CONTRIBUTION OF INCOME TAX TO GOVERNMENT REVENUE IN NEPAL

Submitted by

Chakra Bahadur Karki

Central Department of Management

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Symbol No.: 6421/065

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RECOMMENDATION

This is to certify that the thesis

Submitted by:

Chakra Bahadur Karki

Entitled

Contribution of Income Tax to Government Revenue in Nepal

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

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Dr. Gopi Nath Regmi	Prof. Dr. Bal Krishna Shrestha	Prof. Dr. Bal Krishna Shrestha
Supervisor	Chairperson, Research Committee	Head of the Department

Date: ……………

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

Chakra Bahadur Karki

Entitled

Contribution of Income Tax to Government Revenue in Nepal

and found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment for

Master's Degree in Business Studies (M.B.S.)

Viva-Voce Committee

Chairperson, Research Committee	-------------------------
Member (Thesis Supervisor)	--------------------------
Member (External Expert)	--------------------------
Member (Central Department of Management)	--------------------------

Date: ---------------------

DECLARATION

I, hereby, declare that the work reported in this thesis entitled **"Contribution of Income Tax to Government Revenue in Nepal"** submitted to the Central Department of Management, Tribhuvan University, is my original work. It is done in the form of partial fulfillment of the requirements for the Master of Business Studies (MBS) under the supervision and guidance of Dr. Gopi Nath Regmi.

March, 2013

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Chakra Bahadur Karki
Researcher
Central Department of Management

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ABBREVIATIONS

DCs	Developed Countries
DT	Direct Tax
DY	Deputy
Eg.	For Example
FY	Fiscal Year
GDP	Gross Domestic Product
GON	Government of Nepal
i.e.	That is
KTM	Kathmandu
MOF	Ministry of Finance
SN	Serial Number
TA	Tax Administrator
TE	Tax Expert
TP	Tax Payer
TU	Tribhuvan University
UDCs	Underdeveloped Courtiers
VAT	Value Added Tax
WDR	World Development Reports

CHAPTER-1

INTRODUCTION

1.1 Background of the study

Nepal, a landlocked Himalayan country, surrounded by India in the east, west, south and by China in the north. Located between latitudes 26°22' and 30° 27' and longitudes 80° 4' and 88° 12' east, with 147181 sq. km. About 83 % of the land mass is occupied by hills and mountains, including the highest peak in the world Mt. Everest. The remaining 17% is occupied by flat land terai in south. The population growth rate of Nepal was 1.4 percent per annum and total population is 266,20,809 (Census Survey, 2010) and per capita income less than $640. The economy of the country is still largely agriculture-based. The development challenge of Nepal is formidable. The annual population growth rate is 1.4% and around 42% of population live below the poverty line and GDP growth rate is not more than 4.6% (Economic Survey, 2011/12). Nepal being one among the poorest countries of the world, its opportunities for the faster economic growth is limited. We have abundant resources for which the country enjoys competitive advantages. The exotic culture, unique social setting arts and architecture, religion and above all people themselves are the resources, if harnessed appropriately could bring about noteworthy achievements.

From the ancient time to modern age government try to fulfill its responsibility by spending a lot of amount towards it people. In the ancient time, most of the government manages its fund from the internal source and spends the huge amount of money to protect the nation form the other nation. But the time has been changed now and the nation should raise fund for the war. In the modern days every government invests its revenue for the social welfare. On the one side government is very careful and serious towards its social responsibility and on the other side people is too much concerned towards the nation's activities. People contribute some percentage of their income to the government as the tax. The government reinvests that amount for the social welfare like education, security, administration and other development. Now to fulfill the high demand of social welfare and to meet the growing public expenditure the government must have sufficient fund. The government has two alternatives to raise the fund.

i. Internal source
ii. External source

External sources of fund are foreign grants and loan and it is received from the foreign countries and international organizations. External sources are more important for undeveloped and underdeveloped countries. It is used for economic development, reconstruction, foreign exchange, crisis management and productive use. The main drawback of the extend source is inconvenient and uncertain and which is to be refund after a certain time. So for the healthy economic development it is better to ple-up of the fund form internal source and mobilize properly so that we should not be depended on the foreign countries and organizations.

Internal sources of fund are own sources within the nation which is certain, convenient and reduce the dependency on the foreign countries. External sources of fund reduces the liquidity and increases the inflations. So, internal sources are more important not only for financing necessary funds but also for the mobilization of internal sources. Nepal is being unable to mobilize its internal sources properly and effectively which is reflected clearly in the today's economy.

On the other hand, sources of public revenue can be classified into two types. They are (a) tax sources and (b) non-tax sources.

Tax sources include the amounts, which is compulsory contributed by the tax payers to the government. Non-tax revenue includes fees, special assessment, gifts and grants fines and penalties etc. Government imposed the non-tax according to the necessary, so it is uncertain and inconvenient. Tax can be defined as the contribution form people and organization to the government from their income either by service or by business without taking the corresponding or direct benefit. Tax is the most important source of revenue because it occupies the very big part of total revenue.

Tax is a compulsory levy imposes by the government to the people and institutions according to the prevailing laws. Prof. Seligman says “Tax is a compulsory contribution form a person to the government to defray the expenses incurred in common interest of all without special benefit conferred." Those who pay tax do not get direct benefits from the government.

Generally tax can be classified into two types. They are: (a) direct tax and another is (b) indirect tax. These taxes are collected according to income level or people or organization. Income, tax property tax, etc. are direct tax. Indirect tax is imposed on one person and paid partly or wholly by another. Custom duty, excise duty, VAT, sales tax, import and export tax etc. are indirect tax.

Under the direct tax Income tax is one of the most popular taxes. It is consideration as one of the major element of Tax revenue. Income tax is charge on person's income according the prevailing law if the country. Income includes all the income received from employment, business and investment. It is charged on person income according to the law of nation. Income includes all the income, which are receiving from business, investment & employment. Income tax is superior to indirect tax because it is imposed on the basis of paving capacity of the taxpayer. Income tax plays an important role in the Nepalese economy. It is the major source of government revenue. It is recognized as a good financial tool to narrow inequality of income. It helps to reduce regional economic imbalance by providing tax concession and holiday to business or industry, which are established in remote area. It is also helpful for generating the concept of social responsibility towards the nation and keeps the people vigilant to see the public money may not be misused.

According to income Tax Act 2058, there are two form of incentive. They are exemption of income and deduction of expenses. An exemption may be in the form of non-taxation of an income or in the form of relief on a payment on expenses which is otherwise not allowed or deduction in computing taxable income, profit or gain.

The nature of exemptions differs according to the government's policy and rules and regulations of the taxes. Similarly in case of the corporate tax, the level of tax exemption is dependent with the level of profit earned and size of the corporate body. To encourage the special business activities the government may decide to allow the tax exemption up to a certain limit or for time period.

Although, Income Tax Act and rules have been updated and amended. However, there are many problems about income tax practices in Nepal such as leakage in tax. People feel about tax as a penalty and burdensome, consciousness of people delays in computation and collection tax avoidance evasions etc. On the other hand raising more and more revenue is the main objectives of taxation but ultimately affects the pattern of consumption, production and distribution in the economy so it is necessary to take into account the equity concept to design the proper tax exemption and deduction policy.

1.2 Focus of the study

The purpose of the study/research is to analyze the exemption of income and deduction of expenses provided by the income tax act, contribution of income tax to the government revenue and the extent of exemption limit provided to individual and the family. It also aims to suggest and recommend regarding income tax of Nepal. The sample space for the opinion will be taken from tax administration, tax experts/auditor and taxpayer.

The scope of the study covers the following aspects of income tax system of Nepal.

- Contribution of total tax revenue to total government revenue of Nepal.
- Contribution of income tax to the government revenue of Nepal.
- Exemption of income and deduction of expenses.
- Administrative aspects of income tax in Nepal
- Nepalese tax structure of government revenue.

1.3 Statement of the Problems

The government has to make heavy spending on the several social overheads. The funds required to invest for these activities can be obtained from two sources, Internal and external sources. The internal source has no obligation towards the third party and less risky as compared to the external sources. The external source of fund depends upon the interest and condition of the funding countries.

Nepal has low per capita income as compared to other countries. Because of the low per capita income and low level of income of its people, Nepal is facing difficulties on raising funds from internal sources. Therefore, it is highly depends on the indirect tax than the direct tax. The share if income tax to total revenue is 16.95% in fiscal year 2008/09 which is very low, because of the low level of income and taxpaying capacity of the people. About 30.6% of the Nepalese people are said to be under the poverty line. The taxpayers feel burdensome to pay tax in Nepal, because the tax exemption limit is not appropriate and scientific and the deduction provided are not sufficient, there are no benefits offered to the taxpayers as provided in the developed countries. (Economic survey, July, 2009)

Income tax Ac, 2002, (section 11) has provided some exemptions granted to the special industries and the industries established in the backward areas of Nepal are not effective and scientific. Although tax incentives or concessions encourage or support to establish in certain area but they vanish or change name, ownership or place of the business when the tax exemptions and concessions period.

Income tax Act, 2002 (section 10) had also provided exemption limit to an individual into two distinct categories in Nepal. They are individual and the couple according to the personal status. This classification does not recognize the various sizes of the dependent family members. There is no discrimination between a taxpayer having only a spouse and a taxpayer with a spouse, parents and children. Therefore this limit in the Nepalese context does not show any specific or definite relationship with per capita GDP as well as the rate of inflation and poverty norm.

According income tax Act, 2002, the income and expenses which are allowed for deduction are contribution of provident fund, life insurance, the contribution and the investment on the citizen investment fund, medical expenses, research and development, pollution control cost. Besides these provisions and deductable expenses are the donations made for non-profit earning institutions and other expenses as mentioned above, there is no any provision for deduction on the necessary expenses like the higher education expenses, pregnancy delivery expenses, incurred by the taxpayers for his/her dependents.

However, various problems of exemption of income and deductions of expenses can be stated in terms of the following questions.

- Are the contribution of total tax and non-tax revenue to total revenue of Nepal sufficient?
- Is the contribution of income tax to national revenue of Nepal satisfactory?
- Is the tax administration system of Nepal sound?

- Are the exempted items of income and exemption limit being provided by income tax Act, 2002, are sufficient?
- Are the current deductions of expenses sufficient?
- What are the major problems and weaknesses of income tax system of Nepal?
- Are the provisions made under the Nepalese income tax Act 2002, sufficient in all respect?

1.4 Objectives of the study

The main objective of the study is to analyze the present system of exemptions of income and deductions of expenses provided by the income tax Act, 2058. However, main objectives of the study are as follows.

- To analyze the contribution of income tax to national revenue of Nepal.
- To analyze the exemption of incomes and deductions of expenses which are provided by the Income Tax Act 2002.
- To measure appropriateness of the extension of exemption limit provided to individual and the family.

1.5 Significance of the study

Nepal being a developing country requires enough economical and financial resources for the progress and prosperity. For this, Internal and external sources can be used for development activities but the external source of financing is not appropriate rather internal source of financing. In this context, significance of income tax cannot be underestimated in the public finance of a nation. The weaknesses and problems faced by the income tax system should be researched and analyzed objectively to increase the contribution of income tax in the national revenue.

The intensive study on tax exemption and deduction has not been conducted in Nepal. Even though several scholars research on income tax has studied tax exemptions and deductions as a minor topic to conduct their research. This study, therefore, will be a pioneering effort on the detailed study of tax exemptions and deductions of income taxation in Nepal. In this context, need and significance of this study will be known.

1.6 Limitations of the study

The study will aim to analyze on exemption income and deduction of expenses in Nepalese income tax. It will not a complete study of income tax system in Nepal. The limitation of the study can be stated as follows.

- It is based on exemption of income and deduction of expenses but not as a complete study of income tax system.
- The study will be covered past 8 years (i.e. from fiscal year 2003 to 2011)
- Opinions and information will be taken as a sense of truth which may not be correct at all time.
- Both primary as well a secondary data will be used.

1.7 Organization of the study

The whole study has been categorized into five major chapters as:

Chapter I: Introduction: This chapter is introduction of the research study which comprises background information, statement of the problems, objectives of the study, scope of the study, needs/significance of the study, limitations of the study and organization of the study.

Chapter II: Review of literature: This chapter is the review of literature. Some books, annual reports of Nepal Rastra Bank, Inland Revenue Department, and Ministry of finance, Statistics Bureau, Dissertation, articles, news, magazines and materials have been reviewed for the study.

Chapter III: Research methodology: This chapter is research methodology. This chapter comprises research design, population and sample, nature and sample of data, data gathering procedure, data processing procedure and analysis of data.

Chapter IV: Data presentation and analysis: The fourth chapter is the presentation and data analysis. This chapter is the major part of the study. This chapter aims to make the critical analysis of income tax system of Nepal with the assistance of authoritative data and opinion survey. On basis of analysis, it will try to find out whether the income tax system in Nepal is satisfactory or not. It describes the problems and weakness of tax administration too.

Chapter V: Summary, conclusion and recommendations: The fifth chapter is mainly concerned with finding, summery, conclusion and recommendation. In the beginning of the chapter, the major findings have been presented about the exemptions and deductions of income tax system, tax structure and administration aspects of revenue administration. Some possible areas for reform the defects in income tax system have been recommended.

CHAPTER - II

REVIEW OF LITERATURE

The main purpose of literature survey is found out what research studies have been conducted in ones chosen field of study and what remains to be done. It provides the foundation for developing a comprehension theoretical framework from which hypothesis can be formulating and minimize the risk of pursing dead-ends in research with related topic & good idea from what has been written concerning his/her topics. The other purpose of raving the literature is to develop some expertise knowledge in ones area to see what new contribution can be made, and receive some idea for developing a research design. This chapter is organized into two headings; conceptual framework and provisional regarding income and other is the review of earlier studies. In conceptual review, many books, dissertations, articles and reports had been reviewed to perform this research study. While reviewing the books, it was found that most of the books are T.U. syllabus oriented and some of them had described the problems and prospects of income tax system and path for reforming of income tax. In empirical review, many dissertation, articles and reports had described the income tax law, provisions, and structure of income tax, problem and prospects of income tax. There were no detail studies made on the topic of income tax exemptions and deduction. Nevertheless, some books are more important and relevant for these studies.

2.1 Conceptual Framework

2.1.1 Concept

Taxation is the biggest source of public revenue of the modern government. In a democratic political set up, taxation is responsible for shaping the political activities of the government. Tax is a kind of money which it is the legal duty of every citizen of a country to pay honestly. It may be levied on income, property and even at the time of purchasing a commodity. In short, tax is the major source of the government's income. Many economists are of the view that tax is a compulsory payment to the government by tax- payer without any expectation of some specified return. A tax payer is not entitled to compel the government, while paying a tax, to give something to him in return of the amount he has paid. But taxation can be considers as a convenient method of raising revenue which in turn is linked with the welfare of the people argument is that the tax-payer is not entitled to claim any return against the payment of his taxes through modern taxation policy that aims at the fulfillment of the objectives of social welfare.

In simple words, tax is a compulsory contribution made by tax payer to the government under the existing law and rule. Because of tax payment tax payer cannot claim of direct benefit. The government mobilizes these taxes for public interest. However, different economists tried to defined taxation in a different style as stated below:

Many economists and scholars have expressed their views in regarding to the tax. Some of the definitions on tax given by some scholars are as follows:

According to economist Dalton "A tax is compulsory contribution imposed by a public authority irrespective of the exact amount of services recorded to the tax payer in return and not imposed as penalty for any legal offence."

According to Prof. Seligman "A compulsory contribution form a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred."

From the above definitions, it is clear that tax is compulsory levy imposed to the person by the government according to the laws of the country. The person on whom, tax is imposed must pay taxes otherwise the laws will punish him/her. The government does not provide any corresponding benefit to the taxpayer for the amount of tax.

2.1.2 Objectives of Tax

Tax is a permanent instrument of collecting revenues for the government. The government mobilizes its revenues through budget in development programmers, daily administration, peace and security and public interests thus, the good tax policies are considered as tools for social and economic revaluation. The main objectives of taxation are:

a. **To Raise More Revenues**

The government needs revenues to perform development and culture programmed of the nation. The government imposes taxes to raise more revenues.

b. To Reduce Economic Inequalities

The government levies more tax upon high-income group and mobilizes it to improve the economic conditions of low-income group. As a result, the economic inequalities will be reduced (Amatya, 2004: 7).

c. To Maintenance of Welfare State

A welfare state needs huge investment in development activities. It has to make its expenditure on education, health, industrial development, etc. which fall under the primary functions of a welfare stage maintenance of economic stability is an important function of the state. The government maintains purchasing power through the change so as to maintain economic stability (Koirala, 2009: 29).

d. To Encourage Production of Essential Goods

The tax policy attempts to level the tax with a low rate or to provide tax exemptions to the industries which module essential goods on the other hand the policy attempts to impose the tax with nigh rate to who industries which produce luxurious and harmful goods. As a result, the production of essential goods is encouraged while production of luxurious and harmful goods is discouraged (Amatya, 2004: 7).

e. To Remove Regional Economic Disparity

The government provides tax exemptions, rebates and concession to those industries, which are operated in the backward and remote region. As a result, the economic activities will be increased in these regions so as to remove the regional economic disparity (Amatya, 2004: 8).

