CHAPTER–I

INTRODUCTION

Nepal is a developing country. The nation requires sufficient fund to fulfill its responsibilities towards its people and nation. The basic needs like food, health, education, securities are to be fulfilled and other needs like administration, social welfare and foreign trade are to be considered by the nation. Nepal is very much conscious about the poverty, unemployment, heavy dependence on agriculture, low income level and educational problems. So it is the prime concern towards the rapid economic growth and Nepal is not self-controlled economic system to upgrade into living standard of the people. The government has to spend a lot of money to achieve the maximum national objectives.

From the ancient time to modern age government tried to fulfill its responsibilities by spending a lot of amount towards its people. In the ancient time, the government used to manage its fund from the internal sources and spent the huge amount of money to protect the nation from other nations. 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 the government is very careful and serious towards its social responsibilities and on the other side people are 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. They are:

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 external 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 accumulate the fund from internal sources 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 reduce the liquidity and increase the inflations. So, internal sources are more important not only for financing necessary funds but also for the mobilization of internal revenues. 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 compulsorily contributed by the tax payers to the government. Non-tax revenue includes fees, special assessment, gifts and grants, fines and penalties etc. collected by the government. Government imposes the non-tax income according to the necessary. So it is uncertain and inconvenient.

Income Tax can be defined as the contribution from people and business organization to the government from their income either by service or from 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 and income tax is its part. A tax imposed on income base is called Income Tax and Assessment is the process of ascertaining the required tax liabilities. Thus within the income tax system, Exemption and Deductions are more important to know about income tax because they are used continuously and treated differently in different years. To make up-to-date knowledge about income tax system it should be studied. By knowing it, we can compute net income and tax liabilities. Income tax law of every nation has clearly mentioned about the exemption of and deduction of expenses for better performance.

1.1 General Background

The government of a country requires adequate revenue to carry out developmental activity to handle day-to-day administration work, to maintain peace and security and to lunch other public welfare activities. For that collection and accumulation of tax is necessary. Tax is one of the major sources of revenue collections. It is a compulsory levy imposes by the government to the people and institutions of the country according to the prevailing laws. Professor, Seligman defined tax as “a compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred”. This means 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 (b) Indirect Tax. These taxes are collected directly according to income level of people or organization. Income tax, property tax, land revenue tax etc. are the examples of direct tax. Indirect tax is imposed on one person or persons paid partly or wholly by another or others. For example custom duty, excise duty, VAT., Sales tax etc. are indirect tax.

Income tax is well-known direct tax. It is considered as one of the major element of tax revenue. Income tax is charged on person’s income according to the law of the nation. It covers all the fees, additional fees fines etc. income includes all the income which is received from business, investment and employment. Income tax is superior to other business because it is imposed on the basis of paying capacity of taxpayers. People, whose income is under the taxable income is free from the incidence of income tax.

Income tax is levied on consideration payment made for the provisions of employment income or investment income or Business income. The income which is earned during the income year from employment ,investment and business have to be paid in certain percentage of income to the government by every individual citizen, firm and company is called income tax. (Bhattarai and Koirala, 2004:1.3)

Income tax act 2058 defines income as, "a person’s income from any employment, business or investment and the total of that income as calculated in accordance with this Act."

Within the income tax system, exemption and deductions are more important to know about income tax because they are used continuously and treated differently in the different year. To make up-to-date knowledge about income tax system they should be studied. By knowing them, we can compute net income and tax liability. Income tax law of every nation has clearly mentioned about the exemption and deduction of expenses.

Income tax reduces concentration of wealth in a few hands by imposing high rate to those persons and organizations which have high level of income and low rate to those whose income level is lower. It also helps to increase the government revenue which can be used for public welfare to develop infrastructure, provide general services etc. People, who are paying tax to the government, give more attention about the public expenditure. So the government should spend the revenue in good manner. Income tax is not only essential for collecting government revenue but also to control over consumption to promote saving and generate more employment.

First of all, income tax system was introduced in England to manage the war. Similarly to manage the civil war, USA introduced corporate income tax in 1962 A.D. In 1909 A.D. Federal Corporation Income Tax was organized. Now, it is expanded all over the world. Every nation is introducing income tax according to her needs.

In Nepal, the elected government in 1959 A.D. introduced “Business Profit and Salaries Tax Act 1960 A.D.” At that time income tax was levied only on business profits and salaries. In earlier days both individual and corporate tax were taxed on progressive rate. The government replaced the prevailing tax act in 1962 A.D. In 1974 A.D. “Income Tax Act 2051 B.S. (1974 A.D.) was enacted. Now Income Tax Act 2058 B.S. (2002 A.D.) is in implementation.

