

CHAPTER - I

INTRODUCTION

1.1 General Background of the Study

Nepal is the least developed land locked country between two giant Asian economies country India and china, with a per capita Income of \$450 at current price in FY 2007/2008. Nepal has been adopting the system of mixed economy to achieve development goals. In spite of her planned efforts for development, overwhelming majority of her people enjoy income below the poverty line. More than 38 percentage people's income falls below the poverty line.

One of the main objectives of each and every country is to raise the living standard of the people by launching different development activities. To launch this development activities government needs various resources like money, man, machine, and materials. Among these resources the most crucial resources are financial resources. Government can mobilize additional financial internally or externally. However, internally sources for resource mobilization are better and safer means for sustained economic development.

Tax revenue is a compulsory payment from the public, having taxable income, to the government where as non-tax revenue is a conditional source of revenue of the government (Karna, Dr. Sohan Kumar, 2007:2).

Internal source of fund is own source within the nation. Internal source of fund includes both tax and non-tax revenue. Continuous use of external source of fund to raise necessary public fund is not good because it reduces the liquidity position of the government, increases over dependence upon other countries and increase the inflation, so internal sources are more important not only for financing necessary funds but also for proper mobilization of external sources.

External sources of fund are foreign grants and loans. This kind of fund is received from foreign countries and international organization. External source of fund is more important for undeveloped and underdeveloped countries. It is used for economic development, reconstruction and foreign exchange, to recover from crisis condition for productive uses. But it is uncertain, inconvenient and not good for healthy development of nation because they have to be paid after a certain period. So it is better to mobilize internal sources rather than looking with beggar's eyes to the donors. Like developed countries, developing countries try to mobilize their internal resources for regular and developmental activities. Nepal is not exception for it. In other hand, sources of public revenue can be classified into two type:

- i) Tax revenue, and
- ii) Non-tax revenue

Tax income includes the amount which is compulsory contributed by tax payer to the government.

Non-tax revenue includes fees and charges gifts, fine and penalties, sales commodities, Royalty, dividend and special assessment etc. Non-tax sources are uncertain and inconvenient because they are imposed according to the necessary of government. Therefore, tax is the better sources of public revenue.

"Tax is a compulsory contribution from a person to the government to defray the expenses in common interest of all without special benefit conferred." Generally, tax is classified into two types on the basis of form. One is direct and another is indirect tax. "Direct tax is really paid by a person whom it is legally imposed while an indirect tax is imposed on one person but partly or wholly paid by another" property tax, vehicle tax, interest tax, gift tax, other (expenses tax, death tax) are example of direct tax. Entertainment tax, Hotel tax, Sales tax, Custom

duty, Excise Duty, others (passenger tax) is the examples of indirect tax. Income tax is the most popular tax. It is considered as one of the major elements of tax revenue (Bhattari and Koirala, 2007:3).

Income tax is collected from various sources of profits incomes. It is collected from public enterprises, semi-public enterprises, private corporate bodies, individuals, etc. In other words, income tax is collected either by individuals or by entity. Income tax act has given a common name “person” to both parties. So far as the topic is concerned with the “special provisions to individuals”, it is necessary to define the individual. Income tax Act 2058 define individual as follows:

“Individual” is defined by sec.2 (wa) as follows:

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

The act has no provision for an undivided family to be regarded as a single taxpayer.

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 income of both the spouse shall be taxed in a single hand as that of one individual.

The option is applicable when 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.

Finance Act, 2012-13 have introduced a new Sub-section (3) to Section 50 that a widow or a widower, having the burden to look after dependents, are treated as couple for the purpose of income tax. Though the Act or Rule is not clear, a death certificate from a respective government office shall be produced in proof of being widow or widower for this purpose. Moreover, the widow or the widower should have dependants and for whom s/he is responsible to look after. The Section is not clear as to dependants, but in general terms these include non-earning daughter and/ or son and may be non-earning parents (Agrawal J., 2009:4).

1.1.1 Related Person [Sec. 2 (bd)]

The related person means a person or a group of persons who may reasonably be expected to act in accordance with the intention of the other and includes:

Relatives of an individual. The relations included in the list of relatives of an individual are: wife, husband, son, daughter, brother, sister-in-law, sister, father-in-law, mother-in-law, brother-in-law, uncle, aunt, nephew, niece, grand, son, and grand daughter.

Partner of an individual.

Foreign permanent establishment with its owner.

An entity with a person who, either alone or together with an related person or related person, controls or may benefit from 50% or more of the rights to income, capital, or voting power of the entity, as the case requires, either

directly or through one or more interposed entities; or a person who is related of such a person.

But the following persons are not treated as related persons:

- a. Employee of the person, and
- b. Persons not prescribed by the Department as related ones (Agarwal, 2009: 14).

1.1.2 Residential Status for a Natural Person: [Section 2 (0)]

A natural person (individual) is a resident in Nepal for an income year of he satisfies any of the following three conditions:

a. Whose Normal Place of Abode is in Nepal

“Normal place of abode” is not defined anywhere in this Act. An individual may have a normal place of abode in Nepal if he owns a house property in Nepal, irrespective of whether he is residing in the house property or not. Inland Revenue Department should clarify the phrase in order to avoid any complexity. An individual having a house property in Nepal but physically residing in the USA for his earning for some years is not a proper person to be recognized as a resident of Nepal.

The phrase may be defined differently if an individual is generally residing in Nepal for his earning, but has to go abroad occasionally for his treatment or other reasons, except for earning purpose.

b. An Individual who is Present in Nepal for 183 Days or More During a Period of 365 Consecutive Days

In case an individual is present physically in Nepal for 183 days or more during a period of consecutive 365 days, his status shall be of a resident during an income

year in which the 183rd day of his physical presence during a period of consecutive 365 days falls. The consecutive 365 days may fall into two income years also.

It is a matter of advance ruling form IRD whether the days of arrival and departure from Nepal shall be included in the days of stay in Nepal (Agrawal, 2009: 17).

The presence in Nepal suggests residing somewhere within the political boundary of the country, which does not necessarily be a single place. He may be present in Kathmandu at one time and in Biratnagar at another, but for the purpose of determining the residential status all the presences in Nepal shall be counted.

c. An Employee of Nepal Government

In case an individual is an employee of Nepal Government during the year, his presence in Nepal or outside shall not be counted for determining his residential status. Even in the case of his posting outside Nepal the whole year, he will be treated as a resident of Nepal for tax purpose.

Individual is the main origin of commercial activities. Without natural person (individual) any business, investment and other activities is possible. Although there are many types of person in tax perspective i.e. entity and individual [section 2 (kacha)]. Income Tax Act 2058 provides different provisions for entity and individual. Income Tax Act, imposed tax on all income whether it is earned by entity or individual. But some facilities have provided by Act. Individual also have some incentives and facilities, which encouraged the individuals to promote self business, employment and profession.

It is necessary to individual to know the every provision of the Income Tax Act. It helps them to calculate the exact liability of tax. Whether there is possible or not to reduce tax liability by using the provision of Tax Act.

No any researchers have studied the appropriateness of special provisions to individuals. This study might be fruitful for both taxpayers and tax experts.

1.2 Statement of the Problem

Economic development is the prime concern of every nation of the world. To achieve this objective, every nation of the world is accomplishing various activities. Nevertheless, underdeveloped countries are facing serious problems in the process of economic development. Nepal is not exception to this condition. People in developing nations tend to have greater propensity to evade taxes. This is because, they have lesser knowledge about income tax and they have to maintain their livelihood from their limited income. Rich people are avoiding taxes by using legal loopholes and taking advantages of an inefficient tax administration. Recent notices of authority misuse investigation commission have proved that there is a corrupt bureaucracy in tax office.

In Nepal the coverage of income tax is very low. Only 0.5 percent of total population pays the income tax. There is poor income tax paying habit of Nepalese people. The tax authorities are inefficient and ineffective in enforcement. There are no integrating programs for the payer's education, assistance, guidance and counseling. The offices are looked upon as heaven for corruption, harassment and incompetent personnel. The assessment procedure of income tax is not effective, undue delay in tax assessment not only reduces the total revenue, but also brings harassment to the tax payers.

So, the coverage of income tax is very narrow in Nepal. Agricultural income is exempt from the income tax. Labor tax is taxed more heavily than capital income retirement amount received by Nepalese people being retired from the service by army or policy of foreign country is also exempted from income tax. Exemptions of these sources provided loopholes for tax evasion and complicates to the tax

administration. In the other hand, exclusion of agricultural income from the tax net alone cuts cut about half of the GDP. Some exemptions granted to achieve certain objectives are not effective. Tax incentive is one of the examples of this. Tax incentive or concession encourages the establishment of industries in certain area but they gains or change names ownership or place the business when the tax concession period expires.

At present the exemption limit to an individual has been provided into two distinct categories in Nepal. The present act and rule classify persons into an individual and the family according to the personal status. Thus classification does not recognize the various sizes of the dependent family members. There is no discrimination between a tax payer having only spouse and tax payer with a spouse, parent and children. Therefore this limit is the Nepalese context neither shows any specific or definite relationship with per capita GDP nor with the rate of inflation nor with property harms. Income tax act has clearly mentioned the provision of special facility to an individual. But whether that is sufficient or not. It is questionable. Specifically, this study has been carried out to answer the following research questions.

-) Are the current Provisions of special facility to an individual taxpayer are adequate?
-) What kind of Provision of facility should be added?
-) Is the current exemption limit appropriate for individual?
-) How much rupee should be exemption limit for an individual?
-) Are the provision made under the Nepalese Income Tax Act profuse in all respect? etc.

1.3 Objectives of the Study

The main objective of the study is to gain insight into the Provision of special facility to an individual taxpayer of present income tax and give appropriate

suggestions to improve the tax system so that the government can collect more revenues and use than in the process of national development. The study does not only help the government to collect more revenue but also make the concerned people aware about the Provision of special facility to an individual taxpayer. Being an opinion survey, it analyzes the Provision of special facility to an individual taxpayer which is provided by the income tax act. So, the specific objectives of the study will be as follows:

-) To Review and analyze the Provision of special facility to an individual taxpayer which are provided by the Income Tax Act 2058.
-) To identify the other provisions to be included in the special category of individual taxpayer.
-) To know the awareness of the individual taxpayer towards the provision of special facility.
-) To provide possible suggestions and recommendations for making the Provision of special facility to an individual taxpayer, which may be higher effective and efficient in Nepal.

1.4 Scope of the Study

This study tries to cover the major constituents of income tax system of Nepal. It aim to find out the provision of special facility to an individual taxpayer provided by tax act, problem and weakness, loopholes in income tax system, contribution of income tax to the government revenue. It also tries to suggest some possible areas for confirm. . The study is covered the following aspects of income tax system of Nepal.

-) Provision of special facility to an individual taxpayer, which is provided by Income Tax Act.
-) Structure of government revenue in tax.
-) Administration aspect of income tax in Nepal.
-) Contribution of income tax to the government revenue and GDP.

1.5 Significance of the Study

Nepal is least developed country. Her total budget is deficit every year. Internal sources of revenue are not sufficient to cover her administration expenses. So, her development activities can not run appropriately. All the development activities is depend on the foreign aids and grants. Nepal must increase its internal revenue by implying effective and efficient tax system.

Tax covers all the sector of economy whoever earns income or profit or generate wealth. Among them individual is a major part, who contributes heavy tax to nation. There are lots of thesis on various topics of income tax, but very few (one in Shanker dev) has done about provision of facility to individual taxpayer provided by Income tax act's this thesis is directed towards acquiring information about individual taxpayer, which has not been studied in detail before.

1.6 Limitation of the Study

The study is based on provision of special facility to an individual taxpayer in Nepalese income tax. It is not complete study of income tax system in Nepal. The present study is not free from some limitation. The main limitations of this study are as follows:

-) Limitation of the study has based on the availability of reliable data and sufficient literature.
-) It is based on provision of special facility to individual under income tax act, 2058.
-) Due to the lack of time and other difficulties, the field study has been limited to Kathmandu valley.
-) The study was fundamentally based on secondary data and information. However, some primary data will also collect and analyzed.
-) Few samples have been selected for opinion survey due to time constraint.

) The study is confined to Nepalese Acts, Ordinance, Regulations and Circular to Income Tax.

1.7 Organization of the Study

The whole study has organized into five chapters which are:

In the first chapter of the study contains background information, statement of problem, objective of the study, need of the study, scope of the study and organization of the study.

The second chapter will about the review of the literature. Some books, dissertations, reports and articles have been viewed for this study.

The third chapter will be about research methodology. In this chapter, research design, population and sample, nature and sample of data, data gathering procedure, data processing procedure and analysis of data, weight of choice and weight of respondent have been described.

The forth chapter is major part of the study that will be presentation and data analysis. This chapter aims to make the critical analysis of income tax system of Nepal with assistance of authoritative data and opinion survey. In it, tax structure of Nepal, provision of special facility of individual of income tax and an opinion survey has been analyzed. On the basis of an analysis, it has tried to find out whether the income tax in Nepal is satisfactory or not. It describes the problems and weakness of tax administration also.

The last chapter will be concerned with findings, summary, conclusion and recommendation and suggestions.

