Income taxation in Nepal: Analysis of structure and problem

Submitted by
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Roll No: 1826/065

A Thesis submitted to:
Office of the Dean
Faculty of Management
TRIBHUVAN UNIVERSITY

In Partial Fulfillment of the requirement for the degree of Master of Business Studies

Kathmandu
May-2012

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RECOMMENDATION

This is to certify that the thesis

Submitted by:

Saraswoti Sapkota

Entitled:

Income Taxation in Nepal: Analysis of Structure and Problem

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

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VIVA-VOCE SHEET

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Income Taxation in Nepal: Analysis of Structure and Problem

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 fulfillment of the requirement for the degree of

Master of Business Studies (MBS)

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DECLARATION

I hereby declare that the work reported in this thesis entitled **"Income Taxation in Nepal: Analysis of Structure and problem "** submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Studies under the direct supervision of Prof. Dr. Kamal Deep Dhakal, research head of Shanker Dev Campus and Lecturer Hiranya Niraula of Shanker Dev campus.

March 2013

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During the making of this thesis I may have many defects so if any I full heartedly take all the responsibility making stupid errors.

Saraswoti

SapkotaMarch 2013

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ABBREVIATIONS

CBS:	Central Bureau of Statistics
CEDA:	Centre For Economic Development and Administration
CITR:	Corporate Income Tax Revenue
CD:	Custom Duty
DG:	Director General
DT:	Direct Tax
EJN:	Economic Journal of Nepal
EPD:	Export Duties
ED:	Excise Duties
FY:	Fiscal Year
GDP:	Gross Domestic Product
GON:	Government of Nepal
GNP	Gross National Product
I.e.:	That is
Ltd.:	Limited
IDT:	Indirect Tax
IRD:	Inland Revenue Department
IRO:	Inland Revenue Office
IPD:	Import Duties
ITA:	Income Tax Act
ITA:	Income Tax Administration
MOF:	Ministry of Finance
NRB:	Nepal Rastra Bank
NTR:	Non-Tax Revenue
PAN:	Permanent Account Number
Pvt.:	Private
R&D:	Research and Development

Rs.:	Rupees
SAARC:	South Asian Association for Regional Cooperation
Sec:	Section
SEZ:	Special Economic Zone
TDS:	Tax Deduction at Source
TIN:	Tax Identification Number
TTR:	Total Tax Revenue
TU:	Tribhuvan University
USA:	United state of America
VAT:	Value Added Tax
WTO:	World Trade Organization

Chapter – 1

Introduction

1.1 General background

The main objective of Government any development country is to improve living standard of people through the development process. In order to achieve this objective every government lunches different economic, social, culture and other development activities. For this government needs huge amount of financial resource.

Nepal is a beautiful land lock country situated between two large countries India and China. The economic condition of Nepal is relatively poor than neighbor country. The economic growth of China is in increasing trend on the order side the economic growth of India also in increasing trend. Both countries affect the Nepalese economy directly and indirectly. In this situation the Nepalese economy cannot stay at one without considering these countries economy. On the other hand Nepal is rich in natural resources. Nepal has been facing some problem. The main problems are unemployment, poverty, rapid growth of population, political unstable, rising price level etc

Nepal has given first priority to economic development through planned efforts and the government has continued the implementation of several reform programs initiated in the past. Resources mobilization in the foundation for economic development of the nation is definitely inevitable and it is being there since 2013B.S. Everybody knows we have blessed in innate quality of nature but all we need is to give our all the efforts to make it cash then we can have our nation a sustainable economic condition. Apart from it we have other resources too on which we have to focus on and to make it visible we should have keen interest to find out the multiple resources to make our dream true.

The government can mobilize both internal and external finance resources to bridge its expenditure however the internal resources are more preferable to external one for sustainable development. In resources can be classification basically into two parts tax revenue and non tax revenue. Tax revenue includes direct tax on income, Property, Vehicle, Death, Gift etc and indirect tax on consumption and expenditure i.e. VAT, Sales, Hotel, Excise duty, import and export etc. Non tax instruments for revenue collection are government charge, Fines, Dividend, Royalty etc.

Income tax is divided under direct tax on account of its property. It cannot be shifted backward or forward. Taxes on income may lived on individual as well as business firms. The firms is known as personal tax and the rates is known as corporate tax.

The Great Britain was first country in the world that introduction modern income tax in 1799 to collect finance the war fought with France. In 1862 USA introduce in tax to generate revenue to finance civil war. Nepal in tax was introduce in 1959. Both individual and companies were taxed in similar way during the earlier period but later on companies were levied with a flat rate and individual tax payer with progressive rate (Koirala, Bhattarai, 2063)

First law of Nepal regarding to the income tax is Business profit and Salaries Tax Act,1960 then after three years income tax acts has been introduced in Nepal these are Income Tax Act 1962, Income Tax Act,1974 and Income Tax Act, 2002. However Income Tax Act, 2002 is still in practice.

Income tax is the third largest sources of total tax revenue. It is a tool of achieving minimum social and economic objective as lay down by the constitution of Nepal. As a poor country, sources of government are very limited. The domestic sources of the government revenue should be increased to escape from the condition of dependency on foreign aids and loan. Income tax may be the best way to increase government revenue internally

1.2 Statement of the problem

Economic development is the prime concern of every nation of the world. Underdeveloped countries are facing serious problems in the process of economic development. Nepal is also not an exception to this condition. The majority of people have not been able to get even basic facilities. The government wants to fulfill the basic needs of the people and accelerate development activities one at a time. Thus, every nation of the world is accomplishing various activities to fulfill these objectives. It needs huge amount of capital. Despite the various measures adopted by government to boost up revenue collection there is still a substantial resource gap between expenditure and revenue. The rate of government is exceeding the rate of growth revenue almost every year. In other words Nepal has been facing persistent budget deficit from the beginning of her development phase. External deficits, currency depreciation, inflationary pressure, rising interest rate which may cause crowding out effect and reduce in economic growth are the consequences of the budget deficits. The mobilization of revenue has not increased to the level on which the level and speed of our expenditure is raising. Rising the government revenue helps to overcome the serious bottleneck of resource gap in the process of economic development program. In this context, taxation can be taken as means for resolving this problem by mobilizing additional resources form domestic sources.

Nepal, one of the least developed countries in the world, has growth rate 4.4 of real GDP (economic year 2067/68). Nepal’s GDP per capita is $642 (economic year 2067/68), one of the poorest in the world impling the scarcity of resources for the development process. Thus the role to taxation has promised to provide the infrastructure for the development process and to provide the social services to the poor people, whose volume is dominant in country’s demographic structure.

In Nepal after the rise of democracy, deliberate planning process began only after 1956 (2031 BS) and the huge amount of revenue was required for the process of economic development, a lot of capital was needed. Where first budget was brought in 2008 BS. To fulfill the planning expenditure and for the process of economic development a lot of capital was needed. In this process of generating more revenue, Nepal Government (NG) introduces direct and indirect tax system in the country. Similarly to strengthen the existing revenue departments various rules and regulations has been enforced. During this period, income tax was introduced from 2016 BS.

There is high resource gap in our budget. It means our budget is called deficit budget. The expenditure is higher than our revenue and foreign aid. The gap is fulfilled by internal and external loans. In every budget, it is reality. This is the main economic problem of Nepal. Tax and non-tax revenue is the major source of the internal revenue where tax is paying more vital role than non-tax revenue. In tax revenue, indirect tax is playing more vital role than direct tax. It means Nepal's tax structure is mainly based towards indirect taxes.

The experience of the developed countries clearly indicate that tax may be one of the major development for the increment of internal revenue but in Nepal its contribution has not increased significantly during 40 years.

It is mentioned above that there is significant resource gap in Nepalese finance. The gap between income and expenditure is increasing. Therefore the resource gap has been a serious bottleneck of the process of economic development of developing nations like Nepal. To increase the government revenue it is very necessary to raise its source of revenue. Although there are various sources of government revenue, the tax revenue is the major important source.

Nepal is facing a problem of scarcity of resources for development activities. Few rich capture major economic source and they are under taxed either because of tax evidence or evasion and most of poor people suffer from commodity tax.

In the context of the discussion of the problem taken for the above studies, the research questions are as follows.

1. What is the income tax structure of Nepal?
2. Does income tax in Nepal really contribute to the generation of revenue?
3. What are the problems of resource mobilization and resource gap in Nepal?

1.3 Objectives of the Study

The main objective of study is to analyze the income tax structure of Nepal showing its contribution on government revenue of Nepal and point out some problems/difficulties of Income Tax Act 2058. Other specific objectives of the study are listed below:

1) To analyze the income tax structure of Nepal.
2) To analyze the problem of resource mobilization and resource gap in Nepal.
3) To identify the share and trend of corporate income tax on government revenue of Nepal.
4) To identify the major problems/difficulties of existing Income Tax Act,2058.
5) To provide necessary suggestions and recommendations.

1.4 Focus of study

Since we belong to developing countries we need to collect different types of taxes to make our country a peaceful, prosperous, and economically self dependant country, by doing so we also can promote the feeling of welfare of others and they may contribute in national income through taxes automatically.

In developed country like US taxation contribution is more than 75% to there total revenue in which the share of income tax is prominent but the case of developing country like Nepal is different so collection of tax is must.

Taxes are general contribution of wealth levied upon person, natural on corporate to defray expenses incurred in conferring common benefit upon the residents of state. It is compulsory levy imposed by the government without having any direct personal benefits. Nobody gets any benefits from the government those who pay tax. So more efforts should be on actual circumstances. Theoretical and practical knowledge required to implement and evaluation tax properly.

So this study analyses and evaluation Nepalese tax structure and its practice properly. This study analysis the amount received from tax different years at different heads of income. This study with provide clear idea and knowledge to those the person who are interested to know about tax system. This study also provides the clear idea about the tax system in Nepal. This study focuses the practical difficulties of tax collection system in Nepal and provides the suggestion of different person to make effectiveness technique to collect tax

1.5 Research methodology

This study is deal with research design, population of sample, data collection method and tools for analysis.

<u>Research design</u>

Analytical and descriptive approach is adopted or the readily available historical data used in this study are secondary as well as some primary data.

Sources of data

The secondary as well as some primary sources of data are collected.

Secondary sources:-secondary sources of data were collected from Economic survey, NRB report, Books, Published and unpublished article, Newspaper, Annual report, wed side, Former thesis samples.

Primary sources:-primary sources were conducted from Kathmandu valley only.

1.6 Limitation of study

Limitations of this study are as follows:-

1. This study is based on availability of reliable data and sufficient literature.
2. This study will cover around 6 year's data only.
3. Main focus is given to corporate income tax of Nepal.
4. This study has been conducted to fulfill the requirement of the MBS program of T.U. for the prescribed time, not for generalization purpose.

1.6 Organization of the Study

The entire study has been designed into five main chapters. They are:-

1.6.1 Introduction

1.6.2 Review of literature

1.6.3 Research methodology

1.6.4 Presentation and analysis of data

(i) Secondary Source of Date

(ii) Empirical Study

1.6.5 Summary, conclusion, recommendations

Introduction

This chapter deals with general background, statement of problem, objective of study, research methodology, limitation of study and chapter scheme.

Review of literature

The second chapter review of literature is done to know what research had been done in the related topic in previous days and what is to be done at present or in future. This chapter has been divided into two main aspects: (1) Conceptual framework and (2) Review of related materials i.e. review of books, review of thesis, review of newspapers, magazines, journals etc.

Research methodology

The third chapter Research methodology present the methodology used in this study. It deals with research design nature and sources of data, data processing and method of data analysis.

Presentation and analysis of data

The fourth chapter is must important chapter. This chapter fulfill of objective of this study by presenting the data and analysis then with the help of statistical tools and technique as well as general accounting, taxation principle followed by methodology. Empirical Investigation has been done on the basis of primary data collected from different taxpayers, tax experts and tax officers through questionnaire to address the problems/difficulties of current Income Tax Act 2058.

Summary, conclusion, recommendation

The fifth chapter consists of brief summary conclusion and recommendation of the study. Lastly essential appendices and bibliography have been presentation at the end of study.

CHAPTER TWO
REVIEW OF LITERATURE

Literature review is most important part in each research. The main objective of literature review is to gain familiarity with the subject matter. There are some literatures of taxation.

This chapter deals about more of less some basis parameters of pertinent literatures of theoretical implications and study topic concern books reviews by different scholars, and also others related documents included.

2.1 Review Theoretical Context

A tax imposed on income base is called income tax. The basic objectives of Income tax are two fold-revenue collection & redistribution. Income tax is divided into two parts. Individual Income tax and corporate income tax. Income tax to be paid by Individual or couple or sole proprietorship firm is individual income tax where as Income tax to be paid by entity's is called corporate Income tax. In some countries, separate laws are made to deal with individual and corporate Income taxes.

As regards to Individual Income tax, some say. Income tax was introduced in Batavian Republic of Holland in 1997. Others say, It was first introduced in 1999 in England to finance the war against France. Corporate Income tax was at First introduced in 1909 in America. Individual Income is imposed by progressive technique, i.e. higher the amount of Income, higher is the rate of tax. For the purpose of Calculating Income tax, taxable income should be derived at first, which is an amount of Income after deducting the expenses Incurred to earn the concerned income.

In Nepal, Income tax (Combination of both the Individual and corporate) provides around (21) percent of the total tax revenue. The marginal tax rate is 25 percent for individual and 20 percent industry, 30 % financial institutions and 25% other taxpayers for corporate bodies.

There are mainly two types of tax system in the world. They are direct and indirect taxes. Direct tax is that of tax, which is really paid by a person an whom it is legally imposed, while an indirect tax is imposed on one person, but paid partly or wholly by another, owing to consequential change in the terms of some contract or bargaining between them or which creates the direct burden on individual. In the other words. Individuals are liable to pay tax from their personal Income. It is really paid by the same person who is legally imposed. Thus, an indirect tax is conceived as one which can be shifted or passed on; a direct is one which can not be shifted to others. In the case of the direct tax, the impact or the money burden and the incidence are on the one same person: while that in case of indirect taxes, the impact and the incidence of tax are on different persons. An income tax is generally regarded as a direct tax while customs and excise duties are indirect taxes. “Those taxes which are based on receipt of income, are termed as direct whereas those levied on expenditure, are termed as indirect. Income tax, profit tax, capital gain taxes are therefore direct tax; customs duties, excise duties and stamp duties are indirect”-(Prest, 1985)“Taxes while levied on permanent or recurring occasions are direct tax, while charges on occasional or particular events are indirect taxes”. Thus, all taxes on income or the ownership of property would be direct taxes and taxes on the purchase or sale of property like stamp duties would be indirect taxes. Indirect tax is generally imposed on consumption. Income tax is the key segment of direct tax. Income tax is also classified into two categories: i) Personal tax, ii) Corporate tax. Personal tax is imposed on the income received by a particular person whereas corporate tax is imposed on the income received by a particular institution or business enterprises.

Taxes are compulsory levied on Individual, Firms, companies and other units for general government purpose-government with authority assigned in different laws generates with compulsion, some funds from Individuals firms, companies and other units, which generally termed as taxes. According to classical economist Adam Smith "A tax is a contribution from citizens for the support of the state"

According to classical economist Dalton, "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 a penalty for any legal offence."

In classical economics tax was taken as an extra burden to people. But now time has changed and the government has to provide maximum social welfare to the people. Thus, the government has to broaden it revenue.

In Nepal, Income tax is defined as the tax levied on net income derived after deducting all allowable deductions and relieves from the total Income. Income tax is levied on the Income derived from Business, Employment and Investment. Income tax is always levied on the net income i.e. total Income less the allowable deduction.

Tax has been one of the major source of government revenue from ancient time, however, reliable records and data about taxation of that time are not available. Tax was then levied on the merchants, travelers and farmers in the form of cash, kind or labour. One some occasions gold and agriculture products were also paid as taxes, but the nature of these taxes was temporary.

Income tax can be classified into two types: personal/Individual Income tax and corporate Income tax. Individual Income tax is modern tax, which is measure of ability to pay of any Individual. It is based on the progressive rates. Corporate Income tax is levied on business enterprises having a legal personality, direct from their owners. Tax on corporate ultimately come from the Income or wealth of Individuals. Generally, flat rate is applied to corporate Income tax. Since 1959/60, Income tax was started in Nepal. After its establishment, many Individual and institutions have studied in this subject regarding legal aspect, administrative problem, historical aspect, trend of Income tax and Income tax structure etc. They have made appreciable efforts in the field of Income tax.

It is not an easy task to perform a research study based on Income tax system because it is changing rapidly with the flow of time. In lack of sufficient review of available materials, it is a very complex problem to find detail Information about Income tax in Nepal. There are various studies carried out by different institutions and Individual's Reviews of available materials based on Income tax will certainly helpful regarding to the subject matter in the. For this purpose, various books and dissertations have been received as far as possible.

B.E.V. Sabine (1966), A history of Income tax, Tax structure open to a country to alter its level and the rate of growth through changes in the individual elements that constitute the tax structure." Economic development depends for more than is commonly recognized. On a carefully throughout and well organized tax structure (Charles Mansfield, "Tax structure in Developing countries: An Introduction." Finance and Development, March 1971, P. 37). In very poor countries, Income tax contribute between one sixth and one fifth of total tax revenue in the United states. In advanced countries Income and other direct taxes account for 60 percent of total tax revenue of the direct taxes, personal Income tax contribute around 27% of total tax revenue and social security tax make 31% on average low and middle Income countries raise roughly 10% of their tax revenue through personal Income taxes. Surprisingly however the richer Latin American countries raise a smaller share of revenue from personal Income taxes do the poor countries of sub-sharan Africa. In constant, Latin American countries are the dominant users, within developing countries of social security tax.

Law and practice of Income tax in India (Bhagwati Prasad) 1971), July 6th edition, states that Income tax is a complicated and yet a fascinating subject both for study and practice. In view of many good work on the subject it would, however, not be out of place to list the specific features claimed for the present one. The book is in a tax book from incorporating the income tax act 1961 and the Income tax rules (1962) with selected leading case wherever necessary.

Harley H. Hinrich (1966), has sketched a patter of tax structure change from traditional to industrialization society. According to this pattern, non tax source and/or traditional direct taxes namely land revenue, provide must of the revenue in traditional society. As the society being to break away from old ways, taxes on international trade assume importance as the supplier of revenue. As this occurs, traditional direct taxes decline in importance. The growth of internal indirect taxes like excises and sales taxes is related to the development of domestic production, internal trade and mobilization of the economy. Modern direct taxes like personal income tax and corporate profit tax are levied when the economy reaches maturity.

2.2 Conceptual Framework

2.2.1 Income Tax

Generally, income means the inflow of cash to the person or firm. Most of the people do not take the kind as an income. It is a best measure of economic well being of a person as well as of nation. Higher income denotes the high living standard and lower income from rendering various types of services, selling goods and producing crops for their own use. Thus, income may be cash or kind that is received by a person for livelihood.

