than one month and not more than three months , or both.

1.3.2.2 Offence of making false or misleading statement.(See 124)

If the statement submitted by taxpayers is false or misleading in a material, or omits from a statement made to the department any matter or thing without which the statement is misleading in a material particular tax payer shall be liable to a fine of not less than Rs. 40,000 and not more than Rs 1,60,000 or an imprisonment for a term of not a less than six months and not more than two years, or both.

1.3.2.3 Offence of impeding and coercing tax administration (See125)

- a. A person who committing the obstructs and officer of the Department acting in the performance of duties under this act, fails to comply with a notice to obtain

information. (Under See 83), otherwise implodes the enforcement of the act, shall be liable to a fine of not than Rs 5,000 and not more than Rs. 20,000 or an imprisonment for a term of not less than one month and not more than three months , or both.

- b. Any person who attempt to commit the above offences shall be liable to a half of the penalty mentioned in that subsection (1)

1.3.2.4 Offence of impeding and coercing tax administration (See126)

- i. Any authorized person violation official secrecy shall be liable to a fine of not more than Rs. 80.000 or an imprisonment for a term of not more than on year, or both.
- ii. Any person who not being an authorized under this act , collect , or attempts to collect an amount of tax payable under this act shall be liable to a fine of not less than Rs. 80,000 and not more than Rs 2,40,000 or an imprisonment for a term of not less than one year and not more than three year, or both.

1.3.2.5 Offence of aiding or abating.(See127)

Any person who knowing aids or abets another person to commit an offence under this act or counsels or induces another person to commit such an offence, shall be liable to a half of the penalty that is imposed on the main offender. But , government officials of commit such an offence, shall be liable to the full penalty that is imposed on the main offender.

1.3.2.6 Offence of failure to comply with at(See128)

Except as otherwise provide in this act, any person who fails to comply with any provision of this act and the rules under this act shall be liable to a fine of not less than Rs. 1000. and not more than Rs. 30,000.

1.3.2.7 Department may order for payment of penalty amount (See.129)

Notwithstanding this chapter, where any person accepts in writing as having committed one or more offences under this chapter, other than of a king referred to in section 126, the department may, at any time prior to the commencement of court proceeding, order the person to pay a sum of money, specified by the department but not exceeding the amount of the fine that is likely to be imposed for committing one or more offences.

In issuing the order, the department shall be required to specify the offence committed the sum of money to be paid and the date for payment in such order. An order issued by the department under this section shall be final and shall not be subject to any appeal

1.3.2.8 Government of Nepal shall be plaintiff (See.130)

Government Nepal shall be a plaintiff in all lawsuits under this chapter.

1.3.2.9 Investigation and filing of lawsuits (See131)

An investigation of the lawsuits in respect of the offences that would be imposed on the penalty shall be conducted by the prescribed officer and lawsuit shall be required to be filed with the concerned district court within 35 days after completion of the investigation. The officer conducting investigation, shall acquire an opinion of Government advocates.

1.4 Statement of the problem:

The prime concern of every nation of the world is economic development. Underdeveloped countries are facing various problems in the process of economic development. Nepal is not an exception to this condition. For the economic development sufficient resource is needed. One of the major sources of the public revenue is income tax in Nepal. It is charge on person's income. With the increasing of government expenditure, the sources of government revenue must be increased. But the expenditure of government of Nepal has been increasing at a faster rate than the increase in revenue. Income tax is the best source of government revenue. Being developing country, most of the Nepalese people are below the poverty line (about 42% of the total population) and the GDP per capita is \$220 (according to the world development report 2002). It shows that it needs huge amount of capital for economic development of Nepal. It is possible only when the volume of resource could be match with the requirement. The source of filling up to the resource gap is internal and external borrowing. The use of external borrowing has been playing dominant role to fulfill the resource gap. The use of borrowing creates various problems.

The development of the country will be possible when the government can mobilize its own internal revenue, which constitutes tax and non-tax revenue. Tax revenue constitutes a significant portion in government revenue . In the total tax revenue indirect tax has greater portion than direct tax . It is not a good symptom of the portion of direct tax revenue. The direct tax had contributed only 19.93% and the income tax had contributed 17.06% of the total revenue in 2001/2002. ⁶ It mean that the government is largely depending upon indirect tax .

In Nepal only 0.5% of the total population pay the income tax. Past experience shows that , there is poor tax paying habit in Nepalese people. There are various problems about income tax administration like proper record about the number of income tax payers, defective selection of personnel, lack of training and education to tax payers and tax officers , undue delay in making assessment , lack of responsibilities of officials on their work , existence of corruption , lack of motivation to tax personnel etc . Because of inefficiency of the administration and increasing corruption , people have no faith in the working of government and its organization .

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

There are various problem of income tax and its provision about fine and penalties; especially this study has been carried out to answer the following questions .

What should be the provision of fine and penalties in law ? Is the tax administration of Nepal is effective to impose fine and penalty as per necessary ? Can fine and penalty play important role to increase tax paying habit of Nepalese people ? Is right to think every taxpayer having knowledge about fine and penalties ? Is it right to say that the tax paying habit of Nepalese people is poor ?

1.5 Objective of the study:

The main objective of this study is to analysis the provision of fines and penalties as per income Tax Act . However , the following specific objective have been set for the study .

1. To analyze tax structure of Nepal.
2. To find out the share of income tax to the government revenue.
3. To analyze the provisions against default of tax payment as per income tax law.
4. To know the taxpayers knowledge and tax officers view views about fines and penalties.
5. To find out the role of fines and penalties to increase tax paying habit of Nepalese people.
6. To provide suggestions about fines and penalties regarding to income tax system

1.6 Scope of the study

This study will attempt to cover the major constituents of income tax collection system in Nepal . It aims to find out the provision of fines and penalties as per Income Tax Act . However , the major areas of this study are as follows :

-) Provision of fines and penalties
-) Structure of government revenue in Nepal
-) Existing position of income tax in Nepal

1.7 Need of the study

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

To get up to date knowledge about it, we should know the various provision provided by ITA. Among them provision of fines and penalties play important role to collect tax revenue with in time. In the field of this provision we couldn't find any research and analysis. For the fulfillment of this weakness this study will be helpful.

1.8 Limitation of the study

There are some limitations in this study, which are as follows.

-) The sample has been selected only from Central Development Regions valley
-) Due to the time constraint few sample are selected for opinion survey.
-) It analysis the provision of fines and penalties as per income tax act by not as a whole system of income tax.
-) The data and information presented in here are supposed to be exact or hypothetical

1.9 Organization of the study.

This study is divided into five different chapters. They are:

1. Introduction.
 2. Review of literature
 3. Resource Methodology
 4. Presentation and analysis of data.
 5. Major findings, conclusion and recommendation.
-) The first chapter is about introduction. It includes, background, historical perspective, fines and penalties with regarding to Income Tax Act 2058, statement of the problem, objective scope, need, limitation and organization of the study.
 -) The second chapter is about the review of the literature. Book dissertation, reports and articles have been reviewed.
 -) The third chapter is about research methodology. It includes, research design. Population and sample, nature of data gathering procedure, data processing procedure and analysis of data have been described.
 -) The fourth chapter deals with presentation and analysis of data. In it tax structure of Nepal and an opinion survey about fine and penalties and other some topic have been analyzed.
 -) The final chapter of the study includes findings, conclusion and recommendations.

CHAPTER - TWO

2 Literature Review

2.1 Theoretical Concepts

For the preparation of this research study, books dissertation articles and reports had been reviewed they are as follows:

First of all Mr Marhatta and Khatioda¹⁵ in their book named "Fundamental of Nepalese income tax: with up to data financial directives and regulation." They had descried the legal provisions relating to income tax and practical aspect. They had described the income Tax Act 2020. This Act was not beneficial because of changing in tax law. They were fully based on campus level syllabus.

Mr. Pradhananga¹⁶ had an explained the provisions and law related to income taxation of Nepal. His book is information rather than analytical. He had described method of income tax assessment with numerical examples but had not analyzed the major problems and defects of income tax and the role of income tax.

Mr. Paudyal and Timilsina¹⁷ in their book named income Tax in Nepal described the theoretical and practical aspect of income Tax. They were based on T.U Syllabus. they were unable to descried the tax structure of Nepal and the problems of income tax system.

Mr. Khadha¹⁸ had shown VAT as a long tax for Nepal, economic policy of Nepal. Income tax and composition of tax revenue from 1950/51 to1991/92 in his book named "Nepalese taxation: Path for reform".

In his book he had described the introduction development existing structure, main problems, and possible direction of reform. He had identified the major problem of income tax and possible direction for reform. His identify in major problems were weak tax administration, imbalance and inadequate organizational pattern, lack of adequate information system, lack of coherent tax policy, and inadequate physical and other facilities.

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

Mr. Tiwari¹⁹ had explained legal provision regarding to income tax system in Nepal, in his book. He had described the process, provisions and methods to assess income tax

¹⁵ Survey Prasad Mahatta and Anada Prasad Khatiod: Fundamental of Nepalese income tax: With up to date Financial directives and and regulations Ktm. 1970.

¹⁶ Nagendra B. Pradhananges: INcome tax law and Accounting 3rd edition, Ratna Pustak Bhabdar. Ktm. 1993.

¹⁷ Santosh Raj Poudyal and Prem Prasad Timilisina, Income Tax in Nepal .2nd Edition. Aatharai Enterprises Ktm.

1990

¹⁸ Rup Bahadur Khadka, Nepalese taxation, A path for reform, marbug, Marburg consult for self - help promotion: Ktm. 1994

¹⁹ Narayan Rai Tiwaari, income tax system in Nepal: Pairavi Prakashan, Ktm. 2050 B.S

with numerical examples. His book was depends upon T.U. Syllabus. He had not shown the role of income tax in economic development and problem of income tax system.

Mr. Ojha²⁰ Shown the various act and law of income tax in his book. To describe the various act and law, he had taken many tax causes. This book may be beneficial to understand income tax laws. But he had not analyzed the problem of income tax and role of income tax.

Mr. Dhakal²¹ had presented his extended enlarged and modified edition of his book including VAT. This book was prescribed by T.U. Syllabus of B.B.S and M.B.S. He had described the legal provision relation to income tax with numerical example. His book was informative rather than analytical. He had not analyzed the role of income tax, tax structure and problem and weaknesses of income tax.

Mr. Mallik²² had described the legal provision relating to income tax. He has also described historical prospects, weaknesses of Income Tax Act 2031; some practical problem and different section of income Tax Act 2058. His book is important to get knowledge about ITA 2058. He presents various section of ITA 2058 with example.

2.2 Review of Some Dissertations

Mr Shrestha²³ had tried to give some general ideas about tax relating to historical background and some problem existing in income tax system of Nepal in his dissertation. He had described to various provision of income tax. But it is not helpful to get knowledge about income tax at present.

Mr. Pandey.²⁴ had described the brief review of Nepalese economy, resource mobilization structure of income tax, Role of income tax, problem of income taxation in Nepal. He had given more emphasized on tax structure of Nepal. His finding was that income tax played a significant role in economic development of Nepal. He also described the problem of income tax in Nepal. They were lack of record keeping. lack of maintaining account tax in Nepal. They were lack of record keeping. lack of maintaining account by taxpayer, lack of responsibility and honesty of tax offices, lack of coordination between various tax department and revenue department. Among them, some problems are relevant at now also.

Although he had explained various aspect of income tax in Nepal, he had not mentioned the legal provision relating to income tax and empirical investigation.

²⁰ Pavan Rai OJha, Taxation Law, Pairavi Praksahan Ktm. 2050B.S

²¹ Kamal Deep Dhakal , Income tax house compound tax law and practive with VAT, Kamal Prakashan.Ktm, 2001

²² Bidhyadhaor Mallik Modern income taxsystem of Nepal, Shila Printers, Ktm 2060

²³ Govinda Lal Shrestha, Income Tax in Nepal, Submitted to faculty of Management, T.U. Ktm. 1967(Unpublished dissertation)

²⁴ Kedar, Bilash Pandey, An analysis of income tax in Nepal, Submitted to faculty of Humanitties, T.U Ktm 1978. (Unpublished dissertation)

Mr. Tuladhar²⁵ had shown the trends of revenue from income tax, per capital burden of income tax. Structure of income tax as percentage of GDP etc. He had shown the growing resource gap problem in the Nepalese fiscal system. He had also described the role of income tax in the mobilization of domestic resources for the economic development. To show the increasing trend to income tax except the year 1777/78 he had used elasticity and buoyancy test. To calculate elasticity and buoyancy of income tax he had used a formula i.e $\log y_t = \log a + b \log y_t - 1 - ut$. He had also shown the legal aspect and problems of income tax in his dissertation. But he had not shown other aspect like administrator evasion etc.

Mr. Suwal²⁶ had described the concept of income tax, objective of income tax, importance of income tax, role tax for the economic development. structure of income tax, problems of income tax etc. His finding in his dissertation, about the main reasons of tax evasion were. lack of tax consciousness of Nepalese people, open boarder, absence of a clear and comprehensive definition of income, widespread illegal business activities, high tax rate, corruption etc. His finding about problem of income tax in Nepal were: lack of accounts and records of taxpayers, lack of responsibility and honesty among tax officers, delays in tax administration etc.

Although he had explained various of income tax system of Nepal, he had mentioned the legal provisions relating to income tax, had not conducted any empirical investigation.

Miss Nepal²⁷ had emphasized on fiscal system of Nepal, origin, meaning existing position, role problems and future prospective of the income tax in Nepal. she identified the various problem in Nepalese income tax system were; inefficient income tax administration, mass poverty, lack of tax consciousness, assessment deficiency, lack of tax education etc

She had conducted an opinion survey to fulfill her study. Although her finding and suggestion were usable, she had not mentioned the legal provisions relating to income tax.

