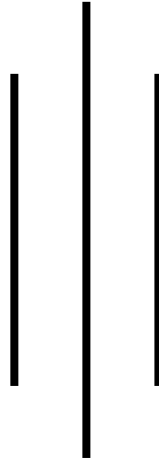


AWARENESS ON TAXATION IN NEPAL & IT'S CHALLENGES



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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by
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Entitled:

"Awareness on Taxation in Nepal & It's Challenges"

And found the thesis be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of requirement for Master's Degree in Business Studies (M.B.S.)

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DECLARATION

I here by declare that the work reported in this thesis entitled "**Awareness on Taxation in Nepal & It's Challenges**" submitted to Patan Multiple Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirements for the Master's Degree in Business Studies (M.B.S.) under the supervision of Mr. Dinesh Malego, Assistant Campus Chief of the Patan Multiple Campus.

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ABBREVIATIONS

A.D.	Anno Donimi
B.S.	Bikram Sambat
CBOs	Community Based Organizations
CEDA	Center for Economic Development and Administration
CIT	Citizen Investment Trust
FY	Fiscal Year
GDP	Gross Domestic Product
i.e.	That is
IRD	Inland Revenue Department
LADT	Lumbini Area Development Trust
MOF	Ministry of Finance
MS	MicroSoft
NG	Nepal Government
NTC	Nepal Telecommunication Corporation
PADT	Pashupati Area Development Trust
PAN	Parmanent Account Number
PF	Provident Fund
Rs.	Rupees
SAARC	South Asian Association for Regional Cooperation
Sec.	Section
SLC	School Leaving Certificate
SPSS	Statistical Package for the Social Sciences
T.U.	Tribhuvan University
UK	United Kingdom
UN	United Nation
U.S.	United States
VAT	Value Added Tax
&	And

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CHAPTER -ONE

INTRODUCTION

1.1 General Background of the Study

Tax is the government revenue which helps to run daily activities of the state, for social security, development activities, & others. In every sector information helps to the growth. Likewise in sector of tax it is also important the awareness on it. For the awareness planning is necessary. Here Tax planning is one of the important things for the increment and positive effect on tax. Tax planning involves conceiving of and implementing various strategies in order to minimize the amount of taxes paid for a given period. Tax planning is method of reducing tax liability. It is legal, ethical and economical. Tax planning is made from the combination of two works: tax and planning. Tax is a compulsory contribution made by tax payer to the government under the existing laws. Planning is the process which determines courses of actions and it guides for future decision making. Therefore tax planning is a decision making to reducing tax liability using the tax exemption and facility. Sharing of this information is important to aware the people on tax.

Generally tax planning is the art and science of planning the company's operations in such a way as to attract the minimum liability to tax with the help of various concessions, allowance and relief provided for in the tax laws. It is the genuine use of facilities provided in the law (Chander, Subhash and Om Prakash, 1984:53-63).

Tax planning is defied as a plan where by the tax payers makes use of all the concession or facilities available to him under tax laws and pays the minimum possible tax. It is an art and science of planning the companies operations in such a way as to attract the minimum liability to tax with help of various concessions, allowances and relief's provided for in the tax law. Tax planning is one of the most important functions of management. It is the new and innovative concept and it requires technical and critical mind to plan tax so that tax burden can be minimized by using all the weapons given by the laws. Tax

planning is a very important for every business organization, because it helps to reduce tax liability in legally and ethically.

Every business organization has to make decision while conducting its business activities. That means every business organization use to plan as regards to its future activities. Such future activities may be of short-term, medium term or long-term and operational or strategic. If tax factor is considered while planning the business activities of an organization, it is tax planning (Lal, B.B., 1996:161).

For the purpose of enhancing the investment environment in a country the government provides different types of facilities to the business organizations. Such facilities include reduction in tax rate, providing tax holiday, investment allowance, depreciation facility etc.

Tax planning means the use of all these facilities given by the government to reduce the tax liability. It is not only the planning of infrastructure of the business and industries but also the planning of various projects from the time to time and its day to day activities. So, as acquire the maximum facility as per the existing law of the country. The basic purpose of corporate tax planning is to reduce or postpone the overall tax burden in the present and foreseeable future. Corporate tax planning is necessary for the survival and growth of company. Denning regards corporate tax planning as “A formal and systematic managerial planning, project planning and strategic planning are carried out regularly to enable top management are direct and control the future of an enterprise”. There are three broad areas of corporate planning to be practice or application in Nepalese organization. Tax payers and their awareness mean what types of knowledge they have about the income tax act 2058. They know all the provision in income tax Act 2058. They have knowledge about different facilities provided by the government in tax law. There is no doubt if the tax payers are aware about the tax law both the government and tax payers should be benefited. Nepal is a least developed country; sources of government revenue are very limited. Revenue structure of Nepal is depends on the foreign aids and loans. Foreigners give the donations and aids and they also mentioned

different terms and conditions, which make the proper utilization of find very difficult.

1.2 Statement of the Problem

Nepal is a poor country. It hasn't enough revenue to provide needed facilities to the entrepreneurs and to the industries. To make economic condition strong than now more economic growth is needed. It has not raised enough funds from tax revenue although it is increasing than earlier. Here is also not business friendly environment. It has gap between required resources and supply of sources. Nepal is facing various problems like tax evasion, poor tax administration etc. The statements of the problems are;

- ⇒ What are factors influences to the resource gap in Nepal?
- ⇒ What is the present position of awareness of taxation in Nepal?
- ⇒ How to increase the knowledge on Tax Law to the people?
- ⇒ Why they do not pay tax according to Tax Act?
- ⇒ How to get the actual information about their contribution on Tax collection??

1.3 Research Objectives

Finding the starting point is easier than ending point but every research must have the goal or target point only then researcher can do other process. So main part of the research work is to set the objectives which shows the beauty of work. For this research work, the main goal is implement the tax rule properly in several organizations & find out the recommendation for proper awareness on it. The main research objectives are as follows;

- ⇒ To review the resource gap in Nepal
- ⇒ To determine the contribution on tax revenue by private sector.
- ⇒ To find out the methods to aware people on Tax law
- ⇒ To identify the challenges to implement tax rule in business Organization

⇒ To draw suggestions to government for effective implementation of tax law.

1.4 Structure of the Study

In this research the whole study would be developed into 5 chapters and divided into sub categories as per requirement.

Chapter ‘One’

This chapter will include Background information, Purpose of the study, statement of the problem, significance/Importance of the study, Limitation of the study.

Chapter ‘Two’

This chapter will include Review of Literature on which related literature like act, rules, research report, dissertation etc. will be review.

Chapter ‘Three’

This chapter will includes Research Methodology under which the research design, population & sample, sampling procedure, Data Collection, Statistical Procedure, Data Analysis will be done.

Chapter ‘Four’

This chapter includes the Data Presentation and analysis and then the major findings of the study will be present here.

Chapter ‘Five’

This chapter will be the final chapter for the study. Summary & conclusions with recommendation will include here.

1.5 Significance/Importance of the Study

In my experience there are many of confusion in tax law that government of Nepal is now implementing. Government can increase the tax revenue easily more than this but main problem is that the people are not aware about taxation. It is needed to give positive influence to the people about tax. Most of them who are paying tax also don't know why they are paying tax? Some of the business organization is not paying VAT in timely. Those must be aware

about tax law and contribution of the consumer to them. So by this research it would be clear that policy maker should be make awareness program to implement the policy effectively.

1.6 Limitation of the Study

In Every research there need to be fix some area of study. In this study there are also some limitations while doing it & which are as follows:-

- ◆ This study is based on Availability and reliability of data.
- ◆ Field survey is based in Kathmandu Valley only.
- ◆ Resources and time factors also limit the study.
- ◆ Limited business-men, tax experts, tax officers and consumers are consulted & distributed questionnaire to collect primary data.

CHAPTER -TWO

REVIEW OF LITERATURE

2.1 Concept of Tax

Government of each and every country's requires sufficient revenues for the development programs, to handle the daily administration, to keep peace and security and to continue other public welfare programs. Those revenues are collected through various sources these sources can be tax revenue, revenues from government corporation and public enterprises, fees, special assessment, fines and penalties and foreign grants among them tax is the main source of collecting the public revenues because it occupies the most important part of government treasury.

Sources of government revenue:-

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

The above sources of the government revenue can be divided into two parts- Tax and Non tax. Tax is the major source covering most part of the government revenue. Tax is the compulsory payment to the government but is not fine. Taxpayers do not get any direct benefit from the state by paying tax. Government collects tax with the permission of legislature to fulfill financial need of the state. Tax is a compulsory payment to government for the compensation of public expenditure. Tax fulfills the needs of central or local government to spend for humanitarian work. The main objective of the tax is to

distribute wealth and income equally among the citizens. Mainly tax is classified into two groups. They are direct tax and indirect tax (Adhikari; 2003). Tax is a kind of money of which it is the legal duty of every citizen of a country to pay honestly. Many economists have the view that tax is a compulsory payment to the government by taxpayer without any expectation of some specified return in fur of them. The experts have given definition regarding tax and some of them are mentioned here.

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

Tax is a compulsory payment to the government from a person according to law. It is contributed to the government without expectation of any direct benefit to the taxpayer.

There are many tax systems in the world mainly two types of tax which are use in practice in the world they are direct and indirect tax.

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

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

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

2.2 Objectives of Tax

Taxation has been a very necessary element of a government from the very beginning of the state system. However, the main objective of taxation has been different for different epochs. In ancient times, the major objectives of taxation were strengthening the muscles of the state by providing the resources. Till to the time of Adam Smith; the chief motive of collecting revenue was to provide resources to the government for providing security to an individual and society against violence, invasion and injustice and maintain public institution. In modern days, the main objective of taxation has been shifted from security perception to the economic development. The modern objective of taxation is not only to maintain peace and security but also to conduct development activities. We Can enumerate the objectives of modern taxation as follows:-

- ⇒ To increase the employment, saving and investment.
- ⇒ To minimize regional disparity.
- ⇒ To have equitable distribution of income and property.
- ⇒ To increase the revenue for welfare state.
- ⇒ To prevent concentration of wealth in few hands.

2.3 Classification of Taxes

In broad sense, taxes are classified into two categories. One is direct tax and another is Indirect tax.

a. Direct Tax

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

b. Indirect Tax

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

duty, etc. This type of tax is collected in Inland Revenue office by different channel.

2.4 Canons of Taxation

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

1. Canon of Equity,
2. Canon of Certainty,
3. Canon of Economic,
4. Canon of Diversity,
5. Canon of Simplicity,
6. Canon of Neutrality,
7. Canon of Co-ordination,
8. Canon of Productivity and
9. Canon of Elasticity.

2.5 Meaning of Income Tax

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

Income tax is a personal tax imposed on the net income of individuals and corporation. In most of the countries especially the united State of America, Canada and other countries; the income tax is defined in terms of the flow of wealth of receipt in money or good from taxpayer during the period. In flow of wealth method, taxation is imposed on a realization rather than as an accrual

basis, and applies only when a transaction occurs between other persons and taxpayers. (Due, 1959)

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

It is very difficult to define income precisely and clearly. So, income is exemplified rather than defined income tax laws of various countries. For example, sec.2 of the India Income tax Act, 1961 keeps profits and gains, dividend, voluntary contributions received by charitable trust, value of any perquisite or profit on lieu of salary, any capital gain, winning from lotteries, cross word puzzles etc. under the head income. According to income tax act 2002, Sec 2(h), income means a person income from any employment, business or investment and the total of that income as calculated in accordance with this act.

2.6 International History of Income Tax

For the first time Great Britain introduce the income tax in 1799 in order to finance wars with France. Only after 1980, it was accepted as a permanent tax. In United State, first federal income tax was imposed in 1862 to finance civil war expenditure. However, it became a permanent feature only in 1913 after 16 amendments to U.S. constitution. In neighbor country India, at first income tax was introduced in 1860. After introducing 'Income Tax Act 1886' in 1886, it was imposed as a permanent. Italy adopted income tax in 1864, New Zealand in 1891, Australia on 1915 and Canada in 1917. After First World War, the income tax became an important source of tax revenue in many developed countries. By 1939, it has become the most important source of revenue in most developed countries and had made appearance in a number of developing nations (Agrawal, 1980) From the First World War decade, Income tax has

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

2.7 Income Tax in Nepal as Historical Aspects

A. Taxation in Ancient age of Nepal

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

Although there is no relevant source of ancient tax, in the inscription of Ansubarma, it is noted that there were three taxes called Trikar. Bhaga is the agricultural tax, animal husbandry was called Bhaga and tax on business was called kara.. Irrigation tax and religious monuments preservations taxes also existed at the time of Ansubarma. During the period of 1968-1846 A.D, different types of taxes were levied to generate maximum revenue. The major sources of revenue were; Birta and Kipat, taxes on land, monopolies customs, transit and market duties, mines and mints and the export of forest products, birds, animals and various levies and fines. Taxes were collected at three levels: Royal palace levies, government levies and local levies. The various taxes levied during that period were narrow in base and were imposed primarily on occupations and economic activities, not in income or property. There was no taxation of income in the modern sense of income tax but income

taxes from agriculture income and incomes from business were introduced as a direct tax for the first time in Nepal.

B. Taxation in Nepal Before Democracy

From the age of 1776 to 1950 has taken as before democracy period. In this period, tax system becomes more advanced than the ancient age of Nepal. Taxation had a broad sense in this unified Nepal. During this period, revenue maximization was only the main objective of tax policies. Raikar, Birta, Guthi, Sera and Kipat were the five main land tenure among them Birta and Kipat are the main source of revenue. Walk was collected from each family on a regular basis and in period of national celebration of festival or ceremonial occasion. Salami was collected local revenue collection functionaries in the rural region as an annual payment. Taxes were imposed primarily on occupations and economic activity not on property. Tax base was very narrow. The Birta owner class had much influential role in political and administration. However, In 1772 Prithivi Narayan Shah introduced „Pota tax. as regarded revolutionary measures in Nepal's fiscal system. It was not based on progressive tax principle it was limited on small Birta owners and privileged of the members of the nobility person did not pay pota.. Only common people who lived on raider lands paid the homestead taxes and other Pota. Levies. (Regmi, 1995:55)

During the period of Rana Regime, there was not formal provision for imposition and collection of taxes. Taxes were imposed according to the objectives, needs and whims of the ruling the prime Minister. There was not provision of separating the personal income of prime Minister and state treasury. There is no system of preparing government budget. The surplus of revenue over expenditure was considered the personal income of the Rana Prime Minister. The major source of revenue in Nepal till 1951, were land tax, custom and excise duties in the form of lump sum contracts, royalties on forest, royalty on supply of porters and soldiers, entertainment tax and a few other minor taxes. Incomes were not taxed for raising regular revenues of the state

treasury but for meeting specific expenditure of the household of extra ordinary expenditure necessitated by war or other emergencies.

There was no direct tax in the country except land tax collected on a contractual basis and Salami Which the government employees used to pay out of their salaries at a very small percentage. The Salami was abolished in 1951. The Rana rulers did not think of development of effective revenue administration system. After the advent of democracy in the country in 1951, no taxes are levied and collected in Nepal except in accordance with law. (Gautam, 2004)

2.8 Income Tax in Modern Nepal

Income tax is a direct tax that is imposed on the earning of individual and corporation. Actually, tax levied on the taxable income is known as the income tax. It is charged by the government on the income of the previous year at the rate prescribed each year by the finance act. From very earlier, income tax has always been regarded as a tax based on the canon of ability. The tax could be adjusted as to exempt the lowest income groups from the operation of the tax and make the richer groups bear the burden of tax according to their income. Tax economists have a view that an income tax is a very imposed upon the income of an individual after the exemption limit. All incomes above the tax exemption level are subjected to income tax that is based on the income tax act of the concerned country. After the independence of the country in 1951, the role of government has changed. Since, the government was enforced to operate development activities, besides governing the regular function of maintaining law and order and the collection of revenue (Bhatta and Shrestha, 1981:3)

A sound and efficient income tax system is necessary to maximize the revenue collection from income tax. Whole income tax system is made of three sub systems i.e income tax policy, income tax laws and income tax administration. Income tax policy is determined by the government itself through Ministry of Finance. Income tax policy should be such that the main objectives of the income tax can be attained.

No taxes shall be levied and collected except in accordance with law. (Constitution of Kingdom of Nepal, 1990). Parliament makes the laws to implement the various policies. The government levy and collect the income tax in accordance with law. The Constitution of the Kingdom of Nepal, 1990 has made the clear provision about it. In 1960, a formal Income tax act was enacted in accordance with the provision in Finance Act,1959 for the first time in Nepal. In three years experience, the Business Profit and Remuneration Act, 1960 was found very narrow and vague and it was replaced by the Nepal Income Tax Act, 1962. The Income Tax Act, 1962 remained till 1974 and Income Tax Act, 1974 also replaced by Income Tax Act, 2002. Present legal provision of income tax is associated with Constitution of Nepal,1990; Income Tax Act, 2002; Income Tax Rules 2002; Finance act of concerned financial year.

