

# CHAPTER - I

## INTRODUCTION

### 1.1 Background of the Study

A corporate tax, also called corporation tax or company tax, is a direct tax imposed by a jurisdiction on the income or capital of corporations or analogous legal entities. Many countries impose such taxes at the national level, and a similar tax may be imposed at state or local levels. The taxes may also be referred to as income tax or capital tax. Partnerships are generally not taxed at the entity level. A country's corporate tax may apply to:

- ) Corporations Incorporated in the country,
- ) Corporations doing business in the country on income from that country,
- ) Foreign corporations who have a permanent establishment in the country, or
- ) Corporations deemed to be resident for tax purposes in the country.

Company income subject to tax is often determined much like taxable income for individual taxpayers. Generally, the tax is imposed on net profits. In some jurisdictions, rules for taxing companies may differ significantly from rules for taxing individuals. Certain corporate acts, like reorganizations, may not be taxed. Some types of entities may be exempt from tax (Kunwar, 2002)

The revenue collection is a challenging task in itself which demands increasing necessity of regular expenditure in general and development expenditure in particular. However, resource mobilization is very low compelling the government to rely heavily on foreign assistance. Development expenditure has been dependent almost entirely on the foreign aid. External assistance is uncertain, precarious, inconvenient and not conducive to the healthy and overall development should there be heavy dependence on it. The foreign aids are not bad for economic development of the nation. But the experience of the most of the developing countries shows that there are negative effects of increasing international grants and loans to finance the public development activities. Thus the government should depend on its own resources for generating revenue in order to finance these regular and development activities.

the local level institutions should be guided by the Ministry of Local Development so that there will be mechanisms of monitoring and supervision of development activities in the communities. Government of Nepal proclaims the rules and regulations as per the requirement for further improvement. On the basis of rule and regulations of Government of Nepal, the local Institutions enjoy an authority to proclaim necessary rules for smooth operation of the institutions. The general people living below the poverty and geographical constraints should be equally fostered to feel themselves as a citizen of the country and only they can participate in the stream of development. Local institutions are elected bodies. They are responsible to carry out some public functions and are authorized to collect revenue in their area of jurisdiction. They have their own staff, budget and account. Local institutions should be authorized to generate their own revenue in order to respond to the wishes of their constituents through the development of projects serving their needs. In a democratic society it is desirable to establish a clear link between those concerned with spending public funds and those responsible for the raising of revenue (Khadka, 2000).

An income tax is a government levy (tax) imposed on individuals or taxpayers that varies with the income or profits (taxable income) of the taxpayer. Details vary widely by jurisdiction. Many jurisdictions refer to income tax on business entities as companies tax or corporate tax. Partnerships generally are not taxed; rather, the partners are taxed on their share of partnership items. Tax may be imposed by both a country and subdivisions. Most jurisdictions exempt locally organized charitable organizations from tax. Income tax generally is computed as the product of a tax rate times taxable income. The tax rate may increase as taxable income increases (referred to as graduated rates). Tax rates may vary by type or characteristics of the taxpayer. Capital gains may be taxed at different rates than other income. Credits of various sorts may be allowed that reduce tax. Some jurisdictions impose the higher of an income tax or a tax on an alternative base or measure of income (Free encyclopedia 2016).

Taxable income of taxpayers resident in the jurisdiction is generally total income less income producing expenses and other deductions. Generally, only net gain from sale of property, including goods held for sale, is included in income. Income of a corporation's shareholders usually includes distributions of profits from the corporation. Deductions typically include all income producing or business expenses

including an allowance for recovery of costs of business assets. Many jurisdictions allow notional deductions for individuals, and may allow deduction of some personal expenses. Most jurisdictions either do not tax income earned outside the jurisdiction or allow a credit for taxes paid to other jurisdictions on such income. Nonresidents are taxed only on certain types of income from sources within the jurisdictions, with few exceptions ([www.wikipedia.com](http://www.wikipedia.com)).

Income tax is introduced first in Great Britain in 1799 in order to the Finance War with the France. Such, a tax was adopted as a substituted for custom and exercise duties in rising revenue. It was treated as a temporary ax until 1860. Therefore, it was made a permanent tax. Federal income tax was first introduced in USA in 1862. So into finance the expenditure of the civil war it assumes significance in 1913 after the 16<sup>th</sup> amended to US contribution. The other company, which flows suit, were Italy in 1864, Australia in 1915, New Zealand in 1891 and Canada in 1917. Income tax was developed as an important source of government revenue in many other countries. After the First World War, income tax developed somewhat slowly with many ups and down. The increasing revenue requirement, especially during the war and nation civil and rising requirement of his fiscal power of government contribution force to income tax activities. In the beginning, income tax lies in UK and New Zealand in 1909. The progressive method was first used in case of super tax (Agrawal, 2004).

In content of Nepal authentic records regarding taxation in Nepal were not available in ancient and Medieval period in ancient Nepal, the small rules used to levies charge on the layers and merchants though land revenue was the principal source of income in ancient Nepal. There did prevail irrigation tax and religious memorial conversion tax in times of King Amsuverma of Nepal.

## **1.2 Statement of the Problem**

In developing country like Nepal, the objectives of income tax could be generating revenue in order to help or finance development activities and to help establish social justices through income distribution, considering these objectives, since the time Income Tax introduced in Nepal, several changes has been making in Tax Laws, Tax Act, Tax Policy, Tax System and Tax Procedure etc. The idea of introducing Income Tax in Nepal originated in the early's 1950. But, the first elected government of Multi-

Party Democracy System is 1959, introduced Income Tax in Nepal, at that time Income Tax was levied only on the business profit and salaries after three years experience of Income Tax in 1962 Income Tax was applied to income derive from different source. Since 1974, Income Tax sources have been re- enumerated into five sources however, agriculture income had been kept outside the tax rat except a few years through the financial plan.

The concern of every nation of the world is economic development; least developed countries are facing numerous problems in the process of economic development. Nepal is not an exception to this process of economic development. Nepal is not an exception to this condition about 42 percent of total population is below the poverty line.

Lack of managerial efficiency is one of the major problems of Income Tax in Nepal. It is also a lack of effective personnel management, reward and punishment system, poor income tax assessment procedure, effective implementation of self-assessment of tax, poor tax information system, and education of taxpayers and very narrow coverage of income tax, tax evasion tax avoidance and proper utilization of tax planning. Corruption, quality of paying tax, ability to pay tax is another major problem of Income Tax in Nepal.

Similarly, must of the taxpayers are ordinary people or without heaving sufficient tax related knowledge nor the capacity to hire the tax experts, complexity of income tax law and tax assessment procedure, ill behaviors of tax administrators, under delay in tax assessment, lack of information are the major problems of these days that the tax payers of Nepal are facing these types of problems of tax paying habits of Nepalese people is very poor but tax evasion habit of such people in increasing day – to – day. It is due to lack of knowledge, zero incentives to regular tax payment, administrative harassment and poor enforcement of fines and penalties. Likewise, evasion of income tax, reason for wide spread evasion of income tax could be inefficient tax administrator wide spared practices of illegal business structure to maintain accounts, poor tax morality, tax payer's compliance in Nepal and supersede of law by the persons who are in the power and authority. In the developing county like Nepal, it is necessary to increase the government revenue. Government revenue is collecting the main source of tax and non tax. In the collection of government revenue there are

apparently many problems there is no have to face due to lack of knowledge to pay the corporate tax payer. So the present study tries to solve the following problems.

- ) Which sector contributes the maximum government revenue?
- ) What are the major sectors to collect the corporate tax?
- ) Should control the corporate tax avoidance and evasion in corporate sectors of Nepal?

### **1.3 Objective of the Study**

The main objective of the study is to examine the effectiveness of tax collection and contribution to government revenue. Other specific objective is as follows;

- ) To study the sector wise contribution of government revenue maximization.
- ) To explore the tax collection trends in different corporate sectors.
- ) To find out corporate tax avoidance and tax evasion in corporate sector of Nepal..

### **1.4 Significance of the Study**

In the developing country like Nepal, the implanting of Income Tax minimized because it is covered huge amount of Government Revenue. It requires higher amount of financial resources of development programmed. The resources collect internally are sufficient to run day-to-day administration of the country but the revenue surplus is not adequate to undertake the developmental activities. So, the country is heavily dependent on the foreign aids and grants to undertake its developmental activities. Corporate tax is one of the most important sources of collecting government revenue from Income Tax. Therefore, the corporate tax plays vital role in the government revenue of the country. It is a regular source of Income Tax too.

Thus, the study try to find out the problems and difficulties associate in the collection of corporate tax as a facilities and benefits provide by the Income Tax Act 2058 contribution of corporate tax on income tax total tax and direct tax revenue of Nepal. It has been also tried to suggest and recommends in some possible areas of reform in income tax with refers to corporate tax. There are many ideas on various tropics

Income Tax but very few have study in detail on effectiveness of corporate tax in Nepal. So this thesis is direct towards acquiring information about Income Tax collection from corporate tax, which has not been studied in detail in this field. Thus, this study is useful to all the concern parties, for researchers, academicians and others.

### **1.5 Limitations of the Study**

- ) This study is mainly based on secondary data and information, the outcome also depends upon and hence, the reliability and validity of secondary data.
- ) This study is based only in corporate sector of Nepal.
- ) Time and resources constraints may limit the area covered by study.

### **1.6 Organization of the Study**

The first chapter is introduction which includes background of the study, brief description about Value Added Tax, statement of the problem, objectives of the study, needs and significance of the study, limitation of the study and organization of the study were included. The second chapter is the review of related literature which includes concept of Value Added Tax, Historical Background of VAT in Nepal, Legal Provision for VAT and review of related previous studies. The third chapter is research methodology. This chapter includes the detail framework of the study, such as research method of population and sample, variable, research design, data collection procedure and presentation and analysis tools and techniques. The fourth chapter comprises data presentation & analysis of data. In this chapter the primary and secondary data collected from various sources have been presented in a systematic format: such as tables, charts, and figures. These collected data have been analyzed by using different mathematical, statistical and analytical tools. In addition to that, the major findings of the study have been presented. The final chapter summary, conclusions and recommendations provides summary and Bibliography and appendix have also been incorporated at the end of the study.

## CHAPTER - II

### REVIEW OF LITERATURE

#### 2.1 Theoretical Review

System of income tax in Nepal starts from 1959 through economic act. Various studies have been carried out and article, books and researches have been written and published on different aspects of income tax in Nepal. Some of conclusion and summary of literature about income tax reviewed during this study are given in the following paragraph.

Agrwal (1978) provided details information in various aspects of income taxation in his report entitled " Resource Mobilization for Development: The Reform of Income Tax in Nepal". His study is the first comprehensive study in taxation of Nepal. The study has covered period of nine years from 1967 to 1976. The nine chaptered research shows picture of resource gap of Nepal in its first chapter. Fiscal policy, effective tax system, role of income tax, legal and administrative aspects, historical background of income tax etc. have been also discussed. He has presented various mathematical calculations such as per capita burden of income tax, buoyancy coefficient and elasticity coefficient of income tax etc using the double log linear model. He has identified the major problems as inefficiency of tax administration and income tax evasion. He also identified tax authorities are insufficient in enforcement of law and there are not integrated programs for taxpayers' education, assistance, guidance and consulting. All things stated in research are not fully relevant today.

Subedi (1982) analyzed about the role on national revenue, legal aspect and historical background of income tax in Nepal. He has examined the growth of income tax collection, its ratio to GDP, cost of income tax collection and elasticity. He has pointed out tax evasion, inefficient tax administration and dominating role of indirect tax as major problems and suggested to reform tax administration.

Nepal (1983) examined origin, meaning, existing position, role, problems and future prospective of the income tax in Nepal. Inefficient income tax administration, mass poverty, lack of tax consciousness, low numbers of tax payers, lack of coordination

between taxpayers and department, narrow coverage, assessment deficiency were analyzed as major problems by her. She has suggested to separate exemption limit for family and couple and to make elastic, scientific and progressive tax rate and exemption limit.

