CHAPTER – I
INTRODUCTION

1.1 Background of the study

Government of every country requires capital in order to finance and perform its various activities. Hence, it is required to find out the sources of capital by the government to carry out its budgetary and other activities. In this regard, government can mobilize the capital sources as internally or externally. External sources consist of foreign loan, grants, borrowings and subsidies where as internal sources can be mobilized through public revenue i.e. tax and non-tax revenue. Certainly the objective of the public revenue generation is to recover the total government expenditure. Thus, the source of government's capital is through public revenue and revenue may be defined as an income that a government receives regularly.

There are different ways that revenue can be generated, which can be broadly classified into two categories: i.e. tax revenue and non-tax revenue.

Non-tax revenue is a conditional source of government receipt. The sources of non-tax revenue may be in the form of grants, administrative incomes, business income received by government for providing various goods and services to the people, amount received from sale of real and financial assets, sale of public land, sale of bond and other securities representing the government's indebtedness are some specific examples of non tax revenue. Grants in aid receipt from fine and penalties, postage charge, water and electricity charges are also the examples of such types of revenue. However, the basic objectives of which is not to collect revenue, about 20% revenue comes from this sources in Nepal[1].

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[1] Kadel, Puspa Raj (2003): *Tax law and Tax Planning in Nepal*, Buddha Academic, Ktm. (PP1)

1.2 Tax Revenue

The government collects the tax revenue as a compulsory payment from the people. Every one in organized society pays taxes and these are certainly the primary source of any modern government's revenue. There are different types of taxes income, commodity and property taxes to mention three important categories and each type will affect citizen's welfare differently[2]. Income tax, house and land tax, value added tax, excise duty, customs are the example of tax revenue. The main objective of taxation is to collect revenue. Tax revenue is major source of internal revenue as well as the macro-economic fiscal instrument of the government. Around 80% of revenue in Nepal comes from this source[3].

1.3 Meaning of Taxation

Taxes are compulsory levies on individual, firms, companies and other professionals for general purpose.

It is clear that a tax is compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax paid. Amount collected through taxation is spent for common interest of the people and it is collected from natural and artificial person. Taxation at one time was used to raise resources for the running of the administration and other performance of other essential duties of the state such as defense, maintenance of internal law and order and the provision of roads and other utilities. In recent years, taxation has also become a tool for removing disparities in income and wealth, and for mobilizing resources for economic development according to priorities laid down by the planners. Therefore, the structure of taxation as also

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[2] Bruce, F. Bavie and Bruce, F. Buncombe (1972): *Public Finance, Holt Rinehart And Winston Inc.* New York (pp.27)

[3] Kadel, Puspa Raj (2003): *Tax law and Tax Planning in Nepal*, Buddha Academic, Ktm. (PP2)

the incidence of taxation on corporation and individuals has far reaching repercussions on the economic life of the people[4].

Government activities require the transfer of resources from the private sector of the economy to the governmental sector or, with distribution activities from some person to others. This could be achieved through taxation.

The tax is a share of the income of citizens which the state appropriate in order to procure for itself the means necessary for the production of general public services[5]. Though, taxes are compulsory levies, it is not similar with fees. The fee presupposes the production of public services and is merely a method of recovering expenditure already made. Hence, it cannot represent the sole source of public revenues, but must be existed sides by side with other source of revenue ordinary and extra ordinary. The tax, on the other hand, supplies the state in advance with the means necessary for the production of public goods and may therefore represent a system of public revenues complete in itself.

Tax law reflects taxation and it should be noted that the law of taxation in modern states is based on the assumption of an exchange relationship: that is, the exchange of a payment to the state for the provision of public services by the state. In the older state, the tax could be paid and collected by virtue of the personal domination of the subject by the sovereign or of the conquered by the conqueror, or by virtue of the patrimonial concession. In the constitutional law of modern states, however, to the duty or obligation of citizens to pay taxes there, corresponds the duty or obligation of the state to provide public services.

In short, the tax is the price, which each citizen pays the state to cover his share of the cost of the general public services, which he will consume. Once this has been pointed out, it becomes obvious that the low of determination of

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[4] PAI, M.R. (1968): *Taxation in India*. A Commentary, Bombay popular Prakashan

[5] Marco, De Antonio De Viti (1952): First Principle Of Public Finance, Jonathan Cape 30 Bedf, Ord Square, London (pp. 123-124)

price-tax is differ from the law of determination of price-for, just as the latter differs from the law of determination of competitive price, as well as from that of monopoly price.

1.4 Types of Tax

Taxes are classified into two types, i.e. direct and indirect taxes, which are mentioned as follows:

1. Direct Tax

Direct tax may be defined as a tax, which is paid entirely by the person on whom it is levied from his own source, property and income. A direct tax is really paid by the person on whom it is legally imposed. The direct tax are the taxes on income from land, the tax on intangible or movable property, which falls from on income from investments, as well as on that arising form business and professional activity; and finally the tax on total individual income. These taxes strike the citizens income at the moment of its production. Direct tax, which is collected on the basis of lists containing the names of the taxpayers, and which recur at fixed interval. Income tax, are the some examples of direct tax.

2. Indirect Tax

Indirect tax denotes a tax, which tends to be shifted, i.e. passed on to others in the forms of higher price received on lower price paid by the taxpayers. An indirect tax is a tax, which is partly or or wholly passed on by the person who pays the tax to some other person. An indirect tax is imposed on one person but paid partly or wholly by another. Indirect tax is those, which strikes the private consumption of citizens and also transfers of property. They strike the income at the moment when the citizen spends if to acquire other goods. Indirect tax are calculated on the occasion of certain definite acts, which do not come at fixed interval and are not susceptible to a method of collection involving lists of names.

Sales tax, vat, entertainment tax, hotel tax, export and import tax, excise duty are examples of indirect tax.

In brief, direct tax, which are imposed initially on the individual or household that is meant to bear the burden. And indirect taxes are taxes which are imposed at some other point in the system but are mean to be shifted to whoever is supposed to be the final bearer of the burden.

Personal taxes such as the individual income tax are thus “direct” and commodity tax, such as the sales tax, are “indirect” at the same time the distinction between direct and indirect taxes does not always coincide with that between personal and in commodity taxes.

1.5 Income Tax

Income tax may be mentioned as a personal tax imposed on the net income of individual and corporation. By this method of taxation, such burden is in accord with the tax paying ability of the individual may be called for by blending various personal deduction with the progressive rates. Although not completely neutral it possesses a number of economic advantages. It is widely accepted that an income base represents the most appropriate single measure of taxable capacity. If appropriately constructed, it ensures equal taxation of person with equal ability and increasing taxation of persons with higher income.

Income tax is made of two words income and taxation. Simply income tax means tax imposed on income of individual or organization. However, it seems to be cleared about income. Sometimes relatively clear-cut concept for lawyers and accountants is often a difficult and enigmatic one for economists. The concept of income is one of these enigmatic conundrums for economists[6].

[6] Sharp and Stigar (1970): *Public Finance, Business Publication* INC (PP. 143-144)

The concept of personal income most satisfactory to economists is total accretion. This, algebraically speaking is total consumption during a given period plus change in net worth. This is the basis income definition. It includes all income realized or unrealized which one collects during a given period of time.

A narrower but more admissible definition of income for tax purpose is the current-income (net flow) concept. This term implies that income for tax purpose is the net addition to income available for spending during a given time period.

This is a much more measurable concept than total accretion, which includes all income from factor earning gambling gains gifts and inheritance, and wind falls is still a much broader concept than is used for income tax purposes.

The initial basic steps in the establishment of an income tax structure are the definition of income. In a broad sense income consists of any economic gain that a person has experienced during the period[7]. More precisely under the definition of Henry Simon, A person's income during the period in an economic sense consists of the algebraic sum of:

1. The value of consumption during the period financed from factor income or transfer income (e.g. gifts) flowing to the person during the period or from accumulated wealth, plus (a) goods produced by the person for his own use and (b) the value of the use of ;durable consumer goods possessed, such as homes.

2. Net increase in personal wealth during the period, whether from accumulation of net saving during the period or increases in the value of property held. This sum may, of course, be negative, so that income is less than consumption. The definition may be expressed as follows.

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[7] Due and Feidlaender (1976): Government Finance, AITBS Publisher and Distribution, Delhi. (PP. 121)

$$Y = C + \triangle W$$

Where,

Y = Income

C = Consumption

$\triangle W$ = Change in wealth

Logically, this is the most satisfactory definition of income in light of the objectives, but it is not the approach used in tax law. The usual approach is in terms of flow of money and, to a limited extent of commodities to a person. This is a concept somewhat easier for the non-economist to understand; is in agreement with the everyday notions of income and it is a workable approach. Use value of owned durable goods and unrealized increases in assets are not included, impart for compliance and administrative reasons, but primarily because these elements are frequently not thought of as income.

A stated in Income Tax Act, 2058 income is defined as a person's income from any employment, business or investment & the total of that income as calculated in accordance with this act[8].

Income tax is the main constituent of direct tax and now a day it has been considered as the one of the major element of tax revenue. For this reason, developed countries like USA, UK, Japan etc collect great part of their revenue by income tax but developing countries like Nepal still has been unable to maximize the collection of income tax[9].

Most of the developed countries collect 70-80% of internal revenue from the direct tax. But unfortunately, underdeveloped countries are mostly depending on the indirect tax. It is because of the lack of administrative efficiency and effectiveness, very low level of per capita income, prevalence of informal sector

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[8] Income Tax Act. 2058: *Ministry Of Finance, Kathmandu*

[9] Marahatta, Hari Prasad (1980): *Fundamentals of Nepalese Income Tax*, Kathmandu p.2

in the economy, need for capital accumulation and lack of culture and awareness among taxpayers. Indirect tax has no role to reduce income and wealth disparities. Rather, it creates excess burden and protect the inefficient industries. Thus, ultimately the underdeveloped countries have to give priority to the direct tax.

One of the important characteristics of income tax system is that, it is impartial and just as compared to other indirect taxes like sales tax, excise duty etc. The reason is that it is imposed keeping in view the capacity of taxpayer to bear the burden of tax. People whose income is under the tax bracket are free from the incidence of income tax[10].

The importance of income tax has increased day by day and by the nineteenth century; it has not only remained as source of revenue for emergency, but has become a regular source of income for government.

Income tax is based on the principle of certainty in the sense that the government has already acquired the acknowledgement about income tax and tax payers have also already known the amount of income tax that will believed to them, i.e. the income tax receipt for the government remains almost certain every year and it can be assessed correctly to a certain extent even before the actual imposition of income tax. It also follows the cannon of economy. It increases civil consciousness. It is helpful for generating the concept of social responsibility towards the nation and keeps the people vigilant to see that public money may not be misused.

An optional income tax should have the following characteristics

- All income should be treated uniformly regarding of sources in a view of the equal treatment of equals or horizontal equity rules.
- Just as equals should not be treated unequally in a pattern consistent with accepted goals equity.

[10] Due and Fried Laender (1976): *Government Finance, AITBS Publishers & Distributors* (PP. 167)

- The structure of tax must be designed for efficiency in such a reason as to facilitate compliance and enforcement consistent with other objectives.

Income tax more or less affect on production and growth, economic actives of the government, reduction on the foreign debts, development of various small and cottage industries, activities and growth of corporate enterprises, allocation of resources, distribution of income employment, inflation and deflation[11].

Capital formation and preservation is necessary for rapid economic growth a country. Capital formation is an important step for capital preservation. The investment on production can only be made through capital formation system. Income tax has helped not only for increment of sources of revenue but to minimize the inequality of property as well.

1.6 Types Of Income Tax

Income tax may be classified into personal income tax and corporate income tax.

1.7 Personal Income Tax

Personal income tax is a tax which is levied on the income earned by individual from any source of income state indicated on income tax Act, of a country. It is a modern income tax, which is a measure of ability to pay of any individual this tax is based on progressive rate.

Personal income taxes can best be judged by three broad standards, they are adequacy, equity and efficiency. Personal income tax may interfere with the price mechanism allocation in several ways. It can influence the total quantity of labor supplied in specific occupational areas. It also can influence to a lesser extent, the supply of capital. Finally it probably has a bearing on the demand for particular kinds of publication.

[11] Sharp and Sligar (1970): Public Finance, Business Publication, Inc. Austin, Texas (PP. 252)

1.8 Corporate Income Tax

Corporate income tax is a tax, which is levied on taxable income generated by business enterprises having a legal personality, distinct from their owner. There are two basic approaches to corporate income taxation. They are integration and segregation approaches. The integration approaches taxes all income, whether earned by corporations or individuals as once earned income at personal income tax rates. The segregation approach treats the income earned by the corporation as tax entity. Taxes on corporate ultimately come from the income or wealth of individuals. Generally, flat rate is applied to corporate income tax. There are three main reasons for having a corporate tax along side personal and commodity tax.

- The withholding functions.
- The rent collecting functions.
- The revenue raising functions.

1.9 Statement Of Problem

Nepal is one of the least developed countries in the world. The country is bordering between the two most populated countries like India and China. Contemporary situation of country is unfavorable because of political instability and economic depression. Due to being underdeveloped, Nepal's economy has some inherent problem of low per capita income, Prominence of agriculture and informal sector, deficiency of capital, high rate of population growth, unemployment, technical backwardness, dual economy i.e. one of market economy in urban and another is subsistence economy in rural areas.

As a result of above-mentioned social and economic weaknesses, revenue generation of country is very low. Taxation is the subsystem of economic system. That's why it also could not be indifferent from economic problems. Our accumulated experience has witnessed that, lack of enough revenue, capital formation and accumulation remains at very low level than expectation. National investment, expenditure and saving would adversely affect by this. Deficit budget system in every fiscal year has becoming the common phenomenon of Nepal, which arises from resources gap is the major problem of country. Not only this, foreign loan, has internal and external financing in budget system and long-term plan has been continuously increasing due to insufficient revenue. It creates high burden of interest as well as principal repayment. As a result, large amount of currency from country has been flowing outside.

These shortcomings could be minimized through maximizing the Inland Revenue. Therefore, it is necessary for optimum utilization and management of all revenue generating sources efficiently and effectively. Revenue structure of country includes tax and non-tax revenue. Where, tax revenue is structured by several sources and income tax is one of the major sources of tax revenue. Its contribution might be significant tools to meet the goal of revenue maximization. However, it is heard from different sources the amount of income tax collection has not been finding as expectation due to some external and internal factors. Increasing security problem and inappropriate economy structure are major external factors. Likewise, ineffective and inefficient tax management, corruption existed in tax administration tax evasion, avoidance tendency, lack of positive cultural attitude of taxpayers towards income tax payment are the major internal factors. New Income Tax Act 2058 has been implemented, which is comparatively complicated due to some ambiguous and new provisions. Sufficient academic managerial research has not been found to be conducted.