Appendix and bibliography will be presented in the last part of the study.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 Sources of Revenue

Tax source of government revenue consists of:

- i. Customs
 -) Imports
 -) Exports
 -) Indian excise refund
 -) Others.
- ii. Tax on consumption of goods and services
 -) Industrial product
 -) Liquor contract
 -) Sales tax/value add tax
 -) Hotel tax
 -) Air tax
 -) Contract tax
 -) Road and bridge maintenance tax
 -) Others.
- iii. Land revenue and registration:
 -) Land revenue
 -) House and land registration
- iv. Tax on Property profit and income:
 -) Income tax from public enterprises
 -) Income tax from semi-public enterprises
 -) Income tax from private corporate bodies
 -) Income tax from individuals

-) Income tax from employment
-) Urban house and land tax
-) Vehicle tax
-) Tax on interest
-) Other taxes.

Duty and fees, charges, fines and forfeitures, receipts from sale of commodities and services, dividends, royalties, interest and principal payment, donation and other miscellaneous income are the sources of non-tax revenue of the government. Among different types of internal sources of government revenue, tax from individual is a major source of revenue. Income tax 2058 provided special provision to individual.

2.1.2 Tax

2.1.2.1 Meaning of Tax

It is a compulsory contribution from people to government without getting corresponding benefit of services or goods from the government. Tax simply means a liability to pay an amount to the government.

According to Prof. Seligman, “Tax is a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefits”.

According to Findlays Shirras, “Tax is a compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefits”.

According to Plehn, “Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the residents of the states”.

From the above definitions, it can be concluded that:

-) Tax is a compulsory levy imposed by the government.
-) Tax is levied on persons as per the prevailing laws.
-) Those who pay tax do not get corresponding benefits from the government.
-) Tax amount is spent for common interest of the people.
-) Tax is collected from haves and spent for the interest of have-nots in the society.

2.1.2.2 Objectives of Tax

Tax is the major sources of revenue of government. Today, in every developed and developing country government should be required large amount of fund for public expenditure. Public expenditure is accelerating due to the following reasons:

-) To meet the requirements of their increasing population.
-) To take up development work in addition to their traditional work administration and defense.
-) To pay the increased price of commodities.
-) To maintain security internally and externally.
-) To provide large variety of services and facilities to the public.
-) To provide social insurance, unemployment relief, free medical aid, subsidized food and housing, free education etc.

The expenditure of the government differs with the situation of a given country. A developing country like Nepal spends most of its revenue in the creation of basic infrastructure of economic development whereas an affluent nation like USA

spends in research and espionage. As the public expenditure increases the revenue of government must be increased in order to balance the economy.

The expenditure is divided mainly regular budget and development budget. The development budget is related to the development work, i.e. building infrastructure in the country while the regular budget is related to the civil administration and the defense of the country.

We have already stated that government revenue includes different tax revenue and non-tax revenue. Under tax revenue income tax is a major part of direct tax. In ancient times, the major objective of taxation was strengthening the muscle of the state by providing the resources. Till to the time of Adam Smith, the chief motive of collecting the revenue was to provide resources to the government for providing security to an individual and society against violence, invasion and injustice and maintaining public institutions.

The main objectives of tax are:

1. To raise more revenue: The government requires carrying out various development and welfare activities in the country. For this, it needs a huge amount of funds. The government collects funds by imposing taxes. So, raising more and more revenues has been an important objective of tax.
2. To prevent concentration of wealth in a few hands: Tax is imposed on persons according to their income level. High earners are imposed on high tax through progressive tax system. This prevents wealth being concentrated in a few hands of the rich. So, narrowing the gap between the rich and the poor is another objective of tax.
3. To reduce economic inequalities: the government levies tax on have and spends or mobilize it to improve the economic condition of have not. Form which the economic inequalities will be reduced.

4. To boost up the economy: Tax serves as an instrument for promoting economic growth, stability and efficiency. The government controls or expands the economic activities of the country by providing various concessions, rebates and other facilities. The effective tax system can boost up the economy.
5. To encourage production of essential goods: Tax policies provide different special provisions and incentives and facilities to the entity and the natural person producing the essential goods so as to encourage their production.
6. To reduce unemployment: The government can reduce the unemployment problem in the country by promoting various employment generating activities. Industries established in remote parts or industries providing more employment are given more facilities. As a result, the unemployment problem can be reduced to a great extent through tax policy.
7. To remove regional disparities: The government provides tax exemptions, rebates and concessions to those industries which are operated in the backward and remote areas. As a result, the person attracts to perform economic activities in these areas. The infrastructure which is needed to perform business activities gradually arises. Regional residences become employment. Thus, regional imbalance will be removed.

2.1.2.3 Types of Tax

There are mainly two types of tax, which are:

- i. Direct tax and,
- ii. Indirect tax

i. Direct Tax

Direct tax is legally imposed to a certain person which cannot be transferred to others. I.e. person paying and bearing tax according to their income is direct tax. It is the tax on income and property.

Examples of Direct Tax:

-) Income tax
-) Property tax
-) Vehicle tax
-) Interest tax
-) Expenditure tax
-) Death tax
-) Gift tax, etc.

Merits

-) It is equitable. It is imposed on the basis of income and property.
-) It is certain. Tax payer easily know the time, procedure, and amount of tax.
-) It is elastic. Government can easily change tax rate according to Income and property level.

Demerits

-) It gives mental pinch to the taxpayers as they have to curtail their income to pay to the government.
-) Taxpayers feel inconvenience as the government imposes tax progressively.
-) Tendency to evade tax may increase to avoid tax burden. Taxpayers cannot participate to tax.
-) As income should be paid in the form of tax. It affects saving and investment.
-) It is expensive for the government to collect tax individually.

ii. Indirect Tax

Indirect tax is a tax, which is imposed on one person but partly or wholly paid by another. It is the tax on consumption or expenditures.

Examples of Indirect Tax:

-) VAT
-) Sales tax
-) Entertainment tax
-) Hotel tax
-) Excise duty
-) Import and export duty, etc.

Merits

-) It is convenient as the taxpayer does not have to pay lump sum amount for tax.
-) It is paid by all consumers. So it cover mass participation.
-) There is less chance of tax evasion as tax pay the tax collected from consumers.
-) The government can reduce the harmful goods consume rate by imposing high tax on those goods.

Demerits

-) It is uncertain because if consuming rate of goods and services increase, tax also increase.
-) It is not equitable because the same tax rate on basic goods affect to have-not. As have-not and haves pay same tax rate.
-) There is chance of tax evasion because all tax collected by agent may not pay to government.
-) All taxpayer cannot know how much tax should thy pay. As there is no certain type of tax.

2.1.2.4 Canon of Tax

As per Adam Smith

Canon of Equality or Equity

This canon says that high earners should be imposed higher tax and low earners imposed low tax rate. Tax policy should not be discriminating the persons having equal income.

Canon of Certainty

Taxpayers should feel certainty regarding time, place, tax amount and procedure for payments of taxes.

Canon of Convenience

Tax system should be simple so that ordinary people can easily understand and follow it. Time, procedure and place of tax should be convenient to the taxpayers.

Canon of Economy

Collection amount of tax should be higher than the expenses to collect tax. The entire amount collected from tax should be used for the welfare of people.

BASTBALE added two other principles which are discussed below:

Canon of Productivity

Amount collected from tax should be utilized by the government in productive sector of the economy so that the taxpayers can see the utilization of their hard-earned money as taxes.

Canon of Elasticity

Tax rate can be easily changed by the government as requirement. Instead of being rigid, tax rates should be made flexible as per the changes in taxpayers' income, properties, and transactions.

Other modern economists have added some other canons which are:

Canon of Diversity

Tax rate should be diversified in different area. Tax should not be depending on single tax.

Canon of Simplicity

Tax system should be easily understood by general people. The tax payment procedure should not be too lengthy.

Canon of Neutrality

It means the tax should not affect the economic sector of economy. Tax system should not only focus on collecting more revenue but also take care the effect in the economy.

2.1.3 Historical Development of Income Tax Laws in Nepal

Great Britain is the first country in the world to introduce modern income tax. The objective of imposing income tax is to fight with France. Britain introduced income tax in 1799 A.D. USA also introduced income tax in 1862 A.D. to generate revenue to finance civil war. On the beginning, income tax was levied as per the need but since 1860 and 1913 taxes were collected regularly. Income tax Act was published in 1886 A.D. and this tax was collected regularly since then. Italy and New Zealand introduced income tax since 1864 and 1891 respectively. In India, while income tax in its modern form was adopted in 1860, several experiments were made from 1860 to 1866 and finally the systematic income tax legislation was enacted in 1886.

Since World War first, the developed countries of the world had adopted income tax as a major source of public revenue. In the beginning period, income tax was collected at a flat rate. But after 1909, progressive rate was adopted. In today's world, progressive rate is preferred to flat rate.

The practice of modern income tax in Nepal is not very long. The idea of introducing income tax in Nepal originated in 2007 B.S. when a multi-party democratic political system was introduced. The then Financial Minister in his budget speech declared the intention of the government to levy an income tax. His Majesty's Government issued Finance Act, 2016 so as to levy income tax on business profits and remuneration incomes. For the assessment and collection of taxes, 'Business, profit and Remuneration Tax Ordinance, 2016 was issued. In 2017 B.S., 'Business, Profit and Remuneration Act, 2017 was enacted. This was first income tax act in Nepal. This act was not broad and detail. There were only 22 sections in the act and the provisions of taxation of business incomes and remuneration income were only included. There was no provision of deduction for expenses by taxpayers. Income tax was assessed on the basis of tax officers' estimation. Government employees were the main income taxpayers. This act was ineffective and was replaced by 'Income Tax Act, 2019'. There were 29 sections in the act. For the effective implementation of income tax act's objectives, NG enforced "Income Tax Rules, 2020'.

Income Tax Act, 2019 also encompassed profession, business, house and land rent, investment, insurance and other sources of incomes in addition to business profits and remuneration incomes. It also made the provisions for rectifying arithmetic errors by taxpayers and tax payments in installments. Agricultural income was also made taxable in the act. Finance act, 2023 made agricultural income exempted. Again Finance Act, 2030 made agricultural income taxable. 'Income tax Act, 2019' was amended first in 2029. The Act was replaced by 'Income Tax Act, 2031' so as to cope with the changing needs of the country. This

act was also called a modified form of the previous act. Most of the provisions of previous act were kept as it is and others were changed. This act lasted for about 28 years.

The act remunerated income sources into five groups:

-) Agriculture
-) Industry, Trade, Profession or Occupation
-) Remuneration
-) House and compound Rents
-) Other Sources.

However, agricultural income was kept outside the tax net except few years through the Finance acts.

In 2058, 'Income Tax Act, 2058' was enacted by the parliament by replacing the 'Income Tax Act, 2031'. This act is broad as compared to the previous act. This act has been made in accordance with the global standard. 'Income Tax Rule, 2059' was framed NG to clarify some provisions of the Act. Finance ordinances have been making slight amendments in the act every year.

Key Features of Income Tax Act, 2058

-) All income tax related matters are confined within the Act by abolishing all tax related concessions, rebates and exemptions provided by different Acts.
-) The Act has broadened the tax base. Unlike previous tax Act, tax rates are spelled out in the Act. The tax rates and concessions are harmonized on equity grounds.
-) The act has introduced a pool system of charging depreciation. A provision has also been made for depreciating intangible assets.

- J The Act has first time introduced the taxation of capital gains.
- J The Act has provided liberal loss set-off and carry forward/backward provisions. Inter head adjustments of losses are clearly specified. Such provisions have been made from international perspective.
- J The Act has first introduced a provision for administrative review to allow the tax administration to correct mistakes made by tax administrators internally.
- J The Act has made provisions for a stringent fine and penalty for the defaulters. There have been made provision for punishment in the fines up to Rs.3, 00,000 and imprisonment on conviction up to 3 years.
- J Global incomes of a resident are made taxable. Non residents are also taxed on their incomes with source in Nepal.
- J List of expenses are inclusive. All expenses relation to income has been made admissible.
- J The act has made provision for international taxation. Foreign tax credit has been introduced for the first time.
- J The Act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities (Bhattarai and Koirala, 2008:3).

2.1.4 Rights of Assesses/Taxpayer

A taxpayer means a person (an individual or an entity) whom the tax is imposed on and realized from as per Income Tax Act, 205e. As per section 74 of the Act, the taxpayer with respect of paying tax is entitled to enjoy the following rights:

- a. Right to get respectful behavior
- b. Right to receive tax related information as per prevailing laws.
- c. Right to get the opportunity of submitting proof in own favour in respect of tax matters.

- d. Right to appoint lawyers or auditors for defense; and,
- e. Right to secrecy in respect of tax matters and keep it inviolable.

Besides these, the taxpayer can enjoy the following rights;

- a. Right to obtain clarification on personal (advance) rulings
- b. Right to get refund of excess tax paid
- c. Right to appeal to review the decision
- d. Right to receive public circular.
- e. Right to extend time to file return.

2.1.5 Duties of Taxpayers

The Act has not categorically specified the duties of taxpayers. However, to enjoy the rights as per the Act, taxpayers are required to fulfill following duties in accordance with the Act:

- i. To register and get Permanent Account Number (PAN).
- ii. To follow/adopt accounting method prescribed by Nepal government.
- iii. To maintain books of account and other documents properly.
- iv. To pay tax within stipulated time and place.
- v. To pay tax in installments or deduct tax at source.
- vi. To file returns within stipulated time.
- vii. To provide information to tax office.
- viii. To attend tax office if he is ordered to do so.
- ix. To accept evidence issued by tax office as notification of tax payable.
- x. Not to oppose tax officials in performing their duties.