Regmi (1986) prepared a dissertation with the objective of examining the trend of income tax in Nepal, ascertaining the share of income tax to total tax revenue and its ratio to GDP. He has concluded that income tax can check the inflationary trend of country and it also directs the flow of resources of the economy into useful and productive channels and increases the productive capacity of the economy. He has suggested for precise and clear tax law, widening tax coverage, scientific method for accounting assessment and collection of income tax, easy and simple procedure for tax payment, establishment of research unit and public awareness.

Siwakoti (1987) especially analyzed the Income Tax Act 1974. He has described the role of income tax as economic growth, equitable distribution and stabilized growth. The major problems identified by him are evasion at high level, delay in assessment, nominal share of income tax, lack of public awareness, complicated act, untrained and inexperienced administrative personnel, lack of training and development opportunities and unevenly distributed workload to personnel. There is also high use of best judgment assessment method, no compulsion to maintain books of account and auditing accounts of all type of business, ineffective use of fines and penalties, no provision of tax review commission, no provision of sales promotion out of country and lack of weighted deduction. He has suggested for progressive tax, honest and efficient tax administration, research unit in tax offices and penalties for not maintaining accounts. He has recommended for provision of weighted deduction and reduce time limit for assessment.

Baral (1989) tried to shown the contribution of income tax on the structure of government revenue in Nepal. She found that total revenue, total tax revenue and direct tax revenue have an increasing trend in Nepal but in unsatisfactory rate. She has found that contribution of direct tax has been decreasing and that of indirect tax is increasing each year. Exemption in agriculture income is other reason for less collection of revenue. In her study, inefficient tax administration, unconsciousness of tax payers, lack of scientific method of tax assessment and collection have been



identified as the major reasons for tax evasion at high level. She has suggested that the tax administration should be honest and efficient, tax evaders should be punished, there should be scientific method for tax collection, administration cost should be minimized, research unit should be established and delays in assessment procedure should be reduced.

Bhandari (1994) tried to examine historical background, tax structure in Nepal and contribution of income tax to economic development of Nepal. He has stated that actual collection of revenue through income tax was lower than its estimated target. It was due to poor tax paying habit of Nepalese tax payer, poor tax paying system and spread evasion of income tax. He has suggested making effective personnel management, tax education and better public communication system, to revise and restructure exemption limit and to reduce tax collection cost.

Book "Nepalese Taxation: A Path for Reform". The book is divided into seven chapters: the general economic condition of Nepal, commodity taxes, income taxes, property taxes, local taxation, tax administration, and the strategy for tax reform respectively. He had analytically described about development, existing structure, main problems and possible direction of reform of income tax. He had identified the major problems of income tax as narrow coverage, unscientific tax assessment and collection, defective system from the perspective of international taxation. He has also pointed out weak tax administration, imbalance and inadequate organizational pattern, inadequate physical and other facilities, inadequate tax training, predominance of low level non technical posts, debatable scope of revenue investigation department, lack of information system. He has suggested for extension of tax coverage, scientific method of tax assessment, extension of withholding tax, inflation adjustment etc. He has also suggested to administration for reorganize and expansion, integrated information system, research unit, strengthening the revenue service etc. This book was analytical and useful to know different aspects of income tax.

Acharya (1994) identified the contribution of individuals to be greatest to income tax revenue followed by public enterprises, remuneration, house rent and interest tax, semipublic enterprises and private corporate bodies respectively in his study period. He has recommended simplifying the tax structure, legal and administrative aspect.

Exemption limits for remuneration and business individual should be different according to him.

## **2.2 Empirical Review**

Pradhan (2002) income tax from public enterprises to public revenue includes historical background, contribution of income tax to the public revenue, contribution of Nepal Telecommunication Corporation to income tax, effectiveness of income tax collection. She has found that the contribution of income tax from public enterprises in Nepal was not significant due to poor achievement, weakness in government's economic policy and deficiency in legislation. NTC has been contributing effectively to total income tax revenue. Average contribution of income tax from NTC to total income tax revenue, total direct tax revenue, total tax revenue, and total government revenue was 15.06 percent, 2.37 percent, 11.1 percent and 1.93 percent respectively in average in 1998/99. She also found that contribution of tax revenue on GDP of Nepal was lower than other SAARC countries except Bangladesh. Her suggestion for income tax system were clear cut provision, discretionary power of tax officers should curtailed, assessment and collection provision should be made clear and simple, provision of reward, prize, incentive should introduce to encourage the taxpayers to pay voluntarily, compulsory provision of auditing etc. She also suggested promotion and rewards to active, efficient and honest tax personnel; tax education to tax payers; strict actions against corruption; reduction of delays in tax assessment for the improvement income tax administration in Nepal.

Mallik (2003) published a book with twenty six chapters and eight annexes. He has described historical aspects of income tax, changes brought by the Income Tax Act 2002 and the development of income tax management in Nepal. He has also described different legal provisions relating to Income tax with numerical examples. The book is very useful to know the general information and legal provisions of new Income Tax Act. His book was informative rather than analytical. He has not analyzed the role of income tax, structure of income tax in Nepal.

Timsina (1978) analyzed the structure of income tax in Nepal, to study the role of income tax in mobilizing resources in Nepal, to examine income tax evasion tendency in Nepal, to observe the general opinion about income tax evasion in Nepal.

He has shown serious problem of finance resource gap in Nepalese Economy. He has stated that income tax evasion tendency by remuneration tax payers are increasing in Nepal. He has pointed out different cause of income tax evasion in Nepal viz widespread illegal business, high corruption, poor taxpaying habits inefficient tax administration, open border with India and political indiscipline in Nepal. He has also mentioned different method of income tax evasion in Nepal viz, non reporting of income from illegal business, non mentioned of accounts, failure to submit income statements, non reporting of family members incomes, under reporting of income from different sources, re- registration of business and failure to make deduction at source (TDS). He has concluded that income tax evasion is in decreasing trend in Nepal. But due to lack of complete and authentic data, he was unable to prove it statistically.

Dahal (1995) presented and submitted a report entitled "Review of Tax System" to MOF, Gon. covered the various aspects of tax system at that time. Narrow tax base elasticity, higher burden of indirect tax to direct tax, lack of voluntary compliance, leakage etc were the major defect of taxation identified by this report. This study stressed on the narrow tax base. The exemption of income from agriculture sector, which contributed 43percent of total GDP was marked as a main reason of narrow base including agriculture sector, income from domestic industries, social sector and electricity sector that contributed 52percent was exempted from Income Tax and only large industries, mines, construction, trade, hotel and restaurant that contributed 48percent income to GDP were under income tax. All these provisions made the tax base very low. The tax rates were unnecessarily high. Only 73000 tax payers was demarked which was less than one percent of economically active population. Real per capita income growth rate at that time was only 0.3 percent, which showed the low taxable capacity of people. This report suggested increasing the tax to GDP, to increase the total number of taxpayers and to increase the per capital income. This study further suggested about 40 percent extra resource mobilization, it propose tax policy and program were in pace. This study recommended various practical ideas to widen income tax base like 20 percent exemption from total tax assessment effective. It also suggested the exemption limit should be raise based on inflation rate.

Pradhan (2001) analyzed the contribution of income tax from public enterprises, shown the contribution of income tax in total tax and total income tax revenue of Nepal, analyzed the effectiveness of Income tax revenue of Nepal, and analyzed the effectiveness of income revenue collection from NTC. She has also recommended possible measure to increase the present status. She has found that contribution of income tax from PEP in Nepal is not satisfactory due to poor achievement weakness in government's economic policy and deficiency in legislation. Existing corporate tax rate has been found suitable. Self assessment of tax is more appropriate. Public enterprises have remained in the second place on total income tax revenue. Out of PES, NTC has contributing effectively to total income tax revenue of Nepal. NTCs contribution to total corporate income is high. She has found that the average share of NTC on corporate income tax was 35-76 during ten years period i.e. from FY 1989/90 to 1998/99. She has recommended possible measures to overcome the existing problems. Staff should be taught discipline and be motivated. Management should have the feeling to contribution to the state etc.

Gautam (2004) focused about conceptual framework, legal provision and structure of income tax. He has conducted an empirical investigation about various aspects of income tax in Nepal. He has found that contribution of direct and indirect tax revenue were 20.63 percent and 79.04 percent respectively in 2002/03. Income tax revenue has occupied third position based on mean contribution other sources of revenue; the contribution of income tax to total revenue was 8.84 percent. It may enhance the revenue of government promote to distribute justice and encourage private sector investment Nepalese government expenditure is increasing at the faster rate than the increase in revenue the resource gap has existed in Nepalese economy and it is in creasing trend, tax/ GDP ratio of Nepal is found satisfactory, the exemption limit is not satisfactory.

Thapa (2002) described the tax system, features of tax and causes of reform the tax. He had characterized the tax system as too many and high rates, multiple objectives of taxes, scheduler rather global approach to income taxation, too many income brackets and high progressively, complicated and ambiguous tax law.

He had identified the areas for the reform of tax system in Nepal. They were, low rates on broad base, simplicity and neutrality, gradual abolition of exemption, deduction and tax holidays to broad tax base few rates or single rate, few taxes with high revenue productivity, emphasis on tax compliance rather than coercive enforcement, incentives to brewing and investment, conversion of sales and service taxes into VAT, excise duty only on cigarette, tobacco, alcohol, automobiles, petroleum and automobiles spare parts, abolition of surcharge and additional duty system to make the tax system, making the tax internationally compatible to attract foreign investment.

Ghimire (2007) presented and Contribution from Public Enterprises to Government Revenue". His findings are that the contribution of income tax from PEs, semi PEs, private corporate bodies, individuals' tax, remunerations tax and interest to total income tax are 21.26%, 0.60%, 0.12%, 69.23%, 4.38percent and 4.42percent of income tax in 1982/83 respectively and each are 19.87%, nil, 15.86%, 49.63%, 9.38percent and 5.25percent of income tax in 2001/02respectively. His recommendations to public enterprises are; to better perform, to reduce the tax imposition, to audit the financial statements, to pay tax dues regularly, to maintain the cash flow favourable, to make income transparent etc.

Koirala (2008) described that the objectives of his study were: To evaluate the feasibility and effectiveness of advance taxation on income tax and overall revenue generation in Nepal, to examine the current position of advance taxation in Nepal. He has found that advance taxation is also one of the tax assessing and tax collecting procedure as per Income Tax Act 2007.

Yadav (2009) described the that the structure of revenue collection of income tax in Nepal, evaluation of the ratio of income tax revenue to GDP, Total revenue and direct tax revenue, and suggested about exemption limit of income tax in Nepal. This study had recommend on the following ways: Tax payers should be highly literate by conduction seminar, workshop and interaction, the income tax assessment procedure must be improved by reducing assessment delay reducing the best judgment to taxpayers and creation the confidence between taxpayers and tax officers.

Poudel (2013) presented the objectives of the study are to describe the historical perspective and to determine the income tax structure, to measure the elasticity and beaurocracy of income tax Total revenue was dominated by tax revenue which is 78.2percent and non tax revenue is only 21.9%. tax revenue in increasing in recent days and non tax revenue is decreeing trend.

Lamsal (2014) conducted the objectives to examine historical background and to analyze the volume of direct tax revenue and income tax revenue in total tax structure . The income tax administration of Nepal is not efficient enough due to lack of trained employees , less consciousness of tax payers, lack of tax expert/ professional in tax administration, defective income tax act, increasing habit of tax evasion etc.

Subedi (2016) studied on Corporate Tax Payer Satisfaction With Tax Provision In Nepal. The main objectives of this study is to effective tax collection and contribution to government revenue. The collected national revenue is spent by government in different aspects of national prosperity to achieve goal of welfare states concept. The policy of revenue collection is different on the basis of respective national socio-economical infrastructure and environment. National expenditure is increased according to demand of social structure and time. Considering above these thing, nation have been collecting the revenue in different field of nation i.e. external and internal sources of national revenue. These external and internal sources are important to mobilize or handle to national resources. From where, nation takes better steps for social well beings. Among the internal and external sources of nation, taxation is one. In various types of tax, categories, corporate income tax is most important and crucial role play to achieve higher economic growth rate. Corporation earns its income from doing its business transaction. This study attempts to analyze the importance and contribution of corporate sector to the Nepalese government revenue.