Keeping all these mentioned factors into consideration, proposed research paper revolves around the Periphery of following subject matters.

- How the tax revenue structure of country is formed ?
- What is the contribution of income tax to revenue structure ?
- What is the contribution of corporate tax to the income tax ?
- Whether, corporate tax so collected has achieved as per the projection or not ?
- How income tax system in country is structured ?
- How the managerial aspect of income taxation has been practiced ?

- What are the strengths and weakness relating to these aspects ?

1.10 Objectives Of The Study

Proposed research paper entitled “Tax System in Nepal, A Case Study of Contribution of Corporate Tax on Income Tax”. A managerial study study has been undertaken with a view to obtain information about administrative practice as well as its managerial status of tax system. Further, through this research, it is also aimed to assess the real contribution of corporate sector in tax revenue as the corporate tax is the major component of the income tax that significantly contributes in tax revenue. And finally, to search for some facts of ground reality arises from its implementation.

Prime objectives of the study may be pointed as following points.

- To identify and examine the managerial practice of income tax.
- To interpret the structure of Nepalese income tax system.
- To locate the place of corporate tax in income tax, evaluate concise performance and contribution of it.
- To analyze the position of each sub-head from which structure of income tax has been formed.
- To recommend some managerial suggestions with a view to establish sound income tax system particularly in corporations and increase it’s contribution in total revenue.

1.11 Rationale Of The Study

As tax is one of the major contributors of government revenue, it is highly useful to make the present study on the tax system showing the contribution of corporate sectors on the income tax as well as total government revenue. Moreover, this study enables to see the crystal clear picture of tax management and the contribution of different sectors in total tax revenue. Further, it also helps brings to light the weakness and deficiencies of tax system and helps to take corrective measures and raise tax revenue from various sectors, especially form corporate bodies.

1.12 Limitation Of The Study

Since every study has to be conducted under the condition of some inherent and unavoidable limitations. The prime limitations of the study are as follows:

- Unavailability of relevant data and information has been remained the major limitation of this study.
- Time and resource constraints are the main limitations.
- Comparative study has been made only for 5 years.
- This study is based on Inland Revenue , that's why numerical data has been taken from Inland Revenue Department.
- Questionnaire has been distributed and opinion survey has been conducted only in Kathmandu valley.
- Growth rate of each item has been calculated comparing with previous year.

1.13 Work Plan Of The Study

The format of the study has been divided into five chapters and following framework:

Chapter I Introduction

It is related to the theoretical concept about revenue and types of revenue i.e. tax and non-tax revenue. It then analyses the theoretical concept about tax, types of tax, Income tax both personal and corporate. Further more this chapter outlines statement of the problem, objective of the study, limitation of the study and plan work of the study.

Chapter II Review of Literature

It is concerned with literature review and this chapter explores the study and critical review of available books, dissertation, research paper, journals, reports, articles and news paper directly or indirectly concerned with the any issue of income taxation.

Chapter III Research Methodology

This chapter is concerned with research methodology, which explores the research population and sample design, data collection, analysis procedures and its sources, analysis tools etc.

Chapter IV Data Presentation and Analysis

4.1 Quantitative Data Presentation and Analysis

This chapter deals with presentation and analysis of data to find out the real situation of different types of taxes and their contribution on tax revenue.

4.2 Managerial Aspects of Income Tax

Managerial aspects of Income Tax are concerned with the analysis of income tax system, administrative provision of income tax, introduction of Inland Revenue Department. Functions and organizational structure of Income tax administration, human resources, income tax assessment and corruption in tax administration.

4.3 Major Findings

This chapter deals with the findings which are based on the study, data presentation and analysis.

Chatper V Summary, Conclusion and Recommendation

This chapter is concerned with summary conclusion and recommendation. Which explores the main finding received from data analysis. Necessary suggestion is recommended as recommendation.

CHAPTER – II
REVIEW OF LITERATURE

2.1. Background:

Income tax is very important source of revenue to the government in Nepal. It is also the backbone of Nepalese tax system. Income tax can be put in the category of direct tax. In Nepalese tax system; the contribution of income tax is regarded as the blood and guts. Income tax may be defined as a tax, which is imposed on taxable income of an individual or any types of corporation whether it is government, public or private in a fiscal year. Both personal and corporate income taxes are existed in Nepalese Income taxation system. The individual income tax is levied on both resident and non resident. A person whose total length of stay in the country more than 183 days during a fiscal year is considered to be a resident for that year. His stay in Nepal does not have to be continuous. In the case of resident, the tax is levied on income arising in or derived from Nepal and on income obtained abroad from activities carried out in Nepal. In case of non-residents, tax is levied only on income arising in or derived from Nepal.

Similarly, government corporations, public and private companies are subject to a flat rate corporate income tax. This tax is levied on both domestic and foreign corporations. A corporation is a domestic corporation if the effective management is exercised in Nepal and vice versa. Like individual income tax, corporate income tax is levied in all income of domestic corporations derived from sources in Nepal, plus income obtained abroad from activities carried out in Nepal. In the case of a foreign corporation, tax is levied only on income from sources in Nepal.

2.2. Income Tax in Nepalese Context

Great Britain was the first country in the world that introduced modern income tax in 1799 in order to collect revenue to finance Napoleonic war with France[12]. First federal corporation income tax was imposed in USA in 1862 in order to finance civil war. Modern income tax was introduced at 1860 in India. So far as concerned to Nepal, income tax was introduced in 1959.

However, Nepalese ancient tax system was based on Bedas, Smritis and Purans. Directives propounded by Manu, Yagnabalka, Chanakya, etc guided the taxation system. At the time, the principles of collecting tax from the people was imposition of tax without harming the activities of the people[13]. At that time taxes were levied in the form of kind, cash and labor; specific portion of agricultural product were payable to the king as tax. There also existed tax payable in gold. Fixed taxes were levied in the villas. Compulsory manual works from all artists and laborers was also a common way of paying taxes[14].

The major sources of revenue in Nepal were land and homestead taxes, monopolies customs, transit and market duties, mines and mints, the export of forest products, birds animals and various levies and fines during the periods of unified Nepal i.e. 1768-1816. maximization of revenue was the main objectives of tax policies during this period. Local administrations were directed to take whatever the people pay willingly. The taxes were usually collected at three levels.

1. Local palace: broad based and progressive tax to finance occasional and cumbersome needs.
2. Government: To finance administrative, military and other purposes.
3. Local: Perquisite of local officials, functionaries and medicates.

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[12] Khadka, R.B (2002) : Income *Taxation in Nepal*, Retrospects and Prospect Ratna Pustak Bhandar, Ktm. Nepal (PP. 66)

[13] Kadel Puspa Raj (2003) *: Tax Law and Tax Planning In Nepal Buddha Academic*, Ktm. (PP. 7)

[14] Agrawal, Govinda Ram (1978) : *Resource Mobilisation for Development; the reform of Income Tax in Nepal (PP. 54)*

Imposition and collection of taxes during the 104 years oligarchic rule of Rana family in Nepal prior to 1952 was the interrogative of feudal rules. Income and the expenditure of the state were not made informed for public. No budget was over framed during the Rana regime. There was no difference between incomes of state and income of prime minister.

Land tax, customs and exercise duty in terms of lump sum contract, royalty on supply of porter and soldiers, entertainment tax and other few minor taxes were the sources of revenue in Nepal till 1951(2007 B.S.). Land tax, collected on a contractual basis and 'salami', which the government employee used to pay out of their salary at a very small percentage, were direct taxes. The need was not felt for the effective revenue administrative system.

The Rana rule failed in 1951(2007 B.S.). Since then, there was no legal provision to levy and collection of taxes.

After the political changes in 1951(2007 B.S.), the role of government has also changed and the government was enforced to implement development activities besides performing the regular functions[15]. So it was felt necessary in 1959 (2016 B.S.) to impose tax on business profit, remuneration and income tax was imposed in Nepal by the first parliamentary government in 1959 (2016 B.S.). The business profit and remuneration Tax Act was the first income tax act in Nepal. It had 22 sections. In three years experience, the business profit and remuneration tax Act 1959 (2016 B.S.) was found very narrow and vague and it was replaced by income tax Act 2019 B.S. This act had 29 sections, which were amended extensively in 1972 (2022 B.S.). Income tax act, 2019 remained till 2031 and was replacing by income tax Act 2031 in order to keep the law in tune with the socio-economic environment of Nepal. This act was amended in 1977 (2033 B.S.), 1979 (2035 B.S.), 1980 (2036 B.S.) and in 1984 (2040 B.S.). It had 66 sections. Income tax Act 2031 (1974) was replaced by the Income tax Act, 2058. Income Tax Act, 2058 is the existing law relating to income tax

[15] Poudel, Santosh Raj (2050): *Income Tax Law and Practice*, Athrai Enterprises Ktm. (PP. 12)

administration. It is more specified law and has 143 sections. Income tax rule 2059 is also implemented under the provision of this act. This act has many new provisions as compared to Income Tax Act 2031.

2.3. The Existing Structure of Income Tax

There are currently different types of income tax or the system of Nepalese income taxation has structured by four different heads of income taxation. They are:

2.3.1. Individual Income Tax

The individual income tax is levied on every person who has taxable income in a fiscal year. It is levied on both resident and non resident. A person who stays in the country more than 183 days during a fiscal year is considered to be a resident. In the case of a resident, the tax is levied on income arising on or derived from Nepal and income obtained abroad from activities carried out in Nepal. In the case of non-residents, tax is levied only on income arising in order vied abroad form activities carried out in Nepal. In the case of non-residents, tax is levied only on income arising in or derived from Nepal. Individual (personal) income tax is structured by income tax collected from remuneration, Industry, business, profession and vocation.

2.3.2. Corporate Income Tax

Government Corporation, public Ltd. Corporation and private Ltd. Corporations are subset to a flat rate corporate income tax. This tax is levied on both domestic and foreign corporation. A corporation is a domestic corporation if the effective management is exercised in Nepal and vice-versa. Like individual income tax, corporate tax is levied on all income of domestic corporations derived from sources in Nepal, plus income obtained abroad from activities carried out in Nepal. In case of a foreign corporation tax is levied only on income from sources in Nepal.

2.3.3. House Rent Taxes

House rent is taxed at both the central and local level. The central level house rent tax is independent of the individual income tax although the rate structure is the same for both.

2.3.4. Interest Tax

The interest tax is levied on interest income from all types of deposits at a bank or finance company. This tax is deducted on source by the bank concerned at the time the interest is paid to depositors. The rate is 6% for individuals and 15% for corporations and is deposited in the account of tax office concerned.

2.4. Relevant Literature

During this research period various available books, journals, dissertations, research paper, reports, articles available in the discipline of income taxation have been received. Almost all books of Nepalese writers are syllables oriented. Income Tax Laws, rules, provisions tax planning and numerical problems concerned with income tax assessments have been described in these books. However, identification of problems and defects were not found in these books. Most of them are found to be descriptive rather than analytical. They describe what should be.

Mr. Khadka (1944)[16] had done comprehensive research on Nepalese taxation and published a book entitled ‘Nepalese Taxation: A path for reform’ in which he has mentioned that income tax was the fourth largest source of tax revenue at that time. He mentioned about the adoption of a quasi-global or a limited scheduler system of Nepalese income tax. In his own words “Nepal’s income tax has feature of both global and schedules income tax systems. It resembles the global tax system and the tax is levied on total income form all sources, although net income from various types of income is calculated separately. It

[16] Khadka, Rup Bahadur (1944): *Nepalese Taxation*, a Path For Reform, Marburg, Consult for Self Help Promotion

also looks like a scheduler system in so far as a few sources of income have been made liable to separate taxes." Corporation income tax has been separated from individual income tax since 1986-87. narrow coverage unscientific tax assessment, deviation from the basic principle of income taxation, non-adjustment for inflation and defective system form perspective of international taxation were the main problem of income taxation, which he had found. He suggested for extending, coverage, improvement in tax assessment, extending withholding tax, adjusting inflation and introuducing current year basis.

Dr. Thapa, (2003)[17] has described various causes of poor resource mobilization in Nepal. The agriculture income which contributed about 40% of GDP being tax free, about 50% of total population below the poverty line, tax holidays for new industries, lack of political commitment were the major causes which he concerned in his article. Narrow base and decreasing rates were the major problems of revenue generation according to him. He suggested that to improve the whole economic situation and the political commitment to mobilize resource efficiently. Otherwise any tax reform measure would be worthless.

Dr. Kadel, (2002)[18] has criticized the Income Tax Act, 2058 on several aspects. Exemption of agricultural income form income tax, duties levied on export, inequalities between different capital earned income (i.e. tax on interest, dividend, withdrawal of the provision of exemption suddenly and no adjustment for inflation) are the main issues he raised in his articles.

Mr. Suwal, (2060)[19] has studied the different aspects of Nepalese tax system and income tax. He recommended following points regarding the improvement of tax base as well as the overall tax administration.

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[17] Thapa, G.B (2000): *Nepal Ko Rasaswa Samrachana, Sthifi Ra Chunautiharu*. Rajaswa : Vol: 2000 Oct, Nov.

[18] Kadel, Puspa Raj (2002): *Draft of Income Tax Act*. 2001: Critical Analysis. Rajaswa: Vol. I, 2001.

[19] Suwal, Ratna (2060): *Tathyanka Gatibidhi*, 3 monthly publication kartik, Poush, Central Bureau of Statistics. (Kartik-Poush)

- Broadening the tax base.
- Co-ordination among the tax agencies itself.
- Tax administration reform in order to remove ineffective administration system.
- Simplification of tax procedures to tackle complex, divergent and unclear procedures.
- Decentralization of the tax system.

Ms. Paudel, (2002)[20] has focused her study mainly on productivity of income taxation in Nepal. Based on her finding she recommended broadening income tax base, reform tax administration, successful implementation of VAT, establishment of standardized accounting system and increasing the morale of revenue personnel.

Mr. Tripathee (1955)[21] study was based on income tax in Nepal and potential area for reform. Tripathee, in his study has described about major aspects of income tax, its performance, contribution, role, and importance, legal and administrative practice of income tax and has concluded that the existing income tax law must be reviewed and the administration should be made more effective.

Mr. Pant, (1996)[22] in his study tried to analyze the system of income tax in Nepal. His major findings were income tax as suitable source of mobilizing internal resources. However, this system was not efficient due to inefficient tax management, inadequate government policy and defective Income Tax Act. According to his finding income tax assessment procedure was also inefficient, high degree of corruption was existed. His suggestions were:

i) The rights and duties tax officers should be cleared in Income Tax Act.