A. Business Profit and salaries tax Act 1960

The government of Nepal introduced a formal income tax for the first time in Nepal in 1960 (2017B.S) in the form of „Business Profits and Remuneration Tax.. Before the act, Finance Act was used to make the provision regarding income tax. According to this act only Business Profits and Remunerations on income were subjected to tax but the revenue for these taxes should not be collected properly according to originals estimates. (Dhungana, 1976). It had 22 sections. The first section is about short title, areas and commencement. Similarly second section about definition and last section is about authority to make regulations of HMG to regulate the tax act. According to the Act, tax payment should be made within 35 days once the office and the tax payment to be made specified. Fine and punishments of Rs. 5000 to Rs. 500 to them those who do not pay tax and not submit account is mentioned in the Act. There is appeal system too; if any taxpayer is not satisfied with regard to the order of tax assessment, such taxpayer can appeal with in the 35 days from the date of an order of tax assessment receipt. The tax officers as per the Act are liable to

assess the tax liability of taxpayer, submission of written notice to taxpayer, etc. (Act, 1960).

B. Income Tax Act 1962

Income Tax Act 1962 was came on July 1962 by replacing the Income TAX act 1960 as its limited coverage in incomes. This Act was introduced as per the articles 93 of the Constitution. This Act has all about 29 sections. As per section 6 of this Act annual statement of income to the concerned tax officer those having annual income of more than Rs. 6000. The statement should file with in 35 days of completion of the fiscal year. The salaries of diplomatic representative of oreign country, salaries of foreign of non-Nepalese citizen working in the service of the NGO, dividend paid to the shareholders, incomes of Nagar Panchayat, Village Panchayat, public Organizations, educational institutes, Nepal Rastra Bank, allowances granted by NG to Ministers, employees saving fund etc. were considered as tax free income by Act. As per Act $\frac{1}{4}$ income from agriculture was taxable and remaining $\frac{3}{4}$ were considered as expenditure to earn such income. The act was experienced for 13 years and was considered inadequate with the changing situation of Nepalese economy. This Act was amended only one time in 1972. The main feature of this Act can be mentioned as follows. Income was defined as all kinds of income including income from business, salaries, any professions, rent from house or land, investment in cash or bind, agriculture, insurance agencies and any other sources. In this Act status of taxpayer was defined on personal as well as residential for the tax purpose. Carry forward of losses for a period of two years provision was made on this Act and reassessment of tax as well as rectification of arithmetic errors had provision. In this Act, provision was made for the exemption of income tax for new industries for a period not exceeding ten years (Act, 1962).

C. Income tax Act 1974

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

D. Income Tax Act 2002

Although, Income Tax Act 1974 was much batter than previous Act, still it had any deficiencies and weaknesses so the Income Tax Act 2002 changes it. This Act is quite advance Income tax that has ever introduced in Nepal. The main feature of his act is all the related matters with in one Act. The act is independent to levy income tax. The Act has 24 chapters and 143 sections. Amended income Tax Act 2002 has dismissed the section 66. The Act has defined three different sources of incomes: (a) Business (b) Employment (c) Investment. Tax rates for different incomes groups, tax rates as per individuals and entities , depreciation rates and depreciation methods for all the five

categories of depreciable assets, provisions regarding international taxation, Capital gain taxation, panel provision , Appeal system etc. all matters of income taxation can find with in this act (Income Tax Act, 2002).

Following are the main features of Income Tax Act, 2002;

- ⇒ Income tax related provisions are included with in one act.
- ⇒ Act has clearly specified the amount should be included while calculating a person's gains or profits from conducting business or investment for an income year.
- ⇒ All the expenses are allowed to deduct provided that the expenses are made by the same taxpayer in the same year in the production of income.
- ⇒ There is the provision of carry forward of loss fro subsequent four years. The act has also provided the facilities to carry backwards of loss for five subsequent years in case of bank, insurance and long term contract.
- ⇒ Incentives are provided to infrastructure constructor, hydropower projects and special industries.
- ⇒ Now the economy of the most of the countries in the world is open one. The provision has introduced in the tax law related to international taxation. Transfer pricing, foreign tax credit, double taxation avoidance agreement etc are the provision of international taxation.
- ⇒ The act has given the option for husband and wife as a separate natural individual until they do not accept as a couple.
- ⇒ Capital gain, dividend etc. has brought in tax net.
- ⇒ Authorities of Taxpayer have specified.
- ⇒ To control the tax evasion, provision of transfer pricing, thin capitalization. Dividend stripping is made.
- ⇒ Provision of fines and penalties has made more stringent in the new Income Tax Act 2002.
- ⇒ This act has made a provision of relaxing the submission of income statement by a person who doesn't have taxable income one who has the income from remuneration only.

- ⇒ There has the special provision for deduction pollution control and research & development expenses.
- ⇒ The income of an approved retirement fund is free from tax. But retirement payments in hands of employees are taxable.
- ⇒ Resident persons are taxed only in their worldwide income, while Nonresident persons are taxed only in their income sourced in Nepal.
- ⇒ The pool system of depreciation of fixed assets has introduced at the first time. All types of assets are classified into five categories. Depreciation rate for classes A, B, C and D is based on diminishing balance method but straight line method for class „E. (Intellectual Assets).
- ⇒ The act has provided the facility of Medical Tax Credit under which resident individuals may claims a Medical Tax Credit of 15 percent of the amount of approved medical costs. Unabsorbed medical tax credit amount can carry forward forever. (Mallik; 2003).

2.9 Head of Income

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

A. Income from Employment

Employment is defined by the Act under Section 2(a) as “employment that includes a past, present or prospective employment”. In general terms, the act of performing a certain job for the person, who appoints one for the job, in consideration of a regular payment is called as employment. That is why; the income from an employment can be generated only when a relation of employer and employee or master and servant has been established between a payer and a payee. Whatever the employee derives from the employment in the shape of a regular salary, allowances, overtime payment, bonus, etc. is included in the income from employment. Generally, an employment is known as a long-term employment but, in legal terms, an employment last for a short

period and may also be a part time one. An individual may have more than one employment on a day. The employer may be any person like an individual (a proprietorship firm), an entity, NG, a local body of NG, an institution, an organization, a foreigner, etc. but the employee is always an individual (a natural person). A husband and a wife working in the same entity are treated as creation of two employments, one for husband and another for wife. The employee must be present physically at the place of work to perform his or her duties. The employment is awarded on the basis of his/her ability, education, experience, honesty, behaviour, etc. and so a proxy is nowhere allowed to work on behalf of the employee. A written appointment letter does not always qualify an individual to be an employee but an oral appointment or even the behaviour of the employer and employee is sufficient to treat the individual as an employee (Agrawal, 2004).

According to this Section; the remuneration received by a person from the employment is as following payments made by the employer;

1. Payments of wages, salary, leave pay, overtime pay, fees, commission prizes gifts, bonuses and other facilities.
2. Payments of any personal allowances including any cost of living, rent, entertainment and transportation.
3. Payment provided of reimbursement or discharge of cost incurred by the individual or an associate of the individual.
4. Payments for the individual's agreement to any conditions of the employment.
5. Payments for the termination or loss or redundancy of the employment.
6. Retirement Contribution including those paid by the employer to the retirement fund in respect of the employees and retirement payments.
7. Other payments in respects of the employment.
8. Other amount as given in chapter 6 of the act perquisites and gains due to change in tax according required to be included. (Income Tax Act, 2002:Sec 8).

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

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

B. Income from Business

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

Trade and commerce

The Oxford Dictionary defines trade as follows:

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

The activity of a trade starts from the moment a goods id purchased or other wise acquired with an intention to sell it for some profit. It is not necessary that the good is sold in due course and profit is acquired there from. It's not only the purchase and sale of goods that constitutes a trade but a sale of services is also included in the definition. The transportation of goods and human beings, tourism trade etc are examples of the trade of services. Though commerce is something similar to trade, it is used especially when the trade takes place between two countries.

Production

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

Profession and Vocation

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

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

- a. Service Charge. (Sec.7.2)
- b. Sales or disposal of business/ trading stock.(Sec.7.2)
- c. Net gain from the disposal of person’s business assets/liabilities of the business calculated as under chapter 8.(Sec.7.2)
- d. Amount received against the disposal of depreciable assets.(Sec.7.2)
- e. Prize or gift in connection with business.(Sec.7.2)
- f. Amount received instead of acceptance of any restriction regarding business (Sec.7.2)
- g. Amount included under change of accounting method. (Sec.24)
- h. Excess amount received due to exchange rate of currency.(Sec.28)
- i. Bad debt recovered.(Sec.25)
- j. Proportionate amount under long term contract. (Sec.26)
- k. Under paid interest amount according to market price.
- l. Amount received for compensation. (Sec.31)

m. Other amount received under business income. (Sec.7.2)

(Income Tax Act, 2002)

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

a. Exempt amounts under section 10.

b. Taxation of dividends under section 54.

c. Final withholding payment under section 92. (Income Tax Act, 2002)

C. Income from Investment

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

a. The property should not used by the owner himself; or

b. The property must not be a business or an employment.

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

a. A person has the legal ownership of a property;

b. The owner transfers the right to use the property to another person; and

c. For such a transfer of right the owner receives certain consideration from the transferee Section 9 (Income Tax Act, 2002) deals with the receipts or the receivables to be included in income from investment. Section 13, 14, 15, 16 and 19 deals with the deductions to be made while computing the taxable income (Income Tax Act,2002).

a. Any dividend, interest, natural resource payment, rent, royalty, gain from investment insurance, gain from an unapproved retirement payment or retirement fund from approved retirement fund. (Sec.9.2)

b. Net gains from the disposal of the person's non business chargeable assets of investment. (Sec 9.2)

- c. Excess amount of incomings over the depreciation basis including outgoings on the disposal of the depreciable assets of the investment of the persons. (Sec 9.2)
 - d. Gifts or prizes received in connection with investment. (Sec.9.2)
 - e. Retirement contribution including those paid to retirement funds in respect of the person and retirement payments on respect of investment.(Sec. 9.2)
 - f. Amount received instead of acceptance of any restriction regarding investment. (Sec. 9.2)
 - g. Amount included under change of accounting method. (Sec.24)
 - h. Excess amount received due to exchange rate currency. (Sec 28)
 - i. Bad debt recovered. (Sec. 25)
 - j. Proportionate amount under long term contract. (Sec. 26)
 - k. Under paid interest amount according to market price (Sec.)
 - l. Amount received as compensation. (Sec. 31)
 - m. Other amounts required to be included on tax accounting or quantification, allocation and characterizations of amounts or transaction between any entity and beneficiary or general insurance business. (Sec. 9.2)
- (Income Tax Act, 2002)

2.10 Individual Taxpayer

The Income Tax Act classifies tax payers into two: an individual and an entity (Sec.2). The word “Person” is used for each taxpayers irrespective of its status. Thus the term “Person” includes:

- a. An individual; or
- b. An entity

a. Individual

The term “Individual” is defined by Sec.2 (ac) as follows;

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

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

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

Provision for Individual Taxpayer under Income Tax Act, 2002

a. Allowable deduction

1. Retirement contribution to an approved retirement fund:

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

i.e – Actual Contribution (employers + employee) or 1/3 of assessable income or Rs. 300000 whichever is less Retirement contribution to an unapproved retirement fund is not allowed for deduction.

2. Donation to tax exempt organization

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

i.e – Actual donation

or 5% of Adjusted taxable income

or Rs. 100000 whichever is less.

But, Nepal Government may notify through official gazette that donation given to such institution will be expected for deduction up to the notified limit. Such donation shall be allowed as per the notification.

(a) Donation made to Pashupati Area Development Trust (PADT) and Lumbini Area Development Trust (LADT) is allowable up to Rs. 50 lakhs.

3. Exemption Limit:

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

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

Single / Unmarried/ Individual Rs. 100,000

Couple / Married Rs. 125,000

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

Remote areas Additional Exemption Limit,,

A. Rs. 30,000

B. Rs. 24,000

C. Rs. 18,000

D. Rs. 12,000

E. Rs. 6,000

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

(d) Life Insurance premium (LIP)

Life insurance premium paid by a resident natural person for his own life is allowable for deduction from taxable income up to the following limit: Actual Premium paid Or, 7% of Insured sum Or, Rs. 10,000 Whichever is less

4. Medical Tax Credit

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

Allowable medical tax credit: 15% of eligible medical expenses + Any amount carried forward from the previous year Whichever is less or, Rs. 750

Notes: For non –resident natural person no tax exemption limit of any kind is available and charge 25% flat tax rate. And special additional fee is charged on total taxable income of non-resident natural person. But 5% rebate on remaining slab is get if the income is derived by operating special industry or from export business.

2.11 Tax Exempt Incomes Under This Income Tax Act

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

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

C. Remuneration paid by NG to foreign citizen on terms of tax exemption.

D. Pension received by retired army / police from public fund of foreign government.

E. Allowance paid by NG to widows, elder citizen, disabled person.

F. Amount derived by way of gift, bequest, inheritance or scholarship except as required to be included in calculating income under business, investment, or employment.

G. Agricultural income otherwise than affirm, company, partnership and registered corporate body and by those who has not holding of land more then as prescribed in land act, is non taxable income.

H. Income and dividend distributed by co-operation societies registered under co-operatives act, 2048 is non taxable income.

I. Incomes from writing articles, preparation of exam paper, checking of exam paper are also tax-free income.

2.12 Specimen for Computing Income

(A) Computation of Income from Business

As per Income Tax Act, 2058

<u>Particulars</u>	<u>Amounts</u>
Amounts to be included	
Service Charge (Sec 7.2)	xxx
Disposal of trading stock (Sec 7.2)	xxx
Net gain from disposal of business assets or liability (Sec 7.2)	xxx
Gain from disposal of pool of depreciable assets (Sec 7.2)	xxx
Prizes or gifts in connection with business (Sec 7.2)	xxx
Amount received in lieu of accepting any restriction regarding business (Sec 7.2)	xxx
Amounts received from any investment directly related to Business (Sec 7.2)	xxx
Incomes to be included due to change in accounting methods (Sec22.6)	xxx
Excess amount received due to exchange rate variation (Sec 24.4)	
Bad debts recovered (Sec 25.1)	xxx
Proportionate amounts received under long term contracts (Sec 26.1)	xxx
Under payment of interest according to market rate (Sec 27.1)	xxx
Receivables amounts paid to others (Sec 29)	xxx
Amounts received for compensation (Sec 31)	xxx
Other amounts received under the head of business income	xxx

Gross income from business (A)	xxx
Allowable Deduction	
Interest Expenses (Sec 14)	xxx
Cost of trading stock (Sec 15)	xxx
Repair and improvement cost (Sec 16)	xxx
Pollution control cost (Sec 17)	xxx
Research and Development cost (Sec 18)	xxx
Depreciation allowances (Sec 19)	xxx
Reserve fund for banks (Sec 59)	xxx
Others expenses	xxx
Total Allowable deductions (B)	xxxx
Assessable income from business before loss adjustment (A-B)	xxxx
Less Adjustment of business losses (Sec 20)	
a. Unrelieved loss from other business this year (Sec 20)	xxx
b. Unrelieved loss from business of previous years (Sec 20)	xxx
Total adjustable business loss [(a+b)=C]	xxxx
Assessable income from business (A-B-C)	xxxx

(B) Computation of Income from Investment

As per Income Tax Act, 2058

<u>Particulars</u>	<u>Amounts</u>
Amounts to be included	
Dividend payment (except final withholding payment (Sec 9.2)	xxx
Gain from Investment Insurance (except final withholding payment (Sec 9.2)	xxx
Interest received (except final withholding payment (Sec 9.2)	xxx
Rent received (except final withholding payment (Sec 9.2)	xxx
Payment received from natural resources (Sec 9.2)	xxx
Royalty Income (Sec 9.2)	xxx
Gain from unapproved retirement fund (except final withholding payment (Sec 9.2)	xxx

Gain from disposal of pool of depreciable assets (Sec 9.2)	xxx
Gift received by the person in respect of the investment (Sec 9.2)	xxx
Retirement contributions, including those paid to a retirement fund in respect of the person (Sec 9.2)	xxx
Amounts received in lieu of accepting any restrictions regarding investment (Sec 9.2)	xxx
Incomes to be included due to change in accounting methods (Sec22.6)	xxx
Excess amounts received due to exchange rate variation (Sec 24.4)	xxx
Bad debts recovered (Sec 25.1)	xxx
Under payment of interest according to market rate (Sec 27.1)	xxx
Receivable amounts paid to others (Sec 29)	xxx
Amounts received for compensation (Sec 31)	xxx
Income received from joint investment (Sec 30)	xxx
Other amounts to be included under investment income	xxx
Gross income from Investment (A)	xxxx
Allowable Deductions	
Interest Expenses (Sec 14)	xxx
Repair and improvement cost (Sec 16)	xxx
Depreciation allowances (Sec 19)	xxx
Others expenses related to investment	xxx
Total Allowable deductions (B)	xxxx
Assessable income from investment before	
loss adjustment (A-B)	xxxx
Less Adjustment of losses	
a. Unrelieved loss from business or other investment this year (Sec20)	xxx
b. Unrelieved loss from business of previous years (Sec 20)	xxx
Total adjustable loss [(a+b)=C]	xxxx
Assessable income from investment (A-B-C)	xxxx

