

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Nepal is a landlocked country; it lies between India and China. People of this country are poor and their income is also poor. There are no sufficient employment opportunities. Economic condition of the nation is being declining because of internal reasons like Maoist problem and other factors. Prevailing industries are going to be shutdown because of these problems. Growth of industry and other sector development increase the employment opportunities and revenue of government. Every government's duty is to maintain peace and security and fulfill peoples' basic needs i.e. health, education, physical infrastructure etc. To fulfill those needs government should have sound financial resources. To fulfill financial resources, government should collect money from citizen, that money is called tax. Main sources of governments' revenue are income tax, custom duty and other taxes. In general word government's income sources is that money, which is collected from people and other is debts which is borrowed from internal sources as well as external sources. Duty of people is also to pay taxes for government, which is necessary for government to conduct welfare programme for people and nation.

Likewise regular expenditure of our country takes 57% of total budget, for development projects 43% of budget is not sufficient. Among them 68% development projects is depend upon foreign aid and assistance .To fulfill this amount and to stand on own foot government should collect revenue from people. So government is applying income tax from people, who are engaged in profession, investment and employment. Main purpose of tax collection is to conduct daily operation of nation, keeping peace and security and to generate employment as well as to pay debt and interest (foreign and domestic).

In Nepal, many politicians had governed the state system .In Malla dynasty; tax was applicable in agriculture, business and trade. In Ranas' period, different tax systems like custom duty, land tax (Malpot) were main sources of government's

revenue. Similarly registration and pota added to tax system .On 2016 B.S. Income tax act was emerged and people had to pay tax on profit and employment. To follow this act, income tax act 2019 was introduced and regulations were made in 2020 B.S. Likewise according to situation income Tax act 2029 B.S. emerged, Tax areas were broad like, land tax, property tax, vehicle tax, entertainment tax, air flight Tax, hotel tax, contract tax, direct tax etc, Were added in this act. This Tax act includes definition of tax, income tax collection system, and income tax assessment system committee and tax flexible system were maintained.

Likewise Income Tax Act 2031 was introduced and Income Tax Act 2019 dismissed. This Tax system fixed income year period (Asadh –Shrawan). Headings of income Tax were; Agriculture, industry, trade, profession, employment and house and land rent tax and other source. In this act taxable and non-taxable income defined. It regulated transaction and bookkeeping necessary. First time in Nepal corporate tax also implemented. In spite of income tax act (on replace of) 2031, according to situation of nation and foreign countries' tax system, Nepal started a new Act on Tax that is Income Tax Act 2058.

Income tax is the main sources of revenue of the government, which is paid by people (tax payer). In developing countries as well as developed countries, government conducts welfare projects for people by the help of tax collection. So we can say that the income tax is prerequisites for the development of nation and daily operation of government's activities.

Seligman said "A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred"*(Seligman, Principle of Taxation,1978)*

Likewise Plehn stressed out "Taxes are general contribution of wealth levied upon persons natural or corporate to defray expenses incurred in the common benefits upon the residents of the state"*(Plehn,1978)*

According to Income Tax Act, it is the liabilities of employer businessman and investors. According to this definition we can conclude that income Tax is the nerves of fiscal systems.

1.2 Statement of the Problem

Scope of the study

This study is an attempt to analyze the reasons behind the difficulties in the implementation this act (2058). The present study deals with the following questions:

What are the factors enforcing people not have willingness to pay tax?

Do the taxpayers present true and fair view of business (income source)?

Do taxpayers get tax clearance quickly?

Is Income Tax Act 2058 adequate for more tax collection?

Is income Tax Act 2058 is superior than previous Income Tax Act 2031?

1.4 Objective of the Study

In this study according to problems and drawbacks of income tax act 2058 and its relative importance, probable improvement suggestions and some ideas to reduce its drawbacks are described. Prevailing rules and regulations on income tax act and their contribution on revenue collection system are described. This study evaluate the peoples' view about income tax act, regulations and its impact on them as well as collect their views to improve on act, tax rates and assessment procedures plus tax clearance procedures.

The main objectives of this study are as follows:

To comparative study on Income Tax Act 2031 and 2058

To structure of tax revenue of Nepal.

To provide suggestion and recommendation for further collection of revenue.

To examine the attitude of tax payers, auditors and tax administrative about income Tax Act

To review and examine the status of revenue collection in Nepal.

1.5 Need to Study

Developing countries like Nepal, only making act is not solution to maximize tax collection. It's implementation; monitoring and evaluation to find out peoples' view are also a part of solution for improving tax system. Income tax act is the key factor of governments' revenue generation. So, this study attempts to call government and policy makers to solve and frequent change in income tax act and aware people about income tax and encourage them to pay tax. Similarly this study shows that prevailing situation of tax revenue collection and its impact among taxpayers as well as policy makers. This study can find out the difficulties of income tax act, its implementation and its impact on revenue collection system as well as its benefit or contribution on national economy.

1.6 Rationale of the Study

The rationale behind the study has been derived from the above explained literature review. The rationales of the study are given below:

- A.** Almost all the research findings that are reviewed are with income tax act 2058 and 2031. For this reason; this study aims at knowing whether their findings could be generalized in this study.
- B.** In order to summarize the conclusions of some researchers' reports, like "Nepalma Aayakar Byabastha" could not find barriers of this system and conclusion is not sufficient for the study.
- C.** The Income Tax Act (2058) and its impact in Nepalese Revenue System explains about Income Tax act 2058 .It do not explains about other tax system like, VAT, Excise duty etc.
- D.** One of the researchers concluded that income tax evasion is the main difficulty on tax management (*A Study on contribution of income tax on government revenue*) but it is not only reason. Commitment of policy makers and timely formulation of regulations are the other main reasons.

1.7 Research Methodology

Both the descriptive and analytical studies will be done in this research. Descriptive study presents the data, facts and opinion and analytical study analyzes those data, fact and opinion so as to derive in a conclusion. Both primary and secondary data will be used in this study. The primary data will be the opinion survey of the tax administrators, tax experts, and tax payers.

1.8 Limitation of the Study

- a) The collected data is from 2060/61 to 2064/65; these data cannot cover overall performance of tax system and other factors of Nepal.
- b) Likewise data are collected in Kathmandu valley so it does not represent overall view. And only 4 Inland Revenue Offices do not represent overall tax administration.
- c) Similarly, Primary data are taken from only 50 respondents so, it is not represent of whole persons relating to tax system.
- d) Time is the main constraint; therefore, few samples have been selected for opinion survey.

1.9 Organization of the study

This study is divided into five chapter .The first chapter, background, definition, statement of problem, objective of the study, need to study, and rationale of the study and organization of the study. Second chapter deals with review of literature, and third chapter deals with research methodology. Forth chapter deals with presentation and analysis of data and last chapter (chapter five) deals with summary conclusion and suggestions.

CHAPTER II

REVIEW OF LITERATURE

2.1 Income Tax Act before 2031

In ancient Nepal, Taxes were not properly defined. At that time of king Amsubarma, taxes were taken as cash and labour and kind. Specific portion of agricultural products were also payable as tax.

2.1.1 Taxation during Rana Regime in Nepal (1903-2007 B.S.)

Imposition and collection of taxes during the 104 years oligarchic rule of the Rana family in Nepal prior. But there were no proper tax laws and regulation. People had to pay according to Rana's own decision.

2.1.2 Taxation during 2008-2015 B.S.

After Ranas (2008B.S.), various proposals were proposed for income tax. For example in 2011 B.S. income greater than Rs 10000.00 was taxable income and tax rate were 5 percentage to 25 percentage.. Though political instability of the nation income tax law was not formulated.

2.1.3 Taxation during 2016-2018 B.S.

The effort for income tax law was properly formulate at this period. According to ability to pay and equally distribution of income this tax regulation was formulated .In this act trade, profit and remuneration were main source of tax. And income tax regulations were implemented. Profit means income from business and remuneration means income like; special salary, fee, house rent salary, allowances, pension and other allowances, vehicle allowance and other benefits were included as income. (Source: Trade profit and remuneration tax act and regulations, 2017)

Among profit or remuneration up to Rs. 7000.00 income was tax-free income and after that 5 percent to 25 percentage income tax was applicable according to progressive taxation.

After 2017 income tax act 2019 was introduced as special act and income tax regulation 2020 also implemented. In this act the areas of tax were broad than income tax act 2017. According to this act, taxable incomes were defined as Trade, profit, remuneration, business, house and land rent, investment, agriculture, insurance. It was broad than income tax act 2017. But agriculture income became tax-free income in 2022/023 and again it included in 2030/31.

2.2 Income Tax Act 2031

In the field of Income Tax Act, income Tax Act 2031 is the milestone for the tax system. This act fixed income year (Shrawan to Asadh). Heading of taxable income were Agriculture, industry, Trade, profession, remuneration and house and land rent and other sources. In this act taxable and non-taxable income were defined.. It regulated transaction and bookkeeping necessary. First time in Nepal corporate tax also implemented. (**Source:** Income Tax Act 2031, Ministry of law).

According to situation income tax act 2031 dismissed and income tax act 2058 introduced to reduce administrative difficulties as well as collect more revenue. In this more of the rules were derived from income tax act 2031 and replace many tax laws of 2031.

2.3 Comparison between Income Tax Act 2031 and Income Tax Act 2058

This part deals with theoretical and practical constraints of Income tax system and its problems and implications under various tax acts relating to income tax act 2058.

Main merit of this act is self- tax assessment. According to this system, every individual or businessman must present income statement for the following year. The time to present income statement is from Shrawan to Asoj 31st. Advance Tax is also

applicable to pay Taxes, Business Organization have to pay Tax in three installment as advance Tax, that money is very useful for government to conduct daily operation of the state-system. According to this Act every one is concern about income tax and pay time of it and aware about fine and penalty. In income tax act 2031, there was no provision of self-tax assessment. Tax officer used their own logic assessed taxable income whether one had not earned profit, he should pay tax on the decision of tax officers. After this act (2058) tax appeal is reduced by 65 percentage.

Income tax act 2031 consists of 'best-judgments on assessments'. But there is no practical framework to assessment of Tax. In that act Tax officer were heroes and they harassed taxpayers by using various types of document to be presented. If taxpayers paid illegal money to them, then they could get Tax clearance otherwise they should labour hard to take Tax clearance. Because of that type of harassment, Tax collection was not effectively than Income Tax Act 2058. If one presented fair view of business, though he must happy Tax officer to take clearance. Income Tax Act 2058 deleted this system. Every taxpayer can take Tax clearance easily if they present fair view of income statement. Most important facility is for small taxpayers but big taxpayers have to wait until tax assessment. Though they can get clearance within 24 hours.

To reduce administrative difficulties and to change behavior of taxpayers as well as to collect more revenue, Income Tax Act 2031 dismissed but a large amount of rules are derived in this act (2058) from income Tax Act 2031. But replaced various tax laws for e.g. house and land rent tax. . The main feature of this act (2058) is, divided Taxes into three categories, or according to this Act people should pay mainly in three categories, and they are business, investment and employment. In other words peoples' liabilities for Tax because only a few headings or addable amount headings are three and deductible headings are seven that are interest on loan, research and development expenses, depreciation on fixed assets, cost of stock, simple deduct and last three years loss etc. Another feature of this act is only residence people must pay tax if he earns in other countries and the non-resident has to pay Tax if his/her business is in Nepal.

Self-tax Assessment is another important feature of this act (2058). According to this system all the people, who are engaged in business, investment and employment, must registered in tax office or must take PAN (permanent Account Number) and they must submit their income statement on given format and according to statement they pay tax if their income is taxable if their income is negative or loss they can deduct the loss amount for next income year. Tax officer cannot fix the tax but they can review the assessment and if that income assessment is uncompleted or any doubtful presentation that amount he can add as income. And if a taxpayer is not convinced with the tax officer, he can go for appeal to the Director General and to the Rajashow Nyadhikaran. According to this act, Tax rate are not more variety, there are same Tax rate on same income.

This Act says that every taxpayer most prepares an Income statement, this includes Balance Sheet, P/L Account and other necessary ledgers are most. If some one is engaged in business, investment, he most maintain book keeping and prepare an audit report by an Auditor, they most present there income statement to Internal Revenue office according to law a person is in a profession he most pay income tax on his remuneration.

Internal revenue is a most prominent source for government. To fulfill this income tax as well as other taxes are included .table no.1 shows the relative importance of internal revenue.

Income tax act 2031 classified sources of income in to five categories they were:

- a. Income from Agriculture
- b. Income from Trade, Industry and business
- c. Income from Remuneration
- d. Income from House and land tax
- e. Income from Other sources.

But income Tax Act 2058, there are three sources of income.

- a. Income from business
- b. Income from Employment
- c. Income from Investment

Income Tax Act 2031 classified allowable expenses. But income tax act 2058 classified all the expenses related to business as allowable expenses. Other things comparable with income tax act 2031 and 2058 are as follows.

- a. Repair and maintenance expenses:** as per income tax act 2031 5 percent of depreciation base is allowable as repair and maintenance but in income tax act 2058, limit of repair and maintenance is 7 percentage of depreciation base. If more than 7 percent accrued as repair and maintenance, remaining amount will be capitalized in assets.
- b. The limit of grant, donation** is Rs. 1,00,000 or 1 percentage of net Profit but in income tax act 2058 grant or donation limit is Rs. 1,00,000 or 5 percentage of taxable amount whichever less. But In income tax act 2058 there is provision of unlimited donation to the prescribed institution for example Pashupati area Development fund.
- c. Pollution control expenses:** Income tax act 2058 allowed pollution control expenses (50 percentage of assessable taxable amount), but in income tax act 2031 not allowed that amount.
- d. Research and Development expenses:** Income tax act 2058 allowed Research and Development expenses (50 percentage of assessable taxable amount), but in income tax act 2031 not allowed that amount.
- e. Interest expenses:** There is no limit of interest expenses related to business in income Tax Act 2058. but in income Tax Act 2031, Interest expenses without registration pass with non organization is not allowable. In practice, interest expenses is allowable but TDS deduction is necessary in our country.
- f. Salary Limit:** In income Tax Act 2031, there is limit of salary in business organization (Rs. 25,000 Per person). If the salary amount is higher than Rs. 25,000 per month approval from officer is necessary. But income tax act 2058 eliminated this rules.
- g. Advertisement and Hospitality Expenses:** As per Income tax 2031 deductible advertisement and hospitality expenses is 2 and 1% of income

respectively but as per income tax 2058 there is no limit of those expenses. But the expenses may be related to business.

- h. **Preliminary Expenses:** As per income tax act 2031, Preliminary expenses can be deduct in 5 year installment, but in income tax act 2058 all preliminary expenses is deductible in first year.
- i. **Tax Assessment:** Income tax act 2031 effort on Tax assessment by Tax officer but income Tax Act 2058 effort on self Tax assessment.
- j. **Loss carry forward:** Income Tax Act 2031 provision of loss carry forward in coming 3 year. But income Tax Act 2058 provision of loss carry forward up to 7 year.
- k. **PAN Certificate:** In income Tax Act 2031, IRD issue registration certificate which need to renew every fiscal year, but Income Tax Act Issue non renewal PAN no. Tax payer need pay their Tax liability but no need to renew Pan certificate.
- l. **Proprietor salary:** In income Tax Act 2031, There is not allowable to deduct salary of Proprietors, But in Income tax Act 2058, Salary of Proprietors is allowable if he/she work for organization.
- m. **Bad debt:** The provision for bad debt recovery is same in Income Tax Act 2031, and 2058.

Income tax act 2058 is scientific tax act comparative with income tax act 2031. This act effort on self tax assessment in time. But the fine and penalties is very high than income tax act 2031.

2.4 Income Tax

2.4.1 Concept

As mentioned in Income Tax Act 2058, income means a person's income from any employment, business or investment and total of that income as calculated in accordance with this act and tax means income tax imposed on all those incomes that lie under the category of income as per this act and also includes fines, fees and penalties payable to the department of tax. Income tax refers to the tax chargeable on the net income of a person earned or received in the Kingdom of Nepal within the year of income after making deductions to which he is entitled under this act. (*G.R. Agrawal*; resource mobilization for development: The reform of Income Tax in Nepal, CEDA, July 1978).

The Income Tax Act 2058 divided all source of income into three groups they are:

1. Income from business
2. Income from Investment
3. Income from Employment

Income from Business: For the purpose of income tax, business income refers to profit and gain from conducting the business. This type of income also include service fees, amount derived from disposal of trading stock and net gain from the disposal of business assets or liabilities.