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[20] Poudel Jayanti (2002): *Income Taxation in Nepal*: A Study of it's Structure and Productivity, an Unpublished Dissertation. Degree in Economic. T.U.

[21] Tripathee, Daya Raj (1995): Income Tax System in Nepal and Some Potential Areas for Reform and Unpublished Dissertation Degree in MBA. T.U.

[22] Pant, Parameshowar (1996): *A Study on Income Tax Management in Nepal*. Unpublished Dissertation Degree in MBA T.U.

ii) The clear-cut provisions should be made.

iii) Fine and penalties should be increased.

iv) Separate tax department should be established.

v) Taxpayers should be educated.

vi) The coverage of income tax should be widened.

Thapa, (1993)[23] found in his study that the fiscal deficit from 1980/81 to 1990/91 increased by 7.66 times more. He identified that the failure to locate new taxpayer non-maintaining proper records and defective personnel management were the main problem of income tax administration. According to his study, the tax administration was unable to enhance the taxpayer's compliance because of the complicated law and procedures, delay in tax assessment rough behavior of tax personnel. He recommends 6 months time for tax assessment and self assessment.

Khadka, (2007)[24] has studied the administrative aspect and its effectiveness of income tax in Nepal. Khadka, in his study, focused on the quality and efficiency of the tax personnel. He suggested the following points for the improvement of income tax administration and its effectiveness.

- Separate tax department is necessary so that the specialization could be achieved in the matter of income tax act.
- There are insufficient numbers of tax offices over the country. Therefore the number of tax offices must be increased to provide the service conveniently.
- Quality and efficiency of income tax personnel are to be updated for the tax collection.
- To reform the income tax administration, personnel management system should be improved.

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[23] Thapa, R.B. (1993*): Income Tax Assessment Procedure in Nepal Degree in Management Unpublished,* Dissertion T.U.

[24] Khadka, Binod (2007*) Income Tax Administration and its Effectiveness in Nepal* Thesis MBS T.U.

Chhetri, (2007)[25] has focused his study in the resource mobilization through direct tax rather than the indirect tax. He recommended that the tax system should be practical and effective. It should be matched with the national economic condition and beneficial to the people too. Further he recommended some important points such as:

- Delay in tax assessment should be reduced as possible.
- Proper tax education should be provided to tax officials as well as to tax payers.

Acharya, (2008)[26] has made an attempt to study contribution of income tax from employment on income tax revenue. He has made the following recommendations for the betterment of tax system and revenue collection through income tax.

- It is necessary to increase the share of direct tax revenue so as to direct the economy in the channel of development.
- The contribution of income tax revenue to total tax revenue and direct tax revenue to total tax revenue should be increased by making withholding effective change in income tax policy rules and regulations.
- Bringing new tax payers into tax net helps to increase income tax share in tax and direct tax revenue.

Rai, (2008)[27] conducted a study regarding the income tax collection, in her study she tried to analyze the income tax collection trend. On the basis of finding of her study, she has made the following recommendations for the improvement of tax system.

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[25] Chhetri, Ramesh Kumar (2007) *Income tax collection from Public Enterprisezes with special reference to NTC* Thesis MBS T.U.

[26] Acharya, Kamal (2008) Contribution on Income Tax Revenue with consideration to income from employment, Thesis MBS T.U.

[27] Rai, Bina Devi (2008) A Study on Income Tax Collection from Merchant Banking and finance company of Nepal Thesis MBS T.U.

- The collection and tax assessment provision should be made clear and simple so those taxpayers would be encouraged to pay the tax.
- Income tax act, rules, and regulation should be clear and simple.
- The effective implementation of provision of reward, prize and incentive should be granted to the tax payers who pay the tax voluntarily.
- The provision of fines, penalties and punishment should be implemented effectively for income tax evaders.
- Timely revision should be made in the matter of income tax policy. The system of changing income tax policy with the change of government should be better avoided.

2.5. Recent Review:

In the present years, it is felt necessary that the tax system should be made more effective and efficient in order to increase government revenue through its proper implementation. Hence, the present government has adopted the policy to widen the tax bracket and bring large group in to it. Some of the major policies and strategies declared by the government for this purpose through the budget speech of F/Y 2008/09 are as follows[28]:

a. Implementation of progressive tax system.

b. Computerization and modernization of tax administration.

c. To enhance efficient and effective tax administration.

d. To provide an opportunity of paying tax by declaring the income earned up to now from any sources voluntarily (VDIS, voluntary disclosure of income scheme).

e. To bring the private educational institution and cooperatives into tax bracket etc.

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[28] *Budget Speech (2065/66) Ministry of Finance, Kathmandu*

CHAPTER III
RESEARCH METHODOLOGY

This study has been undertaken to observe the administrative structure of income tax administrative procedures, managerial status of income tax, it's performance and contribution to the some particular sectors of economy. The research has been conducted on the basis of empirical data via questionnaire and both the published and unpublished 5-year's secondary data. This study tries to bridge the gap of knowledge required for changing the various administrative and managerial aspects of income tax to achieve the expected revenue generation. Further, it has been strictly confined to the structure of corporate tax in income tax and its managerial overview. As already been started earlier that, this chapter shows the research methodology applied in the study for the achievement of the desired objectives.

As regards supporting literature, relevant books, Journals, bulletins, magazines, newspaper etc have been studied.

3.1. Population and Sample

As the income tax system of Nepal covers the overall population, the study of the area does not require sampling. However, for the collection of primary data specially used through the opinion survey, random stratified sampling is done which comprises all the people from 3 groups, viz. Income tax Administrators, Income Tax Payers and Income Tax Experts. 50 respondents for the researcher convenience are selected representing from different sectors related to income tax. Out of 50 respondents, 35 respondents are taken from the tax payers, 10 from tax administrator and 5 from tax experts. The basis for selecting the number of sampling from each group is made on the contribution, relation and know-how of the bracket of income tax system. They were provided questionnaire through direct Personal visit. Responses received from respondents were tabulated into separate chart and evaluated respectively.

3.2. Data Collection Procedures

Secondary data, a published and unpublished as well as primary data have been used in research paper. The secondary data have been collected from the Ministry of finance; Inland Revenue Department, Central Bureau of Statistics and Nepal Rastra Bank. In order to collect these secondary data concerned offices mentioned above have been visited several times. The required information has been gathered from published and unpublished sources.

For collecting primary data, opinion survey i.e. questionnaire technique has been designed to bind out the opinion of respondents representing different groups related to income tax. Questionnaire consists of more than 10 questions. The authorized personnel of mentioned office above, taxpayers and tax experts have been consulted to get desired information through the questionnaire. This was adopted to find out the practical administrative and managerial aspect of income tax and its structure. Format of questionnaire were distributed among the income tax payers, tax administrators and experts.

3.3. Procedures of Processing and Analysis of Data

The data so gathered from both primary as well as secondary source have been arranged clearly in tabular form of separate format systematically in accordance with their nature, characteristics resemblance to the fact and homogeneity nature in order to make interpretation easy, understandable and transparent.

3.4. Data Analysis Tools

Simple statistical tools such as average and percentage and growth rate have been applied for calculation and scientific calculators as well as computer program have been used for calculating purpose where necessary and they have been presented and analyzed in descriptive way. Graphs and charts were prepared through computer excel program.

3.5. Limitations of the Methodology

Since this study is primarily based on secondary source of information and the adequacy and relevancy of the data have been left untested. The adequacy and relevancy of the data limits its conclusions. Besides this, study only undertakes the major factors that have direct effect over the objectives of the study. It does not regard the various factors, which may have impact over the studied subject matter.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

The study becomes incomplete without the presentation, classification and analysis of facts and figure. In this section, various relevant data and information are presented and analyzed in order to find out the actual position of the contributors of government revenue; especially tax revenue. Quantitative and qualitative data are presented and analysis in a separate headings.

4.1. Quantitative Data Presentation and Analysis

Table 4.1 Inland Revenue Structure for the F/Y 2008/2009 i.e. 2065/2066

(Amt. in thousand)

Particulars	Target	Actual Collection	% of Collection
GDP	-	960,012,000.00	-
Total Revenue	141,722,110.00	143,474,489.00	101.24
Tax Revenue	116,560,000.00	111,092,373.00	95
Direct Tax	35,387,000.00	34,320,739.00	97
Indirect Tax	81,173,000.000	82,731,168.00	101.97
Non Tax Revenue	23,905,110.00	22,892,174.00	95.76
Corporate Tax Revenue	18,733,200.00	19,624,769.00	104.76
Personal Income Tax	3,270,600.00	3,195,623.00	97.30
Income Tax	27,087,000.00	27,247,387.00	100.59
Vehicle Tax	3,500,000.00	1,849,958.00	52.86
Interest Tax	1,293,000.00	1,086,585.00	84.04
Excise Duty	13,959,600.00	16,220,884.00	116.20
VAT	41,000,000.00	39,700,922.00	96.83
Lease or Rent	1,705,110.00	1,610,671.00	94.46
Others	1,901,000.00	630,917.00	33.19

Source: IRD, 2065/066 i.e. 2008/2009

GDP = Gross Domestic Production

F/Y = Fiscal Year

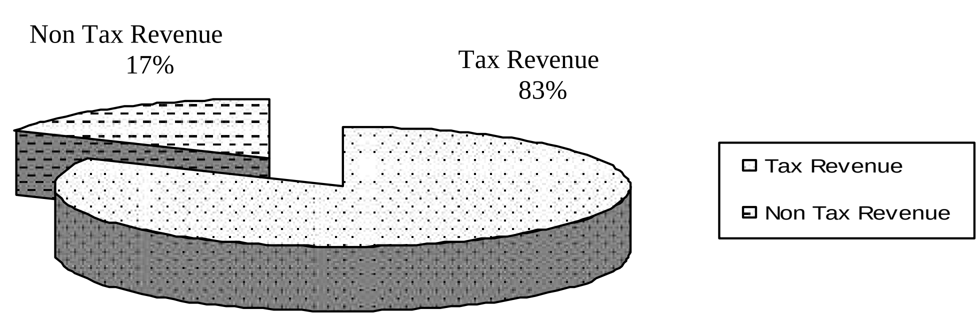
VAT = Value Added Tax

Amts = Amounts

The data in table 4.1 revels that total income tax collections was Rs. 27,247,387 thousand in F/Y 2065/066 i.e. 2008/2009, which was 100.59% of target fixed. The collection of income tax was little bit higher than its expectation. This might be due to the security situation, increase in corporate sector efficient of tax administration, awareness of taxpayers etc. Income tax represented 2.84% of GDP. It is the second largest source or tax revenue. The relative contribution of income tax on total revenue was 18.99%, and 24.53% on tax revenue. The first largest source of tax revenue is the combination of direct tax and indirect tax. From the table 4.1, total tax revenue is collected Rs. 111,092,373 thousand in F/Y 2065/066 i.e. 2008/2008 in which targeted was Rs. 116,560,000 thousand, which represents lower collection than expectation by 5%.

The relationship between tax revenue and non tax revenue, indirect tax and direct tax, income tax, excise duty, VAT and others tax can be presented in the form of pie-chart which is given below.

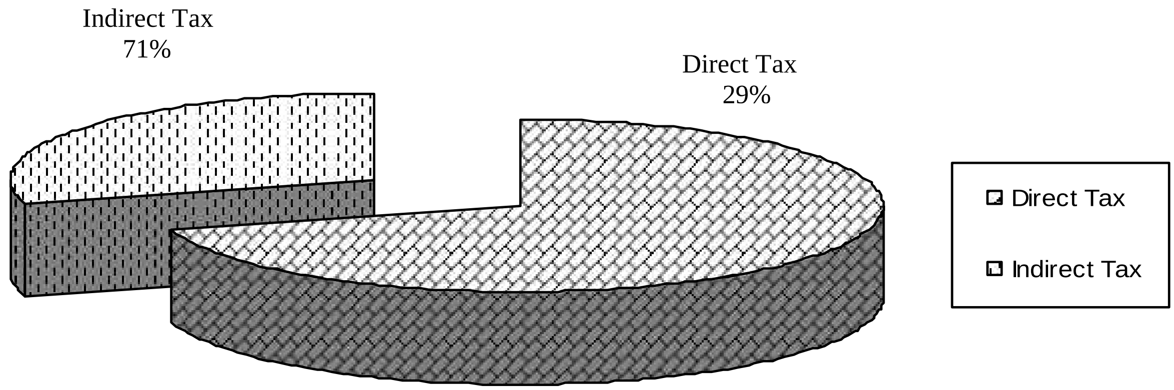
Fig. 1 : Relation of Tax and Non Tax Revenue



Tax Revenue + Non Tax Revenue = Total Revenue

Rs.111,092,373.00 + Rs. 22,892,174.00 = Rs. 133,984,547.00

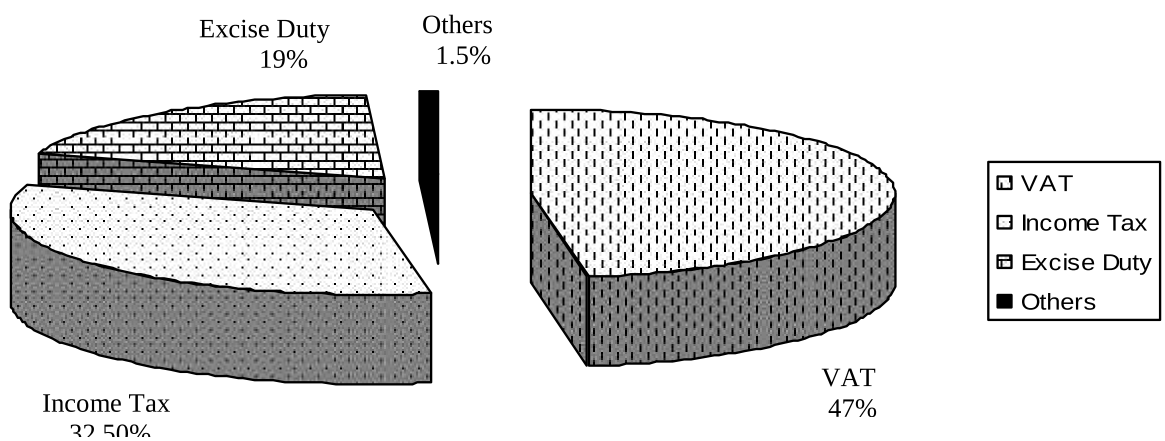
Fig. 2 : Relation of Direct Tax and Indirect Tax



Indirect Tax + Direct Tax = Tax Revenue

Rs. 82,731,168.00 + Rs. 34,320,739.00 = Rs. 117,051,907.00

Fig. 3 : Relation of Income Tax, Excise Duty, VAT and Others.