From the above, we can conclude that the tax has the purpose of raising revenue to help resource mobilization, equal distribution of income and wealth in the society, encouragement in production certain products, encouragement in employment, saving and investment removal of regional imbalances and enforcement of government policy.

2.1.3 Important in Income Tax

Taxes on income are the most important single source of revenue for governments of developed countries though they at present produce for less revenue in most developing countries than custom duties and taxes on internal transaction (Khadka, 1994: 64).

Thus from the above lines it is clear that taxes on income are the most important sources of government revenue in developed countries. But in the context of developing countries income tax cannot produce more revenue because the people of developing countries are poor as a result income tax cannot produce more revenue as in developed countries.

In very poor countries income taxes contributes between one sixth and one fifth of total tax revenue, which they are the source of about one half of total tax revenue in the United States (Khadka, 1994: 64).

Like other developing countries Nepal is not an exception from the serious problem of domestic resource mobilization. There is also lack of saving and investments for economic development. To mobilize resources taxation can be used as positive instrument. In most of developing countries indirect taxes play important role than direct taxes on the overall tax structure, for a rapid growth it is essential to increase investment.

Therefore, to fulfill the required capital for investment taxation can play an important role. Income tax is a modern tax for Nepal. This is built a scale system, and on the size of the family among the different component of income tax individuals' contribution is the highest with increasing ratio. In our tax structure custom duty, value added taxes, excise duties are major source of revenue, income tax also contributes some portion for capital formation. The history of income tax revenue has been increasing in every year; more over it can certainty develop into a useful form of taxation in the future.

The income tax also helps to direct the flow of resource of the economy into useful and productive cannel and also incomes the productive capacity of the economy if income tax is properly used it can make significant contribution to other tax revenue income tax has an increasing trends. It can influence on the distribution of income and is regarded as an important instrument of growth and social justice in Nepal.

2.1.4 Income Tax in International Context

Income Tax was first introduced in Great Britain in 1799 in order to finance wars with France. Only 1980, it was accepted as a permanent tax. In united state of America, first federal income tax was imposed in 1862 to finance civil war expenditure. However it became permanent features only in 1913 after 16^{th} amendment to U.S. constitution. In neighbor country India, at first income tax was introduced in 1860. After introducing Income Tax Act, 1886 New Zealand in 1891, Australia in 1915 and Canada in 1917, after First World War, the income tax became an important source of tax revenue in many developed countries. By 1939, it has become the most important source of revenue in most developed countries and had made appearance in a number of developing motions (Agrawal, 1978:113). From the First World War decade, income tax has shown as an important source of revenue in developed country. In the beginning of introducing time, it was generally levied at flat rate only after 1909, the principle of progression was introduced from the UK and New Zealand.

2.1.5 Taxation in Ancient Nepal

No reliable records are available above taxation in ancient and medieval Nepal. However, taxation took its earliest from in the actions of petty rulers, scattered in various parts of the country, which extracted lives from the travelers and merchants. However, land tax was the major source of revenue; there were also irrigation and religious monuments preservation tax in the time of king Ansubarma of Nepal. There was tax for purification of caste as well as cremation of the dead. At the Lichhavi era, there were two main taxes. One was imposed in a certain place for certain product and other imposed equally throughout the country. In the inscription of Ausubarma, it noted that there were three taxes called "Trikar”: a) Bhaga b) Bhoga c) Kara. Agriculture tax was collect "Bhaga", animal husbandry was collect "Bhoga", and kara was in general the business tax and customs. The tax was payable according to the ability of the taxpayer (Bhattari and shrestha, 1976:54).

The framers were supposed to pay agriculture income tax to the government in 1/6, 1/8 and 1/12 shares of their total production depending upon the quality a land that they owned (Poudyal & Timilsina, 1990: 1).

2.1.6 Development of Income Tax Law in Modern Nepal

Although there were tax systems in Nepal in ancient time also, the concept of income tax was brought only by the first budget. The budget introduced in 2004 B.S. stated about the introduction of income tax system in Nepal. However, it was actually introduced only in 2017 when the finance Act, 2016 and Business profits and Remuneration Tax Act, 2017 wear exacted. The tax could not cover all the source of income and it was replaced by the income tax act, 2019 in 2019. Income tax Act, 2019 with 29 sections divided the head of income into 9 parts covering business profession, occupation, remuneration, house and land and rent, casher kind investment, agriculture, insurance, business, agency business and other sources. The act was amended in 2019 extensively. However, considering this act incapable of fulfilling the needs of the time, it was replaced in 2031 by another act. This act having 66 sections, classified the sources of income in to 5, namely.

1. Agriculture
2. Industry, Business, Profession or vocation
3. Remuneration
4. House and land Rent and
5. Other sources (Kandel, 2004 (26-27).

This Act continued for 27 years with eight amendments to the section 5 of Income Tax Act, 2031. GON had made the Income Tax Rules, 2039 to implement the objectives of Income Tax Act, 2031. Each year the finance act is passed to translate the fiscal policies and programmers in the budget speech into law.

It generally prescribes the tax rate and exemption limit per tax purposes and it may abolish, add or modify the provisions contained in the income tax law purpose. Income Tax Act, 2031 was not perfect. It had some defect. To avoid the defect of

Income Tax Act, 2031 introduced the Income Tax Act, 2058. This act has made some amendments two times by the finance ordinance of 24th Ashadh and 22the Push of 2059 B.S. The development of income tax act in Nepal is presented below

2.1.7 Business Profit and Remuneration Act 2017

Business Profit and Remuneration Act 2017 is the first formal tax act introduce in Nepal. It was enacted the first elected government of Nepal. According to this act only business profit and remuneration were subjected to tax but the revenue for these taxes should not be collected properly according to originals estimates. It has consisted 22 sections only (Dhungana, 1976:66).

Main features of this act mentioned below:

- Only business profit and remuneration income were subjected to tax. Thus the act was narrow coverage.
- Tax on remuneration was to be deducted at sources.
- The basis for calculating the tax liability for remuneration was the income of the current year whereas for business profits, it was the profit of the preceding fiscal year.
- There was a provision of fines regard between Rs.500 to Rs.5000 in case of defaults.
- The tax officer was empowered to assess tax on best judgment estimation only in case of flash statement of in absence of income tax return.
- The first court of appeal against the tax officers' assessment was local 'Bada Hakim' or Magistrate. Thereafter, taxpayer could appeal to the "Revenue and Tax Court" but the need to deposit fixed amount of tax.
- There was a provision of tax exemption on salary of foreign citizen, dividend of shareholders, profits to be spend in religious or public welfare activity, crop from own land, allowances granted by HMG to ministers, assistant minister, chairman, speaker and deputy speaker, amount drawn from provident fund or saving fund.

The experience of three years application of "Profit and Remuneration Tax Act" was found that the narrow coverage and vague. So, it was replaced by the "Nepal Income Tax Act 2019 B.S."

2.1.7.1 Income Tax Act 2019

"Business Profit and Remuneration Tax Act 2017" was replaced by "Income Tax Act 2019". It had come in implementation from July; 1962. It was more clear and extension of the previous act. It has consisted 29 sections. 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 taxpaying habit of the taxpayers. It was amended only one time in 2029 B.S.

The main features of this act are as follows:

- There were nine sources of income for the tax purpose such were, income from business, salaries, any profession, rent from house and land, investment in cash or bond, agriculture, insurance agencies and any other sources.
- The status of taxpayers was defined personally as well as residentially.
- The basis was specified for assessing tax on the best judgment estimate of the officer.
- Act has defined basic terminology such as taxpayers, tax officers, company, firm, profit remuneration, tax assessment, non-resident etc.
- Provision was made for payment of tax in installment as well as advance payment of tax.
- Provision was made to carry forward of losses for the period of two years.
- Provision was made for reassessment of tax as well as rectification of arithmetic errors.
- The provision was made to constitute the net income assessment committee with five members.
- Provision was made for payment of tax in installment as well as for advance payment of tax.
- Clearly defined and stated that the assessment and method of assessing (computing) net income.
- To expand the tax coverage at the first time agriculture income was brought under the tax net. But, the financial act 2023 B.S. exempted this income fully from income tax. Again, it was brought into tax net by financial act 2030 B.S.

2.1.7.2 Income Tax Act, 2031 B.S.

To fulfill the demand of time, “Income Tax Act, 2031” was enacted from October 1974 by replacing previous act. It has 66 sections. Its basic framework was derived from previous “Income Tax Act, 2019.” This act was amended in eight times.

Main features of this act are as follows:

- This act has clearly defined the certain terminologies used in tax act e.g. income tax, taxpayers, non-resident, tax assessment, gross income, net income, income year, agriculture income, remuneration income, loss etc.
- The act has classified income head into five categories (1) agricultural income (2) income from industry, trade, profession or occupation (3) remuneration (4) house rent and compound rent tax and (5) income from other sources.
- Certain types of income were exempted from income tax that was specified in section 42.
- Carry forward of lose has allowed for three subsequent year.
- Provision of self-assessment of tax for the first time in Nepal.
- The methods of computing net income from various sources have been specified clearly.
- The provision for the taxpayers has to register their industry, business, profession or vocation in tax office before the commencement of the work.
- The process of assessment, reassessment, and advancement of tax, deduction of tax at sources and refund of tax has clearly specified.
- The act has clearly specified to deduct expenses while computing net income for all sources of income.
- It has additional provision of exemption from income tax than the former act as follows: income of Guthi, income of village development committee, municipality, and amount received against life insurance.
- Right, duties, forms, appeal were specified.
- Provision of penalty up to Rs.5000 in case of failure of maintains or preserves accounts.
- Provision for avoidance double taxation.

2.1.7.3 Weakness of Income Tax Act, 2031 B.S

Tax administration is not effective enough due to lack of professional skill of tax personnel, loop holes in tax laws, lack of taxpayers' information (Kharel, 2052). Some weakness in ITA 2031 as noted by him was as follows:

- Limited taxable object or base.
- Discretionary powers to the tax officers.
- Imposition of various laws with regard to tax.
- Ambiguous and insufficient.
- Poor control mechanism for tax evasion and avoidance.
- Tax law has not mentioned the right of taxpayers.
- Taxing only the income originated in Nepal.
- Low penalty rate to tax evader.
- Unsuitable to modern economy. Etc.

2.1.7.4 Income Tax Act 2058 B.S.

"Income Tax Act, 2058" was introduced from 19th Chaitra 2058 B.S. This act replaced the income tax act 2031. The act was brought in Nepal to avoid the defects of income tax act 2031. It consists of 143 sections along with 24 chapters. The main motto of this act is to promote the economic development of the nation. HMG had enacted the income tax rules in 2059, Jestha 27th in accordance with the authority given under section 138 of ITA 2058. The new act has retained certain provision of the old tax act and has added certain new provision.

a) Objectives of Income Tax Act, 2058.

According to the policy maker following are the main objectives of ITA 2058:

- To increase the tax coverage.
- To bring all the income generating activities within tax net.
- To bring all the income tax related provision within one act.
- To make income tax related provision clear and transparent.
- To interlink Nepalese tax system with tax system of other countries.
- To make tax system based on account.
- To minimize tax avoidance and tax evasion.

- To make tax system compatible to modern economy.
- Reducing the scope of discretionary interpretation of the tax administration thereby ensuring simplicity, uniformity and the transparency.
- Separating administrative and judicial responsibilities.
- Defining the power as well as authority of tax administration.
- Making more responsible to taxpayer by emphasizing on self tax assessment system.

b) Main Feature of Income Tax Act, 2058

Following are the main features of income tax act 2058:

- Income tax related provisions are included within one act.
- This act has clearly classified the income into three headings under section 3: (a) business (b) employment and (c) investment.
- This act has clearly defined the terms mainly used in income tax.
- All expenses incurred while generating taxable income are allowable to deduct.
- The act has introduced a pool system of charging depreciation, intangible assets are also depreciated.
- Capital gain and dividend etc. are brought into tax net.
- The act has provided a liberal loss set-off and carry forward\backward provisions. Inter head adjustment of losses is clearly specified.
- The act has introduced a provision for administrative review to allow the tax administration to correct mistakes make by the tax administrators internally.
- Global incomes of a resident are made taxable. Non-residents are also taxed on their income with source in Nepal.
- Provision of fines and penalties are made clear and strict in the new ITA 2058.
- The act has given the option for husband and wife as a separate natural individual unit if they do not accept as couple.
- To control the tax evasion, provision of transfer pricing, capitalization, dividend stripping is made.
- Taxpayer's authorities are specified clearly.
- The special provision for deduction pollution control cost and research and development cost.

- Tax can be paid in three installments (40% at first, up to 70% at second and 100% at last).

2.1.8 Review of Some Terminologies Used in Taxation

According to ITA 2058:

a. Income (section 2 Ja)

Income means “person’s income from any employment, business or investment and the total of that income as calculated in accordance with this act.” It includes all sorts of income received for the provision of labor or capital or both of whatever form or nature in taxable income.

b. Income Year (section 2 Jha)

Income year means the period from the start of Shrawan of a year to the end of Ashad of the following year. ITA, 2058 has regarded Nepalese fiscal year as an income year.

c. Company (section 2 Da)

Company means, the company which is established under the company laws or act. Besides, the following institutions are also treated as company for tax purpose.

i. Corporate body established under the laws for the time being in force.
ii. Any unincorporated association, committee, institutions, society or group of persons other than partnership or proprietorship firm (whether or not registered) or a trust.
iii. A partnership firm (whether or not registered under the laws for the time being in force) that has 20 or more partners, a retirement fund, a cooperative, a unit trust, or a joint venture.
iv. Foreign company and
v. Any foreign institution prescribed by the Director General.

d. Individual (section 2 Wa)

Individual means a natural person and proprietorship firm whether registered or unregistered owned by the person, if any, and a couple making an election as single natural person under section 50.

e. Entity (section 2 Bha)

Entity means the following institutions or organization.

i. A partnership, trust, or company.
ii. A VDC, Municipality or DDC.
iii. Nepal Sarkar (Government of Nepal).
iv. A foreign government, or a political sub-division of the foreign government, or a public international organization established under treaty, and
v. A permanent establishment of an individual or an entity that is not situated in the country in which the individual or entity is resident.

f. Resident Person (section 2 Ka Nga)

Resident person with respect to an income year means:

- In the case of an individual: an individual is;
  - i. Whose normal place of abode is in Nepal;
  - ii. Who is present in Nepal for 183 days or more in any period of 365 consecutive days; or
  - iii. Who is an employee or an official of Nepal Sarkar posted abroad at any time during the income year;
- Any partnership.
- In the case of trust: a trust that:
  - i. Is established in Nepal;
  - ii. Has trustee that is a resident person for the income year, or
  - iii. Is controlled directly or through one or more interpose entities by a person or persons one of whom is a resident person for the income year.
- In case of a company, a company is that:
  - i. Is incorporated or formed under the law of Nepal or
  - ii. Has its effective management in Nepal during the income year.
- A VDC, Municipality or DDC
- In case of a foreign government or a political sub-division of the foreign government, such an entity.
  - i. If it is established under the laws of Nepal or
  - ii. Has its effective management in Nepal during the income year.
- Any institution or entity established under treaty; and
- A foreign permanent established of a non-resident person situated in Nepal.

A person who is not a resident person is considered as a non-resident.

g. Partnership (section 2 Ka. Pa)

Partnership means a firm (registered or not registered) that has fewer than 20 partners. However, the term does not include a proprietorship firm (registered or not registered) or a joint venture.

h. Exempt Organization (section 2 Dha)

Exempt organization means the following entities:

- Following entities registered with IRD as tax exempt entity.
  i. A social, religious, educational, or charitable organization of public character registered without having a profit motive.
  ii. An amateur sporting association formed for the purpose of promoting social or sporting activities not involving the acquisition of gain.
- A political party registered with the election commission.
- A VDC, Municipality or DDC.
- Government of Nepal.
- Nepal Rastra Bank

i. Business (section 2 Ka. Ja)

Business means a industry, a trade, a profession or the like isolated transaction with a business character and include a past, present or perspective business. However, the term does not include employment.

j. Tax (section 2 Dha)

Tax means income tax imposed under this act and includes following payments:

- As mentioned in clause 104 (8) sub clause (a) expenses incurred in relation to claims or performing action of the property of tax creditor by the department.
- Amount payable by the withholding agent or withholder clause 90, or amount payable by an installment payer under clause 94 or the amount payable as per tax assessment under clauses 99, 100 and 101.
- Amount payable to the department on respect of a tax liability third party under clause 107(2), 108(3), 109(1) and 110(1).
- Amount payable by way of interest and fees under chapter 22 and

- As per clause 129 amount payable by way of fines as per the order of the department.

