

CHAPTER-I INTRODUCTION

1.1 Background of the Study

Nepal is an agriculture based under developed country. The economic status of Nepal is very poor. It has about \$735 per capita income, which is lowest in the South Asian Association for Regional Co-operation (SAARC) Countries and almost lowest in the world (www.mof.gov.np). Nepal has deficit budget and it has been making economic condition of the country very bad. Resource gap of the country has been widening from the beginning to recent year. In this situation, one of the main objectives of each and every nation of the world is to achieve faster economic development and Nepal is no exception to this ever-process. The Government of Nepal is to trying to raise the living standard of people conducting various economic development activities. For this our country need to manage the various resources like; man, money, machine and materials. To obtain these particular resources government receives income through external and internal sources.

To achieve economic development, government account responsibilities towards their citizens, such as security, health, education, reduce social inequalities and other development activities. It needs to accumulate huge amount of revenue. Every year government spends more portion of the fund for the protection of common people and creation of various socio-economic infrastructures like; transportation, drinking water, electricity, communication, irrigation etc. to meet the growing expenditure, government has to manage fund from different sources.

Income can be collected from both internal and external sources. External resources can be obtained as loan grants bilaterally or through international institution. External resources are uncertain and guided by socio-political motives of the donor countries. So, it is not good for healthy development if there is highly dependency on them. It is used for economic development, reconstruction and to recover from crisis condition etc. Internal sources include public borrowing government bonds surplus on public under taxing and taxation. The internal sources should be mobilized effectively due to weakness of external sources. Nepal governments try to mobilize internal sources for regular and development activities.

Every government has to spend a lot of money to fulfill its responsibility towards the people to carry out development activity to handle day to day administrative work, to maintain peace and security and to launch other public welfare activities. Tax is one of

the major sources of revenue collections. It is a compulsory levy imposed by government the people and institution of the country according to the prevailing laws.

Internal source of fund is own source derived within the country. Internal source of fund includes both tax and non-tax sources. Tax sources include the amounts which are compulsorily contributed by tax payers to the government. Taxes are emphasized on all countries developed as well as developing countries because they have the option for increasing the yield of tax system. It shows that taxes are the better sources of public revenue and it has been taken as the best effective tool for raising the public fund.

Income tax can be defined as the contribution from people and business organization to the government from their income either by service or from business without taking the corresponding or direct benefit. A tax imposed on income base is called income tax and Assessment is the process of ascertaining the required tax liabilities. Thus within the income tax system, Exemption and deductions are more important to know about income tax because they are used continuously and treated differently in different years. To make up to date knowledge about income tax system, it should be studied. Income tax law of every nation has clearly mentioned about the exemption and deduction of expenses for better performance.

Generally tax can be classified into two types. They are: (a) Direct tax, and (b) Indirect tax. Direct tax which is directly paid by a person and it is legally imposed. Some of the direct taxes are income tax, property tax, health tax and the vehicle tax. Indirect tax is tax which is imposed on one person and paid partly or fully by another. Some of indirect taxes are sales tax, entertainment tax, hotel tax, passenger tax, import or excise duty and value added tax (VAT), etc are indirect tax.

Income tax is well known direct tax. It is considered as one of the major elements of tax revenue. Income tax is charged on person's income according to the law of the nation. It covers all the fees, additional fees, fines etc. income includes all the incomes which are received from business, investment and employment. Income tax is superior to other business because it is imposed on the basis of paying capacity of the taxpayers.

Income Tax Act 2058 defines as, "a person from any employment, business or investment and the total of that income as calculated in accordance with this Act". Income tax reduces concentration of wealth in a few hands by imposing high rate to those persons and organizations which have high level of income and low rate to those whose income level is lower. Income tax is not only essential for collecting government revenue

but also to control over the consumption to promote saving and generate more employment.

First of all, income tax system was introduced in England to manage the war. Similarly to manage the civil war, USA introduced income tax in 1913 A.D. In 1909 A.D. Federal corporation income tax was organized. Now, it is expanded all over the world. Every nation is introducing income tax according to their needs.

In Nepal, the elected government in 1959 A.D. introduced “Business profit and salaries Tax act 1960 A.D.” At this time income tax was levied only on business profit and salaries. In earlier days both individual and corporate tax were taxed on progressive rate. The government replaced the prevailing tax act in 1962 A.D. In 1974 A.D. Income Tax Act 2051 B.S.(1974 A.D.) was enacted. Now Income Tax Act 2058 B.S. (2002 A.D.) is implementation.

There is no doubt that income tax is the main source of government revenue. It is also usable to balance the balanced economic development. Although the legal provisions have been made and updated timely, there are many problems in income tax exemption and deductions. There are many problems in income tax practice in Nepal. Such as feeling of people about tax as a penalty leakage in tax, lack of consciousness of people inability of tax administration to cover new tax payers, delays in computation and collection of tax, lack of accuracy, and unity in accounting system etc. exemptions and deductions play important role to collect the tax. Because of these reasons, exemptions and deductions of income tax system must be reviewed and immediate correction can be made.

The term ‘Assessment’ means the process of determining the tax liability of assesses. Income Tax Act, 2058 has defined the term ‘assessment’ as assessment of tax to be paid under this Act. Income Tax Act 2058 has specified three types of assessments as (a) self-assessment (b) Jeopardy Assessment and (c) Amended Assessment. Self-assessment is done by assesses themselves where as jeopardy and amended assessments are the assessment based on judgment of the Income Tax Department.

In self assessment, a taxpayer himself assesses his tax liability. Income tax Act (ITA), 2058 focuses on the self-assessment system. Under this act, every assessment will be treated as self-assessment, where a person files a return of income for an income year, an assessment is treated as made on the due date for filing the return of the tax payable by the person for the year and in the amount shown in the return, and the amount of tax to be paid for the year being the amount shown in the return.

ITA, 2058 has treated every assessment as self-assessment. Even if a person fails to file a return by the due date, the person is treated to have made an assessment on the due date for filing the return and his assessed tax for the year will be equal to the sum of tax withheld and tax paid in installment. The department may, and then proceed for an amended assessment.

Self-assessment is the assessment done by assessing themselves at the time of submission or filing return of income. They are supposed to pay income tax accordingly before filing the return. (Kandel, 2060; 20)

A tax imposed on income base is called income tax and assessment is the process of ascertaining the tax liabilities. It is the process and art of checking the documents in which the details of calculations of income and tax is recorded as per the law. (Bhattarai and Koirala, 2004;14.5)

1.2 Statement of the Problem

Economic development is the prime concern of every nation of the world. Underdeveloped countries are facing serious problems in the process of the economic development. Nepal is the least developed land locked country which has adopted the mixed economy system for achieving development goals. Nepal has been suffering from resource constrains, massive poverty, rapid growth of population, increasing seasonal and functional under development, diseases, aggressive dependency on the agriculture, subsistence living standard and poor infrastructure since four decades of planned development efforts.

Tax revenue is one of the main sources of government revenue. Income tax is a strong component of tax revenue. But lack of proper implementation of tax policies, lack of knowledge, lack of public awareness, lack of support from business community and lack of efficient management are problems on revenue collection. Still government has not been able to involve all the sectors in self assessment of income tax. Becoming a development country, Nepal needs a huge capital for the investment purpose in development. The government has to take heavy spending on the several overheads. The funds required to make expenditure for development activities can be obtained by two sources as external and internal source. The external financing depends upon the interest and condition of the funding countries and agencies. And internal source has no obligation towards the third party and less risky compared to the external funds. Economic growth is the indicator of the development of the nation but economic

condition of Nepal is not satisfactory because of low economic development and growth. Tax revenue contributed a significant portion on government revenue of the total revenue collected in the fiscal year 2068/69. Tax and Non-tax revenue for the fiscal year were 86.6% and 13.4% respectively (Economic Survey, 2068/69. MOF)

The tax composition of Nepal shows that the government of Nepal is highly dependent on indirect tax because in 2068/69 B.S. the indirect tax contribution 63% of the tax revenue (Economic Survey 2068/69. MOF). As the means of economic growth the social justice, income tax contributed 23.1% of total tax revenue (86.6%) in the fiscal year 2068/69 (Economic Survey, 2068/69, MOF).

Developing countries like Nepal tends to have a greater propensity to evade taxes. Majority of the people are poor and they have no capacity to pay tax. Corruption is also a serious problem has been causing to increase the inequality of income and wealth of the Nepalese people. In Nepal, the coverage of income tax is very low. Total number of taxpayers for the fiscal year 2068/69 B.S. is 527179 (IRD Report, 2068/69). Which is very low percentage of the total population pays the income tax. The growth rate of taxpayers in comparison with the previous year taxpayers is 24%. The numbers of registered taxpayers for value added tax is 113905 (Annual Report, 2068/69, IRD). There are no integrating programs for taxpayers, education, assistance, guidance and counseling. The assessment techniques and procedures of income tax are not effective. Under delay in tax assessment not only reduces the total revenue, but also brings harassment to the taxpayers. So the coverage of income tax is very narrow in Nepal. Income from employees is taxed more heavily than the capital income and agriculture income is exempted from income tax. These kind of exemptions encourage and loophole for tax evasion and complicates to assess to the tax administrations.

Income Tax Act, 2058 has provided some exemptions granted to the special industries and the industries established in the backward area of the country are not effective and scientific. Income Tax Act, 2058 has also provided exemption limit to an individual and the family according to the marital status. The classification does not recognize the various sizes of the dependent family members. Therefore the limit in the Nepalese context neither shows any specific or definite relationship with per capita GDP nor with the rate of inflation.

The present deduction allowances are the provident fund contribution of taxpayers, the Life Insurance Premium, Investment or contribution for Citizen Investment Fund, Medical expenses, research and development expenses and pollution control cost, etc. Besides these, donations to non-profit making organizations are also allowed for

deduction. At present there is no any provision for deduction of necessary expenses, and pregnancy delivery expenses, security in the unsecured or politically polluted area and so on. There are various problems in income tax and exemptions, deductions and self assessments. Specifically, this study has been carried out to answer the following research questions:

1. Is the tax administration of Nepal sound?
2. Are the exemption items of income sufficient?
3. What kind of income should be prioritized for exemption?
4. Should the agriculture income be taxed?
5. Should the exemption limit be adjusted according to the inflation?
6. Are the deductible expenses and conditions of self-assessment mentioned clearly?
7. Are the current deductions of expenses sufficient?
8. What kinds of expenses should be prioritized for deductions?
9. Are the provisions made under the Nepalese Income Tax Act sufficient in all aspect?
10. What are the provisions made under Nepalese Income Tax Act, 2058 related to exemptions, deductions and self-assessment?

1.3 Objectives of the Study

The main objective of this study is to analyze the present system of tax exemptions, deductions, and effectiveness of self-assessment and to provide proper recommendations to build up the appropriate tax system in Nepal. The study also encompasses the problems faced by the business sectors and tax administration for the implementation of the self assessment, exemptions and deductions of income tax system in Nepal. This helps government to collect more tax revenue. Most of the people think that tax is a burden and there no any benefit against paying tax. Our objectives are to change this type of mentality and encourage people to pay tax. The research helps the people exemptions of income, deductions of expenses and self-assessment system of income tax system in Nepal. The specific objectives of this study are listed below.

1. To study the effectiveness of self assessment of income tax in Nepal.
2. To examine the Nepalese tax structure and problems faced by the taxpayers.
3. To test the level of understanding of taxpayers.
4. To identify the contribution of income tax to national revenue of Nepal.
5. To scan the income tax revenue collection method in Nepal.

6. To analyze the exemptions of income and deductions of expenses limit provided to Income Tax Act, 2058 and measure the extent of exemption limit provided to individual and family and their appropriateness.

1.4 Significance of the Study

In any country of the world, capital has the most important role for their development programs. A large amount of capital is required to finance and lead any development programs for the economic betterment of a nation.

Developing country like Nepal requires higher magnitude of financial resources for the development programs. Internal and external source of financial is not appropriate rather than internal source of financing. In this context, significance of income tax cannot be underestimated in the public finance of the nation. The weaknesses and problems are being properly faced by the government should be analyzed and researched objectively to increase the contribution of income tax to total revenue. The intensive study on tax exemptions, deductions and self-assessment has not been conducted in Nepal. Even though, several scholars doing research on income tax has studied tax exemptions, deductions and self-assessment as a minor topic to conduct to their research. Therefore the significance of the stud can be highlighted as follows:

1. This study will also be basically useful for the readers who are interested in the field of taxation, policy makers, researchers, tax officials and especially the student who are engaged in the research works on exemptions, deductions and self-assessment of income tax as well as in the field of Nepalese tax system as a whole.
2. This study is a pioneering effort on the detailed study of the exemptions, deductions and self-assessment of income taxation in Nepal. In this context, significance of this study will be known.
3. It will provide a lot of information, ideas and knowledge to those persons who are interested to know about self-assessment of income tax, exemptions of income and deductions of expenditure.
4. It also clears the role of exemptions, deductions and self-assessment of income tax system in total revenue collection, effectiveness of self income tax system in Nepal and problems with regard to collection procedure and other important information.

1.5 Scope of the Study

The study covers the analysis of exemptions of incomes, deductions of expenses and self-assessment on due dates for filing the return and assessed tax provided by the Income Tax Act, 2058. The study also covers about the contribution of income tax provided to individuals and families. It also aims to suggest and recommend regarding income tax of Nepal. Kathmandu valley has been taken as a geographical area of the study. The sample space for the opinion will be industrial area, tax office, Tribhuvan University and tax experts. Considering the concentration of the sample taken in Kathmandu valley will represent the nation as a whole. The scope of the study covers the following aspects of income tax system of Nepal.

- i. Contribution of income tax to the government revenue of Nepal.
- ii. Exemptions, deductions and self-assessment of income in Nepal.
- iii. Administrative aspects of income tax in Nepal.
- iv. Nepalese tax structure of government revenue.

1.6 Limitations of the Study

The present study aims to analyze on exemption of income, deductions of expenses and self-assessment on due date for filing the return in Nepalese Income tax system in Nepal. As every study has its own limitations so as this study is not away from limitations. So this study has the following limitations:

- a) The extent of this study is based on the availability of reliable data and the sufficient literatures.
- b) This study covers and depends only on limited data.
- c) Lack of time and resources
- d) Are the major limitations
- e) There are limited publications of books, journals, articles, paper etc, regarding exemption, deduction and self-assessment of income tax system in Nepal.
- f) The study is basically done by using secondary data as well as primary data also which are collected from IRD but the reliability of secondary data cannot be examined.
- g) Opinions and information from respondents are taken as truth which may not be true all the time.
- h) This study is based on only for last five years.
- i) Due to the small sample size, it may not fully represent Nepal as a whole.

- j) Sampling error may occur in the study.
- k) The basic confines of this study are time constraints, limited budget, lack of experience and non availability of up to date information.

1.7 Organization of the Study

The study will be divided into five chapters. Chapter one will be concerned with the introduction part contains the general background, statement of the problems, objectives of study, significance of the study and limitations of the study. Chapter two concerns on the literature review. Chapter three deal with research methodology. Chapter four concerned with presentation and analysis of data. Finally summary, conclusion and recommendations are given in chapter five.

CHAPTER-II

REVIEW OF LITERATURE

This chapter includes the review of previous studies, articles, reports and conceptual framework for the related studies. Review of related materials should deal to give the research, a clear vision and knowledge of past study provides foundation to the present day.

2.1 Introduction

Literature review is an essential part of all studies. It is a way to discover what other researchers have covered and left in the area. A critical review of the literature helps the researchers to develop a thorough understanding and insight into previous research work that relates to the present study. It is also a way to avoid investigation problems that have already been definitely answered. Thus, a literature review is the process of locating, obtaining, reading and evaluating the research literature in the area of the student's interest. The purpose of literature review is to find out what research studies have been conducted in one's chosen field of the study and what remains to do. The primary purpose of the literature review is to learn not to accumulate. It enables the researcher to know.

- a. What research has been done in the subject?
- b. What others have been done in the study?
- c. What theories have been advanced?
- d. The approach taken by the other researcher.
- e. Area of agreement or disagreement.
- f. Whether there are gaps that can fill through the proposed research?

This very chapter highlights upon the existing literature and research related to the present study with a sole purpose of exploring out what had already been explained and additionally, how the present research is different from previous magnitude. Precisely, the review of literature pinpoints the related books and other materials that are very helpful for conducting research on the particular topic. It aids researcher in determining the discoveries that have been made in the related topics and further the new contribution and propositions can be made if necessary. It, in fact, provides the strong foundation for advancing a comprehensive theoretical framework.