VAT + Income Tax + Excise Duty + Others = Total

Rs. 39,700,922.00 + 27,247,387.00 + 16,220,884.00 + 630,917.00 = Rs. 83,800,110.00

Table 4.2 Income Tax Collection Against Its Expectation (Target)

(Amts. in thousand)

Year	2004/05	2005/06	2006/07	2007/08	2008/09
Target Actual	10,500,000 10,452,637	11,800,000 10,896,449	12,710,500 15,621,430	19,387,509 17,327,915	270,870,000 27,247,387
Actual Achievement%	99.55	92.34	122.90	89.38	100.59

Source : IRD, 2065/066 i.e. 2008/2009

It is observed from the table 4.2 that the trend of Income tax collection is fluctuating. It has achieved the target in F/Y 2004/2005 and 2006/2007 by 99.55% and 122.90% respectively. In the others fiscal year 2005/2006, 2007/2008 and 2008/2009, collection were only 92.34%, 89.38% and 106.59% respectively of its expectation.

The reason for not achieving the target in different years may be due to adverse economic condition, low production of sales and income of corporate sector, low personal income etc. which is because of political instability and violence in the country. This situation to some extent also been created by managerial weakness, personnel inefficiency, unsound tax assessment, tax evasion and avoidance, lack of public awareness, high government expectation administrative corruption etc.

Table 4.3 Collection of Inland Tax Revenue on its Target

(Amts in thousand)

Year	2004/05	2005/06	2006/07	2007/08	2008/09
Target	35,200,000	44,300,000	48,817,000	60,984,613	85,660,000
Actual	36,552,762	40,202,336	51,541,450	62,979,367	85,019,150
Actual achievement%	103.84	90.75	105.58	103.27	99.25

Source : Maha Lekha Controller Office, Anamnagar, 2066.

The table revels that the collection of tax revenue is below its expectation in F/Y 2005/06 and 2008/09 by Rs. 4,097,664 thousand and 640,850 thousand respectively. In F/Y 2004/05, 2006/07 and 2007/08, it was projected that the tax revenue collection would be Rs. 35,200,000, 48,817,000 and 60,984,613 thousand respectively. However, actual collection was Rs. 36,552,762, 51,541,450 and 62,979,367 thousand which was 103.84%, 105.58% and 103.27% of the projection revenue.

Table 4.4 Contribution of Income Tax on GDP

(Amts in thousand)

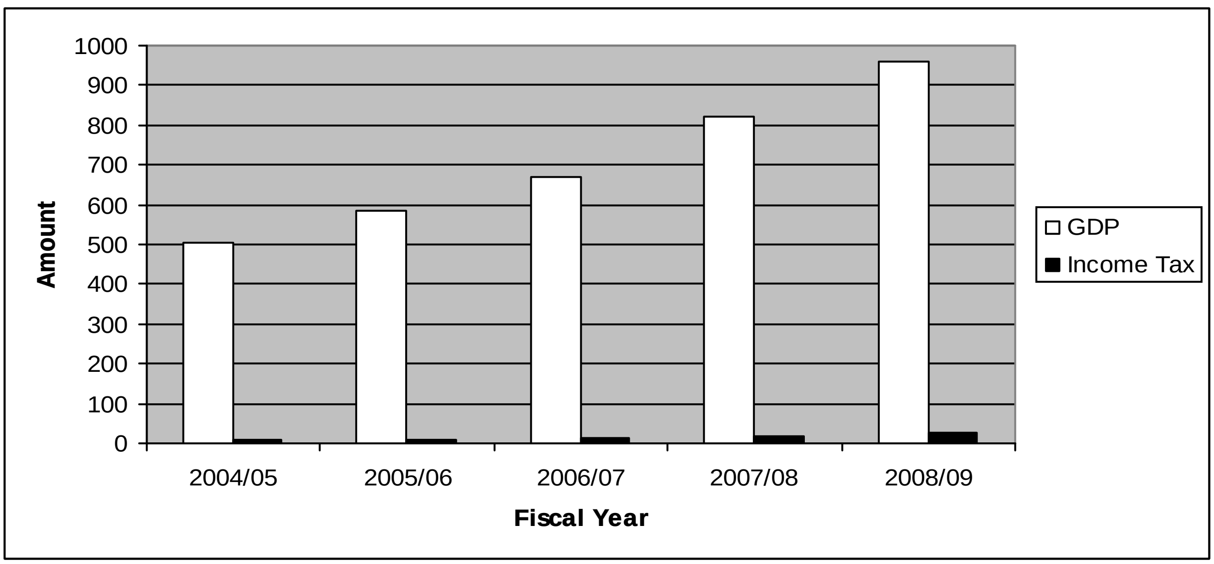
Year	2004/05	2005/06	2006/07	2007/08	2008/09
GDP	504,101,000	582,950,000	670,588,700	820,814,000	960,012,000
Income Tax	10,452,637	10,896,449	15,621,430	17,327,915	27,247,387
Share of IT on GDP %	2.07	1.87	2.33	2.11	2.84

Source : IRD (2065/066)

Above table can be shown as bar diagram given below.

Fig. 4. Contribution of Income Tax on GDP.

(Amts. in million)



It is observed from table 4.4 that the contribution of income tax to GDP in F/Y 2004/05 was 2.07%. In F/Y 2005/06 it declined to 1.87% and third last year of our study i.e. 2006/07 the contribution of income tax on GDP has again slightly increased up to 2.23%. In the second last year (i.e. 2007/08) the contribution of income tax on GDP has slightly decreased to 2.11%. In the last year (i.e. 2008/09) the contribution of income tax on GDP has slightly increased to 2.84%.

Table 4.5 Income Tax on Total Revenue

(Amts. in thousand)

Year	2004/05	2005/06	2006/07	2007/08	2008/09
Total Revenue	70,122,700	71,733,127	87,711,208	107,622,480	143,474,489
Income Tax	10,452,637	10,896,448	15,621,430	17,327,915	27,247,387
TR Growth Rate	12.50	2.30	22.27	22.70	33.31
IT Growth Rate (%)	9.86	4.25	43.36	10.92	57.25
Contribution of IT on Tax (%)	14.91	15.19	17.81	16.10	18.99

Source : IRD 2065/66 (i.e. 2008/09)

Where,

TR = Total Revenue

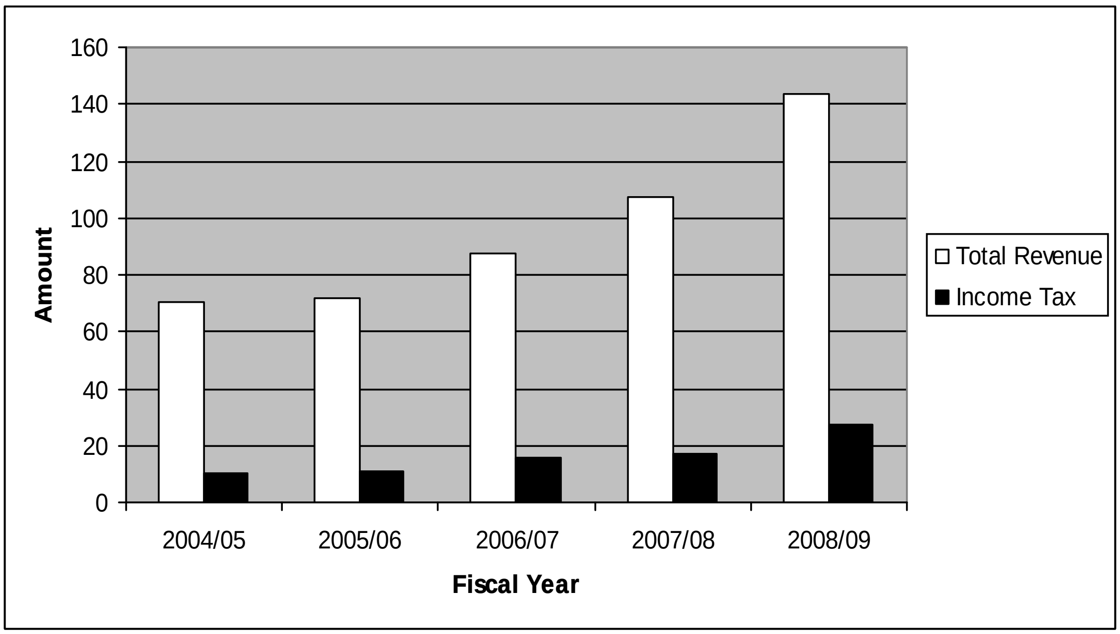
IT = Income Tax

$$\text{Growth Rate} = \frac{\text{Amount of current year} - \text{Amount of previous year}}{\text{Amount of previous year}} \times 100$$

Above table's data can be shown as the following diagram.

Fig. 5. Income Tax on Total Revenue

(Amts. in crore)



It is observed from table 4.5, the contribution of income tax to total revenue was 14.91% in F/Y 2004/05. Again there were a significant increase to 15.19% and 17.81% in the F/Y 2005/06 and 2006/07 respectively. In the second last year of our study i.e. 2007/08, the contribution of income tax to total revenue has decreased to 16.10% which is a little bit less than the contribution in F/Y 2006/07. In the last year of our study (i.e. 2008/09) the contribution of income tax on total revenue is 18.99%. This means the contribution of income tax on total revenue is fluctuating over the years.

Table 4.6 Income Tax on Tax Revenue

(Amts. in thousand)

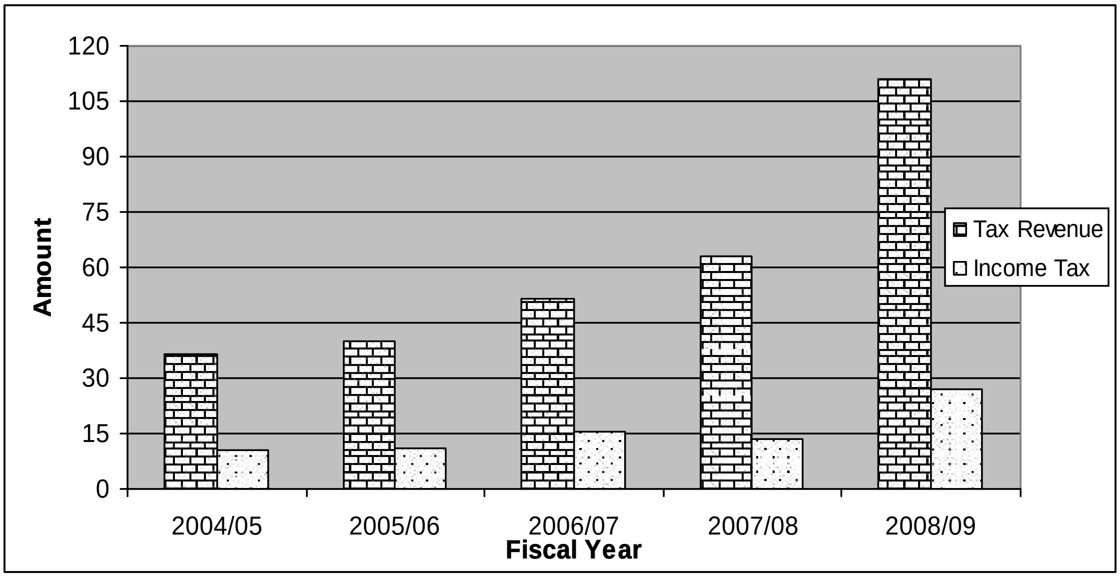
Year	2004/05	2005/06	2006/07	2007/08	2008/09
Tax Revenue	36,552,762	40,202,336	51,541,450	62,979,367	111,092,373
Income Tax	10,452,637	10,896,449	15,621,430	17,327,915	27,247,387
TR Growth Rate	18.21	9.98	28.21	22.19	76.39
IT Growth Rate	9.86	4.25	43.36	10.92	57.25
Contribution of IT on TR (%)	28.60	27.10	30.31	27.51	24.53

Source : IRD, 2065/66

The given information in table 4.6 can be presented in the following bar diagram.

Fig. 6 Income Tax on Tax Revenue

(Amts. in million)



The table 4.6 shows the uneven rate of contribution of income tax on total tax of contribution of income tax on total tax revenue, which was 28.60% in F/Y 2004/05. It came down to 27.10% in F/Y 2005/06. In the F/Y i.e. 2006/07, it has slightly increased and reached to 30.3%, which is higher than the other years. In the second last F/Y 2007/08 the contribution of income tax to tax revenue has fell down to 27.51%. In the last year F.Y. 2008/09 the contribution of income tax to tax revenue has again fell down to 24.53%. This indicates that the tax structure of the country is heavily dominated by indirect tax i.e. VAT, Excise duty etc. Similarly, tax revenue growth rate is 9.98% only in F/Y 2005/06, which was due to negative growth rate of income tax. The growth rate of total revenue has fluctuated over the years on the other hand the growth rate of income tax is also high degree of fluctuating over the years. The lowest, growth rate is 4.25% in F/Y 2005/06 and the highest growth rate is 57.25% in the F/Y 2008/09. In our study fiscal year 2008/09, there is a highly significant dropped down to 57.25%, which is high degree of fluctuating to compare with F/Y 2007/08.

