

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

In the present situation every nations of the world, prime concern are development of their economic condition of such as security, education, health, other economic development. Nepal is one of the least developed countries in the world lying as sandwiched between the two big countries; China and India. It has adopted the system of mixed economy for achieving developmental goal. The overwhelming majority of the people on the front line of poverty live in rural area. Wide spread rural poverty and failure to spread the benefits of development more widely is critical for Nepal's development.

Nepal is passing very bad economic condition. Improvement in economic indicators in FY 2007/08 has been less than satisfactory because of unfavorable weather, slack international trade and unexpected negative on tourism and transport sector, even though, the peace and security situation in the country has somewhat improved. In order to improve the quality of people's lives, Nepal has given number first priority to development through planned effort. Nepal has been pursuing planned development for nearly five decades, but the country's poverty ratio still remains one of the highest in the world. Poverty reduction is identified as major objective for mobilization of additional resources.

The Nepalese economy has not become successful in creating an investment friendly environment. The private sector does not seem to be confident with the current economic and political environment. In such a situation there remain fewer possibilities to materialize the slogan of public private partnership. The Nepalese economy is experiencing increasing internal challenges. As a consequence, the

country is chronically facing adverse situation in the supply of goods, price, deposit mobilization, credit disbursement and so on. Thus it is extremely essential to find a solution for the internal conflict; speed up economic development through structural reforms; and adopt flexible, private sector friendly and transparent policy to reap the benefit from high growth rate of the global economy, especially the sustainable development achieved by our two neighboring countries. Industrialization is most vital key for the economic development of any country. It helps to uplift the economic standard of the people by creating more employment. Being earned foreign currency through import substitution and export promotion can be insured only by economic development. Hence, developing country like Nepal is required to emphasizing on industrialization. But because of various problems Nepalese economy has not become successful in creating an industrialization and investment friendly environment. The private sector does not seem to be confident with the current economic and political environment. In such a situation, there is less possibilities to materialize the slogan of public-private partnership. And Nepalese economy is also experiencing increasing internal as well as external challenges. In this situation of ongoing socio-political changes economic development of the country is not easy.

Thus, Nepal also has to be spent a lot of money to achieve maximum national objectives. Either to pay regular expenditure or to do developmental works, government collects revenue. The source of government revenue can be classified into external and internal. External sources of government revenue are foreign loans, grants, external borrowings, etc. External sources are uncertain, inconvenient and not good for healthy development of nation because they have to pay after a certain time. So it is better to mobilize internal sources rather than looking with beggars eye to the donors. The government needs huge amount of resources to develop the country properly. Not only a human being but also all other business and non-business organization requires fund for their operation. A

government is a parent of nation so it requires huge amount of funds. So, any government requires fund for day to day to operation as well as development purpose.

Therefore, to fulfill the objective (of economic development) of the country, one of the most important sources of fund is public revenue. The public revenues of the country come from taxes as well as non-taxes sources.

Tax revenue includes the amounts which are compulsorily contributed by taxpayers to the government. And non-tax revenue includes fees, penalties, special assessments, gifts and grants. Tax revenue is convenient and certain. Tax revenue contributes not only in national capital formation but also in equal distribution of national income. It helps to reduce the unequal distribution of wealth of nation as well as national income. So taxes are the better sources of public revenue. These have been taken as the best effective tool for raising the public fund by the government.

So, first of all it would better to discuss about the tax. A tax is a compulsory contribution to the government by the taxpayers without any expectation of some specified return. In other words, a taxpayer does not receive a definite and direct benefit from the government in respect of paying tax. Further more a tax is not price paid by one, for which he can claim goods and services.

Taxation is a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred (Bhattari and Koirala,2009:1).

Nothing is certain but death and taxes (U.S. Statesman Benjamin Franklin, 1789).

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. So taxes are the better sources of public revenue and it has been taken as the best effective tool for raising the public fund.

The whole taxes can basically classify into two types on the basis of procedure of collection and of it viz. direct and indirect taxes. A direct tax is one whose burden cannot be shifted to others. And indirect tax is that which is shift able partly or wholly to others. Income tax, property tax, etc. are the examples of direct tax. Whereas custom duties, excise duty, Value Added Tax (VAT), entertainment tax etc. represent the indirect tax.

Income tax is one of the most important sources of government revenue. It plays vital role in the national economy. Income tax is levied by the government on the income of individuals and business firms. So it became one of the better sources of public revenue because it can be levied upon them who earn something. To regulate the income tax at the country, Income Tax Act (ITA), 2058 has been enacted in 2058 B.S. Furthermore the Income Tax Rules, 2059 has also been enacted for the effective implementation of the objectives of the Act; after a year i.e. in 2059B.S. One of the features of this act is that this act has classified the heads of incomes into three categories viz. employment, business, and investment. According to the Act, individual income tax is levied with two rates 15% and 25%; while corporate income tax is levied with a single or flat rate of 25%. In addition, banks and financial institutes are made liable to pay @30% tax on taxable income. Certain facilities, concessions and rebates in the income tax are provided to the industrial enterprises/companies operated in remote i.e. backward.

In employment category, remuneration tax is one of the important taxes. It has vital contribution on overall public revenue. The Remuneration Tax in Nepal has

long history. It was introduced in the fiscal year 2016/17, while the Business Profits and Remuneration Tax Act, 2017 was enacted. Remuneration income is the income earned by a person in an income year from the employment or service in others. Remuneration means amount given for employee in sake of rendering services. In the case of remuneration, there use to be one getting services and other providing services. The person getting service is employer and the person rendering service is called employee. According to sec 8, of ITA, 2058 an individual's income from an employment for an income year is the individual's remuneration from the employment for the year. Section 2 of the act has given a definition that employment includes all past, present or prospective employment. It can be said that remuneration means the income generate the person while rendering services to his the employer in any income year.

In the global perspective, remuneration from employment is also known as salary. But following are the compulsory conditions that are required to come any income under remuneration;

1. There should be employer-employee relationship between two persons, and
2. The amount paid should be of regular nature.

We have known that remuneration tax is the most important source among the various sources of income tax. So, as a student of taxation, it is better to understand the condition of remuneration taxation at the nation. That present study has been designed to now about the contribution of remuneration tax in total tax structure of the country. Remuneration taxation plays with changes with social and economic development process of the nation. It highly contributes in public revenue as tax revenue.

The income from an employment can be generated only when a relation of employer and employee or master and servant has been established between payer

and payee. Whatever the employee derives from the employment in the shape of a regular salary, allowance, overtime payment, bonus, etc. is included in the income from remuneration. Generally an employment last for a short period and may also be a part time one an individual.

1.2 Statement of the Problems

It is the sorrowful fact that least developed countries (LDCs) are facing numerous problems in the process of economic development. Nepal is not exception to this fact. More than 40 percent of total population is below the poverty line in the nation. The majority of people are out of reach to get basic needs. Since the government expenditures are growing, the source of government revenue must be increased. The government also wants to fulfill the basic needs of the people within a certain time period. Therefore, on the one hand, the government requires huge amount of capital or fund to satisfy growing public expenditures but on the other hand government expenditures rate is exceeding the growth rate of revenue almost every year from the beginning of the planned development of Nepal.

On the one hand there are various problems in front of government of everywhere and on other hand it has same kinds of problems in resource collection and allocation. As we know, in every country tax is the vital source of government and it is necessary to manage nicely to get rid of national problems. So it deserves great importance in nation. In Nepal also there is contributing role of Remuneration Tax in Public Revenue from early time. Nowadays, its important is also growing. In this context study upon the effectiveness and contribution of Remuneration Tax on public revenue is high.

But there are rare studies on this topic. Thus the study focus towards the finding answers of the following questions;

1. How the remuneration tax has contributed to the income tax in Nepal?

2. What is the present position of remuneration tax in Nepal?
3. What are the major facilities and benefits provided by the Income Tax Act, 2058 on the remuneration taxation?
4. What are the major problems and weaknesses in the collection of remuneration tax in Nepal?

1.3 Objectives of the Study

The main objective of the study is to examine the effectiveness of remuneration taxation in Nepal. The following specific objectives are as follows:

1. To find out the contribution of remuneration tax to income tax.
2. To check out the major facilities provided by the Income Tax Act, 2058 on the remuneration taxation.
3. To identify the major problems and weaknesses regarding to increase effectiveness of remuneration tax in Nepal.
4. To recommend possible measures required to improve effectiveness of remuneration taxation.

1.4 Significance of the Study

There are no sufficient studies have been made upon the topic. The rare studies made are on the topic but they are very insufficient for present time. In developing countries like Nepal, the importance of income tax cannot be minimized and under estimated because it contributes effectively and consistently in public revenue. So contribution of remuneration tax is definitely notable for making public revenue strong and huge. Remuneration tax is the one of the most importance source of income tax. So the remuneration tax plays vital role in the public revenue of the country. But there are many problems associated with the income tax related with its management, administration as well as policies.

This study is focused towards the efficiency of remuneration taxation. Thus, the study tries to find out the problem and difficulties associated in the collection of remuneration tax as well as facilities and benefits provided by the Income Tax Act, 2058. This study is basically for academic purpose but it will be beneficial for very much parties. Mainly it will be beneficial to all the concerned parties such as researchers, taxpayers, government, etc. So it will deserve contributing role in various sectors.

1.5 Focus of the Study

The study tries to cover the major constitutes of income tax system in Nepal. It aims to find out the exemptions and deductions provided by Income Tax Act, 2058 problems and weaknesses in income tax system, contribution of income tax to the government revenue. It has also tried to suggest some possible areas for reform. Especially, income tax exemption and deduction has been discussed in detail. The study has covered the following aspects of income tax system of Nepal.

-) Exemptions and deductions in income tax.
-) Structure of government revenue in Nepal.
-) Contribution of income tax to the government revenues and GDP.
-) Administrative aspects of income tax in Nepal.

1.6 Limitations of the Study

All research study has been done to solve a particular research problem. It requires various kinds of data, materials and other relevant information which may not sufficient to the researcher. This study also cannot escape from that type of frame of limitations. This study is mainly based on secondary data, particularly financial data, provided by the Inland Revenue Department, which is not sufficient for the good research study.

The following are the some limitations of the study;

1. This is conducted to fulfill the requirement of Master Degree in Business Studies (MBS). So, the study cannot cover all the dimensions of the subject matter.
2. The consistency of the result is strictly based on the information provided to us.
3. This study is mainly based on secondary data. So the limitation of the secondary data may exist.
4. Time frame and resources (materials and cost) are also constraint for this study.
5. Primary data of this study are mostly based on Kathmandu.

1.7 Organization of the Study

Keeping the above objectives in mind, the present study has been organized in the following five chapters.

Chapter one of these studies is an introductory part and explains the major issue to be dealt with including objectives of the study.

Chapter two explains the theoretical analysis and review briefly the related and pertinent development of literature. It includes conceptual framework along with review of books, journals, research works and previous thesis.

Chapter three is about the methodology adopted in carrying out the present study. It explains the nature and sources of data, population and sample, data collection and processing techniques and methods of analysis.

Chapter four of this study deals with analysis and interpretation of data using the statistical and financial tools described in chapter three. This chapter also reveals the major findings of the study. In which the major findings from the secondary as well as primary data are organized in a systematic way.

Chapter five, the last chapter summarizes the main conclusion that follows from the study and offers suggestion and recommendation for further improvement and conclusion of the study.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Theoretical/Conceptual Review

2.1.1 Historical Background of Evolution of Income Tax in Nepal

Great Britain is the first country to introduce income tax in the world. The British Government introduced income tax in 1799 in order to generate revenues to finance the war against the France. The United Kingdom imposed the income tax regularly from 1869. Income tax was introduced in Switzerland in 1840, Austria in 1849, India in 1860, USA in 1862, Italy in 1962 and Nepal in 1959.

The idea of introducing income tax in Nepal originated along with the first 'Budget' on 21st Magh, 2008 (1952). The finance minister in the first budget speech said 'a proposal to levy an income tax including tax on agricultural income is under consideration.' Several attempts were made to introduce income tax in subsequent years. However, it could not be introduced until 2016 due to political instability. For the first time, the finance act, 2016 (1959) had imposed tax on business profit and remuneration in Nepal.

The first elected government finally introduced 'Business Profit and Remuneration Tax Act, 2017' to impose income tax on remuneration and business profit in Nepal. The underlying reasons for the introduction of income tax were to generate more revenues in order to finance development activities and help to establish social justice through redistribution of income. 'Business Profit and Remuneration Tax Act, 2017' had so narrow coverage that income tax was imposed only on business profit and remuneration. Since, this act could not cover all the sources of income; it was replaced by the 'Nepal Income Tax Act, 2019' after two years to

avoid such drawbacks. The coverage was extended through this act. The wide coverage divided the heads of income into Nine parts: income from business, income from profession/occupation, remuneration, house and land rent, agriculture, investment, insurance business, agency business, and other sources. After a year, 'Nepal Income Tax Rules, 2020' were enacted with the view of implementing the objectives of the income tax act. As 'Nepal Income Tax Act, 2019' was incapable in fulfilling the needs of the time, it was replaced by another Income Tax Act, 2031.

'Income Tax Act, 2031' had 66 section and classified the sources or heads of income into five heading (categories) viz. (1) Agriculture, (2) Industry, business, profession or vocation, (3) Remuneration, (4) House and land rent and (5) Other sources. The act had identified the chargeable incomes and the admissible expenses of each head of income. The other features of this act are provision of registration, provision of carry forward of losses, provision of common expenses, provision of self assessment of tax, provision of small tax payer's tax assessment, provision of fine, penalty and appeal, provision of tax deduction at sources, provision of tax refund, provision of tax exemptions by different other acts and rules, provision of avoidance of double taxation etc. The government also issued 'Income Tax Rules, 2039' for effectively implementation of objectives of the income tax.

In the sources of development and modernization of income tax system, the new Income Tax Act, 2058 has been enacted. Similarly, the new 'Income Tax Rules, 2059' have also been enacted for the effective implementation of the objectives of the Act. The new act has classified the heads of income into three categories viz. Employment, Business/Profession and Investment effective from 2059-02-27 (10th June2002).

The following table exhibits the evolution of income tax in Nepal

S.N.	Income Tax Law	Effective from and to
1.	Finance Act,2016(1959)	FY2016/17to FY2017/18
2.	Business profit and Remuneration Ordinance,2016 (1959)	FY2016-4-25to2017-2-1
3.	Business profit and Remuneration Act, 2017(1960)	FY2017-2-2to2019-4-9
4.	Nepal Income Tax Act, 2019(1962)	FY2019-4-9to2031-7-4
5.	Income Tax Act, 2031(1974)	FY2031-7-5to2058-12-18
6.	Income Tax Act, 2058(2002)	2058-12-19(2002 April 1to date

The first slab of income has always been exempted from income tax. The original level of statutory exemption limit was Rs.7000. This limit has been increased from time to time. The statutory exemption limit has been increased to Rs.65000 for an individual and Rs.85000 the couple or a family in the fiscal year 2059/60 and Rs.80000 for an individual and Rs.100000 for a married couple or a family in the fiscal year 2060/61.

From the initial stage of income has always been exempted from income tax. The original level of statutory was Rs.7000. This limit has been increased from time to time. The statutory exemption limit has been increased to Rs.65000 from an individual and Rs.85000 from married couple of family in the fiscal year 2059/60 and Rs.80000 for an individual and Rs.100000 for a married couple or a family in the fiscal year 2060/61 and Rs.100000 for an individual and Rs.125000 for a married couple or a family in the fiscal year 2062/63, and Rs.115000 for an individual and Rs.140000 for a married couple or a family in the fiscal year 2064/65.

From the initial stage, the Finance Act in every year prescribed the progressive tax rates with exemption limit to all companies, private firms, individuals and families. Income tax rule were ranged between 5 percent and 25 percent. The highest level of marginal tax rate reached 60% in the fiscal year 2032/33.

Now, individual income tax is levied with two rates 15% and 25% while corporate income tax is levied with a single or flat rate of 25%. However, Banks and Financial Institutions are liable to pay income tax @30% of taxable income. The industries established and operated in backward or remote areas are entitled to certain facilities, concession and rebates in the Income Tax.

Originally, corporate income tax was combined with individual income tax. The same rate structure was designed for corporate and other income for many years. A flat tax rate on corporate income was introduced in FY2042/43 for public enterprises and public limited companies listed with the security (stock) exchange centre. The corporate tax was expanded to private limited companies in FY2050/51 and partnership firm in FY 2052/53.

Agricultural income was kept outside the tax net except for a few years through finance Acts. House and land rent and interest were included in the total income and were subject to the income tax during same year. Foreign investment was tax-free from FY 2016/17 to 2025/26 and was included in the total income from FY2026/27. Several other sources of income including income of corporative, interest earned by foreign investors, allowances provided to the employees, dividends and export income were exempted from the income tax under different laws. These incomes, however, have been brought into the Income Tax net (income tax bracket) from FY2057/58 has brought all the incomes, including capital gains, into the income tax net.

The withholding tax system has been adopted from the very beginning. Initially, it was limited to salaries but it was made applicable to interest, dividend, commission, bonus, imports and purchases. Income Tax Act 2058 has limited withholding tax to some incomes viz. income from employment, royalties, dividends, interest, rent retirement payments and gains from investment (life assurance), insurance.

From the very beginning, presumptive taxation system has also been practiced. Nowadays, presumptive tax is imposed on the small businesspersons (taxpayers) who are resident natural persons and who derive income from Nepalese source only. The threshold for presumptive taxation was Rs.1000000 annual transactions (turnover) or Rs.100000 income for the fiscal year 2059/60. The threshold for presumptive taxation is Rs.1200000 annual turnover or Rs.120000 income in fiscal year 2060/61. It is levied at a rate of Rs.2000 in metropolitan or sub-metropolitan cities; Rs.1500 in municipalities and Rs.1000 is in other areas.

Until FY2054/55, income tax was assessed on the income of previous year. The concept of levying income tax on the current year income was introduced in FY2055/56. Under this system, taxpayers are required to pay income tax in three installments on the basis of latest tax returns or the estimated income in the current year, whichever is higher.

Initially, income tax was assessed under the official assessment. In FY2048/49, a self-assessment system was introduced for registered public limited companies and firms. It was also applied to industry, trade and professional firms which had their accounts audited by recognized auditors. The Income Tax Act, 2058 has made a provision of a purely self-assessment system and tax official will make only an amended assessment.

2.1.2 Meaning and Concept of Tax

The government of any country requires sufficient revenues to launch the development programs, to handle the daily administration, to keep peace and security and to launch other public welfare programs. The government or public revenues are collected through various sources. These sources are (a) taxes (b) revenues from government corporations and public enterprises (c) fees (d) special assessment (e) fines and penalties and (f) foreign grants. Among them, tax is the main sources of collecting the public revenues because it occupies the most important part of the government treasury. In Nepal, about 75 percent of total revenue comes from tax revenues and the rest 25 percent from non-tax revenues.

Tax is the compulsory payment to the government from a person according to law. It is contributed to the government without expectation of any quid pro quo (direct benefit) to the taxpayer. The government mobilizes these taxes for public interests.