Income tax plays a very important role in the economic development of Nepal it is a tool of achieving maximum social and economic objective as laid down by the constitution of Nepal. Taxation in the modern world has been taken as the best effective tool for saving the ratio of saving the national income. It is also recognized as a good financial tool to make narrow the inequality in income. It reduces the regional economic imbalance by providing tax concession and holidays to the business or industry, which is established in remote and backward areas. Income tax is essential not only for collecting government revenue but also to control over consumption of luxurious materials, to reduce inequality of income and wealth to promote saving and investment and to accelerate economic development. (Agrawal, 2004)

There is no doubt that income tax is the main source of government revenue. It is also usable to balance the balanced economic development. Nobody can doubt that, the distribution of income is also possible through progressive income tax rate. The percentage of income tax in government revenue is in increasing trend but the government is unable to maximize the share of income tax to the public fund as per expectation. Income tax is issued on yearly basis.

Although the legal provisions have been made and updated timely, there are many problems about income tax and exemptions and deductions. There are many problems in income tax practice in Nepal. Such as leakage in tax, feeling of people about tax as a penalty, lack of consciousness of people, inability of tax administration to cover new taxpayers, delays in computation and collection of tax, lack of accuracy and unity in accounting system etc. The main objective of taxation is more revenue collection. Exemptions and deductions play important role to collect the tax. Because of these reasons exemptions and deduction of income tax system must be reviewed and immediate correction can be made.

The term ‘Assessment’ means the process of determining the tax liability of assesses. Income Tax Act, 2058 has defined the term ‘assessment’ as assessment of tax to be paid under this Act. However, the term does not include an assessment that has been replaced with an amended assessment. Income Tax Act, 2058 has specified three types of assessments as (a) Self -Assessment (b) Jeopardy Assessment and (c) Amended Assessment. Self-assessment is done by assesses themselves where as jeopardy and amended assessments are the assessment based on judgement of the Income Tax Department.

In self-assessment, a taxpayer himself assesses his tax liability. Income Tax Act (ITA), 2058 focuses on the self-assessment system. Under this Act, every assessment will be treated as self-assessment. Where a person files a return of income for an income year, an assessment is treated as made on the due date for filing the return of:

a. The tax payable by the person for the year and in the amount shown in the return, and
b. The amount of tax still to be paid for the year being the amount shown in the return.

Where a person files to file a return of income for an income year then, until such time as return is filed, an assessment is treated as made on the due date for filing the return that:

a. The amount of tax payable by the person for the year is equal to the sum of any tax withheld from payments derived by the person during the year and any tax paid by the person by installment for the; and
b. There is no tax payable on the assessment.

ITA, 2058 has treated every assessment as self-assessment. Even if a person fails to file a return by the due date, the person is treated to have made an assessment on the due date for filing the return and his assessed tax for the year will be equal to the sum of tax withheld and tax paid in installment. The department may, then, proceed for an amended assessment.

Self-assessment is the assessment done by assesses themselves at the time of submission or filing return of income. They are supposed to pay income tax accordingly before filing the return. (Kandel, 2060:20)

A tax imposed on income base is called income tax and assessment is the process of ascertaining the tax liabilities. It is the process and art of checking the documents in which the details of calculations of income and tax is recorded as per the law. (Bhattarai and Koirala, 2004:14.5)

1.2 Statement of the Problems

Nepal is the least developed land locked country which has adopted the mixed economy system for achieving development goals. Like other developing countries of the world, Nepal is also suffering from rapid population growth, increasing unemployment problems, resource constraints and high dependency on an agriculture, low living standard and poor infrastructure. The government expenditure is increasing but the government revenue is not growing equivalently as per expenditure. So, the government is facing deficit financing. The deficit financing increases share for external as well as internal and foreign aids. For the payment of external as well as internal loan and financing the government expenditures, internal revenue is the main source. Tax revenue is one of the main sources of government revenue. Income tax is a strong component of tax revenue. But lack of proper implementation of tax policies, lack of knowledge, lack of public awareness, lack of support from business community and lack of efficient management are problems on revenue collection. Still government has not been able to involve all the sectors in self assessment of income tax. Lack of knowledge about the income tax is the major problem to the tax prayer, procedure adopted by the government for self assessment of tax is not so effectives.

Becoming a development country, Nepal needs a huge capital for the investment purpose in development. The government has to take heavy spending on the several overheads. The funds required to make expenditure for development activities can be obtained by two sources as external and internal sources. The external financing depends upon the interest and conditions of the funding countries and agencies. And internal source has no obligation towards the third party and less risky compared to the external funds.