(C) Computation of Income from Employment

As per Income Tax Act, 2058

<u>Particulars</u>	<u>Amounts</u>
Amounts to be included	
Salary and wages (Sec 8.2)	xxx
Leave pay (Sec 8.2)	xxx
Pay for overtime (Sec 8.2)	xxx
Fees (Sec 8.2)	xxx
Prizes and gifts related to employment (Sec 8.2)	xxx
Bonus (Sec 8.2)	xxx
Other facilities (Sec 8.2)	xxx
Commissions (Sec 8.2)	xxx
Dearness Allowances (Sec 8.2)	xxx
Cost of living subsistence (Sec 8.2)	xxx
Rent (Sec 8.2)	xxx
Entertainment and transportation allowances (Sec 8.2)	xxx
Other personal allowances (Sec 8.2)	xxx
Reimbursement of personal expenses (Sec 8.2)	xxx
Payments for the individual's agreement to any condition regarding employment (Sec 8.2)	xxx
Redundancy or loss related payments (Sec 8.2)	xxx
Other payment made in respect of employment payment (Sec 8.2)	xxx
Retirement payment & contribution to retirement fund (Sec 8.2)	xxx
Amounts of Vehicles facility (Sec 27.1)	xxx
Amount of services of house keeper, chauffeur, gardener, or other domestic assistants (Sec 27.1)	xxx
Accommodation facilities (Sec 27.1)	xxx
Any meal, refreshment or entertainment provided by employer (Sec27.1)	xxx
Amount of services related to drinking water, electricity, telephones, and the like utilities in respect of the payees (Sec 27.1)	xxx

Under paid interest by employee to employer for loan taken by the employee (Sec 27.1)	xxx
Other amounts to be included	xxx
Gross income from Employment	xxxx

(D) Statement of Total taxable income

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

(E) Statement of Income tax liability

<u>Particulars</u>	<u>Amounts</u>
First Rs. 115,000 (individual), 140,000(Couple)	Nil
Next Rs. 85,000 @ 15%	xxx
Balance Rs. xxx @ 25%	xxx
Total tax liability	xxx
Less: Advanced tax paid	xxx
Medical tax credit	xxx
Net tax to be paid	xxxx

2.13 Methods of Income Tax Assessment

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

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

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

2.14 Installment Payment

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

2.15 Review of Literature

Income tax was imposed in Nepal by the first Parliamentary Government in 1959. Then after, various studies were made and researches conducted by different individuals and institutions concerning with various aspects of this act such as the structure, role, productivity, legal and administrative framework etc. Some of the books reports and dissertations that are reviewed during this study are as follows:

2.16 Review of Books and Reports

At the earliest in 1965, Mr. Kedar Bahadur Amatya, published a book "Nepal Ma Aayakar ko Bebastha" in 1965. He has tried to describe about income tax and provision regarding income tax. His contribution was first in the field. Basically, he analysed legal aspect of income tax in Nepal at that period. (Amatya, 1965)

In 1978, a research team leaded by Dr. Govinda Rana Agrawal. A senior research officer of CEDA has conducted a research in the topic "Resource Mobilization for development: The reform of income tax in Nepal.. This

research report was published by CEDA, Kathmandu. Agrawal and this team have focused this study to analyze the various aspects of income tax in Nepal. The period covered by this study was twenty – Eight years from 1951/52 to 1978/79. Both primary and secondary sources of data were used for the conduct of this study. Some of the important objectives of this study were as follows:

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

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

- a. Needs for additional resource mobilization was growing by 85 times in Nepal and she was experiencing a serious and growing problem of resource gap.
- b. Income tax administration in Nepal suffered from a number of interacting and inter-related problems, which have badly affected its productivity.
- c. Income tax has been a fast growing category of tax revenue in Nepal.
- d. More than 50 percent of the total income tax revenue was contributed by the individual taxpayers.
- e. Buoyancy of income tax with respect to GDP for period 1967/68 to 1975/76 was 2.18 and elasticity was 2.01 since both buoyancy and elasticity were greater than unity; income tax in Nepal Was positively responsive to change in GDP.

f. The main defects of the income tax administration was failure to locate new tax payers , to maintain the proper accounts, delay in assessment, poor taxpayers compliance, evasion and avoidance of tax. And defectives management. Recommendations

- a. Additional domestic resources should be mobilized through taxation.
- b. Tax structure of Nepal need to is redesigned in order to increase the role of direct tax.
- c. Income tax should be reformed in Nepal.
- d. The research team also suggested to reform income tax administration by including the affluent taxpayers into tax net, providing the permanent taxpayers register. (Agrawal, 1978).

Agrawal (2004) has published a book entitled," Income Tax; theory and practice." This book has focused on the students of chartered accountants and taxation. This book has also focused to be a practitioners, reference and handbook, rather than theoretical compilation on the subject. His book is not only based on description fact but also has interrupted the various provision of the new act.

Simple and clear language has been used in this book. Sufficient theoretical concepts with clear interpretation as well as sufficient examples are included in this book. This book has depth theoretical concept and examples. Some sections of ITA 2058 act have compared with the international accounting standard. Gain or loss adjustment of depreciated assets is an example. All terms are clearly defined with sections under which the terms are included (Agrawal; 2004).

Lent (1968), has presented a report entitled, "Survey of Nepalese tax Structure" under the request of IMF, Fiscal Affairs Department. He has critically analyzed the scope of income tax in Nepal, tax structure, taxable income exemption and allowances given at that time. He has suggested reforming both the income law and administration to increase government revenue through income tax (Lent, 1968). The book published in 1976 by Nirmal Bhattarai and Ratna Shrestha,

gave information about the legal aspects of income taxation in Nepal of that period.

In 2001, Revenue Consultation Committee Report has studied the overall taxation situation in depth. It highly emphasized to simplify the tax policy to increase voluntary compliance. This report recommended for written communication between taxpayer and tax administration rather than the informal relation. This report suggested widening the income tax bases by including all kinds of taxpayer of new sector. For this, the report suggested to make the act more transparent and clear in order to attract foreign and domestic investors. It was further suggested to increase income tax exemption limit with considering purchasing power and inflation rate. (Revenue Consultation committee, 2001)

Adhikari (2002) has discussed the legal provision of new Income Tax Act, 2002. His book is analytical rather than informative. Writer has not included administrative aspect, role and structure of income tax in his book. The book has only focused on the legal aspect of income tax. Agreement and protocol relating to avoidance of double taxation and the prevention of fiscal evasions with respect to taxes on income between different countries had also included in his book. (Adhikari, 2002).

Kadel (2003) had criticized the income tax act 2002 on several grounds. Exemption of agriculture income from income tax, export duties levied on export, inequality between different capital earned income (i.e. tax on interest, dividend, and capital gain), and withdrawal of the provisions of exemption suddenly and no adjustment for inflation are the major issue he raised in his article. He further criticized the Act for the provision of income tax from export as 0.5 percent of total export because it is not good choice of income tax base. (Kadel, 2003). Mallik (2003), has published book named "Nepalese Modern Income Tax System". He had described historical aspects of income tax and legal provisions relating to income tax with numerical examples. This book is very useful to know the general information and legal provision of Income Tax Act, 2002. His focus is on Income tax in Nepal, role of income tax,

administrative and legal aspect of income tax in Nepal. His study is useful to find out facts and figures about the income tax in Nepal at that time. (Agrawal, 1980)

Poudyal and Timsina (1990) presented a book based on B.Com syllabus. This book is designed to give theoretical as well as practical ideas of income tax in Nepal. Provisions and methods of assessment have been described with numerical examples but the major problems and defects of income tax system of Nepal have not been analyzed. (Poudyal and Timsina, 1990).

Khadka (1994), had discussed the economic policy of Nepal, VAT as a long term tax for Nepal, Income tax, improving tax administration, tax reform strategy. He had analytically described about development, existing structure, main problems and possible direction of reform of income tax. He had indentified the major problems of income tax as narrow coverage, unscientific tax assessment and collection, defective system form the perspective of international taxation. Weak

tax administration, imbalance and inadequate tax training, predominance of law level non technical posts, debatable scope of revenue investigation department, and lack of information system were the major problems of tax administration identified by him. He had suggested some suggestions to overcome from the problems of income tax which were extension of tax coverage, scientific method of tax assessment, extension of withholding tax, inflation adjustment etc. He had also identified some possible direction for administrative reform. They were reorganization and expansion, applying integrated information system; research unit on taxation, strengthening the revenue service. His book was analytical and very useful to obtain the various aspects of income tax. (Khadka, 1994) Dhakal (1998), presented his extended, enlarged and modified edition of his book including value added tax. This book is mainly based on the syllabus of BBS third year. The provisions made under income tax laws and the methods of income tax assessment have been described with numerical examples. This book is more helpful to know about general information and provisions made under Income Tax Act 1974. But he has not analyzed the role

of income tax, income tax structure and defects of income tax system of Nepal. His book is informative rather than analytical. (Dhakal, 1998).

In 1999, Adhikari has published a book which is mainly based on the T.U. syllable of B.B.S. third year. Apart from the theoretical concept on taxation, he has also presented the historical background, income tax laws and its implementations, assessment of tax and tax authorities, rights and duties. He has also described the management of VAT, property Tax and Sales Tax. The book includes precedents of Supreme Courts about Income Tax, classification and interpretation of revenue code, tax planning and income tax management in Nepal. The book is based in Income Tax Act, 2031. (Adhikari, 1999)

Tiwari (1999), presented a book about income tax system in Nepal. This book is published mainly for the students of Tribhuvan University but is equally useful to the tax payers, tax administrators and those who desire to get theoretical as well as practical knowledge about income tax. He has described the provisions under Income Tax Act 1974, income tax rules, information and acts related to income tax etc. He has not analyzed the major problems of income tax system. (Tiwari, 1999)

Khadka (2001), published a book on income taxation of Nepal. The book contains many interesting articles on various aspects of income tax. It first traces out the evolution of income tax around the world. It then analyzes relative importance of income tax in the tax system of some selected countries. It also defines various concepts, which are widely used in the modern income tax literature. The book also reviews major changes introduced in the field of the Nepalese income tax system since its inception in 1959 AD and examines its existing structure and operation. It also analyzes the current problems and makes recommendations for the rationalization of the structure and modernization of operation of the income tax system. The book also includes income tax acts of 1959, 1962 and 1974 A.D. (Khadka, 2001)

In 2001, Revenue Consultation Committee Report has studied the overall taxation situation in depth. It highly emphasized to simplify the tax policy to increase voluntary compliance. This report recommended for written

communication between taxpayer and tax administration rather than the informal relation. This report suggested widening the income tax bases by including all kinds of taxpayer of new sector. For this, the report suggested to make the act more transparent and clear in order to attract foreign and domestic investors. It was further suggested to increase income tax exemption limit with considering purchasing power and inflation rate. (Revenue Consultation committee, 2001)

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2.17 Review of Dissertation

Gautam (2004) has presented a dissertation entitled, “Contribution of income tax to the national revenue of Nepal”. He has studied the contribution of various taxes in the government revenue, tax revenue, GDP. According to him the contribution of tax revenue in the government revenue is 85.2% in the income year 1982/83 and decreased to 78.0% in the income year 2001/02. Nepalese income tax revenue is the composition of income tax from public enterprises, semi public enterprises, private corporate bodies, individuals, remuneration and tax on interest. Income tax of Rs. 8903.7 millions was collected in 2001/02. Share of individuals to income tax revenue is the highest. Within income tax, there is dominant role of individuals and it is decreasing trend which was 69.23% of income tax revenue in 1982/83 but decreased to 49.63% of income tax revenue in year 2001/02. The contribution of individual income tax is in first position, Income tax exemption limit in Nepal was Rs. 7000 for all taxpayers in 1959/60 but at present income tax exemption limits is 80000 for individuals and Rs. 100000 for couple and family in 2003/04. The exemption limit is not provided for partnership firms, corporation and non residents. It is found that exemption limit has been changed on the need of time and income.

Personal income tax rate was 5 to 50 percent with 7 slabs in 1980/81 but at present (i.e for 2003/04) it is reduced to 2 slabs. In the same way, corporate tax rate was 10 to 55 percent with 1980/81 but at present taxpayers are taxed at flat rate. Income tax is 15 percent and 25 percent for personal income tax over exemption limit, 30 percent for bank, finance companies and 25 percent for other corporate taxpayers.

His suggestions are that the objectives of taxation should be growth, redistribution, and stabilization of economy. So, the income tax policy should be properly formulated on the basis of critical analysis of existing situation (Gautam, 2004).

Shrestha (1967), has prepared a master degree thesis entitled "Income Tax in Nepal". He has described about historical background, income tax act, rules

and administrative aspect of income tax. All things mentioned in it are not fully relevant at present. (Shrestha, 1967)

Kayastha (1974) has tried to analyze the contribution of income tax and property taxes to overall revenue generation in Nepal. He has studied on legal and administrative aspect income tax system of Nepal and pointed out some drawback. According to him before 1951, Nepal didn't have scientific economic policy, which could facilitate the economic development of the country. According to him, the major problems of income tax system of Nepal are income tax evasion at high level and greater role of indirect tax in tax revenue. These problems have not solved yet effectively. (Kayastha, 1974)

Pandey (1978), in his study has discussed various aspect of income tax such as legal aspects, structure of income tax role of income tax, problems of income taxation, economic effect of income tax in Nepal. He had highlighted on tax structure of Nepal. According to him, income tax played as significant role in the economic development of Nepal. He found the capital burden of income tax was Rs. 0.2 in 1962/63 and it had increased to Rs. 7 in 1975/76. He had stated that indirect tax had a dominated role in the total tax revenue. Lack of scientific record keeping, Lack of maintaining accounts by tax payers, lack of coordination, lack of scientific method of income tax assessment and collection procedure, lack of honest tax officers are the major problems identified by him. His suggestions about income tax were capital gain should bring in tax net; income tax accounting assessment and collection method must be scientific etc. His study was done with objectives of examining the economic effects of income tax but he had not described it with numerical examples and empirical investigation. (Pandey, 1978)

Subedi (1982) has analyzed about the role of income tax on national revenue of Nepal. He has examined the growth of income tax collection, its ratio to GDP, cost of income tax collection and elasticity. He has also included historical perspective and legal aspect of income tax in his study. He has pointed out that tax evasion, inefficient tax administration and dominated role of indirect tax are

the major problems in Nepalese tax system. He has suggested that tax administrative reform is the major necessity in development of income tax system. (Subedi, 1982)

Nepal (1983), has critically examined the income tax system of Nepal in that time. Her study has been conducted with purpose of examining the role of income tax in overall tax structure, analyzing the problems and prospects of income tax in Nepal and highlights the future prospective of the Nepalese income tax. (Nepal, 1983)

Regmi (1986) has prepared a dissertation with the main objective of examining the trend of income tax in Nepal, ascertaining the share of income tax to total tax revenue and its ratio of gross domestic product. He has also stated as a great problem in income tax in Nepal. To increase the revenue of government, he has recommended that income tax law should be clear and precise, scientific method for accounting assessment and collection of income tax, widening tax coverage, easy and simple procedure of tax payment, public awareness. (Regmi,1986)

Siwakoti (1987) has explained the various aspect of income tax. HIS study emphasized on drawing a clear sketch of role of income tax, structure of income tax, projection of income tax, legal aspect of income tax act and problems of income tax. Major problems existing in Nepalese income tax system, stated by him are narrow coverage, unscientific and time consuming assessment and collection procedure, complicated act and defective income tax act. (Siwakoti, 1987)

Baral (1989), has tried to shown the contribution of income tax on the structure of government revenue in Nepal. She stated that the composition of tax and non tax revenue is still less satisfactory in Nepal. She found that total revenue, total tax revenue and direct tax revenue have an increasing trend in Nepal but in low rate. She has mentioned that tax evasion as the major problem of income tax system in Nepal. In her study, inefficient tax administration, unconsciousness of tax payer, lack of scientific method of tax assessment and collection have identified as the major reasons for tax evasion at high level. (Baral, 1989)

Bhandari (1994) has tried to examine historical background, tax structure in Nepal and contribution of income tax to economic development of Nepal. He has stated that actual collection of revenue through income tax was lower than its estimated targets because the poor tax paying habit of Nepalese tax payer, poor tax administration system, wide spread evasion of income tax. He has suggested to make effective personnel management, increasing habit of tax paying of Nepalese tax payer through proper tax education and better public communication system, minimize tax evasion, reduce tax collection cost. (Bhandari, 1994)

Acharay (1994) has mentioned the main objectives of income tax as to achieve social justice, to check inflation and to collect more government revenue.

He has identified the contribution of individuals in total income tax revenue seems to be greatest during his study period followed by public enterprises, enumeration, house rent, and interest taxes, semi public enterprises and private corporate bodies respectively. He has also analyzed the administrative and legal aspects of income tax. He has recommended simplifying the tax structure, legal and administrative aspect, and understanding with the consent of tax payer to raise income tax revenue. (Acharya, 1994)

Shahu (1995) has found that 0.35 percent of total population came under the category of taxpayer during his study period. Main objective of his study was to study Nepalese structure, role and contribution of income tax on national revenue. He has identified that income tax has been gradually increasing and was in the fourth place in the tax structure of Nepal. He has not discussed the major aspects of income tax clearly and analytically so it is incomplete study and all things mentioned init are not also fully relevant today because it was made 9 yrs ago. (Shahu, 1995)

Shakya (1995) presented a dissertation named "Income Tax System in Tax Structure of Nepal." His study was done with basic objective of analyzing the causes of heavy reliance of indirect taxes, analyzing the volume of indirect tax revenue and direct tax revenue in total tax structure, highlighting the revenue assessment procedure from different sources and suggesting improving on

them. In his study, he has identified the income tax has occupied fourth position among tax revenue of Nepal. Custom duty, sales tax and excise duty has occupied first, second and third position respectively in Nepalese tax revenue. He has mentioned Nepalese taxable capacity is limited by various factor such as low per capita income, extensive subsistence economy, relatively "closed" (India) economy, weak export position etc.