A tax is a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit (Bhattari and Koirala,2009:2).

A tax is a compulsory payment to the government without expectation of direct benefit in return to taxpayer (Kandel,2007:5)

Similarly, Bastable has opined, “A tax is a compulsory contribution wealth of a person or body of persons for the service of public powers” (Kandel,2007:6)

From the above definitions, it can be said that:

) A tax is a compulsory contribution to the state from a person,

-)] The natural person and artificial person (entity or corporate body) having tax liabilities pay the taxes to the government,
-)] The taxpayer does not received the equivalent benefit from the government,
-)] There is no discrimination among the taxpayers other than specified by the law,
-)] Tax is paid to the state to perform the functions of the government, and
-)] The amount of tax is spent for common benefit and interest of the people.

2.1.2.1 Objectives of Tax and Taxation

The main objectives of taxation have being different epochs. In early periods the major objectives of taxation was strengthening the muscle of the state of by providing the resources. Taxation has been a very essential element of a government from the beginning of the state system. In early periods the objective of collecting revenue was to provide security to people and country but being period passed this has shifted to economic development now a days.

In modern days, the main objective of taxation has been shifted from security perception to the economic development. The modern objective of taxation is not only to maintain peace and security.

Some major objectives of taxation:

)] Raising More Revenue

A state needs adequate revenue to provide its people with peace and security and development activities. So, prime objective of taxation is to collect adequate revenue to meet the government's expenditure.

)] Prevention of Concentration of wealth in a Few Hands

Through progressive tax policy, a democratic government prevents the concentration of wealth in a few hands.

)] **Redistribution of wealth for the Common Goods**

It is not justifiable to levy taxes to all the people without considering their ability to pay. A welfare state collects revenue from the have and distributes it to the have-nots in the society. As a result, wealth is distributed for the common good of the general public.

)] **Maintenance of Welfare-State**

A welfare state needs huge investment in development activities. It has to make its expenditure on education, health, industrial development, etc. which fall under the primary functions of a welfare state. Maintenance of economic stability is an important function of the state. The government maintains purchasing power through the change so as to maintain economic stability.

In addition to these objectives, others can be listed below:

-)] Rapid economic growth.
-)] Enforcing government policy.
-)] Reduction in Unemployment.
-)] Increasing Saving and Investment.

In conclusion, it can be summarized the objectives of taxation as raising revenue for 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 imbalances, and enforcement of policy.

2.1.2.2 Classification of Tax

Tax can be classified in many types but on the basis of levying system it can be classified into two types; Direct and Indirect.

2.1.2.3 Direct Tax

According to Dalton, “A direct tax is really paid by the person on whom it is legally imposed”. In direct tax person paying and bearing it is same or it can't be transferred e.g. Income Tax, Property Tax, Gift Tax, Interest Tax, Vehicle Tax, Death Tax, etc. From Dalton's words we can simply understand Direct Tax as the tax which should compulsorily be paid by the person upon which it is levied (Bhattarai & Koirala, 2009:4).

2.1.2.4 Indirect Tax

“An indirect tax is imposed upon one person but paid partly or wholly by another”- Dalton. From Dalton's words we can say that there are parties in indirect taxation, one is tax-payer and another is tax imposed upon which. Sales Tax, Excise Duty, export/import tax, Entertainment Tax, Hotel Tax, etc. are the examples of Indirect Tax (Bhattarai & Koirala, 2009:5).

2.1.2.5 Principles/Cannons of Taxation

There are many views regarding the importance requirements of a well taxation system. These are the main stones for the principle of taxation (Bhattarai and Koirala, 2009:6-7).

Some of the main principles/cannons of taxation are explained below;

As per Adam Smith:

1. Principle/Cannon of Equity; because it is levied on the basis of capacity of paying tax.
2. Principle/Cannon of Certainty; period, method, manner and quantity should be made fixed.

3. Cannon of Convenience:
4. Principle/Cannon of Economy; should made cost economy.

As per Bastable:

5. Principle/Cannon of Productivity; should be revenue productive.
6. Principle/Cannon of Elasticity/Flexibility; should be revenue as well as levy-able as per the need.

Other Modern Economists:

7. Principle/Cannon of Diversity; should made easy to pay.
8. Principle/Cannon of Simplicity; should simply understandable.
9. Principle/Cannon of Neutrality; shouldn't affect badly to economy.

2.1.3 Income Tax Act 2002 (2058)

Since 19th Chaitra, 2058 Income Tax Act, 2058 has been introduced in Nepal. This income tax act is introduced to avoid the defects of Income Tax Act, 2031, to widen the taxation area and market, Nepalese taxation system in international standard.

In this way on 19th Chaitra, 2058 Income Tax Act, 2031 was dismissed and new Income Tax Act, 2058 is implemented. For implementing this act effectively Income Tax Regulation, 2059 was formulated and issued using the power mentioned in section 138. Similarly, this act has been amendment two times by the finance order on 24th Ashad and 22nd Poush 2059.

2.1.4 Features of Income Tax Act, 2058

The 1950's concept of the high incentive high tax rate is changed to the concept of low rate, wide net. This tread of tax system is followed by most of the countries in the world. After 1990's there is re-emergence of the liberalization; globalization

and privatization system adopted by most of developing countries of the world and Nepal also could not stay away from this change. This new system mainly focuses on the minimum intervention of the state on private economic matters. Similarly, country like Nepal which mostly dependent on foreign aid, loan and donation adopted the economic policy guided by World Bank, International Monetary Fund, Asian Development Bank and Other International agencies (Kandel, 2004:20).

Tax system is changed with the change in economic policy of the country, and world economy. Even Advancement of information technology has vast impact of Nepalese economy. As a result Income Tax Act, 2058 is prepared and issued.

The main features of Income Tax Act, 2058 are as follows:

a) All the Tax related matter within one Act

Income Tax Act, 2058 has abolished all tax related provision given in other acts and confined all income tax related matter with in one act. Before the introduced of Income Tax Act, 2058 there were nearly one and half dozen acts related to income tax which is used to create confusion even to the tax experts.

b) Abolition of Various Tax related things; Tax Concession, Rebates, and Exemptions

One of the main reasons of being the Nepalese tax system in effective was due to the concession, rebates and exemptions provided by various taxes in the past. These tax related concession; taxpayer for the purpose of tax avoidance and tax evasion used rebates and exemptions. But Income Tax Act, 2058 has abolished most of the confusion tax facilities and introduces a fair tax system.

c) Specification of Stock Valuation Methods

Income Tax Act, 2058 has made the clear provision of stock valuation method. Under this act only one method of stock valuation is allowed to adopt. It should

not be changed without the approval of concerned authority of tax office of the taxation purpose.

d) Specimen of Tax Rates

Income Tax Act, 2058 has clearly specified the tax rate applicable to the various forms of business and taxpayers. Such tax rates are given in Appedx1 of the act.

e) Simplification of Depreciation Related Provisions

Income Tax Act, 2031 had categorized the assets into around three dozens and different rates of depreciation were allocated for different types of assets. As a result there was confusion relating to the depreciation. But income tax act 2058 has specified the diminishing balance method of depreciation system based on pool system with five categories of assets. In this tax system is far clearer in respect of depreciation.

f) Taxing Capital Gain and Dividend

Income Tax Act, 2031 had no provision of taxing capital gain and dividend. But Income Tax Act, 2058 has made clear provision about the tax rate charged to the income earned from capital gain and dividend.

g) Generous Loss Set-Off and Carry Forward of Provision

Income Tax Act, 2058 has made the provision of carry forward of losses of a business for four subsequent years. Similarly for financial sector the provision is more liberal providing the facility of recovering the losses from previous five years and carry forward up to five subsequent years.

h) Provision of International Taxation

Modern economy is advanced and complicated. Most of the country's economy is open. Business transactions are operating worldwide. So, this income tax has made

provision of internal taxation such and transfer pricing, foreign trade credit, double taxation avoidance agreement etc.

i) No submission of income statement by a person who does not have taxable income

This act has made provision of not necessary of submission of income statement by a person who does not have taxable income or income from remuneration.

j) Provision has been made for the deduction of all the expenses relating to income earned.

k) Provision of tax incentives for infrastructure development project, employment generating business, electricity project and for special industry.

l) Provision made to claim for deduction of pollution control device and research and development expenses.

m) It has accepted self-assessment taxation system absolutely has been made to accept the statement submitted by taxpayer as payment made by taxpayer is taken as assessed tax amount.

n) It has clearly defined rights and duties of taxpayer and power of tax office.

2.1.5 Features of Income Tax Rules, 2059

Income Tax Rules, 2059 is issued on 27th Jestha 2059, using the power mentioned in sec 138 of Income Tax Act, 2058. The main purpose of this act is to implement the Income Tax Act, 2058. The major features of income tax regulation 2059 are as under (ITR, 2059)

a) Provision and definition of Permanent Account Number (PAN).

b) Tax deduction procedure.

c) Payment of petty expenses.

d) Calculation of tax amount and system of accounting.

e) Provision relating to bad debt and doubtful debt of financial institution.

f) Provision of contract.

- g) Provision in connection with the use of vehicle for private purpose.
- h) Provision in connection with the use of building for private purpose.
- i) Provision relating to approved medical expenses and its limitation
- j) Provision relating with the facilities of deduction of losses from the previous income year of banking and general insurance companies.
- k) Provision of approved retirement fund.
- l) Provision relating to the method and place of payment of tax.
- m) Provision of tax deduction at source (Income Tax Rules, 2059).

2.1.6 Tax-Exempt Organizations

The Inland Revenue Department is responsible to decide where an organization is liable to pay tax or not. For getting tax-exempt facility, the organization should apply to the Inland Revenue Department with necessary documents that prove the organization.

Here, exempt organization means any entity that should not pay the tax. Social organizations that are not operated for profit earning purpose are provided with such facilities.

Income Tax Act, 2058 (sec. 78) has included the following entities as tax-exempt organizations:

- a. A religious, educational or charitable organization of public character.
- b. An amateur sporting association formed for the purpose of promoting social or sporting amenities not involving in the acquisition of gain by the association or by its individual members.
- c. A political party registered with the election commission.
- d. A village development committee, district development committee, metropolitan city, sub-metropolitan city or municipality.
- e. Nepal Rastra Bank.

- f. Nepal Government.
- g. An entity that has been declared as exempt organization, issuing notice by the Nepal government.
- h. The assets and amount derived by an entity not providing benefit to any person except as payment for assets or service rendered to the entity in pursuit of the work related to tax exempt.

2.1.7 Head and Source of Income

Income Tax Act, 2058 has classified the heads of income into the three main groups for the purpose of tax assessment. According to the tax the heads of income are:

- a. Income from business
- b. Income from employment
- c. Income from investment

The sources of income are domestic and foreign sources, which are described below.

2.1.7.1 Income from Business

If any person or corporate body earns income by running any business industry or trade within an income year such income is included while computing taxable income (as per the sec.7,22,24,26,27,29,31,56,60) .

Following are the heads of Business Income.

- a. Service fees
- b. Income earned from the disposal of trading stock.
- c. Income earned from the disposal of business assets or liabilities.
- d. Income earned from the disposal of depreciable assets.
- e. Gift received in connection with the business.

- f. Income received by accepting any restriction of business.
- g. Income received from business related investment.
- h. Income received from various agents as commission.
- i. Income earned due to the change in exchange rate of currency.
- j. Recovery of bad debts and doubtful debts.
- k. Income received from the completion of long-term contract in part.
- l. Income earned by the interest expenses paid for a long at lower rate than the actual market rate.
- m. Income earned in respect of compensation.
- n. Other income to be included in profit or benefit.

2.1.7.2 Income from Employment (Remuneration)

Income received by an employee in the form of salary, allowances, any facilities and benefits etc. are included under this head. Similarly, any expenses born by employer in respect of employee are also included as the source of income from employment. From such accumulated income, life insurance premium, donation to the philanthropic purpose and contribution to recognized provident fund, up to 7% of insured sum, 5% of net income and 10% of gross salary respectively are admissible expenses. From such amount exemption limit is deducted according to the marital status of a person to compute taxable income. In this taxable income tax rate is charged @15% for first 75000 and rest in charged @25% to compute total tax liability.

According to Income Tax Act, 2058 sec. 8, 24, 25,27,29,30 and 31 following are the source of income from employment.

- a. Salary and wages
- b. Paid leave.
- c. Income received from overtime work.
- d. Commission and charge earned.

- e. Gifts and reward received in connection of employment.
- f. Bonus income.
- g. Payment made for facilities enjoyed by employee but paid by employer.
- h. Rent expenses born by employer.
- i. Entertainment and transportation expenses born by employer.
- j. Income earned by employee in respect of accepting any contract between employer and employee.
- k. Expenses paid by employer in respect of employee or his/her relatives.
- l. Any payment made by employer and to employee in respect of employment.

2.1.7.3 Income from Investment

Investment income includes income earned by any person or organization from dividend, interest, rent, royalty, and income from insurance investment, income received from registered retirement fund, gift and any other non business taxable income.

Income Tax Act, 2058 section 9,24,25,27,29,30,31 has stated the following heads of income under investment income.

- a. Dividend (Gross)
- b. Interest (Gross)
- c. Payment received in relation to natural resources.
- d. Income from royalty (Gross)
- e. Benefit received from insurance investment.
- f. Rent income (Gross)
- g. Benefit received from unrecognized retirement fund.
- h. Income received from disposal of non-business assets.
- i. Gain earned while disposal of depreciable assets of investment.
- j. Any gift received in connection with investment.
- k. Amount received by accepting any restriction in connection with business.
- l. Amount received from compensation.

m. Amount received from joint investment.

2.1.8 Concept of Remuneration Taxation

2.1.8.1 Meaning and Features

Remuneration is simply an income earned by any employee from his employer. It is paid by employer in respect of service rendered by the employee. According to ITA, 2058 Remuneration income is considered as income received throughout the year by employee from employer on the basis of employment.

The essential features of remuneration from employment will make clear idea in order to understand the meaning of Remuneration. These features are as follows (Amatya, Pokhrel and Dahal, 2004:69):

a) Employer-Employee Relationship

If there is a relationship as employer and employee between the payer and payee then only that income of an individual is regarded as remuneration from employment. If such a relationship does not exist, then the income falls outside the scope of the head 'Income from employment'. So there is compulsory need of master and servant relationship. But if any person is acting as an agent for a principal during the course of carrying no business, there is no relationship between them as master and servant and there exist a relationship of principal and agent. A servant, generally, is not only a person who receives instructions from the master but is also subject to the master's right to control the manner in which he/she carries out instructions. If a person is acting as an agent for a principal during the course of carrying no business, there is no relationship between them master and servant and there exist a relationship of principal and agent. Therefore, any commission or Remuneration earned by the agent is chargeable to business income of the agent. Any person or entity that employs other person on work and pays for this is known as employer.

b) Mode of Payment

It should be identified whether the mode of payment accrues with the passage of time or it depends on some job being performed or completed by the assessed. In such a case, there exist employer and employee relationship and the Remuneration of the contractor (employee) is chargeable under income from employment. As against, in a contract for service, the contractor (employer) can best specify what is to be done and the contractor independently achieves the details of work and executes the same. In this case income earned by the contractor for his service is chargeable under income from business and not as salary income since there is not existence of any employer and employee relationship. In a contract services, the employer can direct and control as to what is required to be done by the employee and as to how it should be done by the employee.

c) Remuneration/Professional Income

Remuneration income is derived with the passes of time but not depended on some job being performance or completed. But in case there respective employers employ any of them on the time basis, the amount is taxed as salary. For example a TV singer and an actor are ordinary not employees and therefore, the Remuneration they receive for jobs completed will be taxed under income from business.

d) Income received from Employer

Generally any payment made by employer to employee for his/her services is including in the income from employment of the employee. The payment may be salary, allowance, differed payments and fringe benefits valued as per laws. However, sometimes income received from employer is not chargeable under income from employment. For example, loan received from the employer is not chargeable under income from employment because it is a capital receipt.

e) Income received from an associate of the Employer

Sometimes, an associate of the employer pays remuneration. Such Remuneration derived from the associate of the employer is included in the employee's Remuneration from employment. For example, Remuneration paid to the employee by the managing director of the company.

f) Income received from third party:

Remunerations derived from third party on behalf of the employer is also chargeable remuneration income to an employee. In some cases, third party may pay remuneration under an arrangement with employer.

g) The amount paid should be of regular nature:

If only the employee received such periodic accrued remuneration, then it becomes chargeable income from employment. Or the remuneration received should be received and paid on the basis of passes of time. It is accruing periodically for service rendered by an employee as a result of expressed or implied (indirect) contract.

2.1.9 Some Basic Points for Consideration

There are some basic considerations while computing assessable income from employment. These considerations may be as follows:

- a) Remuneration, salary and wages are not conceptually different. But the remuneration income and profession income are conceptually different.
- b) Salary may be received from more than one employer.
- c) Salary from a former employer, present employer, and prospective employer is included in the income from employer.
- d) Salary income must be real but not fictitious.

- e) Remuneration income is taxed on the receipt basis: Tax accounting of remuneration is cash basis. Hence, it is obvious that advance salary and arrears of salary may be taxed in the year of receipt part from the current year's salary.

2.1.10 Remuneration from Employment (Chargeable Remuneration)

The chargeable income under income from employment is specified in section 8 of ITA, 2058. Following payments made to a natural person from the employer are included in calculating the person's remuneration from employment as per the Act;

- a. Payment of wages, salary, leave pay (including salary in lieu of leave and encashment of accumulated home, sick etc level), Overtime pay, Fees, Commissions, Prizes, Gifts (as per market valuation case of prize and gift is not in cash), Bonuses, and other facilities i.e. Dashain Expenses, Tihar expenses, Telephone facility, Transportation facility etc.
- b. Payments of any personal allowances including any cost of living, subsistence Allowance, Rent allowance, Entertainment allowance and Transportation allowance.
- c. Payments providing any discharge of reimbursement of cost incurred by the individual or an associate of the individual. For example, reimbursement of medical expenses, payment of Life Insurance Premium, and private trip Expenses etc.
- d. Payment for the agreement to any conditions of the employment. For example; incase an employee receives Rs. 5000.00 per month for not working in other organization as per the agreement made on the request of employer.
- e. Payment for termination or loss of service of compulsory retirement. For example, Amount derived as Golden-Hands-Shake scheme.
- f. Retirement contribution including those paid by the employer to a retirement fund in respect of the employee and retirement payments. For example,

Gratuity, Encashment of Medical expenses at the time of Termination, Employer's contribution to Provident Fund.