Economists define the term 'income' in a broad sense. It is an economic gain or receipt to a person during a particular time by way of wages, interest, profit and rent. The money income of the people is generally used for two purposes. Part of income is spent on consumption and part is saved. This definition can be expressed in the formula as follows:

$$Y = C + S$$

where,

Y = Income

C = Consumption

S = Saving

But for the purpose of taxation, the definition of income is somehow different from the aforesaid definition. According to Income Tax Act 1974 (2031) " Income means the income earned or received in cash or kind from the sources mentioned in sec. 5". In this section five different heads of income were mentioned. They were as follows: [ITA, 1974]

1. Agriculture
2. Industry, Business, Profession or Vocation
3. Remuneration
4. House and land rent
5. Other sources

The existing Income Tax Act 2002 (2058), which has been enacted since 2058 Chaitra 19, (April 1, 2002), has defined income in section 2\a as "person's income from any employment business as calculated in accordance with this Act (ITA, 2002). It includes all sorts of income received for the provision of labour or capital or both of whatever form or nature in the taxable income.

Tax, in simple terminology, is a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the taxpayers according to law. In the word of Seligman, taxation is the "compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred."

From the definition given above it can be said that firstly, a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. Secondly, taxpayer cannot receive any quid pro quo for the payment of tax. The taxpayer does not receive equivalent benefit from the government. Thirdly, the tax is paid to the government for running it. Fourthly, in case of tax, the amount is spent for common interest of the people. The tax is collected from haves and basically, spent for the interest of have-nots in the society. Fifthly, a natural or an artificial person pays the tax. (Kandel, 2004)

In conclusion, it can be said that tax is a liability to pay an amount to the state. The basis of a minimum amount from certain specified or that they own certain tangible or intangible property or that they carry-on certain activities which have been chosen for taxation. (Kandel, 2001)

Income tax refers to the tax levied on the income of a person and profits of corporation for the specific time period, particularly one year. Income tax is levied on the taxable income of a person or a company after deducting allowable expenses. Accounting profits may differ from taxable profits. For the computation of taxable income, generally incomes are added and expenses are subtracted and losses, which are allowed to deduct under the provision of Income Tax Act are also subtracted. Then, tax-free incomes allowances and common expenses are also deducted to get taxable income. After giving the exemption limit as per law, the amount of tax to be levied on this computed income is the income tax.

2.2.2 Evolution of Taxation

In early days, taxes were collected at the time of emergencies, to finance wars and to provide communal services. Taxes were levied on the basis of welfare of the people. At that time tax was not compulsory payment. People voluntarily paid the tax because non-payment of tax was taken as sin in the Hindu tax system. According to Hindus' scripture, the duty of king was to serve and secure his people, maintain peace and harmony and carryout social works. For those purpose king used to levy tax by collecting crops and cattle from farmers, gold and silver and other metallic goods from traders.

Great Britain was the first country in the world to introduce the income tax in 1799. It imposed income tax in order to finance war with France. Similarly, in U.S.A. the first federal income tax was imposed in 1862 with the same objective (to finance civil war). However, in the beginning these countries imposed income tax as temporary until 1862. Thereafter, since 1913 it was accepted as permanent tax. This, income tax was adopted by different countries gradually. Italy started it in 1864, and New Zealand adopted in 1891, Australia and Canada have followed the income tax in 1915 and 1917 respectively. After the world war, the income tax became an important source of tax revenue in many developed countries. By 1939, it had become the most important source of revenue in most developed countries and had made appearance in a number of developing nations (Agrawal, 1980)

In our neighboring country India, the income taxation was started in 1860 by the British government to relief from economic burden created due to first democratic revolution. It was then regularly collected after the publication of Income Tax Act 1886 (Dhakal, 2057).

In this way, income tax has become the regular source of national receipts for many developed and developing countries of the world. In the beginning, income tax was generally levied at a flat rate. The principle of progressive rate of income tax had been adopted by the United Kingdom and New Zealand since 1909. Now a days the progressive rate is commonly used rather than flat rate in all over the world.

2.2.3 Taxation in Ancient Nepal

Reliable records about taxation in ancient and medieval Nepal are not available. However, tax has been one of the major sources of government's revenue from the ancient time in Nepal. Taxes were then levied on the merchants, travelers and farmers in the form of cash, kind and labour. On some occasions gold and agricultural products were also paid as taxes; but the nature of these taxes were temporary. In the Lichhavi's regime, income taxes from agriculture and business were introduced as a direct tax for the first time in Nepal. Agricultural income tax was called "Bhaga". The 1/6, 1/8, and 1/12 quality of the land that they owned. Income tax, which was levied on business income, was called 'kara'. There was irrigation and religious tax also in existence during the regime of king of Ansubarma of Nepal.

2.2.4 **Taxation in Unified Nepal (1768-1846)**

After unification of kingdom of Nepal, expenses for administration, military and other operational activities were increased significantly. During that period, taxation has been taken as main source of revenue and different types of taxes like land tax, transit tax, market duties, various levies and fines, forest product tax and mining tax were levied. Local administrations were directed "to take whatever is paid willingly by the people." Taxes were collected from the three levels (Agrawal, 1980).

a. Royal Palace: To finance occasional and ceremonial needs. The taxes were broad based and progressive.

b. Government: To finance administrative, military and other purposes assessed on official functionaries, occupational groups and other people.

c. Local: Prerequisites of local officials, functionaries and mendicants.

The various taxes levied during this period were narrow in base and were imposed primarily on occupations and economic activities, not on income or property. The system of direct taxation was confined to land tax and special levies like "Darshanbhet", "Salami", “Walal" etc. After the unified period, land revenue system was divided into five main forms: Raikar, Birta, Guthi, Sera and Kipat. The main sources of revenue from land were Birta and Kipat.

King Prithvi Narayan Shah had introduced 'Pota' tax in 1772, which was regarded as a revolutionary measure in the fiscal system of Nepal. It was based on flat rate system and limited on small Birta owners. There was no taxation of income in the sense of modern income tax.

2.2.5 Taxation in Rana Regime (1846-1950 A.D.)

Imposition and collection of taxes during 104 years oligarchic rule of the Rana family in Nepal prior to 1951 was the prerogative of the feudal rulers. Only those taxes, which suited the objectives, needs and whims of the ruling Prime Minister, were imposed. No budget was framed during the Rana regime. Taxes were collected at the time of requirement due to lack of Income Tax Act and finance act. The collected taxes were directly deposited into the Prime Minister's Account.

Land tax, custom and excise duties in the form of lump sum contracts, royalties on felling trees, royalty on supply of porters and soldiers, entertainment taxes were the major source of revenue. There was no direct tax in the country except land tax collected on a contractual basis and "Salami" which the government employees used to pay out of their salaries at a very small percentage.

Rana Prime Minister levied taxes for meeting specific expenditure of the royal household or extraordinary expenditure necessitated by war or other crisis rather than mobilizing revenue in the nation. During Nepal-Tibet war (1855/56), the first Rana Prime Minister Jung Bahadur had imposed a tax on the income of selected groups. Similarly, Bir Shamsher imposed a levy of 1% in the official value of Jagir assignment of government employees in 1891, to finance the transportation of water pipe supply in the capital. Ranoddip Singh imposed a 50% tax in the income made by fishermen in Deukhuri from the sale of fish in 1882.

2.2.6 Income Tax in Modern Nepal

Actually, the modern Income Tax Act was started in the year 1959 in Nepal. After the political revolution in February 1951 (2007 B.S. Falgun), the role of government has increased to developmental as well as philanthropic works. The government of Nepal had presented its first budget in 1952 (2008, Magh 21). The first five-year plan started in 1956. The planned activities of the government needed huge amount of source and means. So, huge revenue was demanded and Nepalese government started to levy tax on income as permanent source. As a result, it issued first finance ordinance in 1959(2016) to impose tax on business profit and remuneration. In 1960(2017) the income tax act named "Business Profit and Remuneration Act, 2017 was made with the provisions of finance ordinance 1959. That was the first Income Tax Act, which had 22 sections. But that act was found narrow and vague. So, it was replaced by the Income Tax Act 1962(2019). That act continued for 12 years and it was also replaced by the Income Tax Act 1974 (2031. That act was amended for eight times. That tax act was replaced by new Income Tax Act, 2002 (2058). This is the fourth income tax act of Nepal.

2.2.7 Gradual Developmental of Income Tax Act and Laws

2.2.7.1 Business Profit and Remuneration Tax Act, 1960 (2017 B.S.)

The finance act 1960, made provisions for the taxation of business profits and remunerations. An ordinance was issued by the king to collect the tax. In 1960, parliament of Nepal, enacted, "Business Profit and Remuneration Tax Act 1960(2017)", which consisted of 22 sections. With the enactment of that act, the salary tax or personnel income tax was levied upon those individuals whose personal income exceeded Rs. 6,000 per year. In the first three years, the exemption was Rs. 7,000. An examination of tax files in the Kathmandu District Office disclosed 577 personal income tax files of individuals who had paid taxes in one or more years.

The following were the salient features of the act.

1. Only remuneration and business profit were subject to tax. Deductions were not specified for the purpose of calculating the income.
2. Tax on remuneration was to be deducted at source.
3. The basis for calculating the tax liability for remuneration was the income of the current year and for the business profit, it was the profit of preceding year.
4. In case of default, fines up to Rs. 5,000 were prescribed.
5. The taxpayer was given the right to appeal against the tax assessment to local "Badahakim". Thereafter appeal could be lodged at revenue court. Every appeal could be accompanied by security deposit for the amount of tax payable.
6. The tax officers were empowered to assess tax on the basis of best judgement estimates.
7. Profits from industries were granted a rebate of 25% and profits from small industries were granted a rebate of 50%.

As high discretionary power in assessment of income tax granted to tax officers, various loopholes, narrow and vague tax base were the major shortcomings of that act which cause the Income Tax Act 1962(2019) came into existence.

2.2.7.2 Income Tax Act, 1962 (2019)

The main purpose of the imposition of this act was not only to raise government revenue but also to reduce inequality of income and wealth distribution with social justice and to create regular tax paying habit of the taxpayer. The Income Tax Act 1962 had 29 sections and it was amended in 1972 (2029 B.S). It had provision of imposition of income tax in agricultural income, but this provision was abolished by the Finance Act, 1966(2023). The additional features of this act was as follows:

1. Income was defined as kinds of income including income derived from business, remuneration, profession and occupation, house and land rent, investment in cash or kinds, agriculture, insurance business, agency and any other sources.
2. The personal as well as residential status of the taxpayer for the tax purposes was defined.
3. The income tax assessment and collection procedure were specified along with the method of computing net income. Certain deductions were allowed to calculate net income.
4. The basis was specified for assessing tax on the best judgment estimate of the tax officer.
5. Provision was made for the installment as well as advance payment of the tax for the first time.
6. Carry forward of loses was allowed for two years.
7. Provision was made for the exemption of income tax for the new industries for a period of not exceeding ten years.
8. The act granted power to constitute net income assessment committee.

The changing socio- economic environment of the nation had forced to change the Income Tax Act. As a result Income Tax Act 1974 (2031) came into existence.

2.2.7.3 Income Tax Act, 1974 (2031)

The Income Tax Act 1974 can be said to be the refined form of Income Tax Act, 1962 (Dhakal, 2057). It had 66 sections. This act has explained various aspects of taxes, containing many provisions for taxation. This act was amended for eight times i.e. 1977(2034); 1979(2036); 1980(2037); 1984(2041); 1985(2042); 1986(2043); 1989(2046); and 1992(2049) to make it more practical and to eliminate confusing terms. Government enacted the income tax rule 1982(2039), in 1982 (2039-1-27) in accordance with the authority given under sections 65 of income tax rule 1982, the Financial Act is also equally applicable for the proper administration of income tax in Nepal. Some of the features are as follows:

1. This act had clearly defined about income tax, taxpayer, year of income, personal status of taxpayer, non- resident taxpayer, net income and so on.
2. Five heads of income sources were specified viz. a) Agriculture, b) Industry, Business, Profession or Vocation, c) Remuneration, d) House and Land Rent and e) Other sources.
3. Method of computing the taxable income from each head had been specified with deductions allowable.
4. The act had made it obligatory for taxpayer to register their industries, business, profession or vocation in the tax office and any changes should be notified.
5. Carry forward of losses is allowed for within subsequent three years.
6. Provision was made for self-assessment of tax for the first time in Nepal.
7. Provision was made relating to deduction for life insurance premium and contribution made for philanthropic purpose.
8. Taxpayer was required to keep accounts and records of the income and to be preserved for six years.
9. Provision was made to make agreement for avoidance of double taxation with foreign government.
10. Provision was made relating to reassessment or additional assessment of tax.

2.2.7.4 Income Tax Act, 2002 (2058)

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation, and to amend and integrate the laws relating to income tax, the parliament of Nepal enacted Income Tax act, 2002 (2058), since First April 2002(19th Chaitra, 2058)

This act was brought in Nepal to avoid the following defects of Income Tax Act 2031 (Kandel, 2003)

a. Narrow base of tax.
b. Taxing only the income originated in Nepal.
c. Dispersion of tax related acts, i.e. income tax related provisions were given in different acts.
d. Low penalty rate to tax evader.
e. Incompatible to self-assessment, and
f. Unsuitable to modern economy.

The main objectives of ITA, 2058 are presented below:

1. To levy tax on all income sources and income earning transactions.
2. To impose uniform tax to all people and all sources.
3. To make income tax revenue more productive and elastic.
4. To develop the tax system by means of extended scope, clear-cut, transparent and simple procedure.
5. To make accountable and improve tax administration.
6. To reduce economic cost neutralizing income tax.
7. To emphasize statement based on accounting system.
8. To make responsible to income taxpayers emphasizing procedure

of self- assessment system.

The key features of Income Tax Act, 2058 are:

1. All income tax related matters are confined within the act by abolishing all tax related concessions, rebates and exemption provided by different acts.
2. The act has broadened the tax base. Unlike previous tax act, tax rates are spelled out in the act. The tax rates and concessions are harmonized on equity grounds.
3. The act has introduced a pool system of charging depreciation. Intangible assets are also depreciated, the pool system of deprecation of fixed assets has introduction at first time. All types of assets are classified into five categories, deprecation rate for classes A, B, C&D is based on diminishing balanced method but straight-line method for class E.
4. The act has first introduced taxation on capital gains.
5. The act has provided liberal loss set-off and carry forward/backward provisions, interhead adjustments of losses are clearly specified. . There is the provision of carry forward of loss from subsequent four year. The act has also provided the facilities to carry backwards of loss for five subsequent years in case of bank insurance and long term contract.
6. The act has provided a stringent fine and penalty for the defaulters.
7. The act has introduced a provision for administrative reviews to allow the tax administration to correct mistakes made by tax administrators internally.
8. Global incomes of a resident are made taxable. Non- residents are also taxed on their incomes with source in Nepal.
9. List of expenses is inclusive. All expenses relating to income have been made admissible.

10. The act has made provision of international taxation. Foreign tax credit has been introduced for the first time.
11. The act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.
12. The act has given the option for husband and wife as a separate natural individual until they do not accept as a couple.

13 There has the special provision for deduction pollution control cost and research & development expenses.

14. The income of an approved retirement fund is free from tax. But retirement payment in hand of employees is taxable.

Income Taxation in Nepal: An analysis of Provision Related to Income Tax Concession, Exemption and Deduction

Income tax Act, 1974 was replaced by Income tax Act, 2002. Income Tax Act 2002 has classified the income into following 3 heads.

a) Business Income

b) Employment Income and

c) Investment Income

The Act had defined the income heads as follows:

a) Business: Business means any industry, a trade, a profession, or the like isolated transaction with a business character and includes a past, present, or prospective business.

b) Employment: Employment includes a past, present and prospective employment.

c) Investment: Investment means an act of holding or investing one or more assets of a similar nature that are used in an integrated fashion but excludes:

- Act of the holding of assets, other than non-business chargeable assets, primarily for personal use by the person owning the assets or investing amount on such assets or
- Employment or business.

For the calculation of net income of these three income heads, Act has clearly mentioned the incomes or amounts which are taxable and non taxable (concession, exemption) and expenses, which are allowed for deduction and not allowed for deduction. For the computation of net income and taxable income, the Act had made the following provisions.

Income from a Business

Income Tax Act, 2002, section 7, has clearly mentioned the incomes or amounts which are included while computing the income from business. They are:

- A person's income from a business for an income year is the person's profits and gains from conducting the business for the year.
- The following amounts should be included while calculating a person's profits and gains from conducting a business for an income year:
- Service fees including commission, meeting management or technical services , fees, consultancy fees, advisory fees, legal fees and other services revenue.
- Amount derived from the disposal of trading stock.(sales\sales revenue)
- Net gains from the disposal of the person's business assets or liabilities of the business. (Net gain:-Total of income÷ Total of outgoing)
- Amount of excess depreciation on the disposal of the person's depreciable assets of the business (i.e. capital gain from pool disposal of depreciable assets).
- Compensatation received for loss of stock or profit.
- Gifts & present received by the person in respect of business.

- Amounts derived as consideration for accepting a restriction on the capacity to conduct the business.
- Amounts derived that one effectively connected with the business and that would otherwise be included in calculating the person's income from an investment (i.e. amount derived from subletting vacant rooms of a house rented for official use).
- Amount received after the cessation of a business.
- Deducted expenditure which is not so expended.
- Under payment of interest \interest subsidy.
- Other income to be included in business income , sundry income , miscellanies , income, sales of scrap ,transfer fees and discount , commission.
- Other amounts required to be included on tax accounting or quantification, allocation and characterization of amount of dealings between an entity and a beneficiary of general insurance business. For example, amounts to be included due to change in accounting method, transfer pricing, recovery of bad debts, compensation received etc.

Incomes Excluded from Business Income

The following amounts are excluded while calculating a person's profits and gains from conducting a business:

- Amounts exempt under section 10.
- Taxation of divided under section 54.
- Divident distributed by a controlled foreign entity at the end of the year under section 69 and
- Final withholding payments.

Income from an Employment

Income Tax Act, 2002, section 8, has clearly mentioned the income or amounts, which are included while computing income from employment. An individual's income from an employment for an income year is the individual's remuneration from the employment of the individual for the year. For the purpose of computing income from an employment, the following amounts (income) received by him in respect of any employment of services rendered by him in any year of income shall be included:

- Any wage, salary, leave pay, overtime pay, fees, commission, prizes, gifts, bonuses and other facilities.
- Any personal allowances, including any cost of living, dearness, subsistence, rent entertainment, and transportation allowances.
- Any payments for reimbursement of costs incurred by the individual or an associate of the individual.
- Any payments for the individual's agreement to any conditions of the employment.
- Any payments of redundancy or loss of termination of the employment.
- Retirement contributions, including those paid by the employer to a retirement fund in respect of the employee, and retirement payments.
- Other payments made in respect of the employment.
- Other amounts as given in chapter 6 of the Act, i.e. perquisites and any gains due to change in tax accounting require to be included.