Nepal has been facing difficulties on raising funds from internal sources. It is seen that Nepal having low per capita income highly depends on the indirect tax than the direct tax. The share of income tax is much low in composition of direct tax revenue. It is so, because of the low taxpaying capacity due to low income level of the residents. About thirty one percent of Nepalese people are said to be under the poverty line and the GDP per capita $450 shows the economic condition of Nepal. The taxpayers feel a burden while paying tax in developing countries like Nepal because tax exemption limit is not appropriate and scientific. The deduction provided by the income tax act is not sufficient. There is not any distinct scientific benefit for the taxpayer in return of paying the tax. It reduces the consumption capacity of resident in developing countries.

Economic growth is the indicator of the development of the nation but economic condition of Nepal is not satisfactory because of low economic development and growth. It needs huge amount of capital for the economic development of Nepal. For this revenue collection should be increased to boost up the economic development. There is still a substantial resources gap between expenditure and revenue collection. The rate of government expenditure is exceeding the rate of revenue collection. The resources gap in 2065/66 fiscal year was Rs. 37306.2 million. This resource gap was fulfilled by internal and external borrowings. But external borrowings had been laying dominant role to fulfill the resource gap in the fiscal year 2065/66. The external borrowings to overcome the expenditure bring the various problems. Internal source is the best source to play a vital role in the development process of the economy. Internal source comprises both tax revenue and non tax revenue. Tax revenue contributed a significant portion on government revenue of the total revenue collected in the fiscal year 2065/66. Tax and non-tax revenue for the fiscal year were 81.13%and 81.87%respectively (Annual Report 2065 / 66, IRD).

The evident shows that the major portion of the government revenue is covered by taxation. The tax composition of Nepal shows that the government of Nepal is highly dependent on indirect tax because in 2065/66 B.S., the indirect tax contributed 70.68% of the tax revenue (Annual Report 2065 / 66, IRD).

The ratio of the income tax to GDP and the total tax revenue is very low in our country. While studying the composition of tax revenue it is observed that there is a dominant share of indirect taxes. The government has to collect more taxes to increase the revenue and perform development activities but low taxable capacity of the people is the problem. So, this problem can be solved to certain extent by implementing effective tax administration or by the good governance.

As the means of economic growth and social injustice, income tax has not succeeded to play significant role in Nepalese tax structure. The direct tax contributed only 25.53% of total revenue and the income tax contribution is 24.53% of total tax revenue in the fiscal year 2065 /66 (Annual Report, 2065 / 66, IRD, 13).

Developing countries like Nepal tends to have a greater propensity to evade taxes. Majority of the people are poor and they have no capacity to pay tax. Corruption is also a serious problem has been causing to increase the inequality of income and wealth of the Nepalese people. This is because, they have less knowledge about income tax and they have to maintain their livelihood from their limited income. Most of the rich people do not pay tax by using loopholes and advantages of an inefficient tax administration and a significant amount of tax revenue collected goes in the unseen hand of the government machinery.

In Nepal the coverage of income tax is very low. Total number of taxpayers for the fiscal year 2065 / 66 B.S. is 353,902 (IRD Report, 2065 / 66, 39) which is very low percentage of the total population pays the income tax. The growth rate of taxpayers in comparison with the previous year taxpayers is 23%.the number of registered taxpayers for value added tax is 69,653 (Annual Report, 2065 / 66, IRD, Page 42). There is very poor income taxpaying habit of Nepalese people. The tax authorities are inefficient and ineffective in enforcement. There are no integrating programmers for taxpayers' education, assistance, guidance and counselling. Tax offices are taken as heaven for corruption, harassment and incompetent personnel. The assessment techniques and procedures of income tax are not effective. Undue delay in tax assessment not only reduces the total revenue, but also brings harassment to the taxpayers. So the coverage of income tax is very narrow in Nepal. Income from employees is taxed more heavily than the capital income and agriculture income is exempted from income tax. These kind of exemptions encourage and loophole for tax evasion and complicates to assess to the tax administrations.

Income Tax Act, 2058 has provided some exemptions granted to the special industries and the industries established in the backward areas of the country are not effective and scientific. Although tax incentives or concessions encourage or support to establish industries in certain areas but they vanish or change name, ownership or place of the business at the period of tax exemptions and concessions.

Income Tax Act, 2058 has also provided exemption limit to an individual into two distinct categories in Nepal. They are individual and the family according to the marital status. The classification does not recognize the various sizes of the dependent family members. There is no discrimination between a taxpayer having only a single spouse and a taxpayer with a spouse, parents and children. Therefore the limit in the Nepalese contest neither shows any specific or definite relationship with per capita GDP nor with the rate of inflation or poverty norm.

The present deduction allowances are the Provident Fund Contribution of the taxpayer, the Life Insurance Premium, Investment or Contribution for Citizen Investment fund, medical expenses, research and development expenses, and pollution control cost etc. Besides these, donation to non-profit making organizations is also allowed for deduction. At present there is no any provision for deduction of necessary expenses like higher education expenses, security in the unsecured or politically polluted area like Tarai of Nepal, pregnancy delivery expenses and so on. The major problems of income tax related to exemptions, deductions and self-assessment can be summarized as mentioned below.