Table 4.7 VAT Collection : Ratio Between Internal Collection and Export

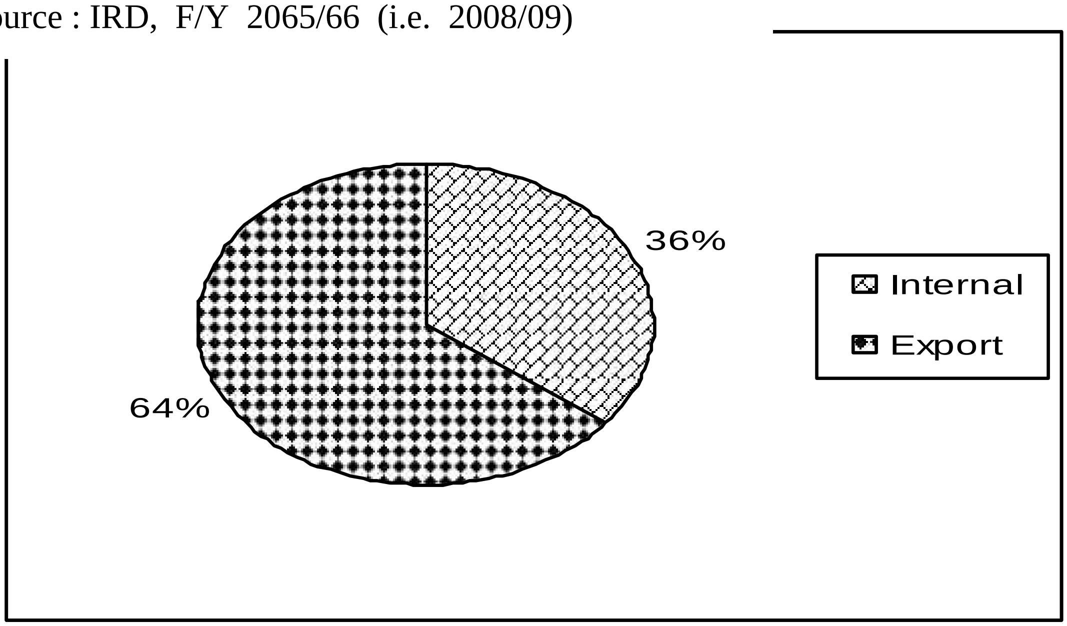
(Amts. in thousand)

Source	2004/05	2005/06	2006/07	2007/08	2008/09

VAT Collection	18,894,627	21,946,014	26,704,180	31,154,633	39,700,922
Internal	6,624,333	8,057,438	9,689,979	11,109,740	13,918,494
Export	12,270,294	13,888,576	17,014,201	20,044,893	25,782,428
Internal/External Ratio	35 : 65	37 : 63	37 : 63	36 : 64	35:65
VAT Collection Growth Rate(%)	30.50	16.14	21	17	34

Fig 7. VAT Collection

Source : IRD, F/Y 2065/66 (i.e. 2008/09)



Where,

VAT = Value added tax

$$\text{VAT Collection Growth Rate} = \frac{\text{Amt of current year - Amt. of previous year}}{\text{Previous year}} \times 100$$

The table 4.7 clearly shows the VAT collection process on the basis of internal and export sources. The table shows the high VAT collection from export or external source over the internal source. In the F/Y 2004/05, the ratio between internal and external was 35:65. Furthermore, in the F/Y 2005/06, 2006/07, 2007/08 and 2008/09 the ratios are 37 : 63, 36 : 64 and 35:65 respectively.

On the other hand, the growth rate of VAT collection was only 30.50% in the F/Y 2004/05, which was the highest degree of growth rate in the collection of VAT among the last four years. In the F/Y 2005/06 and 2006/07, the growth rate of VAT collection was limited to 16.14% and 21% respectively. In the second last F/Y 2007/08, the growth rate was limited only 17% which is less than F/Y 2006/07. In the last F/Y 2008/09, the growth rate is 34, which is doubled to compare with F/Y 2007/08.

Chapter-III

As quantitative data shown and calculation made in the table 4.8, it is observed that corporate income tax collection in F/Y 2004/05 was about 53 million which represented 50.97% of total income tax amount and dropped 49.52% in F/Y 2005/ 06 than reached to 73.72% in F/Y 2006/07. And in F/Y 2007/08 the contribution climbed to 76.57% which is the highest contribution to compare among five years. In the last F/Y 2008/09 it has slightly declined to 72.02%. the fluctuation of share of corporate tax on total income tax due to the political, ethical investment environment of the country.

Personal income tax's share on total income tax was 37.04% in F/Y 2004/05. In the F/Y 2005/06 it was slightly increased to 38.86%. In the F/Y 2006/07, 2007/08 and 2008/09, the contribution of personal income tax on total income has been decreasing trend i.e. 16.07%, 14.57% and 11.73%. From above observation, it is clear that personal income tax is the second largest contribution to total tax revenue.

Similarly, house and land rent tax occupied 4.75% in F/Y 2004/05. In the fiscal year 2005/06, it was slightly decreased to 4.67%. In the last third year of our study (i.e. 2006/07), it has again dropped up to 3.84%. In the F/Y 2007/08, the contribution is slightly recovered with 4.07%. In the last year, it's contribution is 3.52% which is the lowest contributor among five years. The trend of fluctuating share of house and land tax on income tax structure does not carry good sign.

The share of interest tax on total income tax structure was 7.52% in F/Y 2004/05, which gradually decrease to 6.38% and 6.12% in F/Y 2006/07 and 2007/08 respectively. In the F/Y 2008/09, it is only 3.99% which indicates the contribution of interest tax on total income has been decreasing trend. The trend of decreasing contribution of interest tax means peoples' habit has been increasing to invest their saving in the business sector rather than depositing in the bank and finance companies because of the improving security situation in the country.

The growth rate of income tax is 9.86% in F/Y 2004/08. In the F/Y 2005/06, it dropped to 4.25%. In the F/Y 2005/06, there was dramatically change of contribution growth to 43.36%. In the second last year i.e. 2007/08, the growth rate dramatically decreased to 10.92%. In the F/Y 2008/09, the contribution is highly changed with 57.25%. This is the result of political change and improving security situation and improved tax administration and management.

Personal income tax growth was 9.39% in F/Y 2004/05, 9.38% was in F/Y 2005/06. In the F/Y 2006/07, personal income tax was decreased by 40.73% as compared to the previous year. In the second last year of our study (i.e. 2007/08) it is decreased by 2.30%. In the F/Y 2008/09, the growth rate of personal income tax is 30.3% which is the highest growth rate compare to previous year. This data shows, income level of Nepalese people remained very low.

Corporate income growth rate was 10.10% in the F/Y 2004/05. In the F/Y 2005/06, 2006/07 and 2007/08 the growth rate was 1.28%, 113.48% and 15.22% respectively. In the F/Y 2008/09, the growth rate is 47.90%. The trend of fluctuating growth rate on corporate income is very high.

During research period i.e. 5 years, amount of house and land rent tax collection has been fluctuating over the periods. The growth rate was over the periods. The growth was 23.07%, 2.57%, 17.74% and 17.80% in the F/Y 2004/05, F/Y 2005/06, F/Y 2006/07 and 2007/08 respectively. In the recent year i.e. 2008/09, the growth rate of house and land rent tax is 35.99% which is the largest contribution among five years. However, growth has not seen as per house construction trend, it may be due to inefficient monitoring and supervision of tax administration. Lack of completion certificate, administration couldn't charge tax. Otherwise large amount could be collected.

The growth rate of interest tax has also been fluctuating during research period. The growth rate was 3.26%, (0.04%), 31.59%, 6.44% and 2.48% respectively for over five years. Lack of congenial investment climate, investment in deposit has been increasing and tax rate in business income is higher than interest income.

Table-4.9 Contribution of Corporate Income Tax on GDP

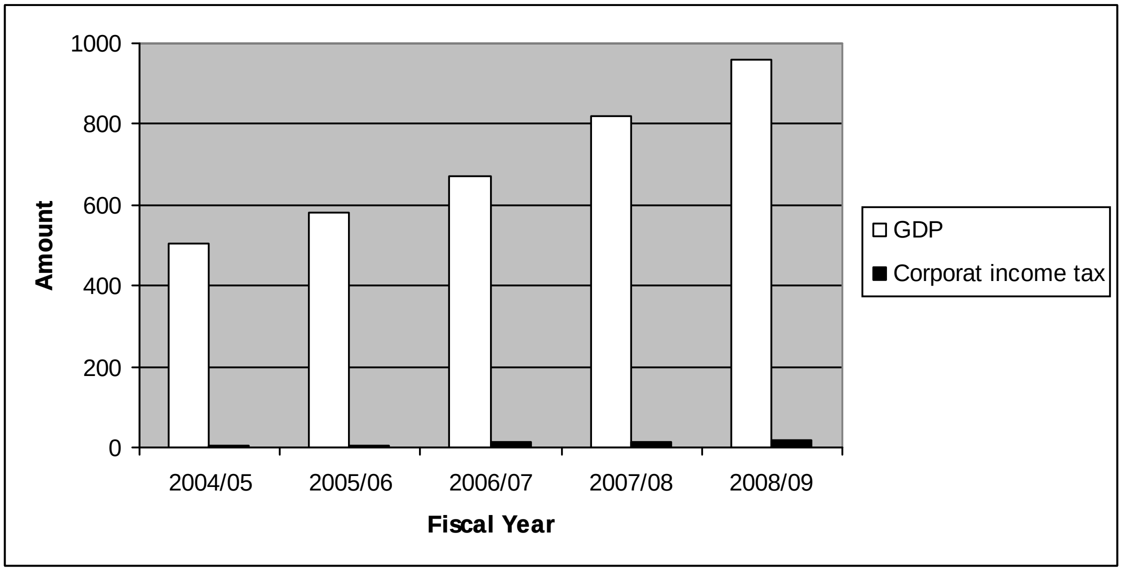
Amts. in thousand

Year	2004/05	2005/06	2006/07	2007/08	2008/09
GDP	504,101,000	582,950,000	670,588,700	820,814,000	960,012,000
Corporate income tax	5,327,323	5,395,701	11,515,835	13,268,755	19,624,769
Share of CIT on GDP (%)	1.06	0.93	0.93	1.62	2.04

Source : IRD (2008/09)

Fig. 8 Contribution of Corporate Income Tax on GDP

Amts. in million



The data presented in table 4.9 shows fluctuating rate of contribution of corporate income tax on Gross Domestic Product (GDP). In the F/Y 2004/05 the contribution was 1.06%, which decreased upto 0.93% in F/Y 2005/06. In the F/Y 2006/07, it grew up to 1.72% and in the second last F/Y 2007/08, it reflects to down 1.62%. In the recent year i.e. 2008/09, the contribution is a little bit higher than previous trend i.e. 2.04%. The trend shows the positive sign in the development of business sector.

Table - 4.10 Contribution of Corporate Income Tax on Total Revenue

Amts. in thousand

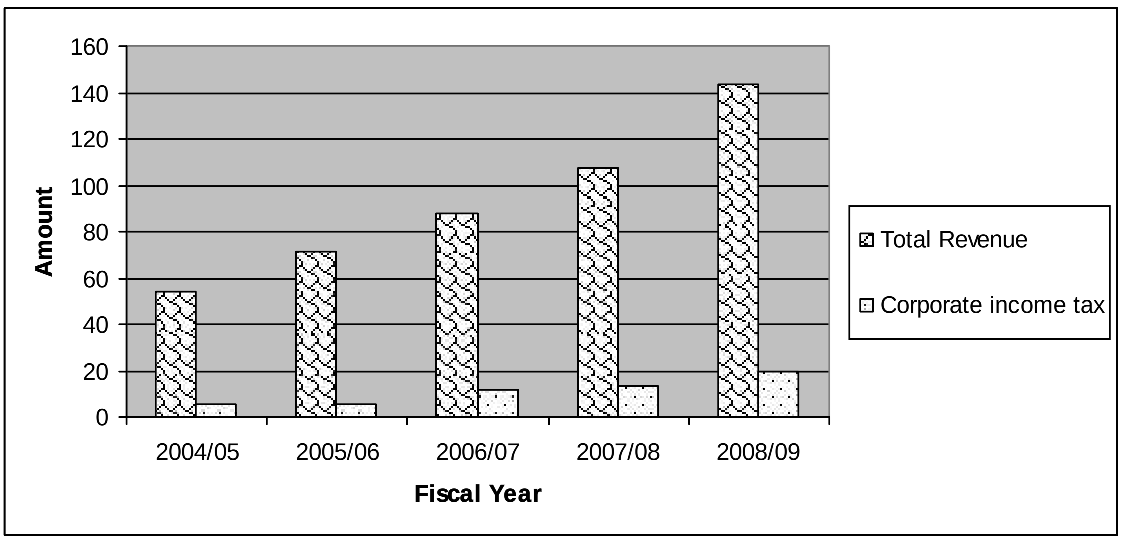
Year	2004/05	2005/06	2006/07	2007/08	2008/09
Total Revenue	53,770,000	71,733,127	87,711,208	107,622,480	143,474,489
Corporate income tax	5,327,323	5,395,701	11,5151,835	13,268,755	19,624,769

Share of CIT on TR (%)	9.91	7.52	13.13	12.33	13.68

Source : IRD, (2008/2009)

Fig. 9. Contribution of Corporate Income Tax on Total Revenue

Amts. in million



In table 4.10, the contribution of corporate tax revenue seems to be fluctuating trend. In the F/Y 2004/05, it was 9.9% and decreased to 7.52% in the F/Y 2005/06. In the F/Y 2006/07, its contribution was 13.13% and decreased in F/Y 2007/08 to 12.33%. But in the last year (i.e. 2008/09) its contribution is 13.68 which is the highest contribution over five years.

Table – 4.11 Contribution of Corporate Income on Inland Tax Revenue

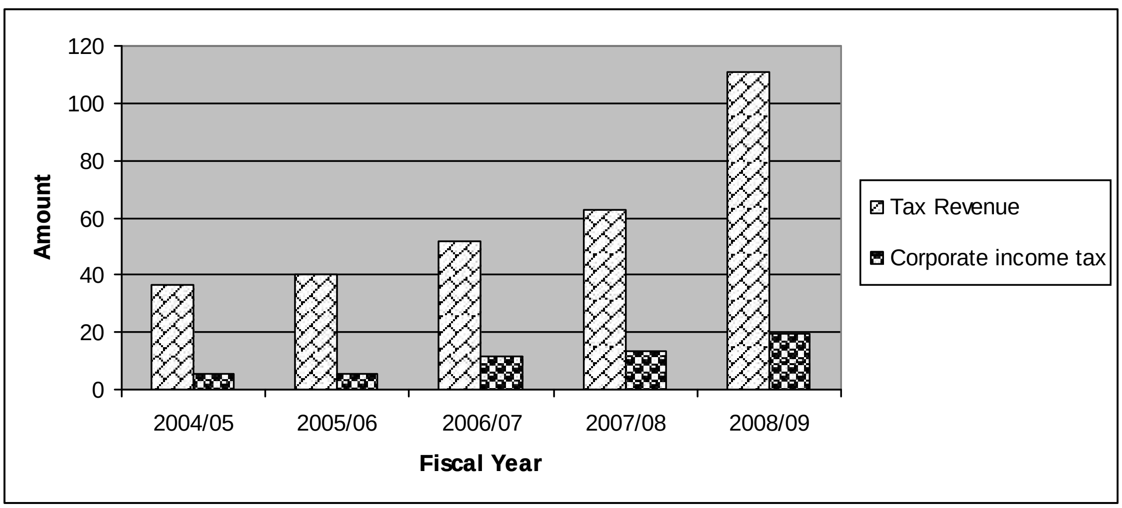
Amounts in thousand

Year	2004/05	2005/06	2006/07	2007/08	2008/09
Tax Revenue	36,552,762	40,202,336	51,541,450	62,979,367	111,092,373
Corporate income tax	5,327,323	5,395,701	11,575,835	13,268,755	19,624,769
Share of CIT on TR (%)	14.57	13.42	22.34	21.07	17.67

Source : Maha Lekha Controller Office, F/Y 2008/09

Fig. 10. Contribution of Corporate Income Tax on Inland Tax Revenue

Amts. in million



The quantitative data presented in the table 4.11 revels that the contribution of corporate tax on inland tax revenue was 14.57%, 13.42% and 22.34% in F/Y 2004/05, 2005/06 and 2006/07 respectively. In the F/Y 2007/08, the contribution was 21.07% which was slightly less than the F/Y 2006/07. In the last year, the contribution is 17.67% which is less than the F/Y 2007/08.