### **2.3 Research Gap**

This chapter has included different aspects of corporate tax in Kathmandu Valley. Some of the previous research reports was reviewed on the regarding field. Thus continuous attempt needs to be taken and new researcher and conducted to build our existing knowledge base, interpret and analyze events in the face of dynamism. Most

of the past research studies about Tax system are basically related to effectiveness of tax, contribution of tax to the government, Tax oriented activities. Contribution of income tax from corporate sector plays vital role in Nepalese economy. But the researcher found no more systematic study done in the contribution of corporate income tax to government revenue in Nepal; it is focused on the Trend and pattern of corporate income tax & it's relationship to total revenue in Nepal. However, this research focuses on Effectiveness of Tax in Nepal (A case study of Kathmandu Valley) which has not been carried out previously. To find the new developments and to bridge the gap between the past research and the present situation, The researcher set out to conduct the research in this stimulating topic.

A general consideration or forecast is made by using whatever evidences are available at the present. It is tried to show what is likely to happen and what the trend of the effects would be in different areas. Qualification of such effect is generally much more difficult. Corporate tax payer satisfaction with Tax provision in Nepal. Nepalese products, business and the rate activities, import and the export, sales tax, collection of revenue, corruption, illegal trade and the tax evasion are considered broadly.

VAT is levied up to the retail level where as sales tax is on the sale of factory door or import point it means that it has wide range of revenue generation. Thus due to the wide range of revenue collection, transparency in the account and neutrality corporate tax is considered superior to the sales tax and other forms of tax.

The researcher through many literature reviews and given my best to fulfill this work. In my research, effort had been made to understand the Nepalese income taxation and The researcher hope this research will be fruitful for future researchers as reference.

## CHAPTER - III

### RESEARCH METHODOLOGY

#### 3.1 Research Design

The research study is focused on role of income tax and composition of income tax revenue and its trend before and after enactment of Income Tax Act 2002 in Nepal. To achieve the stated objectives, data has presented and analyzed from different sources. An opinion survey was carried out with 60 respondents associated with different denomination related to income tax i. e. tax experts, tax administrators and tax payers. The opinions were collected through structured questionnaire. The questionnaire included the role of income tax, effectiveness of income tax system, trend of income tax and reason, suggestion to reform income tax system, most important factors of new act etc. Thus, the study is descriptive, analytical and empirical.

#### 3.2. Population and Sample

All the tax experts and employees in Nepal are considered as total population. The tax expert, income taxpayers and administrators in Nepal are considered as target population. To fulfill the objectives of the study, 60 samples size is selected from different denomination. Persons selected for empirical study are carefully selected by consultation with lecturers and best judgment method. The respondents are from three groups. The group of respondents and size of sample is stated in table 3.1.

**Table 3.1**

**Group of Respondents and size of samples**

SN	Group of Respondents	Total	Sample Size
1	Income Tax Experts	120	20
2	Income Tax Administrators	130	20
3	Income Tax Payers	150	20
	<b>Total</b>	<b>400</b>	<b>60</b>



### **3.3. Nature and Sources of Data**

The nature of the study is analytical and descriptive. The data collected to describe this study are from two sources i.e. primary and secondary. The major sources among them are stated below:

#### **1. Primary Data**

To know the views of different persons related to income tax, an opinion survey was carried out through structured questionnaire to sample population. The questionnaire was same for all the respondents. The persons involved in survey are from different parts. Tax administrators are from IRD and various sectors of tax offices. Tax experts are the lecturers, auditors, CAs etc. Selection of tax payers is made from various sectors manufacturing, service, trading, financial etc.

#### **2. Secondary Data**

The comparative progress study and other basic analysis of study is made by secondary data. The sources of secondary data during this study are:

- i. Economic Survey of various years, Ministry of Finance, Govt/Nepal.
- ii. Budget Speech of various years, Ministry of Finance, Govt/Nepal.
- iii. Reports of Internal Revenue Departments of various years.
- iv. Different books related to income tax and public finance.
- v. Dissertations related to income tax.
- vi. Different Newspapers, journals, souvenir, magazines.
- vii. Websites of different organizations such as World Bank, IMF, MOF, IRD etc.
- viii. Other relevant records and data.

Secondary data from FY2008/2009 to 2015/2016 has been used in this study.

### **3.4. Data Collection Procedures**

All the data from secondary sources were collected through reliable sources as accurate as possible by researcher and has to visit different offices, libraries and book

stalls for this purpose. The primary data is collected by distributing and collecting questionnaire from different location and help of different people is taken during the process.

### **3.5. Data Processing and Analysis Procedures**

Collected data from various sources are thoroughly reviewed and sorted on the basis of their homogeneous nature and resemblance of the facts. The sorted data are arranged and presented systematically in suitable tables. The processed and tabulated data were analyzed through different statistical tools such as percentage, simple average, graphs, tables, charts etc for clear and systematic presentation of findings.

## **CHAPTER - IV**

### **DATA ANALYSIS AND PRESENTATION**

#### **4.1 Data Presentation and Analysis**

Data Presentation is devoted to the analysis and presentation of secondary data as well as primary data. The secondary data have been obtained from economic survey, economic bulletin, budget speech and other related newspaper. The primary data have been obtained from fill the questioners and asking questions. The available data have been tabulated and presented into graphs, charts and analyzed to reach at some findings.

##### **4.1.1 Revenue**

Revenue is regular income of government from internal resources for execution of different bodies of nation. According to Revenue Leakage (Investigation and Control) Act 2052: "Revenue means the amount that is to be paid to government as custom duty, excise duty, income tax, entertainment tax, hotel tax, sales tax, vehicle tax, rent tax, contract tax, property tax and the word also indicates other taxes according to existing law." Revenue amount is collected through different medium from public people and spent from state for welfare of people, so it is also called public income. Government levies custom, excise, income tax, VAT, land tax, fees and penalties as source of revenue. Revenue can be divided into tax revenue and non tax revenue. Government income specified in act and law to be paid by person, firm, industry, business, trade, profession or organization for execution of some task or work or for holding of some kinds of assets is known as tax revenue. For example: custom, excise, land tax, VAT (Kandel, 2003).

Revenue gained by government for distribution of public service or for public service or for direct facilities provided or for fees and penalties to state against violation of rules and regulation is known as non tax revenue. For example: income from sales of government goods and services, principle, interest, dividend, royalty, fine, penalty, seizing etc. are non tax revenue. Sources of revenue:

- a) Taxes
- b) Fees
- c) Amount for goods and services provided
- d) Fine/penalty
- e) Franchise cost
- f) Gifts and donations

#### **4.1.2. Tax**

Tax is an important source of revenue for government. It is compulsory provision to citizen imposed by law to pay as monetary term to government without any expectation of some specified return. Economists and scholar have expressed their view in tax as follows:

"A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the taxpayer in return and not imposed as penalty for any legal offence." -Dalton.

"A tax is a compulsory contribution of wealth of a person or body of persons for the service of public powers." – Bastable

"A tax is a compulsory payment to government without expectation of direct expenses of direct return in benefit to the taxpayer." – *P. E. Taylor*

"Taxes are compulsory contributions to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefits." - Findlays Shirras. (Lekhi, 2000)

"Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the states." – Plehn (Dhakal, 1998:2)

"Tax is a compulsory contribution from a person to the government to defray the expenses incurred in the common interests of all without reference to special benefits conferred." – Professor Saligman (Lekhi, 2000)

Among above, the first three states that the tax is compulsory levy and the taxpayer does not have any right to receive direct benefits from tax paid. The remaining definitions also clears about the expense of collected tax in common interests of residents of nation. According to definition, tax has major three characteristics:

- a) It is a compulsory monetary contribution.
- b) Taxpayers should not expect special treatment as a return of tax.
- c) Amount collected from tax should be expended for public of whole nation.

Taxes are levied primarily to raise revenue for the government expenditures, although they raise other purposes as well. The concept of modern tax contains different fundamental principles such as:

- a) No taxation without representation. Tax can be levied only with the approval of citizens through their representatives.
- b) Foreigners are to pay more tax than citizens
- c) Progressive principle i.e. more tax for more income.
- d) Tax should be collected compulsorily.
- e) Taxpayers are compelled to pay as their liability.

Tax can be classified into direct and indirect tax.

### **i) Indirect Tax**

Indirect tax is imposed on one person but paid partly or wholly by another. It is transferable and people pay tax when they receive or consume goods or services. It is transferable and people don't feel burden of lump sum. There is mass participation because every person pays tax for receipt of goods or services. Indirect tax can be charged at higher rate for harmful goods such as cigarette and alcohol to discourage them. So indirect tax is flexible. Examples of indirect taxes are customs, excise, value added tax, entertainment tax etc.

There are some limitations of indirect tax. Every person either rich or poor has to pay equal amount of tax for reception of goods or services so it is tougher for poor. The higher rate, if imposed, may reduce consumption and it effects on production and employment. There is no certainty about collection of indirect tax.

## ii) Direct Tax

Direct tax is paid by same person who is legally imposed. It is paid according to the income or property earned by a person. It is found equal with property. There is certainty about time, design and process of payment. Taxpayers can easily estimate their liability and government can easily increase or reduce according to needs. Income tax, contract tax, vehicle tax are examples of direct tax. Direct tax is levied on direct persons, so they may not be ready to pay voluntarily. And of course they try to pay lowest tax as possible as and also exercise for tax evasion. Direct tax is also expensive for collection. Direct tax discourages private saving and investment and there is lack of mass participation.

### 4.1.3. Income

Income generally means monetary or equivalent gains during a period from property, business, labor etc. According to Dictionary of Economic Terms, income mean " The wealth measured in money, which is at the disposal of an individual or a community per year or other unit of time; it may be regarded as a flow of purchasing power which may be expended at once on goods or services or retained for the purposes of capital accumulation."

According to Professor Haig " Income is net accretion of economic power between two points in time and this net accretion of economic power consists of two distinct parts: consumption and net capital accumulation."

Henry Simons has more clearly defined the term income by algebraic method. According to him, income is algebraic sum of two items:

- i) The person's consumption during the period, and
- ii) The net increase in the individual's personal wealth during the period.

*Symbolically,*

$$Y = C+W$$

*Where,*

$$Y = \text{Income}$$

$$C = \text{Consumption}$$

*W = Change in wealth (Due & Lander, 1977: 223)*

There is difficult to find specific definition of income all over the world specially, for the purpose of tax. For example Sec 2 of Indian tax act 1961 keeps profits and gains, dividend, voluntary contributions received by charitable trusts, value of any perquisites or profit on lieu of salary, any capital gain, winning from lotteries, cross word puzzles etc under the head of income. (Swami, 2006)

Income Tax Act 2002, Nepal describes three major heads of income, income from employment, income from business and income from investment. Section 5 describes that taxable income of a person for an income year is equal to the amount as calculated by subtraction of reduction from the total of total assessable income of person from each of the income head of employment, business and investment.

#### **4.1.4. Income Tax**

Income tax as the word refers itself as tax on income. In a broad sense, income tax is a levy based upon the productions or receipts or gains of the taxpayers within a definite period of time. (Encyclopedia America.)

There is no specific definition for income tax as it varies for countries according to diversity of economic structure, nature of government and the status of people. In General income tax is imposed on net income. Net income comes after subtraction of the cost of production from gross income. In practice the expenses incurred in earning the income and appropriate exemptions are deducted to find out the taxable income. Net income may be real income or money income. Real income is more comprehensive and includes not only money income but also other incidental advantages. Real income should therefore be the true index of ability to pay. So income tax should be charged on real net income of the individual and not on his net money income. (Agrawal, 1967)

There are two types of income tax such as

- i) Personal income tax: Levied on the personal contribution rather than an extraction of economy. Here assumption is that all income is directly received by an individual.