- Contribution of income tax revenue to total revenue is not sufficient and satisfactory.
- Exemption items provided by income tax act are not sufficient and limit of exemptions should be changed.
- Because of the poor tax administration, the deductible expenses and clear condition of self-assessment are not mentioned properly and clearly.
- The provisions made under Nepalese Income Tax Act, 2058 are not sufficient related to exemptions, deductions and self-assessment.

1.3 Objectives of the Study

The main objective of this study is to analyze the present system of tax exemptions, deductions, and effectiveness of self-assessment and to provide proper recommendations to build up the appropriate tax system in Nepal. The study also encompasses the problems faced by the business sectors and tax administration for the implementation of self assessment, exemptions and deductions of income tax system in Nepal. This helps government to collect more tax revenue. Most of the people think that tax is a burden and there no any benefit against paying tax. Our objective is to change this type of mentality and encourage people to pay tax. The research helps the people to make aware about exemptions of incomes, deductions of expenses and self-assessment system of income tax system of Nepal. The specific objectives of this study are listed below:

1. To study the effectiveness of self assessment of income tax in Nepal.
2. To find out problems faced by the taxpayers.
3. To test the level of understanding of taxpayers.
4. To identify the contribution of income tax to national revenue of Nepal.
5. To analyze the exemptions of income and deductions of expenses provided by the Income Tax Act, 2058 and measure the extent of exemption limit provided to individual and family and their appropriateness.

1.4 Scope of the Study

The study covers the analysis of exemption of incomes, deduction of expenses and self-assessment on due dates for filing the return and assessed tax provided by the Income Tax Act, 2058. The study also covers about the contribution of income tax to the government revenue and extent of exemption limit provided to individuals and families. It also aims to suggest and recommend regarding income tax of Nepal. Kathmandu valley has been taken as a geographical area of the study. The sample space for the opinion will be industrial area, tax office, Tribhuvan University and tax experts. Considering the concentration of the sample taken in Kathmandu valley will represent the nation as a whole. The scope of the study covers the following aspects of income tax system of Nepal.

- Contribution of income tax to the government revenue of Nepal.
- Exemptions, deductions and self-assessment of income tax in Nepal.
- Administrative aspects of income tax in Nepal.
- Nepalese tax structure of government revenue.

1.5 Need / Significance of the Study

Developing country like Nepal requires higher magnitude of financial resources for the development programmes. Internal and external sources can be used for development activities but the external source of financing is not appropriate rather than internal source of financing. In this contest, significance of income tax cannot be underestimated in the public finance of the nation. The weaknesses and problems are being faced by the government should be analyzed and researched objectively to increase the contribution of income tax to total revenue. The intensive study on tax exemptions, deductions and self-assessment has not been conducted in Nepal. Even though, several scholars doing research on income tax has studied tax exemptions, deductions and self-assessment as a minor topic to conduct their research. Therefore the need/significance of the study can be highlighted as follows:

1. This study is a pioneering effort on the detailed study of the exemptions, deductions and self-assessment of income taxation in Nepal. In this context, need and significance of this study will be known.
2. This study will also be basically useful for the readers who are interested in the field of taxation, policy makers, researchers, tax officials and especially the students who are engaged in the research works on exemption, deduction and self assessment of income tax system as well as in the field of Nepalese tax system as a whole.
3. It will provide a lot of information, ideas and knowledge to those persons who are interested to know about self-assessment of income tax, exemptions of income and deduction of expenditure.
4. It also clears the role of exemptions, deductions and self assessment of income tax system in total revenue collection, effectiveness of self assessment, exemptions and deduction of income tax system in Nepal and problems with regard to collection procedure and other important information.

1.6 Limitations of the Study

The present study aims to analyze on exemption of incomes, deductions of expenses and self-assessment on due date for filing the return in Nepalese Income Tax System. It is not a complete study of income tax system in Nepal. As every study has its own limitations so as this study is not away from limitations. Basically, the study has been conducted as partial fulfillment of the requirement of the degree in "Master of Business Studies". So this study has the following limitations:

a) Lack of time and resources are the major limitations.
b) This study covers and depends only on limited data.
c) The extent of this study is based on the availability of reliable data and the sufficient literatures.

d) There are limited publications of books, journals, articles, papers etc., regarding exemption, deduction and self- assessment of income tax system in Nepal.
e) The study is basically done by using both secondary as well as primary data also which are collected from IRD but the reliability of secondary data cannot be examined.
f) It is based on the exemption of incomes, deduction of expenses and self-assessment system but not the total study of income tax system in Nepal.
g) Opinions and information from respondents are collected only in the Kathmandu Valley.
h) This study is based on only for last ten years.
i) Opinions of respondents are taken as a sense of truth which may not be true all the time.
j) Due to the small sample size, it may not fully represent Nepal as a whole.