2.1.9 Sources of Income

Income tax act 2058 has classified the sources of income for the purpose of assessment under the following headings:

I. Income from Business.
II. Income from Investment
III. Income from Employment.

a) Income from Business

Income Tax Act 2058 has defined the business income for income tax purpose. Profits of gains from conducting the business are considered as business income for the purpose of income tax. While calculating a person profit and gains from the business, the following amounts derived by the person during the year will be included and following expenses are deducted. (See ITA, 2058 for detail)

Incomes are as follows:

- Service charge (sec.7.2)
- Sale or disposal of business\ trading stock (sec.7.2)
- Net gain from disposal of business assets liabilities under chapter 8 (sec. 7.2)
- Gain from disposal of pool of depreciable assets (sec. 7.2)
- Prizes of gifts connection with business (sec. 7.2)
- Amount received instead of acceptance of any restriction\ regarding business (sec. 7.2)
- Income to be included due to change in accounting methods (sec. 22.6)
- Excess amounts received due to exchange rate variation (sec. 24.4)
- Bad debts recovered (sec. 25.1)
- Proportionate amounts received under long-term contracts (sec. 25.1)
- Under payment of interest according to market rate (sec. 27.1)
- Receivable amounts paid by other (sec.29)
- Amount received for compensation (sec. 31)
- Other amount received under business income (sec. 7.2)

Allowable deductions:

- Interest expenses (sec.14)
- Cost of business\trading stock (sec. 15)
- Repair and improvement expenses (sec. 16)
- Pollution control cost (sec. 17)
- Research and development cost (sec. 18)
- Depreciation (sec. 19)
- Loss from banking business (sec. 59)
- Other expenses.

While calculating income tax from the business, the following amounts are excluded income from business for tax purpose.

- Exempt amounts under section 10.
- Taxation of dividends under section 54.
- Final withholding payments section 92

b) Income from Investment

Profit and gains from conducting an investment are considered as investment income. In calculating a person's profits and gains from an investment for an income year the following amounts derived by the person during the year should be induced. Following list shows the including amount and excluding amount in investment income.

Following incomes are including in investment income:

c) Any dividend, interest, natural payment, rent, royalty, gain from investment insurance, gain from an unapproved retirement payment or retirement fund from approved retirement fund (sec. 9.2)
d) Net gain from the disposal of the non business chargeable assets of investment (sec. 9.2)
e) Excess amount of incoming over the depreciation basis including outings on the disposal of the depreciable assets of the investment of the person (sec. 9.2)
f) Gifts and prize received in connection with investment (sec. 9.2)
g) Retirement contribution, including those paid to a retirement funds in respects of the person and retirement payments on respect of investment (sec. 9.2)
h) Amount received instead of acceptance of any restriction regarding investment (sec. 9.2)

i) Amount include under change of accounting method (sec. 24)
j) Bad debts recovered (sec. 25)
k) Underpayment of interest account according to market price (sec. 27.1)
l) Excess amount received is exchanging of currency (sec 28)
m) Amount received as composition (sec. 31)
n) Other amounts required to be included on tax accounting or quantification, allocation and characterization so amounts or transition between any entity and beneficiary on general insurance business (sec. 9.2)

The following amounts are excluded income from investment for tax purpose:

- Exempt amounts under section 10.
- Taxation of dividends under section 54.
- Final withholding payment under section 92.
- Amounts those are included in calculating the person's income from an employment or business.

Allowable deduction:

- General dedication (sec. 13)
- Interest (sec. 14)
- Repair and improvement cost (sec.16)
- Depreciation (sec. 19)
- Business or investment less (sec. 20)

Allowable reductions:

- Donations to tax exempt organization (sec. 12)
- Retirement contribution (sec. 63)

c) Income from Employment

An individual's remuneration income from employment is termed, as income from employment. All payments or benefits received in respect of employment, including past or future employment are made taxable income. According to sec, 8 the remuneration received by a person from the employment is as following payments made by the employer. (Sec. ITA. 2058 for detail).

Following employment incomes include for tax propose.

- Payment of wages, salary, leave pay, overtime pay, fee, prize and gifts related to employment, bank and other facilities. (Sec.8.2)
- Payment of living allowance, rent, entertainment and transportation allowance and other personal allowances. (Sec.8.2)
- Payment of reimbursement of cost incurred by the individual or an associate of the individual. (Sec.8.9)
- Payment for the agreement to any condition of the employments. (Sec. 8.2)
- Payment for the compulsory terminates loss or redundancy of the employment. (Sec. 8.2)
- Retirement contribution amount pay by the employer to the retirement fund in the respect of the employee. (Sec. 8.2)
- Other payment in respect of the employment

In additional to above stated, the following types of perquisites are include in remuneration of a person.

- Prize and gifts.
- Other payment made in respect of employment.
- The amount of difference of the interest on loan paid by the employer lower rate than the market rate.
- Market value of asset in case of the transfer of the assets.
- For the payment other than stated above, the value of benefit of the payment to the third persons.

While the computing net income from employment of a natural person, the following amount are excluding on employment income:

- Amounts exempt under section 10 and final withholding payments.
- Meals or refreshment provided by premises operated by or behalf of an employer to the employer's employees that are available to all the employees in similar terms.
- Payment of prescribed small amount, which are so small and thus unreasonable or administratively impractical to make accounting for them.
- Any discharge or reimbursement of cost incurred by the individual cost.
  - ➢ Cost that serve the proper business purpose for the employer.

- Cost that are or would be deductively in calculating the individual income from any business or investment.

Following expenses can be deducted while calculating employment income.

- Directly related cost for generating employment income.
- Contribution to retirement fund (provided fund, citizen investment fund and others).
- Donation (5% of adjusted taxable income or 10,000 whichever is less).

d) Tax Exempt Organization

Exempt organization means any entity that should not paid tax legally. Non-profitable organizations are provided such facilities.ITA 2058 has clearly mentioned the tax exempt organizations in sec.2.

Following are the tax exempt organizations.

- A religious, educational or charitable organization of a public character.
- An amateur sporting association formed for the purpose of promoting social or spotting amenities not involving the acquisition of gain.
- A political party registered with the election commission
- A village development committee, municipality, or district development committee.
- Nepal Rastra Bank.
- Nepal sarkar

However, any benefit acquired by any person out of assets of an amounts derived by the entity expect in pursuit of the entity's function or as payment for assets or services rendered to the entity by the person it is exempt from tax.

ITA 2058 has mentioned the organizations which are tat free (Exempt organization). Act has exempted a social, religious, educational or charitable organization of a public character registered without having profit motive.

e) Tax Exempt Amounts or Inadmissible income

According to ITA 2058 Sec.10 following are tax exempt amounts.

- Amount derived by a person entitled to privileges under bilateral or a multilateral treaty between Nepal Sarkar and a foreign country or international organization.
- Remuneration of an individual from employment in the public service of the government of a foreign country, provided that:
  - i. The individual is a resident person solely by reasons of performing the employment or is a non-resident person.
  - ii. The amounts are payable from the public funds of the country.
- Amount derived from public fund of the foreign country by an individual who is not a citizen of Nepal or by a member of the immediate family of the individual.
- Remuneration paid by Nepal Sarkar to foreigner on condition of tax exemption.
- Allowance paid by government to widows, elder citizens or disabled ones.
- Amount derived by way of gift, bequest inheritance or scholarships which are included in income from business, employment or investment income are tax exempt.
- Pension received by a Nepali as retired army/police of a foreign country, from public fund of foreign government.
- Amount derived by an exempt organization by way of:
  - i. Gifts (donation)
  - ii. Other contribution that directly related to the exempt organization's function.
  - iii. Amount derived by Nepal Rastra Bank as per its objectives.
    - Non includable amount on investment income.
    - The act has mentioned the amount which are excluded in computing income from an investment under section 9.3 They are:
      - a. Exemption amount under section 10,
      - b. Taxation of dividend under section 54.
      - c. Dividends distributed by a controlled foreign entity at the end of the year under section 69 and final withholding payment, and
      - d. Amounts that is included in calculating the person's income from any employment or business.

f) Business Exemptions and Concessions (Sec. 11)

The following business exemptions and concessions are mentioned in section 11 of ITA 2058.

- An agricultural income derived from sources in Nepal during an income year by a person, other than the income from an agriculture derived by a registered firm, or partnership, or a corporate body.
- Income derived by cooperative societies registered under cooperative act 2048 from business mainly based on agriculture and forest products and dividend distributed by such societies are exempted from tax.
- Any person operating special industry during the whole income year will be taxed as under:

a. In case, the industry provides direct employment to 600 or more Nepali citizens during the year, 90% of applicable tax rate is applied.
b. In case, the industry operated in a remote, undeveloped, or underdeveloped area tax at 70%, 75%, 80% of the applicable tax rate respectively up to ten income years commencing, from and including the year in which the operation commence.
c. If the both exemptions (a & b) are available to the same industry for same income year, only on exemption must be chosen.

- A person who is entitled to an exemption as per sub – clause (a) (b) or clause 11 should calculate the income as referred to in those subclasses as through the income was only income earned by separate person.
- If the assets by the special industry were used previously by another person operating the similar type of special industry the ten year for the letter will be counted from the period of such use by the another person previously.
- If any agreement made by government and any person constructing and operating infrastructure project to construct and operate an infrastructure project and for such agreement provide any tax facilities given by this act. In this condition, the person (project) can consume the facilities till to the period stated in the agreement.

g) Donations and Gifts to tax Exempt Organization (Sec -12)

Income Tax Act 2058, Sec. 12 has mentioned the provision of donations and gifts to exempt organization. The provisions are:

a. A person may claim to have taxable income year reduces by donations (gifts) made by the person during the year to an exemption organization, that are approved for the purpose of this section by the department.
b. Notwithstanding subsection(a) reductions allowed to a person under subsection (1) for an income year shall not exceed Rs. 100,000 or 5% of the person's taxable income for the year calculated without a deduction for gifts referred to subsection (a) and ignoring the limitations in 17 (2) and 18 (2) whichever is less.
c. Notwithstanding subsection (a) and (b), Nepal Sarkar may prescribe, by a notification in the Nepal Gazette, as to full or partial deduction at the time of assessing a person's income of the expenses incurred for special purpose or the expenses of the gift given by the person.
    - From the above provision (a), it is clear that the donation given to political parties is allowed for deduction. But it is not clear mentioned that 'transparency of donation amount given by businessman to political parties.'
    - Similarly, in the provision (c), there is a provision of special purpose. But the act has not defined 'what is the special purpose?'

h) Allowable Deductions

Income Tax Act 2058, Sec. 13 to 20 is described the allowable deductions which are as follows:

i) General Deduction (Sec. 13)

- To calculate a person's income from any business and investment for an income year the interest expenses can be deduct following conditions:
    a. The borrowed money is use in the year;
    b. If the money borrowed to purpose an asset, the asset must be used in the year.

c. In other case the borrowed money is used to generate income from business or investment.

- In case of resident entity controlled by a tax exempted institution and that entity has paid interest to the controller institution or related person, the resident entity may deduct the interest paid without exceeding the sum of follows (a + b).
  a. Total interest derived by that entity which is included income taxable income, and
  b. 50% of the entity's adjusted taxable income for the year calculated without including any interest received and without deducting any interest expenses paid by t he entity.
- The portion of the interest which is not deducted during the current income year because of the limitation. So, remaining portion will be deducted in the income year.
- For this purpose, the controller entity means the institution holding of 25% or more of equity or managerial power at any time during the income year.
- Here, tax exempted institution means:
  a. Tax exempted entity and related person.
  b. Entities getting business concession and facilities under (sec.11)
  c. Non-resident person or his related persona or
  d. Any combination of (a), (b) and(c).

j) Interest Expenses (Sec.14)

To calculate a person's income from any business and investment for an income year the following costs incurred in the transaction can be deduct.

- Incurred during the year.
- Incurred by the concerned person.
- The cost which is incurred to produce income from business or investment.

k) Cost of Trading Stock (Sec. 15)

Cost of trading stock is allowable to deduct while calculating income from business. Following points are important for the purpose:

- Raw material, work-in progress and finished goods are included in trading stock.

Cost of trading stock = Opening stock + Purchasing during the year – Closing stock.

- To evaluate the closing stock cost price and market price whichever is less is taken.
- The person keeping accounts on a cash basis for the valuation of trading stock.

a. Absorption cost can be derived as follows:

Direct material cost	Rs. +++
Direct labor cost	Rs. +++
Variable factor overhead cost	Rs. +++
Prime cost (Absorption cost)	Rs. +++

b. Similarly, factor cost can be derived as follows:

Direct material cost	Rs.+++
Direct labor cost	Rs. +++
Factory overhead (Fixed +variable)	Rs. +++
Factory cost	Rs. +++

- Repair and improvement expense and depreciation of plant and machinery should not be add while calculating factory overhead or variable factory overhead (Kandel, 2003: 68).

l) Repair and Improvement Cost (Sec. 16)

- For the purpose of calculating a person's income for an income year from any business or investment, repair and improvement cost of depreciable assets, owned and used by the person should be deducted which is incurred during the year.
- However, according to the act, such costs do not exceed 7% of depreciation basis of the assets pool at the end of the income year.
- If the actual repair and improvement cost is more than 7% of the assets pool, the balance amount is capitalized and added to the depreciation basis then written off in the next years.

- Repair and improvement cost can be calculated as follows.

Opening written down value of assets pool		+++
Add: Last year's capitalized part of the asset pool	+++	
Add: Addition of the asset during the year	+++	
	+++	
Less: Disposal of assets of during the year	+++	
Depreciation basis	+++	

7% of depreciation basis or actual repair and improvement cost whichever is less is allowable for depreciation (Kandal, 2003:68).

m) Pollution Control Cost (Sec.17)

- Pollution control cost means cost incurred by a person in the possess that seeks to control pollution or protect and conserve the environment.
- To calculate a person's income for an income year from any business, the pollution control costs can be deduct that is incurred during the year in conducing the business.
- But the lower amount of the below is deducted.
    a. actual pollution cost or
    b. 50%of adjusted taxable income from all business.
- The portion of pollution control cost not allowed as deduction will be capitalized at the beginning of the next income year under block 'D' of assets pool.
- Government has a will of controlling pollution to protect the environment but has not sent a little bit money on it.

n) Research and Development Cost (Sec. 18)

- R & D cost means cost incurred by the person for the purpose of the developing and improving the business system. Process and products etc.
- R & D cost though the cost of capital nature are allowed for deduction to an extent from taxable income of the person.
- The lower amount of the below is deducted.
    a. Actual research and development cost, or
    b. 50% of adjusted taxable income of all business.
- The portion of R & D cost not allowed for deduction in the income year is capitalized at the beginning of next income year under block 'D' of assets pool.

- Here, adjusted taxable income of a person for an income year is the taxable income without reducing donation (sec. 12) and without deduction of pollution control cost (sec. 17) and R & D cost (sec. 18). (Kandel, 2003:70- 71).

o) Depreciation Cost (Sec.19)

- Depreciation is the gradually decreasing in the value of assets due to wear and tear, obsolescence or the passing of time.
- Depreciation at prescribed rate is allowed to deduct on used depreciable assets owned by the persons or organization.
- There are different rate of depreciation for different blocks. 5% for 'A' group, 25% for 'B', 20% for 'C,'15% for 'D' and
  Original Cost for 'E'.

Useful life

- The depreciation basis(pool- wise) is calculated as under:

Opening depreciation basis	+++
Add: Additional during the year	+++
	+++
Less: Disposal during the year	+++
Depreciation basis	+++

- The following entities are allowed additional depreciation, 1/3rd of the prescribed rate on the assets falling under A, B, C and D blocks.
  a. Entity engaged in building public infrastructure to transfer to the government and any other entity engaged in power generation, transmission or distribution of electricity.
  b. Entity fully engaged in operating special industry.
  c. Entity fully engaged in operating road, bridge, tunnel, ropeway or flying bridge constructed by the entity.
  d. The entity fully engaged in operating trolley bus or train.
  e. The entity which earned income from export business in an income year.
- An individual cannot get such facilities (1/3rd additional depreciation) even though, she/he is operating similar activities (Kandel, 2003: 73).

p) Losses from Business or Investment (Sec.20)

- While calculating income from business for an income year following losses are allowed for deduction.
  a. Any unrelieved loss of the year incurred by the person from any other business.
  b. Any unrelieved loss of previous four income year incurred by the person from any business.
- While calculating income from investment following losses are allowed for deduction.
  a. Any unrelieved loss of the year incurred by the person from a business or investment.
  b. Any unrelieved loss of previous four income year incurred by the person from any business.

q) Bad Debts (Sec.25.2)

Under the following condition bad debts can be deduct.

i. If the outstanding loan bank or financial institution has become bad debts accordance with the standards prescribed by Nepal Rastra Bank.
ii. Apart from Sec. (i), the person believes that, the receivable amount could not be recovered, after taking reasonable steps to recover the amount or loans.

r) Allowance Reduction

i. Donation to Exempt Organization

Donation made to an exempt organization approved by Inland Revenue Department (IRD) is allowed for reduction from taxable income.