- ii) Corporate income tax: Tax is assessed on the profit of the corporation. It is considered the best one because the bulk of business activity in most advanced countries is carried on under the corporate form of organization.

#### **4.1.5 Corporate Tax**

In the content of Nepal, the term business includes an industry, a trade, a profession, a vocation, an office and an isolated transaction with a business character of a past, present or prospective business and the conduct of electronic commerce. The law has clarified that business does not include employment. A company is a corporate body incorporated as per the law. It is an artificial person which can sue. In Nepal, company is regulated under Company Act 2053. But this act has not given the specific definition of company. It only specifies that there is need of 7 promoting members if it is a public limited company. Income Tax Act, 2058 has also defined a company for the purpose of tax assessment. According to section two (1) of the Act, a company means any corporate body or unincorporated association, committee, institution, society or group of persons or a proprietorship firm whether or not registered or a trust. According to law the word company also includes a firm registered under Partnership Act 1964 or not registered having 20 or more partners a retirement fund, a co-operative, a unit trust of a joint venture, a foreign company and any foreign institution specified by Director General as Company.

Corporate law is about big business, which has separate legal personality, with limited liability for its shareholders, who buy and sell their stocks depending on the performance of the board of directors. Corporate law is the law of the most dominant kind of business enterprise in the modern world. Corporate law is the study of how shareholders, directors, employees, creditors, and other stakeholders such as consumers, the community and the environment interact with one another under the internal rules of the firm. Corporate law is a part of a broader company's law. Other types of business associations can include partnerships or trusts or companies limited by guarantee. There are some characteristics of corporate tax. (Kotrappa, 1996)

- ) Separate legal personality of the corporation.
- ) Limited liability of the shareholders.
- ) Transferable shares.



- ) Delegated management, in other words, control of the company placed in the hands of a board of directors.
- ) Investor ownership,

The last of these defining features is contested. For a start, it pointed out that shareholders, do not own corporations, they own their shares. Ownership of a corporation is complicated by increasing social and economic interdependence, as different stakeholders compete to have a say in corporate affairs. In most developed countries company boards have representatives of both shareholders and employees to "codetermine" company strategy. Corporate law is often divided into corporate governance which concerns the various power relations within a corporation and corporate finance which concerns the rules on how capital is used (Kotrappa, 1996).

#### **4.1.6. Company and Types of Business Entity**

The word "corporation" is generally synonymous with large publicly owned companies. In the United States, a company may or may not be a separate legal entity, and is often used synonymously with "firm" or "business." A corporation may accurately be called a company; however, a company should not necessarily be called a corporation, which has distinct characteristics. (Black's Law Dictionary)

The defining feature of a corporation is its legal independence from the people who create it. If a corporation fails, shareholders will lose their money, and employees will lose their jobs, but neither will be liable for debts that remain owing to the corporation's creditors. This rule is called limited liability, and it is why corporations end with "Ltd."

However, despite this, corporations are recognized by the law to have rights and responsibilities like actual people. Corporations can exercise human rights against real individuals and the state and they may be responsible for human rights violations. Corporations can even be convicted of criminal offences, such as fraud and manslaughter. (Company Act 2058)

Corporate governance is primarily the study of the power relations between the board of directors and those who elect shareholders in the "general meeting" and employees.

It also concerns other stakeholders, such as creditors, consumers, the environment and the community at large. One of the main differences between different countries in the internal form of companies is between a two-tier and a one tier board.

Recent literature, especially from the United States, has begun to discuss corporate governance in the terms of management science. While post-war discourse centered on how to achieve effective "corporate democracy" for shareholders or other stakeholders, many scholars have shifted to discussing the law in terms of principal-agent problems. On this view, the basic issue of corporate law is that when a "principal" party delegates his property (usually the shareholder's capital, but also the employee's labour) into the control of an "agent" there is the possibility that the agent will act in his own interests, be "opportunistic", rather than fulfill the wishes of the principle. Reducing the risks of this opportunism, or the "agency cost", is said to be central to the goal of corporate law. ([www.weikipidea.com](http://www.weikipidea.com))

#### **4.1.7 Classification of Business**

There are two types of business one is Limited Liability and another is Unlimited Liability.

**A) Limited Liability:** Limited Liability means to be bounded by legal responsibility for obligation especially cost or damages. It is in the sense owners are liable for a company's debts only up to the value of their shareholding. Categories of companies vary from country to country and go by different names. The main difference between public and private company is public company can sell their shares to the general public. In general private company tends to be smaller than public companies. However, some of Nepalese biggest companies are privately owned. Thus, in the limited liability organization shareholder investors are limited up to their share or investment amount.

The limited liability organization can be divided into two categories Limited Company and Corporation

**1) Limited Company:** Limited Company with the limited liability. So a limited liability business organization is a type of began entity. It is similar to a corporate and

a limited liability partnership. It has some advantages over sole proprietorship and unlimited partnership. The limited liability organization again can be divided into two categories Private Limited Company and Public Limited Company.

**a) Private Limited Company:** Private Company means a company incorporated under this act, which limits the member of its shareholders to fifty, is prohibited from issuing public invitations to subscribe to its shares and debentures, and is subject to restrictions on the sale or mortgage of its shares or debentures to persons other than shareholders without the approval of the Board of Directors.

**b) Public Limited Company:** Public Company means a company other than a private company. Shareholders of Public Limited Company is more than private limited company or above fifty persons. It is subject to sale or mortgage of its shares or debentures to persons other than shareholders.

**2) Corporations:** Corporation is a legal entity. According to Oxford English Dictionary term "Corporation" is derived from Latin words Corpus (body) representing a "Body of People," i.e. a group of people authorized to act as an individuals. The term university also used to refer to a group of people but now refers specifically to group of scholars. However in colloquial usage "corporation" usually refer to commercial entity set up in accordance with a governmental frame works. In Nepal there exist two types of corporation fully owned and semi owned by the government. Fro instance Nepal Airlines Corporation, Nepal Telecommunication Corporation, Timber Corporation are example of fully government owned organizations. Similarly, National Industry Development Corporation, Salt Trading Corporation, National Insurance Corporation are examples of semi government owned corporation. Most of these corporations are established under Panhayat regime by special character.

The defining feature of a corporation is its legal independence from the people who create it. If a corporation fails shareholders will lose their money and employees will lose their jobs, but neither will be liable for debts that remain owing to the corporation's creditors. This rule is called limited liability and it is why corporations end with "Ltd." In the words of British judge, Walton J, a company is "only a juristic figment of the imagination lacking both a body to be kicked and a soul to be damned."

However despite this, corporations are recognized by the law to have rights and responsibilities like actual people. Corporation can exercise human rights against real individuals and the state and they may be responsible for human rights violations. Just as they are "born" into existence through its members obtaining a certificate of incorporation, they can "die" when they lose money into insolvency. Corporations can even be convicted of criminal offences such as fraud and manslaughter.

Corporate governance is primarily the study of power relations between the board of directors and those who elect shareholders in the "general meeting" and employees. It also concerns other stakeholders such as creditors, consumers, the environment and the community at large. One of the main differences between different countries in the internal form of companies is between a two tier and one tier board.

**B) Unlimited Liability:** Unlimited Liability means to be unbounded by legal responsibility for obligation, especially loss or damages. Thus, in unlimited liability organizations the investor proprietor or partners are unlimited up to their share or investment amount.

**1) Sole Proprietorship:** Sole Proprietorship is the oldest, most common and simplest form of business organization owned and managed by one person. It can be organized very informally, is not subject to much state regulation and is relatively simple to manage and control.

**2) Partnership:** Partnership is an association of two or more persons to carry on as co-owners a business for profit. In other words, if two or more individuals do nothing more than verbally agree to conduct business as owners, a partnership is formed. The partnership consists of a relationship between two or more persons embodied in an agreement. Certain provisions of the agreement establish rights and duties between the partners and regulate their conduct as they transact business.

A source of Partnership Law has been provided in the Partnership Act 1964 (2020). According to the act, no separate filing of association and the articles of association are needed to form and operate a partnership business. However, it needs a partnership deed that assists individuals in creating and defining the relationship between partners. It can be a useful reference when the partnership agreement is selected on a particular topic.

#### **4.1.1.8 Special Provision of Entities**

In the Income Tax Act 2058 has presented special provision for entities. It includes principles of taxing entity, taxing distribution boy entity etc. Here, it should be noted that entity means an organization established under the law whether profitable or non-profitable. For the purpose of Income Tax Act 2058, it includes a partnership, trust or company, or village development committee, district development committee, metropolitan city, sub metropolitan city, municipality or a government or a political subdivision of a government. It also includes a public international organization established under treaty and a permanent establishment of an individual or an entity that is not situated in the country in which the individual or entity is resident.

The following principles are laid down by Income Tax Act 2058 for the taxation of entity (section 53)

- ) An entity is liable to pay tax separately from its beneficiaries.
- ) Distributions of entities, i.e. dividends may be taxed to beneficiaries in the final withholdings.
- ) Amounts derived and costs incurred by an entity are treated as derived or incurred by the entity and not by any other person.
- ) Assets owned and liabilities owned by an entity are treated as owned or owed by the entity and not by any other person.
- ) Foreign income tax paid in respect to the income of an entity, whether paid by manager, beneficiary or the entity, is paid by the entity.

Transactions between an entity and its managers and beneficiaries are recognized.  
(Kandel, 2060)

#### **4.1.9. Tax Rate of Entities**

There are different rates of taxes applicable to different types of entities. For example;

- ) The taxable income of an entity for an income year is taxed at the rate of 25 percent.

- ) The taxable income of a petroleum industry or bank or other financial institution for an income year is taxed at the rate of 30 percent
- ) Industrial enterprise which is engaged in an industrial activity related to a special industry or which is related to an infrastructure project like road, bridge, tunnel, ropeway, or flying bridge constructed by the entity or any trolley bus, or tram manufactured by the entity is taxed at the rate of 20%. Accordingly, the taxable income of an entity wholly engaged in power generation, transmission, or distribution for an income year is taxed at the rate of 20%. Note that special industry means and industry of a type according to section 3 of the industrial enterprises act 1992 other than an industry producing.
  - i) Cigarettes, Bidi Cigar, Chewing Tobacco, Khaini or other goods of a similar nature using tobacco as the basic raw material.
  - ii) Alcohol, beer or other goods of a similar nature.

#### **4.1.10. Corporate Tax Rate**

No changes in the existing tax rate payable by domestic companies for the FY 2008/09. In the Income Tax Act 2058 there are following tax rate (In percentage) is given:

) Banks and financial institutions	30
) General Insurance Business	30
) Cigarettes, Bidi Cigar, Chewing Tobacco Khaini, Liquor, Beer	30
) Petroleum companies	30
) Special industries	20
) Export industries	20
) Power generation, transmission, distribution, infrastructure projects etc	20
) Other entities not covered above	25

Additional tax of 1.5percent has been abolished with effect from this Financial Year.

- ) Additional tax of 1.5 percent has been abolished by Finance Bill for 2008/09.
- ) House rent tax shall be levied at the rental income at the rate of 10 percent against existing rate of 15%.