Table – 4.12 Contribution of Corporate Income Tax on Income Tax

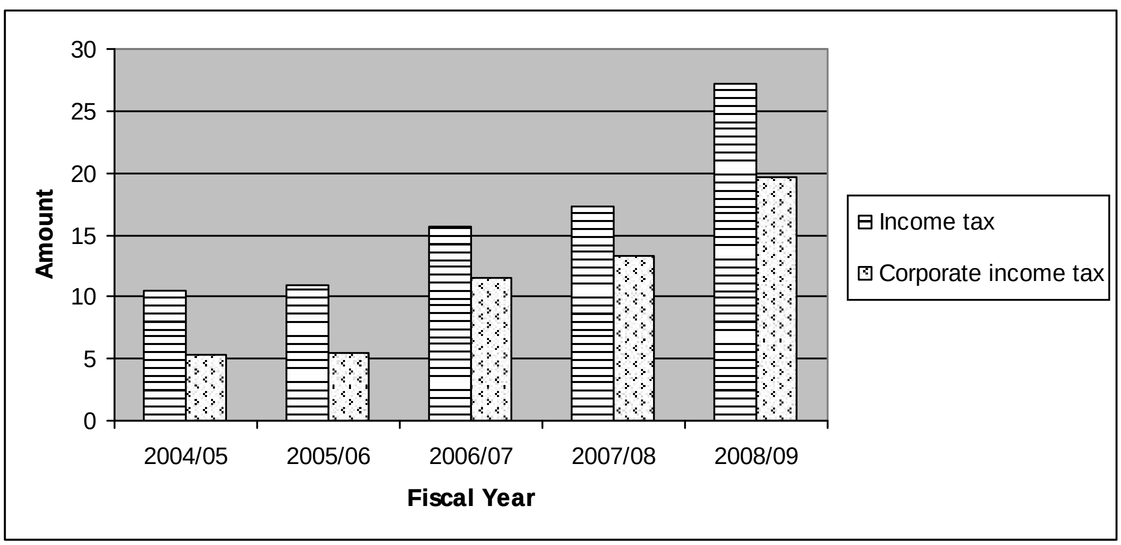
Amts. in thousand

Year	2004/05	2005/06	2006/07	2007/08	2008/09
Income Tax	10,452,637	10,896,449	15,621,430	17,327,915	27,247,387
Corporate income tax	5,327,323	5,395,701	11,515,835	13,268,755	19,624,769
Share of CIT on income tax (%)	50.97	49.52	73.72	76.57	72.02

Source : IRD, F/Y 2065/066 i.e. 2008/09

Fig. 11. Contribution of Corporate Income Tax on Income Tax

(Amts. in million)



As per the data presented in table 4.12 it is observed that the contribution of corporate income tax has remained about 50% over the first three years of observation period. The contribution was 50.97%, 49.52%, 73.72% and 76.57%

in F/Y 2004/05, 2005/06, 2006/07 and 2007/08 respectively. But in the last F/Y 2008/09, the share has slightly decreased to 72.07%.

Table – 4.13 Structure of Corporate Income Tax

(Amts. in thousand)

Year	2004/05	2005/06	2006/07	2007/08	2008/09
Total corporate income tax	5,327,323	5,395,701	11,515,835	13,268,755	19,624,769
Govt. corporations	1,332,430	195,774	1,019,677	204,584	959,047
Public Ltd. Co.	2,467,789	3,405,582	5,717,056	7,186,458	9,425,132
Private Ltd.	1,531,305	1,703,027	2,306,976	3,140,371	4,197,536
Share of Gov corporation (%)	25.01	3.63	8.85	1.54	4.89
Share of public Ltd. Co. (%)	46.32	63.12	49.65	54.16	48.03
Share of private (Ltd%)	28.74	31.56	20.03	23.66	21.39
Growth rate of corporate income tax	10.10	1.28	113.43	15.22	47.90
Growth rate of gov. corp. (%)	-35.21	-85.31	-420.84	-79.90	368.78
Growth rate of public ltd.	61.16	38	67.87	25.83	31.15

(%)					
Growth rate of private Ltd. (%)	22.43	11.21	35.46	36.12	33.66

Source : Central Statement, Maha Lekha Office, 2066

It is observed from table 4.3, the structure of corporate income tax includes tax collection from government corporation public Ltd. Companies and private Ltd. Companies. Corporate income tax was Rs. 5,327,323 thousand in the F/Y 2004/05 and reached to Rs. 19,624,769 thousand in the F/Y 2008/09. The highest growth rate was 113.43% in the F/Y 2006/07.

The relative contribution of government corporation on corporate income tax was Rs. 1,332,430 thousand in the F/Y 2004/05, which represented 25.01%. This contribution decreased to 1.54% in the F/Y 2007/08. In the last F/Y 2008/09, its contribution is only 4.89% which is low contributor. The growth rate of income tax from government corporation was negative for the first two years i.e. F/Y 2004/05 and 2005/06. In the F/Y 2006/07, its growth rate is extremely high and it was 420.84%. And in the F/Y 2007/08, its growth declined in negative position i.e. 79.90%. In the last year of the study, the growth rate is again extremely high and it is 368.78%.

Income tax collection from public ltd. Co. in the F/Y 2004/05 was 2,467,789 thousand which was 46.32% of total corporate income tax. In the F/Y 2007/08 this amount reached to Rs. 7,186,459 thousand i.e. 49.65%. Relative contribution of public Ltd. Co. on the structure of corporate income tax was 54.16% and 48.03% for remaining years respectively. Similarly, the growth rate of public limited co. was 61.16% in the F/Y 2004/05. In the F/Y 2005/06 the growth rate declined to 38% and again reached 67.87% which is the highest growth rate in the F/Y 2006/07. In the F/Y 2007/08 the growth rate decreased by more than two times and in the last F/Y 2008/09, the growth rate is 31.15%. Economic condition of public co. has not been found sound condition due to adverse economic condition of the country, internal managerial problems etc.

Rs. 1,531,305 thousand was collected as income tax from private ltd. Co. in the F/Y 2004/05, which represented 28.74% on corporate tax structure. In the F/Y 2005/06, it was Rs. 1,730,027 thousand and its contribution to the corporate income tax was 31.56% which is the highest contribution over five years. The share of private ltd. Co. was 20.03% and 23.66% in the F/Y 2006/07 and 2007/08 respectively. In the last year of our study, its contribution is 21.39% to the corporate income tax. Similarly, the growth rate was 22.43% in the F/Y 2004/05 and decreased to 11.21% in the F/Y 2005/06. And the growth rate was 35.16% and 35.12% for remaining two fiscal years. In the last F/Y 2008/09, the growth rate is 33.66% which represents good signal from private Ltd. Co. to contribute large volume of tax on corporate income. The collection had been increasing gradually over the period of this study. This trend indicates the positive sign in development of private sector.

Chapter - IV

4.2. Managerial Aspects of Income Tax :

Income Tax Management in Nepal :

Income tax management is the planning, organization, directing and controlling of government organization related to income tax. MOF and IRD are fully responsible for income tax management in Nepal. Clearly, income tax management is income tax administrative work.

Income tax management implements the objectives of income tax law, policy, strategy and rules into practice. In this connection, income tax management is important element of income tax system. Income tax management covers the whole income tax system.

Tax as a System :

A tax system is composed of three interrelated and interactions parts. They are policy, law and administration.[29] Tax policy must be formulated carefully with reference to the national development objectives. Policies should be cast in the technical requirement of laws. Tax laws should be implemented by tax administrations.

Income Tax Policy :

[29] Agarwal Govind Ram (1978*): Resource Mobilization for Development*: The Reform of Income Tax in Nepal. CEBA Ktm. (PP.53)

In the relationship between these three variables tax policy provides the design of legal structure and the legal structure is the framework on which an effective tax administration must be built. This requires that tax planners, legal, experts and tax administrator should not only work closely but also be involved in each of the progressive steps from the very outset of a tax concept. This should be supplemented by taxpayer participation.

The government especially by Ministry of Finance determines policy towards income tax in Nepal. Income tax policies are the broad objectives and ways of doing in the matter of income tax; policy plays the supportive role to the income tax law. In Nepal, policy of the government is generally seen in the finance Act of each year. Similarly the government has published the major income tax policies for the F/Y 2065/66 through the budget speech.

Income Tax Law :

The taxation law must be written clearly and shows provide minimum room for discretion. There should be an effective system of communication through dissemination of legal and other kinds of information. The taxpayer must be certain as to just what the taxation law require. Income Tax Act, 2058 is the existing law relating to income tax administration.

The special Features of Income Tax Act 2058[30]

- The act has broadened the tax base. Tax rates are spelled out in the Act itself and the tax rates and concessions are harmonized on equity grounds.

- A full-fledged self-assessment system is implemented and the presumptive taxation and current year taxation system are strengthened.

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[30] Income Tax Act, 2058: *Ministry of Finance*, Kathmandu.

- The scope of discretionary interpretation of the tax administration is drastically, reduced ensuring simplicity, uniformity and transparency. The act has also defined the power and authority of the tax administration.

- The Act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.

- The appeal system is further streamlined by making it mandatory for the taxpayers to file an objection with the Inland Revenue Department for administrative review before appealing to the revenue tribunal.

Income Heads:

The Act imposes tax on those activities contributing towards the creation of wealth. Wealth is created with the help of labour. Capital and a capital labour mix activities that generate income from employment, investment and business respectively. The act makes broad classification of income encompassing almost all income-earning activities. They are:

- Employment: an individual's remuneration incomes from and employment for an income year.

- Investment: profits and gains of a person from conducting an investment for an income year.

- Business: profit and gains of a person from conducting a business for an income year.

- Income and gains are ascertained only after deducting the corresponding expenses. The income from each business and investment needs to be calculated separately.

Taxing Subjects:

The taxpayers on whom income tax is imposed are person, a person can be natural, who is an individual or couples but includes also a proprietorship, or it can be an artificial person, i.e. and entity. An entity means a partnership trust company, and foreign permanent establishment or government body.

The act distinguished between resident and non-resident persons. A resident person is an individual whose normal place of abode is in Nepal and who is present at any time of the year or who is present in Nepal for 183 days or more or who is an employee of Government of Nepal posted abroad at any time during the year.

A trust is a resident person establishment in Nepal or has a resident person as a trust, or is controlled by resident persons. A company residing in Nepal and it is in corporate under the laws of Nepal or its effective management in Nepal. Partnership are always resident persons.

Administration is the design of implementation of government policies. Tax administration is regarded as including also some responsibility for determining the policies and programs of government related to tax. Income tax Act 2058 has made a provision regarding the design of tax administration also. The body that administers the income tax is Inland Revenue Department. Revenue Division of MOF is basically responsible to formulate tax related policies. Tax administration includes D.G. D.D.D chief tax administrator, Director, Tax officers and other staff. The head of IRD is D.G: a 1st class officer who exercises any power granted to the Department under I.T. Act. Appoints other persons as may be necessary and delegates power to another persons. Two D.D. G and One liquor specialist, who are also 1st class officer assisted him.

Experience of many developing nation have shown that tax administration has been the weakest part of tax system. All other efforts may even bring disrepute to the fiscal authority, tax administrations is weak. It is easy to formulate tax policy but much difficult to administer them.

Administrative constraints may suffocate the tax system with inefficiency, complication, restriction handicap leakage non-compliance and law of enforcement. Income Tax administration is an important subsystem in the total tax system that can either carefully tend or mercilessly kill the goose that lays gold eggs. Tax Administration is the process of making tax policies law acts and program whereas tax management is responsible for implementing the policies, laws act and program.

It is the tax administration that provides feedback about the effectiveness of tax policies and laws. In the hands of incompetent's tax administration good tax policy and bad tax policy may end us looking remarkably alike.

Effective tax administration paves the way for effective tax policy and laws. Improved tax administration widens the choices available to policy makers and law formulators". It is easy to devise a policy about difficult to administer if effectively.

A special revenue branch was established in the Ministry of Finance after the imposition of business profits and remuneration tax, urban property tax and foreign investment tax in 1959. This need was felt to administer those taxes in 1960 a separate tax department was established under the Ministry of Finance. Administration of a dozen of taxes, which were existed at that time, was the main responsibility of department responsible of the administration of VAT. Department of Taxation and VAT Department have been merged and Inland Revenue Department has been structured at Shrawan, 1, 2058.

The rationale for the creation of new Department can be found in the following statement. Most tax department reform strategy begins with organizational change because reformer realizes that much new procedure could not be incorporated successfully into the current organizational structure.

IRD is currently responsible for the enforcement of tax laws and administration of income tax; value added tax, excise duty, vehicle tax and certain fees and duty. Monitoring the non-tax revenue such as dividends, royalties of government is also the responsibility of Inland Revenue Department. Providing services to concerned sector is motto of IRD and its major goal is optimizing the Inland Revenue through fair efficient and effective tax system. Maximizing voluntary tax compliance and providing taxpayer services are standing objectives of IRD.

Under Department there are 22 Inland Revenue Offices including a large tax payer offices located in Kathmandu through out the Nepal. Inland Revenue department and its district offices are totally running on functional line. IRD has been separated in operational division or policy and administration division, where Deputy Director General is the chief of these divisions.

The main functions carries out by Inland Revenue Department are as follows:

- Tax Administration.
- Tax policy.
- Tax payer services.
- Registration and revenue collection.
- Tax Audit.
- Tax enforcement and investigation.
- Review and Appeal.
- Tax refund.
- Advance Ruling.
- Tax treaty and international taxation.
- Excise and liquor or administration.

- Monitoring of non-tax revenue.

Organizational Structure:

Organizational structure of income tax administration in Nepal includes "Ministry of Finance (MoF) at the top level. Inland Revenue Department in the middle level and Inland Revenue office (IROS) at the field level. Formulation and co-ordination of tax policies is direct responsibility of MOF. IRD co-ordinates and supervises tax collection, audits and makes investigation of its own. Registration of permanent Account number (PAN), providing tailored services to tax payers, receiving tax returns, collecting taxes and carrying out audit and investigations are the main responsibility of IROs.

A well-organized organizational structure can provide a foundation for effective tax administration.

Many changes have taken place in tax administration after the establishment of IRD. This change is particularly visible in field offices. There were income tax offices and VAT offices in field level before merge. Taxpayers were required to register, file returns, and to collect tax in both offices, which caused more compliance and administrative cost. Now taxpayers are provided unique nine digits PAN which is applicable to both income tax and VAT. It is not necessary to renew taxpayer's certificate in every year after receiving PAN.