2.1.6 Special Provision to Individual in Income Tax Act 2058

A) Sources of Income

Income tax act 2058 has classified income into three heads. The heads are:

- J Income from business (section 7)
- J Income from employment (section 8)
- J Income from investment (section 9)

Income from Business [Sec. 2 (ar)]

Business includes a trade, an industry, a profession, a vocation, and other business transactions. A trading, a production, a commission agency, an audit firm, a legal advisory work, a repair shop, etc are some of the example of business activities.

Income from Employment [Sec. 2 (aj)]

Income received from an employer in return for some service is called an income from employment. Such income may be received in the form of salary. Wage, allowance, commission, reimbursement of personal expenses, awards, perquisites, retirement benefits, leave encashment, etc. The fundamental feature of an income from employment is that there is a relation of employer and employee as the payer and payee. Income received in connection with a service, even when the service has been terminated, is also classified as income from employment.

Income from Investment [Sec. 2(al)]

If a person hands over its property to another person for the latter's use, and, in return, receives a certain consideration, the consideration is said to be an income from investment. Rent for a house property, rent for a vehicle, lease rental for a land or building, interest for loans and advances, interest for debentures or bonds, dividend for equity investment, net gain from the disposal of non-business chargeable assets, etc are some of the examples of income from investment.

2.1.6.1 Tax Exemption on Income of an Individual: (Section 10)

- a. Income derived by a natural person from an employment of a public service of a foreign government is exempted from income tax under these circumstances:

-)] The individual is a resident of Nepal only because of the posting in Nepal or he is a non-resident of Nepal; and
-)] The payment of the income is made from the public fund of the foreign government.

Both the conditions should be satisfied.

- b. The income derived by a natural person, who is not a citizen of Nepal and he is a resident of Nepal only because of his employment or he is a non-resident of Nepal or the income derived by a member of his immediate family, from a public fund of a government is exempted from income tax.
- c. The salary- income derived by a foreign national employed by Nepal government is exempted from tax, as per the terms of appointment. The conditions for the tax exemption are:
 -)] The individual is not a citizen of Nepal;
 -)] He is appointed by Nepal Government; and
 -)] Tax exemption is available to him up to his employment with Nepal Government, a provision that will terminate if he obtains the citizenship of Nepal.
- d. Allowances paid by Nepal Government to widows, elder citizens, and disabled individuals.
- e. Amount received as gift, bequest, inheritance, or scholarship (except as required to be included in calculating the taxable income from business under section 7, 8 and 9)

2.1.6.2 Exemption Limit for a Natural Person

Tax exemption limit means a taxable income of a natural person up to a certain limit as prescribed in the Act on which the tax is charged at zero percent. The limits are as follows:

a) General Limits for an Individual and A Couple

Table 2.1
Exemption Limit for a Natural Person

Income Year	Individual	Couple
2058-59	65000	85000
2059-60	65000	85000
2060-61	80000	100000
2061-62	80000	100000
2062-63	100000	125000
2063-64	100000	125000
2064-65	100000	125000

b) Specific and Additional Limit for Specific Natural Person

i) For a Natural Person whose Source of Income is Situated in a Remote Area

In case the income is generated from an activity at a remote area of Nepal, an additional exemption limit has been prescribed for a resident natural person.

Classification of Remote Area	Additional Exemption Limit
A	30000
B	24000
C	18000
D	12000
E	6000

It is not clear from the section whether a natural person who has an income source in a remote area as well in other areas will get the benefit of the additional exemption. It is up to the IRD to give a suitable solution for such situation.

It is also not clear whether an individual having an employment or other source of income in the remote area for a period less than one income year will get the additional exemption in full or in a proportionate scale.

ii) For Pension Holders

Any natural person who has also an income from pension, the tax exempted limit increases by 25% of the basic limit. But additional exemption given to the pension holders should not exceed the actual amount of pension s/he receiving.

iii) For Disabled Individual

Finance Act, 2063 has introduced a new provision to Disabled Individual. According to provision the tax exemption limit shall increase 50%.

iv) For Life Insurance Premium

In case a resident natural person has taken life insurance on his life or on the life of his related person, Rs.20000 or the actual premium paid during the year, whichever is lower is available for deduction from the taxable income of the individual. The amount so calculated for insurance premium should be deducted from the taxable income first and the exemption limit shall be applied after that.

v) Deduction for Contribution to an Approved Retirement Fund

An individual, who has made a contribution to an approved retirement fund during an income year, s/he is entitled to get an exemption of the amount deposited to the fund subject to a maximum limit of $\frac{1}{3}^{\text{rd}}$ of the assessable income of her/him during the year or Rs.300000, whichever is lower. This exemption is available to each individual, whether employee or a self-employed one. In case of a self-employed individual, as per Rule 20 of Income Tax Rules, 2059, the 58 years' age shall be treated as the age of retirement.

vi) Deduction to a Diplomat of NG Posted in a Foreign Country

An individual who is working as a diplomat in a foreign country, appointed by NG, 75% of his foreign allowance will be exempted from income tax and the rest of the allowance is included in the taxable salary of the diplomat.

c) For an Individual or a Couple Having a Gain from Disposal of Non-Business Chargeable Assets

Gain from non-business chargeable assets is taxed at the rate of 10% in the case of an individual. If an individual has also other taxable income the exemption limit or other taxable income whichever is higher is taxed at the rates applicable to an individual and the balance is taxed at the rate of 10%.

d) Tax at Fixed Amount for Retailers

A resident individual has to pay income tax at a fixed amount for an income year under these circumstances:

- i. S/he has income only from a business in Nepal during the year;
- ii. S/he is not claiming the deduction for medical tax credit under section 51 and adjustment of advance tax paid as per Section 93;
- iii. His/her total turnover and the net income, during the year, does not exceed Rs.15 lacks and Rs.100 thousands respectively.
- iv. S/he selects this provision to be applied on him/her for the tax purpose for the year.

The amount of tax payable is as follows:

-) Rs.2000: In case the business is being conducted at metropolitan or sub-metropolitan cities.
-) Rs.1500: In case the business is being conducted at municipality area.
-) Rs.1000: In case the business is being conducted at any other area.

e) Tax on the Income of a Non-Resident Natural Person

In case the person is a non-resident natural person, s/he will be charged with a flat rate of tax at 25% on his/her taxable income. The tax exemption limit is not available to him/her.

f) Tax on Resident Natural Person Having Income from Hiring the Vehicles

In case a resident natural person is engaged in hiring vehicles, he has to pay a fixed amount of tax per year according to per number of different vehicles. The amounts of taxes for different vehicles are as follows:

Per mini-bus, mini-truck and bus	Rs.1500/-
Per car, jeep, van and micro-bus	Rs.1200/-
Per three-wheelers, auto-rickshaw and tempo	Rs.850/-
Per tractor and power tiller	Rs.750/-

For an entity such payment of tax shall be treated as advance tax and may be adjusted against final assessment of the tax.

g) Tax Concession on Certain Incomes of a Natural Person

- i. In case a natural person is engaged throughout the year in conducting a special industry, the 25% of the chargeable income is given a concession by charging only 20% of tax.
- ii. The rate of tax on income from export of a natural person is fixed at 20% of the income.

h) Tax on the Estate of Deceased Natural Person

In case a trust receives an estate of a deceased resident natural person or receives the property of an incapacitated resident natural person, the income from the estate to the trust will be charged treating the trust as single individual, and in case there

is any income from non-business chargeable assets that shall be charged at the rate of 10%.

2.1.6.3 Tax Credits for Medical Expenses

A resident natural person can claim a tax credit for approved medical expenses incurred for his or her treatment. The expenses may be paid by the individual himself or by other person. [Section 51(1)]

According to Rule 17, the following medical expenses are treated as approved:

- a. Insurance premium paid for medical insurance taken; and
- b. Medical expenses incurred for the treatment of an individual in an approved hospital, nursing home, health center, or by a doctor on the basis of the bill produced.

But the expenses incurred on cosmetic surgery are not treated as approved expenses.

In case an insurance company in lieu of an insurance policy reimburses medical expenses, such expenses are not allowed for such a tax credit.

Tax credit will be available at 15% of the total approved medical expenses incurred during the year plus any unabsorbed tax credit carried over from the previous year.

The maximum limit available for tax credit during a year is Rs.750 only. The balance of tax credit means the tax payable that will be reduced by the amount. (Agrawl, J., 2009: 207).

2.1.6.4 Tax Credit for Income Tax Paid in a Foreign Country

A tax credit may be available to a resident person whose income that has a source in a foreign country is included in taxable income of the person in Nepal to the extent of the amount of income tax paid in that country on that income.(sec. 71).

Though the Act and the Rules do not require a person to produce a proof of tax paid in a foreign country, practically a tax credit is not allowed without the proof of tax paid being produced.

In case a person has a source of income in more than one foreign country, the amount of assessable foreign income situated in each country should be calculated separately.

The maximum amount of tax credit allowed for the year shall not exceed the average rate of Nepal tax for the person for the year applied to the person's assessable income from each foreign country.

The average rate of tax applicable in Nepal for the person during the year is calculated on the basis of the following formula:

Total tax calculated before tax credit for foreign income tax paid/ Taxable income of the person including assessable foreign income.

The remaining amount of tax credit, not absorbed during the year, can be carried forward for set off the income during subsequent years from the same country. (Agrawal, J., 2009: 209).

2.2 Review of Literature

Different types of books and dissertations were reviewed before beginning the research. All books are designed for campus level syllabus. These all books are

directed to theoretically and practically. They only described law but not try to find appropriate provision for taxpayers. All dissertations are trying to find the specific objectives and solution of their related problem.

2.2.1 Review of Related Books

In Nepal's history of taxation books publication, Kedar Bahadur Amatya was the first man who published the taxation book "Nepalma Aayakar Byabastha" in 1965. In this book he described "Nepal Income Tax Act 1962" with examples how taxable income are derived from different sources of income. Although this book was not able to described all income tax related subject but it is helpful to get knowledge about Income tax Act 1962.

Surya Prasad Marahatta and Ananda Prasad Khatioda (1970) published a book named "Fundamental of Nepalese income tax: with up to date financial directives and regulation." In this book they had described the legal provisions relating to income tax and practical aspects. They had described the income tax act 2020. This act was not beneficial because of changing in tax law. They were fully based on campus level syllabus because the prime objective of this book was to meet the requirement of the university students.

Nagendra Bahadur Pradhanga (1993) has written a book entitled, "Income tax law and accounting". Objective of this book was to providing the provision relating o the students of taxation. In 20 chapters, he has described the legal provision relating to income tax. He has also included examples to derive the income tax payable from the various incomes sources.

Pavan Kumar Ojha (1993) had published book on titled "Taxation law". He had described the different acts and law of income tax. He had taken many tax cases

into consideration to describe legal terms. His book may be beneficial to understand income tax laws. But he had not analyzed the role of income tax.

Bhagawati Prasad (1996) has written a book entitled “Direct Tax Laws and Practice” which is his 30th addition. In his book he has focused in income tax, wealth tax, gift tax and tax planning management however tax incentives and tax planning are the bases to identify and link the other tax terminology and practice.

In 2002, Mr. Kamal Deep Dhakal presented his revised edition of his book ‘Aayakar Tatha Ghar-Jagga Kar Sambandhi Kar ra Lekha’. This book was based on Income Tax Act, 2031. This book is very much useful to get knowledge about history of taxation and practice under ITA, 2031.

Bishowdeep Adhikari (2002) had published a book named "Income tax law: then and now". He had described the legal provisions of new income Tax Act 2058. He also had described the decisions made by Supreme Court about the income tax. He had described the legal provisions with critical analysis. His book was very useful to know the new Income Tax Act 2058 but had not analyzed the role of income tax and income tax structure.

Bidhyadhar Mallik (2003) published a book named ‘Nepal Ko Aadhunik Aayakar Pranali’. In which, he was explained Income Tax Act, 2058 with examples and in a simple way. His book is descriptive and analytical. He has also explained that why some of the tax exempted amounts have been brought into tax net by the new act. His unique and original attempt is that he has compared the provisions of the old act and the new act.

Ishwor Bhattarai and Girija Prasad Koirala (2003) published two books. The first one is for the BBS 3rd year named “Taxation in Nepal”. The second one is for the

MBS 2nd year named “Tax Laws and Tax Planning”. Both books concerted only the syllabus of subject. These books are later revised on 2006.

Prof, Dr. Chandra Mani Adhikari (2003) wrote a book entitled “Modern Taxation in Nepal: Theory and Practice”. This book is based on Income Tax Act 2058.

Dr. Puspa Raj Kandel (2003) published two books named “Tax laws and Tax Planning” and second one was “Nepal Ko Bartaman Kar Byabastha”. This book has been designed to the syllabus of BBS 3rd year. Theoretical as well as practical aspects of taxation have put in his book.

Surendra Deshar Amatya, Dr. Bihari Binod Pokharel and Rewan Dahal (2003) wrote a book named “Taxation in Nepal”. This book also based on campus syllabus but it is descriptive not analytical.