Mrs. Shrestha²⁸ had basically with origin definition, concept, historical background, role, objective and structure of income tax. She had also described per capita burden of income tax in Nepal and the major problem existing in Nepalese income tax system. She also found that the evasion of tax is a serious problem of tax. The reasons of tax evasions

²⁵ Gagan Kumar Tuladhar. role of income tax in the mobilization of domestic resources in Nepal. Submitted to faculty of Humanities. T.U. 1979 (Unpulished dissertation)

²⁶ Rojlin Sing Suwai, Income tax system in Nepal, Submitted to faculty of Humanities. T.U. Ktm 1981(Unpublished dissertation)

²⁷ Naina Nepal, Problems and prospectsw of income tax in Nepal. Submitted to faculty of Humanities. T.U. Ktm. 1983 (Unpublished Dissertation)

²⁸ Roshni Shrestha, Income tax in Nepal. Sbumitte to faculty of Humanities. T.U. Ktm. 1984 (Unpublished dissertation)

were low tax paying capacity of Nepalese people, high tax rate, corruption, lack of system of heavy punishment, widespread illegal business activities etc. She also found that the tax administration is not efficient.

Although she had given various useful suggestions about the income tax like; scientific method should be applied for the collection of tax, administration should be made efficient, income tax law should be simple and easy, tax base should be broader etc. She had not mentioned the legal provisions relating to income tax and empirical investigation.

Mr. Shrestha²⁹ had explained the structure and estimation the responsiveness of income taxation in Nepal. He had suggested for minimum interference of government and for the control of tax evasion and avoidance of taxation an effort should be made. He also emphasized on least taxation. His study is not so believable for the study about income tax because he shows the contribution of individual sectors in third position but the facts and figure shows that individual sector occupies the first rank in income tax structure.

Mr. Regmi³⁰, had described the conceptual framework of income tax structure of income tax, income tax and resource mobilization problem of income tax etc. He had more concerned on the study of tax structure i.e. share of indirect tax and share of direct tax of total tax revenue. He had noticed the problem of income tax were assessment delays tax evasion, lack of maintain the record of taxpayers lack, lack responsibility and honesty among the tax officers, corruption, lack of co-ordination between various revenue and non-revenue department, leakage in person income tax collection etc.

His suggestion about income tax were: income tax law should be clear, application of scientific assessment method, simple and easy procedure of tax payment, honest and efficient staff, tax holiday to new industry, co-ordination between staff and department etc. Although his suggestions were useful, he had not mentioned, legal provision relating to income tax, any numerical examples, provision of fine and penalties.

Mr. Siwakoti³¹ had shown the role of income tax, tax structure of Nepal, legal aspect of ITA 2031, problem of income tax administration in Nepal etc. He found that the role of income tax were for economic growth equitable, distribution and stabilization growth. He had noticed that the problem of income tax were, defective personnel management, lack of public information, delay in tax assessment, lack of up to date role of existing as well as potential taxpayers, etc.

He had identified that the major problem of ITA 031. They were, complicated language, highly use of best judgment assessment method for the assessment of tax, no

²⁹ Roshan Shrestha, Income Taxation in Nepal: A study of its structure and productivity. Submitted faculty of Humanities. T.U. Ktm 1985. (Unpublished dissertation)

³⁰ Shambhu Nath Regmi, The role of income taxes in Nepal. Submitted to faculty of Humanities T.U. Ktm 1986. (Unpublished Dissertation)

³¹ Chudamani Siwakoti. An Analytical study of income tax in Nepal. Submitted to faculty of Management. T.U Ktm 1987 (Unpublished Dissertation)

compulsion to maintain books of account, ineffective use of fine and penalties, no compulsion of auditing of account of all type of business , assessment delays, silence about scientific research lack of weighted deduction, no provision of any kind of allowance, no provision about illegal business etc.

He more emphasized on the legal provision relating to income tax. He also described about fine and penalties. He also suggested that the penalties should be imposed to taxpayers who does not maintain accounts. He had not used any numerical examples, had not conduct any empirical investigation.

Miss Baral³² had described the contribution of income tax in the structure of government revenue in Nepal. She has found that the share of income tax to total government revenue was increasing. She also had identified that reasons of tax evasion which were, lack of clear and comprehensive definition of income, lack of efficient tax administration, lack of punishment to tax evaders, tax paying capacity and the consciousness among the taxpayers was low, lack of scientific method of tax collection etc

Although she had suggested that the tax administration should be honest and efficient, tax evaders should be punished, research unit should be established, corruption should be stopped, scientific method should be used in tax collection etc. She had not identified the major problem of income tax system, had not mentioned to legal provision relating to income tax and numerical examples.

Mr. Bhandari³³ concentrated mainly on the contribution of income tax to public revenue. He noticed that the actual collection of revenue through income tax is lower than its estimated targets because of the poor tax paying habit of Nepalese taxpayers, poor tax administrative system. Wider spread evasion of income tax and so on. His study had been conducted with purpose of examining the income tax structure, treaded of income tax structure, tread of income tax collection and the above problem and to make suggestions to solve these problems. He had not mentioned the legal provision of income tax and problem of income tax system.

Mr. Acharya,³⁴ had described that the structure of income tax, productivity of income tax and problem of income tax. He examined the three main objectives of income tax, which are as follows:

- i. To reduce inequality of income distribution
- ii. To collect more government revenue.
- iii. To check inflation.

³² Shanti Baral, Income tax in tax structure of Nepal. Submitted to faculty of Humanities. T.U.Ktm 1989 (Unpublished Dissertation)

³³ Hari Bahadur Bhandari. Contribution of Income to economic development of Nepal. Submitted to faculty of Humantities. T.U. Ktm 1994 (Unpublished Dissertation)

³⁴ Sanay Acharya, Income tax in Nepal: A study of its structure, productivity and problems,1994 (Unpublished Dissertation)

He had also presented some numerical and diagrams of structure and productivity of income tax. Because of various reason like: had not explained the provisions relating to income tax, his study about income tax was not so detailed.

Mr. Shahu,³⁵ has focused on role and contribution of income tax in the process of economic development. He had found only 0.35 of population in Nepal comes under the category of taxpayers. He had also observed that in the compositions of government revenue of Nepal, income tax comes in the fourth place from the view point of different items contribution. Custom, excise and sales tax occupied first, second and third place respectively. He had not mentioned the provision relating to income tax.

Mr. Pant,³⁶ had explained the role of income in national economy and income tax management in Nepal. He conducted as empirical investigation of income tax management in Nepal. He found the major problem of income tax in Nepal were, lack of managerial efficiency, lack of effective personnel management, lack of reward and punishment system, poor income tax assessment procedure , poor tax information system , lack of taxpayers education , very narrow coverage of income tax etc . He had not mentioned the legal provisions relating to income tax .

Mr. Timilsina ,³⁷ had emphasized on tax structure in his study . His finding about the correlation coefficient between Bhajhang district and nation was positive on tax revenue , non-tax revenue and total revenue . He had not mentioned the legal provision relation to income tax , problem of income tax , as well as provision of fine and penalties .

Mr. Bhattarai ,³⁸ had explained the history of income tax corporate income tax , legal provisions relation to income tax , administrative aspect of income tax , tax structure and government mechanism . He conducted an opinion survey . He had found that the government policies , acts , rules regulations concerned with the corporate income tax were not effective in increasing tax paying habit in Nepal . He found that the major problem of administration as a corruption .

His study was fully based on the corporate income tax . He identified the problem of tax administration as a corruption . He had not described the other income tax and other problem and weaknesses of tax system . This study is very useful to know about the corporate income tax .

³⁵ Shiva Narayan Shahu, contribution of income tax in National Revenue of Nepal, Submitted to faculty of Management. T.U. Ktm 1995 (Unpublished Dissertation)

³⁶ Parmeshwor Pant, A study on income tax Management in Nepal, Submitted to faculty of Humanities. T.U. Ktm 1996 (Unpublished dissertation)

³⁷ Krishna Prasad Timilisina, Tax structure of Bhajharg district with reference to national tax structure of Nepal. Submitted to faculty of Management. T.U. Ktm 1997 (Unpublished dissertation)

³⁸ Raj Kumar Bhattari. Effectiveness of corporate income tax in Nepal. Submitted to faculty of Management. T.U. 1997. (Unpublished dissertation)

Mrs. shrestha,³⁹ had described the conceptual framework and legal provisions , structure of income tax in Nepal , income tax administration in Nepal ; and empirical investigation and problem and prospects of income tax in Nepal . She found that the dominant share of tax revenue in Nepalese government revenue and the contribution of tax revenue showed the decreasing trend .

She found that the major problem of Nepalese income tax system were , mass poverty of Nepalese people , lack of consciousness of taxpayers , unscientific tax assessment procedure , widespread evasion and avoidance of income tax , inefficient tax administration , instability in government policy etc.

She had taken 60 people as a sample and conducted empirical investigation about the different aspects of income tax system . She had used the correlation coefficient to prove the hypothesis on the problem of income tax system .

Although she had suggested about the income tax system like , extension of tax coverage , minimizing the problems and weakness of tax administration , tax consciousness to people , she had not taken any investigation about the provision of fine and penalties .

Mrs. Pradhan,⁴⁰ had explained the conceptual framework of public enterprises and the Nepal Telecommunication corporation , conceptual framework of income tax contribution of income tax to the public revenue and share of NTC to the income tax .

Her suggestion was , about the income tax system , promotion and reward to efficient and honest personnel , motivation to personnel , tax education to tax payer and officers , strict action to corruption , increase the public participation . Although she had more emphasized on the study of NTC . She had not mentioned the legal provisions relating to income tax and provision of fine and penalties .

Mrs. Poudel,⁴¹ had explained the historical prospects , tax structure , elasticity and buoyancy of income tax , role of income tax administration , in her study .

She had more emphasized on income tax structure , contribution of income tax . She found the working procedures were traditional and the cost of administration had not been satisfactory level . Although her finding and suggestion were usable , She was not mentioned the problem of income tax system and provision of fine and penalties .

Some reports and articles have been reviewed for performing this study . Some of them are as follows :

Mr. Agrawal,⁴² had described the resource mobilization through income tax , fiscal policy , role of income tax , legal provisions relating to income tax , legal aspects of

³⁹ Binita Shrestha , Revenue collection from income tax in Nepal tax in Nepal, Problem and prospects. Submitted to faculty of Management. T.U. Ktm 2001 (Unpublished Dissertation)

⁴⁰ Bibha Pradhan, Contribution of income tax from public enterprise to public revenue of Nepal (With Reference to NTC), Submitted to faculty of Management, T.U. Ktm 2001 (Unpublished dissertation)

⁴¹ Jayanti Poudel, Income taxation in Nepal. A study of it's Structure & Productivity, Submitted to Faculty of Humanities, T.U. Ktm 2002 (Unpublished dissertation).

income tax , administrative aspects of income tax etc . He had been shown , per capita income , buoyancy co-efficient of income tax , burden of income tax , elasticity and co-efficient of income tax etc by calculation .

He had identified the major problem in income tax system is inefficiency of tax administration and tax evasion . He found that , there were no integrated programs for taxpayers education , assistance , guidance and counseling . About the major problems of tax administration , he found corruption , unfair dealings harassment and incompetent personnel etc .

He had taken empirical investigation about various field of income tax, About the fine and penalties . 54 % think that there should be heavy penalty for non-maintaining accounts among total respondents. He had suggested heavy penalty should be imposed.

This study is a comprehensive and included various aspect of tax system of that period, but all things mentioned in it are not fully relevant today. Some of the problem identified in it is still existence.

Mr. Ghimire ,⁴³ had described the classification of tax , base of income or expenditure tax , base of tax in Nepal , procedure of computing net income , weakness of traditional accounting system , classification of tax rate , index of income tax in Nepal , contribution of tax income to national revenue , errors of past provisions , some steps of administrative improvement etc . He found that the tax covered very low portion of total revenue because of no taxation in agriculture income , narrow base of income retail business , high exemption limit on remuneration income etc . He had also noticed some errors of provisions relating to income tax , They were , progressive tax had not played and effective role for equal distribution of income , unproductive tax concession holiday and rebate , provisions of low additional fee as compare to market interest rate etc . He also suggested some steps of administrative improvement . They were ; provision of income assessment committee , flat rate of tax to small tax payers , establishment of tax office etc .

Mr. Thapa ,⁴⁴ had described the tax system , features of tax , causes of reform the tax . He had characterized the tax system as too many and to high rates , multiple objectives of taxes scheduler rather global approach to income taxation , too many income taxation , too many income brackets and high progressively , complicated and ambiguous tax law .

He had identified the areas for reform the tax system in Nepal . They were , low rates on broad base , simplicity and neutrality , gradual abolition of exemptions , deduction and tax holidays to broad tax base few rates of single rate , few taxes with high revenue productivity , emphasis on tax compliance rather than coercive enforcement ,

⁴² Dr. Govinda Ram Agrawal, Resource mobilization for development, CEDA, Ktm 1980.

⁴³ Bamshidhar Ghimire, Principle of direct tax and provision of direct tax Rajaswa, Vol -2, Ktm 2050 B.S

⁴⁴ Dr. Govind Bahadur Thapa, Business Age, Vol- 4 , Ktm 2002 Dec.

incentives to saving and investment , conversion of sales and service taxes into VAT , excise duty only on cigarette , tobacco, alcohol , automobiles , petroleum and automobile spare parts , abolition of surcharge and additional duty system to make the tax system simple , making the tax system internationally compatible to attract foreign investment .

In this way various books, dissertations reports and articles published in journals and newspapers are reviewed while preparing this dissertation . Most of them are concentrated on the legal , administrative , assessment procedure , income tax system and structure of tax in Nepal . Some of them are related with income tax provisions and laws and some are related on the syllabus of Bachelor and Master level. Most of the research studies have identified the major problems of Nepalese income tax system can be improved, tax system is tax evasion at high level and ineffective tax administration. If administrative aspect of Nepalese income tax system can be improved , the problem of tax evasion may be controlled automatically . There is no any research study about fines and penalties , which plays important role to collect tax revenue . Seeing the lack of the study in fines and penalties this study mainly concentrates on the role of fines and penalties to collect tax revenue in a more specific way .



CHAPTER - THREE

3. Research Methodology:

This chapter is dedicated to research methodology applied in the study of the achievement of desired objectives.

3.1. Types of Research:

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

- i. Descriptive research includes surveys and fact finding inquires of different kind.
- ii. Analytical research has to use facts or information already available and analyze these to make a critical evaluation of the material.
- iii. Empirical research is data-based research coming up with conclusion which are capable of being verified by observation,

3.2 Research design.

To achieve the stated objectives of the study, the opinions of the various 60 respondents associated with distinct denomination i.e. tax administrators, tax experts and taxpayers were collected through structured questionnaire. The questionnaire include role of fines and penalties to collect tax revenue, provision of fines and penalties, effectiveness of income tax act, goal of income tax etc. Similarly various information published by organization about income tax, are used for this study. In this way, the research designs of this study are descriptive analytical and empirical.