Its have been structure on functional basis. The key characteristics of this type of structure is that staff is grouped around an organization's essential function or work process. According IROs have three main section viz. Operation, audit and collection. This separation allows for greater specialization on the part of tax officials and on the other if reduces vulnerability to corruption by limiting the scope for coalition between taxpayers and tax offices. Moreover, this provides strategic elements self-checking among staff where by the work performed by one functions serves as a control on that of another functions.

Human Resources:

All personnel in Nepal belongs to civil service under civil services, the government had constituted the Revenue group with a view to bring about specialization and expertise in revenue personnel. The government has been trying to make the tax administration. So, the Revenue group has been confirmed up to gazette first class. The number of tax officers has been increased substantially over the years. The logic behind government's move has been that tax officers are more knowledgeable and responsible to their duties and can easily manage change. However, there is still a provision for drawn revenue personnel from general cadres without any specific qualification. This transfer heavily used to depend more on the connection of particular individuals to influential lobbies or powerful politicians or higher authority. On the other hands, it has been practiced for revenue personnel to transfer outside, so their experience and special training if any wasted. Rather the time in revenue administration used to be considered as an opportunity to earn money.

Tax human resource is being trained in various aspects of tax policies and administration within and outside the country. Revenue administration center has been organized for long term and short term training to tax officials. Furthermore it has added it has added new elements to the training program by introducing new courses on accounting, computing etc. IRD has also been conducting tailored training coursed in co-operation with various donors like DANIDA & GTZ. It would be exaggeration if someone says that tax officials are competent, well motivated and professional enough to meet the emerging threats of tax administration no gazette staff are les educated and trained. There is less opportunity for them being promoted; as a result they are not very much concerned about their career. Which cause their primary aim is to educated and trained; hence, they are more concern about their career. Even so, they are lacking in many aspects required to make the tax administration capable to meet the threats of 21st century. Qualification related to economics, commerce and law etc are required to enter the revenue group. They are not adequate and sufficient as demanded by their jobs. The training courses are to general not extensive and are not very much related with the jobs at field level. Ironically, sometimes it is reported that tax personnel are not interested to participate in training because the opportunity cost of joining the training is higher than that of expected benefit from the training.

In spite of initiating, comprehensive administrative reform Nepalese income tax administration still suffering from weak tax administration, inadequate training for employees, imbalance and inadequate organizational pattern, inadequate physical and other facilities, existence of low level technical posts on tax administration.

Income Tax Assessment in Nepal :

Assessment of income tax is very important in managing the income tax because of the amount of income tax is realized through the assessment. Sound assessment procedure is essential for the collection of large amount in the form income tax.

Till very recently, income tax was assessed under mainly four methods, viz, self-assessment, account based, best judgment and committee assessment. Since, 1977, there has been a legal provision for a type of self-assessment system in Nepal. But a tax officer could make final assessment, thus it was a 'quasi-self assessment' system. In 1991-92, a self-assessment system was introduced for registered public ltd. Companies and firms. But this system has not been properly implemented as yet due to the lack of practical training, instruction and guidance.

According to sec. 96 of Income Tax Act, 2058 every taxpayer should file the return within 3 months of the end, of the financial year. If the time allowed is not sufficient, the tax payer can request for extension of the period to the Inland Revenue Department which can extend the period. According to section 97, no return of income for an income year is required unless requested by the department if a person who has no tax payable for year. This provision is applicable to a resident individual who have income exclusively from an employment having a source in Nepal, do not claim a deduction of their taxable income by gifts to exempt organizations. Section 99 of Income Tax Act specifies that where a person bites a return of income for an income year, an assessment is treated as made on the due date for filing the return. This type of assessment is taken as compulsory assessment. When a person becomes bankrupt is wound-up or goes into liquidation, the person is about to leave Nepal. According to sec 101, the department may amend and assessment made by the tax payer to adjust the assessed person's liability to tax. It is done is such manner as according to the Department's best judgment.

Administrative Provisions :

- **PAN and Registration :**

  For the purpose of identification of taxpayers, each taxpayer is provided with unique identification number i.e. permanent account number, which is permanent in nature. All the dealings related to taxpayers are made under this account number. Income Tax Act 2058 has made this provision in section 78. After the introduction of VAT in 1997 taxpayers were provided with nine digits taxpayers identification number (TPIN). This was applicable to VAT along. With a objective of assigning TPIN to al tax payers in Kathmandu Valley to be usable to both VAT and income Tax Kathmandu Taxpayer's service center (KTSC) was established in

1999. the TPIN assigned for VAT were also used for income tax purpose.

When IRD has been established, the KTSC was dissolved and tax payers were provided PAN certificate in exchange of TPIN. According to section 78 of Income Tax Act, 2058, the Department will order to state the permanent account number statement and other documents to taxpayer in return file. Furthermore, Government of Nepal can specify conditions where the taxpayers should state his PAN. If the content of PAN is changed the tax payer should notify to Department within 15 days of the change and the Department should change the content accordingly. As well kinds of business have to be registered for the purpose of income PAN is applicable for income tax for all types of taxpayers. Taxpayer's are supposed to put their office/business place could easily see it. For the convenience of taxpayer, Inland Revenue Department had organized PAN week and PAN were distributed on the sport by organization PAN week. Now there are 3,30,616 registered PAN holders at the end of F/Y 2065/066.

Income Tax Collection :

Income tax collection may be defined as the realization of income tax from taxpayers. There are different methods of collecting the tax by the government. The first one among them is installment method. Any person having taxable income in any financial year should pay the tax in three installments as follows:

End of Poush - 40%

End of Chaitra - 70%

End of Ashadh - 100%

) **Collecting Through with Holding :**

Tax with holding is very important aspects of income tax administration, which make the tax collection easier and reduce compliance cost of taxpayers. A system of collecting tax at source for which money is periodically deducted while making the payment to employees, security holders and other persons receiving payment is called with holding of tax. Generally a fixed percentage is with held while making the payment. It is also called TDS. With holding payments are of two types ordinary and final with holding. According to sec. 79 of ITA following are the final with holdings.

i. Dividend paid by resident company.
ii. Rent for the lease of land and building.
iii. Gains from investment insurance and unapproved retirement fund paid by a resident person.
iv. Interest paid by a bank or financial institutions or entity issuing debenture or bond or listed company.
v. Payments made to non-resident persons that are subject to TDS as regard to employment or investment return and service charge.
vi. Retirement payment made by GON or recognized retirement fund.
vii. Meeting allowance.

The person who is required to withhold should be deposited the withheld amount of tax to IRD within 15 days of withholding.

▪ **Collecting through Legal Actions :**

If the taxpayer fails to pay the tax in time, the department can create a charge over the assets of the taxpayers by serving the notice in writing.

From these asserts, the tax payable, interpret accrued with respect to that tax and any cost of charge or sale is recovered.

- ### Corruption and Tax Administration :

Simply, corruption is the abuse of public power to promote private benefits. Thus, a public employee who abuses his/her public position to derive benefits for oneself or friends, relatives or political associates it's engaging in an act of corruption. There are several causes related to corruption in Nepal. The definition of corruption is vague and not clear. Corruption is likely to be socially accepted. The monthly salary of personnel is very low that cannot meet even minimum living standard. There is no fear reward for the honest employee. The taxpayers also influence the officials to assess low taxation and make leakage in the revenue. So for as concerned Nepalese income tax, there are so many factors of corruption either they are direct or indirect. Some of them are complex tax system, government spending decision, regulations and authorization, political interference, discretionary power of the tax officers, salaries of personnel, transparency of rules, laws or process, quality of bureaucracy etc.

Corruption is the most problems of income tax administration and management, which creates so many adverse effects. Due to this, tax evasion and avoidance also has been increased. High level of corruption reduces the tax revenue, which relates multiple economic and social problems. In order to control the corruption following efforts should be attempted.

- Higher salary for human resource of tax administration to be provided.

- Higher penalties should be provisional and applied to corrupted employees.
- Public awareness about official rules and laws should be raised.
- Moral values in the society should be imputed and anticorruption efforts in international level should be enhanced.
- The discretionary power should be minimized as soon as possible.
- One powerful anticorruption commission should be formed.

There was corruption prevention Act, 2017 in Nepal. This defined the corruption and identified the stringent penalties for the corrupted employees. In order to control the revenue leakage, revenue investigation department had also been established. To investigate the corruption related to personnel administration. Commission on Investigation of Abuse of Authority had been given the authority. In the cases related to corruption in the court. But unfortunately, no corrupted tax administrator had been proved guilty from the court so far.

The government has enacted a new corruption prevention Act, 2059, this Act has included all Nepali citizens, civil servants and non-residents into its scope. Under this act, any civil servant or most probable candidate of the civil servant abuse his public position for any kind of private benefit he will be punished for corruption. According to this act, tax, fines, penalties royalties and other similar amounts (and also their interest and fines) that are paid for the government or pu blic institutions are defined as revenue. There are many strict provisions of penalties for the corrupt personnel under reported subheads.

4.3. Major Findings

Based on the study, presentation and analysis of data, I found major findings which are summarized below.

- The study reveals that the contribution of tax and non-tax revenue to total revenue in the recent fiscal year i.e. are near about 83% and 17% respectively. This indicates that the tax revenue is the major source of the government revenue.

- Tax revenue is the composition of the direct tax and indirect tax in the Nepalese tax revenue. The contributors of direct and indirect tax to tax revenue are 29% and 71% in the recent fiscal year of the study i.e. F/Y 2008/09. it shows that the tax revenue as well as total revenue is mostly depended on indirect tax rather than the direct tax.

- Non-tax revenue is consisting of various component i.e. duties and fees, fine and penalties, sale of public land and government bond, dividend, principal repayment and miscellaneous income.

- Income tax is the major part of direct tax, which is the composition of corporate income tax, personal income tax, interest, lease or rent tax and other taxes. The contribution of the income tax to total revenue are 10.67%, 12.30%, 13.08%, 13.11% and 14.95% in the respective year of the study period i.e. F/Y 2004/05 to 2008/09.

- The contribution of corporate tax to income tax are 50.97%, 49.52%, 73.72%, 76.57% and 72.07% respectively from the F/Y 2004/05 to 2008/09. The growth rate of corporate tax were 10.10%, 1.28%, 113.48%, 15.22% and 47.90% respectively in the same year and the growth is fluctuating in the different year of the study period. Finally it shows that the total income tax is depended upon corporate income tax. So the corporate tax plays vital role in the national economy and government revenue.

- Corporate tax, a direct is the main source of income tax revenue. The contribution of the corporate tax to the government revenue are 9.91%, 7.52%, 13.13%, 12.33% and 13.68% in the F/Y 2004/05 to 2008/09 respectively. It shows that the corporate tax is fluctuating over the years.

- Total corporate income tax is the contribution of three types of taxpayer i.e. Government Corporation, public limited companies and private limited companies. The contribution of Government Corporation in the corporation tax is 25.01%, 3.63%, 8.85%, 1.54% and 4.89% during the study period i.e. F/Y 2004/05 to 2008/09. It shows that the government corporations are loosing tax paying capacity. Where as public limited company's share are 46.32%, 63.12%, 49.65%, 54.16% and 48.03% from the F/Y 2004/05 to 2008/09. Similarly, the contribution of the private limited company to the corporate income tax are 28.74%, 31.56%, 20.03%, 23.66% and 21.39% during the F/Y 2004/05 to 2008/09 respectively. The above fact shows that the public and private sectors have greater share in total corporate tax in comparison to Government Corporation.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. SUMMARY

It is wide experience that an individual or any legal can not be survived and sustained in the absence of revenue. It is necessary for optimum utilization and management of all revenue generating sources to run any entities efficiently and effectively. Revenue structure of country includes tax and non-tax revenue. Where, tax revenue is structured by several sources and income tax is one of the major sources of tax revenue. It is contribution might be significant tools to meet the goal of revenue maximization. However, it is heard form different sources the amount of income tax collection has not been finding as expectation due to some external factors. Increasing security problem and inappropriate economy structure are major external factors. Likewise, ineffective tax management, corruption existed in tax administration, tax evasion, avoidance tendency, lake of positive cultural attitude of taxpayers towards income tax payment are the major internal factors. The government of Nepal is not far away from these fundamental issues. New income tax Act, 2058 has been implemented, which is comparatively complicated due to some ambiguous and new provisions. Sufficient academic managerial research has not been found to be conducted. Keeping all these mentioned factors into consideration, propose research paper revolves around the Periphery of following subject matters.

- How the tax revenue structure of country is formed?
- What is the contribution of income tax to revenue structure?
- What is the contribution of corporate tax to the income tax?
- Whether, corporate tax so collected has achieved as per the projection or not?
- How income tax system in country is structured?
- How the managerial aspect of income taxation has been practiced?
- What are the strengths and weakness relating to these aspects?

To get meticulous knowledge of the existing system of the taxation in Nepal and finding out the contribution of corporate tax on income tax, I structured my study starting from the introduction which is mentioned in Chapter I. The Chapter I mainly covers the background of the study, purpose of the study and its limitation and the way of analyzing the data analysis and presentation.

In Chapter II, I presented the outcome and understanding of the review of literature about the fundamental principles of revenue structure, Income Tax and its types as well as the prevailing tax system in Nepal. Further, I also received and studied of the related books, journals, acts, rules, working papers and researches.

After getting thorough knowledge of existing provisions and fundamental principles, I collected primary as well as secondary data of direct and Indirect tax, contribution of corporate tax in the Income tax. The methods and techniques of data analysis are presented in Chapter III: Research Methodology. Subsequently the data are analyzed and findings are presented in a suitable frame for quantitative analysis in Chapter IV: Data Presentation and Analysis. This chapter incorporates all the data collected by the researcher and presented those data in a systematic format as well it has been analyzed using the simple tool such as average, percentage of growth rate etc. as necessity of the research.

5.2. Conclusion :

Nepal has been facing a problem of deficit financing. Insufficient revenue is the major constraints of economic and social development. The volume of fiscal deficit has been increasing continuously. Public expenditure, revenue and loans grew at a faster rate. The fiscal deficit has been financed by both foreign and internal loans. Deficit financing produces severe adverse effects on the economy. Tax is one of the main sources of revenue increasing. The contribution of income tax especially corporate tax could be the significant tool in order to maximize tax revenue.

- Income tax is the second large source of tax revenue. In the final F/Y of study i.e. 2008/09 total income tax collection was Rs. 27,247,387.00 thousand which was 2.84% of GDP, 18.99% of total revenue, 24.53% of tax revenue and 80% of direct tax. The collection was 100.59% of expectation.