- ) Tax at the rate of 5percent shall be charged on the dividend paid by the resident entity to resident or non-resident person. Unlike in previous year 10percent tax on dividend paid to non-resident person has been abolished.
- ) The existing TDS of 1.5percent on the premium paid to resident insurance companies has been abolished from this Fiscal year. However, TDS @ 1.5percent is continued to be levied on premium paid to non-resident insurance companies
- ) TDS on contract amount paid to Non-resident person by resident person:
  - ) In case of service contract @10%
  - ) In other cases - @ 5percent ( Income Tax Act 2058)

#### **4.1.11. Tax Evasion**

Tax evasion is the way of reducing tax liability by illegal means. It is done through different ways like none reporting of income making fraudulent changes in account books, maintaining multiple sets of accounts, operating business transactions under different names, opening bank account in dummy name, over reporting of expanses, fragmentation of income, transfer pricing etc. Tax evasion is unethical, illegal and uneconomic activity. It is unethical because the activity of not paying tax is against moral ethics. It is illegal because the law does not permit to evasion the tax. In the same way, it is uneconomic because it promotes black money, i.e. underground economy in a country. Such types of activities do no promote healthy economic in a country. (*Puspa Raj Kandel; 2003*)

#### **4.1.12. Reason for Tax Evasion**

Basically the reason of tax evasion can be divided into two non tax factor and tax factors. Non- tax factors include educational background, price policies and the government, government rules and regulations, public sector salaries, government's expenditure policy and others. Tax factors include tax rate, tax base, tax structure, penalty system, probability of detection, magnitude of the strictness of penalty and possibility of detection, magnitude of the mainly, tax factors are more concerned with the tax evasion on income from legal activities, weather non-tax factors are related with illegal activities. (Kandel, 2003)

### **4.1.13 Types of Tax Evasion**

There are three types of effects of tax evasion in the economy. They are loss of revenue to the state. Redistribution of income which affects the efficiency of resource allocation in the economy and creating wrong statistics leading to errors in government policies. Evasion of income tax is also associated with the evasion of sales tax, excise duty, custom duty and so on. Since the government imposes higher tax rate to fulfill the growing need of the revenue, it is the honest taxpayers that really bear the burden of tax. (Kandel, 2003)

### **4.1.14 Problems of Tax Evasion**

Tax evasion is a major problem to the government in developing countries. There are several types of tax evasion.

- a) Unilateral (taxpayer himself)
- b) Bilateral (with the connivance or assistance of government official)
- c) Trilateral (from the collusion of tax officers, tax auditors and tax payers)
- d) Multilateral (all parties from government to tax payer)

In a world of tax evasion, it is very difficult to choose between businessmen, professional, a person in service or a politician who is not a tax evader. If we tear the mask the face looks alike (Kandel; 2003)

### **4.1.16 Tax Avoidance**

Tax avoidance is saving taxes without actually breaking the law. It is using the loopholes of the tax law. It is not illegal but unethical. According to GSA Wheatcraft says, "Tax avoidance is the art of dodging tax without actually breaking the law." In other words, it is a transaction entered into with full legal backing. However, such activities are of those kinds that the legislature does not want to encourage. The following are the criteria used by English and Indian court to find out tax avoidance. (Kandel. 2003)

- ) Use of colorable devices,
- ) Defeating the genuine spirit of law,



- ) Twisting of facts,
- ) Taking only strict spirit of law and suppressing the legislative intent.

#### **4.1.17. Difference Between Tax Evasion and Tax Avoidance**

From the view point of an ordinary person or an economist, tax evasion and tax avoidance are same. It is so because both of these activities reduce the tax liability by unethical means. But from the viewpoint of a lawyer, tax evasion and tax avoidance are different things because tax evasion is totally illegal whereas tax avoidance is done with legal backing. They are not independent but a substitute for each other since both are the means of reducing taxes and awareness of one induces a person to follow the other. According to Danis Healy, "The difference between tax avoidance and tax evasion is the thickness of the prison wall."

In the country where enterprises are relatively of small size, people are relatively poor and tax morale is relatively low, taxpayers use evading practices. In contrast, in a country where business houses are relatively wealthy, taxpayers are discipline is relatively strict and people are relatively wealthy, taxpayers are more inclined to tax avoidance. In essence, tax evasion is more common in developing countries whereas tax avoidance is usual in the developed world.

To conclude, both the tax evasion and tax avoidance reduce tax liability of the government by unethical means one is done legally whereas another is illegal.

## **4.2 Presentation and Analysis of Secondary Data**

### **4.2.1 Performance of VAT**

Registration is the entry point of the tax system. Participation of taxpayer to the tax system can be assessed by the trend of the registration. All vendors whose taxable transaction is above the threshold are required to register for VAT. The current threshold is fixed Rs. 2 million. Those vendors whose transaction is below the threshold could also register voluntarily. The trend of VAT registrants is as follows:

**Table 4.1**  
**Trends of VAT Registration**

Year	Compulsory		Voluntary		Total
	No.	Increase %	No.	Increase %	
2008/2009	69708	44.00	356855	46.61	426563
2009/2010	82684	53.74	407471	53.22	490155
2010/2011	97731	63.52	463378	60.52	561109
2011/2012	113919	74.04	539014	70.4	652933
2012/2013	129713	84.31	623439	81.43	753152
2013/2014	134091	87.15	684552	89.41	818643
2014/2015	153850	100	765605	100	919455

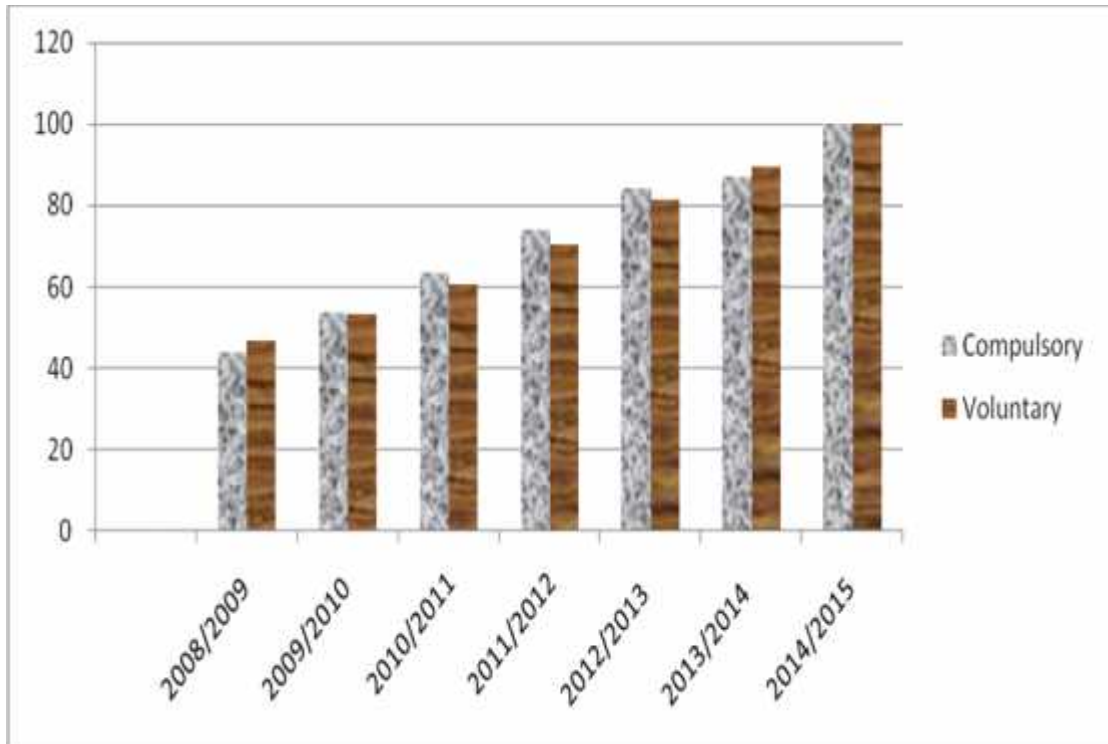
Source:- Annual Report (2008/2009 to 2014/2015)

The above table 15/16 shows of entities and organizations registered into VAT office compulsory and voluntary form FY 2008/2009 to FY 2014/2015. Both compulsory and voluntary registrants are increasing trend. To calculate increase percents are based on the FY 2014/2015. Increasing trend of voluntary registrants is growing rapidly to compulsory registrants. In FY 2008/2009 increasing percentage of compulsory and voluntary registrants are 44.00 percent and 46.61 percent respectively. In FY 2009/2010 of compulsory and voluntary registrants are 82684 and 407471 and their increasing percent is 53.74 percent and 53.22 percent respectively. In FY 2010/2011 of compulsory and voluntary registrants are 97731 and 463378 and their increasing percent is 63.52 percent and 60.52 percent respectively.

In FY 2011/2012 number of compulsory and voluntary registrants are 113919 and 539014 and their increasing percent is 74.04percent and 70.4percent respectively. In FY 2012/2013 of compulsory and voluntary registrants are 129713 and 623439 and their increasing percent is 84.31percent and 81.43percent respectively. In FY 2013/2014 of compulsory and voluntary registrants are 134091 and 684552 and their increasing percent is 87.15percent and 89.41percent respectively. In FY 2014/2015 of compulsory and voluntary registrants are 153850 and 765605 and their increasing percent is 100percent and 100percent respectively.

The above analysis shows that increasing trend of voluntary registrants is growing rapidly to compulsory registrants. The government collected the value added tax is increasing Trend but in the current year the VAT result was decreasing trend due to earthquake disaster.

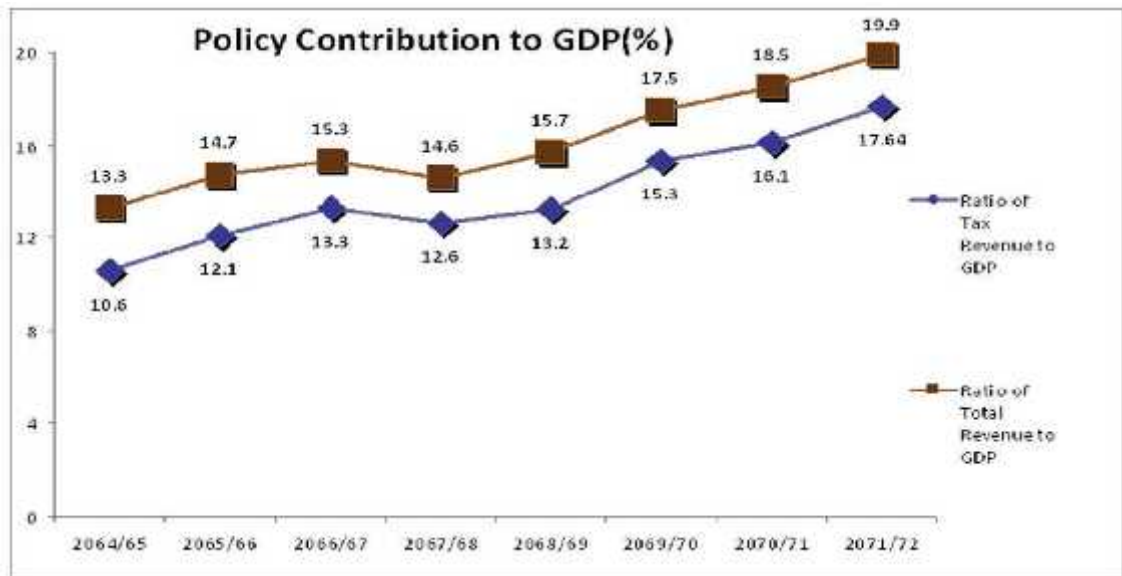
**Figure 4.1**  
**Trend of VAT Registrants**



Source:- Annual Report (2007/2008 to 2014/15)

#### 4.1.2 Policy Contribution to GDP

Figure 4.2 Policy Contribution to GDP

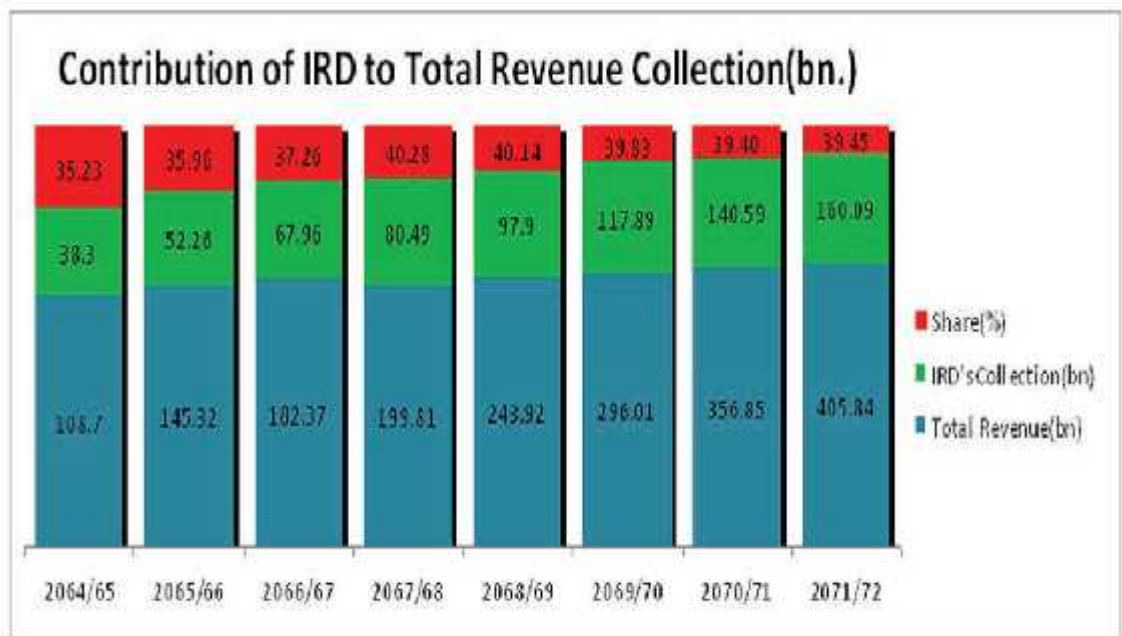


Source:- Annual Report (2007/2008 to 2014/15)

Above figure shows that the policy contribution to GDP. In FY 2008/2009 to 2014/2015. Ration of total revenue is increasing trends it denotes that the government should be collect tax increasing year by year.