3.3 Population and sample

In order to fulfill the objectives of the study 60 sample from Kathmandu valley is selected. The respondents have been divided into 3 groups. The following table shows the group of respondents and size of sample.

Group of respondents and size of sample

S.No	Group of respondents	Sample Size.
1	Income tax expert	20
2	Income tax administrator	20
3	Income Tax Payer	20
	Total	60

3.4 Nature and sources of data:

Data, which are essential to describe this study are collected from two sources i.e primary and secondary sources.

Primary data are collected by questionnaire. (field visit and information received from the respondents.)

Secondary data are collected from:

- i. Economic survey and budget of various years, ministry of finance. Government of Nepal.
- ii. Books related to income tax.
- iii. Reports and records of various (Department of taxation.)
- iv. National newspaper, Journals, souvenir and news magazines.

3.5 Data collection procedure.

Data of this study are collected from two sources. Primary data are collected by using questionnaire. First of all questionnaire was developed and distribution was done through personal field visit. Secondary data are collected from published reports of different organization.

3.6 Data Processing and Analysis Procedure.

First of all the collected data into suitable format in systematic manner has been tabulated. For the purpose of analysis, generally simple statistical tools have been used which are as follows.

- i. Simple percentage.
- ii. Simple average
- iii. Graphs , charts and diagrams
- iv. Rank correlation.



CHAPTER: - FOUR

4. Presentation and Analysis of data

4.1 Tax Structure of Nepal.

Taxation plays an important role in the economic development of Nepal. It has been used for the achievement of national economic goals. The study of Tax structure is important for gaining depth knowledge about various kinds taxes. The structure refers to the level as well as relatives importance of various taxes in the composition of total tax revenue of a country. Tax structure of Nepal is composed of direct and indirect taxes. The total tax structures of Nepal from fiscal year 1997 / 98 to 2006 / 2007 are given below.

4.1.1 Composition of Total Revenue:

Total revenue in Nepal is the composition of tax revenue and non - tax revenue. When the Government of Nepal presented the first national budget In 1951/52, the revenue structure was typically that of a traditional economy with 73% of government revenue coming form non tax sources and land tax , out of 73% , the share of non tax revenue was 43% . In 1960's the share of non tax revenue was declined drastically because of increasing contribution of indirect tax in the foreign trades .The share of non tax revenue was 17.24% of the total revenue in 2006/2007 Which was 21.5% in 1997/98. On the other hand, the share of tax revenue in the initial period of the study (F/Y 1997/98) was 78.75% of the total revenue. But it has increased to 81.32% in the fiscal year 2006/2007, which are given in the following table.

Table 4.1

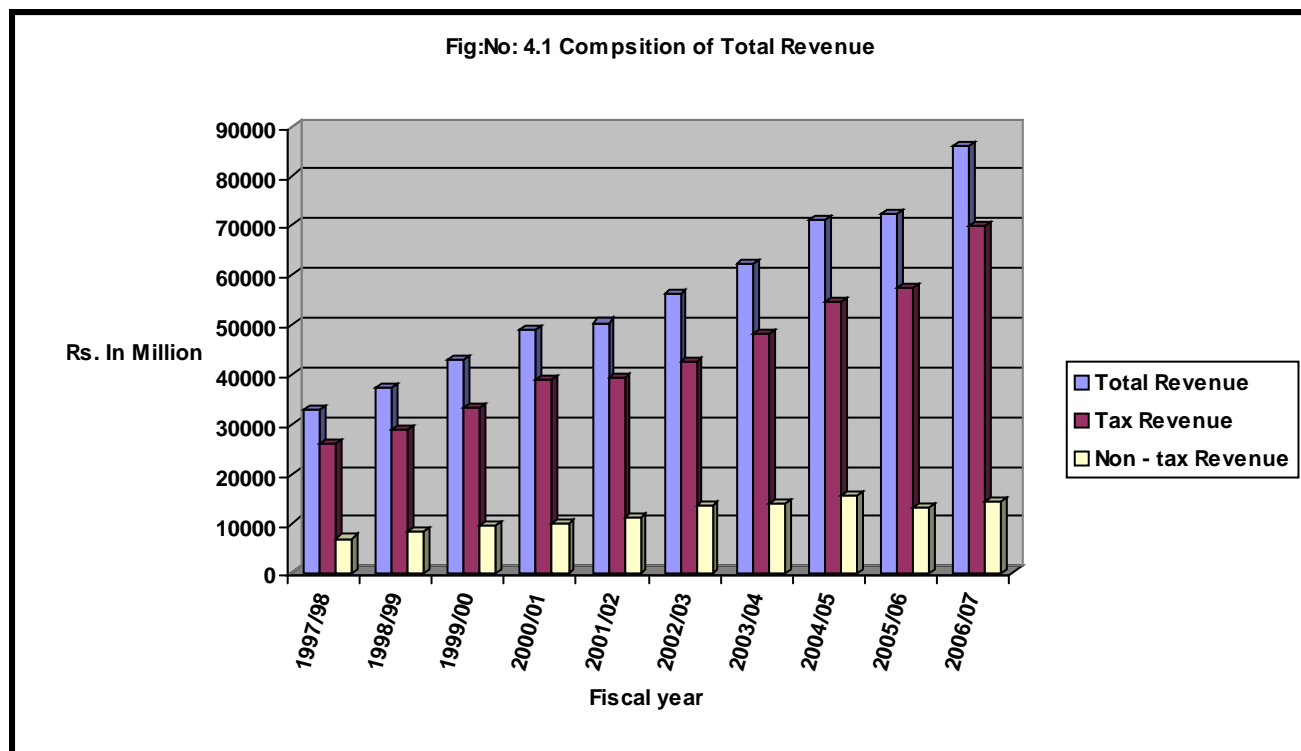
Composition of Total Revenue

(Rs in Million)

Fiscal year	Total Revenue	Tax Revenue	% of Tax Revenue	Non - tax Revenue	% of non tax Revenue
1997/98	32937.5	25939.8	78.75	6998.1	21.25
1998/99	37251.3	28752.9	77.19	8494.4	22.81
1999/00	42893.7	33152.1	77.29	9741.6	22.71
2000/01	48893.9	38865.1	79.49	10028.8	20.51
2001/02	50445.6	39330.6	77.79	11115.0	22.03
2002/03	56229.7	42587.0	75.74	13642.7	24.26
2003/04	62331.1	48173.3	77.29	14157.8	22.71
2004/05	71322.2	54477.1	76.38	15657.6	21.95
2005/06	72282.085	57426.995	79.44	13341.473	18.45
2006/07	86135.467	70046.185	81.32	14543.968	17.23

[Sources: Annual Budget speech Government of Nepal]

The above table shows that the tax revenue contributes more than 75% of the total revenue. The share of tax revenue on total revenue is fluctuating from 73% to 85%. This indicates that there is significant contribution of tax revenue in the total revenue. Graphically, we can present as below.



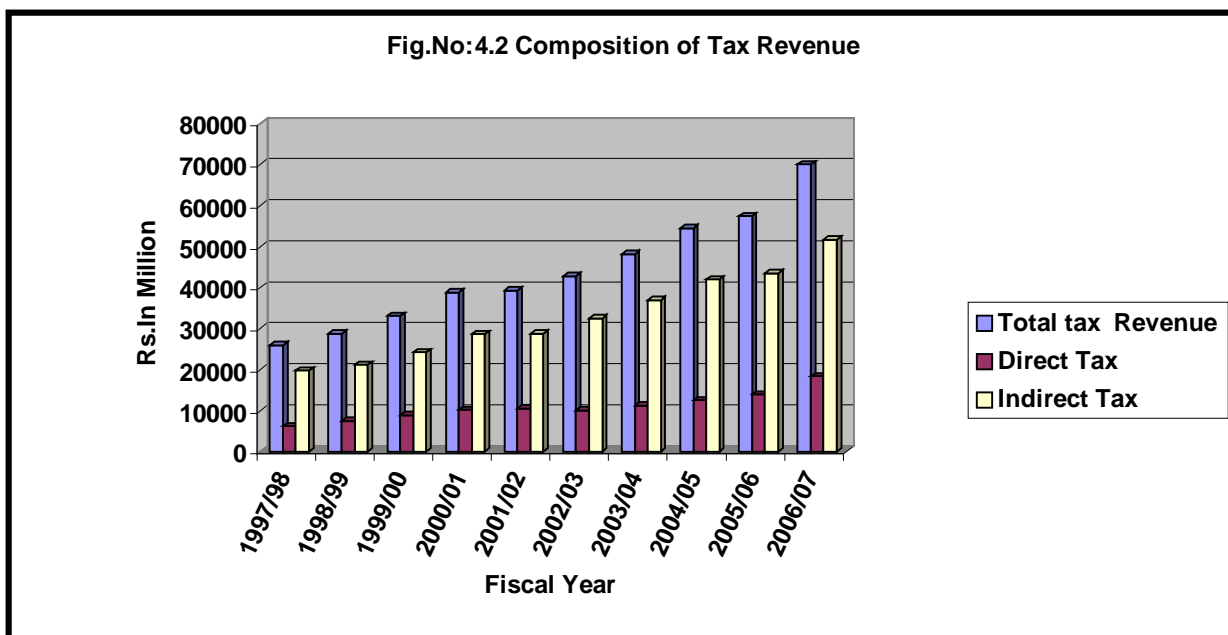
4.1.2 Composition of Tax Revenue:

Total revenue is composed of tax revenue and non tax revenue. Tax revenue is composed of direct tax and indirect tax. There are simultaneous increase in direct tax, indirect tax and total tax revenue in absolute terms. Their amount was Rs 6187.9 Million Rs 19751.9 Million and Rs 25939.8 Million respectively in 1997 / 98. In 2006/2007. They are Rs. 18393.787 Millions, 51652.398 Million and 70046.185 Millions respectively. Which are given below in the table?

Table 4.2
Composition of Tax Revenue (Rs in Million)

Fiscal year	Total tax Revenue	Direct Tax	% of Direct Tax	Indirect Tax	% of indirect tax.
1997/98	25939.8	6187.9	23.85	19751.9	76.15
1998/99	28752.2	7516.1	26.14	21236.8	73.86
1999/00	33152.1	8951.5	27.00	24200.6	73.00
2000/01	38865.1	10159.4	26.14	28705.7	73.86
2001/02	39330.6	10597.5	26.94	28733.1	73.06
2002/03	42857.0	10105.8	23.73	32481.2	76.27
2003/04	48173.3	11212.3	23.27	36961.0	76.73
2004/05	54477.1	12503.1	22.95	41974.0	77.04
2005/06	57426.99	13961.47	24.31	43465.51	75.68
2006/07	70046.18	18393.78	26.25	51652.39	73.74

[Sources: Annual Budget speech Government of Nepal]



Despite of absolute increment of direct tax its contribution to the total tax revenue in 1997/98 was 23.85.% amounting to Rs 6187.9 Millions. Which decreased to 22.95% in 2004/05 amounting to Rs 12503.1 Millions. it increased maximum to 26.141 amounting to Rs 10159.4 Millions in 2000/01. In the year 2006/07 the share of direct tax was 26.25% amounting to Rs 18393 of Million. The contribution of indirect tax in 1997 /98 was 76.15% amounting to Rs 19751. In the year 2006/2007 the share of indirect tax was 73.74% only amounting to Rs. 36961 Millions.

The above table shows that the share of direct tax revenue is fluctuating from 16% to 27%. It implies the dominant role of indirect tax in total tax revenue. As indirect tax is considered regressive in nature, the tax structure of Nepal is not justifiable on enquiry ground and progressiveness, from the given table, we can see that there is a greatest reliance on indirect tax making our tax system regressive in nature and needs to shift toward direct tax..

4.1.3 Composition of Indirect Tax.

Nepal tax structure is heavily dependent in indirect taxes. Its contribution was 73.74% in the year 2006/07 of the total tax revenue. The major component of indirect tax in Nepalese tax structure constitutes custom duty , sales tax vat , excise duty and contract tax. Custom duty has been classified into import duty and export duty. Other components of indirect taxes are like hotel & tourism entertainment tax , air flight tax etc. Other components of indirect are remission of Indian excise duty , road bridge, repair tax and other tax. Compositions of some of the indirect taxes are given in the following table and Graph.