- If the donation given by the person or entity, Rs 100,000 or 5% of adjusted taxable income whichever is less is allowable to reduction.
- Donation made to Pashupati Area Development Trust (PADT) and Lumbini Area Development Trust (LADT) is deductible up to Rs 50 lakh.

ii. Retirement Contribution (Sec. 63)

An individual who is receiving of a retirement fund may claim a reduction for retirement contributions made to the fund. However, claim made by an individual for an income year will not the prescribed retirement limit.

s) Tax credit

i. Medical Tax Credit (Sec. 51)

An individual may make a claim for the offset of medical expenses incurred himself. 15% of the eligible medical expense or Rs. 750 whichever is less is allowable for deduction. It can be deduct from total tax liability.

ii. Foreign Tax Credit (Sec. 71)

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

- The maximum allowable foreign tax credit to a person is calculated by applying following formula.
- Foreign Tax Credit = Assessable income from foreign sources × Average rate of income Tax in Nepal.

Average rate of income Tax in Nepal = $\dfrac{\text{Total tax amount (Payable) before any foreign tax credit}}{\text{Total taxable income}} \times 100\%$

t) Expenses not allowed for deductions

For the purpose of calculating the income of a person for an income year from any business, employment or investment; the following expenses are not allowed for deduction under section 21 of Income Tax Act 2058.

a. Expenses of domestic of personal nature.
b. Tax paid under this act.
c. Fines and penalties paid to government or its local bodies for breaching of any law or regulations.
d. Expense to the extent to which they are incurred by a person in deriving exempt amount under section 10 or final withholding payment
e. Expenses for payment made by a person whose annual turnover for an income year exceeds Rs. 20, 00,000 is not allowed a deduction for a cash payment in

excess Rs. 50,000 incurred at once other than in specified conditions. (Sec. Income Tax Act 2058, Sec. 21.2 for detail)

f. Expenses of capital nature.
g. Foreign income tax.
h. Dividend.
i. Reserve and provision fund.
j. Any other amount to the extent to which deduction is not defined by above program.

2.2 Review of Books

Khadka (1994) had described the economic policy of Nepal, value added tax, income tax from rough to refined system, property taxes as the main sources of local revenue. He had shown the composition of tax revenue from 1950/51 to 1991/92.

About the income tax, he had described the introduction, development, structure, problems and possible direction of reform. He had identified the major problems of income tax such as narrow coverage unscientific tax assessment etc. He had suggested following direction for refer, they expansion of coverage improvement in tax assessment use of presumptive method, extension of withholding tax, inflation adjustment, tax treats with the major trading patterns of Nepal.

Similarly, he identified following major problems of tax administration: - weak tax administration, inadequate tax training, lack of adequate information system, inadequate physical and other facilities, lack of coherent tax policy etc.

He had suggested some suggestion for administrative reforms. They were: strengthening the revenue service, provision of existing tax training, developing an integrated information system, research on taxation etc.

Dhakal (2001) had presented numerical examples to describe legal provision relating to income tax. His book is very useful to know the various aspect of income tax. Although, he has not shown any numerical illustration.

This book is very useful to know about the legal provisions of “Income Tax Act 2031 B.S.” Writer is fully based on the campus level curriculum prescribed by T.U. This book is informative and descriptive rather than analytical. He has not analyzed the role of income tax and the structure of income tax.

“Income tax law: Then and Now” was published by Adhikari (2059) in this book he has described the legal provisions of new Income Tax Act 2058. He has also incorporated the decision made by Supreme Court pertaining to the income tax act. He has described the legal provision with critical analysis. This book is very useful to those, who take keen interest to know about the Income Tax Act 2058. Writer has not analyzed the role of income tax and income tax structure. This book is analytical rather than descriptive.

Kandel (2003) has described the about introduction of tax, meaning of tax, history of income tax, structure and feature of income tax, meaning of different basic term of tax, exemption and tax rate, sources of income, assessable and taxable income etc. Tax based on Income Tax Act 2058. He has described about Value Added Tax.

Mallik (2003) had published a book named “Nepalese Modern Income Tax System”. He has described about legal provisions relating to income tax with numerical examples and has described historical aspect of income tax. This book is very useful to know the general information and legal provisions of income tax act 2058. The book is informative rather than analytical. The writer has not analyzed the role of income tax structure in this book.

2.3 Review of Dissertations

Poudel (2002) has described the income tax in its historical perspectives, income tax structure, elasticity and buoyancy of income tax, voluntary disclosure of income scheme, role of income tax administration in Nepal.

She has more emphasized on structure and contribution of income tax. She had mentioned that contribution of tax revenue to GDP is the lowest among the SAARC countries. Within the tax revenue, the contribution of indirect tax is about twice than direct tax.

She had suggested to broadening income tax base, reform of tax administration, successful implementation of VAT, establishment of standardized accounting system. But she had not mentioned the problem of income tax system and exemption and deduction.

Shreschan (2003) had presented a thesis covering tax structure, role and legal provision of income tax. But, specially, his study has focused on provision of fine and penalties. He had found that there was dominated share of tax revenue in Nepalese government revenue structured. Income tax had occupied third position in his study period and it was in an increasing trend. The tax/GDP ratio was not found satisfactory. With the income tax, there was the dominated role of corporate income tax but it was in a decreasing trend and contribution of individual income tax was second position and it was in an increasing trend.

He has suggested revision the provision of fine and penalties; introducing reward, prize, incentive, clear income tax, rules and regulation; clear right and duties of tax officers. Moreover, his suggestions are timely revision in income tax policy, computerized system for payment of income tax.

The main objective of the study was analyzing the provisions of fine and penalties under income tax law, to know the knowledge of taxpayers and tax officers about fine and penalties. He has not mentioned about exemption and deduction. His study has focused only on provision of fine and penalties.

Gautam (2004) has described concept and meaning, international context, legal provision of income tax, sources of income, method of income tax assessment appeal, fine and penalties. He has focused on resource gap in Nepal, tax/GDP ratio and revenue/GDP ratio of different years. He has covered revenue structure, composition of revenue, composition of direct and indirect tax revenue, income tax collection performance in Nepal, exemption limit in Nepal, income tax rate etc. But he has not detaily described exemption, deduction and problem of income tax.

He has suggested some main suggestions, they are:-

- Clear and simple income tax rules, regulation and system for all.
- Income tax policy should be revised properly and formulated according to the good economic policy.
- Rate of fine and penalties should be increased.
- Tax personnel should be encouraged and punished according to their work performance.
- Provision and deduction items should be clearly defined in the act.
- The provision of reward, prize, and incentives should be introduced in the act to encourage the tax payers to pay tax voluntarily.

Pradhan (2005) had conducted a study concerned with historical background and contribution of income tax to the public revenue, contribution of Nepal Telecommunication Corporation (NTC) to income tax, effectiveness of income tax collection. She had found as follows:

- The contribution of income tax from public enterprise in Nepal was not significant.
- NTC had been contributing effectively to total tax revenue, total income tax revenue and total government revenue was 2.37%, 16.60% and 1.93% respectively in her study period.
- Contribution of tax revenue on GDP of Nepal was lower than other SAARC countries except Bangladesh.

Clear cut provisions; simple and clear assessment and collection provision; rewards, prize and incentive should be introduce to encourage the tax payers to pay tax voluntarily, discretionary power of tax officer should curtailed, compulsory provision of auditing etc.

She has suggested following points to improvement income tax administration in Nepal were: active promotion and reward system; tax education to tax payers, strict against corruption, efficient and honest tax has focused on the study on Nepal Telecommunication Corporation.

Lamsal (2005) had mainly focused on the removing and controlling income tax evasion for better resource mobilization. As his main objective was to analyze the impact of income tax evasion in government revenue of Nepal, he set further objectives which were; to identify the ways and causes of income tax evasion, to estimate the volume and tendency of income tax evasion in small trade sectors and to examine the role of income tax utilizing the resources in Nepal.

He had conducted that research following analytical as well as descriptive research design. Most of the data were from secondary sources and some were form primary sources. Primary data were collected through opinion survey, field visit and interviews. Simple statistical analysis such as average and percentage were used as for data analyzing, tools; graphs charts and tables were used to interpret visually the finding of the research.

Paudel (2006) had found that within the direct tax, income tax was the largest source, which contributed more than 88%. The contribution of income tax to direct tax has increased significantly since its introduction. In terms of the composition of income tax, the share of corporate income tax was 59.8% and that of individual income tax was 31.2% in 1999/00. She had hope that the coverage of income tax would be widened after the implementation of Income Tax Act 2001.

She had added that the Nepalese tax administration has been attempting to modify itself to meet the pressing challenge brought about by change in technology and economic polices. However, still its wording is traditional and the cost of administration has not been brought to the satisfactory level.

Pallimagar (2007) had presented a dissertation named “Income Tax Act in Nepal: A Study of Exemption and Deduction”. He has covered tax structure, role of income tax, exemption and deduction provides in the law. He has found that there was dominated share of tax structure in Nepalese government revenue. Income tax had occupied third position in his study period and it was in an increasing trend. The tax/GDP ratio was not found satisfactory. He found that exclusion of agriculture income from the tax net.

He found various problems in Nepalese income tax system. They are: lack of trained employers, shortage of income tax experts’ professionals in tax administration, lack of public participation, fully organizational structure of tax administration, weakness in government policy, less clear income tax act, limited tax base, increased corruption, lack of timely adjustment of tax law etc.

His suggestion about exemption are: revision the exemption limit, elimination double taxation on dividend, tax rebate for submitting true income statement in time, increase the exemption limit to individuals as well as family, exemption limit must be adjusted with inflation situation, the provision of special fee must be eliminated etc. Similarly suggestion about deduction were: clear provison for deduction, fully allowed in interest expenses, pollution control cost, repair and improvement expenses, research and development expenses, carry forward of losses must be extended up to 5 to 6 years for every business, expenses for appropriate education for children, medical expenses for the person etc.

Shahu (2008) had found that only 0.35% of total population came under the categories of taxpayers during his study period. He also showed the contribution of income tax in the total tax revenue and total revenue was 9.95% and 7.94% respectively. Income tax had been gradually increasing during his study period and income tax was in the fourth place in the tax structure. The individual taxpayers had higher contribution than the wage earners.

Subedhi (2009) had criticized the Income Tax Act 2001 on several grounds. Exemption of agricultural income from income tax, export duties levied on export, inequality between different capital earned income (i.e. tax on interest, dividend and capital gain), and withdrawal of the provision of exemption suddenly and no adjustment for inflation are the major issues he raised in his article. He also said the tax regime creates more tax burden then the former one. The further criticized the Act for the provision of income tax from export as 0.5% of total export because it is not a good choice of income tax base.

Yadav (2011) had concentrated his study mainly on the analysis of exemption and deduction of income acts of Nepal. In his study he recommended to increase the exemption limit for an individual to a minimum of Rs. 90000 and from family exemption based on the number of dependent children and parents. He further recommended levying income tax on agriculture, capital gains and other source to raise tax base He emphasized on higher contribution of corporate income tax compared to the individual income tax.

2.4 Review of Report and Writing

Lent (1968) had presented a report entitled “Survey of Nepalese Tax Structure” under the request of IMF, Fiscal Affairs Department. He has critically analyzed the scope of income tax in Nepal, tax structure, exemption and allowance given at that time. He has suggested reforming both the income law and administration to increase government revenue through income tax.
Kayastha, Rai and Dhangang (1976) has published a report entitled “An Analysis of Tax Structure of Nepal” dealing the tax structure of Nepal. Writers had analyzed the income tax in Nepal and recommended to reform income tax to reduce resources gap and mobilize additional resource, Report had analytical.

Paudel (1994) had been conducted a research on the topic of corporate tax planning in Nepal. He has mentioned the proportion of corporate tax revenue, direct tax revenue in total tax revenue and the main objectives of the study they are: to examine the corporate tax structure in Nepal, to examine the implication of tax factor in selecting the best alternative strategy in different aspects of strategy planning and so on. This research shows that corporate tax was collected form book profit. A book profit means corporate profit which is committed for tax purposes. This study has also expressed that income tax provisions are raised under different acts in different times.

Shah (1999) had conducted a research on the topics “Contribution of Income Tax in National Revenue of Income Tax”. He has described trend of income tax burden, number of taxpayers and tax composition etc. he has described some problems and solutions of these problems. The main objectives of the study were history of income tax, number of taxpayer and their contribution portion of income tax in total national revenue and trend etc. Secondary data and only 10 years data has used. Governmental and non-governmental offices were used to collect data. Simple arithmetic rule chart, diagram, statistical tools etc. has used to analyze data. He found that only 35% population comes under tax category out of the total taxpayer. It was increasing gradually.

Revenue Consultation Committee (2001) has presented a report to Ministry of Finance by making study about overall taxation situation of Nepal in depth. This report has suggested widen the income tax base by including all kinds of tax payer and income and find out the new taxpayers of new sector. The report has focused for a couple and family as exemption limit. Mainly, it has emphasized to simplify the tax policy to increase voluntary compliance. This report recommended for written communication between taxpayers and tax administration rather than the informal relation.

Thapa (2004) had published a draft about System and its Reforms in Nepal as a descriptive way. He has described the system, features, causes and areas of reform of tax. He has characterized the tax system as too many and too high rates, myriad of incentives and tax holidays, multiple objectives of tax scheduler rather global approach to income taxation, too many income bracts and high progressively, complicated and ambiguous tax laws.

He has presented the areas of reform of tax system, they are: low rates and broad base, simplicity and neutrality, gradually abolition of exemptions, deductions and tax holidays to broad tax base, few rates and single rate, few taxes with high revenue productivity, conversion of rates and service taxes into VAT, abolition of surcharge and additional duty system to make the tax system simple, incentives to saving and investment, emphasis on tax compliance rather than coercive enforcement etc.

CHAPTER-III

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. In other words, research methodology describes the methods and process applied in the entire aspect of the study. This chapter describes research design, population and sample, sampling procedure, nature and sources of data, data collection procedure, data processing procedure and analysis tools

3.1 Research Design

Research design is a plan, structure and strategy of investigation so as to obtain answer to research questions. In this study, most of the data and information of the study are concerned with past phenomena of the performance either they are numerical or opinions. So it can be regarded as historical research design too. After the collection of past data and experiences, this study is analyzed and described its own procedure. Thus this study has also followed an analytical as well as descriptive research design.

3.2 Nature and Sources of Data

In order to achieve the result out of this research, primary as well as secondary data were collected different sources.

3.2.1 Source of Primary Data

The primary sources of data are the opinion survey through questionnaire, field visit and information received from the fifty respondents. Forty questionnaires were distributed to the respondents. There were 10 tax experts, 10 tax administrators and 20 taxpayers as samples.

3.2.2 Sources of Secondary Data:

The secondary data for this research has been collected from the following different sources.

a. Published documents of National Planning Commission and Nepal Rastra Bank.
b. Published and unpublished reports articles and dissertation on the concerned subject.
c. Published reports and seminar paper of CEDA.
d. Published of Nepal Government, Ministry of Finance, budget speeches and economic survey of various fiscal years.
e. Annual Report of IRD of different years.
f. Reports submitted to government of Nepal and International experts and agencies.
g. Different publications of Central Bureau of Statistics.

The collected data through primary and secondary sources were tabulated in different ways according to the requirement of the study. The data were presented in graphs, charts, diagrams, simple percentage and mean.

3.3 Procedure of Data Collection

A set of questionnaire was developed and distributed to the selected respondents in order to get accurate and actual information. The questionnaires were administered in personal meeting with the respondents and additional information was also collected from interview with the respondents.

3.4 Procedure of Data Analysis

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. Secondly, library of NRB also consulted. Thirdly, the numerical data are collected form the publication of annual reports of IRD, economic bulletin of NRB, economic survey of MOF, publication of CEDA TU, Budget speeches etc. Lastly, various journals, national newspapers are also reviewed.

Collected data from primary as well as secondary sources were firstly tabulated into separate format systematically. The data were tabulated into various tables according to the subject in order. Then simple statistical analysis such as average and percentage were calculated where necessary and they have been presented and analyzed in descriptive way. Graphs and charts are also presented to interpret visually the findings of the study.

3.5 Presentation and Analytical Tools

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

a. Table: Various tables are formulated to tabulate the data. A master table is also presented in the appendix 1.
b. Chart and diagrams: These tools are used for visually description of the data. Trend lines, bar diagrams are used for this purpose.
c. Correlation: Correlation may be defined, as the degree of linear relationship existing between two or more variables. Two variables are said to be correlated when the change in the value of one variables are accompanied by the change of another variable. Correlation analysis is defined as the statistical technique, which measure the degree and direction of relationship between the variables. In other words, it helps in studying the covariance of two or more variables, which lies 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:

$$r = \frac{N\sum XY - \sum X . \sum Y}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}}$$

Where,

n = No. of observations

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 function 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 are various methods 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 the method of least square. Under this method, a trend line is fitted to data satisfying $(Y - Y_c) = 0$, and $(Y - Y_c)^2$ is least where, Y is the actual value and Y_c the computed value of Y.

From that line obtained by this method is the line of best fit.

Trend line Y = a + bx.