#### 4.1.3 Contribution of IRD to Total Revenue Collection

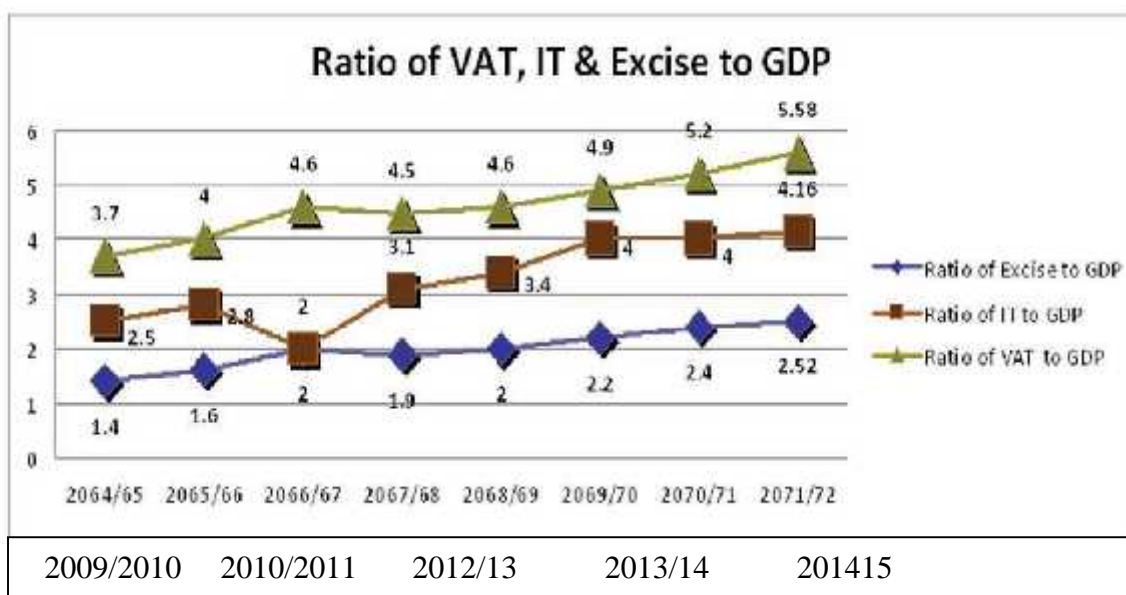
Figure 4.3 Contribution of IRD to Total Revenue Collection



Source:- Annual Report (2007/2008 to 2014/15)

#### 4.1.4 Trend of VAT Collection

Figure 4.4 Trend of VAT Collection



Source:- Annual Report (2007/2008 to 2014/15)

#### 4.2.5 Contribution of VAT in Government Revenue

The income of the government through all sources like taxes, fees, fines, donation, etc is called government revenue. Government revenue may be divided into two main headings: tax revenue and by non tax revenue. Tax revenue contributes about three quarters of total revenue while non-tax revenue respondents about one quarter of total revenue of the central level. VAT plays a vital role for revenue generation.

The share of VAT in the total revenue is shown in the following table:

Table 4.2

Contribution of VAT in Total Revenue in Million

Year	Total Revenue	VAT Revenue	percent of TR
2007/2008	56229.7	13459.7	23.93
2008/2009	62331.0	14478.9	23.22
2009/2010	70122.6	18885.4	26.93
2010/2011	77040.0	24460.21	31.75
2011/2012	80390.8	32145.41	39.98
2012/2013	83500.00	36660.00	20.20
2013/2014	196000.00	45390.00	19.20
2015/2016	160090.00	53520.00	14.00

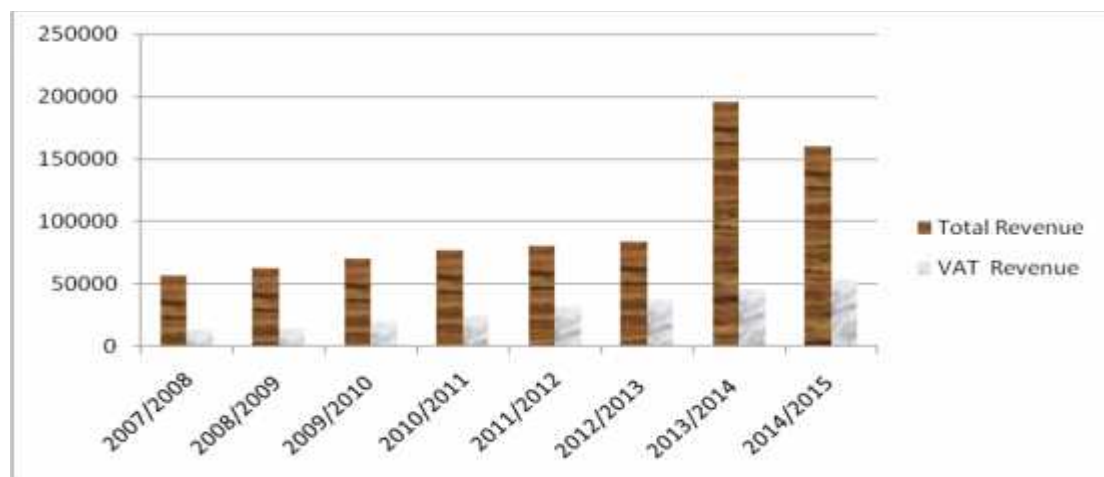
Source:- Annual Report (2007/2008 to 2015/16)

The above table shows the contribution of VAT in total revenue. In FY 2008/2009 , 2009/2010 , 2010/2011 , 2011/2012 , 2012/2013 , 2013/14 and 2014/152 contribution of VAT in total revenue was 56229.7, 62331.0, 77040.0, 80390.8, 83500.00, 196000.00 and 160090.00 respectively.

In FY 2008/2009 , 2009/2010 , 2010/2011 , 2011/2012 , 2012/2013 , 2013/2014 and 2014/2015 VAT Revenue 13459.7, 14478.9, 18885.4, 24460.21, 32145.41, 36660.00, 45390.00 and 53520.00.

The table indicates that the contribution of VAT in total revenue seems to be growing year by year.

**Figure 4.5**  
**Contribution VAT in Total Revenue**



Source:- Annual Report (2007/2008 to 2014/15)

### 4.3 Empirical Investigation of VAT in Nepal

An empirical survey was conducted to know the different aspects of income tax in Nepal. The structured questionnaire was prepared and distributed for this purpose to collect opinions of respondents. The questionnaire has covered role of income tax, features of new act, condition of income tax system and administration in Nepal and suggestion for betterment of income tax system in Nepal. (Appendix A). The respondents were personalities from different field categorized as tax administrator, tax expert and tax payer. The numbers in each category was equal of twenty. The respondents were asked to tick the answer of their choice or to put the ranking numbers as first choice was the most important and last choice was least important. The responses collected thus were tabulated and analyzed in proper way. The following table shows the groups and number of respondents.

**Table 4.3 Group of Respondents and From Each Category**

S.	Groups of Respondents	
1.	Income Tax Experts	20
2.	Income Tax Administrators	20
3.	Income Tax Payers	20
	<b>Total</b>	<b>60</b>

Source: *Field Survey 2017*

#### **4.3.2. Result of Empirical Investigation**

There were 12 questions in the questionnaire to collect opinions from respondents. Result of empirical study has been stated individually in coming paragraphs:

##### **1. Role of Income Tax in Government's Revenue**

To know what the role of income tax should be in government's revenue, a question was asked "What do you consider the role of income tax in government's revenue?" The responses are tabulated below.

**Table 4.4 Role of Income Tax in Government's Revenue**

Responses Respondents	Significant		Moderate		Insignificant		Total	
		percent		percent		%		%
Tax Administrator	16	80.00	4	20.00	0	0.00	20	100.00
Tax Experts	14	70.00	6	30.00	0	0.00	20	100.00
Tax Payers	11	55.00	8	40.00	1	10.00	20	100.00
<b>Total</b>	<b>41</b>	<b>68.33</b>	<b>18</b>	<b>30.00</b>	<b>1</b>	<b>1.67</b>	<b>60</b>	<b>100.00</b>

Source: *Field Survey 2017*

From the opinion Survey, it was found that 80 percent of tax administrators, 70 percent of tax experts and 55 percent of tax payers think that the role of income tax to be significant. 20 percent of tax administrators, 30 percent of tax experts and 40 percent of tax payers think it to be moderate and only 5 percent of tax payers thinks it to be insignificant. In total 68.33 percent of respondents consider the role of income tax to be significant, 30 percent respondents to be moderate and only 1.67 percent

respondent consider the role insignificant. Thus it can be considered the role of income tax to be significant in government's revenue.

## 2. Contribution of Income Tax Revenue of Nepal

To know respondent's opinion towards current collection of income tax in Nepal a question was asked "What do you think about the contribution of income tax in revenue of Nepal?" The responses are summarized below.

**Table 4.5 Contribution of Income Tax Revenue in Nepal**

Responses Respondents	Satisfactory		Moderate		Unsatisfactory		Total	
		percent		%		%		%
Tax Administrator	7	35.00	12	60.00	1	5.00	20	100
Tax Experts	3	15.00	10	50.00	7	35.00	20	100
Tax Payers	6	30.00	12	60.00	2	10.00	20	100
<b>Total</b>	<b>16</b>	<b>26.67</b>	<b>34</b>	<b>56.66</b>	<b>10</b>	<b>16.67</b>	<b>60</b>	<b>100</b>

Source: *Field Survey 2017*

60 percent of each tax administrators and tax payers thinks the contribution of income tax in revenue of Nepal is moderate 50 percent of tax experts also thinks same. 5 percent of tax administrator, 35 percent of tax experts and 10 percent of tax payers declare this to be unsatisfactory and 35 percent of tax administrators, 15 percent of tax experts and 30 percent of tax payers are satisfied with current contribution of income tax to government's revenue of Nepal. In aggregate 16.67 percent of respondents are unsatisfied and 26.67 percent of respondents are satisfied with current condition. Majority of respondents i.e. 56.66 percent thinks it to be moderate. So it can conclude that the role of income tax in revenue of Nepal is neither so optimistic nor so hopeless. It is in moderate condition.



### 3. Evaluation of New Income Tax Act

As this study focused on effectiveness of new act, respondents were asked "How do you evaluate the income tax act 2002 with compare to former act for the purpose of effective collection of income tax?"

