

CHAPTER-I

INTRODUCTION

1.1 General Background

In Nepal, around 90 Percent people depend on agriculture. About 41 Percent of GDP is contributed by this sector. Most of the people are living in rural and remote area. Human Development Index is very poor. Half of the population is living under the absolute poverty line. Unemployment, under investment and poor marginal saving has created the situation of lower revenue generating. But government requires a large amount of resources for development expenditure and moderate amount of regular expenditure. Thus the developing county like Nepal has either to collect own resources or depend on foreign assistance.

Government revenue is the most important sources of financing government expenditure. To achieve the national objectives, the government is required to make and implement various policies and planning, acts and procedures. Besides these functions revenue mobilization is one of the most important functions of the government (Bhattarai, 1976).The income of the government is called government revenue.

Government revenue constitutes external and internal sources. External source of government revenue, are foreign loan, grants, external borrowing etc. External sources are uncertain, inconvenient and not good for healthy development of nation because they have to pay after a certain time. Another source of government revenue is internal which constitute tax and non-tax revenue. The main objective of tax revenue is not to collect revenue but to provide goods and services to the people. Tax

revenue is the important source of government revenue. Customs excise, value added tax corporate and personnel income tax are the example of the source of tax revenue. The example of non-tax revenue are fees, fines, royalty, administrative and business income etc administrative incomes means the return received of government for providing various goods and services to the people. So, it is better to mobilize internal source rather than external source because internal source are safer than external.

Taxation is the main source of government revenue since it occupies the most important place in the government treasury; many economists/tax experts have defined taxation in their own self. According to Seligman- "Taxation is a compulsory from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred."

It is clear that a tax is a compulsory levy and those who are taxed has to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax paid. The tax payer cannot receive equivalent benefit from the government. Government need funds for its running, therefore tax is paid to the government amount collected through taxation is spend for common interest of the people and it is collect from natural and artificial person.

Tax can be classified into two categories direct tax and indirect tax. A direct tax is a tax pay by a person or whom it is legally imposed. In direct tax, the person paying and bearing tax the same tax payer cannot collect direct tax from other person. Examples of direct taxes are income tax, property tax, vehicle tax, interest tax etc.

An indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax, the person paying and bearing the tax is different. Taxpayer can collect indirect tax for other persons. Examples of indirect taxes are value added tax, excise duty, import and export duty etc.

Income tax is updated timely but there are many problems exist in income tax practice in Nepal. The leakage in tax, feeling of people about tax as a penalty, lack of consciousness of people, lack of accuracy and infirmity in accounting system, payment of additional fees, inability of tax administration, high cost of tax collection are some examples of those problems. Having all these existing reasons, tax system in Nepal is really difficult to implement. Tax management is wheel of whole tax system it gives right direction to the government and country.

1.2 Focus of the Study

This study will attempt to cover the income tax system in Nepal. It aims to find out the effectiveness of tax system . However, this study will focus on :

1. Nepalese tax structure
2. Role of income tax in Nepal
3. Existing position of income tax in Nepal
4. Factors affecting in the collection of tax
5. Administrative aspects of income tax in Nepal

1.3 Statement of Problems

Nepal is one of the poorest and least developed country in the world. Nepal has been suffering from resources constraints, massive poverty, rapid population growth, increasing unemployment, high dependency on agriculture, subsistence living standard and poor infrastructures. Unfortunately, the problems instead of being solved are rather developing and worsening.

The various measures adopted by the government to boost revenue collection. But resources gap of the country has been widening in the recent years. Resources gap was 6,139 millions in the fiscal year 1998/99 and it was 20,500 millions in the fiscal year 2007/08. The rate of government expenditure exceeding the rate of revenue growth almost every year. Expenditure has 59,579 millions in fiscal year 1998/99 and 1,68,995.60 in fiscal year 2007/08. It shows that Nepal has been facing persistent budget deficit from the beginning.

Income tax is the major source of government revenue. It was only 1.87% GDP in fiscal year 1998/99. It is fluctuated time to time. It was reached to 2.28% in fiscal year 2007/08 which was greater in the recent 10 years periods. For the development of the country, income tax is more essential. So the study will be identifying the problems and to overcome them so as to improve income tax system which is essential for revenue collection for Nepal.

Most of the personal/individual taxpayers don't reveal the source of income even they earn significant amounts. So, past experience shows that there is poor tax paying habit in Nepalese.

Similarly, tax evasion has been a serious problem in Nepal. Lack of training and education to tax personnel, awareness of tax payers, delay in making assessment, irresponsible tax administrators in their duties, inconvenient tax system and existence of corruption are main problem for low contribution of income tax to national revenue.

The main issues addressed for the study are:

- a. Whether Nepalese tax payers are aware about tax system or not?
- b. Whether the resource gap of Nepal is in increasing or decreasing trend?
- c. Whether the government collect significant amount from income tax or not?
- d. Whether the government has adequate policies for the betterment of tax administration or not?
- e. Whether the record book of tax collection are submitted in time to concerned department by registrants or not?
- f. Whether tax system of Nepal is effective or not?

1.4 Objectives of the Study

The main objective of the study is to analyze the effectiveness of income tax system of Nepal. However, the following specific objectives have been set out for the study.

1. To evaluate the performance of income tax and its contribution to the government revenue.
2. To analyze the effectiveness of tax system in Nepal.
3. To examine the administrative aspect of income tax in Nepal.
4. To identify the major problem relating to collect tax in Nepal.
5. To provide suitable recommendation for improving existing scenario of income tax system .

1.5 Limitations of the Study

Every study has its own limitations. So, this study will also not free from the limitations. Major limitations regarding to the study will be as follows:

1. This study will be completed on the basis of primary data collected within tax offices of Kathmandu valley.
2. Due to the constraint of time and other resources, which are essential for the deep study, may limit the objective of the study.
3. Due to small sample size, it may not fully represent the whole population.
4. All respondents may not response positively and finding of the study will depend upon the perception of the respondent.

1.6 Organization of the Study

The research has been carried out for the partial fulfillment of the requirements for the degree of Master in Business Studies (MBS). The research report is organized under the prescribed format by Central Department of Management, Tribhuvan University. The study has been organized into the following five chapters:

- i. Introduction
- ii. Review of Literature
- iii. Research Methodology
- iv. Presentation and Analysis of Data
- v. Summary, Conclusion and Recommendation

CHAPTER-II

REVIEW OF LITTERATURE

2.1 Conceptual Framework

This chapter basically highlights the conceptual framework of research, existing legal provisions and existing literature and work related to the present research being conducted with the view of finding out what had already been explained by the previous researchers and how the current researches and how the current research adds further benefits to the field of research. While conducting the research study, previous studies can not be ignored, so that information would help to check the chance of duplication in the present study, thus one can find what research studies have been conducted and what remains to go with.

This chapter has been classified into the followings subgroups:

2.1.1 Concept of Tax

A nation requires sufficient funds to carry out development plans, handle day-to day management activities, maintain peace and security and lunch other public welfare activities. In order to carry out such activities, the government collects revenue from various sources such as tax revenue from public enterprises, special assessment, fees, fines, grants and assistance etc. Among them, tax is the main source of government revenue. In Nepal around 80% of the government revenue comes from taxation. Hence, the tax is the major source of government revenue.

Tax is simply a liability to pay an amount to the government. It is a compulsory contribution from the taxpayers. Tax is computed and paid as prescribed in the law.

According to professor Seligman –"A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred" (Lekhi, 2000).

According to Plenn –"Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the residents of the states" (Dhakal, 1998).

From the above definition, it is clear that tax is a compulsory levy and those who are taxpayer has to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax paid. The taxpayer can not received equivalent benefit from the government. Amount collected from natural and artificial people.

The revenue constitutes direct and indirect tax revenue. A direct tax is paid by a person on whom it is legally imposed. Taxpayer can not collect direct tax from other person. Income tax, Property tax, Vehicle tax, Interest tax, Expenditure tax, Death tax, Gift tax are some examples of direct tax. Direct tax is paid according to the income or properly earned by a person. So, it is found equal with and properly. There is currently about the time design or process of payment of direct tax. Taxpayer can easily increases or reduce according to needs. Taxpayer pay tax from their own property so they are conscious about their contribution.

An indirect tax is a tax imposed on one person but partly or wholly paid by another. Customs, contract tax, VAT, sales tax are some examples of indirect tax. People pay tax when they receive or consumed goods or services. Indirect tax is flexible. There is uncertainty about the collection

of indirect tax. Every person either rich or poor pay equal amount of tax on receipt of goods or services. Therefore it seems as regretful for poor people. If tax imposed on higher rate, consumption reduces and also effect badly on production and employment.

Taxpayer cannot collect direct tax from other person but have to pay from their own property. Therefore, taxpayer feel pinch and they don't ready to pay voluntarily. They try to pay lowest tax as possible as and also exercise for tax evasion. It is expensive for collection. There is lack of mass participation in case of direct tax. Direct tax discourages private saving and investment.

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

2.1.2 Objectives of Taxation

Taxation has been a very essential element of a government from the very beginning of the state system. However, the main objective of taxation has been different for different epochs. In ancient times, the major objective of taxation was strengthening the muscle of the state by providing resources.

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

1. To increase the revenue for a welfare state.
2. To have equitable distribution of income and property.
3. To increase the production of particular goods.
4. To increase the employment, saving and investment.
5. To implement government policy.
6. To minimize regional disparity and
7. To control the production of certain goods.

From the above, we can conclude that the tax has the objectives of raising revenue to have resource mobilization, equal distribution of wealth and income in the society encouragement in production of certain products, encouragement in employment, saving and investment, removal of regional imbalance and enforcement of government policy

2.1.3 Concept of Income Tax

Income tax is the most important single source of revenue for the government in all countries. Before establishing an income tax rate, income should first be defined clearly. "Income, as the economic gain received by a person during particular period" More clearly income is the function of the person's consumption during the period and the net increase in the individual's personal wealth during the period.

Symbolically, it can be written as

$$Y = C + \Delta W$$

Where,

Y = Income

C = Consumption

ΔW = Change in Personal Wealth

2.1.4 Income tax in the international context

Great Britain is the first country in the world to introduce the modern income tax. It introduced income tax in Nepal in 1799 to finance the war fought with France. Only 1980, it was accepted as a permanent tax. USA introduced income tax in 1862 to generate revenue to finance civil war. However, it becomes a permanent feature only in 1913 after 16th amendment to USA Constitution in neighbor country India, while income tax in its modern form was adopted in 1860, several experiments were made from 1860 to 1866 and finally the systematic income tax legislation was enacted in 1866. After introducing income tax act 1886, New Zealand in 1891, Australia in 1915, Canada in 1917, Sri Lanka in 1932, Venezuela in 1943, South Korea in 1948 and Nepal in 1959. After First World War, the income tax became an important source of tax revenue in many developed countries (Agrawal, 1978:113).

From the First World War decade, income tax has shown as an important source of revenue in developed country. In the beginning of introducing time, it was generally levied at flat rate, only after 1909, the principal of progression was introduced from UK and New Zealand.

While the history of income tax is tumultuous, the situation is different now. Income tax has been an important element of the modern tax system. This tax has been adopted by all sorts of countries as an important instrument to generate revenue required to finance state activities. This tax is also considered as a fairest tax since it can be tied with the taxable capacity of the taxpayers.

2.1.5 Income tax Administration

Administration is the design of implementation of government policies. Efficient and effective administration is essential to achieve the target objective of any system. So it is also taken as the heart of any system. Tax administration is regarded as tool for including some responsibility for determining policies and the programs to government related to tax. Specifically, it is planning, organizing, directing, controlling and coordinating of government organizations related to taxation.

The Inland Revenue Department administers income tax of Nepal. The Ministry of Finance, customs administration, Revenue investigation administration and the revenue administration training center are also involved in the administration of income tax directly or indirectly. The ministry of finance is at the apex of the tax administration. It is responsible for overall administration of the government fiscal and the formation policy. The revenue Division of this ministry is responsible for formation of tax policy and setting up appropriate tax administration to implement tax policy .It coordinate the activities of all revenue department including the Inland Revenue Departments and monitors the positions of revenue collection. It is responsible for the research, planning and analysis of the tax system. The custom administration collects advance income tax on imports. The Revenue investigation administration investigates cases where revenue leakage was involved, with or without collusion between taxpayers and tax collectors. The revenue administration training center impacts training workshops and seminars for tax official.

Tax administration has become challenging and more complicate with the changing environment of international tax system. The main objectives of

tax administration should be the efficient assessment, collection and enforcement of taxes legally due, without undue cost and harassment to the government or taxpayer in terms of money, time, inconvenience and mental worry. More specifically, the objectives of tax administration may be stated as follows:

1. To assess and collect taxes in order to meet the revenue requirement of the country.
2. To maintain public confidence in the fairness and integrity of the tax system.
3. To keep high the morale and motivation of tax officials.
4. To facilitate and encourage voluntary compliance by taxpayers.
5. To determine tax evasion and avoidance.
6. To administer tax legislation fairly, uniformly, impartially with firmness.
7. To work effectively in order to make the tax system effective.

2.1.6 Problems of Income Tax Administration in Nepal

From the very beginning, the contribution of income tax to the revenue of the government has been very minimum. This is because the income tax system in Nepal has been facing many problems. The inefficiency of income tax administration is one of the reasons. Income tax management in developing countries like Nepal has been facing many problems. The contribution of direct tax and income tax to the public revenue is very low to meet the growing public expenditure. Nepalese government has been using deficit financing. As the consequence of this, there is significant resource gap in Nepalese budget. The problem can be avoided only when the problems of tax administration is a complex technical matter. The major problems, which the income tax administration in Nepal has been facing, can be discussed as follows (Lamsal, 2002: 27).

- a. Failure to locate new taxpayer
- b. Assessment delay
- c. Poor tax payer's compliance
- d. Failure to maintain proper account and records
- e. Lack of motivation of tax personal
- f. Existence of corruption
- g. Instability in gove15rnment policy
- h. Complicated tax laws and procedures
- i. Lack of trained and competent tax personnel

2.1.7 Income Tax Management

Now a days, income taxation has become the most important source of national revenue. It is good instrument for resource mobilization in the country. It must be mobilized properly for the achievement of goal of development. To develop the country it needed huge amount and the amount can be collected through income tax.

Many development activities should be under taken each year to fulfill the minimum requirements of people. To collect the targeted revenue income tax management should be sound; collection of income tax is a difficult task. Therefore, sound income tax management helps for planning, direction and collection of income tax.

The first work of income tax management is to identify of objectives and goals and then policy regarding income tax directs to make tax imposition specifying to whom, how, when and where the tax must be imposed.

The following are the components of income tax of Nepal:

1. Parliament

2. Inland Revenue Department (IRD)

3. Ministry of Finance (MOF)

2.2 Historical Development of Income Tax Laws in Nepal

The modern income tax act was started in Nepal in the year 1959. After the Political revolution in February 1951 (2007 B.S. Falgun), the rate of government has changed. Since, the government was enforced to operate development activities, besides governing the regular function of maintaining law and order and the collection of revenue. A sound and efficient income tax is necessary to maximize the revenue collection from income tax. Whole income tax system is made of three sub-system i.e. income tax policy, income tax laws and income tax administration. The government itself through Ministry of Finance determines income tax policy. Income tax policy should be such that the main objectives of the income tax can be attained. Parliament makes the laws to implement the various policies. The government levy and collect the income tax in accordance with law. The constitution of the kingdom of Nepal, 1990 has made the clear provision about it. "No taxes shall be levied and collected except in accordance with law" (Constitution of the Kingdom of Nepal, 1990). Present legal provision of income tax is associated with constitution of the Kingdom of Nepal 1990, Income tax act 2002, Income tax Rules 2002, Finance Act of concerned financial year etc.

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

The government of Nepal introduced a formal tax for the first time in 1960(2017 B.S.) in the form of "Business Profit and Remuneration Tax". The business profit to this act only business profit and remuneration on income were subjected to tax but the revenue for these taxes should not

be collected properly according to original estimates (Dhugana, 1976:66) it has 22 sections.

Main features of Income Tax Act 1960 were as follows:

1. Only remuneration and business profit were subject to tax. Deductions were not specified for the purpose of calculating the income.
2. Tax on remuneration was to be deducted at source.
3. The basis for calculating the tax liability for remuneration was the income of the current year whereas for business profits, it was the profit of the preceding year.
4. There was a provision of tax exemption on salary of citizen, dividend of shareholders, profits to be spent in religious or public welfare activity, crop from own land, allowances granted by GON to ministers, assistant minister, chairman, speaker and deputy speaker, amount drawn from provident or saving fund.
5. In case of default, fines up to Rs.5000 were prescribed.
6. The tax officer was empowered to assess tax on best judgment estimates only in case of false statement of income tax return.
7. The first court of appeal against the tax officer's assessment was local "Bada Hakim" or Magistrate. Thereafter, taxpayer could appeal to the 'Revenue and Tax Court' but he needed to deposit fixed amount of tax.
8. Profits from industries were granted a rebate of 25% and profits from small industries were granted a rebate of 50%.

2.2.2 Income Tax Act, 1962 (2019 B.S.)

"Business Profit and Remuneration Tax Act 1960" was replaced by "Income Tax Act 1962". It had come in implementation from July, 1962. The main purpose of the imposition of this act was not only to raise government revenue but also to reduce inequality of income and wealth distribution with social justice and to create regular tax paying habit of the taxpayer. The Income Tax Act, 1962 had 29 sections and it was amended in 1972 (2029 B.S.). It had provision of imposition of income tax in agriculture income but this provision was abolished by the Finance Act, 1966(2032 B.S.). The additional features of this act were as follows:

1. Income was defined as all kind of income including income from business, salaries and professions, rent from house or land, investment in cash or kinds, agriculture, insurance agencies and any other sources.
2. Act has defined basic terminology such as taxpayer, tax officer, company, firm, profit remuneration, tax assessment, non-residential for the tax purpose.
3. The personal as well as residential status of the taxpayer for the tax purpose was defined.
4. Procedure for income tax assessment and methods for calculating net income were stated.
5. The provision was made to constitute the net income assessment committee with five members.
6. The basis was specified for assessing tax on the best judgments estimate of the officers.
7. Provision was made for the installment as well as advance payment of the tax for the first time.
8. Carry-forward of losses was allowed for two years.

9. Provision was made for the exemption of income tax for the new industries for a period of not exceeding ten years.
10. The act granted power to constitute net income assessment committee.

2.2.3 Income Tax Act, 1974 (2031 B.S.)

Considering this act incapable of fulfilling the needs of the time, existing act was replaced by act 'Income Tax Act, 1974'. This new act was brought in practice from October 1974. It had 66 sections. This act has explained various aspects of taxes, containing many provisions for taxation. This act was amended for eight times i.e. 1977,1979,1980,1984,1985,1986,1989 and 1992 to make it more practical and to eliminate confusing terms.

Main features of this act as amended are as follows:

1. It had clarify the certain terminology used in act e.g. income tax, taxpayer, year of income, personal status of taxpayer, non-resident taxpayer, net income and so on.
2. Income head was classified into five categories: (a) Agriculture (b) Industry (c) Trade profession are occupation (d) Remuneration (e) House and compound Rent (f) other sources.
3. Method of computing the taxable income from each head had been specified with deduction allowable.
4. The act had made it obligatory for taxpayer to resister their industries, business, perfection or vocation in the tax office and any changes should be notified.
5. Appointment resists of loss of tax officer had provided to hrta and rights of tax officers bad mentioned clearly.

