CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal is a small country which lies between two big countries India and China. It is least developed country in the world. It has per-capita income $ 411 US Dollars (UNDP Report, 2010), which is lowest in South Asia Association for Regional Co-operation (SAARC) countries and almost lower per capita income in the world. The economic status of the Nepalese people is very poor in the world. Majority of the population of the country engaged in Agriculture. They are still traditional method of farming rather than modern farming techniques. The rate of population of fertility is very low. Automatically we know about the business position by seeing this agriculture scenario. It requires huge amount of revenue to make the economic condition better and shifted the agricultural base economy in business based economy.

Every government of a country requires sufficient revenues to carryout development plants, to handle day to day administration, to maintain peace and security to lunch public welfare activities. In order to carryout such activities; the government collects revenue from various sources such as: Tax revenues, fees, fine and penalties, subsidies and aids (Koirala and Bhattarai, 2006). Among them tax is the main sources of government revenue. In every country, the largest of the government revenue is raised through taxation. Tax may be imposed by public authority using the right given by tax low. Taxpayers not accept any return for this tax paying. It is neither an accept amount nor a penalty for any legal an exact. The chief function of taxation is that it ensures collective taxation saving for the purpose of public investment and at the

same time provides incentives for promoting private investment. Thus, it's importance cannot be ignored an the overall policy scheme of the government of the developing economy. Taxes are not voluntary purchases payments purchases but mandatory imposition payable in line with what ever tax status has been legislated.

Tax is collected mainly from two ways: one is direct tax and another is indirect tax. Direct tax is actually paid by the person on whom it is imposed. For example income tax, gift tax property tax, vehicle tax etc. While indirect tax is imposed on one person but another person abides to pay it partly or wholly. For example, value added tax (VAT), entertainment tax, hotel tax, sales tax etc. In fact, income tax, VAT and local tax are the main sources of government revenue. Among them income tax is one of the most popular direct tax. It is charged on person's income. According to Income Tax Act 2058, income includes all the incomes, which is derived to income from business, investment and employment. Income tax is superior to indirect tax because it is imposed on the basis of abilities to pay of the taxpayers people whose income is below them taxable income are freed from the obligation of income tax. The main objectives of tax are to distribute the wealth equitable manner. It makes possible to reduce the gaps in the economy by imposing higher tax rates those who are having high income. Hence, it will help to make equitable economic distribution in the society. Balance regional economic development is also possible through the provision of income tax.

The government should charge higher income tax on the income from urban area and less charge on the income from remote area. Income tax incentives would help to develop the priority sector of a national economy. This type of provision makes the industries shitted in urban areas, which produce employment in urban area. Similarly, VAT is the

form of indirect tax. It is developed from the sales tax. The basic objectives of VAT are to collect more revenue indirectly. It is the tax that is imposed on the value addition in each stage of production or sales. The sales tax is replaced by VAT are to avoid cascading to make account system transparent and to control the tax evasion. VAT can be collected in two ways: Subtraction and additional subtraction method of VAT is popular in the world. VAT system was introduced in 1919 and used in 1954. In Nepal, it was introduced in 1997 replacing sales tax, entertainment tax, hotel tax, and contract tax. At present, rate of VAT is 13% in Nepal. Similarly, local tax is other types of direct tax which contribute huge amount of tax revenue. It is not a single but groups of taxes. The main variant of local tax is properly tax which means a tax imposed by local body on the value of property located with the jurisdiction of that local body. The other variant are vehicle tax, business tax etc. The authority to collect the revenue to local bodies is given to provide real autonomy to them since no autonomy can felt without sufficient self mobilized revenue. It is an old the cities. However, in Nepal the concept of local tax is a new one. Now, local tax Act 2055 is implementing in Nepal (Kandel Puspa Raj, 2006).

Those who pay tax are known as taxpayers. Taxpayers may be classified into two categories. They are large taxpayers and small taxpayers include general taxpayers and presumptive taxpayers. A person or an entity whose annual income is more than two million is classified under large taxpayers. It includes sole proprietorship business, partnership, private limited and limited company. Similarly, a person or an entity whose annual income is less than two million is classified under small taxpayers. This study is concerned with awareness of taxpayers towards business taxation. Taxpayers and their awareness mean what type

of knowledge they have about the income tax act, 2058. They know all the provision in Income Tax Act 2058. They have knowledge about different facilities provided by the government in tax law. There is no debt if the taxpayers are aware about the tax law both the government and taxpayers should be benefited. In Nepal 95% of the taxpayers want to hide the income and they are not interested to pay tax as their duty but in foreign country 95% of taxpayers willing to pay their tax liabilities (8 Dec. 2005, Kantipur Daily). Nepal is a least developed country, sources of government revenue are very limited. Revenue structure of Nepal is depends on the foreign aids and they also mentioned different terms and conditions, which make the proper utilization of find very difficult. They make us depend in others. Therefore, internal source is the key factor of government revenue to be independent. Most of the government revenue is collected from business activities. So the government should make business friendly relation with taxpayers.

1.2   Statement of Problem

Nepal is a least develop country. It needs huge amount of revenue to provide needed facilities to operate trade and industries and business. To make economic condition strong and better, Nepal needs more economic growth than now. It has not raised enough funds from tax revenue. In Nepal, there is not business friendly environment between taxpayer and government. Taxpayers always try to hide the income wholly or partly. So, the government must make business friendly environment.

Nepal has gap between required resources and supply of sources. To fulfill the gap, Nepal has to face various problems like tax evasion, lack of tax consciousness poor tax administration etc. If Nepal manages

the above mentioned problems, it can collect sufficient revenue to provide more facilities and simultaneously living standard of the people would be better.

The contribution of income tax to the national budget must be increased to achieve the goal of national development and equal economic distribution. The goal can be increased only if the government of Nepal takes steps by bringing the new taxpayers into tax net and implementing the tax laws effectively. So as to discourage the tax evasion practice and loopholes of tax must be trace out. So, this study mention simple problems but it shown the real problems of this study. The statement of problem can be mentioned as follow:

- What is the present position of Awareness of taxpayers of Nepalgunj?

- Are taxpayers aware about concession, rebates and facilities provided by the government in the tax laws?

- Why taxpayers do not register their firm according to Act?

- Why taxpayers do not pay tax according to Income Tax Act 2058?

1.3   Objectives of the Study

The main objectives of this study are to analyze the degree of taxpayers in business taxation. The following objectives have been set up as follows:

- To analyze the view of Awareness of taxpayers of Nepalgunj.

- To find out the degree of income taxpayers awareness about concession, rebates and allowance, provided by the tax act.

⟩ To find out the effectiveness of the taxpayers.

1.4   Significance of the Study

All the country needs huge amount of revenue to conduct various activities, such as making infrastructure, security and other administrative work. The main sources of income are tax, fines and penalties, loan and subsidies and foreign aids. Among them tax is the main sources of income. The government collects tax mainly from two types of taxpayers. The first types of taxpayers are small taxpayers and another one is large taxpayers. Nepal is a small developed country that's why there are so many organization and they contributes huge amount of tax in government revenue. Business is the backbone of all the economy. It represents the development of the country. When there is strong business base economy, automatically they create employment and it keeps symmetrical relation to the purchasing power of people. Factor's of production (land, labour, capital and technology) are easily available in market. All these activities automatically increase the government revenue.

To bring all taxpayers into tax net, the government should take steps to aware the taxpayer's about the different facilities provided by the tax low. The government should make business friendly environment to all taxpayers and bring into tax net. The study encourage the taxpayers to come into tax net and reduce the tax burden by the tax planning rather than tax evasion and tax avoidance.

1.5   Limitations of the Study

Resources, time and availability of data are the main factors of the study. Here the time given by the resource department of the Tribhuvan

University limits the macro level investigation and makes difficulties to find out exact truth. Similarly, this research depends on mainly in primary data. Primary data it self may not be accurate if the respondents bias. It's main limitations are as follows:

) Availability and reliability of data.

) To measure the degree of awareness exactly.

) Resources and time factors also limit the study.

) This study is case study. The findings may not suitable for all cases.

) This study is limited on business taxation only.

1.6   Organization of the Study

Systematic organizing the study is the key factor for writing thesis. It makes the study easier and meaningful. The format provided by the research department of T.U. Organization of the study as follows:

Chapter first includes general back ground of the study, statement of the problem, objective of the study, significance of the study, limitation of the study and organizing of the study.

Chapter second includes review of previous books, journals and thesis etc.

Chapter third includes research design, population and sample, source of the data, data analysis tools.

Chapter four includes data presentation and analysis and major findings of the study.

Chapter five includes summary, conclusion and recommendations.

CHAPTER - II

REVIEW OF LITERATURE

Very few studies have been done on the topic taxpayer and their awareness towards business taxation. It is a way to discover that the other researchers have covered and left the area. A critical review of the literature helps the researcher to develop a through understanding and insight into previous resources works that relation to the present study. It is also way to avoid investigation on problem that has already been definitely answered. Thus a literature review is the process of locating, obtaining, reading and evaluating the resource literature in the area of the student's interest. The purpose of the literature review is to find out what research studies have been conducted in that chosen field and what remains to do.