Income from Investment: Investment income includes dividend, interest, natural resources payment, rent, royalty, gain from investment insurance, gain from an unapprised retirement fund interest or retirement payment made by an approved retirement fund are included in the taxable income. Capital gains realized on the disposal of fixed assets are also included in the income.

Income from Employment: All benefits received in respect of employment, including past or future employment are made taxable. For example payment fringe benefits, various types of allowances, payments received through third parties all are made taxable currently; Nepal levies four different types of income taxes. They are individual income tax is levied on every person who has taxable income. Individual and proprietorship firms pay this tax. The corporate tax is levied on the profit of the

corporations. Here, corporations refer to government corporations, public and private limited corporations, partnership firms, foreign company and any foreign institutions prescribed by the Director General, interest tax is levied on interest income from all types of deposits at a bank or finance company and house rent tax is levied on income obtained from the renting out of land and buildings.

2.4.2 Objective of Income Tax Act 2058

- Raising more revenue
- Prevention of concentration of wealth in a few hands.
- Redistribution of wealth for the common goods.
- Maintenance of welfare state.
- Encouraging essential products production.
- Rapid economic growth.
- Enforcing government policy.
- Increasing saving and investment
- Reduction in unemployment.
- Removal of regional disparities.

2.4.3 Criticism of Income Tax act 2058

Besides above-mentioned merit there are some demerits of this Act. Mainly self-assessment system is narrow because there are not proper guidelines about filling income statement. And self-assessment system is shown only formality, because tax officer do not believe that statement and they torture people. Behave of bureaucrats taxpayers are harassed about how to relief from this system and they try to give extra money to the tax officer to get tax clearance. If government's main objective is to collect tax from taxpayers, it must provide people conveniences to pay taxes and it must encourage people to pay tax. But in our country, government encourages to register into the income tax but discourage to believe on governments' behave with taxpayers. Other income tax Niamabali are also critical and un behavioral. This Niamabali encourage people to submit income statement having loss because tax

payer who have loss in their business are easy to submit tax statement. Besides this we can point the weakness of Income Tax Act 2058 as follows.

- a. Regulation to Tax administration is very poor. This is national problem of bureaucracy
- b. Tax form is difficult to fill, Tax payer need to hire professional for form fill up. This creates harassment to Tax payer.
- c. The process of taking Tax clearance certificate is very difficult. Without paying illegal money, this job is very uneasy.
- d. Tax Act and rules motive to registration but does not motive to pay tax. If a tax payer delayed to pay Tax, they need to pay huge amount as penalty, If they submit statement of loss in business, few amount is only charged as penalty. This result to motive submits loss income statement.
- e. Self Tax assessment is also increasing the system of submitting fake income statement. Lack of regulation of IRD to business and to auditor is responsible for this.
- f. There are no hard and fast rules of penalty. It depends on tax officer decision. It increase incident of corruption.

Comparatively Income Tax Act 2058 is superior to previous income Tax Act. Although this is not free from criticism and there is many weakness.

2.4.4 Tax rates

Income Tax regulation 2066 and Finance Bill 2066 fixed the following Tax rates:

Rates of income tax

For Individual

1% up to	Rs. 160,000
15% Tax rate for	Rs. 160,000 to 200,000
25% Tax rate for	More than Rs. 200,000

For couple

1 percentage up to	Rs. 200,000
15 percentage Tax rate for	Rs. 200,000 to 300,000
25 percentage Tax rate for	More than Rs. 300,000

Corporate income tax

Banking, financing institution, general Insurance business and petroleum business =30%

Other including partnership firms = 25 percentage

Industries establishment (except alcohol tobacco units) and co-operative is 20 percentage

For non resident person 25 percentage

extra 1.5% tax is applicable for all the tax payer as at income year 2064/065 . But in fiscal year 2065/66, special tax 1.5 percentage is eliminated.

In fiscal year 2066/67, there is no exemption limit to Individual and couple.

Applicable Tax rate is as follows.

Other corporate Tax rate is same as fiscal year 2065/66.

2.5 Income Tax management in Nepal

Income tax in modern age is recognized as a most important instrument for resource mobilization, internal resources must be mobilized properly to achieve the goal of national development. It is believed that minimum requirement of people can be fulfilled through economic and social development. Every development activity requires capital. Income tax is one of the resources of government revenue, and it can play vital role in internal resource mobilization if it is managed properly. Imposing tax on person's income is very difficult task. Because it is the process of picking money from the persons pocket. The purpose of imposing tax on person's income can be listed as follows.

Collect maximum revenue for development

Reduce Unequally of income and wealth distribution among People

Have a balance regional economic development

Promote private sector investment.

The objective of income tax management is to achieve the goal of income tax system. The objective of income tax management, thus, is to impose income tax on people for maximum revenue collection without making it burdensome to the taxpayer, so that the economic imbalance can be reduced and balance regional economic development can be achieved.(G.R. Agrawal,1978)

2.5.1 Function of income Tax management

Every management has to perform some tasks to achieve desired goal. The functions of income tax management are no different from the function of other management i.e. organizing, directing, planning etc. The functions of income tax administration can be classified as follows.

- a. To find out taxpayers.
- b. To find out the net income of tax payers
- c. To make timely assessment of income of a taxpayers
- d. To collect Taxes in an efficient and secured way.
- e. To lunch vigorous enforcement programs.

Identification of objective is first job of any management. The objective provides the guideline to the management. Income tax management must determine the objective of income tax .Why the income tax is going to be imposed? To whom income tax is going to be imposed?

Answers of such questions must be pre fixed. The second important function of management is to determine the policy. Policy provides the guideline for achieving the desired goal. Policy regarding income tax gives the answer of following questions: at what rate? To whom? How? When and where? After the identification of objective and determination of policy the programmed is required performing. Regarding income tax may be about resource plan. The program incorporates the objectives and policy in to practice. With the preparation of programs, the implementation phase starts the objectives are achieved through the implementation which is the most important function of management identification of objective and policy formulation is the job of top management and can be done in room. But sitting cannot do the

implementation work in a room. The role of a leader is very important while implementing the program. The income tax office may be taken as the leaders. The management must monitor the implementation to know whether or not the program is performing well. If the program is not performing well, the intermediate corrective action should be taken. Finally The feed back through implementation should be made to evaluate the past work and correct the objectives, policies and program for easy achievement of goal in future. But unfortunately, income tax system in Nepal has not been managed with scientific management system till now.

2.6 Administrative Aspects of Income Tax in Nepal:

Tax administrative is an important sub system in the total tax system that can either carefully tend or mercilessly kill the goose that lays golden eggs.

It is the essence of implementing tax policies and laws. Too much preoccupation work what to do in terms of tax policies and laws alone is no good unless attention is given to how to do it in terms of tax administration. It is the tax administration that provides feedback about the effectiveness of tax policies and laws. In the hands of incompetent tax administration, good tax policy and bad tax policy may end up looking remarkably alike (**Bord Old man, 1973 p.82**). Effective tax administration paves the way for effective tax policies and laws. Improved tax administration wideness the choice available to policy makers and law formulators. It is easy to divide a policy but difficult to administer its effectively. The main objective of tax administration should be the objectives of tax administration should be the efficient assessment collection and enforcement of taxes legally due with out undue cost and harassment to the government or taxpayer in terms of money, time, and inconvenience and mental worry. More specifically, the objectives of tax administration may be stated as follows.

To assess and collect taxes in order to meet the revenue requirements of the country.

To facilitate and encourage voluntary compliance by taxpayers.

To maintain public confidence in the fairness and integrity of the tax System.

To administer tax legislation fairly, uniformly, impartially and with Firmness

- To keep high the morale and motivation of tax officials
- To work efficiently in order to make the tax system effective
- To gather information on and conduct investigation in to the financial affairs of taxpayers.
- To achieve corporation and coordination with governmental and non-Government institution and within the organization structure of tax an administration.
- To educate taxpayers and extend courtesy to them
- To empower government on public utility and welfare program

Over ambitions tax systems in variably fail at the implementation front. Tax system therefore, should be simple in design and fit in conveniently with the administrative competence available. The administration should not only be fair, efficient and responsible but should also be recognized and accepted as being such (*Agrawal, 1980, p 100*)

2.7 Problems of Tax Administration in Nepal

From the very beginning the contribution of income tax to the revenue of the government has been very minimal. This is because the income tax system in Nepal has been facing many problems. The inefficiency of income tax administration is one of the reasons. Income tax management in the developing countries sike Nepal gas was facing many problems. The contribution of direct tax and income tax to the revenue of the

Government is very low and to meet the growing expenditure, Nepalese government has been using deficit financing. As the consequence of this, there is significant resources gap in Nepalese budget. The problem can avoid only when the problems of tax administration are identified and corrective actions should be taken immediately. Tax administration is a complex technical matter. The major problem, which the income tax administration in Nepal has been facing, can be discussed as follows. (*Agrawal, 1978, p. 82*)

1. **Failure to locate new taxpayers:** The tax administration in Nepal lacks an up to date roll of existing as well as potential tax payers, The major problems in locating new tax payers is in the case of non resident and non citizen person who remain virtually out side the income tax net. The open border with India has compounded this problem. Other potential taxpayers who have remained outside the income tax coverage are brokers, speculators, supplier in big hotels, foreign, goods deals; tourist guides insurance agents and persons representing international companies. The self-employed persons especially professionals and skilled persons, have also remained out side the effective search of income tax.

2. **Failure to maintain proper accounts and records:** Accounts are the basic raw materials of effective tax administration. They serve as the main points of reference and cross verification in scrutiny and investigation of tax returns and form the basis of tax assessment.

Most of the taxpayers in Nepal do not maintain accounts for income tax purpose; In fact, they seem reluctant to submit accounts .A large majority of taxpayers in the private sector who maintain accounts keep more than one set of books. The set presented for tax purpose generally does not gibe the true and fair view of the financial state of affairs of the taxpayer. The main reasons for the non-maintenance of accounts are:

- a) **Attitude of the tax officer:** The attitude of tax officers is not conducive to the development of the habit of maintaining accounts of any of the taxpayers generally; they reject the accounts on the area that they are not acceptable. They are relevant to devote the time required for verification of accounts. The lack of competency of tax offices and tax inspectors in accounting matters is also responsible of such attitude.
- b) **Assessment by committee and best judgment:** more than sixty percent of tax assessments of small taxpayers are made by committee method in Nepal. More than twenty percent of tax assessments in Nepal are made under the best judgment basis of assessment. In fact, taxpayers seem to prefer this method. There is no limit as to amount of income, which can be assessed under this method .The tax offices enjoy wide spread discretionary power while making assessment under

this method. This method has tended to become a method of convenience of dishonest taxpayers on one hand and corrupt tax officers on the other hand. Tax assessment by committee of best judgment method has discouraged the maintenance of proper accounts by taxpayers.

c) **Ineffective use of sanctions:** the inefficient use of sanctions provided in the law against those taxpayers who fail to comply with the accounting and reporting requirements of law of have encouraged non-maintenance of accounts.

d) **Lack of intermediaries:** Professional accountants, tax consultants and tax lawyers are invaluable aids in the maintains of accounts. They provide professional services to tax payers in matter related to income tax and maintenance of proper records and accounts. However such intermediaries have not received adequate encouragement and support from the tax administration.

3 Assessment delays: Assessment refers to the calculate of tax liability by application of governing rates to taxable income. The starting point of assessment is the return of income filed by taxpayer. This is scrutinized, verified, investigated or audited by the tax officer in order to determine whether the information contained in it is accurate and complete assessment delays have appeared as a serious disease in tax offices. The major reason for assessment delays can be listed as follows.

Widespread delays in filing of income tax return

Lack of proper recording system in tax offices

Lack of meaningful taxpayer information.

Frequent changes in the identity of taxpayers

Defective Assessment procedures

Filing of Appeals

Procrastination by tax officers.

4. Collection delinquency: The main yardstick in measuring the performance of tax administration is the collection of revenue it can make. The income tax act has prescribed stiff fines and penalties for non-payment of tax. Despite stiff provision; the collection situation has been worsening. The collection function of income tax in Nepal has demonstration serious gaps and delinquencies.

The main reasons for collection delinquency appear to be the following:

- Undue delays in assessment
- Non compliance by Taxpayers
- Lack of collection responsibility.
- Changes in identity of taxpayers.
- Reluctance to use fines and penalties.
- Complicated collection procedures
- Untimely deposit of tax collected at source
- Failure of public sector enterprise to pay the tax
- Undue delays in settlement of appeals
- Defective accounting system in tax offices
- Tax holidays granted to new industries.

5. Poor taxpayer compliance: Nepalese people have a traditional of paying indirect taxes and land taxes. They do not seem to have accepted the payment of income tax as a normal way of life. Many people still lack income tax consciousness. Voluntary compliance, the cornerstone of effective tax administration is poor. The sense of social responsibility in terms of tax payment is lacking

Through Income tax, the government is trying to extract compulsory payments out of the incomes of taxpayers. In this situation no taxpayer can be expected to pay joyously with an attitude of philanthropy. They need to be persuaded and influenced to meet their tax obligation in a cooperative spirit. This requires integrated programs of taxpayer education. The taxpayer's education has been a weak line in the tax system of Nepal. Tax administration expects that every taxpayer will automatically fulfill his obligations under the law it does not, however take it seriously as a duty to educate and inform the taxpayers as to their rights and duties under the law after all, compliance is an habit and all habits need to be cultivated

The main reasons for lack of meaningful taxpayer compliance in Nepal can be listed as follows;

- a. Lack of taxpayer education
- b. Complicated laws and procedures
- c. Delays in assessment.
- d. Unhelpful attitude of tax personnel
- e, Poor enforcement of fine and penalties.
- f. Lack of research in tax matters.

2.8 Problems of Evasion and avoidance

Taxes are enforced exactions, not voluntary contribution. The fertile minds of tax payers and their advisers therefore are evasion and avoidance in order to minimize or regent tax. The end result is the same for both evasion and avoidance but they have different legal connections. Both tax evasion and tax avoidance are important determinants in the erosion of tax base and both lead to shifting of taxes. In addition to loss of revenue , the create a sense of injustice and inequality and thereby lead to deterioration in tax morality and compliance the fruitless expenditure and the ablest persons in devising ingenious tax evasion and avoidance scheme is a waste of scarce national resources . The evasion and avoidance practice are the products of skillful and at times. Brilliant taxpayers. Where the is collusion between tax officer and taxpayers for reducing tax liability it is bilateral evasion.

2.8.1 Tax Evasion:

Tax evasion refers to the reduction or elimination of tax liability through means contrary to law. It means fraudulent, illegal and deliberate acts of taxpayers culminating in the violation of the civil or criminal provisions of the tax laws. It implies maneuvers involving an element of concealment, deceit misrepresentation of facts, falsification of accounts, and downright fraud resulting form conscious efforts of the taxpayers to evade payment of tax legally due. Tax evasion is illegal.

Tax evasion may arise from weak enforcement, inadequate tools or resource of administration and law taxpayers integrity of moral (Encyclopedia Americana, USA , vol.26 p.293)

The UN has defined "evasion is term which is frequently used to describe deliberate non- compliance with the tax laws by such means as failure to notify the tax administration of taxable assets or income activities giving rise to taxable income etc. or failure to pay tax legally due, or the use of fraud to conceal the existence of taxable income etc. or to obtain allowances. Or repayment of tax"(united nation 1984 p. 11)

2.8.2 Method of tax evasion

The important methods used in evasion of taxes may be as follows (Agrawal, 1980 p.124)

Concealment of sources of income.

Concealment of income within sources of income (Understatement of income)

Misrepresentation of facts and information.

Falsification of accounts and records. (Rigging in invoice, fictitious payments, payment of bills twice, etc.)

Incorrect claim for allowances and deductions.

Profit shifting, cost shifting or price transfer

Artificial contract, (for commission, etc.)

Over and under invoicing.

Fraudulent transactions

Fictitious transaction.

Non reporting of income and earned from illegal activities like

Smuggling corrupt business practice, etc.

Maintenance of multiple sets of books of accounts and Submitting the manipulated set for taxation purpose.

Deliberate failure to maintain accounts and records and get the tax assessment done on a "committee or best Judgment Bases", etc.