6. Carry forward of losses is too allowed for within subsequence three years.
7. This act had mode the provision of self-assessment of tax for the first time in Nepal.
8. The expenses allowed for education while computing net income had clearly specified for all sources of income.
9. Procedures for assessment, reassessment, jeopardy assessment, tax deduct at source, payment and refund of tax had not specified.
10. There was additional provision of exemption from income tax than the former act as follows: Income of Guthi, Income of village Development Committee, Municipality, Amount received against life insurance.
11. A rights, duties, forms, appeals were specified.
12. Provision of penalty up to Rs.5000 in case of failure of, maintain are preserve accounts.

2.2.4 Income Tax Act, 2002(2058B.S)

To enhance revenue mobilization through effects revenue collection procedure for the economic development of the nation and to amend and ingrate the laws relating to income tax, the parliament of Nepal enacted income tax Act,2002(2058),since first April 2002(19th Chaitra,2058).

This act was brought in Nepal to avoid the following defects of income tax act 1974:

1. Tax was not levied on worldwide income, on capital gain etc.Tax base was narrow.
2. Income tax related provisions were given in different act such as employee provided fund Act, 1962, citizen investment trust Act, 1992, Industrial Enterprise Act, 1992 and Electricity Act 1992 etc.

3. There was not provision fore controlling transfers pricing, controlling interest expenses, controlling of this capitalization etc.
4. Low penalty rate tax evader.
5. Income tax is the equity .That means persons having same income should be imposed low tax. But under income tax act 1974, tax was levied on the basis of nature of organization, nature of income, nature of persons. Natural person's taxable income had declared on the basis of organization's memorandum and objectives rather than translation.
6. After 8th amendments, provision of self-tax assessment was made. But necessary definition, explanation and legal provision related to tax administration was not made .There was not clarify about the accounting system and design and also lack of high penalty who did not maintain account accordingly.
7. Unsuitable to modern economy so it became compulsory to replace to it by new act.

2.2.5 Sources of Income

Income Tax Act 2002 has classified the sources of income for the purpose of assessment under the following heads:

1. Business Income
2. Investment Income and
3. Employment Income

2.2.5.1 Business Income

Income Tax Act 2002 has defined the business income for income tax purpose. For the purpose of computing income of business for any year of

income the income of such person shall include as profits or gains made by him from business and should include:

service charge, Amount received from disposal of trading stock, Net profit from disposal of business assets or business liability, Net profit from disposal of depreciable assets, Gift received in respect of the business, Amount received instead of acceptance of any restriction regarding business, Amount included under change of accounting method, Excess amount received due to the exchange rate currency, Bad debt recovered, proportionate amount under long term contract, Under paid interest amount according to market price, Amount received for compensation, Other amount received under business income.

While computing the income tax from business, the following amount excluded or profit and income from business for tax purpose:

Amounts exempt from tax under sec. 10, Taxation of dividend, Final with holding payments

Income not Allowable for Deduction from the Taxable Income

Expenses of domestic or personal nature, Tax payable as per this Act, Penalty or any other fines payables as per any Acts, Expenses incurred to derive the amount exempted under sec10 or final with holding payment, Cash payment for more than Rs. 50000 at a time to a particular person by a person having annual transaction more than Rs. 2 million, Distribution of income, The amount where the deduction is not allowed by any sections.

2.2.5.2 Income from Investment

Amounts to be included in investment income more as follows:

Any dividend, interest, rent, royalty, Gain from investment insurance, gain from an unapproved retirement fund and amount received from an approved retirement fund, Net gain from disposed of the persons' non –business chargeable assets of the investment as calculated under chapter 8, The excess amount of incoming over the depreciation base including outgoing on the disposal of depreciable assets of the investment of the person, Gifts received by the person in respect of the investment, Retirement contribution including those paid to a retirement fund in respect of the person and retirement payment in respect of the investment, Amount received in lieu of any restriction accepted in relation to the investment, But amounts those are included in calculating the person's income from any employment or business that should be excluded in calculating a person's profit from investment. Similarly, amount exempted under section 10 and divided as per section 54 and 69 and final with holding payment.

Admissible Expenses (Expenses allowed for deduction):

Interest, Loss from the investment, Depreciation, Related expenses, Repair and maintenance expenses, Donation

Following are the expenses not allowed for deduction (sec. 21):

Any personal / domestic expenses, Income tax / fine and penalty, Dividends, Reserve / provision fund (Except special reserve created by a bank up to 5% of outstanding loan), Expenses for earning non- taxable income of final withholding payments, Expenses not related to business, Cash payment in excess of

Rs.50,000 at a time having annual transaction more than Rs.20,00,000, Others: Capital Expenditure and Capital Loss.

2.2.5.3 Income from Employment

Income Tax Act, 2058 has defined the remuneration income for income tax purpose. According to sec.8 of the end, an individual income from employment for an income year is the individual's remuneration from employment of individual for the year. According to this section, the remuneration received by a person from the employment is as following payments made by the employer (sec. 8):

Payments of wages, salary, leave pay, fees, commissions, prizes, gifts, bonuses and other facilities, Payments of any personal allowance including any cost of living subsistence, rent, entertainment and transportation allowance, Payments providing any discharge or reimbursement of costs incurred by the individual or an associate of the individual, Payments for the individual's agreement to any conditions of the employment, Payments for redundancy or loss or termination of the employment, Retirement contributions (i.e. provident fund, gratuity etc.) including those paid by the employer to a retirement fund in respect of the employee and retirement payments, Other payments made in respect of the employment.

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

Prizes and gifts, Other payments made in respect of employment, Market value of the assets in case of the transfer of the assets, For

the payment other than stated above the value of benefit of payment to the person.

Excludable amount in the Employment Income

While computing the net income from employment of natural person, following amounts are excluded on employment income:

Amounts exempt from tax under sec. 10, Final withholding payments, Meals and refreshments provided to employees at business premises / work site if provided to all employees, Settlement by or reimbursement to an employee of expenses incurred solely for the purpose of business, Payments by the employer for petty expenses relating to tea expenses, stationeries, tips, prizes, and emergency medical treatment up to Rs.500 at a time whose accounting is not practical or administratively difficult .

2.2.6 Methods of Income Tax Assessment

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

a. Self Assessment of Tax (sec. 99)

Act has fully applied the self-assessment of tax system. It has made more responsible to taxpayer. It reduces the compliance cost. Under this system, taxpayer himself determines his tax liability with fine and penalty. If tax authority doubts the income of taxpayer, tax authority cans investigation on revenue risk basis. Otherwise, that becomes the final.

b. Jeopardy Assessment of tax(Sec.100)

This department will make jeopardy assessment when the persons becomes bankrupt, is wound-up or goes into liquidation, the person is about to leave Nepal indefinitely, the person is otherwise about to cease activity in Nepal, the departments otherwise consider it appropriate, where an assessment is made under jeopardy assessment with respect to a full income year, the assessed person will not file a return of income for the year. However, with respect to part of an income year, the assessed person is still required to file a return of income for the year. The department is required to grant an opportunity to produce proof, if any, in own favour while making a jeopardy assessment.

c. Amended Assessment of Tax (sec 101)

Tax department may amend an assessment made by the taxpayer under sec. 101. Department may remands the amended assessment. The department may not amend as assessment if the assessment has been amended or reduced pursuant to an order the Revenue Tribunal or court of competent jurisdiction except where the order is reopened.

2.2.7 Appeal

Income Tax Act, 2058 had the provision of two alternatives to the taxpayer who thinks the tax assessment of tax offices is unfair. He could either go to the Director General of the Income Tax Department or to revenue Tribunal. Income Tax Act, 2031 has not such provisions. Instead, it has managed taxpayers first go to Direct General of Inland Revenue Department for review of decisions and then if unsatisfied with the decision of Director General, he / she can go to Revenue Tribunal.

Appeal to Director General

A person who aggrieved by a reviewable decisions have the right of appeal made against such order to with the department within thirty days after the decision made while filing the appeal the taxpayer is required to deposit half of the amount of the tax payable.

Appeal to Revenue Tribunal

If any taxpayer who is aggrieved by the decision made in the appeal to Director General may appeal to the Revenue Tribunal in accordance with the Revenue Tribunal Act, 1947. If the person has appealed, he should file a copy of notice to appeal with the department within fifteen days. However, the operation and enforcement of an objection decision is not stayed or otherwise affected an appeal. If Director General of the department has made the decision relating to administrative review, the appeal to Revenue Tribunal would effective. If any taxpayer who is aggrieved by the decision made in appeal to Revenue Tribunal may appeal to the Appeal court. A taxpayer or the tax officer who is not satisfied with the decision made by Appeal court has the right to appeal the Supreme Court.

2.2.8 Interest and Fines

The Act has provided rights to tax officers to impose fines and penalties. The circumstances in which a tax officer imposes fines and penalties are as follows:

a. Penalty for Failure to Maintain Documentation or File Statement or Return of Income

A person who fails to maintain proper documentation for an income year or file return for an income year is liable to pay fees for each month and part of month during which the failure continue. The rate of fees would

be as the highest of 0.1% per annum of the person's assessable income with a gross of any deductions or Rs.1000 per month whichever is higher. Accordingly, a withholding agent who fails to file a statement as required is liable to pay a penalty at 1.5% per annum applied to the amount of withheld for each month and part of a month during which the failure continues.

b. Interest for Understating Estimated Tax Payable by Installment

A person who understates estimated tax payable by installment basis is liable to pay interest for each month and part of a month from the date the first installment is payable until the date the tax is payable on assessment. The amount of interest is calculated at the standard interest rate.

c. Interest for Failure to Pay Tax

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.

d. Penalty for Making False or Misleading Statement

A person who makes statement to the department that is false or misleading in a material particular or omits from a statement made to the department any matter or thing without which the statement is misleading in a material particular is liable for penalty as follows:

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

e. Penalty for Aiding and Abetting

A person who knowingly or reckless aids or abets another person to commit an offence related to failure to comply with this act, failure to pay tax, makes to false or misleading statements or impends tax administration to counsels or includes another person to commit such an offences is liable for penalty equal to 100% of the under payments of tax.

2.3 Review of Related Previous Study

Various books are written, articles are published and different individuals and institutions in concerning to income tax conduct researchers. Income tax was firstly imposed in fiscal year 1959/60 in Nepal under the 'Business Profit Remuneration Tax Act, 1960.' Then, various studies were made concerning with various aspects of this act such as the structure, role, productivity, legal and administrative framework etc. Summary of the relevant studies are given in the following paragraphs:

2.3.1 Review of Articles and Books

Rup Bahadur Khadka,(1994) has written a book entitled “ *Nepalese taxation: A Path for Reform*”. He deals with national and local taxes and tax administration in Nepal. He has described the introduction, development, existing structure, main problems and possible direction of reforms. He has identified the major problems of income tax and possible direction of reform. He has identified the major problems as weak tax administration, imbalance and inadequate organization pattern, lack of adequate information system, lack of coherent tax policy and inadequate organization pattern, lack of adequate physical and other facilities.

Kamal Deep Dhakal(2002) wrote his revised edition of his book "*Income Tax and House and Compounded Tax Law and Practice with*

VAT." He had described historical aspects of income tax and legal provision relating to income tax with numerical examples. This book was fully based on the syllabus of B.B.S. third year. This book was published before coming new income tax act 2002 and it is very useful to know the general information rather than analytical. He had not analyzed the role of income tax, structure of income tax and problems of income tax system in Nepal. His book is more helpful to know about provision made under "income tax act 1974"

Biddha Dhar Mallik,(2003) published a book named "*Nepalese Modern Income Tax System*" which is fully based on newly income tax act of Nepal. He had described historical aspects of income tax and legal provisions of relating to income tax with numerical examples. This book is very much useful to anyone who is interested to know about general information and legal provision of Income Tax Act, 2002. His book was informative rather than analytical. He has presented the complex act in simple manner so that it would easy to understand the Act. He has shared his expertise in his book. All the provisions of the old act the new act.

Jagadish Agrawal(2004) published a book named "*Income Tax: Theory and Practice.*" This book has focused on the students of chartered accountants and taxation. This book has also focused to be a practitioners' reference and handbook, rather than theoretical compilation on the subject. His book is not only based on descriptive fact but also has interpreted the various provision of the new act. This book is useful to anyone who is interested in the subject of taxation. In this book Agrawal has explained Income Tax Act, 2058 and have compared with the international accounting standard. The book is also sources of information of the subject of income tax. Sufficient theoretical concepts

with clear interpretation as well as sufficient examples are included in this book. He brief explains the new terms and provisions. For examples, Foreign Permanent Establishment, Controlled Foreign Entities, Transfer Pricing, Non-Business Chargeable Assets, Qualification, Allocation and Characterization of Amounts etc.

Ishwor Bhattari and Girija Koirala(2004) published two books named "*Taxation in Nepal*" and "*Tax Laws and Tax Planning*." First book's main objective is to meet in conformity with the syllabus of B.B.S. third year and the second one's objective is to meet in conformity with the MBS level syllabus of T.U. He has presented the numerical examples to derive the taxable income and tax liability. For the practical problems and provision relating to the Income Tax Act and VAT this book is very useful. Relevant theoretical and practical aspects have been discussed in the books. Both books have shown taxable income is computed under employment, business and investment sources. But the books does not able to give a picture of contribution of individual tax payers.

Surendra Keshar Amatya, Dr. Bihari Binod Pokharel and Rewant Kumar Dhakal(2004) wrote a book entitled "*Taxation in Nepal*." Amatya, Pokharel and Dhakal have described the provisions made under income tax laws. This book is divided in thirty-one chapters in their books. They have described about income tax and its development in Nepal, tax accounting qualification, allocation and characterizing of amounts exemptions, concession and tax rates and expenditure. Taxpayer have special provision for natural person and entity, investment income need and sources, income from employment and from business, set-off and carry- forward of losses, net gain, international taxation, right and duties of taxpayers, appeal property tax in Nepal. This book has been

written to fulfill the course requirement of Tribhuvan University. It is based on B.B.S. third year/Law/CA and it also for M.B.S.

Rup Khadka(2005) wrote a book entitled "*Modern Tax Administration in Nepal.*" This book is very much useful to anyone who is interested in Nepalese income taxation. This book gives almost complete information about the tax system of Nepal from its ancient time to current situation of income tax system. He had shared his expertise in his book. Basically author focuses on the administrative aspects of the tax system in Nepal.

Mr. Saroj Raj Regmi(2007) in his article entitled "*Income tax evasion as a crime in Nepalese Legislation*" has explained that the current trend of collection of income tax and the contribution of it in the national revenue is far from satisfaction. This study has also suggested tax law with practical solution and well set up mechanism.

Neelam Timilsina(2007) in his article entitled "*Tax Elasticity and Buoyancy in Nepal: A Revisit*" has concluded that the automatic response of tax to income is low. Compared to the period (1975-1994) the elasticity coefficient of tax during the review period (1975-2005) did not reveal significant differences. The buoyancy and elasticity of income tax during the study period was 1.37 and 0.41 respectively. This study has further concluded that only the discretionary measures cannot generate more revenue free ware. Important in tax administration to control the leakage and to burden the tax basis in practice is important for enhancing the elasticity of tax.

2.3.2 Review of Thesis and Dissertations

In 1983, Naina Nepal presented a dissertation named “A Study on Problems and Prospects of Income tax in Nepal”. She has indicated the major problems in Nepalese tax system that are inefficient income tax administration, mass poverty, lack of tax co-operation between tax payers and tax administration, assessment deficiency etc. Her suggestion is towards the improvement on those specified problems.

In 1994, Acharya has mentioned the main objectives of income tax as to achieve social justice, to check inflation and to control more government revenue. He has identified the contribution of individuals in total income tax revenue seems to be greatest during his study period followed by public enterprises, remuneration, house rent and interest taxes, semi public enterprises, and private corporate bodies respectively. He has also analyzed the administrative and legal aspect of income tax. He has recommended simplifying the tax structure, legal and administrative aspect and understanding with the consent of taxpayers to raise income tax revenue.

In 1995, Krishna Kumar Shakya presented a dissertation named *"Income Tax System in Tax Structure of Nepal."* His study was done with basis objectives of analyzing the causes of heavy reliance of indirect taxes, analyzing the volume of indirect tax revenue and direct tax revenue in total tax structure, highlighting the revenue assessment procedure from different sources and suggesting to improving on them. In his study, he has identified that income tax has occupied fourth position among tax revenue of Nepal. Custom duty, Sales tax and excise duty has occupied first, second and third position respectively in Nepalese taxes revenue. He has mentioned Nepalese taxable capacity is limited by various factors

such as low per capita income, extensive subsistence economy, relatively "closed" (India) economy, weak export position etc.

In 1996, Pant presented his master's level dissertation entitled "*A Study on Income Tax Management in Nepal.*" He has identified various problems of income tax management in Nepal and among them lack of managerial efficiency is the main problem. Lack of effective personnel management, Poor reward and punishment system, weak income tax assessment procedure, poor tax information system, lack of taxpayers education, very narrow coverage of income tax are the other problems of income tax management in Nepal identified by him.

In 2002, Jayanti Poudel presented a dissertation entitled "*Income Taxation in Nepal: A Study of its Structure and Productivity.*" The objectives of her study were to analyze the structure of income tax in Nepal, to estimate the elasticity and buoyancy of income tax in Nepal, to assess the role of income tax administration in Nepal, to evaluate the Success of Voluntary Disclosure of Income Scheme (VIDS) program in brief and to provide the suitable recommendation for improving the scenario of income tax. She has found that overall revenue of Nepal showed an annual growth of 16%, Indirect taxation has more significant contribution in total tax revenue, income tax occupied the first rank among the direct taxes, personal income tax slabs have been changed radically from seven slabs in 1975/1976 to two slabs in 1999/2000, VIDS could not attract more potential taxpayers into tax net due to lack of good planning and adequate homework of the government, working procedure of the tax administrators are still traditional and cost of administration has not been brought to the satisfactory level.

In 2003, Mr. Thaman Serchan submitted a thesis entitled "*An Analysis of Fines and Penalties Regarding Income Tax System of Nepal.*" He has found that there were dominant shares of tax revenue in Nepalese government revenue structure. He has suggested revising the provision of fees and penalties, introducing reward, prizes and incentives provisions, formulating the clear income tax rules and regulation and clear right and duties of tax officers. This study was done with the main objectives of analyzing the provisions of fees and tax officer's views about fines and penalties. Therefore his study has focused only on provision of fines and penalties.

In 2003, Magar wrote a thesis entitled "*Income Tax in Nepal: A Study and Exemptions and Deduction.*" He had covered tax structure, role of income tax and exemptions and deductions provided in the law. He had found that there was dominated share of tax structure in the law and in Nepalese government revenue. Income tax had occupied third position in his study period and it was increasing trend. The Tax/GDP ratio was not found satisfactory. With the income tax, there was the dominated role of corporate income tax but it was in decreasing trend and contribution of individual income tax was second position and it was in increasing trend. Lack of trained employees, Shortage of income tax experts/professional in tax administration, lack of public participation, faculty organizational structure of tax administration, weakness in government policy, defective income tax act were the major cause for inefficient tax administration observed by him. His suggestion about exemption were: revise the exemption limit, elimination double taxation on dividend, tax rebate for submitting true income statement in time, increase income tax rate slab up to 10, increase the exemption limit to individuals as well as family etc. Besides above suggestion, his suggestion about deduction were: clear

provision for deduction, fully allowed interest expenses, pollution control expenses, repair and improvement expenses, research and development expenses. He is totally contracted on the exemption and deduction in his study. He has not study about various aspect of income tax.