2.1   Conceptual Framework

In this topics, meaning of taxation, principle of taxation, types and classification of taxes, objectives of taxation, historical development of taxation, historical development of income tax laws in Nepal, Income Tax Act (2058) are to described to known the concept of taxation.

2.1.1 Meaning of Taxation

Different person have defined taxation in different ways. In this respect, it would be better to take the definition given by seligman. In his word, tax is a; "Compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred" (Kendel: 2006, p.4). From the definition given, it can be said that the firstly, a tax is a compulsory

levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax paid. Due to this compulsory nature, people have expressed different views in satirical ways about the taxation. Some says, "Nothing is certain in this world but death and taxes." Some say, "Death and taxes are both certain but death is not annual" while other say, "death means stopping to pay tax". Here, it should be noted that all compulsory payments are not taxes. For example, fines and fees are also compulsory payments without having direct benefit to the payer but they are not tax because their objective is not to collect revenue but to curb certain types of offences. Secondly, taxpayer can not receive any quid pro quo for the payment of tax. The taxpayer does not receive equivalent benefit from the government. A tax is not a price paid by one, for which he can claim goods and services. The charge of price goods and services by public authority is not a tax. Thirdly, the tax is paid to the government for running it. Fourthly, in case of tax, the amount is spent for common interest of the people. The tax is collected from haves and basically spent for the interest of have not in the society. Fifthly, a natural or an artificial person pays the tax.

In conclusion, it can be said that a tax is a liability to pay an amount to the state. The basis of the payment is that the assesses have income of a minimum amount from certain specified sources or they own certain tangible or intangible property or that they carry on certain economic activities or they consume certain goods and services which have been chosen for taxation. One thing in rated that tax and taxes are not synonymous terms. Taxation is a device for imposing tax (Kandel, 2006).

2.1.2 Principle of Taxation

The principle of taxation is to raise revenue to support public services. A good tax system is pre-requisite to attain goal of required revenue. The goal may be obtained through many ways. But, here are set up principles written by various scholars. The principle of good taxation emerges since the start of the seventeenth century. A french scholar, Jen Baptiste Colbert (K.C., 2007) argues that a fundamental deliberation about principle of taxation. In his argument, The art of taxation is the art of plucking the goose so as to get the largest possible amount of feather with the least possible squealing (K.C., 2007). Likewise, the famous economist, Adam Smith wrote, "An enquiry into the nature and causes of the wealth of nations" in 1776 and mentioned four maximum of taxation. However, among of tax system of different nations wide variations exist in how money is raise and spent? Tax and expenditure policies reveal the fundamental ideology of a government and a political system.

The successive writers to the development of taxation principles may be distinctly divided into two approaches:

i)   "The benefit approach" and

ii)   "The ability to pay approach" (K.C., 2007).

He argues that benefit approach views the tax services supplied by government free of direct charges. In ability to pay approach, taxation which is unrelated to benefit to seen as a compulsory payment and the revenue expenditure process is viewed as a planning problem not subject to solution by the rules of market. Thus, the principles to design a good tax system are evaluated on the basis ability to pay principles.

2.1.3 Types and Classification of Tax

Tax can be classified into different division on different basis. The economists have classified a long list of different types of taxes. They classified into five groups. Those may be grouped on the basis of their form, structure, nature, essence and volume.

2.1.3.1 On the basis of form

On the basis of form, tax can be divided into direct and indirect tax

Direct and Indirect Tax

One of the most important and widely used classifications of taxes is the direct and indirect tax. The economists who are devoted on the principle of taxation have defined it in their own way. In 1917 (The first was on 1892), Bastable wrote 'Public finance' and state that, 'Those taxes are direct tax which are levied on permanent and recurring occasion. While charges on occasional and particular events are placed under the category of indirect taxation (K.C., 2007).

Bastable's distinction between direct and indirect taxes is vague. The above stated definition makes confusion too. Both direct and indirect taxes may be recurring nature but direct taxes are more permanent in nature as compared to indirect. Thus, Bastable definition couldn't clearify the position of direct tax and indirect tax (K.C., 2007).

In 1903, Mill defined direct and indirect taxes as: "A direct is one, which is demanded from the very persons who it is intended of desired, should pay it." Indirect tax are those which are demanded from are person in the expectation and intention that he shall identify himself at the expenses of another (K.C., 2007).

The stated definition clears that a direct tax is actually paid by the person on whom it is imposed formally while an indirect tax is imposed on one person but another person abide to pay it partly or wholly.

2.1.3.2   On the Basis of Structure

Economists have classified taxes into four types on the basis of tax rate structure. They are explained as follows:

Proportional Tax

If tax is similar to all taxpayers, it is called proportional tax. Through the tax rate is same, the amount of tax goes on increasing with the increase in tax base.

Progressive Tax

If the rate itself of tax goes increasing with the increase in tax base it is known as progressive tax.

Regressive Tax

If the rate of tax is goes on decreasing with the increase in the ability to pay or tax base, it is called regressive tax.

Digressive Tax

Digressive tax is the combination of progressive and proportional tax. The rate of taxation increase to certain limit and the rate remain constant after crossing the limit of income.

2.1.3.3   On the Basis of Nature

On the basis of nature, taxes can be classified into various groups: income, property, production, consumption, capital goods and consumption goods taxes etc.

Income Tax

Income tax is levied on the earning of a person of corporation. It includes employment, business and investment income. A person or corporation pays tax if they earn taxable income.

Property Tax

Property tax is a levy on an individual's wealth, the value of person's assets on both financial (stocks and bonds) and real property (house, car and art work).

Production Tax

Production tax is a levied by state on value or quantity of production or extraction of natural resources. It includes gasoline tax, gold production tax, crude oil tax, kerosene production tax etc.

Consumption Tax

A consumption tax is a levy which is imposed on sales of goods or services. The most important kinds of consumption taxes are general sales tax, excise tax, valve added tax and tariffs etc.

Capital Gain Tax

A capital gain tax is a levy on profit realized upon sales of an asset. It includes gains from sale of financial assets including securities, derivatives or personal property as capital gains etc.

2.1.3.4 On the Basis of Essence

On the basis of essences, tax can be classified into two categories as specific tax and ad valorem tax. These both are commodity taxes.

Specific Tax

If a tax imposed as a fixed sum on each article or item or property of a given classes or kind without considering its value, that is known as specific tax. In the specific tax, levy is imposed on a commodity according to its weight, size and length and measurement.

Ad Valorem Tax

The term "Ad Valorem" denotes that in proportion to the value. The ad valorem tax is imposed on the basis of value of property. Thus, the taxes that are bases on value are called ad valorem. Especially, there are imposed in commodity according to their value.

2.1.3.5 On the Basis of Volume

On the basis of volume, taxes can be classified into two categories: single tax and multiple taxes.

Single Tax

Single tax occurs in a system in which the taxes are levied only one subject. There is only one tax which tax constitutes the source of public

revenue. The single tax suggests government to grasp up those who create surplus and tax them accordingly.

Multiple Taxes

A multiple taxes system refers to those taxations in which taxes are levied on various item, forms and incidences. This multiple system of taxation conflicts with single tax system. The defender of multiple tax system assumes that the contribution of different taxes contribute to achieves different objectives.

2.1.4 Objectives of Taxation

Tax is permanent instrument for collecting revenues. So, it has been very essential element of a government from the very beginning of the state system. However, the main objective of taxation has been different for different epochs. In ancient times, the major objectives of taxation was strengthening the muscle of the scale by providing the resources. Till to the time of Adam Smith, the chief motive of collecting the revenue was to provide resources to the government for providing security to an individual and society against violence, invasion and injustice and maintaining public institutions. The following words of Adam Smith regarding the duty or a state, clarify this statement clearly.

"According to the system of natural liberty, the sovereign has only three duties to attend to firstly, the duty of protecting the society from the violence and invasion of other independent societies. Secondly, the duty of protecting, so far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice and thirdly, the duty of reacting and maintaining certain public works and certain public

institutions, which it can never be the interest or any individual or small member of individuals to erect and maintain" (Kandel, 2006 pp 5).

In modern days, the main objective of taxation has been shifted from security perception to the economic development. The modern objective of taxation is not only to maintain peace and security but also to conduct development activities. The main objectives of tax are: to raise more revenue, to prevent concentration of wealth in few hands, to redistribute wealth of the common good, to boost up the economy, to reduce on employment and to remove regional disparities (Kandel, 2006).

2.1.5 Historical Development of Taxation

Modern taxation is developed from different stage. It is started with the human civilization. Those steps of development of taxation are presented as follows:

2.1.5.1 Ancient Great India

Rangarajan (1999 p. 19) stressed that Kautilya was a master mind. Kautilya wrote a definite treaties in economic and government at a time when large part of the world were sleep in intellectual darkness.

Indian council for historical research concludes that the Artha Shastra was compilation made by scholar, Kautilya in 150 A.D. The Arthasastra includes different type of cash and kind taxes. Such as: Custom (Sulka), Transaction tax (Vyaji), Tax (Kara) etc. (K.C, 2007).

2.1.5.2 Ancient Egypt

In ancient period tax collectors were known as social in Egypt. They taxed even on cooking oil to collect the adequate revenue from citizens. According to Charles Adams, Egyptian workers and farmers lost

their desire to work business person moved away. Sound money disappeared as an influential inflation destroyed the capital.