In the above provisions, there is a provision of loss of employment. But the provision had not clarified the meaning of loss of employment. On the other hand, retirement contributions are nothing else than the product of sacrifice of oldness of employment. These are the bases for living standard of oldness of employees. So it does not give good information to the taxpayers (employees). Dearness allowance is given to meet the living standard of employees. It is not lawful to include in taxable income.

Income Excluded from Employment Income

The following amounts are not included while computing the income from employment.

- Amount exempt under section, 10 and final withholding payments.
- Meals or refreshments provided in premises operated by or on behalf of an employer to employer's employee that are available to all the employees or similar terms.
- Any discharges or reimbursement costs incurred by the individual:

i) that serve the proper business purposes of the employer.

ii) that is or would otherwise be deductible in calculating the individual's income from any business or investment.

Payments of prescribed small amounts, which are so small and thus unreasonable or administratively impractical to make accounting for them (only upto Rs. 500) at once expenses may be stationary, gift, tea/coffee expenses, emergency medical expenses are pointed by Internal Revenue Department.

Income from an Investment

Section, 9 of ITA, 2002, has defined the income received from an investment for income tax purpose. For the purpose of computing income of any person from an investment for an income year is the person's profits and gains from conducting the investment for the year and there shall included.

- Any dividend, interest, natural resources payment, rent, royalty, gain from investment insurance, gain from an unapproved retirement fund, or retirement payment made by an approved retirement fund derived in respect of the investment.
- Net gains from the disposal of the persons non-business chargeable assets of the investment.

- Excess amount of incomings over the depreciation basis including outgoings on the disposal of depreciable assets of the investment of the person's. (Depreciable basis includes the depreciation amount, expenses made on the depreciable assets).
- Gifts received by the person in respect of investment.
- Retirement contributions, including those paid to a retirement fund in respect of the person, and retirement payments in respect of the investment.
- Amounts derived as consideration for accepting restriction on the capacity to conduct the investment.
- Exchange gain, bad debt recovered.
- Amount recovered for commission regarding investment.
- Under payment of instead than standard.
- Other amounts required to be including on tax accounting, or quantification, allocation and characterizations of amounts of transaction between any entity and beneficiary or general insurance business.

In the above provision, Act has included the amounts derived as consideration for accepting a restriction on the capacity to conduct the investment; it is fruitful to the investment who receives the compensation against restriction. But it will not be possible to implement, if the act does not clarify the nature of restriction, cause of imposing restriction, process of compensation-computing the entity, which give compensation.

Non-Includable amounts on Investment Income

The act has mentioned the amounts, which are excluded in computing income from an investment under section 9 (3). They are:

- Exempt amount under section 10.
- Taxation of dividend under section 54.

- Dividend distributed by a controlled foreign entity at the end of the year under section 69 and final withholding payments and
- Amounts that is included in calculating the person's income from any employment or business.

Concession and Exemption of Income Tax

Income Tax Act, 2002, has mentioned the concessions and exemption amounts. They are described in the following section.

A. Exempt Amounts

The following amounts are exempted from tax under section 10, Income Tax Act, 2002.

i) Amounts derived by a person entitled to privileges under bilateral or a multilateral treaty concluded between Nepal Government (NG) and a foreign country or an international organization.

ii) Amounts derived by an individual from employment in the public service of the government of foreign country.

Provided that:

a) The individual is a resident person solely by reason of performing the employment or is a non-resident person and

b) The amounts are payable from the public funds of the country.

iii) Amounts derived from public fund of the foreign country by an individual who is not a citizen of Nepal as referred to in paragraph (iii) or by a member of the immediate family of the individual.

iv) Amounts derived by an individual who is not a citizen of Nepal but employed by Nepal Government on terms of a tax exemption.

v) Allowances paid by NG to widows, elder citizens, or disabled individuals.

vi) Amounts derived by way of gift, bequest, inheritance or scholarship except as required to be included in calculating income from business, employment or investment.

vii) Amounts derived by an exempt organization by way of:

a) Gift, donation.

b) Other contributions that directly relate to the exempt organization's function, whether or not the contribution is made in return for consideration provided by the organization. For example, subscription fee received by a club is exempt from tax.

c) Pension received by a Nepal Rastra Bank as per its objectives.

vii) Pension received by a Nepal citizen retirement from the army or police service of a foreign country provided the amounts are payable from the public fund of that country.

In the above section, pension amount received by Nepalese people being retire from the service by army or police of foreign country is exempted from income tax. It restricts the objective of raising more revenue of government because some of them receive more amount than the exemption limit approved by the government.

Exempt Organization

Exempt organization means the following entities:

- A social, religious, educational or charitable organization of public character registered without having profit motive.
- An amateur sporting association on formed for the purpose of promoting social or sporting amenities not involving the acquisition of gain.
- A political party registered with the electric commission.
- A village Development Committee, Municipality or District Development Committee.

- Nepal Rastra Bank
- Nepal Government.
- The prescribed entity that has been issued with a personal ruling under section 76 stating that it is an exempt organization.

Income Tax Act has mentioned the organizations, which are tax-free (exempt organization). Act has exempted social, religious, educational or charitable organization of a public character registered without having profit motive. In the case of non-transparent private business like boarding schools, NGO's or other entities, where profits are earned, but for the sake of tax planning, is called retained earnings or something else. So they are tax free. It is not food symptom of tax administration.

B. Business Exemptions and Concessions

The following business exemption and concessions are mentioned in section 11 of Income Tax Act, 2002.

i) An agricultural income derived from source in Nepal during an income year by a person, other than the income from an agriculture business derived by a registered firm, or partnership or a corporate body, or through the land about the holding ceiling as prescribed in section 12 of Land Act 1964, is exempt from income tax.

ii) Income derived by cooperative societies, registered under Cooperative Act 2048, from business mainly based on agriculture and forest products such as sericulture and silk production, horticulture and fruit processing, animal husbandry, dairy industries, poultry farming, fishery, tea gardening and processing, vegetables seeds processing, bee-keeping, Honey production, rubber farming, floriculture, and production and forestry related business such as lease-hold forestry, agro-forestry, cold storage established for the storage of vegetables, and business of agricultural seeds, insecticide, fertilizer and agricultural tools (other than machine operated) and rural community based saving and credit cooperatives are exempt from tax. Dividends distributed by such societies are also exempt from tax.

iii) Any person operating special industry during the whole income year is taxed as follows:

a) If the industry is providing direct employment to 300 or more Nepalese citizens throughout the whole year, 90 percent of the applicable tax rate (20 percent) is applied for the year.

b) Industry provided direct employment to the 1200 or more Nepalease citizen during the whole year is taxed at 80% of the rate otherwise applicable. i.e 80% of 20%.

c) Industry provided direct employment to the 100 or more Nepalease citizen including at least 33% women or downtrodden people(dalit) is taxed at 80%of the rate.

d) Industry established in SEZ other then the mentioned above is taxed as under

1'st 5 years-Taxed free

After 5 years- 50% of the rate

e) The industry operating in remote, undeveloped and under developed area will have to pay 50 percent, 70 percent, and 75 percent of the applicable tax rate (20 percent) respectively up to ten income years commencing from and including the year in which the operation commences.

f) If both exemptions are availed to the same special industry for same income, only one exemption is available as per the selection made by the industry.

g) The income received under business exemptions and concessions should be calculated separately assuming that these incomes are received by separate person. That is, income received under business exemptions and concessions should be separated from other general business and investment incomes.

h) If the assets used by the special industry were used previously by another person operating the similar type of special industry, the ten year for the latter will be counted from the period of such use by the another person previously.

iv) An individual working in a remote area is entitled to a rebate up to a maximum of Rs. 30000 by way of additional basic exemption. The exemption limit specified in Rule 38 of ITA, 2002 is under:

Area A → Rs. 30000

Area B → Rs. 24000

Area C → Rs. 18000

Area D → Rs. 12000

Area E → Rs. 6000

Now, basic exemption is:

Individual → Rs. 100000

Couple and family → Rs. 160000

Clarification - for the purpose of this section

- "Agricultural business" means the business of producing crops from public or private land or deriving rent from a tenant using land.
- "Remote area", "undeveloped area", and "underdeveloped area" have the meaning in Annex-3 of Industrial Enterprise Act (IEA) 1992.
- "Special industry" means a manufacturing industry as categorized in Section II of the IEA, 1992, other than an industry producing cigarette, bidi, chewing tobacco, Khaini, or other goods of similar using tobacco as the basic raw materials, or alcohol, beer, or other goods of a similar nature.

In the above section, there is a provision of exemption of tax from agricultural income other than income from an agricultural business derived by a firm, or company, or partnership, or a corporate body or through the land above the holding ceiling as prescribed in Land Act 1964. But the provision of taxing on agricultural income of agricultural business is not clear on itself. On the other hand, exclusion of agricultural income from tax net alone cuts out about half of the GDP.

There are various provisions about exemption and concessions. Some concessions granted to achieve certain objectives are not effective. Tax concessions encourage the establishment of industries in certain areas but they vanish or change names, ownership or place the business when the tax concession period expires. On the other hand, the concession or incentives provided to special industries are not energetic. For this kind of concession, no body will be encouraged to open the industry in remote area. For the purpose of industrial development of remote area, a separate incentive should be provided. But the new Act is also unable to do so.

C. Donation/Gift to Exempt Organization

Section 12 of ITA, 2002 has mentioned the provisions of donation or gifts given to exempt organization. The provisions are:

i) A person may claim to have their taxable income for an income year reduce by donation/gifts made by the person during the year to an exempt organization, that are approved for the purposes of this section by the department.

ii) Notwithstanding subsection (i), reductions allowed to a person under subsection (i) for an income year shall not exceed whichever is lower between Rs. 100000 or 5 percent of the person's taxable income for the year calculated without a deduction for gift referred to in subsection (i) and ignoring the limitations in 17 (2) and 18 (2).

iii) Notwithstanding subsection (i) and (ii), Nepal Government may prescribe, by a notification in the Nepal Gazette, as to allow full or partial deduction at the time of assessing a person's income of the expenses incurred for special purpose, or the expenses of gift given by the person.

iv) Donation made to Pashupati Area Development Trust (PADT) and Lumbini Area Development Trust (LADT) is deductible upto Rs. 50 lakh.

v) Any profit making entity can claim deduction for donation in the year of parliamentary election paid out of its profit before two months from the data of parliamentary election, to the approval National Political Parties up to Rs. 50 lakh.

From the above provisions (i) and (v), it is clear that the donation given to political parties is allowed for deduction. But it is not able to address the voice of people of 'transparency of donation amount given by businessman to political parties'.

Similarly in the above provision (iii), there is a provision of special purpose. But the act has not defined 'what is the special purpose?

2.2.8 Corporate Tax and Its Development in Nepal

2.1.8.1 Concept of corporate tax

A corporate body or company is an artificial person created by law. A company is a legal person just as much as individual. It is separate and distinct from its individual members. A company like a natural person can do everything. It can conduct a lawful business and enter into contacts with others in its own name. A company or corporate body is a legal organization that is voluntarily created, organized or chartered under law. It is 'an artificial person' which can own property, execute contracts, raise debts and generate profits. Corporate tax, therefore, is a tax levied on companies or corporate bodies in contrast to unincorporated enterprise. It is the tax on capital income that occurs in the form of profit and originates in the corporate sector i. e. company. The history of tax was started from 1909 in USA when 1% excise was levied in corporation i. e. companies in the ground of the privilege they enjoy. Since then, corporate tax is contributing a substantial amount of revenue to the state treasury of most of the developed and developing countries. The statutory rate percent, however, was very low in initial period increased vehemently later on after First World War and again started to be turned slow since 1980s (Kandel, 2001)

2.2.8.2 Development of Corporate Tax in Nepal

The history of corporate tax is not so long. This tax was introduced only in 1960 with the Business Profit and Remuneration Tax Act, 1960 at the first time. Initially, corporate income tax was not differentiated from personal income tax. All the taxpayer persons, companies and private firms were imposed at the same rate with progressive and exemption limit prescribed by Finance Act of 1960 to 1964. The tax exemption given to companies as similar to personal taxpayer was withdrawn from the financial year 1965/66. A separate tax system to companies was introduced by the Finance Act, 1976.

Nepal originally combined corporate income tax with individual income tax. The same rate structure was designed for corporate income and other income for many years. In 1986/87, a flat rate corporate tax was introduced for government corporations and public limited corporations listed with security exchange center. Corporate tax was extended to private limited companies in 1993/94 and partnership firms in 1995/96 (Khadka).

The third Income Tax Act was introduced in 1974 with making new changes and provisions than old one. A separate tax system to companies was introduced by the Finance Act, 1976. Finance Act, 1985 made a provision of giving 5% tax rebate from highest marginal rate of 55% to listed public companies and government enterprises. Fiscal year 1986/87 was the year when the corporate tax was really recognized by imposing a flat rate of 40% tax on taxable income of the listed companies. The same Finance Act imposed tax on dividend also to be deducted at source at the rate of 20% which after the filing of return by shareholders was to be reconciled. But the dividend tax system was changed exempting dividend to a level of 85% in 1987/88. Compulsory self-tax assessment system for public and private limited company was enacted from the financial year 1994/95. This change supported to end the discrimination between private company and public company. Another major change carried out in the fiscal year 1998/99 was the inclusion of dividend of non-industrial companies within the tax net.

After enactment of Income Tax Act 2002, the corporate tax levied upon general industries is 25%, 30% for insurance company and financial instructions. Trading companies are levied tax at the rate of 25%, manufacturing industry at 20% and specials Sector Company at 20%. Export profit which was taxed at a level of 8% or 0.5% of sales as per Finance Act 2057 was changed by the Fiscal Act 2058 has recommended, export profit from industry sector and trading sector are taxed at 20% and 25% respectively.

2.2.8.3 Corporate Tax Base in Nepal

There are controversies as regards to the choosing of corporate tax base since there may be various bases of taxation. For instance, these bases may be income, cash flow, turnover, total assets and added value etc. Among these, base-income and cash flow are mostly considered by the tax expert (Kandel, 2006).

The standard tax base is corporate income, which is the difference between the revenues from the sale of goods and services plus financial income on the one hand, and wages, depreciation, inventory costs plus interest on the other. Such costs are broadly revenue expenses incurred in the ordinary course of conducting day-to-day operation, and amortization of capital costs. Under the income- based tax system, many developing countries provide substantial tax incentives in the form of exemptions and deductions such as accelerated depreciation, investment tax credits or allowances, tax holidays etc.

Tax base may depend on the relation between corporate tax rates and personal tax rates. Different countries of the world have different choice of base for corporate tax. Most of the countries prefer corporate- profits or book profits as the tax base. For, book profit as a tax base is stronger and superior than other types of tax bases. (Khadka, 1994)

If income is taken as the base of taxation, it is called income basis or net profit basis. It means deductions of interest on debt and depreciation of fixed asset from gross profit and adjustment of capital gain, stock appreciation or depreciation etc. Since it is calculating tax base is adding up all the incomes of the company and deducting expenses incurred in earning the income. However, because of its cumbersomeness in finding out taxable income, modern tax experts are in favor of replacing it. The main causes of the cumbersomeness are treatment of revenue and expenses on accrual basis, treatment of depreciation under historical cost, measurement of capital gain and effect of inflation either interest or valuation of stock. The cash flow tax, on the other hand, is the alternative considered by economists and tax experts to replace income based taxation (Kandel, 2001).

Like other countries of the world, Nepal is also following the method of making income as base for corporate taxation. The procedure of finding out taxable income is adding up the all items of revenues that are taxable and deducting all expenses, which are allowable.

2.2.9 Concept of Tax Incentives

An income tax is a disincentive to save or invest and therefore, the incentive if to mitigate the disincentive, Tax incentive may imply a partial or complete exemption from one or a variety of taxes and special allowances for a certain period to motivate the behavior of saver or investor (Agrawal, 1978). The main aim of tax incentive is to increase savings and encourage and canalize the investment to desired area or sector. It is supposed that they encourage investment in selected manufacturing activities or improvement of product quality or utilization of domestic resource in manufacturing.

Tax incentives are concession facilities and rebates granted to corporate bodies. These incentives reduce the tax burden of an organization. It may imply a partial or full exemption from one or a variety of taxes and special allowances for a certain period for motivation the new as well as existing organizations for balanced regional development, production of primary goods and development of the corporate bodies. It increases the habit of saving and encourages the investment by means of equity shares purchasing of an organization. Thus tax incentives are a phenomenon developed specially to accelerate the slow rate of investment in most of the developing countries.

2.2.9.1 Present Provisions Related to Tax Incentives in Nepal

Previously, tax exemption facilities were provided by different acts, in Nepal. More than 18 acts were responsible to provide such facilities, the Industrial Enterprise Acts was the main. Industrial Enterprises Act of 2018, 2031, 2038 and 2049 provided such facilities. The major facilities of such type were up to 18 years tax holiday to industry; no double taxation on dividend; fixation of tax rate to industry at 20% etc. The other facilities except those were complete exemption of income tax, sales tax and excise to cottage industries, extra depreciation facility of 33.33% of ordinary rate to special industry, deduction facility of 5% of net income as donation and 5% and 10% of gross income for promotion and development of technology respectively; tax rebate of 10% to industry employing 100% of Nepalese labour and more than 80% of Nepalese raw materials. Besides stated above, the other facilities were investment allowance of 40% of capacity is increased by more than 25%, facility or allowing 50% of the pollution control expenditure facility of capitalizing the manpower development expenditure, facility of deducting the expenses incurred for employee or labour residence, life insurance, health, education, training, partial tax holiday to priority industry, tax rebate to the industries in remote areas, no double taxation on raw materials use by the industries etc. As already stated, tax incentives were not the function of Income Tax Act and Industrial Enterprise Act only at that time. Electricity Act, Petroleum Act, Foreign Investment and Technology Transfer Act also provided different types of tax facilities to concerned industries. Facilities provided by these acts were full exemption of income tax to electricity producer of up to 1000 k.w., tax holiday of up to 15 years to electricity related works: only 18%

tax rate applicable to electricity related industry; only 10% tax rate to petroleum industry and so forth.(Kandel, 2006)

The Income Tax Act, 2058 has also provided various types of tax incentives such as tax credit, accelerated depreciation, and loss set off and carry forward of losses. An individual may claim medical tax credit (sec. 51) for tax offset of medical expenses incurred for tax offset of medical expenses incurred for him self. Claim to be adjusted in year will be 15% of eligible medical expenses plus any amount carried forward in respect there from the previous year. Maximum amount that can be claimed in an income year will not exceed Rs. 750 as per rule 17. Likewise a resident person may claim a foreign tax credit as per section 71 for an income year for any foreign income tax paid by the person to the extent to which it is paid with respect to the person's assessable foreign income for the year.