- g. Other payment made in respect of the Employment.
- h. Amounts required being included in remuneration from employment as per tax accounting.
- i. In addition to above stated items of Remuneration, the following types of perquisites are also included in remuneration from Employment of a person.
 - 1. Transfer of the asset [27(a)]: In case of the transfer of the assets from employer to employee, the market value of such asset is included in the employee's income. For example, if an employer provides 100ltr.of petrol as a fuel facility to an employee and if market value of petrol per liter is Rs. 70.00, its total market value of Rs. 7000.00 should be included in the employee's income from employment.
 - 2. Vehicle of Personal and Official Purpose and Rent free accommodation for Personal Purpose [27(b)]: Payments consisting of the following facilities determined in accordance with rules are included in the income of the employee.
 - a. Vehicle Facility: Availability of vehicle wholly consisting purpose. However, such amount will be limited only to 0.5 percent of annual salary {13}. In case the facility is not provided as fringe benefit but is paid as transportation allowance of paid certain amount as transportation facility, such allowance of amount should be included in the Employee's Income.
 - b. House facility (including rent-free accommodation) for personal purpose: Provision of housing to the employee. However, this amount is limited to only 2 percent of annual salary {13}. But in case the facility is not provided a fringe benefit but is paid as house rent allowance or paid certain amount as residence facility, such amount or allowance is included in the employee's income. In case of maintenance expenses

provided to employee's own house, such payment is included in income of the employee.

1. Expenses incurred by employer for the provision of domestic assistant, food house household for the employee [27(c)]: The amount of expenses incurred by the employer for provision of following facilities for the employee (but any contribution of the provision of such facilities don't included in income):
 - a. Service for Housekeeper, Cook, Chauffer (driver), Gardener or Other Domestic Assistants;
 - b. Any meal, Refreshment, or Entertainment;
 - c. Drinking water, electricity, telephone and like utilities in respect of employee's place of resident.
2. A reduced amount of interest paid to employer as per concession rate with compared to prevailing rate [27(d)]: In case the amount of interest on loan paid by the employee to the employer with a concession rate, the difference mount of interest that is lower than the interest to be paid as per the standard higher rate is included in the employee's income. For example, if a manager of a bank has received a housing loan of Rs. 2,000,000.00 to construct a house with a concession interest rate of 6 percent interest of the standard rate of 10 percent for housing loan in the same bank and pays interest of Rs. 120,000.00 the difference amount of Rs.80, 000.00 with compared to the interest of Rs. 200,000.00 as per standard rate is added to income from employment.
3. Compensation [31(a), 62&92]: In case a person or an associate of a person derives a compensation amount including a payment under insurance that compensates for income from employment, it is included in calculating the income from the employment at the time the compensation amount is derived. The compensation for an income

that the person derived or expected to derive from employment or compensation amount to be included in such category. For example, compensation to an employee from insurance company on termination of the job from which the employer has insured for his purpose is included in the employee's income from employment. It is noted that compensation or gain from the investment insurance from resident person is subject to final withholding payment and is not included in the individual's income but the compensation or gain from investment insurance from the non-resident person is included in the individual's income.

4. Amount or bill directly paid by the employer [27(e)]: For the payment other than stated above, the value of benefit of the payment made by the employer to a third person instead of employee is included in the income of the employee. For example, School fee of the children of the employee is directly paid by the employer to the school, life insurance premium paid by the employer, etc.

2.1.11 Non-chargeable Incomes

There is no need of inclusion of every income of an employee while calculating remuneration. Some incomes are not included in calculating a person's remuneration from employment even if they are derived from employment. These incomes are treated as tax-free income. The following amounts are excluded in calculating an individual's remuneration from an employment which is treated as tax-free incomes;

- a) Exempt amount [8.3(a) and 10]: The following payments are not included while calculating the income from employment as per section 10 of the act:
 - J Remuneration exempted under a bilateral or a multilateral agreement (treaty) with a foreign government or an international organization.

- J Retirement payment made by HMG or recognized retirement fund.
- J Meeting allowance (Payment for part-time teaching, payment for setting question papers and payment for examining answer books from FY 2060/2061 and onwards.)
- c) Meals and refreshments on similar terms: Meals or refreshments provided in premises operated by or on behalf of an employer to the employer's employees that are available to the employees on similar terms [8.3 (b)].
- d) Discharge or reimbursement of expenses used for employer's business purpose or employer's admissible deductions from business or investment [8.3 (c.1 & c.2)]: Any discharge or reimbursement of costs incurred by the employee that serve the proper business purpose of the employer or that are or would otherwise be deductible in calculating the employer's income from any business or investment. For the detailed analysis of chargeable and non-chargeable income received as reimbursement of expenses incurred by an employee, it should be identified whether or not the expenses are deductible expenses from business or investment of the employer or is used for proper business of the employer. To make clear idea about it, expenses of domestic or personal nature that are expressly disallowed are clearly identified as mentioned in the clarification of section 21 of the act.
- e) Payments of small amounts [8.3 (d)] {6}: Payments of the prescribed small amounts which (after taking into account and frequency with which the employer makes similar payment) are so small as to make accounting for them unreasonably or administratively impracticable [8.3(d)] . As per the rule 6, and employer may make a payment of an amount not exceeding Rs. 500 at a time as the payment of small amount in this respect for a provision of tea, stationary, gifts, rewards , awards, emergency medical treatment or other similar expenses approved by the Department {6}
- f) Special provision of exemption for retirement and leave pay [20.6 (a) & (b)]:

The following amounts, which are preciously exempted from tax, are also exempted:

- J The amount accrued prior to the commencement of 'Income Tax Act, 2058' (Till 2058/12/18) to any person as principal, interest and bonus in Employees Provident Fund and Citizen Investment (Recognized Retirement Funds) are exempted. However, the interest accrued on the same amount is taxed after that date as final an employee as gratuity and amount of accumulated home and sick leave are also exempted.[20.6(a)]
- J Medical expense up to Rs. 18,0000 payable at the time of discharge of retirement to that employee who was working on job at the commencement of the act. [20.6(b)].

2.1.12 Other Considerations

A) Common Deductions [13 &63] [21]

The amounts that are deductible while computing taxable income are as follows:

- a. Retirement contribution: Retirement contribution to the approved retirement fund within the limit is allowed to deduct to obtain the taxable income of natural person [63]. The limit is Rs.300000 or one third of assessable income of the person whichever is less {21}.
- b. Donation: Gift amount to a tax exempt organization equal to 5 percent of taxable income or Rs. 100000 or actual, whichever is less or as prescribed by HMG in notification is allowed to deduct to obtain the taxable income [21].

B) Exemptions [1.1, 1.5 & 1.9 of Schedule 1 of ITA 2058]

- a. Statutory Exemption limit: Statutory exemption limit of Rs. 80000 for individual (single) and Rs.100000 for couple is allowed to deduct while computing taxable income from the income year 2060/061.
- b. Remote area allowance as an additional exemption limit:

Remote area allowance is applicable to all natural person as an exemption in addition to the statutory –exemption limit for income from employment, business or investment (i.e. Rs. 30000, 24000, 18000, 12000 and 6000 for A, B, C, D and E class areas respectively).

- c. Additional exemption for pension income: case pension income, an additional amount of 25% of statutory exemption limit (Rs. 80000 or Rs. 100000)) is allowed to deduct while computing taxable income of an individual or a couple from the income year 2060/061. It means that the total exemption limit would be Rs. 100,000 for an individual (single) and Rs. 125000 for a couple for the income year 2060/061.
- d. Life insurance premium as admissible deduction from the income year 2060/061: Finance ordinance, 2060 had provided the facility of exemption for the premium, @ 7% of insured policy amount or Rs. 10000 or actual amount, whichever is less from the assessable income to the natural person.

C) Medical Tax Credit [51] {17}

The medical tax credit facility is available to the all taxpayer while computing the tax liability of the natural persons. The medical tax credit of 15% of the approved medical costs plus carried forward of medical tax credit (excess amount of medical tax credit over Rs. 750+ the amount of medical tax credit not used by reason of lack of tax payable) from previous income years [51]. However, upper limit of medical tax credit for one year is Rs. 750 per year and the remaining balance of medical tax credit can be recouped in next year [17]. Furthermore, if the medical tax credit up to Rs. 750 is used due to the lack of tax payable in the relevant income year, such unused amount of medical tax credit can also be carried forward to next income years.

D) Foreign Tax Credit [17]

Amount of income tax paid in a foreign country is deductible as tax credit from the tax liability of foreign source income. However, such amount does not exceed the average rate of Nepal Income Tax. For this purpose, the average tax rate is calculated as follows:

$$\text{Average Tax} = \frac{\text{Tax Liability before Deducting Foreign Income Tax}}{\text{Taxable Income of the Person}} \times 100$$

E) Special Fee as Additional Tax

The finance Ordinance, 2059 had prescribed a special fee @ 3% on taxable income of a person. However, this provision is applicable to that slab of taxable income where 25% tax rate is applicable. It means special fee is not levied on that slab of taxable income where income tax rate is 0% and 15% in the case of a resident individual or couple. Similarly, it is also levied on and realized from any taxable income in the case of an entity and a non-resident person. It is noted that special fee is not income tax. However, the Finance ordinance, 2060 has prescribed the special fee @ 1.5% on such taxable income to be applicable for the income year 2060/061 and onwards. It means the rate of special fee has been decreased to 1.5% in the income year 2060/061. (Please refer to section 17.2 of Finance Ordinance 2059 and Section 16.2 of Finance Ordinance 2060).

F) Special Provision for Retirement Savings

a. Retirement Contributing to Approved (Recognized) Retirement Fund [2bh,2d,2f,63.1,63.2] and {20}{21}

The act has defined the term 'retirement contribution' as a payment made to a retirement fund for the provision or future provision or future provision of retirement payments [2(f)]. In the same way, the act has defined the term 'retirement fund' that if means any entity established and maintained solely for the purpose of accepting and investing retirement fund contribution in order to

provided retirement fund payments to individuals who are beneficiaries of the entity or a dependant of such individual [2 (d)].

According to section 63.2, a natural person who is the beneficiary of an approved retirement fund may claim to reduce the taxable income by retirement contribution made to the fund by the natural person during the year. For this purpose, the upper limit of the deductible amount of retirement contribution is Rs. 300000 or 1/3 of the assessable income; whichever is less {21}.

It is noted that the assessable income includes from employment, business and investment sourced in Nepal .It is also noted that natural person includes a couple (husband and wife with or without minor ----children) by electing themselves as a single unit of taxpayer. In such case, they can deduct their retirement contributions from their combined assessable income as mentioned above.

As per sections 2(bh) and 63.1 ‘approved retirement fund’ means retirement fund for which the Inland Revenue Department approves as to comply the following terms and conditions: a) The amount of which is invested in recognized investment; b) The fund is managed by independent person other than the employer; c) The amount spent as retirement fund is deposited within one month in case of Ashadh and within 15 days in case other month; d) Repayment of the amount to employee is made only in case of retirement or completion age of 58 years, death or physical payment handicap of the employee and the retirement or fund is audited by the auditor recognized by Auditor General’s Office. {20}

Here, recognized investment means investment made to citizen Investment Trust or Employee Provident Fund or HMG securities or recognized bank or instruction co-financed with bank or investment made to the beneficiaries other than the shareholders.

b. Retirement Payment [65] {20.6}

In the broad sense, retirement payment includes pension, gratuity, refund of provident fund contributions, refund of other retirement contributions and other payment on the termination of the job, such as accumulated home and sick leave payment, payment of medical expenses etc. Among of them, pension is a stream of income paid over a period of time on monthly basis while gratuity and other payments are lump sum incomes are in one time. As per the act, 'retirement payments' means a payment made either to an individual in the event of retirement or to a dependant of the individual in the events of death [2(e)].

For the purpose of calculating the income of a natural person, in case the retirement payments are made from the person's interest in an approved retirement fund or from HMG, the following provisions are applied: (a) There is included any retirement payment made by the fund in respect of the it is treated as a gain from the disposal of a non-business chargeable asset of an investment of the person.

For this purpose, the gain is determined after deducting Rs.500000 of 50% of the total retirement payment, whichever is higher from the total retirement payment and is taxed as final withholding tax at the rate of 6%. For example, gratuity, amount of accumulated home leave and sick leave medical expenses at the termination of job etc. altogether paid by HMG and refund of principal whit interest and bonus from Employees Provident Fund.

For the purpose of calculating the gain of natural person from an interest in an unapproved retirement fund, the following provisions are applied: (a) In the case where the proceeds are paid by a resident person, it is taxed in the hands of the form of a final withholding tax; (b) In the case where a non-resident person pays the proceeds, it is included in calculating the income of the individual beneficiary.

It is noted that the retirement payments, which were subject to exempt from the tax net previously, are also exempted by the current laws to the extent of the payments as follows {20.6(a) (b)}:

- J The amounts accrued prior to the commencement of ‘Income Tax Act 2058’ (till 2058/12/18) to any natural person as principal, interest and bonus in consideration of employee’s and employer’s contribution in Employee provident Funds and Citizen Investment Trust (Recognized Retirement Funds) are exempted. However, the interest accrued on the same amount is taxed after the date as final withholding payment. Similarly, the amounts of accumulated home and sick levels are also exempted from income tax.
- J Medical expenses up to Rs. 180000 payable at the time of discharge or retirement to the employee who was working on job at the commencement of the act.

c. Taxation of Retirement Fund [64]

For the purpose of calculating the income of a retirement fund, amounts required to be included are deducted are included the deducted under other provisions of the ‘Income Tax Act 2058’ but:

1. Retirement contribution received by the fund is not included in the calculation and is not an incoming of the fund
2. Retirement payment is not deductible n the calculation and is not an outgoing of the fund; and
3. The interest of a beneficiary in a retirement fund is not a liability of the fund.

The income of an approved retirement fund is exempted from tax. If an approved retirement fund ceases to be and approved retirement fund, it has to pay income tax in an amount equal to company tax rate applied to the amount remained after subtraction the amount of paragraph (1) From the amount of paragraph (2) as follows:

- a. All retirement contribution derived by the fund during the period from its most recent approval as an approved retirement fund to when it ceases to be so approved and chargeable income during the period while the fund is become unapproved, less;
- b. All retirement payment made by the fund from its most recent approval as an approved retirement fund to when it cease to be so approved.

G. Tax-free Income/Tax exempted Income

According to income tax act 2058, section 10; the following incomes are tax-free income or tax exempted income even though they seems income from Business or Employment.

- a) Income earned by a person due to the bilateral or multilateral treaty between HMG and foreign country or international organization.
- b) Income earned by a person working as foreign government servant on foreign land is non-taxable income.
- c) A person hired by HMG for the service of HMG government making agreement of nonpayment of tax.
- d) Allowances distributed by HMG to the widow, handicapped or old person are tax free income.
- e) Donation, gift and present etc received by tax free organization is tax-exempted income. Similarly, income earned by Nepal Rastra Bank is also tax-free income.
- f) Amount received in the form pension by a Nepalese Ex-Army or Police worked in foreign land.

H. Tax Incentives

Tax incentives are concessions, facilities and rebates granted to corporate bodies. Those incentives reduces then tax burden of an organization. It may imply a partial or full exemption from one or variety of taxes and special allowances for a certain

period to motivate the new as well as existing organization for balanced regional development, encourage for the production of primary good and to develop the corporate bodies. It increases the habit of saving and encourages the investment by the means of equity shares, purchasing of an organization. Thus tax incentives are a phenomenon developed specially to accelerate the slow rate of investment is most of the developing countries.

The increase in corporate investment is the sign of economic development of the nation. Basically, offering of tax incentives become necessary due to the two reasons, stretching the scope of tax beyond its revenue objectives to achieve certain socio economic need and to mitigate the adverse impact of high taxation on corporate saving and investment activities.

Developing countries like Nepal must have to encourage investor to invest on factors and industries for economic well being of nation, creating employment opportunity and to reduce foreign dependency. But the investor are ready to invest only in such a case when the after tax profitability becomes high.

The desire of inventor to invest in new project can be partly fulfilled by the tax incentives and finally it helps the government to increase its revenue. Some of the popular ways of providing tax incentives by the government in different countries in the world are tax holiday, tax credit accelerated depreciation, deduction in tax rate, carry forward of losses, etc. Tax holiday is the tax free for a certain period. Any industries getting such types of incentives need not to pay tax for a certain period of time.

Similarly, another technique of tax incentive is tax reduction that means lowering the tax rate. This type of incentive is mostly provided to those industries operating in particular place with particular kind of goods or services. However, sometime

such types of tax incentives is equally provided to all types of corporations whether large or small, new or old, capital incentives or labor incentives and located at rural or urban areas. It has min adverse affects to the government as reduces the government's revenue.

Another method of providing tax incentives is to provide tax credit facility. In this system tax incentive is provided capital investment. It is the granted in the first year's investment on assets. Such type of incentive is mostly beneficial to the large scale investors rather than small investors. Similarly, another method of providing incentive to the large scale investor is in accelerated depreciation charging facility. In this system higher depreciation is charged in the beginning year and gradually decreases in later year on the fixed assets of an organization. Due to this, taxable income of the corporation become lower and saves the amount of tax. For the accelerated depreciation, sum of the year digit (SYD) and double declining method of depreciation are commonly used. (Poudyal,2001: 2).

The last method of providing incentive is to carry forward of losses. In this technique the loss of the previous year can be deducted from subsequent year's profit. Mostly of the country in the world allow to deduct losses or carry forward of losses from subsequent year profit. Income tax act, 2058 of Nepal has allowed carry forward of losses of general business for four year and bank and insurance business for five subsequent years.

Among these various types of tax incentives policy of government, investment allowance is widely used by Srilanka, Canada, Brazil, Malasia, Singapore, Taiwan, Belgium, Germany, Japan, United Kingdom, and other industrialized country (Kandel P. R., Op. cit P.16).

Developing country like Philipine and Mexico etc are using tax, Income Tax Act, 2058 Nepal has adopted a combination of at holiday, investment allowance, deduction in tax rate and carry forward of losses etc. in order to provide incentives to the investor.