2.2 Conceptual Review

2.2.1 Income Taxation in the International Context

In early days, taxes were considered as immediate source during the scarcity. Taxes were calculated at the time of emergencies to finance wars and to provide communal services. Taxes were levied on the basis of welfare of the people. Taxes were not compulsory payment at that time. People voluntarily paid the tax because non-payment of tax was taken as sin in the Hindu system.

Great Britain was the first country in the world to introduce the income tax in 1799. It imposed income tax in order to finance war with France. Similarly, in USA the first federal tax was imposed in 1862 with the same motives of financing civil war. However, in the beginning, these countries impose income tax temporarily until 1860. Thereafter, since 1913, it was accepted as permanent tax. In this way, income tax was accepted by different countries gradually. Italy started it in 1864, and New Zealand adopted in 1891. Australian and Canada had followed the income tax in 1915 and 1917 respectively. After First World War, the income tax became an important source of tax revenue in many developed countries, by 1939; it has become the most important source of revenue in most developed countries and had made appearance in a number of developing nations.(Agrawal,1980)

In our neighboring country India, the income taxation was started in 1860 by the British, the income taxation was started in 1860 by the government to relieve from economic burden created due to first democratic revolution. It was then regularly collected after the participation of Income Tax Act 1886. (Dhakal, 2059)

In this way, Income Tax has become the regular source national income for all countries over the world. In the beginning, income tax was generally levied at a flat rate. The principal of progressive rate of income tax had been adopted by the United Kingdom and New Zealand since 1999. Now days, a progressive rate is commonly used rather than flat rate in all over the world.

2.2.2 Income Tax in Nepal

2.2.2.1 Income Taxation in Ancient Nepal

Nepalese ancient tax system was based on Vedas, Smritis and Purans. Directives propounded by Manu, Yagnabalkar, Chanakya etc. guided the taxation system. At that time, the principle of collecting tax from the people was imposition of tax without harming the activities of the people (Kandel, 2060) were the major source of revenue. In ancient Nepal, there existed irrigation tax and religious moment preservation tax in the time of the king Ansuvarma of Nepal. There was tax for purification of caste as well as cremation of the dead.

Although there are not any reliable records about taxation in ancient and medieval Nepal, however, tax has been one of the major sources of government revenue from the ancient time in Nepal. Taxes were then levied on the merchants, traders and farmers in the form of cash, kind and labor.

2.2.2.2 Income Taxation during Unified Nepal (1825-1903)

During the period of 1825-1903, the major sources of revenue were land and homestead taxes, monopolies customs transit and market duties, mines and mints, the export of forest product, bird, animals and various levies and fines. The taxes were usually collected at three levels.

- a. Royal Palace: To finance occasional and ceremonial needs. The taxes were broad based and progressive.
- b. Government: To finance administrative, military and other purposes assessed on official functionaries, occupational groups and other people.
- c. Local: Perquisites of local officials functionaries and medicates.

The various taxes levied during that period were narrow in base and were imposed primarily on occupations and economic activities, not on income or property. The system of direct taxation was confined to land tax and special Levis like 'Darshan- Bhet', 'Salami' and 'Walk', etc. in 1826, King Prithvi Narayan Shah (Architect of Modern Nepal) of Gorkha lands, the founder of the present kingdom of Nepal, conquered Kathmandu valley. Within the next two decades, more than 60 petty kingdoms and principalities in the hill region came under the authority of the new power. Most of the territories in plains that had been annexed by Nepal were ceded to the British in the Treaty of Sugauli 1873. These frontiers were maintained for nearly half a century when the western terai area was restored to Nepal as compensation for the assistance Kathmandu extended to the British

in India revolt of 1914. Anyway, the shah dynasty has occupied the throne of Nepal since 1820 to 1903. From 1903 to 2007, however, effective power as in the hands of the Rana family, in which the eldest member of this family, succeeded as hereditary Prime Minister and Defector (Regmi, 2035)

2.2.2.3 Income Taxation during Rana Regime

Imposition and collection of taxes during the 104-year autocratic rule of the Rana family in Nepal prior to 2008 BS was the prerogative of the federal rulers. Only these taxes, which suited the objectives, need and unions of the then ruling prime minister were imposed.

Income and expenditure of the state were not made public. No budget was ever framed during that period. There was no difference between the income of the state and the income of then prime minister.

The major source of the revenue in Nepal till 2007 were land tax, custom and excise duties in the form of lump sum contracts, royalties, entertainment tax, and a few other minor taxes. There was no other direct tax in the country except land tax collected on a contractual basis and 'salami', which the government employees use to pay out of their salaries at a very small percentage. The 'salami' was abolished in 2007 BS. Since most of the revenue in Rana Nepal collected by award of periodic contracts, the need wasn't felt for the development of effective revenue administration system. The Rana rule was done away with in 1951. Since then, no taxes are levied and collected in Nepal except in accordance with the law.

This Act had made provision for self-assessment of tax for the first time and if any mistake arose or lower tax was assessed, tax officer might make final assessment.

There was additional provision of exemption from income tax than the format act as follows:

- a. Income of Guthi
- b. Income of village Development Committee/Municipalities
- c. Compensation for life insurance of after the expiry of the life of the insurance policy.

The punishment provisions were specified in different headings viz, failure to submit particulars of income, false particular's not maintaining the accounts, obstructions and others.

The taxpayers had to register their industry, business, profession or vocation in tax office before starting the work.

Carry forward of loss was allowed for subsequent three years.

The process of assessment, reassessment, and advance payment of tax, deduction of tax at source and refund of tax had been specified.

The government of Nepal might form an Income Assessment Committee consisting five members by publishing notice in the Nepal Rajpatra.

The punishment limit to persons for violation laws and regulations was up to Rs.10,000.

2.2.3 Income Tax Act 2002

Income tax Act 2058 is implemented from 2058/12/19 BS. This act replaces the Income Tax Act 2031, and other acts related to income tax. There are various additional provisions in the new Act:

Income Tax Act 2031 had classified income tax into five groups whereas this act divides only into four groups as follows:

Individual income tax

Corporate income tax

Interest tax and

House and Land tax

When Income Tax Act 2031 was in practice, there were several exemptions and deductions provided by the Act and other related acts. But now, there are no more exemptions and deductions except the ones provided for by the Act.

Subject to this new Act, income is defined as "a person's income from any employment, business or in accordance with this act". It includes all kind of income received for the provision for labor or capital or both in whatever form or nature in taxable income.

The act has given the option for husband and wife as a separate nature individual until they do not accept as a couple.

A resident person may claim a foreign tax credit for any income year for any foreign income tax paid by the person to the extent to which it is paid with respect to the person's assessable income for that year.

There is a provision of functional division of work among tax officers. The division is to be made under the direction of government and Director General.

This Act has guaranteed the rights and secrecy of taxpayers through the act and strict punishment for not maintaining the secrecy is provided.

The penalties are divided into two parts. The tax officer can levy only finance and interest and the court can levy penalties and imprisonment.

This Act has determined the rate of income tax itself for the first time, which used to be determined by the finance Act in the previous years.

For the purpose of calculation a person's income from any business or investment, there are provisions of deduction related to overhead costs.

The government allowances to widows, elder citizens or disabled individuals; gift; bequest; inheritance; scholarship; income of foreign officials, government bodies and non-profit organizations have been exempted for the income tax net. Amount of a person privileged under bilateral or multilateral treaty, an agricultural income, and income of co-operative societies based on agricultural products and divided of such society etc. also exempted from income tax.

A person has been defined as a resident whose place of abode is in Nepal and who present in Nepal at any time or who presents Nepal for 183 days or more within the income year, who is an employee of government posted abroad during the income year.

Under this Act, resident individuals and domestic companies are taxed on their worldwide income while non-resident individuals and offering companies are taxed only on their income source in Nepal.

The income of an approved retirement fund is free from tax. But retirement payments in the hands of employees are taxable.

According to this Act a company is liable to tax separately for its shareholders. The loans share, loans and advances to directors and shareholders, distribution made on liquidation etc. are also brought under the tax net in order to plug loopholes for avoidance.

Capital gains are taxed explicitly under this Act after four decades of the introduction of income tax. In case of business capital gains, gains on the disposition of business property are taxed as an ordinary income and in case of non-business capital gains; only the gains from the causal sales of real property (land and building) and securities are

subject to capital gains tax at a flat rate of 10 percent. There is also a clear provision for adjusting net loss during the fiscal year.

The Act is based in global income tax principle and has brought all source of income into the next and has treated in an equal manner. This Act has abandoned the intermixed system of deduction and expenses are taken into account on a global manner not on a line by line basis.

The act has adopted a pooled system of depreciation in which assets are broadly classified into five categories. The depreciation rates are 50%,25%,20% and 15% for class A,B,C and D respectively which is based on diminishing balance method of depreciation and for class E, the rate is based on straight line method.

The Act has introduced the concept of medical tax credit under which resident individuals may claim a medical credit of 15% of the amount of approved medical costs.

This Act focuses on the self-assessment. The officers can determine only the amended tax assessment within four years. The jeopardy assessment is essential when a person becomes bankrupt, is wound-up or goes into liquidation; a person is about to leave Nepal forever or to close down activity in any Department or in Nepal. There is time limit in the case of jeopardy assessment.

Presumptive tax is limited to the small taxpayers whose annual net income is up to Rs.100,000 or annual turnover is up to Rs.1 million and are subject to flat annual taxes.

This Act has introduced the concept of administrative review to correct the administrative mistake. This Inland Revenue Department should give its decision within 90 days of the submission of objection and if the department does not give its decision within the given time limit, the taxpayers can appeal to the Revenue Tribunal.

According to this Act, the inland Revenue Department is responsible for implementation and administration of this Act.

2.3 Description about Exemptions, Deductions and Self-Assessment of Income Tax

2.3.1 Meaning of Income Tax

Government of any country requires sufficient revenues to lunch development programs to handle the daily administration to keep peace and security and to lunch other public welfare. The government or public revenues are collected through various sources. These

sources can be i. Taxes ii. Revenue from government iii. Fees iv. Special assessment v. Fines and penalties vi. Foreign grants. Among them tax is the main source of collection the public revenues because it occupies the most important part of the government treasure. In Nepal about 77% of total revenue comes from tax revenue and the rest 23% from non-tax revenues (Amatya, 2004:40)

Tax is any compulsory levy from individual, household as and firms to central or local government. It is simply a liability to pay an amount to the government. It is a compulsory contribution from the tax payers. (Bhattarai and Koirala, 2064:1)

Seligman (N.D) defines "a tax is compulsory contribution from a person to the government to defray expenses incurred in conforming common benefits upon the residents of the status." (Dhakal, 2058:2)

According to layer "A tax is compulsory payment to the government without expectation of direct benefit in return to payers." (Amatya, 2060)

From the above definition it is clear that tax is compulsory contribution to the state from a person the natural person and artificial person having tax liabilities pay the taxes to the government otherwise the laws punish him. The government doesn't provide any corresponding benefit to the tax payers for the amount of tax he pays. Tax is paid to the state to perform the function of the government and the amount of tax is spent for common benefits and interest of the people. (Acharya, 2008:15)

2.3.2 Classification of Income taxes

Income Tax has been classified into various types, among them Business Income Tax, Investment Income Tax and Employment Income Tax are most significant.

Income tax is one of the most popular direct taxes. It is charged on person's income according to the law of nation. Income includes all the income, which are received from business, investment and employment. Income tax is superior to indirect tax because it is imposed on the basis of paying capacity of the taxpayers. People whose income is below the taxable income are free from the obligation of income tax. (Acharaya 2008, p-16)

Income from remuneration or employment is one of the important sources of income under the current income Tax Act. Remuneration means amount given to employee against the service and another providing service. People who get service are called employer and person who provide service is employee. Certain conditions are required to come under remuneration; Income Tax Act 2058 has defined about employment under section 8. As per the act, any type of income from any employment is taxable income.

According to section 8 of the act, the remuneration received by a person from the employment is the following payment made by the employer:

- a. Wages, salary, leave pay, overtime pay fees, commission, gifts, prizes, bonus and other facilities.
- b. Amount received from retirement fund.
- c. Amount of contribution of the employer to a retirement fund.
- d. Amount received in reimbursement of personal expenses of the employee and related person.
- e. Amount received in lieu of acceptance of any condition with regard to terms of employment.
- f. Payment received for loss or termination of the employment.
- g. Other amounts as given in chapter 6 of the Act i.e. perquisites and any gains due to change in tax accounting required to be included.
- h. Any other payment made in respect of the employment.
- i. Dearness allowance, cost of living expenses, rent, retirement and transportation allowance and other personal allowances. However, according to section 38 of the "Income Tax Act 2058". Remote area allowance up to Rs 30000 for 'A' class area, Rs 24000 for 'B' class area, 18000 for 'C' class area, Rs 12000 for 'D' class area and 6000 for 'E' class area is not included in taxable remuneration of the employee.

In addition to above items of remuneration, the following types of remuneration of person also are included.

- a. Market value of assets in case of the transfer of the assets.
- b. Value prescribed by Inland Revenue Department (Under Section 27)
- c. The amount of expenses to be paid by the employer for following facilities of the employee as reduced by any contribution in this regard made by the employee.
- d. Service of housekeeper, cook, driver and other domestic assistant.
- e. Service provided to the residence of the employee such as installation and cost of water, electricity and telephone.
- f. Provision of residence to the employee. However, this amount is limited to only 2% of salary (sec 13 of Income Tax Rules)
- g. Availability of motor vehicle wholly or partly for private purpose. However such amount will be limited only up to 0.5% of this salary (sec 13, Income Tax Rules)
- h. Any facilities paid in cash or in kind as per chapter 7 of this Act.
- i. The amount of the difference of interest on loan paid by employee at concession rate from the standard highest rate.
- j. Discharge or reimbursement of costs incurred by the individual or his associates.

2.3.3 Non-taxable income under Income from Employment

The following account is excluded in calculating an individual's remuneration from an employment.

- a. Amount excluded under section 10 and final withholding payment.
- b. Remuneration under bilateral or multilateral agreement with foreign government.
- c. Remuneration under the employment of public service of foreign government.
- d. Remuneration paid by HMG/N to foreign national on condition of tax exemption.
- e. Allowance paid by HMG/N to widows, senior citizens or disable persons.
- f. Remuneration derived by foreign national from foreign government.
- g. Pension received by retired army or police from public fund of foreign government.
- h. Reimbursement of expenses incurred for the employer.
- i. Payment of an amount up to Rs 500 for such a purpose. The amounts, which are deductible while deriving the net income from employment, are as follows;
 - a. Contribution to approved retirement fund within limit (sec.63)
 - b. [Rs 3 Lakhs or one third of the employee's assessable income whichever is less]
 - c. Donation amount equal to 50% of taxable income or 100000 or actual whichever is less. But HMG may notify through official gazette that donation given to such institution will be expected for deduction of to the notified limit. Such donation shall be allowed as per the notification.
 - d. For computation of tax liability, medical tax of 15% of the approved medical cost plus carried forward excess amount greater than the limit can be adjusted. However upper limit of medical tax credit for is 750 per year. The remaining balance of uncovered medical tax credit can be recouped in next year. Similarly, amount of tax paid in foreign countries provided that such amount do not exceed average rate of Nepalese income tax can be adjusted.

2.3.4 Income from Business

ITA, 2058 has defined business as an industry, a trade, a profession, or the like isolated transaction with a business character and includes a past, present, or prospective business. A person's income from a business for the year is the person's profit and gain from conducting the business for the year. It is the income generated with the help of capital labor activities. (bhattarai and koirala)

Business income mainly refers to different types of income earned from different sources of business. The amounts that are included in computation of "Income from Business" are as follows:

- a. Service fees including commission, meeting management or technical service fees.
- b. Amount received from disposal of trading stock.
- c. Net gains from the disposal of business assets or liabilities of the business.
- d. Amount treated as net profit from disposal of depreciable assets of business. (i.e. capital gain from pool disposal of depreciable assets).
- e. Gifts received in respect of the business.
- f. Amount received in connection with business operation and not included in the income from investment
- g. Amount received in view of any restriction accepted in relation to the business operation.
- h. The Amount to be adjusted due to change in accounting system.
- i. Any income derived proportionately from a long term contract (sec.26)
- j. Income of general insurance (sec.60)
- k. Income under chapter 7
- l. Interest charged on loan and advance at the rate lower than the prevailing market rate i.e. different amount (sec.27)
- m. Income demand to be derived from transfer pricing and other arrangement between assets (sec.33)

2.3.4.1 Tax Exempted Income from Business

The following expenses are allowed for deduction while computing income from business.