Where,

$$\because a = \frac{X^2 . Y - X . Y}{N X^2 - (X)^2}$$

$$\because b = \frac{N XY - X . Y}{N X^2 - (X)^2}$$

Where,

Y = Dependent valuable

X = Independent valuable

a = Y intercept or value of when X = 0

b = Slope of the trend line of amount change that comes in Y for a unit change in X.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

4.1 Presentation and Analysis of Secondary Data

4.1.1 Resource Gap in Nepal

Like other developing countries in the world, Nepal has been suffering from resource constraint, mass poverty, rapid growth of population, aggressive dependence on agriculture, subsistence living standard etc despite over four decades planned development efforts .

In Nepal, the source mobilization is still poor that does not cover the growing expenditure. Fiscal deficit is due to the continuously growing expenditure of the government instead of the low revenue performance in Nepal. That is why; country is facing the increasing burden of foreign loan. Widening trend of the different resource gap is show in the table 4.1.

Table 4.1

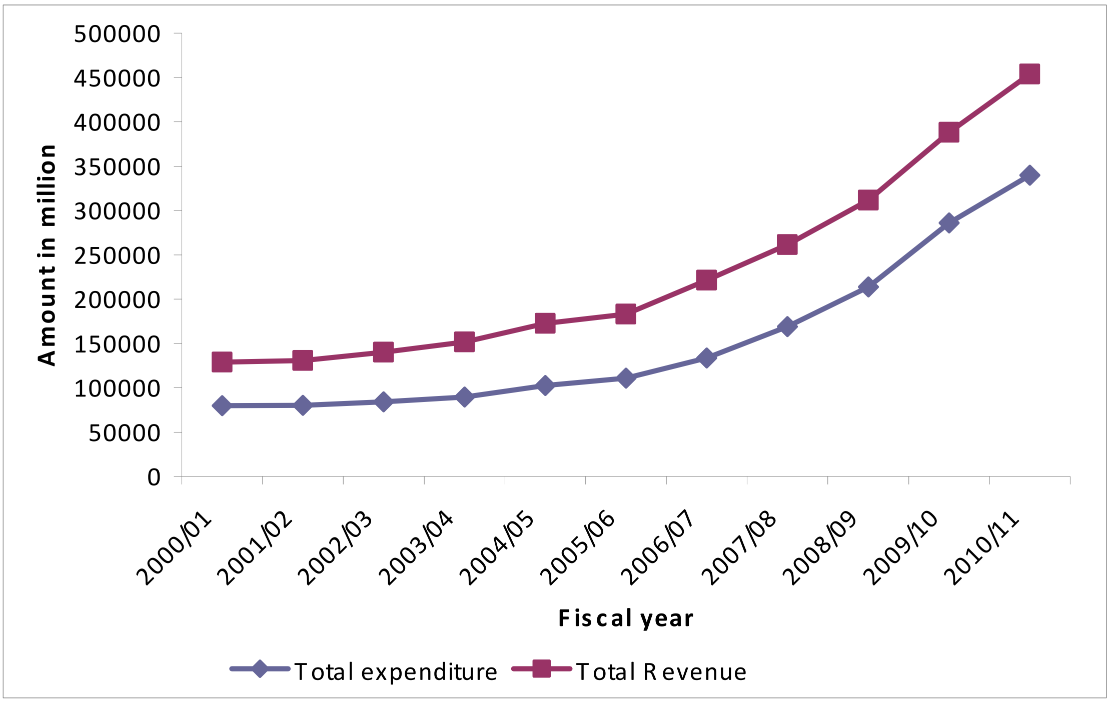
Resource Gap in Nepal

Rs. In Million

Fiscal years	Total expenditure	Total Revenue	Resource Gap(1st)	Foreign Grants	Resource Gap(2nd)	Foreign Loan	Resource Gap(3rd)
2000/01	79835.1	48893.6	30941.5	6753.1	24188.1	12044.7	12144.1
2001/02	80072.3	50445.5	29626.8	6686.1	22940.7	7698.7	15242.0
2002/03	84006.1	56229.8	27776.3	11339.1	16437.2	4546.4	11880.8
2003/04	89442.6	62331.0	27111.6	11283.4	15828.2	7629.0	8199.2
2004/05	102560.4	70122.7	32437.7	14391.2	18046.5	9266.1	8780.4
2005/06	110889.2	72282.1	38607.11	13827.5	24779.6	8214.3	16565.3
2006/07	133604.6	87717.5	45887.1	5800.80	30086.3	10053.50	20032.8
2007/08	168995.60	92317.23	76678.37	7460.91	49217.46	17367.43	31850.03
2008/09	213578.37	97941.6	115636.77	1257.46	74379.31	23578.90	50800.41
2009/10	285930.00	102158.7	183771.3	56955.6	126815.7	21560.67	105255.03
2010/11	339582.00	114367.2	225214.8	63662.6	161552.2	32865.67	128686.6

Source: Economic Survey, Ministry of Finance, GON

Figure 4.1: Resource Gap in Nepal



In the table (table no. 4.1), 1st resource gap of Rs. 30941.5 million in fiscal year 2000/01 reached to Rs. 183771.3 million in the fiscal year 2009/10. It is continuously in increasing trend. In the initial fiscal years, total revenue was increased in greater percentage than expenditure, so resource gap was decreased. 2nd resource gap (after considering foreign grants) was Rs.3047.5 in the starting year and further widen up to Rs.24779.6 million in fiscal year 2005/06. It was decreased in the fiscal year 1989/90 by the 141.10 million than the previous year and also decreased in the fiscal yearx19993/94. The government takes internal and external loan to meet deficit finance. Foreign loan had taken Rs.985.80 million in the fiscal year 1982/83 and Rs.8214.30 million in 2005/06. After foreign loan financing, 3rd resource gap was Rs.2061.7 million in the fiscal year 1982/83 and which was increased to Rs.16565.30 million in the fiscal year 2005/06. In 2000/01, maximum foreign loan was taken in comparison to other years, so resource gap was decrease in this fiscal year. The resource gap (after considering foreign loan) was fluctuating trend. The increasing resource gap indicates that it is necessary to mobilize additional domestic resources. Ultimate and the best measure to fill up the resource gap to increase public revenue through effective tax system.

4.1.2 Revenue Structure of Nepal

Every government is responsible to perform numerous functions for the betterment of the people in the country. A government needs huge volume of income to fulfill different type of expenditures. For this purpose, government collects revenue from different sources. Thus, the income of the government through all sources like taxes, borrowings, fees, donations etc are called public revenue. In general, government income sources are mainly classified into two categories named tax revenue and non-tax revenue. These both sources are subject to non-repayment and their sum constituted the government revenue. Beside these sources, government has other sources, which are subject to repayment such as loans and grants. However, grants are not compulsorily repaid. These are desirable only to meet the fiscal deficits.

The trend and composition of tax revenue and non-tax revenue in different fiscal years are presented below:

Table 4.2

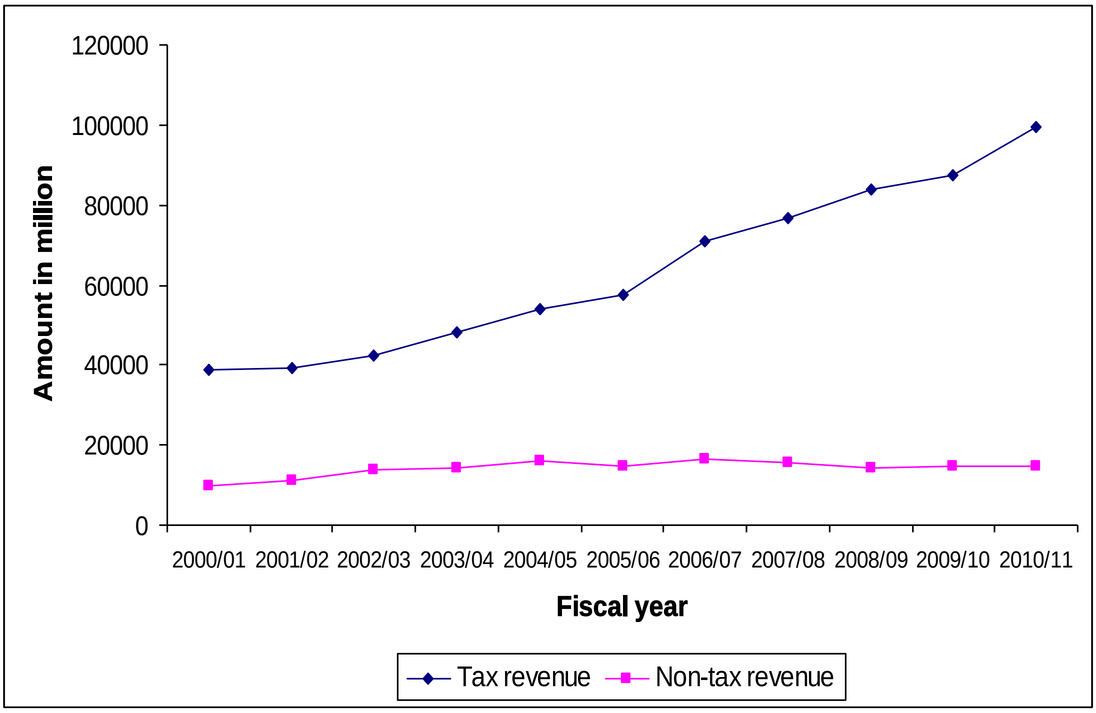
Magnitude of Revenue Collection in Nepal

Rs. In million

Fiscal year	Total revenue	Tax Revenue Amount		Non-tax revenue	
		Amount	% as an total revenue	Amount	% as total revenue
2000/01	48892.70	38653.90	79.49	10028.80	20.51
2001/02	50446.30	39331.30	77.97	11115.00	22.03
2002/03	56229.44	42587.00	75.73	13642.44	24.27
2003/04	62330.55	48172.50	77.29	14158.05	22.71
2004/05	70122.7	54104.7	77.16	16018.0	22.84
2005/06	70643.60	57430.40	76.33	14851.7	23.67
2006/07	87717.51	71127.57	81.09	16590.00	18.91
2007/08	92317.23	76834.14	83.23	15483.09	16.77
2008/09	97941.62	83756.73	85.52	14184.89	14.48
2009/10	102158.73	87346.86	85.50	14811.87	14.50
2010/11	114367.2	99461.23	86.97	14905.97	13.03

Sources: Economic Survey, Ministry of Finance, GON

Figure 4.2: Magnitude of Revenue Collection in Nepal



From the above table (table no. 4.2), it can be assessed easily that in the fiscal year 21000/2001 the figure for total revenue stood at Rs 48892.70 consisting of tax revenue of Rs. 388653.90 and non tax revenue of Rs. 10028.80. The following two fiscal years showed rise and fall of it.

In the fiscal year 2006/07, the figure for tax revenue stood at Rs. 71127.5 which was at 81.09% of total revenue. And the amount of non tax revenue was 16590 with 18.91 % of total revenue of this year.

4.1.3 Tax Revenue Structure of Nepal

Taxes are not a voluntary contribution of the taxpayer but it is compulsory in nature. Generally, tax is a compulsory contribution imposed by the public authority. Taxation is the main source of income of the government. Tax revenue comprises compulsory, unrequited, non-payable receipts collected by government for public purpose. It includes interest collected on tax areas and penalties collected on non-payment or late payment of taxes. Tax revenue is principle sources of the government revenue: however, its contribution is different in different countries significantly. In the context of Nepalese economy, tax revenue is major sources of government to mobilize sources effectively and properly.

Tax revenue, one of the principle sources of the government revenue, is a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the taxpayers in return. It covers theoretically and practically following heads such as person, organization, business firms and even foreigners who are doing business of consuming goods or using service in Nepal.

In the fiscal trend of Nepal, tax revenue structure is a combination of two tax elite. They are namely direct tax and indirect tax. The trend and composition of tax revenue for the fiscal years 1991/92 to 2005/06 are given in the table below:

Table 4.3

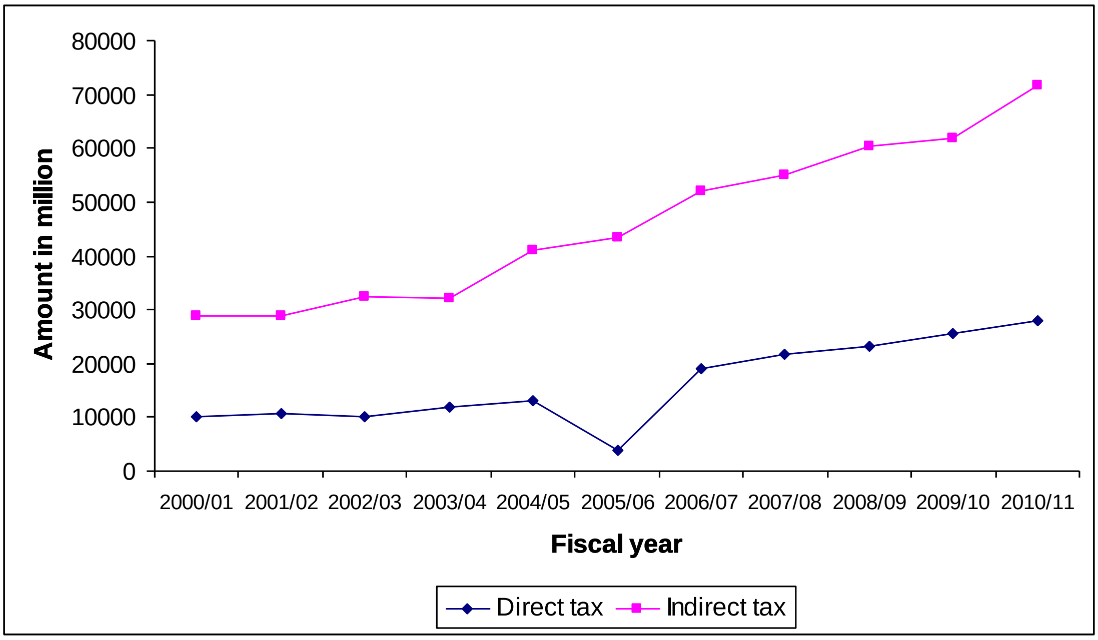
Trend and Composition of Tax Revenue

Rs. In million

Fiscal year revenue	Total tax	Direct tax		Indirect tax	
		Amount	% as total revenue	Amount	% as total revenue
2000/01	38863.90	10159.40	26.14	28704.50	73.86
2001/02	39331.30	10597.50	29.94	28733.80	74.44
2002/03	42587.00	10105.80	22.41	32481.20	77.58
2003/04	48173.50	11912.60	23.27	32260.40	75.7
2004/05	54104.70	13071.8	24.16	41032.90	75.84
2005/06	57930.40	3968.10	24.32	43462.30	75.68
2006/07	71127.51	18980.57	26.69	52147.0	73.31
2007/08	76834.14	21759.43	28.32	55074.71	71.68
2008/09	83756.73	23267.76	27.78	60489.11	72.22
2009/10	87346.86	25444.14	29.13	61902.72	70.87
2010/11	99461.23	27926.33	28.08	71534.9	71.92

Sources: - Economic survey, Ministry of Finance, GON

Figure 4.3: Trend and Composition of Tax Revenue



From the above table (table no. 4.3), it is clear that the Nepalese tax structure is completely dominated by indirect tax revenue. However, the percentage of indirect tax as the total tax revenue is increasing in the initial year but decreasing continuously after2005/06. In the similar manner, the percentage of direct tax to total tax revenue is increasing in subsequent years. The volume of direct tax and indirect tax in the year 2000/2001 was Rs. 10159.40 million and Rs. 28704.50million which was 26.14 percent and 73.86 percent of total revenue respectively. It slightly decreased in next year then increased in next two successive years. In fiscal year 2005/06 it dramatically declined to Rs. 3968.10 which was 24.32% in total revenue and it increase up to 18980.5 which was 26.61% in total revenue at 2006/07.

Similarly, the amount of indirect tax revenue is also in an increasing trend. It slightly decreased in fiscal year 2003/04 and again increased to 52147.0 in fiscal year 2006/07. The percentage contribution of indirect tax to total tax revenue is in fluctuating trend up to the fiscal year 2006/07.

In developed economic like U.S.A. etc. direct tax plays a leading role for the internal resource mobilization where as in developing countries like Nepal, indirect tax plays pioneering role by dominating direct tax. In shows the magnitude of economic of economic development.

4.1.4 Composition of Direct Tax Revenue

In Nepalese tax structure; the major components of direct taxes are income tax, land tax and house and land registration tax on property. Until the fiscal year 1993/94 vehicle tax was considered as a direct tax and since 1994/95's budget speech, it has been classified under the indirect tax. On the other hand, interest tax and urban house and land rent tax were included under the income tax since 1994/95. Thus the contribution has been larger. The share of each component of direct taxes is given below.