Business loss can be carried forward to 4 years as per sec. 20. In the case of Banking and General insurance, sec 59(2) and sec. 60(2), business loss can be carried back to 5 years. In the case of long term contract, loss can be carried forward as per the notice of Internal Revenue Department sec. 20(4). Similarly, loss of BOT/BOOT can be carried forward up to seven years. Depreciation can be charged only on pool of assets as per sec. 19(2). Accelerated rate of depreciation is available only to manufacturing industry as per sec.3 of Industrial Enterprise Act 1992 and other specific sections 19(2).

2.3 Review of Related Materials

2.3.1 Review of Books

Dr. Rup Bahadur Khadka had written a book entitled, "Nepalese Taxation: A Path for Reform", in 1994. The book dealt with both national and international taxes. The writer had detailed describe the scenario of Nepalese tax system from origin of income tax, adoption of quasi-global or a limited scheduler system, segregation of corporate income tax from individual income tax, increasing dependence on the presumptive basis, basic allowance and progressive rate structure, move from joint taxation to individual taxation and shift from itemized to flat system of standard expenses, experiment with an advance tax on impacts and the existing structure, commodity taxes and poverty taxes. He had evaluated the Nepalese tax system base on conventional, theoretical concepts and suggested various measures for its improvement. The book had not been directly focused on corporate tax only but explains the whole Nepalese taxation system and structure for its reform.

Bidhyadhar Mallik had written a book entitled, "Nepalko Adhunik Aayakar Pranali" in 2003. This book especially deals with the thorough analysis of income tax act, 2058 with example. Every section of income tax act has been clarified with suitable examples. He had written about the development of existing income tax and need and importance of income tax system in Nepal. The new provision made by income tax, 2058 about tax base, computation of income ,tax exempt amount, deduction allowable, accounting of tax , capital gain, retirement saving and tax, dividend tax, capital gain and international taxation tax auditing have been clarified precisely in his book. Similarly, the book had also explained about tax administration, documentation, information collection payment of tax, installment tax, income statements, tax-assessment, tax collection, review and appeal, fees and interest, fine and penalties, tax rates and determination of provision of depreciation etc.

K. P. Aryal and S. P. Paudel had written a book entitled, "Taxation in Nepal" in 2009. They had explained about the income tax system in Nepal along with house and land tax and value added tax. The book has been designed based on the curriculum of B.B.A. It had been divided into three parts. In the first part of the book introduction and development of income tax, capital and revenue nature expenses and income items, entity and retirement saving, dividend tax, computation of income from business, remuneration and investment have been explained with numerical and theoretical examples. House and land tax and value added tax have been explained in the second and third part respectively, the book also included proper bibliography and adequate appendix where various income tax, house and land rent and vat related forms, schedules and format had been described.

Lastly, he had recommended to mobilize additional domestic resources through taxation, tax structure should be redesigned in order to increase the role of direct tax; income tax should be reformed in Nepal etc.

A senior researcher in the field of Nepalese taxation, Dr. Govinda Ram Agrawal had conducted a research entitled, "Resource Mobilization for Development: The Reform of Income Tax in Nepal "published by CEDA in July, 1978. The main objective of his study were to examine the problem of growing resource gap in Nepalese finance in the context of the role of income tax, to examine the buoyancy and elasticity of income tax in Nepal including projection if income tax, to examine the ways and means for increasing tax consciousness in Nepalese people etc.

In 1980, Dr. Govinda Ram Agrawal had written a book entitled, "Resource Mobilization in Nepal" published by CEDA. The book had been divided into eight chapters; the first chapter deals with special reference to Nepal. The second chapter deals with fiscal policies in developing nation and Nepal and third chapter looks at income tax in Nepal from the historical perspective, the fourth chapter deals with structure of Nepalese taxation.

In the fourth chapter related to tax structure, the writer had concluded that taxation trend in Nepal have shown that role of indirect taxes have been predominant in the tax structure. More than 60% of tax revenue was derived from foreign trade alone. However, since 1974/75 the role of income tax had been increasing.

Dr. Agrawal had made an empirical study taking tax policy makers, tax experts, tax administration, tax lawyers and accountants and taxpayers of different parts of Nepal. From that study he had concluded that Nepalese taxpayers were favorably disposed to income tax. However, the major constraints in the effective functioning of tax system seem to be administrative deficiencies, poor tax paying habits, lack of taxpayer’s education, complex procedures and defective tax information system.

2.2.3 Review of Research Reports and Articles

Damber Bahadur Pant had written an article entitled, "Problems in Tax Administration and their Remedies" published in Journal of finance and development 'Rajaswa' 2004, April vol. 1. He had comprehensively explained about the problems and their remedies related with tax revenue. The major types of practical problems and challenges, in tax administration. He had mentioned in his article were showing limited amount of transaction showing low selling price, lack of issuing and taking bills, lack of showing the real factory cost, commercial fraud, lack of co-operation in tax auditing, legal ambiguity and complexity in implementation and lack of coordination between Inland Revenue Department and Revenue Investigation Unit. Meanwhile, he had recommended some valuable suggestions to solve the problems and to overcome the challenges. They were: statistical and information system should be properly managed, fixed norms and standards should be used to assess selling price and factory cost, the billing system should be made compulsory, coordination between Inland Revenue Office with various entities of Government, Revenue Investigation Department and its related units should play the important role.

Dr. Puspa Raj Kandel had written an article entitled, "Are Tax Incentives Useful? If so, which one?" published in Journal of Finance and Development, 'Rajaswa', Volume1 2004, April. In that article he had tried to seek the answer from the survey of various empirical studies earlier done in Nepal, India, Pakistan and other western countries. He found that the tax incentives are still the controversial matter whether they promote the investments or not. But he argued that most of the developing countries need tax incentives.

As per the empirical studies done in various countries the conclusion that among different types of tax incentives, investment allowance or investment tax credit and accelerated depreciation are superior to other types of tax incentives. Tax holiday is the most inferior type of tax incentive, which causes revenue loss without enhancing the investment environment. Meanwhile, most of the researchers have opposed the tax holiday system both within Nepal and outside Nepal.

He further added that the survey of the studies indicate that accelerated depreciation system had positive impact on investment. The work of reducing tax rate, especially, followed after 1990s to such lowest rate was not a proper decision. That is why, if Nepal wants to go to tax incentives again, she should adopt investment allowance or investment tax credit, not the full tax holiday in future.

United Nation published a journal on public finance entitled, "Guidelines for improving tax administration in developing countries” in 1977. The study was divided into four separate parts. Among them reforming the structural organization of the tax administration and explained in two separate sub topics i.e. guidelines for appropriate initiatives and underlying consideration and explanatory commentary. Functions of tax administration are identification and registration of taxpayer's education, information provider and assistance etc. The study had explained these two functions and the study had recommended some valuable suggestions to the developing countries.

2.3 Research Gap

All the research studies mentioned above are concerned with study of laws, provisions, administrative aspects and structure of tax. Most of them have indicated the inefficiency of tax administration, widespread tax evasion. No attention is paid on a particular problem. Many of them have taken various problems as their research objectives and no thoroughly study on a particular subject problems is done except few of the research work.

Nepalese corporate sector is small and stagnant in nature and the performance of public sector, private and government sector is poor. Contribution of income tax from corporate sector plays vital role in Nepalese economy. Regarding the fact that the considerable contribution of corporate sector in the economy of other developing countries, I found no more study done in the contribution of corporate income tax to government revenue of Nepal. So, this study has been undertaken analytically and intensively to analyze the structural composition of income tax, to find about the condition of problem in income tax collection and to analyze corporate income tax contribution to government revenue and fulfilling the resource gap from an internal source.

CHAPTER THREE

RESEARCH METHODOLODY

This chapter is devoted to the research methodology applied in the study for the achievement for desired objective. Both primary as well as secondary sources of data are used to conduct this study. There are five parts is research design, population and sampling, sources of data, procedures of data collection

3.1 Research design

The research topic entitled **"Income Taxation in Nepal: Analysis of Structure and problem"** is abstracted from the socio- economic environment of Nepal. As the income tax system and structure is based on various rules, regulations and acts, which are always setting on different countries, own socio- economic infrastructure, descriptive research design is more suitable to analyze Nepalese corporate tax structure. For contribution of corporate income tax, the study needs to analyze its past performance in different time period with respective indicators. So, historical as well as descriptive research design is used.

3.2 Population and Sampling

The targeted whole area relating to government revenue or national revenue is set for the research population. Income tax, especially, corporate income tax is taken as size.

3.3 Sources of Data

According to the nature of study, the study requires primary as well as secondary data.

3.3.1 Primary Data were collected through a schedule of self- structured questionnaires, informal dialogues, discussions and interviews with concerned persons. Separate sets of questionnaires were used to have options/information from two-sample population.

3.3.2 Secondary Data were annual report of IRD/N of different years, economic survey of various years, published by MOF, Nepal Rastra Bank's Economic bulletin of various time, Different types wed side, Central Bureau of Statistics, Various thesis related books and Formal thesis sample etc.

3.4 Data and Information Processing and Data analysis Procedure

Various numerical data and information are collected as per the objective of the study and research questions. Firstly, laws, rules, regulations and policies related to income tax and corporate tax are studied to get more information about corporate income tax including book related to public finance. Secondly, different libraries such as Chamber of Commerce, FNCCI, NRB are also consulted. Thirdly, the numerical data are collected from the publication of annual reports of IRD/N, economic bulletin of NRB, economic survey of MOF, publication of security board, CBS, budget speeches etc. Lastly, various journals, national newspapers are also reviewed. Respective parties are consulted while analyzing the research questions.

The collected data are classified, tabulated and analyzed in descriptive and analytical way as per the subject matter. Likewise, the required accounting principle, mathematical approaches and legal provisions of ITA, 2058 are taken into consideration in data analysis procedure.

3.6 Presentation and Analytical Tools

Various tools are applied while conducting this study, which is table, percentage, regression correlation and time series analysis.

a. Table: Various tables are formulated to tabulate the data.
b. Charts and diagrams: These tools are used for visually description of the data, trend line, bar diagrams and pie charts are used for this purpose.
c. Regression analysis : Coefficient of determination explains how good is

the fit of the estimated regression line to the sample observation of variables. So, it is the measurement of dispersion of observation around the regression line.

Coefficient of determination here is taken as a measure of goodness of fit, as it shows the percentage of total variation of the dependent variable that can be explained by the independent variable like X.

r^2 = Explained variation/Total variation or RSS/TSS

Here, ESS = Residual sum of square
RSS = Explained sum of square
TSS = Total sum of square
ESS = TSS – RSS

Another criteria as a measure of a goodness of fit is adjusted coefficient of multiple determination r bar square (simple regression) or R bar square (multiple regression).
It is given by: r square or R bar square = (ESS/n-k)/ (TSS/n-1) – (Aryal, Gautam, 2001)

Where,
TSS = Total sum of square
E SS = Unexplained sum of square
n = no. of observation
k = no. of parameters in the model including intercept term.

d. Correlation: Correlation may be defined, as the degree of linear relationship between two are more variables. Two variables are said to be correlated when the change in the value of one variable is accompanied by the change of another variable. Correlation analysis is defined as the statistical technique, which measures the variables, which lie between ±1. If the value of correlation (r) is nearer to +1, this relationship is said to be perfectly positively correlated and vice- versa. We can compute the correlation simply by using direct method.

$$\frac{N\Sigma XY - \Sigma X.\ \Sigma Y}{N\Sigma X^2 - (\Sigma X)^2 \quad N\Sigma Y^2 - (\Sigma Y)^2}$$

Where,

n = No. of observation

X= Variables

Y= Variables

d. Analysis of time series: A series formed from a set of statistical data arranged in accordance with their time of occurrence is said to be a time series. A time series shows the relation between two variables one being the time. The size of the population in every decade, the price level of the different in every month the volume of population in every year indicate the relation between the time changes and the changes in the value of other variable. Time series analysis is mostly used in Business and economics, by which we can predict the value of variable for the future. Mathematically, a time series is defined as the functional relationship Y= f{t}, where y is the value of the variable consideration in time. The time 'T' may be yearly, quarterly, monthly, weekly etc. There is various method of analyzing time series, least square method is chosen as the best method in showing trend and prediction in our research. A widely and most commonly used method to describe the trend line and predication is method of least square. Under this method, a trend line is fitted to data satisfying $\Sigma(Y\text{-}Y1) = 0$, and $\Sigma(Y\text{-}Y1)^2$ is least from that the line obtained by this method is the line of best fit.

Where, y is the actual value and Y1 is the computed value of Y.

Trend line, $Y= a + bx$

Where,

Y= Dependent variable

X= Independent variable

A= y intercept or value of Y when X= 0

B = slope of the trend line of amount (of) change that comes in Y for a unit change in X.

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CHAPTER-FOUR
PRESENTATIONAND ANALYSIS OF DATA

4.1 Analysis the income tax structure

Presentation and Analysis of data on the basis of secondary sources.

4.1.1 Structure of Total Revenue

Total revenue in Nepal is composed of total tax revenue and total non-tax revenue. When the government of Nepal presented first national budget in 1951/52, the revenue structure was typically that of traditional economy with 73 percent of government receipts coming from non-tax source and land tax, out of 73 percent, the share of non-tax revenue was 43 percent. In 1960' the share of non-tax revenue declined drastically because of the increasing contribution of indirect tax on foreign trade. In 2010/11 the share of non-tax revenue is 22 percent of total revenue as compared with 25.15 percent in 2006\07. On the other hand, the share of tax revenue of the initial period of the study (FY 2006\07) was74.85 percent of the total revenue and increase to 77.29 percent in fiscal year 2010\11.But decrease in 2008/09 at 79.12 percent which is presented in the following table and graph.

Table 1: Structure of Total Revenue

In million

Fiscal Year	Total GDP (current prices)	Total Revenue	Tax Revenue	Non Tax Revenue	Tax Revenue as percent of Total Revenue	Non-Tax Revenue as Percent of Total Revenue
2006\07	727827.0	87712.1	71126.7	16585.4	81.09	18.91
2007/08	815658.0	107622.5	85155.5	22467.0	79.12	20.88
2008/09	988053.0	143474.5	117051.9	26422.6	81.58	18.42
2009/10	1171905.0	179945.8	156294.9	23649.7	86.86	13.14
2010\11	1346816.0	199819.6	172755.2	27064	86.46	13.54

Source: NRB Quarterly Economic Bulletin of Various Years

From the above table, it can be concluded that the contribution of tax revenue on total revenue is fluctuating from 74 percent to 89 percent. So the tax revenue contributes about three four of the total revenue. This indicates that tax revenue has the significant role in total revenue. The structure and contribution of tax revenue is shown graphically as follows:

4.1.2 Structure of Tax Revenue

Tax revenue is composed of direct and indirect tax. There has been simultaneous increase in direct tax, indirect tax and the total tax revenue in absolute term. In 2006\07, the amount was Rs. 16726.7 million, Rs. 54399.9 million and Rs. 71126.7 million respectively and during the period of 6 years; this amount became Rs. (13961.5 million, Rs. 43465.5 and Rs. 57427.0 million.)The basic reason for increment was due to the expansion of tax base and rates.

Despite the absolute increment of direct tax during the study period, its share in total tax revenue is in fluctuation trend. In 2006\07, its share was 23.52 percent amounting Rs. 16726.8 million, after that it has increased continuously and reached to 30.89 percent amounting Rs. 34320.3 million in 2008/09 which is the highest share during the study period. In 2009/10, it decreased and reached to 26.71 percent amount Rs. 41750.2 million. And again in 2010/11 it started to increase and reach (24.31 percent, amounting 13961.5). Hence, the share of direct tax to total tax revenue is in between 23 to 31 percent during the study period. The contribution of indirect tax in 2006\07 was 76.48 percent amounting to Rs. 54399.9 and after that it has decrease continuously and reached to 69.11 percent amounting to Rs. 827321.1 million in the period from 2006\07 to 2008\09 and then it increase and reached to 73.28 percent amounting to Rs. 114544.7 million in 2009\10. In the fiscal year 2010/11 it again (increased and reached at 76.27 percent amounting million). This implies the significant role in tax revenue. From the following table, we can see that there is the greatest reliance on indirect tax and it needs to shift towards the direct tax. The structure of total tax revenue has shown in the following table no 2.

Table 2: Contribution of Direct and Indirect tax to Total Tax Revenue

In millions

Fiscal Year	Total GDP	Total Tax Revenue	Total Direct Tax	Total Indirect Tax	Percentage of Direct Tax to Total Tax Revenue	Percentage of Indirect Tax to Total Tax Revenue
2006/07	727827.0	71126.7	16726.8	54399.9	23.52	76.48
2007/08	815658.0	85155.5	23087.8	62067.7	27.11	72.89
2008/09	988053.0	111092.4	34320.3	827321.1	30.89	69.11
2009/10	1171905.0	156294.9	41750.2	114544.7	26.71	73.28
2010/11	1346816.0	172755.2	48641	124114.3	28.16	71.84

Source: Economic survey 2067\68, Annual report of Inland Revenue Department and annual report of Nepal Rastra Bank

4.1.3 Contribution of Direct and Indirect Tax on Total Tax Revenue

Direct and Indirect tax is directly affected to the total revenue of the country. The contribution of indirect tax is greater than direct tax that is shown in below.

Table3: Contribution of Direct and Indirect Tax on Total Tax

in millions

Fiscal Year	Total Tax Revenue	Direct Tax Revenue	% of DTR on TTR	Indirect Tax Revenue	% of Ind.TR on TTR
2006/07	71,126.7	16,726.8	23.52	54,399.9	76.48
2007/08	85,155.5	23,087.8	27.11	62,067.7	72.89
2008/09	111,092.4	34,320.3	30.89	76772.1	69.11
2009/10	156,294.9	41,750.2	26.71	114,544.7	73.28
2010/11	172755.2	48641	28.16	124114.3	71.84

Sources: Economic Survey of different years and Annual report of Inland Revenue Department

From the above table, we find that there has been simultaneous increase in direct tax, indirect tax and total tax revenue in absolute terms. In 2006\07, these amounts were Rs. 16,726.8 million, Rs. 54,399.9 million and Rs.71,126.7 million respectively and during the period of five years these amounts became Rs. 48641million, Rs. 124114.3million and Rs. 172755.2 million respectively.

Despite of absolute increment of direct tax, its contribution to total tax revenue in FY2006/07 was 23.52% amounting to Rs 16726.8 million, which increased up to 30.89% amounting Rs 34320.3 million in the FY 2008/09. But the direct tax contribution percentage to total tax revenue was decreased down to 26.71% amounting Rs. 41750.2 million in FY 2009/10 and it slightly increased up to 28.16% amounting Rs. 48641 million in the FY 2010\11. The contribution of indirect tax in FY 2006\07 was 76.48% amounting Rs. 54399.9 million. After then it was decreased to 69.11% amounting Rs 827321.1 million in FY 2008/09 and (it was 71.84 amounting to Rs 124114.3 million in FY 2010\11.

Comparing direct and indirect tax, it reveals that the heavy reliance of economy is on indirect taxation. An indirect tax is considered regressive in nature; the tax structure of Nepal is not justifiable in equity ground and progressiveness. So, to direct the economy in the channel of development, it is necessary to increase the share of direct tax, ultimately decreasing the share of indirect tax. Therefore the attention should be paid on the sufficient resource mobilization through internal sources.