Provisions Against Default Of Tax Payment In Nepal

Table No: - 4.3

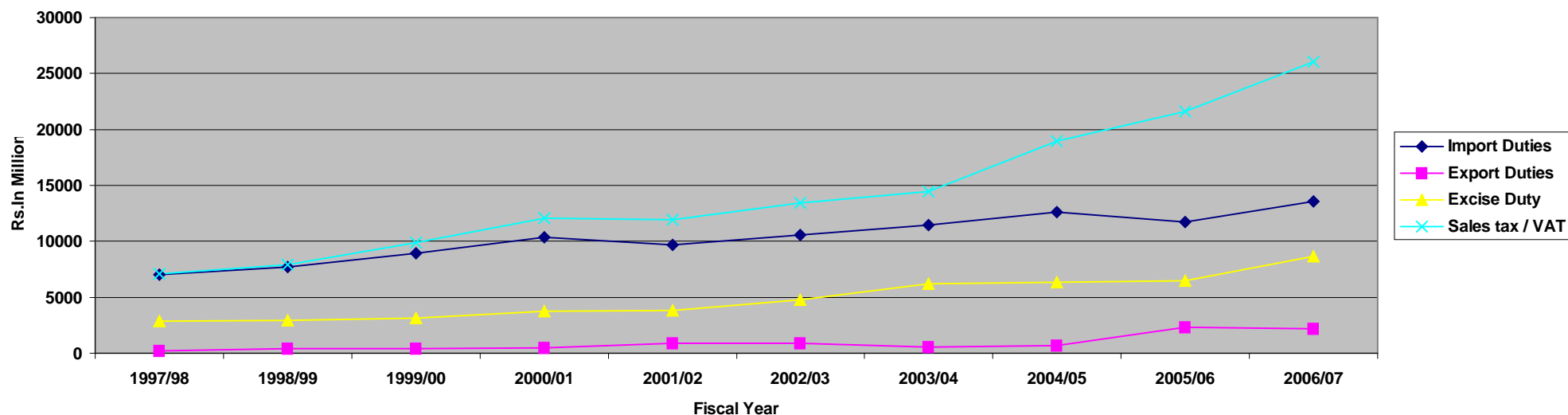
Major Source of Indirect tax and their Percentage to Indirect Tax

(Rs. in Million)

F/ Y	Total Indirect tax	Import Duties	%	Export Duties	%	Excise Duty	%	Sales tax / VAT	%	Ent Tax	%	Hotel Tax	%	Contract Tax	%	Air Tax	%	Others	%
1997/98	19751.9	7019.4	35.45	217.1	1.09	2885.8	14.61	7122.6	36.06	90.6	0.46	45.9	0.23	761.5	3.85	343.2	1.74	1265.7	4.41
1998/99	21236.8	7698.3	36.25	378.0	1.78	2953.2	13.91	7882.5	37.11	23.5	0.11	1.5	0.01	618.0	2.91	2407	1.13	1441.4	4.79
1999/00	24200.6	8959.9	37.02	432.5	1.79	3127.6	12.92	9854.9	40.72	28.5	0.12	1.8	0.01	374.5	1.55	0.0	0	1420.9	5.87
2000/01	28705.7	10391.9	36.20	492.6	1.72	3771.2	13.14	12047.8	41.97	30.4	0.11	0.1	0	304.0	1.06	0.1	0	1667.6	5.81
2001/02	28733.1	9678.4	33.68	917.4	3.19	3807.0	13.25	11964.0	41.74	2.1	0.01	0	0	301.2	1.04	0	0	2063.0	7.18
2002/03	32481.2	10567.7	32.53	855.6	2.63	4785.1	14.73	13459.7	41.44	0	0	0	0	0	0	0	0	2813.1	8.66
2003/04	36961.0	11451.7	30.98	526.5	1.42	6226.7	16.85	14478.9	49.17	0	0	0	0	0	0	0	0	4277.2	11.57
2004/05	41974.0	12600.0	30.01	670.0	1.59	6358.0	15.14	18950.0	45.14	0	0	0	0	0	0	0	0	6427.2	15.31
2005/06	43465.51	11744.51	27.02	2314.43	5.32	6506.94	14.97	21613.04	49.72	0	0	0	0	0	0	1860.0	4.26	9576.5	22.1
2006/07	51652.39	13574.99	26.28	2176.1	4.21	8686.2	16.81	26055.001	50.44	0	0	0	0	0	0	0	0	11869.32	22.97

[Sources: Annual Budget speech Government of Nepal]

Fig.No:-4.3 Composition of Major Indirect Tax



Provisions Against Default Of Tax Payment In Nepal

Above table shows that the share of import duty in custom duty is very high as compared to the export duty. The share of import tax is fluctuating from 26% to 48% to total indirect tax. Tax share of export duty in 1997/98 was 1.09%. In 2006/07 was 4.21% on total indirect tax. The share of excise duty is fluctuating from 10% to 21% to total indirect tax. It was 14.61% in 1997/98 and it was 16.81% in 2006/07. The sales / VAT has become an important source of overall tax revenue with increasing trend, which contributed 50.44 % to indirect tax in 2006/07 compared to 36.06% in 1997/98. The share of entertainment tax was in decreasing trend from 1997/98 to 2006/07 i.e. 0.46% to 0.00% the share of hotel tax was 0.23% in 1997/98 then it started to decrease to 0% in 2006/07, The share of contract tax is fluctuating from 1% to 5%. It was 3.85% to indirect tax in 1997/98 and had 0% in 2006/2007. The share of air flight tax in 1997/98 was 1.74% and then it was 0% in the years 2003/04 finally 2005/06 it was 4.26% and again declined to 0% in 2006/07. The share of other tax was 6.41% in 1997/98 and it has 22.97 in 2006/07 to total indirect tax.

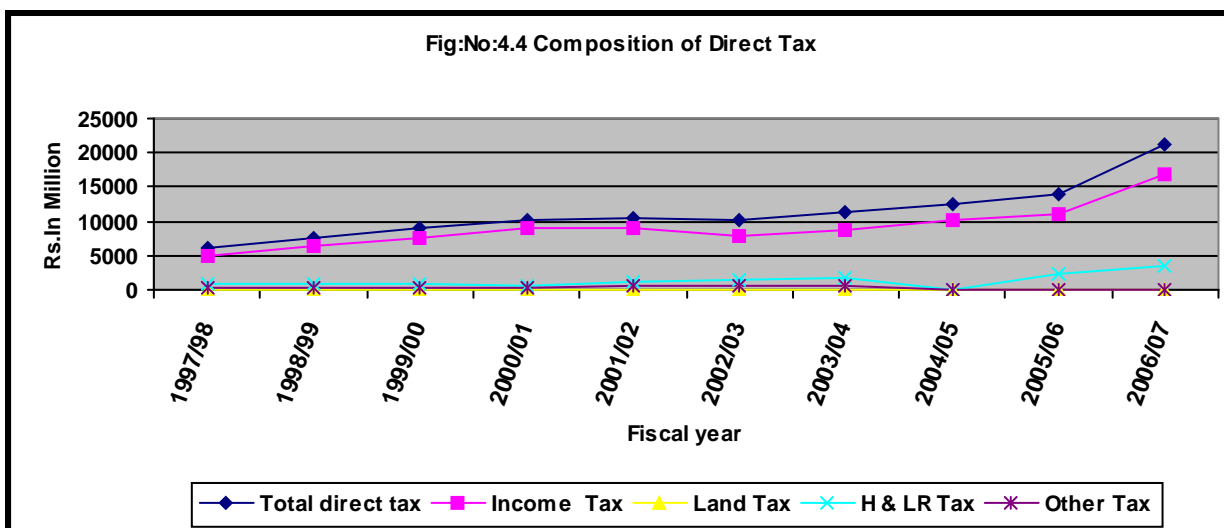
4.1.4 Composition of Direct Tax

The major component of direct taxes are income tax, land tax, house and land registration tax in Nepalese tax structure. Vehicle tax was considered as a direct tax until the fiscal year 1993/94 and since 1994/95 - budget speech, it has been classified under the indirect tax. Since 1994/95 interest and urban house and land rent tax were included under the income tax. Compositions of direct tax are given in the following table and graph.

Table: No: - 4.4
Composition of Direct Tax (Rs.In Million)

F/ Y	Total Direct tax	Income Tax	% of Income Tax	Land Tax	% of Land Tax	H & LR Tax	% of H & LR tax	Other Tax	% of Other Tax
1997/98	6187.9	5008.8	80.95	3.6	0.06	1000.6	16.17	174.9	2.83
1998/99	7516.1	6293.5	83.73	1.4	0.02	1001.8	13.33	219.4	2.92
1999/00	8951.5	7539.1	84.22	4.6	0.05	1011.3	11.30	396.5	4.43
2000/01	10159.4	9116.9	89.74	5.1	0.05	607.8	5.98	429.6	5.28
2001/02	10597.5	8906.0	84.04	0.8	0.01	1131.0	10.67	559.7	7.18
2002/03	10105.8	7966.2	78.83	0.0	0.00	1414.3	13.99	725.3	7.18
2003/04	11212.3	8805.3	78.53	0.00	0.00	1697.5	15.14	709.4	6.33
2004/05	12503.1	10250.0	81.97	0.00	0.00	0.00	0.00	0.00	0.00
2005/06	13961.47	10933.52	78.83	0.004	0.0002	2180.35	15.61	30.4	0.2
2006/07	21297.8	16869.2	79.2	0.006	0.00025	3346.1	15.71	23.3	0.1

[Sources: Annual Budget speech Government of Nepal]



Above table and figure show that income tax has largest share in the direct tax. The share income tax was 80.95% in fiscal year 1997/98 and it was jumped to 89.74% in 2000/01. It decreased to 78.53% in 2003/04 and then it was increased slowly with 81.97% in 2004/05. Because of inclusion of interest, urban house and land rent tax in income tax, it came to a tune of 79.2% in 2006/07. The share of land tax was 0.06% to direct tax in 1997/98 and 0.01% in 2001/02. It contributed 0.1% in 2006/07. The share of house and land registration fluctuated year to year. The share of house and land registration was 16.17% to total direct tax in 1997/98 and was 15.71% in 2006/07.

4.1.5 Contribution of Total Direct & Indirect Taxes as Percentage of GDP

The contribution of total revenue to GDP has a fluctuating trend. It was 11.37% in 1997/98 which increased to 17.18% in 2001/02. It decreased to 13.20% in 2003/04. Because to bad economic condition of our country, Total GDP showed a negative growth in recent two year i.e 2002/03 to 2003/04. The contribution of tax revenue on GDP is satisfactory. In 1997/98 the share of tax revenue to GDP was only 8.95%, Which increased to 13.40% in 2001/02 and again increased to 12.19% in 2006/07. The reason behind the decrease of share of tax revenue to GDP in 2006/07 in comparison with 2001/02 is due to unexpected positive fluctuation of Tax Revenue is the year 2001/02, the share of tax revenue to GDP was in uniformly increased trend in comparison to other previous years except 2001/02. With tax revenue, there is significant role of indirect tax, which contributes about three folds more than the direct tax. In 1997/98 the contribution of indirect tax and direct tax was 6.82 percent and 2.14 % respectively. Which has increased to 9.97 % and 3.61 % in 2001.02 and it was 6.93% and 2.14 % in 2006/07 respectively. Although the contribution of direct and indirect tax to GDP decreased in 2006/07 in comparison to 2001/02 due to high positive fluctuation in 2001/02, they were in uniformly increasing trend in comparison to others years. Contribution of direct and indirect taxes as percent to GDP are given in the following table.

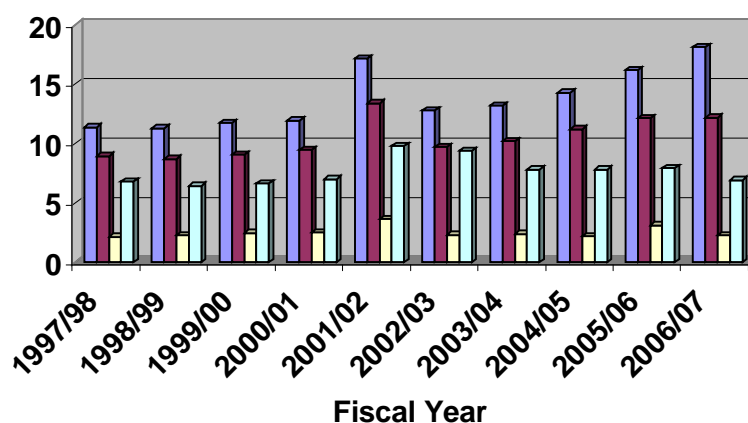
Table. No: 4.5
Contribution of Direct and Indirect Tax as Percent to GDP

(Rs. in million)

Fiscal year	Total GDP	Total Revenue as % GDP	Tax Revenue as % GDP	Direct tax as % GDP	Indirect tax as % GDP
1997/98	289798.0	11.37	8.95	2.14	6.82
1998/99	329960.0	11.29	8.71	2.28	6.44
1999/00	365470.0	11.74	9.07	2.45	6.62
2000/01	409250.0	11.95	9.45	2.48	7.01
2001/02	293595.0	17.18	13.40	3.61	9.79
2002/03	438920.0	12.81	9.70	2.30	9.40
2003/04	472424.0	13.20	10.20	2.37	7.82
2004/05	505449.3	14.30	11.21	2.18	7.81
2005/06	703642.6	16.21	12.17	3.12	7.93
2006/07	926561.7	18.12	12.19	2.24	6.93

[Sources: Annual Budget speech Government of Nepal]

Fig.No: 4.5 Composition of Direct and Indirect Tax as % to GDP



4.1.6 Contribution of Direct Tax.

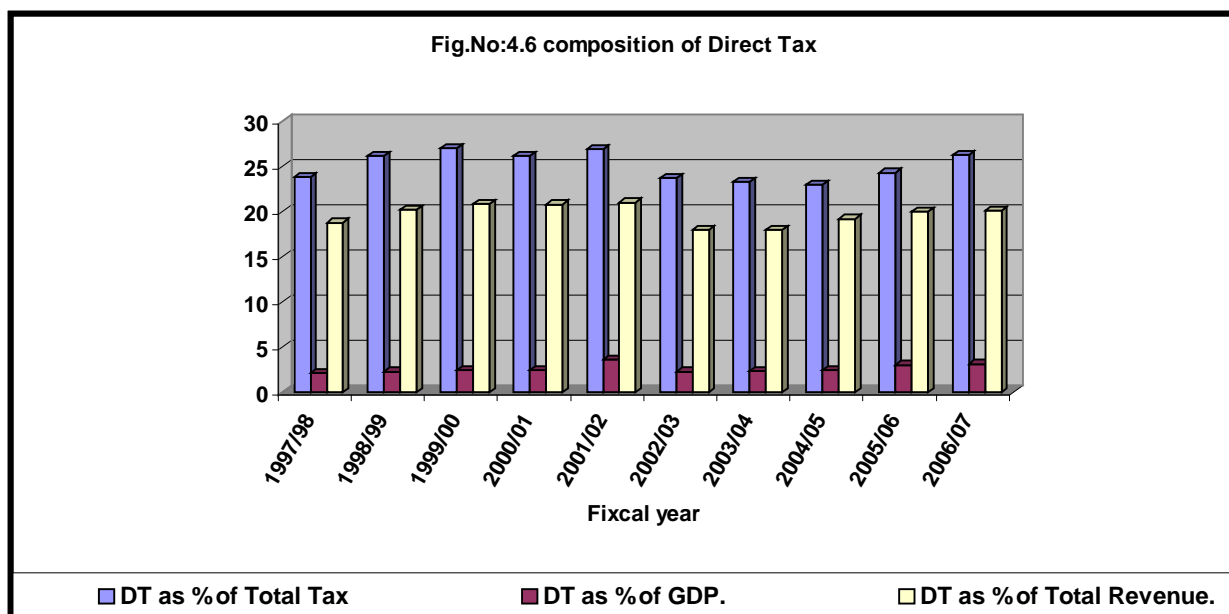
The most serious gap, which the tax structure exhibits, was in the share of direct tax. The share of direct tax was 23.85% of total tax and 18.79% to total revenue in 1997/98. It has 26.25 and 20.12 in 2006/07. Which are given in the following table.