2.1.5.3 Ancient Greece

Adams Stresses that time of war the Athenians imposed a tax referred to as eisphora. No one was exempt from tax which was used to pay for special war time expenditure. Athenians imposed a monthly poll tax on foreigners, people who didn't have both an American father and mother of one drachma for man and a half drachma for women. The taxes are referred to as metoikion.

2.1.5.4 Roman Empire

The earliest taxes in Rome were customs duties on imports and exports called Pretoria. Augustus instituted an in heritance tax to provide retirement fund for military. The tax was five percent on all in heritance except giften to children and spouse. The English and Dutch referred to the inheritance tax an Augustine in developing their own inheritance tax.

2.1.5.5 Great Britain

In 1215 A.D., king john of England was compelled to sign the Magna Carta. It was a charter of liberty obtained from king. It guaranteed free trade to merchants within England and it established the principle of "Separation of Powers".

The modern forms of income taxation date to a British income tax levied in 1799. This tax raised revenue for the Napoleonic wars against Frances, which Britain and a coalition of other European nations won in 1815. After the war ended with Napoleon, the income tax of 1799 was withdrawn by a large majority repealing a second income tax in 1816.

The parliament of England ordered to the 1404 income tax and all the government income tax records shattered. During the nineteenth century, the German states also introduced income tax. In a few short years, the leading tax export in America would be contrary to the course of development of every income tax system in the world. The sprit of Britain modest income tax would become outmoded and in unworkable (K.C., 2007).

2.1.5.6 American Tax War

Adams point that American civil war more accurately, "The rich man's war and poor man's fight" was caused by taxation. It was called the "American tax war". At the time, the south paid about three quarters of all federal taxes. The tax system shifted wealth from the south to the north. The proverbial, "Straw that broke the camels back" was the moral tariff, passed by congress in 1861, and signed by Abraham Lincoln. Jefferson Davis, the first president of the confederacy, justified succession in his inaugural address by making reference to the declaration of independence then emphasizing the import tax issue. The north, led by Abraham Lincoln, practiced economic rape against the south. The civil war was fought over taxes, not slavery. The year 1894 may have been civilization's most important tax year. Britain adopted new death duties with progressive rates and united stated adopted an income tax. The progressive rate in Britain soon applied to income taxation everywhere. The taxing habits of civilization would never be the same again (K.C., 2007).

2.1.5.7 Pay-Tax-As-You-Earn System

In 1994, the Great Britain introduced pay-tax-as-you-earn system. This replaced annual or twice yearly collections. Tax was deducted by

employers and when an employee left an employer, they were given a code number income to date and tax paid to date. The scheme was piloted by Sir Kingsley Wood (K.C., 2007).

2.1.6 Historical Development of Income Tax Laws in Nepal

Great Britain is the first country in the world to introduce the modern income tax. It introduces income tax in 1799 to finance the war fought with France. USA introduces income tax in 1862 to generate revenue to finance civil war. In India, while income tax in its modern from war adopted in 1860, several experiments were made from 1860 to 1866 and finally the systematic income tax legislation was enacted in 1866 (K.C., 2007).

Although, the taxes were collected in various forms in ancient era, the history of modern tax is not very old in Nepal. The idea of introducing income tax in Nepal originated in the yearly 1950s when multi-party democratic political system was introduced. In 1951, the finance minister in his budget speech declared the intention of the government to levy an income tax (K. C., 2007).

Attempts were made to introduce income tax in subsequent years. In 1954, an income tax with Rs. 10,000 basis allowance and prograssive tax ranging from 5 to 25% was proposed. Due to political instability it could not be introduced until 2057 (2000).

The first elected government in 1959 finally introduced Business profit and salaries tax acts, 1960 in Nepal. At that time income tax was levied only on business profit and salaries. After about three years experience of income tax, the government replaced the prevailing tax act by income tax act 1962. The coverage was extended in act. In 1974,

income tax act 1974 (2031) was enacted. The act remunerated income sources into five groups: (a) Agriculture, (b) Industry, trade, profession or occupation, (c) Remuneration, (d) House and compound rent (e) Other sources. However, agriculture, income tax was kept outside the tax net except few years through the finance acts.

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation and to amend and integrate the laws relating to income tax, the parliament of Nepal enacted income tax act 2002 (2058). This act has replaced income tax act, 1974 (2031), which was amended for eight times and existed for a period of 28 years. The government of Nepal framed income tax rules 2059 in 2059 to help clarifying the act.

2.1.7 Income Tax Act 2058

Income tax act, 2058 replaced the income tax act, 2031 due to different defects. Narrow tax base, income tax related mater were governed by various acts, silent with regarding to international taxation, no clear provision regarding taxation of capital gain, etc. are the main drawback of income tax act, 2031. Practicing income tax act 2058. So, it is necessary to mention different provision of income tax act, 2058. So, they are mention below:

2.1.7.1 Heads of the Income

The act imposes tax on those activities contributing towards the creation of wealth. Wealth is created with the help of labour, capital and capital labour activities that generated income from employment, investment and business respectively. The act has made a broad

classification of income encompassing of all income earning activities. (See 5) They are:

Income from Employment

An individual's remuneration income from an employment, termed as income from employment, are included in employment income. All payments or benefits received in respect of employment, including past on future employment are made taxable. For example, payment related to allowance salaries, wages, payments received through third parties etc. are included in employment income.

Income from Business

Profit and gains from conducting the business are considered as business income for the purpose of income tax. This type of income may include service fees; amount derived from the disposal of trading stocks, net gains from disposal of business assets (Liabilities) gifts, relating to business and other amount.

Income from Investment

Profit and gains from conducting an investment are considered as investment income. All types of investment income including dividend, interest, natural resources payment, royalty, gain from investment, insurance gain form an unapproved retirement fund, retirement payment made by an approved retirement fund are included in investment income.

2.1.7.2 Taxable Income

The following items are taxable income as per section 7:

i)   Service fees

ii)   Amount derived from the disposal of trading stocks

iii)   Net gain from disposal of business assets/liabilities

iv)   Gifts related to business

v)   Bad debt recovered

vi)   Under payment of interest than standard

vii)   Income from investment directly related to business

viii) Compensation received from the restriction or business

ix)   Gain due to change on exchange rate

x)   Amount required to be included due to change in accounting system

xi)   Amount required to be included as per completion of percentage of work under long term contract

xii)   Compensation against loss of stock or loss of profit

xiii) Amount received after the cessation (closing) of a business

xiv)   Any benefit/perquisites

xv)   Deducted expenditure which is not expand

xvi)   Other discount received, commission received, sundry income, miscellaneous. (Dhakal, 2006)

2.1.7.3 Non-Taxable Income

The following amounts are exempt for tax as per section 10, 11(1).

i)   Income from agriculture (except received by registered agriculture firm)

ii)   Income of a co-operative society registered under co-operative act 2048 from business agricultural/forest product as well as income of a normal saving and credit co-operative.

iii) Tax exempts remuneration under bilateral or multilateral agreement with foreign government/international organization such as diplomats, United Nation (UN).

iv)   Remuneration received from the public fund of a foreign government.

v)   Remuneration provided by Nepal government to foreign citizen under tax exempt conditions.

vi)   Allowances provided by Nepal government to widows, senior citizen and disable person.

vii) Gifts, bequest, inheritance and scholarship except to be included under section 7,8 and 9.

viii) Pension received by retired army or police from the public fund of a foreign government (Dhakal, 2006).

2.1.7.4 Final with Holding Payments (TDS)

The following terms are final with holdings payments as per the section 92.

i)   Dividends from resident company.

ii)   Rent from land and building, furniture and fittings received by an individual other than the business.

iii)   Gain from investment insurance received by a resident person.

iv)   Interest income of an individual (Natural person) from bank financial institute, bonds etc.

v)   Payment made from a approved retirement found.

vi)   Accumulated leave pay.

vii)   Part time remuneration

viii) Meeting fees/writing articles.

ix)   Gain from unapproved retirement fund.

x)   Examiner ship remuneration. (Dhakal, 2006).

2.1.7.5 Now Final withholding or Tax Credit

The following items are the non-final withholdings as per section 88.

i)   Consultation fees.

ii)   Royalty.

iii)   Rent from property (Except house rent received by natural person).

iv)   Interest (except received by natural person from bank of financial institute).

2.1.7.6 Deductions

The following item are the deductions:

General deduction (Section 13)

Expenses related to the business increased in order to generate income from business are fully admissible.

Cost of Trading Stocks

The cost of trading stocks is calculated as per section 15. For this purpose, cost of trading stock is calculated as follows:

Allowable cost of trading stock Opening stock + Purchase – Closing stocks.

Interest expenses (section 14)

Interest expenses are calculated as follows:

i) Interest on loan (not paid to controlling entity fully admissible)

ii) Interest on loan (paid to controlling entity) admissible but not to exceeding the limit. If the interest is paid to controlling entity (tax exempt organization). Actual paid interest or 50% of adjusted taxable income (ignoring interest income and interest expenses) + interest income which ever is less.

iii) Repair and improvement cost (see 16): Repair and improvement tax is calculated as follows:

Allowable limit is actual repair and improvement cost or 7% of depreciable base, which ever is less.