**Table 4.6 Evaluation of New Income Tax Act**

<b>Responses Respondents</b>	<b>Better</b>		<b>Same</b>		<b>Worse</b>		<b>Total</b>	
		<b>%</b>		<b>%</b>		<b>%</b>		<b>%</b>
Tax Administrator	17	85.00	3	15.00	0	0.00	20	100
Tax Experts	20	00.00	0	0.00	0	0.00	20	100
Tax Payers	18	90.00	2	10.00	0	0.00	20	100
<b>Total</b>	<b>55</b>	<b>91.67</b>	<b>5</b>	<b>8.33</b>	<b>0</b>	<b>0.00</b>	<b>60</b>	<b>100</b>

Source: *Field Survey 2017*

No any respondent thinks the new act to be worse than former act. 91.67 percent of aggregate respondents evaluate the act better which includes cent percent of tax experts, 90 percent of tax payers and 85 percent of tax administrators, of course a huge population. Only 15 percent of tax administrators and 10 percent of tax payers evaluates the act as same as former act. So it can be said easily the new act to be better than former.

### 4. Important Provisions in New Income Tax Act

Income tax act 1972 was replaced by income tax act 2002 with some new features for timely improvement in income tax system. These new features were presented and asked respondents to pick numbers as per importance to know their opinion. The choices of respondents are summarized and tabulated below:

**Table 4.7 Important Provisions in New Income Tax Act**

S. N	Provision	Total Points Received				%	Rem
		Tax Administrators	Tax Experts	Tax Payers	Total		
1.	Classification of source of Income	138	147	154	439	20.32	I
2.	Clarity on allowable Expenses	157	136	126	419	19.40	II
3.	Method of assessment	125	130	134	389	18.01	III
4.	Provision of fines and penalties	78	70	56	204	9.44	V
5.	Provision of international taxation	52	63	75	190	8.80	VI
6.	Provision for tax on capital gain and dividend	70	57	49	176	8.15	VII
7.	Provision of resident	71	70	72	213	9.86	IV

Source: *Field Survey 2017*

From the opinion Survey, it was found that the provision of classification of source of income in new act is most important. Serially other provisions are important as listed below:

1. Classification of source of income
2. Clarity on allowable expenses
3. Method of assessment
4. Provision of resident and nonresident person
5. Provision of fines and penalties
6. Provision of international taxation
7. Provision for tax on capital gain and dividend
8. Authorities and responsibilities of tax administrators and tax payers. Other important provisions not included in questionnaire, identified by respondents were:
9. Tax audit
10. Special provisions for banking and insurance business
11. Special provisions for retirement fund
12. Clarity in exemption, rebate and deductions.

To know the relation between views of tax payers and tax administrators on different provisions of new act, we can test rank correlation coefficient. But the views of tax experts are kept constant.

### 5. Reason for Reduction of Income Tax Just After New Act

In the above chapter it was known that the trend of income tax just after implementation was reduced significantly for few years. To know the view of respondents on this matter one question was asked "The trend of income tax collection before and after new act is not uniform. Why do you think to be so?" Opinions of respondents are presented below:

**Table 4.8 Reason for Reduction of Income Tax After New Act**

Responses Respondents	Provision of New act		Effect of Change		Other Reason Such as Conflict	
		%		%		%
Tax Administrator	5	25.00	14	70.00	1	5.00
Tax Experts	7	35.00	13	65.00	0	0.00
Tax Payers	6	30.00	9	45.00	5	25.00
<b>Total</b>	<b>18</b>	<b>30.00</b>	<b>36</b>	<b>60.00</b>	<b>6</b>	<b>10.00</b>

Source: *Field Survey 2017*

60 percent of total respondents have to say that the effect of change is main reason for reduction. Any kind of change may bring this type of situation. 70 percent of tax administrators, 65 percent of tax experts and 45 percent of tax payers were of this opinion. Other 30 percent of respondents think it due to provision of new act while remaining 10 percent argued it to be affected by other reasons such as conflict then.

Some of the respondents have picked priority number, no tick mark in questionnaire. They want to tell that little more all of the reasons are responsible, degree of responsibility may only vary. According to result of opinion survey, effect of change

is most responsible. Provision of new act and other reasons such as conflict are following factors respectively. This is the conclusion of this question.

## 6. Attitude Towards Income Tax System

There is more than five decades of introduction of income tax in Nepal. Tax system has been suffered from different paces. The objectives of income tax can be fulfilled or not during this period is a vital question. To know what the respondents thinks about development in income tax system they were asked "How is the income tax system in Nepal in your opinion?" Responses are tabulated below:

**Table 4.9 Efficiency of Income Tax System**

Responses Respondents	Sound and effective		Satisfactory		Poor		Total	
		%		%		%		%
Tax Administrator	3	15.00	15	75.00	2	10.00	20	100
Tax Experts	0	0.00	13	65.00	7	35.00	20	100
Tax Payers	0	0.00	10	50.00	10	50.00	20	100
<b>Total</b>	<b>3</b>	<b>5.00</b>	<b>38</b>	<b>63.33</b>	<b>19</b>	<b>31.67</b>	<b>60</b>	<b>100</b>

Source: *Opinion Survey, 2017*

Only 15 percent of tax administrator i.e. 5 percent of total respondents thinks the income tax system in Nepal to be sound and effective, while more than this i.e. 31.67 percent of total respondents think it to be poor. Majority group i.e. 63.33 percent of aggregate which constitutes 75 percent of tax administrators, 65 percent of tax experts and 50 percent of tax payers are satisfied with income tax system in Nepal. Satisfactory itself means an average condition. In summary, study shows the system is neither so effective nor so poor.

## 7. View Towards Income Tax Administration

Questions are always raised about entire government administration of Nepal. Tax system is not an exception. To know the respondents view about the human resource

working in tax administration question was asked as "How is the income tax administration in Nepal in your opinion?" The result was found as follow:

**Table 4.10 Effectiveness of Tax Administration**

Responses Respondents	Effective		Satisfactory		Poor		Total	
		%		%		%		%
Tax Administrator	2	10.00	17	85.00	1	5.00	20	100
Tax Experts	0	0.00	10	50.00	10	50.00	20	100
Tax Payers	0	0.00	5	25.00	15	75.00	20	100
Total	2	3.33	32	53.33	26	43.33	60	100

Source: *Opinion Survey, 2017*

The result is not in favor of current administration. 43.33 percent of respondents think the administration to be poor. It means some of the respondents think administration to be poorer than entire income tax system. Among them, 75 percent of tax payers and 50 percent of tax experts blame administration. Tax administrators themselves are just satisfied with current condition since 85 percent of them choose the answer as satisfactory. Only 10 percent of tax administrators are fully satisfied and thinks the administration is effective. In summary it can be said that the tax administrative system of Nepal is not so effective and needs some kind of treatments.

## **8. Change Required in Rules and Regulation**

The existing act and regulation was replaced by new act and regulation recently. One of the objectives of this study was to analysis the change assessed due to this. To know what the respondents thinks about completeness of rules and regulation after change one question "What change should be made in rules and regulation in your opinion to make income system more effective?" Suggestions made by respondents are tabulate below:

**Table 4.11 Degree of Change Required in Rules and Regulation**

Respondents	Responses No Change		Timely general changes in rate, limit		Structural Change in Act regulation		Total	
		%		%		%		%
Tax Administrator	1	5.00	17	85.00	2	10.00	20	100
Tax Experts	0	0.00	3	15.00	17	85.00	20	100
Tax Payers	0	0.00	9	45.00	11	55.00	20	100
<b>Total</b>	<b>1</b>	<b>1.67</b>	<b>29</b>	<b>48.33</b>	<b>30</b>	<b>50.00</b>	<b>60</b>	<b>100</b>

Source: *Opinion Survey, 2017*

This was the question which shows the vast contradiction between the view of tax administrators and tax experts. Rules and regulations require change or not is not the question of doubt because only 1.67 percent of total respondents think no change is required. Degree of change is the main subject of matter. 85 percent of tax administrators are in side of general change while same numbers of tax experts want the large scale change i.e. structural change in rules and regulation. Tax payers are divided into these two groups about equally. So it is difficult to conclude and recommend the degree of change required in existing rules and regulations.

### **9. Way of Improving Effectiveness of Tax Administration System:**

For the supplementation of question no 7, if improvement is required in tax administration of Nepal, what should be the degree of change was asked to respondents as "How can be improved the effectiveness of tax administration system?" The respondent response differently as shown in the table:

**Table 4.12 Degree of Change Required in Tax Administration**

Respondents	No Change		General imp. delegation		Evolutionary change		Total	
	No	%	No.	%	No.	%	No	%
Tax Adm	2	10	16	80.00	2	10.00	20	100
Tax Experts	0	0.0	8	40.00	12	60.00	20	100
Tax Payers	0	0.0	6	30.00	14	70.00	20	100
Total	2	3.33	30	50.00	28	46.67	60	100

Source: *Opinion Survey, 2017*

It is already identified that administrative system is not as effective as it requires. 50 percent of total population, which includes remarkable representation of tax administrators, i.e. 85 percent of them thinks general improvement such as decentralization and delegation will solve the problem. But 60 percent of tax experts and 70 percent of tax payers including 10 percent of tax administrators feels evolutionary change is lacking for betterment of income tax administration.

#### **10. Right Treatment to Administrative Staffs to Make Them More Responsible and Energetic:**

Tax administration itself is a system, while organization of administrative staffs is most important part. Without changing attitude and perception of human resource working there, it is impossible to think about any kind of change. If tax system or administration requires change, obviously its initiation is to be taken by human resource. To know the respondents' view administrative staffs are lacking incentives or they need penalties and punishments to make them more responsible and energetic or current condition is satisfactory, question was kept that "How tax administrative staffs can be made more responsible and energetic?" In contest of our country where government staffs are always criticized for their performance and behavior, what the respondents' answer, let's look at following table:

**Table 4.13 Treatment to Administrative Staffs to Make Them More Responsible and Energetic**

Respondents	Providing different incentives and trainings		Tight rules and regulation in service		Nothing is required		Total	
		Percent		Percent		Percent		Percent
Tax Adm	17	85.00	3	15.00	0	0.00	20	100
Tax Experts	11	55.00	9	45.00	0	0.00	20	100
Tax Payers	8	40.00	12	60.00	0	0.00	20	100
<b>Total</b>	<b>36</b>	<b>60.00</b>	<b>24</b>	<b>40.00</b>	<b>0</b>	<b>0.00</b>	<b>60</b>	<b>100</b>

Source: *Opinion Survey, 2017*

Nobody is satisfied with current performance of administrative staffs, since no one thinks nothing is required. Obviously 85 percent of tax administrators want different incentives and trainings to improve performance of staffs which is usual. 55 percent of tax experts and 40 percent of tax payers support them. In the other hand 60 percent of tax payers demand tight rules and regulation in service to bind them and get support from 45 percent of tax experts and 15 percent of tax administrators. There is no exact choice since views of respondents have divided into 60:40 ratios. So it can be said that both kind of treatment is essential, incentives are to be provided firstly and if performance already not found to be satisfactory, provisions of penalties should be introduced.

### **11. Way to Make Taxpayers More Responsible**

Responsible taxpayers are the most important factor of effective and sound tax system. Our tax system cannot be exception. Whether the question is raised about tax system, we must look at different factors related to taxpayers. These factors may be degree of awareness, feelings of responsibilities, attitude of taxpayers, economical environment etc. If our tax system is seems to be not efficient, we must consider the side of taxpayers. To know how the respondents think to improve attitude of taxpayers, question was asked "What is the most suitable way to make taxpayers more responsible?" Suggestions made by respondents are tabulated below:



**Table 4.14 Way to Make Taxpayers More Responsible**

Responses	Awareness through media		Harder provisions in rules		Incentives such as prize and respect		Nothing is required		Total	
		%		%		%		%		%
Tax Administrator	9	45.00	5	25.00	6	30.00	0	0	20	100
Tax Experts	7	35.00	6	30.00	7	35.00	0	0	20	100
Tax Payers	8	40.00	2	10.00	10	50.00	0	0	20	100
Total	24	40.00	13	21.67	23	38.33	0	0	60	100

Source: *Opinion Survey, 2017*

From the opinion Survey, it was found that 45 percent tax administrator, 35 percent tax expert and 40 percent of tax payers think tax payers not to be aware. So they recommend for awareness through different media. 21.67 percent of respondents have opinion that tax payers are aware but have intension to evasion so it requires harder provisions in rules. Fines, penalties, punishments etc. can bring them in track. Other 38.33 percent respondents including 50 percent of tax payers, 35 percent of tax expert and 30 percent of tax administrators identify the tax payers as responsible citizens and argued incentives such as prize and respect will motivate them. According to survey result, all provisions are to be implemented simultaneously.