Table. No: 4.6
Contribution of Direct Tax

(Rs. in million)

Fiscal year	Direct Tax	DT as % of Total Tax	DT as % of GDP.	DT as % of Total Revenue.
1997/98	6187.9	23.85	2.14	18.79
1998/99	7516.1	26.14	2.28	20.18
1999/00	8951.5	27.00	2.45	20.87
2000/01	10159.4	26.14	2.48	20.78
2001/02	10597.5	26.94	3.61	21.01
2002/03	10105.8	23.73	2.30	17.97
2003/04	11212.3	23.27	2.37	18.00
2004/05	12503.1	22.95	2.42	19.2
2005/06	13961.47	24.31	3.02	19.98
2006/07	18393.78	26.25	3.12	20.12

[Sources: Annual Reports of Government of Nepal]



Above table & figure show that the contribution of direct tax was fluctuating from 16% to 27% to total revenue. The share of direct tax was fluctuating from 11% to 23% to total revenue. Its contribution towards GDP was fluctuating 1 % to 3.42%. The share of direct tax was 2.14 % in 1997/98 and it has 3.21 in 2006/07 to GDP.

The amount of direct tax and its contributions to GDP showed the increasing trend to inclusion of more items in tax bracket, increment of taxpayer and implementation of more effective tax system.

4.1.7 Contribution of Income Tax in Nepal

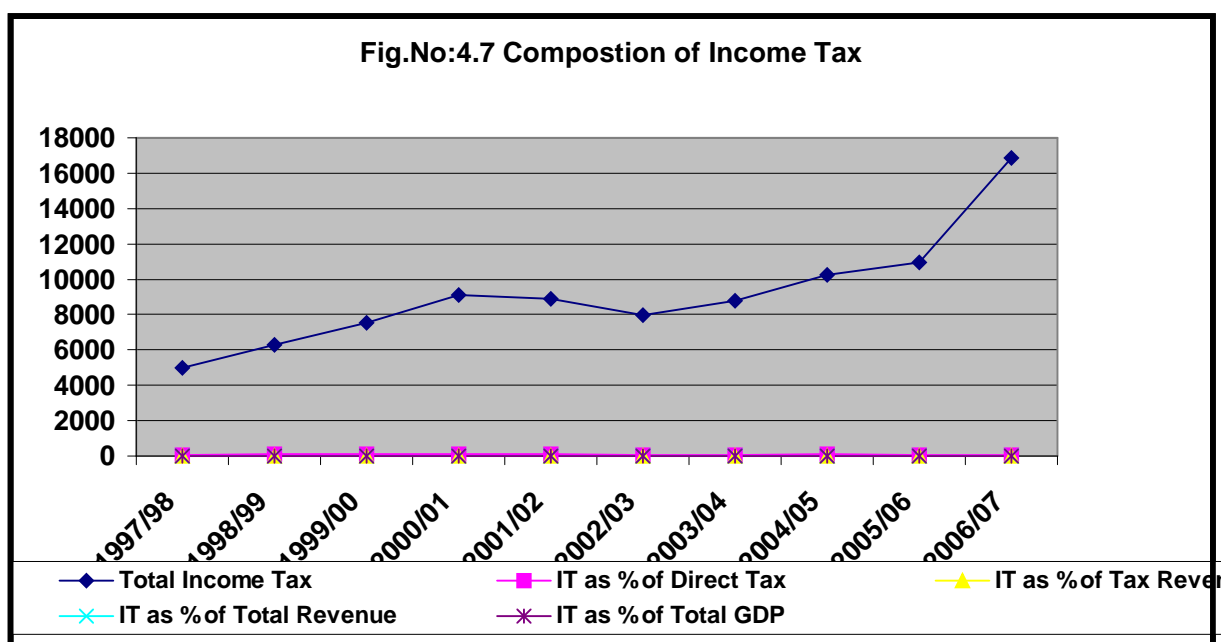
Nepal has late started practicing of income tax. The idea of introducing income tax in Nepal originated along with the first budget on 1952 finally in 1959, Business profits and salaries Tax Act, 1960 was introduced. At that time income tax was levied only on business profits and salaries. After about three years of experience of income tax, the government replaced the prevailing tax Act by Income Tax Act 1962. In 1974, Income Tax, 1974 (2031) was enacted. However, this act was replaced by Income Tax Act 2003 (2058). The contribution of income tax in various revenues is given in the following table.

Table No: - 4.7
Contribution of Income Tax on Different Revenue Heads

(Rs. In Millions)

Fiscal year	Total Income Tax	IT as % of Direct Tax	IT as % of Tax Revenue	IT as % of Total Revenue	IT as % of Total GDP
1997/98	5008.8	80.94	19.31	15.21	1.73
1998/99	6293.5	83.73	21.89	16.89	1.91
1999/00	7539.1	84.22	22.74	17.58	2.06
2000/01	9116.9	89.74	23.46	18.65	2.23
2001/02	8906.0	84.04	22.64	17.65	3.03
2002/03	7966.2	78.83	18.71	14.15	1.81
2003/04	8805.31	78.53	18.28	14.13	1.86
2004/05	10250.0	81.97	18.81	14.37	1.95
2005/06	10933.52	78.31	19.03	15.12	2.12
2006/07	16869.2	79.2	24.08	19.58	2.16

[Sources: Annual Reports of Government of Nepal]



From the above table, income tax was increased about 3 folds in 2006/07 as against in 1997/98. Total income tax in 1997/98 was Rs. 5008.8 million and it increased to Rs 16869.2 million 2006/07. Since 1994/95, interest tax and urban house and land rent tax were included under the income tax. Thus the contribution of income tax has become large than the other direct taxes.

The share of income tax was 80.94 % to total direct tax in 1997/98. It was 79.2 % in 2006/07. The share of income tax to total tax revenue was 15.21 % in 1997/98 then it started to grow up to 2001/02 again it decreased in 2003/04 and In 2006/07 its contribution to total tax revenue was 19.58% .

The share of income tax was 13.89% and 1.56 % to total revenue and total GDP. In 2006/07 its share was 19.58 % of total revenue and 2.16% of total GDP. From the above table, it can be concluded that the income tax is one of the prime source of direct tax in Nepal. But the contribution of income tax to total tax revenue is still lower than the developed countries. Nevertheless, income tax is most likely to increased in the future and be the major source of revenue.

4.1.8 Composition and Trend of Income Tax.

Income tax revenue was divided in to three type i.e. corporate income tax, individual income tax and remuneration until 1993/94. After 1993/94 the income tax revenue was divided into four - group i.e. corporate income tax , individual income tax ,house and land rent tax and interest tax. Corporate tax is collected from Government Corporation, public and private limited companies and partnership firms. Individual tax is collected from remunerations, and industry business, profession or vocation. Interest tax is collected from banks of finance companies that pay interest on all types of deposits and the house rent tax is levied on income obtained from renting house and land in urban areas. The composition and trend of income tax is given in the following table.

Table. No: - 4.8
Components of Income Tax

(Rs. in million)

Year	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Source										
1. Corporate Income Tax	2930	3460	4440	5990	4371	3656	4859	7244.5	8341.9	9722.31
- Govⁿ Corporation	1320	1530	2200	2930	1770	1252	2057	920	195.77	664.7
- Public Ltd. Co.	920	1150	1340	1930	1430	1236	1531	2679.5	3405.58	4382.61
- Private Ltd. Co.	690	780	900	1130	1171	1158	1251	1573	1703.02	1968.09
2. Individual Income Tax	1560	2190	2320	2400	3732	3177	3539	1955	1958.79	2499.12
- Remuneration	320	400	450	600	835	1240	1392	1528	1771.12	2162.85
- Industry Business , Profession / Vocation	1240	1790	1870	1800	2857	1937	2148	117	313.35	207.98
3. House and Land Rent Tax	190	200	250	260	348	382	403	418	528.45	730.9
4. Interest Tax	210	320	410	460	468	845	733	766	774.82	1360.39
Total (1+2+3+4)	4890	6170	7420	9110	8919	8060	9515	17221	18995.8	33698.65

[Source: Annual Report of Various Years (IRD)]

Provisions Against Default Of Tax Payment In Nepal

Above table shows that aggregate amount of corporate income tax was gradually increased up to 200/01 but it decreased in 2001/02 and 2003/04 and again increased in 2006/07. Within corporate income tax, Government corporation has the highest contribution. In overall, corporate income tax plays the vital role in contribution of income tax. The contribution of individual income tax was Rs. 1560 million in 1997/98. It was Rs 2499.11 million in 2006/07. Among the individual income tax , remuneration is increasing in satisfactory level but the industry, business , profession or vocation decreased to Rs 207.98 million in 2006/07 against Rs. 2897 million in 2001/02. The portion of industry, business , profession or vocation is greater than remuneration. The contribution of house and land rent tax and interest tax are also in increasing trend. Theirs contribution were Rs. 190 million and Rs. 210 million in 1997/98 which increased to Rs. 403 million and Rs. 733 million respectively.

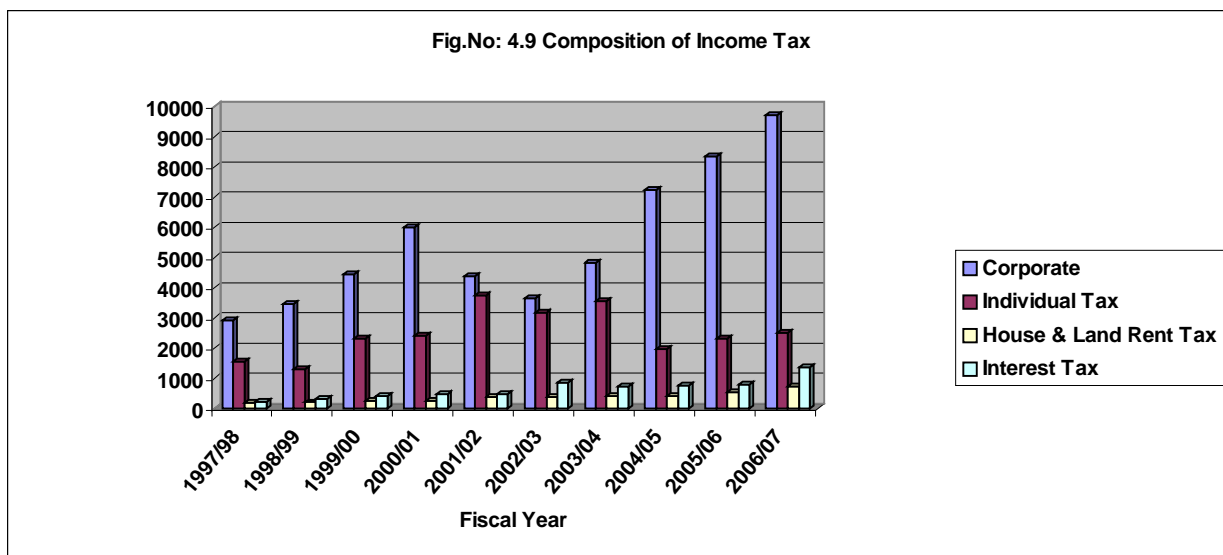
Table. No. 4.9
Composition of Income Tax (1997/98 - 2006/07)

(Rs. In Million)

Fiscal year	Total IT	Corporate Income Tax	%	Individual Tax	%	House & Land Rent Tax	%	Interest Tax	%
1997/98	4890	2930	59.95	1560	31.90	190	3.89	210	4.29
1998/99	6170	3460	56.08	1290	35.49	200	3.14	320	5.19
1999/00	7420	4440	59.84	2320	31.27	250	3.37	410	5.52
2000/01	9110	5990	65.75	2400	26.34	260	2.85	460	5.06
2001/02	8919	4371	49.01	3732	41.84	384	3.90	468	5.25
2002/03	8060	3656	45.36	3177	39.42	382	4.74	845	10.48
2003/04	9515	4839	50.86	3539	37.19	403	4.24	733	7.70
2004/05	10250	7244.5	70.06	1955	19.07	418	4.07	766.8	7.04
2005/06	11800.0	8341.5	70.69	2300	19.49	528.4	4.47	774.8	6.5
2006/07	14607.4	9722.3	66.05	2499.12	17.10	730.9	5	1360.3	9.3

[Source: Annual Report of Various Years (IRD)]

Above table shows that the share of corporate income tax is more than 50% except in 2001/02 and 2006/07 of the total income tax. Individual income tax had contributed 27.67 % of total income tax in 1997/98, which reached to 17.10 % in 2006/07 though it showed erratic trend in between these two fiscal years. The contribution of house and land rent tax is in between 2 to 5 %. The contribution of interest is in between 3 to 11 %. The share if interest tax was 3.64% in 1996/97 to total income tax and reached 9.3% to total tax and can be concluded that interest tax is in increasing trend. The given diagram reflects their positions clearly.



Trend Analysis and Future Estimation of Total Income Tax for Next Five Years:

The last 9 years trend of total income tax shows uniformly in increasing trend except for the year 2001/02 and 2002/03. It is due to political turmoil and poor environment for business sector. Instability in political situation as well as economic trends was the main reasons for decrement of income of income tax in those years. There might be other reasons too behind less collection of income tax in those two years. But in this context these reasons are not concern of the growth and size of next 5 years income tax where growth rate of income tax is considered of average of last 9 years.