Table 4.4

Composition of Direct Tax Revenue

Rs .In Million

Fiscal years	Income tax	Land tax	House and land Registration	Tax on property	Others	Total Direct tax
2000/01	9114.00	5.10	607.80	432.50	0.00	10159.40
2001/02	9802.70	0.80	1131.00	562.00	0.00	10597.50
2002/03	7966.20	0.00	1414.30	559.50	165.8	10105.80
2003/04	9245.9	0.00	1697.00	700.60	268.6	11912.60
2004/05	10159.40	0.00	1799.20	806.50	306.7	13071.80
2005/06	10373.70	0.00	2181.10	847.60	565.70	13968.10
2006/07	15034.00	0.00	2253.5	995.00	697.8	18980.3
2007/08	17309.20	0.00	2737.76	973.21	739.42	21759.43
2008/09	18286.72	0.00	3196.22	997.17	787.65	23267.76
2009/10	20839.60	0.00	2721.45	989.66	893.43	25444.14
2010/11	23397.37	0.00	2662.51	1012.48	853.97	27926.33

Source: Economic Survey, Ministry of Finance, GON.

Figure 4.4: Composition of Direct Tax Revenue

From the above table(table no. 4.4), the largest share in the direct tax is occupied by income tax, followed by house and land registration tax then tax on property (mainly transportation means). From the fiscal year 2000/01, the income tax went on increasing continuously till 2000/01 which amounted to Rs 9114.00million .But it fluctuated between fiscal years 2001/02 to 2002/03.Then it went on increasing onwards. In the fiscal year 2009/10, the income tax is Rs 20839.60 million.

Besides, house and registration tax increased from Rs. 607.80 million in the fiscal year 2000/01 to Rs 2253.5 million in the fiscal year 2006/07 and Rs. 2721.45in the year 2009/10. Though it slightly dropped to 10105.80 million in the fiscal year 2002/03.But it went on increasing for the next fiscal years.

4.1.5 Composition of Indirect Tax Revenue

In Nepalese tax structure; the indirect tax refers to three categories of taxes namely custom duties, VAT/ sales tax and exercise duties. The total indirect tax revenue realized during the study period, namely custom duties contributed the highest share up to fiscal year 2003/004 followed by VAT/ sales tax and exercise duty. But in Fiscal year 2004/05 VAT/sales tax is higher than customs duties. The share of the major components of the indirect taxes is given below.

Table 4.5

Composition of Indirect Tax Revenue

Rs. In Million

Fiscal year	Customs Duties*	Sales Tax/VAT	Excise Duties**	Other Taxes ***	Indirect Tax
2000/01	12552.10	12047.80	3770.00	334.60	28704.50
2001/02	12658.80	11964.00	3807.70	303.30	28733.80
2002/03	14236.40	13459.70	4785.10	0.00	32481.20
2003/04	15554.80	1478.90	6226.70	0.00	36260.40
2004/05	15701.60	18885.40	6445.90	0.00	41032.90
2005/06	15344.40	21610.70	6507.60	0.00	43462.30
2006/07	16707.60	26095.60	9343.23	0.00	52146.4
2007/08	17434.33	28498.31	9142.07	0.00	55074.71
2008/09	17173.74	33773.74	9541.63	0.00	60489.11
2009/10	17968.28	34002.67	9931.77	0.00	61902.72
2010/11	20813.47	39347.32	10874.11	0.00	71534.9

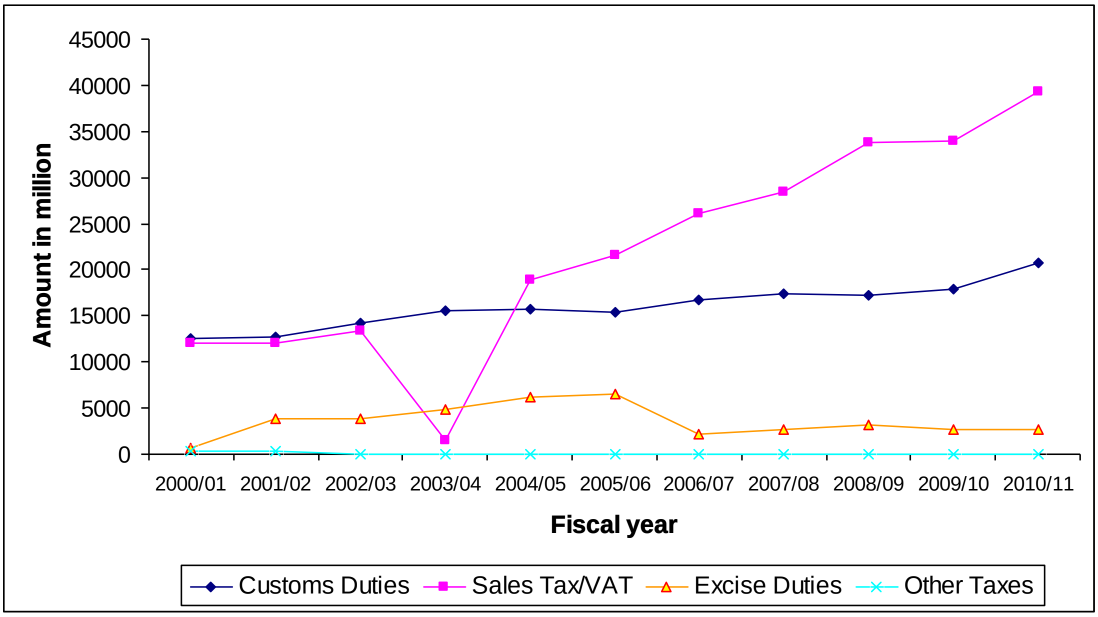
Sources: - Economic survey ministry of finance, GON

**Custom duties include import export, India exercise refund and other*

***Exercise duties are the sum of taxation, industrial product and higher contact.*

****Other taxes include entertainment tax, Hotel tax, Air flight tax, contract tax, Road and bridge maintenance tax and others.*

Figure 4.5: Composition of Indirect Tax Revenue



Above table (table no. 4.5), shows the contribution of customs duties to indirect tax is in an increasing trend. Its share in the fiscal year 2000/01 was Rs. 12552.10 million which reached up to Rs.15701.60 million in the fiscal year 2004/05 and slightly decreases in fiscal year 2005/06 and it was increase in 2006/07 onwards. Likewise, the share of VAT/sales tax to indirect tax was also in an increasing trend which contributed Rs. 12047.80 million in the fiscal year 2000/01 that reached up to 17968.28 in fiscal year 1009/10 and slightly decreased in next year. Similarly, revenue collection from excise duties was increasing trend which contributes Rs. 3770.00 in fiscal year 2000/01 and it reached up to 9931.77 in fiscal year 2009/10. Other tax is 331.60 in the fiscal year 2000/01 and nil in the fiscal year 2002/03 to 2009/10 and indirect tax is continuously increasing.

4.1.6 Direct tax and indirect tax Revenue in GDP

The revenue is composed of direct and indirect tax. The contribution of direct tax revenue is very low in Nepal in comparison to developed countries like United State and Japan etc. because, being an under developed country, the people of Nepal live in subsistence level and all of their income is spent on consumption. As a result, direct tax cannot product more revenue than indirect tax.

To know the contribution of direct tax and indirect tax revenue it will be desirable to examine the share of direct tax and indirect tax revenue in GDP. The following table indicated the share of direct and indirect tax revenue in GDP.

Table 4.6

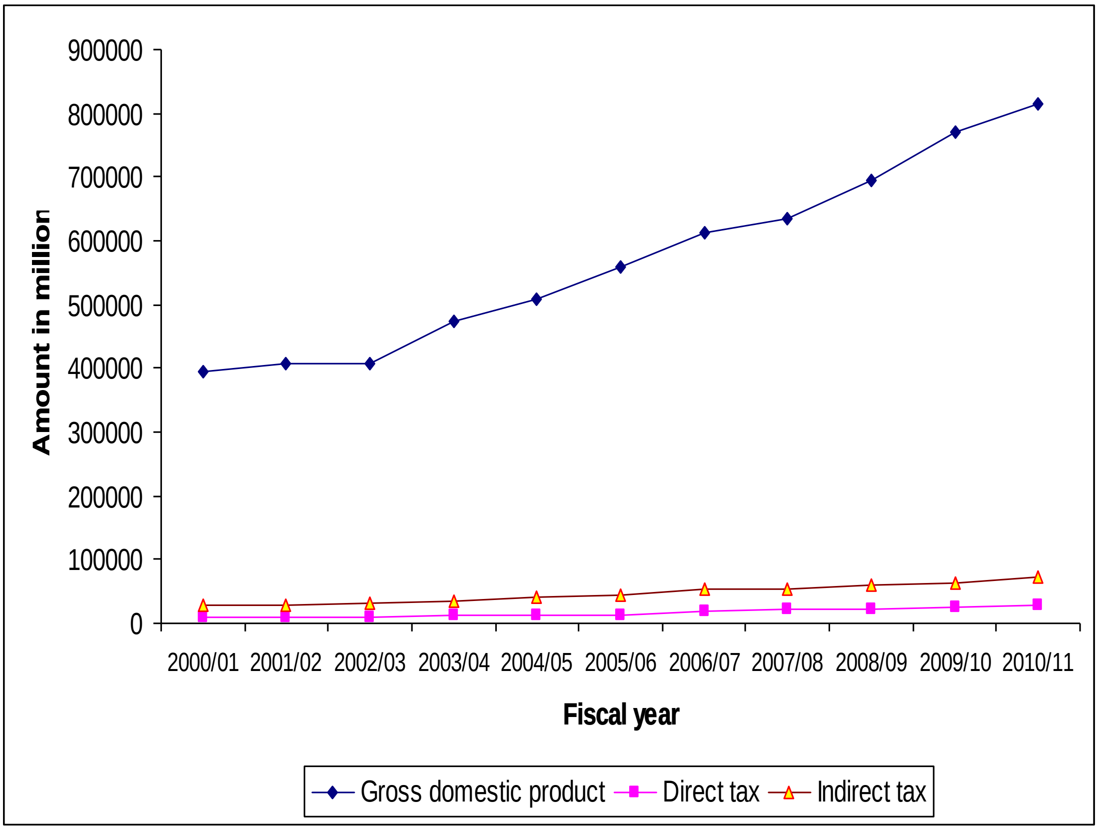
Direct Tax and Indirect Tax Revenue as Percentage of GDP

Rs. In Million

Fiscal year	Gross Domestic product	Direct Tax	Indirect tax	Percentage of GDP	
				Tax/GDP	Non-tax/GDP
2000/01	394052	10159.40	28704.50	2.58	7.29
2001/02	406138	10597.50	28733.80	2.61	7.24
2002/03	407546	10105.80	32481.20	2.26	7.05
2003/04	474919	11912.60	36260.40	2.36	7.64
2004/05	508751	13724.60	41032.30	2.51	8.93
2005/06	557869	13968.10	43462.30	2.50	7.79
2006/07	612604	18980.3	52146.4	2.83	8.09
2007/08	635672	21759.43	55074.71	3.42	8.66
2008/09	693421	23267.76	60489.11	3.36	8.72
2009/10	771523	25444.14	61902.72	3.29	8.02
2010/11	815134	27926.33	71534.9	3.53	8.78

Source: Economic survey, Ministry of finance, GON.

Figure 4.6: Direct Tax and Indirect Tax Revenue as Percentage of GDP



From the above table(table no. 4.6), the share of direct tax in GDP was in an increasing trend which was 2.58% in the fiscal year 2000/01 and 3.2% in the year 2009/10. The share of indirect tax revenue increased from 7.29 percent in the fiscal year 2000/01 to 8.72 percent in fiscal year 2008/09. However, this increment is not continuous which decreased to 8.02 percent in fiscal year 2009/10.

4.1.7 Exemption Limit in Nepal

Exemption limits directly influence income tax revenue collection. Taxpayer having low tax paying capacity should exclude from the tax net for the social justice and economic balance between rich and poor. The exemption limit provided in the various years is presented in below the table 4.9.

Table 4.7

Exemption Limit in Nepal

From Fiscal year 1967/68-2009/10

In Rs.

Fiscal	Individual	Couple	Family	All taxpayers
1967/68	3000	4500	6000	-
1974/75	4500	6000	6000	-
1975/76	5500	6500	7500	-
1976/77	6500	7500	8500	-
1979/80	7500	10000		-
1981/82	10,000	15,000		-
1983/84	15,000	20,000		-
1990/91	20,000	30,000		-
1992/93	25,000	35,000		-
1997/98	30,000	40,000		-
1999/00	40,000	50,000		-
2000/01	55,000	75,000		-
2001/02	55,000	75,000		-
2002/03	65,000	85,000		-
2003/04	80,000	85,000		-
2004/05	1,00,000	1,25,000		-
2005/06	1,05,000	1,30,000		-
2006/07	1,25,000	1,40,000		
2007/08	1,25,000	1,40,000		
2008/09	1,60,000	2,00,000		
2009/10	1,60,000	2,00,000		
2010/11	1,60,000	2,00,000		

Source: Finance Acts of various years, Ministry of Finance, GON.

From the table 4.7, it can be seen that there was three categories for exemption limit for individual, couple and family whereas there is only two categories for exemption that is individual and couple from the fiscal year 1979/80. There was exemption limit of Rs.3,000 for individual, 4,500for couple and Rs. 6,000 for family in the fiscal year 1967/68 in the fiscal year 1967/68 and Rs.7,500 for individual and 10,000 for couple in the fiscal year 1979/80.

It is clear that exemption limit is extended according to need of time and income condition. At present time, individual having the taxable income Rs.160,000 is exempted from tax and that for couple or family is Rs.200,000.

4.2 Presentation and Analysis of Empirical Study

An empirical investigation was conducted in order to find out the various aspects of income tax from the experience of the real world. In this empirical study, the analysis has been done about income tax on the basis of information collected from the tax experts, tax administrators and tax payers. The major tools used for this purpose is questionnaire.

In this study, the questions were asked to 50 different individuals related to this field i.e. tax experts, tax administrators (tax officers), tax payers. The questionnaire has covered various aspects of income tax concerning with the exemptions and deductions (see the format of questionnaire in appendix). The respondents were asked either to responses yes/no or selecting one alternatives among different alternatives or for ranking of choices according to number of alternatives while first choice is the most important and last choice is least important. The information received from the respondents are tabulated and analyzed in the proper way. The following table shows the groups and number of respondents.

Table 4.8

Group of Respondents and Number

S.N	Group of respondents	Number
1	Income Tax Experts	10
2	Income Tax Administrators(officer)	20
3	Income Tax Payers	20
Total		50

Result of Empirical Investigation

1. Effectiveness of Income Tax Administration in Nepal

To know the opinion about the effectiveness of income tax administration in Nepal, a question was asked with the respondents "Do you consider that the income tax administration in Nepal is effective?" The responses received from the respondents are tabulated as follows:

Table 4.9

Effectiveness of Income Tax Administration of Nepal

Responses / Respondents	Yes		No		Total	
	No.	%	No.	%	No	%
Tax Experts	4	40	6	60	10	100
Tax Administrators	12	60	8	40	20	100
Tax Payers	6	30	14	70	20	100
Total	22	44	28	56	50	100

Source: Opinion Survey

From the above table (Table no. 4.9), the question received 100 percent response as 44 percent of total respondents agree that the income tax administration of Nepal is effective and 56 percent of the total respondents do not agree about the effectiveness of income tax administration in Nepal. Most of the respondents disagree about the effectiveness of income tax administration in Nepal. 70 percent of tax payers were against the effectiveness of income tax administration. So, it can be conducted that the income tax administration in Nepal is ineffective.

Similarly, another question was asked to the respondents who were disagreed about the effectiveness of income tax administration in Nepal. To know their opinion the question was asked, "If no, what are the causes which are the responsible for the creation of ineffective tax administration?" The respondents were requested to rank their answer from 1 to 6. But some respondents ranked and some made tick mark. The responses of the respondents are presented as follows:

Table 4.10

Causes of Ineffective Tax Administration

S. N.	Alternatives	Respondents			Total frequency	%	Rank
		Tax experts	Tax adm*.	Tax payers			
1	Defective Income Tax Act.	4	6	12	22	19	3
2	Less public participation.	6	5	12	23	20	2
3	Lack of trained employee.	3	7	7	17	15	4
4	Weakness in government's economic policy.	6	6	12	24	21	1
5	Faulty organizational structure of tax administration.	4	5	6	15	13	5
6	Shortage of income tax experts/professionals in tax administration.	4	5	5	14	12	6
Total					115	100	

Source: Opinion Survey

In the above table (Table no. 4.10), percentage was calculated according to the total frequency are obtained by each alternative. For ranking purpose percentage of each alternative was matched with each other and assigned first rank to the highest percentage. According to the respondents' point of view, the main causes for the creation of ineffective income tax administration in Nepal were ranked as follows.

1. Weakness in government's economic policy.
2. Less public participation.
3. Defective Income Tax Act.
4. Lack of trained employee.
5. Faulty organization structure of tax administration.
6. Shortage of income tax experts/professionals in tax administration.

From the above table as well as other discussion with respondents, it can be conducted that the main causes for the creation of ineffective tax administration are lack of trained employee, shortage of tax experts and less public participation.