The committee on fiscal affairs of the organization for economic co-operation and development (OECD) has observed that "within tax evasion a distinction is sometime made between the less serious offence of commission, e.g. failure to submit complete return of income and more serious offence such a false declaration, fake invoice etc."(*OECD 1980,p. 5*)

The evasion is an illegal work so it has to be penalized by court. Failure to submit income statement at tax office and failure to make payment of taxes because of negligence are also regarded as tax evasion

2.8.3 Reasons for tax evasion:

According to Dr.Govinda Ram . Agrawal, the main reasons for widespread evasion of income tax in Nepal can be listed as follows:

- Corruption by tax officials
- widespread illegal business activities
- Reluctance of taxpayers to maintain accounts.
- Higher marginal rates of taxes.
- Inefficient use of fines and penalties
- Inadequate Auditing and investigation
- Difficulties in locating taxpayers.
- Lack of support from public.
- Poor development of intermediates
- Unnecessary interference by influential persons.
- Unlimited convertibility of Indian currency.
- Prevalence of scheduler taxes on income.
- No award for fair trade houses.

2.9 Tax Avoidance

Tax avoidance refers to reduction or prevention of tax liability through legal means. it means making good use of legal and loopholes and taking advantages of the means allowed by the law or at least not contrary to law. A taxpayer is entitled to so arrange his financial affairs as to take the maximum advantage of the law and its

weaknesses to reduce or prevent his liability. Tax avoidance is legal. It is a careful tax planning.

Legal avoidance has become a science and art with its own inventors and practitioners the history of income tax has been a story of war between the tax experts who have devised schemes to enables their clients to reduce the burden of tax and the legislature seeking constantly to frustrate them however, the experts have tended to remain one step ahead. This has made the web of law so tangled that only the experts on either side can untangle it.(sandford.(1971), p.6)

According to UN " The term tax avoidance describes the reduction of elimination of a tax liability by method which are in conformity with the letter of the law but achieve their objectives in circumstance where it is generally felt that the underlying intension of the tax law would be changed to tax"

A major problem in defining avoidance however is that there is a very wide range of situation in which arrangement may be made to minimize tax. Some may be specifically encouraged by governments or tolerated by them. Other however, are regarded by governments as acceptable in much the same way as evasion and where practical measures can be devised, governments will usually make such arrangement illegal or take legislative steps to counter their legal effect. All of their methods of minimizing tax might in some sense be regarded as avoidance, but it is not easy to draw a distinction between arrangements the results of which are acceptable to the tax authorities.

2.9.1 Method of tax avoidance:

According to Dr. Agrawal the important devices used in avoidance of taxes are as follows.

Registered firms that are not genuine composed mainly of family members, to reduce incidence of tax (Benami firms)

Diversion of income or assets to different taxable entities so that lower tax rates may apply.

Transfer of income to wife or minor child without adequate consideration.

Transfer of assets and income to nonresidents.

Transferring business to "tax havens "

Payment of salaries, Interest and other benefits to family members.

Formation of trusts and other philanthropic type institution which are exempt from income tax but where benefit are derived by the members of the family this is the usual device resorted to by rich tax payers (tax in favor of children)

Sales cum dividend deals

Over stock valuation

Over scrap calculation

Tax evasion and avoidance schemes are the product of skillful and at times brilliant taxpayers. When there is collusion between tax officers and taxpayers for reducing tax liability, it is bilateral evasion.

Tax evasion is pronounced in Nepal and seems to have assumed a national character. The main reasons for widespread evasion of income tax in Nepal can be listed as follows. (Aggrawal, 1980 p. 126)

- a. **Corruption by tax officials:** Where taxpayer is better off even after bribing the corrupt officials, tax evasion tends to be pervasive and rampant. This is what has been happening in Nepal, majority of the taxpayers cannot be expected to give absolute honesty when it comes to saving in taxes. Lack of integrity on the part of tax officials has pre equated corruption and tax evasion. In fact, unscrupulous tax officers by their pinpricking checks have even frightened taxpayers into corrupt practices.
- b. **Wide spread illegal business activities:** The exports – import trade bonanza has led to illegal business activities in Nepal, such activities violate tax laws and thus evade taxes. The open border with India has complicated the problems of illegal business activities.
- c. **Reluctance of taxpayers to maintain accounts:** Tax payers in Nepal prefer the "Committee" or "best judgments" basis of assessment tax officer discourage maintenance of accounts by out right rejection of accounts. This has perpetuated tax evasion many taxpayers, who maintain accounts, generally keep two sets of accounts – one representing the true picture of the business and another reflecting all manipulations meant for tax evasion.

d. Higher marginal rates of taxes: Prevalence of high marginal rates of tax may be an important reason for tax evasion. In Nepal, the highest marginal rate of tax was 60%. At present it is 25% for taxable income above Rs 85,000. Tax rates should induce people to meet their tax liability rather than manipulate it. e. Ineffective use of fines and penalties: Tax officials in Nepal are generally reluctant to make effective use of fines and penalties. The deterrent effect of penalties therefore is low due to the lack of sufficient prosecutions with attendant publicity.

e) Inadequate Auditing & Investigation: Effective auditing & investigation of taxpayer's financial affairs are seriously handicapped by gaps in information about taxpayers, which has made it difficult for the officers to detect tax evasion. This has encouraged taxpayers to evade because the probability of being caught is very small.

f) Difficulties in locating Taxpayers: On the absence of up to-date records about taxpayers, tax evasion in Nepal has gone undetected. This problem is especially pronounced in the case of self-employed professionals, skilled persons and persons engaged in foreign trade.

a. Poor Development of Corporate Sector:

The growth of corporations in the private sector has very slowly in Nepal. Most of the big business houses are family owned and managed. There is no compulsion on such businesses to maintain accounts and get them audited. The probabilities of tax evasion, therefore, are higher because of the absence of a well-developed corporate sector in Nepal.

b. Lack of Support from Public: Nepalese people generally do not report tax evaders in the spirit of their duty as responsible citizens. The society tends to applaud people who evade taxes and make use of the money so saved in conspicuous consumption. Moreover, the system of reward for reporting tax evasion is absent.

c. Poor Development of Intermediaries: The development of professional accounting auditing and legal services to the taxpayers has been very slow

owing to the limited number of professional people to do the job. Moreover, their ethics of professional conduct seem to have been superseded by the urge to "Make Money".

- d. Unnecessary Interference by Influential Person:** The interference by influential person in matter of income tax has also been instrumental in the evasion of taxes. Tax officers have been hesitant & select ant to take actions for tax evasion.
- e. Unlimited Convertibility of Indian Currency:** Tax evasion has been aided also by the unlimited convertibility of Nepalese currency into Indian Currency. There has been no control on remittance of Indian currency.
- f. Prevalence of Scheduler Taxes on Income:** Scheduler taxes on various sources of income, e.g. Bank interest tax etc, erode tax base. The exemptions & deductions for schedules taxes provide looped that facilitate evasion and avoidance.

2.10 Income Tax Evasion in Nepal:

Income tax plays an important role for the economic development of a country. It can achieve the objectives of growth, equity and stability. It checks the inequality between high and low-income people. It helps government in the movement of resources from the private to public sector.

Income tax can only achieve the above goals if its evasion is controlled income tax evasion has bear paralyzed all over the world, whether it is developed or underdeveloped countries. But the people of the underdeveloped countries have high practice to evade taxes as compassed to avoidance. The people in under developed countries do not have a greater propensity to avoid taxes as compared to advanced countries. It is only the actual evasion of taxes, which is larger in developed countries because the probability of being caught and the consequences of it are not the same in advanced countries (*Tripathy, 1968 p. 183*).

Income tax evasion is in very high degree in undeveloped countries because no men keep their account of income of expenditure. If it is compulsory by law at that situation they keep two or more sets of accounts of a business operation. They use for the tax department. In this regard Mr. Thripathy mentions, "in the underdeveloped counties many businessman keep no books at all and other maintain two or more sets to evade taxation".

In these countries income tax evasion is practice not only because of non-maintenance of books of accounts negligence, inefficiency of tax administration and corruption in tax collection to support this view Mr. Adndley says "In under developed countries like India, tax evasion is said to be high partly because of the in efficiency and corruption of the income tax department partly because of the extremely low business morality prevalent in the country and partly because of lack of investment on the part of the government to collect revenues" (*Andley, 1964 p. 222*).

In the world context generally it has been found that higher income group or rich people are practicing income tax evasion more that that of low income groups. There exception in re-reference to African countries. in India, income tax evasion has been in existence in a large scale, the report of Taxation Enquiry commission of India informs "statistics have been made available to us by the central board of revenue which gives the fact that evasion is prevalent on a considerable scale. The quantum of the evasion, which actually taxes place and goes undetected, could be estimated at a very high figure indeed (MOF, Govt. of India 1955 p. 189).

The central Board of Revenue in India estimated the amount of income tax evasion to be about thirty percent of the assessed tax. Income tax evasion is increasing in India because of non-maintenance of accurate statement of accounts (*Shrestha, 1984, p. 17*) on India; barely ten percent of professionals maintain accurate accounts of their income and expenditure (*Agrawal, 1978 p. 84*).

Nepal being one of least developed countries in the world cannot be an exception in this regard. There is a large amount an unpredictable scale. By supporting thins aspect Mr. C.L. Shrestha explains, "In Nepal also the trend of income tax evasion is huge but the percentage of income tax actually evaded has not been

calculated: By the observation of different opinions of the respondents Mr. Agrawal, concludes "there is wide spread evasion in income tax in Nepal, especially due to poor tax paying habit, administrative difficulties and defective laws. The evasion of income tax is more pronounced especially by the people of high-income business class.

Richer Nepalese people have lack of tax paying habit and tax consciousness. The tax evasion and avoidance habits are increasing day by day due to the low standard of education of tax responsibility among taxpayers, whereas in western and developed countries the tax evasion is considered as a social crime. In Nepal this act is regarded as defer on the part of taxpayers (*Siwakoti 1987, P. 14*).

Income tax evasion should be controlled very quickly in Nepal because it has serious affects to the economy. Income tax evasion affects negatively to the economic position as well as the social status of a country. If income tax evasion is not controlled, Nepal can never solved its problems of resource gap either it increases its tax rates or applies new sources of tax (*Rayamajhi, 1984, Page 7*).

Experiences of developed countries show that evasion can be controlled to some extent if efforts are given most of advanced countries have successes to avoid tax evasion. According to Mr. Andley "It is very true that tax evasion takes place commonly in all countries but it is difficult to asses its magnitude, on a general way, it may be stated that advanced countries like USA & UK have been cutting down the magnitude of evasion (Andley, 1964, P. 222).

Tripathy has given some suggestion to control income tax evasion. The says, "Income tax law should be simplified so that assessment, collection and tax compliance may be made easier and the administrative cost may also be reduced. This will also help in reducing the element of avoidance and evasion" (*Tripathi 1968, P. 188*).

Tax evasion cannot be controlled fully; it needs continuous process to minimize its proportion. In the words of Agrawal, "tax evasion can not be looked isolated. The struggle against evasion is never ending process." So this study tries to find out the impact of income tax evasion on government revenue and those aspects,

which could attempt in minimizing income tax evasion in long run (*Agrawal, 1978 P. 388*).

Some changes made by Budget Speech 2065/66 on taxation.

Presenting the next year's revenue estimates an important component of budget that alone contributes almost sixty percent of total expenditure the government announced number of measures to reform tax administrating, strengthen the enforcement of value added tax (VAT) and expedite revenue mobilization.

Under the preventing circumstances, when major sources of revenues customs & VAT are not performing well due to dwindling imports & weak enforcement of billing system much serious efforts is needed to attain the revenue target, which is thirteen percent higher than the current year's revised estimate. The revenue target can be attained if government implements newly announced budgetary programmes effectively, which is basically aimed at bringing all sources of income under tax net.

Some changes made in fiscal year 2066/67

Improving investment climate, protecting domestic industry, and developing credible and transparent tax administration. In and attempt to facilitate individual taxpayers, the exemption limit for personal income tax both for individual & family.

With the new announcement coming into effect from July 17, 2009 the annual income of an individual up to Rs. 115,000/- would fall in to tax free limit while the same for family would be Rs. 140,000/-, but now from fiscal year 2066/67 this limit reached to Rs. 160,000/-for individual and Rs. 200,000 for Couple (family). In a bid to persuade taxpayers, but government charged 1 % tax up to this limit i.e. 1,60000/- and 200,000/-besides continuing its earlier policy of announcing commercially important person (CID) based on maximum amount of tax paid the government has decided to award such honor to ten more individual taxpayers. The government announcement to certify top taxpayers from several sectors and award them special lounge on the Tribhuwan International Airport. Airport (TIA) as a CIP was one of policies to reward and encourage taxpayers to pay more introduced in the last budget.

Owing to weak implementation of VAT one of the major sources of tax revenue that the government has aimed at developing as backbone of the entire system, waving out the mandatory provision to specify VAT on the selling bill. Now the seller can include VAT within the selling price instead of presenting it separately.

In a bid to improve tax administration, the budget to fly 2060/61 had announced to form "International Audit committee", incorporating concerned experts, which will aid to control massive leakage through affective monitoring and evaluation of internal revenue administration. Also, the bud has announced to begin a free telephone help-line service named "call center" on trial basis, to provide required tax information, services and expiries to the taxpayers & other individuals. In order to respond immediately the complaints, grievances and other problems of the taxpayers, a provision of "weekly Hearing" has been made in the presence of Director General Inland Revenue Department and the customers Department with the expansion of the Automated System of Customs Data (ASYCDA) in customs points other than four points currently in operation as revered in the current budget, the positive impact can be expected on the collection of customs that currently holds more that one third of total revenue mobilization of the anticipated revenue collection for the running fiscal year (2065/66) of Rs. 142,211,330 thousand the target tax revenue is 116,996,653 thousand while the non-tax revenue is 21,375,301 thousand principle return 3,839,376 thousand rupees. The ratio of tax & non-tax revenue is 6:1.

Among tax revenue, VAT and Income tax is growing rapidly but, custom, excise duty registration, vehicle tax collection rate is flu tainting & its collection ratio is estimated 99.2 percent. (Abbreviate budget speech 2065/66 Ministry of Finance).

In fly 2061/62 actual budget is 84,513,912 Thousand out of them Regular expenditure 61,686,433 Thousand and development 27,340,719 Thousand and Principal repayment is 13,533,319 were purposed (estimated) and this fly 2065/66. Estimated budget is 213,578,374 thousand out of them. Regular expenditure estimated Rs. 122,079,524 thousand for current expenditure, 73,309,549 thousand for capital expenditure and 18,189,301 thousand for payment & repayment of loan & interest, were estimated. (*Budget Speech 2065/66*).

According to Budget Speech, some changes for effective revenue policy, are approached for the fiscal year. According to this explore in exports, revenue administration reforming, tax payers & tax officers hand save maintaining or providing taxpayers convenience for tax administration expanding the area of tax and emerging the new sources of tax to be maintained.

Custom, Vat, income tax & excise duty are changed according to situation and suggestion given by concerned area, commitment on world trade organization agreement, revenue suggestion committee's report.

To reduce tax evasion & avoidance, collect revenue related information's to collect more revenue. Revenue Department's duty is been reforming.

To provide quick solve of taxpayers' grievances administrative appeal, without deposit they can appeal and within 60 days tax department must provide decision to tax payers.

Fly budget estimated that out of total budget, 57.16 percentage of budget expenditure on regular expenses i.e. salaries, allowances & pensions. And out of total budget 142,211,330 from revenue (tax revenue & other), 34,570,432 thousands from foreign assistance grants and 10,405,414 thousand from foreign debt. An estimated inflow of Rs 25,000,000 thousand to be compensated through internal borrowing (Budget Speech 2065/66).

2.11 Review of Past Studies:

the past many persons studied on income tax. They stressed out on structure and method of tax administration on income tax acts. More of them studied on income tax act 2031.

Lamsal (2060) had studied on this subject. His objective of study was to find out structure of income tax administration its procedures. His conclusion was that income tax is the main source of revenue for the government but tax officials

themselves are supporting to evaders and they are taking illegal money from them. His suggestions were to policy makers. Taxpayers and tax officials.

K.P. Aryal and Surya Paudel (2003) have written a book entitled, "Taxation in Nepal". This book has written for the academic syllabus of BBS level students. They has described legal provisions of the new ITA 2058, its features, the assessment procedure, computation of income tax, income heads and sources of incomes, taxable and nontaxable income, rights and duties of tax authorities and payers etc. This book has also included the house and compound tax as well as VAT. (Aryal; 2003)

Karki (2059) studied on income tax, structure and practice. In his study his objectives were to find out income tax structure its implications and problems related income tax. His conclusion was income tax has a vital role in government's revenue collection system. Problems can be solved by different ways and his suggestions were to government, policy makers. Most of researcher highlighted on structure, processes and meaning of income tax.