Table. No: 4.10

Projection of Income Tax for Next Five Years

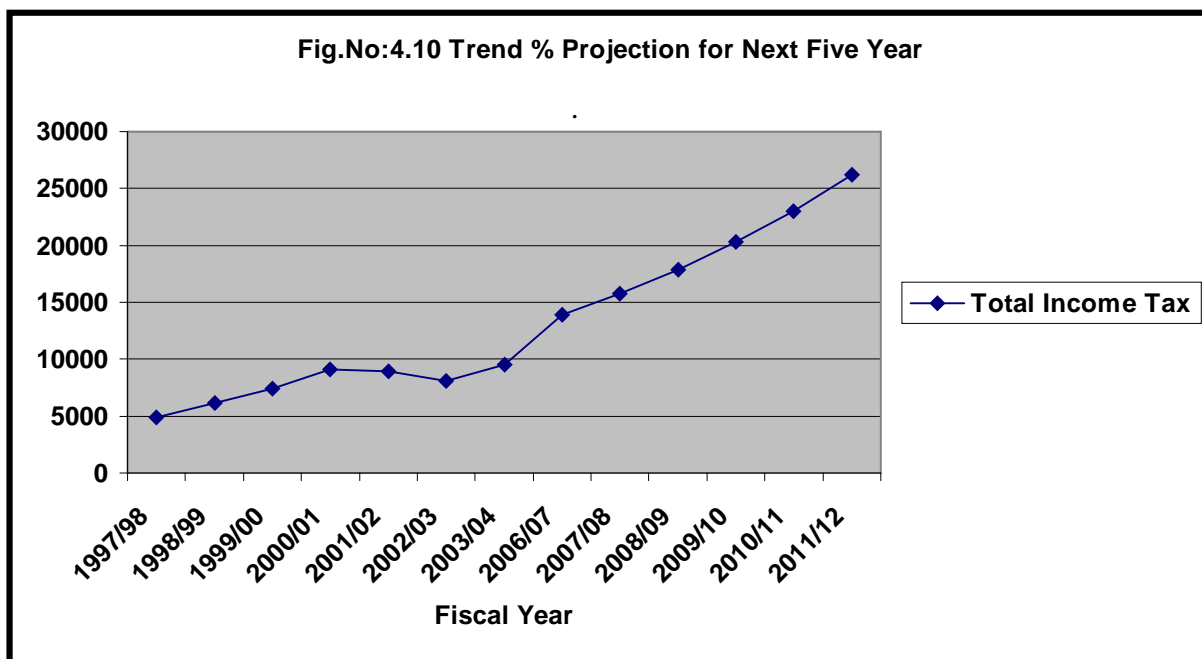
(Rs. In Million)

F/Y	Total Income Tax	% Increased in IT	F/Y	Estimated IT assuming 13.64 % increased which is the average of last 9 Years.
1997/98	4890	18.69	2006/07	13898
1998/99	6170	26.18	2007/08	15768
1999/00	7420	20.26	2008/09	17891
2000/01	9110	22.78	2009/10	20299
2001/02	8919	-2.10	2010/11	23031
2002/03	8060	-9.63	2011/12	26172
2003/04	9515	18.05		
2004/05	10796	20.1		
2005/06	12249	20.80		

[Source: Annual Report of Various years (IRD)]

Above table shows that estimated total income tax in the years 2011/12 would be Rs. 26172 million , which is 2.42 times greater than the total income tax in the last fiscal year 2003/04 which was Rs. 9515 million.

The above trend and projection can also be studied from the graph below.



4.1.9 Proportion of Penalties and Fines to Direct Tax.

The provisions of fines and penalties play an important role to collect the tax in time and to control tax evasion culture. The amounts of penalties and fines, which are ultimately included in tax amount, have some contribution in tax revenue. The table below the proportion of penalties and fines towards direct tax for the years 2006/07.

Table. No: - 4.11.

Proportion of Penalties and Fines to Direct Tax (Rs. In Million)

Total Direct Tax (DT)	Penalties Amount	% of Penalties to DT	Fines Amount	% of Fines to DT	% of Penalties and Fines to DT
21297.8	24.817	0.12	5.44	0.002	0.14

[Source: Annual Report of 2006/07 (IRD)]

Above table shows that the proportion of penalties is higher than fines to total direct tax. The amount of penalties is higher then the amount of fine since the penalties is imposed for the greater mistake. Thus , the amount of penalties is greater than fine. The contribution of penalties to total direct tax is 0.12 % where as the contribution of fines is

only 0.002 % to total direct tax. The overall contribution of fines and penalties to total direct tax is 0.14 %.

4.2 Empirical Investigation

4.2.1 Introduction:

An empirical investigation was conducted in order to find out various aspects of income tax from the experience of real life situation. The major total used for this purpose was a set of structured questionnaire. A total of 60 sets of Questionnaires were distributed to the tax expert, tax administrators, and taxpayers. The responses received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study.

The questionnaire either asked for a yes/no response or asked for ranking of choices according to number of alternatives where first choice was most important and last choice was least important. For analysis purpose choices were assigned the weights according to number of alternatives. If the number of alternatives were seven then the first preferred choice got seven points and the last preferred choice got one point. Any alternatives, which were not ranked, didn't get any point. The total points available to each choice were converted into percentages in reference to the total points available to each choice. The choice with the highest score of percentage was ranked as the most important choice and one with the lowest percentage being ranked as least choice.

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

Table. No: - 4.12
Groups of Respondent and Code Used

S.No	Groups of Respondents	Sample Size	Code Used
1	Tax Experts	20	A
2.	Tax Administrators	20	B
3.	Taxpayers	20	C
	Total	60	

(See the format of questionnaire and the list of respondents in appendix II and III respectively)

4.2.2 Specific Goal of Income Tax

Income tax is imposed on person's income in order to achieve some specific goal. As regards the specific goal of income taxation in Nepal, respondents were requested to rank their response on 1 (most important) to 4 least important. The question was "What should be the goal of income tax in Nepal?" Table 5.13 gives the breakdown of response.

Table. No: - 4.13
Specific Goal of Income Taxation in Nepal

S.No	Goals of Income Tax	Group			Total Points	%	Rank
		A	B	C			
1.	Increase the revenue of Government	68	73	77	218	39.28	1
2.	Reduce the gap between poor and rich	51	49	57	157	28.29	2
3.	Promote private sector investment	40	36	34	110	19.82	3
4.	Reduction in unemployment	17	24	29	70	12.61	4
Total					555	100	

[Source: Opinion Survey]

The specific goals of income taxation in Nepal are ranked in order of the percentage of the respondents and are as follows (See table 5.1 for details)

1. Increase the revenue of government.
2. Reduce the gap between poor and rich.
3. Promote private sector investment.
4. Reduce in unemployment.

Minimize tax avoidance & tax evasion, attract foreign business group and increase the feeling of social justice are some of the other goals as state by the respondents.

From the above analysis it is clear that increase the revenue of government is the most important goal is income taxation in Nepal. It is also an important factor to reduce the gap between poor and rich.

4.2.3 Tax Paying Habit of Nepalese People

To know the tax paying habit of Nepalese people , a question was asked, " Do you think that the tax paying habit of Nepalese people is poor?" The responses have been tabulated below.

Table No: 4.14
Tax Paying Habit of Nepalese People is Poor

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Respondents						
A	19	95	1	5	20	100
B	17	17	3	15	20	100
C	20	100	–	–	20	100
Total	56	93.33	4	6.67	60	100

[Source: Opining Survey]

Since 93.33% of respondents were agreed with tax - paying habit of Nepalese people is poor, and 6.67% respondents argued that there is poor tax paying capacity, which is the reason for not paying tax. Thus it is cleared that the tax paying habit of Nepalese people is poor.

4.2.3.1 The Reason for Poor Tax Paying Habit

To know the reasons of poor tax paying habit, a question was asked, "What are reasons for poor tax paying habit?" The reason given by Tax Experts, Tax Administrators and Taxpayer are presented below on priority basis of each respondent.

Tax Experts

- i. No fair tax assessment system.
- ii. Tax avoiders are enjoying more freedom.
- iii. Lack of tax awareness.
- iv. Inefficient tax administration.
- v. Higher tax rate and
- vi. Poverty.

Tax Administrators

- i. Poor enforcement of law.
- ii. Lack of tax awareness.
- iii. Tax evasion culture.
- iv. Inadequate fine and penalty system.
- v. Poverty and
- vi. Poor Mentality.

Tax Payers

- i. Poverty
- ii. Lack of tax consciousness and education.
- iii. Corruption in governing bodies.
- iv. Weak tax administration
- v. Ineffective fine and penalty system.
- vi. Lack of tax awareness.

From the above reasons it could be concluded that the common reasons for poor tax paying habit of Nepalese people are poverty, inefficient tax administration, ineffective fine and penalty system and lack of tax awareness.

4.2.3.2 Effect of Fines and Penalties to Increase Tax Paying Habit of Nepalese People

To know the effect of fines and penalties to increase tax - paying habit of Nepalese people a question was asked " Do you agree that the tax paying habit of Nepalese can be increased by the effective fines and penalties system?" The response received from the various respondents are tabulated as follows.

Table. No: -4.15

Effect of Fines and Penalties to Increase Tax Paying Habit of Nepalese People

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	12	60	8	40	20	100
B	13	65	7	35	20	100
C	10	50	10	50	20	100
Total	35	58.33	25	41.67	60	100

[Source: Opining Survey]

From the above table it is observed that the 58.33% of the respondents have agreed fines an penalties is an effective means to increase tax- paying habit of Nepalese people and 41.76% of the respondents showed their disagreement to this concept.

Few of the respondents who agreed the effect of fines and penalties to increased tax - paying habit of taxpayers agreed that fines and penalties would play effective role to some extent only. It is not the only means to increase tax - paying habit.

In order to know the effective level of fines and penalties to increase the tax paying habit of Nepalese people the next questions was asked. "If yes, to what extent fines and penalties play role to increase the tax paying habit of Nepalese people? The responses received from the various respondents are tabulated as follows.

Table No.: 4.16

Effective levels of fines and penalties to increased the tax paying habit of Nepalese people.

Effect Group	Satisfactory	Medium	High	Total
A	9	2	1	12
B	10	2	1	13
C	8	2	–	10
Total	27	6	2	33

[Source: Opining Survey]

Above table shows that 27 respondent out of 35 agreed that the fines and penalties provision may increase the tax paying habit of Nepalese people in a satisfactory level , where as 6 and 2 respondent among 35 respondent agreed to medium and high level respectively. Hence it may be concluded that fines and penalties is effective means to increase tax - paying of Nepalese people in a satisfactory level.

4.2.3.3 Knowledge of the Newly Introduced Income Tax Act 2058 and its provision concerning of Fines and Penalties to the Respondents.

To know the taxpayers awareness about the newly introduced Income Tax Act 2058 and its provision concerning to fines and penalties a question was asked, "Are you aware of this newly introduced income tax act 2058 and its provision concerning to fines and penalties? The response of above question tabulated as follows.

Table No: - 4.17

Knowledge about ITA 2058 and Provision of Fines and Penalties

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	20	100	–	–	20	100
B	20	100	–	–	20	100
C	8	40	12	60	20	100
Total	48	80	12	20	60	100

[Source: Opining Survey]

From the above table it is observed that 80% of respondents have the knowledge about this newly introduced income tax act 2058 and its provision relating to fines and penalties. But from this above table it is observed that majority of respondents from group "C" i. e the tax payers showed their ignorance about this new Income Tax Act 2058 as well as its provisions relating to fines and penalties. Thus, it could be concluded that the taxpayers have little/ less knowledge about Income Tax Act as well as its provision.

4.2.3.4 Appropriateness to Pay Rs. 5000 as Minimum Fine

To know the appropriateness of payment Rs 5000 as minimum fine a question was asked. "Is it right , to impose Rs 5000 as minimum fine whose tax liability is Rs. 1000 on the ground of non- payment of tax with in time frame? The response is tabulated in the following table.

Table No. 4.18

Appropriateness to Pay Rs. 5000 as Minimum Fine

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	14	70	6	30	20	100
B	8	40	12	60	20	100
C	–	–	20	100	20	100
Total	22	36.67	38	63.33	60	100

[Source: Opining Survey]

100 % responses were received from the respondents. It is observed that 63.33 % respondents cleared by mentioning their disagreement to impose Rs 5000 as a minimum fine whose minimum income tax payable is rs. 1000 for non - paying of tax with in time limit. However 36.67 % of the respondents have accepted the provision is right. The group of Tax administrators and Tax experts fall under this. On the basis of above analysis majority respondents are not in favour of imposing Rs 5000 as a minimum fine on taxpayers whose minimum tax liability Rs. 1000.

The respondents who were in favour of imposing maximum fine argued that such fine.

Compels every taxpayer to pay tax in time.

Increase the awareness among taxpayers to pay tax in time.

Creates the tax paying habit in time.

However those respondents who showed their disagreement argued that fine should be impose proportionately to the amount of tax liability. Minimum fine is sufficient to create awareness among taxpayers as well as to penalize them. Fine should be justifiable.

4.2.3.5 Interest for Underestimation of Tax Payable by Installment

To know the respondent view about payment of interest charge for under estimation of tax payable by installment a question was asked, "Do you think, 'estimation always comes accurate? If not is it justifiable to pay interest on tax liability on the ground of under estimated tax payable by installment?" The responses are tabulated in the following table.

Table No:4.19

Interest for Underestimation of Tax Payable by Installment

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Respondents						
A	12	60	8	40	20	100
B	13	65	7	35	20	100
C	4	20	16	80	20	100
Total	29	48.33	31	51.67	60	100

[Source: Opining Survey]

100 % responses were received from the respondents, In the table it is observed that majority of the respondent (51.67%) were against of charging interest for under tax payable by installment. Taxpayers are not ready to pay interest under this provision. However, most of tax expert and tax administrator (48.33%) claimed it right to charge interest for under estimation of tax payable by installment. Thus it may be concluded that majority of the respondents were against the imposition of interest for under estimation tax payable by installment.

The reasons to charge interest for under estimation tax payable by Installment was asked to the respondents with answer "yes" for the above question. The reasons as ranked by them under their priorities were:

- Encourages maintaining record properly.
- Increase the reliability in estimation.

The reasons not to charge interest for under estimation tax payable by Installment a question was asked to these respondents with answer 'No'. The reasons as given by them with priorities were:

- Estimation may not be accurate sometime.
- The provision of estimation should be abolished.

4.2.3.6 Penalty for Aiding and Abetting Reduce Offences.

In order to know the effectiveness of penalty on those abettors who help them (tax evader) for reduction of offences a question was asked, "Do you agree, penalty for aiding and abetting would help to reduce offences? The response received is tabulated below.

Table No: 4.20
Penalty For Aiding And Abetting Reduces Offences.

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Respondents						
A	15	75	5	25	20	100
B	13	65	7	35	20	100
C	17	80	4	20	20	100
Total	44	73.33	16	26.67	60	100

[Source: Opining Survey]

In the above table it is observed that 73.33% of the respondent agreed to charge penalty for aiding and abetting to reduce offence. Only 26.67% of the respondents think that offences would not reduced by penalty for aiding and abetting. Thus , it could be concluded that the penalty helps to reduce aiding and abetting and ultimately offences.

