

# **THE CONTRIBUTION OF INCOME TAX TO TOTAL TAX REVENUE**

**A Thesis**

**Submitted By:**

**RASHMI SHAKYA**

People's Campus

T. U. Regd. No.:- 7-2-271-174-2007

Campus Roll No: - 53/068

Exam Roll No: - 2710024(Final Year)

**Submitted to:**

Office of the Dean

Faculty of Management,

Tribhuvan University

In Partial fulfilment of the Requirements for the Degree of  
**Master of Business Studies (M.B.S)**

**Kathmandu, Nepal**

**March, 2018**

# **RECOMMENDATION**

This is to certify that the thesis

Submitted by

**RASHMI SHAKYA**

Entitled:

**THE CONTRIBUTION OF INCOME TAX TO TOTAL TAX REVENUE**

*has been prepared as approved by this department in the prescribed format of the Faculty of Management. This Thesis is forwarded for examination.*

---

Rajendra Raya  
(Thesis Supervisor)

---

Nirmal Mani Panthi  
(Head of Research Department)

---

Nirmal Mani Pant  
(Campus Chief)

## **VIVA-VOCE SHEET**

We have conducted the viva-voce examination of the thesis

**Presented by**

**RASHMI SHAKYA**

Entitled:

**THE CONTRIBUTION OF INCOME TAX TO TOTAL TAX REVENUE**

And found the thesis to be the original work of the student and written according

to the prescribed format. We recommend the thesis to be accepted

as partial fulfilment of the requirement for

**Master of Business Studies (M.B.S).**

### **Viva-Voce Committee**

Head (Research Department): \_\_\_\_\_

Member (Thesis Supervisor): \_\_\_\_\_

Member (External Expert): \_\_\_\_\_

Date: \_\_\_\_\_

## **DECLARATION**

I hereby declare that the work done on this thesis entitled "**THE CONTRIBUTION OF INCOME TAX TO TOTAL TAX REVENUE**" has been submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfilment of the requirement for the Master of Business Studies under the supervision as of **Mr. Rajendra Raya**, People's Campus, Tribhuvan University.

---

Rashmi Shakya

People's Campus

T. U. Regd. No.: - 7-2-271-174-2007

Exam Roll No: - 2710024(Final Year)

Campus Roll No: - 53/068

Date:

## ACKNOWLEDGEMENT

Valuable outcomes are possible after a great challenge and efforts. I feel immense pleasure in completing the research work.

This thesis entitled “**The Contribution of Income Tax to Total Tax Revenue**” has been prepared in the form as required by the Institution of Management, People’s Campus for the partial fulfilment of the Master in Business Studies Program of T.U. It would have been almost impossible to complete without cooperation and help from different section of intellectuals.

I am immensely obliged to my respected thesis supervisor Mr. Rajendra Raya for the continuous guidance and support during my research work. His scholar guidance, professional comments, constructive feedbacks and suggestions made me conclude the thesis.

I would also like to express my gratitude towards Mr. Rajan Bilas Bajracharya, MBS coordinator of People’s Campus, Paknajok, for his valuable suggestion and guidance. His continuous cooperation and coordination has been instrumental in the process of preparing this research work.

I am highly appreciated to all the staffs of People’s Campus Library and T.U. Central Library for their valuable advice and support for the necessary data and journal available and advice for making this study. I am grateful to my respected parents for their continuous support and encouragement in my study.

Finally, I would like to express my special appreciation to Mrs. Rekha Maharjan, Mr. Kapil Shakya and Mr. Binod Tuladhar who helped me by providing me guidelines for completion of this thesis. I have no words to express my gratitude to them for their untiring help and valuable advice .

.....