He found the ratio of income tax to GDP total revenue; total tax revenue and direct tax revenue have been on increasing trend in Nepal. But increasing trend rate is very low in comparison to other countries. Tax evasion is the main reason behind it. Lack of clear and comprehensive definition of income, lack of punishment to the evaders, low tax paying capacity and non conscious of tax payers, lack of inefficient tax administration, lack of scientific method of tax collection and lack of trained tax collectors were the main reasons of income tax evasion identified by him. (Shakya, 1995)

Shrestha (2001), study had covered the historical background, legal provisions, structure of income tax, income tax administration in Nepal and empirical investigation. Her findings about tax structure were: there was dominant share of tax revenue in Nepalese government revenue. But the contribution of tax revenue showed the decreasing trend. The tax/GDP ration was not found satisfactory with compare to other SAARC countries. It was 6.81 percent for the period of 1984/85 and 9.36 percent in 1998/99. There was serious and growing financial resource gap in Nepal seems to be never ending problem for Nepalese economy. There was dominant role of indirect tax revenue in Nepalese tax revenue. The contribution of direct and indirect on tax revenue was 17.76 percent and 82.24 percent respectively in 1984/85 which becomes 26.14 and 73.86 percent in 1998/99. The contribution from individuals to income tax revenue was greatest in every fiscal year and it was in increasing trend. Income tax revenue was playing a significant role in direct tax revenue because the share of income tax in direct tax was increasing rapidly. She had found various problems of income tax system in Nepal. They were Narrow tax coverage, mass poverty of Nepalese people, and lack of conscious of taxpayer,

widespread evasion and avoidance of income tax, unscientific tax assessment procedure, inefficient tax administration, complicated tax laws and procedures, instability in government policy. She had also identified the major weak points of income tax administration in Nepal. They were failure to locate new taxpayers, failure to maintain proper accounts and records, defective selection of personnel, undue delay in making assessment, lack of motivation in tax personnel, existence of corruption.

She had suggested broadening the Nepalese income tax base by bringing agriculture income and capital gain under income tax net. She had suggested to make consciousness to people, reform of income tax assessment, reform the tax administration and minimizing the tax evasion. For the improvement of income tax administration, she has suggested computerization and effective exchange of information, she has suggested computerization and effective exchange of information, tax education to tax payers, tax inspectors and officials, effective personnel management, Her suggestion for minimizing tax evasion were control illegal business activities, enforce proper auditing and investigation, enforce heavy fines and penalties and maintain proper records and accounts. (Shrestha, 2001)

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

Her suggestion about income tax system were clear cut provision, discretionary power of tax officers should curtailed, assessment and collection provision should be made clear and simple, provision of reward, prize, incentive should introduce to encourage the taxpayers to pay voluntarily, compulsorily provision of auditing, etc. For the improvement income tax administration in Nepal, she had suggested promotion and rewards to active, efficient and honest tax personnel, tax education to tax payers, strict actions against corruption, and reduction of delays in tax assessment. Specially, her study had focused on the study on Nepal Telecommunication Corporation. (Pradhan, 2002)

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

He had suggested revising the position of fees and penalties, introducing reward, prize, incentives position, clear income tax, rules and regulation, clear right and duties of tax officers. Further, his suggestions were: timely revision in income tax policy, computerized system for payment of income tax. This study was done with main objectives of analyzing tax structure of Nepal, analyzing the position of fines and penalties under income tax law, know the taxpayers knowledge and tax officers view about fines and penalties. His study had focused only on study on provision of fines and penalties. So, this study is incomplete study. (Sherchan, 2003)

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

dominated role of corporate income tax but it was in decreasing trend and contribution of individual income tax was second position and it was in increasing trend. Lack of trained employees, shortage of income tax experts professional in tax administration, lack of public participation, faulty organizational structure of tax administration, weakness in government policy, defective income tax act were the major cause for inefficient tax administration, observed by him. His suggestion about exemption were: revision the exemption limit, elimination double taxation on dividend, tax rebate for submitting true income statement in time, increase income tax rate slab up to 10, increase the exemption limit to individual as well as family etc. Besides above, suggestions about deduction were: clear provisions for deduction; fully allowed interest expense, pollution control expenses, repair and improvement expenses, research and development expenses. He is totally concentrated on the exemption and deduction in his study. He has not study about various aspect of income tax. (Palli Magar, 2003)

Subedi (2007) had done research on "VAT Implementation in Nepal". The study had covered VAT revenue collection in different years, the challenges for effective VAT implementation & resource gap in Nepal. His study shows that the VAT registrant status was on increasing trend. The major findings of the study were, Most of the traders, business man had sufficient idea regarding to VAT but the problems of them was accounting as well as billing problem. The second one was administration system had a great importance in effective implementation of VAT. Thirdly his survey results also showed that the VAT was not properly implemented in Nepal. VAT was the great revenue of the government.

He had suggested some ways for effective implementation of VAT in Nepal these techniques. They were; effective implementation of Billing system, hired the trained & experienced staffs, maintained the proper books of account, timely monitoring & supervision & launched the **public awareness** programme regarding to VAT & tax system. Subedi (2007)

In 2009, Mr. Sudish Kumar Kushawaha had made a research on topic "Taxation Under Business Income in Nepal: Past & Present". The study mainly focused on comparison of the tax act that had changed in different period. He had presented the comparisons of different expenses as per tax act of past and present. The major findings of his study were; most of the tax payer were familiar to the new income tax act, new act's provision of considering admissible expenses of pollution & research & development comparing limit was good in new tax act, the present tax act 2058 was very effective.

He had recommended to enhance the economic activities of the country & government should focus on development activities, the tax base should be widened rather to increase tax rate, effective monitoring mechanism should be made, repair & improvement cost should be increased & current trend of collection of income tax should be carefully analyzed and found loopholes.(Kushawaha, 2009)

2.18 Review of Television Program

A program broadcasted in Kantipur TV named SAROKAR which was conducted by Mr. Bijay Poudel on 17th November-2009 at 9:30PM. The main discussion subject was on micro credit finance but there were included some tax topics also. The guests were Mr. Ganesh Gurung(Centre for Micro Finance), Ms. Dolma Tamang (Member of Parliament Nepal govt), Ms. Bhagawati Chaudhary (Member of Parliament Nepal govt). They were also discussing about tax. "Tax rate is needed to categories according to organization"-Mr. Ganesh Gurung. "Now the cooperative must be paid 30% of tax and also VAT" –Dolma Tamang. To develop the cooperative this should be some elastic to the cooperative. "For tax purpose to the co operative there need to be define differ tax system and some flexibility is needed to this type of organization"-Bhagawati Chaudhary. General Participants of the program said, "BHARI BOKER KAMAYAKO PAISAMA PANI TAX TIREKA CHHAU, MAHILA SAHAKARI LAI KUNAI CHHUTTAI KOSH RAKHNA SAKCHHA NI"

By that program, it was noticed that the educated and responsible person of the peoples also haven't enough knowledge on TAX. What is a Tax? Why we need to pay? So it is needed to aware on Taxation to all of the stakeholders.

2.19 Research Gap

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

CHAPTER -THREE

RESEARCH METHODOLOGY

We should make different types of research according to subject matter like as descriptive, experimental, exploratory, case study etc. The objective of Study focused on awareness of the tax payers so this study follows descriptive as well as Analytical research tools. Both primary as well as secondary sources of data are used to conduct this study. Opinion survey technique was adopted while collecting primary data to find out the views of respondents representing different groups related to tax. This opinion survey was selected to find out the practical aspect of taxation in Nepal. While conducting the opinion survey, questionnaires were distributed to the tax experts, tax officers, business-men and consumers of the Kathmandu valley.

3.1 Research Design

This study is concerned with awareness of taxpayer so it takes primary as well as secondary data. While collecting primary data, questionnaires were developed and distributed to different business man, tax officers, tax experts and consumers to know their awareness towards taxation and also to collect their views. The Secondary data were obtained from Inland Revenue Office, MOF, Central Bureau of Statistics and other related organization.

3.2 Population and sample

Population is the whole size of related study. Covering all the population while taking data, the study gives more accurate finding. It is not possible due to various constraints so this study take sample from large population. In order to get more information for this study 4 sectors were defined & 50 persons had selected by using random sample method. The following table shows the groups of respondents and size of sample.

Groups of Respondents and size of Samples from each group

S.N.	Group of Respondents	Sample Size	Percentage
1	Tax Experts	4	8%
2	Tax Officers	3	6%
3	Business Man	15	30%
4	Consumers/Taxpayers	28	56%
	Total	50	100%

3.3 Sources of Data

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

a) Primary data

While collecting the primary data, the questionnaires were distributed to a responsive of persons. A set of questionnaire with 20 questions related to the study was developed and distributed to the selected respondents in order to get accurate and actual information. The questionnaire was distributed to different tax group i.e. tax experts, tax officers, business-men and consumers. The fill up questionnaires were collected from them.

Tax payers i.e. business-men and consumers are selected from different manufacturing company, trading company, department stores, shopping center, finance company, NGO etc.

b) Secondary data

The secondary sources of data are collected from books, journals, newspapers, reports, dissertations etc. The major sources of secondary data are from economic survey and annual reports, Ministry of Finance, Publications, Tribhuvan university, reports and records of department of Inland Revenue,

library of Tribhuvan University, Patan Multiple Campus, Nepal Rastra Bank and different website.

3.4 Data Collection procedures

By using spot meet with concern party, total of fifty sets of questionnaire were distributed to fill up. Distribution work is done personally rather than sending by any means to get accurate and actual information in time. While secondary data is obtained from the related offices.

3.5 Data processing and analysis

After collecting the both primary and secondary data, it has presented in tabular form and then made necessary diagrams, pie-chart, to show the information as per requirement. Then analysis is made on the basis of their character. While analysis the data, the software SPSS, MS program in computer were used and also taken the help of different mathematical and statistical tools.

CHAPTER - FOUR

DATA PRESENTATION AND ANALYSIS

In this chapter the analyzed data which are collected from primary source as well as secondary source have been presented in appropriate table & charts. At first phase secondary data are presented and then primary data.

4.1 ANALYSIS OF SECONDARY DATA

4.1.1 Registration Status of Taxpayer in Tax Office

Most of the revenue from tax is collected from the registered taxpayer. There are two categories of registration that is PAN & VAT. The following table shows the registrant record of business houses in different year.

Table 4.1

Registration status in Inland Revenue Office

Fiscal Year	PAN	VAT	Total
2060/061	162172	34174	196346
2061/062	191156	39776	230932
2062/063	225304	46831	272135
2063/064	245550	52965	298515
2064/065	287233	59707	346940

Source: Annual Report of IRD 2064/065

Table 4.1 shows the registration status of taxpayers is in increasing trend.

4.1.2 Revenue collection from tax

The tax revenue is the main source of revenue collection of government. This revenue collection from tax is in increasing trend. Government is processing to bring the people in tax bracket. Reviewing the report of economic survey in various fiscal year it shows that the revenue collection from tax & the contribution of it. The revenue collection from tax is presented by the following table in different fiscal years.

Table no. 4.2

Revenue Collection from Tax

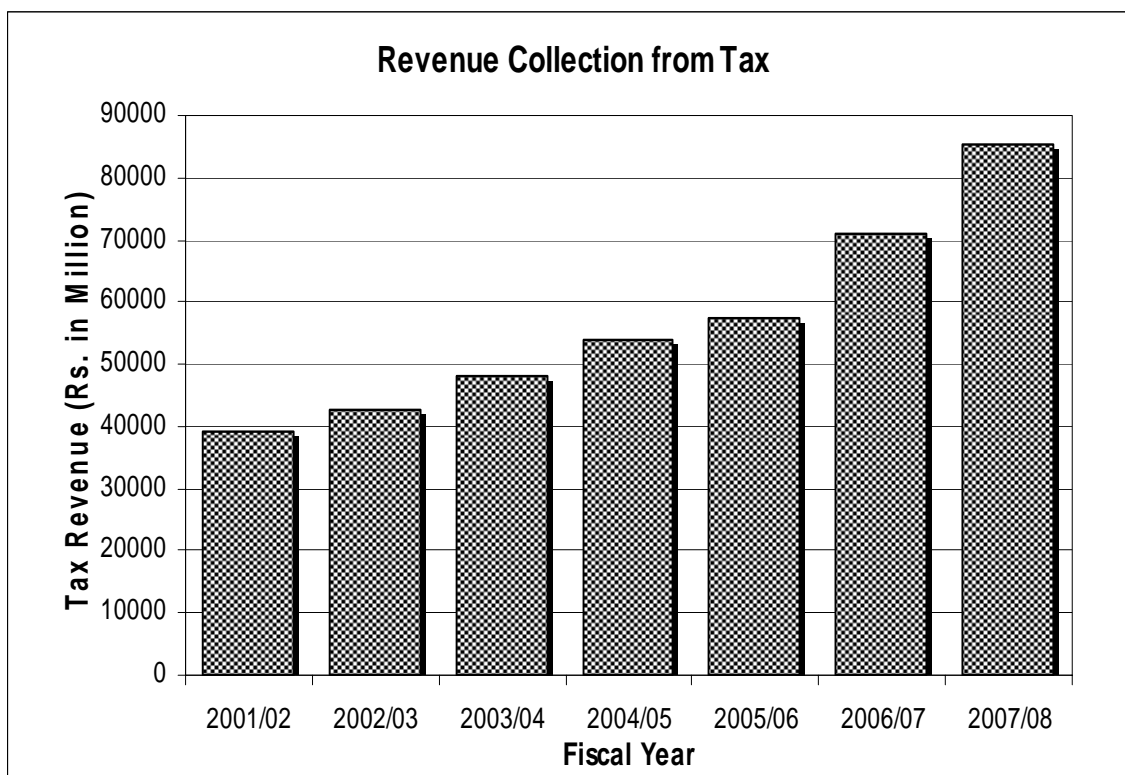
Fiscal Year	Tax Revenue (Rs. In million)
2001/02	39330.60
2002/03	42587.00
2003/04	48173.00
2004/05	54104.70
2005/06	57430.40
2006/07	71126.70
2007/08	85155.54

Source: Economic Survey 2008/09 MOF

The above table shows the revenue collection from tax is in increasing trend. In fiscal year 2001/02 is Rs 39330.60 million but in FY 2007/08 the revenue collection is Rs. 85155.54 million.

Graph 4.1;

Presentation of Table no. 4.2 in Bar Diagram



4.1.3 Revenue collection from Income Tax

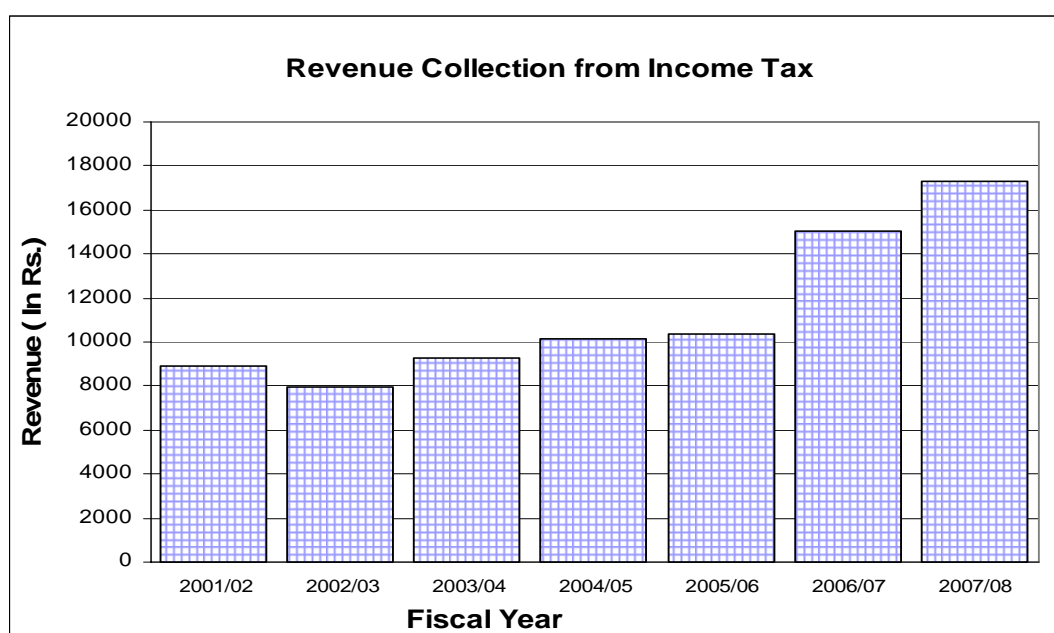
Income tax is the one type of tax revenue which has great role to increase the government revenue. It includes corporate tax, Individual tax and Interest tax. In the fiscal year 2001/02 revenue collection from Income tax was Rs. 8903.70 Millions and in Fiscal year revenue from Income tax is increased to Rs.17311.22 Millions. The following table shows the revenue collection from income tax in different year.