2. Opinion about the Current Income Tax Rate

To know the opinion on current income tax rate, respondents were requested to select one among the three alternatives (high, medium, low). The question was asked, "What is your opinion about the current income tax rate?" The responses received from respondents are tabulated below:

Table 4.11

Opinion about the Current Income Tax Rate

Respondents Responses	Tax experts	Tax administrators	Tax Payers	Total	
				No.	Percentage
High	1	0	13	14	28
Medium	7	18	6	31	62
Low	2	2	1	5	10
Total	10	20	20	50	100

Source: Opinion Survey

The above table (Table no.4.11) shows that 100 percent responses were received. Out of 100 percent responses, 62 percent respondents agreed that the current income tax rate is medium. 28 percent respondents agreed on high tax rate whereas 10 percent respondents agreed on low tax rate. From the table, it is concluded that the current income tax rate is medium. Majority tax experts and tax administrators were agreed on it whereas; majority respondents felt that the rate is not absolutely high, but it is higher as compared to taxpaying capacity of Nepalese people.

3. Sufficiency of Exempted Items of Income Tax

Income tax has provided exemption to the various income or different items of income. Act has mentioned the tax free incomes and tax exemption organization. To know the sufficiency of exempted items of income a question was asked "Do you think that the exempted items of income are sufficient?" The responses are tabulated as follows:

Table 4.12

Sufficiency of Exempted Items of Income Tax

Responses / Respondents	Yes		No		No responses		Total	
	No.	%	No.	%	No.	%	No.	%
Tax experts	4	40	5	50	1	10	10	100
Tax administrators	16	80	2	10	2	10	20	100
Tax payers	12	60	5	25	3	15	20	100
Total	32	64	12	24	6	12	50	100

Source: Opinion survey

By observing the table (Table no.4.12) 64 percent respondents agreed that exemption items are sufficient. 24 percent respondents disagreed about the sufficiency of exempted items. 12 percent of the respondents did not provide any response.

As who gave the negative responses about the sufficiency of exempted items of income were asked another question “If no, what kind of income should be exempted?” They were requested to write their opinion. Most of the respondents did not give any response about it. However, only 4 tax experts, 3 tax payers and 1 tax administrator provided response. The respondents suggested that following income must be tax exempted from incomes.

Tax Experts

- Income from interest and rent.
- Income derived by tax exempted organization.
- Income from provident fund (capital gain).
- Remote area allowance.
- Income from life insurance.

Tax Administrators

- Medical allowance.
- Retirement benefits.

Tax payers

- Medical allowance.
- Over time allowance.
- Remote area allowance.
- Income from life insurance.

From the above list, income from life insurance premium, medical allowance and remote area allowance etc. must be tax exempted incomes.

4. Appropriateness of Current Income Tax Exemption Limit

Finance Act of Nepal yearly prescribed the tax rate and exemption limit of income. From the very beginning the tax rate and exemption limit are changing year to year. To know the respondents’ view about the current exemption limit, a question was put

"Do you think that the current income tax exemption limit is appropriate?" The responses are presented as follows:

Table 4.13

Appropriateness of Current Income Tax Exemption

Responses / Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	2	20	8	80	10	100
Tax Administrator	16	80	4	20	20	100
Tax Payers	3	15	17	85	20	100
Total	21	42	29	58	50	100

Source: Opinion survey

From the above table (Table no.4.13) 58 percent respondents were against the appropriateness of current exemption limit whereas 42 percent respondents were in favor of it. Majority of tax experts and tax payer agreed with inappropriateness of exemption limit. From the above table and personal discussion with respondents it can be concluded that the current income tax is inappropriate.

The respondents who were against the appropriateness of current exemption limit were asked another question "If no, how much the exemption limit should be to an individual unit?" The responses of the respondents are tabulated as follows:

Table 4.14

Suggested Exemption Limit for an Individual Unit

Respondents / Responses	Tax experts	Tax administrators	Tax payers	Total	
				No.	%
Rs.1,80,000	2	--	--	2	6.90
Rs.2,00,000	4	1	10	15	51.72
Rs other (if any)	2	3	7	12	41.38
Total	8	4	17	29	100

Source: Opinion survey

On the response about the exemption limit of individual it was found that 6.90% in favor of Rs. 1, 80,000. 51.72% of the respondents suggested that the exemption limit should be Rs. 2, 00,000.But 12 respondents (41.38) who specified on other (if any). They suggested Rs, 2, 25, 000, Rs. 3, 00,000 and Rs. 3, 50,000 as tax exemption limit for an individual unit.

From the above table as well as personal discussion with the respondents, it can be said that according to the economic condition and income level of Nepalese People, it is found that the appropriate exemption limit for an individual is Rs. 1,50,000.

Similarly, a question was raised on the topic of exemption limit to the respondents for a family as "How much exemption limit should be for a family?" The responses are presented in the following table.

Table 4.15

Exemption Limit for a Family

Respondents / Responses	Tax experts	Tax administrators	Tax payers	Total	
Rs. 2,00,000	3	--	8	11	37.93
Rs.2,50,000	4	3	7	14	48.28
Rs. Other(if any)	1	1	2	4	13.79
Total	8	4	17	29	100

Source: Opinion survey

From the above table (Table no.4.15) it is clear that most of the respondents (i.e. 48.28%) suggested for Rs. 2, 50,000 as exemption limit for a family. 37.93% of the respondents were suggested for Rs.2, 00,000. Four respondents who specified as other(if any) was Rs, 3,00,00 by two respondents and Rs. 4,00,000 by two respondents. One the personal discussion with the respondents, the researcher found exemption limit must be equal to family surviving amount different part of the country.

5. Family Exemption must be provided on the Basis of Number of Dependents

Income Tax Act has provided limit to a family or a couple. But it has not mentioned the number of dependents in a family. So, to know the opinion of the respondents the exemption limit of a family must be provided on the basis of number of dependents. A question was put “Do you agree that family exemption must be provided according to the number of dependents?” the responses of the respondents are tabulated as follows:

Table 4.16

Family Exemption Limit on the Basis of Number of Dependents

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	6	60	4	40	10	100
Tax administrators	12	60	8	40	20	100
Tax payers	15	75	5	25	20	100
Total	33	66	17	34	50	100

Source: Opinion survey

Above table (Table 4.16) shows that 100 percent response was received. 66 percent respondents agreed that the exemption limit must be provided according to the number of dependents. But 34 percent respondents were disagreed to provide exemption according to the number of dependency. On the personal discussion with the respondents the researcher found that the respondents were supporting to provide exemption limit to a family according to the number of dependents. But it is very difficult to implement in the practical field.

6. Exemption Limit on the Basis of Inflation Situation of the Country

To know the opinion of the respondents whether the exemption limit should be provide according to the inflation of the country. The question was asked “Do you feel that exemption limit should be adjusted according to the inflations situation of the country?” The responses of the respondent are tabulated as follows:

Table 4.17

Exemption Limit According to the Inflation Situation of the Country

Response Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	10	100	--	--	10	100
Tax administrators	20	100	--	--	20	100
Tax payers	20	100	--	--	20	100
Total	50	100	--	--	50	100

Source: Opinion survey

From the above table (Table no.4.17) it is clear that 100 percent response was received. According to the table, all of respondents agreed to adjust the exemption limit according to the inflation situation of the country.

7. Opinion on Providing Exemption an Agriculture Income

From the commencement of Income Tax Act, agriculture income has been treated as taxable income for some time and tax exempted income for some time. The new Income Tax Act 2058 has defined agricultural income. To know the views of respondents about it, a question was asked "What is your opinion on providing exemption an agricultural income?" The responses of the respondents are presented as follows:

Table 4.18

Exemption Facility for Agriculture Income

Respondents / Responses	Tax Expert	Tax administrators	Tax payers	Total	
				No.	%
Yes, it should be exempted	8	16	10	34	68
No	--	--	2	2	4
It should be treated as other income	--	4	4	8	16
Other(if any specified)	2	--	4	6	12
Total	10	20	20	50	100

Source: Opinion Survey

The above table (Table no.4.18) shows that, 68 percent respondents agreed that agricultural income should be tax exempted income whereas 4 percent respondents were against the exemption on agricultural income. Similarly, another 16 percent respondents supported that the agricultural income should be treated as other income and 12 percent respondents who specified other if any following opinion were presented as follows.

- Commercial agricultural income should be taxed as other income.
- Organizational agriculture income should be given for limit period of establishment.

- A separate, agriculture Income Tax Act should be presented.

On the personal discussion with the respondents as well as the above table the researcher found that the agricultural income should be tax exemption income because 80% to 90% people are based on agricultural income. In our country farming system is based on traditional system. Traditional system does not provide sufficient income to the family for living. So, it should be exempted.

8. Opinion on Providing Additional Exemption to the Individual Working in Different Remote Areas

To know the view of the respondents about additional exemption which is given to the person, who are working in different remote area of the country is suitable or not, a question was put “An individual working in remote area A, B, C, D and E can get an additional exemption of Rs. 30,000, 24,000, 18,000, 12,000 and Rs, 6,000 respectively is it suitable?” The responses of the respondents are tabulated as follows:

Table 4.19

Opinion on Providing Additional Exemption to the Individual Working in Different Remote Areas

Response / Respondents	Yes		No		No responses		Total	
	No.	%	No.	%	No.	%	No.	%
Tax experts	5	50	5	50	--	--	10	100
Tax administrator	16	80	2	10	2	10	20	100
Tax payers	12	60	4	20	4	20	20	100
Total	33	66	11	22	6	12	50	100

Source: Opinion survey

According to the table (Table no.4.19), 66 percent respondents agreed that the current additional exemption to the individual who are working in different remote areas was sufficient. 22 percent respondents disagreed with the current additional exemption facility. 12 percent respondents did not provide any responses. According to the table, majority respondent were agreed with the current additional exemption limit for an individual who are working in different remote areas is proper or suitable.

On the personal discussion with the respondents it was found that according to the economic condition and per capita income of country current additional tax exemption to the individual working in different area is suitable or proper.

Similarly, another question was asked to know the opinion of the respondents who disagreed in current additional exemption limit to the individual who are working in different remote areas. The question was asked "if no, how much exemption limit should be?"

Out of the 11 respondents (see in above table) 5 respondents did not mention any thing, 3 respondents suggested following amount given in the table.

Areas	A	B	C	D	E
Amount Rs.	60,000	40,000	30,000	25,000	20,000
Amount Rs.	50,000	40,000	30,000	20,000	10,000

On the other hand, other three respondents suggested the following points.

- It cannot be quantized in amount. The amount which a person gets in remote area should be exempted means extra benefit derived should be totally exempted.
- It should be adjusted as per the life style of the area.
- It should be adjusted availability of basic needs.

9. Additional tax Exemption Facility to the Special Industries Established in Different Areas

Income Tax Act 2058 has provided additional exemption facility for 10 income year to the special industries established in different areas. To know the view of the respondents about such facility, they were asked whether the tax rate for the special industries established in remote, undeveloped and underdeveloped areas i.e. 70%, 75% and 80% respectively is suitable for 10 income year or not. Their responses are tabulated as below:

Table 4.20

Additional Tax Exemption Facility to the special Industries Established in Different Areas

Responses / Respondents	Yes		No		No responses		Total	
	No.	%	No.	%	No.	%	No.	%
Tax experts	6	60	2	20	2	20	10	100
Tax administrators	12	60	5	25	3	15	20	100
Tax Payers	13	65	5	25	2	10	20	100
Total	31	62	12	24	4	14	50	100

Source: opinion survey

By observing the table (Table no.20), it can be said that 62 percent respondents agreed with the current additional exempt facility (30% of tax rate for remote areas, 25% for undeveloped area and 20% for underdeveloped areas) to the special industries established in different area which is applicable for 10 income year. 24 percent or 12 respondents disagreed with the present additional tax exempted facilities to the special industries established in different area, 14 percent respondents did not provide any responses about the questions. Majority tax experts, tax administrators and tax payers agreed with present exemption facility. So, it can be concluded that the current facility is proper.

Similarly, another question was asked to the respondents who disagreed with the present additional tax exempt facility provided by Income Tax Act 2058 to the special industries established in different remote areas. To know the opinion of the respondents, given the question was put to them, “how much additional tax exempted facilities should be?” The responses were given by the respondents are as follows:

Out of 12 respondents (see above table)

- 7 respondents suggested the facility should be given for long period of time to attract the industry in such areas.
- 3 respondents suggested that the special industries established in remote, undeveloped and underdeveloped area should pay tax only 40%, 50 % and 75% of the tax rate respectively for 10 income year.
- 2 respondents did not provide any responses.

10. Opinion on Medical Tax Credit Facility

According to Income Tax Act 2058 medical tax credit facility is given to an individual. Rs. 750 or 15% of eligible medical expenses whichever is less allowed to deduct as medical tax credit facility. To know the opinion of the respondents about appropriateness of such medical tax credit facility to an individual, the question was asked “Do you think that medical tax credit is given to an individual up to Rs.750 or 15% of eligible medical expense is proper?” The responses received from the respondents are tabulated as follows.

Table 4.21

Opinion on Appropriateness of Medical Tax Credit Facility

Responses	Yes		No		Total	
Respondents	No.	%	No.	%	No.	%
Tax experts	4	40	6	60	10	100
Tax administrators	10	50	10	50	20	100
Tax payers	2	10	18	90	20	100
Total	16	32	34	68	50	100

Source: Opinion survey

The above table (table no.4.21) shows that, out of 50 respondents, 68 percent respondents disagreed with the present medical tax credit facility (Rs. 750 or 15% of eligible medical expenses whichever is less) provided by Income Tax Act 2058. Majority tax experts and tax payers were against with present medical tax credit facility. Only 16 or 32 percent respondents were agreed.

Similarly, another question, “If no, how much will be proper?” was asked to the respondents who were disagreed with present medical tax credit facility. The responses are tabulated as follows:

Table 4.22

Proper Amount of Medical Tax Credit

No. of alts*	Respondents Responses	Tax experts	Tax administrators	Tax payers	Total	
					No.	%
a.	Amounts(Rs.750)	1	8	4	13	38.24
b.	Actual medical expenses	3	-	8	11	32.35
c.	..% of eligible medical expenses	-	-	-	--	----
d.	Others (if any specified)	2	2	6	10	29.41
	Total	6	10	18	34	100.0

***S**ource: Opinion survey*

From the above table (Table no.4.24), it was found that 13 or 38.24 percent respondents (see first alternative) provided their suggested amount. Similarly, 11 or 32.35 percent respondents suggested actual medical expenses should be deductible. Out of 10 respondents (see 4th alternative), 4 respondents suggested that it is not effective yet. 4 respondents suggested that total medical expenditure done on government hospital. And 2 respondents suggested that the medical tax credit facility should be based on income level of the people

11. Opinion on Deduction Facility of Repairs and Improvement Cost

According to Income Tax Act 2058, the repair and improvement cost is allowable to deduct but such facility is provided to deduct only 7 percent of depreciation basis of assets pool. To know the opinion of respondents about such facility the question was asked, "Do you agree that repairs and improvement cost is allowable to deduct, 7 percent of depreciation basis of assets pool, is it proper?" The responses of the respondents are tabulated as below:

Table 4.23

Opinion on Appropriateness of Existing Deduction Facility of Repair and Improvement Cost

Responses / Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	8	80	2	20	10	100
Tax administrators	20	100	-	-	20	100
Tax payers	8	40	12	60	20	100
Total	36	72	14	28	50	100

Source: Opinion survey

By observing the table (Table no. 4.23), it can be said that 72 percent respondents supported present repairs and improvement cost deductive facility. Majority tax experts and all tax administrators agreed with the present facility. 28 percent respondents were found against the present deduction facility of repair and improvement cost. Majority tax payers were disagreed with the present facility. So, it can be conducted that the repairs and improvement cost is allowable to deduct, 7 percent of depreciation basis of assets pool, it is proper.

Similarly, another question was asked to the respondents who were disagreed with the present repairs and improvement cost deduction facility. To know their opinion, the question was asked "if no, how much should be deducted?" The responses are tabulated as below:

Table No. 4.24

Opinion for Different Alternatives of Repairs and Improvement Cost Deduction Facility

No. of alts*	Respondents / Responses	Tax experts	Tax payers	Total	
				No.	%
1.	..% of depreciation basis	1	5	6	42.86
2.	..% of actual expenses	-	2	2	14.28
3.	Actual expenses	1	5	6	42.86
4.	Other(if any specified)	-	-	-	----
	Total	2	12	14	100

Source: Opinion survey

Above table (Table no. 4.24) shows that 42.86 percent respondents were selected 1st alternative. Out of 6 respondents (1st alternative) provided following opinion: 4 respondents suggested 10% of depreciation basis whereas 2 respondents suggested 15% of depreciation basis. Similarly, 42.86 percent respondents (3rd alternative) suggested that actual repair and improvement cost must be facilitated for deduction. In 2nd alternative, one respondent suggested 75% and another respondent suggested 50% of actual expenses should be deducted.

On the personal discussion with the respondents the researcher found that actual repair and improvement cost must be facilitated for deduction. But in practical field, it was very difficult to determine actual repair and improvement cost which must be accepted the tax authorities. There is high chance of fraud.