In 2004, Mr. Rajendra Dulal in his dissertation named "*Income Taxes in Nepal, Study of its Structure and Contribution to Revenue Generation*" has explained that the contribution income tax to total revenue was 7.8% in 1975/1976 and in 1999/2000 it was 14.5%. This study explained that the income tax rules and slabs have been changed radically in recent years under new Income Tax Act, 2002. Individual income tax is levied with low rates of 15% and 25% and corporate income tax is levied with single rate of 25%. For bank and Financial institutions the rate is 30% of taxable income.

In 2005, Mr. Tank Nidhi Dahal submitted a dissertation with heading "*Income Tax Management in Nepal.*" He focused on many administrative aspects of income tax system depends on the existing management and leadership. A vigilant and transparent tax and administration and capability of timely reviews in policy back sliding the gains in the revenue front. He suggested that, for the improvement of tax management strong political commitment is most.

In 2006, Mr. Furtiman Basnet submitted a dissertation entitled "*A Study on Effectiveness of Self-Tax Assessment in Nepal.*" According to this dissertation self tax assessment system is effective in Nepal but not as expected. According to this thesis, the trend of applying self tax assessment system is increasing. It contributes for increment of tax revenue. The numbers of taxpayers are increasing in some extent. They are motivated to collect the tax to self-assessment system. He has

recommended that further policies should be determined to bring the potential taxpayers within the tax net and there should be organized consciousness campaign to provide the orientation for basis accounting system and self-assessment system.

In 2007, Mr. Lokendra Bhandari in his dissertation named "*Income Taxation in Nepal: Analysis of structure and Problems*" has explained that contribution of income tax to the total revenue, tax revenue, direct tax and total GDP is in increasing trend. Its contribution was 9.91%, 12.67%, 67.37% and 0.93% respectively in the FY 2005/06. This study further explained that being various problems relating to other developing countries like India, Srilanka, Pakistan etc.

In 2007, Mr. Arjun Prasad Pokharel submitted a thesis "*Contribution of Income Tax on Tax Structure of Nepal*" has conducted an empirical investigation. According to his investigation, income tax is a suitable means of raising government and tax education is necessary in Nepal for which 91.67% and 98.33% respondents have support respectively. He found that inefficient tax administration, tax evasion and inappropriate objectives of income tax were the main cause of low collection of income tax in Nepal. Self-assessment method of assessing income tax is most appropriate in Nepal. 70% of the respondents were favour of fees, fines and penalties were as remaining 30% were against it. The recommended measures of the respondents are effective tax management, training and development programs to tax personnel, development of check and balance system can bring efficiency in income tax system in Nepal.

In 2008, Santosh Subedi submitted a *thesis "Resource Mobilization Through Income Tax in Nepal."* According to main objectives of his study were to examine the role of income tax in resource mobilization in

Nepal, to identify the role and status of income tax in total tax structure. In his objectives, he has explained to provide suitable remuneration for the improvement of general resource through income tax in Nepal.

In 2008, Mr. Krishna Raj Barakoti submitted a thesis "*Effectiveness of Income Tax System in Nepal.*" According to his thesis he had analyzed the effectiveness of income tax in Nepal and what is the effectiveness of tax administration in present situation. He also writes about present problems in revenue collection and he has given some suggestion. The study shows that the contribution of tax revenue to total revenue is 79.45% and non-tax revenue is 20.55% in FY 2006/07. The contribution of direct tax is 26.14% and indirect tax is 73.68% in FY 1999/2000 which becomes 24.32% and 75.68% in FY 2006/07. The contribution of customs, excise duty and VAT on indirect tax revenue was 35.30%, 14.97% and 49.72% in FY 2006/07.

In 2009, Karan Bahadur Baidwal submitted a thesis entitled "*Effectiveness of Income Tax System in Nepal*" described the conceptual framework legal provision, composition of total revenue in Nepal, problem of resource gap in Nepal, Public awareness towards income tax in Nepal and empirical investigation and effectiveness of tax system in Nepal. He undertook the research work to find out the problems regarding to revenue expenditure. The main objective of his study is to analyze the effectiveness of income tax system in Nepal to evaluate the contribution of income in national revenue to evaluate present tax administration etc.

Besides these reports, book and master level dissertations, some articles about income tax published in Rajaswa, Rising Nepal, Gorkhapatra, Kantipur, The Kathmandu Post etc. and publication of Ministry of

Finance such as Budget Speech, Economic Survey were reviewed in the study period.

2.3.3 Research Gap

The role of revenue is crucial for the overall development of the country. Since more than 80% of the total revenue is collected from the tax source. To achieve the target goals of taxation only tax policies and acts are not enough. To achieve target goals, tax policies and acts must be implemented in effective manner. In Nepal, more tax policies and acts are made but it is not implemented so the target goal is not achieved. Tax management is an important part of taxation system. It is necessary for successful implementation of tax laws and policies. The government had made more tax laws and policies to collect tax revenue but lack of permanent government is not effective so far.

All the researchers mentioned in review of literature are concerned with the study of laws, provisions and structure of tax revenue. Most of them have indicated the inefficiency of tax administration, widespread tax evasion and weak government law and policies. No attention has been paid on the tax administration and its effectiveness. The role of tax administration is crucial for the effectiveness of tax collection. Therefore the research has been conducted on the topic “A study on Income Tax System and its Contribution to the Government Revenue of Nepal ”. But the present government is very much successful in collection in revenue through VDIS program. The government should implement law and policies strictly so that the tax collection will be greater than expectation.

CHAPTER-III

RESEARCH METHODOLOGY

3.1 Introduction

This chapter has described the methodology used in the study. Research methodology systematically solves the research problems. Research Methodology may be understood as a science of studying how research is done scientifically. It describes the methods and process applied in the entire aspect of the study. There are five parts as Research Design, Nature and Source of data, Population and Sampling, Data Collection Procedure and Data Processing and analysis procedure.

3.2 Research Design

Research design is an overall plan or framework for the collection and analysis of data. Research design provides the framework for the study and guidelines for the collection and analysis of data. According to Kerlinger "Research design is a plan structure and strategy of investigation so as to obtain answer to research questions and to control the variance." To achieve the stated objective of the study, primary information is collected through structured questionnaire. The opinions of tax administrations, tax experts and taxpayers are also included in the research as primary information. Therefore, this research is an empirical research. The collected data from primary as well as secondary sources have been described and analyzed using different tools. So, the study follows the described as well as analytical research design. In this way the research design of this research is descriptive, analytical and empirical.

3.3 Nature and Sources of Data

Necessary data information to describe this study has been collected from primary as well as secondary sources. The major sources of data are as follows:

3.3.1 Primary Sources of Data

Primary data and information have been collected through administering structured questionnaire to sample of population. The same questionnaire was distributed to all respondents. Tax administrators are selected from tax department and various sectors of tax offices. Tax experts are the lecturer, auditor, chartered accountants etc. Taxpayers are selected representing various sectors i.e. manufacturing company, trading company, private banks, insurance company, finance company, departmental sectors etc.

3.3.1.1 Population and Sample

In order to fulfill the objectives of the study 60 persons have been considered as total sample. Tax administrators, tax experts and taxpayers are considered as the total population. Out of 60 persons: 20 tax administrators, 20 tax experts and 20 taxpayers have been considered as the target sample for the study. Persons included in the sample are carefully selected by consultation with lectures and best judgment of the researcher. The respondents have been divided into three groups. The following table shows the groups of respondents and size of samples.

Table 3.1
Group of Respondents and Size of Sample

S.N	Group of Respondents	Sample Size
1	Income Tax Administrators	20
2	Income Tax Experts	20
3	Income Tax Payers	20
Total		60

Source: Opinion Survey, 2010.

3.3.1.2 Sampling Procedure

A random Sampling technique has been used to select the target and sample selection. The view of tax administrators, tax experts and taxpayers have been collected on the basis of stratified selection by distributing questionnaire individually.

3.3.2 Secondary Data

The secondary sources of data are the information received from books, journals, newspaper, reports, dissertations etc. The major sources of secondary are as follows:

1. Economic survey and budget speeches, Ministry of Finance, Government of Nepal
2. Reports and records of Inland Revenue Department
3. Published documents of Nepal Rastra Bank and Planning commission, Kathmandu
4. Dissertations, Published articles on different journal news magazines
5. Newspapers, Published articles on different journal news magazines

6. Different publications of Central Bureau of Statistics
7. CEDA publication, T.U.
8. Internet, e-mail
9. Various books written by tax officers and scholars related to income tax

For primary data information has been collected by developing a schedule of questionnaire and distributing top three distinct types of respondents. Distribution has been done through personally field visit to get accurate and actual information in time. For secondary data, information has been collected from published reports of different organizations.

3.4 Data Collection Procedure

Data and information used in this study is collected from primary and secondary sources. To get accurate and actual information of primary data in time all questionnaires were distributed and collected personally through field visit. The secondary data are collected by Visiting Inland revenue Office, Visiting library, Economic survey of Ministry of Finance, Budget Speeches, Thesis, Reports, Magazines, books etc.

3.5 Data Processing and Analyzing Procedure

Data collection from various sources can not be directly used in their original form. Further they need to be verified and simplified for the purpose of analysis data. Information figures and tabulated for computation. Data are analyzed and interpreted using different tools like: Tax GDP Ratio, Simple Percentage, Average, Graphs, Charts, Diagrams and Test of Hypothesis and other tools which are related to the study.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

This chapter is concerned with the presentation and analysis of secondary data related to different variables using statistical tools which are explained in third chapter “Research Methodology”. The basic objective of this chapter is to achieve the objectives , which are set in first chapter “Introduction”. In order to achieve these objectives, gathered data have been presented, compared and analyzed with the help of different tools. So it is the focal part of the study to analyze income tax contribution to government revenue for economic development.

4.1 Analysis of Secondary data

Secondary data is defined as data collected earlier for a purpose other than the one currently being perused. Secondary are often in the form of raw data and published materials. However, the unpublished data such as records or statistics gathered or compiled by others prior to the studies are secondary data. The secondary data have been obtained from economy survey, budget speech, other related newspapers, IRD, CBS, MOF, NRB etc. The available data related to the study have been tabulated, presented and analyzed and interpreted to reach at some findings.

4.1.1 Structure of Government Revenue of Nepal

Government collects revenue from different sources. Basic sources of the government revenue are classified into tax and non-tax revenue. Nepalese economy is characterized by low revenue performance in contrast to

growing public expenditure, the composition of government revenue since last ten years is presented in the table 4.1

Table 4.1
Composition of Total Revenue

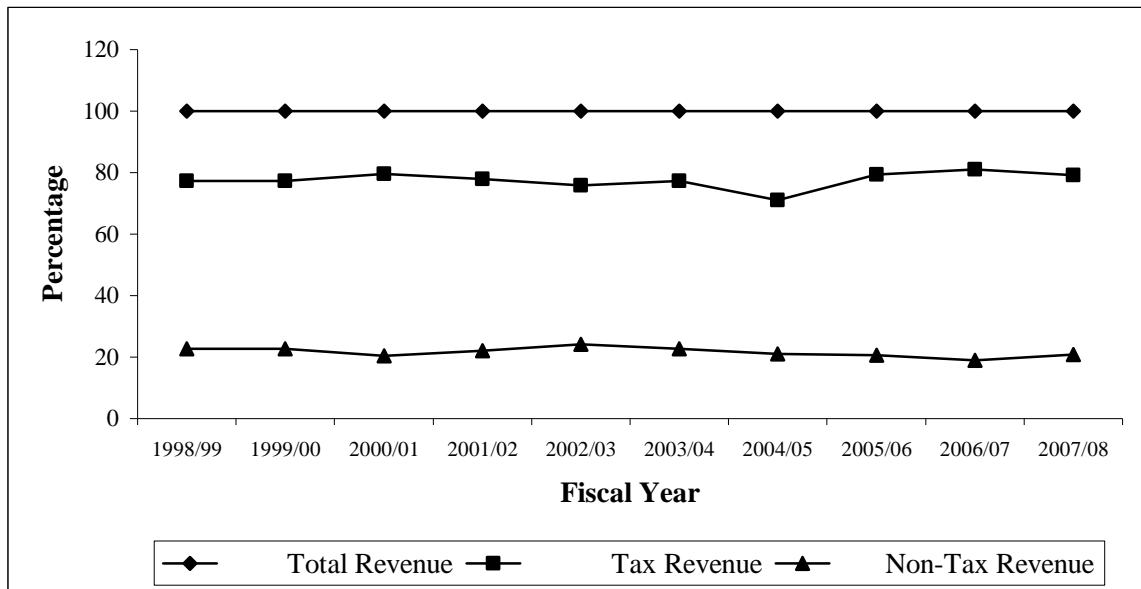
(Rs In Million)

Fiscal Year	Total Revenue		Tax Revenue		Non-Tax Revenue	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
1998/99	37251.3	100	28752.9	77.19	8498.4	22.81
1999/00	42893.7	100	33152.2	77.29	9741.6	22.71
2000/01	48893.6	100	38865	79.49	10028.6	20.51
2001/02	50445.6	100	39332	77.97	11114.9	22.03
2002/03	56229.8	100	42587	75.74	13642.9	24.26
2003/04	62331.0	100	48175.7	77.30	14158.0	22.72
2004/05	76122.7	100	54104.7	71.08	16018.0	21.04
2005/06	72282.1	100	57430.5	79.45	14851.7	20.55
2006/07	87712.2	100	71126.7	81.09	16585.5	18.91
2007/08	107623.0	100	85155.5	79.12	22467.0	20.87
Total	641784.60	100	498682.20	77.70	137106.60	21.36
Average	64178.46	100	49868.22	77.57	13710.66	21.64

Source: Economic Survey Fiscal year, 2008/09, MOF, GOV.

Total revenue of Nepal consists of tax revenue and non-tax revenue. Tax revenue comprises of customs, excise, sales tax (VAT), income tax, vehicle tax, land and house registration, and non-tax revenue includes duties, fees, sale of government properties commodities and services, dividends on share, interest on loans, donation and gifts. In Nepalese revenue structure from fiscal year 1998/99 to 2007/08 tax revenue has always been greater than three times of non-tax revenue. This means heavy contribution of tax revenue always been increasing per year.

Figure 4.1
Composition of Total Revenue



From above table 4.1 and figure 4.1 it is addressed that percent contribution has always been fluctuating within the lower limit of about 71.08% to the upper limit of about 81.09%. In 1998/99, out of total revenue of Rs 37251.30 million 77.19% i.e. 28752.90 million was contribute by tax revenue. In 2004/05, 71.08% that is 54104.70 million out of total revenue of Rs 76122.70 million has collected as tax revenue. Similarly, in 2007/08, 79.12% i.e. Rs 85155.50 million of total was collected as tax revenue. The average tax revenue is 77.57%. Except in the year 2002/03 and 2004/05, the tax revenue is always same the average rate. From the financial point of view, it is a very good symptom. The decrease in tax revenue may be attributed to political disturbances during these periods.

Non-tax revenue has the lowest contribution as compared to tax revenue. Its contribution to total revenue has remained below 25%. In 1998/99, Rs 8498.40 million was collected as non-tax revenue which was about

22.81% of total revenue. Its contribution over the tenth year's period has been fluctuating within 18% to 25%. In 2007/08 out of total revenue of Rs 107622.60 million, Rs 22467.04 million was contributed from non-tax revenue. It was about 20.87% of total revenue. It was increased by Rupees but decreased in Percentage in compared to 2005/06. The average non tax revenue contribution is 21.36%. Except in the year 1998/99,1999/00,2001/02 to 2003/04, the non-tax revenue is always below the average.

From the above table 4.1 and figure 4.1 clearly shows that tax revenue has been significantly contributed in total revenue and non-tax revenue has been poor contributed. Hence, tax revenue contribution in total revenue gradually increase and non-tax revenue contribution in total revenue gradually decrease. Thus, it could be concluded that tax is the most important source of government revenue. It is suitable source of collecting revenue internally.

4.1.2 Tax /GDP Ratio

Here, this analysis has been made to know about analysis of the share of taxation in total Gross Domestic Product (GDP) of Nepal. It is to be noted here that the tenth plan has targeted to increase the share of tax revenue in GDP.

Nepal being one of the least developed country, its economic activity is very slow. It is obvious from the fact that Tax/GDP ratio never exceeded 10% while taking average of ten fiscal year.

Table 4.2

Contribution of Tax Revenue, Non-Tax Revenue and Income Tax Revenue in GDP of Nepal

(Rs In Million)

Fiscal Year	GDP	Tax Revenue	Tax Revenue as % of GDP	Non-Tax Revenue	Non-tax Revenue as % of GDP	Income Tax Revenue	Income Tax Revenue as % of GDP
1998/99	330018	28752.9	8.71	8498.4	2.58	6166.2	1.87
1999/00	366251	33152.1	9.05	9741.6	2.66	7420.6	2.03
2000/01	413429	38865.1	9.4	10028.6	2.43	9114	2.2
2001/02	430397	39332	9.13	11114.9	2.58	8903.7	2.07
2002/03	460325	42587	9.25	13642.9	2.96	7966.2	1.73
2003/04	500699	48173	9.62	14158	2.83	9245.9	1.85
2004/05	548485	54104.7	9.86	16018	2.92	10159.4	1.85
2005/06	611089	57430.4	9.39	14851.7	2.43	10373.7	1.7
2006/07	675484	71126.7	10.53	16585.5	2.46	15034	2.23
2007/08	756756	85155.5	11.25	22467	2.97	17311.23	2.28
Total	5092933	498679.4	9.79	137106.6	2.69	101694.93	2.00
Average	509293.30	49867.94	9.62	13710.66	2.68	10169.49	1.98

Sources: Economic Survey, 2008/09

Note: GDP is taken in current year

From the above table 4.2 it is cleared that Tax/GDP ratio is not satisfactory. It has been fluctuating time to time. Average contribution of tax revenue in GDP of Nepal is 9.62%. From F/Y 1998/99 to 2003/04, it is below the average and after that there is a steady growth. It shows a positive trend in revenue collection. Non-tax revenue has been fluctuating time to time. A maximum of 2.97% non-tax revenue ratio to GDP was achieved in the year 2007/08. The mean non-tax revenue ratio of GDP for the ten years has been computed to be 2.68%. Income tax revenue is also fluctuating time to time. Its maximum contribution is 2.28% in the fiscal

year 2007/08 average being 1.98%. It is not satisfactory. It means contribution of direct tax and income tax is very poor to total GDP.

4.1.3 Composition of Total Tax Revenue

Tax Revenue is the combination of direct and indirect tax. Direct tax includes revenue from land and registration fees, taxes on property, taxes on profit and income where as indirect tax includes customs on export and import, excise on industrial products, VAT, sales tax, entertainment tax, hotel tax, air flight tax, contract tax etc. The composition of Nepalese tax revenue is presented in the table 4.3 in terms of direct and indirect tax revenue. The composition of tax revenue has been given below:

Table 4.3
Composition of Total Tax Revenue
(Rs In Million)

Fiscal year	Total Tax Revenue	Direct Tax Revenue		Indirect Tax Revenue	
		Amount	Percentage	Amount	Percentage
1998/99	28752.90	7516.10	26.14	21236.80	73.86
1999/00	33152.20	8951.50	27.00	24200.60	73.00
2000/01	38865.00	10159.40	26.14	28705.70	73.86
2001/02	39330.60	10597.50	26.94	28733.10	73.06
2002/03	42586.90	10105.80	23.73	32481.20	76.27
2003/04	48173.00	11912.60	24.73	36260.40	75.27
2004/05	54104.70	13071.80	24.16	41032.80	75.84
2005/06	57430.40	13968.10	24.32	43462.30	75.68
2006/07	71126.70	18980.30	26.69	51146.40	71.91
2007/08	85255.50	21297.80	24.98	59664.40	70.00
Total	498777.90	126560.90	25.37	366923.70	73.56
Average	49877.79	12656.09	25.48	36692.37	73.88

Source: Economic Survey, 2008/09, MOF, GON.