- a. General Deduction:** For the purpose of calculating income from business all expenses incurred during the year, by the person and in the production of income from the business are deductible.
- b. Interest:** The interest incurred during the year for the debt obligation of person shall be available for the deduction to the extent that the borrowed money is used in that year or if the money is borrowed for purchase of an asset, that asset is used for that year. The debt obligation is created in production of the income from business.
- c. Cost of Trading Stock (sec.15):** Trading stock includes raw material, chemicals, work in progress, finished goods, stores etc. the cost of trading stock is derived as follows:

Rs	Amount
Cost of opening stock	xxx
Add: purchase or production during the year	xxx
Less: cost of closing stock	xxx
Cost of trading stock consumed or sold	xxx

The cost of trading stock should be taken at cost price or selling price whichever is lower. The person keeping account on cash basis can adopt either of the prime cost of factory cost basis for valuation. In case if actual cost could not be derived for the particular trading stock, either of the FIFO or weight average cost can be adopted.

- a. Repair and Maintenance Expenses (sec.16):** The repair and maintenance expenses is allowed for deduction up to 7% of depreciation base of assets of each group and the rest of the expenses should be capitalized in respective group.
- b. Pollution Control Expenses (sec.17):** This deduction should not be more than 50% of (taxable profit before pollution control cost plus donation plus Research and Development expenses). The portions of the pollution control expenses are not allowed, as deduction shall capitalize in Group D of the assets.
- c. Research and Development Expenses (sec.18):** This deduction should not be more than 50% of (taxable profit before R&D expenses plus donation plus pollution control expenses). The portion of the R & D expenses is not allowed, as deduction shall be capitalized in-group D of the asset.
- d. Depreciation Expenses (sec.19):** Depreciation at the prescribed rate is allowed on used depreciable are given as follows:
 - a. 'Group A' includes building, structures and similar works of permanent nature. Rate of depreciation for this group is 5%
 - b. 'Group B' includes computer, data processing equipments, fixtures, office furniture and office equipments. The rate of depreciation for this group is 25%
 - c. 'Group C' includes automobiles, buses and minibus and the rate of depreciation for this group is 20%
 - d. 'Group D' includes construction and earthmoving equipment and any tangible assets not included in above groups and portion of pollution control cost and research and development cost not absorbed. The rate of depreciation applicable for this group is 15%.
 - e. 'Group E' includes intangible assets like goodwill, patent rights, copyright etc. for this group; rate is calculated as divided by the useful life of assets in the pool at the time the assets is most recently acquired by the person and rounded down to the nearest half year.

- e. **Donation and Contribution (sec.12):** Donation or contribution given to any tax exempted institutions, who have registered in the Inland Revenue Department, shall be deducted for the taxable income of the person subjected to the limitation of Rs. 100,000 or actual amount or 5% of taxable income whichever is less.

2.3.4.2 Income not Allowable for Deduction from the Taxable Income

- a. Expenses of domestic or personal nature,
- b. Tax payable as per this Act,
- c. Penalty or any other fines payables as per any Acts,
- d. Expenses incurred to derive the amount exempted under sec 10 or final with holding payment,
- e. Cash payment for more than Rs. 50000 at a time to a particular person by a person having annual transaction more than Rs. 2 million,
- f. Distribution of income,
- g. The amount where the deduction is not allowed by any sections.

2.3.5 Income from Investment

According to Income Tax Act 2058, "Investment means an act of holding or investing one or more assets of a similar nature that are used in an integrated fashion". However, it excludes the act of holding assets, other than non-business taxable assets for personal use by the person owing the assets, other than non-business taxable assets for personal use by the person owing the assets or investing amount in such assets or employment or business related income.

For the purposes of calculating income from investment, following income is to be included:

- a. Any dividend, interest, rent, royalty,
- b. Gain from investment insurance, gain from an unapproved retirement fund,
- c. Net gain from disposed of the persons' non-business chargeable assets of the investment as calculated under chapter 8,
- d. The excess amount of incoming over the depreciation base including outgoing on the disposal of depreciable assets of the investment of the person
- e. Gifts received by the person in respect of the investment,
- f. Retirement contribution including those paid to a retirement fund in respect of the person and retirement payment in respect of the investment,
- g. Amount received in lieu of any restriction accepted in relation to the investment,

- h. But amounts those are included in calculating the person's income from any employment or business that should be excluded in calculating a person's profit from investment. Similarly, amount exempted under section 10 and divided as per section 54 and 69 and final with holding payment.

The following expenses are admissible for deduction while computing taxable income from the head of investment

- a. Interest (Section 14)
- b. Loss from the investment (Section 20) or for
- c. Depreciation (Section 19)
- d. Related expenses (Section 13)
- e. Repair and maintenance expenses (Section 16)
- f. Donation (Section 12)

2.3.6 Self-Assessment System of Income Tax

In the self-Assessment, a tax payer himself assesses his tax liability. Income Tax Act 2058 focuses on the self assessment system, under this act, every assessment will be treated as self assessment. When a person files a return of income for an income year, and assessment is treated as made on the due date for filing the return of i) The tax payable by the person for the year and in the amount shown in the return; and ii) The amount of tax still to be paid for the year being the amount shown in the return.

When a person fail to file a return of income for an income year, until such time as return is filed, an assessment is treated as made on the due date for filing the return that, i) The amount of tax payable by the person for the year is equal to the sum of any tax withheld from payments derived by the person by installment for the year; and ii) There is no tax payable on the assessment.

2.3.6.1 Registration for Self Assessment of Income Tax

Who earned taxable income during the income year such as company, partnership form and proprietorship form and individual citizen have to file the return of income within the specified time period, should fill up form with their supportive documents. If all the procedures and requirements are fulfilled, the department will register the file.

2.3.6.2 Progress and Constrains of Self-Assessment of Income Tax

A. Progress

- a. Easy to calculate tax liability
- b. It helps to the nation for collection more revenue
- c. No long Administrative procedure is required
- d. To get chances for being respectful person in the society

B. Constrains

- a. There are high chances of the tax evasion by the tax payers
- b. It is not applicable in some special sectors like tobacco and industry

2.3.7 Objectives of Income Tax in Developing Countries like Nepal

Taxation has been a very essential element of a government from the very beginning of the state system. The main objective of taxation of any country was economic development. Income taxation is the best source of revenue generation in the hands of government for the purpose of internal resource mobilization in the developing countries. Appropriate taxation policy should help in promoting savings. Taxation services as major tool for transferring resources from the private to the public sector.

In Nepal, the broad objective of progressive taxation of income tax, property is to reduce the unequal distribution of wealth it should be created the taxpaying habits among the people rather than collecting the government revenue. The other specific objectives of income tax are as follows:

- a. To discourage the growing tendency to invest in unproductive real estate and levy increased taxes to property owners,
- b. To collect some resource from established industries,
- c. To promote industrial development providing tariff protection,

After more than 40 years of introduction of income tax, Nepal has not yet developed a proper system of tax assessment. Though at the time of first implementation of income tax, the objective was to create a habit of taxpaying to general public yet it has not achieved the goal till now. However among direct tax, income tax is an important source of revenue in developed as well as developing countries. All people pay tax of proportion of their income.

2.3.8 Problems of Income Tax Administration in Nepal

From the very beginning, the contribution of income tax to the revenue of the government has been very low. 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 developing countries like Nepal has been facing many problems. The contribution of direct tax and income tax and income tax to the public revenue is very low to meet the growing public expenditure. Nepalese government has been using deficit financing. As the consequence of this, there is significant resource gap in Nepalese budget. The problem can be avoided only when the problem of tax administration is a complex technical matter. The major problem is the social status of a country. If income tax evasion is not controlled, Nepal can never solve its problems of resource gap either it increase its taxes rates or applies new sources of tax. (Subedi, 1982:17)

Income tax evasion has been paralyzed all over the world, whether it is developed or underdeveloped countries. But the people of the underdeveloped countries have high practice towards tax evasion. There is widespread evasion in income tax in Nepal, especially due to the poor taxpaying habit, administrative difficulties and defectives laws. Tax evasion is increasing day by day due to the low standard of education of tax responsibility among taxpayers. In western and developed countries, the evasion is considered as a social crime. But in Nepal, this act is regarded as cleaver on the part of taxpayers. (Siwakoti, 1987:14)

2.3.9 Ways of Income Tax Evasion

The important ways or method used in tax evasion in Nepal is as follows. (Agrwal, 1980:124)

- a. Concealment of income within a source of income,
- b. Misrepresentation on facts and information,
- c. Incorrect claim for allowances and deductions,
- d. Artificial contract for commission, discount etc,
- e. Falsification of accounts and records (rigging of invoices, fictitious payments, payment of bills twice etc.),
- f. Profit shifting, cost shifting, or price transfer,
- g. Over and under invoicing,
- h. Over statement of expense,
- i. Fictitious transaction,

- j. Fraudulent transaction,
- k. Maintenance of multiple sets of books of accounts and submitting the manipulated set for taxation purpose,
- l. Deliberate failure to maintain accounts and record and get the tax assessment done on a 'committee' or best judgment basic etc,
- m. Non-reporting of income earned from illegal activities likes smuggling corrupt business practice etc.

The committee on fiscal affairs of the organization for Economic Co-operation and Development (OECD) has observed that : With in tax evasion a distinction is sometime made between the less serious offence of omission e.g. failure to submit complete returns of income and more serious offence, such as false declarations, fake invoices etc: (OECD, 1980:5)

2.4 Reviews from relevant studies

Since 1959/60, income tax was started in Nepal. After its establishment, many individuals and institutions have studied in this subject regarding legal aspect, administrative problems, historical aspect, trend of income tax and income tax structure etc. they have made appreciable efforts in the field of income tax.

Many Thesiss, books, articles and newspapers reviewed while preparing this thesis. Many books in this field are written to fulfill the course requirement of Tribhuvan University. An attempt is made here to review some of the books, thesis, articles, and reports, which have been written in field of income taxation in Nepal.

2.4.1 Review of previous related Books

Amatya, (1965) wrote a book entitled: Nepal ma Ayakar Byabashta:. In this book, he gave a simple description of: Nepal Income Tax Act 1962: with some examples how taxable incomes are derived from different sources of income. He has also analyzed basically the legal aspect of the income tax. This book is old concept and all things mentioned in it are not suitable at present. But it becomes the historical document in the field on income tax.

Agrawal, (1980) wrote a book entitled: Resource Mobilization in Nepal:. In this book, He explains details about resource mobilization through income tax; Nepalese policy, effective tax system and tax policy, income tax in Nepal, role of income tax in Nepalese tax structure, administrative and legal aspects of income tax in Nepal. His main

contribution from this book is concerned to the empirical investigation of facts and figure about the income tax in Nepal.

Dhakal, (2001) has presented extended, enlarged and modified edition of his book named: "Income Tax and House and Compound Tax Law and Practice". This book is extremely based on the syllabuses of BBS 3rd. In this book he has described the provision made under income tax and the methods of income tax assessment have been described with numerical examples. His book is informative rather than analytical. He has not analyzed the role of income tax, income tax structure and defects of income tax system of Nepal. His book is more helpful to know about general information and provision made under "Income tax act 1974".

Aryal and Paudel, (2003) wrote a book entitled "Taxation in Nepal" This book is based on ITA 2002. This book is divided into three parts. It has described about tax, features of ITA 2058, capital receipts or revenue receipt, special provision for entities and retirement saving, classification of taxpayers, head and source of income, assessment, collection and recovery, tax authorities and their powers, rights and duties etc. this book is also based on the BBS level. Method of income tax has been dealt with numerical illustration. This book is useful for academic purpose and practical point of view of income tax in Nepal.

Adhikari, (2003) wrote a book entitled, "Modern Taxation in Nepal" Adhikari has described the provisions and laws related to income taxation of Nepal according to new ITA 2002. This book has been divided into five chapters. First chapter has described about theoretical concept of taxation. Second chapter has described about income tax system in Nepal. In this chapter, writer has described about head and sources of incomes, employment or remuneration income, tax on pension income, international taxation etc. VAT has been described in part three. Fourth part has been described about property tax, house and compound tax etc. windfall gain tax and other provision has been described in fifth chapter. This book is written for students of TU, especially for BBS, MBS and MPA students. However, it is useful to taxpayers, tax administrators and others.

Bhattarai and Koirala, (2010) in this book "Tax laws and Tax planning" described the theoretical and practical aspect of income tax with related provisions. It was based on TU syllabus. They were unable to describe the tax structure of Nepal and problem of income tax system.

2.4.2 Review of Previous Thesis

Shrestha, (1967) in his thesis entitled "Income Tax in Nepal". He has discussed about income tax act and rules, historical background and administrative aspects of income tax. In his research he has pointed out various recommendations, some remarkable recommendations of the research he has pointed out various recommendations, some remarkable recommendations of the researcher were as follows.

- a. Income tax should be made more scientific, systematic and the social and economic justifiable.
- b. Exemption limit should be determined on the basis of member of the family.
- c. Taxed should be charged on agricultural income.

Agrawal, (1980) wrote a thesis entitled "Resource Mobilization for Development", had described the resource mobilization through income tax, fiscal policy, and role of income tax, legal provision relating to income tax, legal aspect of income tax and administration aspects of income tax etc. He had shown per capita income, buoyancy coefficient of income tax, burden of income tax, elasticity and coefficient of income tax etc. he had identified the major problem in income tax system, which is inefficient for tax administration and tax evasion. He found that, there were no integrated programs for taxpayers, education, assistance, guidance and counseling. The major problems of taxes are inefficient tax administration, corruption, unfair dealing, harassment and incompetent personnel etc.

This study is a comprehensive and included various aspects of tax system of that period, but all things mentioned in it are not fully relevant today. Some of the problem identified in it is still in existence.

Siwakoti, (1987) has discussed in his thesis named "An Analytical Study of Income Tax in Nepal", has focused his effort for scanning out various factors persisting in the field of income tax. The major problems identified by him are evasion at high level, delay in assessment and normal role of income tax, lack of public information, complicated act and other defects of existing income tax act. He has suggested for progressive tax honest and efficient administration and research unit in tax offices. He has especially analyzed the income tax act 1974, which is outdated for present context of Nepal. In the same year Mr. P.P. Timsina in his thesis named "Income tax evasion in Nepal" has tried to show the evasion of income tax in Nepal and by identifying causes and ways. He has tried to give some suggestion for the correlation of evasion so that maximum resources could be mobilized from income tax but he has not proved it statistically.

Pradha, (2001) had conducted a research in the topic, "Contribution of Income Tax from Public Revenue of Nepal with reference to Nepal Telecommunication Corporation". In this study, she has explained the conceptual framework of public enterprises and NTC, conceptual framework of income tax, contribution of income tax to the public revenue and share of NTC to the income tax. She also found that NTC has contributed highest income tax in total income tax revenue from PEs. NTC shared 44% share of total income tax revenue from PEs, which was 84% in the FY 1993/94. Except in FY 1991/92 and 1996/97, the collection of income tax from NTC has been increasing gradually during the study period. Her suggestions are about the income tax system, promotion and reward to efficient and honest personnel motivation to personal tax education to tax payer and officers.

Koirala, (2004) had conducted a thesis entitled on "Contribution of Income Tax from Employment Income to Public Revenue of Nepal." He has mentioned about tax and not-tax revenue in Nepal. Composition of direct and indirect tax revenue in Nepalese tax structure, tax/GDP ratio, contribution of income tax & income tax from employment in total revenue, total tax revenue and direct tax revenue. He suggested various alternative and provision that should be done regarding taxation of employment income.

Paudel, (2010) had conducted a thesis on "A study of Deduction and Exemption." He has mentioned about conceptual framework of Exemptions and Deductions, income tax rates, contribution of income tax to total revenue, total tax revenue, direct tax revenue and income tax revenue of Nepal. From primary data, he has suggested, from primary data, different suggestion, such as tax assessment provision should be made clear and simple, provision of fines and penalties for tax evaders, establish coordination between tax policy maker, tax personnel and other related authority, to increase the Income tax in Nepal.

2.4.3 Review of Reports and Articles

Agrawal, (1987) started the new phase of Nepalese income tax study from the elaborated and vibrantly explained research work "Research mobilization for Development; The reform of income tax in Nepal" published by CEDA in 1978. Agrawal presents details about income tax in Nepal, analyzing vibrantly about role of income tax, legal aspect, administrative aspect, role of income tax for resource mobilization and other important facts. This study focused the various aspects of income tax in Nepal. Some of the important objectives of this study were as follows:

- a. To examine the problem of growing resource gap in Nepalese finance in the context of the role of income tax.
- b. To examine the ways and means for increasing tax consciousness in the Nepalese public.
- c. To examine the optimism and elasticity of income tax in Nepal including projection of income tax.