1.7 Organization of the Study

The whole study and finding is divided into five different chapters for easy follow up. The chapters are:

Chapter 1: Introduction: It serves as an orientation for readers of the report, providing them perspective view of the report for better understanding. It also gives the preliminary introductory detailed information, which would be dealt in later chapters. This chapter consists of general introduction, study background information, statement of the problems, objective of the study, scope of the study, need/significance of the study, limitations of the study, research methodology and organization of the study.

Chapter 2: Review of Literature: This chapter presents the review of literature dealing with theoretical review of the study along with related studies like relevant books, journals, research as well as thesis, published and unpublished data and so on. Some books, annual reports of income tax, Nepal Rastra Bank, Inland Revenue Department, Ministry of Finance, Statistics Bureau, dissertations, articles, news, magazines and necessary materials are reviewed for the study.

Chapter 3: Research Methodology: It deals with research design, nature and source of data, population and sample, data collection procedure and the financial and statistical tools used in the study. This chapter also comprises data processing procedure and analysis of data, weight of choice and weight of respondents are considered.

Chapter 4: Presentation and Analysis of Data: In the fourth chapter data collected are carefully examined and conclusion is drawn so that it can be presented. It deals with the presentation of related data collection in figure or table and its analysis using statistical tools and interpretation of the result. So the chapter is related to presentation and analysis of data. The chapter aims to make the critical analysis of income tax system of Nepal with the assistance of authoritative data and opinion survey. Here, we analyze the tax structure of Nepal, exemptions, deductions and self-assessment in income tax system in Nepal and opinion survey. The end part of the chapter is concerned with major findings of the research study.

Chapter 5: Summary, Conclusion and Recommendation: On the basis of the data analyzed, the research is reached in final phase after providing recommendation on exemption, deduction and Self assessment of income tax system in Nepal. The chapter is mainly concerned with summary, conclusion and recommendation. In the beginning of the chapter, the summary is presented about the exemption, deduction and self-assessment of Income Tax System in Nepal, tax structure and administrational aspects of revenue administration. Some possible areas for reform of the defects in income tax system are recommended at the end part.

Bibliography

Appendices

CHAPTER – II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

Many books, dissertations, articles and reports have 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 have described the problems of prospects of Income Tax System and path of reforming of Income Tax. Similarly many dissertations, articles and reports had described the Income Tax Law, provisions and structure of income tax, problems and prospects of income tax.

2.1 Theoretical Concept / Conceptual Framework

Great Britain is the first country in the world to introduce the modern income tax system. Income tax was introduced in 1979 A.D. in order to generate the revenue for finance to war against France.

While the history of income tax was not bright, the situation of collection of tax was different then now. Income Tax is an important element of the modern tax system. All sorts of countries have been adopted the tax system as an important instrument to generate revenue required to finance for the smooth operation of the stated activities. The tax is also considered as fairest revenue since it can be tied with the taxable capacity of the taxpayers.

The Finance Act annually prescribes tax rates and classifies some of the procedures mentioned in the income tax act whereas income tax act governs procedure, penalty and administration of taxes. Hence provisions and procedures of income tax can be analyzed by the study of exemptions, deductions and self-assessment of income tax system which was started since the enactment of the first finance act in 1959 A.D. Since then the limit of exemptions and deductions and filing returns of income for an income year or assessing the limit of tax liabilities for self-assessments in income tax system have been revised several times.

2.1.1 Concept of Tax

Tax is, in simple terminology, a liability to pay an amount to the government. It is a compulsory contribution to the government for the collection of national revenue from the taxpayers according to the law of the nation. According to Prof. Seligman, "a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred." In the Same way According to Plehm, "Taxes are general contributions of wealth levied upon persons, natural of corporate to defray expenses incurred in conferring common benefit upon the residents of the states." (Bhattarai and Koirala 2004:1.3).

From the above definition, it can be said that firstly a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax paid. Due to this compulsory nature, people have expressed different views in satirical ways about the taxation. Some say: "Nothing is certain in this world but death and taxes are certain". Some say, "Death and taxes are both certain….but death is not annual", while others say, "Death means stopping to pay tax". Here it should be noted that not all compulsory payments are taxes. For example, fines and fees are also compulsory payments without having direct benefit to the payer but it is not tax because its objective is not to collect revenue but to curb certain types of offences. Secondly, taxpayer cannot receive any quid pro quo for the payment of tax. The taxpayer does not receive equivalent benefit from the government. A tax is not a price paid by one, for which he can claim goods and services. The charge of price for goods and services by public authority is not a tax. Thirdly, the tax is to be paid to the government for running it. Fourthly, in case of tax the amount spent for common interest of the people. The tax is collected from haves and spent for the interest of have-nots in the society. Fifthly, a natural as an artificial person pays the tax. In conclusion, it can be said that a tax is a liability to pay an amount to the state.