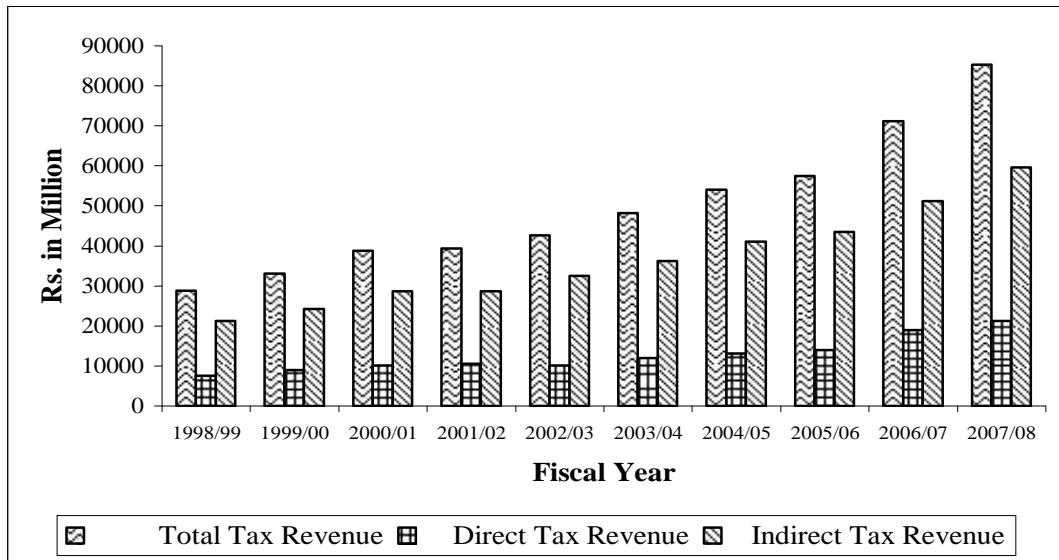
From the above table 4.3 it is observed that the whole Nepalese tax Structure is dominated by indirect tax. The average share of direct tax

revenue to total tax revenue for the study period of last ten years is 25.48% and the average share of indirect tax revenue is 73.88%.

From the above table 4.3 total tax revenue, direct tax revenue and indirect tax revenue are in increasing trend. The mean share of direct tax is 25.48% whereas from that of indirect tax is 73.88%. The amount of direct tax was Rs 7516.10 million in fiscal year 1998/99. It increased every year and reached to Rs 21297.80 million in the fiscal year 2007/08 except in the fiscal year 2002/03. In 2002/03 direct tax was Rs 10105.80 million, which was declined by Rs 491.70 million comparing to previous year. Percentage contribution of direct tax to total tax revenue was fluctuating every year.

Similarly, the amount of indirect tax was Rs 21236.80 million in the fiscal year 1998/99. It increased each year and reached to Rs 59664.40 million in the fiscal year 2007/08. The revenue showed a declining trend after 2006/07 onwards. The decrease in indirect revenue could be attributed to political disturbances, frequent change in government, less export products etc. Percentage contribution of indirect tax to total tax revenue was highest 76.27% in the fiscal year 2002/03 and lowest 70% in the fiscal year 2007/08. The contribution of direct and indirect tax revenue on total tax revenue could be shown in the following Table 4.2 also.

Figure 4.2
Composition of Total Tax Revenue



4.1.4 Composition of Indirect Tax Revenue

The tax structure of Nepal is mainly dependent on indirect tax. The major tax components of indirect tax in Nepalese tax structure consists custom duty has been classified mainly into import duty and export duty and other component of indirect tax like entertainment tax, hotel tax, air flight tax, other tax contribution normal share zero. Table 4.4 shows the consumption of indirect tax.

Table 4.4
Composition of Indirect Tax Revenue

(Rs In Million)

Fiscal Year	Total Indirect Tax	Custom Duties		Tax on consumption and product of Goods and Services			
				Value Added Tax		Excise on Industrial Products	
		Amount	%	Amount	%	Amount	%
1998/99	21236.80	9517.70	44.82	8765.90	41.28	2953.20	13.91
1999/00	24200.60	10813.30	44.68	10259.70	42.39	3127.60	12.92
2000/01	28705.70	12552.10	43.73	12382.40	43.14	3771.20	13.14
2001/02	28733.10	12658.80	44.06	12267.30	42.69	3807.00	13.25
2002/03	32481.20	14236.40	43.83	13459.70	41.44	4785.10	14.73
2003/04	36260.40	15554.80	42.90	14478.90	39.93	6226.70	17.17
2004/05	41032.90	15701.60	38.27	18885.40	46.03	6445.90	15.71
2005/06	43462.30	15344.00	35.30	21610.70	49.72	6507.60	14.98
2006/07	51065.69	15326.89	30.60	26095.60	51.10	9343.20	18.30
2007/08	59664.40	19489.30	32.66	29651.90	49.70	10523.20	17.64
Total	366843.09	141194.89	38.49	167857.50	45.76	57490.70	15.67
Average	36684.31	14119.49	40.08	16785.75	44.74	5749.07	15.18

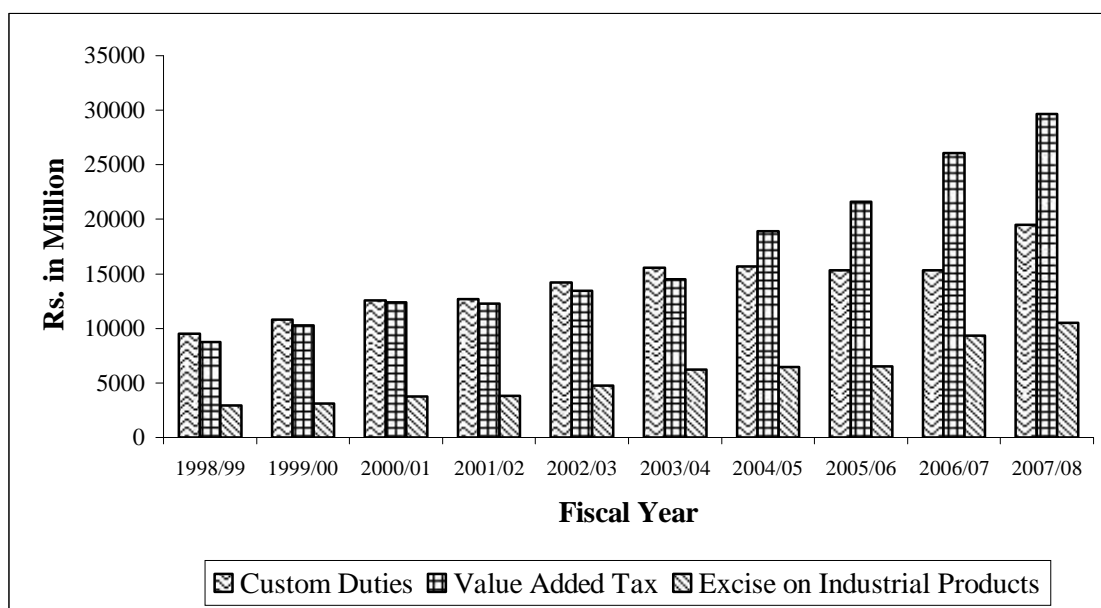
Source: Economic survey, 2008/09, MOF, GON.

The above table 4.4 revealed that the custom duty and VAT occupies major portion in indirect tax. In fiscal year 1998/99 the contribution of custom duty was 44.82% which fluctuates in between 44.82% to 30.60% through out the study period. Average percentage contribution of custom duty to indirect tax was 40.08% during the study period. The contribution of custom duty is decreasing over the years. On the other hand, the Value Added Tax showed an increasing trend over the study period. Average contribution for VAT is 44.74%. In the initial period, the contribution is below the average, whereas in recent years it has exceed the average.

Reduction in production, reluctant on the part of tax payers, less incentive to tax employees etc. are some of the reasons for ineffective tax system.

Amount of VAT in the fiscal year 1998/99 was Rs 8765.90 million and had reached to Rs 29651.90 million in the fiscal year 2007/08. Similarly, the amount of excise on industrial products was increasing each year but percentage was fluctuating on an average contribution of excised industrial products on total indirect tax was Rs 5749.07 million which represents to 15.18% for the period of last ten years. The composition of indirect tax has been presented in a graphic figure as shown below.

Figure 4.3
Composition of Indirect Tax



4.1.5 Composition of Direct Tax Revenue

The structure of direct tax is the composition of income tax, land revenue and registration, vehicle tax, interest tax and other tax. Direct tax has been divided into three sub-heads for the analysis namely income tax, land and house registration, and miscellaneous tax. Among various direct

tax revenue income tax has occupied the supreme position. It has been presented in table 4.5.

Table 4.5
Contribution of Various Taxes in Direct Tax Revenue in Nepal
(Rs In Million)

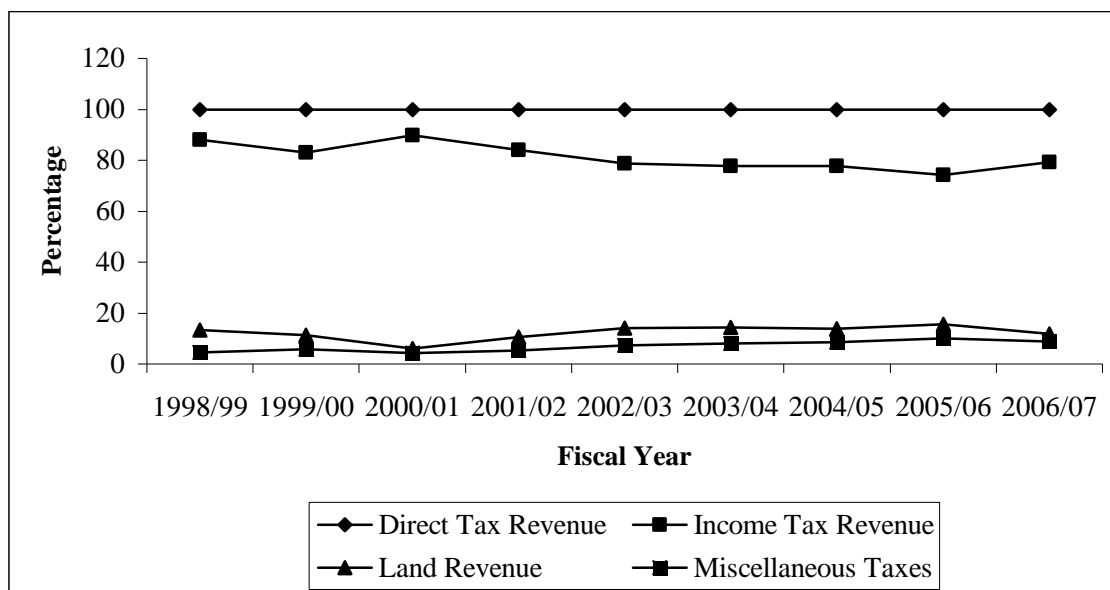
Fiscal Year	Direct Tax Revenue		Income Tax Revenue		Land Revenue		Miscellaneous Taxes	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%
1998/99	7516.10	100	6616.20	88.03	1003.20	13.35	342.70	4.56
1999/00	8951.50	100	7420.60	82.90	1015.90	11.35	515.00	5.75
2000/01	10159.40	100	9114.00	89.71	612.90	6.03	432.50	4.26
2001/02	10597.50	100	8903.70	84.02	1131.80	10.68	562.00	5.30
2002/03	10105.70	100	7966.20	78.83	1414.30	14.00	725.30	7.18
2003/04	11912.50	100	9245.90	77.62	1697.50	14.25	969.20	8.13
2004/05	13071.90	100	10159.40	77.72	1799.20	13.76	1113.20	8.51
2005/06	13968.10	100	10373.70	74.27	2181.10	15.61	1413.30	10.12
2006/07	18980.30	100	15034.00	79.21	2253.50	11.87	1692.30	8.92
2007/08	21297.80	100	17311.20	81.28	2940.70	13.81	2835.80	13.31
Total	126560.80	100	102544.9	80.71	16050	12.68	10601	8.38
Average	12656.08	100	10214.49	81.36	1605	12.47	1060.10	7.60

Source: Economic Survey, 2008/09, MOF, GON.

Income tax comprises tax from public enterprises, semi-public enterprises, private corporate bodies, individuals, remuneration and interests. Similarly, miscellaneous taxes include urban house and land tax, vehicle tax and other tax.

Figure 4.4

Contribution of Individual Taxes in direct tax Revenue in Nepal



The above table 4.5 and figure 4.4 shows that income tax occupied the first place among various direct tax revenues. The amount of income tax has been showing an increasing trend except in the fiscal year 2002/03. In F/Y 1998/99, out of total direct tax revenue of Rs 7516.10, Rs 6616.20 million has been contributed by income tax only. This comes about 88.03% of the total direct tax revenue. In the F/Y 2007/08, out of total direct tax revenue Rs 21297.80 million Rs 17311.23 million has been contributed by income tax revenue. It occupies about 81.28% of total direct tax revenue which was maximum amount during the ten years period. Contribution of income tax by 89.71% was the highest percentage in F/Y 2000/01. The average contribution of income tax to direct tax is 81.36%. The contribution was above the average in the initial three years, which is gradually decreasing over the latter part of study period. This is not a good symptom for the economic point of view. The reason of such decrease may be attributed to reduction in production, reluctant on the part of tax payers, less incentive to tax employees, political disturbances, unstable government, poor strategy and policy of the state, poor level of

investment from government side to improve the overall income of the country, free and open boarder sharing to the southern part of the country which inevitably allows huge amount of unregulated and untaxed household imports to the country etc.

Land and house registration income occupied second position among various direct taxes. The amount of land and house registration increased from Rs 1003.20 million to Rs 2940.70 million from the fiscal year 1998/99 to 2007/08. Trend of that was fluctuating over the period. The contribution of land and house registration had so much decreased in the fiscal year 2000/01. It was only 6.03% of the total direct tax revenue. Out of total direct tax revenue of Rs 7516.10 million Rs 1003.20 million was contributed by land and house registration in the fiscal year 1998/99. Out of total direct tax revenue of Rs 21297.80, Rs 2940.74 million was contributed by this revenue i.e. 13.81% on direct tax revenue. In this year its percentage is in decreasing trend.

Miscellaneous taxes occupied third position among the various direct taxes. The trend of that revenue has been also fluctuating. In the fiscal year 1998/99, its contribution on the total direct tax was Rs 342.70 million representing 4.56%. In the fiscal year 2007/08, its contribution out of total direct tax of Rs 21297.80 million was Rs 2835.80 million which comes to 13.31% on direct tax revenue. This is not a healthy and sound practice of a developing economy. Revenue collection indirectly is the symptom of backwardness. Government should try to collect revenue imposing direct tax rather than indirect tax. Direct tax could be increased by extending and expanding the tax base, changing the tax rate with different stabs, taking corrective action against the reluctant tax payers, reducing corruption etc.

It is conclude that in the position of direct income tax plays vital role from the beginning, its contribution around 74% to 89% in various years.

4.1.6 Structure of Income Tax in Nepal

The structure of Nepalese income tax is composed up of income tax from public enterprises, income tax from private bodies, income tax from individuals, income from remuneration and income tax from interest. Here public enterprise consists of 100% government ownership and semi-public enterprise includes 51% of government ownership. Private corporate bodies mean individuals denote sole traders, partnership and private limited companies. Remuneration/employment refers to salaries earned from the services provided to the government and non-government sectors.

Table 4.6(a): Composition of Income Tax in Nepal

(Rs In Million)

Fiscal Year	Public Enterprises	Semi-public Enterprises	Private Corporate Bodies	Individuals	Remuneration	Tax on Interest	Total income Tax
1998/99	1526.50	-	1155.00	2772.70	396.50	315.50	6166.20
1999/00	2198.80	-	1339.50	3016.40	451.50	414.50	7420.60
2000/01	2928.00	-	1924.30	3200.50	597.30	463.90	9114.00
2001/02	1769.30	-	1412.00	4419.10	835.60	467.70	8903.70
2002/03	1251.00	-	1236.30	3362.30	1252.60	864.00	7966.20
2003/04	2056.60	-	1531.30	3533.40	1391.20	733.40	9245.90
2004/05	1332.40	-	2467.80	3926.30	1675.90	757.00	10159.40
2005/06	195.70	-	3404.30	4234.70	1764.10	774.90	10373.70
2006/07	1019.70	-	5717.10	5234.42	2007.90	1054.90	15034.00
2007/08	204.60	-	7186.50	6381.20	2451.00	1087.90	17311.20
Total	14482.60	-	27374.10	40081.02	12823.60	6933.70	101694.90
Average	1448.26	-	2737.41	4008.10	1282.36	693.37	10169.49

Source: Economic Survey, 2008/09.

Table 4.6(b): Structure of Income Tax in Nepal

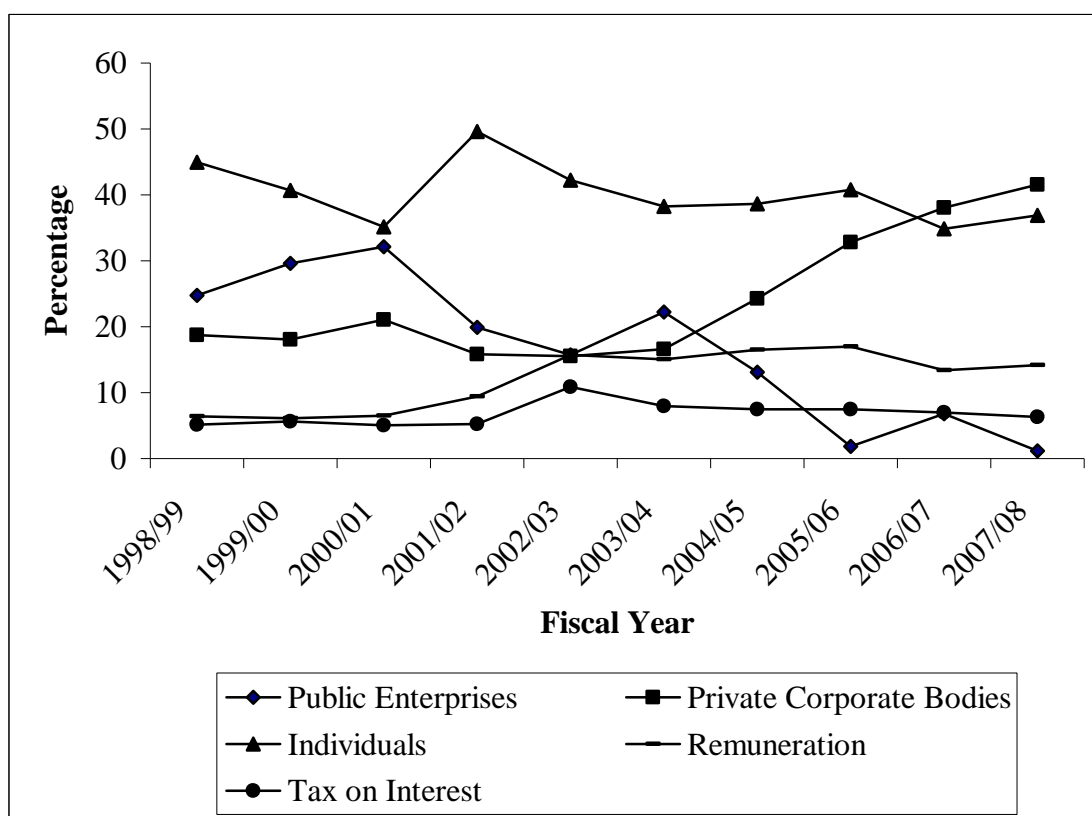
(In Percent)

Fiscal Year	Public Enterprises	Semi-public Enterprises	Private Corporate Bodies	Individuals	Remuneration	Tax on Interest	Total income Tax
1998/99	24.76	-	18.73	44.97	6.43	5.12	100
1999/00	29.63	-	18.05	40.65	6.08	5.59	100
2000/01	32.13	-	21.11	35.12	6.55	5.09	100
2001/02	19.87	-	15.86	49.63	9.38	5.25	100
2002/03	15.70	-	15.52	42.21	15.72	10.85	100
2003/04	22.24	-	16.56	38.22	15.05	7.93	100
2004/05	13.11	-	24.29	38.65	16.50	7.45	100
2005/06	1.89	-	32.82	40.82	17.00	7.47	100
2006/07	6.78	-	38.03	34.82	13.36	7.02	100
2007/08	1.18	-	41.51	36.86	14.16	6.28	100
Total	14.24	-	26.92	39.41	12.61	6.82	100
Average	16.73	-	24.25	40.20	12.02	6.81	100

Source: Economic Survey, 2008/09

Figure 4.5

Structure of Income Tax in Nepal in percent



It is observed that the average contribution of tax from public enterprises, private corporate, individuals, remuneration, interest tax represents 14.24%, 26.92%, 39.41%, 12.61% and 6.82% respectively. There is nil contribution from semi-public enterprises. It shows that on an average, individual contributes the highest percentage of 40.20% followed by Private corporate 24.25%, Public enterprises 16.73%, remuneration 12.02% and Interest tax 6.81%.