Jagdish Agrawal (2004) has published a book entitled “Income Tax Theory and Practice”. This book is based on overall act but not a campus syllabus. It is useful to all tax practitioners, student and other interested people. It describes whole income tax according to section wise. Agrawal also try to compare ITA 2058 with international accounting standard. This book later on revised in 2006.

2.2.2 Review of Related Dissertations

Ram Bahadur Thapa (1993) had presented a dissertation entitled "Income tax assessment procedure in Nepal and analytical study". This study was basically concert rated an income tax assessment procedure. These findings about the problems of income tax assessment procedure were: aphorisms in tax assessment, undue delay in tax assessment and lack of adequate accounting skills which are considerable at present. He had concentrated and opinion survey of income tax assessment procedure. He had taken 23 people as a sample. About the exemption limit 8 were negative attitudes and 9 were indifference about the exemption limit.

Out of them, who gave the negative response, had suggested increasing the exemption limit. He suggested adjusting the exemption limit according to the inflation of the country. He had also suggested giving tax holiday to new industries as investment allowance. He also had suggested taxing the agricultural income. His topic was about income tax assessment procedure but he had described only about the income tax assessment method and fine fee and penalties. He had not mentioned the assessment procedure legal provision relating to income tax and items of exemption and deduction.

Raj Kumar Bhattarai (1997) had presented a dissertation named "Effectiveness of corporate income tax in Nepal". He had described the history of income tax and corporate income tax, legal provisions relating to income tax, administration aspect of income tax, tax structure and government mechanism. He had conducted an empirical investigation taking 50 persons and companies as a sample. In his study, he had found that the share of tax revenue to the total tax revenue was 78 percent in average, the share of the direct tax to the total tax revenue was 20 percent in average whereas the share of indirect tax to the total tax revenue was 80 percent in average, the share of income tax to the total direct tax was 67 percent in average. As substantial share of income tax in total tax revenue. There was strong contribution of corporate income tax in total income tax revenue.

He had found that the government policies, acts, regulations, concerned with the corporate income tax were not effective in increasing tax paying habit in Nepal. Although there was substantial contribution of corporate income tax in the revenue of Nepal since a long period. He had pointed a major problem of tax administration as a corruption was weakness of act, rules and regulations in theory as well as in practice of income tax.

About the exemption and deduction he had questioned as:

Do you have any income, which should be tax free? and Expenses, which should be allowed for deduction?

The response about the question was that the promotional expenses, guest hospitality, donation prizes and grants should be also used for deduction as expenses. About the income, income from foreign exchange rate, grants received, all compensation received should be tax free.

He had suggested to prepare separate income tax Act, rule and regulations considering income tax Act, rule and regulations considering the element of the system and maintain stability design and develop electronic information and communication networking among the government and non-government organization, encourage the tax payers through tax education and awareness program, control the forwards and backwards shifting of corporate income tax rate to 17 percent as expected by tax payers, and make tax officers more responsible and accountable and honest.

His study was fully based on the study of corporate income tax. So had not accounted anything about the other income tax. He had pointed a problem of tax administration as a corruption but he had not identified other problem and weakness of tax system. His study is very useful to know about the corporate income tax rather than other taxes.

Binita Shrestha (1998) had presented a dissertation named, "Revenue collection from Income Tax in Nepal, Problems and Prospects" she had described the conceptual framework and legal provisions, structure of income tax in Nepal, income tax administration in Nepal, an empirical investigation and problems and prospects of income tax in Nepal. Her findings about the structure were: There was the domination share of tax revenue in Nepalese government revenue. But the

contribution of tax revenue showed the decreasing trend as it had contributed by 80.46 percent in 2055/56. The tax and GDP ratio of Nepal had fluctuate cyclically between 6.81 percent to 9.36 percent for the period of 2050/2051 to 2055/2056. There was the dominant role of indirect tax revenue such as 17.76 percent and 82.24 percent in 2050/2051 of direct tax and indirect tax whereas 26.14 percent and 73.86 percent in 2040/1999 of direct and indirect tax respectively. The contribution of individual income tax was greater and increasing year to year.

The share of income tax from individual was Rs.196 million in 2050/1985 which is increased to Rs.2772.7 Million in 2046/47. Her finding about the problem of Nepalese income tax system was narrow coverage. Income tax system was narrow coverage, mass poverty of Nepalese people, lack of conscious of tax payers, widespread evasion and avoidance of income tax, unscientific tax assessment procedures, inefficient tax administration, and instability in government policy. She had also found the various weak point of Nepalese tax administrations. Major weak points were:

- Failure to locate new tax payers,
- Failure to maintain proper account and records,
- Defective selection of personnel,
- Undue delay in making assessment,
- Lack of motivation to tax personnel,
- Existence of corruption which are more relevant and considerable at present.

She had conducted an empirical investigation about the different aspects of income tax system. She had taken 60 persons as a sample. About the soundness of Nepalese income tax system, most of the respondent i.e. 97 percent of respondents recognized it unsound and unscientific. She had conducted an opinion survey of influence of agriculture and capital gain as a taxable income. About the agriculture income 57 percent of the respondents were positive to tax. She had used the

correlation coefficient to prove the hypothesis on the problem of income tax system.

Her suggestions about the income tax system were as follows:

-) Extension of tax coverage,
-) Tax consciousness to people,
-) Minimizing the problems and weaknesses of tax administration,
-) Reform in tax assessment,
-) Reform income tax administration.

Although, she had not mentioned the future prospects of income tax. She had taken an empirical investigation but she hadn't taken any investigation about the exemption of deductions.

Bibha Pradhan (2001) had presented a dissertation named "Contribution of Income Tax from Public enterprises to public revenue of Nepal". T.U. she had described the public revenue, and share of NTC, conceptual framework of income tax, contribution of income tax to the public revenue and share of NTC to the income tax structure of Nepal and the share of NTC to the tax structure of Nepal.

Her findings about the tax structure were.

-) Composition of government revenue,
-) Tax revenue contributed 77 percent,
-) In total tax revenue, indirect tax, constituted 74 percent.

The contribution of tax revenue on GDP was lowest other than SAARC countries except Bangladesh. The contribution of income tax from NTC in total revenue was 2.37 percent. The share of income tax to direct tax revenue had been fluctuating. The average share was 11.1 percent. The share of income tax from NTC on income tax revenue was about 15.06 in average. These figures were in 2055/2056.

Her suggestions about the income tax system were:

-) Promotion and rewards to efficient and honest personnel,
-) Tax education to tax-payers and officers,
-) Motivation to personnel,
-) Strict action to corruption,
-) Settlement of tax commission,
-) Increase the public participation and,
-) Reduction of delays in tax assessment.

Although, she had more concentrated on the study of NTC. She had not mentioned the legal provision relating to income tax and exemption. She had not accounted the future prospective of Nepalese income tax system.

Jayenti Paudyal (2002) presented a dissertation entitled "Income tax in Nepal, a study of its structure and productivity" TU. She had described the income tax in its historical perspectives, income tax structure, elasticity and buoyancy of income tax, voluntary discloser of income schemes role of tax administration in Nepal.

She had more emphasized on income tax structure of Nepal. She had described the contribution of income tax. She had mentioned the contribution of indirect tax is about twice then direct tax. Similarly within the direct tax is the largest source of revenue. About the tax administrate of Nepal. She had found that the working procedures were, traditional and the cost of administration had not been brought to the satisfactory level.

She had suggested to broadening in come tax base, reform of tax administration successful implementation of VAT, establishment of standardized accounting system. But she had not mentioned the problem of in come tax. System and

exemption and deduction. She had not clarified the role of income tax administration.

Basanta Kumar Singh (2001) had presented a dissertation entitled "A study on application of best judgment on income tax assessment with reference to income tax Act, 2031." He had described about the following:

-) Type of assessment,
-) Use and type of best judgment in income tax assessment,
-) Necessary conditions for best judgment assessment,
-) Legal remedies role of best judge cent assessment in income tax assessment in Nepal.

He had also conducted an opinion survey about the best judge cent assessment. He had found that the income tax assessment in Nepal was mainly performed by committee. Above to percent of the total income tax assessment was occupied by committee assessment. Best judgment assessment had occupied second. The most appropriate and reliable method of income tax assessment was on the best of account. But in Nepal, very few income tax assessments were performed on the basis of accounts that were only 3.98 percent in 2056/57. The assessment process in often delayed in Nepal. One of the main reasons, the publication of best judgment in income tax assessment was taxpayer's tendency to evade or avoid the incidence of tax.

Nepalese tax administration is very poor, because of:

-) Lack of scientific equipment,
-) Lack of coordination between concerned departments,
-) Lack of adequate efficiency and knowledge in tax personnel,
-) Lack of motivation to employers,

-) Lack of tax education of personnel,
-) Lack of application of principles which are required for the use of best judgment assessment,
-) Delay in assessment of tax,
-) No provisions of compensation to taxpayers,
-) No provisions of compensation to the tax payer etc.

He had found the major factors, which are responsible for making best judgment assessment unsatisfactory. They were:

-) Income tax should be assessed on the basis of accounts,
-) Supervisory committee should be established for the review of tax rules and equitation to tax payers and tax personnel,
-) Tendency of corruption,
-) Miss utilization of power by tax officers and inter corruption from outsides,
-) He had recommended some recommendation. They were:
 -) Income tax should be assessed on the basis of accounts,
 -) Supervisory committee should be established for the review of the assessment,
 -) Principles of natural justice should be implemented in practice,
 -) Income tax administration should be recruited with efficient,
 -) Honest trained and qualified tax personnel.
-) There should be compulsory provisions of submitting income statement within the due date,
-) The time of assessment in general condition should be reduced to three months from one year,
-) The provision of auditing of accounts should be made compulsory,
-) Rewards and punishment system should be really and strictly implemented in practices,
-) An integrated information should be developed,
-) The number of legal officers should be increased,
-) Beside small tax payers there should be made compulsory provision of maintaining accounts and performing self assessment for all other taxpayers.

He had more emphasized on the study of application of best judgment assessment. He had not mentioned legal provisions relating to income tax and tax structure of Nepal. His study is more beneficial to know the application of best judgments assessment not the whole income tax system.

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

Dan Bahadur Palli Magar (2003) wrote a thesis entitled ‘Income tax in Nepal: A study of Exemption and deductions’. In which he has showed the exemptions and deductions, problems and weaknesses in income tax system. This thesis was based on ITA 2058. He has suggested the following expenses for deduction from remuneration income:

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

Girija Prasad Koirala (2004) presented a thesis entitled “Contribution of Employment Income to Income Tax Revenue of Nepal”. In which he has analyzed the following aspects:

-) Contribution of income tax from employment income to public revenue of Nepal.
-) Effectiveness of income tax revenue collection from employment income.
-) Contribution of income tax from employment income to total tax revenue of Nepal.

He also suggested the possible measures regarding taxation of employment income and increasing the share of employment income in income tax.

Nita Dhungel (2004) presented a thesis entitled “Special Provisions to Individuals under ITA 2058”. In which she tried to analyze and review the special provisions to individual. She made a opinion survey, personal interview and other studies to find the appropriateness of present provision to individual taxpayers. She gave some suggestions which are as follows:

-) Special provisions to individuals play vital role in widening income tax coverage and raising tax revenue and special provisions have encouraged the individuals to promote their business , employment and profession
-) Special provisions to individuals provided by ITA 2058 is not sufficient and more provisions should be provided.
-) The retirement contribution should be wholly exempted.
-) Current exemption limit is sufficient in the current context but it should be increased from time to time.
-) Average cost of living is the most important factor to be considered to adjust the exemption limit.
-) The exemption limit is to he non-resident individual is not necessary.
-) The flat rate of 25% to non-resident individual is appropriate.
-) There is necessary to impose income tax on pension income.
-) The additional 25%

Govind Ram Agrawal (2035) in his study of "Resource mobilization for development, the reform of income tax in Nepal". CEDA, T.U., had described the different concepts of income tax. He had described the sources mobilization through income tax, fiscal policy role of income tax, legal provisions relating to income tax, legal aspect of income tax, administration aspects of income tax etc.

Various mathematical calculations had been shown per capital income, burden of income tax, buoyancy coefficient of income tax, elasticity and co-efficiency of income tax etc had been calculated.

He had identified the major problems in income tax system as inefficiency of tax administration and tax evasion. He observed that the tax authorities were insufficient in enforcement of law; there were no integrated programs for the payers' education, assistance, guidance and counseling. Tax offices were looked upon as heaven for corruption. Insufficiency, delays, unfair dealings, harassment and incompetent personnel the major problems of tax administration. He further added "it is increasingly being felt that the potential of income tax in Nepal has been very much under realized and reforms are urgently needed in this tax. In Nepal, income tax efforts have been constrained by hastily formulated policies, ambiguous laws, poor coverage, poor enforcement as well as compliance and bad image of tax administration. Its potential as remained under utilized. A comprehensive study for reform of income tax in Nepal therefore has become necessary".

About the exemption and deductions, he had suggested increasing the exemption limit to the range of Rs.8000 to 12000. When he made the study the income tax exemption limit was Rs.65000 for an individual and Rs.7500 for a family. He also suggested for providing additional deduction to the salaries taxpayers for educational expenses, medical expenses and house rent. He favoured for more progressive rates of income tax.

This study is very useful to find out the really about the income tax in Nepal. This study is a comprehensive and included various aspects of tax system of that period; all things mentioned in it are not fully relevant today. But some of the problems identified in it are still in existence. He had described various aspects

of income tax but he had not described business expenses. He had not conducted any research on business expenses and exempted income also.