The basis for the payment is that, assesses should have income of a minimum amount from certain specified sources or that they own certain tangible or intangible property of by carrying-on certain economic activities which have been chosen for taxation.

Taxation has been a very essential element of a government from the very beginning to the state system. However, the main objective of taxation has been different for different epochs. In ancient times, the major objective of taxation was strengthening the muscle of a state by providing resources. Since the time of Adam Smith, the chief motive of collecting the revenue was to provide resources to the government for providing security to an individual and society against violence, invasion, and injustice and maintaining public institutions.

In the modern day, the main objective of taxation has been shifted from security perception to the economic development. The modern objective of taxation is not only to maintain peace and security but also to conduct development activities. We can enumerate the objectives of taxation as follows:

a. To increase the revenue for welfare state,
b. To have equitable distribution of income and property,
c. To increase the production of particular goods,
d. To increase the employment, saving and investment,
e. To minimize regional disparity,
f. To implement government policy, and
g. To control the production of certain goods.

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

2.1.2. Concept and meaning of Income tax

Generally, income means the inflow of cash to the person or firm. Most of the people do not take the kind as an income. It is a best measure of economic well being of a person as well as of nation. Higher income denotes the high living standard and lower income from rendering various types of services, selling goods and producing crops for their own use. Thus, income may be cash or kind that is received by a person for livelihood. Economists define the term "income" in a broad sense as; it is an economic gain or receipt to a person during a particular period by way of wages, interest, profit and rent. The income of the people generally used for two purposes. Some part of the income is spent on consumption and some part is saved. But the purpose of taxation, the definition of income is somehow different from the aforesaid definition. According to the Income Tax Act 1974 A.D. (2031 B.S.), “Income means the income earned or received in cash or kind from the sources mentioned in sec.5”. In this section five different heads of income were mentioned. (ITA, 1974 A.D.)

They were as follows:

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

The existing Income Tax Act, 2002A.D. (2058 B.S.), which has been enacted since 2058, Chaitra 19th (1st April, 2002 A.D.) has defined income in section 2(a) as; “Person’s Income from any employment, business as calculated in accordance with this act (ITA. 2002). It includes all sorts of income received for the provision of labor of capital or both of whatever form or nature in the taxable income. Income tax refers to the tax levied on the income of a person and profits of corporation for the specific time period, particularly one year. Income tax is levied on the taxable income of a person or a company after deduction allowable expenses. Accounting profits may differ from taxable profits. For the computation of taxable income, generally incomes are added and expenses are subtracted and losses, which are allowed to deduct under the provision of income tax act are also subtracted. Then, tax free incomes, allowances and common expenses are also deducted to get taxable income. After giving the exemption limit as per law, the amount at tax to be levied on this computed income is the income tax.

2.1.3. Income Tax in the International Context.

Great Britain is the first country in the world to introduce the modern income tax. This country introduced income tax in 1799 in order to generate revenue to finance the war fought with France between 1793 A.D. and 1816 A.D., which as Napoleonic war. This income tax law was enacted on January 9, 1799, which was the first modern income tax law in the world. It came into force an April 5, 1799 A.D. Since this was levied as a war tax it was repealed an April 5, 1802 A.D. after the end of the war with France at first. However, the income tax was reinstated in 1803 after the outbreak of war again with France on May 18, 1803 A.D. The new Income Tax Act was enacted on August 1st, 1803 A.D. as a war tax. It was abolished on March 18th, 1816, after the end of the Napoleonic wars. Income tax was proposed again on March 11th, 1842 A.D., as temporary measure for three years to generate revenue to enable government to avoid budget deficits while carrying out major tariff reforms. This tax was not abolished even after the lapse of three years because of its yield accepted as a permanent tax by the 1980s.

In the USA also income tax was introduced in 1862 A.D. to generate revenue to finance civil war. The federal corporation income tax was introduced in 1909 A.D. In Japan, income tax was introduced in 1887A.D. through the enactment of the Income Tax Law on March 23rd, 1887 A.D. It was a general individual income tax and extended to the corporate income in 1899 A.D.

Although the income tax had been levied in different form before the unification of Germany in 1871 A.D., income tax became an effective instrument since the Prussian Reform of 1891 A.D. In India, while income tax in its modern form was adopted in 1860 A.D., several experiments were made from 1860 to 1886 A.D. and finally the systematic income tax legislation was enacted in 1886 A.D.