4 .1.4 Composition of Indirect Tax

Many economists believe that indirect tax has an adverse affects on savings, investment, consumption, production and distribution of wealth. However, the fact is that in LDCs like Nepal, indirect taxes are the major sources of tax revenue. This is because indirect tax can be easily collected through the producers and sellers. It is also used in LDCs for curtailing luxury consumption (which are usually imported) and encouraging savings and capital investment. In the context of Nepal, the government generates indirect tax from custom duty and tax on consumption production as indirect tax. Composition of indirect tax from FY 2006\07 to 2010\11 has been shown in the table 4

Table4: Composition of Indirect Tax

(Rs. in millions)

FY	Indirect tax	Custom Duties		Tax on Consumption and Production	
		Total	Custom as % of IT	Total	As % of IT
2006/07	54,399.9	16707.6	30.71	37692.3	69.29
2007/08	62,067.7	21062.4	33.93	41005.3	66.07
2008/09	76772.1	26792.9	34.90	49979.2	65.10
2009/10	114,544.7	35150.8	30.69	79393.9	69.31
2010/11	124114.3	35708.6	28.77	88405.7	71.23

Source: Economic survey 2010\11, Annual report of NRB

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Indirect tax is composed of two major tax headings in Nepal: custom duty and tax on consumption and production. Clearly table shows that the custom takes very important place in the composition of indirect tax, although it is continuously decreasing due to trade liberalization policy in the world. The percentage share of tax on consumption and production is little higher than custom duty in indirect tax. Tax on consumption and production is composed by excise duty and value added tax.. The custom duty was 16707.6 million in FY 2006/07 and increased to35708.6 million in 2010\11 but the percentage share of custom duty in indirect tax decreased from 30 to 28.77 percent of indirect taxation.

According to the table in FY 2006\2007, total indirect tax revenue was Rs.54399.9million which continuously increased and reached at Rs.88405.7 in

FY 2010\11 because the number of firms under VAT registration has been increased. Tax on consumption and production increased slightly and reached to 71.23 percent however custom duty decreased at 28.77 percent during the study period. However, the share of tax on consumption and production total indirect tax has increased from 65percent to 72 percent during the study period. The major causes in increase in the share of tax on consumption and production is implementation of VAT, trade liberalization, and implementation of SAPTA and SAFTA. To increase the share of tax on consumption and production the government has to impose tax at high rate on the production of the goods which are harmful to society.

Continuous reduction in custom duty may harm the infant industries in Nepal. As Nepal has become member of WTO it has to follow its principle which may destroy native industries. Nepal may become the market of industrialist countries in future. In this situation Nepal should be conscious about the matter.

4.1.5 Composition of direct tax

The major components of direct tax are income tax, house & land rent tax, and interest tax The share of major components of direct tax is given in the following table.

Table5:- Composition of direct tax

In millions

Fiscal Year	Direct Tax Revenue	Income Tax	% Age	Land and Building Regist	% age	Vehicle Tax and other tax	% age
2006/07	18979.6	15730	82.88	2238.7	11.79	1011	5.33
2007/08	23070.8	19067.5	82.65	2933	12.71	1070.2	4.64
2008/09	34552.6	27479.7	79.53	5248.4	15.19	1824.5	5.28
2009/10	41760.5	33832.1	81.01	5510.8	13.20	2417.6	5.79
2010/11	48641	42066.3	86.48	3552	7.30	3022.6	6.22

Source:- Economic Surveys of Different Years and Annual report of Nepal Rastra Bank

Table shows that the contribution of income tax was higher than other taxes and it occupied the largest share in the direct tax. The percent share of income tax to direct tax in FY 2006\07 was 82.88% amounting Rs. 15730 million, which gradually decreased unto 79.53 percent amounting Rs. 27479.7 million in FY 2008\09. After than in FY2009\10 which is gradually increase and its contribution on direct tax is 86.48% amounting Rs. 42066.3 million in2010\11 . Land and Building registration tax has contributed 11.79% amounting Rs.2238.7 million in the FY 2006/07, which has increased to 15.19 % in FY 2008/09 and again decreased to 13.20% in FY 2009\10. In FY 2010/11, its contribution on direct tax was 7.30%.Vehicle Tax and other tax share in direct tax revenue is in fluctuation trend. In 2006\07, its share was 5.33 percent amounting Rs. 1011 million, it has decreased and reached to 4.64 percent amounting Rs.1070.2 million in 2007/08 which is the lowest share during the study period. After than continuously increased and reached to 6.22 percent amounting Rs.3022.6 in 2010\11.

4.1.6 Contribution of Total Revenue, Tax Revenue, Direct Tax and Indirect Tax as Percent of GDP

The contribution of total revenue on GDP has increased from 12 percent to 15 percent as compared with 2006\07 to 2010/11. Thus, the contribution of total revenue on GDP is increasing in slower pace.

The contribution of tax revenue on GDP is also increasing. In 2006\07, the share of tax revenue was 7.12 percent, which was increased to 12.84 percent in 2010\11. In2006\07, the contribution of indirect tax and direct tax was 4.96 percent and 2.16 percent respectively which have increased to 9.21percent and 3.61 percent in2010\11.

Table 6: Total Revenue, Tax Revenue, Direct Tax and Indirect Tax as Percent of GDP

Rs. in million

Fiscal Year	Total GDP	Total Revenue as % of GDP	Tax Revenue as % of GDP	Direct Tax as % of GDP	Indirect Tax as % of GDP
2006/07	727827.0	12.1	7.12	2.16	4.96
2007/08	815658.0	13.2	10.44	2.83	7.61
2008/09	988053.0	14.5	11.24	3.17	8.07
2009/10	1171905.0	15.35	13.34	3.55	9.79
2010/11	1346816.0	14.84	12.82	3.61	9.21

Source: Quarterly Economic Bulletin Published by NRB, Different years

4.1.7 Structure of income tax

Until 1993/94, income tax revenue was divided into corporate income tax, individual income tax, and remuneration. After 1993/94, the income tax revenue was divided into four groups i.e. corporate income tax, individual income tax, house and land rent tax and interest tax. Corporate tax is collected from government corporations, public and limited companies, partnership firms. Individual tax is collected from remuneration, industry, and profession or vocation. Interest tax is collected from banks or finance companies that pay interest on all type of deposits and the house rent tax is levied on income obtained on renting house and land in urban areas. Since 2002/03, interest tax and house and land tax are included in investment income tax. The structure and trend of income tax revenue is given in the following table.

Table No. 7:- Structure of Income Tax (From 2006\07to 2010/11)

Rs. in Million

Fiscal Year / Sources of income tax	2006/07	2007\08	2008/09	2009/10	2010/11
A) Corporate income Tax	**11604.9**	**13263.2**	**19646.4**	**24054.3**	**28807.2**
– Government corporation	1019.5	183.4	959.7	1132.5	1282
– Public limited company	5716.4	7207.3	9428.2	12023.5	13967.2
– Private limited company	2310	3135.2	4200.5	6268.8	7232.9
– Income from other institute	2559	2737.3	5058	4629.4	6325.2
B) Individual income tax	**2006.8**	**2452.2**	**3398.5**	**4420**	**5863.8**
– Remuneration	2006.8	2452.2	3398.5	4420	5863.8
C) Investment income tax (income from other sources) (House and land rent tax, dividend, tax, interest tax etc.)	**2118.3**	**3298.4**	**4434.8**	**5357.8**	**7395.4**
Total (A+B+C)	**15730**	**19067.5**	**27479.7**	**33832.1**	**42066.3**

Source: Annual Report of Various Years, I.R.D., and Quarterly Economic Bulletin of NRB, 2010, Economic Survey, 2010

Table no 7, we can see that the aggregate amount of corporate income tax gradually increased in 2006/07 to 20010/11.Government Corporation had contributed about half percent up to 2000/01, but then after it had decreased. Now day Public limited company had contribution half percent to total corporate income tax. The corporate income tax plays the vital role in contributing to income tax.

The contribution of individual income tax to the total income tax is in increasing trend. Its share in 2006\07was Rs.2006.8 million which increased up to Rs. 5863.8 million in 2010\11. Within individual income tax, the contribution of remuneration income tax is continuously increasing up to the end of study period.

The contribution of investment income tax is also increasing trend.

Table no. 8:- Components of Income Tax and their Share (From 2006/07 to2010\11)

Rs. in million

Year	Total income tax	Corporate income tax	Percent of total income tax	Individual of income tax	Percent of total income tax	Investment income tax	Percent of total income tax
2006/07	15730	11604.9	73.78	2006.8	12.76	2118.3	13.46
2007/08	19067.5	13263.2	69.56	2452	12.86	3298.4	17.58
2008/09	27479.7	19646.4	71.49	3398.5	12.37	4434.8	16.14
2009/10	33832.1	24053.3	71.10	4420	13.06	5357.8	15.84
2010/11	42066.3	28807.2	68.48	5863.8	13.94	7395.4	17.58

Source: Quarter Economic Bulletin of Nepal Rastra Bank and Annual Repot of Various Years, Inland Revenue Department.

The share of corporate income tax on total income tax was 73.78 percent in 2006\07, which decreased to 69.56 percent in 2007\08. In 2008\09, it started to increase and reached to 71.49 per cent. In 2009/10, it again decrease and reached to 71.10 percent. In 2010\11the share of corporate income tax on total income tax is 68.48 per cent, less than previous year. Hence, the share of corporate income to total income tax was not consistent but it contributed about half percent or more of total income tax. Similarly, the share of individual income tax to total income tax was also fluctuating year to year. In2006\07, it had contributed12.76 percent on total income tax, which increase to 12.86 percent in 2007\08, From2008\09 it started to increased continuously since two years and reached to 13.94 percent in 2010\11.The contribution of investment income tax was also fluctuated. Its contribution amount was increasing continuously but share was not increase continuously. Its share in 2006\07was 13.46 percent, which increased and reached to 17.58 percent in 2007\08 but it again started to decrease and reached to 15.84 percent in2009\10. In 2010\11 the share of investment income tax on total income tax is 17.58 percent.

4.1.7 Contribution of Income Tax in Nepal

Nepal has late started in practicing of income tax. First of all, income tax was imposed in 1959/60 A.D. as business profit and remuneration tax. In 1962, the first Income Tax Act was enacted which replaced the business Profit and Remuneration Tax Act, 1959. After the introduction of new Act, the share of income tax is increasing continuously. The role of income tax is the economic development of Nepal will be very clear, if we review the magnitude and share of income tax on GDP, total revenue, total tax revenue, and direct tax revenue.

The contribution of income tax on different revenue for the study period is given in the following table no. 9.

Table no. 9:- Contribution of Income Tax on Different Revenue Heads

Rs. in million

Fiscal Year	Income tax	Income Tax as percent of total GDP	Income Tax as percent of total revenue	Income Tax as percent of tax revenue	Income Tax as percent of direct tax
2006/07	15730	2.16	17.93	22.10	82.88
2007/08	19067.5	2.3	17.72	22.39	82.65
2008/09	27479.7	2.8	19.15	23.48	79.53
2009/10	33832.1	2.9	18.80	21.65	81.01
2010/11	42066.3	3.1	21.05	24.35	86.48

Source: NRB Quarterly Economic Bulletin (2006/07) CBS 2006

Total income tax in 2006\07 was Rs. 15730 million and increased to Rs. 42066.3 million in 2010\11. In the study period, income tax was the third largest share of tax revenue in Nepal.

The share of income tax to total direct tax was 82.88 percent in 2006\07 which regularly decreased and reached at 79.53 percent in the period of 2006\07 to 2008\09 and then after it was continuously increased and reached at 81.01 percent in 2009/10. After 2009/10, it again started to increase and reached at 86.48 percent in 2010\11. In overall, it is increasing continuously and is main source of direct tax.

The share of income tax to total revenue was 17.93 percent in 2006\07 which decreased to 17.72 percent in the period of mid 2006\07 to mid 2007\08. After then it has increased. Its contribution to the total tax revenue was 19.15 percent in 2008\09. After 2009/10, it again started to decrease and reached to 18.80 percent in 2009\10.in 2010\11 share of income tax to total revenue is 21.05 in overall; its share in total tax revenue is also increasing. Similarly, its share on total tax revenue and total GDP was 22.10 and 2.16 percent respectively in 2006\07, which increased to 23.48 and 2.8 in the period of 2006\07 to 2008\09. In 2010/11 its share 24.35 percent of total revenue and 3.1 percent of total GDP, which is the highest contribution during the study period. From the above table, we can say that the income tax is one of the main sources of direct tax in Nepal. But the contribution of income tax to the total tax revenue is still lower than the developed countries. Nevertheless, income tax is most likely to surpass the custom duties in future and will be the second largest source of revenue and the first largest source will be VAT.

4.2 Resources mobilization and problems of resources gap

The resource mobilization is the main challenge in the economic development of the country. The internal resource plays vital role in economic development of the country. Government collects the resources from different ways. The tax structure is major source of revenue for the government. Government has imposed two types of tax like direct and indirect tax. In the present tax structure, the government revenue comes more from indirect taxes rather than direct tax. Tax policy has to be made a part of the instrument of the development goals.

The need of mobilization of financial resources has been seen growing rapidly since planned development efforts began in Nepal. This need has been specially pronounced the urgency for domestic resources mobilization. If we see the details of financial outlay in various development plans the resources need has increased…. Times being the 12plans outlay of ……million in comparison to the first plan outlay of 3.3o million. This has indicated a rapidly increasing trend in financial outlays for development.

In developing countries use of foreign aids and loans has produced bitters experiences as well as mixed consequences. The repayments of principle and interest in providing to be a net burden for many of them. It can at most occupy only a marginal and development activities. Mobilization of resources from domestic sources in the only viable stress needs to be placed on financing of development efforts in foreign aid should be taken as complement to domestic efforts not substitute for domestic sources of government financing.

The success of development efforts of any country depends on its ability to mobilize additional internal resources to finances regular and development expenditure. Taxes considered safer and better means for the mobilization of additional financial resources as compared to other internal and foreign resources as compared to other foreign sources of deficit financing. Income tax is one of the major components in total tax revenue. The rate of total tax and income tax for additional financial resources is analyzed on the basis of their relative contribution to the GDP.

Developing countries have been experiencing a serious and growing resource gap problem in development finance because of the growth of government expenditure vis-à-vis revenue from internal sources. Considering the present world economy situation with world wise depression and inflation too much dependency on foreign grant might lead to disastrous economic situation at home due to unreliable source of financing. It is very difficult to state anything about the trend of foreign grant. One can fairly guess that the bilateral grants likely to remain static or even may decline in the yeas to come.

Earlier the public finance was solely treated from the public revenue point of view. So, taxation received more importance than the public expenditure. However in modern times this approach has been symmetrical in nature with equal emphasis on public revenue and public expenditure. The importance of public revenue, not only in deciding the magnitude of the public sector but also to its overall performance can not exaggerate in any developing country. Many fiscal economists have examined this problem and have come out with the conclusion that government should raise at least 20 percent of GDP as its revenue in order to meet the development needs and also to produce desirable effect in the economy.

In Nepal, the major portion of the development expenditure would govern by foreign aid and foreign loans. To look at the magnitude of the resource gap one has to examine the trends of the public expenditure and the public revenue in Nepal.

Nepal has been experiencing a serious and growing resource gap in development finance because of the growth of government expenditure vis-à-vis revenue from internal sources. The Resource Gap A' shows the actual condition of economy without dependency of external sources while 'Resource gap B' shows that economy which is dependent on public revenue and foreign aid (grants) not on loans (internal and well as external) components. The table 10 shows the trend of resource gap including and without including foreign aid.

Table10 : Trend of Resource Gap in Nepal Rs.

In Million

F.Y.	Total Expend.	Total Revenue	Resources Gap A	Foreign Aid(grant)	Resources Gap B	Foreign Aid(loan)	Resources Gap C
2006\07	133605	87712.1	45892.9	15800.8	30092.1	10053.5	20038.6
2007\08	161350	107622.7	53727.3	20320.7	33406.6	8979.9	24426.7
2008\09	219662	143474.4	76187.6	26382.8	49804.8	9968.9	39835.9
2009\10	259689	179940.4	79748.6	38546	41202.6	11223.4	29979.2
2010\2011	215322	199819.6					

Source: - Annual report of NRB and Economic survey 2010\11

Table 10 reveals if resource gap is considered the difference between total expenditure and total revenue of the country, it is Rs.45892.9 and 79748.6 million in FY2006\07and FY 2009\10 respectively, is shown by 'Resource Gap A' in the following table. Resource Gap A is continuously increasing from 2006\07up to2010\11. The 'Resource Gap A' shows the actual conditions of domestic economy and it is totally deficit for the nation's economy to meet the financial requirements for the government expenditure on regular as well as development sectors. The 'Resource Gap A' is a clear indication of the poor performance of resource mobilization at the domestic sector on the one hand and a higher growth of the public expenditure on the other. The 'Resource Gap A' is known as fiscal deficit in public economy.

If resource gap is considered the difference between total expenditure and total revenue plus foreign aid (grants), it is Rs. 30082.1, 33406.6, 49804.8, 41202.6and (………)million is shown the 'Resource Gap B' in FY 2006\07, 2007\08, 2008\09,2009\10 and 2010/11. It is smaller than the total revenue. The foreign aid is collected through bilateral and multilateral sector. The 'Resource Gap B' is known as budget deficit in public economy.

Considering the present world economic situation with worldwide recession and inflation too much dependency on foreign grant might lead to disastrous economic situation at home due to unreliable source of foreign grant, one can fairly guess that the bilateral grant is likely to remain static or even may decline in the years too come.

If resource gap is considered the total expenditure minus total revenue plus foreign aid (loans and grants), it is Rs. 20035.6, 24426.7, 39335.9, 29979.2 and (……..)Million in FY2006\07, 2007\08, 2008\09, 2009\10and 2010/11 is shown by 'Resource Gap C' in the table 10. The foreign aid (loans and grants) is collected through bilateral and multilateral sectors. The 'Resource

Gap C' is only cover through internal loan from banking and non-banking sectors, change in cash balance and so on.

In such situation the government should rely less on foreign aid in the years to come. Therefore, the government of Nepal has no option but to rely mostly on the domestic sources for meeting the increasing public expenditure because of other two options are neither feasible nor desirable politically and economically. Therefore, the only option left the government is to strengthen the efforts of domestic resource mobilization that will avoid the inflationary consequences of deficit financing and would not require the curtailment of public expenditures.