Vinod K. Singhania (1995) published his fifteenth addition book entitled, "Direct Taxes". In this book he has given a typical approach to the study of direct taxes keeping in view the specific requirements of the candidates appearing in CA, M.Com., LLB and MBA examinations as well as those appearing income-tax department examination. The chief aim to the book is to enable the students to cut the time spent by them in preparing for the examination, while, at the same time, giving them most precise and up-to-date information on the subject of their study. Although concept of direct tax is analyzed thoroughly, in the case of tax planning only some hints are given where tax planning can be resorted too.

Bhagawati Prasad (1996) has written a book in entitled 'Direct Tax Laws and Practice' which is his 30th addition. In this book he has focused in income tax, wealth tax, gift tax and tax planning/management. He states that he has given more stress in tax planning portion. He has tested each chapter with the aspect of the tax planning/management. In basic concept he states that while commencing business

there is some scope in selecting the form of business organization. One has to analyze the income and the rate of tax applicable to insight the type of business form. In the chapter of Capital and Revenue, he adds any businessman should be aware whether he is incurring the expenses in the category of revenue or capital assets and only revenue nature expenses can be claimed whether calculating the taxable income. In the chapter of Profit and Gains of Business or Profession, he has recommended the following discussing issues for a new business in respect of tax planning.

Shambhu Nath Regmi (1986) has presented a dissertation entitled, "The role of income tax in Nepal." In his report, he has described the conceptual framework of income tax, structure of income tax, income tax and resource mobilization, problems of income tax etc. He has mentioned the objective of income tax as growth objective and stabilization objective. His study was concentrated in the study of tax structure of Nepal. In his study, he has found that the share of indirect tax was more than 70% of total tax revenue in 1981/82. The contribution of direct tax was about 30% of total tax revenue. Within direct tax, the share of income tax was 17.29% in 1972/73 and which increased to 35.68% in 1981/82.

His suggestions are; tax bracket should be widen and bring the various tax payers to the tax net, language of the tax act should be clear and precise, assessment procedure should be improved, procedure of tax payment should be simple and easy, staffs should be honest and efficient, coordination between staffs and department should be maintained, a research center should be established and the tax holiday should be provided to the newly established industries. He has not focused industrial sector but has suggested to given tax holiday to newly established industries. (Regmi; 1986)

Chudamani Siwakoti (1987) has presented a dissertation entitled, "Analytical study of income tax in Nepal". He has described the role of income tax, income tax in Nepal's tax structure, human resource aspects of income tax department, legal aspects of ITA 2031, and problems of income tax administration in Nepal. His identification is that the income tax has played major role in economic growth, equitable distribution of income and stabilization of economic growth. He has found out that the

share of income tax to total tax revenue was 1.9% in 1962/63 and 9.8% in 1985/86 and the contribution of income tax to the public revenue of Nepal was 1.5% in 1962/63 and 7.9% in 1985/86. He has also found out that the income tax departments have not well-trained and expert personnel. The personnel of the department have not got any opportunities of training and development. He has found out the problems of ITA 2031. According to him, the major problems were complicated language used in tax laws, high use of best judgment assessment method for the assessment of tax, lack of compulsion in maintaining the books of accounts, lack of compulsion of auditing of accounts of all type of business, assessment delays, ineffective use of fines and penalties etc.

His suggestions and recommendations are to make income tax act honest, efficient and effective, establishment of research unit, up to date information of existing and potential tax payers, reduction in time of assessment, use of scientific equipments in tax offices, training and counseling of the persons in the department. He has not given any suggestion to the industries. (Siwakoti; 1987)

Manidev Bhattarai (2050 B.S) has made a draft entitled, "Income tax facilities provided by Industrial Enterprises Act 2049". His opinion is that the facilities provided by the industrial enterprises act 2049 are not beneficial to the small industries. The deductions allowed to the modernization of industries such as pollution control devices, technology and product development, sales promotion expenses etc have protected the large industries only. The expenses such as advertisement, entertainment, hospitality etc have created rude in income tax, since, these facilities are given in the same manner to all kinds of industries. According to him, the industries are to be advertised highly where as others not. So, the equal treatment to industries as trading business is not favorable. The provision related to the tax exemption facilities to the reinvestment income of the industries was favorable to the industries related to alcohol, tobacco etc because they have reinvested their income and got the tax exemption facilities. (Bhattarai, 2050 B.S.)

Sanjaya Acharya (1994) has presented a dissertation entitled, "Income tax in Nepal, a study of its structure, productivity and problem". He has studied the structure

of income tax, its productivity and problems. His major findings related to industries are: depreciation allowance of fifteen percent to the corporate taxpayers is very low, one and two percent of deduction of the total income from trade, industry, profession and vocation for advertisement and guest hospitality respectively is seemed very low. (The limitation of the latter one has avoided in the new ITA 2058.) He has also found out the allowances related to specific industries provided by the act is not sufficient. The specific industries are Tourism industries, co-operative organizations etc. He has also suggested not giving special allowance for export industries related to carpet and garment industries because these businesses have only for high-class investors and the small investors could not invest in these industries. (Acharya; 1994)

Daya Raj Tripathee (1995) has presented a dissertation entitled, " Income tax system in Nepal and some potential areas for reforms". He has studied the structure of government revenue of Nepal, its administration, evasion, tax assessment procedure and income tax facilities to industries and efficiency of income tax system. His major suggestion related to industries is to define the industries as employment oriented industries, which invest Rs 5,00,000 or more in the industries. He has further suggested making a prize system, which may be in the form of tax incentives or tax holidays to the taxpayer. According to him, the tax holiday should be extended for industries, which utilize Nepalese raw materials and produces handicraft. The period of tax holiday should be extended to 10, 8 and 5 years instead of the period of 7, 5 and 2 years respectively. He has also suggested adding incentives and deduction facilities to industries. His suggestions regarding the deduction of expenses to the remuneration incomes are to give exemption of Rs.10,000 per annum as children education allowance, house rent allowance of Rs. 12,000 per annum. His dissertation seems to be lightly focused in the industrial aspect of income tax act. (Tripathee; 1995)

Parmeswor Pant (1996) has presented a dissertation entitled, "A study on income tax management in Nepal". He has studied the role of income tax in national economy and income tax management in Nepal. His dissertation is based on the empirical study. He has found out that the lack of managerial efficiency is the major problem of income tax system. He has focused the managerial aspect of income tax

management and suggested to increase the exemption limit. He has also suggested levying tax on agricultural income and capital income. (The new ITA 2058 has levied the income tax in capital gain.) He has not studied the incentives and facilities to industries. (Pant; 1996)

Krishna Prasad Timalsina (1997) has presented a dissertation entitled, "Tax structure of Bajhang district with reference to national tax structure of Nepal". He has compared the tax structure of Bajhang district with the tax structure of national level. He has checked the relation of the district level tax structure with the national level, by correlation coefficient and has found positive relation. The tax revenue, non-tax revenue and total revenue all have positive correlation with the national level revenue. He has not studied the tax incentives and facilities to industries. (Timalsina; 1997)

Raj Kumar Bhattarai (1997) has presented a dissertation entitled, "Effectiveness of corporate income tax in Nepal". He has described the history of income tax and corporate income tax, legal provisions relation to income tax, administration aspects of income tax, tax structure and government mechanism. He has conducted an empirical investigation taking 50 persons and companies as a sample. In his study, he has found that the share of tax revenue to the total tax revenue is 78% in average, the share of direct tax to the total tax revenue is 20% in average whereas the share of indirect tax to the total tax revenue is 80% in average, the share of income tax to the total direct tax is 67% in average. As substantial share of income tax in total direct tax revenue, there is strong contribution of corporate income tax in total tax revenue. There is average 48% share of corporate income in total income tax revenue.

He has found that the government policies, acts, rules, regulations concerned with the corporate income tax are not effective in increasing tax paying habit in Nepal. Major problem of the tax administration is corruption and the corruption is due to the weaknesses of the acts, rules and regulations. (The corruption is still customary in Nepal.)

He has not studied about the tax incentives and facilities but a question is asked to know the opinion of the respondents about the income, expenses that should

have been tax-free. The respondents have specified the incomes of foreign exchange, compensation income and grants etc. to be tax-free. (Almost all of them have been taxed under new income tax act 2058.) (Bhattarai; 1997)

Karna Bir Poudyal (1998) has published a book entitled, "Corporate tax planning". He has described about the various tax incentives such as tax holiday, set off and carry forward of losses, depreciation allowance, amortization of preliminary expenses, export incentives, tax free interest and dividends, exemption of interest on unpaid income tax, incentives for listing in Nepal Stock Exchange.

He has found that the tax incentives in the form of tax concessions, exemptions and deductions have been an important feature of the Nepalese corporate tax system. These incentives have been introduced from time to time to promote economic growth by mobilizing savings and their investments according to planned priorities of GON of Nepal.

He has also compared the tax incentives prior to and after the passing of industrial enterprises act 1992. His comparison shows that the industrial enterprises act 1992 has given more incentives to industries than prior act. (Poudyal; 1998)

Narayan Raj Tiwari (1999) has written a book entitled, "Income tax system in Nepal". He has described income tax and its concept, its system in Nepal, taxable income, industrial enterprises act 2049, computation of income tax from various sources etc. Some examples to compute the income tax from the various sources of incomes have presented in this book. The legal provisions of the income tax act 1974 have presented in detail. This book is of descriptive in nature and not the analytical one.

Kamal Deep Dhakal (2001) has written a book entitled, "Income tax and house and compound tax law and practice". This book has based on the syllabus of the BBS and MBS level of T.U. Various provisions related to the income tax under income tax act 1974 has described in this book. The incentives given to industries by industrial enterprises act have also described in this book. Clear numerical examples

have presented to derive the taxable income from the various sources of income. This book has also included the house and compound tax and value added tax.

Binita Shrestha (2001) has presented a dissertation entitled, "Revenue collection from income tax in Nepal, problems and prospects". Her study has been surrounded on the tax structure, tax administration and legal provision of the tax system. There was domination of income tax in the government revenue of Nepal. About 80.46% of the total revenue is contributed by the tax revenue in the government in 1984/85 and reduced to 77.19% in 1998/99. The contribution of tax in GDP is in increasing trend. It is 6.81% in the income year 1984/85 and 9.36% in the income year. The contribution of indirect tax is higher in the tax revenue of Nepal; it is about 82.24% in the income year 1984/85 and decreased to 73.86% in the income tax year 1998/99. Among the various

The contribution of individual taxpayers is the highest one. The major problems of income tax system are narrow coverage of tax, mass poverty of public, lack of consciousness in the taxpayers, evasion and avoidance, unscientific tax assessment procedure, inefficient administration, instability in government policy. She has suggested widening the tax coverage, making consciousness to tax payers, minimizing the problems and weaknesses of the tax system, reform the tax assessment procedure and tax administration procedure. Her study has not been related to the tax incentives and facilities.

Puspa Raj Kandel (2001) has published a book entitled, "Corporate Taxation: Issues in Nepalese Perspective". He has included a chapter "tax incentives" in his book and presented the introduction of tax incentives, history of tax incentives, rational of tax incentives, types of tax incentives, tax incentives in Nepal, effect of tax incentives on investment (with findings of empirical studies) etc. He has found out that the emergence of tax incentive system in most of the countries of the world is mainly responsible to the frustrating low rate of investment in developing countries. The developed countries like USA and UK introduced the tax incentives like investment allowance; investment tax credit and investment grant system to enhance their investment rate. Developing countries have one step ahead and introduced a full

exemption system called tax holiday to accelerate their rate of investment and in turn in growth rate. According to him, the tax incentives system has distorted the tax base instead of improving the investment environment of the developing countries because the tax incentives to one industry compelled to levy higher tax to other industries.

There is debate between the taxpayers whether the depreciation should be based on historical basis or on the replacement basis so, some countries have given choice to among these. But almost all of them have accepted that accelerated depreciation is one of the major tax incentives. Most of the countries have also provided the loss adjustment facilities as tax incentives but the condition of the government is misery regarding the loss adjustment facilities. Since the loss adjustment periods of the most of the countries have only 3 or 4 years, the writer has concluded the governments' partnership with business houses was lopsided giving more benefit to the government. Nepal is also very conservative in this regard. Due to the discretionary power of tax officer to recognize losses, this facility is also only in paper. (Kandel; 2001)

Bibha Pradhan (2001) has presented a dissertation entitled, "Contribution of income tax from public enterprises to public revenue of Nepal (with reference to Nepal Telecommunication Corporation). She has found that the contribution of tax revenue in government revenue is 77% in the income year 1998/99 and the contribution of indirect tax revenue in total tax revenue is 74% in the income year 1998/99. The contribution of tax revenue in GDP is 2.37%, which is the lowest contribution in the SAARC countries except in Bangladesh. Share of Nepal Telecommunication Corporation (at present 'Nepal Telecom') in income tax is 11.1% in the income year. Her suggestions regarding income tax system are to reward the efficient and honest persons, to give education about income tax to the taxpayers and tax officers, to motivate the persons, to take strict action to the corrupted persons, to increase the public participation in tax matters, to reduce the time period of the tax assessment and to settlement of tax commission. She has not given any suggestion regarding the tax incentives and facilities of the Nepal Telecom. (Pradhan; 2001)

In 2002, a draft entitled, "Using tax incentives to compete for foreign investment" has written by Louise T Wells, Nancy J Allen, Jacques Morisset, Neda Pimia. This book is descriptive as well as analytical in nature. The writers have raised three issues relating to attraction of foreign direct investment. Among these the major issue is regarding the tax incentives competition in the developing countries to attract the FDI. The writers have pointed out that tax incentives have not so much effective in attracting foreign capital. But, developing countries have hardly abandoned them. In fact, the tax incentives are increasing rather than decreasing. (Wells; 2002)

Jayanti Paudel (2002) has presented a dissertation entitled, "Income taxation in Nepal, a study of its structure and productivity". Her study has focused the structure of income tax its elasticity and buoyancy, and role of income tax administration in Nepal. She has found that the contribution of income tax in the GDP is lowest in the SAARC countries, which has shown the poor condition of Nepalese income tax system. The share of indirect tax revenue in the tax revenue is more than the double of the direct tax revenue. She has blamed that income tax procedure of Nepal is based on the traditional system and it should be modernized. She has furthered suggested to broaden the income tax base, reform the tax administration, and implement the VAT, establishment of the standardized accounting system. She also, has not studied the tax incentives and facilities to industries. (Poudel; 2002)

Basanta Kumar Shingh (2002) has presented a dissertation entitled, "A study on application of best judgment on income tax assessment with reference to income tax act 1974". His study has totally focused the best judgment assessment procedure, its advantages and disadvantages, its problem and prospects, its use in income tax, the conditions required for the best judgment, legal remedies of best judgment assessment etc. His finding is that a committee assessed the major of the income tax. The role of best judgment assessment is in second position i.e. its contribution is 18.36% in 1997/98, which is increased to the 23.98% in the income year. According to him, the best method of the assessment is the best judgment assessment but that method is found rarely in Nepal. According to him, the Nepalese income tax administration system is very poor due to lack of trained persons, lack of scientific equipment, lack

of coordination between the concerned departments, lack of adequate efficiency and knowledge in tax personnel, lack of motivation to employers, increased nepotism and favoritism in tax offices, lack of principles for the use of best judgment assessment. He has suggested to assess the income on the basis of accounts, to form a supervisory committee to review the tax assessment, to train the persons in the income tax administration, to make compulsion the submission of income tax statement, to reduce down the assessment time from one year to three months, to made compulsion the auditing of the accounts, to reward and punish the reasonable persons and strictly implement the income tax procedure. He has not studied the tax incentives and facilities. (Shingh; 2002)

Chandra Mani Adhikari (2003) has written a book entitled, "Modern taxation in Nepal". This book is also based on the new ITA 2058 and based on the academic syllabus of T. U. The legal provisions related to income tax has described in this book with numerical examples to compute the taxable income and tax liability of various income sources. This book is of descriptive in nature and has not analyzed the provisions of the new income tax act. (Adhikari; 2003)

Nagendra Bahadur Pradhananga (1993) has written a book entitled, "Income tax law and accounting". Objective of this book was to provide the facilities to 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, which is very much useful to the B. Com. Students. He has also described the development of income tax in Nepal, Finance Act, Industrial Enterprises Act, income from remuneration, Agricultural income, income from house and land rent, income from industry, business, profession, vocation, income from other sources etc. The provision related to fines and penalties, appeal, admissible and inadmissible expenses etc are also mentioned in this book. (Pradhananga; 1993)

Santosh Raj Poudyal (1993) has written a book entitled, "Income tax law and practice". This book is also based on the syllabus of B.Com. level. He has described meaning and feature of income tax, direct tax, indirect tax, brief history of income tax

in Nepal, types of taxpayers etc. He has also given some suitable examples to computation of income tax from the various income sources etc. He has also described the tax incentives and facilities given to industry by the industrial enterprises act 2049. This book is of descriptive in nature and not analytical one. The legal provision related to income tax authorities, power of tax officer, penalties and appeals, right and duties of taxpayers has also described in this book. (Poudyal; 1993)

Ram Bahadur Thapa (1993) has presented a dissertation entitled, " Income tax assessment procedure in Nepal, an analytical study". Obviously, the title shows that he has focused in the assessment procedure of Nepalese income tax. According to his study, the major problems of income assessment procedure are undue delay in tax assessment, lack of adequate accounting skills and adhocism in tax assessment. His main suggestion is about the exemption limit. He has suggested increasing the exemption limit according to the inflation rate. He has suggested giving tax holiday to new industries as investment allowance. (Thapa; 1993)

Hari Bahadur Bhandari (1994) has presented a dissertation entitled, " Contribution of income tax to the economic development of Nepal (With reference to Kathmandu and Pokhara Valley)". He has conducted an opinion survey of different aspect of income tax system. In his study, he has found out that the income tax is the major contributor of economic development of this country. He has suggested increasing the contribution of income tax to the economic growth of the country by levying the tax on capital gain and in the agricultural income. The former suggestion has been applied in the ITA 2058.