2.1.13 Specimen for Computation of income from Employment, Taxable Income, Tax Liability and Tax Payable

The format prescribed by the IRD for calculation income from employment is given in Appendis-8. Similarly, the formats for the computation of taxable income and tax liability for different categories of person are given in Appendix-2 and Appendix-5. Such formats have been prescribed for both taxable income and tax liability in a single format for each category of person. The summary of these formats may be presented below:

A. Computation of income from employment for the income year 2060/061

Particular	Amount
Remuneration from employment for this year (Chargeable Income)	XXX
Salary (including grades) and wages [8.2(a)]	XXX
Leave pay (salary in lieu or level) [8.2(a)]	XXX
Pay for overtime [8.2(a)]	XXX
Fees[8.2(a)]	XXX
Prizes and gifts related to employment (in case in kind as per marked value) [8.2(a)]	XXX
Bonus [8.2(a)]	XXX
Other facilities (Dashain bonus or Tihar bonus) [8.2(a)]	XXX
Commission [8.2(a)]	XXX
Dearness allowance [8.2(b)]	XXX
Subsistence (Living Allowance) [8.2(b)]	XXX
House Rent Allowance [8.2(b)]	XXX
Entertainment and transportation allowance [8.2(b)]	XXX
Other Personal allowance (Children education allowance) [8.2(b)]	XXX
Reimbursement for personal expenses [8.2(c)]	XXX
Payment for accepting any condition regarding payment [8.2(d)]	XXX
Payment for discharge, loss or termination of the employment [8.2(e)]	XXX
Other payment made in respect of employment [8.2(f)]	XXX
Retirement payment and retirement contribution [8.2(g)]	XXX
Amount related to vehicle facility (0.5% of salary) [27.1(b.1)]	XXX
Amount related to provision of house or residence facility (2% of salary) [27.1(b.1)]	XXX
Amount related to housekeeper, driver, gardener or domestic assistants [27.1(c.1)]	XXX
Any meal refreshment or entertainment provided by employment [27.1(c.2)]	XXX
Amount related to services related to drinking water, electricity, telephones and other utilities in respect of employee [27.1(c.3)]	XXX
Under payment of interest for the loan taken from employer [27.1(d)]	XXX
Other amounts to be included in remuneration (amount as per tax accounting)	XXX
Total Remuneration from Employment (Assessable income from employer)	XXX

B. Computation of Taxable income

Assessable income from employer	XXX
Assessable income from Business	XXX
Assessable Income from Investment	XXX
Total Assessable income	XXX
Less: Contribution to recognized retirement funds (Employee Provident Fund and Citizen investment Trust) @ 1/3 assessable income of Rs. 300000 or actual whichever is less.	XXX
Taxable Income before Donation	XXX
Less: Donation (5% of taxable income before donation or actual or Rs. 100000 whichever is less or as prescribed by HMG)	XXX
Total Income	XXX

C. Computation of Income Tax Liability

I. In the case of resident natural person

First Rs. 80,000 for individual of Rs. 100,000 for couple	XXX
Next amount from Rs. 6000 to Rs. 30,000 as per category of remoteness for remote area allowance (irrespective of income head employment, business or investment')	XXX
Next amount equal to 25% of 80,000 for individual (or 100,000 for couples or pension income whichever is less	XXX
Next amount equal to Rs. 10,000 or 7% of insured amounts or actual premium whichever is less	XXX
Next Rs. 75000 @ 15%	XXX
Next any amount @ 25%	XXX
Total tax liability	XXX

II. In the case of non-resident natural person

(a) Taxable income	XXX
(b) Tax rate	XXX
Total Tax Liability (aXb)	XXX

D. Computation of Income tax payable

Total Tax Liability		XXX
Less: Preceding income years excess tax payment (if any)	XXX	
Less: Tax paid in advance including tax deduction at source and non final withholding	XXX	
Less: Medical tax credit [15% of recognized medical expenses of 850 whichever is less (applicable to resident natural person only)]	XXX	XXX
Total payable		XXX

Special Fee: The Finance Ordinance, 2059 has prescribed a special fee @ 3 on taxable income of a person. However, this provision is applicable to the slab of taxable income where 25% tax rate is applicable. It means special fee is not levied on the slab of taxable income where income tax rate 0% and 15% in the case of a resident individual of couple. Similarly, it is also levied on and realized from any taxable income in the case of an entity and a non-resident person. It is noted that special fee is not income tax. However, the Finance Ordinance, 2060 has preserved the special fee @ 105% on such taxable income to be applicable for the income year 2060/61 and onwards. It means the rate of special fee has been decreased to 1.5% in the income year 2060/61. (Please refer to section 17.2 on Finance Ordinance 2059 and Section 16.2 of Finance Ordinance 2060).

2.2 Review of Related Studies

Agrawal (1984), has presented a report to Ministry of Finance entitled “*Direct Tax Reforms in Nepal*”. In his report, he has shown resource gap in Nepal was in its increasing trend. So, the dependency on foreign aid was increasing. He has shown an urgent need to mobilize additional resources from domestic resources. He had shown that the growth rate of direct taxes had been lower than the growth rate of total revenue as well as total taxes. Registration fee have the maximum buoyancy whereas income tax has the lowest buoyancy; urban property tax has been found to be most elastic. He has strongly recommended a Revenue Service.

Political and other pressures should not be subjected to tax administration. Self-assessment should be encouraged. Assessment of small tax payers should on a door-to-door basis .Capital gains should be included in income for income tax purpose. Most of the suggestions recommended by him have been adopted in the new act.

Bhandari (1994), wrote a dissertation entitled “*Contribution of Income Tax to Economic Development of Nepal*”. In his dissertation, he has examined the collection of income tax and its contribution to the economic development of Nepal. He has stated that the actual revenue collection in Nepal is lower than the targets set out. For this, he has pointed out some responsible factors like poor taxpaying habit of Nepalese taxpayers, poor tax administrative system, widespread income tax evasion, etc. He has also studied the income tax structure, trend of income tax collection, and the share of contribution of income tax to the development of Nepalese economy. He has put forward some suggestions to overcome those problems such as improving tax administration system, checking income tax evasion, etc.

Kharel (1996), presented a dissertation entitled “*Self Assessment under Income Tax Act in Nepal*”. In his work, he has made a review of tax laws about self-assessment, analyzed the problems faced by the assessor while doing the self-assessment of their own income and made relevant recommendation to reform income tax laws as well as administration in future. He has concluded that self-assessment of tax is a suitable means of raising domestic resources and it would be effective if taken seriously. He has further expressed that the effectiveness of self-assessment of tax depends upon its appropriate reformation.

Dhakal (2002), presented his revised edition of his book “*Aayakar Tatha Ghar-jagga kar sambandhi Kar a Lekha*”. This book was based on Income Tax Act,

2031. This book is very much useful in getting knowledge about history of taxation and the practice under the previous act.

Tax Laws and Tax Planning and Another “*Nepal Ko Bartaman Kar Byabastha*” for BBS 3 year. He has presented practical as well as theoretical aspects on taxation in these books.

Amatya, Pokharel and Dahal (2003), wrote a book entitled “*Taxation in Nepal*”. This book is also designed to meet the requirement of BBS 3 year syllabus. Theoretical as well as practical aspects of taxation have been included in the book. This book is a descriptive one, not analytical.

Mallik (2003), published a book named “*Nepal Ko Aadhunik Aayakar Pranali*”. This book is very much useful to anyone who is interested in the subject of taxation. In his book, Mallik has explained Income Tax Act, 2058 with examples wherever necessary. He has presented the complex act in simple manner so that it will be easy to understand the act. He has shared his expertise in his book. His book is descriptive and analytical. All the provisions in the act have been clarified in simple language. He has also clarified why some of the tax-exempted amounts have brought into tax net by the new act. In some cases, He has also compares the provisions of the old act and the new act.

Adhikari (2003), wrote a book entitled “*Modern Taxation in Nepal: Theory and Practice*”. This book also has been written according to the syllabus requirement of different faculties. Especially, the BBS 3 year syllabus of Tribhuvan University has been taken into consideration. Income Tax Act, 2058 as amended by Finance Ordinance, 2060 has also been included. Theoretical as well as practical aspects have been put in the book.

Magar (2003), wrote a thesis entitles “*Income Tax in Nepal: A Study of Exemptions and Deductions*”. He has studied the exemptions and deductions provided by the Income Tax Act, 2058, problems and weaknesses in income tax systems, contribution of income tax to government revenue and suggested possible areas of reform. He has started the need for clarity in provisions and language of the Act. He has recommended ten slabs for taxing the incomes of a taxpayer-first rare being 5% and the last one being 55%. He has suggested the following expenses foe deduction from remuneration income.

-) Expenses for the better education of their children.
-) Medical expenses made by the taxpayer.
-) Expenses made foe house rent.
-) Education expenses for the taxpayer himself if the he is studying in an educational institution.
-) Life insurance premium of the taxpayer.

Agrawal (2004), published a book named “*Income Tax Theory & Practice*”. This book is useful to anyone who is interested in the subject of taxation. In his book, Agrawal has explained Income Tax Act, 2058 he want to serve all the concerned people like tax practitioners, Chartered Accountants, registered Auditors, accountants, and other managerial personnel in big organization. The book is also sources of information on the subject of income tax. He brief explain fixed assets & depreciation treatment on income tax purpose, Mr. Agrawal provides a schedule for depreciation.

Koirala (2004), presented a dissertation named “*Contribution of Remuneration Tax on Income Tax*”. He tried to identify the contribution of income tax from employment income to public revenue of Nepal. He also tried to analyze the effectiveness of income tax revenue collection from employment income.

His major findings are as follows:

1. Income Tax is an important source of collecting government revenue.
2. The contribution of employment income to total income tax revenue of Nepal has not been found satisfactory due to various reasons like low pay scale of the employees, ineffectiveness in the implementation of the Act, Tax evasion, etc.
3. The contribution of income tax from employment income to income tax revenue can be increased mainly by bringing new taxpayers into tax net and making TDS more effective.
4. Majority of the respondents opined that tax evasion is not often practiced in employment income as tax is already deducted at source while receiving salaries.
5. Like in Income Tax Act, 2031, standard deduction as expenses should be provided from employment income.
6. Medical expenses paid by employer, Dashain allowances and pension income should be made tax-exempted incomes.
7. Current exemption limit is not satisfactory. Exemption limit provided to couple should be quite higher than the exemption limit provided to the individual.
8. Exemption limit should be adjusted by considering factors like average cost of living, education expenses, inflationary condition of the country, and number of dependents of the income earner.
9. Imposition of income tax on pension income is not justified. Those who accepted imposing income tax on pension income; they responded that additional 25% exemption limit compensates the taxpayers who were not taxed earlier. The respondents who responded that pension income should be taxed were on the ground that the adequate exemption limit does not bring the pension income in income tax bracket.

10. Majority of the respondents responded that employees have not faced any problems while paying income tax. Those who responded that employees have not faced in paying income tax opined that, poor and weak responses from the tax administrators, getting tax clearance certificate is delayed, low pay scale of the employees result in low income tax amount, mental pinch to pay income tax etc.

Poudel (2006), conducted a research entitled “*Role of Income Tax in National Revenue of Nepal*” in order to fulfill partial requirement of Masters of Public Administration (MPA). The major of his study were to study role of income tax in revenue of Nepal, evaluate prevailing income tax system, and examine issues relating to income tax. The major findings of the study were as follows:

-) There was dominant contribution of tax revenue over non tax revenue to the total revenue of Nepal. Contribution of tax revenue was in increasing trend.
-) The Tax- GDP ratio of Nepal was not found satisfactory compare to other developing countries.
-) Nepalese income tax system is facing problems during tax collection such as: lengthy assessment process, lack of sufficient incentives to employees, inadequate power to income tax administrators, and lack of experts in the tax management, more tax evasion etc.
-) Tax payers were facing problems while paying tax because of misconduct of tax personnel, administrative harassment and complex tax laws and rules.
-) Reforming and controlling present taxation system, controlling open boarder with India, preventing illegal business, making effective administration, increasing tax coverage can contribute positively to the present tax system of Nepal.

Pokhrel (2007), in his 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 supported respectively. He found that inefficient tax administration, tax evasion and inappropriate objectives of income tax were the main causes 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 in favor of fees, fines and penalties whereas 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 this way, various book, dissertations, reports and articles have been reviewed while preparing this dissertation. Books are found mainly based on the syllabus requirement of Tribhuvan University. Almost dissertations were written on different aspect on income taxation. So, it has been found that no one has studied on remuneration aspect of income tax in detail. This study is unique and original.

CHAPTER – III

RESEARCH MEHODOLOGY

3.1 Introduction

Research Mythology is simply a group of activities taken into practice while research work. It includes manner and techniques as well as specifies the steps and chain of activities, states the relationship of the tasks.

It refers to the various sequential steps (along with a rational of each step) to be adopted by a researcher in studying a problem with certain object in a view. It would be appropriate to mention that research projects are not susceptible to be studied will determine the particular steps to be taken order too (Kothari, 1990:19).

Since the basic objectives of this study is to examine the effectiveness of remuneration-taxation in Nepal. So, suitable research methodology as per requirement of the study is being followed. To achieve this objective the basis would be followed by primary as well as secondary data. These data will be evaluated and analyzed with the help of statistical tools. Mainly two aspects; descriptive, and analytical are used on this study. So this chapter explains about the research design, sources of data, data collection procedure, methods of analysis of data and tools for the analysis.

Both primary and secondary sources of data will be used in this study. Primary data will be collected mainly by opinion survey. For this questionnaires were distributed to Tax Experts and Employees to know their opinion towards various aspects of Taxation on Remuneration income. Economic survey, annual report of Inland Revenue Department and Economic report of Nepal Rastra Bank, 2007/08 was used as the major sources of secondary data. Different statistical tools were

used to analyze the data. In this Study, Average, Percentage, Chi - square test, and student's t-test for analysis and to test the hypothesis have been used.

3.2 Research Design

Research design simply means definite procedures and techniques which guidelines the profound ways for research. The analysis of any study is based on certain research design keeping as the objectives of the study in mind. This research study mainly focused towards effectiveness of remuneration tax in Nepal, so research design of this study is here analytical as well as descriptive methods of analysis. For analysis and test of hypothesis both analytical and descriptive method were used, which was supported by the primary as well as secondary data.

3.3 Population and Sample

Tax experts and employees paying tax are the population of the study. From them tax experts and employees of capital city as well as of outside the valley were considered as population. Out of them following are the denominated sample presented in table 3.1

Table 3.1
Groups of Respondents and Sample Size
(Questionnaire Distributed)

S.N.	Respondent Group	Sample Size
1.	Tax Experts	30
2.	Employees	30
Total		60

3.4 The Sampling Procedure

After feeling of research gap upon the topic a careful study on the subject matter was made. From that, it is found that the problem and prospectus regarding remuneration tax in Nepal should be studied systematically. Furthermore, being

concerned on the topic it was concluded that the respondents for the study for primary data collection should Tax Experts and Employees.

3.5 The Sample Characteristics

There are two responding groups specified as the respondent of primary data collection viz. Tax Experts are Government officials from Ministry of Finance (MOF), Department of Tax, and office of Auditor General, Teachers, Layers, Auditors etc. And Employees are the people working in various organizations Viz. Banks, Government office, Private companies etc. So, the sampling is scientific and it tries to cover the adequate range.

3.6 Data Collection Procedures

The study is based on both primary as well as secondary data. Primary data were collected by opinion survey. For this, a set of questionnaire was distributed to the respondent. Questionnaires were distributed personally by the researcher as well as with the help of friends and were collected back vide same way. So during the course of these activities some information relevant to study was also collected. On the case of secondary data, these were collected mainly from Economic survey, Income Tax Act and Rules, Annual report of IRD, MOF, Government of Nepal and Economic report of NRB. Not only this, some contribution was made from various other material and publication such as, NRB news latter, students, Newsletter of the Institute of Chartered Accountants of India, and the Chartered Accountant a Journal Published by ICAI for secondary data.

3.7 Data Analysis Procedures

The data and information collected through primary and secondary sources are initially presented on separate table according to the objective and nature of responses as well as respondent. They are systematically formatted a various tables as per requirement. Presented table are followed by the brief analysis where

as data related to objectives of the study and hypothesis have been tested are analyzes detail and justified as per requirement. Analytical tools used for analysis are percentage, and simple average etc.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

4.1. Presentation and Analysis of Secondary Data

This chapter is focused on the presentation and analysis of secondary data. The secondary data have been obtained from economic survey, economic report of NRB, and Annual report of IRD, NRB, Newsletter and other related newspapers. Those data have been tabulated and presented into graphs and charts has analyze to get the findings.

The data collected from economic survey and other relevant sources have been analyzed dividing into sub-headings. They are; structure of national revenue in Nepal, structure of tax revenue on Nepal, structure of direct tax revenue, composition of income tax revenue; and to analyze the contribution, contribution of income tax on National Revenue, contribution of income tax on tax revenue, Contribution of income tax on Direct tax revenue; and to analyze contribution of remuneration tax, total revenue, total tax revenue are taken into basis.

4.1.1 Structure of Government Revenue in Nepal

Government revenue of Nepal is comprised of different taxes such as custom, excise, sales tax/Vat, income tax, land revenue and Registration, Miscellaneous taxes and non-tax revenues. The structure of government revenue in Nepal has been presented in different tables below for the period of 10years period from 1998/99 to 2007/08.

By the various tax and revenues, tax on consumption and product of goods and services has the vital contribution towards total revenue of Nepal. Contribution in millions of rupees has been increasing per year.

Table 4.1
Structure of Government Revenue of Nepal (F/Y 1998/99 – 2007/08)

(Rs. in million)

Fiscal Year	Total Revenue	in %	Tax Revenue	in %	Non Tax Revenue	in %
1998/99	37,251.30	100.00	28,752.90	77.19	8,498.40	22.81
1999/00	42,892.70	100.00	33,152.10	77.29	9,741.60	22.71
2000/01	48,893.90	100.00	38,865.10	79.49	10,028.80	20.51
2001/02	50,445.54	100.00	39,330.65	77.97	11,114.90	22.03
2002/03	56,229.78	100.00	42,587.11	75.74	13,642.86	24.26
2003/04	62,331.00	100.00	48,173.00	77.29	14,158.00	22.71
2004/05	70,122.70	100.00	54,104.70	77.16	16,018.00	22.84
2005/06	72,282.00	100.00	57,430.40	79.45	14,851.60	20.55
2006/07	87,712.20	100.00	71,126.70	81.09	16,585.50	18.91
2007/08	107,622.58	100.00	85,155.58	79.12	22,467.04	20.88

Source: Economic survey 2008/09, Ministry of Finance, GN/N Table 2.2

In Nepalese revenue structure, tax revenue has always been greater than three times of non-tax revenue. This means the heavy there is contribution of tax revenue in total revenue of Nepal. Tax revenue in amount has always been increasing per year. Its percentage contribution has always been increasing per year. Its Percentage contribution has always been fluctuation within the lower limit of about 77.19% to the upper limit of about 81.09% out of total revenue of Rs. 37251.30 millions, 77.19 percent i.e. Rs.28752.90 millions has been contributed by tax revenue in 1998/99. In 2007/08, 79.12% i.e. Rs 85,155.58 million of total revenue has been collected as tax revenue.

In the other hand, contribution of 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 millions has been collected as non-tax revenue, which is about 22.81% of total revenue. Its contribution over the ten year period

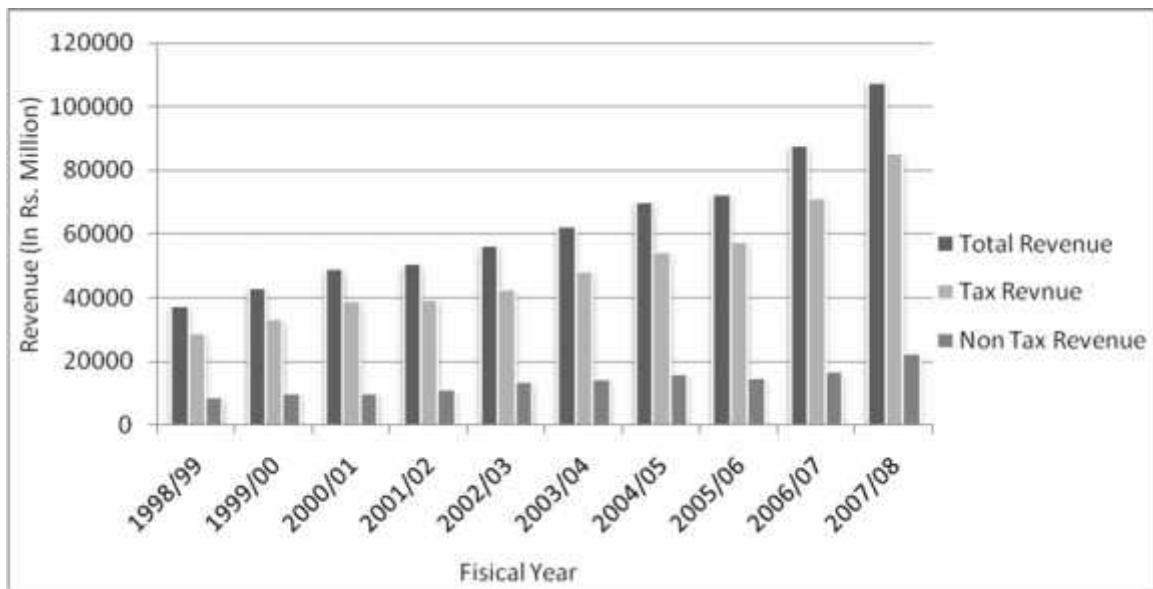
has been fluctuating. In 2007/08, out of total revenue of Rs.107622.58 millions, Rs.22467.04 millions has been contributed from non-tax revenue. It is about 20.88% of total revenue.