4.3 Corporate income tax on government revenue

4.3.1 Corporate Tax Rate Structure in Nepal

Tax rate is the base of measurement of tax liability. Tax should not be so high only for minimum revenue realization but should be activator for the private investment. Developing countries like Nepal needs to boost up their economic conditions by developing industries and trade within the country. For this, corporate tax rate also plays a vital role. Imposition of tax on corporate profit was started with the enactment of Business Profit and Remuneration Tax Act, 1960. The starting corporate tax rate was 25% and it was levied on progressive way. The tax amount was calculated on different slabs before FY 1985/86. The corporate tax rate structure was combined with individual tax rate structure. The reason was the number of companies was limited and family generally managed private companies. In the year 1985/86 the progressive tax rate structure was abolished in case of government enterprises used to split into different units to take advantages of lower rates. The progressive rate of taxing to private companies was abolished in the fiscal year 1995/96. Thus, flat rate system has been continued for all corporate bodies since the FY 1995/96.

The corporate tax rate structure was increased up to 60% the maximum rate in the FY 1995/96 from 25%. During 1960/61 to 1975/76, increment of rates was made three times. After FY 1975/76, the tax rate again decreased up to 51% and 50%. This rate was again increased to 55% and remains continued from FY 1982/83 to till 1987/88. In the year, 1987/88, the listed public limited companies were levied 10% less than others. This concession was given to such companies by only 5% in the year 1985/86. After the FY 1987/88, the tax rate was continuously decreasing. Now, it is 20% to industry (except cigarette and alcohol) 25% to general companies and 30% to banks and finance companies. Special fee 3% of taxable incomes was levied to all corporate bodies. The corporate tax rate structure of different years is presented as below:

Table11:- Corporate Tax Rate Structure in Nepal

Fiscal Year	Maximum marginal tax rate		Nature of tax rate
	Private Co.	Public Co.	Progressive
1960/61-1962/63	25	25	”
1963/64-1964/65	30	30	”
1965/66-1966/67	40	40	”
1967/68	55	55	”
1968/69-1974/75	55	55	”
1975/76	60	60	”
1976/77-1978/79	51	51	”
1979/80	50	50	”
1980/81-1981/82	50	50	”
1982/83	55	55	”
1983/84-1984/85	55	55	”
1985/86	55P	55F	Progressive & Flat

1986/87-1987/88	55P	50F	”
1988/89-1989/90	50P	50F	”
1990/91-1991/92	40P	40F	”
1992/93-1994/95	35P	35F	”
1995/96	33	33	Flat
1996/97	30	33	”
1997/98-2000/01	20,25&30	20,25&30	”
2001/002-2010/11	20,25&30	20,25&30	Flat and additional 1.5% for all companies

Source;

1. *Kandel, P.R. , Corporate Tax System & Investment Behavior in Nepal*
2. *Budget Speech, 2003/04/, 2004/05, 2005/06, 2006/07,2007\2008, 2008\09, 2009\10, 2010\11*
3. *Finance Acts*
4. *Various years economic survey published by ministry of finance*

Note: 20% tax rate for special industries
25% tax rate for general industries
30% tax rate for non-industries for banking and general insurance Company, tobaccos and liquor industries & petroleum business

4.3.2 Corporate Tax Base in Nepal

Under the Income Tax Act, 2058 of Nepal corporate tax is levied on the total taxable income of the previous year. It has assumed the global or total as well as scheduler income tax. This act has divided the source of income into three major heads they are: income from business, income from investment and income from remuneration. The third amendment of Income Tax Act 2058 has further clarified about calculating the adjusted taxable income and net taxable income from business, investment and remuneration. All the taxable income are added as per law and deduction allowable expenses such as general deduction, cost of trading stock, interest expenses, repair and maintenance expenses, depreciation. Reserve and risk-bearing fund and expenses, related with business and investment were deducted as per the law, which occurs adjusted taxable income. Then, in case of business income, pollution control and R&D expenses should be deducted taking the adjusted taxable income as base, after that we get assessable income from business before loss adjustment. Then, loss from business in current year and previous year are deducted to get the net assessable income from business. Likewise, loss in business and investment of current year and business loss of previous year are deducted to get the net assessable income from investment.

Total assessable income is calculated by adding the net income from business and investment from where common expenses and donation expenses can be deducted as per the law to get total taxable income. No exemption limit is provided to the companies. Special additional fee of 15% of taxable income is charged to the second slab where 25% tax rate is charged.

In Nepal, taxable income of a company is computed in the following manner.

Specimen format for computation of Business Income Computation of taxable income of ……. Co. for the assessment year…………

S.N.	Particulars	Amt. (Rs.)	Amt. (Rs.)
A	Service charges (U/S-7-2)	++	
B	Sales or disposal of business stock (U/S -7-2)	++	
C	Net profit or gain from the disposal of business assets or liability (U/S-7-2)	++	
D	Amounts received from the disposal of depreciable assets (U/S-7-2)	++	
E	Prize or gifts received in connection with business (U/S-7-2)	++	
F	Amount received in lieu of acceptance of restrictions regarding business (U/S-7-2)		
G	Amount received from any investment directly related to business (		
H	U/S-22.6)		
I	Income included under the provision of accounting methods (U/S-24.3)		
J	Excess amount received due to exchange rate variation (U/S-24.4)		
K	Bad debts recovered (U/S 25.1)		
L	Proportionate amount received under long- term contract (U/S-26.1)		
M	Underpayment of interest due to market rate variation (U/S 27.1d)		
N	Receivable amounts paid to others (U/S-29)		
O	Amount received for compensation (U/S-31)		
P	Other amount received under the head of business income		
A. Total	Gross (Assessable) income from Business		
	Less: Allowable deductions:		
a.	General deduction (U/S-13)		
b.	Interest expenses (U/S-14)		
c.	Cost of business stock (U/S-15)		
d.	Repair and maintenance expenses (U/S-16)		
e.	Depreciation expenses (U/S-19)		
f.	Reserve funds for banks and insurance business (U/S-59.la)		

g.	Other expenses as per Income Tax Act, 2058		
B.	Deductible Business Expenses		
	Adjusted assessable income from Business (A-B)		
	Less:		
h.	Pollution control expenses (U/S-17) 50% of adjusted assessable income or Actual paid amount (whichever is less)		
i.	Research and development expenses (U/S-18) 50% of adjusted assessable income or Actual paid amount (whichever is less)		
C.	Net (assessable) income from Business before carry forward of previous loss and donation		
	Less: Carry forward of losses		
a.	Loss from other business in current year (U/S 20.1a)		
B	Previous years cumulative losses (U/S-20.1b)		
	Net (assessable) income from Business		++++

Format for computation of investment income

Computation of taxable income of …… for the assessment year….

S.N.	Particulars	Amt(Rs.)	Amt(Rs)
a.	Dividend (Gross) (U/S-9.2)	+++	
b.	Gain from insurance investment (Gross) (U/S-9.2)	+++	
c.	Interest received (Gross) (U/S-9.2)	+++	
d.	Rent received (Gross)(U/S-9.2)	+++	
e.	Payment received (Gross) (U/S-9.2)	+++	
f.	Royalty (Gross) (U/S-9.2)	+++	
g.	Amount received from disposal of depreciable assets (U/S-9.2)	+++	
h.	Gifts received in respect of investment (U/S-9.2)	+++	
i.	Amount received as consideration for accepting a restriction on investment (u/S-9.2)	+++	
j.	Incomes to be included due to change in accounting methods (U/S-22.6)	++++	
k.	Excess amount received due to exchange rate variation (U/S-24.4)	++++	
l.	Bad debts recovered related with investment (U/S-25.1)	++++	
m.	Underpayment of interest in comparison to market rate (U/S-27.1d)	++++	
n.	Receivable amount paid to others (U/S-29)	++++	
o.	Income received from joint investment (proportionate amount on the basis of investment ratio (U/S-30)	++++	
p.	Amount received from compensation the amount be included	+++	

	under investment income (U/S-31)		
q.	Other amounts to be included under investment income	+++	
A.	Gross assessable income from investment Less: Deductible Expenses		
a.	Interest expenses (U/S-14)	+++	
b.	Repair and Improvement expenses (U/S-16)	+++	
c.	Depreciation expenses (U/S-19)	+++	
d.	Expenses related with investment	+++	
B.	Total deductible expenses		
	Assessable income before carry forward of loss (A-B)		
	Less: Carry forward of losses a. Loss in business (current year) b. Loss in investment (current year) c. Carry forward of loss from previous year business Net(assessable) income from investment		

Statement of Total Taxable Income

	Net (assessable) income from business		++++
	Net (assessable) income from investment		++++
	Total net (assessable) income shown by assesses		++++
	Less: Common expenses		
	Donation	++++	
	5% of net assessable income or Actual paid or Maximum limit Rs. 100,000 (Whichever is less)		++++
	Computation of tax liability		
	Total tax liability = Taxable income× Rate Less: Advance tax paid Tax amount to be paid Add: Special fee (1.5% of Rs. Balance amount)		++++ ++++ ++++ ++++
	Total amount payable		++++

4.3.3 Contribution of Corporate Income Tax on Total Revenue

Corporate income tax plays an important role in Nepalese government revenue. The following table has been drawn to show the contribution portion of CITR in different time periods in percentage and amounts also.

Table12:- Contribution of CITR on Total Revenue

(Rs. In Million)

Fiscal Year	Total Revenue	Govt. Sector	% age	Public Sector	% age	Private Sector	% age	Sole trading and other institution	% age	Total corporate tax	% age
2006\07	87712.1	1019.5	1.16	5716.4	6.50	2310	2.63	2559	2.92	11604.9	13.21
2007\08	107622.7	183.4	0.17	7207.3	6.70	3135.2	2.91	2737.3	2.54	13263.2	12.32
2008\09	143474.4	959.7	0.67	9528.2	6.64	4200.5	2.93	5058	3.52	19646.4	13.76
2009\10	179940.4	1132.5	0.63	12032.5	6.69	6268.8	3.48	4629.4	2.57	24054.3	13.37
2010\11	199819.6	1282	o.64	13967.2	6.99	7232.9	3.62	6325.2	3.16	28807.2	14.41

Source: Economic Surveys of different years(MOF) Quarterly Economic bulletin of NRB

Above table reflects that the contribution of corporate income tax to total revenue during the study period was fluctuating from 11 % to 15%. The share of corporate income tax revenue was 13.21% amounting Rs.11604.9 million in the FY 2006\07 in which 1.16% of total revenue was covered only by government sector, the share of CITR to total revenue decreased up to12.32 % of maximum in the FY 2007/08 amounting Rs. 13263.2 million. Later than the share of CITR to total revenue was increase up to 14.41% in FY2010\11 But that situation did not continue later on. Political imbroglio, unfriendly environment for smooth operation of business was some of the main reason for

Nepalese corporate sector unable in improving its competency. As a result, contribution of CITR to total revenue was sharply decreased.

Total revenue/national revenue was also in increasing trend, which was not only the cause of better implementation of fiscal policy and positive macro-economic indicator but also due to expansion of taxation and revenue net. This table also shows that the private sector's tax collection was fluctuating between 1% to 4% during the study period. Its contribution was of 2.63% amounting Rs. 2310 million in the FY 2006/07 and in the FY 2007\08 its contribution was 2.91% amounting Rs. 3135.2 million. After than which is increased and reached to 3.62% amounting Rs 7232.9 million Tax collection from public enterprises seemed to be fluctuating from 5% to 7% during the study period. Its contribution was 6.50% in the FY 2006\07amounting Rs. 5716.4 million and in the FY 2010\11, it was 6.99% amounting Rs.13967.2 million. Public sector tax play vital role in total corporate tax revenue.

In totality, Nepalese corporate sector has been contributing to total revenue from 10% to 15%, which seems to be very small portion comparing to other developing countries.

4.3.4 Contribution of Corporate Income Tax on Total Tax Revenue

Total tax revenue is composed of direct tax and indirect tax. Total tax revenue is mostly affected by CITR and its enhancement by the country. The following table has been drawn to know the Nepalese CITR's contribution portion to total tax revenue.

Table 13:- Contribution of CITR on Total Tax Revenue

(Rs. In Million)

Fiscal Year	Total Tax Revenue	Govt. Sector	% age	Public Sector	% age	Private Sector	% age	Sole trading and other institution	% age	Total CITR	% age
2006\07	71168	1019.5	1.43	5716.4	8.03	2310	3.25	2559	3.60	11604.9	16.30
2007\08	85147.1	183.4	0.21	7207.3	8.46	3135.2	3.67	2737.3	3.21	13263.2	15.58
2008\09	117051.8	959.7	0.82	9528.2	8.14	4200.5	3.58	5058	4.32	19646.4	16.78
2009\10	156290.7	1132.5	0.72	12032.5	7.70	6268.8	4.01	4629.4	2.96	24054.3	15.39
2010\11	172755.2	1282	0.74	13967.2	8.08	7232.9	4.21	6325.2	3.66	28807.2	16.68

Source: Economic Surveys of different years (MOF), Quarterly economic bulletin published by NRB

The above table shows that the CITR's contribution to total tax revenue was fluctuated during the study period. It was 16.30% in the FY2006\07, which was increased and reached to 16.78% of maximum contribution in the FY 2008/09 during the study period. But this contribution was decreased and reached to 15.39% in the year 2009/10. CITR's contribution was 16.68% in the FY 2010/11. Such kind of lower contribution was due to the lower collection of corporate income tax that might be the result of political instability, unfriendly environment for operating industry, trade and business.

4.3.5 Contribution of Corporate Income Tax on Direct Tax Revenue

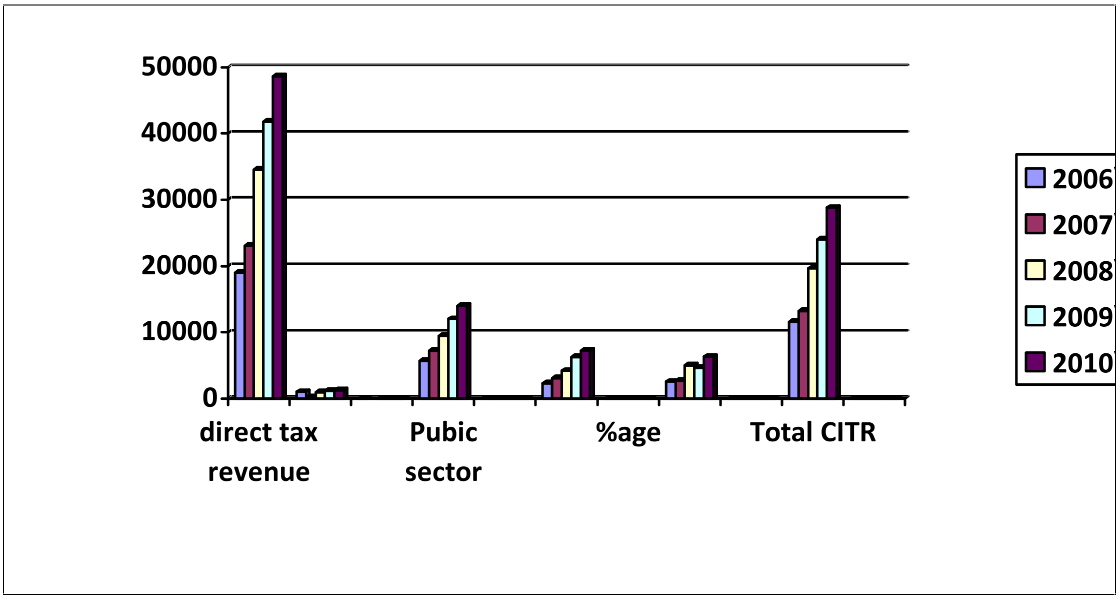
The contribution of corporate income tax on Direct tax revenue can be shown in the following table.

Table 14:-contribution of corporate income tax on direct tax revenue.

In Million

Fiscal Year	Direct Tax Revenue	Govt. Sector	% age	Public Sector	% age	Private Sector	% age	Sole trading &institution		Total CITR	% age
2006\07	18979.6	1019.5	5.37	5716.4	30.11	2310	12.17	2559	13.48	11604.9	61.14
2007\08	23070.8	183.4	.79	7207.3	31.24	3135.2	13.59	2737.3	11.86	13263.2	57.48
2008\09	34552.6	959.7	2.77	9428.2	27.29	4200.5	12.16	5058	14.64	19646.4	56.86
2009\10	41760.5	1132.5	2.71	12023.5	28.79	6268.8	15.01	4629.4	11.09	24054.3	57.6
2010\11	48641	1282	2.64	13967.2	28.71	7232.9	14.87	6325.2	13.00	28807.2	59.22

Sources: Economic Surveys of different years (MOF), Quarterly economic bulletin Published by NRB



From the above table, we can see that the contribution of CITR to direct tax revenue was fluctuated from (55% to 62%) during the study period. Its contribution was 61.14% amounting Rs.11604.9 million in the FY2006\07, which decreased to 56.48% amounting Rs. 19646.4million in the FY 2008\09 but later on it was increased to 57.60% amounting Rs. 24054.3 million in the FY 2009/10.Then after its contribution grew up to 59.22% amounting Rs. 28807.2 million in 2010/11. That was possible due to the business friendly environment and Peace Treaty in the country.

This table has also shown the structural composition of corporate tax. Nearly, half portion of CITR was covered by Public sector in the first two fiscal years2006\07 and 2007\08.

4.3.5 Structural Composition of Corporate Income Tax

The corporate income tax structure comprises of government sector, public and private sector, Individual& sole trading firm and Income from other institution. Corporation taxable income is calculated adding all the taxable incomes and deducting all the allowable expenses. The corporate tax base is explained and presented in the preceding sub chapter. After the enactment of Income Tax Act, 2058, the books of account of corporate sector have been kept a little bit differently. From the FY 2002/03, the total corporate sector income tax is computed by adding government, public and private income tax including individual and sole trading form and income from other institutions too. The following table has been drawn to show the structural composition of corporate income tax from the 2006/07 to 2010\11.

Table NO 15:- Structural Composition of Corporate Income Tax

In Million

Fiscal Year	Total CITR	Govt. sector	percent	Public sector	Percent	Private sector	Percent	Individual &other instituti	Percent

								on	
2006\07	11604.9	1019.5	8.79	5716.4	49.26	2310	19.91	2559	22.04
2007\08	13263.2	183.4	1.38	7207.3	54.34	3135.2	23.64	2737.3	20.64
2008\09	19646.4	959.7	4.88	9428.2	48.00	4200.5	21.38	5058	25.74
2009\10	24054.3	1132.5	4.71	12023.5	50.00	6268.8	26.06	4629.4	19.23
2010\11	28807.2	1282	4.45	13967.2	48.49	7232.9	25.11	6325.2	21.95

Sources:-Economic survey (MOF)2010\11, Budget speech 2067\68 B.S. and Quarterly economic bulletin

The above structural composition of corporate tax shows that in the years 5 i.e. 2006\07to 2010\11, major portion was covered by Public sector. The share of Public sector was to decrease to 48% in the FY 2007/08After than the share of public sector continually increased and reached 50 in the FY2010\11. The contribution of government sector was ultimately seems to be decreasing during the study period from 8.79% in the FY 2006\07 to 4.45% in the FY 2010/11 with some fluctuations. The private sector's contribution was fluctuated from 19% to 27% during the period. But during recent two years its contribution is in increasing order and came to 26.06% in the FY 2009/10. It seems public and private sectors are paying more tax and government sector is paying less tax as the passes of time. Public and private sectors are growing their business and government sector is not so. Individual and other institution sector contribution was also fluctuated from 19% to 23%during the study period.