4.2.3.7 Liabilities to pay both Interest as well as Fine

To know the opining of respondent whether both interest as well as fine should be imposed for a simple mistake a question was asked. "Is it right to impose both interest as well as fine for a single mistake made by the taxpayer? The respondent's responses were as follows:

Table No: 4.21
Right to pay both Interest as well as Fine

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	12	60	8	40	20	100
B	15	75	5	25	20	100
C	–	–	20	100	20	100
Total	27	45	35	55	60	100

[Source: Opining Survey]

A 100 % response was received from the respondents. Out of the 60, 35 respondents, which represents about (55%) of total population should their disagreement for charging both interest as well as fine for a single mistake make by taxpayer. Because majority of taxpayers feel that they are not in favour of paying both interest as well as fine for a single mistake.

The reason to pay both interest as well as fine for a single mistake, a question was asked with the respondents having answer 'Yes'. Their responses on their priorities were:

-) Induces the taxpayers not to commit mistake
-) Increases the consciousness among taxpayers.

Similarly, the reasons of the respondents who were against of imposing of both interest as well as fine a single mistake are ranked according to their priorities and were:

-) Dual burden should not be imposed for a single mistake
-) It may discourage the taxpayers.

4.2.3.8 Provision of Penalty against Who Fail To Register

To know the opinion of respondents about provision of penalty in case the firms/ assesses failed to register their firm, a question was asked, "Do you think that a provision of penalty should be incorporated in case of failing to register?" Above question was to the respondents because there is no any clean provision for those who fails to register to control illegal business. The responses were:

Table No: 4.22
Provision of Penalty against tax defaulter

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	20	100	–	–	20	100
B	20	100	–	–	20	100
C	20	100	–	–	20	100
Total	60	100	–	–	60	100

[Source: Opining Survey]

Since cent % of respondent approved there should be clear provision of penalty that fail to register. Hence it can be concluded that there should be provision of penalty that fail to register to reduce unauthorized business.

4.2.3.9 Penalty equal to 50% of the Underpayment of Tax for Making False or Misleading Statement unknowingly or recklessly

There is provision of penalty 100% of the underpayment of tax for making false or misleading statement knowingly or recklessly. To know the appropriateness of 50% of the underpayment of tax as a penalty for making false or misleading statement unknowingly or recklessly, a question was asked, " Is it right to impose penalty equal to 50% of the underpayment of tax for making false or misleading statement unknowingly or recklessly? The responses were:

.Table No: 4. 23

Penalty for Making False or Misleading Statement Unknowingly or Recklessly

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Respondents						
A	17	85	3	15	20	100
B	16	80	4	20	20	100
C	8	40	12	60	20	100
Total	41	68.33	19	31.67	60	100

[Source: Opining Survey]

From the above table it has been clear that 68.33% of the respondent approved that penalty equal to 50% of the underpayment of tax for making false or misleading statement unknowingly or recklessly is appropriate. So, it can be concluded that majority of the respondents were positive toward it. On personal discussion, one respondent said, if we calculate rationally, there will be less chance of false or misleading statement.

A question 'What should be the charge' was asked for the respondent with asked 'No' for the above question. Only two of the respondents among nineteen answered to be the charge equal to 25%.

4.2.3.10 Effectiveness of Tax Administration to Impose Fine and Penalties.

In order to know the effectiveness of tax administration to impose fines and penalties in Nepal, a question was asked, "Do you think the tax administration of Nepal is effective to impose fines and penalties as per necessary? Table 6.24 gives a breakdown of responses

Table No:4.24

Effectiveness of Tax Administration of Impose Fines and Penalties.

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	7	35	13	65	20	100
B	16	80	4	20	20	100
C	–	–	20	100	20	100
Total	23	38.33	37	61.67	60	100

[Source: Opining Survey]

From the above table 5.24 it has been clear that most of the respondent (61.67%) thought that tax administration is not effective to impose fines and penalties in Nepal. Only 38.33% respondent thought that tax administration is effective to impose fines and penalties in Nepal. Most of the tax administrators are in favour with effectiveness of tax administration to impose fines and penalties because they don't want to show their weakness. Thus, it can be concluded that the tax administration of Nepal is not effective to impose fines and penalties. In order to know the cause of ineffective tax administration the next question was asked, " If not , what are the reasons? the Respondents were requested to rank their answer from 1 to 7. Table 5.25 gives the breakdown of responses.

Table NO: - 4.25

Reason of Ineffective Tax Administration to Impose Fines and Penalties

S.No	Goals of Income Tax	Group			Total Points	Percent	Rank
		A	B	C			
1	Corruption	86	11	134	231	22.11	1
2.	Lack of information	78	14	91	183	17.51	3
3.	Lack f Competent Staff	81	17	110	208	19.90	2
4.	Complicated tax law	48	21	77	146	13.97	4
5.	Unnecessary outside pressure	33	13	69	115	11	5
6.	Lack of Co- operation in tax administration	43	12	37	92	8.80	6
7.	Lack of logistic support	22	16	32	70	6.70	7
Total					1045	100	

[Source: Opining Survey]

The causes of ineffectiveness of Nepalese income tax administrator to impose fines and penalties as per necessary were ranked in order of the preference of the respondent were as follows.

(See table 4.24 for details)

1. Corruption.
2. Lack of competent staff.
3. Lack of information.
4. Complicated tax law.
5. Unnecessary outside pressure.
6. Lack of co-operation in tax administration.
7. Lack of logistic support.

It can be concluded that corruption, lack of competent staff, complicated tax law and lack of information is the most important causes of ineffectiveness of Nepalese tax administration to impose fines and penalties as per necessary.

To know how much the view of tax expert and taxpayer are related, we assist comparative analysis and for this we can test rank correlation coefficient. (Keeping the view of tax administration constant).

HYPOTHESIS.

Here , let us take our hypothesis that there is no significant relationship between the views of tax expert and taxpayer with respect to causes of in effectiveness of Nepal tax administration to impose fines and penalties as per necessary.

We have formula,

$$r = \frac{\sum d^2}{n(n^2 - 1)}$$

• • r = rank correlation.

$$PE(r) = 0.6745 \frac{1 - r^2}{\sqrt{n}}$$

• • PE(r) = Probable error of rank correlation

Table No: 4.26

Calculation of the Correlation of C0 - Efficient

S.No	Reasons	Total Points X	Re - rank	Total Points Y	Re - rank	Difference of rank d = R ₁ - R ₂	Square of the rank (R ₁ -R ₂) ² =d ²
1.	Corruption	86	1	134	1	0	0
2.	Lack of information	78	3	91	3	0	0
3.	Lack of competent staff	81	2	110	2	0	0
4.	Complicated tax law	48	4	77	4	0	0
5.	Unnecessary outside pressure	33	6	69	5	1	1

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6.	Lack of co - operation in tax administration	43	5	37	6	-1	1
7.	Lack of logistic support	22	7	32	7	0	0
	n = 7						$d^2 \times 2$

[Source: Based on table No: 6.25]

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

Substituting the value of formula.

$$R \times \frac{6}{n} \times \frac{d^2}{n^2}$$

$$= \frac{6 \times 2}{7(7^2)}$$

$$= 0.96$$

$$PE(r) = 0.6745 \frac{1 \times r^2}{\sqrt{n}}$$

$$= 0.6745 \frac{1 \times (0.96)^2}{\sqrt{7}}$$

$$= 0.02$$

Here r is greater than PE(r). It is 48 times greater. The relation is highly significant since r is more than 6 times greater than PE(r). Hence out null hypothesis is rejected. Therefore, we can conclude that the causes of ineffectiveness of Nepalese tax administration to impose fines and penalties as per necessary are same for both groups of respondents

4.2.3.11 Sufficiency of Provision Made under the Nepalese Income Tax Act. 2058

In order to know the sufficiency of provision made under the Nepalese income tax act a question was asked, "In your opinion, are the provisions made under the Nepalese income tax act sufficient in all respect? The responses received on it are tabulated below.

Table No: 4.27
Sufficiency of Provision of Income Tax

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Respondents						
A	4	20	16	80	20	100
B	7	35	13	65	20	100
C	13	65	7	35	20	100
Total	24	40	43	60	60	100

[Source: Opinion Survey]

Since 40% of the respondents were agreed the sufficiency of provision made under the Nepalese income tax act, but 60% of the respondents were against the sufficiency of provisions of income tax act. Thus, it can be concluded that majority of the respondents were against the sufficiency of provision of income tax.

The respondents who gave negative response about the sufficiency of provision of income tax were requested to write their opinion of the blank area. A question was "If No, in which aspect the improvements were needed? The opinions for the improvement of different aspect of Nepalese income tax act are given below.

Group A

- Tax law
- Tax rate
- Tax evader
- Suitable to modern economy and Nepalese context.
- Necessary to revise
- Training to staff
- Use of Internet
- Capital gain
- In deduction
- Obligation toward taxpayer
- Filing of return
- Tax administration
- Clarity without dual meaning
- Stable tax structure
- Periodic review for improvement.

Group B

- In register
- Administration review and appeal
- Penalty system
- Not match able with Nepalese contest

- Tax law
- Simplify the language
- Compulsory billing system
- Income tax structure.

Group C

- Tax law
- Language
- Tax system should be flexible
- Incentives to industries who compete
- Trained staff
- Remuneration income
- District wise tax office
- Tax administration
- Fines and Penalties System

From the above listing, most of respondents suggested to simplify the language, trained the staff, improve tax law etc. They also focused to improve the administration and computerized system.

4.3 Finding of Empirical Investigation

- The main goal of income taxation in Nepal is increase the revenue of government.
- Tax paying habit of Nepalese people is poor , 93.33% of respondents approved it.
- Tax paying habit of Nepalese people can be increased by effective fines and penalties system.
- The effective level of fines and penalties is satisfactory.
- Most of the Taxpayers are unknown about this newly introduced income tax act and its provision of fines and penalties.
- It is not good to impose Rs 5000 as minimum fine who pays minimum income tax Rs 1000 of non - payment of tax within time.
- The majority of respondents were against the interest for under estimation tax payable by installment.
- Penalty for aiding and abetting reduce offences
- The majority of the respondents were against the payment of interest as well as fine for the single mistake by taxpayer
- There should be provision of penalty that fails to register.
- Tax administration is not effective to impose fine and penalties as per necessary. Main cause of the ineffectiveness tax administration is corruption, lack of competent staff, and complicated tax law.
- Provision made under the Nepalese income tax act is not sufficient in all respect. Improvement are needed in language, competent staff, law, tax administration, computerized system. etc.

CHAPTER - FIVE

MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Major Findings

On the basis of preceding chapters and data presentation and analysis some important findings can be drawn. The major findings of this research study are summarized below.

- The Nepalese government revenue is the composition of external revenue and internal revenue. Internal revenue includes both tax and non- tax revenue. Among tax and non- tax revenue, there is dominant share of tax revenue in Nepalese government revenue. It had contributed 78.75% in 1997/98 on total revenue but it was decreased to 81.32% in 2006/07. It shows that the contribution of tax revenue is in decreasing trend.
- Tax revenue is the composition of direct and indirect tax in the Nepalese tax revenue. The contribution of indirect tax in 1997/98 and 2006/07 is 76.15% and 73.74% and the contribution of direct tax was 23.85% and 26.25% respectively. It seems the dominant role of indirect tax revenue in Nepalese tax revenue.
- Indirect tax revenue is the composition of VAT, excise duty, entertainment tax, hotel tax, contract tax and other tax. The contribution of VAT excise duty , entertainment tax ,contract tax and other tax were 36.06%, 14.61% , 0.46% , 3.25% , 6.41 % of the total revenue in 1997/98 and the contribution of each were 19.22% , 23.23% , 10% (Entertainment ,Hotel, Contract tax contributed like zero percentage) 6.68% by other tax in 2006/07
- Direct tax revenue is the composition of income tax, land tax, house and land registration tax, and other tax. There is dominant share of income tax revenue in direct tax revenue. The contribution of income tax is 1997 /98 was 16.89 % of total revenue and in 2006/07 the contribution were 19.98% of total revenue income tax revenue has occupied third position at present. The contribution of income tax to government revenue is in increasing trend.
- The tax/GDP ratio of Nepal is not found satisfactory. In 1997/98, the tax/GDP ratio was only 8.95% and it was 12.19 % in 2006/07.
- The direct tax/GDP ratio was 2.14 % in 1997/98 and it was 2.84% in 2006/07. The indirect tax /GDP ratio was 6.82 % in 1997/98 and it was 6.93 % in 2006/07
- The direct tax/ Total tax, Direct Tax / GDP, Direct Tax/Total revenue ration were 23.85 % , 2.14 % , 18.79 % in 1997/98. It was 26.25 % , 3.12 % and 20.12 % respectively in 2006/07.
- The income tax/ Direct tax, Income tax/ tax revenue, Income tax/ total revenue, Income tax/ total GDP ratio were 80.94 % 19.31% , 15.21% and 1.73 % respectively

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in 1997/98 and it was 79.2 % , 24.08 % , 19.58 % and 2.16 % respectively in 2006/07 respectively.

- Within the income tax there is dominant role of corporate income tax but it is in decreasing trend with 59.95 % of income tax revenue in 1997/98 but it increased to 66.5% of income tax revenue in 2006/07. The contribution of individual income tax is second position and it is in increasing trend.

An opinion survey has been conducted in order to find out the role of fines and penalties to collect the income tax and its provisions and some other aspects of income tax. From the opinion survey of various respondents. i.e tax experts. Tax administrators and taxpayers, the following findings have been drawn.

-) The major goal of income taxation in Nepal is to increase the revenue of the government.
-) Tax paying habit of Nepalese people is poor.
-) Tax paying habit of Nepalese people can be increased by effective fines and penalties system.
-) The effective level of fines and penalties is satisfactory.
-) Most of the tax payers and unknown about newly introduced income tax act and its provisions regarding fines and penalties.
-) A provision of fine Rs. 5000 to tax payers with tax liability of Rs. 1000 because of non- payment of tax within time frame is not good. Fine should be justifiable.
-) Most of the respondents were against the interest for under estimation of tax payable by installment. Estimation is just a guess so it may not be accurate.
-) Penalty for aiding and abetting reduces offences.
-) To impose interest as well as fine for single mistake by taxpayers is not suitable means of punishment. Dual burden should not be given for a single mistake. It may discourage taxpayers.
-) Provision of penalty should be made who fails to register.
-) Penalty equal to 50% of the underpayment of tax for making false or misleading statement without knowingly or recklessly is relevant.
-) Income tax administration of Nepal is considered as ineffective to impose fines and penalties as per necessary. Main cause of ineffective income tax administration to impose fines and penalties are corruption, lack of competent staff, complicated tax law.
-) Provision made under the Nepalese income tax act are not sufficient in all respects. Improvement is needed in language, competent staff, tax law, tax administration, computerized system for payment of tax, etc.