The structure of Government Revenue of Nepal is presented in the figure 4.1

The above the can be in figure as follows:

Figure 4.1

Tax and Non tax Revenue in Nepal on Total Revenue



4.1.2 Structure of Tax Revenue in Nepal

Total tax revenue consists of direct tax revenue and indirect tax revenue. Given below, Table 4.1.2 presents tax revenue structure of Nepal which consists of both direct tax and indirect tax revenue of Nepalese tax revenue structure from the fiscal year 1998/99 to 2007/08.

Table 4.2
Structure of Tax Revenue in Nepal (F/Y 1998/99 – 2007/08)

(Rs. in million)

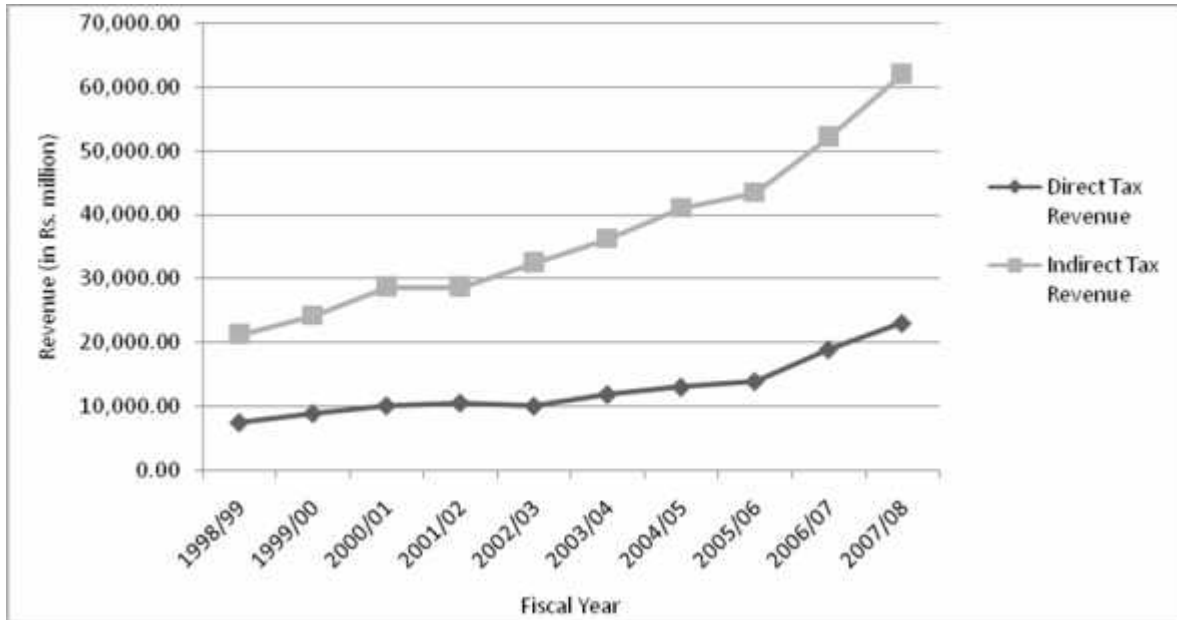
Fiscal Year	Direct Tax Revenue	Percentage (%)	Indirect Tax Revenue	Percentage (%)	Total Tax Revenue
1998/99	7,516.10	26.14	21,236.80	73.86	28,752.90
1999/00	8,951.50	27.00	24,200.60	73.00	33,152.10
2000/01	10,159.40	26.14	28,705.70	73.86	38,865.10
2001/02	10,597.55	26.94	28,733.10	73.06	39,330.65
2002/03	10,105.86	23.73	32,481.25	76.27	42,587.11
2003/04	11,912.60	24.73	36,260.40	75.27	48,173.00
2004/05	13,071.80	24.16	41,032.90	75.84	54,104.70
2005/06	13,968.10	24.32	43,462.30	75.68	57,430.40
2006/07	18,980.30	26.69	52,146.40	73.31	71,126.70
2007/08	23,087.76	27.11	62,067.82	72.89	85,155.58

Source: Economic survey 2008/09, Ministry of Finance, GN/N Table 2.2

In 1998/99, out of total tax revenue of Rs.28752.90 millions, Rs.7516.10 millions and Rs.21236.80 millions have been contributed by direct tax revenue and indirect tax revenue respectively. It means about 26.14% and 73.86% of total tax revenue respectively. In 2007/08, Rs.23087.76 millions and Rs. 62,067.82 millions out of total tax revenue have been collected as direct tax and indirect tax revenue respectively. It is 27.11% and 72.89% of total tax revenue have been collected from direct tax and indirect tax revenue respectively. So, it can be simply said that indirect tax has significant contribution in the total tax structure of Nepal on comparison to direct tax.

The contribution of direct and indirect Tax in total revenue of Nepal represented in the figure 4.2 below:

Figure 4.2
Structure of Tax Revenue in Nepal



4.1.3. Structure of Direct Tax in Nepal

The structure of direct tax revenue is the imposition of income tax revenue, land revenue and registration and miscellaneous taxes. Income tax occupies the highest rank among various taxes in direct tax revenue.

Table 4.3
Structure of Direct Tax in Nepal (F/Y 1998/99 – 2007/08)

(Rs. in million)

Fiscal Year	DT Revenue	%	IT Revenue	%	Land Revenue	%	Misc Tax	%
1998/99	7,516.10	100.00	6,170.21	82.09	1,003.20	13.35	342.73	4.56
1999/00	8,951.50	100.00	7,420.60	82.90	1,015.90	11.35	514.71	5.75
2000/01	10,159.40	100.00	9,114.01	89.71	612.90	6.03	432.79	4.26
2001/02	10,597.55	100.00	8,903.69	84.02	1,131.82	10.68	561.67	5.30
2002/03	10,105.66	100.00	7,966.29	78.83	1,414.79	14.00	724.58	7.17
2003/04	11,912.60	100.00	9,245.90	77.61	1,697.50	14.25	969.68	8.14
2004/05	13,071.80	100.00	10,159.40	77.72	1,799.20	13.76	1,113.72	8.52
2005/06	13,968.10	100.00	10,373.70	74.27	2,181.10	15.61	1,413.57	10.12
2006/07	18,980.30	100.00	15,034.00	79.21	2,253.50	11.87	1,693.04	8.92
2007/08	23,087.76	100.00	17,311.22	74.98	2,940.74	12.74	2,835.17	12.28

Source: Economic Survey 2008/09, Ministry of Finance, GN/N Table 2.2

As compared to the previous years, the share of income tax revenue has been increasing terms up to 2000/01. Then it is in decreasing trend from 2001/02 to 2005/06 and again it is in increasing order after 2006/07. In 1998/99, out of direct tax revenue of Rs.7615.10 millions, Rs.6170.21 millions has been contributed by income tax revenue. This is about 82.09% contribution of income tax revenue in total direct tax revenue. In 2007/08, out of total direct tax revenue of Rs.23087.76 millions, Rs.17311.22 millions has been contributed by income tax revenue. It is about 74.98% of the total direct tax revenue. In 2007/08, it is increased by Rs.2277.22 millions but in decreasing order of about 2%.

Land revenue and registration occupied the second place among direct tax revenue. The trend of land revenue and registration is fluctuating. In 1998/99, out of total direct tax revenue of Rs.7516.10 millions, Rs.1003.20 millions was contributed by land revenue and registration. It is 13.35% of total direct tax

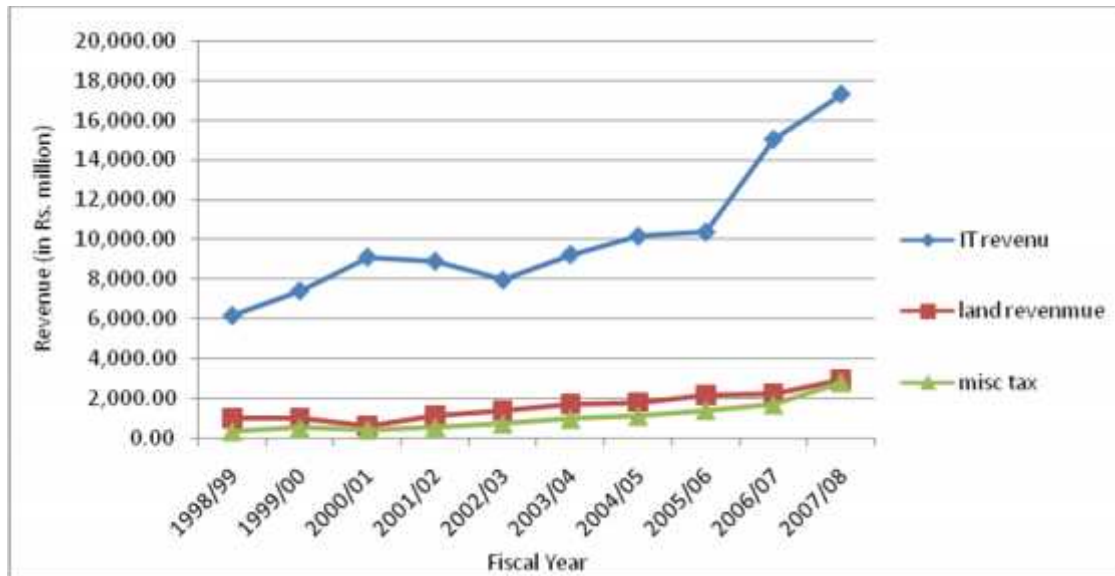
revenue. In 2007/08, total direct tax revenue was Rs.23087.76 millions and land revenue and registration amounted to Rs. 2940.74 millions which is 12.74% of total direct tax revenue. The percentages contribution has been decreasing in the recent years.

Miscellaneous taxes occupy third and last position among various taxes. The trend of miscellaneous taxes has been fluctuating in 1998/99, Rs342.73 millions has been collected as miscellaneous taxes out of total direct tax revenue of Rs.7516.10 millions. It was 4.56% of total direct tax revenue. In 2007/08, Rs.2835.17 millions has been collected as miscellaneous taxes out of Rs.23087.76 millions of direct taxes. It was 12.28% of total direct taxes.

Note: Miscellaneous taxes include Urban House and land Tax + Vehicle tax + Other Taxes.

The Structure of Direct Tax of Nepal is presented in the figure 4.3 below.

Figure 4.3
Structure of Direct Tax in Nepal



4.1.4 Composition of Income Tax in Nepal

Nepal is facing a serious and growing fiscal resources gap and her need for mobilizing additional financial resources from domestic sources through taxation has been urgent. The base for levying taxes may be consumption, income capital. Taxes on income and capital are known as direct taxes whereas taxes on consumption are known as indirect taxes. Tax structure of Nepal s composed of both direct and indirect taxes. Income tax has been playing a vital role to generate government revenue for the economic development of the nation. Nepalese income tax structure is formed by combination of income tax from public enterprises, semi-public enterprises, private corporate bodies, individuals, remunerations and tax on interest. This has been presented in table 4.4 (a) and 4.4(b) below.

Table 4.4(a)

Composition of Income Tax in Nepal (F/Y 1998/99 – 2007/08)

(Rs. in million)

Fiscal Year	Public Enterprise	Semi P.E.	Private Corporate Bodies	Indi-viduals	Remuneration Tax	Tax on Interest	Total Income Tax Revenue
1998/99	1,526.50	0.00	1,155.01	2,772.70	396.50	319.50	6,170.21
1999/00	2,198.80	0.00	1,339.50	3,016.40	451.50	414.40	7,420.60
2000/01	2,928.01	0.00	1,924.30	3,200.50	597.30	463.90	9,114.01
2001/02	1,769.33	0.00	1,412.01	4,419.09	835.56	467.70	8,903.69
2002/03	1,251.02	0.00	1,236.27	3,362.20	1,252.60	864.00	7,966.09
2003/04	2,056.60	0.00	1,531.30	3,533.40	1,391.20	733.40	9,245.90
2004/05	1,332.40	0.00	2,467.80	3,926.30	1,675.90	757.00	10,159.40
2005/06	195.70	0.00	3,404.30	4,234.70	1,764.10	774.90	10,373.70
2006/07	1,019.70	0.00	5,717.10	5,234.40	2,007.90	1,054.90	15,034.00
2007/08	204.58	0.00	7,186.46	6,381.21	2,451.04	1,087.93	17,311.22

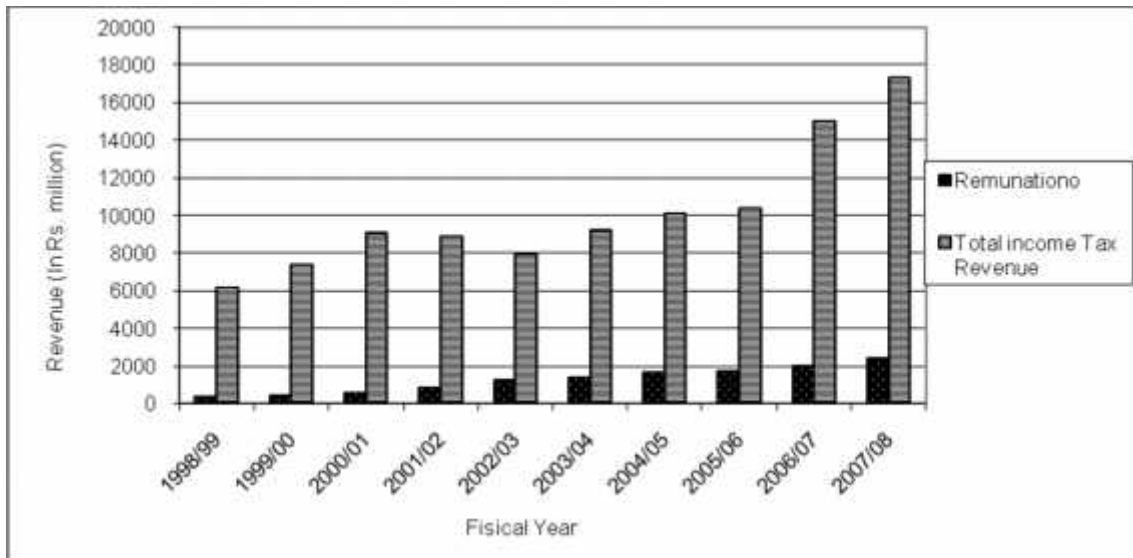
Source: Economic Survey 2008/09, Ministry of Finance, GN/N Table 2.2

Here, public enterprises consists of 100% government ownership and semi-public enterprises include 51% government ownership private-corporate bodies mean

public limited companies; individuals denote sole traders, partnership and private companies remuneration refers to salaries earned by government and not-government sectors employees.

Figure 4.4

Remuneration Tax on Total Income Tax



From the above table income tax revenue second to have an increasing trend up to FY2000/01. Then in 2001/02 to 2002/03, it is in decreasing trend but FY 2002/03 to 2007/08 it seemed to has increasing trend. In 1998/99 Rs.6170.21 millions was raised from income tax revenue. 2007/08 Rs.17311.22 millions was raised as income tax revenue. It is higher than in FY2000/01. i.e. Rs.9114.01 millions. In the FY2001/02, a sight fall was observed in income tax revenue. It has faller by Rs.210.3 millions i.e. 2.31% as of 2001/01. It also falls in FY2002/03 by Rs.937.50 millions i.e. 10.53% and it seems to highest in FY2007/08, Rs.17311.22 millions which is Rs.2277.22 millions higher than in FY2006/07.

The income tax contribution of individual has occupied first position in total income tax revenue of Nepal. In 1998/99, Rs.2772.70 millions was raised from individual as income tax. From then, it has been increasing trend up to 2001/02.

Then it is significantly decrease in year 2002/03, Rs.1056.80 millions i.e. by 23.91%. but after the 2003/04 it is significantly in crease up to Rs.6381.21 millions in the year 2007/08. In 2007/08, out of total income tax revenue of Rs.17311.22 millions, Rs.6381.21 millions has been raised from individuals. It is about 36.86% contribution by individual in the total income tax revenue it is highest in the year 2007/08 i.e. Rs.6381.21 millions.

Table 4.4(b)
Composition of Income Tax in Nepal (1998/99-2007/08)

(Percentages Contribution)

Fiscal Year	Public Enterprise	Semi P.E.	Private Corporate Bodies	Individual	Remuneration	Tax on Interest	Total Income Tax Revenue
1998/99	24.74	0.00	18.72	44.94	6.43	5.18	100.00
1999/00	29.63	0.00	18.05	40.65	6.08	5.58	100.00
2000/01	32.13	0.00	21.11	35.12	6.55	5.09	100.00
2001/02	19.87	0.00	15.86	49.63	9.38	5.25	100.00
2002/03	15.70	0.00	15.52	42.21	15.72	10.85	100.00
2003/04	22.24	0.00	16.56	38.22	15.05	7.93	100.00
2004/05	13.11	0.00	24.29	38.65	16.50	7.45	100.00
2005/06	1.89	0.00	32.82	40.82	17.01	7.47	100.00
2006/07	6.78	0.00	38.03	34.82	13.36	7.02	100.00
2007/08	1.18	0.00	41.51	36.86	14.16	6.28	100.00

Source: Economic Survey 2008/09, Ministry of Finance, GN/N Table 2.2

Income tax from public enterprises has occupied second position regarding its contribution in total income tax revenue of Nepal. In 1998/99, out of total income tax revenue of Rs. 6170.21 millions, Rs. 1526.50 millions has been contributed by public enterprises. It is about 24.74 percentages contribution. Its contribution has been increasing trends up to 2000/01. Then it is in decreasing trends in 2001/02, and 2000/03. But in 2003/04 it is slightly increase to Rs.2056.60 millions and

again it has fallen to Rs.195.70 millions in the year 2007/08 it is slightly fall to Rs. 204.58 millions. The highest contribution of public enterprises is Rs.2928.01 million in the year 2000/01 i.e. 32.13% of total income tax revenue.