2.3 Research Gap

Research means to search or study about something to find out result and causes. In other words research is an effort to research new fact, knowledge, and principle in scientific manner.

Various reports, articles, books and thesis have been reviewed while preparing this thesis. Almost thesis were written in different subject area. Books are found mainly based on the syllabus of T.U. Very few thesis were written on provision of special facility to an Individual Tax Payer. That thesis also not cover the latest provision of Income tax Act. So, to find out the latest view of Individual taxpayer and latest provision of income tax act, this thesis is done. This thesis is helpful to know about the provision of special facility to an individual tax payer to all students, researcher and policy maker. It is based on primary data. Finally, the researcher believes that is unique and original.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology will be devoted, applied in the study for the achievement of desired objectives. Primary as well as secondary data were used for the study opinion survey technique will be adopted to collect the primary about the different aspects of income tax. While conducting opinion survey, questionnaires were distributed to different groups who will be related to income tax. They are income tax payers, income tax policy makers, income tax administration, income tax experts, account auditor, lawyers, officer etc. Different statistical tools are used to analyze the data. In this study simple average, percentage, and chi-square test for hypothesis have been used to analyze the collected data.

3.1 Research Design

The research study is focused on analyzing the special provision of special facility to individual taxpayer. It also concerned towards the finding out the appropriateness and effectiveness of special provisions to individuals. Most of the materials and information of this study are concerned with present tax Act and primary as well as secondary sources. The study's research design is:

i. Analytical Research

In analytical research, researcher has to use facts or information already available and analyze these to make a critical evaluation of the material.

ii. Descriptive Research

Descriptive research includes surveys and fact-finding inquiries of different kinds. The main purpose of descriptive research is description of the state of affairs as it exists at present.

iii. Empirical Investigation

Empirical investigation relies on experience or observation alone, often without due regard for system and theory. It is data-based research, coming up with conclusions which are capable of being verified by observation or experiment.

To achieve the stated objectives of the study, opinion of 60 respondents were collected. Respondents are classified into tax-experts and tax payers. Questionnaires were sent to the respondents. The study has attempted to collect information regarding the provision of facility to individual taxpayers, their contribution to income tax revenue, suggestion to increase the involvement of individual taxpayer and other aspects of employment income.

3.2 Population and Sample

All the tax experts and individual taxpayers in Nepal are considered as total population. Out of them, the experts and individual taxpayers in Kathmandu Valley are considered as target population. The denomination of the respondents is presented in table 3.1:

Table 3.1
Group of Respondents and Sample Size

S.N.	Group of Respondents	Sample Size
1.	Tax experts	30
2.	Individual taxpayers	30
Total Sample Size		60

3.3 Nature and Sources of Data

Both primary and secondary data have been used in the study. The primary data needed are the opinions of experts and individual taxpayers regarding provision of facility to individual tax prayers. Needed primary data are obtained through questionnaire method followed in most cases face to face interviews with the selected persons included in the purposive sample.

Secondary data and information have been obtained from various sources, which are:

-) Budget speech and economic survey of various years, Ministry of finance, Nepal government.
-) Reports and records of department of taxation, Inland Revenue department, Ministry of finance Nepal government.
-) Dissertation related to income tax.
-) Books related to income tax and public finance.
-) National and international newspaper, journals, souvenir and news magazines.
-) Other relevant records and data.

3.4 Selection of Respondents

After careful study of the subject matter, a set of questionnaire had been developed and distributed to two respondents group i.e. tax experts and individual taxpayers. Tax experts comprises of Chartered accountants, lawyers, professors, and policy makers of Ministry of Finance. Individual tax payers comprises of individual persons working in various organization i.e. banks, government office, manufacturing organization and other private organization etc.

3.5 Data Collection Procedure

Primary and secondary data is used in this study. In primary sources, to get accurate and actual information in time all questionnaire were distributed and collected personally through field visits. Additional information was also collected from interviews with the respondents and related persons.

3.6 Data Processing and Analysis Procedure

Collected information from primary and secondary sources is first tabulated into separate format systematically in order to achieve the desired objects. The data then tabulated into various tables according to the subject in order. Then, statistical tools i.e. simple average, percentage, chi-square test, graphs, charts and diagrams etc. are used to analysis of data so that the findings and conclusion, suggestion should be presented with proper order and more clearly.

3.7 Weight of Choice

The questionnaire asked for either to give yes/no response or give their opinions. Respondents were also given alternatives to rank. In this case, the first preferred choice got the highest point and the last preferred choice got the lowest point. The total points got by each alternative were converted into percentage of total points available to the all alternatives. The alternative with the highest percentage has been ranked as most important and the alternative with the lowest percentage has been ranked as least important.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Exemption Limit under Income Tax System of Nepal

There is universal norm on income taxation that “all Income of an individual must not be taxed.” A minimum standard of living should be free of taxation for human reason and to enhance peoples’ capacity to work. The people with income below a certain level do not possess the tax paying ability. Thus, the slice of income generally required for the minimum subsistence has always been exempt from income tax. As Pitchman states, “The personal exemption also serves as an administrative device to remove from the tax rolls people with very low incomes.” The exemption limit serves the purpose of keeping the task of administration within a manageable proportion. Exemption is granted to the taxpayers on the basis of the taxpaying unit as specified in the tax laws. In Nepal, the family is tax paying unit and so the exemption is being provided on the basis of the marital status of the taxpayers except for salary income. For salary income, in some cases the individual has specified as taxpaying unit.

Thus, exemption limit is an important variable while managing the income tax. The purpose of keeping exemption limit is to exclude the poor from income taxation, to reduce administrative problem etc. for every year, finance act prescribes the exemption limit for individual, family, couples and corporations. The exemption limits in different years are shown in the table.

Table 4.1
Exemption Limit in Nepal from 1959/60 to 2008/09

Fiscal Years	Individual	Couple	Family	All Taxpayers
1959/60 to 1962/60	-	-	-	7000
1963/64 to 1966/67	-	-	-	6000
1965/66 to 1966/67	-	-	-	5000
1967/68 to 1973/74	3000	4500	6000	-
1974/75	4500	6000	6000	-
1975/76	5500	6500	7500	-
1976/77 to 1978/79	6500	7500	8500	-
1979/80 to 1980 /81	7500	10000	10000	-
1981/82 to 1982/83	10000	15000	15000	-
1983/84 to 1990/91	15000	20000	20000	-
1991/92	20000	30000	30000	-
1992/93 to 1996/97	25000	35000	35000	-
1997/98	30000	40000	40000	-
1998/99	40000	50000	50000	-
1999/00	50000	60000	60000	-
2000/01	55000	60000	60000	-
2001/02	55000	75000	75000	-
2002/03	65000	85000	85000	-
2003/04	80000	100000	100000	-
2004/05	80000	100000	100000	-
2005/06	100000	125000	125000	-
2006/07	100000	125000	125000	-
2007/08	100000	125000	125000	-
2008/09	100000	125000	125000	-

Source: Finance Acts of Various Fiscal Years

From the above table, it clearly shows that Nepal has been providing exemption limit for taxpayers since the inception of income tax in 1959/60. The exemption limit is available to all kinds of taxpayers including temporary residents from 1959/60 to 1964/65. It has not been granted to temporary resident taxpayers since 1968/6. Exemption limit was not allowed to corporate taxpayers from 1965/66,

non-resident taxpayers from 1974/75 and partnership firm from 1975/76. For the purpose of exemption limit, business firms were treated as individuals from 1967/68 to 1974/75 but since 1975/76 the basic allowance to business firms has been provided according to the marital status of the owners of such firms. Thus the exemption limit has been changing on the basis of time and income condition of the Nepalese people. The same level of exemption limit was fixed for all types of taxpayers between 1959/60 and 1966/67. This system was changed in 1967/68, when separate levels of exemption were fixed for individuals, married couples and families. The same level of exemption limit was fixed for both married couples and families. The same level of exemption limit was fixed for married couples in 1974/76. However a separate exemption limit was fixed for couples and families in 1975/76. Again 1978/79, the same level of exemption limit was fixed for married couple and families and the practice continues to date. The starting level of exemption limit was Rs. 7000 from the year 1959/60 to 1962/63. In the light of rising prices, upward revisions were made from time to time in the level of the exemption and the current level (i.e. of the fiscal year 2004/05) is Rs. 80,000 for individuals and 100,000 for married couples and families. The exemption limit were 100000 and 125000 for fiscal year 2005/06 respectively. IT was same for the fiscal year till 2008/09.

4.2 Income Tax Rate in Nepal

The collection of income tax is influenced by the income tax rate. The rate is responsible for the equitable distribution of wealth in the society. The social justice can be achieved through progressive income tax rate. The taxpayer cannot bear the burden of higher tax rate and the lower rate cannot fulfill the objective of the income taxation. So, there is frequent change in income tax on the basis of time and economic condition of the people. Nepal has adopted the progressive tax rate in personal income tax. The personal tax rate varies from two to eight slabs from the year 1948/85 to 2004/05.

Table 4.2
Rates of Personal Income Tax in Nepal (Slabs over Exemption Limit)
From the Fiscal Year 1948/85 to 2008/09

Slabs Year	1	2	3	4	5	6	7	8
1984/85	5000 5%	5000 5%	10000 15%	20000 20%	20000 20%	30000 40%	Balance 50%	-
1985/86	5000 10%	5000 15%	10000 20%	15000 25%	15000 30%	30000 40%	20000 50%	Balance 55%
1990/91	10000 15%	15000 20%	20000 35%	25000 40%	30000 15%	Balance 50%	-	-
1995/96	40000 10%	25000 20%	Balance a.25% b. 33%	-	-	-	-	-
2000/01	75000 15%	Balance 25%	-	-	-	-	-	-
2002/03	75000 15%	Balance 25%	-	-	-	-	-	-
2003/04	75000 15%	Balance 25%	-	-	-	-	-	-
2004/05	75000 15%	Balance 25%	-	-	-	-	-	-
2005/06	75000 15%	Balance 25%	-	-	-	-	-	-
2006/07	75000 15%	Balance 25%	-	-	-	-	-	-
2007/08	75000 15%	Balance 25%	-	-	-	-	-	-
2008/09	75000 15%	Balance 25%	-	-	-	-	-	-

Source: Finance Acts of Various Fiscal Years

Nepal has adopted the progressive tax rate in personal income tax. The personal income tax rate varies from two to eight slabs from the year 1984/85 to 2002/03. Currently the income tax has divided into two slabs. The current rate on personal

taxable income is 15% on income up to Rs.75000 beyond the exemption amount and 25% on all incomes beyond taxable income of Rs.75000. The additional tax rate of 1.5% was charged to income having income charging 25% rate of tax from fiscal year 2005/06.

4.3 Empirical Investigation

An empirical investigation has done in order to find out various aspects of special provisions to individuals. For which, questionnaire has been developed and responses collected from the respondents. A Set of 60 questionnaires were distributed to various respondents. Respondents have classified into two grips' viz. tax experts and taxpayers. The responses received from various respondents have arranged in a particular sequence, tabulated and analyzed in order to facilitate the descriptive analysis of the study. (See the format of questionnaire and the list of respondents in appendix A and B respectively).

The questionnaire has been asked for either yes/no responses or choice alternatives or ranking of the alternatives. In the alternatives, the first choice has the most important and the last choice has the least important. The choices among the ranking alternatives have assigned weights according to the number of alternatives. If the number of alternatives has, five the first choice has five points and the last preferred choice has one point. Any alternatives, which has no ranked, got no points. The total points available to each choice have converted into percentages with references to the total points available for all choices. The choice with the highest score has ranked as the most important choice and the one with lowest percentage score has ranked as the last choice.

The following table shows the group of respondents

Table 4.3
Group of Respondents

S.N.	Group of Respondents	Sample Size
1.	Tax Experts	30
2.	Taxpayers	30
Total		60

4.3.1 Special Provisions to Individuals in the ITA 2058 Play Vital Role in Raising Income Tax Coverage and Income Tax Revenue

To know the respondents opinion about the role of special provisions in raising income tax revenue, the first question 'is the special provisions to individuals in the ITA 2058 play vital role in widening income tax coverage and income tax revenue?' was asked. The responses received from the respondents has tabulated as follows.

Table 4.4
Special Provisions to Individual Play in the ITA 2058 Vital Role in Raising Income Tax Revenue

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	30	100	-	-	30	100
Tax Payers	30	100	-	-	30	100
Total	60	100	-	-	60	100

Source: Opinion Survey

From the table, it is clear that 100 percent of the respondents agree special provisions to individuals in the ITA 2058 play vital role in Raising income tax coverage and raising tax revenue and no one respondents does not agree special provisions to individuals play vital role in widening income tax coverage and raising income tax revenue.

Thus, the conclusion can drawn out that special provisions to individuals play vital role in widening income tax coverage and raising tax revenue.

4.3.2 Appropriateness of Special Provisions to Individuals Provided by ITA 2058

To know the opinion toward the appropriateness of special provisions to individuals under ITA 2058, the question "Are the special provision to individuals provided by ITA appropriate?" was asked. The responses receive form the respondents have tabulated as follows.