He has also suggested giving the tax holiday in periodic basis to the newly established industries. His investigation has clarified that the repair and improvement facilities should be 10 percent of the book value. (Bhandari; 1994)

CHAPTER III

RESEARCH METHODOLOGY

This study was undertaken to analyze the income tax evasion practice in Nepal, difficulties in income tax administration and impact (negative and positive) on national revenue. The main concentration of the study was on the sources causes and methods of income tax evasion, methods of self-tax assessment; difficulties in tax administration attitude of people about income were incorporated in this study. To achieve these objectives, a research methodology has been designed in this study. This research methodology contained research design nature sources of data and procedure of data analysis.

3.1 Research Design

Most of the data and information of the study were concerned with past phenomena of the performance either they were numerical or opinions. After the collection of past data and experiences, this study analyzed and described its own procedure. Thus this study also followed a descriptive cum analytical research design. Statistical research design is concerned with taxpayers as well as tax officials and auditors similarly general people's attitude about income tax. The analytical research design is concerned with the data, which is gathered and analyzed systematically. The researcher will also adopt statistical design for the finding of problems and for the suggestion.

3.2 Selection of Study Area

For research Internal Revenue Department, Inland Revenue offices (Lazimpat, Babarmahal, Lalitpur & Bhaktapur) main three cities of Kathmandu valley are selected. Selected personnel, people, auditors are taken into account to interact to

obtain necessary information. Small businessmen from Maharajgunj to Golfutar, Corporate taxpayers like Manpower companies, hardware businessmen and petrol pumps were selected for collecting the required data.

3.3 The universe and Sample Size:

It has been known that there are four internal Revenue offices in Kathmandu valley. All the persons who are involved in income tax system can't be taken as respondents due to the technical problems as well as physical inaccessibility. So, for the sample size, 4 inland. Revenue offices will be selected amount them by convenience sampling. From that, 1 respondents from each office, 5 Auditors, taxpayers (25 small businessmen,5 corporate businessmen) and 10 general people are selected for effective information.

3.4 Nature and Sources of Data:

In order to achieve the real result, out of this research, primary as well as secondary data were collected from different sources. Primary data are collected from the field through different techniques and secondary data are collected from different published and unpublished materials, daily newspaper.

3.4.1 Sources of primary Data:

The primary sources of data are the opinion survey through questionnaire, field visit and information received from the respondents.

3.4.2 Sources of Secondary Data:

- a) The secondary data for this research has been collected from the following different sources:
- b) Publication of HMG, Ministry of Finance, budget speeches and economic survey of various fiscal years.

- c) Published documents of National Planning Commission and Nepal Rastra Bank.
- d) Published reports and seminar paper of CEDA.
- e) Research of various persons, articles and dissertation on the concerned subject.
- f) Publication of Inland Revenue Department. and Ministry of Finance like; Economic Survey, budget speeches of various years
- g) Reports submitted to HMG of Nepal and internal experts and agencies.
- h) Different publications of central bureau of statistics.

The collected data through primary and secondary sources were tabulates in different ways according to the requirement of the study. The data were presented in tables, percentage.

3.5 Data Collection Techniques:

The following procedures were used to collect the necessary data for the study:

A set of questionnaire was developed and distributed to the selected respondents in order to get accurate and actual information. The questionnaires were administered in personal meeting with the respondents and additional information was also collected from interview with the respondents. Interview is conducted with taxpayers, auditors and tax officers through structured questionnaires in order to get the necessary information from tax officers.

To know the situation behaviour of taxpayers and tax officer and tax collection situation in Inland Revenue offices, the researcher he visited as an auditor in such offices. The observation tools will be applied in different lines & matters.

3.6 Case Study

The case study method is considered as one of the most prominent research method in the anthropological field research. In the present study the case studies of selected respondents are conducted focusing on details behind the income tax act 2058. Each & every detail is connecting with income tax Act 2058, it's implication, view of tax payers, tax officer's behaviour, its impact on national revenue and changes on people's social & economical status as well as socio-economic development of the nation. Altogether case studies are conducted in this study.

3.7 Techniques of Data Analysis

As mentioned above, the data are collected through various sources using various data collection tools and techniques. Different statically tools like tabulation, present distribution comparative analysis and other statistical techniques are applied, where as necessary qualitative data are discussed analytically on the basis of findings quantitative and qualitative both will be systematized concerning issue of income tax act 2058 and its contribution on national economy.

Similarly collected data from primary sources were firstly tabulated into separate format systematically. The data was tabulated into various tables according to the subject in order. The simple statically analysis such as sampling were calculated where necessary and they have been presented and analyzed .The presentation are in descriptive way.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Structure of Government Revenue in Nepal:

The structure of government revenue in Nepal is composed of customs, excise sales/VAT, income tax, registration tax land and house rent tax, miscellaneous tax and non-tax revenue. Table no 1 shows the collection of revenue on fiscal year 2064/65

Table No. 1

Data from Financial Comptroller General Office (Rs in, 000)

	Target	2064/65	
		Collection	Percentage
Total Revenue	103,667,256	107,622,481	103.81
Total Tax Revenue	80,962,200	85,155,458	105.18
Total Non-Tax Revenue	21,349,600	19,783,843	92.67
Total Indirect Tax	59,664,400	62,067,699	97.89
Total Direct Tax	21,297,800	23,087,759	108.4
Principal refund	1,355,456	2683180	197.95
Indirerct Tax	59,664,400	62,067,699	104.03
Foreign trade	19,489,300	21,062,421	108.07
Sales/VAT	29,651,900	29,815,703	100.55
Internal	11751400	10808241	91.97
Import	17,900,500	19,007,462	106.18
Excise Duty	10,523,200	11,189,575	106.33
Internal	8205700	8409523	102.48
Import	2,317,500	2,780,052	119.96
Direct Tax	21,297,800	23,087,759	108.4
Income Tax	16,869,200	19,077,813	113.09
a) Corporate Income Tax	11,360,600	13,268,756	116.8
b) remuneration tax	2,527,700	2,451,039	96.97
c) Investment Income Tax	2,946,000	3,271,475	111.04
d) tax on windfall gain	11,600	19,151	165.09
e) Others	23,300	67,392	289.23
Tax on House, Land and Other Property	4,428,600	4,009,946	90.55
Non-Tax Revenue	21,349,600	19,783,843	92.67
Duty and Fees	5,167,100	5,928,967	114.74
Penalty, Fines and Forfeitures	209,600	236,519	112.84
Receipt from Sales and Rent of Government Property, Services and			
Commodities	1,272,500	1,287,067	101.14
Dividend	5,557,800	5,025,924	90.43
Interest	1,485,200	756,876	50.96
Royalty(govt assets sales)	6,553,700	5,773,649	88.09
Gifts Donations & misc income	1,103,700	774,841	70.2

Revenue Collection of GON :Fiscal Year 2064/65

Source : **Budget speech 2009/10 and 2007/08(MOF)**

www.ird.gov.np

This table shows that out of total revenue (107,622,481), indirect tax was Rs. 19,783,843, direct tax Rs. 62,067,699 and non-tax revenue was Rs. 19,783,843. The collected percentage was 103.81(Fiscal Year 2064/65) comparable with targeted collection Here customs duties consist of export, import, Indian excise refund, and miscellaneous. The excise, however, is related with liquor production contract and industrial production. The house and land revenue includes development and land tax, the profit or income from public enterprises; social public interposes private corporate bodies, individual and remuneration. The registration tax denotes house and land registration, company registration, firm registration, agency registration, vehicle license arms registration, and ammunition registration. The non-tax revenue consists of receipts from sale of commodities and services, dividend, royalty, sale of fixed assets, mint and principal and interest payment as well as miscellaneous incomes of governments. In short every tax and non-tax payment paid by people is the revenue of government.

The table shows that indirect tax revenue accounts contribution was 57.67 percent of total revenue in fiscal year 2064/65. The revenue from Indirect tax is in increasing trend. The collection during the fiscal year 2064/65 was satisfactory, it was about 104.03% of target. Indirect tax included, foreign trade, vat and excise duty.

The main source of income is vat and its contribution to total revenue was 27.70 percentage in fiscal year 2064/64. The collection during the year to target or budgeted amount was 100.55 percentages. The contribution of excise duty to total revenue was 10.40%. Excise duty included internal and import. The contribution of internal excise to total revenue was 7.81% and excise import to total revenue was 2.58 percentage.

Direct tax was a major source of government revenue in Nepal. Direct tax includes Income tax and tax on house, land and vehicle. The contribution of Direct tax

to Total revenue was 21.45 percentages. The main sources of income are income tax .Income tax account for 17.73 percentages to total revenue. The total collection to target collection of income tax was 113.09 percentages. It means the numbers of tax payers is increasing.

Non tax revenue was also a major parts of revenue collection. Its contribution to total revenue was 18.38 percentages. The total collection to budgeted amount was 92.67 percentages. The main cause was Interest revenue which was very lower than target amount. It was only around 50 percentages. Dividend was also lower than target amount. Government organization was almost running in deficit so the dividend amount not achieved target amount.

4.2 Contribution of Tax and Non-tax Revenue in Total Revenue:

Following table shows the contribution of tax and non-tax revenue in the fiscal year 2064/65.

Table No. 2

Revenue Collection of GON Fiscal Year 2064/65

	2064/65		(Rs in, 000)
	Target	Collection	Percentage
Total Revenue	103,667,256	107,622,481	103.81
Total Tax Revenue	80,962,200	85,155,458	105.18
Total Non-Tax Revenue	21,349,600	19,783,843	92.67
Total Indirect Tax	59,664,400	62,067,699	97.89
Total Direct Tax	21,297,800	23,087,759	108.4

Source: **Economic Survey 2009/10 (MOF)**

The composition of tax and non-tax revenue is presented in table no. 2. This table comparatively evaluates the performance of tax and non-tax items. The tax item includes direct as well as indirect taxes mainly customs, excise, sales (VAT). Land revenue and income tax. The non-tax item denotes receipts from sales of commodities

and services, dividend, royalty, sale of fixed assets, mint principal and interest payment as well as miscellaneous income of HMG Nepal.

The table shows that the tax revenue occupies an important role in Nepalese public finance in comparison of non-tax revenue. The share of tax revenue was 79.12 percentage (i.e. Rs. 85155.45million) in 2064/65, where as the share of non-tax revenue was 18.38 percentage (i.e. Rs. 1978.38 million) during the same year.

4.3 Contribution of Direct and indirect Taxes in total revenue:

Following table shows the contribution of direct and indirect taxes in total revenue.

Table No. 3

Composition of Indirect and Direct Tax (F/y 2064/6 (figure in '000')

	Revenue	Target	collection	Percentagae
1	Indirerct Tax	59,664,400	62,067,699	104.03
	Foreign trade	19,489,300	21,062,421	108.07
	Sales/VAT	29,651,900	29,815,703	100.55
	Internal	11751400	10808241	91.97
	Import	17,900,500	19,007,462	106.18
	Excise Duty	10,523,200	11,189,575	106.33
	Internal	8205700	8409523	102.48
	Import	2,317,500	2,780,052	119.96
2	Direct Tax	21,297,800	23,087,759	108.40
	Income Tax	16,869,200	19,077,813	113.09
	a) Corporate Income Tax	11,360,600	13,268,756	116.80
	b) remuneration tax	2,527,700	2,451,039	96.97
	c) Investment Income Tax	2,946,000	3,271,475	111.04
	d) tax on windfall gain	11,600	19,151	165.09
	e) Others	23,300	67,392	289.23
	Tax on House, Land and Other Property	4,428,600	4,009,946	90.55

Source : Inland Revenue Department, 2064/65

The distinction between direct and indirect taxes is not always a satisfactory or a consistent one. There has been a long tradition in economic literature to classify taxes into there two categories. One way of distinguishing between these two has been

in terms of the incidence of taxation. It is asserted that if the incidence of tax rests upon the persons who bears its impact also, then it is a direct tax, if on the other hand, the incidence is passed on to other then it is an indirect tax.

Many of the economists have a view that when the national economy starts to advance on the path of progress, the country automatically shifts from indirect to direct taxation. With the consideration of this view we can conclude that the economic development of Nepal was satisfactory.

Economic development of a country depends upon the structure of taxation. The tax structure of a country is constituted from its levels of taxation and rate of growth through charges in individual elements. Tax structure is very important for those countries whose government outlay increasing faster than tax revenue.

The resource gap in Nepal is increasing so the need is urgent to mobilize additional resources through domestic sources. It is looked upon as a powerful tool in the hands of government for raising the revenue. It is a reliable tool to achieve the objective of growth, equality and stabilization. Income taxes bridge the gap of disparity of income. It checks the inequality between high and low income groups imposing higher income tax to the rich people and lower tax to the poor.

Income tax solves the problem of inflation, which is one of the great problems in the economic development of Nepal. Because of inflation development activities cannot be performed according to budgeted revenue. It possesses developmental raw materials expensive and the actual cost becomes higher than the budgeted cost (*Jha, 1984, p. 54*).

Income tax affects the process of economic growth by modifying three propensities. The propensity to work, to save and to invest. As regarding the incentives to work it is affected by a rise in the marginal rate of income tax through the operations of the substitution and income effects. These effects are regarded as working in opposite direction. The substitution effects of income tax reduce the price of leisure. But the tax also reduces the net income of the tax payer and this operates in such a way as to make him economize on leisure and work more. The effect of a

rising marginal rate of income tax depends upon the combined operative of the income and substitution effects. If the income effect is greater than substitution effect the propensity to work is strengthened and the supply of effect. As a function of the income tax will tend to rise. In order to analyze the effect of progressive income tax on the propensity to work, the re-distribution effects of income tax and the corresponding volume of public expenditure should also be taken into account. Any actual system of taxes will have distributional effect.

The money income after deduction taxes of some groups will be altered relatively to those of others. Those whose income after tax is reduced relatively will offer more work and those who are favored by the tax system will offer less. If, however, people at the poverty level constitute the latter group, the redistribution may eventually permit them to supply different types of labor services to greater productivity in an industrialize society by permitting more investment in social inequality in Nepalese society. If the wealthier people do not work heavy tax on them will force them to work in UK and other countries a movement of the leisure class has taken place into paid employment as a result of impoverishment.

If this analysis were applied in Nepal the conclusion would emerge that, GON can effectively and substantive reduce the inequality of income through income tax devices, may expect the rich people to work more and the poor people to supply equality of services.

On the underdeveloped countries like Nepal, income tax encourages the growth of individual and business savings through a high taxation of personal incomes and business profits and finances the investment in the private sector by way of either subsidies or loans. But in such a country the complete elimination of individual and business savings is not considered desirable from the ideological and practical sands points in a context where individual freedom is cherished and in which private sector is assigned an important place in the process of economic development. Relieve income tax should be given for encouraging personal savings and there may be partly mobilization through the medium of the borrowing from the government for financing useful scheme of development in the public sector.

The Taxation of Business Profit should encourage the retention of profits and distributed profit should be taxed at a higher rates. It should also incorporate devices, which encourage the ploughing back of the retained profits into investment. There is a temptation in the underdeveloped countries to tax business profits at a very high rate especially when capital belongs to foreigner because politically and administratively they are easy to tax.