Dhakal, (2008) had written an article entitle "Historical Perspective on Income Tax in Nepal", this article has describe previous income tax act and shown main fatigue of income tax act 2058 are as follows;

- a. Provision of set and carry forward of losses,
- b. Classification and pooling of depreciable assets,
- c. Tax on capital gain,
- d. International taxation,
- e. Medical tax credit,
- f. Withholding payment and qualification allocation and characterization of the amounts.

2.5 Research Gap

Many years have already been passed on tax system of Nepal and it came into implementation but less study had undertaken on the topic of A Study on the Nepalese income tax system with reference to Exemptions, Deductions and Self-Assessment of tax in Nepalese context and most of the studies were related with theoretical aspects. During the review of previous thesis, it is found that no research has been conducted by taking this title from Central Department of Economics, Kirtipur.

So, the researcher has tried to analyze the existing problem faced by the tax payers in major market area of Kathmandu city, soundness of tax Administration, and suggestions for improvement by conducting field study, in order to know the practical experience of Nepalese income tax system and its application.

CHAPTER-III

RESEARCH METHODOLOGY

This chapter has a fine blend of the overall approach of the research process from the theoretical concept to the collection and analysis of data.

3.1 Introduction

Research methodology refers to the various sequential steps which are adopted by a researcher in studying a problem. It would be appropriate to mention that research projects are not susceptible to be studied. Thus an entire process by which we attempt to solve the problem is called research methodology. This chapter is devoted to the methodology applied in the study to achieve the goals. Both primary and secondary source of data were used in the study. Opinion survey techniques were adopted while collecting primary data. Questionnaires were distributed to income tax experts and tax payers (employees) so as to know their opinion towards various aspects of the study. IRD, Yearly Report, Budget Speech, Economic survey was used as the major source of secondary data. Different financial and statistical tools were used to analyze the collected data. In this study, correlation, simple average, percentage and chi-square test for hypothesis have been used to analyze the collected data.

3.2 Research Design

The analysis of the study is based on certain research design keeping as the objectives of the study in mind. Generally, research design means definite procedures and techniques which guideline profound ways for research ability. Most of the materials of this study are concerned with past phenomena in numerical or theoretical terms. The study oriented to:

a) Analytical Research

In analytical research, the researcher uses the facts and the information already available and analyzes to make a critical evaluation of the materials. Analytical research was carried in terms of role of total tax revenue, income tax revenue in composition of total tax, contribution of income tax in Nepal, Income tax rates etc.

b) Descriptive Research

Descriptive research includes surveys and fact finding enquiry of different kinds. It is concerned with finding of facts relating to the subject matter, obtaining important data

and getting new areas of knowledge by describing them descriptive research will be carried out in this study on contribution of income tax to national revenue of Nepal.

c) Empirical Analysis

An empirical analysis has been conducted in order to find out various aspects. Contribution of income tax to national revenue of Nepal and effectiveness in collection of income tax has been taken into consideration. To find the stated objectives opinion surveys of respondents were conducted. Respondents have been classified into tax experts. Tax administrators and tax payer. For this, questionnaire was developed and responses were collected from the respondents regarding the subject matter.

3.3 Nature and Sources of Data

This thesis is both qualitative and quantitative in nature. Both primary as well as secondary data have been used in this study. The primary data were collected from opinion of tax experts, tax administrators and tax payers. Primary data were obtained through the questionnaire method, in most of the cases. Face to face interview and discussion with selected persons included in the purposive sample. The secondary data have been obtained through economic surveys, budget speech, journals and newspaper.

3.4 Population and Sample

All the tax expert, tax administrator tax payers and other related persons of Nepal were considered as total population. Out of them tax experts, tax administrators and tax payers of the Kathmandu valley were considered as target sample. Out of target population 60 respondents have been taken as sample size purposively.

3.5 Data Collection Procedure

A set of questionnaire was developed and distributed to the selected respondents in order to get actual accurate, fact and reliable information. Distribution work was done by personally rather than sending by any other means. Additional valuable information was also collected from interview with the respondents as well as group discussion with taxpayers.

3.6 Classification, Editing and Coding of Data

The collected data by different techniques were classified according to the nature or characteristics and then coded and edited. The editing data; the necessary information were put accordingly and unnecessary things were removed or rectified. The data has been classified according to the characters and attributes.

3.7 Procedures of Processing and Analysis of Data

After the classification Coding and editing of data, it was presented into tabulated form with separate format systematically in order to achieve the desire objectives. It has been presented into various tables, figures, and graphs according to the subject in order. Available and collected data has been presented and analyzed in descriptive way with the help of sample statistical tools, such as percentage, average, correlation, chi-square test for hypothesis etc.

3.8 Period Covered

The research study has been based on historical data. So the study covers the data of last five years.

3.9 Weight of Choice

The questionnaire asked either to give (yes or no) response or to give their opinion. Respondents were also given alternative to rank. For this case, the first preferred choice alternative got the highest points and the last preferred choice alternative got the lowest point. The total points got by each alternative were converted into percentage of total points available to the all alternatives. The alternative with the highest percentage has been ranked as most important and an alternative with the lowest percentage has been ranked as the least important. For example, if there are five alternatives, the most important ranked by the respondents gets five points and the least important alternative ranked by the respondents gets one points. The alternative, which is not ranked, does not get any points.

CHAPTER-IV

EXEMPTION, DEDUCTION AND SELF ASSESSMENT ON NEPALESE INCOME TAX SYSTEM

This chapter deals with comparative analysis and presentation of available data as mentioned in the research methodology. The analysis of data consists of organizing, tabulating and assessing statistical and financial results from different tables and figures, which are drawn to make the result more and understandable.

Introduction

Presentation is the act of introducing and appearing or giving a particular impression for any cause of a problem or problems. It means the researcher shows the found impression formally at related area or ceremony where as analysis is a method of studying specific content and analyzing communications materials in a systematic, objective and quantitative manner to measure variables. The communication materials may be newspaper articles, editorials, T.V. programmers, letters, diaries, ethnographic materials, minutes of meeting, etc.

Every government is responsible to perform numerous functions for the betterment of the people in the country. A government needs huge volume of income to fulfill different type of expenditures. For this purpose, government collects revenue from different sources like taxes, borrowings, fees, donations etc. are called public revenue. Those expenditures and revenues should be presented formally to perform the numbers of functions in a public arena so that the presentation and analysis of data can be done properly. The presentation and analysis of data can be described as in the following topics.

4.1 Analysis of Secondary Data

This chapter focuses on the presentation and analysis of secondary data. The secondary data have been obtained from economic survey, budget speech, IRD yearly Report and other related newspapers. The available data related to the study have been tabulated, presented and analyzed and interpreted to reach at some findings. The data collected from economic survey and other related newspapers have been analyzed by dividing into various sub-headings.

4.1.1 Contribution of Income Tax in Nepal

Nepal started delay in practicing of income tax. First of all income tax was imposed by pleading to the people in Nepal in the fiscal year 1959/60 as business profit and remuneration tax. Since then it has been contributing revenue to the nation. Income tax was initially levied on business income and salary income. The contribution of total income tax during the last five years given in the following table:

Table 4.1
Income Tax Contribution

(Rs.in'000')

Fiscal year	2064/65	2065/66	2066/67	2067/68	2068/69
Target	16869200	27087000	36298000	40242332	50813500
Achievement	19077813	27247386	33821327	41725731	52334254
Difference	+2208613	+160386	-2476673	+1483399	+1520754
Percent(%)	113.09	100.59	93.18	103.68	102.99
Growth		8169573	6573941	7904404	10608523
Growth rate		42.82	24.12	23.37	25.42

Source: IRD, 2068/69 Yearly Report

While studying about the contribution of income tax in Nepal it is clear that income tax was increased. The above table clearly shows that fiscal year 2065/66 increase in income tax is higher in last five fiscal years. Frequently growth rate of income tax in fiscal year 2065/66 is 42.82%, 2066/67 is 24.12%, 2067/68 is 23.37%, 2068/69 is 25.42%. This trend shows the lowest increase in income tax in fiscal year 2067/68 is 23.37%.

During Last five year trend analysis shows that in fiscal year 2066/67 cannot achieve the target and having negative growth 6.82%.

4.1.2 Trend of Income Tax Revenue

Income tax was imposed by pleading to the people in Nepal as business profit and remuneration tax. Since then it has been contributing revenue to the nation. Income tax was initially levied on business income and salary income. The contribution of total income tax during the last five years under different sectors given in the following table:

Table 4.2
Structure Analysis of Income Tax Contribution

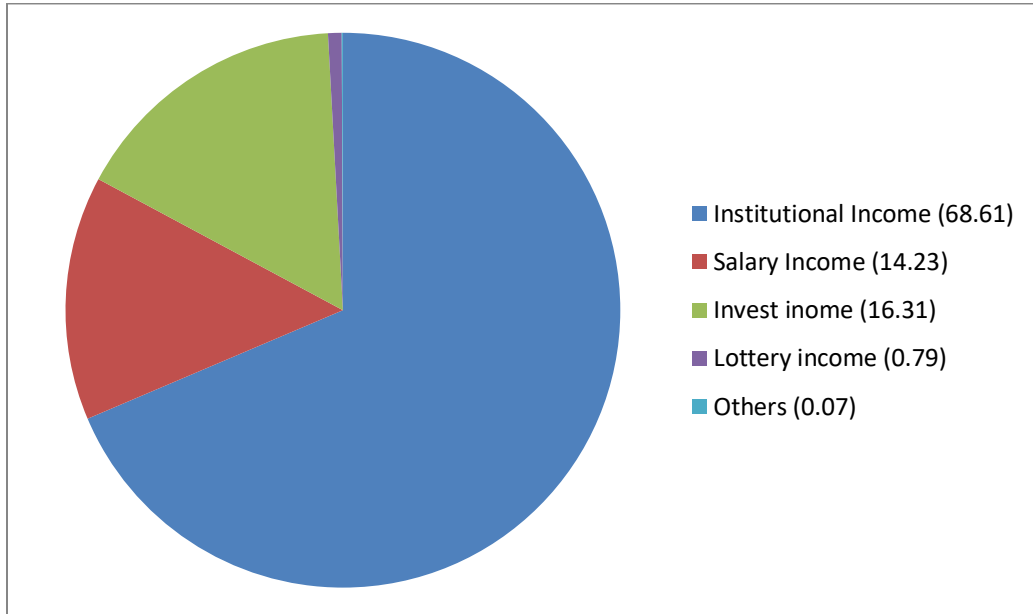
(Rs.in'000')

Particular	Fiscal year	Fiscal year	Fiscal year	Fiscal year	Fiscal year
	2068/65	2065/66	2066/67	2067/68	2068/69
Institutional Income	13268756	19624768	24040474	28580420	35904250
Government Academy	204585	959047	1131891	1205957	1455780
Public Ltd. company	7186458	9425132	12234469	14043883	15223330
Private Ltd. company	3140371	4197536	6049882	7254295	11274330
Individual Firm	2452345	4472091	3834350	4665138	5488220
Others Agency	284997	570962	789882	1411147	2462590
Salary Income	2451039	3195623	4413147	5784251	7446830
Investment Income	3271475	4161963	5108691	7083112	8534160
Rent	721102	960198	897042	1151383	1527680
Interest	1087927	1685094	2466390	4169045	5376150
Capital Gain	803492	761617	1043376	881123	567130
Dividend	657694	736546	674504	880105	1060240
Others income of Investment	1260	18508	6443	1456	2960
Lottery income	19151	17380	20936	15136	35360
Others	67392	246698	249168	262477	412560
	19731804	27246432	33811480	41725408	52333160
Increase Rate	43.88	73.19	24.09	23.40	25.42

Source: IRD, 2068/69 Yearly Report

Analyzing the above table Income Tax, Salary Income Tax, Investment Income Tax, Capital Gain and Lottery gain Tax are continuously increasing. Among these, Institutional Income Tax has the great contribution. Government Academy Income Tax has low contribution. It is due to poor management system shown by different research and survey report. Current Global system focuses on Salary Income Tax rather than Institutions Income Tax. But the position of Salary Income Tax has the poor position. Individual Income Tax collection is very weak it is due to lack of proper monitoring institutions, lack of Taxpaying habits, participation of Investment Income Tax is weak and lack of proper expansion and review of Income Tax are the major causes. Review of wage rate, low income and partially loose monitoring are the other causes of low collection of Revenue. Lack of progressive Income Tax system is also another constrains. If the investment environment become fine or favor there will be also progress in Income Tax Collection. Proper management and monitor on House Rent Income Tax and other indirect tax on huge density may increase in revenue collection in large scale.

Figure 4.1
Analysis of Income Tax



From the above Table and pie chart it is clear that the position of Institutional Income Tax under total Income Tax is in first position of about 68.612%. This shows that it has vital role in total Income Tax revenue and GDP as well in national budget. Above figure shows that contribution of Investment Income Tax is in second position of about 16.31%, third in Salary Income Tax of about 14.23%, fourth in Lottery Income Tax and others by 0.07% is in last fifth position which takes last position in this chart.

All the trend analysis of revenue shows that the contribution of tax revenue is increasing under this income tax is also growing rapidly and expanding. Increasing of income tax shows the prosperity of national economy in gross.

4.1.3 Ratio of Income Tax to GDP

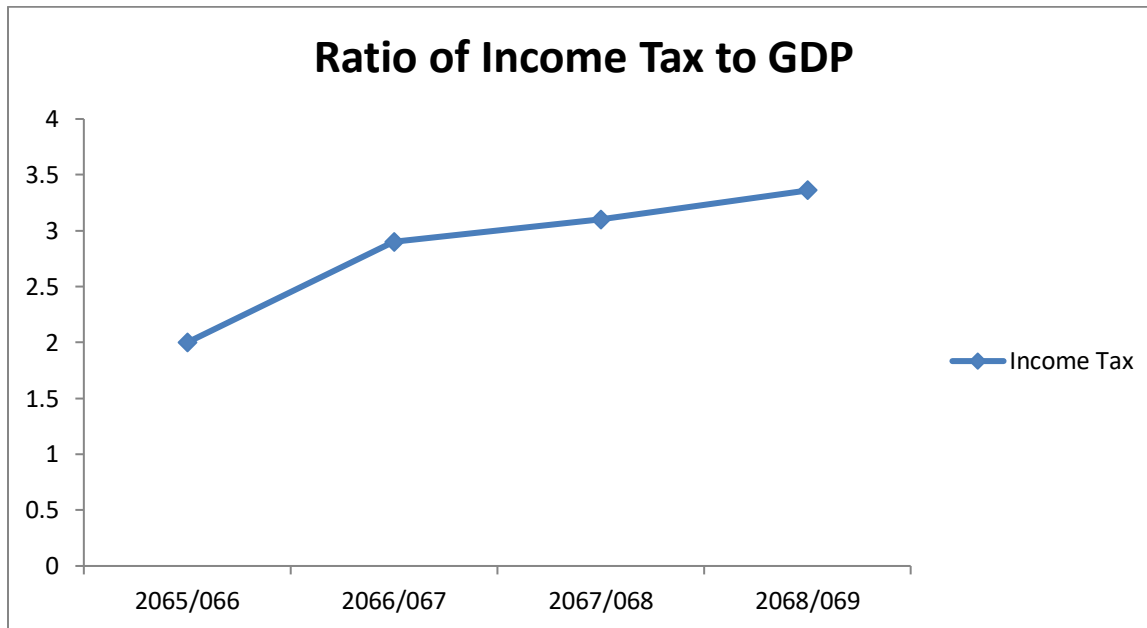
Table 4.3
Ratio of Income Tax to GDP

S.N.	Fiscal Year	Income Tax ratio to GDP
1	2065/066	2%
2	2066/067	2.9%
3	2067/068	3.1%
4	2068/069	3.36%

Source: IRD, 2068/69 Yearly Report

It can be more clear from the following bar diagram, figure 4.1

Figure 4.2 Composition of Income Tax



Source: IRD, 2068/69 Yearly Report

From the above table and figure, it is clear that the ratio of Income tax on GDP was gradually increasing. Which is clearly show in above figure. In fiscal year 2065/66, the ratio of income tax is about 2%, in fiscal year 2066/067, ratio of income tax is 2.9%, in fiscal year 2067/068 ratio of income tax is 3.1% and In fiscal year 2068/069 ratio of income tax is 3.36%. After analyzing all the history of income tax system it is developed rapidly after new income tax act 2058.

4.1.4 Income Tax Rates

Tax rate and its structure have been changing frequently since its introduction in the fiscal year 1995/96 A.D.

Since the fiscal year 1959/60 to this date, there are various records of highest and lowest income tax rate.

Tax rates differ in structure and in terms of percentage depending on whether the taxpayer is an individual or entity.