Excess repair expenses (in admissible proportion) are capitalized in respective groups in order to arrive at the ending depreciation base during the relevant income year.

Depreciation allowances

Depreciation allowances are calculated as follows:

Table: 2.1

Charging Depreciation

Block	Assets included	Depreciation rate
A	Buildings structures and similar works of permanent nature	@5%
B	Computers, data processing equipments, furniture, fixtures and office equipments.	@25%
C	Auto mobiles, Bus and mini Bus	@ 20%
D	Construction and earth moving equipments, capitalized, P.C.C. and R & D Cost and any tangible assets not included in above black A, B and C (e.g. plant and machinery)	@ 15%
E	Intangible assets: such as patent right, software, trade mark etc.	Original Cost/ Useful Life

(Dhakal, 2006)

Pollution control cost

It is calculated as follows:

Allowable limit = Actual pollution control cost (P.C.C.) or 50% of adjusted taxable income from business, which ever is less.

Where,

Adjusted taxable income = Before deducting pollution control cost + research and Development Cost + Interest paid to controlling entity + donation.

Research and development cost

It is calculated as follows:

Allowable limit = Actual R & D cost or 50% of adjusted taxable income from business which ever is less.

Bad Debt

Actual bad debt is charged while computing income tax.

i)   Taxes paid under existing Nepal law (except income tax)

ii) Losses: loss on stock, set off/carry forward/backward of loss (loss of past year).

iii) Other real expenses: Preliminary expenditure, compensation, discount, commission, sundry expenses, miscellaneous.

2.1.7.7 Deductions that are not Allowed

The following items are inadmissible expenses as per sec: 21

i)   Any personal or domestic expenses.

ii) Expenses not related to business

iii)　　Expenses for earning non taxable income/final with holding.

iv)　　Reserves/provision/funds (Except risk baring fund up to 5% of outstanding loan of bank/financial institution)

v)　　Dividends

vi)　　Cash payments in excess of Rs. 50,000 at a time having annual transaction more than Rs. 20,00,000.

Exception

i)　　When business are closed.

ii)　　If there is no banking facilities within 10km.

iii)　　If payment is made by government of Nepal, public enterprises, financial institution, bank, retirement.

iv)　　Fine and penalty.

v)　　Income tax.

vi)　　Others (capital expenditure and capital losses). Dhakal, 2006

2.2　Review of Related Studies

The main objectives of review of literature is to find out what other researcher have covered and left in the related subject matter and it is also way to avoid investigation problems that have already been definitely answered. This chapter focuses on the available literature in the field of taxation. The available literature can be divided into three sub chapters. In the first sub chapter: it includes previous research review related with taxation. In the second chapter: it includes book review with taxation. In third chapter: it includes journal review related with taxation.

2.2.1 Previous Research review (Unpublished Dissertation)

Suwal, Rojalin (1981) presented a dissertation entitled 'Income Tax System in Nepal". She studied the problem and important of income tax in solving financial resource gap problem in Nepal. She has also shown the rate and per capita burden of income tax in Nepal. She has shown the trend of income tax and effect of income tax on production in Nepal. Then conclusion was that income tax is on important source of revenue to mobilize additional resource for planned development. Moreover, from the social point of view, income tax is regarded as on instrument for equal distribution of income. With a further improvement in tax administration in future years an increase of more than 25% is expected to be collected every year. The major problems in income tax collection as identified by her were. The absence of clear and comprehensive definition of income, low tax paying capacity and tax continuousness, high tax rates, corruption, etc. She has suggested some factors like increasing tax consciousness to have the taxpayers, clear and comprehensive definition of the incomes for improvement to the government of Nepal regarding tax and tax administration for the collection of income tax in Nepal.

Baral, Shanti (1981) presented a dissertation named "Income Tax in Tax Structure in Nepal". She has mentioned the contribution of income tax in tax revenue of Nepal. She has also shown that contribution of direct tax has been decreasing and indirect tax has been increasing. She has stated the problems of raising government revenue. She has mentioned the main case of tax evasion were, lack of clear and comprehensive definitions of income, lack of punishment to tax evaders, lack of tax consciousness, lack of efficient tax administration, lack of public

information, lack of scientific method of tax collection and trained tax collectors.

Bhandari, Hari Bahadur (1994), presented a dissertation named, "Contribution of Income Tax to Economic Development of Nepal." In his dissertation, he had examined the collection of income tax and its contribution to the economic development of Nepal. He had stated that the actual revenue collection in Nepal is cover than target set out. For this, he had also studies the income tax structure, trend of income tax collection and the share of contribution of income tax to the development of Nepalese economy. He had put some suggestion to over come those problems such as improving tax administration system, checking income tax evasion and so on.

Kharel, Shree Krishna (1996) presented a dissertation named, "Self Assessment Under Income Tax Act, in Nepal". in his worked he had made a review of tax laws about self assessment, analyzed the problem faced by the assesses while doing the self assessment of their own income and made relevant recommendation to reform income tax laws as well as administration in future. He had concluded that self assessment of tax is suitable means of raising domestic resources and it would be effective if taken seriously. He had further expressed that the effectiveness of self assessment of tax depends on appropriate reformation.

Paudyal, Jayenti (1996) presented a dissertation entitled, "Income Tax in Nepal: A Study of Its Structure and Productivity". She had described the income tax in its historical perspectives income tax structure, elasticity and buoyancy of income tax, voluntary discloser of income schemes and role of income tax administration in Nepal. She had more emphasized on income tax structure of Nepal. She had described the

contribution of income tax. She had mentioned the contribution of indirect tax is as out twice than direct tax. Similarly, within the direct tax, income tax is the largest source of revenue. About the tax administration of Nepal. She had found that the working procedure were traditional and the cost of administration had not been brought on the satisfactory level.

She had suggested to broadening income tax base, reform of tax administration, successful implementation of vat establishment of standardized accounting system.

Shrestha, Preety (2003) presented a dissertation entitled of "A Study on the Problems and Prospects of VAT in Nepal." She had mentioned problems in the implementation of VAT in Nepal and effectiveness of VAT. She had also mentioned sales tax, superiority of VAT over sales tax. She had suggested for effective implementation of VAT in Nepal were follows:

i)   VAT refund mechanism should be simplified, so that the refund can be made without deals and the taxpayer's have confidence in the system.

ii)   Incentives should be seemed to income registration and tax compliance. The no. of filers should be motive to file the tax return.

iii)   As most of the taxpayers are still ignorant about account keeping under VAT and who get this job by paying other people, taxpayer's education program should be continued. Extensive taxpayer's education should be conduct from time to time familiarize the potential taxpayers and others with various aspects of VAT.

Chaudali, Baburam (2004) presented a dissertation named, "Effectiveness of Nepalese Tax Policy on Various Business Sectors." He had described various short coming of the tax system and policies. These main objectives of the study were as follows:

i)   To analyzed the nature of existing Nepalese tax policy.

ii)   To know the tax system of various business organization.

iii)   To find out the reactions of organization regarding Nepalese tax policy.

iv)   To draw specific findings and conclusion of Nepalese tax policy.

v)   To make recommendations for the Nepalese tax policy.

Similarly, his major recommendations were as follows:

i)   The income tax Act, 2058 should be revised which simplified language and ambiguity should be removed. The goods that are taxed once should be remarked so that double taxation should be avoided.

ii)   There should be clear and strict rule for reward and punishment. The person who conceals tax should be properly identified and given punishment. Tax authority should build up monitoring body for proper evaluation of the tax collection.

iii)   Entrepreneurs have indicated that tax officials are full or corruption so government should correct its bureaucracy. It should up date its traditional and monotonous for tax collection which has encouraged corruption.

iv. Very sensible and service oriented business which provide basic requirement like health education and communication should be given tax exemption or subsidy so that there facilities can be available for all level.

v. Nepalese tax system should be based on Nepalese economy rather than developed countries.

Bhandari, Dansi Ram (2006) submitted a dissertation named, "Taxation Knowledge of Taxpayers in Nepal". He point out the present position of taxation knowledge of taxpayers in Nepal. Tax pay know about rapid change government policy etc. are the main problems of the study. Similarly, he has suggested to government and other sector to improved taxation knowledge in Nepal. His major suggestion was as follows:

i) To increase income tax knowledge of taxpayer tax related information should be published regularly.

ii) Special taxpayer education program necessary for employees and small taxpayers.

iii) Professor, researchers, taxpayers, tax exports should be taken while making tax policy.

iv) The school as well as campus level curriculum should include tax related education so that taxpayer education programs can be more effective.

v) Highly co-operation between tax officer and taxpayer mechanism should be established.

Ghimire, Rabin (2007) presented a dissertation named, "Special Provision and Contribution of Employment Income to Tax Revenue in Nepal." He had described resource gap is the major constraint of Nepalese economy. He has also strongly stressed to fulfill the gap between total resource required and supply of the resources. He also mentioned that to raise more tax revenue, the government of Nepal takes steps for bringing new taxpayers into tax net and implementing the tax law effectively. So, as to discourage the tax evasion practice. Loopholes must be trace out and strictly avoided.