12. Opinion about the Present Depreciation System

Income Tax Act 2058 has classified assets into five (5) class and different rates are determined for each class for depreciation propose. The whole legal provisions relating to depreciation is given in section 19 in Income Tax Act 2058. To know the opinion about the depreciation system, a question was asked "are you satisfied with the present depreciation system of income tax?" The responses about it are break down as follows.

Table 4.25

Opinion about the Present Depreciation System

Responses / Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	9	90	1	10	10	100
Tax administrators	18	90	2	10	20	100
Tax payers	11	55	9	45	20	100
Total	38	76	12	24	50	100

Source: Opinion survey

From the above table (Table no.4.25), out of the total respondents, 76 percent respondents were satisfied with present depreciation system of income tax whereas only 24 percent of total respondents were not satisfied with the present depreciation system. So, it can be concluded that majority of the respondents are satisfied with present depreciation system.

13. Problems and Weakness of Nepalese Income Tax System

Income tax system of Nepal has been blamed that it is not efficient. To know the opinion of the respondents about causes of problems and weakness of Nepalese income tax system, a question was asked, "What are the major problems and weakness in Nepalese income tax system?" The respondents were requested to rank the given causes (their answer) from 1 to 10. Out of total respondents, more than half respondents ranked but other made tick mark. For ranking purpose, opinions of the respondents are presented as below:

Table 4.26

Problems and Weakness of Nepalese Income Tax System

S.N.	Problems &weakness	Respondents			Total No.	Percentage	Rank
		Tax experts	Tax adm.*	Tax payers			
1	Voluntary compliance	7	14	9	30	12.10	4
2	Relatively high tax rate	5	10	7	22	8.87	7
3	Difficulty to maintain the account for tax purpose	3	7	5	15	6.05	9
4	Limited tax base	7	15	3	25	10.08	5
5	Lack of cooperation in tax administration	9	11	14	34	13.71	2
6	Lack of provisions under the Nepalese income tax laws	2	5	4	11	4.43	10
7	Ambiguous provision under the Nepalese income tax laws	6	10	8	24	9.68	6
8	Lack of trained employee	8	17	12	37	14.92	1
9	Lack of timely adjustment of tax laws	5	7	7	19	7.66	8
10	Increased corruption	7	15	9	31	12.50	3
Total					248	100	

Source: Opinion survey

By observing the above table (Table no.4.26), according to preference of the respondents major problems and weakness of the Nepalese income tax system are ranked as follows:

1. Lack of trained employees.
2. Lack of cooperation in tax administration.
3. Increased corruption.
4. Voluntary compliance.
5. Limited tax base.
6. Ambiguous provision under the Nepalese income laws
7. Relatively high tax rate.
8. Lack of timely adjustment of tax laws.
9. Difficulty to maintain the account for tax purpose.
10. Lack of provisions under the Nepalese income tax laws.

Other problems stated by the respondents are as follows:

1. Tax evasion (which come into voluntary complains).
2. Complicated language in tax act laws.
3. Lack of monitoring system.
4. Lack of education and motivation system.

From the above table, it can be said that the major problems and weakness of Nepalese Income Tax System are lack of trained employees, lack of cooperation in tax administration, increased corruption, limited tax base, relatively high tax rate, complicated language in act.

After the personal discussion with the respondents, the researcher found that increased corruption was major problem and weakness of Nepalese Income Tax System. Tax administrators and tax payers both blamed each other for this situation but both aspects were found to be equally responsible for increment of corruption. Besides, this complicated language was found to be another major problem.

14. Sufficiency of Provisions under the Income Tax Act 2058

To know the opinion of the respondents about the sufficiency provision made under Nepalese Income Tax Act 2058, they were requested to select one between two alternatives. The question was, “In your opinion, are the provision made under the Nepalese Income Tax Act sufficient in all respect?” The responses about the question are tabulated as below:

Table 4.27

Sufficiency of Provisions of Income Tax Act 2058

Responses / Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	2	20	8	80	10	100
Tax administrators	14	70	6	30	20	100
Tax Payers	8	40	12	60	20	100
Total	24	48	26	52	50	100

Source: Opinion survey

By observing the table (Table no.4.27), it was found that 52 percent respondents disagreed with sufficiency of provision made under the Nepalese income tax system whereas 48 percent respondents found to be agreed the sufficiency of provision made Income Tax Act.

On the personal discussion with the respondents the researcher found that the provisions are made under the Nepalese Income Tax Act insufficient in all respect.

15. Suggestion for the improvement in the present Income Tax Act 2058.

The respondents were requested to give their opinions or suggestions in regard to the improvement of the present Income Tax Act 2058. As per their valuable opinions, the required suggestions are concluded so far.

Out of the total respondents, only 20 respondents provided their suggestions. More than half or 30 respondents did not provide any responses about the question. The opinions or suggestions for the improvement in the present Income Tax Act 2058 are listed below:

Tax experts

- The provision should be clear and understandable.
- Tax administration should be transparent.
- Awareness rising.
- Monitoring the compliance.
- Decrease corruption.
- Implementation of rules and regulation.
- Tax base should be expanded.

Tax administrators

- Harder law.
- Tax education should be improved.
- Tax law should be made very simple to increase tax compliance.
- Efficient manpower and expert should be encouraged to join tax administrations.
- Timely feedback system.
- Implementation level should be improved.

Tax payers

- Tax payment system should be simple.
- Improved in tax administration.
- Language should be simple.
- Tax education.

From the above list it is found that the language of tax act must be simple. Tax education should be improved. Tax base should be expanded.

4.3 Major Findings

On the basis of preceding chapters some important finding can be drawn. Major's findings of this research study are summarized follows:

4.3.1 Major Finding of Primary Data

From the opinion survey with tax administrators tax experts and tax payers following points have been drawn.

- Income tax administration in Nepal is ineffectiveness.
- Weakness in government's policy, less public participation, defective Income Tax Act, lack of trained employee, faulty organization structure of tax administration, shortage of income tax experts/professional in tax administration are the main causes for the creation of ineffective tax administration.
- Current income tax rate is medium in Nepal.
- Exempted items mentioned in Income Tax Act 2058 are sufficient.
- Current income tax exemption limit is inappropriate for individual as well as family or couple.
- Family exemption should be provided according to the number of dependents.
- Exemption limit can be provided adjusting with inflations situation of country.
- In Nepal most of the people's income is based on traditional income so, it must be out of tax net.
- According to the economic condition and per capita income of the country, current additional tax exemption limit (Rs. 30,000, 24,000, 18,000, 12,000 and Rs. 6,000 to A, B, C, D and E areas respectively) to the individual working in different remote area is proper or suitable.
- Special industries established in remote, undeveloped and underdeveloped area of the country get additional tax exemption facilities i.e. 30%, 25% and 20% of tax rate respectively and it is applicable for 10 income year is proper at present context of Nepal.

- At present context, the medical tax credit facility (Rs. 750 or 15% of eligible medical expenses whichever is less) to the individual is not proper or appropriate.
- Present repair and improvement cost (7% of depreciation basis of assets pool) of different assets pool's deduction facility is appropriate or proper.
- Most of the tax experts, tax administrators and tax payer are satisfied with present depreciation system.
- Provisions made under the Nepalese Income Tax Act 2058 are insufficient in all respect.

4.3.2 Major Findings of Secondary Data

- Government revenue includes external revenue and internal revenue. The sources of the internal revenue are tax and non tax revenue. There is dominant share of tax revenue in Nepalese government revenue. Tax revenue was fluctuating trend it was 75.73 percent in fiscal year 2002/03, 77.29 percent in 2003/04 and 81.09 percent in 2006/07. Similarly, non tax revenue was also in a up and down trend that was 24.27 percent in 2002/03, 22.71 percent in 2003/04 and 18.91 percent in 2006/07.
- Nepalese tax revenue is the composition of direct and indirect tax. There is dominate role of indirect tax revenue in Nepalese tax revenue. The direct tax was high in 2001/02 by 26.94 percent and it was 26.69 percent in 2006/07. The direct tax was also fluctuating trend that it was 1991/92 in 83.85 percent and 73.81 percent in 2006/07.
- The tax –GDP ratio of Nepal is not found satisfactory compare to other countries. Tax- GDP ratio was 10.14 percent in 2003/4, which was in an increasing trend and non- tax revenue was 2.98 percent in 2003/04.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary and conclusion

Income tax is a suitable means of raising government revenue and mobilization of the domestic sources. To achieve the goal of the national development and for economic growth of the country some specific objectives of income tax has to be set up. For this purpose specified program should be implemented.

Nepal is one of the least developed countries. Nepal cannot successfully and properly tear a curtain built from massive poverty, hunger, diseases, unemployment, heavy dependence on agriculture, lack of adequate industries. Yet, Nepalese economy is suffering from ineffective and effortless plan, program and policy of development.

Nowadays, prime concern of every nation of the world is rapid economic development and Nepal is not exception to this ever continuing process. Nepal has its own aims for self-reliant economic system to upgrade its living standard of people. Thus a lot of money has to be spent by the government to achieve maximum national objectives. Government collects revenue to pay regular expenditure, to do development works and to provide social welfare activities towards its people.

Government collects revenue from different sources. The sources of government revenue can be classified into two sectors i.e. external sources and internal sources. External sources of government revenue are foreign loan, foreign borrowing, grants, donations etc. External sources are uncertain, inconvenient and not good for healthy economic development of the nation because it should be repaid after certain time with interest and it increases the dependability of the country. So, it is better to mobilize internal sources rather than external sources. Internal sources fund are own sources within the nation. Internal sources of revenue can be classified into two types. They are: non-tax sources and tax sources. Fines and penalties, gifts and grants, royalty etc. are the example of non-tax revenue.

Tax is a compulsory levy imposed by the government to the people and industries according to the prevailing laws. Those who pay tax do not get any direct and corresponding benefits from the government. Tax revenue is important sources of government revenue. Taxation is regarded as an effective instrument, it monitor various economic activities in the country. Income tax, VAT, property tax, import and export duty, hotel tax etc. are the example of tax revenue.

Tax can be classified into categories i.e. direct tax and indirect tax. The tax which is collected from the person or organization to which it is legally imposed is known as direct tax. Income tax, vehicles tax etc. are the example of direct tax. Indirect tax is imposed on one person or organization but party or wholly paid by others. VAT, hotel tax, import and export duty etc. are the example of indirect tax.

Income tax is a most popular direct tax. It is superior to other tax because it is imposed on the basis of paying capacity of the tax payers, according to the nation. Income tax reduce concentration of wealth in a few hand by imposing high rate to those person or organizations who have high level of income and low rate to those whose income level is less.

In the ancient time, tax system was based on Vedas, Smrities and Purans. First of all income tax system was introduced into England to manage the war. Then, USA introduced 'corporate Income Tax' in 1862. Nowadays, it is expanded all over the world. In Nepal, the first elected government in 1959 introduced "Business Profit and Remuneration Act 1960." In 1974 "Income Tax Act 2031" was enacted. Now "Income Tax Act 2058" is implementing

Income tax is main source of government revenue. It is used to balance economic development of the country. It is a tool for achieving maximum social economic objective. But government of Nepal is unable to maximize the share of income tax to the public fund as per expectation. Nowadays, in Nepal, income tax is collected through four sectors i.e. corporate income tax, individual income tax, house and land rent tax and interest tax. Among them, share of individual income tax is the highest. There is high resources gap or budgetary deficit in the country. The main cause of resources gap in Nepal is inadequate and ineffective resources mobilization.

Income tax system of Nepal has been blamed as not effective enough. There are many problems in income tax practice and revenue collection through income tax in Nepal such as increasing habit of tax evasion, defective income tax law, inefficient tax administration, narrow coverage, unscientific tax assessment, leakage in tax, lack of accuracy and unity in according system etc. but if we analyze the data relating to income tax, it has been found that revenue collection from income tax is increasing trend.

There are different legal provisions about income tax exemption and deduction of expenses in “Income Tax Act 2058”. It is necessary to know about the exemption and deduction of expenses to make up to date knowledge about the income tax system. The act has satisfied about the exemption limit to individual unit and family or couple. It has described about the expanses which are allowed for deduction and not allowed for deduction while calculating taxable income and tax liability. At present exemption limit and tax rate of the income tax is determining according to the income level and sector-wise but it is not adjusted according to the inflationary situation of the country and number of dependents. Exemption limit is not provided to the corporate bodies. The study carried out, the given exemption limits and deduction of expenses are sufficient, appropriate or not.

50 respondents have been selected to fulfill the objective of this study. Total respondents have divide into three groups i.e. tax experts, tax administrators and taxpayers. Data has been collected from primary and secondary sources to conduct the study. Different charts, diagrams percentage etc. are used to analyze the data.

An opinion survey has been collected from primary and secondary in other to find out the various aspects of income tax, exemptions and deductions. From the opinion survey of various respondents i.e. tax experts, tax administrators and taxpayers, it can be concluded that the income tax administration in Nepal is ineffective. According to the economic level, income level of the family and inflation situation of the country present exemption limit is inappropriate for both individual and family of couple. It must be increased and should be adjusted with inflation of country. Similarly, additional exemptions facilities who are working in different remote areas are sufficient, additional tax exemption facility to the special industries established in different remote area are proper. But, present medical tax facility is insufficient.

5.2 Recommendations

Nepal has already taken the membership of WTO. In this global environment Nepalese Income Tax system should fit with the global environment. Tax authorities should think in global perspective. For better utilization or mobilization of limit sources and to achieve the goal of the taxation following recommendations can be drawn based on findings of the research study.

Following recommendations are made on tax exemption and deduction:

- Present tax base must be widened by including the house and rent income given for different purpose.
- Present exemption limit for individual and family is not sufficient. It must be raised to Rs.1, 50,000 for individual and Rs.2, 00,000 for family. Some additional exemption can be provided for maximum two children and two dependents parents.
- Some addition exemption and consecution is given for some period to encourage establishing industries in different remote areas but it is not effective because businessman change names, ownership or place of the business when the concessions facilities expire. So, separate special package should be introduced for this purpose like establishment of medium industrial areas.
- Income Tax Act 2058 has mentioned some organization as tax exempt organization. Social, religious, educational etc. that are established and registered without having any profit motive, so there are tax exempt organizations. At present, in the case of non–transparent private business like boarding schools, higher secondary schools, NGO's, other educational institutions whereas maximum profit is earned but it is out of tax net. So, it should be brought into tax net by making separate law and rules.
- Clear provisions should be made in the case of deduction in that act. All the items of deductions should be clearly defined in the act. The relationship between clause to clause and sub-clause to sub-clause or other creates double meaning which creates loopholes so, it should be reduced in the act.
- Donation up to Rs. 50 lakh given before six month until election to the political parties registered with the election commission is allowed for

deduction. There is no transparency of donation amount given by businessmen to political parties. This facility highly supports to make the corruption. So, such facility should be eliminated from the tax act. Amount can be provided to the political parties by the government according to their receiving vote from previous election.

- Deduction allowed from an employment income is not sufficient. So, the following deduction should be provided to the taxpayers whose sources of income are only the remuneration.
    - Standard limit of expenses for better education of their two children.
    - Actual medical expenses made by taxpayers for own self.
    - Standard limit of expenses made for house rent.

  If the tax payer is still studying in an education institution, some limit of educational expenses of taxpayers should be deductible.
- In the case of tax exempt Organization controlled resident entity, full deduction of interest expenses is not allowed. It is not lawful step to the businessmen who operate the business with loan or debt amount. So it should be fully allowed for deduction within an income year.
- Income tax, rules and regulation should be clear and simple for all the tax payers as well as for tax administrators.
- The language of Act should be simple and clear.
- Clear provision should be made in case of deduction. All the items of deduction should be clearly defined in the Act.
- To promote export, more deduction should be provided.
- The provision of tax deduction at source and advance payment of tax should be extended to different sources of income as far as possible.
- Computerized information system is necessary to keep up to date records of income tax.
- Proper tax education should be provided to tax officials as well as tax payer regularly.
- Unnecessary outside pressures should be avoided.
- Income tax experts/profession should be increases in tax administrations.

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Appendix I

QUESTIONNAIRE

I, Mr. Chakra Bahadur Karki, student of Central Department of Management, is going to conduct a study on **"Contribution of Income Tax to Government Revenue in Nepal".**

I would very much appreciate if you kindly spare few of your busy & valuable time for completing my research work. Your views are purely used for my academic purpose only. I anticipate your suggestions as soon as possible.

Sincerely yours

Chakra Bahadur Karki

1. In your opinion, is the income tax a suitable mean for raising domestic resources?

   Yes: No:

2. Is the income tax system efficient of Nepal?

   Yes: No: No Idea:

3. What are the major problems of Income Tax Management in Nepal?
4. How can we increase the tax paying habit of Nepalese people?
5. Do you believe that income tax evasion is being practiced in Nepal?

   Yes: No:

6. What are your suggestions for the controlling income tax evasion?
7. Do you have complications in paying income tax?

   Yes: No:

8. If yes, please point out the reasons.