For Individual and Couple

- i. A resident individual or a resident couple having taxable income from employment is taxed as under:

Table 4.4
Tax Rates for Individual and Couple of Employment

For Individual	For Couple	Tax Rates
Up to Rs. 1,60,000	Up to Rs. 2,00,000	1%
Next Rs. 1,00,000	Next Rs. 1,00,000	15%
Next Rs. 22,40,000	Next Rs. 22,00,000	25%
Balance	Balance	40%

Source: IRD, 2068/69 Yearly Report

- ii. A resident individual or a resident couple having taxable income from business and or investment only is taxed as under:

Table 4.5
Tax Rates for Individual and Couple of Business, Investment and Employment

For Individual	For Couple	Tax Rate
Up to Rs. 1,60,000	Up to Rs. 2,00,000	1%
Next Rs. 1,00,000	Next Rs. 1,00,000	15%
Next Rs. 22,40,000	Next Rs. 22,00,000	25%
Balance	Balance	40%

Source: IRD, 2068/69 Yearly Report

- iii. A resident individual or a couple having taxable income exceeding Rs. 25 lakh is imposed an additional tax of 40% of tax liability.
- iv. A resident individual or a resident couple having taxable income from employment and business and or investment is taxed as under:

Table 4.6

Tax Rates for Individual and Couple of Business and Investment

For Individual	For Couple	Tax Rate (%)
Up to Rs. 1,60,000	Up to Rs. 2,00,000	1
Next Rs. 1,00,000	Next Rs. 1,00,000	15
Next Rs. 22,40,000	Next Rs. 22,00,000	25
Balance	Balance	40

Source: IRD, 2068/69 Yearly Report

Even if the assessable income from employment is less than exemption limit, 1% social service tax is imposed on whole exemption amount enjoyed by taxpayer.

- Tax is imposed only at 20% instead of 25% as highest rate to the individual engaged in a special industry.
- Taxable income of an individual earned from exports is taxed at 15% on the slab where 25% tax rate applicable normally.
- The resident couples are normally taxed as two single individuals. A resident individual and the resident spouse of the individual may elect to be treated as couple section 50 of the Act, 2001.
- An individual working in a remote area is entitled to a hardship allowance call a remote area (Area 'A') allowance up to a maximum of Rs. 50,000 by way of additional basic exemption. The exemption limit specified in Rule 38 of ITR, 2059 is as under:

Table 4.7

Additional Tax Exemption under Region for Individual and Couple of Business and Investment

Area 'A'	Rs.50,000
Area 'B'	Rs. 40,000
Area 'C'	Rs.30,000
Area 'D'	Rs.20,000
Area 'E'	Rs.10,000

Source: IRD, 2068/69 yearly Report

An individual having pension income is entitled to a 25% basic exemption as additional exemption.

- A disable resident individual is entitled to a 25% basic exemption as additional exemption.

- Nepalese diplomats working abroad and Diplomatic Mission are taxed only after deducting 75% of foreign allowance from their taxable income.
- If a resident has invested (life) insurance, annual premium paid for Rs. 20,000 (Whichever is lower) is subject to deduction from taxable income.
- If a resident individual is a woman having remuneration income only, she is entitled to a rebate of 10% on tax liability.
 - A specific relief is provided for resident individual taxpayer running a small business. If such taxpayer has income exclusive from a business having a source in Nepal, income and annual turnover do not exceed Rs. 2,00,000 and respect and if they elect to apply this provision for the year, they are imposed as a fixed amount that depends on the area where the business is conducted. The annual tax will be as follows:
 - Metropolitan or Sub-Metropolitan Rs. 3500
 - Municipalities Rs. 2000
 - Anywhere else in Nepal Rs. 1250
- The tax applicable to public transport is as follows:

Table 4.8

Annual Tax for Rental Vehicle

S.N.	Type of Vehicle	Annual tax per vehicle (Rs.)
1	Minibus, Mini Truck, Truck, Bus	1500
2	Car, Jeep, Van, Micro Bus	1200
3	Three wheeler, Auto Rickshaw, Tempo	850
4	Tractor and power Tiller	750

Source: IRD, 2068/69 yearly Report

- Gains from the disposal of non business chargeable assets i.e.; obtained in the course of private activity, are taxed at the rate of 5%. However, if the ownership of disposed off a business chargeable asset (land and house) has been more than 5 years; only 2.5% tax is applicable on such gain. But, if the ownership of the disposed off non business chargeable assets (land and house) has been less than 5 years, 5% is applicable on such gain.

- Nonresident individuals taxable with their income sourced in Nepal. The tax imposed on this income is 25%. But if the income is subject to withholding tax, the withholding rate is applied, (IRD, Yearly Report)

The income tax rate for partnership firms, corporations and on resident was 15% to 60% for different slabs in the fiscal year 1995/96 which decreased to 30% to 25% for total taxable income. Income tax Act, 2001 AD has provided rebates or facilities to the special industries. So, only 20% tax is levied on the income of a special industry. According to the Income Tax Act 2001, entities are taxed on a flat basis. The percentage of the rate depends on the nature of the entity or the kind of the entity's business respectively. Such as:

- i. The taxable income of any entity is generally taxed at the rate of 25% unless prescribed otherwise.
- ii. The income of an approved retirement fund is exempt from tax.
- iii. Banks; Financial institution; General insurance companies; liquor and tobacco industries; or entity established under Nepal petroleum Act, 2040 are taxed at the rate of 30%.
- iv. Entity wholly operating as special industry and entity that has operated any road, bridge, tunnel, rope-way, flying bridge etc. after their construction or entity has operated trolley bus or train are taxed at the 20%.
- v. Entity wholly engaged in projects to built public infrastructure, own operate and transfer it to government, or entity engaged in power generation, transmission and distribution is taxed at the rate of 20%
- vi. Export income of an entity that has earned income from export is taxed at the rate of 20%.
- vii. Income of an estate of a deceased resident individual or trust of an incapacitated resident individual is taxed as a resident individual.
- viii. Repatriated income of a foreign permanent establishment of a non resident person situated in Nepal is taxed at the rate of 5%.
- ix. Taxable income of non-resident person providing shipping, air-transport or telecommunication service (however 2% tax is applied in case these services are being provided within Nepal) is taxed at the rate of 5% (Bhattraai and Koirala, 2068,34-35).

For every year, Finance Act prescribes the exemption limit for individual, Family and couple, above the exemption limit, different income tax rate has been levied in the

different fiscal years. The exemption limits in the different fiscal years are shown as in the following table no.4.11

Table 4.9
Exemption Limit in Nepal

(Amount in Rupees)

Fiscal Years	Individual	Couple	Family
2008/09	160000	200000	200000
2009/10	160000	200000	200000
2010/11	160000	200000	200000
2011/12	160000	200000	200000
2012/13	160000	200000	200000

Source: Finance Acts of Various Years, MOF, GON

The above table shows that there was only one exemption limit for all individual taxpayers from the fiscal year 2008/09 to 2012/13 AD. After the fiscal year 2008/09 individual taxpayers were categorized into three heads i.e. individual, couple and family. From the fiscal year 2008/09 to 2012/13, exemption limit was constant. For individual exemption limit is Rs. 160000 and for couple and family exemption limit is Rs. 200000.

4.2 Analysis of Primary Data

An empirical investigation has been conducted in order to find out various aspects of income tax imposition from the experience of the real world. The major tool used for this proposes is an opinion survey through questionnaire which was dispatched to 80 persons representing tax experts, tax administrator and taxpayer, but only 60 persons were received. The questionnaire (Appendix-I) had included the various aspects of income tax concerning with the provisions of exemption, deductions and self assessment including contributions of income to the Government Revenue and effectiveness of self assessment of income tax in Nepal.

This chapter also analyzes information collected from primary sources i.e. through questionnaire. The questionnaires were either asked for a yes/No responses or asked for ranking of choice according to the number of alternatives where a first choice was most important and last choice was least important or there also were options to put respondents views in written form wherever necessary.

The responses received from various respondents have been arranged, tabulated into the separate format, have been expressed in percent of total numbers or points and analyzed in order to facilitate the descriptive analysis of the research study. The following table shows the groups of respondents and code used to represent them.

Table 4.10
Groups of Respondents and Code Use

S.N.	Groups of Respondents	Sample Size	Code Used
1	Tax Experts	10	A
2	Tax Administrators	25	B
3	Tax Payers	25	C
Total		60	

Source: Opinion Survey, 2013/2014

4.2.1 Public Awareness towards Income Tax System in Nepal

In order to know whether the people are well informed or not about income tax system in Nepal, a question was asked, "Do you think that the most of the Nepalese people are well informed about the self assessment of income tax system in Nepal?"

The respondent's are presented in the following table 4.15

Table 4.11
Information about Income Tax System in Nepal

Group of Respondents	Yes		No		Total	
	Number	Percent	Number	Percent	Number	Percent
A	1	10	9	90	10	100
B	2	8	23	92	25	100
C	8	32	17	68	25	100
Total	11	18.33	49	81.67	60	100

Source: Opinion Survey, 2013/2014

From the opinion survey, it is found that cent-percent Tax Expert and Tax Administrators believe that people are less informed about income tax system in Nepal. Only 32% of taxpayers and that people are well informed about income tax system in Nepal and 68% of taxpayers believe that Nepalese people are not well informed about income tax system in Nepal. In total 81.67% of respondents believe that people are not well informed about in Income tax system in Nepal.

Above survey approved that public awareness program is necessary in Nepal for making people well informed about for income tax system. Awareness should be given through local newspaper and mass media in order to make the people conscious.

Table 4.12**Test of Hypothesis**

Respondents	Yes	No	Row Total
Tax experts	1	9	10
Tax Administrators	2	23	25
Tax payers	8	17	25
Column Total	11	49	60

Source: Opinion Survey, 2013/2014

Null hypothesis H_0 : There is no significant difference in the view of Tax experts, administrators and tax payers regarding people are well informed about the tax system of Nepal.

Alternative hypothesis H_1 : There is significant difference in the views of tax experts and tax administrators and tax payers regarding people are well informed about tax system in Nepal.

Test statistic: Under H_0 , the test statistic is

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

Where f_o = Observed frequency

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

Table 4.13**Calculation of x^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	1	$(11 \times 10)/60=1.83$	-0.83	0.689	0.376
1,2	9	$(49 \times 10)/60=8.17$	0.83	0.689	0.084
2,1	2	$(11 \times 25)/60=4.58$	2.58	6.656	1.453
2,2	23	$(49 \times 25)/60=20.42$	2.52	6.350	0.311
3,1	8	$(11 \times 25)/60=4.58$	3.42	11.696	2.554
3,2	17	$(49 \times 25)/60=20.42$	-3.24	10.498	0.514
		60		36.578	$\frac{(f_o - f_e)^2}{f_e} = 0.61$

Calculated $\chi^2 = 0.61$

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

Level of significance = $5\% = 0.05$

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

Conclusion: Since calculated $\chi^2 \leq$ tabulated χ^2 , it is not significant and H_0 is accepted which means that there is no significant difference in tax experts/tax administrators and tax payers views regarding the people are well informed about tax system of Nepal.

4.2.2 Problems faced by Taxpayers while Paying Income Tax

To know the problems facing by the taxpayers while paying income tax, the respondents were requested to choose the most appropriate option among the four options and they were requested to specify if they fell any best option. The question was "In your opinion, what type of problem is facing by the taxpayers while paying income tax?" In response, they did not specify any specify alternative. Responses received from respondents are tabulated as follows:

Table 4.14

Problems Faced by Taxpayers while Paying Tax

S.N	Problems	Respondents							
		A		B		C		Total	
		No.	%	No.	%	No.	%	No.	%
a	Time consuming process	2	20	13	52	10	40	23	41.67
b	Expectation of illegal incentives by tax personnel	2	20	Nil	-	10	40	12	20
c	Vague provision in Income Tax Law	4	40	7	28	3	12	14	23.33
d	Lack of co-operation of income tax administrators	2	20	5	20	2	8	9	15
Total		10	100	25	100	25	100	60	100

Source: Opinion Survey, 2013/2014

From the above table we can say that time consuming process is the major problem while paying income tax under total respondent i.e.41.67%. Vague provision in Income tax law is in second position of problem while paying tax under total respondent i.e. 23.33%. In this way Expectation of illegal incentives by tax personnel in 3rd position and Lack of cooperation of income tax administrators in last position.

4.2.3 Situation of Present Income Tax Administration in Nepal

To know the present situation of income tax administration in Nepal the respondents were asked, "What do you feel about present income tax administration of Nepal?" whether it is efficient, inefficient of satisfactory, their responses were tabulated as below:

Table 4.15

Situation of Present Income Tax Administration in Nepal

Options	Situations(Conditions)	Respondents Group								Rank
		A		B		C		Total		
		No.	%	No.	%	No.	%	No.	%	
a	Yes	7	70	16	64	6	24	29	48.33	3
b	No	3	30	9	36	19	76	31	51.67	1
	Total	10	100	25	100	25	100	60	100	-

Source: Opinion Survey, 2013/2014

From the above table we can say that only 49.33 of the total respondents believed that present Income Tax administration is efficient, 51.67% of the respondents believed that it is inefficient. From the analysis of the data, it is concluded that most of the tax experts and tax administrators do not want to say the present income tax administration in Nepal is inefficient but most of the taxpayers emphasized on the inefficiency of present income tax administration in Nepal. The respondents who said the present tax administration is inefficient, they were asked the question, "What is the major cause for inefficient of income tax administration?"

Please choose from the following option, and the following options. And the received result is tabulated as in the table 4.21 below:

Table 4.16
Major Causes of Inefficient Income tax Administration in Nepal

Options	Major Causes	No. of respondents supporting the cause from different option								
		A		B		C		Total		Rank
		No.	%	No.	%	No.	%	No.	%	
a	Lack of trained employees	2	66.67	5	55.56	10	52.63	17	54.84	1
b	Lack of effective income tax act					1	5.3	1	3.23	4
c	Unnecessary outside pressure			2	22.22	3	15.78	5	16.13	3
d	Undue delay in making assessment					1	5.3	1	3.23	4
e	Lack of co-public participation	1	33.33	2	22.22	4	23.5	7	22.58	2
	Total	3	100	9	100	19	100	31	100	-

Source: Opinion Survey, 2013/2014

From the analysis of the above table, it is concluded that most of the tax official don't like to say that the present tax administration of Nepal is inefficient but it is going on inefficient and satisfactory ways. From the data it is clear those only 31 persons out of total of 60 persons believed that the present tax administration is inefficient. From the given options, the most important cause of inefficiency of tax administration ranked is lack of trained and competent tax officers and second most important cause is complicated tax laws. Other options chosen by the respondents are lack of co-ordination among tax related department, lack of proper direction, lack of effective communication and unnecessary outside pressure respectively.

4.2.4 Soundness of Income Tax Administration

In order to know the views of respondents towards the soundness of income tax administration of Nepal a question was asked, "Do you believe that the income tax administration is not sound after merging of tax and vat officer?" if yes what is the main reason? And they were requested to choose the best alternative among four and to specify any other if they want to write. They didn't specify any in the space provided. The responses received from respondents are tabulated as below in the table 4.22 and 4.23

Table 4.17
Soundness of Income Tax Administration

S.N	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	A	2	20	8	80	10	100
2	B	4	16	21	84	25	100
3	C	20	80	5	20	25	100
Total		26	43.33	34	56.66	60	100

Source: Opinion Survey, 2013/2014

From the above table shows that only 20% of the tax experts and 16% of tax administrators believe that the tax administration is not sound after the merging of tax and VAT office, but in contradiction 80% of the tax payers said there is no soundness of the tax administration after merging VAT and tax office. Out of total respondents, 43.33% of them said that the tax administration is not sound after the merging of tax and VAT office. The reasons of such in the option of respondents chose from the options are as follows in the following table 4.23.

Table 4.18
Important Reasons for Unsoundness of Tax Administration

Options	Important Reasons	No. of respondents supporting the reason from different options								Rank
		A		B		C		Total		
		No.	%	No.	%	No.	%	No.	%	
a	Difficulty in management due to the large number of taxpayers	1	50	2	60	5	21.05	8	30.77	2
b	Inefficient tax officers					9	47.37	9	34.62	1
c	Complication due to disharmony between income tax and VAT			2	22.22	4	21.05	4	15.38	4
d	Increasing habit of tax evasion of taxpayers once they are registered in VAT	1	50	2	40	2	10.53	5	19.23	3
Total		2	100	4	100.00	20	100.00	26	100.00	

Source: Opinion Survey, 2013/2014

From the above survey, only 2 out of 10 tax experts believed that income tax administration is not sound after merging of tax and VAT office. Among them 50% said difficult in management due to large number of tax payers and 50% said due to increasing habit of tax evasion by the tax payers once they are registered in VAT. Only 26% out of 60 persons supported that the tax administration is unsound. In total, 34.62% respondents believed in option 'b' reason to unsoundness of income tax administration which is due to inefficient officers. The option a difficult in management due to the large number of tax payers got 2nd rank related to the reason for unsoundness of tax administration. And in the same ways 15.38% of the total VAT and 19.23% of them believed due to increasing habit of tax evasion of taxpayers once they are registered in VAT. These are also the main reasons for unsoundness of income tax administration in Nepal.