If the analysis is made with individual sources of income, the income tax contributes of individuals has occupied first position in total income tax revenue of Nepal up to 2005/06. In fiscal year 1998/99, Rs 2772.70 million was raised from individuals income tax, from then it has been increasing trend up to 2001/02 then it is significantly decreasing in fiscal year 2002/03 amount Rs 1056.80 million i.e. 23.91%. In 2002/03, out of total income tax revenue of Rs 7966.20 million, Rs 3362.30 million has been raised from individuals. It is about 42.21% contribution by individuals. In 2003/04, it is slightly increased from the year 2002/03 to Rs 3533.40 million. Similarly 2007/08, contribution from individuals in total revenue has increased to Rs 6381.20 this is 36.86% of total tax revenue. Its contribution was highest Rupees in the fiscal year 2007/08 and highest in percentage in fiscal year 2001/02.

Private corporate bodies occupied second position out of total income tax revenue of Nepal. In 1998/99, private corporate bodies paid Rs 1155.00 million out of Rs 6166.20 million total income tax revenue i.e. private corporate bodies contributed 18.73% of total income tax revenue. This was very much insignificant contribution. Its contribution has been increasing trend up to 2000/01 and then it decreased by Rs 175.50 million i.e. 12.44% while in 2001/02, it was decreased by Rs 512.30 million i.e. 26.62% and in total 2003/04, its contribution has increased to Rs 1531.30

million i.e. 16.56% of total tax revenue. Similarly, in 2004/05, it has also increasing trend. In 2007/08, it was Rs 7186.46 million which was 41.51% of total tax revenue. It is highest contribution among the other sources.

Income tax from public enterprise has occupied third position regarding its contribution in total income tax revenue of Nepal. In fiscal year 1998/99 out of total income tax revenue of Rs 6166.20 million, Rs 1526.50 million has been contributed by public enterprises. Its contribution has been increasing trends up to 2000/01. Then it is in decreasing trends in 2001/02, 2002/03, 2004/05, 2005/06, 2007/08. In 2006/07 it is increase from 195.70 to 1019.70 million. In fiscal year 2007/08 out of total income tax revenue of Rs 17311.23 million, Rs 204.60 million has been contributed by public enterprises.

Income tax from remuneration has occupied fourth position in total income tax revenue of Nepal. In 1998/99, total income tax revenue was Rs 6166.20 million and Rs 395.50 million was contributed by employment income tax i.e. 6.43% of total income tax revenue. Income tax from remuneration has been increasing in all the years. In 2004/05, total income tax revenue was Rs 10159.40 million included Rs 1675.90 million as income tax from remuneration. Similarly, in 2007/08 out of total tax revenue of Rs 17311.23 million, 2451 million was contributed by remuneration. It was about 14.16% of total tax revenue. It shows that the remuneration tax has been contributed significantly in total tax revenue from this analysis, we can include that remuneration tax is suitable means of collecting income tax revenue.

Tax on interest has occupied fifth position in total income tax revenue. In fiscal year 1998/99, Rs 315.50 million was collected as tax on interest out of Rs 6166.20 million of total income tax revenue. Interest tax was in increasing trend in all the fiscal year except 2003/04. In fiscal year 2007/08 out of total income tax revenue of Rs 17311.23 million Rs 1087.90 million has been collected as interest tax. It was 6.28% of total tax revenue. 10.85% was highest in fiscal year 2002/03.

The share of semi-public enterprises was nil in each year from 1998/99 to till because the source of revenue was restricted and share of semi-public enterprises was not calculated separately also.

It can be calculated that Public enterprise, Private Corporate bodies, Individuals; Remuneration are in fluctuating trend.

4.1.7 Contribution of Income Tax in Total Revenue, Tax Revenue and Direct Tax Revenue of Nepal

Nepal has facing serious and growing fiscal resources gap and her need for mobilizing additional financial resources from domestic resources through taxation have been urgent. The base for living taxes may be consumption, income and capital. Taxes on incomes, capital are known as indirect taxes. Tax structure of Nepal is composed of both direct and indirect taxes. Income tax has been a import element of direct tax and it is playing vital role to generate government revenue for the development of national economy.

Table 4.7
Contribution of Income Tax in Total Revenue, Total Tax Revenue
and Direct Tax Revenue of Nepal

(Rs In Million) and (In Percent)

Fiscal Year	Income Tax Revenue	Total Revenue	% of Income Tax in Total Revenue	Total Tax Revenue	% of Income Tax in Total Tax Revenue	Direct Tax Revenue	% of Income Tax in Direct Tax Revenue
1998/99	6166.20	37251.30	16.55	28752.90	21.45	7516.10	82.04
1999/00	7420.60	42893.70	17.30	33152.20	22.38	8951.50	82.90
2000/01	9114.00	48893.60	18.64	38865.10	23.45	10159.40	89.71
2001/02	8903.70	50445.60	17.65	39332.60	22.64	10597.50	84.02
2002/03	7966.20	56229.80	14.17	42587.00	18.71	10105.80	78.83
2003/04	9245.90	62331.00	14.83	48175.70	19.19	11912.60	77.61
2004/05	10159.40	70124.70	14.49	54104.70	18.78	13071.80	77.72
2005/06	10373.70	72282.10	14.35	57430.50	18.06	13968.10	74.27
2006/07	15034.00	87712.20	17.14	71126.70	21.14	18980.30	79.21
2007/08	17311.23	107622.60	16.09	85155.50	20.33	21297.80	81.28
Total	101694.93	635786.60	16.00	498682.9	20.39	126560.9	80.35
Average	10169.49	63578.66	16.12	49868.29	20.61	12656.09	80.76

Source: Economic Survey, 2008/09.

Table 4.7 shows the percentage contribution of income tax to total revenue. It was increased 16.55% to 18.64% from fiscal year 1998/99 to 2000/01. It was fluctuating till the fiscal year 2001/02 to 2005/06. Average contribution is 16.12%. The contribution is above average in the initial period but has been slightly decreased over the years. Then after in 2006/07 it was increased 14.35% to 17.14% and in 2007/08, it was 16.09% it was in decreasing trend. The reason of such decrease may be attributed to unstable government policy, maoist problems, lack of transparency, lack of freedom of information, more than 1 week strike in a month, because of electricity problems less production by industries hence less income, less tax collection by government.

Above table 4.7 shows that the contribution of income tax in Nepalese tax revenue from 1998/99 to 2007/08. It was increased 21.45% to 23.45%

from 1998/99 to 2001/02, then after it was in fluctuating trend. In year 2005/06 it was minimum i.e. 18.06% but in 2007/08 it was 20.33% an average being 20.61%. Its contribution was above the average to the initial period but suddenly decreased to below average from F/Y 2002/03 to F/Y2005/06 and F/Y2007/08. This may be due to complicated tax laws, dishonest tax payers, inefficient income tax administrator, weakness of act rules and regulations, reduction in production etc.

Similarly above table 4.7 shows that there is substantial contribution of income tax in the composition of direct tax revenue in Nepal for the ten years period i.e. 1998/99 to 2007/08. The contribution of income tax has never been less than 70% and was in fluctuating trend. It was 74.27% in 2005/06 but in 2007/08 it was increased and reached 81.28%.

So it is clear that there is significant contribution of income tax in Nepal to increase total revenue, total tax revenue and direct tax revenue. There seems to be highly positive correlation of income tax revenue with total revenue, tax revenue and direct tax revenue. It means if the income tax revenue increase, total revenue, tax revenue and direct tax revenue also increase.

4.1.8 Resources Gap in Nepal

A resources gap is the serious problem of Nepal in the beginning of the economic development. Like other developing countries in the world, Nepal has been suffering from resource constraint, mass poverty, rapid growth of population, aggressive dependence on agriculture income, subsistence living standard etc.

Source mobilization of Nepal is still poor and that doesn't cover the growing expenditure. Fiscal deficit is due to continuously growing

expenditure of the government instead of the low revenue performance in Nepal. So, the country is facing the increasing burden of foreign loan.

Table 4.8
Resource Gap in Nepal

(Rs In Million)

Fiscal Year	Total Expenditure	Total Revenue	Resource Gap(A)	Foreign Grants	Resource Gap(B)	Foreign Loans	Resources Gap (C)
	(A)	(B)	(A-B)	(C)	[A-(B+C)]	(D)	[A-(B+C+D)]
1998/99	59579.00	37251.00	22328.00	4336.60	17991.40	11852.40	6139.00
1999/00	66272.50	42893.70	23378.80	5711.70	17667.10	11812.20	5854.90
2000/01	79835.10	48893.90	30941.20	6753.40	24187.80	12044.00	12143.80
2001/02	80072.20	50445.60	29626.60	6686.10	22940.50	7698.70	15241.80
2002/03	84006.10	56229.70	27776.40	11339.10	16437.30	4546.40	11890.90
2003/04	89442.60	62331.00	27111.60	11283.40	15828.20	7629.00	8199.20
2004/05	102560.00	70122.70	32437.30	14391.20	18046.50	9266.10	8780.40
2005/06	110889.00	72282.10	38606.90	13827.50	24779.40	8214.30	16565.10
2006/07	131851.00	86135.46	45715.54	15946.00	29769.54	10331.00	19438.54
2007/08	168995.60	103667.26	65328.34	27460.91	37867.43	17367.43	20500.00
Total	973503.10	630252.40	343250.68	117735.91	225515.17	100761.53	124753.64
Average	97350.31	63025.24	34325.07	11773.59	22551.52	10076.15	12475.36

Source: Economic Survey Fiscal Year, 2008/09, MOF, GON.

1. Resource Gap (A) = (A-B)

As shown in the table 4.8 resource gap 'A' was Rs 22328 million in the fiscal year 1998/99 and Rs 65328.34 million in the fiscal year 2007/08. The average resource gap was Rs 34325.07 million for last ten years. The amount of resource gap was increasing trend up to fiscal year 2000/01 and the amount was Rs 30941.20 million. In the fiscal year 2003/04 resource gap was decrease in Rs 27111.60 million and then resource gap in increasing 32437.30 million in fiscal year 2004/05, the amount was Rs 65328.34 million in the fiscal year 2007/08.

2. Resource Gap (B) = [A-(B+C)]

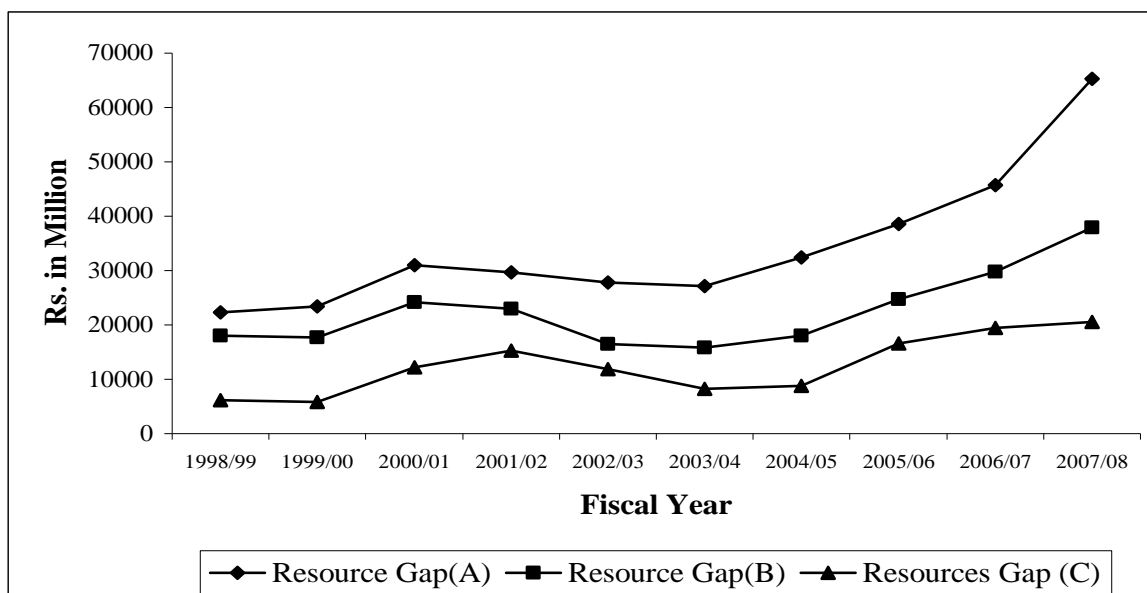
This Resource gap is taken as the different between total expenditure and total revenue plus foreign grants. In the fiscal year 1998/99 the gap was 17991.40 million which was decreased in to 17667.10 million in fiscal year 1999/00 and then increase in 24187.80 in the fiscal year 2000/01 and then decrease to 15828.20 in the fiscal year 2003/04 which was due to the high proportionate incriminate in foreign grant strum Rs 6686.10 million in the fiscal year 2001/02 to Rs 11283.40 million in the fiscal year 2003/04. Then after the amount of resource gap was increasing trend up in Rs 29769.54 million in the fiscal year 2006/07 and Rs 37867.43 million in the fiscal year 2007/08. The average resources gap was Rs 22551.48 million for ten years.

3. Resource Gap (C) = [A-(B+C+D)]

This resources gaping in taken as the different between total expenditure and total resource plus foreign grants plus foreign loan. In the fiscal year 1998/99 the gap was Rs 6139 million, which was increased to Rs 20500 million in the fiscal year 2007/08. The resource gap was fluctuating in

fiscal year 1999/00 to fiscal year 2007/08. The average resource gap was Rs 12475.36 million for ten years.

Figure 4.6
Resource Gap in Nepal



Likely, factors of increasing the resource gap in the context of Nepal economy are:-

-) Lesser exercise/commitment of Inland Revenue income/ income tax system authorities. This also includes failure to adopt newer ways of updating efficient computerised of keeping records, proper lack of efficient manual power, lack of proper trainings or educations by the inland revenue offices..
-) Political instability such as introduction of different policies of different political party in the government in variable succession of time, which in turn affected in the turnover of different institutions in the country, hence, has substantial effect in states turnover in term of taxes.

-) Lesser stringent rules and regulation of the state due to lack of political commitments towards responsibility of an individual of tax contributions and lack of prompt and effective political reforms to generate tax revenue of the state.
-) Free and open boarder sharing to the southern part of the country which inevitably allows huge amount of unregulated and untaxed household imports to the country. It severely degrades income of the tax office.
-) Poor level of investment from the government side to improve the overall income of the country.
-) Unregulated flow of money by the central bank. For instance ,Substantial amount of investment in soaring fixed assets (like purchasing lands or housing) which resulted in unproductive investment in the past years. Thereby low return in tax as compared to the investment, instead if invested otherwise
-) Low income per GDP rate resulting low personal income hence low individual tax contribution .Others contributing factors could be increased rate of unemployment, evasion/ immigration of high earners and able from the country for better stable country in search of better future (education/ health) and more security.
-) Political interference or increased control by government over tax system executives. Thus, resulting into delayed decisions by the body, and so on.
-) Lack of transparency. This also includes lack of freedom of information. In the context of current circumstances of Nepal, if the general public wants to keep update one self, information is not

easily accessible. This, results into discrepancies of transparent and fair taxing of the state.

-) Poor level of investment from the government side to improve the overall income of the country.
-) Poor strategy and policy of the state

In order to increase revenue, Government has tried to recoup the gap through foreign aid and foreign loan but loan and aid are not the permanent solution. The study shows that even after loan financing, cash deficit is remained in Nepalese public finance. Thus, this increasing resource gap indicates that it is necessary to mobilize additional domestic resources. The ultimate and the best measure to fill up the resource gap is to increase public revenue through effective tax system.

4.2 Empirical Investigation

An empirical investigation has been conducted in order to find out the various aspects of income taxation . For this, the structured questionnaire was prepared and distributed to tax administrators, tax experts and taxpayers. The opinion received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study.

The questionnaire has covered the role of income tax, major problem facing by the taxpayers, income tax administration of Nepal and its effectiveness etc. (See Questionnaire in Appendix). The respondents were requested to response the question by following four ways:

-) They were required to response simply by 'Yes', 'No' question.
-) They could choose the best alternative from various options.

-) Respondents had option to put their views by writing wherever necessary.
-) They could response by ranking the choices starting from 1 for the least importance and last no. (on the basis of number of alternatives) for the most importance.

Following table 4.9 shows the number of groups, number of respondents in each group and code used to represent them.

Table 4.9: Group of Respondents and Size of Samples

S.N.	Group of Respondents	Sample Size	Code Used
1	Income Tax Administrators	20	A
2	Tax Experts	20	B
3	Tax Payers	20	C
	Total	60	

Source: Opinion Survey, 2010.

4.2.1 People are Well Informed about the Tax System

To know the attitude of respondents towards the tax education, a question was asked "Do you think that people are well informed about the tax system of Nepal?", The responses provided by various groups have been tabulated in the following Table no. 4.10.

Table 4.10: People's Knowledge Towards Tax System

S.N.	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	Income Tax Administrators	5	25	15	75	20	100
2	Tax Experts	8	40	12	60	20	100
3	Tax Payers	8	40	12	60	20	100
	Total	21	35	39	65	20	100

Source: Opinion Survey, 2010.

From the above table no.4.10, it is observed that 65% respondents think people are not well informed about the tax system of Nepal but 35% of respondents approved the question. Therefore it could be concluded that there is lack of tax education in Nepal. People are not well informed about the tax system of Nepal. Tax education is the most necessary to increase the tax consciousness in Nepal.