If the government on social overhead spends the proceeds of the income tax, the imposition of income tax might lead to an increase in the rate of investment in the community. It concentrates people to invest their savings more efficiently. In Nepal like other developing economies, private sector should be gives an incentive to invest private sector have been given incentives in Nepal with relief of many types, even then private investment is not rising rapidly due to the lack of sufficient profit. Investment potentiality in Nepal is high but still private sector does not wish to invest owing to various factors such as lack of transportation, small market, lack of raw materials communication & security problems etc. Income tax exists for rendering services and promoting of institutions. It is not a passive instrument. It is an active force affecting the social structure and altering the causes of social evolution. However, the most elementary object has been to treat income tax merely as a method of collecting public revenue. On the other hand income tax serves the welfare function by removing as far as possible inequalities of wealth and income existing in a community. Not only this but it attempts to balance aggregate of expenditure, income, investment, and full employment in a community.

The monetary policy of a country also needs the support of appropriate tax measures. The function of income tax is not merely a acquire revenue for the rate but also to control the purchasing power that is left in the hands of taxpayers.

In modern context an important objective of income tax is to make it serve the needs to planning. Planning presupposes a proper resource allocation and the attainment of certain priorities.

Planned economy can also animal forecasting particular sector of industry to maximize the gross national product and towards the achievement of it, development

rebates and tax holidays may be granted. Besides a high rate of capital formation is an assenting condition of successful planning and this can be achieved by appropriate increase in incomes for investment in the public sector through income tax. These have been a growing reorganization that income tax is an important tool which the government may employ in keeping or in maintaining high level of production and employment. Increased attention has also been directed to the role of taxation in promoting equality in the distribution of resources.

Thus income tax can play an important role for the economic development of Nepal by equal distributions of income, controlling the inflation, motivating people to work save and invest, creating economic stability maintaining high level of production and full employment, controlling the purchasing power of the people and equitable distribution of resources. It can play for more positive role in the process of capital formation and technological change in Nepal. Because of the important role of income tax, the ESCAP countries are also shifting gradually their reliance on indirect taxes to direct taxes particularly income tax and ASEAN countries also trying to implement it. So if income tax can be applied successfully, Nepal can escape the gravitational field of the "vicious circle of poverty" and become a self-propelled object.

The role of income tax in the economic development of Nepal will be very clear, if we review the magnitude and share of income tax on GDP (Gross Domestic Product), total revenue, total tax revenue, and direct tax revenue.

Table No. 4

Total Revenue collection (fiscal year 2064/65) figure in '000'

	Targeted	Progress
Total GDP	371020000	
Total Revenue	103,667,256	107,622,481
Total Tax Revenue	80,962,200	85,155,458
Total Non-Tax Revenue	21,349,600	19,783,843
Total Indirect Tax	59,664,400	62,067,699
Total Direct Tax	80,962,200	85,155,458

Source: *Ministry of Finance* (www.mof.gov.np)

This table shows increasing trend of income tax in contribution to GDP. Total Revenue, total tax revenue and direct tax revenue from this table, it can be summarized that the share of income tax on total revenue is increasing in Nepal but at a very slow rate.

The share of income tax as a percentage of total tax revenue was increasing from 9.76 percentage to 22.7 percentage. But it is not satisfactory result. The ratio of income tax to direct tax revenue is also unstable in Nepal because of various reasons i.e. insurgency, security etc. This analysis helps to summarize that the role of income tax for the economic development of Nepal has been increasing significantly in recent years is compared to past 15 years, but it does not mean that the share is that much satisfactory. So much effort should be made to increase it.

4.4 Structure of income tax Rates in Nepal (with reference to exemption and deduction)

Income tax rate influence the amount that is collected as income tax to the revenue of the government. It also affects those taxpayers. The social justice also can be achieving through progressive tax rate. If the income tax rate is very high, the taxpayer cannot bear the burden. In the other hand, if income tax rate is low, the objective of the income tax can be achieved. That is why the income tax rate has been changed frequently. It is practiced not only in Nepal, But also in most of the countries of the world.

The structure of income tax rate in Nepal has never remained stable. Income tax rate was introduced in Nepal for the first time 2015/16. In the beginning similar amount of exemption limit was designed to all types of taxpayers. Later on the exempted amount different on the basis of different types of taxpayers such as individuals, couple and family.

The individuals, couple and family could deduct Rs. 3000, Rs. 4500 and Rs. 6000 respectively as exempted amount since the fiscal year 2024/25, and 2033/34; which remain unchanged till 1978. The revised amount were Rs. 6500, Rs. 7500 and Rs. 8500 for individual, couple and a family respectively.

After 2035/36 it was revised in 2036/37, in 2048/49, 2050/51 till 2047/48. At that time the exemption limits were Rs. 15000 for individual and Rs. 20000 for couple and family. After 2047/48, it was again revised in 2049/50 which remained constant upto the year 2053/54. At that time the exemption limit were Rs. 25000 for individual and Rs. 35000 for couple and family. After 2053/54 the exemption limit was revised every year i.e. in 2054/55, 2055/56, 2056/57 and 2058/59. The current revised limits of exemption are Rs. 80000 for individual and Rs. 100000 for family and couple for the year 2057/58,2058/59, 2059/60 and 2060/61. Then Exemption limit for the year 2062/63 is Rs. 100000 and 125,000. In Fiscal year 2065.66 It reached to 115,000 and 140,000.It is The first parliament in Nepal passed the finance Act 2016 to levy taxes

for the first time in Nepal. In the first finance act, income tax was levied under the heading "Business profit and remuneration tax". The act defined remuneration as the salary, allowance, special allowance, fee, house rent allowance, vehicle allowance received in cash or kind. There was no provision of deductions from total income of the assesses for deriving the taxable income in the finance act. This act treated all the profit making institutions as individuals and the tax was charged at the same rate.

In 2019/20 the business profit and remuneration tax was replaced by the income tax. The first income tax act comes out as the "Income Tax Act 2019". After this enactment, the finance act of 2019 replaced the earlier business profit and remuneration tax by income tax. The new finance act had given no special definition of income. This act defined income as the receivables from all the courses and income tax as the tax levied on aforementioned income.

The Finance Act of 2018/19 has the rates of income tax varied from the lowest 5 percent to the highest 25 percent. The income brackets were grounded into 10 different categories. Under the same finance act there was the provision of 25 percent deduction on the tax rates for the profits derived from the business. Till 2017/18 the tax on House and Land in the urban areas was charged at the same rates as was applicable in case of income from Foreign Investment. But the finance act 2018/19 made a separate provision for taxing the income from house and land. It was put under a separate head and was provided for the exemption of Rs. 50000.0. The tax rate varied from 0.1 percent (Re. 1 on each Rs. 1000) to 0.7 percent (Rs. 7 on each Rs. 1000) and was categorized into 7 different groups.

In 2018/20 the rate of income tax ranged from 4 percent to 30 percent in 12 different income brackets. These rates were revised from 5 percent to 40 percent in year 2020/21 and the income categories were also increased to 13. This act differentiated the income of the foreign film distributors from the income of the Nepali Citizen and the tax applicable in this income was 8 percent.

The rate of income tax was again revised in 2021/22 from 6 percent to 40 percent and the bracket of income was revised to 11 categories. In this year the exemption provided to the profit of the business was brought to an end and it was subject to the

minimum tax of 6 percent. On the higher income the rate of tax was as usual to the income tax rate of the individuals. The same year's finance act introduced the House rent tax for the first time. This tax had the provision to exemption up to the net income of Rs 2000. Above the income of Rs. 2000 the rate of tax were from 10 percent to 25 percent in four different categories. To arrive the net income there were several deductions provisions also. The deductions permitted were: 10 percent to the house owner for the repairmen of the house; 2 percent for the furniture expenses; 2 percent for electricity; 0.25 percent for the water usage and $\frac{3}{4}$ percent for other expenses.

In the same finance act the indirect tax was introduced. The act had listed the several items that were not subject to tax. Other than the specified items the sales tax was imposed on all the goods and services in the country.

In the year 2023/24 the personal income tax was categorized under three different heads for the first time namely individual, couple and family. The registered and non-registered firms were treated as the individual. The finance act defined couple as the married husband and wife. For the purpose of income tax an individual with a spouse and dependent children was treated as the family. The tax rate refried from 5 percent to 50 percent with 12 different categories of income.

The finance act was revised within the year and the firm's income tax was calculated with different tax rate. So with this the corporate income tax was introduced. In the revised finance act the rate of individual income tax was also revised and the highest rate was increased to 55 percent with no change on the income groups.

A new income tax act was activated in 2031. This income tax act had several provisions on the exemption and deduction in the personal income tax. The treatment of income as earlier into three categories was revised to two categories; individual and couple or family. The exemption limit was raised to Rs. 4500 and Rs. 6000 and the rates varied from 7 percent to 55 percent in the different income brackets. This act made the adjustment of the exemption of the house rent with the income tax exemption. The deduction of Rs. 200 was not permitted for the individual taking the

income tax exemption in the individual income tax. The income from the house rent was subject to the total income of the individual and was among with the income tax.

The interest tax was introduced in the fiscal year 2033/34 . In the interest tax the interest gained from the specified sources by the act were exempted. The interest from saving accounts, employee's provident fund, and the deposits of social organization and the religious firms were all tax exempted. The income tax amendment act of 2034 included the provision to deduction for the stationary expensed. The deduction amounted to 50 percent of the remuneration or Rs. 50 per month whichever is less. The provision was made for the first time in the income tax act and the finance act.

In the year 2037 the income tax act was revised for the third time. This amendment included the provision for deduction of tax on the amount contributed by the employee from the remuneration on the provident fund. the revised act had the provision to deduct the educational expenses for a maximum of two minor children from the income of the taxpayer. The deductible expense was equal to 2.5 percent to each child. In the dame amendment the provision of deduction on the life insurance premium was made. The revised act included the clause, "in case any income-earning person has taken a life insurance policy from the prescribed insurance company, the premium paid in consideration of such policy shall be debited. Provided that deduction shall not be granted for premium expenses exceeding 7 percent of insurance amount.

Next year the provision for filing income tax separately by the married individuals was introduced in the law for the first time. In this act the income tax rate was from 5 percent to 50 percent and there were seven different income brackets. In the next year the income tax rate was revised to 5 to 55 percent in eight different income levels.

The fourth amendment of income tax act (2041) revised the provision of deduction on the educational expenses from 2.5 percent to 5 percent for each minor child of the taxpayer. The provision had restricted to deduct the allowance from both the parent taxpayers if both are the earning parents.

In 2043 the income tax was revised for the sixth time. The revised income tax withdrew the provision to deduction on the stationary allowance and educational allowance. Instead of these itemized deductions, there was the provision for deduction of Rs. 3000 or 15 percent of the net taxable income as the standard deduction for the introduced taxpayer. So the finance act of 1986 introduced the concept of standard deduction for the first time. This standard deduction was permitted for all the individual income taxpayer. So the tax system helped for the small taxpayer to calculate the income tax. The film distributor tax was abolished in the year 2045.

In 2047 the finance act made the revisions on the standard deductions. The revised standard deduction was equivalent to 15 percent of the net income or Rs. 5000 whichever is less. The finance act also had the provisions of exempting the investment on the Citizen Investment Trust. The income of the Citizen Investment Trust and the interest received from the same was also made tax free income. In this finance act there was the provision of tax exempt on the interest derived from the fixed account deposits if it was less than Rs. 5000.

The income tax act was again revised in 2049 and the standard deduction was raised to Rs. 5000. The finance act made the provision of income tax rate in only three categories and the rate was a minimum of 15 percent to a maximum of 40 percent. The act 2049 also had the provision of self-assessment of income tax. This act made the provision for self-assessment to the taxpayers earning from remuneration, house rent and the taxpayers who audited their accounts from the certified auditor.

In the year 2050 the finance act revised the interest tax and the provision to tax the interest from the saving deposits was made. This act made the revision and levied the tax of 5 percent in aggregate on all the interest gained. But the interest gained from the employee's provident fund and other special cases were all tax-free. This finance act imposed a provision of paying tax in advance to all types of firms, organizations. Industries and private schools to renew tax on the interest earned from the deposits on the savings account was introduced. In the year 2051 the rate of income tax was from 10 percent to 35 percent in three different categories of income. This act also made a provision of deduction the investment on the Citizen. Investment

Trust, a sum equivalent to 5 percent of the remuneration from the total income to derive the taxable income.

The Finance Act 2052 revised the tax rate to 10 percent. The standard deduction was increased to Rs. 7500 or 15 percent of the net income whichever is less. The investment limit was raised to 10 percent on the investment in the Citizen Investment Trust and interest earned from that amount was made tax-free.

In the year 2054 the income tax rate was again revised to two categories with the rate as 15 percent and 25 percent. The rate 15 percent was levied on the income of Rs. 45000 above the exemption limit and the higher rate (25%) was subject to all the income above the income of the previous income level. The standard deduction on the income tax was raised to Rs. 10000 or as 15 percent of the net income whichever is less. The finance act had the surcharge of 20 percent to the foreigners on the above mentioned tax rate.

The income tax exemption limit was increased to Rs. 50000 for an individual and Rs. 60000 for the couple and family in the financial year 2056/57. The rate was 15 percent and 25 percent in two income categories. The deductible expense as defined by this Finance Act were:

- 1 Deduction on the charitable contributions:
- 2 Deduction on the premium of life insurance:
- 3 Provident fund equivalent to 10 percent of the remuneration:
 - a. Investment on citizen investment fund equivalent to 10 percent of the remuneration, provided the yearly remuneration should not exceed Rs. 100000
 - b. Contribution on the Insurance premium fund equivalent to 10 percent of the remuneration
- 4 Standard deductions as permitted by the income tax act. No exemption limit for the temporary residents was permitted.

The finance act had clearly stated that no deduction was permitted on the income other than the deductions allowed by the law and the finance act. Comparison between the percentage increase on the rate of tax exemption limit and the Inflation:

Taking 2047/2048 as the base year the exemption limit has reached to Rs. 250.0 for individual and to Rs. 200.0 for the couple or the family on Rs.100.0 whereas the national price index has moved to Rs. 236.0 as compared to Rs.100.0 of 2047/48. Considering the revision on the exemption limit as the inflationary adjustment, individual exemption limit looks higher than the general price level whereas the revision on the family exemption limit is lower. Till the end of the previous fiscal year, the limits provided to the individual and the family both were lacking behind the inflationary pressure. The table shows that the revision on the tax exemption limit has not considered the rise in the general price level but to some extent the increase in the exemption limit has also included the inflationary rise of goods and services.

4.5 Assessment of Income Tax:

The meaning of assessment is to determine something for specific purpose. "The word assessment is used in a number of provisions in a comprehensive sense and it can comprehend the whole procedure for ascertaining and imposing liability upon the taxpayer and the machinery for enforcement thereof " (*Lal, B. B. Elements of Income Tax, 1990, P494*).

Assessment of income tax is the most important function of income tax management. The amount of income tax collection depends upon the quality of income tax assessment and the quality of income tax assessment largely depends upon the quality of tax personnel, taxpayers, laws and policy. The corruption and evasion can be reduced with an efficient and effective income tax assessment procedure by which more and more financial resources can be generated through income tax. It is believed that more financial resources can be generated with an efficient income tax assessment procedure within the present laws and policies.

The assessment procedure can be made more efficient with the improvement management.

For the purpose of income tax assessment, the Income Tax Act 2031 has classified the taxpayer's income into following five categories (Section 5)

Agriculture

- I. Industry, Business, profession and Vocation
- II. Remuneration
- III. House Land rent
- IV. Other Sources.

Income from above sources is the subject of income tax assessment under Income Tax Act 2031 the assessment procedure of income tax followed for income from above five sources can be listed as follows.

-) Submission and filing of income statement.
-) Assessment of net income
-) Assessment of tax liability
-) Tax assessment order.

Submission and filing of income statement:Each taxpayer must submit his /her income statement in the prescribed form within three months after the completion of income year (Sec. 27). If the taxpayer fails to submit his/ her income statement within the prescribed time for reasons like illness, being in foreign countries.

4.6 Self -Tax Assessment:

The meaning of assessment is to determine something for specific purpose "The word assessment is used in a number of prison in comprehensive sense and it can comprehensive sense and it can comprehend the whole procedure for ascertaining and imposing liability upon the taxpayers and the machinery for on for cement there of " (Lal, B. B , *Elements of income Tax*, 1990 p. 414).