Table 4.5

Appropriateness of Special Provisions to Individuals under ITA 2058

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	20	66.67	10	33.33	30	100
Tax Payers	8	26.67	22	73.4	30	100
Total	28	46.67	32	53.4	60	100

Source: Opinion Survey

From the above table, it is clear that about 46.67 percent of the respondents only have accepted that the special provisions given by ITA 2058 are appropriate. It means that special provisions provided by the new ITA 2058 are not s appropriate. 53.4 percentages of the respondents does not agree with that.

Test of Hypothesis: Chi-square χ^2 test

Respondents	Yes	No	Row Total
Tax Experts	20	10	30
Tax Payers	8	22	30
Column Total	28	32	60

Source: Table 4.5

Null Hypothesis, H₀: There is no significant difference of the view between tax experts and tax payers, regarding the appropriateness of special provisions to individuals under ITA 2058.

Alternative Hypothesis, H₁: There is significance difference of the view between tax experts and tax payers, regarding the appropriateness of special provisions to individuals under ITA 2058.

Test Statistics: Under H₀, the test Statistics is

$$\chi^2 = \sum \frac{f_o - f_e}{f_e}$$

Where, f_o= Observes frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

Calculation of χ^2

(Row, Column)	f _o	f _e	f _o -f _e	(f _o -f _e) ²	$\frac{f_o - f_e}{f_e}$
(1, 1)	20	30×28÷60=14	6	36	2.572
(1, 2)	10	30×32÷60=16	-6	36	2.25
(2, 1)	8	30×28÷60=14	-6	36	2.572
(2, 2)	22	30×32÷60=16	6	36	2.25
Total					9.644

$$\text{Calculated } \chi^2 = \sum \frac{f_o - f_e}{f_e} = 9.644$$

$$\text{Degree of freedom} = (r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$$

$$\text{Level of Significance, } \alpha = 5\% = 0.05$$

$$\text{Tabulated } \chi^2_{0.05(1)} = 3.841$$

Since calculated $\chi^2 >$ tabulated χ^2 , therefore the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore, there is significant difference

between the view of tax experts and the taxpayers regarding the appropriateness of special provisions to individuals provided by ITA.

Hence, it can conclude that the special provisions to individuals provided by the ITA 2058 is not sufficient and more provisions should provide.

4.3.3 The Additional Special Provisions to be provided by ITA to Individuals

While finding the appropriateness about special provision, respondent are asked to rank given facility or give their opinion what provision should be added. Respondents have been requested to rank their responses from 1(most important), 2 to (next most important), 3 to (third most important) and so on..... The responses from various respondents have tabulated as follows:

Table 4.6
Calculation of Rank Correlation Coefficient

S.N	Alternatives	T.E. (Total points)	T.P. (Total points)	Ran for T.E. (R_1)	Rank for T.P. (R_2)	D= R_1-R_2	D^2
1.	Tax rates should be minimized	80	85	1	1	0	0
2.	Medical tax credit should be maximized	35	40	3	3	0	0
3.	Retirement contribution should be wholly exempted	70	68	2	2	0	0
5.	Others	10	18	5	5	0	0
							$D^2=0$

(Note: X refers to tax experts and Y refers to Taxpayers)

We have formula,

$$R_{X1Z} = \frac{6 - D^2}{n(n-1)}$$

$$= \frac{6 - 0}{4(16-1)} \quad X1$$

Since, the rank correlation coefficient is 1. It means view of the experts and tax payers are correlated with each other. It shows that tax rate should be minimized.

4.3.4 Appropriateness of deduction facility for contribution to Retirement Fund

To know the appropriateness of facility deduction facility for contribution to retirement fund, a question "Do you think that the current provision of deduction facility of contribution to retirement fund is appropriate?" has asked. The responses received from respondents are tabulated as below:

Table 4.7

Appropriateness of deduction facility for Contribution to Retirement fund

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	20	66.67	10	33.33	30	100
Tax Payers	8	26.67	22	73.4	30	100
Total	28	46.67	32	53.4	60	100

Source: Opinion Survey

From the above table, it is clear that about 46.67 percent of the respondents only have accepted that the provision related with contribution retirement fund and 53.4 percentages of the respondents does not agree with that. It means that provisions related with contribution retirement fund provided by the ITA 2058 are not appropriate.

Test of Hypothesis: Chi-square χ^2 test

Respondents	Yes	No	Row Total
Tax Experts	20	10	30
Tax Payers	8	22	30
Column Total	28	32	60

Source: Table 4.7

Null Hypothesis, H_0 : There is no significant difference of the view between tax experts and tax payers, regarding the appropriateness of deduction facility of contribution retirement fund.

Alternative Hypothesis, H_1 : There is significance difference of the view between tax experts and tax payers, regarding the appropriateness of deduction facility of contribution retirement fund.

Test Statistics: Under H_0 , the test Statistics is

$$\chi^2 = \sum \frac{f_o - f_e}{f_e}$$

Where, f_o = Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

Calculation of χ^2

(Row, Column)	f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{f_o - f_e}{f_e}$
(1, 1)	20	$30 \times 28 \div 60 = 14$	6	36	2.572
(1, 2)	10	$30 \times 32 \div 60 = 16$	-6	36	2.25
(2, 1)	8	$30 \times 28 \div 60 = 14$	-6	36	2.572
(2, 2)	22	$30 \times 32 \div 60 = 16$	6	36	2.25
Total					9.644

$$\text{Calculated } \chi^2 = \sum \frac{f_o - f_e}{f_e} = 9.644$$

Degree of freedom= (r-1) (c-1)=(2-1) (2-1)=1×1=1

Level of Significance, = 5%= 0.05

Tabulated $\chi^2_{0.05(1)} = 3.841$

Since calculated $\chi^2 >$ tabulated χ^2 , therefore the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore, there is significant difference between the view of tax experts and the taxpayers regarding the appropriateness of deduction facility of contribution retirement fund.

Hence, it can conclude that the special provisions regarding the appropriateness of deduction facility of contribution retirement fund is not appropriate.

4.3.5 Appropriateness of the additional Exemption limit of Rs.30000, Rs.24000, Rs.18000, Rs.12000 and Rs.6000 to Individuals Working in Area A, B,C,D and E Respectively

To know the appropriateness of the additional exemption limit provided by ITA to individuals working in remote area, a question "is the tax concession of Rs.30000, Rs.24000, Rs.18000, Rs.12000 and Rs.6000 given to individuals working in remote area A,B,C,D and E are appropriate?" has been asked. The responses received from the various respondents have tabulated in the following table.

Table 4.8

Appropriateness of the Additional Exemption Limit Provided by ITA, 2058 to Individuals Working in Remote Area A,B,C,D and E

Respondents	Yes		No		Total	
	No.	%	Ns.	%	No.	%
Tax Experts	20	66.67	10	33.33	30	100
Tax Payers	9	30	21	70	30	100
Total	29	48.30	31	51.70	60	100

Source: Opinion Survey

From the above table, it is clear that about 48.30 percent of the respondents only have accepted that the additional exemption limit provided to individuals working in different remote areas given by ITA 2058 is appropriate. 51.70percent of the respondents does not agree with that. As a whole, about half of the respondents have satisfied and the other half not.

Test of Hypothesis : Chi-square χ^2 test

Respondents	Yes	No	Row Total
Tax Experts	20	10	30
Tax Payers	9	21	30
Column Total	29	31	60

Source: Table 4.8

Null Hypothesis, H_0 = There is no significant difference of the view between tax experts and tax payers, regarding the additional exemption limit provided to individuals working at different remote areas under ITA 2058.

Alternative Hypothesis, H_1 = There is significance difference of the view between tax experts and taxpayers, regarding the additional exemption limit provided to individuals working at different remote areas under ITA 2058. Test statistics:

Under H_0 , the test statistic is

$$\chi^2 = \sum \frac{f_o - f_e}{f_e}$$

Where, f_o = Observes Frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

Test of Hypothesis

Calculation of χ^2

(Row, Column)	f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{f_o - f_e}{f_e}$
(1, 1)	20	$30 \times 29 \div 60 = 14.5$	5.50	30.25	2.086
(1, 2)	10	$30 \times 31 \div 60 = 15.5$	-5.50	30.25	1.952
(2, 1)	9	$30 \times 29 \div 60 = 14.5$	-5.50	30.25	2.086
(2, 2)	21	$30 \times 31 \div 60 = 15.5$	5.50	30.25	1.952
					$\frac{f_o - f_e}{f_e} \times 8.076$

Calculated $\chi^2 = \frac{f_o - f_e}{f_e} \times 8.076$

Degree of freedom = $(r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$

Level of Significance, $\alpha = 5\% = 0.05$

Tabulated $\chi^2_{0.05(1)} = 3.841$

Since calculated $\chi^2 >$ tabulated χ^2 , therefore the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore, there is significant difference between the view of tax experts and the taxpayers regarding the additional exemption limit provided to individuals working at different remote areas under ITA 2058.

So, it can be concluded that the opinion towards the tax concession to individuals working at different areas is contradictory. Tax experts are satisfied and taxpayers are not satisfied.

4.3.6 Opinion towards the Current Exemption Limit Provided to Individuals by ITA 2058

To know whether the current exemption limit is satisfactory or not, the question asked was "Is the current exemption limit provided to individuals satisfactory?"

The responses received from the respondents have tabulated at below.

Table 4.9

Satisfaction Level Regarding Current Exemption Limit

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	18	60	12	40	30	100
Tax Payers	10	33.33	20	66.67	30	100
Total	28	46.70	29	53.30	60	100

Source: Opinion Survey

From the above table, it is clear that about 46.70percent of the respondents responded that the current exemption limits provided to individuals are satisfactory and about 53.30 percent of the respondents are unsatisfactory. From the above responses, it can be conclude that the current exemption limit seems to be unsatisfactory.

Test of Hypothesis: Chi-square χ^2 test

Respondents	Yes	No	Row Total
Tax Experts	12	18	30
Tax Payers	10	20	30
Column Total	22	38	60

Source: Table 4.9

Null Hypothesis, H_0 : There is no significant difference of the view between tax experts and taxpayers, regarding the current exemption limits under ITA 2058.

Alternative Hypothesis, H_1 : There is significance difference of the view between tax experts and taxpayers, regarding the current exemption limits under ITA 2058.

Test statistics: H_0 , the test statistic is

$$\chi^2 = \sum \frac{f_{jo} - f_{je}}{f_{je}}$$

Where, f_o = Observed Frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

Calculation of χ^2

(Row, Column)	f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{f_o - f_e}{f_e}$
(1, 1)	12	$30 \times 22 \div 60 = 11$	1	1	0.091
(1, 2)	18	$30 \times 38 \div 60 = 19$	-1	1	0.053
(2, 1)	10	$30 \times 22 \div 60 = 11$	-1	1	0.091
(2, 2)	20	$30 \times 38 \div 60 = 19$	1	1	0.053
					$\frac{f_o - f_e}{f_e} \times 0.287$

$$\text{Calculated } \chi^2 = \frac{f_o - f_e}{f_e} = 0.287$$

$$\text{Degree of freedom} = (r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$$

$$\text{Level of Significance, } \alpha = 5\% = 0.05$$

$$\text{Tabulated } \chi^2_{0.05(1)} = 3.841$$

Since calculated $\chi^2 < \text{tabulated } \chi^2$, therefore the null hypothesis is accepted and the alternative hypothesis is rejected. Therefore, there is no significant difference between the view of experts and the taxpayers regarding the current exemption limit.

We can conclude that current exemption limit is unsatisfactory.

4.3.7 What Factors to be considered to adjust the Exemption Limit?

For the respondents, who responded that the current exemption limit was not satisfactory have asked another supplementary question. The question was "If no,

what factors should be taken into consideration to adjust the exemption limit so that the taxpayer is relieved?" The overall rank wise responses received from the respondents have tabulated below.

Table 4.10
Factors to be considered to Adjust the Exemption Limit

S. N.	Alternatives	T.E. (Total points)	T.P. (Total points)	Ran for T.E. (R ₁)	Rank for T.P. (R ₂)	D=R ₁ -R ₂	D ²
1.	Based on Number of Dependents	30	58	3	2	0	0
2.	Based on Average cost of living	53	70	1	1	0	0
3.	Inflationary condition of the country	48	45	2	3	0	0
4.	Others	-	4	4	4	0	0
							D ² =0

Source: Opinion Survey

We have formula,

$$R = 1 - \frac{6 \sum D^2}{n(n^2 - 1)}$$

$$= 1 - \frac{6 \times 0}{4(16 - 1)} \quad \times 1$$

Since, the rank correlation coefficient is 1. It means view of the experts and tax payers are correlated with each other. It means that the factors should be considered.

While ranking together the options of both the groups, the corresponding prioritized factors to have considered adjusting the exemption limit are as follows:

1. Based on Average cost of living
2. Based on Inflationary condition of the country

3. Based on Number of dependents
4. Others

From the above ranking, it is clear that average cost of living is the most important factor to have considered adjusting the exemption limit.

4.3.8 Opinion towards the Additional Depreciation Chargeable to the Special Industries Running by an Individual

In order to know the opinion towards the additional depreciation chargeable to the Special Industries Running by an Individual, a Question: "Do you think that an individual running special industry should get to charge additional depreciation?" has asked. Responses of the respondents has presented in the following table.