Table 4.11: Test of Hypothesis

S.N.	Respondents	Yes	No	Row Total
1	Income Tax Administrators	5	15	20
2	Tax Experts	8	12	20
3	Tax Payers	8	12	20
	Total	21	39	60

Source: Table 4.10

Null Hypothesis H_0 : There is no significant difference in the view of Tax experts, administrators and tax payers regarding people are well informed about the tax system of Nepal.

Alternative Hypothesis H_1 : There is significant difference in the views of tax experts, tax administrators and tax payers regarding people are well informed about tax System of Nepal.

Test statistic under H_0 : The test statistic is:

$$\chi^2 = \frac{\sum (O-E)^2}{E}$$

Where,

O = Observed Frequency

E = Expected Frequency = $\frac{\text{Row total} \times \text{column total}}{\text{Grand Total}}$

Table 4.12: Calculation of χ^2

Row, column	O	E	O-E	(O-E) ²	$\frac{(O-E)^2}{E}$
1,1	5	(20×21)/60= 7	-2	4	0.57142
1,2	15	(20×39)/64=13	2	4	0.3076
2,1	8	(20×21)/60= 7	1	1	0.1428
2,2	12	(20×39)/60=13	-1	1	0.0769
3,1	8	(20×21)/60= 7	1	1	0.1428
3,2	12	(20×39)/60=13	-1	1	0.0769
					$\frac{\sum (O-E)^2}{E} = 1.3186$

Source: Table 4.11

Calculated Value of $\chi^2 = 1.3186$

Level of Significant (α) = 5%

Degree of Freedom = (r- 1) (c-1) = (3-1) (2- 1)

$$= 2 \times 1$$

$$= 2$$

Tabulated Value of $\chi^2_{0.05} (2) = 5.991$

Decision: Since the calculated value of $\chi^2 < \text{tabulated value}$ or χ^2 it is not significant and H_0 is accepted which means that there is no significant difference in tax experts, tax administrators and tax payers views regarding the people are well informed about tax system of Nepal.

4.2.2 Attitude Towards the Income Tax System of Nepal

To know the respondents opinion about the income tax system of Nepal, a question was asked, "In your opinion, Is the income tax system of Nepal is sound and efficient?" The responses received from the respondents are tabulated as follows:

Table 4.13: Attitude Towards the Income Tax System of Nepal

S.N.	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	Income Tax Administrators	4	20	16	80	20	100
2	Tax Experts	6	30	14	70	20	100
3	Tax Payers	5	25	15	75	20	100
	Total	15	25	45	75	60	100

Source: Opinion Survey, 2010.

From the above table no.4.13 it is observed that 25% of the respondents accepted that the income tax system is sound and efficient whereas 75% of the respondents showed their dissatisfaction regarding the income tax system is sound and efficient. Thus, it could be concluded that the income tax system of Nepal is not sound and efficient.

Table 4.14: Test of Hypothesis

S.N.	Respondents	Yes	No	Row Total
1	Tax Administrators	4	16	20
2	Tax Experts	6	14	20
3	Tax Payers	5	15	20
	Total	15	45	60

Source: Table 4.13

Null Hypothesis H_0 : There is no significant difference in tax administrators, tax experts and taxpayers view regarding the income tax system in Nepal.

Alternative Hypothesis H_1 : There is significant difference in tax awareness income tax system in Nepal.

Test statistic under H_0 : The test statistic is:

$$\chi^2 = \frac{(O-E)^2}{E}$$

Where,

O = Observed Frequency

E = Expected Frequency = $\frac{\text{Row total} \times \text{column total}}{\text{Grand Total}}$

Table 4.15: Calculation of χ^2

Row, column	O	E	O-E	$(O-E)^2$	$\frac{(O-E)^2}{E}$
1,1	4	$(20 \times 15) / 60 = 5$	-1	1	0.2
1,2	16	$(20 \times 45) / 60 = 15$	1	1	0.06666
2,1	6	$(20 \times 15) / 60 = 5$	1	1	0.2
2,2	14	$(20 \times 45) / 60 = 15$	-1	1	0.06666

3,1	5	$(20 \times 15) / 60 = 5$	0	0	0
3,2	15	$(20 \times 45) / 60 = 15$	0	0	0
					$\frac{(O-E)^2}{E} = .53333$

Source: Table 4.14

Calculated Value of $\chi^2 = 0.5333$

Level of Significant (α) = 5%

Degree of Freedom = $(r-1)(c-1) = (3-1)(2-1)$

$$= 2 \times 1$$

$$= 2$$

Tabulated Value of $\chi^2_{0.05}(2) = 5.991$

Decision: Since the calculated value of $\chi^2 <$ tabulated value of χ^2 it is not significant and H_0 is accepted which means that there is no significant difference in tax administrators, tax experts and tax payers view regarding the income tax system of Nepal is sound and efficient.

4.2.3 Attitude towards factors affecting Income Tax System

The respondent who said that income tax system of Nepal is not sound and efficient were asked another question, "If Not, what are the factors affecting the income tax system of Nepal?" They gave points to the options that are presented as below.

Table 4.16: Factors for not sound and efficient Income Tax System.

S.N.	Causes	Point Received			Total Points	Percentage	Rank
		A	B	C			
1	Complicated Tax Laws	10	75	240	325	18.29	2
2	Lack of Trained and Competent Tax	16	60	255	331	18.63	1
3	Lack of Proper Communication	8	45	101	154	8.67	7
4	Lack of Tax Awareness to Tax Payers	7	35	175	207	12.21	5
5	Unnecessary Outside Pressure	6	24	162	192	10.80	6
6	Lack of Coordination of the Tax Department with Other Departments	5	65	190	260	14.63	4
7	Lack of Direction	3	85	210	298	16.77	3
	Total	55	389	1333	1777	100	

Source: Opinion Survey, 2010.

From the above table 4.16, the cause of ineffectiveness of Nepalese income tax system are ranked in order to preference of the respondents are as Follows:

1. Lack of trained and competent tax personnel.
2. Complicated tax laws
3. Lack of co-ordination of the tax department with other departments
4. Lack of tax awareness to tax payers
5. Unnecessary outside pressure
6. Lack of proper communication

It could be concluded that the lack of trained and competent tax personnel, followed by complicated tax laws, lack of direction, lack of coordination of the tax department with other department are the most important causes of ineffectiveness of Nepalese tax system.

Table 4.17: Calculation of Rank Correlation Coefficient

S.N.	Alternatives	Total Points (X)	Total Points (Y)	Rank for X (R ₁)	Rank for Y (R ₂)	d= R ₁ -R ₂	d ²
1	Complicated Tax Laws	85	240	2	2	0	0
2	Lack of Trained and Competent Tax	76	255	3	1	2	4
3	Lack of Proper Communication	53	101	5	7	-2	4
4	Lack of Tax Awareness to Tax Payers	42	175	6	5	1	1
5	Unnecessary Outside Pressure	30	162	7	6	1	1
6	Lack of Coordination of the Tax Department with Other Departments	70	190	4	4	0	0
7	Lack of Direction	88	210	1	3	-2	4
	Total						d ² =14

Source: Opinion Survey, 2010.

Where, X= Total expert and tax administrators

Y= tax payers

We have,

$$r = \frac{1 - 6 \frac{d^2}{n(n^2-1)}}{7(7^2-1)} = \frac{1 - 6*14}{7(7^2-1)} = 0.75$$

The correlation indicate that there is high degree of positive correlation between tax experts and tax administration and tax payers ranking regarding the factor affecting for income tax system of Nepal.

4.2.4 Income Tax as a Suitable Means of Raising Government Revenue

In order to know whether income tax as a suitable means of raising government revenue or not a question, "Do you consider that income tax as a suitable means of raising government revenue?" was asked. The responses of respondents are summarized in the following table 4.18:

Table 4.18: Income Tax as a Suitable Means of Raising Government Revenue

S.N.	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	Income Tax Administrators	12	60	8	40	20	100
2	Tax Experts	14	70	6	30	20	100
3	Tax Payers	15	75	5	25	20	100
	Total	41	68.33	19	31.67	60	100

Source: Opinion Survey, 2010.

In the above table no. 4.18, it is observed that 60% tax administrators, 70% tax experts and 75% taxpayers recognize income tax as a suitable means of raising government revenue. In average 68.33% of respondents are in favour of income tax as a suitable means of raising government revenue. Only 31.67% of respondents have not recognize it.

Table 4.19: Test of Hypothesis

S.N.	Respondents	Yes	No	Row Total
1	Tax Administrators	12	8	20
2	Tax Experts	14	6	20
3	Tax Payers	15	5	20
	Total	41	19	60

Source: Table 4.18

Null Hypothesis H_0 : There is no significant difference in tax administrators, tax experts and taxpayers view regarding the income tax suitable means of raising government revenue.

Alternative Hypothesis H_1 : There is significant difference in tax administrators, tax experts and taxpayers view regarding the income tax suitable means of raising government revenue.

Test statistic under H_0 : The test statistic is:

$$\chi^2 = \frac{(O-E)^2}{E}$$

Where,

O = Observed Frequency

E = Expected Frequency = $\frac{\text{Row total} \times \text{column total}}{\text{Grand Total}}$

Table 4.20: Calculation of χ^2

Row, column	O	E	O-E	(O-E) ²	$\frac{(O-E)^2}{E}$
1,1	12	(20×41)/60= 13.67	-1.66	2.777	0.2032
1,2	8	(20×19)/60= 6.33	1.66	2.777	0.4386
2,1	14	(20×41)/60= 13.67	0.333	0.111	0.0081
2,2	6	(20×19)/60= 6.33	-0.333	0.111	0.01754
3,1	15	(20×41)/60= 13.67	1.333	1.777	0.13009
3,2	5	(20×19)/60= 6.33	-1.333	1.777	0.28068
					$\frac{(O-E)^2}{E} = 1.0783$

Source: Table 4.19

Calculated Value of $\chi^2 = 1.0783$

Level of Significant (α) = 5%

Degree of Freedom = (r- 1) (c-1) = (3-1) (2- 1)
= 2 × 1
= 2

Tabulated Value of $\chi^2_{0.05} (2) = 5.991$

Decision: Since the calculated value of $\chi^2 <$ tabulated value of χ^2 it is not significant and H_0 is accepted which means that there is no significant difference in tax administrators, tax experts and taxpayers view regarding the income tax suitable means raising government revenue.

4.2.5 Corruption in Income Tax Administration of Nepal

In order to know the corruption existed in income tax administration of Nepal, a question, "Do you think that there is corruption in income tax administration of Nepal?" was asked. The responses received from various respondents are as follows:

Table 4.21: Corruption in Income Tax Administration of Nepal

S.N.	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	Tax Administrator	3	15	17	85	20	100
2	Tax Experts	16	80	4	20	20	100
3	Tax Payers	15	75	5	5	20	100
	Total	34	56.67	26	43.33	60	100

Source: Opinion Survey, 2010.

From the above table 4.21, it is clear that there is corruption in income tax administration on Nepal. 56.67% of respondents agree that Nepalese income tax administration is corrupt whereas 43.33% respondents disagreed with this.

4.2.6 Attitude towards Corruption in Income Tax Administration

The respondents, who agree that the Nepalese tax administration is corrupt, were asked a question related to the main causes of corruption. “If Yes then, what are the causes of corruption in income tax administration of Nepal?” They were requested to give points to the options given in the questionnaire. The result has been given in the following table 4.22:

Table 4.22: Causes of Corruption in Income Tax Administration

S.N.	Causes	Point Received			Total Points	%	Rank
		A	B	C			
1	Low remuneration of tax personnel	5	65	290	360	28.78	1
2	Weakness of act rules and regulation	7	42	245	294	23.5	3
3	Dishonest tax payers	3	17	95	115	9.19	5
4	Dishonest tax personnel	2	48	255	305	24.38	2
5	Inefficient income tax administrator	8	49	120	177	14.15	4
	Total	25	221	1005	1251	100	

Source: Opinion Survey, 2010.

The causes of Corruption in income tax administration of Nepal are ranked in order to the performance of respondents as follows:

1. Low remuneration of tax personnel
2. Dishonest tax personnel
3. Weakness of act rules and regulation
4. Inefficient income tax administrator
5. Dishonest tax payers

It can be concluded that low remuneration of tax personnel, dishonest tax personnel and weakness of acts, rules and regulation are the most important causes of corruption in income tax administration of Nepal.

Table 4.23 Calculation of Rank Correlation Coefficient

S. N	Alternatives	Total Points (X)	Total Points (Y)	Rank for X (R ₁)	Rank for Y (R ₂)	d= R ₁ -R ₂	d ²
1	Low remuneration of tax personnel	70	290	1	1	0	0
2	Weakness of act rules and regulation	49	245	4	3	1	1
3	Dishonest tax payers	20	95	5	5	0	0
4	Dishonest tax personnel	50	255	3	2	1	1
5	Inefficient income tax administrator	57	120	2	4	-2	4
	Total						d ² =6

Where, X= Tax expert and tax administrators

Y= Tax payers

We have,

$$r = \frac{1 - \frac{6 \times d^2}{n(n^2-1)}}{5(5^2-1)} = \frac{1 - \frac{6 \times 6}{5(5^2-1)}}{5(5^2-1)} = 0.7$$

The correlation indicate that there is positive correlation between tax experts and tax administration and tax payers ranking regarding the causes of corruption in the tax administration of Nepal.

From the analysis, it can be concluded that there are so many problems facing by administration out of them low remuneration of tax personnel is the main problem. So this problem should be minimized as soon as possible.

4.2.7 Attitude toward minimizing the corruption in Income tax Administration

After this respondents were asked "How can corruption existed in income tax administration can be minimized?" for this six options were presented and respondents were requested to give points on the options .The points received from the respondents are given as below:

Table 4.24: Factors to Minimize the Corruption Existed in Income Tax Administration of Nepal

S.N.	Causes	Point Received			Total Points	%	Rank
		A	B	C			
1	Moral education to tax personnel	6	70	235	311	17.46	3
2	Reduction of tax officers discretionary power	3	45	180	228	12.80	5
3	Additional incentives to tax personnel	9	78	266	353	19.82	2
4	Development of check and balance system	4	35	167	206	11.57	6
5	Taking actions to corruptors	8	66	375	449	25.21	1
6	Regular supervision to tax personnel	5	57	172	234	13.14	4
	Total	36	351	1395	1781	100	

Source: Opinion Survey, 2010.

From the above table 4.24, the options to minimize the corruption in tax administration of Nepal are given in order to the preference given by the respondents as follows:

1. Taking actions to corruptors
2. Additional incentives to tax personnel
3. Moral education to lax personnel

4. Regular supervision to tax personnel
5. Reduction of tax officers discretionary power
6. Development of check and balance system

It can be concluded that the most important factors to minimize corruption are taking actions to the corrupters, additional incentives to the tax personnel, moral education to the tax personnel etc.

4.2.8 Attitude Towards Exemption and Deduction

Adequate exemption and deduction is necessary to promote the business enterprises. Many exemption and deduction provided by 'Industrial Enterprises Act 2049' and 'Income Tax act 2031' has curtailed by new 'Income Tax Act 2058'. The question "Are exemptions and deductions provided by act, 2058 appropriate?" was asked to find out the opinion of the respondent regarding the exemption and deduction. Opinion result is summarized in the table as below:

Table 4.25: Attitude Towards Appropriateness of Exemption and Deduction

S.N.	Respondents	Yes		No		I don't know		Total	
		No.	%	No.	%	No.	%	No.	%
1	Tax Administrator	13	65	7	35	0	0	20	100
2	Tax Experts	16	80	4	20	0	0	20	100
3	Tax Payers	9	45	7	35	4	20	20	100
	Total	38	63	18	30	4	6.66	60	100

Source: Opinion Survey, 2010.

Most of respondent i.e. 63% agreed with present exemption and deduction. Only 30% respondents disagreed with the present exemption and deduction and 6.66% respondents don't have any idea about exemption and deduction.

Majority of the respondents, who disagree with present provision of exemption and deduction, specify

-) to increase the deduction and exemption unit to promote special industry.
-) Exemption for individual should be at least Rs 2,00,000 and to married, it should be Rs 3,00,000 in case of natural person.
-) Consideration for interest rate, inflation rate as well as price index increment.
-) Exemption and deduction should be provided on the ratio of income.

4.2.9 Attitude Toward Resource Gap

In order to know about the problems of resource gap of Nepal, a question has been put to various respondents "Nepal has been experiencing a serious and growing resource gap in her finance ". Do you agree with this statements.

Table 4.26: Problems with Resource Gap

S.N.	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	Tax Administrator	20	100	0	0	20	100
2	Tax Experts	20	100	0	0	20	100
3	Tax Payers	14	70	6	30	20	100
	Total	54	90	6	10	60	100

Source: Opinion Survey, 2010.

For this statement, the respondents think that there is a serious gap on resources. 90% respondents are worry in this problem. The other 10% are thinking that it is not vital. But the situation like below is sufficient to argue about resource gap. For this statement the following scenarios are sufficient. The above table shows that there is a gap of resources. In order to meet the expenses sufficient revenues are essential but Government has always deficit financing. Although this situation is said to be characteristics of the developing countries, the revenue trends has not become satisfactory and productive which could fulfill the resources gap. So respondents seem to be logical. Amongst 60 respondents, 54 respondents are in favour of the question whereas only 6 respondents do not feel like that. These 6 respondents were from C group i.e tax payers. They have ticked on No option but doesn't have given any specific reason for choosing the option.

Table 4.27: Test of Hypothesis

S.N.	Respondents	Yes	No	Row Total
1	Tax Administrators	20	0	20
2	Tax Experts	20	0	20
3	Tax Payers	14	6	20
	Total	54	6	60

Source: Table 4.26

Null Hypothesis H_0 : There is no significant difference in tax administrators, tax experts and taxpayers view regarding the resource gap of Nepal.

Alternative Hypothesis H_1 : There is significant difference in tax administrators, tax experts and taxpayers view regarding the resource gap of Nepal

Test statistic under H_0 : The test statistic is:

$$\chi^2 = \frac{(O-E)^2}{E}$$

Where,

O = Observed Frequency

E = Expected Frequency = $\frac{\text{Row total} \times \text{column total}}{\text{Grand Total}}$

Table 4.28: Calculation of χ^2

Row, column	O	E	O-E	(O-E) ²	$\frac{(O-E)^2}{E}$
1,1	20	(20×54)/60= 18	2	4	0.2222
1,2	0	(20×6)/60= 2	-2	4	2
2,1	20	(20×54)/60= 18	2	4	0.2222
2,2	0	(20×6)/60= 2	-2	4	2
3,1	14	(20×54)/60= 18	-4	16	0.8888
3,2	6	(20×6)/60= 2	4	16	8
					$\frac{(O-E)^2}{E} = 13.33$

Source: Table 4.27

Calculated Value of $\chi^2 = 13.33$

Level of Significant (α) = 5%

Degree of Freedom = (r- 1) (c-1) = (3-1) (2- 1)
 = 2 × 1
 = 2

Tabulated Value of $\chi^2_{0.05} (2) = 5.991$

Decision: Since the tabulated value of $\chi^2 <$ calculated value of χ^2 it is significant and H_1 is accepted which means that there is significant difference in tax administrators, tax experts and taxpayers view regarding resource gap in Nepal.

4.2.10 Attitude Toward Factor Affecting Resource Gap

The respondent who agreed on the above statement, “Nepal has been experiencing a serious and growing resource gap in her finance.” were

again asked another question, "If Yes, Please rank the reasoning factors that affect the resource mobilization or collections causing resource gap?"