4.4 Presentation and Analysis of Data on the basis of Primary Source i.e. Empirical Investigation

4.4.1 Introduction

When a researcher collects data possession original character himself or through agent for the first time from related field, such data are called as primary data (source). And when such primary data are reused by anybody else they are called secondary data. Once primary data have been used, it loses its originality or primary characteristics and becomes secondary. In this study, this part is entirely related with primary source of data.

An empirical investigation has been conducted in order to find out various aspects of problems for the administration of Income Tax Act, 2058 in Nepal from the real life experience. For this purpose, questionnaire was developed and responses were collected from the respondents. A set of 12 questionnaires was distributed to the respondents. Respondents were classified into three groups - tax experts, tax administrator and taxpayers. The responses received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study. (See the format of questionnaire and the list of the respondents in appendix A.

The questionnaire was asked for a yes/no response or asked for ranking of the choices according to the number of alternatives where first choice was the most important and the last choice was the least important. For analysis purpose, choices were assigned weight according to number of alternatives. If the number of alternatives were 8 then the first preferred choice got eight points and the last preferred choice got one point. Any alternative, which was not ranked, didn't get any point. The total points available to each choice were converted into percentage in reference to the total points available for all choices. The choice with the highest score of percentage was ranked as the most important choice and one with the lowest percentage being ranked as last choice.

The following table 15 shows the group of respondents.

Table15:-Groups of Respondents and Code Used

Respondent Groups	Sample Size	Codes Used
Tax administrators	15	A
Tax experts	15	B
Tax payers	15	C
Total	45	

4.4.2 Attitude toward tax education

To know the respondents attitude toward tax education and familiar with income tax, a question was asked "Are you familiar about income tax?" The responses have been tabulated below.

Table 15:- People's knowledge toward tax education.

Responses	Yes		NO		Total	
	No.	%	No.	%	No	%
A	10	67.33	5	33.33	15	100
B	15	100	-	-	15	100
C	3	20	12	80	15	100
Total	28	62.22	17	37.78	45	100

Sources:- opinion survey

From the above table it has been clear that37.78% of the respondents were against the question "Are you familiar about income tax?" and 62.22 % only respondent it can be concludes that tax education is most necessary in Nepal to increase the tax consciousness of tax payer.

4.4.3 Opinion towards Tax Paying Habit of Nepalese People

To know the respondents opinion about the tax paying habit of Nepalese people, the first question, "Do you think there is poor tax paying habit of Nepalese people?" was asked. The responses received from respondents are tabulated as under:

Table16:-Opinion towards tax paying habit of Nepalese people

Responses	Yes		NO		Total	
	No.	%	No.	%	No	%
A	15	100	-	-	15	100
B	10	67	5	33	15	100
C	7	47	8	53	15	100
Total	32	71.11	13	28.89	45	100

Sources: - opinion survey 2012

From the above table, 100% Tax administrator, 67% of tax experts and 47 % of tax payers approved there is poor tax paying habit of Nepalese people 33% of tax experts and 53% of tax payers approved there is not poor tax paying habit of Nepalese people. Out of 45 respondent 45 respondents, i.e. 71.11% voted for poor tax paying habit of Nepalese people and 45 Respondents i.e28.89% voted for there is not poor tax paying habit of Nepalese people.

From the above table, it has been clear that there is poor tax paying habit of Nepalese people.

4.4.4 Reasons behind Poor Tax Paying Habit of Nepalese People

Most of the respondents voted that there is poor tax paying habit of Nepalese people. To know the causes of poor tax paying habit of Nepalese people, the question was asked, "If Yes, what are the major causes of poor tax paying habit of Nepalese people?" The respondents were requested to rank their answer from 1 (most important) to 8 (least important). The responses received from the respondents are tabulated below:

Table17:- Major causes of poor tax paying habit of Nepalese people

SN	Major causes	Groups			Total points	Percent	Rank
		A	B	C			
1	Poverty of tax payer	35	30	40	105	14.52	4
2	Little knowledge of tax and its importance	30	35	25	90	12.44	6
3	Widespread practices of illegal business	45	40	30	115	15.90	2
4	Lack of incentives for regular tax payers	50	45	40	135	18.67	1
5	Defective tax administration system	25	20	18	63	8.71	7
6	Complexity of tax laws and policies	46	39	30	115	15.90	3
7	Poor public relation by tax office and authorities	35	31	40	101	13.97	5
8	If others, please specify	-	-	-		-	
Total					723	100	

Source: - Field survey 2012

Major causes of poor tax paying habit of Nepalese people were ranked in order of the preference of the respondents as follows. (Please refer table17for details)

1. Lack of incentives for regular taxpayers
2. Widespread practices of illegal business
3. complexity of tax laws and policies
4. Poverty of taxpayer
5. Poor public relation by tax office and authorities
6. Little knowledge of tax and its importance

7. Defective tax administration system

8. If others, please specify

4.4.5 Specific objective of income tax in Nepal

In order to know the specific objective of income tax in Nepal, respondents were requested to rank their responsible. The question was asked “what should be the specific objective of income tax in Nepal?” Table 18 gives the breakdown of responses.

Table 18:- Specific objective of income tax in Nepal

S.N	Objective of income tax	Group			Total point	Percent	Rank
		A	B	C			
1.	To enhance the revenue of the government	15	10	8	33	27.50	1
2.	Redistribution of wealth between rich and poor person	10	8	10	28	23.3	4
3.	To meet the govt. expenditure	7	7	15	29	24.16	3
4.	To achieved the goal of the national development and equal economic distribution	8	15	7	30	25.04	2
5.	If other, please specific	-	-	-			
Total					120	100	

Sources: - Field survey 2012

There was 100% response received from the respondents. Most of the respondents are supporting the objective of the enhance the revenue of the govt

27.50% are in favors of objective. To enhance the revenue of govt. 25.04%of them choose the objective national development and equal economic distribution, anothe23.3% choose the objective of to redistribution of wealth between rich and poor person,24.16%are of them choose to meet the govt. expenditure.

Specific objective of income tax are ranked below in order to preference.

- To enhance the revenue of the government
- To achieved the goal of the national development and equal economic distribution
- To meet the government expenditure
- Redistribution of wealth between rich and poor person
- If other. please specific

4.4.6 Opinion towards Modern and Effectiveness of Income Tax Act 2058

To measure the modern and effectiveness of Income Tax Act, 2058 in comparison to the previous Income Tax Act, 2031. a question, "In you opinion is the Income Tax Act, 2058 a modern and more effective Tax Act than Income Tax Act, 2031?" was asked. The responses received from the respondents are tabulated as below:

Table 19:- Opinion towards modern and effectiveness of Income Tax Act, 2058

Respondents	YES		NO		Total	
	No.	%	No.	%	No.	%
A	15	100	-	-	15	100
B	10	66.67	5	33.33	15	100
C	8	53.33	7	42.67	15	100
	33	73.33	12	26.67	45	100

Sources: - Field survey 2012

From the above table, it is clear that 73.33% of the respondents approved Income Tax Act, 2058 is a modern and more effective that Income Tax Act, 2031 and only 26.67% of the respondents don't recognize Income Tax Act, 2058 as a modern and more effective that Income Tax Act, 2031.

Hence, it can be concluded that Income Tax Act, 2058 is a modern and more effective than Income Tax Act, 2031.

4.4.6 Opinion towards Contribution of Income Tax on National Revenue

Income taxes are most essential for the development of a country especially underdeveloped and developing countries. Nepal is underdeveloped country requiring development on various sectors to export the resources of the country. It is blamed that the contribution of income tax on national revenue is not satisfactory through Income Tax Act, 2058. To know the fact a question was asked, "Do you think that contribution of income tax on national revenue is satisfactory through Income Tax Act, 2058?" The responses received from the respondents are tabulated below:

Table 20:- Opinion towards contribution of Income Tax on National Revenue

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	13	87	2	13	15	100
B	13	87	2	13	15	100
C	11	73	4	27	15	100
Total	37	82.33	8	17.67	75	100

Sources: - Field survey 2012

From the above table, It is found that 87 percent of tax administration and tax exports and 73% of tax payer favor in income tax as a suitable mean of raising government revenue only 13% tax administration and tax payer does not recognize and only 27% does not recognize. In aggregate it is clear that the contribution of income tax on national revenue is not satisfactory through Income Tax Act, 2058 17.67% of the respondents approved contribution of income tax on national revenue not satisfactory and only 82.33% of the respondents recognize that contribution of income tax on national revenue is satisfactory through Income Tax Act, 2058.

Hence, it can be concluded that the contribution of income tax on national revenue is satisfactory through Income Tax Act, 2058.

4.4.7Appropriateness of exemption and deduction

Adequate exemption and deduction is necessary to promote the business enterprises to success in business world. Many exemptions are provided by Industrial Enterprise Act, 2049 and specially Income Tax Act, 2058.The question "Are exemption and deduction provided by existing Income Tax Act, 2058 are appropriate?" Was asked to find out the opinion of the respondent regarding the exemption and deduction. Opinion result is summarized in the table.

Table No.21 Appropriateness of exemption and deduction

Responses respondent	Yes		No		Total	
	No.	%	No.	%	No.	%
A	10	66.67	5	33.33	15	100
B	5	33.33	10	66.67	15	100
C	2	13.33	13	86.67	15	100
Total	17	37.78	28	62.22	45	100

Sources: - Field survey 2012

Only 37.78 %of respondents agree with present exemption and deduction. But large figure 62.22 % respondents disagree with the present exemption and deduction.

4.4.8 Appropriate method of income tax assessment

Revenue collection from income tax also depends on the income tax assessment procedures. Therefore assessment procedure should be appropriate and effective, A question "Which tax assessment method is applicable in Nepal?" was asked to know the respondents' opinion about appropriate method of income tax assessment. The response is presented in the table below.

Table 22:- Appropriate method of income tax assessment

S.N	Methods	A	B	C	Total	Percent
1.	Self assessment	15	10	15	40	88.89
2.	Jeopardy assessment	-	-	-	-	-
3.	Amended assessment	-	5	-	5	11.11
Total		15	15	15	45	100

Sources: - Field survey 2012

88.89 per cent respondents approved self tax assessment method is more appropriate to assess income tax 11.11percent respondent is in favor of amended assessment. The respondent category that in most in favors of self assessment is taxpayers. From the above opinion it can be concluded that self tax assessment method is more appropriate while assessing income tax to collect large amount of revenue through income tax.

4.4.9 Suitable tax rate in Nepal

In order to find out the suitable tax rate system in Nepal. Respondents were requested to select any one among the there alternatives. The question was "In your opinion which income tax rate is suitable for Nepal?" the response is tabulated in the tax.

Table 23:- Suitable tax rate in Nepal

S.N.	Methods	Response respondents			Total	Percent
		A	B	C		
1.	Progressive	10	15	9	24	53.34
2.	Proportional	5	-	6	11	24.44
3.	Regressive	-	-	-	-	-
Total		15	15	15	45	100

Sources: - Field survey 2012

From the above table it is clear that 53.34% of respondents prefer progressive tax rate in Nepal. so it can be concluded that progressive tax rate is most suitable means of tax rate in Nepal.

4.4.9 Effectiveness of income tax administration in Nepal

To know the respondents view regarding effectiveness of income tax administration in Nepal a question "Do you agree that Nepalese income tax administration is effective"? Was asked the responses are tabulated in the following table.

Table24:- Effectiveness of income tax administration in Nepal

S.N.	Response respondent	Yes		No		Total	
		No.	%	No	%	No.	%
1.	Tax administrator	8	53.33	7	46.67	15	100
2.	Tax export	6	40	9	60	15	100
3.	Tax payer	2	13.33	13	86.67	15	100
		16	35.55	29	64.45	45	100

Sources: - field survey 2012

From the above table it has been clear that Nepalese income tax administration is not effective. Most of the respondents 64.45 % of respondents response it ineffective. The high percentage of respondent who are in favor of Nepalese tax administration is the tax administrators themselves.

4.4.10 Income tax evasion in Nepal

In order to find out the income tax evasion in practiced in Nepal or not, the question was asked "In your opinion, it there a major problem of tax evasion in Nepal?" the responses of respondents were tabulated below.

Table 24:- Income tax evasion in Nepal

S.N.	Response	Groups			Total	Percent
		A	B	C		
1.	Yes	15	10	7	32	71.11
2.	No	-	5	8	13	28.89
Total		15	15	15	45	100

Source: - Field survey 2012

From the above table 71.11%respondents favor in tax evasion as a major problem of tax evasion in Nepal,28.89 %was again above view, it can be noted that almost all the person with high denominates were in favor of the question. There may be much response for wide spread tax evasion. In order to know the main reason for tax evasion, the respondents were provide five options and were requested to rank them. The response has received has tabulated as below.

Table 25:- Factor responsible for tax evasion

S.N.	Responses	Groups			Toa	Percent	Rank
		A	B	C			
1.	Inappropriate income tax policy	33	42	46	121	19.24	1
2.	Defective tax administration	95	106	93	294	12.73	3
3.	Loopholes in income tax act	37	45	53	153	10.00	8
4.	Corruption in tax authority	72	82	83	227	14.85	2
5.	Lack of unconscious in tax payer	47	67	57	171	11.19	7
6.	Inefficient income tax policy	60	59	68	187	12.23	5
7.	Lack of reward and punishment	82	63	45	190	12.43	4
8.	Lack of political commitment	75	60	50	185	12.10	6
Total					1528	100	

Sources: - Field survey 2012

The major reasons for evasion of income tax from the above table according to respondent's response are as follows.

- Inappropriate income tax policy

- Corruption in tax authority
- Defective tax administration
- Lack of reward and punishment
- Inefficient income tax policy
- Lack of political commitment
- Inappropriate income tax policy
- Loopholes in income tax payer

Thus it can be concluded that the main reasons for tax evasion are due to loopholes in income tax act, defective tax administration and other after that.

4.4.11. Most importance factor for effectiveness of income tax

The respondents were requested to rank their choice from 1to 4 according to their preference to know the opinion of the respondent's view regarding to importance factors of effectiveness of income tax in Nepal. A question "In your opinion what is the most importance factor for effectiveness of income tax in Nepal?"was asked Responses are summarized in table

Table 25:- Most importance factor for effectiveness of income tax

S.N.	Factors	Point received				Percent	Rank
		A	B	C	Total		
1.	Clear act, rules and regulation	79	70	90	239	29.95	1
2.	Moral and honest tax officer and tax payer	31	65	55	151	18.92	4
3.	Political non interruption	60	75	45	180	22.55	3
4.	Effective income tax administration	98	60	70	228	28.57	2

Total				798	100	

Sources: - Field survey 2012

In the table, rank 1 is given to the highest percentage and 4 to the lowest percentage. Here highest percentage is obtained by the factor which is regarding highly appropriate by the respondents. In the questionnaire, the respondents were requested to give number 5 to the more appropriate of first to the least appropriate.

The importance factor for effectiveness of income tax in Nepal according to the preference of the respondents was as follows.

- Clear act, rules and regulations
- Effective income tax administration
- Political non interruption
- Moral and honest tax officer and tax payer

4.4.12 Opinion towards Effectiveness of Income Tax Act, 2058 in the Coming Years

In order to know the effectiveness of Income Tax Act,2058 in the coming years, a question was asked, "Will the Income Tax Act, 2058 be more effective in the coming years?" The responses received from the respondents are tabulated below:

Table 26:- Opinion towards effectiveness of ITA, 2058 in the coming years

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
A	8	53.33	7	46.67	15	100
B	10	66.67	5	33.33	15	100
C	10	66.67	5	33.33	15	100
	28	62.22	17	37.78	45	100

Sources: - Field survey 2012

From the above table, it is clear that Income Tax Act, 2058 will be more effective in the coming years. Out of the 45 respondents 28 respondents i.e. 62.22% voted for the effectiveness of Income Tax, 2058 in the coming years and 17 respondents i.e. 37.78% voted against the effectiveness Income Tax, 2058 in the coming years.

4.4.13 Comments and Suggestions from the Respondents

An open question was asked to the respondents to know their comments and suggestions regarding effective administration of Income Tax Act, 2058. The responses received from them are presented below:

Comments from the respondents

- Narrow Coverage i.e. agriculture the largest sector of Nepalese economy is out of tax net.
- Tax assessment system is not scientific
- Inefficient administration
- Poor data base and information system
- Difficult to Charge the tax on Dual used commodity
- There is no sufficient tax rebates and no encourage for taxpayers
- Unmanageable size of taxpayers compared to tax offices especially in valley.
- Due to the political problems of nation as well as poor implementation of rules and regulations of tax.
- Lack of clear-cut definition and language accuracy in income tax act, 2058 and difficult to understand language.
- Tax evasion and reduction exist.
- Lack of proper utilization of collected tax.
- Lack of effective training and motivation, taxpayer's education, and morality to both taxpayers and tax personnel.

- Lack of reward and punishment to both taxpayers and tax personnel.
- Lack o political stability, so it effect to the proper administration of Income Tax Act, 2058.
- Income Tax Act,2058 is based on highly educated taxpayers and developed economy
- This act provision cannot reduce the illegal business activities, tax evasion and avoidance.

Suggestion from the respondents

To know the other importance factors for effectiveness of income tax a question was asked “Do you have any suggestions for addressing or solving the problem of income tax act, 2058 please specify” the responses are as follows

- Government economic policy is the main cause for unsatisfactory of effectiveness of income tax in Nepal, so it should be corrected in pursued of effectiveness of income tax
- Building up of public and general awareness.
- Libel government, control of financial crimes.
- Control of all kind of corruptions.
- Effective tax management and training &seminar to the tax personnel.
- Development of check and balance system.
- Government should make fixed rules and regulation and apply them effectively to collect tax.
- It is necessary to build a strong information system and public awareness.
- Reform Tax Administration(Tax administration should run in electronic system, a separate “Research and Analysis Unit" should be established, friendly tax administration)
- Extension of Coverage (Including the Income from agriculture, Income from other sources, identification of new taxpayers)

- It is necessary to build a strong information system and public awareness.
- Performance base incentive system should be applied.
- Training and logistics should be provided to tax offices sufficiently.
- Strong commitments by political leaders, which must reflect in result, free from political interfere.
- There should be clear definition, and not be two-way languages in the act & Sound tax policies should be necessary and simplification of procedures.
- The terms and the procedure under the act should be simplified so that even laymen could understand easily.
- Define various sources and level of taxpayers.
- Develop ethnicity in auditor or define source to taxable income.