5.2 Conclusion

In developing countries like Nepal, lack of sufficient financial resources is the main constraint for the national economic development. A lot of funds are needed to meet the additional financial requirement for the development activities of the country. Nepal has been suffering from capital shortage to accelerate the economic growth. Nepal has been heavily relying on foreign loans and grants. The dependence is increasing, which is not describing for any economy.

Internal resources preferable for sustainable economic development. But Nepal has been unable for proper mobilization of internal resources. Fiscal deficit of Nepal has been increasing. Thus, remedy should be made in due time by the country to run in path of economic development.

To increase the government revenue, Nepalese government is trying to extract money or valuable contribution from people through taxation. Income tax is one of the most important sources of government revenue. Income tax was introduced in the fiscal year 1959/60 and the percentage share of Income tax to government revenue is increasing trend.

From the very beginning the concept of punishment have been emerged in income tax system of Nepal for the taxpayers who do not comply the law. It is imposed according to the provisions provided by income tax act. It plays important role to collect tax. There are not doubt fines and penalties must be imposed to the defective taxpayers. But this is not only the method of reducing tax evasion.

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

7.3 Recommendation

On the basis of findings of the study, the following recommendations are made for the sound and effective income tax implementation.

- ❖ The income tax policy should be made such that the main goal of imposing tax can be achieved.
- ❖ The member involved in formulating income tax policies must have deep knowledge about income tax.
- ❖ To increase the tax paying habit of Nepalese people, provisions of fines and penalties should be made effective. But this is not only the method of reducing of tax evasion. Provision of education should be made to increase the tax consciousness of taxpayers.
- ❖ Most of the taxpayers are unknown about this newly introduce income tax act and its provision about fines and penalties. For that purpose information should be provided by different media as well as meeting and seminar should be held.

Provisions Against Default Of Tax Payment In Nepal

- ❖ It is not good to impose. %s 5000 as minimum fine whose tax liability is Rs 1000 for the ground of non- payment of tax within time frame. It should be revised and class interval should be made for the different class of taxpayers to pay fine. Fine. should be justifiable.
- ❖ Aiding and abetting is one of the most important roots of offences. So there should be provision of heavy penalty for aiding and abetting to reduce offences.
- ❖ Most of the respondents are against the provision of interest as well as fine for the single mistake by taxpayer. Effective information system should be established to solve this type of problem. The reward, prize, incentives provisions should be introduced in the act to encourage the taxpayer to pay voluntarily rather than by coercive measure.
- ❖ The Provision of penalty that fails to register should be implemented to control unauthorized business practices. So the clear provision of penalty should be made for those who fail to register.
- ❖ Tax administration should be made free from corruption to impose fines and penalties effectively. Discretionary power of the tax officers must be curtailed and their right and duties should be clarified in income tax act.
 -) Effective reward and punishment system should be established.
 -) Unnecessary outside pressure should be ignored.
 -) Regular and effective training should be given to increase qualification of the personnel to impose fines and penalties as well as other various provisions.
 -) Co- ordination between staffs and department must be established.
 -) The administration should try to increase effective public participation to minimize the income tax evasion.
- ❖ Income tax act, rules and regulation should be clear and simple for all the taxpayers as well as tax administration. It should be more effective.
- ❖ The language should be simple and clear. In spite of using the vague meaningful words, clear - cut provisions should be made.
- ❖ Timely revision should be made in the matter of income tax policy. The system of changing income tax policy with the change of government should better be avoided.
- ❖ More deduction should be provided to promote export.
- ❖ Income tax act should be liberal with broad base.
- ❖ Income tax policy should be made attractive also for foreign business group.
- ❖ If there is enough reasons to believe that the taxpayers has earned from illegal or unauthorized business and corruption, the income so earned should be made liable to tax at high rate without exemption limit and with maximum penalty.
- ❖ Computerized system should be established for the payment of income tax.
- ❖ To improve the tax collection procedure, maximum penalties should be imposed for non- compliance of income tax within the due date.
- ❖ Tax personnel should be encouraged; punishment and transfer provision should be made on the basis of their work and experience but not due to outside pressure.

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APPENDIX - I

Dear Sir,

I would like to introduce myself as a student of Tribhuvan University, M.B.S(Final Year). In order to fulfill the partial requirement of Master's Degree in Management, I am conducting a research work entitled "**Provisions against Default of Tax Payment in Nepal**".

I would very much appreciate if you kindly spare a few of your busy & valuable time for completing my research work. Your views are purely used for my academic purpose only. I anticipate your suggestions as soon as possible.

Sincerely Yours
Waheed Equebal Shah

APPENDIX - II

"Provisions against Default of Tax Payment in Nepal"

QUESTIONNAIRE

Name of the respondent

Position:

Department:

(Please tick your answers in the following box, if the questions if provided with tow or three alternatives and put in order of preference form one to last number if there are four or more alternatives.)

1. What should be the goal income tax in Nepal? (Rank your answer)
 - a. Increase the revenue of government. ()
 - b. Reduce the gap between poor and rich ()
 - c. Promote Private sector investment ()
 - d. Reduce in unemployment. ()
 - e. Other (please specify -----) ()

2. Do you think that the tax paying habit of Nepalese people is poor?
Yes () No ()

- 2a. If yes, What are the reasons for poor tax paying habit?
 - i.
 - ii.
 - iii.
 - iv.
 - v.

3. Do you agree that the tax paying habit of Nepalese People can be increased by the effective fine and penalty system?
Yes () No ()

4. If Yes, to what extent fines and penalties play role to increase the tax paying habit of Nepalese people?
Satisfactory () Medium () High ()

5. Are you aware of this newly introduced income tax act 2058 and its provision concerning to fines and penalties?
Yes () No ()

Provisions Against Default Of Tax Payment In Nepal

6a. Is it right to impose Rs 5000 as minimum fine whose tax liability is Rs 1000 on the ground of non- payment of tax within the time frame?(See 123)

Yes () No ()

6b If yes, what should be the reasons?

- i. Compels every taxpayer to pay tax in time. ()
- ii. Increase the awareness to pay tax in time. ()
- iii. Creates the tax paying habit in time. ()
- iv. Others (Please specify -----) ()

6c If not, give reasons?

- a. Fine should be imposed proportionately to the amount of tax liability.()
- b. Minimum fine is sufficient to crate awareness among taxpayers as will as to penalize them. ()
- c. Fine should be justifiable. ()
- d. Other (Please specify -----) ()

7a. Do you think, "Estimation always comes accurate"? If not, is it justifiable to pay interest on tax liability on the ground of under estimation tax payable by Installment? (See.118)

Yes () No ()

7b. If yes, give reasons?

- i. Increase the reliability in estimation. ()
- ii. Encourages to maintain record properly. ()
- iii. Others (Please specify -----) ()

7c. If not, give reasons?

- i. Estimation may not be accurate sometime ()
- ii. The provision of estimation should be abolished ()
- iii. Others (Please specify-----) ()

8. Do you agree, Penalty for aiding and abetting would help to reduce offence?(See. 127)

Yes () No ()

9a. Is it right, to impose both interests as well as fine for a single mistake made by the taxpayer.

Yes () No ()

9b. If yes, give reasons?

- i. Induce the taxpayers not to commit mistake. ()
- ii. Increases the consciousness among taxpayer. ()
- iii. Others (Please specify -----) ()

9c. If not, give reasons?

- i. Dual burden should not be imposed for a single mistake. ()
- ii. In may discourage the taxpayers. ()
- iii. Others (Please specify -----) ()

10. Do you think that a provision of penalty should be incorporated in case of falling to register?

Yes () No ()

11a. Is it right to impose penalty equal to 50% of the under payment of tax for making false or misleading statement unknowingly or recklessly?

Yes () No ()

11b. If not, what should be the charges?

.....

12a Do you think the tax administration of Nepal is effective to impose fines and penalties as per necessary?

Yes () No ()

12b. If not, give reasons?

- a. Corruption ()
- b. Lack of information ()
- c. Lack of Competent staff. ()
- d. Complicated tax law. ()
- e. Unnecessary outside pressure ()
- f. Lack of cooperation in tax administration ()
- g. Lack of logistic support ()
- h. Other (if any -----) ()

13. If you opinion , are the provisions made under the Nepalese income tax act sufficient in all respect?

Provisions Against Default Of Tax Payment In Nepal

Yes ()

No ()

14. If not, in which aspect the improvement is needed? (Please, specify in the following number with choices as you yourself.)

- i.
- ii.
- iii.
- iv.

"THANK YOU"

APPENDIX - III

List of Respondent (References)

Tax Expert			
S.No	NAME	POSITION	DEPARTMENT/ OFFICE
1	Prof. Dr Santosh Raj Poudel	Professor	CDM. T.U. Kirtipur
2	Prof. Dr. Shalik Ram Koirala	Professor	CDM. T.U. Kirtipur
3	Prof. Dr. Nawaraj Kandel	Professor	CDE. T.U. Kirtipur
4	Dr. Hari Dhoj Pant	Reader	CEDA. T.U. Kirtipur
5	Avanidra Kumar Shrestha	Director General	IRD, Lazimpat
6	Pawan Kumar Ojha	Attorney General	Office of Attorney General
7	D.R. Acharya	Joint Attorney	Office of Attorney General
8	Rishikesh Wagle	Deputy Attorney	Office of Attorney General
9	Bhashker Sing Lala	C.A	RBB, Singadurbar
10	Bharat Rijal	C.A	ADBN, Singadurbar
11	Shiv Nath Pandey	C.A	IRD, Lazimpat
12	Tilak Bhandari	Director	IRD, Lazimpat
13	Bharat Bhakta Joshi	Auditor	Naikap
14	Bhanu Bhakta Joshi	C.A	NBL, New Road
15	S.K. Dhungel	C.A (Intl.Audit)	NBL, New Road
16	Sanjay Chaudhary	Asst, Chief, Intl. Audit	NBL, New Road
17	Pramod Kaushik	Deputy Chief, Intl, Audit	NBL, New Road
18	Gyan Prasad Dhungana	C.A	ADBN, Singadurbar
19	Sudarshan Raj Pandey	C.A	RBB, Singadurbar
20	Ashih Garg	C.A	RBB, Singadurbar

Tax Administrators

S.No	NAME	POSITION	DEPARTMENT/ OFFICE
1	Shanker Prasad Adhikary	Chief Tax Admin.	IRD, Sec 1, Babarmahal
2	Bishnu Prasad Nepal	Chief Tax Officer	IRD, Sec 2, Babarmahal
3	Raj Bhai Shakya	Chief Tax Officer	IRD, Sec3, Lazimpat
4	Govinda Prasad Baniya	Chief Tax Officer	IRD, Sec1, Babarmahal
5	Nawal Kishor Chaudhary	Tax Officer	IRD, Sec3, lazimpat
6	B.Sharma	Tax Officer	IRD, Lazimpat
7	Chandramani Adhikari	Tax Officer	IRD, Sec 1 , Babarmahal
8	Luvraj Thapa	Tax Officer	IRD, Sec 2, Babarmahal
9	Janardan Prasad Tripathi	Tax Officer	IRD,Lazimpat
10	Shayam Kishana Shrestha	Tax Officer	IRD, Sec 3, Lazimpat
11	Bhishman Kumar Bhusal	Tax Officer	IRD, Sec, 2 Babarmahal
12	Yugjatan Humagain	Tax Officer	IRD, Sec 3 , Lazimpat
13	Chandra Kishor Mallik	Tax Officer	IRD, Sec3 , Lazimpat
14	Manidev Bhattarai	Tax Officer	IRD, Sec3, Lazimpat
15	Thirtha Sharma	Tax Officer	IRD, Lazimpat
16	Dilli Raman Acharya	Tax Officer	IRD, Lazimpat
17	Mani Dev Battarari	Tax Officer	IRD, Lazimpat
18	Prem Prasad Sharma	Non- Gtz 1 st Class	IRD, Sec3, Lazimpat
19	Ghanashyam Upadhaya	Section Officer	IRD, Lazimpat
20	Shobakar Khanal	Non- Gtz 1 st Class	IRD,Sec3, Lazimpat

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Tax Payers

S.No	NAME	POSITION	DEPARTMENT/ OFFICE
1	Hari Keshab Adidari	Senior Asst. (A/c)	National Trading Limited
2	Achut Raj Poudyal	Account Officer	Nepal Food Corporation
3	Rupendar Man Joshi	Dy. Chief Officer Finance Department	RBB,Singadurbar
4	Buddha Ranjit	Asst. Manager	NBL, New Road
5	Binod Pandit	Account Officer	Nepal Telecom
6	Kapil Kumar Karki	Senior Asst. (Finance Depart.)	RBB, Singadurbar
7	Yagya Prasad Neupane	Section Officer (Finance Depart.)	ADB, Singadurbar
8	Pranil Acharya	Account Officer	Siddartha Bank , Kamalaskhi
9	Raju Nepal	Acc/Treasury Mgmt.	Himalayan Bank , Thamel
10	Surendra Bhr, Adhikari	Financial Officer	NBL, Kirtipur
11	Sukdher Pd. Pathak	Dy. Fin. Officer	RBB, Singadurbar
12	Nayan Bhandari	Account Officer	NCF Employment, Anamnager
13	Deepak Kr, Shrestha	Dy. Fin Manager	Bottlers Nepak , Balaju.
14	Binod mani Pokharel	Admin. Asst	Kumari Bank , Putali Sadak
15	Mukesh Sharma	Account Officer	Baba Papers, Biratnagar
16	Khagendra Bhattari	Dy. Manager (Account Dept.)	Nepal Bangladesh Bank, New baneshwor
17	Shreedhar Pokharel	A/c officer	Kantipur Publication
18	Sanjay chaudhary	Proprietor	Tiger Tobbaco Industry, Godhunga ,Balaju
19	Pappu Chaudhary	Proprietor	Silu Cosmetic Industry, Kiritpur, Ktm
20	Ganesh Chand	M.D	Chand and Basnet Construction Pvt. Ltd.