Table 4.11
Additional Depreciation Chargeable to the Special Industries Running by an Individual

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	18	60	12	40	30	100
Tax Payers	20	66.67	10	33.33	30	100
Total	38	63.33	22	36.67	60	100

Source: Opinion Survey

From the above table, it is clear that the 63.33% of the respondents are agree with the additional depreciation chargeable to the special Industries Running by an Individual and 36.67% of the respondents are do not agree with that. It can be concluded that the additional depreciation provided to individual running special industries is satisfactory.

Test of Hypothesis: Chi-square χ^2 test

Respondents	Yes	No	Row Total
Tax Experts	18	12	30
Tax Payers	20	10	30
Column Total	38	22	60

Source: Table 4.11

Null Hypothesis, H_0 : There is no significant difference of the view between tax experts and taxpayers, regarding the additional depreciation chargeable to special industry run by an individual.

Alternative Hypothesis, H_1 : There is significance difference of the view between tax experts and taxpayers, regarding the additional depreciation chargeable to special industry run by an individual.

Test statistics: H_0 , the test statistic is

$$\chi^2 = \sum \frac{f_o - f_e}{f_e}$$

Where, f_o = Observed Frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

Calculation of χ^2

(Row, Column)	f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{f_o - f_e}{f_e}$
(1, 1)	18	$30 \times 38 \div 60 = 19$	-1	1	0.0526
(1, 2)	12	$30 \times 22 \div 60 = 11$	1	1	0.0909
(2, 1)	20	$30 \times 38 \div 60 = 19$	1	1	0.0526
(2, 2)	10	$30 \times 22 \div 60 = 11$	-1	1	0.0909
					$\sum \frac{f_o - f_e}{f_e} = 0.287$

$$\text{Calculated } \chi^2 = \sum \frac{f_o - f_e}{f_e} = 0.287$$

Degree of freedom= (r-1) (c-1)=(2-1) (2-1)=1×1=1

Level of Significance, = 5%= 0.05

Tabulated $\chi^2_{0.05(1)}=3.841$

Since calculated $\chi^2 < \text{tabulated } \chi^2$, therefore the null hypothesis is accepted and the alternative hypothesis is rejected. Therefore, there is no significant difference between the tax experts and taxpayers, regarding the additional depreciation chargeable to special industry running by an individual.

So, it can be concluded that additional depreciation regarding to the special industry running by the individual is satisfactory. And view of both Tax Experts and Tax Payers are same.

4.3.9 Opinion towards the Exemption Limit of 25% flat rate to the Non-resident Individual

To know the opinion of the various respondents about the exemption limit of 25% flat rate to the non resident individual; a question "Is 25% flat rate of exemption limit to the non-resident individual is appropriate?" has asked. Responses of the various respondents have presented in the following table.

Table 4.12

Exemption Limit of 25% flat rate to Non-Resident Individual

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	12	40	18	60	30	100
Tax Payers	8	26.67	22	73.33	30	100
Total	20	33.33	40	66.67	60	100

Source: Opinion Survey

From the above table, it is clear that about 33.33% of respondents are agree with the exemption limit and remaining about 66.67% are not agree with that. It can be concluded that the flat rate of 25% is not appropriate

Test of Hypothesis: Chi-square χ^2 test

Respondents	Yes	No	Row Total
Tax Experts	12	18	30
Tax Payers	8	22	30
Column Total	20	40	60

Source: Table 4.12

Null Hypothesis, H_0 : There is no significant difference of the view between tax experts and taxpayers, regarding the exemption limit to the non-resident individual.

Alternative Hypothesis, H_1 : There is significance difference of the view between tax experts and taxpayers, regarding the exemption limit to the non-resident individual.

Test statistics: H_0 , the test statistic is

$$\chi^2 = \sum \frac{f_o - f_e}{f_e}$$

Where,

f_o = Observes Frequency

f_e = Expected frequency = $\frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$

Calculation of χ^2

(Row, Column)	f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{f_o - f_e}{f_e}$
(1, 1)	12	$30 \times 20 \div 60 = 10$	2	4	0.40
(1, 2)	18	$30 \times 40 \div 60 = 20$	-2	4	0.20
(2, 1)	8	$30 \times 20 \div 60 = 10$	-2	4	0.40
(2, 2)	22	$30 \times 40 \div 60 = 20$	2	4	0.20
					$\frac{f_o - f_e}{f_e} \times 1.20$

Calculated $\chi^2 = \frac{f_o - f_e}{f_e} \times 1.20$

Degree of freedom = $(r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$

Level of Significance, $\alpha = 5\% = 0.05$

Tabulated $\chi^2_{0.05(1)} = 3.841$

Since calculated $\chi^2 < \text{tabulated } \chi^2$, therefore the null hypothesis is accepted and the alternative hypothesis is rejected. It means that there is no significant difference between tax experts and tax payers' views regarding the exemption limit to the non resident individual.

So, it can be concluded that exemption limit to non-resident individual is necessary. And it should be revised.

4.3.10 Opinion towards the Provision of Foreign Tax Credit

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

$$\text{Average Tax Rate} = \frac{\text{Tax liability before deducting foreign income tax}}{\text{Taxable income of person}} \times 100$$

To know the opinion of respondents about the foreign tax credit a question "Do you agree with the provisions of foreign tax credit?" has asked. The responses from the respondents have tabulated below.

Table 4.13
Appropriateness of Foreign Tax Credit

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	30	100	0	00	30	100
Tax Payers	25	83.33	5	16.67	30	100
Total	55	91.67	5	8.33	60	100

Source: Opinion Survey

From the above table, it is clear that 100% of the tax experts and 83.33% of the taxpayers are satisfied with the provision of foreign tax credit. As a whole, about 91.67% of the respondents have satisfied with the provision of foreign tax credit. It can be conclude that the provision of foreign income tax credit is satisfactory.

Test of Hypothesis : Chi-square χ^2 test

Respondents	Yes	No	Row Total
Tax Experts	30	0	30
Tax Payers	25	5	30
Column Total	55	5	60

Source: Table 4.13

Null Hypothesis, H_0 : There is no significant difference of the view between tax experts and taxpayers, regarding the provision of foreign income tax credit.

Alternative Hypothesis, H₁: There is significant difference of the view between tax experts and taxpayers, regarding the provision of foreign income tax credit.

Test statistics: Under H₀, the test statistic is

$$\chi^2 = \sum \frac{f_o - f_e}{f_e}$$

Where, f_o= Observed Frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

Calculation of χ^2

(Row, Column)	f _o	f _e	f _o -f _e	(f _o -f _e) ²	$\frac{f_o - f_e}{f_e}$
(1, 1)	30	30×55÷60=27.5	2.5	6.25	0.227
(1, 2)	0	30×5÷60=2.5	-2.5	6.25	-2.5
(2, 1)	25	30×55÷60=27.5	-2.5	6.25	-0.227
(2, 2)	5	30×5÷60=2.5	2.5	6.25	2.5
					$\sum \frac{f_o - f_e}{f_e} = 5.454$

$$\text{Calculated } \chi^2 = \sum \frac{f_o - f_e}{f_e} = 5.454$$

$$\text{Degree of freedom} = (r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$$

$$\text{Level of Significance, } \alpha = 5\% = 0.05$$

$$\text{Tabulated } \chi^2_{0.05(1)} = 3.841$$

Since calculated $\chi^2 >$ tabulated χ^2 , therefore the null hypothesis is rejected and the alternative hypothesis is accepted. It means that there is significant difference between tax and taxpayers views regarding the provision of foreign income tax credit.

4.3.11 Opinion towards the Presumptive Tax Rates for Individuals Conducting Business in Different Area (i.e. Metropolitan and sub-metropolitan city Rs.2000, Municipality Rs.1500, and other area Rs.1000)

To know the opinion of the respondents about the presumptive tax rates for individuals conducting business in different area; a question "Do you think, presumptive tax rates for individuals conducting business in different area are sufficient?" has asked. The responses received from respondents have been tabulated as below:

Table 4.14
Sufficiency of Presumptive Tax Rates for Individuals Conducting Business in Different Area

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	23	76.67	7	23.33	30	100
Tax Payers	28	93.33	2	6.67	30	100
Total	51	85	9	13	60	100

Source: Opinion Survey

From the above table, it is clear that about 76.67% of the tax experts and 93.33% of tax payers have satisfied with the presumptive tax rates for individuals conducting business in different area is sufficient. As a whole, 85% of the respondents have satisfied and remaining 18% only have not satisfied with that provision.

Test of Hypothesis: Chi-square for χ^2 test

Respondents	Yes	No	Row Total
Tax Experts	23	7	30
Tax Payers	28	2	30
Column Total	51	9	68

Source: Table 4.14

Null Hypothesis, H₀: There is no significant difference of the view between tax experts and taxpayers, regarding presumptive tax rates for individuals conducting business in different area.

Alternative Hypothesis, H₁: There is significant difference of the view between tax experts and taxpayers, regarding presumptive tax rates for individuals conducting business in different area. Test statistics: Under H₀, the test statistic is:

$$\chi^2 = \sum \frac{f_o - f_e}{f_e}$$

Where, f_o= Observed Frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

Calculation of χ^2

(Row, Column)	f _o	f _e	f _o -f _e	(f _o -f _e) ²	$\frac{f_o - f_e}{f_e}$
(1, 1)	23	30×51÷60=25.5	-2.5	6.25	0.2451
(1, 2)	7	30×9÷60=4.5	2.5	6.25	1.39
(2, 1)	28	30×51÷60=25.5	2.5	6.25	0.2451
(2, 2)	2	30×9÷60=4.5	-2.5	6.25	1.39
					$\frac{f_o - f_e}{f_e} \times 3.27$

$$\text{Calculated } \chi^2 = \sum \frac{f_o - f_e}{f_e} = 3.27$$

$$\text{Degree of freedom} = (r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$$

$$\text{Level of Significance, } \alpha = 5\% = 0.05$$

$$\text{Tabulated } \chi^2_{0.05(1)} = 3.841$$

Since calculated $\chi^2 < \text{tabulated } \chi^2$, therefore the null hypothesis is accepted and the alternative hypothesis is rejected. It means that there is no significant

difference between tax and taxpayers views regarding presumptive tax rates for individuals conducting business in different area.

Therefore, it can be conclude that presumptive tax rates for individuals conducting business in different area are sufficient.

4.3.12 Sufficiency of Medical Tax Credit (maximum limit of Rs. 750) to Individuals Provided by ITA, 2058

To know the opinion towards the sufficiency of medical tax credit to individuals provided by ITA 2058, the question "The maximum limit available for medical tax credit during the year is Rs.750." Is it justifiable? Has asked. The responses received from the respondents have tabulated as follows.

Table 4.15
Sufficiency of Medical Tax Credit to Individuals under ITA 2058

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	9	30	21	70	30	100
Tax Payers	5	16.67	25	83.33	30	100
Total	14	23.33	46	76.67	60	100

Source: Opinion Survey

From the above table, it is clear that about 23.33 % of the respondents only have accepted that the provision of medical tax and 76.67% of the respondents do not agree with that. It can be conclude that the provision of medical tax credit is not satisfactory.

Test of Hypothesis: Chi-square χ^2 test

Respondents	Yes	No	Row Total
Tax Experts	13	17	30
Tax Payers	5	25	30
Column Total	18	42	60

Source: Table 4.15

Null Hypothesis, H₀: There is no significant difference of the view between tax experts and taxpayers, regarding the sufficiency of medical tax credit to individuals.

Alternative Hypothesis, H₁: There is significance difference of the view between tax experts and taxpayers, regarding the sufficiency of medical tax credit to individuals.

Test statistics: Under H₀, the test statistic is

$$\chi^2 = \sum \frac{f_o - f_e}{f_e}$$

Where, f_o= Observes Frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

Calculation of χ^2

(Row, Column)	f _o	f _e	f _o -f _e	(f _o -f _e) ²	$\frac{f_o - f_e}{f_e}$
(1, 1)	13	30×18÷60=9	4	16	1.78
(1, 2)	17	30×42÷60=21	-4	16	0.76
(2, 1)	5	30×18÷60=9	-4	16	1.78
(2, 2)	25	30×42÷60=21	4	16	0.76
					$\sum \frac{f_o - f_e}{f_e} = 5.08$

$$\text{Calculated } \chi^2 = \frac{\sum \frac{f_{0} - Z_{fe}A}{f_e}} = 5.08$$

Degree of freedom = (r-1) (c-1) = (2-1) (2-1) = 1 × 1 = 1

Level of Significance, $\alpha = 5\% = 0.05$

Tabulated $\chi^2_{0.05(1)} = 3.841$

Since tabulated $\chi^2 >$ tabulated χ^2 , therefore the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore, there is significant difference between the view of tax experts and the taxpayers regarding the sufficiency of medical tax credit to individuals provided by ITA, 2058.

Hence, it can be concluded that the provision of medical tax credit to individuals is not sufficient and the maximum limit should be increased.

4.3.13 Opinion towards the Provision of Life Insurance Premium under ITA 2058

To know the opinion about the amount available of Life Insurance Premium for deduction from the taxable income of the individual a question. "Is the limit of Rs 20,000 or the actual life insurance premium paid during the year whichever is lower is available for deduction from taxable income is appropriate?" has asked.