Private corporate bodies income tax revenue in the third position from 1998/99. In 1998/99, private corporate bodies paid Rs.1155.01 millions out of Rs.6170.21 millions total income tax revenue. This is 18.72% of total income tax revenue. Its contribution has been increasing trends up to 2001/01 and then it is decreased in the year 2001/02 and 2003/03. In 2002/03 it is decreased by Rs.175.70 millions i.e. 12.44% while in 2001/02, it is decreased by Rs.512.3 millions i.e. 26.62%. it has been increasing trends from the year 2003/04 to 2007/08. In 2007/08 out of total income tax revenue of Rs. 17311.22 million, private corporate bodies have contributed Rs.7186.46 millions. It is about 41.51% contribution in total income tax revenue of Nepal.

Income tax from remuneration has occupied fourth position in total income tax revenue of Nepal. In 1989/99, total income tax revenue was Rs.6170.21 millions and Rs.396.50 millions was contributed by remuneration income tax. Income tax from remuneration has been increasing in all the fiscal years. In 2007/08, for total income tax revenue of Rs. 17311.22 millions, it added the value of Rs. 2451.04 millions. It is increase of Rs.454 millions which deserves 18.52%.

Tax on interest has occupied fifth position in total income tax revenue 1998/99, Rs.319.50 millions was collected as tax on interest. Interest income tax has been increasing tend in all the years except in 2003/04. Its maximum contribution is made on the year 2002/03, Rs.864 millions i.e.10.85% of total income tax. Then it again going to increase its contribution in total income tax, in the year 2007/08 it was contributed Rs.1087.93 millions i.e. 6.28% of total income tax revenue of Nepal.

Semi-public enterprises have not made contribution in income tax revenue. Its contribution to income tax revenue has been nil.

4.1.5 Contribution of Income Tax to Total Revenue, Total Tax Revenue and Direct Tax Revenue of Nepal

The contribution of income tax revenue to total revenue, total tax revenue and direct tax revenue is presented and analyzed below.

Table 4.5

Contribution of Income Tax to Total Revenue, Total Tax Revenue and Direct Tax Revenue of Nepal (F/Y 1998/99 – 2007/08)

(Rs. in million)

Fiscal Year	IT Revenue	Total Revenue	%	Total Tax Revenue	%	Direct tax Revenue	%
1998/99	6,170.21	37,251.30	16.56	28,752.90	21.46	7,516.10	82.09
1999/00	7,420.60	42,892.70	17.30	33,152.10	22.38	8,951.50	82.90
2000/01	9,114.01	48,893.90	18.64	38,865.10	23.45	10,159.40	89.71
2001/02	8,903.69	50,445.54	17.65	39,330.65	22.64	10,597.55	84.02
2002/03	7,966.09	56,229.78	14.17	42,587.11	18.71	10,105.86	78.83
2003/04	9,245.90	62,331.00	14.83	48,173.00	19.19	11,912.60	77.61
2004/05	10,159.40	70,122.70	14.49	54,104.70	18.78	13,071.80	77.72
2005/06	10,373.70	72,282.00	14.35	57,430.40	18.06	13,968.10	74.27
2006/07	15,034.00	87,712.20	17.14	71,126.70	21.13	18,980.30	79.21
2007/08	17,311.22	107,622.58	16.85	85,155.58	20.33	23,087.76	74.98

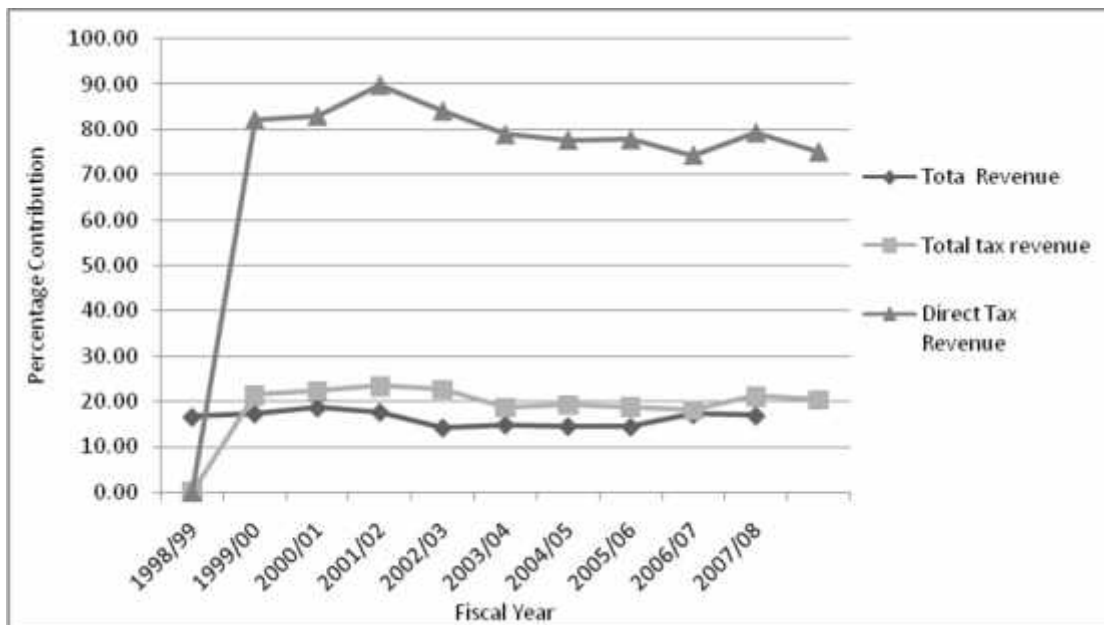
Source: Economic Survey 2008/09, Ministry of Finance, GN/N Table 2.2

Income tax revenue has very low contribution on total revenue. In 2002/01, it is highest of 18.64% and is lowest in 2002/03 i.e. 14.17%. its contribution on total revenue was in increasing trend up to 2000/01 and has started to decrease after then, in 2006/07 it has contributed to total revenue Rs.15034.00 millions i.e. 17.14% which is about 3% more than four previously years.

In total tax revenue also, income tax has low contribution. It was 18.06% in 2005/06 and 20.33% on 2007/08. It was highest on 2000/01 of 24.45% up to then it was in increasing trend, it decreased for five years and in last two years it has increased slightly.

Contribution of Income tax is vital on Direct tax revenue; it is always more than 75% other the year 2005/06 i.e.74.27% and the year 2007/08 i.e. 74.98%. it has been in increasing trend up to the year 2000/01. And after then it has started to decrease slightly. In 2006/07 its contribution to direct tax was 79.21% contribution of income tax on total revenue, total tax revenue, and direct tax revenue is presented in Figure 4.5.

Figure 4.5
Contribution of Income Tax to Total Revenue, Total Tax Revenue and
Direct Tax Revenue of Nepal



4.1.6. Contribution of Remuneration Tax in Nepal

Income tax from remuneration has contributed very much insignificantly in total revenue of Nepal. Out of total revenue of Rs.37251.30 millions, only Rs.396.50

millions was contributed by remuneration tax which is about 1.06% in 1998/99. The contribution has been increasing in the trend. In 2007/08, Rs.2451.04 millions was contribution from remuneration tax to construct the total revenue of Rs.107622.58 millions. That was about 2.27% contribution.

Income tax from remuneration has also very insignificant contribution in total tax revenue was Rs.28752.90 millions and income tax from remuneration was only Rs.396.50 millions. It was about 1.38% of total tax revenue in 1998/99. In 2007/08, total revenue was Rs.85155.58 millions and contribution of income tax from remuneration was Rs.2451.04 millions. It was about 2.87% contribution from remuneration income to total tax revenue.

Income tax from remuneration was Rs.396.50 millions in 1998/99 out of total direct tax revenue of Rs.7516.10 millions. It was about 5.27% of direct tax revenue. The contribution has been increasing the trend. In 2007/08, the total direct tax revenue of Rs.23087.76 millions included Rs.2451.04 millions as income tax from remuneration. It was about 1.61% contribution.

Table 4.6
Contribution of Remuneration Tax to Total Revenue, Total Tax Revenue,
and Income Tax Revenue of Nepal (F/Y 1998/99 – 2007/08)

(Rs. in million)

FY	Remuneration Tax	Total Revenue	%	Total Tax Revenue	%	Direct Tax Revenue	%	Income Tax revenue	%
1998/99	396.50	37251.30	1.06	28752.90	1.38	7516.10	5.27	6170.21	6.42
1999/00	451.50	42892.70	1.05	33152.10	1.36	895.50	5.04	7420.60	6.08
2000/01	597.30	48893.9	1.22	38865.10	1.54	10159.40	5.88	9114.01	6.55
2001/02	835.56	50445.54	1.66	39330.65	2.12	10597.55	7.88	8903.69	9.38
2002/03	1252.60	56229.78	2.23	42587.11	2.94	10105.86	12.39	7966.09	15.72
2003/04	1391.20	62331.00	2.23	48173.00	2.89	11912.60	11.68	9245.90	15.05
2004/05	1675.90	70122.70	2.39	54104.70	3.09	13071.80	12.82	10159.40	16.49
2005/06	1771.10	72282.00	2.45	57430.40	3.08	13968.10	12.68	10373.70	17.07
2006/07	2007.90	87712.20	2.29	71126.70	2.82	18980.30	10.58	15034.00	13.35
2007/08	2451.04	107622.58	2.27	85155.58	2.87	23087.76	10.61	17311.22	14.16

Source: NRB Economic Report 2007/08 Table – 24, and Economic Survey, 2008/09 Table -2.2

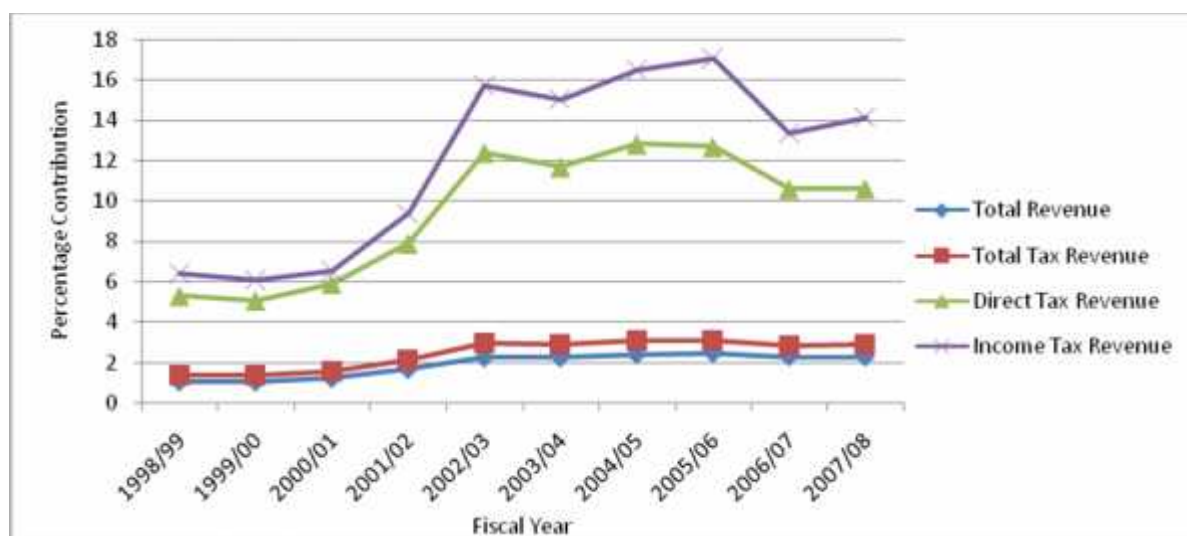
In general income from remuneration tax is assumed as vital source to construct income tax revenue. But the condition is not as assumed here. Income tax from remuneration is a source of income among them. The contribution of remuneration income to income tax revenue has not been so satisfactory. In 1998/99 total income tax revenue is Rs.6170.21 millions, for this remuneration tax contribution constituted Rs.396.50 millions. It was about 6.42% of total income tax revenue. The percentage contribution has been increasing. In 2007/08, the total income tax revenue was Rs.17311.22millions.

Out of this Rs.2451.04 millions was contributed by income tax from remuneration. This was about 14.16%.

The contribution of Income Tax to Total Revenue Total Tax Revenue and Direct Tax Revenue of Nepal is presented in the figure 4.1.6 below.

Figure 4.6

Contribution of Remuneration Tax to Total Revenue, Total Tax Revenue, and Income Tax Revenue of Nepal



4.1.7 Exemption Limit Provided for Remuneration Tax

There is a provision of exemption limit for single or couple/family while calculating remuneration tax. Exemption limit for remuneration tax in different years from fiscal year 1998/99 to 2007/08.

Table 4.7 (a)
Exemption Limit Provided for Remuneration Tax

Fiscal Year	Individual	Couple/Family
1998/99	40,000	50,000
1999/00	50,000	60,000
2000/01	65,000	75,000
2001/02	65,000	85,000
2002/03	80,000	100,000
2003/04	80,000	100,000
2004/05	80,000	100,000
2005/06	80,000	100,000
2006/07	100,000	125,000

2007/08	115,000	140,000
2008/09	160,000	200,000

(Source: Finance Acts of various year, Ministry of Finance, NG/N.)

From the above table we have seen that the exemption limit for the individuals is Rs.40, 000 whereas that is Rs.50, 000 for couple/Family for the same period. The difference exemption limit between individual and couple/Family got Rs.10, 000 more exemption limit than that of individual. In the FY 2007/08 the exemption limit for individual is Rs.115, 000 and for couple/ Family is Rs.140, 000.

Tax Policy Provisions: With regard to income tax, the exemption limit for personal income taxation of Rs. 100,000 for individual and Rs.125,000 for family in 2006/07 increased to Rs. 115,000 and Rs.140,000 respectively in 2007/08.

Tax Rates: Personal income tax and corporate income tax rates were not changed in the review year. However, the existing provisions of Rs.75000 above the tax exemption limit subject to income taxation of 15% percent were expanded to Rs.85, 000 in 2007/08. Thereafter, the rate is 25 percent that is the highest marginal rate of 25 percent plus 1.5 percent that was applied in 2006/07 and has remained constant also in 2007/08 (NRB Economic Report, 2008/09).

According to finance ordinance announced by the ministry of Finance, Government of Nepal on 29th Ashadh, 2066 there is not minimum exemption limit at all but there is provision of taxation on income earned by individual Rs.160,000 and family Rs.200,000 at 1 percent. However, the existing provision of Rs.85,000 above the tax brackets of 1 percent subject to income taxation of 15 percent was expanded to Rs.100,000 in 2008/09. Thereafter, the rate is 25 percent, that is, the highest marginal rate is 25 percent, plus 1.5 percent that was applied in 2007/08 and has remained constant also in 2008/09. (Table 4.7 (b))

Table 4.7 (b)**Tax Rates**

	Description	2006/07	2007/08	2008/09
1.	Vat (Percent)	13	13	13
2.	Income Tax			
	a) Limit of Exemption			
	i) Individual	100,000	115,000	160,000@1%
	ii) Family	125,000	140,000	200,000@1%
	b) Rate of Tax(Percent)			
	i) First Rs.75000 after exemption	15Percent (Rs.75,000)	15Percent (Rs.85000)	15Percent (Rs.100,000)
	ii) After Tax	25+1.5Percent	25+1.5Percent	25+1.5Percent
	a) Corporate tax			
	Flat Rate at Corporate Net Income			
	i) Bank and Financial Institutions	30Percent	30Percent	30Percent
	ii) Others	25Percent	25Percent	25Percent
	b) Partnership firm	25Percent	25Percent	25Percent

Source: NRB Economic Report 2007/08: Table 5.1

4.2 Presentation and Analysis of Primary Data

4.2.1 Introduction

Primary data were collected from opinion survey. Question consisting different aspects of revenue to remuneration tax were compiled and distributed to respondents. The major tools are used for this purpose is an opinion questionnaire, which was dispatched to fifty persons. Among them, 25 were employees.

The questionnaire was asked either for a yes/no response or asked for ranking of the choices according to the number of alternatives where the first choice was the most important and the last choice was the least important. Information received from all of responded was tabulated into the separate table format and they were presented in percentage of total numbers or points and then analyzed into a descriptive way. If the number of alternatives was four, the first preferred choice would get highest (4, 5, 6 or 7) point and the last preferred choice would get lowest (one) point. Any alternative, which was not ranked, did not get any point. The choice with the highest percentage score was ranked or the most important choice and the one with the lowest percentage score were ranked as the last choice.

The following table shows the number of respondents of different types.

Table 4.8
Collected Respondents

S.N.	Types of Respondents	Sample Size
1.	Tax Experts	25
2.	Employees	25
Total		50

Source : Opinion Survey

4.2.2 Contribution of Remuneration Tax to Income Tax Revenue of Nepal:

In order to know whether remuneration tax is contributing the income tax revenue or not, a questions was asked, “In your opinion, is remuneration tax contributing significantly to the income tax revenue of Nepal?” the question was intended to know the respondents’ opinions towards the contribution of remuneration tax in the income tax revenue. The responses received from respondents are tabulated below.

Table 4.9
Significant Contribution of Employment Income to
Income Tax Revenue of Nepal

Response Respondents	Yes		No		Total	
	No.	%	No	%	No	%
Tax Experts	18	36	7	14	25	50
Employees	19	38	6	12	25	50
Total	37	74	13	26	50	100%

Source: Opinion Survey

The question was received from all respondents. 74% of total respondents accepted the contribution of remuneration tax significantly to the income tax revenue of Nepal. 26% of total respondents did not accept the significant contribution of remuneration tax to the income tax revenue of Nepal. The ranked first to the low pay scale of the employees and less number of employees having tax liabilities and tax evasion. Thus, the conclusion can be drawn that the remuneration tax is contributing significantly to the income tax revenue of Nepal.

4.2.3. Remuneration tax as a suitable means of Collecting Public Revenue

To know the respondents opinions about the remuneration tax as a suitable means of collecting government revenue, the question is asked, “In your opinion, is the remuneration tax is a suitable means of collecting public revenue?” The responses received from the respondents are tabulated as follows.

Table 4.10 (a)

Remuneration Tax is a Suitable Means of Collecting Public Revenue

Response Respondents	Yes		No		Total	
	No.	%	No	%	No	%
Tax Experts	20	40	5	10	25	50
Employees	15	30	10	20	25	50
Total	35	70	15	30	50	100%

Source: Opinion Survey

From the above table, it is clear that 70 percentage of the respondents approved remuneration tax as an important source of collecting government revenue and only 30 percentages of the respondents did not recognize remuneration tax as a suitable means of collecting government revenue.

Thus, the conclusion can be drawn out that remuneration tax is a suitable means of collecting government revenue.

) Reasons Behind Suitable Means of Collecting Public Revenue

A supplementary question was asked, “If yes, why it is a suitable means of collecting public revenue?” The opinions of respondents are presented in the following table.

Table 4.10 (b)

Reasons Behind Suitable Means of Collecting Public Revenue:

S.No.	Alternatives	Total Points	Percentage	Rank
1.	It is transparent	135	30	1
2.	As compared to other taxes there is less chance of tax evasion	120	27	2
3.	It is based on progressive	95	21	4
4.	Others	100	22	3
Total		450	100	

Source : Opinion Survey

From the above table it is clear that most of the respondents responded that the main reason is “As compared to other taxes, there is less change of tax evasion.” Thus, we conclude that the reasons behind suitable means of collecting public revenue are ranked below in order of preference.