Table 4.29: Factors Causing Resource Gap

S.N.	Causes	Points Received			Total Points	%	Rank
		A	B	C			
1	Rising Inflation rate	34	50	90	174	19.37	2
2	Lack of mobilization of other domestic resources	35	45	110	190	21.16	1
3	Increase in development expenditure	30	21	77	128	14.25	5
4	Increase in regular expenditure	25	45	76	146	16.26	4
5	Inefficient administration	30	43	95	168	18.71	3
6	Others (Please specify)	22	50	20	92	10.24	6
	Total	254	189	20	232	100	

Source: Opinion Survey, 2010.

Most of the respondents think that the main and first causes of resources is lack of mobilization of domestic resources. In order to the preference given by the respondents as follows:

1. Lack of mobilization of other domestic resources.
2. Rising in inflation rate.
3. Inefficient administration.
4. Increase in regular expenditure.
5. Increase in development expenditure.
6. Others.
 -) Simplifying tax laws.
 -) Diversification of funds in un-necessary regular expenditure.
 -) Inefficient tax effort, political interference, less commitment.
 -) Decreasing corrupt practices.

) Incremental expenditure of parliament's salary and allowance .

4.2.11 Attitude Toward Problems in Paying Income Tax

To know the problem facing by the taxpayers while paying income tax, the respondents were requested to rank their choice from 1 to 5 according to their preference, 1 for least important. The question was, "In your opinion, what types of problems are facing by the taxpayers while paying income tax?" Responses received from respondents are tabulated as below:

Table 4.30: Problems in Tax Paying

S.N.	Causes	Points Received			Total Points	%	Rank
		A	B	C			
1	Consuming Unnecessary Time	55	61	35	151	22.37	3
2	Expectation of illegal incentives by Tax Personnel	34	22	25	81	12	4
3	Vague Provision in Income Tax Laws	71	61	79	211	31.25	1
4	Lengthy Process	64	45	66	175	25.92	2
5	Lack co-operation by Tax Administration	30	0	27	57	8.44	5
	Total	254	189	20	232	100	

Source: Opinion Survey, 2010.

From the above table 4.30, major problems facing by the taxpayers while paying income tax are ranked in order of the respondents the respondents are as follows.

- a. Vague Provision in Income Tax Laws
- b. Lengthy Process
- c. Consuming Unnecessary Time
- d. Expectation of Illegal incentives by Tax Personnel
- e. Lack of co-operation, by Tax Administrator

It can be concluded that vague provision in income tax laws, lengthy process etc are the main problems facing by the taxpayers while paying income tax.

4.2.12 Attitude towards improving the habit of tax payers.

After this respondents were asked "So, how can we increase the tax paying habit of tax payers?" for this six options were presented and respondents were requested to give points on the options . The responses received from the respondents are given as below:

Table 4.31: Improving Habit of Tax Payers

S.N.	Causes	Points Received			Total Points	%	Rank
		A	B	C			
1	Educating tax payers	59	40	60	159	22.68	2
2	Simplifying tax laws	33	45	29	107	15.26	4
3	Incentives for regular tax payers	40	45	39	124	17.68	3
4	Heavy penalties and fines	15	20	22	54	8.13	6
5	Minimizing tax rates	29	25	23	77	10.84	5
6	Transparent in public expenditures	61	67	50	178	25.39	1
	Total	237	242	222	701	100	

Source: Opinion Survey, 2010.

From the above table 4.31, it has been clear that doing transparency in public expenditures is the one most important method to increase the tax paying habit of tax payers. Secondly, educating tax payer and so on. Thus, state has to maintain transparent public account to show that the sweat of people has not been misused. So, transparency encourages tax payers for effective participation in contribution. According to responses made by the respondents, they ranked first that people need correct information about public expenditure. Similarly, Tax payers have to be educated well. Most of the tax payers need help from tax administration. They have to feel that tax administration is for tax payers. Tax laws are to be simplified and different seminars must be conducted to literate about tax laws, changes on it and implications on any default. To broaden tax yields tax rates must be minimum and low. This will make tax payers elastic in participation. Heavy penalties, fines are also measures but have last and unimportant alternatives.

For increasing tax paying habit of tax payers, above measures are equally important.

Table 4.32: Calculation of Rank Correlation Coefficient

S.N	Alternatives	Total Points (X)	Total Points (Y)	Rank for X (R ₁)	Rank for Y (R ₂)	d= R ₁ -R ₂	d ²
1	Educating tax payers	99	60	2	1	1	1
2	Simplifying tax laws	78	29	4	4	0	0
3	Incentives for regular tax payers	85	39	3	3	0	0

4	Heavy penalties and fines	35	22	6	6	0	0
5	Minimizing tax rates	54	23	5	5	0	0
6	Transparent in public expenditures	128	50	1	2	-1	1
	Total						d^2 =2

Where, X= Tax expert and tax administrators

Y= Tax payers

We have,

$$r = \frac{1 - 6 \frac{d^2}{n(n^2-1)}}{6(6^2-1)} = \frac{1 - 6 \times 2}{6(6^2-1)} = 0.942$$

The correlation indicate that there is positive correlation between tax experts and tax administration and tax payers ranking regarding the tax paying habit of tax payer.

From the analysis, it can be concluded that there are so many ways of improving the tax paying habit of tax payer, out of them Transparent in public expenditures and Educating tax payers are the main important point considered by tax administrator, tax experts and tax payers.

4.2.13 Appropriate Method While Assessing the Income Tax in Nepal

Sound and appropriate assessment procedure is essential for the collection of the large amount in the form of income tax. It is very important in managing the income tax because the amount of income tax realized through the assessment. To know the respondents opinion about the appropriate method while assessing the income tax in Nepal respondents were requested to tick one among the given rot' alternatives the question was," What method is more appropriate in Nepal while

assessing income tax ?" the responses received from respondents are in following table 4.33:

Table 4.33: Appropriate Method While Assessing the Income Tax in Nepal

S.N.	Methods	Respondents			Total Points	%	Rank
		A	B	C			
1	Assessment on the basis accounts submitted by tax payers	15	35	40	90	24.32	2
2	Self assessment	100	75	55	230	62.16	1
3	Assessment by the best judgment	10	10	20	40	10.81	3
4	Assessment by the committee	0	5	5	10	2.71	4
	Total	125	125	120	370	100	

Source: Opinion Survey, 2010.

From the above table 4.33, it has been clear that 62.16% of the respondents approved of self-assessment is appropriate method while assessing the income tax. Thus the conclusion can be drawn out that the self-assessment method is appropriate method, so it can be concluded that self-assessment system should be encourage strongly and used as a major tool to increase voluntary Compliance more government revenue.

The specific appropriate method while assign the income tax in Nepal was tick in order to the preference of the respondents was as follows:

1. Self assessment
2. Assessment on the basis accounts submitted by tax payers
3. Assessment by the best judgment
4. Assessment by the committee

From the above table it is concluded that the self- assessment is the more appropriate method for tax assessing of income tax.

Table 4.34: Calculation of Rank correlation coefficient

S.N	Alternatives	Total Points (X)	Total Points (Y)	Ran for X(R ₁)	Rank for Y (R ₂)	d=R ₁ -R ₂	d ²
1	Assessment on the basis accounts submitted by tax payers	50	40	2	2	0	0
2	Self-assessment	175	55	1	1	0	0
3	Assessment by the best judgment	20	20	3	3	0	0
4	Assessment by the committee	5	5	4	4	0	0
							d² = 0

Source: Opinion Survey, 2010.

Where, X = tax experts and tax administrators

Y = tax payers

We have,

$$r = \frac{1 - 6 \frac{d^2}{n(n^2-1)}}{4(4^2-1)} = \frac{1 - 6 \times 0}{4(4^2-1)} = 1$$

The correlation indicates that there is high degree of positive correlation between tax experts and tax administrators and tax payers ranking regarding the more appropriate method for assessing of income tax.

4.2.14 Attitude towards the registrant behaviors

In order to know about the behavior of registrant, a question has been put to various respondents “Do the registrant submit the tax collection report in time to concerned department?”

Table 4.35: Attitude Towards Registrant Behavior

S.N.	Respondents	Yes		No		I don't know		Total	
		No.	%	No.	%	No.	%	No.	%
1	Tax Administrator	1	5	19	95	0	0	20	100
2	Tax Experts	2	10	15	75	3	15	20	100
3	Tax Payers	1	5	11	55	8	40	20	100
	Total	4	6.66	45	75	11	18.33	60	100

Source: Opinion Survey, 2010.

Most of respondent i.e. 75% think that the registrant do not submit the tax collection report on time to concerned department. Only 6.66% respondents think that registrant do submit the tax collection report on time. Though they have checked on ‘Yes’, they are not able to give the clear idea of why they have selected that option. 18.33% of respondents said they don't know any thing about this.

4.2.15 Attitude Towards Factors Affecting in Summation of Tax Collection in Time.

The respondents, who said the registrant do not submit the tax collection report on time to concerned department, were again asked a question “ If Not, what are the factors affecting in the summations of tax collection in

time?” They were requested to give points to the options given in the questionnaire. The result has been given in the following table 4.29:

Table 4.36: Factors Affecting in Summation of Tax Collection on Time

S.N.	Causes	Point Received			Total Points	%	Rank
		A	B	C			
1	Less education of tax personnel	56	41	30	127	24.33	2
2	Dishonest tax personnel	23	20	32	75	14.36	4
3	Concept of “Sarakari Kam Kahile Jaalaa Gham”	15	22	14	51	9.77	5
4	More depends on manual system of collection and summations	57	51	64	172	32.95	1
5	Less knowledge of tax personnel about computerized system	32	37	28	97	18.58	3
	Total	183	171	168	522	100	

Source: Opinion Survey, 2010.

The factor affecting in summation of tax collection in time by registrant was ranked in order of the preference of respondents was as follows:

1. More depends on manual system of collection and summations.
2. Less education of tax personnel.
3. Less knowledge of tax personnel about computerized system.
4. Dishonest tax personnel.
5. Concept of “Sarakari Kam Kahile Jaala Gham”.

It can be concluded that more depends on manual system, less education of tax personnel, less knowledge on computerized system are the most important affecting factor in summation of tax report on time by registrants.

Table 4.37: Calculation of Rank Correlation Coefficient

S. N	Alternatives	Total Points (X)	Total Points (Y)	Rank for X (R ₁)	Rank for Y (R ₂)	d= R ₁ -R ₂	d ²
1	Less education of tax personnel	97	30	2	3	-1	1
2	Dishonest tax personnel	43	32	4	2	2	4
3	Concept of “Sarakari Kam Kahile Jaalaa Gham”	37	14	5	5	0	0
4	More depends on manual system of collection and summations	108	64	1	1	0	0
5	Less knowledge of tax personnel about computerized system	69	28	3	4	-1	1
	Total						d ² =6

Where, X= Tax expert and tax administrators

Y= Tax payers

We have,

$$r = \frac{1 - 6 \frac{d^2}{n(n^2-1)}}{5(5^2-1)} = \frac{1 - 6 \times 6}{5(5^2-1)} = 0.7$$

The correlation indicate that there is positive correlation between tax experts and tax administration and tax payers ranking regarding the problem facing by registrant in the summation of tax report to concerned department.

From the analysis, it can be concluded that there are so many problems with registrants while summiting report to concerned department, out of them more dependent on manual system, less education of tax personnel, less knowledge about computerized are the main problems. So this problem should be minimized as soon as possible to improve the Income tax system.

4.2.16 Attitude towards Income Tax System

There is more than five decades of introduction of income tax in Nepal. Tax system has been suffered from different paces. The objectives of income tax can be fulfilled or not during this period is a vital question. To know what the respondents thinks about development in income tax system they were asked "How is the income tax system in Nepal in your opinion?" Responses are tabulated below:

Table 4.38 Efficiency of Income Tax System

S.N.	Respondents	Sound and effective		Satisfactory		Poor	
		No.	%	No.	%	No.	%
1	Tax Administrator	3	15	15	75	2	10
2	Tax Experts	0	0	13	65	7	35

3	Tax Payers	0	0	10	50	10	50
	Total	3	5	38	63.33	19	31.67

Source: Opinion Survey, 2010

Only 15 percent of tax administrator i.e. 5 percent of total respondents thinks the income tax system in Nepal to be sound and effective, while more than this i.e. 31.67 percent of total respondents think it to be poor. Majority group i.e. 63.33 percent of aggregate, which constitutes 75 percent of tax administrators, 65 percent of tax experts and 50 percent of taxpayers, are satisfied with income tax system in Nepal. Satisfactory itself means and average condition. In summary, study shows the system is neither so effective nor so poor.

4.2.17 Attitude towards most Important Factors for Effectiveness of Income Tax in Nepal

In order to know the view regarding to the important factors for effectiveness of income tax in Nepal, the respondents were requested to give point according to their preference. The question was, "What is the most important factor for effectiveness of income tax in Nepal?" The measures prescribed and their ranking is presented in table 4.39.

Table 4.39: Most Important Factors for Effectiveness of Income Tax in Nepal

S.N.	Causes	Point Received			Total Points	%	Rank
		A	B	C			
1	Honest Tax Payers	81	59	50	190	21.52	3
2	Honest Tax Officers	57	53	65	175	19.82	4
3	Clear Tax Act, Rules and Regulations	70	78	75	223	25.25	1
4	Effective Income Tax Administration	60	81	74	215	24.35	2
5	Political Non-interruption	32	20	28	80	9.06	5
	Total	300	291	292	883	100	

Source: Opinion Survey, 2010.

The important factor for effectiveness of income tax was ranked in order of the preference of respondents was as follows:

1. Clear Tax Act, Rules and Regulations
2. Effective Income Tax Administration
3. Honest Tax Payers
4. Honest Tax officers
5. Political Interruption

It can be concluded that clear tax act, rules and regulation, effective income tax administration, honest tax payers are the most important factor for the effectiveness of income tax in Nepal.

Table 4.40: Calculation of Rank Correlation Coefficient

S. N	Alternatives	Total Points (X)	Total Points (Y)	Rank for X (R ₁)	Rank for Y (R ₂)	d= R ₁ -R ₂	d ²
1	Honest Tax Payers	140	50	3	4	-1	1
2	Honest Tax Officers	110	65	4	3	1	1
3	Clear Tax Act, Rules and Regulations	148	75	1	1	0	0
4	Effective income tax administration	141	74	2	2	0	0
5	Political Non-interruption	52	28	5	5	0	0
	Total						d ² =2

Where, X= Tax expert and tax administrators

Y= Tax payers

We have,

$$r = \frac{1 - 6 \sum d^2}{n(n^2 - 1)} = \frac{1 - 6 \times 2}{5(5^2 - 1)} = 0.9$$

The correlation indicate that there is positive correlation between tax experts and tax administration and tax payers ranking regarding most important factors for effectiveness of income tax in Nepal.

From the analysis, it can be concluded that there are so many factors for effectiveness of income tax ,clear tax act, rules and regulations is the main factors. So this factors must be implemented as soon as possible.

4.2.18 Attitude Towards Change Required in Rules and Regulation

The existing act and regulation was replaced by new act and regulation recently. One of the objectives of this study was to analysis the change assessed due to this. To know what the respondents thinks about

completeness of rules and regulation after change one question "What change should be made in rules and regulation in your opinion to make income tax system more effective?" Suggestions made by respondents are tabulate below:

Table 4.41: Degree of Change Required in Rules and Regulation

S.N.	Respondents	No change		Timely General changes in rate, amount & limit		Structural change in act and regulation	
		No.	%	No.	%	No.	%
1	Tax Administrator	1	5	17	85	2	10
2	Tax Experts	0	0	3	15	17	85
3	Tax Payers	0	0	9	45	11	55
	Total	1	1.67	29	48.33	30	50

Source: Opinion Survey, 2010

This was the question, which shows the vast contradiction between the view of tax administrators and tax experts. Rules and regulations require change or not is not the question of doubt because only 1.67 percent of total respondents think no change is required. Degree of change is the main subject of matter. 85 percent of tax administrators are in side of general change while same numbers of tax experts want the large-scale change i.e. structural change in rules and regulation. Taxpayers are divided into these two groups about equally. So it is difficult to conclude and recommend the degree of change required in existing rules and regulations.

4.2.19 Comments and Suggestion for Achieving Effective Income Tax System in Nepal

An open question was asked to the respondents to know their comments and suggestions regarding achieving effectiveness of income tax system.

The responses received from the respondents are given below:

1. Simplified tax system and lower rate of tax is effective tool to recover more tax revenue.
2. Development of checks and balance system.
3. Effectiveness tax management programs, training and seminar to the tax personnel.
4. Revenue administration should be made flexible.
5. All private sectors should be coverage and tax payment should be scientific.
6. Effective government to economic policy.
7. Taxpayers should be aware of the provision of taxation.
8. Need of changing the behaviour of them.
9. Government should provided sufficient remuneration to collect more tax revenue.
10. Tight tax policy should be applied on equitable basis.
11. Effective income tax act and efficient income tax administration
12. Discourage tax evasion through fine and penalties.
13. Government should reward to regular taxpayers.

4.3 Major Findings of the Study

Major findings of this study are summarized below:

-) Nepalese income tax revenue is the composition of income tax from public enterprises, private corporate bodies, individuals, remuneration and tax on interest. It is one of the most important sources of government revenue. Though income tax collection is in increasing trends but the performance is not satisfactory. The mean contribution of income tax during the ten year period was 80.71% in the composition of direct revenue of Nepal.
-) Income tax system of Nepal is not sound and efficient. It is due to increasing habit of tax evasion, inefficient income tax administration, complexity of income tax act, lack of trained and competent tax personnel, complicated tax law, lack of direction, lack of tax awareness to tax payers, unnecessary outside pressure, lack of proper communication.
-) Corruption is the major problem of income tax administration of Nepal. Low remuneration of tax personnel, dishonest tax personnel, weakness of act, rules and regulation, inefficient income tax administration, dishonest taxpayers are the main causes of inefficient income tax administration of Nepal. Corruption can be minimized through taking action to the corruptors, additional incentives to tax personnel, moral education to tax personnel, etc.
-) Vague provision in income tax law, lengthy process, consuming unnecessary time, expectations in illegal incentives to the

personnel, lack of co-operation by tax administration are the major problems facing by the taxpayers while paying income tax.

-) The increasing magnitude of resource gap clearly indicates that there is an urgent need of mobilizing additional resources. Income tax has appeared one of the most effective fiscal policy instruments to mobilize additional resources and achieving the desired development objective of Nepal. The major reason of growing resources gap is increase in regular expenditure and development expenditure.
-) For improving existing scenario of income tax system, some of the recommendation provided are clear tax act, rules and regulation, effective income tax administration, honest tax payers, political non-interruption etc.
-) Government do not have adequate policies. Even though it has, the administration sector is not very effective. Administration is the design of implementation of government policies. Therefore, efficient and effective administration is essential to achieve the target objective of any system.
-) The registrants do not submit their report on time to the concerned department because of less education of tax personnel, less knowledge of computerized system, more depends on manual system, dishonest tax personnel, and also the concept of “sarakari kam kahile jaala gham”

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Like other developing countries, lack of sufficient financial resources is the main constraint for national economic development of Nepal. A lot of fund is required to meet the additional financial requirement for the development activities of the country. Nepal has been suffering from shortage of funds to accelerate the economic growth. There is so much resource gap. So in order to fulfill the shortage, government is depending on the foreign grants and loans. So to fulfill the resource gap income tax, direct tax is most important sources of internal revenue. External sources are uncertain and guided by socio-political motives of the donor country, so, it is not good for the country. Internal sources of fund is own sources derived with in the country. Internal sources of fund includes both tax and non-tax revenue.