Rashmi Shakya  
People’s Campus

# TABLE OF CONTENTS

Recommendation

Viva-Voce Sheet

Declaration

Acknowledgements

Table of Contents

List of Tables

List of Figures

List of Abbreviations

## **CHAPTER – I: INTRODUCTION** **1-7**

1.1	Background of study	1
1.2	Statement of the problems	4
1.3	Objectives of the study	5
1.4	Need and Significance of the study	5
1.5	Limitations of the study	6
1.6	Organization of the study	6

## **CHAPTER – II: CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE** **8-28**

2.1	Conceptual Framework	8
2.1.1	Concept of Tax	8
2.1.2	Classification of Taxes	9
2.1.3	Introduction of Income Tax	11
2.1.4	Evolution of Taxation	13
2.1.5	Historical Background of Income Tax in Nepal	13
2.1.5.1	Taxation in Ancient Nepal	14
2.1.5.2	Taxation in Unified Nepal (1768-1846)	15
2.1.5.3	Taxation in Rana Regime (1846-1950A.D.)	16
2.1.6	Income Tax In Modern Nepal	16

2.1.7	Development of Income Tax Act and Laws	17
2.1.7.1	Business profit and Remuneration tax Act, 1960(2017B.S)	17
2.1.7.2	Income tax Act, 1974(2031 B.S)	18
2.1.7.3	Income Tax Act, 2002 (2058 B.S)	19
2.1.8	Corporate Income Tax	20
2.1.9	Corporate Tax Rate Structure in Nepal	21
2.1.10	Corporate Tax Base in Nepal	22
2.1.11	Concept of Tax Incentives	23
2.2	Review of Related Materials	24
2.2.1	Review of Thesis	24
2.2.2	Review of Articles and Journals	26
2.3	Research Gap	28
	<b>CHAPTER – III: RESEARCH METHODOLOGY</b>	<b>29-31</b>
3.1	Research Design	29
3.2	Nature and Sources of Data	29
3.3	Population and Sampling Technique	29
3.4	Data Collection Procedure	30
3.5	Tools for Data Analysis	30
	<b>CHAPTER – IV: PRESENTATION AND ANALYSIS OF DATA</b>	<b>32-70</b>
4.1	Government Expenditure and Government Revenue position	32
4.2	Composition of Total Revenue	35
4.3	Contribution of Direct and Indirect Tax on Total Tax Revenue	37
4.4	Composition of Direct Tax Revenue in Nepal	38
4.5	Composition of Indirect Tax	40
4.6	Contribution of Direct Tax on GDP, Total Tax Revenue and Total Revenue	42
4.7	Contribution of Indirect Tax Revenue on GDP, Total Revenue and Total Tax Revenue	45
4.8	Contribution of Income Tax in Nepal	47
4.9	Structure of Income Tax in Nepal	48
4.10	Corporate Income Tax Revenue	51
4.10.1	Structural Composition of Corporate Income Tax Revenue	51
4.10.2	Contribution of Corporate Income Tax to Government Revenue	53
4.10.3	Contribution of Corporate Income Tax Revenue to Total Tax Revenue	54

4.10.4	Contribution of Corporate Income Tax Revenue to Total Revenue	56
4.10.5	Contribution of Corporate Income Tax Revenue to Direct Tax Revenue	58
4.10.6	Contribution of Corporate Income Tax Revenue to Income Tax Revenue	59
4.11	Revenue Collection in Nepal	61
4.12	Analysis of the Data with Time Series Analysis	62
4.12.1	Trend of Corporate Income Tax Revenue on Government Revenue	62
4.12.2	Trend of Corporate Income Tax Revenue on Total Revenue	64
4.12.3	Trend of Corporate Income Tax Revenue on Direct Tax Revenue	66
4.13	Major Findings of the study	69
<b>CHAPTER – V: SUMMARY, CONCLUSION ANDRECOMMENDATIONS</b>		<b>71-76</b>
5.1	Summary	71
5.2	Conclusion	73
5.3	Recommendations	74