4.5 Major finding of study

After analysis the data from primary and secondary sources, we get some importance finding about income tax and difficulties in collection and improved such king of findings are as follows:

4.5.1 Findings from secondary date

On the basis of data presentation and analysis in above mention sub-chapter some important findings of the study are summarized below:

- ✓ Government revenue is the composition of external and internal revenue. Internal revenue is composition of tax revenue and non tax revenue. There is dominant share of tax revenue in Nepalese government revenue. The contribution of tax revenue shows the fluctuating trend as it had contributed 81.09 percent in 2006\07on total internal revenue but it had contributed 86.46 percent in 2010\11.

- ✓ Nepalese tax revenue is composed of both direct and indirect tax revenue. There is major role of indirect tax revenue in Nepalese tax revenue. The contribution of direct tax and indirect tax to total tax revenue was 23.52% and 76.48% respectively in FY 2006\07, which became 28.16% and 71.84% respectively in 2010\11. It reveals that tax structure of Nepal is not justifiable on equity ground and progressiveness because indirect tax is considered regressive in nature.
- ✓ Among the various sources of government revenue, custom duties, VAT, income tax and excise duties are the major sources of government revenue. Income tax has occupied third position at present on the basis of its contribution. The contribution of income tax is in increasing trend, which shows the bright future of income tax.
- ✓ Direct tax has consist of income tax, land and building regist., property tax and vehicle tax and other. In the FY 2005\06 , the income tax was Rs 15730 million and the land revenue was Rs 2238.7 million, but in the succeeding fiscal year the amount of land revenue is increase at present. The share of income tax is appeared as dominated sources of direct tax.
- ✓ Income tax, is the composition of corporate income tax, individual income tax, and investment income tax. Corporate income tax is collected from government corporations, public and limited companies, partnership firms. Individual tax is collected from remuneration and industry, business, profession. Investment income tax is collected from divided tax, interest tax, royalty tax, rent tax etc.
- ✓ Within the income tax there is the dominant role of corporate income tax but it is in decreasing trend, which was 73.76 percent of income tax revenue in 2006\07 but decreased to 68.48 percent in 2010\11. And the share of individual and investment income tax in the total income tax is

increasing trend, which was 12.76percent and 13.47 percent respectively in 2006\07and 13.94 percent and 17.58 percent in 2010\11.

- ✓ The contribution of income tax to the total revenue, total tax revenue, direct tax and total GDP is in increasing trend. Its contribution was 17.93percent, 22.10 percent, 82.88 percent and 2.16 percent respectively in the fiscal year 2006\07 which increased to 21.05 percent 24.35 percent, 86.48 percent and 3.1 percent in 2010\11.
- ✓ Resource gap is taken to be the difference between government expenditure and revenue. Then resource gap has been from 45892.9 million in FY 2006\07 to 79748.6 million in 2009\10 which indicates the poor performance of domestic resources gap.
- ✓ Income tax has been considered as suitable sources for mobilizing internal resources. It can be used as a positive instrument to boost up government revenue collection, to develop the economic condition of Nepalese people and promote distributive justice and to cure resource gap problem.
- ✓ The corporate tax rates have been revised for several times in the history of corporate. Now a day's private and public companies are taxed at a flat rate of 20, 25 and 30 percent respectively which are the lowest rate in the history of more than one decade.
- ✓ Nepal has been practicing book profit or corporate profit as tax base for the corporate taxation. ITA 2058 has clarified about the format for calculating different head of income.
- ✓ Income tax exemption limit in Nepal was Rs 7000 but at present income tax exemption limit is 160000 for individual and 200000 for couples and family. The exemption limit is not provided for partnership forms, corporation and non residential. It is found that exemption limit has been changed on the need of time and income.

- ✓ Increment is the number of taxpayers in very much essential in order to broaden the tax based. Number of registered income taxpayer in Nepal for the fiscal year has reached while it's in the previous year.
- ✓ The contribution of CITR to total revenue was 13.21% in the FY 2006\07 which increased to 14.41% in the FY 2010\11. It shows corporate sector is not getting better environment to grows its business activities so that large amount of tax can be paid.
- ✓ CITR portion in direct tax revenue was 61.14% in the FY2006\07, which gradually decreased to 56.86% in the FY 2008/09 and it was 59.22% in the FY 2010\11. This shows that CITR occupied major portion in direct tax.

4.5 .2 Major Findings from Empirical Study

On the basis of empirical investigation made with the respondents I have found following remarkable findings regarding Income Tax Structure of Nepal and its administration.

- ✓ Tax education is most necessary in Nepal to increase the tax consciousness of tax payer.
- ✓ The major objective of the income tax in Nepal is to enhance the revenue of government to achieve the goal of national development and equal economic distribution and best method to redistribution of wealth between poor and rich person or narrow the income gap. Income tax system of Nepal is not sound and efficient. Basically due to inefficient tax evasion and lack of awareness of tax payer.

- ✓ self assessment method is the appropriate method while assessing the income tax.
- ✓ Income tax evasion is the major problem of Nepal for income tax generation.
- ✓ Contribution of direct tax to total revenue is not effective.
- ✓ Exemption and deduction should be include to promote the special industry and export.
- ✓ Income tax system of Nepal has not reached at the satisfactory level yet.
- ✓ The current income tax administration is not running efficient.
- ✓ Progressive income tax rate is considered as the suitable means of tax in Nepal.
- ✓ Clear act, rules, regulation and effective tax administration are the most importance instruments for effectiveness of income taxation in Nepal.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Nepal is one of the development countries $620 of per capital income and about 25.16% of total population less below poverty. so Nepal need huge amount of resources for economic development. In today's world, there are hardly a few areas where tax shows its absence. It has become a matter to be known by everyone. An individual's income is reduced by tax, which affects his future savings. No one is out of the grip of tax. Tax has become an indispensable part of business world.

Great Britain is the first country to introduce the modern income tax. It introduced income tax in 1799 to finance war fought with France. USA introduced income tax in 1862 to generate revenue to finance civil war. Although the taxes were collected in various forms in ancient era, the history of modern income tax is not very old in Nepal. The idea of introducing income tax in Nepal originated in the early 1950s when a multiparty democracy political system was introduced.

Income tax should be justifiable to achieve maximum social and economic objective. It helps in redistribution of economic means by the transformation of wealth from persons with higher economic level to lower economic level. Income Tax Act 2058 has been enacted with wide perspective. Various new concepts are introduced in this Act, as compare to Income Tax Act 2031.

The study has been designed to analyze the income tax structure and resource gap; identify the share and trend of corporate income tax to government revenue; and identify the major problems of existing Income Tax Act 2058.

Taxation is the compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred. Tax may be of different types, rates and natures; it may be direct and indirect tax.

Income Tax Act 2058 has replaced the previous Act 2031, which was carried for 28 years. The Act 2058 has 24 chapters and 143 sections plus schedules. In the Act, there are so many types of additional and new provisions which can't be found in previous Act 2031. Income Tax Act 2058 has divided heads of income into three divisions i.e. business, employment, and investment whereas previous Act 2031 had made it five. ITA 2058 has kept certain provisions for depreciation in Appendix 2 of the Act. Similarly it has also made the provision of inter-head and intra-head loss recovery system. Carry forward and carry backward system also have been introduced in this Act.

Tax evasion and tax avoidance reduce tax liability of the government by unethical means - one is done legally whereas another is illegal. Basically, 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.

According to Income Tax Act 2058, the Inland Revenue Department (IRD) has overall responsibility for the implementation and administration of income tax. However, Nepal government is the highest authority of the tax administration. The Ministry of Finance, on behalf of Nepal government, exercises the management function of tax administration by carrying out the functions such as planning, organizing, direction, coordinating, and controlling of the government organizations related to taxation.

Income Tax Act 2058 has included detailed penal provisions, which are divided into two parts; interest & penalties ad offences. Interests are charged on delinquent taxes so that taxpayers may not delay tax Penalties are fixed to correct the misbehavior of the taxpayers. If penalties are not levied on the taxpayers who violate the Act, there may be a tendency not to follow rules and non-compliance will increase.

Income Tax Act 2058 has introduced a concept of administrative review that will allow the tax administration to correct mistakes, if any, made by the administration internally. The administrative revision may not sufficient to establish effective and efficient appeal system for assurance of the justice and impartiality. It is because there may be existence of human error as persona biasness and official biasness in the administrative review. So, the current tax laws assure in this regard. As per low a person (the appellant) who is not satisfied by a decision on an objection filed against review able decision may appeal to the revenue tribunal.

Out of total revenue collection in the FY2010\11, the share of tax revenue was 81.08% whereas the share of non-tax revenue was 18.92%. In the FY 2006/07, tax revenue increased by 23.84% as compared to previous fiscal year. The contribution of indirect tax revenue has always been greater than direct tax revenue during the study period. Similarly, the contribution of income tax has been larger than other components of direct tax. Contribution of income tax to direct tax revenue was 80.18% in the FY 2006\07 and its percentage came to 80.86% in the FY 2010\11. Income tax is an important source of the direct tax. Its structure of Nepal is the composition of tax revenue from government sector corporations, public sector corporations, private sector corporations including private institutions and remuneration tax. In the FY 2006\07 the amount of income tax was 15730.00 million whereas in the FY 2010\11it was Rs. 42066.3 million. Income tax revenue collection increased by 19.57% in the FY 2010\11 totaling Rs. 33832.1 million as compared to last FY 2009/10.

In the opinion of the respondents, it has been found that there is problem in the administration of Income Tax Act 2058 in Nepal. Most of the respondents thought that there is problem. There is also poor taxpaying habit of Nepalese people. On the opinion of the respondents lack of incentives for regular taxpayers is the most powerful reason behind the poor taxpaying habit. Similarly, little knowledge of tax and its importance, widespread practices of illegal business, defective tax administration system, poor public relation by tax offices and authorities, and complexity of tax laws and policies are other reasons. The contribution of income tax on national revenue is not satisfactory. It has also been found that revenue administrative and revenue tribunal are not effective to give correct decision to the taxpayers. Tax administration is not providing effective service to the taxpayers and other related people still after introducing the new Income Tax Act 2058. There is corrupt practice in income tax administration of Nepal. Out of 45 respondents, 32 respondents i.e. 71.11% voted for corrupt practice and 13 respondents i.e. 28.89% voted against the corrupt practice in income tax administration of Nepal.

5.2 Conclusion

Developing countries like Nepal are facing serious problems in the process of economic development. Lack of sufficient financial resource is the main constraint for economic development of Nepal. A lot of funds are required to meet the objective of economic development. But Nepal is not being able to collect necessary fund. Due to poor performance on internal revenue (fund) collection and mobilization, Nepal has been heavily relying on foreign loans and grants. The dependence is increasing, which is not desirable for any economy. Thus, it is more essential to mobilize the internal fund to the optimum level.

To increase the government revenue, Nepalese government is trying to extract money from people through taxation. Tax revenue is composed of direct tax and indirect tax. But the contribution of indirect tax is higher than direct tax. Within tax, income tax is the most important source of government revenue. It is considered as a good remedy to cure growing resource gap problem in Nepal.

In Nepal, the history of income tax is not so long. It is started only on late fifties. The income tax was introduced as a trial on business profit and the remuneration income. The first elected government levied the first income tax and no specific act was made to define and to treat income tax. The first Income Tax Act was made only in 1959/60. Since then four Income Tax Acts has been implemented. From the very beginning, the concept of exemptions, concession, deductions and other forms of tax relief in income tax have emerged in Nepal. All incomes of an individual cannot be taxable because the minimum cost required for subsistence cannot be taxed. The exemptions, concession, deductions and other forms of tax relief are essential to encourage an individual to work more. The tax relief works as an incentive to an individual. So, the concept of exemption, deductions and tax relies were emerged in Nepal from the very beginning of income tax. Currently, income tax constitutes corporate income tax, individual income tax and investment income tax. Among them, contribution of corporate sector is highest. Exemption limit and the rate of the income tax is determined according to the income level and sector wise but is not adjusted according to the inflationary situation of the country.

Income tax system of Nepal has been blamed as inefficient enough. Being various problems relating to income tax, revenue collection from income tax is low as compared to other developing countries like India, Sri Lanka, and Pakistan etc. Nevertheless, if we analyze the data relating to it, we can find out that it is neither bad nor worse but it is continuously improving. However income tax laws and administration in Nepal are to be deeply scrutinized and properly implemented. The provisions made no Act have to be mentioned clearly and language has to be made clear. Some reforms in tax administration are needed. If the problem relating to income tax system in Nepal can be solved and resources are effectively utilized then only the prospects of revenue collection from income tax will be bright and the economic development of Nepal will be achieved.

5.3 Recommendations

On the basis of the findings of the present study, the following suggestions have been recommended for a sound and effective income tax system.

(I) Extension of Coverage

Broadening the tax base has been one of the important features of the recent income tax reform in the international arena. This strategy, however, may not be as easy and effective in the present. Nepalese context as it has been in many other countries. This is because, in Nepal, broadening the coverage would mean the extension of income tax to agriculture income, capital gains and dividends, a reduction in tax incentives, and the identification of new taxpayer; neither a reduction in deductions nor the removal of exemption in the case of labour income- as has been important in many countries-would be of significant help in Nepal as the scope of remuneration income is very limited in this country. Let us examine the possibilities for the extension of income tax to agricultural income, capital gains, dividends, etc.

(a) Including the Income from agriculture

In theory, there is a case for an income tax on agricultural income. Agriculture is the largest sector of the Nepalese economy, which accounts for about half of the GDP. A large part of the national budget is spent on the agriculture sector and prices of both land and its products have been increasing. So this sector should contribute more in the form of tax revenue. Further, a tax on agriculture is also expected, as started elsewhere, at discourage large unproductive landholdings, to curb the consumption of high income groups, and increase the case need of the farmers which encourages marketing of the agricultural products. Despite such justifications, the agriculture sector has remained almost out of the tax net for both practical and political reasons. An effective land revenue system and a refined income tax structure should be brought to cover the agriculture sector for taxation.

(b) Income from other sources:
By raising the taxation rate in capital gain, dividends to possible level and by tax incentive, the extension of coverage of tax can be enhanced.

(c) Identification of new taxpayers:
A detailed survey of traders, professionals and so on should be conducted so as to identify new taxpayers.

(II) Reform Tax Administration

More often than not, it is maintained that tax administration in developing countries is tax policy, which means until and unless policy measures are backed by corresponding administrative reforms, they are doomed to failure. This very clearly recognizes the important role of tax administration in developing countries like Nepal. Therefore, the administrative reform is critical to the success of tax policy. In view of the above and the administrative problems stated elsewhere, following measures are suggested.

a. As the role of information is central to the success of tax administration, information collection should be consolidated. Intra-departmental as well as inter departmental networking at least among the departments within the MOF should be established at the earliest.

b. A separate, "Research and Analysis Unit" should be established in order to find out new avenues of taxation and to find out the lapses in tax policy pursued by the government.

c. The terms and the procedure under the act should be simplified so that even laymen could understand easily.

d. The tax officials also need to be reoriented to implement the new act smoothly. They should be familiarized with recent innovations into he field of public administration particularly in tax administration whereby taxpayers are treated as clients. And hence, client orientation should be the thrust of the administrative reforms.

e. New act has fully specialized the self-assessment and the taxpayers have to maintain adequate accounts of their income and expenses so that the taxable income would be easily calculated.

f. Tax policy and administrative reforms should not be guided by the short-term goal of revenue requirements.

g. The system of tax administration should not harassed honest tax payers, rather it should convey a message to taxpayers that if they are not to report their profit accurately, there is always probability of being detected and punished.

h. Pre-service and post-service training for officers should be carried out at regular intervals.

i. The government should be accountable and transparent so that the taxpayers are encouraged to pay tax.

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QUESTIONNAIRE

Income taxation in Nepal: Analysis of Structure and Problem

(Questionnaire to the tax experts, tax payers, tax administrator)
Name……………… Designation…………
Office\Organization……………. Occupation………….

Please tick (√) the answer of your choice and put the alternatives in order of preferences.

1. Are you familiar about Income tax?
a) Yes b) No
2. Do you think there is poor taxpaying habit of Nepalese people?
a)Yes (........) b) No (..........)
If Yes, what are the major causes of poor taxpaying habit of Nepalese people. (Please rank your answer 1 to 7 scales)
a) Poverty ness of tax payer [.......]
b) Little knowledge of tax and its importance [.......]
c) Widespread practices of illegal business [.......]
d) Lack of incentives for regular tax payers [.......]
e) Defective tax administration system [.......]
f) Complexity of tax laws and policies [.......]
g) Poor public relation by tax office and authorities [.......]
h) If others, please specify. ....
3. What should be the specific objective of income tax act, 2058 in Nepal?
a) To enhance the revenue of the government […….]
b) Best method to redistribution of wealth between poor and rich person or to narrow the income gap […....]
c) To meet the government expenditure […….]
d) To achieve the goals of national development and equal economic distribution […….]
e) Other, please specify………….

4. If no, are the major problems in implementation of Income Tax Act, 2058 in Nepal? (Please, rank your answer in order of priority)

a) Inadequate economic policy […….]

b) Inefficient income tax administration […….]

c) Complication income tax act, rules and regulation [……]

d) Lack of equation of tax payer [……]

e) Lack of awareness of tax payer [……]

f) Lack of training and incentive to employee [……]

g) Lack of export in tax management [……]

h) Lack of illegal business activates […….]

i) Practice of tax evasion […….]

5. In your opinion is the Income Tax Act, 2058 a modern and more effective Tax Act than Income Tax Act, 2031?

a) Yes [........] b) No [..........]

6. Do you think that contribution of Income Tax on national revenue is satisfactory through Income Tax Act 2058?

a) Yes [........] b) No [..........]

7. Are exemption and deduction provided by existing income tax act, 2058 are appropriate?

a) Yes [……] b) No […….]

8. Which method tax assessment method is applicable in Nepal? (Please tick (√) anyone)

a) Self assessment

b) Jeopardy assessment

c) Amended assessment

9. In your opinion, which income tax rate is suitable for Nepal?

a) Progressive

b) Proportional

c) Regressive

10. Do you agree that Nepalese income tax administration is effective?

a) Yes [……] b) No [……]

11. In your opinion, is there a major Problem of tax evasion in Nepal?

a) Yes [……] b) [……]

if yes what are the factors responsible for income tax evasion (Please, rank your answer in order of priority)

a) Inappropriate income tax policy [……]

b) Defective tax administrative […….]

c) Loopholes in income tax act […….]

d) Corruption in tax authority […….]

e) Lack of political commitment […….]

f) Lack of consciousness in taxpayer […….]

g) Inefficiency income tax policy […….]

h) Lack of reward and punishment […….]

12. In your opinion what is the most important factor for effectiveness of income tax in Nepal (Please, rank your answer in order of priority)

a)Clear act, rules and regulation […….]
b)Moral and honest tax officer, tax payer [……]
c)Political non interruption […….]
d)Effective income tax administration […….]

13. Do you have any comments and suggestions for addressing or solving the problems of Income Tax Act, 2058, please specify.

Comments:
a)..
b)..
c)..
d)..
e)..

Suggestions:
a)..
b)..
c) …..
d)..
e)..

Thank you very much for your kind help and cooperation