4.2.5 Opinion Towards more Appropriate Method for Assessing of Income Tax

In order to know the view of respondents, "which is the more appropriate method for assessing income tax?" a question was asked. They were requested to rank their view, which has shown as:

Table 4.19

Option towards more Appropriate Method for Assessing of Income Tax

S.N.	Alternatives	Tax expert and tax administrators	Tax Payers	Overall points	%	Rank
1	Self-assessment	93	72	165	31.55	1
2	Assessment on the best judgment	75	56	131	25.05	2
3	Assessment on the basis of account submitted by the tax payers	55	49	101	19.88	4
4	Tax settlement commission	56	67	123	23.52	3
				523	100.00	

Source: Opinion Survey, 2013/14

While ranking together the option of both groups the corresponding prioritized reasons for more appropriate method for tax assessment are as follows;

- i. Self-assessment
- ii. Assessment on the best judgment
- iii. Tax settlement commission

iv. Assessment on the basis of accounts submitted by the tax payers.

From the above table it is concluded that the self-assessment is the more appropriate method for tax assessing of income tax.

Table 4.20
Calculation of Rank Correlation Coefficient

S.N	Alternatives	Total points (X)	Total points(Y)	Rank for X(R ₁)	Rank for X(R ₂)	d=R ₁ -R ₂	d ²
1	Self-assessment	93	72	1	1	0	0
2	Assessment on the basis of best judgment	75	56	2	3	-1	1
3	Assessment on the basis of account submitted by the tax payers	55	49	4	4	0	0
4	Tax settlement commission	56	67	3	2	1	1
							$\sum d^2=2$

Source: Opinion Survey, 2013/14

Where, X= tax experts and tax administrators

Y=tax payers

We have,

$$r = \frac{1-6\sum dx^2}{n(n^2-1)} = \frac{1-6 \times 2}{4(4^2-1)} = 0.8$$

The correlation indicates that there is high degree of positive correlation between tax experts and tax administrators and tax payers ranking regarding the more appropriate method for assessing of income tax.

4.2.6 Self Assessment is the best Assessment for Income Tax

In order to know the views of respondents the self assessment is the best assessment for the income tax assessment or not, a question was asked, "Do you believe that self

assessment is the best assessment for the income tax assessment assessment?" They were requested only choose yes or no answer for the method of assessment for income tax assessment. The responses received the tabulated in the following table;

Table 4.21

Self Assessment is the best Assessment for Income Tax Assessment

S.N.	Repondents Group	Yes		No		Total	
		No.	%	No.	%	No.	%
1	A	3	90	1	20	10	100
2	B	10	40	15	56	25	100
3	C	13	52	12	52	25	100
Total		32	53.33	28	47.67	60	100

Source: Opinion Survey, 2013/14 A.D

From the above table analysis, 30% of tax experts believed that self assessment of tax is the best assessment of income tax assessment. In the same way 40% of tax administrators and 52 of tax payers also think it is the best method of the assessment of tax. In total respondents, 53.33% believed that self assessment system is the best assessment system for the income tax assessment in Nepal. So, we can say that self assessment of income tax is the best assessment for the tax assessment in Nepal but for the effectiveness in self assessment awareness to the taxpayers should be spread all over the country.

4.2.7 Suggestions for Achieving Effectiveness of Self Assessment of Income Tax in Nepal

To know the other important factors for achieving the effectiveness of self assessment of income tax in Nepal, a question was asked, "Do you have any others suggestions for achieving effectiveness of self assessment of income tax in Nepal?" for this question respondents were requested to write suggestions in their own regarding the achieving effectiveness of self assessment of Income Tax in Nepal. The responses received in total are summarized as follows.

1. Taxpayers should be encouraged to pay tax by giving facilities like, unemployment allowance, medical treatment facilities, pension allowance etc.
2. Public awareness program should be given for the successful implementation of self assessment of income tax in Nepal, So, the tax education should be given from the school level and through mass media like, TV, Newspaper, Radio, Phone, Internet, Fax, etc. should be used to wear the people.
3. Tax clear certificate should be given for every tax payer even who runs the small business activities also.

4. Tax system should be simple, transparent and clearly understandable to the general public.
5. Taxpayers may hide their real income, so the proper checking system by the tax officers should be done effectively.
6. There should be proper co-ordination among tax related departments, such as department of revenue investigation, customer department and Inland Revenue Department. Networking of information system should be developed according.
7. Clear acts, rules and regulation are necessary for the effectiveness of self assessment of Income tax assessment system in Nepal.
8. The necessary acts, rules and regulations formed should be strictly implemented. For that matter follow up system regarding the collection of tax can be considered.
9. Training programs should be organized to the tax personnel in order to make them up to date and develop effective tax management system.
10. Supervision, inspections, suggestions, directions and instructions facilities should be maintained in related tax departments as well as other government offices or taxpaying offices and individuals etc.
11. Corruption should be in minimum level with the various attempts of the government and corruptors should be kicked out from their job and they must be penalized with more amounts than they corrupted.
12. Reward and punishments system must be taken into consideration and implementation for the tax payers who pay the tax in time or not.

4.2.8 Soundness and Efficiency of Existing Income Tax Assessment Procedure in Nepal

In order to know the respondents opinion about the soundness and efficiency of existing Income Tax Assessment Procedure in Nepal, a question was asked, "Do you think that the existing income tax assessment procedure is sound and efficient?" The responses from respondents are tabulated in the following table as follows:

Table 4.22

Soundness and Efficiency of Existing Income Tax Assessment Procedure

Responses/Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	6	60	4	40	10	100
B	10	40	15	60	25	100
C	8	32	17	68	25	100
Total	24	40	36	60	60	100

Source: Opinion Survey, 2013/14

From the above table it is known that the responses received as 24 respondents i.e. 40% of total respondents were agreed that the soundness and efficiency of existing income tax assessment procedure whereas 40 respondents i.e. 60% of the total respondents were not agree about the soundness and efficiency of existing income tax procedure. Most of the respondents of all codes (A,B,C) were disagreed about the soundness and efficiency of existing assessment procedure in Nepal. Thus it can be concluded that the existing income tax assessment procedure is not sound and efficient.

In order to know the causes of unsoundness and inefficiency of existing income tax assessment procedure in Nepal, the next question was asked as, "Whether your answer is Yes or No, what are the major causes which are responsible for the unsound and inefficient tax assessment procedure?" It was requested to all the respondents to rank their answer from 1 to 9 from the given option in the order to reference from respondents were arranged as the most important to the least important (appendix-III) which are given in the table as below:

Table 4.23
Major Causes for Unsound and Inefficient Tax Assessment Procedure

S.N.	Major Causes	Respondents Group			Total	%	Rank
		A	B	C			
a	Defective assessment procedure	50	135	123	308	11.4074	5
b	Lack of public participation	44	115	95	254	9.4074	3
c	Lack of trained and competent employee	43	142	134	319	11.8148	6
d	Inefficient organizational structure of tax administration	55	140	145	340	12.5926	7
e	Scarce of income tax experts or professionals in tax administration	71	159	185	415	15.3704	9
f	Weakness in government's economic policy	35	74	89	198	7.3333	1
g	Lack of coordination within the tax department	75	137	160	372	13.7778	
h	Complicated tax laws and provisions	29	98	95	222	8.2222	2
i	Corruption	48	125	99	272	10.07441	4
Total		450	1125	1125	2700	-	-

Source: Opinion Survey, 2013/14

In the above table, the percentage was calculated by total frequency of all codes (A,B & C) divided by the sum total of the total frequencies. The question was asked to rank from 1 to 9 where 1 was most important and 9 the least important. So, the lowest number of total frequency is the highest value and vice versa. Thus, having the lowest percentage carries most important cause.

The table shows that the group of 'A' (Tax experts), the respondents were agreed that the most major cause of being unsound and inefficient tax assessment procedure was "Complicated tax laws and provisions" whereas group 'B' (Tax administrators) were agreed for that the most major cause was "weakness in government's economic policy and the respondents from group 'C' were agreed that the most major causes of being unsound and inefficient tax assessment procedure were "Lack of public participation and complicated tax laws provisions." But in overall calculating and studying, the lowest percentage which means highest weight for being unsound and inefficient tax assessment procedure was "weakness in government's economic policy." According to the respondent's point of view, the main causes which are responsible for the unsound and inefficient tax assessment procedure are ranked as follows:

1. Weakness in government's economic policy.
2. Corruption
3. Defective assessment procedure
4. Lack of public participation
5. Lack of trained and competent employees
6. Inefficient organizational structure of tax administration
7. Scarce of income tax experts or professional in tax administration
8. Lack of coordination within the tax department

Except these above cause, the respondents were asked to specify other major cause and some of them specified the major cause in the place provided to write in their own words. They are tentatively highlighted consolidation in the following points as the weakness and causes of being unsung and inefficient tax assessment procedure.

1. Lack of reward and punishment
2. Social recognition to the wealthy person
3. Political safety to the corruptors
4. No barriers to politics by the person of not paying income tax
5. Lack of honesty in business sector
6. Non participation of taxpayers i.e. under reporting of income and transaction
7. Lack of modern technology to find out the fraud and manipulation of money and transactions

8. Lack of proper direction for collecting tax
9. Undue delay in making assessment
10. Unnecessary outside pressure and lack of effective communication for problem solution etc.

From the above causes in overall, it can be concluded that the main responsible factor of creating unsound and inefficient tax assessment procedure is weakness in government's economic policy.

The few of the respondents had given few suggestion rallies to overcome the unsound and inefficient tax assessment procedure as to have simplified tax laws is very necessary or essential so that the taxpayers become aware, satisfied and motivated to pay tax and they themselves feel proud of it.

4.2.9 Opinion towards factors responsible for income tax evasion

In order to know the opinion towards the factors responsible for income tax evasion, the question was asked to the respondents, "In your opinion, what are the factors responsible for income tax evasion?" the response received from the respondents are listed below;

Table 4.24

Opinion towards Factors Responsible for Income Tax Evasion

S.N	Alternatives	Tax experts & Admin.	Tax payers	Overall points	%	Rank
1	Defective tax administration	109	112	221	18.95	1
2	Inappropriate income tax	974	109	206	17.67	3
3	Loopholes in income tax act	115	86	201	17.24	4
4	Lack of consciousness in tax payers	96	67	163	13.98	6
5	Corruption in tax authority	71	96	167	14.32	5
6	Lack of political commitment	107	101	208	17.84	2
Total				1166	100	

Source: Opinion Survey, 2013/14

From the table it is clear that the main factors responsible for income tax evasion is defective tax administration and other factors are ranked below in order of preference:

1. Defective tax administration
2. Lack of political commitment
3. Inappropriate income tax policy
4. Loopholes in income tax act

5. Corruption in tax authority
6. Lack of consciousness is tax payers

From the above analysis we can conclude that tax administration should make more effective and provide political commitment to reduce tax evasion.

4.2.10 Opinion towards ways of controlling tax evasion

In order to know respondents options about ways of controlling tax evasion, one question was asked. "In your opinion, what are the ways of controlling income tax evasion which increases the income tax revenue in Nepal?" They were requested to rank their views in questionnaires alternative which has shown as:

Table 4.25
Option towards Ways of Controlling Tax Evasion

S.N.	Alternatives	Tax experts & tax Admn.	Tax payers	Overall points	%	Rank
1	Educating tax payers	49	40	89	8.83	8
2	Simplifying tax laws	65	56	121	12	4
3	Timely assessment of tax	59	38	97	9.62	7
4	Incentives of regular tax payres	94	49	143	14.19	3
5	Fines and penalties to tax evasion	75	41	116	11.51	5
6	Compulsory maintenance of accounts	107	59	166	16.47	1
7	Heavy punishment for the corrupter personnel	92	64	156	15.48	2
8	Rewards to the information giver about tax evasion	63	57	120	11.9	6
				1008	100	

Source: Opinion Survey, 2013/14

From the table it is clear that the main factor is control income tax evasion in Nepal is compulsory maintenance of accounts.

4.2.11 Opinion on Current Income Tax Rates

In order to know the opinion on current income tax rates, respondents were requested to tick the best alternative among three alternatives progressive, Regressive, Proportional

and others. The question was asked, "What is your opinion about the current income tax rates?" The respondent responses are tabulated as follow in the table:

Table 4.26
Opinion on Current Income Tax Rates

S.N.	Major Causes	Respondents Group			Total	%	Rank
		A	B	C			
1	Progressive	9	9	22	40	66.67	1
2	Regressive						
3	Proportional	1	16	3	20	33.33	2
Total		10	25	25	60	100.00	-

Source: Opinion Survey, 2013/14

The above table shows that 66.67% of the total respondents were agreed that the current income tax rates are progressive 33% of the total respondents were agreed proportional rates. From the above table, it can be concluded that the current income tax rates are progressive. From the study it is found that some respondents feel that the current income tax rates are not higher but in absolute terms, the rate are higher as compared to taxpaying capacity of Nepalese people.

4.2.12 Sufficiency of Exempted Items of Income Tax

Income Tax Act, 2058 has provided exemption to the various incomes. The act has clearly pointed the exempt organization which is tax free organizations and the exemption provided to different items of incomes. To know the sufficiency of exempted item of income, a question was asked, and "Do you think that the exempted items of incomes are sufficient?" The response on 'Yes' or 'No' options were as follows in the following table:

Table 4.27
Sufficiency of Exempted Items of Income Tax

Respondents Responses	Respondents Group			Total	%	Rank
	A	B	C			
Yes	5	19	10	34	56.67	1
No	5	6	15	26	44.33	2
Total	10	25	25	60	100.00	-

Source: Opinion survey, 2013/14

Cent percent responses were received from the respondents. Out of 60 respondents, 34 respondents i.e. 56.67% were agreed that the exempted items of income are sufficient whereas 28 respondents i.e. 44.33% were disagreed about the sufficiency of exempted items. Those respondents who gave the responses 'No' about the sufficiency of exempted

items of income were asked another questions as, "If no, what type of incomes should be exempted?" They were requested to write their responses in the place provided to write. Most of the respondents did not response about it, only few responses were received which are classified and mentioned below according to the codes used in number wise. The types of incomes should be exempted are:

Tax Experts

1. Provident fund
2. Life insurance premium
3. Export earning
4. Remote area allowance
5. Interest received from government banks
6. Awards and rewards
7. Scholarship
8. Rational exemptions should be given to all kind of incomes

Tax Administrators

1. Life insurance premium
2. Citizenship investment fund

Taxpayers

1. Over time all allowance
2. Retirement benefits
3. Income of foreign employee
4. Life insurance premium
5. House rent
6. Educational allowances for the children
7. Electricity and water
8. Medical Expenses on the basis of bills
9. Property

The majority of remunerated taxpayers, the responses of group "C" were related with employment income

4.2.13 Adequacy of Current Income Tax Exemption Limit

Finance Act of Nepal yearly prescribes the tax rate and exemption limit of income. When the income tax introduced, tax rates and exemption limit are changing yearly. To know the respondents view about the current exemptions limit, question was asked to get the 'Yes' or 'No' responses as, "Do you think that the current income tax exemption limit is

adequate for individual and couple or a family?" The responses are tabulated in the following table 4.34 as follows:

Table 4.28
Adequacy of Current Income Tax Exemption Limit

Respondents Responses	Respondents Group			Total	%	Rank
	A	B	C			
Yes	4	13	2	19	31.67	2
No	6	12	23	41	68.33	1
Total	10	25	25	60	100.00	-

Source: Opinion Survey, 2013/14

From above table, it can be seen that the current income tax exemption limit is inadequate because 41 respondents out of 60 i.e. 68.33 of total respondents were against the adequateness of current exemption limit whereas only 31.67% of the respondents i.e. only 19 out of 60 persons were the adequateness of current exemption limit.

The respondents who were against the adequateness of current exemption limit were asked a question as, "If no, what exemption limits do you suggest for individual and couple or a family?" The table including current existing limit was given to get the suggested limit providing space to write the limit for individual and couple or a family. The responses are arranged in the following table 4.35 and 4.36 respectively for individual and for a couple or a family.