Responses of the various respondents in respect of Life Insurance Premium has presented in the table as follows;

Table 4.16
Appropriateness of the Provision about Life Insurance Premium to the Individual under ITA 2058

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	24	80	6	20	30	100
Tax Payers	21	70	9	30	30	100
Total	45	75	15	25	60	100

Source: Opinion Survey

From the above table, about 75% of Respondents are satisfied with the current provision of Insurance premium and 25% taxpayers are not satisfied with this provision.

Test of Hypothesis: Chi-square χ^2 test

Respondents	Yes	No	Row Total
Tax Experts	24	6	30
Tax Payers	21	9	30
Column Total	45	15	60

Source: Table 4.16

Null Hypothesis, H_0 : There is no significant difference of the view between tax experts and taxpayers, regarding the provision of life insurance premium to the individual under ITA 2058.

Alternative Hypothesis, H_1 : There is significant difference of the view between tax experts and taxpayers, regarding the provision of life insurance premium to the individual under ITA 2058.

Test statistics: Under H_0 , the test statistic is

$$\chi^2 = \sum \frac{f_o - f_e}{f_e}$$

Where, f_o = Observed Frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

Calculation of χ^2

(Row, Column)	f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{f_o - f_e}{f_e}$
(1, 1)	24	$30 \times 45 \div 60 = 22.5$	1.5	2.25	0.101
(1, 2)	6	$30 \times 15 \div 60 = 7.5$	-1.5	2.25	0.30
(2, 1)	21	$30 \times 45 \div 60 = 22.5$	-1.5	2.25	0.101
(2, 2)	9	$30 \times 15 \div 60 = 7.5$	1.5	2.25	0.30
					$\frac{f_o - f_e}{f_e} \times 0.802$

Calculated $\chi^2 = \frac{f_o - f_e}{f_e} = 0.802$

Degree of freedom = $(r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$

Level of Significance, $\alpha = 5\% = 0.05$

Tabulated $\chi^2_{0.05(1)} = 3.841$

Since calculated $\chi^2 < \text{tabulated } \chi^2$, therefore the null hypothesis is accepted and the alternative hypothesis is rejected. It means that there is no significant difference between tax experts and taxpayers views regarding the provision of Life Insurance Premium to Individual under ITA 2058.

Therefore, it can be concluded that the provision of life insurance premium to individual under ITA is appropriate.

4.3.14 Opinion towards the Excess Exemption Limit of 50% to Disable Person

To know the opinion towards the excess exemption limit of 50% to disable person, a question "is the provision of disable person to increase exemption limit to 50% is appropriate"? Has asked. Responses received from respondent are tabulated as follow:

Table 4.17

**Appropriateness of the Provision about Excess Exemption limit of 50% to
Disable Person, under ITA 2058**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	18	60	12	40	30	100
Tax Payers	21	70	9	30	30	100
Total	39	65	21	35	60	100

Source: Opinion Survey

From the above table, about 65% of Respondents are satisfied with the current provision of excess exemption limit of 50% to disable person.

and 35% taxpayers are not satisfied with that provision.

Test of Hypothesis: Chi-square for A text

Respondents	Yes	No	Row Total
Tax Experts	18	12	30
Tax Payers	21	9	30
Column Total	39	21	60

Source: Table 4.17

Null Hypothesis, H₀: There is no significant difference of the view between tax experts and taxpayers, regarding the provision of excess exemption limit of 50% to disable person.

Alternative Hypothesis, H₁: There is significant difference of the view between tax experts and taxpayers, regarding the provision of excess exemption limit of 50% to disable person.

Test statistics: Under H_0 , the test statistic is

$$\chi^2 = \sum \frac{f_o - f_e}{f_e}$$

Where, f_o = Observed Frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{Column Total}}{\text{Grand Total}}$$

Calculation of χ^2

(Row, Column)	f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{f_o - f_e}{f_e}$
(1, 1)	18	$30 \times 39 \div 60 = 19.5$	-1.5	2.25	0.115
(1, 2)	12	$30 \times 21 \div 60 = 10.5$	1.5	2.25	0.214
(2, 1)	21	$30 \times 39 \div 60 = 19.5$	1.5	2.25	0.115
(2, 2)	9	$30 \times 21 \div 60 = 10.5$	-1.5	2.25	0.214
					$\frac{f_o - f_e}{f_e} \times 658$

$$\text{Calculated } \chi^2 = \sum \frac{f_o - f_e}{f_e} = 0.658$$

$$\text{Degree of freedom} = (r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$$

$$\text{Level of Significance} = 5\% = 0.05$$

$$\text{Tabulated } \chi^2_{0.05(1)} = 3.841$$

Since calculated $\chi^2 < \text{tabulated } \chi^2$, therefore the null hypothesis is accepted and the alternative hypothesis is rejected. It means that there is no significant difference between tax experts and taxpayers views regarding the provision of excess exemption limit of 50% to disable person.

Therefore, it can be concluded that the provision of excess exemption limit of 50% to disable person is appropriate.

4.4 Major Finding

Following are the major findings of opinion survey conducted with the tax experts and taxpayers:

1. Special provisions to individuals play vital role in widening income tax coverage and raising tax revenue.
2. Special provisions to Individuals provided by ITA 2058 is not sufficient and more provisions should be provided.
3. The provision of deduction facility for retirement contribution fund is not appropriate and should be revised.
4. Current exemption limits is not satisfactory.
5. Average cost of living is the most important factor to be considered to adjust the exemption limit.
6. Additional depreciation regarding to the special industry running by the individual is satisfactory.
7. The exemption limit is to the non-resident individual is necessary.
8. The flat rate of 25% to non-resident individual is not appropriate.
9. The provision of foreign tax credit is satisfactory.
10. The provisions of Presumptive tax rates for individuals conducting business in different area are sufficient.
11. The provision of Medical tax credit is not satisfactory. It should be maximized.
12. The provision about Life Insurance Premium in respect to individual is appropriate.
13. The Provision of excess exemption limit of 50% to disable person is appropriate.

CHAPTER -V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepal is the least developed land locked country between two giant Asian economies country India and china, with a per capita Income of \$450 at current price in FY 2007/2008. Nepal has been adopting the system of mixed economy to achieve development goals. In spite of her planned efforts for development, overwhelming majority of her people enjoy income below the poverty line. More than 38 percentage people's income falls below the poverty line.

One of the main objectives of each and every country is to raise the living standard of the people by launching different development activities. To launch this development activities government needs various resources like money, man, machine, and materials. Among these resources the most crucial resources are financial resources. Government can mobilize additional financial internally or externally. However, internally sources for resource mobilization are better and safer means for sustained economic development.

A tax is a compulsory contribution by a person to the government without having any direct benefit for the payment. Especially direct tax is a burden to the taxpayers because it is not shift able. Every one wants to reduce the tax liabilities as far as possible. The focus is taking full advantages of all the exemptions, rebates, deductions and allowances to minimize the tax liability.

Tax is the major source of income of government. There are various source of tax and various person paid tax to government. Among them Individual are one. Individual who generate income form employment, business, investment they should pay tax. Tax from individual plays vital role to raise the government

revenue. In 2005/06, 57.83% of total revenue represents the tax from individual. If government made good and efficient policy and mechanism it should be increase. And the lack of fund can be fulfilled.

Since the role of individual in national revenue, Government should make friendly policy acceptable to all individual. Although the no. of individual taxpayers are increase day by day but the total revenue could not increase in that ratio. And the actual no. of tax payer also is not coming in the tax net.

This study entitled to Provisions of Special Facility to an Individual Taxpayer under Income Tax Act, 2058 is only related with individual taxpayer. An individual may be engaged in different income source i.e. business, employment, investment etc. There is the universal norm on income taxation that 'every one should pay tax on their income'. However, the important point to be noted is that all income of an individual must not be taxed. A minimum standard of living should be free of taxation for human reason and to enhance people's capacity to work. Some part of income of individual is free from tax in every country. The people with below a certain level do not possess the tax- paying liability.

ITA 2058 has provided many special facilities to individual taxpayer. Similarly it provides incentives and facilities to industries and business. Our concern only in special facility to individual taxpayer. Special facility to individual has encouraged the individuals to promote the business and other income generating activities. It is shown that 57.83% of the total tax revenue is collected from individual taxpayer. Many Individual taxpayers are not aware the special provision to individual taxpayer provided by the income tax act. It is one of the reasons to decrease the tax revenue of individual taxpayer or individual do not want to come in the tax net. If individual know about the special facility, they are motivated towards the Income tax. It helps them to be certain about the liability of tax. This research

study has tried to study the appropriateness of special provisions to individual taxpayer provided by the ITA 2058. This research study is tried to find out the present scenario of provision of special facility to individual taxpayer, and its effectiveness.

Due to various constraints, this study is focuses to find out the only certain provision of individual taxpayer provided by the ITA 2058. Only certain numbers to individual of taxpayer and tax experts are covered in the study. Although individual taxpayers are located in the other part of the country, only taxpayers and tax experts of valley are taken in the study.

Various books, articles, dissertations and other reference materials have reviewed in the course of the study. Almost all of the books are of descriptive in nature and fully based on the course of various level of syllabus. Not more than one has studied in the new ITA 2058 to Individual taxpayer. Therefore, the research study is on unique and effective topic.

This research study is divided in to four parts. First part is introduction, second part is research methodology, third part is data presentation and analysis and last one is summarization, conclusion and recommendation.

Mostly this research study is based on primary data and very few of secondary data has been used in this study. Minimum use of secondary data is due to the unavailability of related materials in secondary sources. The primary data is based on opinion survey of various group viz. tax payers and tax experts. Tax experts consist of Chartered accountant, lawyers, employee of Nepal government. Taxpayers include employees of Nepal Government, accountant, managers, and sole traders. And a set of questionnaire has developed and distributed to 60 respondents. Among them 30 are tax experts and 30 are taxpayers. Statistical

tools like simple average, percentage, and chi- square test for hypothesis have used in this research study to analyze and interpreted the result.

Various finding regarding the current provision of special facility to individual taxpayer are collected, which are shown in conclusion and recommendation section. Finally this study has completed with the achievement of the various objectives stated.

5.2 Conclusion

Tax is the major resources of revenue of Nepal. In tax revenue Individual tax plays vital role and it is increasing day by day. More the half of the income tax revenue collected from Individual tax. To collect more tax more tax payer should be in the tax net. To encourage the people to come in the tax net, its provision plays vital role. So provision regarding the individual tax payer should be in favor of the individual tax payer.

Though, there are many provisions which are friendly to individual tax payer but there is more provision which are not appropriate to individual tax payer. Detail investigation has been done and tries to find out the appropriateness of the provision of special facility to individual taxpayer in this study entitled "Provision to special facility to individual taxpayer under income tax act 2058". There some facts have seen after this study which is as follows:

1. Special provisions to individuals play vital role in widening income tax coverage and raising tax revenue.
2. Special provisions to Individuals provided by ITA 2058 is not sufficient and more provisions should be provided.
3. The provision of deduction facility for retirement contribution fund is not appropriate and should be revised.
4. Current exemption limits is not satisfactory.

5. Average cost of living is the most important factor to be considered to adjust the exemption limit.
6. Additional depreciation regarding to the special industry running by the individual is satisfactory.
7. The exemption limit is to the non-resident individual is necessary.
8. The flat rate of 25% to non-resident individual is not appropriate.
9. The provision of foreign tax credit is satisfactory.
10. The provision of Presumptive tax rates for individuals conducting business in different area is sufficient.
11. The provision of Medical tax credit is not satisfactory. It should be maximized.
12. The provision about Life Insurance Premium in respect to individual is appropriate.
13. The Provision of excess exemption limit of 50% to disable person is appropriate

These are the conclusion of this research study. On the basis of these of this conclusion some recommended have been done.

5.3 Recommendations

After doing the research about the Provision of special facility to individual tax payer following recommendation are made to improve the current provision and increase the tax area.

1. Provision of special facility to individual taxpayer is effective to increase the income tax revenue and it encourage to individual to promote business, employment and investing activities. There are some provision which are not satisfied to individual taxpayer. Provision regarding individual taxpayer should be revised and review time to time to meet to change environment and change income level of people.

2. Provision of special facility to individual taxpayer is not sufficient or they are not meeting the current changing environment. So, these provisions should be revised and more provision should be provided.
3. The provision of deduction facility of Retirement contribution is not sufficient and it should be wholly exempted.
4. The current exemption limit is not satisfactory, it should be increased.
5. While adjust the exemption limit average cost of living of individual should be considered.
6. There is requirement of exemption limit to Non-resident individual.
7. The flat rate for Non-resident individual is not appropriate and it should be revised.
8. The provision of Medical tax credit is not satisfactory and it should be maximized to the extent of whole.
9. The rules have classified the remote areas of Nepal into five parts and prescribed the additional limit as Rs.30000, Rs.24000, Rs.18000, Rs.12000 and Rs.6000 in different area A, B, C, D and E respectively. However, it is not clear that in individual has an employment or other source of income in the remote area for a period less than one income year will get the additional exemption limit in full or in appropriate. If it has cleared, whatever these special provisions provided to individuals by ITA seems sufficient. And the remote area should be reclassified.
10. ITA may bring the changes as per the policy of the government. Most of the individuals do not come across the facilities given by the Act. This is because of unawareness about provision of the act.
11. There is lack of awareness with current provision of special facility to individual and clear cut information to individual taxpayer regarding the special provision. There is requirement of awareness programs to individual taxpayer.

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