Similarly, his major recommendations were as follows:

i) Direct tax revenue share is only one fourth of Nepalese tax revenue. So it is necessary to increase the share of direct tax revenue. So as to direct the economy channel of development

ii) Too increase the total tax revenue, effective change in income tax policy, rules and regulation bringing new taxpayer in tax net should be necessary.

iii) The collection and tax assessment provision should be made clear and simple so those taxpayers would be encouraged to pay income tax.

iv) The provision of fines, penalties and punishment should be implemented effectively for income tax evaders.

v) Co-ordination between tax policy maker, tax personnel and other department should be established.

2.2.2 Books Review

In 1990, Poudel and Timsina wrote a book named, "Income Tax in Nepal." This book has fully based on the syllabus of Bachelors level in management. This book has been written according to income tax act, 2031. They described the theoretical as well as practical aspects.

In 1993, Ojha published a book named, "Taxation Law". He described the different legal terms related in tax law. He had taken many tax cases to consideration to describe legal terms.

In 2002, Dhakal wrote a book named "Aayakar Tatha Ghar-Jagga Kar Sambandi Kar Ra Lekha." This book was based on income tax act 2031. This book is very useful to understand the meaning and objective of tax as well as getting knowledge about the history of taxation.

In 2003, Mallik published a book named, "Nepal Ko Aadhunik Aayakar Parnali." This book is very much useful to anyone who is interested in the subject of taxation. In his book, Mr. Mallik has explained income tax act 2058 with examples where ever necessary. He has presented the complex act in simple and lucid manner so that it will be easy to understand the act. He has shared his expertise in his book. His book is descriptive and analytical. All the provision in the act has been clarified by simple language. He has also clarified why some of tax exempted amounts have been bought into tax net by the new act. He also compared the provision of old act with new act. He also mentioned the practical aspects of tax law like, classification of internal revenue office according to their work area, classification of remote area etc.

In 2003, Adhikari published a book named "Modern Taxation in Nepal: Theory and practice." This book has been divided into five parts.

In his first part, he described the theoretical aspect of tax. In second part, he described the income tax act 2058. In third part, he described absent value added tax (VAT) in fourth part, he described property tax/house and compound tax in Nepal. At last in fifth part, he described wind fall tax and other provision.

In 2003, Kandel wrote two books on taxation one book entitled, "Tax Laws and Tax Planning in Nepal and other book 'Nepal Ko Bartaman Kar Byabastha'. This book helpful for tax administration, auditor, tax consultant and taxpayers too. This book is also useful for effective tax planning. In his books he described the income tax act 2058. VAT in Nepal and tax planning in Nepal. He has presented practice as well as theoretical aspects on taxation in these books.

In 2003, Amatya, Pokhrel and Dahal published a book named, "Taxation in Nepal". This book is based on BBS third year syllabus. This book is useful to students, auditors and other tax administrator. Theoretical as well as practical aspects of taxation have been included in the book.

In 2006, Bhattarai and Koirala published a book revised edition named "Taxation in Nepal." This book is based on BBS third year syllabus. In his book, they showed the method of computation of VAT and income tax. They also clearly mentioned the different provision of income tax act 2058. Relevant theoretical and practical aspects have been discussed in their book.

In 2007, published a book revised edition entitled "Tax laws and tax planning: Theory and practice". He divided the book in four parts. In his first part, he described the conceptual foundation. In second part, he

described basis concept of income taxation of Nepal. In third part he described VAT in Nepal. In last part, he described tax planning.

This book has presented practical as well as theoretical aspects. This book is useful to student, tax administrator, auditor and others. This book is useful to research work also.

2.2.3 Journal Review

In 1984, Agrawal has presented a report to ministry of finance entitled, "Direct Tax Reforms in Nepal." He has shown that the growth rate or direct tax has been lower than the growth rate of total revenue. Similarly, total taxes had been lower than the growth rate of total revenue as well as total taxes. He has strongly recommended revenue services, political and other pressure should not be subjected to tax administration. Self-assessment should be encouraged. Assessment of small taxpayer should be on door to door basis. Capital gains should be included in income for income tax purpose. His major recommendation has been adopted in the new income tax act 2058.

In 2004, Nepal Tax Journals published news about taxation. In this news there include lack of taxpayer education program, taxpayer should not have fully knowledge about positive aspects of tax laws. The news was stressed that taxpayers are accepting income tax act, 2051 as a compulsory law.

In 2005, monthly journal published by Federation of Nepalese Chamber of Commerce and Industries (FNCCI) named "Byabasaik Aacharan". In the journal tax export Pandey and Bazracharya presented different aspects of Nepalese tax system.

The institute of Chartered Accountants of Nepal (ICAN) published a monthly journal on December 2005. Sinha presented an article named "Taxation-legal illegality". He had described the taxpayer have been encouraged by the tax officials themselves to go counts over the complaints of their wrong doing because the authority is totally convinced that no immediately solution can be expected from the court of tribunal on short-span of time as long as they are in position. The Tribunal court reviews the decision of Inland Revenue department's direction.

In 2005, The Kantipur Daily published news about income tax and VAT. The news presented the terms used it income tax and VAT are not clear. There is not friendly business environment between taxpayers and government. Similarly, the vocabularies used in tax act are very ambiguous and difficult.

In 2007, The Kantipur Daily published news about taxpaying behaviours in Nepal and European Countries. The news presented that 95% of taxpayer in European countries were willing to pay tax but in Nepal 95% taxpayer want to hide the income and they did not pay tax as per rules and regulation.

CHAPTER - III

RESEARCH METHODOLOGY

Research word can be divided into two parts, re and search, which means search again and again. Previous researcher found some things and further researcher found other things in same subject matters which mean all research are not cover all the facts and findings.

We should make different types of research according to subject matter like as descriptive, experimental, exploratory case study etc. Thus the objective of the study is to find out the awareness of taxpayers towards business taxation. So this study follows descriptive as well as analytical research tools.

3.1   Research Design

The research design is the plan structure and strategy for investigation of the facts in order to arrive at conclusion. The plan is the overall scheme of program of research. It includes and outlines of what the investigator will do from writing the hypothesis. This research design is planned to obtain the answer of research question through analysis of data. Research is systematic search for knowledge. It applies scientific methods to the study of universe.

The research design of this study will be descriptive as well as analytical. This study is primarily based on secondary data but whatever necessary the primary data are also collected through interviews with officers and non-officers through personal interview.

3.2   Population and Sample

Population is the whole size of related study. Covering all the population while taking data, the study gives more accurate findings. It is not possible due to various constraints like as time money etc. So, this study takes sample from large population. All the business person of Nepalgunj was considered as total population. They are around various business organization registered in Nepalgunj, out of them 80 business organization were taken as target sample. They were from sole trading business, partnership firms and companies.

The following table shown the groups of respondents and size of sample

Table: 3.1

Groups of Respondents and Size of Sample

S.N.	Group of respondents and sample size	Total	Percentage (%)
1.	Proprietor of sole trading business	40	50
2.	Partners or partnership firm	20	25
3.	Officials or companies	20	25
Total		80	100

3.3   Sources of Data

This study mainly based on primary data but it also took secondary data as the study demanded. The main objectives of primary data are to find out different business person view relating to business taxation and test their awareness towards business taxation. Questionnaires, interview related to business taxation is the main weapons to test awareness of taxpayers. While secondary data is obtained from Nepalgunj .

3.4 Data Collection Procedure

This study is concern with taxpayers. So, it is necessary to collect data from primary data. Primary data are collected by making questionnaire, interview and telephone calls. Questionnaire is distributed to different business person to get needed information while secondary data is obtained from Nepalgunj .

3.5 Methods of Analysis and Presentation

First of all, both primary and secondary data are presented in tabular form and then make necessary diagrams, pie-chart and other as requirement. Then analysis is made with the help of different mathematical and statistical tools. These data are grouped in different tables to their nature and analytical and statistical tools are used for analyzing quantitative data to reach true and sincere conclusion.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

This chapter deals with the presentation and analysis of data. the main objective of the study is to find out the awareness towards business taxation. So, it mainly focused the primary data. Though, the secondary data is only taken from the Nepalgunj to find out the exact number of business established in Nepalgunj . The primary data is taken from 80 business person. Out of them 40 are proprietor of sole trading business, 20 are partners or partnership firm and 20 are officials or companies. The primary data is obtained by making questionnaire about income tax, VAT and custom duty. 80 set of questions are distributed and received about different types of taxes to know the awareness of taxpayers towards business taxation.

4.1   Analysis of Secondary Data

This chapter focuses on the presentation and analysis of secondary data. The secondary data have been obtained from Nepalgunj . The data is taken of last five years. The available data is related to the study have been tabulated, presented, analyzed and interpreted to reach some finding.

Table: 4.1

No. of Business Establishment

Fiscal year	No. of business registered
2062/2063	1680
2063/2064	1925
2064/2065	2065
2065/2066	2100
2066/2067	2275

Source: Nepalgunj Municipality

In the above table shows that, in fiscal year 2062/2063, the number of business firm register in Nepalgunj was 1680, in the year 2063/2064, the number of business firm registered in was 1925. In the fiscal 2064/2065, the no of business firms registered in were 2065. In fiscal year 2065/2066, the no. of business firm registered in was 2100 and in fiscal year 2066/2067 the no of business firm registered 2275. The above table shows the increasing trend of business firm established that the awareness of taxpayer about business taxation is increasing. They registered their firm and doing business legally as compared to the past years.