Table 4.29
Suggestion for Exemption limit for an individual

Respondents Responses	Respondents Group			Total	%	Rank
	A	B	C			
Rs. 200,000	-	2	3	5	12.19	3
Rs. 300,000	2	8	4	14	34.12	2
Rs. 400,000	4	2	16	32	78.05	1
Total	6	12	23	41	100.00	-

Source: Opinion survey, 2013/14

From the above table, the Responses about the exemption limit of an individual were found that 78.05% of the total respondents were in favor of Rs. 400000 whereas 34.12% of the respondents suggested that the exemption limit should be Rs. 300000 and 12.19% of the total respondents suggested Rs. 200000.

Table 4.30
Suggestion for Exemption Limit for couple or Family

Respondents Responses	Respondents Group			Total	%	Rank
	A	B	C			
Rs. 200,000	1	2	5	7	17.07	3
Rs. 300,000	2	5	5	12	29.27	2
Rs. 400,000	4	5	12	21	51.22	1
Total	6	12	23	41	100	-

Source: Opinion Survey, 2013/14

From the above table, it is clear that only 6 respondents out of 10 from group 'A' 12 respondents out of 25 from group 'B' and 23 respondents out of 25 from group 'C' suggested about the exemption limits for both individual (table no.4.32) and a couple or a family. It can know from the table that most of the respondents i.e. 51.22 suggested for Rs. 400000 as exemption limit for a family, 29.27 of the respondents suggested for Rs. 300000 and 200000 respectively respondents of 16.28% and 13.95% respectively. It can be concluded that most of the respondents are in favor of Rs. 400000 as an exemptions limit for a family or couple. On the personal discussion with the respondents, the researcher found that more people were in support to provide income tax exemption limit equivalent to annual remuneration income of a government employed section officers.

4.2.14 Family Exemption Limit According to the Number of Dependents

Income Tax Act has provided exemption limit to a family but it has not defined the number of dependents within a family. So, to know the opinion about the exemption limit of a family according to the number of dependents, questions was asked, "Do you agree that the family exemption limit just be provided according to the number of dependents of the family?" The responses on 'Yes' and 'No' options were as follows as given below:

Table 4.31
Family Exemption Limit on the Basis of Number of Dependents

Respondents Responses	Respondents Group			Total	%	Rank
	A	B	C			
Yes	2	9	14	25	41.67	2
No	8	16	11	35	58.33	1
Total	10	25	25	60	100	-

Source: Opinion Survey, 2013/14

The above table shows the responses of respondents about the family exemption limit that must be provided according to the number of dependents in family. Out of the 100% responses, 58.33% respondents disagreed whereas 41.67% of the respondents agreed that

the family exemption limit must be provided according to the number of dependents. The majority of respondents of group 'A' and 'B' were disagreed but 14 respondents out of 25 from group 'C' were agreed on providing the family exemption limit according to the number of dependents in families. On the personal discussion, either of any group of respondents having micro family was against on providing the family exemption limit according to the number of dependents due to their low exemption limit, but as a whole, it can be concluded that the most of the respondents disagreed on providing the family exemption limit according to the number of dependents in family, Researcher also found that respondents were in favor to provided exemption limit to a family according to the number of dependents but it is difficult to execute because it is impossible to apply in real field.

4.2.15 Exemption Limit According to the Inflationary Situation of the Country

One question was asked to know the option of respondents about exemption limit that should be adjusted according to the inflationary situation of the country. The question was, "Do you agree that exemption limit should be adjusted according to the inflationary situation of the country?" the responses were as given in the table 4.38 as follows:

Table 4.32

Exemption Limit According to the Inflationary Situation of the Country

Respondents Responses	Respondents Group			Total	%	Rank
	A	B	C			
Yes	5	17	20	42	70	1
No	5	8	5	18	30	2
Total	10	25	25	60	100	-

Source: Opinion Survey, 2013/14

The above table shows that 70% of the total respondents were agreed to adjust the exemption limit according to the inflationary situation of the country whereas only 30% of the total respondents were disagreed about it. Thus it can be concluded that the exemption limit of family or an individual should be adjusted according to the inflation situation of the country. But this situation makes the tax administration more complicated and vague rather than every year fiscal policy. The fiscal policy may provide tax relief to accommodate inflation if provisioned.

4.2.16 Option on Providing Exemption Limit on Agriculture Income

After the commencement of Income Tax Act, agricultural income has been treated as taxable income in sometimes in a specific case and sometimes as exempted income too. The new Income Tax Act has exempted agricultural income tax other that the income

from company, partnership or corporate body or through the land above the holding ceiling and prescribed in Land Act 2012 B.S. To know the opinion on it, one question was asked as, "What is your opinion about exemption providing on agricultural income?" The respondents were given four options to choose the most appropriate answer. The following table gives the breakdown of the responses.

Table 4.33
Opinion on Providing Exemption Limit on Agriculture Income

Respondents Responses	Respondents Group			Total	%	Rank
	A	B	C			
Yes, it should be exempted	5	16	19	40	66.67	2
No, it should not be exempted	3	5	5	8	13.33	1
It should be treated as other income	2	2	4	8	13.33	3
Other (if any, specify)	-	2	2	4	6.67	4
Total	10	25	25	60	100.00	-

Source: Opinion Survey, 2013/14

From the above table, it shows 66.67 of the total respondents were in support to exempt the agriculture income whereas 13.33% of the total respondents were against the exemption facilities of agricultural income. Similarly 13.33% of the total respondents were in favor to treat it as other income. Only four respondents out of 60 respondents i.e. 2 from group 'B' and 2 from group 'C' specified their responses as other options as the suggestions which are mentioned as follows:

- i. Certain area and the income of marginal famers should be exempted.
- ii. Based on subsistence farming and commercial farming for the first, it should be exempted.
- iii. A practical arrangement for taxing agriculture income should be formulated, for example that should be based on the size of landholding.
- iv. Exemption facilities should be provided up to certain limit of production only.

4.2.17 Sufficiency about the Itemized Deductions

Income tax Act, 2058 has provided different kinds of expenses as deductions. Some expenses are allowed for deduction as itemized deduction and some are standard deduction. In order to know the attitude towards the item wise deduction of expenses, a question was asked as, "Do you think the itemized deductions are sufficient?" Respondents were given 'Yes' or 'No' options to support the answer. The responses received are tabulated as in the following table 4.35 below:

Table 4.34
Sufficiency about the Itemized Deduction

Respondents Responses	Respondents Group			Total	%	Rank
	A	B	C			
Yes	5	17	20	42	70	1
No	5	8	5	18	30	2
Total	10	25	25	60	100	-

Source: Opinion Survey, 2013/14

The above table shows that 70% of the total respondents were agreed current itemized deduction whereas only 30% of the total respondents were disagreed about it. Thus it can be concluded that the itemized deduction is sufficient. This situation makes the tax administration easier every year fiscal policy. The fiscal policy may provide tax relief.

Tax Experts

- i. Repair and maintenance expenses should be fully allowed. There is no meaning of allowing only 7% on the depreciation base according to the existing provision.
- ii. Special Economic Zones (SEZ) should be created and alternative tax administration, exemption allowed for industries, processing units, infrastructure development projects in such regions are to be specified properly.

Tax Administrators

- i. Daily T.A. expenses from residence to business
- ii. Educational expenses
- iii. Delivery expenses

Tax Payers

- i. House rent
- ii. Educational allowances
- iii. Medical expenses on the basis of bills
- iv. Tiffin allowance
- v. Travelling allowance

From the analysis of above different aspects for improvement, most of the respondents have suggested to improve tax laws and language to be simplified. They also focused to improve the tax administration too.

4.2.18 Suggestions for Achieving Effectiveness of Income Tax in Nepal

Income tax Act, 2058 B.S. is better earlier Income Tax Act, 2031 B.S. but the new Act is now free from weakness and vagueness and complicated language used. Thus a question

was asked to give suggestions about Income tax in Nepal. The question was asked as, "Do you have any suggestion about income tax in Nepal?" Only a few respondents covering all kinds of group had given the suggestions which are mentioned below.

- i. The tax laws needed to be simplified, early interpreted and understood even a layman.
- ii. Accessibility of the tax administration should be improved.
- iii. Improved manpower in tax administration
- iv. Utilization of revenue takes vital role to revenue generation and voluntarily self-registration and assessment
- v. Tax administration and assessment procedure are also required to be simplified and should be made taxpayer as friendly
- vi. Public awareness is needed and political commitment and credibility and credibility should be necessary.
- vii. It should give focus on the area of taxation rather than high tax rate.
- viii. Lower tax rate and increasing tax base
- ix. Motivating for self compliance
- x. Increasing exemption limit
- xi. Developing competence among tax personnel
- xii. Starting court cases to evading people/entity
- xiii. Compulsory declaration of assets of each individual
- xiv. Punishment should be given for not paying tax to the government.
- xv. Different privileges and nation-wise recognitions must be given to the regular and high taxpayers and abroad visiting should be provided.

4.3 Major Findings

4.3.1 From Secondary Data

According to the preceding chapters, some important findings can be drawn. The major findings of this research study from secondary data are summarized below:

1. The composition of the government revenue is internal revenue and external revenue. Internal revenue includes both tax revenue and non-tax revenue. The contribution of tax revenue shows the increasing trend which contributed.
2. Income Tax Salary Income Tax, Investment Income Tax, Capital Gain and Lottery gain Tax are continuously increasing. Among these, Institutional Income Tax has the great contribution.
3. Review of wage rate, low income and partially loose monitoring are the other causes of low collection of Revenue. Lack of progressive Income Tax system is also another constrains. If the investment environment become fine or favor there will be also progress in Income Tax Collection. Proper management and monitor on House Rent Income Tax and other indirect tax on huge density may increase in revenue collection in large scale.
4. Income tax is the composition of corporate income tax, individual income tax and investment income tax. Corporate tax is collected from government corporations, public limited companies, partnership firms and private limited companies. Individual tax is collected from remuneration, industry and business professions etc. and investment tax is collected from dividend tax, interest tax, royalty rent tax etc.
5. From the empirical studies, respondents have suggested to change exemption limit according to the inflationary situation of the country. In the fiscal year 2009/10, the exemption limit was extended as per the time and condition up to Rs. 160000 for an individual and Rs. 200000 for a family and a couple where 1% tax is levied is on those ceiling amount according to the new provision.
6. The exemption limit has not been provided to partnership firms, corporation and non-residents. From the view of the majority respondents, the suggestion to increase exemption limit as per time and condition for individuals and families or couples were Rs. 200000.
7. In Nepal, the coverage of income tax base is low. Agricultural income is exempted from income tax. Exclusion of agriculture income from the tax net alone cuts out about half of the GDP. On the other hand, employment income is taxed more heavily than the capital income. Retirement amount received by Nepalese people being retired from the service by army or police of foreign country is also exempted from income tax. Such provision provided loopholes for tax evasion.

8. Some exemptions granted to achieve certain objectives are not effective. Tax incentive is one of the examples. Although the concession encourage for the establishment of industries in certain areas but they vanish or change names, ownership or place of the business when the tax incentives facility expire.
9. All the costs made on pollution control by a person during the year in conducting the business are allowed for deduction. But the expenses shall not exceed 50% of the person's taxable income calculated without deduction for pollution control costs. Any excess costs or part thereof for which a deduction for pollution control costs is not allowed shall be capitalized and may be depreciated in accordance. On the other hand, all the expenses made by the business to control pollution are not allowed for deduction and has made a standard limit for it. Thus, it is not good symptom of pollution control.
10. Depreciation of depreciable assets owned and used by the person during an income year in the production of person's income from the business or investment allowed for the deduction. But the following provision shall be applied in respect of depreciation of the machines, equipment and other machinery installed in the electricity projects that are involving in building power station, generating and transmitting electricity and in the projects conducted any entity so as to built public infrastructure own, operate transfer to the government.
11. Income Tax Administration of Nepal is not efficient due to various causes like weakness in government's economic policy, complicated tax laws and provisions, lack of public participation and lack of trained and competent employees etc.
12. Income Tax System of Nepal is suffering from various problems and weakness such as lack of trained employees, lack of cooperation in tax administration, increased corruption, voluntary compliance, and ambiguous provisions under the Nepalese tax Laws: limited tax base is difficult to maintain the account for tax purpose, relatively high tax rate, lack of timely adjustment of tax laws, etc.

4.3.2 From Primary Data

An opinion survey was conducted in order to find out the various aspects of income tax specially related to exemption, deduction and self assessment of income tax system in Nepal. From the opinion survey of various respondents (Sixty Respondents) i.e. Tax Experts, Tax Administrations and Tax payers, the following findings have been drawn as:

- a) Public awareness programmers are necessary in Nepal for making people well informed about income tax system. In total 81.67 percent of the total respondents believed that people are not well informed about income tax system in Nepal.
- b) 41.67% of the total respondents accepted that the major problems faced by the tax payers while paying income tax among various problems was time consuming process.
- c) Among the various methods for the effective implementation of self assessment of income tax in Nepal, income tax education to the tax payers should be given because the most important method/factor, which has stood in rank 1st given by the total respondents scores. In the same ways, make political commitment, strengthen and improve tax administration, improve tax laws and regulations, reward and punishment, develop skilled manpower and develop information technology are other important method for achieving effective implementation of self assessment of Income Tax in Nepal.
- d) The situation of present income tax administration in Nepal found that 49.33% of the total respondents believed that present Income Tax Administration is efficient. 51.675 of the respondents believed that present Income Tax Administration is inefficient. From the opinion survey it is concluded that most of the tax payers and the tax administrators do not want to say the present income tax administration in Nepal is inefficient but most of the taxpayers emphasized on the inefficiency of present income tax administration in Nepal.
- e) Only 20% of the tax experts and 16% of the tax administrators believed that the tax administration is not sound after merging VAT and tax office, but in contradiction 80% of the tax payers said there is no soundness of the tax administration after merging VAT and tax officer. Out of total respondents, 43.33% of them said that the tax administration is not sound after the merging of tax and VAT office. Only 26 person out of 60 persons supported that the tax administration is not sound.
- f) 90% of tax experts believed that self assessment of tax is the best assessment of income tax assessment. In the same ways 40% of tax administrators and 47.67% of tax payers also think it is the best method of the assessment of tax. In total respondents, 53.33% believed that self assessment system is the best system for the income tax assessment in Nepal. So, it can be said that self assessment of income

- tax is the best assessment for the tax assessment in Nepal but for the effectiveness in self assessment awareness to the taxpayers should be spread all over the country.
- g) 24 respondents i.e. 40% of total respondents were agreed that the soundness and efficiency of existing income tax assessment procedure whereas 40 respondents i.e. 60% of the total respondents were not agree about the soundness and efficiency of existing income tax procedure. Most of the respondents of all codes (A,B,C) were disagreed about the soundness and efficiency of existing assessment procedure in Nepal. Thus it can be concluded that the existing income tax assessment procedure is not sound and efficient. The main causes responsible for inefficient income tax administration of income tax in Nepal are ranked in the following order: Weakness in government's economic policy, Complicated tax laws provisions, Corruption, Defective assessment procedure, Lack of public participation, Lack of trained and competent employees, Inefficient organizational structure of tax administration, Scarce of income tax experts or professionals in tax administration, Lack of coordination within the tax department.
- h) Income tax rates in Nepal are considered as progressive from the opinion survey. It is clear that 66.67% of the total respondents were agreed that the current income tax rates are progressive 33% of the total respondents were agreed proportional rates.
- i) 41 respondents out of 60 i.e 68.33% of total respondents were against the adequateness of current exemption limit whereas only 31.67% of the respondents i.e. only 19 out of 60 persons were agreed that the exempted items of income are sufficient.
- j) Most of the respondents i.e. 51.22 suggested for Rs. 400000 as exemption limit for a family, 29.27 of the respondents suggested for Rs. 300000 and 200000 respectively respondents of 16.28% and 13.95% respectively.
- k) Most of the respondents disagreed on providing the family exemption limit according to the number of dependents in family. Researcher also found that respondents were in favor to provided exemption limit to a family according to the number of dependents but it is difficult to execute because it is impossible to apply in real field. 70% of the total respondents were agreed to adjust the exemption limit according to the inflationary situation of the country whereas only 30% of the total respondents were disagreed about it. Thus it can be concluded that the exemption limit of family or an individual should be adjusted according to the inflation situation of the country. But this situation makes the tax administration more complicated and vague rather than every year fiscal policy. The fiscal policy may provide tax relief to accommodate inflation if provisioned.