Table 4.3
Revenue Collection from Income Tax

Fiscal Year	Amount (Rs. in million)
2001/02	8903.70
2002/03	7966.20
2003/04	9245.90
2004/05	10159.40
2005/06	10373.70
2006/07	15034.00
2007/08	17311.22

Source: Economic Survey 2008/09, MOF

Graph 4.2; Presentation of table 4.3 in diagram



4.1.4 Sector wise Composition of Income Tax

Income tax is collected from different sectors. It includes corporate tax, Individual tax and Interest tax. Corporate tax includes Income tax from Public Enterprises, Income tax from Semi-public Enterprises and Income tax from Private Corporate bodies. Individual tax includes income tax from Individual and Income tax from remuneration, Interest tax includes tax related to Interest Income. The composition of income tax by different sectors is presented in table no. 4.4.

Table No. 4.4

Composition of Income Tax

Fiscal Year Heading	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Income tax from Public Enterprises	1769.3	1251.0	2056.0	1332.4	195.70	1019.70	204.58
Income tax from Private corporate body	1412.0	1236.3	1531.3	2467.8	3404.3	5717.1	7186.46
Income tax from Individuals	4419.10	3362.30	3533.40	3926.30	4234.7	5234.4	6381.21
Income tax from remuneration	835.6	1252.6	1391.2	1675.9	1764.1	2007.9	2451.04
Tax from interest	467.7	864.0	733.4	757.0	774.9	1054.9	1087.93
Total	8903.7	7966.2	9245.9	10159.4	10373.7	15034.0	17311.22

Source: Economic Survey 2008/09, MOF

4.1.5 Income Tax contribution in Total Revenue

Total revenue is the sum of Tax revenue and Non tax revenue. Tax revenue includes Tax from customs, Tax on consumption and products of Goods and Services, Tax from Land revenue and registration, Tax on property profit & Incomes. Likewise Non tax revenue includes charges, fees, fines, Received from sales of commodities and Services, Dividend, Royalty and sales of Fixed assets, Principle and Interest payment and Miscellaneous items. Income tax is one part of Total revenue. The contribution of Income Tax in Total Revenue has been presented in table no. 4.5.

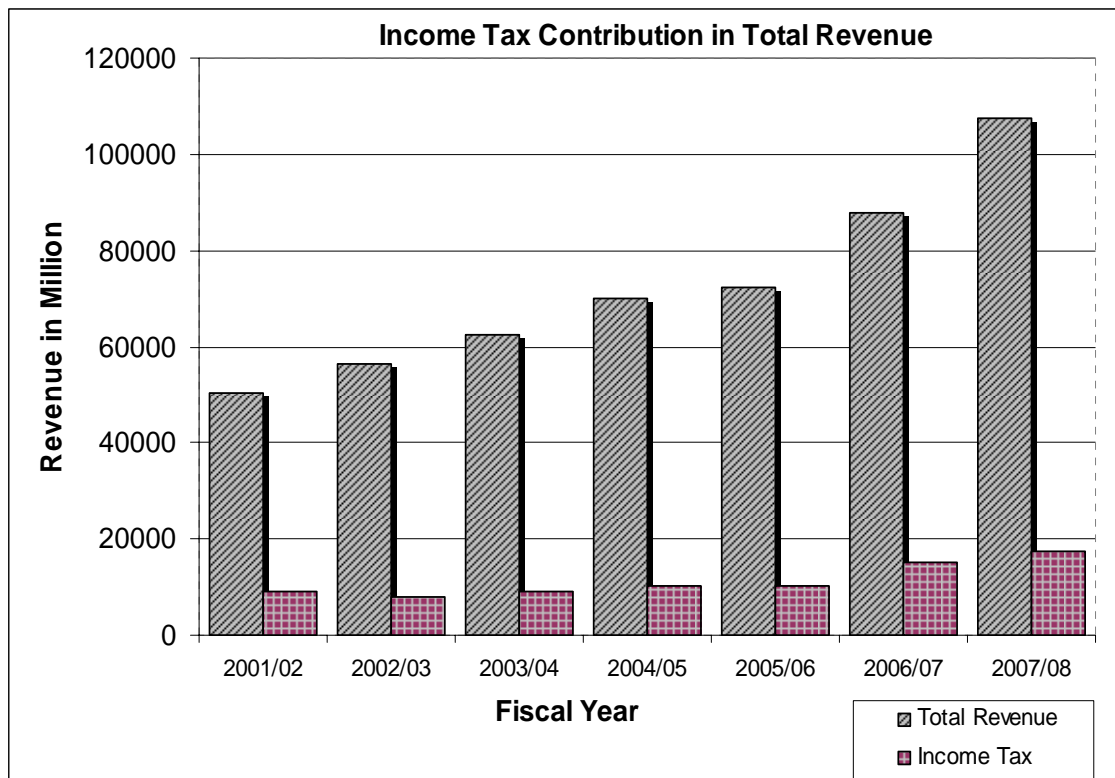
Table 4.5
Income Tax contribution in Total Revenue
Rs. In million

Fiscal Year	Total Revenue	Income Tax	% of Income Tax
2001/02	50445.60	8903.70	17.65
2002/03	56229.70	7966.20	14.17
2003/04	62331.0	9245.90	14.83
2004/05	70122.7	10159.40	14.49
2005/06	72282.1	10373.70	14.35
2006/07	87712.1	15034.00	17.14
2007/08	107622.50	17311.22	16.08

Source: Economic Survey 2008/09 MOF

The above table shows that the income tax in total revenue is in decreasing trend in comparison of FY 2001/02.

Graph 4.3
Presentation of Above Table in Diagram



4.1.6 Comparison of tax revenue and non tax revenue

Total revenue is the mixture of tax and non tax revenue. Tax revenue means VAT, tax from customs, tax on consumption and product of goods and services land revenue and registration and tax on property, profit and incomes. Non tax revenue means charges, fees, fines and forfeiture, receipts from sale of commodities and services dividend, Royalty and sales of fixed assets, principal and interest payment and others. The table no. 4.6 shows the scenario of tax revenue and non tax revenue in different years;

Table.No.4.6

Composition of Tax & Non Tax Revenue

			Rs. in million
Fiscal Year	Tax Revenue	Non Tax Revenue	Total Revenue
2001/02	39330.6	11115.0	50445.5
2002/03	42587.0	13642.7	56229.8
2003/04	48173.0	14158.0	62331.0
2004/05	54104.7	16018.0	70122.7
2005/06	57430.4	14851.7	72282.1
2006/07	71126.7	16585.8	87712.10
2007/08	85155.54	22466.95	107622.49

Source; Economic Survey 2008/09, MOF

4.1.7 Analysis of Income tax & Direct tax revenue

Tax can be divided into Direct tax & Indirect Tax. Direct tax revenue includes Tax from Land revenue, House and Land Registration Fees and Tax on property, Profit & Incomes. So, Income tax is one of the components of Direct tax revenue. The contribution of Income tax on the Direct tax revenue is in average 80.20%. Table no. 4.7 shows the Income tax to total tax revenue in different year.

Table no. 4.7

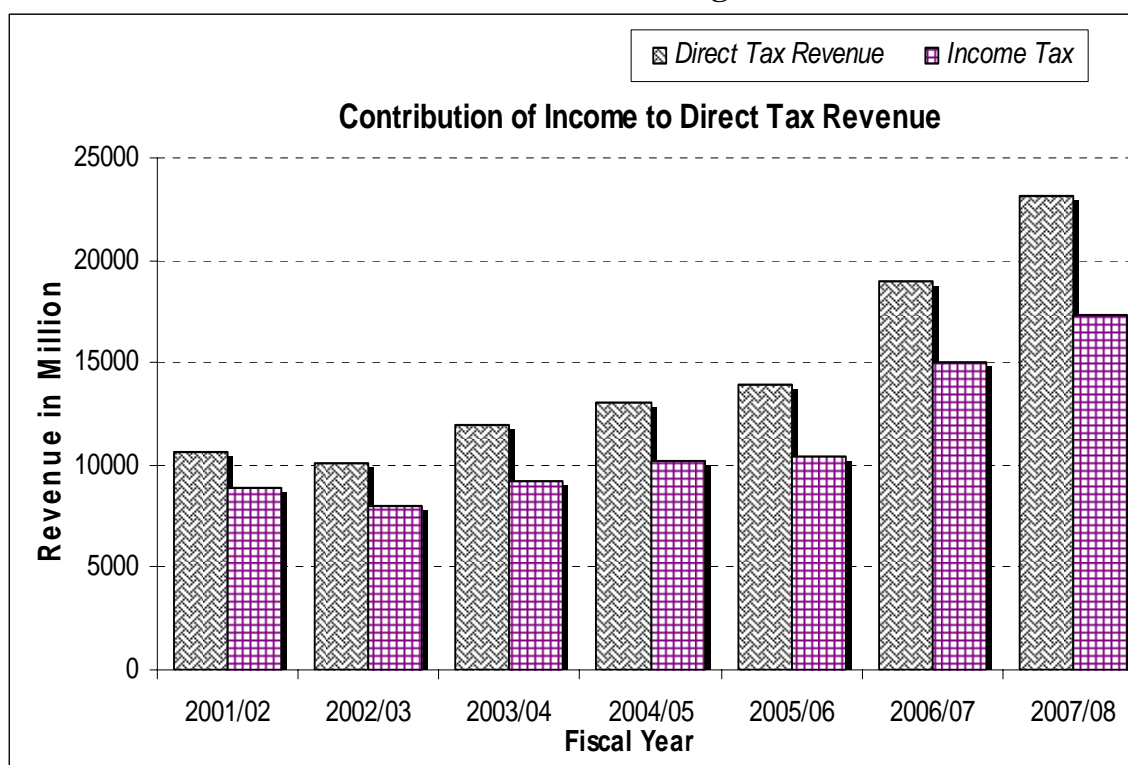
Contribution of Income Tax to Direct Tax revenue

Fiscal Year	Direct Tax Revenue	Income Tax	% of Income Tax to Direct Tax Revenue
2001/02	10597.5	8903.7	84.02
2002/03	10105.8	7966.2	78.83
2003/04	11912.6	9245.9	77.61
2004/05	13071.8	10159.4	77.72
2005/06	13968.10	10373.7	74.27
2006/07	18980.3	15034.0	79.21
2007/08	23087.76	17311.22	74.98

Source: Economic Survey 2008/09, MOF

From above table it is clear that in fiscal year 2001/02; fiscal year 2002/03; fiscal year 2003/04; fiscal year 2004/05; fiscal year 2005/06; fiscal year 2006/07, fiscal year 2007/08 were 84.02%, 78.83%, 77.61%, 77.72%, 74.27%, 79.21% and 74.98% respectively.

Graph 4.4
Presentation of Above Table in Diagram



4.1.8 Government Income (Receipts)

The source of government receipts are total tax and non tax revenue and foreign grants. But the main source of government receipts is revenue. A total government receipt in fiscal year 2001/02 was Rs. 57131.60 million which includes Rs.50445.50 million from revenue and Rs. 6686.10 million from grants. Similarly total government receipts in different fiscal year and its composition is given in following tables.

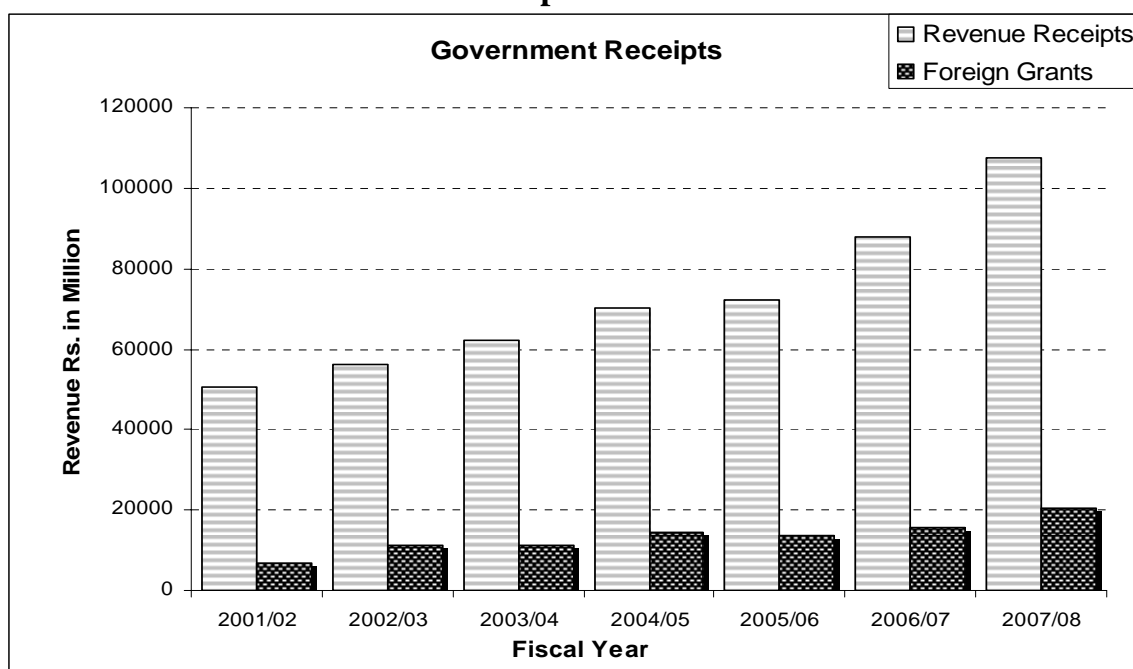
Table 4.8
Government Receipts
Rs. in million

Fiscal Year	Revenue Receipts	Foreign Grants	Total Receipts
2001/02	50445.5	6686.1	57131.6
2002/03	56229.8	11339.1	67568.9
2003/04	62331.0	11283.4	73614.4
2004/05	70122.7	14391.2	84513.9
2005/06	72282.1	13827.5	86109.6
2006/07	87712.1	15800.8	103512.9
2007/08	107622.50	20320.70	127943.20

Source: Economic Survey 2008/09. MOF

Government receipts from revenue and foreign grants in different year can be shown in following figure;

Graph 4.5



4.1.9 Government Expenditure

Government expenditure includes the recurrent expenditure, capital expenditure and principal payment. In the fiscal year 2001/02 the total government expenditure is Rs. 80072.20 million which includes recurrent expenditure Rs.48863.90 million, Capital expenditure is Rs. 24773.40 million and principal payment is Rs. 6434.90 million. In fiscal year 2007/08 the government expenditure is Rs.161349.90 million, which includes recurrent expenditure Rs.91446.90 million, capital expenditure Rs. 53516.10 million and principal payment Rs. 16386.90 million. The following table shows the government expenditure in different fiscal Year;

Table no. 4.9
Government Expenditure

Fiscal Year	Government Expenditure			Total
	Recurrent Expenditure	Capital Expenditure	Principal Payment	
2001/02	48863.9	24773.4	6434.9	80072.20
2002/03	52090.5	22356.1	9559.5	84006.10
2003/04	55552.1	23095.6	10794.9	89442.6
2004/05	62686.4	27340.7	13533.3	102560.4
2005/06	67017.8	29606.6	14264.8	110889.20
2006/07	77122.4	39729.9	16752.50	133604.6
2007/08	91446.90	53516.10	16386.90	161349.90

Source: Economic Survey 2008/09, MOF

4.1.10 Comparative Study of Government Receipts and Expenditure to find out Resource Gap

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

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

Table No. 4.10

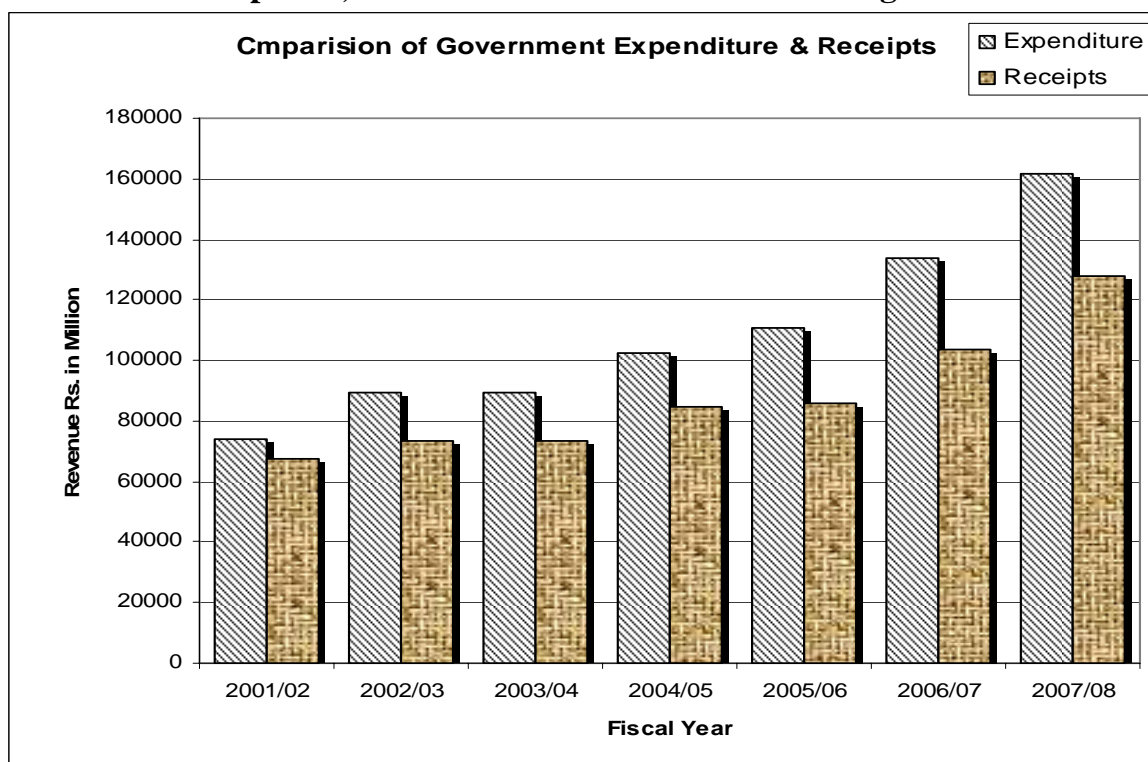
**Comparative Study of Government Receipts & Expenditure
Rs. in million**

Fiscal Year	Expenditure	Receipts	Surplus(+) / Deficit(-)
2001/02	80072.20	57131.60	-22940.60
2002/03	84006.1	67568.9	-16437.20
2003/04	89442.6	73614.4	-15828.20
2004/05	102560.4	84513.9	-18046.50
2005/06	110889.2	86109.6	-24779.60
2006/07	133604.6	103512.90	-30091.70
2007/08	161349.90	127943.20	-33406.70

Source: Economic Survey 2008/09, MOF

The above table shows the resource gap by the relation between government expenditure and government revenue. The table clearly shows the government expenditure is more than government receipts in and every year. Every year is deficit because expenditure is more than receipts. The deficit in fiscal year 2001/02, FY 2002/03, FY 2003/04, FY 2004/05, FY 2005/06, FY 2006/07 & FY 2007/08 were Rs. 22940.60, Rs. 16437.2 million, Rs. 15828.2 million, Rs. 18046.5 million, Rs. 24779.6 million, Rs. 30091.7 million and Rs. 33406.70 million respectively.