- In the second last year of the study income tax collection has achieved the target. However, it was below the expectation in the rest fiscal years over the study. Adverse general economic condition of country, low income level of people, low production, sales performance of business sector, poor corporate development, inefficient and ineffective income tax management, personnel inefficiency, unscientific tax assessment, events of evasion and avoidance, administrative corruption, high government expectation, violence and poor security situation are the main causes of low income tax collection.

- The contribution of Income Tax to GDP was, 2.07%, 1.87%, 2.33%, 2.11% and 2.84% form 2004/05 to 2008/09 on total revenue were 10.67%, 12.3%, 13.08%, 13.11% and 14.95% for respective study years. Similarly, on total tax revenue the contribution were 6.06%, 6.90%, 7.69%, 7.67% and 11.57% in the different years of the study. This contribution could not be assumed significant. It is necessary to search new sources of income in order to increase the contribution.

- Corporate Income tax represented 50.97% of income tax structure, in 2004/05, in the following year it decreased to 49.52% and increased to 73.72% in 2006/07. In 2008/09, it is 72.07%. It reflects improving situation of corporate sector in the recent years.

- Personal Income Tax represented 37.04% of total income tax in 2004/05, increased to 38.86% in 2005/06. In final year, it is 11.73%.

- Contribution of House and Land Rent Tax in income tax structure was 4.75% in 2004/05, decreased to 3.84% in 2006/07 and again it decreased to 3.52% in 2008/09.

- Interest tax represented 7.25% of income tax in 2004/05. However, in 2008/09, it was decreased to 3.99%.

- Income tax growth rate was 9.86% in 2004/05, but it is increased to 43.36% in comparison to previous year in 2006/07 and in the last year, it is 57.25%.

- Personal Income Tax growth rate was 9.39% in 2004/05 and -40.73% in 2006/07. Corporate income tax growth rate was 10.10% in 2004/05 and 113.43% in 2006/07 and it is 47.90% low in 2008/09. Low income level of people and business sector due to the adverse economic condition, poor corporate development are the major reasons of negative growth rate and the creation of investment friendly environment in the recent year has brought a lot of hope for the growth of corporate sector.

- House and land tax growth rate was 23.07% in 2004/05, 2.57% in 2005/06 and 17.74% in 2006/07. The growth rate was 17.80% in 2007/08 and 35.99% in 2008/09. This rate could be maximized through effective administrative monitoring and supervision because tax has not been collecting as per house construction trend.

- Interest tax growth rate was 3.26% in 2004/05, -0.04% in 2005/06 and 31.59% in 2006/07. It was 6.44% and 2.48% in 2007/08 and 2008/09 respectively. Increasing deposit of financial sector due to adverse investment climate in business sector is the main source or recent high growth rate. Tax rate of interest income is also lower than business income.

- The contribution of corporate tax on GDP were 1.06%, 0.93%, 1.72%, 1.62% and 2.04% in F/Y 2004/05, 2005/06, 2006/07, 2007/08 and 2008/09 respectively. This trend shows the positive sign in the growth of corporate sector.

- The contribution of corporate tax on total revenue was 9.91%, 7.52%, 13.13%, 12.33% and 13.68% over the years of the study. The growth of the last year of study was possible because of peace process in the country.

- Contribution of corporate tax on inland tax revenue was 14.57% in the F/Y 2004/05 and increased to 22.34% in F/Y 2006/07 and it decreased to 17.67% in F/Y 2008/09.

- Contribution of corporate tax on income tax was 50.97%, 49.52%, 73.72%, 76.57% and 72.02% in the different years of the study. This indicates the growing investment in the business sector.

- Share of Government Corporation to Corporate Income Tax was 25.01% in 2004/05. But, reduced to 8.85% in 2006/07. It's contribution was 1.54% and 4.89% in last two years.

- Share of Public Corporation was 46.32% in 2004/05 and remained 49.65% in 2006/07. Similarly, the growth rate was 63.12% in 2005/06 decreased to 54.16% in 2007/08 and 48.03% in 2008/09.

- Private Company's share to Corporate Income Tax was 28.74% in 2004/05, decreased to 21.39% in 2008/09.

- Due to comparatively new provisions, all tax related matters within one Act, provisions of international taxation, Taxing capital gains and dividends etc. ITA, 2058 is superior to ITA, 2031. However, there are some weakness in come tax Act, till. They are :

- Provisions are difficult to understand, language is vague and unclear.
- Narrow base i.e. agricultural income has not been included in tax net.
- Provisions of double taxation in dividend.
- Only diminishing balance method of depreciation that's why, it can be concluded that income tax Act 2058 is superior to former one but it is not supreme at all.

- Income tax management system in Nepal is not effective and efficient due to ineffective management system, inadequate government policy and defective income tax laws. Other major constraint of effective and efficient income tax management system are :
  - Misuses of power by tax administrators.
  - Less consciousness of taxpayers.
  - Lack of motivated and trained human resources.
  - Inadequate experts in tax management, non-maintenance of books and accounts, time consuming process of income assessment i.e. unscientific assessment etc.

- Income tax administration is also ineffective and inefficient due to weak administration inadequate tax training, inadequate physical and other facilities, lack of adequate information system etc.

- Income tax assessment procedure is not found sound and efficient enough. The main constraints of income tax assessments are non-maintenance of proper accounts, undue delay in assessment, complexity in law and inadequate information.

- High level of evasion is found in income tax. The prime causes of tax evasions are ineffective tax administration practice of illegal business, poor tax morality etc.

- In income tax administration, a high degree of corruption has been found.

- The monetary and non monetary motivational benefit, training opportunities, Promotional facilities provided to tax human resource are not sufficient. That's why, they are found less motivated towards their job.

5.3. Recommendations :

On the basis of summary and finding of the study "Tax System in Nepal a case study of corporate tax on Income Tax", following recommendation could be outlined.

- Income tax is still second large source of tax revenue. But, now-a-days the collection has not been collecting as expectation. In Final research period i.e. 2008/09, the collection was 100.59%. Success of income tax system is highly dependent upon the quality of income tax law. ITA, 2058 is superior to ITA 2031. However, it is not free from limitations. The following corrections should be made in income tax law.
  - Income tax act should be simplified. It should be made understandable.
  - Provisions should be made clear.
  - There is still some discretionary power granted to tax officers, which should be reduced.
  - Fines and penalty provision should be implemented strongly.
  - Special facilities and concessions should be provided to industries considering nature of industries and geographical area.

- The sources of income tax should be widened. All income generating activities should be brought into tax net, if possible rate should be reduced, co-ordination with other department and organizations should be developed in order to find the income earning groups, and tax friendly programs should be formulated.

- Tax Act should be made favorable for foreign investors since this plays a significant role in the development of business sector which is one of the root of economic development.

- Agricultural income should be taxed, at minimum rate. This is significant to increase contribution on GDP and revenue.

- VAT administration and monitoring system should be made more effective because Income tax administration is increasingly being based upon VAT turnover.

- Income tax policy should be revised timely and should be kept for from politics.

- For monitoring the implementation of income tax laws policies and programs, separate organization and department should be established under MOF.

- Tax payers should be awarded by means of education, training, seminars, interaction between tax payers and authority. Tax information section should be established and information should be flowed to tax payers by utilizing all means of communication and media in order to develop tax payer's positive culture towards taxation and increased tax paying habit.

- Income tax assessment procedures should be made sound, assessment delays should be eliminated, confidence should be created; self assessment procedures should be encouraged.

- Income tax management should be made more effective and efficient, administration should be improved and restructured sufficient resources and physical facility should be provided. Corruption existed in administration should be eliminated by taking hard action against corrupters.

- Income tax evasion should be minimized by minimizing illegal business activities, increasing managerial efforts, enforcing fine and penalties.

- Income tax human resource management should be made more effective and responsible, specialization should be created, training and development opportunity should be provided, and proper placement reward and punishment system should be established. Drawn revenue human resource from other service and transfer to outside should be eliminated.

- The scope PAN should be expanded and should be provided to tax payer's door step that is unaware about it.

- Last but no means to least, exemption limit provided to taxpayer's should be revised timely considering general economic conditions, inflation and price changed. Resources should be expended to develop and modernize corporate business activities.

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Annex – 1

Questionnaire

Name: ……………………………………………..

Occupation: ……………………………………….

Dear Sir,

First of all, I would like to introduce myself as the student of Patan Multiple Campus, Patan Dhoka, MBS final year. In order to fulfill the partial requirement of Master's Degree in Management, I am going to prepare a study entitled "**Tax System in Nepal (Contribution of Corporate Tax on Income Tax)".**

I would very much appreciate if you kindly spare few of your valuable time for filling the questionnaire with your valuable suggestions.

I assure you that the information provided to me will be kept strictly confidential.

Please tick (✓) one of following

1. Is Income Tax Act 2058, superior than former one?

   a. Yes b. No c. Nothing to say

2. How is the condition of Tax evasion in Nepal?

   a. High b. Low c. Moderate

3. Is Income Tax management in Nepal effective and efficient?

   a. Yes b. No c. Nothing to say

4. Is Income Tax assessment procedure in Nepal sound?

   a. Yes b. No c. Nothing to say

5. In your opinion, the existing tax rate is satisfactory?

   a. Yes b. No c. Nothing to say

Questions for Direct Interview:

1. What are the major problems of Income Tax management?

2. How could it be improved?

3. What are the constraints for sound tax assessment?

4. Is income tax collection achieved its expectation?

5. How income tax Human Resource Management is practiced?

6. How is the condition of corruption in tax administration?

7. How could it be eliminated?

Annex – 2

Statement of total revenue collection for the F/Y 2065/66 (i.e. 2008/09)

(Amt. in thousand)

Particulars	Target	Actual Collection	% of Collection
GDP	-	960,012,000.00	-
Total Revenue	141,722,110.00	143,474,489.00	101.24
Tax Revenue	116,560,000.00	111,092,373.00	95
Direct Tax	35,387,000.00	34,320,739.00	97
Indirect Tax	81,173,000.000	82,731,168.00	101.97
Non Tax Revenue	23,905,110.00	22,892,174.00	95.76
Corporate Tax Revenue	18,733,200.00	19,624,769.00	104.76
Personal Income Tax	3,270,600.00	3,195,623.00	97.30
Income Tax	27,087,000.00	27,247,387.00	100.59
Vehicle Tax	3,500,000.00	1,849,958.00	52.86
Interest Tax	1,293,000.00	1,086,585.00	84.04
Excise Duty	13,959,600.00	16,220,884.00	116.20
VAT	41,000,000.00	39,700,922.00	96.83
Lease or Rent	1,705,110.00	1,610,671.00	94.46
Others	1,901,000.00	630,917.00	33.19

Source: IRD, 2065/066 i.e. 2008/2009

Annex – 3

Statement of Inland Revenue Collection for the F/Y 2065/66 i.e. 2008/09

Amts. in thousand

Particular	Target	Collections	Collection of %
Inland Tax Revenue	85,660,000.00	85,019,150.00	99
Direct Tax	27,087,000.00	27,247,386.00	101
Income Tax	24,386,500.00	24,602,094.00	101
Rent Tax	1,033,200.00	960,198.00	93
Indirect Tax	55,073,000.00	55,921,806.00	102
Interest Tax	1,667,300.00	1,685,094.00	101
VAT	41,000,000.00	39,700,921.00	97
Excise Duty	14,073,000.00	16,220,885.00	115
Vehicle Tax	3,500,000.00	1,849,958.00	53

Source: Budget Speech 2065/66 and Inland Revenue Departments' Financial Statement

Annex - 4

Inland Tax Revenue Collection

Amts. in thousand

Fiscal Year	2004/05 (2061/62)	2005/06 (2062/63)	2006/07 (2063/64)	2007/08 (2064/65)	2008/09 (2065/66)
Target					
Tax Revenue	35,200,000.00	44,300,000.00	48,817,000.00	58,126,800.00	85,660,000.00
VAT	16,950,000.00	23,650,000.00	26,463,000.00	29,651,900.00	41,000,000.00
Income Tax	10,500,000.00	11,800,000.00	12,710,500.00	16,869,200.00	27,087,000.00
Excise Duty	7,000,000.00	7,950,000.00	8,637,500.00	10,523,200.00	13,959,600.00
Vehicle Tax	750,000.00	9000,000.00	1,006,000.00	1,082,500.00	3,500,000.00
Achievements					
Tax Revenue	36,556,530.00	39,901,151.00	51,852,586.00	61,152,297.00	85,019,150.00
VAT	18,885,400.00	21,613,043.00	26,095,599.00	29,815,702.00	39,700,921.00
Income Tax	10,466,226.00	10,933,520.00	15,731,804.00	19,077,813.00	27,247,387.00
Excise Duty	6,445,909.00	6,506,940.00	9,343,187.00	11,189,575.00	16,220,884.00
Vehicle Tax	758,995.00	847,648.00	681,996.00	1,069,207.00	1,849,958.00
Annual	18.2	9.16	30	18.64	39

Increase Rate (%)					

Annex – 5

Income Tax Collection

Amounts in thousand

Particular \ F/Y	2004/05 (2061/62)	2005/06 (2062/63)	2006/07 (2063/64)	2007/08 (2064/65)	2008/09 (2065/66)
Corporate Income Tax	7,345,003.00	7,576,530.00	11,605,600.00	13,268,756.00	19,624,769.00
Govt. Corporations	14,332,430.00	195,774.00	1,019,677.00	204,585.00	959,047.00
Public Ltd. Co.	2,467,789.00	3,405,582.00	5,717,056.00	7,186,458.00	9,425,132.00
Pvt. Ltd. Co.	1,531,305.00	1,703,027.00	2,306,976.00	3,140,371.00	4,197,536.00
Individual Firm	1,885,657.00	1,958,791.00	2,306,645.00	2,452,345.00	4,472,091.00
Remuneration	1,675,861.00	1,771,729.00	2,007,930.00	2,451,039.00	3,195,623.00
Investment Tax	1,424,770.00	1,546,555.00	2,080,024.00	3,271,475.00	4,161,963.00
Rent Tax	495,549.00	528,457.00	594,181.00	721,102.00	960,198.00
Interest Tax	757,035.00	774,820.00	1,054,942.00	1,087,927.00	1,685,094.00
Capital Gain	7,030.00	657.00	1,127.00	803,492.00	761,617.00
Dividends	165,147.00	242,585.00	429,502.00	657,694.00	636,546.00
Income from other investment	9.00	36.00	272.00	1,260.00	18,508.00
Windfall	6,775.00	8,810.00	11,697.00	19,151.00	17,380.00

Gain					
Others	13,817.00	30,496.00	26,553.00	67,392.00	246,698.00

Source: Different fiscal year budget speech and central statement of Financial Controller General Office, 2066.

Annex – 6

Organizational Structure of Inland Revenue Department