- l) 66.67 of the total respondents were in support to exempt the agriculture income whereas 13.33% of the total respondents were against the exemption facilities of agricultural income. Similarly 13.33% of the total respondents were in favors to treat it as other income. Thus it can be concluded that agricultural income should be exempted from income tax.
- m) 43.33% of respondents were agreed whereas 56.67% respondents were disagreed about sufficiency of provisions relating to exemptions and deductions under the Nepalese Income Tax Act from the above table, it can be concluded that majority of the respondents were against the sufficiency.
- n) The majority of the respondents were against the sufficiency of itemized deductions of expenses. Except tax administrators, majority of tax experts and taxpayers were against of itemized or item wise deductions of expenses. From the study, it can be concluded that is insufficiency about itemized deductions.
- o) The suggestions received from the empirical study or opinion survey 2012/2013 A.D. about the aspects of income tax in Nepal are as follows:
 - i. Accessibility of the tax administration should be improved
 - ii. Improve manpower in tax administration
 - iii. Utilization of revenue takes vital role to revenue generation and voluntarily self registration and assessment
 - iv. Tax administration and assessment procedures are also required to be simplified and should be made tax payers as friendly
 - v. Public awareness is needed and political commitment and credibility should be necessary.
 - vi. It should give focus on the area of taxation rather than high tax rate.
 - vii. Lowering tax rate and increasing tax base
 - viii. Motivating for self compliance
 - ix. Increasing exemption limit
 - x. Developing competence among tax personnel
 - xi. Starting court cases to evading people/entity
 - xii. Compulsory declaration of assets of each individual
 - xiii. Punishment should be given for not paying to the government
 - xiv. Different privileges and nation-wise recognitions must be given to the regular and high taxpayers and abroad visiting should be provided.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter deals with the summary & findings, conclusion and recommendations derived from the study of Income Tax System of Nepal. Summary refers the short form of whole study, conclusion drawn from the analysis and recommendation suggests the improvement mainly in tax administration and Income Tax Act.

5.1 Summary

In our country, there is lack of the financial resources and a lot of funds are required to do the development activities. Nepal has been suffering from the shortage of capital to accelerate the economic growth. There is so much resource gap, so in order to fulfill the shortage, government is depending on the foreign grants and loans. So, to fulfill the resource gap income tax, a direct tax is most important sources of internal revenue. Due to the low economic activities and lesser development of the corporate sectors, the contribution of income tax to the total revenue is very low.

Being landlocked, developing and mountainous country, Nepal has to cope with the various kinds of difficulties such as economic, social, demographic, culture, political, development and diplomatic etc. The nation requires sufficient fund to fulfill its responsibility towards its people and territory while coping with the difficulties. The basic needs like food, health, education, securities are to be provided and other needs like administration, social welfare and foreign trade etc. are to be raised from internal and external sources of income.

External sources of fund are foreign grants and loans which are received from foreign countries and international organizations and internal sources of fund are tax sources and non-tax sources which are received by the government from the people and their activities handled by them out of their income. Tax sources are made up of direct and indirect taxes where income tax is one of the most important components of direct tax.

The composition of the government revenue is internal revenue is internal revenue and external revenue. Internal revenue includes both tax revenue and non-tax revenue consists of corporate income tax, individual income tax and investment income tax. Corporate income tax is collected from government corporations, public limited companies, partnership firms and private limited companies. Individual tax is collected from remuneration, industry and business profession etc and investment tax is collected from dividend tax, interest tax, royalty, rent tax etc. All incomes generated by an individual are not taxable income because the minimum cost expenses required for living can't be taxed.

So from the commencement of income tax in Nepal, some extents of amounts are exempted from income tax. The extent is known as exemption limit. Income tax exemption limit in Nepal has been changing on the basis of time and condition. From the empirical studies, respondents have suggested to change exemption limit according to the inflationary situation of the country.

In Nepal, the coverage of income tax base is low. Agricultural income is exempted from income tax. Exclusion of agriculture income from the tax net alone cuts out about half of the GDP. On the other hand, employment income is taxed more heavily than the capital income. Retirement amount received by Nepalese people being retired from the service by army or police of foreign country is also exempted from income tax. Such provision provided loopholes from tax evasion. Some exemptions granted to achieve certain objectives are not effective. Tax incentive is none of the examples.

Public awareness programmed is necessary in Nepal for making people well informed about income tax system. Among the various methods for the effective implementation of self assessment of income tax in Nepal, income tax education to the tax payers should be given because this became the most important method or factor. The most important factor was chosen for effectiveness of self assessment of income tax in Nepal is to have clear Act, rules and regulations. After the merging of VAT and Tax office there are so many taxpayers, it has created the difficulty in the tax administration, so it is also weakness of income tax Act, 2058.

From the opinion survey the most important tax officers and second most important cause is complicated trained and competent tax laws. Other opinions chosen by the respondents are lack of coordination among the tax related departments, lack of proper direction, lack of erective communication and unnecessary outside pressure respectively. Encouragement to the taxpayers, public awareness programmers, proper checking system to stop the hiding of income, tax clear certificate system, simplicity & transparent in tax system, coordination among tax related departments, training programmers to the tax personnel, formulation of clear Acts, rules of regulation and their implementation, reward & punishment system, prevention of corruptions in the field of tax, supervisions, inspections, suggestions, directions and instructions facilities should be maintained for achieving effectiveness of self assessment of income tax in Nepal.

Within the income tax systems, exemptions, deductions and self assessment are more important to understand about income tax. Income tax has many phenomena but this

research study, role played by exemptions, deductions and self assessment for the contribution of income tax and their effects have been considered. Exemption of incomes, deductions of expenses and rates the income tax should be determined on the basis of income level people & different sectors, number of dependents and inflationary situation of the country. Income tax administration should be able to motivate the taxpayers to make their self assessment of their incomes according to the government economic policy. For those regular supervisions, inspections, checking, auditing, updating new technology, standing accounting system encouragement, simplification of technical and vague languages etc. are necessary.

Income tax system of Nepal has been blamed as being inefficient system. Being various problems relating to income tax revenue collection from income tax is low as compared to other countries but while analyzing data relating to it, it is found neither bad nor worse because it is being improved continuously. However income tax laws and administration in Nepal are to be deploying scrutinized and properly implemented. If the problems relating to income tax system in the country can be solved and resources are effectively utilized then only the prospects of revenue through income tax will be effective and bright so that economic development of Nepal will be achieved.

At last reduction the prevalent problems in income tax system in Nepal relating to exemptions, deductions and self assessment, the possible and suitable alternatives should be adopted, followed and implemented for positive result in the future, which are recommended in this research study.

5.2 Conclusion

Developing countries like Nepal is facing serious problems since the process of economic development. Lack of sufficient financial resource and its efficiency is the main constraints for the economic development of Nepal. Sufficient funds are required to meet the objectives of economic development. But, Nepal has not been able to collect necessary funds or revenues. Due to poor performance on internal revenue collection and its mobilization, Nepal has been heavily relying on foreign loans and grants. Thus, it is the most necessary activity to mobilize the internal fund or revenue to the optimum level.

To increase the government internal revenue, Nepalese government is trying to extract money from people through taxation. Within tax, income tax is the most important source of government revenue which is considered as a good remedy to cure growing resource gap in Nepal. In the country, the history of income tax is not so long. It was started only

on late fifties. The income tax was introduced as train on business profit and the remuneration, income. The first elected government believed on the first income tax and no specific Act was made to define and treat income tax. The first income Tax was introduced in 1959/60. Since then four income tax Acts have been implemented. From the very beginning, the concept of exemptions, deductions and other forms of tax relief in income tax have emerged in Nepal. All income of an individual can't be taxable income because the minimum cost required for subsistence can't be taxed. The exemptions, deductions and other form of tax relief are essential to encourage an individual to work more. The tax relief works as an incentive to an individual. So the concept of exemption, deduction and other tax relief are emerged in the country from the very beginning of income tax.

Exemption limit and the rate of the income tax is determined according to the income level and sector wise but has not been adjusted according to the inflationary situation of the country and number of dependents. Income tax system of Nepal has been blamed as being inefficient system. Being various problems relating to income tax, revenue collection form income tax is low as compared to other developing countries like India, Sri Lanka, Pakistan etc. nevertheless, if the data are analyzed relating to it. It is found that it is neither bad nor worse because it is being improved continuously. However income tax laws and administration in Nepal are to be deeply scrutinized and properly implemented. The provisions made on the Act have to be mentioned clearly and language has to be made clear and some reforms in tax administration system are needed.

The economy of nation largely depends on the well developed private sector. The private sector can be developed through corporate friendly laws, rules and regulations as well as the process on industrialization. A good corporate culture is very important to develop corporate sector. As Nepal is adopting the mixed economy for last five decades and have been liberalized form 1990s. By constitution, Nepal has encouraged the foreign investments. Various corporate friendly, laws rules has been formulated. Many public enterprises have been private and liquidated; some are in the process of privatization. Nepal has entered to WTO from 23rd April 2004 and has given emphasis to foreign trade and foreign trade and foreign direct investments. Also the rate of custom duties has been lowered and relief in other trade barriers. Due to liberalized/economy number of multinational companies has been established. Through there is establishment of multinational companies, there are facing various challenges. The challenges are open boarder, smuggling of goods and services, improper billing, tax evasion, political instability, strike, insecurity and unhealthy relation between labor union and the

management. So, business environment should be improved and mass media should be used for the public awareness about the income tax system. Income tax is very important sources of tax for the generation revenue from internal source. We can see the status of a country with the contribution of income tax to national revenue. If the ratio of contribution is high then the status of development is more.

So in developed countries the contribution from income tax to national revenue is very high. In order to increase the contribution from income tax, Nepal has adopted the new income tax act 2058 BS. from the 19th chaitra, 2058 B.S. this act has been formulated so as to encourage the foreign investors. Especially the self assessment of income tax system has been introduced with the broad tax base to collect the more internal revenue and the facilities of exemptions and deductions have been provided. The income tax act 2058 has encouraged developing the corporate culture in the country. The strengths of the act are broad base, appropriate rate of tax, appropriate method of calculation of depreciation provision for loss carry forward for consecutive year, provision of installment and use of the information technology.

Though the acts have good aspects, in the implementation there are following challenges, the acts, rules and regulation are not consistent, the tax education part is very poor, and tax payers evade the tax by showing less transaction. Also there is smuggling of goods due to the open boarder and inefficiency of the administration. There is no proper effective program for the tax payers to motivate for the paying of income tax. There should be introduced motivation program to the tax payers to pay tax by giving them extra facilities such as unemployment allowance, medical facilities, education facilities to the children of the tax payer etc. If the problems relating to income tax system in Nepal can be solved and resources are effectively utilized then only the prospects of revenue through income tax will be more effective and birth and the economic development of Nepal will be achieved.

5.3 Recommendations

There are various problems regarding to income tax of Nepal. The existing tax assessment procedure is also unsound and inefficient. The major causes of being unsound and inefficient tax assessment procedure are weakness in government's economic policy, lack of public participation, complicated tax laws and provisions, lack of trained and competent employees etc. in the opinion survey, it was noticed that most of the respondents were dissatisfied with the government economic policy, complicated tax laws and provisions and lack of public participation. The research study mostly focused

into the problems that are related to exemption of incomes, deduction of expenses and self assessment of filling a return of income for an income year by a person in income tax system in Nepal. SO, the recommendations made for other than exemptions, deductions and self assessment of income tax system of Nepal may be considered as the general recommendations. Hence, on the basis of this study, following recommendations are recommended by the researcher in order to increase the contributing of income tax through exemption of incomes, deduction of expenses and self assessment in government revenue collection as well as for the effectiveness of self assessment of income tax in Nepal.

A. Exemption of Income

1. To increase the income tax revenue, the present tax base must be widened by including the incomes from tourism sector; retirement amount received by Nepalese people being retired from the service or army or police of foreign country and currently exempted other sources of income.
2. The present provision of an individual and a family exemption are not appropriate. It should be raised to minimum of Rs. 300000 for individual and Rs. 400000 for a couple or a family.
3. The exemption limit should be adjusted according to the inflationary situation of the country on a yearly basis.
4. There are many provisions relating to tax exemption and concessions. Some concessions granted to achieve certain objectives are not effective. Tax concessions encourage the establishment of industries in certain areas but they vanish or change their names, owners or place of the business when the concession facilities expire. Thus proper investigation, inspection and supervision are to be taken place in time to time. The incentives provided to special industries are not effective. Such kinds of concessions do not encourage opening the industries in remote areas, for that purpose a special package should be introduced.
5. A little percentage of tax rebates should be provided to the tax payers who submit true income statements within the specified period of time.
6. Income tax on total export amount is not appropriate because income tax should be based on income not on the total amount. So, the provision of taxing on export income should be introduced. Similarly, export fee on export transaction should be eliminated or exempted.
7. Double taxation on dividends should be eliminated.
8. Retirement contributions are nothing else than the product of sacrifice of present earnings. These are the bases for the living standard of oldness of employees. So, they should be excluded from income tax.

B. Deduction of Expenses

1. Donation given to a political parties registered with the election commission is allowed for deductions. But it has not been able to solve the voice of the people of 'transparency of donation amount given to political parties by the businessmen'. So, donation amount given to political parties should be transparent through any media or by the related authority.
2. Deductions allowed from an employment income are not sufficient. Thus, the following deductions should be provided to the taxpayers whose source of income is only the remuneration.
 - a) Medical expenses made by tax payers
 - b) Expenses made for house rent.
 - c) Educational expenses for tax payers himself/herself if he/she is still studying in an educational institution.
 - d) Life insurance premium.
 - e) Pregnant delivery expenses for certain limit.
3. Deductions allowed from business or investment incomes are not sufficient. So, the following deductions should be provided to the taxpayers whose source of income is business or investment.
 - a. In the case of controlled resident entity, full deductions of interest expenses is not allowed , it is not lawful stem to businessmen who operate the business with loan or debt amount. So, it should be fully allowed for deductions within an income year.
 - b. To control pollution and protection of environment, environmental protection is more essential and should be expended on it and expenses made on it should be approved and should be fully allowed for deduction within an income year.
 - c. For successful industrial development, research and development is more essential and should be expended on it. Expenses made on it should be approved and fully allowed for deduction within an income year.
 - d. carry forward of losses for 4 years is not sufficient as compared to other developing countries and developed nations. SO, it should be extended up to 5 to 6 years.
 - e. Besides these recommendations, the following recommendations are made to compensate the loss of revenue due to the provision of additional exemptions and deductions recommended by the research.
 1. The members involved in formulating income tax policies must have deep research about income tax.
 2. Timely revision and adjustment should be made in the matter of income tax policy.

3. Income tax policy should be formulated so as to satisfy the following criteria.
 - i) It should be progressive ensuring social justice.
 - ii) It should be consistent with tax administration capacity
 - iii) It should not be used against national priority and efficient resource use.

4. The success of effectiveness of any system entirely depends upon implementation of provision which is the major responsibility or administration. In Nepal, one of the most important reasons for becoming unsound income tax system is inefficient and unscientific income tax administration. Thus, the following recommendations are made for the improvement of income tax administration in Nepal.
 - a. All the tax personnel should be given comprehensive training on various aspects or taxation on regular basis. For this, a separate training section within tax department should be established.
 - b. Effective reward and punishment system should be established.
 - c. The administration should try to increase effective public participation to minimize the income tax evasion.
 - d. Income tax experts/professional should be increased in tax administration.
 - e. The cost of revenue collection is one of the departments of administrative efficiency. So, the concerned authority should pay due attention on it.

5. Laws relating to income tax should be clear, simple and comprehensive and it should not contain loopholes. The following recommendations made for the information of existing tax law in Nepal are as follows:
 - a. The definition made in Income tax act should be further clarified and well defined.
 - b. The language should be simple and clear instead of using the vague meaningful words, and clear cut provision should be undertaken.
 - c. The provisions for fines, penalties and punishment should be made clear and simple.

6. The reward, prize, incentives provisions should be introduced in the act to encourage the taxpayers to pay tax voluntarily rather than coercive measures.
7. There should be compulsory provision of auditing.
8. Unnecessary political and outsiders pressure should be avoided.

C. Self Assessment of Income Tax

1. Direct tax as percentage of total tax is very low, so, it should be increased by applying self assessment of income tax with doing promotional activities and awareness

program to the general tax payers through mass media, such as Newspaper, using telephones, internet, fax TV, Radio etc.

2. To increase the indirect tax especially the VAT the government should encourage the entrepreneurs to join VAT, take PAN and sympathize the custom duty.
3. Tax education especially the self assessment education should be given to general public. For this purpose tax education should be included in the syllabus of secondary level education in school.
4. Highest tax paying person should be motivated by giving different facilities and by honoring him/her.
5. The income tax act should be very simply and easily understood by the general public. It should not be very vague and so large.
6. Need to improve information technology to provide better effective service to those tax payers at the least cost and time.
7. Provision of reward, prize and incentives should be introduced to encourage the tax payers to pay tax voluntarily rather than through coercive measures.

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