1. It is transparent
2. As compared to other taxes, there is less change of tax evasion.
3. Other, it is convenient to collect and to pay.
4. It is based on progressive tax.

4.2.4 Opinion about the current Exemption Limit

To know whether the current exemption limit is suitable or not, the question asked was, “Is the current exemption limit is suitable? The responses received from the respondents are tabulated as below.

Table 4.11
Appropriateness of the current Exemption Limit

Response Respondents	Yes		No		Total	
	No.	%	No	%	No	%
Tax Experts	5	10	20	40	25	50
Employees	8	16	17	34	25	50
Total	13	26	37	74	50	100%

Source : *Opinion Survey*

From the above table, 26% of the total respondents were satisfied in the current provision of the exemption limit. While 74% of total respondents were dissatisfied with the current provision of exemption limit. Thus, from the above result, we can conclude that current exemption limit is not suitable and it must be increased.

Due to increase in Price Index of daily consumable goods and services, majority of the tax experts and employees are suggested that the exemption limit should be

in the range between Rs.200, 000 to Rs.250, 000 for single and Rs.300, 000 to Rs.350, 000 for couple/family.

4.2.5 Opinion about Exemption Limit for Senior and Disabled Citizens

To know whether the current exemption limit for senior and disabled citizens should be more than that of other citizens or not, the question asked was, “Do you think that the exemption limit for senior and disabled citizen should be more than that of other citizen?” the responses received from the respondents are ambulated as below.

Table 4.12

Need to Increase the Exemption Limit for Senior and Disable Citizens

Response	Yes		No		Total	
	No.	%	No	%	No	%
Tax Experts	10	20	15	30	25	50
Employees	13	26	12	24	25	50
Total	23	46	27	54	50	100%

From the above table 54% of the total respondents suggested that the exemption limit for senior and disabled citizens should not be necessarily more than that of other citizens. While 46% of total respondents suggested that the current exemption limit for senior and disabled citizens should be more than that of other citizens. Thus, from the above result, we conclude that current exemption limit for the senior and disabled citizens should not necessarily be more than that of other citizen.

4.2.6 Soundness and Effectiveness of Remuneration Tax System in Nepal

To know whether the remuneration tax system of Nepal is sound and efficient or not, the question asked was, “Do you think that the remuneration tax system of Nepal is sound and efficient?” The responses received from the respondents are tabulated as below.

Table 4.13

Soundness and Effectiveness of Remuneration Tax System in Nepal

Response Respondents	Yes		No		Total	
	No.	%	No	%	No	%
Tax Experts	13	26	12	24	25	50
Employees	9	18	16	32	25	50
Total	22	44	28	56	50	100%

Source: Opinion Survey

From the above table, 56 percent of the total respondents said that the remuneration tax system of Nepal is not sound and efficient. While 44 percent of the total respondents agreed that the remuneration tax system of Nepal is sound and efficient. Majority of the tax experts are agreed that the tax system of Nepal is sound and efficient. Thus from the above result, we can conclude that the remuneration tax system of Nepal is not sound and efficient for some extent. The remuneration tax system needs to be improved.

4.2.7 Major problems of soundness and effectiveness of Remuneration Tax System in Nepal

A supplementary question was asked, “If not, what are the major problems of the remuneration tax system?” The opinions of respondents are presented in the following table.

From the above table, it is clear that the main problem of the remuneration tax system of Nepal is unfair and weak administration. The reasons behind the problems of soundness of remuneration tax system are ranked below in order of preference.

Table 4.14
Major problems for soundness and effectiveness of Remuneration
Tax System in Nepal

S. No.	Problems	Total Points	Percentage	Rank
1.	Defective tax rate	130	17	5
2.	It is high burden of tax on low-level income earners	135	18	4
3.	Unfair and weak administration	165	22	1
4.	No provision of deducting any expenditure	145	19	3
5.	Complexity of income tax policy rules and regulation	150	21	2
6.	Other reasons	25	3	6
Total		750	100	

Source: Opinion Survey

1. Unfair and weak Administration
2. Complexity of income tax policy rules and regulations.
3. No provision of deducting any expenditure.
4. It is high burden of tax on low-level income earners.
5. Defective tax rate
6. Other reasons.

The respondents said that inappropriate tax on minimum earning trading deficit and unawareness of the public as other reasons.

4.2.8 Factors to be initiated to increase the contribution of Remuneration Tax in Nepal

To know the factors that increase the contribution of remuneration tax to the income tax revenue of Nepal, the question was asked, “What factors should be

initiated to increase the contribution of remuneration tax in Nepal?” The following table shows the rank wise response received from the respondents.

Table 4.15
Factors to be Initiated to Increase the Contribution of
Remuneration Tax in Nepal

S.N.	Alternatives	Total Points	Percentage	Rank
1.	Making tax deduction at sources (TDS) effective	190	21	2
2.	Bringing new tax payers into tax net.	200	22	1
3.	Reduction in exemption limit	185	21	3
4.	Increasing tax rates	145	16	4
5.	Reforms the tax policy, rules and regulations	125	14	5
6.	Others	50	6	6
Total		895	100	

Source : Opinion Survey

From the above table, it is clear that the main factor that should be initiated to increase the contribution of remuneration tax in Nepal is bringing new tax payers into tax net and making tax deduction at source (TDS) effective. The other factors to be initiated to increase the contribution of remuneration tax in Nepal are ranked below in order of preference.

1. Bringing new tax payers into tax net.
2. Making tax deduction of source (TDS) effective.
3. Reduction in exemption limit.
4. Increasing tax rates.
5. Reforms the tax policy, rules and regulations.
6. Others.

In other factors the respondents said personal PAN distribute system must be launched to make it effective and to make self-assessment of tax easier and reliable, provide various facilities to the tax payers employees and increasing pay scale of the employees.

4.2.9 Provision for deduction of expenses from Employment Income

To know the views of respondents about the provision for deduction of expenses from employment income is suitable or not, a question was asked, “Income Tax Act, 2058 has not made a provision of deduction for expenses while computing remuneration income. Is this provision suitable?” the responses received from the respondents are tabulated below.

Table 4.16 (a)

Need to Provide Standard Deduction for Expenses from Employment Income

Response	Yes		No		Total	
	No.	%	No	%	No	%
Tax Experts	15	30	10	20	25	50
Employees	16	32	9	18	25	50
Total	31	62	19	38	50	100%

Source: Opinion Survey

From the above table, it is clear that about 62% of the respondents responded that provision for deduction of expenses should be required and 38% of the respondents responded that no any expenses should be required to deduction from remuneration income.

Thus, we can conclude that the provision for deduction of expenses is required while computing remuneration income.

A supplementary question was asked to the respondents to find out their opinions towards the provisions for deduction of expenses required from remuneration

income. The question was asked, “If not, what types of deductions would you expects to be provided?” The responses received from the respondents are listed below.

Table 4.16 (b)
Opinion Towards the Provision for Deducting of Expenses Required from Remuneration Income

S.N.	Alternatives	Total Points	Percentage	Rank
1.	Medical expenses incurred for the treatment of the employee.	255	19	1
2.	Education expenses and books and reading Materials purchased for the job.	205	15	3
3.	Transportation expenses to go to the office and back.	230	17	2
4.	House rent paid.	155	12	6
5.	Leave salary	180	14	4
6.	Amount received from life insurance	175	13	5
7.	Other expenses as of previous act.	140	10	7
Total		1340	100	

Source: Opinion Survey

From the above table, it is clear that the main item for deduction is medical expenses incurred for the treatment of the employee. The different items of deductions suggested by respondents are ranked below in order of preference.

1. Medical expenses incurred for the treatment of the employee.
2. Transportation expenses to go to the office and back.
3. Education expenses, books and reading materials purchased for the job.
4. Leave salary.
5. Amount received from life insurance.
6. House rent paid.
7. Other expenses as of previous Act.

4.2.10 Opinions towards the Income Tax Evasion in Nepal

To know the views of respondents about the opinions towards the income tax evasion in Nepal, a question was asked, “Do you believe that income tax evasion is being practiced in Nepal?” the responses received from the respondents are tabulated below.

Table: 4.17

Opinion Towards the Existence of Income Tax Evasion

Response Respondents	Yes		No		Total	
	No.	%	No	%	No	%
Tax Experts	16	32	9	18	25	50
Employees	14	28	11	22	25	50
Total	30	60	20	40	50	100%

Source: Opinion Survey

From the above table, it is clear that about 60% of the respondent accepted the income tax evasion in Nepal. 40% of the respondent responded that there was no practice of income tax evasion in Nepal. Here is also a hypothesis to be tested regarding the income tax evasion in Nepal, which is; “There is no significant difference in opinion of various responding groups regarding the income tax evasion in Nepal. “Which can be systematically stated as?”

-) Null Hypothesis (H_0): There is no significant difference in opinion of Tax Experts and Employees regarding the income tax evasion in Nepal.
-) Alternative Hypothesis (H_1) M There is significant difference in opinion of Tax Experts and employees regarding the income tax evasion in Nepal.

For this following table are presented

Observed Frequency Table

Response Respondents	Yes	No	Total
Tax Experts	16	9	25
Employees	14	11	25
Total	30	20	50

Source: Opinion Survey

Computation of Expected Frequency

Expected Frequency = Row Total x Column Total/ Grand Total

Expected Frequency Table

Respondents	Yes	No	Total
Tax Experts	15	10	20
Employees	15	11	26
Total	30	21	46

Source: Opinion Survey +use of Statistical Tool

Test Statistic is:

$$\chi^2 = \sum_{i=1}^n \frac{(O_i - E_i)^2}{E_i}$$

Computational Table

O_i	E_i	$(O_i - E_i)$	$(O_i - E_i)^2 / E_i$
16	15	1	0.67
9	10	-1	0.10
14	15	-1	0.67
11	10	1	0.10
Total			1.54

Source: opinion survey +use of statistical tool

The test of statistic is

$$\chi^2 = \sum_{i=1}^n \frac{(O_i - E_i)^2}{E_i} = 1.54$$

Where, O_i = Observed Frequency
 E_i = Expected Frequency

-) The Degree of Freedom is; $(r-1)(c-1) = (2-1)(2-1) = 1$
-) Level of Significance $(\alpha) = 5\% = 0.05$
-) Tabulated Value of χ^2 at 5% level of significance and 1 Degree of Freedom is, 3 which is to be tested.

Conclusion

Hence $\chi^2_{cal} (1.54) < \chi^2_{tab} (3)$ Therefore Null Hypothesis is accepted. There is not significant difference in opinion of Tax Experts and employees regarding the income tax evasion in Nepal. Thus, we can conclude that the income tax evasion is being practiced in Nepal.

4.2.11 Opinions towards the reasons to Increase the Tax Paying Habit of Nepalese People

The question was asked to the respondents, “How can you increase the tax paying habit of Nepalese people?” The response received from the respondents are listed below.

Table 4.18
Opinion to Increase the Tax Paying Habit of Nepalese People

S.N.	Alternatives	Total Points	Percentage	Rank
a.	Educating tax payers	175	25	1
b.	Simplifying tax laws	160	23	2
c.	Increasing fine and penalties	105	15	5
d.	Timely Assessment of tax	115	17	4
e.	Incentives to Regular tax payer	140	20	3
Total		695	100	

Source: Opinion Survey

From the above table, it is clear that the main reason to increase the tax paying habit of Nepalese people is educating tax payers. The different reasons suggested by respondents are ranked below in order of preference.

1. Educating tax payers.
2. Simplifying tax laws.
3. Incentives to Regular tax payer.
4. Timely Assessment of tax.
5. Increasing fine and penalties

4.2.12 Opinions towards some taxable income to be made Tax-Exempted

To know the respondents opinions towards tax exemption for admissible income, the question asked was, “What types of income heads included in remuneration tax would you expect to be made tax exempted?” The responses received from the respondents are tabulated below.

Table 4.19

Opinions towards some Taxable Income to be made Tax-Exempted

S.N.	Incomes	Total Points	Percentage	Rank
a.	Remote area allowance	170	24	1
b.	Dashain allowance	155	21	3
c.	Pension Income	140	19	4
d.	Medical Expenses Paid by the employer	165	23	2
e.	Others	95	13	5
Total		725	100	

Source : Opinion Survey

From the above table, we find that the most important head of income to be made tax exempted is remote area allowance. While ranking together the opinions of both the groups, the corresponding prioritized reasons for making some taxable incomes tax-exempted are as follows.

1. Remote area allowance

2. Medical expenses paid by the employer
3. Dashain allowance
4. Pension Income
5. Others

4.2.13 Opinions towards the Tax on Pension Income

To know the respondents' opinions towards the tax on pension income received by retired employees, a question was asked, "Do you think that the income tax on pension income should be levied?" the responses received from the respondents are tabulated below.

Table 4.20
Opinions towards the Tax on Pension Income

Response Respondents	Yes		No		Total	
	No.	%	No	%	No	%
Tax Experts	15	30	10	20	25	50
Employees	0	0	25	50	25	50
Total	15	30	35	70	50	100%

Source: Opinion Survey

From the above table, it is clear that about 30% of the respondents responded the tax on pension income should be levied while 70% of the respondents disagreed towards imposition of tax on pension income. Out of which, 100% employees disagreed towards the imposition of tax on pension income. Thus, we can conclude that the tax on pension income should not be levied.

4.2.14 Problem faced by employees while Paying Remuneration Tax

To know whether employees are facing problems in payment of remuneration tax, question was asked to them; "The question was," "What types of problems that the employees faced while paying remuneration tax?" The responses received from the respondents are tabulated below.

Table 4.21

Problem faced by employees while Paying Remuneration Tax

S.N.	Problems	Total Points	Percentage	Rank
a.	Hesitation to pay income tax due to low income.	195	19	2
b.	Weak and immature treatment by tax administration.	160	15	4
c.	Procedural Complication	186	18	3
d.	Tax personnel discourage	155	15	5
e.	Due to lack of taxation knowledge, employees do not know how to file returns.	208	20	1
f.	Others.	136	13	6
Total		1040	100	

Source: Opinion Survey

From the above table, we find that the most important problem faced by employees while paying remuneration tax is due to lack of taxation knowledge, employees do not know how to file returns. Where some employees has given first priority to option, hesitation to pay income tax due to low income. Some tax experts also give the first priority to option procedural complication. While ranking together the options of both the groups, the corresponding prioritized problems are as follows.

1. Due to lack of taxation knowledge, employees do not know how to file returns.
2. Hesitation to pay income tax due to low income
3. Procedural complications.
4. Weak and immature treatment by tax administration
5. Tax personnel discourage getting tax clearance certificate.
6. Other.

4.2.15 Suggestions Regarding Remuneration Taxation in Nepal

There was an open question in questionnaire that; "Have you any suggestion regarding to increase the tax revenue from remuneration tax? Please specify, if any." Only few respondents respond from both groups regarding the question.

Tax experts suggested; from this fiscal year, Government has initiated to provide personal PAN number, this system should be broadened. Inspect double employment to bring new tax payer in Tax Net. Awarding Employees reduce the rate, encourage paying tax. The education is to be focused on school and college compulsory.

-) Effective monitoring from tax administration
-) TDS on payment of any remuneration amount
-) Tax payer education
-) Remuneration tax from private sector has not satisfactory. So closely monitoring to this sector is essential for effective remuneration tax.
-) Training to accounting staffs.

Increase penalties for tax Defaulters, simplified administration, and making more progressive are the suggestions provided by administration experts to improve the effectiveness of remuneration tax in Nepal.

4.3 Major Findings from Secondary Data

The major findings of the study are pointed out as follows:

1. Total revenue of Nepal consists of tax-revenue and no-tax revenue. Tax revenue comprises of customs, excise, sales tax, income tax, land revenue and registrations fees and miscellaneous taxes. Nepalese revenue structure, tax revenue has always been greater than three times of non-tax revenue mobilization (excluding the principal refund) registered a growth of 21 percent to Rs. 104.9 billion in 2007/08 compared to a growth of 22.5 percent

in the previous year. Reforms in tax administration, evolution of corporate culture in banking and financial institution, increase in remittance inflows contributed to such a revenue growth in the review year. Of the total revenue the share of tax revenue and non-tax revenue stood at 81.1 percent and 18.9 percent respectively in 2007/08. Such ratios were 82.1 percent and 17.9 percent respectively in 2006/07.

2. Total tax revenue made of direct tax revenue and indirect tax revenue. In 1998/99, out of total tax revenue of Rs.28752.90 millions, direct tax contributed Rs.7516.10 millions and Rs.21236.80millions have been contributed by indirect tax revenue respectively. There was 26.14 percent share of direct tax and 73.86percent indirect tax revenue. Of the total tax revenue, value added tax (VAT) occupied the highest share followed by income tax, in the review yhear, the share of direct tax and indirect tax in total tax revenue stood at 27.10 percent and 72,90 percent respectively. Such ratios were 26.7 percent and 73.3 percent respectively. By the comparison of direct tax and indirect tax revenue, indirect tax has vital contribution in the total tax structure of Nepal.
3. The major components of direct tax are corporate income tax, house and land registration tax, investment and other tax, and remuneration tax. Income tax occupies the highest rank among various taxes in direct tax revenue. In 1998/99, out of total direct tax revenue of Rs.7516.1millions, Rs6170.21 millions has been contributed by income tax revenue. In 2007/08, out of total direct tax revenue of Rs.23, 087.76 millions, Rs.17311.22 millions has been contributed by income tax revenue. Land revenue and registration occupies the second place among direct tax revenues. Income tax revenue increased by 45.4 percent, to Rs.21.2 billion, in the first eleven months of 2008/09. A remarkable receipt under voluntary discloser of income scheme (VDIS) program due to government's strong administrative and political commitment contributed to such an increase in income tax collection. Last year such

revenue had risen by 30.0 percent last year total income tax is increased by 10.92 percent in comparison to the previous year. In 2064/65 B.S. the total income tax, Rs.17327.915millions was collected. In total income tax, the weighted of corporate income tax, personal income tax house and land tax and interest income tax is 56.37percent, 34.46 percent, 3.62 percent and 5.55 percent respectively.

4. Tax revenue showed a growth of 19.5 percent in FY 2007/08 compared to a growth of 23.9 percent in the previous year. The revised estimate of tax revenue was 5 percent higher than the budget estimate. The ratio of tax revenue of GDP remained at 10.4 percent in2007/08 compared to that of 9.8 percent in the preceding year. Of the total tax revenue, value added tax (VAT) occupied the highest share followed by income tax.
5. Government revenue of Nepal is comprised of different taxes such as customs, excise duty, sales tax/ VAT, income tax, land revenue and registration, miscellaneous taxes and non-tax revenues. By the various tax and not-tax revenues, tax on consumption and product of goods and services has the highest percentage of contribution towards total tax revenue of Nepal. The customs occupies the second place among the tax revenue. The tax on property, profit and income occupies the third place among the tax revenue. The land revenue and registration occupies the last5 place among the tax revenue. Tax revenue comprises of direct and indirect tax. The major components of direct6 tax are corporate income tax, house and land registration tax, investment and other tax and remuneration tax, whereas VAT, customs duties and excise duties are the major components of indirect tax revenue.
6. Income tax revenue has very low contribution on total revenue. In 2000/01, it is highest of 18.64percent and is lowest in2002/03 by 14.17 percent of total revenue. Its contribution on total revenue was in increasing trend up to 2000/01 and has started to decrease after then in 2006/07 it has contribution

of 17.14 percent which is slight increase in comparison to previous fiscal year. In total tax revenue also, income tax has low contribution. Contribution of income tax is vital on direct tax revenue; it is always about 75percent and more.