Income tax was introduced in Switzerland in 1840 A.D., Austria in1849, Italy 1864, New Zealand in 1891, Canada in 1892, Holland in 1892-93, Australia in 1895, Denmark in 1903, France in 1909, Sir Lanka in 1932, Venezuela in 1943, South Korea in 1948, and Nepal in 1959 A.D.
Similarly, this tax system was adopted by many other countries over the years and had undergone considerable changes in those countries that have already adopted it. The main features of the changes in the income tax system over the years are as follows:

- The first income tax adopted by Britain was based on the global principle. However, the 1803 A.D. version of the English income tax was based on scheduler system.

- There has been a different practice in other countries in different times. Initially, income tax was limited to the income generated within the country but with the globalization, taxation of worldwide income came into vogue.
- Most of the developed countries levy tax on the worldwide income of their residents while some developing countries levy tax only on income generated within the country.
- There have been different practices regarding the taxation of individuals and companies. Some countries such as Japan initiated with the taxation of individual and brought companies into the tax net after a few years of the implementation of income tax. In some countries, such as Nepal, initially both individuals and companies were taxed in the similar way but later on they were taxed in different ways, companies with a flat rate and individuals with progressive rates.
- There are different practices regarding the assessment of income tax. The tax is assessed under the official assessment system in some countries while assessed by the taxpayers themselves in some other countries. Official assessment was common in the past but self-assessment has become popular in the recent times, although the concept of self-assessment already adopted in Britain in 1803 A.D.
- The history of income tax is tumultuous, the situation is different now. Income tax has an important element of the modern tax system. This tax system has been adopted by all sorts of countries levied as an important instrument to generate revenue required to finance state activities. Thus Tax is also considered as a fairest tax since it can be tied with the taxable capacity of the payers. (Nagpal, 1960)

2.1.4. Tax in Rana Regime (1846-1950 A.D.)

Imposition and collection of taxes during 104 years oligarchic rule of Rana family in Nepal prior to 1951 A.D. was the prerogative of the feudal rules only those taxes, which suited the objectives, needs and whims of the ruling prime minister, were imposed. No budget was framed during the Rana regime. Taxes were collected at the time of requirement due to lack of Income Tax Act and Finance Act. The collected taxes were directly deposited in the Prime Minister’s Account. Land tax, custom and excise duties in the form of lump sum contracts, royalties on felling tree, royalty on supply of porters and soldiers, entertainment taxes were the major source of revenue. There was no direct tax in the country except land tax collected on a contractual basis and Salami which the government employees used to pay out of their salaries at a very small percentage. Rana Prime Minister levied taxes for meeting specific expenditure of the royal household or extra ordinary expenditure necessitated by war or other crisis rather than mobilizing revenue in the nation. During the Nepal-Tibet war (1855-56 A.D.), the first Rana Prime Minister of Nepal Jung Bahadur Rana had imposed a tax on the income of selected groups. Similarly, Bir Shamsher imposed a levy of 1% in the official value of Jagir assignment of government employees in 1891 A.D., to finance the transportation of water pipe supply in the capital. Ranadip Shingh imposed a 50% tax in the income made by fisherman in Deukhuri from the sale of fish in 1882 A.D. Like this taxes were collected during Rana Regime. (Khadka, 1994)

2.1.5. Income Tax in Modern Nepal

The modern Income tax act was started in Nepal in the year 1959 A.D. After the political revolution in February 1951A.D. (2007 B.S. Falgun), the role of government had been increased to developmental as well as philanthropic work. The government of Nepal had presented its first budget in 1952 (2008 B.S. Magh 21). The first five year plan started in 1956 A.D. (2013B.S.).The planned activities of the government needed huge amount of sources and, means. So, huge revenue was demanded and Nepalese government started to levy tax on income as permanent source. As a result, it issued first finance ordinance in 1959 A.D. (2016 B.S.) to impose tax on Business Profit and Remuneration. In 1960 A.D. (2017 B.S.), the Income Tax Act named "Business Profit and Remuneration Act, 2017 B.S." was made with the provisions of finance ordinance 1959.That was the first Income Tax Act, which had 22 sections. But that act was found narrow and vague. So, it was replaced by the Income Tax Act, 1962 A.D. (2019 B.S.). That act continued for 12 years and that was also replaced by the Income Tax Act, 1974 A.D. (2031 B.S.), which was amended for eight times and existed for a period of 28 years. That income tax act was replaced by new Income Tax Act, 2002 A.D. (2058 B.S.) under which the present rules and regulations of income tax are exercised and carried out. This is the fourth Income Tax Act of Nepal about which brief explanation is stated in the following topic. (Khadka, 1994)

2.1.6. Income Tax Act, 2002 A.D. (2058 B.S.)

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation, and to amend and integrate the laws relating to income tax, the parliament of Nepal enacted Income Tax Act, 2002 A.D. (2058 B.S.) since first April 2002 A.D.(19th Chaitra, 2058 B.S.). This act was enacted in Nepal to avoid the following defects of Income Tax Act, 2031. (Kandel, 2003)

i. Narrow base of tax.
ii. Levying tax only on the income originated in Nepal.
iii. Dispersion of tax related acts, i.e. income tax related provision were in different acts.
iv. Low penalty rate to tax evader.
v. Incompatible to Self-assessment, and
vi. Unsuitable to modern economy.