4.2   Analysis of Primary Data

The main objectives of this study is to find out the awareness of taxpayers. Awareness of taxpayers means whether they have knowledge about different provision of income tax act 2058, VAT act 2052 and other tax related rules and regulation. So, in this chapter VAT, income tax act and custom duty related questionnaires was designed and distributed to proprietor or sole trading business, partnership firm and company. 80 sets of question were distributes and all questions were collected.

The questionnaire was asked for yes/no response or asked for ranking of alternative where the first choice was the most important and the least choice was the least important. The following table shown the profile of respondents.

Table: 4.2

Profile of Respondent

S.N.	Groups of Respondents	Sample Size
1.	Sole trading business	40
2.	Partnership firms	30
3.	Company	10
	Total	80

4.2.1 Presentation and Analysis of Response about Income Tax

Income tax is the main source of government revenue government collect huge amount of revenue from this tax. So, it is necessary to make aware about the income tax to taxpayer. So, to check the income tax knowledge of taxpayer 80 respondents are taken for the study. The response received for different questionnaire are presented below:

4.2.1.1 Income tax revenue contributing significantly to the tax revenue of Nepal

This question was developed to know opinion of taxpayer about income tax revenue contributing significantly to the income tax revenue of Nepal or not. The responses received from respondents are presented below:

Table: 4.3

Income Tax Revenue Contributing Significantly to the Tax Revenue of Nepal

Response Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Sale trading business	20	50	20	50	40	100
Partnership firms	18	60	12	40	30	100
Company	5	50	5	50	10	100
Total	43	53.75	37	46.25	80	100

The above table showed that in aggregated 53.75% respondents responded that income tax revenue contributing significantly to the tax revenue of Nepal and 46.25% was not agreed with this question.

In conclusion, most of the respondents responded that income tax revenue contributing significantly to the tax revenue of Nepal.

4.2.1.2 Nepalese income tax

To check the knowledge of the Nepalese taxpayer, this question was asked. The responses received from the respondents are tabulated as follows:

Table: 4.4

Nepalese Income Tax

Response Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole trading business	30	75	10	25	40	100
Partnership firms	25	83.33	5	16.67	30	100
Company	10	100	0	-	10	100
Total	65	81.25	15	18.75	80	100

The above table showed that 81.25% of the respondents have knowledge about Nepalese income tax. 18.75% of respondents did not have knowledge about Nepalese income tax.

In conclusion, most of the respondents were familiar about Nepalese income tax.

4.2.1.3 Provision of rebates, concession and facilities included in the income tax

This question was asked to respondents to know their opinion about the facilities provided in tax laws. The responses received from the respondents are tabulated follows:

Table: 4.5

Provision of Rebates, Concession and Facilities Included in the Income Tax

Response	Yes		No		Total	
Respondents	No.	%	No.	%	No.	%
Sole trading business	20	50	20	50	40	100
Partners partnership form	18	60	12	40	30	100
Company	3	30	7	70	10	100
Total	41	51.25	39	48.75	80	

.

The above table showed that in aggregate 51.25% of the respondents were satisfied the provision of rebates, concession and facilities included in that income tax law. 48.75% of respondents were not satisfied with this provision.

In conclusion, most of the respondents are satisfied with this provision in income tax.

4.2.1.4 Current income tax exemption limit

This question was developed to know the opinion of respondents about current income tax exemption limit. Whether they were satisfied with this exemption limit or not. The response received from respondent as tabulated as follows:

Table: 4.6

Current Income Exemption Limit is Appropriate

Response	Yes		No		Total	
Respondents	No.	%	No.	%	No.	%
Sole trading business	12	30	28	70	40	100
Partnership firm	10	33.33	20	66.67	30	100
Company	10	100	-	-	10	100
Total	32	40	48	60	80	100

.

The above table showed that in aggregate 40% of respondent responded that current income tax exemption limit is appropriate but 60% of the respondents responded that the current exemption limit is not appropriate.

In conclusion, most of the respondents opinioned that current income tax exemption limit is not appropriate.

4.2.1.5 Exemption and deduction items

To know the respondent's opinion about the exemption and deduction items are sufficient or not a question was asked. The responses received from the respondents are presented as below:

Table: 4.7

Exemption and Deduction Item

Response	Yes		No		Total	
Respondents	No.	%	No.	%	No.	%
Sole trading business	10	15	34	85	40	100
Partnership form	8	26.67	22	73.33	30	100
Officials or company	1	10	9	90	10	100
Total	15	18.75	65	81.25	80	100

.

The above table showed that in aggregate 18.75% of respondents were satisfied with the provision of exemption and deduction but 81.25% of respondents were not satisfied with that provision.

In conclusion, most of the respondents were responded that exemption and deduction items are not sufficient.

4.2.1.6 Knowledge about income tax taxpayer

This question was developed to know the view of taxpayer about discouraging the illegal business through tax education. The responses received from respondents are tabulated as follows:

Table: 4.8

Knowledge about Income Tax to Taxpayer

Response Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole trading business	26	65	14	35	40	100
Partnership firms	20	66.67	10	33.33	30	100
Company	5	50	5	50	10	100
Total	51	63.75	29	36.25	80	100

.

The above table showed that in aggregate 63.75% of respondents were agree with the question but 36.25% of respondents were disagree. They still think that only good knowledge is not enough for discouraging illegal business.

In conclusion, must of the respondent responded that good knowledge about income tax to taxpayer has been discouraging illegal business.

4.2.1.7 Charging of depreciation in income tax act 2058

This question was developed to know the opinion of respondents about provision of depreciation in tax act whether they were satisfied with this provision or not. The responses received from respondents as tabulated as follows:

Table: 4.9

Charging of Depreciation is Adequate in that Income Tax

Response	Yes		No		Total	
Respondents	No.	%	No.	%	No.	%
Sole trading business	8	20	32	80	40	100
Partnership firm	7	23.33	23	76.67	30	100
Official or company	5	50	5	50	10	100
Total	20	25	60	75	80	100

.

The above table shows that in aggregate 25% of respondents were agree the question and 75% of respondents were disagree.

In conclusion, most of the respondents were feel that the provision of charging depreciation is not adequate.

4.2.1.8 Current tax rate

This question was developed to know the opinion about the current tax rate whether it is high, medium on law. The response received from respondent are as follows:

Table: 4.10

Income Tax Rate

Response	High		Medium		Low		Total	
Respondents	No.	%	No.	%	No.	%	No.	%
Sole trading business	24	60	10	25	6	15	40	100
Partnership firm	22	73.33	5	16.67	3	10	30	100
Company	6	60	3	30	1	10	10	100
Total	52	65	18	22.5	10	12.5	80	100

.

The above table showed that in aggregate 65% of responses high, 22.5% of respondents response medium and 12.5% of respondents response low tax rate.

In conclusion, most of the respondents responded that the current tax rate is high.

4.2.1.9 Nepalese income tax system

This question was developed to know the response about the effectiveness of Nepalese income tax. The responses received from respondents are presented below.

Table: 4.11

Nepalese Income Tax System

Response	Yes		No		Total	
Respondents	No.	%	No.	%	No.	%
Sole trading business	-	-	40	100	40	100
Partnership firms	-	-	30	100	30	100
Company	5	50	5	50	10	100
Total	5	6.25	75	93.75	80	100

.

The above table showed that in aggregate 6.25% of respondents were agree with this question but 93.75% of respondents were disagree.

In conclusion, most of the respondents feel that Nepalese income tax system is not effective.

4.2.1.10 Types of problems that business man faced while paying business tax

This question was developed to know the view of taxpayer's problem while paying business tax. The responses received from respondents are tabulated as fallows.

Table: 4.12

Problem Faced by Businessman while Paying Business Tax

S.N.	Problems	No. of respondents	% of respondents	Rank
1.	Due to lack of knowledge about tax paying procedure	22	27.5	2
2.	Complicated procedure	35	43.75	1
3.	Weak and immature feeling of tax administration	14	17.5	3
4.	Others	9	11.25	4
Total		80	100	

.

The above table showed that the most important problem faced by businessmen while paying business tax is procedure complication. Similarly, due to lack of knowledge about taxpaying procedure is second priorized problem, make and immature feeling of tax administration and other problems are third and fourth priorities problems.

In conclusion the majority of respondent responded that the most important problem faced by businessman while paying tax is procedural complication.

4.2.2 Presentation and Analysis of Responses about Custom Duty

Custom duty is also another sources of government revenue. Businessman paid tax while imports and exports goods and services. Therefore, they must have knowledge about custom duty. To check the awareness about custom duty 80 respondents are taken the study. The responses received from different questionnaire are presented below:

4.2.2.1 Knowledge about Custom duty

This question was developed to check the knowledge of respondent whether they have any knowledge of custom duty or the response received from respondents are tabulated as follows:

Table: 4.13

Knowledge about Custom Duty

Response	Yes		No		Total	
Respondents	No.	%	No.	%	No.	%
Sole trading business	25	62.5	15	37.5	40	100
Partnership firm	15	50	15	50	30	100
Company	5	50	5	50	10	100
Total	45	56.25	35	43.75	80	100

.