Graph 4.6; Presentation of Above Table in Diagram



4.2 ANALYSIS OF PRIMARY DATA

This study is mainly focused on to find out the awareness of taxpayers on tax system in Nepal. Awareness of taxpayer about taxation means whether they have knowledge about different provision of Income Tax Act, 2058, Vat Act 2052 and other tax related rules and regulation. So In this chapter VAT & Income Tax Act related questionnaires were design and distributed to tax experts, tax officers, businessman & consumer. In Total 50 sets of questionnaire were distributed and collected after filling up them.

The questionnaire was asked for Yes/No response or asked for ranking of alternatives where the first choice was the most important and the least choice was the least important. The following table shows the profile of respondents.

Table 4.11

Profile of Respondent

S.No.	Group of Respondents	Sample Size
1	Tax Experts	4
2	Tax Officers	3
3	Business Man	15
4	Consumer/ Tax Payer	28
Total		50

4.2.1 Knowledge of Tax System in Nepal

Most important thing in every subject is to get the information in related topics. This question is also focus to know the knowledge of tax system with the people. The responses of the respondents are arranged in following table.

Table No. 4.12

Response Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	4	8	-	-	4	8
Tax Officer	3	6	-	-	3	6
Business Man	13	26	2	4	15	30
Consumer	25	50	3	6	28	56
Total	45	90	5	10	50	100

Source: Opinion Survey 2010

From the table no. 4.3 it shows that 90% of total respondents have knowledge on tax and 10% of respondents don't know.

4.2.2 VAT Information

While starting the VAT act in Nepal the rate of VAT was 10% then but current VAT rate is 13%. To know how the people are updated on VAT this question was formed. The following data shows the response of the group.

Table No. 4.13
Current Rate of VAT

VAT Rate Respondents	10%		12%		13%		Total	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Tax Experts	-	-	-	-	4	8	4	8
Tax Officer	-	-	-	-	3	6	3	6
Business Man	1	2	-	-	14	28	15	30
Consumer	1	2	2	3	25	50	28	56
Total	1	2	2	3	46	92	50	100

Source: Opinion Survey 2010

2% of respondent answered the 10% VAT rate, 92% answered 13% VAT rate & 3% answered 12% VAT Rate. Maximum respondent answered correct rate but not sufficient knowledge on consumer and businessman. So it is clear that the consumers & business man are necessary to aware on VAT.

4.2.3 Exemption Limit for Employee's Income

This question was developed to know the income tax knowledge of respondents about current income tax exemption limit. The exemption limit on employee's income has changed in time to time. In Income Tax Act 2058 there is given exemption limit to the different types of person like married, single & disable person. In this act there are other facilities like medical tax credit, insurance facilities etc. Here main concern is how the tax payers are updating information on exemption limit. By the finance act 2064 the limitation of exemption have been broaden. The responses received from respondent are tabulated as follows:

Table No. 4.14

Exemption Limit of Employee's Income for married one

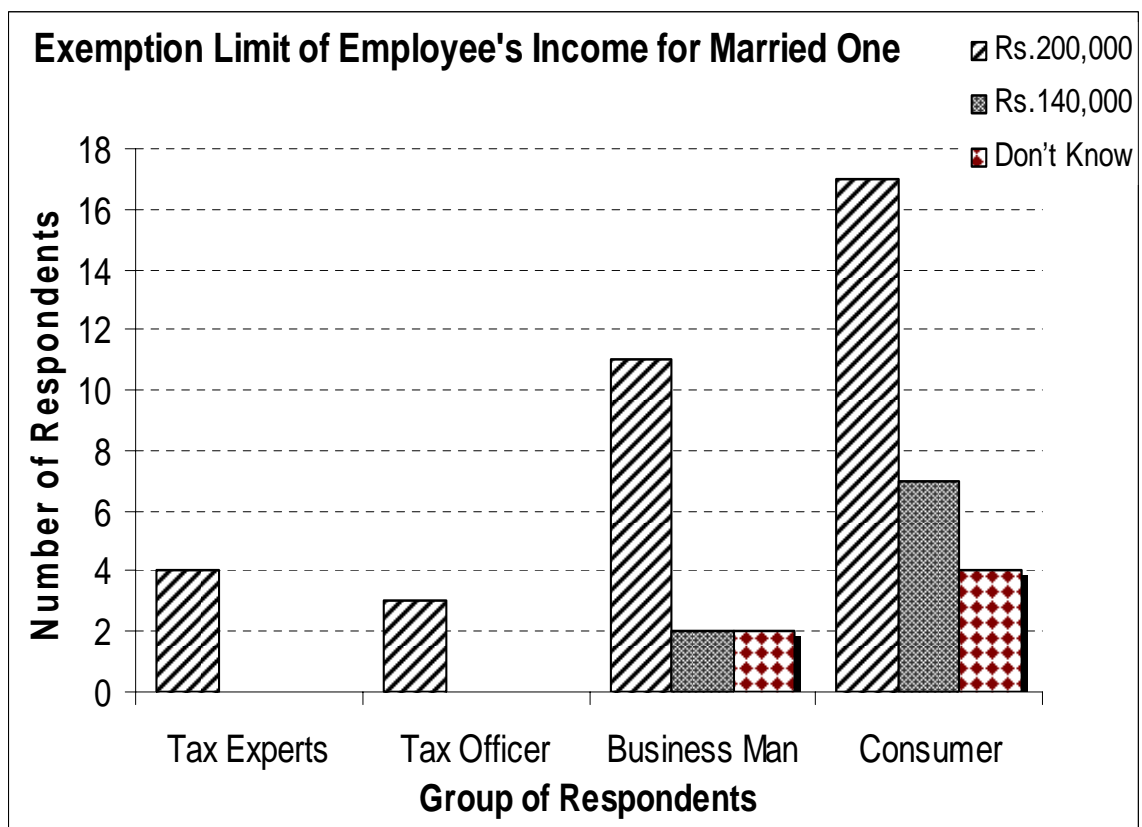
Response Respondents	Rs.200,000		Rs.140,000		Don't Know		Total	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Tax Experts	4	8	-	-	-	-	4	8
Tax Officer	3	6					3	6
Business Man	11	22	2	4	2	4	15	30
Consumer	17	34	7	14	4	8	28	56
Total	35	70	9	18	6	12	50	100

Source: Opinion Survey 2010

70% has given correct answered about the current exemption limit on employee's income. 18% of the total respondents have given their view as Rs. 140,000 but 12% don't have any knowledge on it.

Graph 4.7

Presentation of Above Table in Diagram



4.2.3 Interest to get Knowledge on Taxation

This question was set to get how the people are interested to gain the knowledge on taxation. The responses of the respondents are tabulated as follows;

Table No. 4.15
Interested on Tax Knowledge

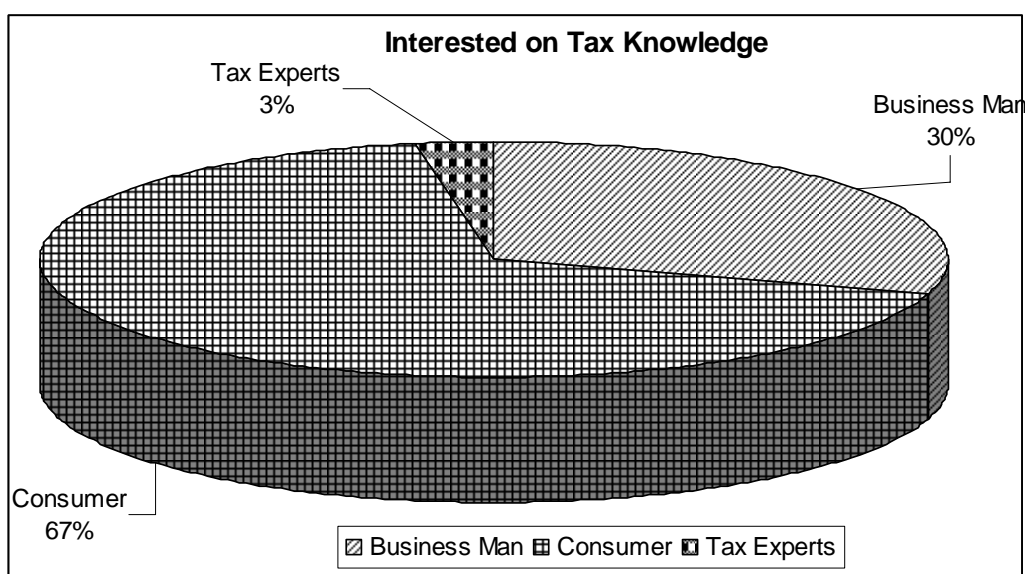
Response Respondents	Yes		No		Already have knowledge		Total	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Tax Experts	1	2	1	2	2	4	4	8
Tax Officer	-	-	-	-	3	6	3	6
Business Man	11	22	-	-	4	8	15	30
Consumer	25	50	-	-	3	6	28	56
Total	37	74	1	2	12	24	50	100

Source: Opinion Survey 2010

74% of total respondents are interested to get tax knowledge, 2% aren't interested on it and 24% have got more knowledge already. It seems that maximum people are interested on tax information.

Graph 4.8

Presentation of Table no. 4.14 in Pie Chart



4.2.4 Collection of Tax Certificate by Tax Payer

While purchasing any goods we collect the bills of them to certify we have paid the amount and the price for our record. Like this it is important to take certificate of tax payment after we paid it. The question was developed to get the information on it. The responses given by respondents are shown in bellow table.

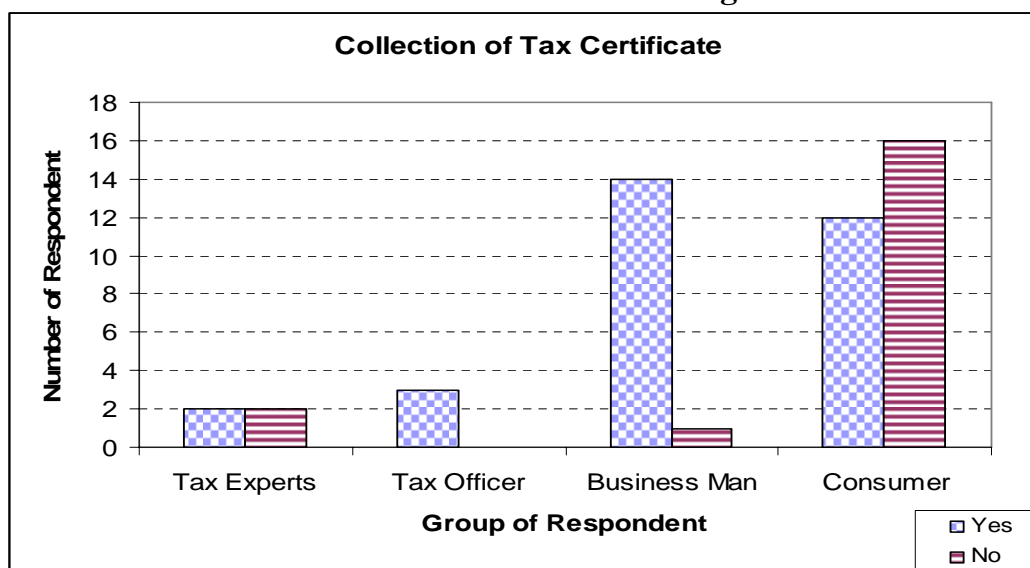
Table no. 4.16
Collection of Tax Certificate

Response Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	2	4	2	4	4	8
Tax Officer	3	6	-	-	3	6
Business Man	14	28	1	2	15	30
Consumer	12	24	16	32	28	56
Total	31	62	19	38	50	100

Source: Opinion Survey 2010

Above table shows that 62% of total respondent have taken tax certificate but 38% haven't taken it. It is like goods purchased but not receiving VAT bill.

Graph 4.9
Presentation of Above Table in Diagram



4.2.5 Technique to Aware People on Tax

Now the world is globalization. Different tools and technique are available for us to get information. In Our Nepal we have also different tools if we want to give information & get it. This question was developed to know the interest of people on technique which are tabulated as follows;

Table No. 4.17

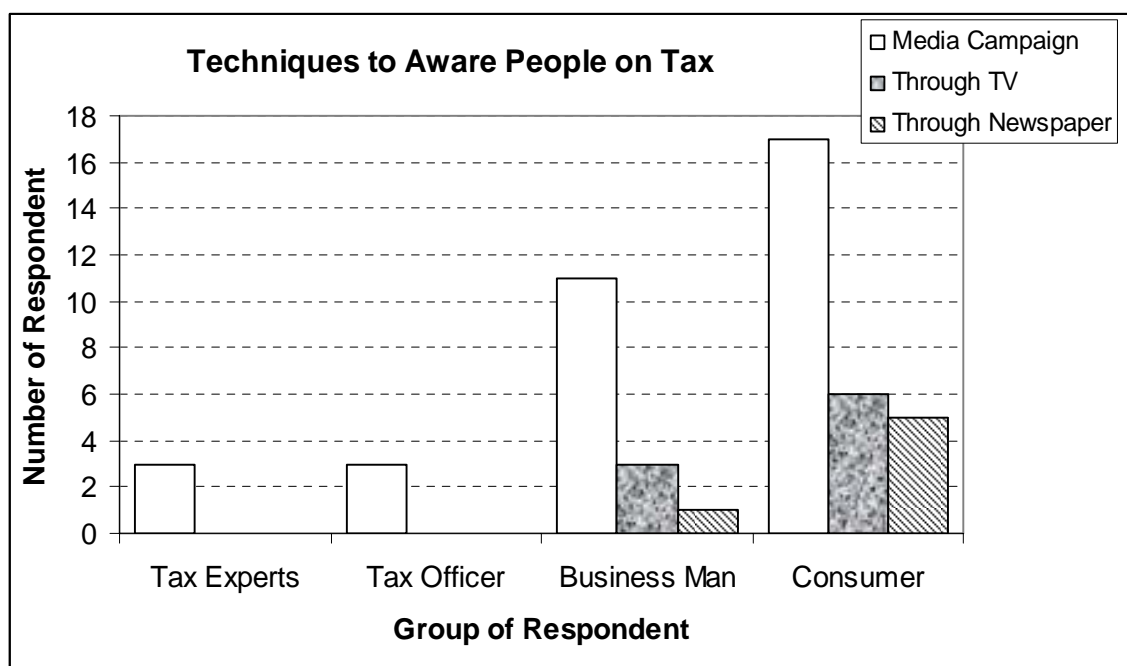
Techniques to Aware People on Tax

Response	Media Campaign		Through TV		Through Newspaper		Total	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Tax Experts	3	6	-	-	-	-	4	8
Tax Officer	3	6	-	-	-	-	3	6
Business Man	11	22	3	6	1	2	15	30
Consumer	17	34	6	12	5	10	28	56
Total	34	68	9	18	7	14	50	100

Source: Opinion Survey 2010

In each and every sector the awareness is the most important to get change. Here in the total respondents 68% have chosen media campaign as a technique to aware the people on Tax. 18% have chosen television and 14% have chosen newspaper as technique.