# **CHAPTER - V**

## **SUMMARY OF FINDINGS, CONCLUSIONS and RECOMMENDATIONS**

### **5.1 Summary of findings**

The collected national revenue is spent by government in different aspects of national prosperity to achieve goal of welfare states concept. The policy of revenue collection is different on the basis of respective national socio-economical infrastructure and environment. National expenditure is increased according to demand of social structure and time. Considering above these thing, nation have been collecting the revenue in different field of nation i.e. external and internal sources of national revenue. These external and internal sources are important to mobilize or handle to national resources. From where, nation takes better steps for social well beings. Among the internal and external sources of nation, taxation is one. In various types of tax, categories, corporate income tax is most important and crucial role play to achieve higher economic growth rate. Corporation earns its income from doing its business transaction. These corporate incomes are calculated by the help of general accounting principle and respective nations are calculated by the help of general accounting principle and respective nations tax laws and regulations for tax purpose. This study attempts to analyze the importance and contribution of corporate sector to the Nepalese government revenue.

Nepal is one of the least developed countries of the world. Besides it is trying on planned development over five decades, already suffering from resource constraints, massive poverty, rapid growth of population, increasing frictional and seasonal unemployment, diseases, aggressive dependent on the agriculture, subsistence living standards and poor infrastructure. To overcome such serious problems government requires lots of fund but resource mobilization is still poor in Nepal. Revenue constitutes tax and non tax revenue. Direct tax and indirect tax are branches of tax revenue and income tax is one of the major sources of direct tax. Income tax is imposed on net income of natural as well as legal person. It is called personal income

tax if levied from natural person and called corporate income tax if levied from any corporation.

Income tax is the major source of direct tax revenue. The amount from income tax was 7966.2 million in 2010/11 and was 11373.7 million in 2014/15. Income tax constitutes Income tax from public enterprises, semi public enterprises, private. Corporate bodies, individual, remuneration and tax on interest. The role of income tax from public enterprises is significant. It has contributed 21.2 percent to total income tax in average. The share of income tax from private corporate bodies is 19.5 percent in average. Income tax from individual has the major role in income tax and bears dominating role in period of the study. It has contributed up to 42.20 percent in 2002/03. Its lowest share is 38.20 percent in 2011/12 and average share is 42.5 percent.

History of income tax starts from eighteenth century in world, initiated from Britain. In Nepal systematic provisions of income tax was introduced in 1959 through economical act. Business Profits and Remuneration Act 1960 and Nepal Income Tax Act 1962 made the provisions more systematic and effective. Income Tax Act 1974 was introduced after long consultations and homework according to economic policy of nation then. Different amendments were made in the act for timely corrections. To make timely improvement in Nepalese tax system according to modern economy and tax system of other countries and facilitate the system with concept of world trade, globalization, economic liberalization etc, Income Tax Act 2002 was passed through legislation and carried in practice. This act has broadly divided the income into three categories: Employment income, Business income and Investment income.

## **Major Findings of This Study**

Major findings of this study through different analysis are summarized below:

- i. In FY 2009/2010 of compulsory and voluntary registrants are 82684 and 407471 and their increasing percent is 53.74percent and 53.22 percent respectively.

- ii. In FY 2010/2011 of compulsory and voluntary registrants are 97731 and 463378 and their increasing percent is 63.52percent and 60.52percent respectively.
- iii. In FY 2011/2012 of compulsory and voluntary registrants are 113919 and 539014 and their increasing percent is 74.04percent and 70.4percent respectively.
- iv. In FY 2012/2013 of compulsory and voluntary registrants are 129713 and 623439 and their increasing percent is 84.31percent and 81.43percent respectively.
- v. In FY 2013/2014 of compulsory and voluntary registrants are 134091 and 684552 and their increasing percent is 87.15percent and 89.41percent respectively.
- vi. In FY 2014/2015 of compulsory and voluntary registrants are 153850 and 765605 and their increasing percent is 100percent and 100percent respectively.
- vii. In FY 2008/2009, 2009/2010, 2010/2011, 2011/2012, 2012/2013, 2013/2014 and 2014/2015 contribution of VAT in total revenue was 56229.7, 62331.0, 77040.0, 80390.8, 83500.00, 196000.00 and 160090.00 respectively.
- viii. In FY 2008/2009 , 2009/2010 , 2010/2011 , 2011/2012 , 2012/2013 , 2013/2014 and 2014/2015 VAT Revenue 13459.7, 14478.9, 18885.4, 24460.21, 32145.41, 36660.00, 45390.00 and 53520.00. Which indicates that the contribution of VAT in total revenue seems to be growing year by year.
- ix. 66percent of the total respondents were totally optimistic that VAT will be effective in future but 34percent of total respondents were pessimistic that VAT will be effective in future.
- x. 50percent of the total respondents reached to conclusion that VAT will rise price of the commodities but 39percent claimed not rise in price due to VAT system.
- xi. 47percent of the total respondent argued that current VAT rate is effective and 40percent claimed that it has to be improved.
- xii. It was not due to other reasons because other economic activities did not show this type of fluctuating situation. Comparison of income tax with other

economic factors such as GDP, total revenue, total tax revenue and total direct tax revenue shows the facts, which were also fluctuating.

- xiii. Corporate tax contribution on government revenue is less contribution in other source. In our country corporate sector is very huge but contribution of revenue is less because of the tax avoid and erosion.
- xiv. Government of Nepal is not follow the properly his rule and regulation where the government is unstable. That is why it is not satisfactory in the corporate sector contribution of government revenue.
- xv. Effect of change is most responsible for not uniform contribution of income tax before and after enactment of new act. Provision of new act and other reasons such as conflict are following factors respectively.
- xvi. Income tax system in Nepal is neither so effective nor so poor. It is just satisfactory which means average condition.
  - i. Tax administrative system of Nepal is not effective and needs some kind of treatments
  - ii. Role of income tax will be significant in government's revenue.
  - iii. Contribution of income tax in revenue of Nepal is neither so optimistic nor so hopeless. It is in moderate condition.
  - iv. Income tax act 2010 has better provisions than former act.
  - v. Classification of source of income, clarity on allowable expenses, method of Assessment, provision of resident and nonresident person etc are the major important factors of new act. Tax administrators and tax payers have not same view towards importance of factors.

## **5.2. Conclusion**

Income Tax is one of the important and relevant sources of revenue since it follows the basic principles of taxation such as equity and progressively.

Nepal has made change in income tax act in 2002 as per need. The change has shown some effects on collection of income tax. It has broken the trend then and has got a new trend after the year. Although there are some difficulties in language, discretionary powers etc, different provisions in new act are as per need of time and economic environment. Well implementation of this act will guide Nepalese income tax system to hopeful direction. Income tax system in Nepal is not fully satisfactory. Due to economic liberalization and globalization, very important source of revenue i. e. custom duty is not in condition to bare its current share in coming days. So importance of internal sources such as income tax will increase in coming days. But there are many problems in Nepalese income tax system. Inefficient tax administrative system, widespread income tax evasion, complicated and frequent change in tax rate and lack of awareness and feelings of responsibility in taxpayers are appearing as major factors for low contribution of income tax in national revenue. Internal conflict of nation and political instability has affected the economic system indirectly but very seriously. It has damaged as well as destroyed the environment for generating more income. Where income is limited, certainly the tax from income will not be so optimistic. In changing scenario, it seems to be necessary to give sufficient attention towards income tax system by all concerned parties for rapid and sustainable economic development of country.

The conclusion tax avoidance is the reduction of that liability through the manipulation of existing law. It is legally permissible but unethical. Section 35 of the income tax act define tax avoidance as any means or arrangement one of the main purpose of which is the avoidance or reduction of tax liability. This act made the provision against tax avoidance. This act has given certain rights to IRD to minimize tax avoidance. As per the act, the Department can re-characterize an arrangement or part of an arrangement that is entered into or carried out as part of a tax avoidance scheme. It can also disregard an arrangement or part of an arrangement that does not have substantial economic effect and re characterize an arrangement or part of an arrangement that does not reflect any substance.

### **5.3. Recommendations**

The following suggestions are made for betterment of income tax system in Nepal.

1. Overall revenue policy as well as tax policy should be revised through detail and critical analysis of situation.
2. Tax offices should be decentralized for broad coverage of geographical region. Separate income tax department should be established for specialization of income tax.
3. Different recent technologies such as e-taxation should be introduced and promoted to avoid complexities and delay in income tax administrations. Tax audit system should be timely improved and equipped to work with modern technologies of account keeping.
4. Before making any kind of change in policy, rules and regulation, whole system is to be prepared to accept it.
5. All stakeholders are to be aware about the change in detail.
6. Organizational system to be established for broadens tax net. Special provisions for tax evaders and persons conducting business without registration should be introduced.
7. Provisions of act and regulations are to be improved or changed as per need. Following factors are to be considered while making change:
8. Administration is the tool to implement all policies and rules. So, effectiveness of income tax system depends upon the income tax administration.

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## APPENDIX -I

### QUESTIONNAIRE

Name:.....

Designation:..... Category: Tax Administrator/

Tax Expert/ Tax Payer Office/Organization: ...

You are requested to tick the answer of your choice or specify numbers or texts as per question format.

1) What do you consider the role of income tax in government's revenue?

- a) Significant                      b) Moderate                      c) Insignificant

2) What do you think about the contribution of Corporate tax in revenue of Nepal?

- a) Satisfactory                      b) Moderate                      c) Unsatisfactory

3) How do you evaluate the income tax act 2002 with compare to former act for the purpose of effective collection of income tax?

- a) Better                              b) Same                              c) Worse

4) What are the most important factors of Income Tax Act 2002 in your opinion? (Prioritize):

a) Classification of source of income.                      (                      )

b) Clarity on allowable expenses.                      (                      )

c) Method of assessment.                      (                      )

d) Provision of fines and penalties.                      (                      )

e) Provision of international taxation.                      (                      )

f) Provision for tax on capital gain and dividend. ( )

g) Provision of resident and nonresident person. ( )

h) Authorities and responsibilities of tax administrators and tax payers. i)

Other: (Specify)

5) The trend of income tax collection before and after new act is not uniform.

Why do you think to be so?

a) Provisions of new act                      b) Effect of Change

c) Other reasons than act such as conflict.

6) How is the income tax system in Nepal in your opinion?

a) Sound and efficient              b) Satisfactory                      c) Poor

7) How is the income tax Administration in Nepal in your opinion?

a) Effective                              b) Satisfactory                      c) Poor

8) What change should be made in rules and regulation in your opinion to make income tax system more effective?

a) No change

b) Timely general changes in rate, amount and limit.

c) Structural change in act and regulation.

9) How can be improved the effectiveness of tax administration system?

a) No change

b) General improvement such as decentralization and delegation

c) Evolutionary change

10) How tax administration staffs can be made more responsible and energetic?

a) Providing different incentives and trainings

b) Tight rules and regulation in service

c) Nothing is required

11) What is the most suitable way to make taxpayers more responsible?

a) Awareness through media

b) Harder provisions in rules

c) Incentives such as prize and respect.

d) Nothing is required

(12) Who is the most responsible group of the tax evasion?

(a) Business enterprises  (b) Tax Administration

(c) Consumer  (d) All

(13) What is the most important factor for the effective of tax in revenue collection

14) How is the income tax system in Nepal in your opinion?

a) Sound and efficient

b) Satisfactory

c) Poor

15) You have any other comments and suggestions about Corporate Tax in Nepal?

Please specify

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