Assessment of income tax is the most important function of income tax management. The amount of income tax collection depends upon the quality of income tax assessment and the quality of income tax assessment largely depends upon the quality of tax parchment, taxpayers, and laws to policy. Which can reduce the corruption and evasion with an efficient and effective income tax-assessment

procedure more and more. Financial resources can be generated through income tax assessment procedure within the present laws to policies.

The assessment procedure can be made more efficient with the improvement in management. For the purpose of income tax assessment the Income Tax Act 2058 has classified the taxpayer's income into followings 3 categories (section 2)

1. Business
2. Employment and
3. Investments

Income form above sources is the subject of self-tax assessment. Under income Tax Act 2058. The self-tax assessment procedure of income tax followed for income from above five routes can be listed as follows.

-) Submission and filing of income statement.
-) Assessment of Net Income
-) Assessment of Tax liability
-) Tax payment and
-) Tax clearance.

Submission and filing of Income statement. Each every taxpayer must submit his/her income statement in the prescribed form within three month after completion of income year (Shrawan to Asadh). If the taxpayer fails it submit his/her income statement within the prescribed time for reasons like illness being in foreign countries, account is not finalized etc, the tax officer extend the time for next 3 months in the application of taxpayer. The statement of account has to be submitted by a company with a completed Audit Report. It in case of not completion of audit or the approved of account by an annual general meeting, the taxpayer has to be submitted a provide annual income statement. (Sec. 19)

Assessment of Net Income :For a private firm, himself can assessment net income try preparing s profit and loss Act. Differed between Taxable income and deductible expenditures is equal to taxable Net income for a company. This is second step of self-tax assessment procedure.

Tax payment: The net income is determined after the allowable deduction from gross income of versions soirées and then a firm company pays tax according to income tax rate in Nepal that is 25 percent of net income is to be paid.

Tax clearance: After submission of income statement paying tax, taxpayers can get clearance of tax. For it he/she should apply for tax clearance and tax officer studies the income statement, which is submitted by taxpayer and if the income statement is according to tax law of regulation he provides tax clearance to the client (Tax payer).

4.7 Collection of Different Taxes by Inland Revenue Department and its growth rate:

Following table shows collection of income tax and other taxes in different years.
This table shows collection of various taxes from fiscal year 2060/61 to fiscal year 2064/65.

Table No. 5
Collection of various taxes from fiscal year 2060/61 to 2064/65

Income Tax Collection	figure in ,000					
	2060/61	2061/62	2062/63	2063/64	2064/65	
Targeted						Target progress
Corporate income tax	6,771,200	7,494,600	7,775,700	8,964,900	11,360,600	100.67
Government institutions	2,036,100	1,254,200	1,371,600	1,582,500	776,500	101.008
Public limited companies	1,319,800	2,461,100	2,376,300	2,739,600	5,121,100	116.03
Private limited companies	1,233,200	1,365,300	1,757,300	2,026,000	2,299,700	101.43
Personal income tax	2,061,500	2,280,000	2,143,800	2,471,600	2,920,300	90.73
Other Institution	120,600	134,000	126,700	145,200	243,000	89.23
Remuneration Tax	1,389,600	1,538,500	1,677,500	1,934,000	2,527,700	100.11
Industry, business, Profession and others	1,389,600	1,538,500	1,677,500	1,934,000	2,527,700	100.11
Investment tax	1,313,800	1,455,900	1,528,800	1,762,800	2,946,000	98.35
Rent tax	389,800	431,600	486,000	560,400	854,100	103.45
Interest tax	785,400	869,600	839,400	967,770	1,389,600	112.04
Capital Gains	1000	1,500	7,600	8,815	100	
Dividends	137,500	152,200	194,900	224,757	701,600	
Other Income from Investment	100	1,000	900	1,058	600	
Total	12,187,100	10,489,000	3,781,000	9862500	16,834,300	109.40

Table No. 6
Income Tax Collection figure in '000'

	2060/61	2061/62	2062/63	2063/64	2064/65	Contribution		Difference with previous
Corporate income tax	6,816,869	7,345,003	7,576,530	9,722,312	13,268,756	50.85	100.00	32.37
Government institutions	2,056,635	1,332,430	195,774	664,487	204,585	21.62	42.50	64.32
Public limited companies	1,531,340	2,467,789	3,405,582	4,382,619	7,186,458	16.09	31.65	23.86
Private limited companies	1,250,811	1,531,305	1,703,027	1,968,090	3,140,371	13.15	25.85	7.12
Personal income tax	1,870,466	1,885,657	1,958,791	2,499,127	2,452,345	37.2	100.00	11.40
Other Institution	107,617	127,822	313,356	207,989	284,997			
Remuneration	1,391,189	1,675,861	1,771,129	2,162,854	2,451,039	14.62	39.32	12.19
Industry, business, Profession and others	1,391,189	1,675,861	1,771,129	2,162,854	2,451,039	22.57	60.68	10.90
Investment tax	1,292,225	1,424,770	1,546,555	2,692,390	3,271,475			
Rent tax	403,283	495,549	528,457	730,908	721,102	4.24	100	5.65
Interest tax	880,000	757,035	774,820	1,360,391	1,087,927	7.71	100	-13.23
Capital Gains	1251	7,030	657	95	803,492			
Dividends	7568	165,147	242,585	600,455	657,694			
Other Income from Investment	123	9	36	541	1,260			
Total	9,500,283	10,445,634	10,894,214	8059575	18,991,270	100.00		
Income tax collection increase	20.26	22.78	-2.09	-9.64	18.06			

Source: *Budget Speech of various years* (www.mof.gov.np)

From above mention table we can see that corporate income tax is in increasing trend. Because of stabilized small company, the tax revenue. Corporate

income tax is increased at 10.68 percentage in fiscal year 2061/62, 3.75 percentage in fiscal year 2062/63, 11.81 percentage in fiscal year 2063/64 and 26.72 percentage in fiscal year 2064/65. This increment shows that no of tax payer are increasing in our country. The percentage changes in income tax compare with fiscal year 2060/61 and 2064/65 is 67.78 percentage. The speculative type business like land and building transaction is very high in fiscal year 2064/65. And GON focus them to track in tax paying. Numbers of Housing companies are registered in that period in company registered office in fiscal year 2064/65.

Among tax payer, public companies are big share of tax payment. In fiscal year 45.08 percentage, while personnel income tax contributing 25.71 percentage, private ltd. companies contributing 20.24 percentage, Govt. institution contributing 6.84 percentage and other institution contributing 2.13 percentage.

Remuneration Income is also satisfactory in income year 2064/65. It met the target progress. Increasing trend is high in fiscal year 2064/65 comparatively previous fiscal year. In fiscal year 2064/65 total remuneration income is 2,527,700 thousand which is 30.70 percentage more than fiscal year 2063/64. Remuneration Income met the target progress.

Investment tax is also in increasing trend from fiscal year 2060/61 to fiscal year 2064/65. In fiscal year 2064/65 Investment tax increase by 67.12 percentage. Because of opening new branch of bank, finance companies and established new co operatives, tax on interest was increased by 43.58% in fiscal year 2064/65 compare with fiscal year 2063/64

Internal sources of Income tax in increasing in Nepal. Awareness about tax in positively going on. People are diverting from personnel transaction to institutional transaction. It also generating tax revenue.

Table No. 7

Number of Tax Payers and Income Statement In fiscal year 2064/65

Symbol No	Types of Taxes	Number of Tax payers
1.1.3.00	Income Tax	327,014
1.1.3.10	Corporate Income tax	163,507.00
1.1.3.11	Government Institutions	26,963.00
1.1.3.12	Public ltd.Company	474.00
1.1.3.13	Private ltd.	6,944.00
1.1.3.14	Private Firms	128,517.00
1.1.3.19	Others	609.00
1.1.3.20	Remuneration Tax	3,064.00
1.1.3.50	Investment Income	3,128.00
1.1.3.51	Rent	3,128.00
	Total	336392

Source: *Inland Department Report 2064/65*

From the above table it is clear that income taxpayer is very high among all other taxpayers. In the year 2064 /65 the number of income tax payers was 327014 out of 332,392 taxpayers. Out of total tax payer corporate income tax payers contribute 44.99 percentages.

From the above table we can early analyze that more than 90% of the total tax collection is from income tax every year.

4.8 Performance of Tax personnel in terms of No of Assessment and collection.

Most of the Tax officers in Nepal do not have the background accountancy, commerce & law; As a result, their work efficiency is very poor. From the past, we saw indicates the poor performance of tax personnel in Nepal in terms of number of income tax assessment and collection.

From the mentioned above it is clear that the performance of tax personnel is very poor, Number of income tax assessment made by each officer and in specter was 184 in fiscal year 2043/48 and again increased to 344 in 2056/57 the income tax collection per officer and inspector showed the increasing trend. It was Rs. 92 million in fly 2047/48 & reached to Rs. 187.32 million in fiscal year 2056/57.

4.9 Collection of Income tax by sector Based on 2064/65

Following table is presenting the collection of income tax by various sector.

Table No. 8

Internal Revenue Collection

Fiscal year 2064/65

	Targeted	Collection	Percentage
Total Tax Revenue	80,962,200	85,155,458	99.71
Total Direct Tax	80,962,200	85,155,458	105.18
Income Tax	16,869,200	19,077,813	113.09
House/Land Rent Tax	4,428,600	4,009,946	90.55
Interest Tax	1,485,200	756,876	50.96
Total Indirect Tax	59,664,400	62,067,699	97.89
Value Added Tax	29,651,900	29,815,703	100.55
Excise Duty	10,523,200	11,189,575	106.33

Source: *Inland Department Report 2065*

According to department of thereon the collection process is made cashier by diving sector in different heads. According to avowable data the sectors are divided into six heads. They are government sector semi government sector private sector, Remuneration, House Rent & interest tax.

The collection performance of Income tax by sector is given in the table No 8.

In the year 2048/49 the private sector contributes more tax revenue than other. Sector (i.e Rs 6133.78 million) In the same year the second position was on government sector (i.e. Rs. 1704 Million) But in the year 2057/58 the contribution of income tax from the government sector is again lower than the derivate sector, where the government sector contributed Rs 41228.3 Million contribution of income tax from other sector seems to be ordinal. Even though the Remuneration earners contributed third position in the total tax collection. Similarly the in tenses tax reused the forth position in the income tax from the above result, it can be said that the collection of income tax is not so much promising. The special effort should be given to the different sectors of taxpayers group. Tax collection from the land / house sent is to be made effective and efficient. Private sector should be enforced to pay actual tax amount to help in the economic development of the country.

4.10 An Empirical Finding:

An empirical investigation was conducted on this study from the experience of the real world. The major tool used for this purpose is an opinion questionnaire which was dispatched to so persons representing small taxpayer and small businessmen , auditor and tax officers, but only, responds were received some of the individuals of corporate business sector did not want to response

The questions are focused on the present income Tax rules, Tax structure and the opinion of the respondents regarding income tax evasion and causes.

In the question are altogether twelve questions were asked. The result obtained from the opinion survey was analyzed separately according to these questions.

For analysis of collected data we used statistical method i.e. average, percentage and chi-square test method.

Collected data were as follows

Table no. 9

Categories	Sample size	Sampling technique
Governmental Officials	5	Convenience sampling
Small businessmen	25	Convenience sampling
Corporate businessmen	5	Convenience sampling
Auditors	5	Convenience sampling
General people	10	Convenience sampling
Total	50	

Source: **Field survey, 2010**

But in the presentation we kept some where small businessmen and corporate businessmen as 'Tax payer'.

The replies of respondents are kept in table and number of the respondents are in percentage.

Table no. 10

in %

Opinion regarding income tax as suitable for raising domestic resource

Result	Number of respondents					Total
	Small businessmen	General people	Auditors	Govt. Officials	Corporate persons	
Yes	40	14	6	4	6	70
No	10	6	4	6	4	30
Total	50	20	10	8	10	100

Source : Field survey, 2010

According to them 70 percent of the respondents gave their view on 'yes' and 30 percent of them were against. By this we can say that income tax is a suitable mean for raising domestic resources.

Table No. 11

in %

Opinion regarding efficiency of tax system

Result	Number of respondents					Total
	Small businessmen	Auditors	General people	Govt. Officials	Corporate persons	
Yes	14	4	6	8	4	36
No	26	6	10	2	4	48
No idea	10	0	4	0	2	16
Total	50	10	20	10	10	100

Source: Field survey, 2010

The replies on the asked questions were 18 respondents were on favor of the tax system, 24 were against the tax system and 12 respondents replied on no idea. So we can say that tax system seems to be ineffective..48 percent were in against means that there should be effective policy on tax system. If we add the silent or ‘no idea’ in this reply then the tax system is not effective. And If we add the silent or ‘no idea’ in the reply ‘yes’ then the tax system is also not effective.

Table No. 12 in %

Opinion regarding major problems of income tax management in Nepal

Result	Number of respondents					Total
	Small businessman	General people	Tax officials	Auditor	Corporate persons	
Legal provisions	30	16	4	4	8	62
Taxpayers' habit	20	4	6	6	2	38
Total	50	20	10	10	10	100

Source: Field Survey, 2010

According to their answers; legal provision is the major problem in income tax management is playing role. That means legal provision should be change according to suitability. 19 (respondents i.e.38 percent) replied on the taxpayers habit were problems in income tax management.

How can we increase tax paying habit of Nepalese people?

- a. Educating taxpayers 10
- b. Simplifying tax laws 10
- c. Timely assessment of tax 18

Table No 13

in %

Opinion regarding method of increasing Tax paying habit

Result	Number of respondents					Total
	Small businessman	General people	Tax officials	Auditor	Corporate persons	
Educating taxpayers	8	2	6	0	2	18
Simplifying tax laws	16	6	2	2	2	28
Timely assessment of tax	18	8	0	6	6	38
Incentive to regular taxpayers	8	4	2	2	0	16
Total	50	20	10	10	10	100

Source: Field Survey, 2010

According to their response, 18% argued on educating taxpayers, 28% argued on simplifying on tax laws, 38% argued on timely assessment of tax similarly 16 percent replied on incentive to regular taxpayer. According to their reply, more of the respondents were on timely assessment of tax and simplifying on tax laws.

Table No 14

in %

Opinion regarding tax evasion practice in Nepal

Respondents	Yes	No	Row Total
Tax Officials	2	8	10
Auditors	6	4	10
General People	4	16	20
Tax Payers	44	16	60
Column Total	56	44	100

Source: Field Survey, 2010

Test of Hypothesis: Chi-square (χ^2) test

Respondents	Yes	No	Row Total
Tax Officials	2	8	10
Auditors	6	4	10
General People	4	16	20
Tax Payers	44	16	60
Column Total	56	44	100

Source: Table 14

Null Hypothesis, H_0 : There is no significant difference of the view between tax evasion practices exist in Nepal and not practiced in Nepal

Alternative Hypothesis, H_1 : There is significant difference of the view between tax evasion practices exist in Nepal and not practiced in Nepal

Test statistics: Under H_0 , the test statistic is,

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

Where, f_o = Observed 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	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{(f_o - f_e)^2}{f_e}$
(1,1)	2	$\frac{10 \mid 56}{100} = 5.6$	-3.6	12.96	2.31
(1,2)	8	$\frac{10 \mid 44}{100} = 4.4$	3.6	12.96	2.95
(2,1)	6	$\frac{10 \mid 56}{10} = 5.6$	0.4	0.16	0.03
(2,2)	4	$\frac{10 \mid 44}{100} = 4.4$	-0.4	0.16	0.04
3,1	4	$\frac{20 \mid 56}{100} = 11.20$	-7.2	51.84	4.63
3,2	16	$\frac{20 \mid 44}{100} = 8.8$	7.2	51.84	5.89
4,1	44	$\frac{60 \mid 56}{100} = 33.60$	10.4	108.16	3.22
4,2	16	$\frac{60 \mid 44}{100} = 26.4$	-10.4	108.16	4.04

					$\frac{(fo - fe)^2}{fe} = 23.11$
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Calculated $\chi^2 = \frac{(fo - fe)^2}{fe} = 23.11$

Degree of freedom = $(r-1)(c-1) = (4-1)(2-1) = 3 \times 1 = 3$

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

Tabulated $\chi^2_{0.05(3)} = 3.4665$

Since calculated $\chi^2 >$ tabulated χ^2 , the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore, there is significant difference between the view of tax Opinion regarding tax evasion practice in Nepal

Thus The tax evasion is in practice in Nepal

6. Controlling of income tax evasion.

For this we ranked the views into two categories i.e.