Graph 4.10
Presentation of Above Table in Diagram



4.2.6 Application of Tax Planning

Tax planning is the most important to the organization for proper application of the tax. This question was raised to know how their concern organization have been used this tools. The responses that the respondents have given are tabulated as follows;

Table No. 4.18
Application of Tax Planning

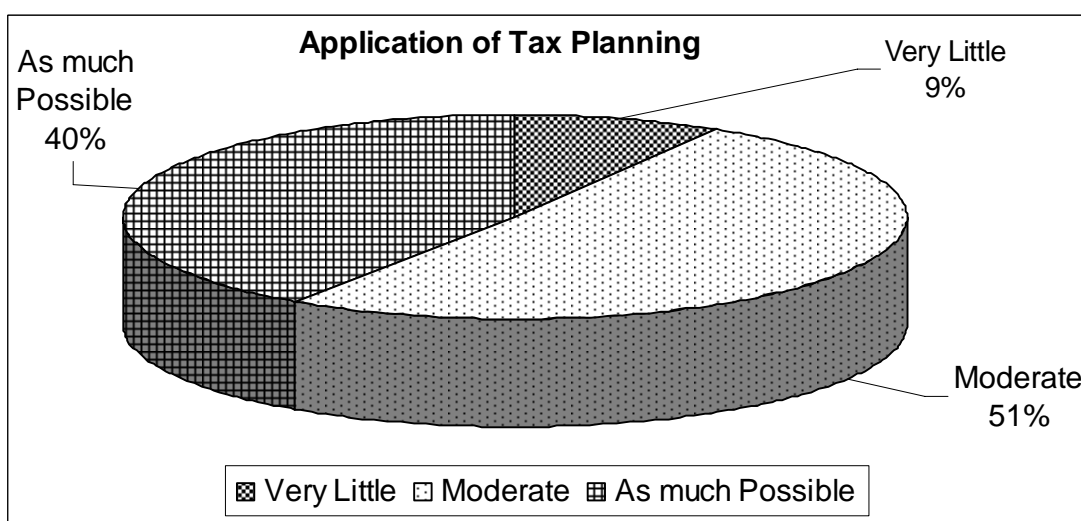
Response Respondents	Very Little		Moderate		As much Possible		Total	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Tax Experts	-	-	2	4.3	2	4.3	4	8.5
Tax Officer	-	-	-	-	-	-	-	-
Business Man	2	4.3	9	19.1	4	8.5	15	31.9
Consumer	2	4.3	13	27.7	13	27.7	28	59.6
Total	4	8.5	24	51.1	19	40.4	47	100

Source: Opinion Survey 2010

Out of 50 Questionnaire, only 47 questionnaires were filling up by respondents. 3 questionnaires that were distributed to the tax officer were missing. In total, 40.4% have used tax planning as much as possible, 51.1% as moderate & 8.5% have used it as little.

Graph 4.11

Presentation of Table in Pie Chart



4.2.7 Tax Evasion Being Practice in Nepal

One of the problems in Nepal is a tax evasion by using various techniques. To know the view of people on tax evasion this question was developed and included in this study. The responses are given in following table;

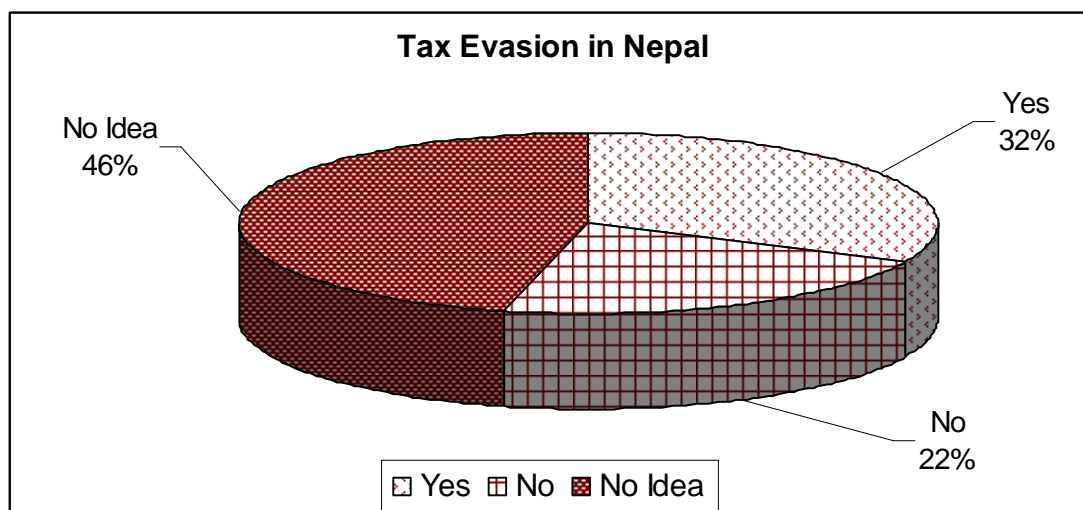
Table No. 4.19
Tax Evasion in Nepal

Response	Yes		No		No Idea		Total	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Tax Experts	3	6	-	-	1	2	4	8
Tax Officer	3	-	-	-	-	-	3	6
Business Man	3	6	4	8	8	16	15	30
Consumer	7	14	7	14	14	28	28	56
Total	16	32	11	22	23	46	50	100

Source: Opinion Survey 2010

32% in total respondents have given tax evasion is being practice in Nepal, 22% have given it is not being practice and 46% haven't any idea on it.

Graph 4.12
Presentation of Data in Pie Chart



4.2.8 Avoidance of Tax Evasion

Tax evasion can be decreased by using various methods. This question was developed to know which method may be effective. The various group of the respondents that the have responded are presented in following table.

Table No. 4.20
Methods to Avoid Tax Evasion

Response Respondents	By Aware the Tax Payer		Educate Tax Payer by training		Simplifying Tax Laws		Incentives to Regular Tax Payer		Total	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Tax Experts	1	2	1	2	2	4	-	-	4	8
Tax Officer	3	6	-	-	-	-	-	-	3	6
Business Man	6	12	3	6	6	12	-	-	15	30
Consumer	11	22	7	14	8	16	2	4	28	56
Total	21	42	11	22	16	32	2	4	50	100

Source: Opinion Survey 2010

Above table shows that maximum respondent's interest is awareness which help to avoid the tax evasion in Nepal. It means by the lack of information they are mostly interested to evasion the tax. 42% have given by aware the tax payer, 22% have given to educate the tax payer by training, 32% have suggested to simplifying the tax law, 4% have given their views for incentives to the regular tax payer.

4.2.9 Tax Deducted at Sources

This question was concern to get information of the range of tax deducted at sources. Now a day there is trend of deducting tax at source. Like consultancy fee, payment of VAT bills, contractual payment and other sources. It is the main issue to brought the people in tax bracket and to make them tax is not extra burden. This question was raised to know the trend of tax deduction at source. The responses of the participants in this study are tabulated in following table.

Table No. 4.21
Tax Deducted at Source

Response Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	4	8	-	-	4	8
Tax Officer	3	6	-	-	3	6
Business Man	12	24	3	6	15	30
Consumer	27	54	1	2	28	56
Total	46	92	4	8	50	100

Source: Opinion Survey 2010

92% of the total respondents have trend to deduct tax at sources. Only 8% aren't deducting tax at source. They are 6% in businessman group and 2% are in consumer group. It shows that the most of the people have paid tax from their income source.

4.2.10 VAT Registration

First step to increase the tax revenue is to increase the tax registrant. This question is related to get the information about criteria of VAT registration. The responses given by the respondents are presented in table bellow.

Table No. 4.22
VAT Registration Criteria

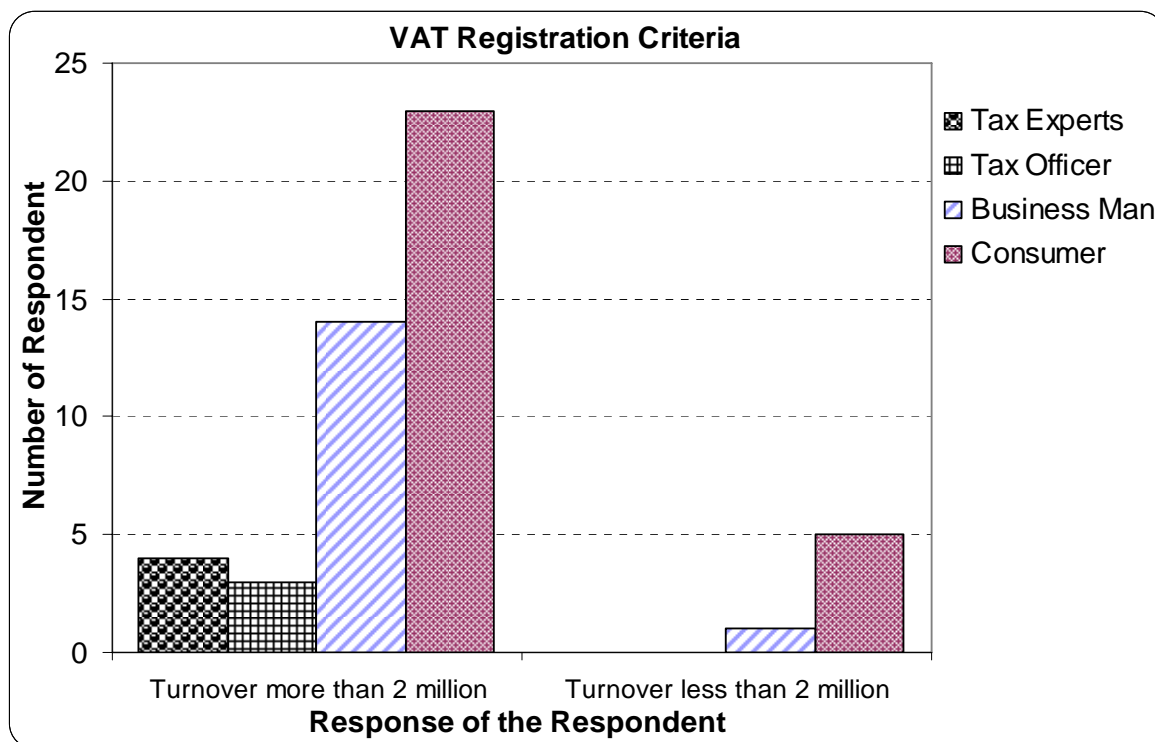
Response Respondents	Turnover more than 2 million		Turnover less than 2 million		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	4	8	-	-	4	8
Tax Officer	3	6	-	-	3	6
Business Man	14	28	1	2	15	30
Consumer	23	46	5	10	28	56
Total	46	92	4	8	50	100

Source: Opinion Survey 2010

The table no. 4.12 shows that 92% of total respondents have given correct answer that is the vendor whose turnover is more than 2 million should

registered in VAT and 8 % of the respondents answered wrong. It shows that most of the educated person has good knowledge on registration of VAT.

Graph 4.13
Presentation of Above Table in Diagram



4.2.11 Problems of VAT System in Nepal

The tax payers and tax collector both have to be well known and conscious about the record keeping and process of VAT system. More than 14 years have been already passed but still it has a great challenge in this aspect. In this study this question has been developed to know the views of different respondents about to explore the problems on process of VAT system. The views of different respondents are presented in the table below.

Table No. 4.23
The Problems of VAT System in Nepal

Response Respondents	Lack of Consumer Awareness		Underground Economy		Unfair & Weak Administration		Others		Total	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Tax Experts	1	2	-	-	1	2	2	4	4	8
Tax Officer	3	6	-	-	-	-	-	-	3	6
Business Man	5	10	-	-	10	20	-	-	15	30
Consumer	9	18	5	10	13	26	1	2	28	56
Total	18	36	5	10	24	48	3	6	50	100

Source: Opinion Survey 2010

The above table no.4.13 shows that 36% are forcing to aware the consumer to solve the problem of VAT system. 10% denoted the underground economy as problem on VAT system. 24% answered unfair & weak administration as the problem on VAT system. 6 % answered others on it.

4.2.12 Steps to Make VAT Effectiveness

VAT is one of the most important revenue sources to the government, so it is also important to make VAT effectiveness. To know the views from people this question was included in this study. In our Nepal for all the laws and system have own problem while implementation phase. Because of the weak administration, there's staffing and other related factors are the main problem of them. Government is the responsible for it. There are various ways to make the VAT effective but we should use it properly. Only fine & penalty aren't sufficient. The different views that the respondents have given is presented in following table.

Table No. 4.24
Steps o Make VAT Effectiveness

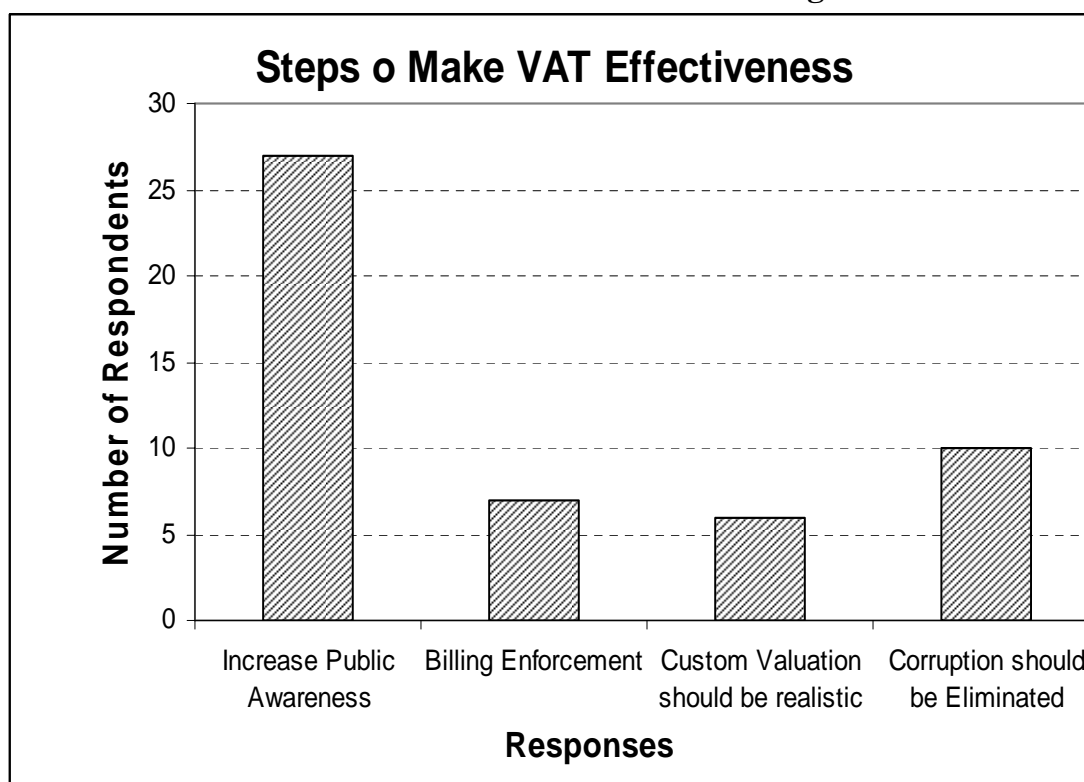
Response Respondents	Increase Public Awareness		Billing Enforcement		Custom Valuation should be realistic		Corruption should be Eliminated		Total	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Tax Experts	2	4	1	2	-	-	-	-	4	8
Tax Officer	3	6	-	-	-	-	-	-	3	6
Business Man	8	16	2	4	2	4	3	6	15	30
Consumer	14	28	4	8	4	8	6	12	28	56
Total	27	54	7	14	6	12	10	20	50	100

Source: Opinion Survey 2010

54% of total the respondent views increase the public awareness to make VAT effective. 20% are interested to eliminate the corruption.

Graph 4.14

Presentation of Above Table in Diagram



4.2.13 Problems Facing by the Tax Payers

It is important to examine the problems that are facing by the taxpayers while paying the tax. This question is concern to identify their main problem. Their views what they have filled up in the questionnaire are tabulated as follows.

Table No. 4.25

Problems Facing by the Tax Payers

Response Respondents	Consuming Unnecessary Time		Expectation Illegal Incentives by Tax Personnel		Vague Provisions in Tax Law		Lengthy Process		Total	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Tax Experts	1	2	1	2	-	-	2	4	4	8
Tax Officer	-	-	-	-	3	6	-	-	3	6
Business Man	3	6	5	10	2	4	5	10	15	30
Consumer	5	10	3	6	7	14	13	26	28	56
Total	9	18	9	18	12	24	20	40	50	100

Source: Opinion Survey 2010

40% of responses are on lengthy process while paying tax. 18% are responses as consuming unnecessary time. But tax officers are noted that the problems facing by the tax payer is because of the vague provisions of current tax law. In 24% of the total respondents views was vague provision in tax law.

4.2.14 Most Important Factors for Effectiveness of Income Tax

Income tax and VAT are different types of tax. Increment of tax revenue the income tax also plays great role. Only making plan cannot be effective if the proper implement not carried out. The question was given to the respondents to get their view for effectiveness of income tax. The opinion of the respondents at the question of the most important factor of effectiveness of income tax in Nepal to raise the government is presented in the table below.

Table No. 4.26

Important Factors for Effectiveness of Income Tax

Response Respondents	Conducting more awareness program		Conscious and honest tax payers		Moral & Honest Tax Officers		Effective Tax Administration		Total	
	Nos.	%	Nos.	%	Nos.	%	Nos.	%	Nos.	%
Tax Experts	2	4	-	-			2	4	4	8
Tax Officer	3	6							3	6
Business Man	4	8	-	-	5	10	6	12	15	30
Consumer	11	22	3	6	2	4	12	24	28	56
Total	20	40	3	6	7	14	20	40	50	100

Source: Opinion Survey 2010

40 % of the responses answered for conducting more awareness program. 6% of respondents have answered for conscious and honest taxpayers. 14% of the respondents have responded for moral & honest tax officers and other 40% response to the effective tax administration.