## **REFERENCES**

## **ANNEXES**



## LIST OF TABLES

<b>Table</b>	<b>Title</b>	<b>Page No</b>
Table 4.1	Government Expenditure, Government Revenue and Resource Gap in Nepal	33
Table 4.2	Contribution of Tax Revenue and Non Tax Revenue to Total Tax Revenue of Nepal	35
Table 4.3	Contribution of Direct Tax and Indirect Tax Revenue to Total Tax Revenue	37
Table 4.4	Major sources of Direct Tax Revenue and Their Relatives Percentage to Direct tax	39
Table 4.5	Major Sources of Indirect Tax Revenue and Their Relatives Percentage to Indirect tax	41
Table 4.6	Contribution of Direct Tax on GDP, Total Tax Revenue and Total Revenue	43
Table 4.7	Contribution of Indirect Tax on GDP, Total Tax Revenue and Total Revenue	45
Table 4.8	Contribution of Income tax on GDP, Total Tax Revenue, Total Revenue and Direct Tax Revenue	47
Table 4.9	Collection from Major Sources of Income tax in Nepal	49
Table 4.10	Structural Composition of Corporate Income Tax Revenue	51
Table 4.11	Contribution of CITR to Government Revenue	53
Table 4.12	Contribution of CITR to Total Tax Revenue	55
Table 4.13	Contribution of CITR to Total Revenue	56
Table 4.14	Contribution of CITR to Direct Tax Revenue	58
Table 4.15	Contribution of CITR to Income Tax	60
Table 4.16	Statement of Revenue Collection in Nepal	61
Table 4.17	Predicted Contribution of CITR on Government Revenue	64
Table 4.18	Predicted Contribution of CITR on TR	66
Table 4.19	Predicted Contribution of CITR on DTR	68

## LIST OF FIGURES

<b>Figure</b>	<b>Title</b>	<b>Page No.</b>
Figure 4.1	Government Expenditure, Government Revenue and Resource Gap in Nepal	34
Figure 4.2	Contribution of Tax Revenue and Non Tax Revenue to Total Tax Revenue of Nepal	36
Figure 4.3	Contribution of Direct Tax and Indirect Tax Revenue on Total Tax Revenue	38
Figure 4.4	Major sources of Direct Tax Revenue and Their Relatives Percentage To Direct tax	40
Figure 4.5	Major Sources of Indirect Tax Revenue and Their Relatives Percentage To Indirect tax	42
Figure 4.6	Contribution of Direct Tax on GDP, Total Tax Revenue and Total Revenue	44
Figure 4.7	Contribution of Indirect Tax on GDP, Total Tax Revenue and Total Revenue	46
Figure 4.8	Contribution of Income tax on GDP, Total Tax Revenue, Total Revenue and Direct Tax Revenue	48
Figure 4.9	Collection from Major Sources of Income tax in Nepal	50
Figure 4.10	Structural Composition of Corporate Income Tax Revenue	52
Figure 4.11	Contribution of CITR to Government Revenue	54
Figure 4.12	Contribution of CITR to Total Tax Revenue	55
Figure 4.13	Contribution of CITR to Total Revenue	57
Figure 4.14	Contribution of CITR to Direct Tax Revenue	59
Figure 4.15	Contribution of CITR to Income Tax	60
Figure 4.16	Predicted of Contribution of CITR on Government Revenue	64
Figure 4.17	Predicted Contribution of CITR on TR	66
Figure 4.18	Predicted Contribution of CITR on DTR	68

## ABBREVIATIONS

CBS	:	Central Bureau of Statistics
CEDA	:	Centre for Economic Development and Administration
CITR	:	Corporate Income Tax Revenue
DT	:	Direct Tax
DTR	:	Direct Tax Revenue
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
GON	:	Government of Nepal
IDT	:	Indirect Tax
IRD	:	Inland Revenue Department
IRO	:	Inland Revenue Office
IT	:	Income Tax
ITA	:	Income Tax Act
ITA	:	Income Tax Administration
ITR	:	Income Tax Revenue
MOF	:	Ministry of Finance
NRB	:	Nepal Rastra Bank
R&D	:	Research and Development
SAARC	:	South Asian Association for Regional Cooperation
TDS	:	Tax Deducted at Source
TR	:	Total Revenue
TTR	:	Total Tax Revenue
TU	:	Tribhuvan University
VAT	:	Value Added Tax
WTO	:	World Trade Organization