Controlling by positive way 40

Controlling by strict way 10

This can be tabulated below

Table no. 14

in %

Result	Number of respondents				Total
	General people	Tax officials	Auditor	Tax payers	
Positive way	14	2	8	44	68
Strict way	6	8	2	16	32
Total	20	10	10	60	100

Source: Field survey, 2010

According to their views, 68% of them said that positive way will be suitable for reduce tax evasion and 32% of them said that strict way is more effective for reduce tax evasion. According to the replies We can say that positive way will be best way to reduce tax evasion.

7. Do you have complication in paying tax?

On asked question answers were as follows:

Table no. 15

in %

Result	Number of respondents				Total
	Tax payers	Auditors	General people	Government officials	
Yes	42	4	16	0	62
No	18	6	4	10	38
Total	60	10	20	10	100

Source: Field Survey, 2010

According to their reply, 62% have complication in paying tax and 38% have no complication in paying tax. By this we can say that there is some complication in paying taxes. According to them, administrative aspect and tax officials behave are the causes of this.

8. Is income tax act 2058 collecting more revenue than income tax act 2031?

About this question the replies are as follows

Table no. 16

in %

Views	Number of respondents				Total
	Tax officials	Auditor	Tax payers	General people	
Yes	8	8	44	16	76
No	2	2	16	4	24
Total	10	10	60	20	100

Source: Field survey, 2010

According to their views income tax act 2058 is more convenience to pay taxes than income tax act 2031. Their views were income tax act had more difficulties in tax administration but that type of drawback is not in income tax act 2058.

9. Income tax rate raised or deducted?

Income tax rate should be raised or deducted.

The view of respondents were as follows

Table no. 17

in %

Views	Number of respondents				Total
	Tax payers	Auditor	Tax officials	General people	
Raised	8	2	6	4	20
Deducted	52	8	4	16	80
Total	60	10	10	20	100

Source: Field survey, 2010

According to their answers most of them (80%) said on income tax rate should be deducted and 20% of them said to raised income tax rate. We can say that the rate of taxes should be deducted.

10. Difficulties in Self-Tax assessment.

Their answers are as follows Table no. 18

in %

Result	Number of respondents				Total
	Tax payers	Tax officials	General people	Auditor	
Lack of tax law	10	6	4	0	20
Behavior of tax officer	20	0	4	4	28
Compulsion of audit report	4	0	4	2	10
Tax clearance procedures	18	0	6	2	26
Official procedures	8	4	2	2	16
Total	60	10	20	10	100

Source: Field Survey, 2010

According to their view behavior of tax officials is main difficulty of self –tax assessment out of 50 ,14 respondents argue on this, tax clearance procedures is other difficult on self tax assessment ,for this 13 respondent were in favor, lack of tax law is another difficulty in self tax assessment, for this 10 respondent gave their view, similarly official procedures and compulsion of audit were other difficulties in self tax assessment ,for this 8 and 5 respondent respectively.

11 Is Self- Tax assessment better way of income tax collection?

For this question we found their answer as follows.

Table no. 19

in %

Views	Number of respondents				Total
	Tax payers	Auditor	General people	Tax officials	
Yes	44	8	12	2	66
No	16	2	8	8	34
Total	60	10	20	10	100

Source: Field survey, 2010

According to their answer most of the respondent (33) argued in favor of self-tax assessment and rest of them 17 respondent were against self-tax assessment. According their view self- tax assessment is the better way of tax collection.

12. Do you believe that income tax is taking vital role in revenue generation for the government?

The response was as follows

Table no. 20

in %

Views	Number of respondents				Total
	Tax officials	Auditor	Tax payers	General people	
Yes	6	4	36	10	56
No	4	6	24	10	44
Total	10	10	60	20	100

Source: Field survey, 2010

According to their view,56% said that self-tax assessment is playing vital role in tax collection system and out of them 44% said that self –tax assessment is not taking vital role.

CHAPTER V

SUMMARY, CONCLUSIONS & SUGGESTIONS

5.1 Summary of the study

Income Tax Act 2058 is helping the nation by collecting taxes but there are several problems to implement it and to fulfill target outcomes. First of all people of our country are not aware about tax and on the other hand, the government is not convincing people about tax. Other main reason for implementation of this act is peoples' concept about misuse of tax. Government's main aim is to collect maximum taxes from people for the fulfillment of their needs and national interests but there are difficulties to meet the target adequately.

In Nepal government never become success to convince people about collected tax and its utilization. A huge number of corruption and misbehave of policy makers and bureaucrats, the collected tax is not properly utilized on welfare of people and information to the people is not sufficient and fact.

Nepal is developing country. People are poor. According to Central Bureau of Statistic; per capita income of Nepalese is \$240 per annum. Because of poverty people are not willing to pay tax. Bureaucratic system of Nepal and the other factors are influencing problems in the Income Tax act 2058.

In most of the developing courting people are hostile to pay tax, for the simple reason that it takes people's money with no specific rewards in return. In our country there is no possibility of getting specific rewards, instead the taxpayer can not know where the tax is being properly used. The government does not feel it's responsibility to explain its utilization how and where the revenue is being utilized. In these countries the public dislike taxation as a first principle for obvious reasons. The public's first wish for the tax system becomes “reduce my tax liability & raise others

". No residents want to pay tax until government assure the proper utilization of the government revenue it can be ray that if government is able to show people about collected tax and its was properly, then people will be excited to pay tax. And government cannot be able to show the usage of tax then people wish goes to pay less tax.

At present the income tax revenue is increasing every year. This is a positive indication for further mobilization of internal resources. The number of taxpayer is also increasing each year that has widened the taxpayer's circle. More and more individuals are coming under the tax net. In the incomes on the revenue structure, a bracket rates may not be higher because we have only two bracket of tax rate. In spite of security problem, the income tax collection is helping Motion greater than estimated revenue. Other reason is that people of Nepal are becoming conscious about tax.

In the context of Globalization the developing countries are seen to suffer because of the less efficient tax administration. With the increase on personal morality and development of information technology and with the freedom to invest saving abroad the total income of many individuals will consist a large component of foreign earned income. These individuals are likely to underreport incomes earned abroad and the tax administration of their country of residence will be unable to ascertain or discover these foreign earned incomes. These individuals are likely to underreport incomes earned abroad and the tax administration of their country of residence will be unable to ascertain or discover this foreign earned, income. Due to this the high earners can escape from tax and & the low earners. A formal income tax act was introduced in 2057 for the first time in Nepal. It was known as "Business profit and Remuneration Tax" This was government by the business profit and remuneration act 1960. It was replaced by the Nepal Income Tax Act 2019, which was amended, in 2029 remained fill 2031 and was replaced by "Income Tax Act 2031". This income tax act is the existing law relating to income tax in Nepal. It has been amended in 2043, 2038, 2042 and 2043 according to the changing economic environment of

Nepal. Like wise income Tax Act 2058 is in the use, it is the demand of time and is helping Nation on the field of National revenue.

The resource gap has been a regions bottleneck in process of economic development of Nepal. The balance of payments is not favorable. Every year import of goods is higher than export of goods. If resource gap is taken to be the difference between expenditure and revenue it has grown from about Rs 1673.18 Million in 2057/58. This is a clear indication of the poor performance of at resource, mobilization. In Nepal expenditure is very high than income. It's main reason is that there is misusest resources to generate revenue, though Nepali are being conscious about it.

If consideration is given to foreign grants in calculating the resource gap expenditure (Revenue + foreign grants) the picture is in no red from Rs 804.20 million in 2037/38 to Rs 17667 million in 2057/58. If showed that the resource gap is verging dangerous stage. If foreign graduates decrease, our regular expenditure will also be affected. As well as including expenditure + foreign grants & loan, the picture, is still not promising and increased from 110.9 million in 2056/57 to Rs 5854.7 million is year 2057/58 . It is also a sign of ineffective resource mobilization.

The increasing magnitude of resource gap clearly indicates that these is and urgent need for mobilizing additional source other wise it may be a great problem in national economy

In the modern world, taxation has been taken as the most effective tool for Being national revenue. The government by mobilizing adequate resources through taxation might invest them in various development programmes. In this way, in the underdeveloped countries the government might play an important role in promoting capital formation, breaking the vicious circle of poverty and by mobilizing adequate resources through taxation. In other word, we can say that for develop the country, government should generate internal resources to generate tax and by the tax revenue should increase and country can be self depended.

Income tax in Nepal was first introduced in the fiscal year 2016/17. It was then known as "Bus mess profits & Remuneration tax (2016)". The Bus mess profits and remuneration Tax act 2017 later governed the imposition of the tax and the rules made these under. This act was replaced by the Nepal Income Tax Act 2019 which was amended in 2029 and again replaced by Income Tax Act 2031 so as Income Tax Act 2058 replaced this act (2031). This Income Tax Act is the existing law relation to income tax in Nepal. This Tax law simplifies the tax –heading & tax rates and most important feature is self-tax assessment.

Income tax plays an important role for the economic development of a country. Because of Income tax evasion practice in Nepal. The share of direct of indirect tax has been increased. This is why the contribution of income taxes is very low in Nepal. Because of its low contribution it could not play an important role in reducing the inequalities of income & wealth at before.

But implementation of income tax Act 2058 contribution of income tax is helping the country by progressive tax system. According to this high profit holder pays high income tax & low profit holder pay low tax.

Richer Nepalese people have lack of tax paying habit and tax habits are increasing day by day due to the low standard of education of tax evasion should be controlled very quickly in Nepal because it has resinous effects to the economy. Income tax evasion effects Negatively to the economic position as well as the social status of a country. If income tax evasion is not controlled, Nepal can never solve its problems of resource gap either it increases its tax rates or applies new source of tax. For tax evasion, mainly taxpayer takes assistance from tax officer & political leaders. Tax officers & politicians themselves are main heroes for tax evasion; they take illegal benefits from bus mess man for self benefit and help them for not to pay tax or to pay fewer taxes. This trend is being practiced in our country. The relation between taxpayers (bus mess men) of tax officers as well as political leaders is the main cause of income tax evasion in Nepal. According to income tax act 2058. Small bus mess men are the main taxpayers. But big bus mess they show less income to excess expenditures as loan & interest etc.

5.2 Conclusion

Among the different components of total revenue. The future of income tax seems to be promising because the rate of growth of this tax is very high. So income tax has a significant importance in government revenue. 21% of tax revenue covers by income tax.

In Nepalese public finance tax revenue occupies an important role in comparison of non-tax revenue. On an average tax revenue contributes 72% and non-tax revenue contributes 28% to total revenue during the period of 20 years. Even though the contribution of direct tax is increasing the share of it is much less to the total tax revenue in comparison with the indirect tax. On an average the direct tax contributes 20% and indirect contributes 79% to the total tax collection. The main reason for the contribution of direct taxation is due to the high rate of tax evasion.

Importance of Income Tax:

-) Income tax can take an important role in the economic development by mobilizing resources through domestic resources.
-) It is a reliable tool in the hands of government for saving the revenue.
-) It is a reliable tool to achieve the objectives of growth, equity and stabilization.
-) Income tax bridges the gap of disparity of income.
-) It checks the inequality between high and low income groups imposing higher income tax to rich people and low tax to the poor.
-) Income tax solves the problem of inflation.

-) Income tax motivates people to work more. If the wealthier people do not work heavy tax on them will force them to work.
-) If government on social overhead spends the proceeds of the income tax the imposition of income tax might lead to an increase in the rate of investment in the community. It concentrates people to invest their savings more effectively.

Private sector should be given in to invest. Investment potentiality in Nepal is high but still private sector does not wish to invest owing to various factors such as lack of transportation, small market lack to raw materials and communication etc.

Income tax for the economic development of Nepal has been increasing significantly in years but it does not mean that the share is that much satisfactory. So many efforts should be made to increase it.

For the first time in Nepal the income tax rate was introduced in 2016/17 in the exemption limit was designed to all types of taxpayers. Later on the exempted amount differed on the basis of different types of taxpayers such as individuals, couple, and family. The present rate of exemption limits for an individual is Rs. 160,000 and for a couple and family it is Rs. 200,000.

The number of taxpayers paying personal income tax has increased by 114.13% from 2060/61 to 2065/66 at the average of 12.68 each year.

If a person wants to conduct a bus mass or profession, he/she must register in inland tax department. Every year (i.e. Shrawan to Asoj) he/she must submit income statement and if he/ she earned profit, should have pay 25% Income tax on profit. According to this system, there is no burden of tax management for taxpayers. If they are if they are on loss they can deduct it for three years equally on further year's profit. Similarly Income Tax Act 2058 simplifies the tax headings & tax rates. 7 headings for deductible heading are fixed in this system and tax officer's monopoly in tax liabilities fixing has collapsed. Before this act (2058) tax officers misused their power and they used to collect illegal money from the taxpayers. Taxpayers were very much suffered torture from tax officers.

Tax collection also increased more revenue than income tax act 2031. The main cause, we can say that simple in income statement of taxable income heading are clearly defined in this act. It act increased income tax collection about 11% than income tax act 20.3%

Likewise from the field survey, difficulties in tax administration are being practices in tax evasion and tax avoidance, tax personnel's' behavior as well as legal provision and lax laws are other difficulties on tax administration.

5.3 Suggestions:

Suggestions for the successful use of Income Taxation are.

1. There should be predominant money economy.
2. The taxpayers should be highly literate.
3. Accounting records should be maintained honestly and they should be reliable.
4. There should be honest and efficient tax administration.

To collect more revenue from Income Tax, the following suggestions should be followed:

Tax administration should be honest and efficient.

Tax evaders should be punished heavily.

The tax payment time and tax rates should be clear among taxpayers.

Scientific method should be used in tax collection.

Assessment of small taxpayers should be on a door – to door basis.

Self –assessment of tax should be encouraged to those where tax assessment by tax department is difficult to reach.

Inland Revenue Department should be made from any illegal pressure.

Tax paying system should not be lengthy.

Tax clearance should be provided in time.

The other suggestions are as follows.

1. The method of accounting, assessment and collection must be made scientific. Mal - practices, which consist in the person station of false and misleading accounts, should be sharply distinguished from the falsification of books from which the accounts are compiled.
2. A nation wide campaign should be launched to inform and explain tax laws, Tax program and tax benefits with a view of stimulating with exhaustive participation of the public to pay taxes through the media of radio, television, news papers and speech programmed in the educational institutions.
3. The pay of tax officials should be adequate which resists the temptation of bribes.
4. There must be adequate trained officer in the tax administration and accounting for the task of assessment of collection.
5. In urban areas the income from house land rent should be taxed effectively more efforts should be given to collect the house / land rent tax.
6. The present level of income tax exemption limit is not appropriate. It must be raised to minimum of Rs 1,10,000 for individual and Rs. 1,50,000 for couple and family.
7. If any individual or staff members detect any un-reporting or underreporting of taxable income, the detector should be rewarded with a share of 25% of the amount in order to make every one tax conscious.
8. Efficient governance can solve the problem of tax evasion the government has to be transparent on letting the people know how the revenue is being used. These must be the programmes to increases. The taxpaying habit of residents. The provision of incentives to the regular taxpayers will also increase the taxpaying habit.

9. Separate department for income tax should be established, so that the specialization could be achieved in the matter of income tax.
10. Up-to date records of existing as well as potential taxpayers should be kept at tax office. Programmes should be formulated to find out the new groups of income taxpayers. Co- ordination with other departments and organizations should be developed in order to find the list of income earning groups.
11. The Taxpayers full information and records should be kept on software and tax assessment should be kept on that software.
12. Regular taxpayers should be rewarded each year and at hat should be published mo mass communication i.e. Radio T.V newspapers etc.
13. Tax personnel should be rewarded for finding the new taxpayers.
14. The income tax assessment procedure must be improved by reducing assessment delays, reducing the best jurymen as far as possible, providing sufficient information to taxpayers, and creating the confidence between taxpayers and tax officers.
15. The payment of tax should be made easier or taxpayers should be able to pay tax where (i.e. every district)

Suggestion to the policy makers.

1. Policy makers should interact with the taxpayers in various forum to know that what actually situation is.
2. Only increasing tax rate is not a way to revenue for government. So many beneficial Act also to be made.
3. Politicians must leave unhealthy ration between bus mess men.
4. Political parties should not take donation from businessman.
5. Act should be in favor of small taxpayers rather than big businessman.
6. Policy makers themselves monitor the made tax act, rules and they must take feedback from taxpayers by organizing public hearing.

7. They must inform people about the future (going to be made Act before deader the Act and take taxpayer's opinion whether it swilled be sight or not.

8. Policy makers should make hard law for corrupt personnel instead of in favor to them.

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