4.2.15 Necessary of Public Awareness Program

To get the views from the target group of this study this question was raised. The main objective of this study was to get information from the concern people how the awareness is needed to the people. How they are interested to get knowledge on tax. Most of the respondents are interested to gain knowledge on tax by the awareness program. In this world every person desires to make perfect themselves in every field but not completely perfect. The technique to educated the people is needed some medium. That can be in different ways. For the effective implementation of act and rules the awareness is needed. The responses of the respondents are tabulated in the following table;

Table No. 4.27

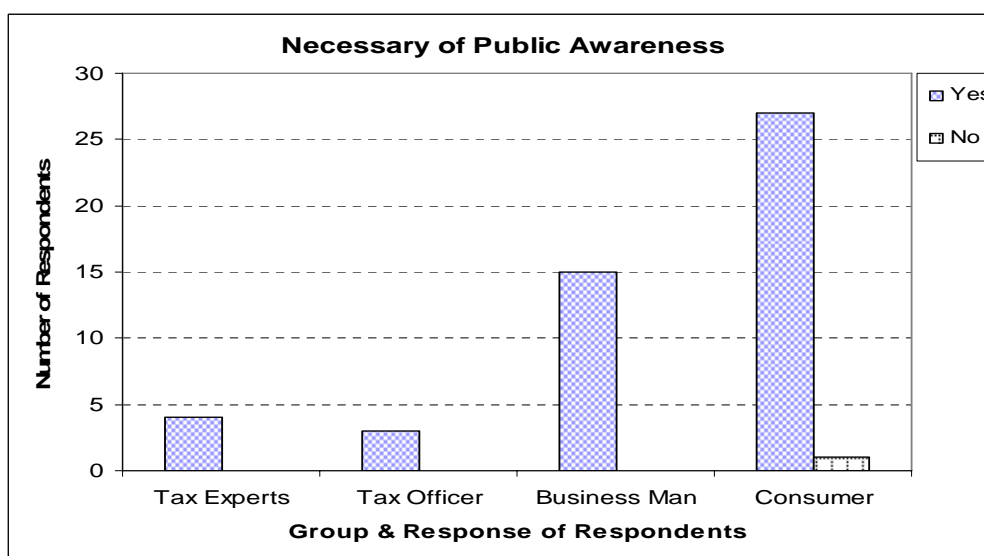
Necessary of Public Awareness Program

Response	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax Experts	4	8	-	-	4	8
Tax Officer	3	6	-	-	3	6
Business Man	15	30	-	-	15	30
Consumer	27	54	1	2	28	56
Total	49	98	1	2	50	100

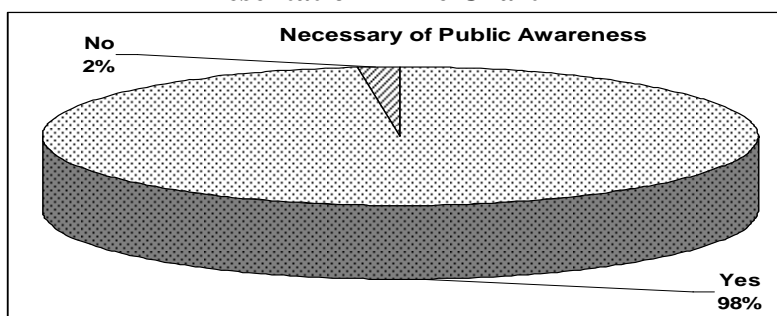
Source: Opinion Survey 2010

Out of the 50 respondents 98 % have chosen to the necessity of the public awareness program. Only 2 % of total respondents are giving for not necessary of public awareness program.

Graph 4.15; Presentation of Above Table in Diagram



**Graph 4.16
Presentation in Pie Chart**



CHAPTER- FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Tax is a compulsory contribution to the government from a person without expectation of special benefit. It is a compulsory payment to the government from a person according to law. Direct Tax and Indirect Tax are the two types of Tax. Income tax, property tax, gift tax are example of direct tax which is directly paid by the person on whom it is legally imposed on the other hand value added tax, sales tax, hotel tax, entertainment tax, excise duty, custom duties are example of indirect tax. It is imposed on one person but paid partly or wholly by another.

Nepal has been dependent on foreign aids and loans to fulfill the need for developmental activities, which is not beneficial in the long run interest of the country. The present study entitled “Awareness on Taxation in Nepal & Its challenges”: A case study of Katmandu Valley. The Knowledge on major tax sources like, Income Tax & VAT were presented and analyzed in the study.

In the first chapter, general background of the study, statement of the problem, research objectives, structure of the study, significance/importance of the Study & limitation of the study have been discussed.

In second chapter, the literature review has made through the study of various books, articles, dissertation and other reference materials. Concept of tax, objectives of tax, classification of taxes, canons of taxation, meaning of income tax, international history of income tax, income tax in Nepal as historical aspects, income tax in modern Nepal, head of income, individual taxpayer, tax exempt incomes under this income tax act, specimen for computing income, methods of income tax assessment & installment payment have been discussed.

In third chapter, the researcher has discussed about various aspects of research methodology as: Research design used for this study, data collection procedure,

population sample, nature and sources of data, selection of the respondents, procedures of processing and analysis of data.

In fourth chapter, the data, primary as well as secondary have been presented & analyzed them by using SPSS software and different statistical tools to get the meaningful result. Secondary data were collected from Inland Revenue Office, Central Bureau of Statistic and web site of MOF. Likewise Primary data were collected from four respondent group i.e. tax experts, tax officer, businessman & consumer in the Katmandu Valley. Conclusion of the study is given in the last chapter. Some recommendations are also given on the end of the study. In this way, this study was completed with the achievement of the stated objectives.

5.2 Conclusion

Nepal is a developing country the main sources of revenue in Nepalese economy is tax, foreign Grant's & loans. There are many difficulties of to get revenue from foreign sources. No body provides grants and loans without terms and conditions. So to develop the Nepalese economy the government should emphasis to collect the revenue from internal sources. Tax can be the main internal sources of revenue.

To give more knowledge about tax is the current necessity. Because of the lack of the knowledge most of the people are listening others view and running their self. Most of the people have some knowledge on tax system of Nepal but not enough. Why government is collecting tax? This question's answered should be fulfilled by government to the people by using tax sources properly in the nation. So to implement the tax law properly may not be difficult.

In this study we found that most of the respondents had knowledge about tax system in Nepal. The respondents taken in Kathmandu valley were not less than SLC holder in qualification. Some of the respondents havenot knowledge on exemption limit on their income. Many of the respondents were intereted to get knowledge on tax. Some of the respondents' haven't taken tax certificate while paying tax. Media campaign can be the main technique to aware the

people on tax. Range of using tax planning is moderate. Most of the respondents didn't want to give their view on tax evasion but they gave technique to avoid this. Most of them responded that by aware the people tax evasion could be avoided. Now this study shows that trend of tax deducted at source is high. The main problem of vat implementation in Nepal is because of the unfair & weak administration then lack of consumer awareness. In the respondents view the suitable steps to make VAT effectiveness is **increase public awareness**. Lengthy process is the main problem of tax payer while paying the tax. 98% of the respondents have given their view public awareness is necessary. The main focus of the study was also to measure how the Awareness on Taxation is Necessary, so the study has been fulfilled its objectives.

5.3 Recommendation

On the basis of above analysis the following recommendations have been made to make the tax system effective and more effective, which could be fruitful to concerned authorities while reforming Nepal's tax system. Most of the taxpayers have been some knowledge of tax system but they weren't aware about changing tax rule and regulation. Some of the pinpoints by this study as recommendation are presented bellow;

- ◆ Present awareness program conducting by the government is not sufficient although taxpayers have knowledge on taxation.
- ◆ Many of programs that the taxpayer can get positive information related to tax is needed to the public.
- ◆ Tax official should make policy for different sectors regulation not only to pay tax but motivate to them on tax system.
- ◆ Current tax related education is not effective. Most of the taxpayer does not aware about changing tax rule and regulation. So, to increase awareness of taxpayer, dynamic tax administration, billing enforcement, clear and effective tax policies are recommended.

- ◆ Tax office collects Income Tax and VAT in tax office only. It is needed to make policy of collection from business house door to door. Must of the respondent's response for lengthy process to pay tax as problem.
- ◆ Government should make & implement the better policy to make the fair and strong administration to make the tax system effective.
- ◆ The problem of VAT system of Nepal is lack of the consumer awareness. So awareness should be made to the consumer by using different tools.
- ◆ Media Campaign is the good technique for awareness to the people on tax system.
- ◆ Goods and services are imported and exported from one country to another country. In this process, the businessman pays custom duty to government. They do not have more knowledge about it & they need help of broker to clear the custom. In this process, illegal business is made by the help of broker and custom officer. So, to overcome this problem, co-operation between taxpayers and custom officers' for stability of economic and taxation policy are also recommended.
- ◆ Tax planning is very helpful to decrease tax burden of the tax payers but they don't have knowledge on it. So Awareness on tax planning by using various programs for tax payer by government is recommended.
- ◆ By using tax consultants, NGOs and CBOs to make sector wise awareness activities are recommended. In this study 98% of the respondents have been response for necessary of public awareness on tax system.
- ◆ The curriculum for school and collage level students should be developed as compulsory subject to educate and made effective tax system.

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www.ird.gov.np

www.mof.gov.np

Patan Multiple Campus
Lalitpur, Nepal

Questionnaire for Thesis of Master of Degree on Business Studies
Titled “Awareness on Taxation in Nepal & It’s Challenges”

Name of Participants:	Age:
Organization:	Sex:
Occupation:	Edu. Qualification:
Address:	

Please Tick in the Box for the Appropriate Answer:

- Do you have knowledge of Tax System in Nepal?
Yes *No*
- What is the Rate of VAT?
10% *12%* *13%*
- What is the exemption Limit for Employee’s Income for married person?
Rs.200,000 *Rs.140,000* *Don’t Know*
- Are you satisfied in Tax rate in Employees Income?
Yes *Don’t Know* *No*
- Are you interested to get knowledge about Tax?
Yes *No* *Already have Knowledge*
- Have you taken Tax Certificate after paying Tax on your Income?
Yes *No*
- What would be the best technique to aware people on tax?
Media campaign *Through TV* *Through Newspaper*
- To what extent tax planning has been applied in your organization?
Very little *Moderate* *As much as possible*
- Do you believe that income tax evasion being practice in Nepal?
Yes *No* *No idea*

10. How tax evasion behavior on Nepalese tax payer can be avoided? Rank them in order of preference from most (1) to least (5) respectively.

<i>S.N.</i>	<i>Methods</i>	<i>Rank</i>
1	<i>By Aware the Tax payer</i>	
2	<i>Educate tax payer by training</i>	
3	<i>Simplifying tax laws</i>	
4	<i>Incentives to regular tax payers</i>	
5	<i>By using Fine & Penalties</i>	

11. Does your company deduct tax at sources?

Yes No

12. What is your opinion about the current tax rate? The current Income Tax rate is:

High Medium Low No Idea

13. Do you know who should register in VAT?

Vendors whose annual turnover is more than Rs. 2 million

Vendors whose annual turnover is less than Rs. 2 million

14. Is current VAT rate is appropriate?

Yes No

15. Do you think that VAT system in Nepal is sound and effective?

Yes No

16. What are the problems of VAT system in Nepal?

Lack of consumer awareness *Underground economy*

Unfair and weak administration *Others*

17. In your opinion, what steps to be taken to make VAT effectives?

Increase Public Awareness *Billing Enforcement*

Custom Valuation should be Realistic

Corruption should be eliminated

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

Consuming unnecessary time *Expectation illegal incentives by tax
Personnel*

Vague provisions in income tax laws *Lengthy process*

Lack of co-operation by tax administrator

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

Conducting More Awareness program

Conscious and honest tax payers

Moral and honest Tax Officers *Effective tax administration*

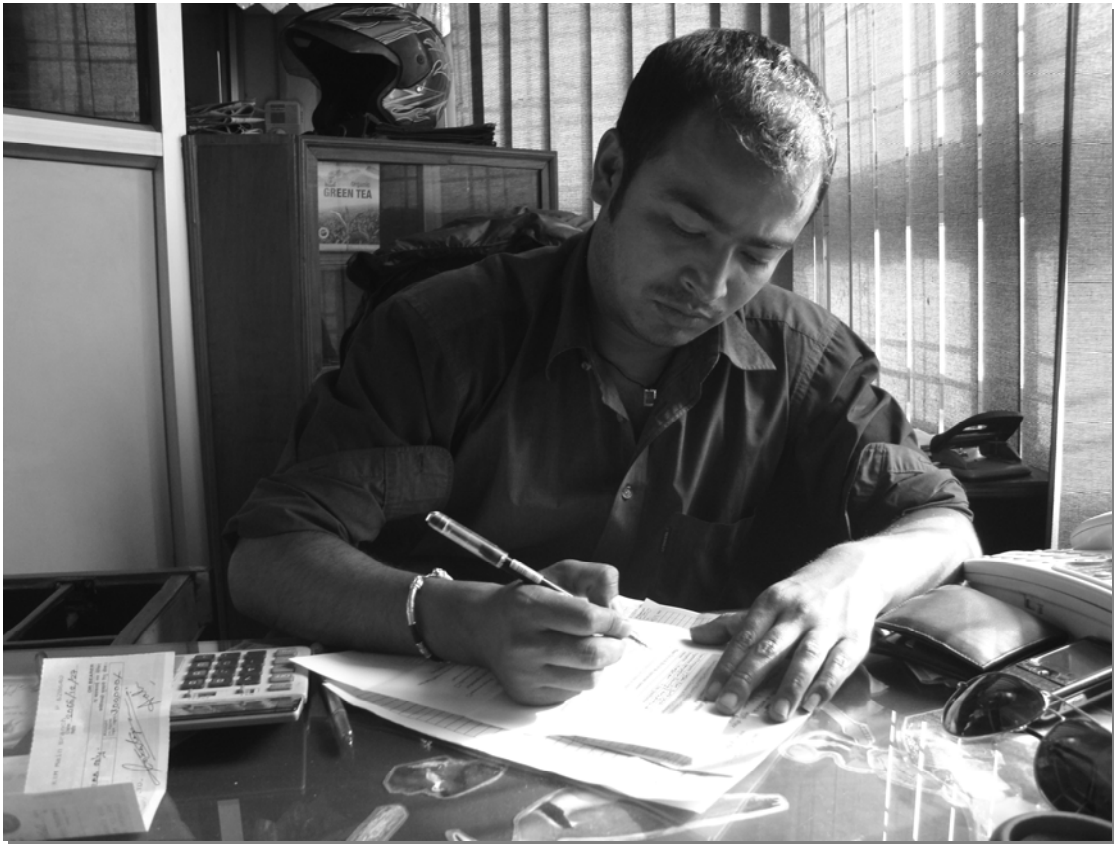
20. Do you think that public awareness program is necessary in Nepal for
raising government revenue?

Yes

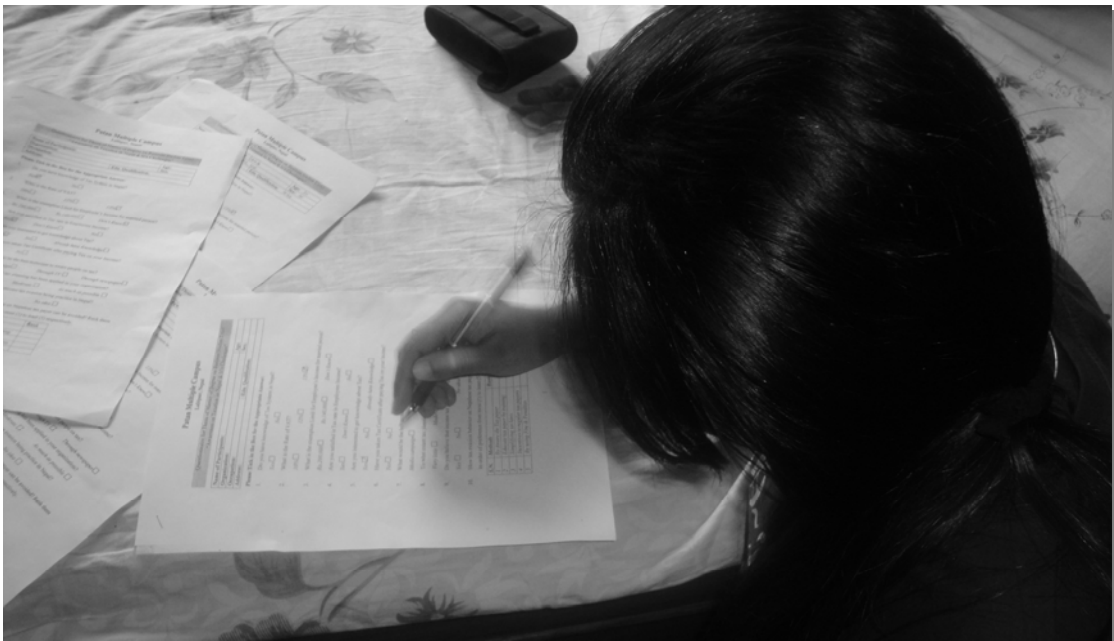
No

**** Thank You ****

PHOTOGRAPHS OF OPINION SURVEY -2010



A Male Respondent Filling the Questionnaire in Opinion Survey 2010



A Female Respondent Filling the Questionnaire in Opinion Survey 2010



A Respondent Filling the Questionnaire in Opinion Survey 2010



A Respondent Filling the Questionnaire in Opinion Survey 2010