The above table showed that in aggregate 56.25% of respondent had knowledge about custom duty and 43.75% of respondent had not knowledge.

In conclusion, must of the businessman had knowledge about custom duty.

4.2.2.2 Knowledge about the procedure of paying custom duty

This question was asked to know the knowledge about paying the procedure of custom duty to the respondents. The responses received from respondents are tabulated as follows:

Table: 4.14

Knowledge about Paying Custom Duty

Response Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole trading business	-	-	40	100	40	100
Partnership firm	12	40	18	60	30	100
Company	8	80	2	20	10	100
Total	20	25	60	75	80	100

.

In the above table showed that in aggregate 25% respondents had knowledge about procedure of paying tax and 75% of respondents had not knowledge about paying procedure of custom duty.

In conclusion, most of the respondents do not have knowledge about paying procedure of custom duty. It means they have broken or another way to clear the goods from custom.

4.2.2.3 Clear custom duty

This question was designed whether they should clear the goods from custom themselves or hire third party. The different responses of respondents are presented in the following table.

Table: 4.15

Clear Custom Duty

Response	Yes		No		Total	
Respondents	No.	%	No.	%	No.	%
Sole trading business	-	-	40	100	40	100
Partnership firm	-	-	30	100	30	100
Company	-	-	10	100	10	100
Total	-	-	80	100	80	100

.

The above table showed that all the respondent had not clear the custom duty their self.

In conclusion, all respondents responded that they should not clear the custom duty themselves. They hire broker or C.A. or Auditor other party to clear the custom duty.

4.2.2.4 Taxpayer Knowledge about custom duty

This question was developed to check whether good knowledge about custom duty to taxpayers help to increase government revenue or not.

Table: 4.16

Taxpayer Knowledge about Custom Duty

Response	Yes		No		Total	
Respondent	No.	%	No.	%	No.	%
Sale trading business	25	62.5	15	37.5	40	100
Partnership firm	20	66.67	10	33.33	30	100
Company	6	60	4	40	10	100
Total	51	63.75	29	36.25	80	100

The above table showed that in aggregate 63.75% of respondent agree with questionnaire and 36.25% of respondent were disagree.

In conclusion, most of the respondent responded that and knowledge about custom duty increase government revenue.

4.2.2.5 Goods valuation system in custom

This question was developed to check whether goods valuation system in custom is realistic or not. The responses received from respondent are presented below:

Table: 4.17

Goods Valuation System in Custom

Response Respondent	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole trading business	30	75	10	25	40	100
Partnership firm	27	90	3	10	30	100
Company	6	60	4	40	10	100
Total	63	78.75	17	21.25	80	100

.

The above table showed that in aggregate 78.75% of respondent responded that goods valuation system in custom is realistic but 21.25% of respondent responded is not realistic.

In conclusion, most of the respondent responded that goods valuation system in custom is realistic.

4.2.2.6 Current custom duty rate

This question was designed to check whether custom duty rate is appropriate or not. The responses received from respondent are as follows:

Table: 4.18

Current Custom Duty Rate

Response Respondent	High		Medium		Low		Total	
	No.	%	No.	%	No.	%	No.	%
Sole trading business	20	50	16	40	4	10	40	100
Partnership firm	18	60	6	20	6	20	30	100
Company	7	70	3	30	-	-	10	100
Total	45	56.25	25	31.25	10	12.5	80	100

.

The above table showed that in aggregate 56.25% of respondent feel that the current of tax rate is high. 31.25% feel medium and 12.5% feel below. It means taxpayer feel high rate. They suggest low tax rate and wide base.

In conclusion, most of the respondent responded that the current tax rate is high.

4.2.2.7 Taxpayer's education (Related with custom duty)

This question was design to know the view of taxpayer education program is needed or not. The responses received from respondent are presented as below:

Table: 4.19

Needed Taxpayer Knowledge about Custom Duty

Response Respondent	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole trading business	40	100	-	-	40	100
Partnership firm	30	100	-	-	30	100
Company	10	100	-	-	10	100
Total	80	100	-	-	80	100

.

The above table showed that 100% of respondent agreed with this questionnaire. It showed that current education is not effective.

In conclusion, all respondent responded that the taxpayer knowledge about custom duty is needed.

4.2.2.8 Steps to be taken to make custom duty effective

This question was developed to know view of taxpayer to make custom duty effective. The responses received from respondent are presented as follows:

Table: 4.20

Steps to be Taken to Make Custom Duty Effective

S.N.	Alternative	Rank
1.	Strict in goods valuation	1
2.	Neptism and favoritism should be stop	3
3.	Increase morality of government employee	2
4.	System of reward and punishment should be established	4

The above table showed priorities to make custom duty effective are:

Strict in goods valuation given to first priority and rank first. Increase morality of government employee is given second priority and rank second. Similarly, Nepotism and favoritism should be stop and system of reward and punishment should be established are given third and fourth priority and ranked third and fourth respectively.

4.2.3 Presentation and Analysis of Responses about VAT

Sales tax was replaced by VAT. VAT is another form of sales tax. It is charged on transaction by transaction on each stage of value added. Now a day's most of the countries followed this tax. To find out the different provision of VAT, different set of questionnaire is prepared and received responses on it. The result from questionnaire is presented below:

4.2.3.1 Familiar about VAT

This question was asked to check the awareness about VAT. Whether they are familiar of this term or not. The responses received from respondent are as follows:

Table: 4.21

Familiar about VAT

Response Respondent	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole trading business	25	62.5	15	37.5	40	100
Partnership firm	20	66.67	10	33.33	30	100
Company	9	90	1	10	10	100
Total	54	67.5	26	32.5	80	100

.

The above table showed that in aggregate 67.5% of the respondent were familiar about VAT and 32.5% of the respondents were not familiar about VAT.

In conclusion, most of the respondents were familiar with VAT.

4.2.3.2 Register in VAT

This question was developed to check knowledge about register in VAT. They were registering their transaction in VAT knowingly or unknowingly. The response received from respondent are presented below:

Table: 4.22

Register in VAT

Response	Yes		No		Total	
Respondent	No.	%	No.	%	No.	%
Sole trading business	18	45	22	55	40	100
Partnership firm	13	43.33	17	56.67	30	100
Company	10	100	-	-	10	100
Total	41	51.25	39	48.75	80	100

.

The above table showed in aggregate 51.25% of respondent knowledge about who should register in VAT and 48.75% of respondent had not knowledge about register in VAT.

In conclusion, most of the respondent had knowledge about register in VAT.

4.2.3.3 VAT is superior to sales taxes

This question was developed to respondent whether sales tax is superior to VAT or not. The responses received from respondent are presented below:

Table: 4.23

VAT is Superior to Sales Taxes

Response	Yes		No		Total	
Respondent	No.	%	No.	%	No.	%
Sole trading business	30	75	10	25	40	100
Partnership firm	20	66.67	10	33.33	30	100
Company	8	80	2	20	10	100
Total	58	72.5	22	27.5	80	100

.

As presented in above table in aggregate 72.5% of respondents were agreed that VAT is superior to sales tax and 27.5% of respondent were not agreed in that question.

In conclusion, most of respondents opinioned that VAT are superior to sales tax.

4.2.3.4 Coverage of VAT

This question was asked whether the coverage of VAT is enough or not. The responses received from respondents are tabulated below:

Table: 4.24

Coverage of VAT

Response / Respondent	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole trading business	4	10	36	90	40	100
Partnership firm	-	-	30	100	30	100
Company	-	-	10	100	10	100
Total	4	5	76	95	80	100

.

The above table showed that in aggregate that 95% of the respondent responded that coverage of VAT is not enough and 5% of respondents were agree with question.

In conclusion, most of the respondents were disagreed with this questionnaire.

4.2.3.5 Current VAT rate applicable

This question was design to check whether current VAT rate is applicable or not. The responses received from respondents are tabulated below.

Table: 4.25

Current VAT Rate Applicable

Response Respondent	Yes		No		Total	
	No.	%	No.	%	No.	%
Sole trading business	4	10	36	90	40	100
Partnership firm	-	-	30	100	30	100
Company	-	-	10	100	10	100
Total	4	5	76	95	80	100

.

The above table showed in aggregate 5% of respondents was agreed to the question and 95% of respondents were against the question. It means they feel high rate of VAT and they requested to reduce the VAT rate.

In conclusion, most of the respondents feel that current VAT rate is high.

4.2.3.6 VAT system in Nepal

This question was developed to know the opinion of respondent about VAT system is effective or not. The responses received from respondent are presented as follows:

Table: 4.26

VAT System in Nepal

| Response | Yes | | No | | Total | |
Respondents	No.	%	No.	%	No.	%
Sole trading business	10	25	30	75	40	100
Partnership firm	8	26.67	22	73.33	30	100
Company	-	-	10	100	10	100
Total	18	22.5	62	77.5	80	100

.

The above table showed in aggregate 22.5% of respondent was agree with this question but 77.5% of respondent were not agree.