Among internal sources taxation is a prime factor. It is the pillar of the fiscal policy. Regarding the fact the present study entitled to "A study on Income Tax System and its Contribution to the Government Revenue of Nepal " had been done. In this study contribution of income tax to national revenue has been analyzed, examination. Contribution of income tax to direct tax, tax/GDP ratio, composition of direct tax etc has been analyzed.

Various books, articles, dissertation and other relevant materials are studied during the course of study. Almost dissertations have been found

on written on various aspects of income tax. Books are mainly based on the syllabus of universities, so they are descriptive than analytical. Various concepts of taxation have been discussed in the conceptual framework of study. Sources of government revenue, meaning of tax, classification of tax, historical background of income tax, heads of incomes etc has been taken in the consideration.

The researcher has discussed about various aspects of research methodology such as research design, data collection procedure, size of population and samples, nature and sources of data, selection of the respondents, procedure of selection and analysis of data etc in the third chapter.

Secondary data as well as primary data have been used in this study. Economic survey has been used at the major sources of the secondary data. An opinion survey techniques has been used in this study to collect the reliable primary data for the study. The research has found that the mean contribution of tax and non-tax revenue was 77.57% and 21.64% respectively in total revenue structure of Nepal during the period of last ten years. In this regards tax revenue has been found as a major instrument for additional internal financial resource mobilization.

Nepalese tax revenue is the composition of direct and indirect tax revenue. Nepalese tax structure is dominated by indirect tax revenue. Indirect tax revenue contributes three times more than the direct tax revenue. During the study period, the average of direct and indirect tax revenue were 25.48% and 73.88% respectively. Indirect tax includes custom duties, VAT and excise on industrial products. There was a dominant role of custom duties and VAT in indirect tax revenue. There was 40.08%, 44.74% and 15.18% in average of custom duties, VAT and

excise on industrial products respectively. Similarly direct tax includes income tax, land revenue and miscellaneous tax. Contribution of land revenue was 1605 million, income tax revenue was 10214.49 million and miscellaneous taxes were 1060.10 million in average during the study period.

Nepal is levying three types of income tax they are corporate income tax, individual income tax and tax on interest. There was dominant role of individual income tax in total tax revenue its contribution was 39.41% in average. The contribution of income tax on total government revenue, total tax revenue, direct tax revenue was 16.12%, 20.61% and 81.76% in average in the study period of last ten years.

During the study period revenue collection from income tax was in increasing trend but the performance was not satisfactory. Income tax estimates and collection performance showed the dissatisfactory performance of income tax in Nepal.

In order to find out the problem in the income tax system, a set of questionnaires were distributed among tax administrators, tax experts and taxpayers. On the opinion survey empirical investigation has found weakness of the income tax act as well as the income tax administration. It not only found weakness but also point out some suggestion to make effective income tax system in Nepal.

According to the investigation, income tax is a suitable means of raising government revenue but people are not well informed about the income tax system of Nepal. It is found that income tax system of Nepal is not efficient. Lack of trained and competent tax personnel, complicated tax laws, lack of tax awareness to taxpayers etc. are the main causes for inefficient income tax system. 55.67% respondent's believed that there is

corruption in income tax administration of Nepal. To minimize the corruption action to be taken to the corruptors, additional incentives to tax personnel, moral education to tax personnel should be developed.

For attitude towards exemption and deduction most respondent i.e. 63% agree with present exemption and deduction but few of the tax payers don't have any idea about exemption and deduction. According to investigation vague provision of income tax laws, lengthy process, consuming unnecessary time etc. are the main problems facing by the taxpayers while paying income tax.

Some respondents made advices like this, effective income tax management and training and seminar to the tax personnel, effective government economic policy, political non-interruption, effective income tax act and efficient income tax administration can lead the income and its administration effectively.

For appropriate method while assessing the income tax in Nepal. From the investigation it is clear that 62.16% of respondents approved that self assessment method is appropriate method while assessing the income tax.

Lastly for the attitude towards income tax system of Nepal, most respondent i.e. 63.33% agree that income tax system of Nepal is satisfactory. Satisfactory itself means an average condition. Study shows that the system is neither so effective nor so poor. Even though it is not very poor, study has suggested that honest tax payers, honest tax officers, clear tax acts, rules and regulation, effective income tax administration are some of the important factors could improve the effectiveness of income tax in Nepal.

Some recommendations are also given in the end of the study to increase the contribution of income tax to national revenue of Nepal. In this way, this study has been completed with the achievements of stated objectives.

5.2 Conclusion

Nepal being one of the least developed nations in the world has always suffering from the social and economic problems. Nepal can not successfully and properly tear a curtain built from massive poverty, hunger, diseases, unemployment, heavy dependence on agriculture, lack of adequate industries, low income level and social political and geographical constraints over 50 years of planned development. Yet, Nepalese economy is suffering from ineffective and effortless plan, program and policy of development and is also fighting against whatever bottlenecks identified before the starting of planned period.

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

Income tax revenue has played the key role to fulfill the objectives of the nation. Income tax collection in Nepal is satisfactory. It was in increasing

trend in the study period. But developing the tax consciousness can collect additional income tax revenue and tax awareness among the taxpayers, reducing the tax rate and increasing the tax base, expanding the coverage of tax, increasing tax rate as well as imposition of new taxes. In recent years, the government has taken several measures to reduce tax-induced distortion, strengthening tax administration, simplifying tax laws and procedures to make them more transparent.

Currently income tax revenue in Nepal is collected through three sectors i.e. corporate income tax, individual income tax and tax on interest. Among them share of individual income tax is the highest. Exemption limit and tax rate of the income tax is determined according to the income level and sector wise. But it is not adjusted according to the inflationary situation of the country and number of respondents. There is no exemption limit for corporate bodies.

The success and effectiveness of income tax system entirely depends upon the implementation of provisions made by the income tax act, which is the major responsibility of income tax administration. Income tax system of Nepal has blamed as not efficient enough. Various problems existed in the income tax such as increasing habits of tax evasion, inefficient income tax administration; defective income tax laws etc. are the main reasons for lower contribution of income tax. But if we analyze the data relating to it then we can find out that revenue collection from income tax is increasing continuously. Provision in act and language of the act has to be made clear. Some reforms in income administration are needed to raise the income tax revenue. Due to the reforms, the corruption existed in income tax administration can be decreased, the efficiency and transparency can be improved and the tax administration will treat the taxpayers as a responsible citizens to a considerable extent.

The cost of tax collection to taxpayers, government and economy as a whole can be reduced to some extent.

5.3 Recommendations

On the basis of above analysis, it is necessary to give various recommendations to the concerned department. It may be essential to improvement different aspects of income taxation. The following are the recommendations for income tax system and its contribution to government revenue of Nepal.

1. Income tax policy should be formulated according to the economic policy of the country. Income tax policy should be revised timely.
2. The member involved in formulating income tax policy must have deep knowledge about income tax.
3. The term objectives of income taxation should be growth, redistribution and stabilization. The income tax policy should be properly formulated on the basis of critical analysis of existing situation.
4. To promote export, more deduction should be provided.
5. Income tax, rules and regulation should be clear and simple for all the taxpayers as well as for the administrators. Following recommendation are made in income tax law:
 -) The language and words used in the act should be revised making simple and clear.
 -) The assessment and tax collection procedures should be simplified while paying income tax. Tax payers are encouraged to pay tax.

-) Discretionary power of the tax officials should be curtailed in the act. The assigned power should not be misused.
 -) The assessment of time limit after the submission of the income assessment should be reduced.
 -) The definitions made in income tax act should be further clarified and well defined.
- 6. Tax personnel should be encourages, punished and transferred on the basis of their work and experience. Regular and effective training system, reward, prize and punishment system should be established for the effective personnel management.
- 7. The tax system should be practical and effective. It should match the national economic condition. It should be equally beneficially to the taxpayers.
- 8. Some reforms in income tax administration are needed to raise the income tax revenue and to increase effective contribution from individuals.
- 9. Income tax administration implements the tax laws. Therefore, the effective of income tax system depends upon the income tax administration. In Nepal, one of the most important reasons for unsound income tax system is inefficient and unscientific income administration. Following recommendations are made for improvement of income tax administration.
 -) Delay in assessment should be reduced as possible.
 -) Computerized information system is necessary to keep up to data, records of income tax.

-) Proper tax education should be provided to tax officials as well as taxpayers regularly.
 -) Unnecessary out side pressure should be avoided.
 -) Income tax experts/profession should be increased in tax administration.
10. The main reason of increasing the resource gap is the political situation of the country. Therefore, strong political commitment is necessary to minimize the resource gap.
 11. Additional domestic resource should be mobilized through taxation.
 12. It is necessary to implement computerized system in order to establish the tax based system. For that skill man power with high computer knowledge are to be employed in IRD and other related tax offices, so that, there is less chance of delay and errors.
 13. Tax experts are to be borrowed from United Kingdom, United state of America, Japan etc., as they have strong tax rules and provisions which have the power to drive the Nation to developed country.
 14. Income tax system has its lengthy process. Tax payers never want the lengthy and time consuming process. That's why, management has to try to make it shorter.

BIBLIOGRPHY

Books:

Amatya, Surendra Keshar, Pokharel, Bihari Binod and Dhakal, Rawanta Kumar (2004). *Taxation in Nepal*. Kathmandu: M.K. Publishers and Distributors.

Aryal, K.P. and Poudel, S.P. (2004). *Taxation in Nepal*. Kathmandu: M.K. Publishers and Distributors.

Adhikari, Chandra Mani (2003). *Modern Taxation in Neapl: Theory and Practice*. kathmandu: Pairabi Prakashan.

Bhattari, Ishwor and Koirala, G.P. (2004). *Taxation in Neapal and Tax Laws and Tax Planning*. Kathmandu: Dhaulagiri Books and Stationary.

Dhakal, Kamal Deep (2002). *Income Tax and House and Compound Tax Laws and Practice with VAT*. Kathmandu: Kamal Prakahan.

Dhungana, Bhavani, Kayastha, Narendra Lal and Rai, Bal Prasad(1976). *An Analysis of Tax structure of Nepal*. Kathmandu: CEDA, T.U.

Joshi, Puspa Raj (2001). *Research Methodology*. Kathmandu: Buddha Academic Publishers and Distributors.

Kothari, C.R. (1990). *Research Methodology Methods and Techniques*. New Delhi: Wiley Eastern ltd.

Khadka, Rup (2005). *Modern Tax Administration in Nepal*. Kathmandu: Ratna Pustak Bhandar.

K.C., Jit Bahadur (2007). *Tax Laws and Tax Planning: Theory and Practical*. Kathmandu: Khanal Books Prakashan.

Mallik, Biddha Dhar (2003). *Nepalese Modern Income Tax System*. Kathmandu: Mrs. Anita Mallik Publishers.

Pant, Prem Raj and Wolff, H.K. (2002). *A Hand Book for Social Science Research and Thesis Writing*. Kathmandu: Buddha Academic Publishers and Distributors Pvt. Ltd.

Sharma, Puskar Kumar and Chaudhary, Arn Kumar (Re- print 2005). *Statistical Method*. Kathmandu: Khanal Books and Stationary.

Vaish, M.C. and Agrawal H.S.(1992). *Public Finance*. India: Wiley Eastern Limited.

Articles:

Thapa, Govinda B. (2000). *Structure of Nepalese Revenue, Status and Challenges*. Lalitpur: Harihar Bhawan.

Regmi, Saroj Raj (2007). *Income Tax Evasion is a crime in Nepalese Legislation*

Timilsena, Neelam (2007). *Tax Elasticity and Buoyancy in Nepal*.

Thesis and Dissertation

Acharya, Sanjay (1994). *Income Taxation in Nepal: A Study of its Structure, Productivity and Problems*. M.A. Dissertation, T.U.

Basnet, Furtiman (2006). *A Study on Effectiveness of Self-Tax Assessment in Nepal*. M.B.S. Thesis, Nepal Commerce Campus.

- Bhandari, Lokendra (2007). *Income Taxation in Nepal: Analysis of Structure and Problems*. M.B.S. Thesis, T.U.
- Barakoti, Krishna Raj (2008). *Effectiveness of Income Tax System in Nepal*. M.B.S. Thesis, Nepal Commerce Campus.
- Baidwal, Karan Bahadur (2009). *Effectiveness of Income Tax System in Nepal*. M.B.S. Thesis, Nepal Commerce Campus.
- Dulal, Rajendra, (2004). *Income Tax in Nepal, Study of its Structure and Contribution to Revenue Generation*. M.B.S. Thesis, T.U.
- Dahal, Tank Nidhi (2005). *Income Tax Management in Nepal*. M.B.S. Thesis, T.U.
- Ghimire, Durga Prasad (2004). *Income Tax in Nepal, Its Structure and Contribution to Revenue Generation*. M.B.S. Thesis, T.U.
- Magar, Dan Bahadur (2003). *A Study and Exemptions and Deductions*. M.B.S. Thesis, T.U.
- Pant, Parameshwor (1996). *A Study on Income Tax Management in Nepal*. M.B.A. Thesis, T.U.
- Poudel, Jayanti (2002). *Income Taxation in Nepal: A Study of its Structure and Productive*. M.A. Thesis, T.U.
- Pokharel, Arjun Prasad (2007). **Contribution of Income Tax on Tax Structure of Nepal**. M.P.A. Thesis, Central Department of Public Administration, T.U.
- Shakya, Krishna Kumar (1995). *Income Tax System in Tax Structure of Nepal*. M.B.A. Thesis, T.U.

Subedi, Santosh (2008). *Resource mobilization through Income Tax in Nepal*. M.B.S. Thesis, Nepal Commerce Campus, T.U.

OFFICIAL PUBLICATIONS

Annual Statement (Various Years), Inland Revenue Department, Ministry of Finance, Nepal Government.

Budget Speeches (Various Years), Ministry of Finance, Nepal Government.

Business Profit and Remuneration Tax Act 1962, Ministry of Finance, Nepal Government.

Economic Report (Several Years), Ministry of Finance, Nepal Rastra Bank.

Economic Survey (Various Years), Ministry of Finance, Nepal Government.

Income Tax Act -1974, Ministry of Finance, Nepal Government.

Income Tax Act -2002, Ministry of Finance, Nepal Government.

Income Tax Rules -2002, Ministry of Finance, Nepal Government.

Websites

www.cbs.gov.np

www.customs.gov.np

www.fego.gov.np

www.ird.gov.np

www.mof.gov.np

www.nrb.org.np

www.npc.gov.np

APPENDIX-I
QUESTIONNAIRES

These questionnaires are conducting a research on "A Study on Income Tax System and Its contribution to Government Revenue of Nepal " It would be very much appreciated if you could spare of your time for fulfilling this. Your kind help and valuable suggestions are essential for the completion of the research.

Khem Kumari Pun

Your Sincerely

Roll No. 1/063

T.U Regd. No:7-3-38-1559-2006

Padma Kanya Multiple Campus

Bagbazar, Kathmandu

Date:-

Name:
Office/ organization

Designation:
Occupation:

Please tick () the answer of your choice or wherever appropriate put in order of preference from 1 to last number on the basis of alternatives. Number 1 stand for the least important and vice versa.

1. Do you think that people are well informed about tax system of Nepal?
 - a. Yes []
 - b. No []

2. "In your opinion, Is the income tax System of Nepal is sound and efficient?"
 - a. Yes [...]
 - b. No [...]

3. "If Not, what are the factors affecting the income tax system of Nepal?"(Please rank)
 - a. Complicated Tax Laws [...]
 - b. Lack of Trained and skilled man power [...]
 - c. Lack of proper communication [...]
 - d. Lack of Tax awareness to tax payers [...]
 - e. Unnecessary Outside pressure[....]
 - f. Lack of co-ordination of the tax department with other department[.]
 - g. Other if any(please specify).....

4. "Do you consider that income tax as a situation means of raising government revenue?"
 - a. Yes [...]
 - b. No [...]

5. "Do you think that there is corruption in income tax administration of Nepal?"
 - a. Yes [...]
 - b. No [...]

6. "If Yes, then, what are the causes of corruption in income tax administration of Nepal?"(Please rank)
 - a. Low remuneration of tax personal [...]
 - b. Weakness of act rules and regulations [....]
 - c. Dishonest tax payers [...]
 - d. Inefficient income tax administrator [....]
 - e. Other(please specify).....

7. "How can corruption existed in income tax administrator can be minimized?" (Please rank)
 - a. More education to tax personnel [...]
 - b. Reduction of tax officers discretionary power [...]
 - c. Additional incentives to tax personnel [...]
 - d. Development of check and balance system [....]
 - e. Taking action to corruptors [...]
 - f. Regular supervision to tax personnel [...]

g. Others(please specify).....

8.”Are the exemption and deduction provided by act,2058 sufficient?”

a. Yes[.]

b. No[.]

9. “If Not, how to ?” Please

specify.....

.....
.....

10 . “Nepal has been experiencing a serious and growing resource gap in her finance”. Do you agree with this statement?

a. Yes [...]

b. No [...]

4

11. If Yes, please rank the reasoning factors that affect the resource mobilization or collections causing resource gap? (please rank)

a. Rising Inflation rate[....]

b. Lack of mobilization of other domestic resources[.....]

c. Increase in development expenditure[...]

d. Increase in regular expenditure[...]

e. Inefficient administration[...]

f. Others (Please specify).....

12. If Not, how? Please

specify.....

.....
.....

13. “In your opinion, what types of problems are facing by the tax payers while paying Income tax?” (Please rank)

a. Consuming unnecessary time [...]

b. Exception of illegal incentives by tax personnel[...]

c. Vague Provision in Income tax laws[...]

d. Lengthly process[...]

e. Lack of co-operations by tax administration[...]

f. Others(please specify).....

14. “So, how can we increase the tax paying habit of tax payers?”(Please rank)

- a. Educating tax payers[..]
 - b. Simplifying tax laws[...]
 - c. Incentives for regular tax payers[.]
 - d. Heavy penalties and fines[...]
 - e. Minimizing tax rates[...]
 - f. Transparent in public expenditures[...]
15. “What methods are appropriate in Nepal while assessing Income tax?” (Please rank)
- a. Assessment on the basis accounts submitted by tax payers [...]
 - b. Self Assessment [...]
 - c. Assessment by the best judgment [...]
 - d. Assessment by the committee [...]
 - e. Others(please specify)
16. “Do the registrant submit the tax collection report in time to concerned department? ”
- a. Yes[....]
 - b. No [.....]
17. “If Not, what are the factors affecting in the summations of tax collection in time?”(Please rank)
- a. Less education of tax personnel[....]
 - b. Dishonest tax personnel[...]
 - c. Concept of ”sarakari kam kahile jalaa gham”[...]
 - d. More depends on manual system of collection and summations[....]
 - e. Less knowledge of tax personnel about computerized system[...]
18. “How is the Income tax System in Nepal?”
- a. Sound and effective [...]
 - b. Satisfactory [...]
 - c. Poor [...]
19. “What is the most imp factors for effectiveness of Income tax in Nepal?”(Please rank)
- a. Honest tax payers [...]
 - b. Honest tax officers [...]
 - c. Clear tax Act, Rules and Regulation [...]
 - d. Effective Income tax Administration [...]
 - e. Political Non-interruption [...]

20. "What changes should be made in rules and regulation in your opinion to make Income System more effective?"

- a. No change [...]
- b. Timely general change in rate, amount and limit [...]
- c. Structural change in act and regulation [...]

21. Do you have any comment and suggestion for achieving effectiveness of incometax in Nepal? Please specify.....

"Thank You for Your Kind Co-operation"