7. In total revenue of Nepal, income tax from remuneration has very much insignificant contribution. Total revenue was Rs.37251.30 millions and income tax from remuneration was Rs.396.50 millions in 1998/99. It was about 1.06% contribution. The contribution has been increasing. It was 2.29% of total revenue of Rs.87, 712.20 in 2006/07, i.e. Rs.2007.90 millions. In 2007/08, total revenue was Rs.107622.58 millions, and income tax from remuneration was Rs.2451.04 millions. It is about 2.27% of total revenue.
8. Contribution of remuneration tax in Total Tax Revenue is also very insignificant. In 1998/99, total tax revenue was Rs.37251.30 millions and income tax from remuneration was only Rs.396.50 million. It contributed only about 1.06%. but this contribution is in increasing path. In 2007/08 total tax revenue was Rs.85155.58 millions and income tax from remuneration was Rs.2451.04 millions. It was about 2.87% contribution.
9. The contribution of remuneration income to income tax revenue has not been so satisfactory. In 1998/99, total income tax revenue Rs.6170.21 millions in which income tax from remuneration constituted Rs.396.50 millions. It is about 6.42%. but it is gradually increasing in past years. In 2005/06, total income tax revenue was Rs.10373.70 millions. Out of this, Rs.1771.10 millions was contributed by income tax from remuneration which is 17.07% and in 2007/08 it has slowly decreased to 14.16% for this, income tax from remuneration contributed Rs.2451.04 millions to construct total income tax revenue of Rs.17311.22millions.
10. The most important thing to make every thing growing and developed. Economic development of country should be rapid. It implies in

remuneration also, so it is necessary to enhance economic activities that ultimately increase contribution in government revenue as tax.

4.4 Major Findings from Primary Data

1. Remuneration tax is contributing significantly to the income tax revenue of Nepal.
2. Remuneration tax is a suitable means of collecting government revenue. Because; as compared to other taxes, there is less chance of tax evasion, it is transparent, and it is based on progressive tax.
3. Current exemption limit is not sufficient and it must be increased.
4. Making TDS effective, bringing new tax payer into tax net, and reform in law were the measures to increase contribution of remuneration chosen by most respondents.
5. It is clear that the main factor that should be initiated to increase the contribution of remuneration tax in Nepal is making tax deduction at source (TDS) effective. The other factors to be initiated to increase the contribution of remuneration tax in Nepal are Bringing new taxpayers into tax net, reform in the income tax policy, rules and regulations, and provide various facilities to the tax payer. Employees and increasing pay scale of the employees.
6. The provision for deduction of expenses is required while calculating remuneration income.
7. Income tax evasion is being practiced with hiding the situation of double employment condition.
8. Medical expenses paid by the employer, Pension, Income, Remote area allowance, Dashain allowances etc. should made tax exempt income.
9. There is no significant difference in tax experts and employees regarding the vital contribution of remuneration tax in Nepal.
10. There is no significant difference in opinion of tax expert and employee regarding the existence of problems on remuneration taxation in Nepal.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepal is one of the least developed countries in the world lying as sandwiched between the two big countries; China and India. Poverty is widespread. It has per capita income of around \$270. The economic condition of nation is very poor followed by estimated growth in FY 2007/08 of 5.6 percent as against 3.0 percent (at factor cost) of FY 2006/07. Basic necessities are lacking these days also. The Nepalese economy has not become successful in creating an investment friendly environment. The private sector does not seem to be confident with the current economic and political environment. In such a situation, there remain fewer possibilities to materialize the slogan of public-private partnership.

The Nepalese income tax system was introduced in 1959(2016). The elected government levied the first income tax and so specific act was made to define and to treat income tax. Since then four Income Tax Acts have been implemented. The present study entitled "Effectiveness of Remuneration Tax in Nepal" is concerned to study and analysis of various aspects of Remuneration Tax in Nepal. In this study contributions of remuneration tax income to many kinds of government revenues have been analyzed. To analyze the effectiveness of different components of public revenues are compared with remuneration tax income. In this study, effectiveness of remuneration tax studied and analyzed with role of income tax's remuneration tax studied and analyzed with role of income tax's components. This study mainly divided into 5 chapters. First is, introduction, it consists of brief introduction of the study. It is like general summary, it shows the plans of study in some extent. In short first chapter is to prove the need of this study.

To conduct the study and for preparing this research report various books have been studied; thesis are consulted; magazine, news papers are other reference sources of information. Second chapter of this study; conceptual framework and literature review is combination of all that kinds of information. In that chapter various concepts of taxation have been discussed in this study. Sources of public revenue meaning of tax, classification of taxes, objectives of taxation, historical background of income tax, heads of incomes and concept of remuneration tax, method of computing remuneration tax, have been discussed in conceptual framework of this study.

Research design used, data collection procedure, population and sample, nature and sources of data, selection of the respondents, procedure and analysis of data etc. are included in chapter three, entitled Research Methodology.

As study uses primary as well as secondary data, chapter four of this study presents analyzes them, in the title of Presentation and Analysis of Data. For primary data opinion survey of 60 respondents groups divided into two categories named tax experts and employees, 30 persons in each group. Economic surveys and NRB economic report were the major sources secondary data. Tax Experts Consists of Lawyers, Chartered Accountants, Tax Administrators and Professors. Employee Consisted of employees working in banks, Manufacturing intensives government offices and other private organizations.

As set of questionnaire was developed and 60 questionnaire were distributed to the respondents. Out of them, 50 responses were received 25 each from both groups. Secondary analysis was done by presenting the relevant data into tables and figures consisting ten year period i.e. from fiscal year 1998/99 to 2007/08. The comparative analysis for different years was done in the analysis part of the study. Major findings of the secondary data analysis have been put at the end of the

chapter. Data obtained from opinion survey with the respondents were tabulated and analyzed to achieve desired end result. Major findings of the primary data analysis have been put at the end of the chapter.

Conclusions of the study are given in the last chapter. Some recommendations are also given at the end of the study to increase the contribution on remuneration income to income tax revenue. The last not least chapter named summary, Conclusions and Recommendations have three different Sub-headings study are given in the last chapter. Summary is as brief of study, conclusion consists of gist of study and recommendation have offered for to increase effectiveness of remuneration tax in Nepal.

5.2 Conclusion

Total revenue of Nepal consists of tax-revenue and non-tax revenue. Tax revenue comprises of customs, sales tax, income tax, land revenue and registration and miscellaneous taxes. In Nepalese revenue structure, tax revenue has always been greater those three times of non-tax revenue. This means the heavy contribution of tax revenue in total revenue of Nepal. Tax revenue in amount has always been increasing per year that the previous years. Non-tax revenue has the lowest contribution as compared to tax-revenue. Its contribution to total revenue has remained below 25 percentages.

Total tax revenue consists of direct tax revenue and indirect tax revenue. 26.14% and 73.86% of total tax revenue have been contributed by direct tax and indirect tax revenues respectively, in 1998/99. Which consisted of Rs.7516.10 millions and Rs.21236.80 million out of total tax revenue of Rs.28752.90 in FY 1998/99. In 2007/08, Rs.23,087.76 millions and Rs.62067.82 millions out of total tax revenues of Rs.85155.58 millions have been collected as direct tax and indirect tax revenue respectively. That is, 27.11% and 72.89% of total tax revenue have been collected from direct tax and indirect tax revenue respectively.

The structure of direct tax revenue is the composition of income tax Revenue, Land Revenue and Registration and Miscellaneous taxes income tax has occupies the highest rank among various taxes in direct tax revenue. In 1998/99, out of total direct tax revenue of Rs.7516.10millions, Rs.6170.21 millions has been contributed by income tax revenue. In 2007/08 out of total direct tax revenue of Rs.23087.76millions, Rs.17311.22 millions have been contributed by income tax revenue. Land revenue and registration occupied the second place among direct tax revenues. Miscellaneous taxes occupied third and last position among various direct taxes. The trend of miscellaneous taxes have been fluctuating. In 2007/08, it has been contributed Rs.2835.17 million i.e.12.28% to the total direct tax revenue of Rs.23,087.76 millions.

Total income tax revenue seemed to have an increasing trend up to F/Y 2000/01. Then, it was slightly decrease and again it has increasing trend up to F/Y 2007/08. In 1998/99, Rs. 6170.21 million was raised from income tax revenue. In 2007/08, Rs. 17311.22 million was raised as income tax revenue. The income tax contribution of individuals has occupied first position in total income tax revenue of Nepal. Second Position is occupied by income tax from public enterprises private corporate bodies contributed income tax revenue in the third position out of total income tax revenue. Fourth position in total income tax revenue of Nepal is from remuneration tax. Tax on interest has occupied fifth position in total income tax revenue of Nepal.

Out of total tax revenue of Rs.28752.90million, Rs.6170.21 million, i.e.21.46% has been contributed by income tax revenue in the year 1998/99. In 2007/08 out of total tax revenue of Rs.85155.58million, Rs.17311.22 million i.e. 20.33% has been contributed by income tax revenue.

Income tax from remuneration has very much insignificant contribution in total revenue of Nepal. In 1998/99, total revenue was Rs.37251.30 million and income tax from remuneration was Rs.396.50 million. It was about 1.06% contribution. The contribution has in increasing trend. In 2007/08, total revenue was Rs.107622.58 million and income tax from remuneration was 2451.04 million. It was about 2.28 percentage of total revenue.

Income tax from remuneration was Rs.396.50 million in 1998/99 out of total direct tax revenue of Rs.7516.10 million. It was about 5.27% of direct tax revenue. The contribution has increasing trend. In 2007/08, total direct tax revenue of Rs.23087.76 million included Rs. 2451.04 million as income tax from remuneration. It was about 10.62% contribution.

Income tax revenue is collected from various sources of incomes. Income tax from remuneration is a source of income among them. The contribution of remuneration income tax revenue has not been so satisfactory. In 1998/99, total income tax revenue Rs.6170.21 million constituted Rs.396.50 million a income tax from remuneration. It was about 6.43% of total income tax revenue. The percentage contribution has been in the increase trend. In 2007/08, total income tax revenue was Rs.17311.22 million. Out of this, Rs.2451.04 million was contributed by income tax from remuneration. This was about 14.16% of total income tax revenue of Nepal.

Tax experts as well as employees have recognized income tax as an important source of collecting government revenue. Remuneration tax as a suitable means of collecting government revenue according to opinion survey conducted. Because of weak administration, complexity in income tax policy, rules and regulation, no actions for promotion of need of tax it is not contributing so, it is high burden of tax on low level income earners. The contribution of remuneration tax in total

income tax revenue of Nepal has not been found so satisfactory. Making tax deduction at sources (TDS) effective is the main factor that should be initiated to increase the contribution of remuneration tax in Nepal. The other factors should be initiated to increase the contribution of remuneration tax in Nepal are, reform in the income tax policy, rules and regulation, inspect double employment and mechanism for effective monitoring.

The contribution of income tax from remuneration tax to the public revenue is not effective and satisfactory. The main item for deduction to be provided while calculating the remuneration income is medical expenses incurred for the health treatment of the employee. The other items of deductions suggested by respondents are: transportation expenses, education expenses and books and reading materials purchased for the job, leave salary, amount received from life insurance etc. Current exemption limit should be increased slightly and couple/family should get significantly higher tax exemption limit than individuals. Medical expenses paid by employer, Dashain allowance, etc. should be tax exempted. Rules and regulation of the income tax have been found complicated. They need to be simplified. Tax payers should be provided with taxation knowledge. Behavior of tax administrators should be improved and they should have the feelings of contribution toward the state. From the above study, majority of the respondents are suggested that the exemption limit for senior and disabled citizen should not be necessarily more than that of other citizen.

5.3 Recommendations

On the basis of above analysis, the following recommendations are offered regarding taxation of remuneration income.

1. Total tax revenue consists of direct tax revenue and indirect tax revenue. But there is high portion of indirect tax revenue as compared to direct tax revenue. So, to direct the economy in the path of development, it is necessary

to increase the share of direct tax revenue. Because, the direct tax plays more significant role in the economic development of the country than indirect tax. Resource mobilization through direct taxation should be focused.

2. Mainly tax administration should be motivated to do something for the nation. They should strictly implement the rule and regulations. They shouldn't take the tax of monitoring is only for formality.
3. Out of total tax revenue, the contribution of income tax revenue is very low. So, to increase the contribution of income tax in the public revenue, the focus should be given in the various tax incentive programs with the help of sound tax planning.
4. To generate more contribution from income tax from remuneration the slabs should be adjusted in such a way that high earners should be made to pay higher income taxes i.e. it should be made more progressive what is not. Because, income tax from remuneration has very much insignificant contribution in total revenue of Nepal. So it should be increased. Though, the contribution of remuneration tax in income tax revenue has been increasing in the recent years as compared to previous years.
5. Income tax act should be made effective in the implementation aspect. It should make specific for all the specific provisions. Income tax Act, 2058 is very vague in nature in various aspects of provision of income tax. Act should be made further more clearly, so that it might be easy to implement. Knowledge of taxation should be made widespread, awareness.
6. There is no provision for deduction of expenses while calculating income tax from remuneration in income tax Act, 2002 (2058). These kinds of provision should change and it is necessary to allow deduction certain expenses while calculating income tax from remuneration as previous income tax Act, 2031. Some of the expenses to be allowed for deduction are; Medical expenses, expenses incurred as newspapers & Magazines, Transportation expenses, education expenses etc.

7. Certain incomes should make tax exempt. For this medical expenses paid by employer, Dashain allowance, contribution to provided fund by the employer, remote area allowances, life insurance premium paid by employer, leave encashment, etc should freed from tax, it will be relief employee from heavy income tax burden.
8. The collection and tax assessment provision should made clear and simple so those tax payers would be encouraged to pay income tax.
9. There are various types of problems that the employee faced while paying remuneration tax. So, the problems faced by employees should be minimized. Tax administrators should be made more responsible, procedural simplification should be made, tax clearance certificate to be provided, taxation knowledge in the employees should be provided, refund of tax should be made with only delay, unclear and cumbersome provision of the tax act and rules should be simplified and made understandable, and employees should be made such that they do not feel mentally pinched by paying income tax by giving them a sense of contributing to the nation.
10. Pension income should be tax by giving enough exemption limit to the pension holders because in the old age, pension holders bank others sources of incomes. Additional 50% of the prevailing exemption limit should be provided to them so that the high income pensioners should only be taxed.
11. The provision of fines, penalties and punishment should be implemented effectively for income tax evaders. There is lack of such co-ordination between related agencies in Nepalese tax administration.
12. To bringing new taxpayers into net is the most important factor to increase the share of employment income in income tax revenue of Nepal.
13. The most important things is to make every thing growing and developed, economic development of the nation should be rapid. It implies in remuneration taxation also. So, it is necessary to enhance economic activities that ultimately increase contribution in government revenue as tax.

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42. Related Journal

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44. **RAJASWA:** (*Nepalese Journal of Public finance & development*):
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ANNEX- A

QUESTIONNAIRE

Dear Sir/Madam

I am a student of TU Shanker Dev Campus, studying in the final year of Master of Business Studies (MBS). As you have known that the students of this level have to write a Thesis on the subject of their specialization. Being a student of accountancy stream, I have decided to present my Thesis on Taxation. The topic approved for me by Tribhuvan University is “**Effectiveness of Remuneration Tax in Nepal**”.

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

I assure you that your responses will be kept confidential.

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

Thank You,

Sincerely yours,

.....

Jageshwer Mehta

Shanker Dev Campus

Putali Sadak, Kathmandu

T.U. Reg. No. 7-1-260-46-99

4. If yes, why it is suitable means of collecting public revenue?

- (a) It is transparent
- (b) As compared to other taxes, there is less chances of tax evasion.
- (c) It is based on progressive tax.
- (f) Others, please specify

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5. Is the current exemption limit is suitable?

- (a) Yes
- (b) No

6. If not, how much amount would you suggested for the exemption limit?

- (a) For single Rs... ..
- (b) For couple/family Rs.....

7. Do you think that the exemption limit for senior and disabled citizen should be more than that of other citizen?

- (a) Yes
- (b) No

8. Do you think that the remuneration tax system of Nepal is sound and efficient?

- (a) Yes
- (b) No

9. If not, what are the major problems of the remuneration tax system?

- (a) Defective Tax Rate
- (b) It is high burden of tax on low level income earners.
- (c) Unfair and weak administration.
- (d) No provision of deducting any expenditure.
- (e) Complexity of Income tax policy rules and regulation.

10. What factors should be initiated to increase the contribution of remuneration tax in Nepal?

- (a) Making tax deduction at source (TDS) effective.
- (b) Bringing new tax payers into tax net.
- (c) Reduction in exemption limit.
- (d) Increasing tax rates.
- (e) Reforms the tax policy, rules and regulations
- (g) Others, please specify

.....

11. Income Tax Act, 2058 has not made a provision of deduction for expenses while computing remuneration income. Is this provision suitable?

- (a) Yes
- (b) No

12. If not, what types of deductions would you expect to be provided?

- (a) Medical expenses incurred for the treatment of the employee.
- (b) Education expenses and books and reading materials purchased for the job.
- (c) Transportation expenses to go to the office and back.
- (d) House rent paid.
- (e) Leave salary.
- (f) Amount received from life insurance.
- (g) Other expenses as of previous Act.

13. Do you believe that income tax evasion is being practiced in Nepal?

- (a) Yes
- (b) No

14. How can you increase the tax paying habit of Nepalese people?

- (a) Educating tax payers.
- (b) Simplifying tax laws.

- (c) Increasing fines and Penalties.
- (d) Timely assessment of tax.
- (e) Incentives to regular tax payers

15. What types of income heads included in remuneration tax would you expect to be made tax exempted?

- (a) Remote area allowance.
- (b) Dashain allowance.
- (c) Pension income.
- (d) Medical expenses paid by the employer.
- (h) Others, please specify

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16. Do you think that the income tax on pension income should be levied?

- (a) Yes
- (b) No

17. What types of problems that the employees faced while paying remuneration tax?

- (a) Hesitation to pay income tax due to low income.
- (b) Weak and immature treatment by tax administration.
- (c) Procedural complication.
- (d) Tax personnel discourage getting tax clearance certificate.
- (e) Due to lack of taxation knowledge, employees do not know how to file returns.
- (i) Others, please specify

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18. Do you have any suggestions to increase the tax revenue from remuneration tax? Please specify.

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