In conclusion, most of the respondents said that VAT system in Nepal is not effective and sound.

4.2.3.7 Major problems of VAT system in Nepal

This question was asked to find out the rank of the major problems of VAT system in Nepal. The responses received from respondents are presented as below:

Table: 4.27

Major Problems of VAT System in Nepal

S.N.	Problems	No. of respondent	% of respondent	Rank
1.	Lack of consumer awareness	22	27.5	2
2.	Under ground economy	10	12.5	3
3.	Unfair and weak administration	45	56.25	1
4.	Others	3	3.75	4
Total		80	100	

.

The above table showed most important problems faced by the businessman is unfair and weak administration. While ranking together, the corresponding prioritized problem are as follows:

a)   Unfair and weak administration.

b)   Lack of consumer awareness.

c)   Underground economy,

d)   Others.

4.2.3.8 Steps to be taken to make VAT Effective

This question was developed to know the sequence of priorities from respondents to make VAT effective.

Table: 4.28

Steps to be Taken to Make VAT Effective

S.N.	Ideas	No. of respondents	% of respondent	Rank
1.	Increasing public awareness	25	31.25	2
2.	Billing enforcement	10	12.5	3
3.	Political stability	35	43.75	1
4.	Stop illegal trade	10	12.5	3
	Total	80	100	

.

From the above table the ideas of all groups to make VAT effective are ranked as follows:

a) Political stability

b) Increasing public awareness

c) Billing enforcement

d) Stop illegal trade

4.2.4 Major Findings

The following conclusions have been drawn out from this research. They are summarized below:

- Most of the respondents had knowledge about income tax, custom duty and VAT.

- Most of the businessman was not satisfied about the provision of concession, rebates and facilities included in income tax.

- Businessman feels high tax and VAT rate.

- Taxpayer was agreed that good knowledge of taxation to taxpayer been discouraging illegal business.

- Major problems that employees faced while paying income tax is procedural complication.

- Taxpayer education program in Nepal are ineffective.

- Taxpayer agreed that they should not clear the custom duty themselves. Businessmen hire broker, auditor and C.A. for that job.

- The majority of respondents agreed that tax related education is needed.

- According to field survey, 48.75% of the respondents do not have knowledge that should register in VAT.

- Majority of respondents were agreed that VAT is superior to sales tax.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1   Summary

Nepal is a agriculture based least developed country. The economic status of Nepalese people is very poor. The per-capita income is near about 350 US dollar (UNDP report, 2007). This is lowest among SAARC countries and almost lowest per-capita income of the world. One of the main objectives of each and every country is to raise the living standard of the people through economic development activities. To launch, these activities government needs various resources: Money, man, machine, material and management. Nepalese economic is facing serious problems of resource gap. Revenue collection by the government is internally sufficient to meet the cost of day to day administration of the country. So, Nepal has been dependent on foreign aids and loans to fulfill the need for developmental activities, which is not beneficial in the long run interest of the country.

The present study entitled "A Case Study of Awareness of Taxpayers of Nepalgunj ". The major taxes income tax, VAT and custom duty were presented and analyzed in the study.

In the first chapter, introduction, background of the study, statement of the problems, objectives of the study, limitation of the study and organization of the study have been discussed in this chapter.

In second chapter, the literature review has made through the study of various books, articles, dissertation and other reference materials various concepts of the taxation have been discussed in this study.

Sources of the government revenue, meaning of tax, classification of taxes, objective of taxation, historical background of income tax, heads of the income, historical development of income tax laws in Nepal have been discussed in conceptual frame work of this study.

In third chapter, the researcher has discussed about various aspects of research methodology as: research design used for this study. Data collection procedure, population sample, nature and sources of data, selection of the respondents, procedures of processing and analysis of data.

In fourth chapter, has presented primary as well as secondary data and analyzed them to get the meaningful result. Data obtain from Nepalgunj was major sources of primary data. To collect primary data opinion survey techniques was used in this study. Primary data were collected from three respondent group i.e. sole trading business, partnership firms and company of the business. Major findings of the primary data analysis have been put in the end of the chapter.

Conclusion of the study is given in the last chapter some recommendations are also given on the end of the study. In this way, this study was completed with the achievement of the stated objectives.

5.2   Conclusion

The conclusion of this study is mentioned as below:

) Most of the respondents had knowledge about income tax, VAT and custom duty. Though some respondents had not knowledge about it.

) Provision of rebates, concession and facilities included in income tax were not satisfactory.

) Current tax and VAT rate is high. It must be reducing.

) Taxpayer were agreed that good knowledge of tax reducing illegal business.

) Majority of the respondent were agreed that VAT is superior to sales tax.

) Lacks of public awareness, ineffective tax administration are the major problems of VAT.

) Without knowledge of taxation small taxpayers may not be included in the tax system.

) Defective income tax act, rate, ineffective taxpayer education program, rapids changing government economic and taxation policy, ineffective tax administration are the major problems of income tax system which affect income tax knowledge to taxpayers in Nepal.

) Lacks of co-operation between taxpayers and custom officers, corrupted tax administration, rapid changing taxation policy are the major problems of custom duty.

5.3 Recommendations

On the basis of above analysis the following recommendations are offered regarding taxpayer and their awareness towards taxpayers.

⟩ Present tax related education is not effective. Most of the taxpayer does not aware about changing tax rate and regulation. So, to increase awareness of taxpayer, dynamic tax administration, billing enforcement, clear and effective tax policies are recommended.

⟩ Tax office collects income tax and VAT in their own office. Tax must be collect from business house door to door. So that, businessman pay their tax in time without hesitation. This mechanism should be also recommended.

⟩ There should be categories the businessman who paid tax in time and who do not pay tax in time. Those who paid tax in time give more priorities in government office and others. This system can be seen in our neighbouring country India.

⟩ Most of the countries follow the self assessment system of tax. So, Nepal should also follow it but there should be establishing strong mechanism to check the fraud of businessman.

⟩ The provision of concession, rebates and facilities should be implemented effectively for encouragement to businessman.

⟩ Co-ordination between tax policy maker, tax personnel and other department should be established.

⟩ The school as well as campus level curriculum should include tax related education. So, that taxpayer education program can be more effective.

⟩ Goods and services are imported and exported from one country to another country. While in this process, the businessman pays custom duty to the government. They do not have much more

knowledge about it. They hire broken to clear the custom. In this process, illegal business is made by the help of broker and custom officer. So, to overcome this problem, co-operation between taxpayers and custom officers and stability of economic and taxation policy are also recommended.

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APPENDIX

Name of Respondent:

Designation:

Office/Organization:

(Please, You are requested to tick answer of your choice in order of preference from 1 stands for most important)

Questionnaire about Income Tax

1. In your opinion, is income tax revenue contributing significantly to the income tax revenue of Nepal?

    a) Yes   b) No

2. Are you familiar with the Nepalese income tax?

    a) Yes   b) No

3. Do you think the provision of rebates, concession and facilities?

    a) Yes   b) No

4. Do you consider that current income tax exemption limit is appropriate?

    a) Yes   b) No

5. Do you feel that exempted and deducted items are sufficient?

    a) Yes   b) No

6. Do you think that good knowledge about income tax to taxpayer has been discouraging illegal business?

    a) Yes   b) No

7. Do you think the charging of depreciation in income tax?

    a) Yes   b) No

8. What is your opinion about the current tax rate? The current income tax rate is:

a) High   b) Medium   c) Low

9. The Nepalese income tax system is effective?

a) Yes   b) No

10. What types of problem that businessman faced while paying business tax?

a) Due to lack of knowledge about tax paying procedure.

b) Complicated procedure

c) Weak and immature feeling of tax administration

d) Others

Questionnaire about Custom Duty

1. Do you have knowledge about custom duty?

a) Yes   b) No

2. Do you have knowledge about the procedure of paying custom duty?

a) Yes   b) No

3. Do you clear the custom duty yourself?

If no, to whom you appoint?

a) Broker   b) Auditor   c) C.A.   d) Others

4. Do you think that taxpayer education (related with custom duty) needed?

a) Yes   b) No

5. Will the good knowledge about custom duty to taxpayer held to increase the government revenue?

a) Yes   b) No

6. Do you think that goods valuation system in custom is realistic?

a) Yes   b) No

7. Do you think current custom duty rate is appropriate?

a) High   b) Medium   c) Low

8. In your opinion, what steps to be taken to make custom duty effective?

a) Strict in goods valuation

b) Nepotism and favoritism should be stop.

c) Increase morality of government employee.

d) System of reward and punishment should be established.

Question about VAT

1. Are you familiar about VAT?

a) Yes   b) No

2. Do you know who should register in VAT?

a) Yes   b) No

3. Do you think VAT is superior to sales tax?

a) Yes   b) No

4. Do you know coverage of VAT is enough?

a) Yes   b) No

5. Is current VAT rate is appropriate?

a) Yes   b) No

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

      a) Yes   b) No

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

      a) Lack of consumer awareness.

      b) Underground economy.

      c) Unfair and weak administration

      d) Others

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

      a) Increasing public awareness.

      b) Billing enforcement.

      c) Custom valuation should be realistic.

      d) Corruption should be elimination.