The main objectives of ITA, 2058 are presented below:

- To levy tax an all income sources and income earning transactions.
- To impose uniform tax to all people and all sources.
- To make income tax revenue more productive and elastic.
- To develop the tax system by means of extended scope, clear-cut, transparent and simple procedure.
- To make accountable and improved tax administration.
- To reduce economic cost neutralizing income tax.
- To emphasis statement based an accounting system.
- To make the taxpayers responsible by introducing the process of self-assessment system.
- To integrate Nepalese tax system with the tax system of foreign countries.
- To minimize tax avoidance and tax evasion.

2.1.7. The key Features of Income Tax Act, 2058 B.S.

Income Tax Act, 2058 has been enacted with wide a perspective. Various new concepts have been introduced in this Act as compare to Income Tax Act, 2031. Many of the concepts have been put forward in this Act were not prevailing at Nepalese tax culture. This Act contains 143 sections. The key features of Income Tax Act, 2058 are:

- All income tax related matters are confined within act by abolishing all tax related concessions, rebates and exemption provided by different acts.
- The act has broadened the tax base. Unlike previous tax act, tax rates are spelled out in the act. The tax rates and concessions are harmonized on equity ground.
- The act has introduced a pool system of charging depreciation. Intangible assets are also depreciated.
- The Act has firstly introduced taxation on capital gains.
- The Act has provided liberal set-off and carry forward / backward provisions and inter head adjustments of losses are clearly specified.
- The act has provided a stringent fine and penalty for the defaulters.
- The act has introduced a provision for administrative reviews to allow the tax administration to correct mistakes made by tax administration internally.
- Global income of a resident are made taxable. Non-residents are also taxed on their income with source in Nepal.
- List of expenses is inclusive. All expenses relating to income have been made admissible.
- The act has made provision of international taxation. Foreign tax credit has been introduced for the first time.
- The act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the tax payers from criminal liabilities (Bhattarai and Koirala, 2007:9).

2.1.8. The Legal Provisions of Income Tax in Nepal.

The function of revenue collection has remained one of the key activities of the government from ancient time in Nepal. During that time, very few economic activities were operated in the country. Hence, government could not collect huge amount of money in the form of taxation. At that time, taxes were levied to the merchant travelers and farmers in the form of cash, kind of labor. In some occasion gold and agricultural products were also paid as taxes but the nature of these taxes were temporary and taxes were raised for special purposes.

In the Lichhavis regime, income taxes from agriculture income and business were introduced as a direct tax for the first time in Nepal. Tax on agriculture income was called 'Bhaga' and tax on business was called "kara". Irrigation tax and religious monuments preservations taxes also existed at the time of the king Ansubarma in Nepal. During the period of 1768-1846 A.D., different types of taxes were levied to generate maximum revenue. The major sources of revenues were: Birta and Kipat, taxes on land, monopolized customs, transit and market duties, mines and mints and the export of forest products, birds, animals various levies and fines. Taxes were collected at three levels: Royal Palace Levies, Government Levies and Local levies. The various taxes levied during that period were narrow in base and were imposed primarily an occupations and economic activities, not in income or property. There was no taxation of income in the modern sense of income tax. During the period of Rana regime, there was no formal provision for imposition and collection of taxes. Taxes were imposed according to the objectives, needs and whims of the ruling Prime Minister. There was not provision of separating personal income of prime minister and state treasury. There was no system of preparing government budget. The surplus of revenue over expenditure was considered as the personal income of the Rana Prime Minister.

The major sources of revenue in Nepal till 1951 A.D. were land tax, custom and excise duties in the form of lump sum contracts, royalties on forest, royalty on supply of porters and soldiers, entertainment tax and few other minor taxes. Income were not taxed for raising regular revenues of the state treasury but for meeting specific expenditure of the household of extra ordinary expenditure necessitated by war of other emergencies. There was no direct tax in the country except land tax collected a contractual basis and “salami” which the government employees used to pay out of their salaries at a very small percentage. The salami was abolished in 1951 A.D. The Rana rulers did not think of development of effective revenue administrative system.

After the advent of democracy in the country in 1951 A.D, no taxes are levied and collected in Nepal except in accordance with law. (Pradhananga, 1993)

2.1.9. Sources of Income

Income is the accretion of wealth or purchasing capacity of a person or entity.

According to Income Tax Act, 2058 B.S, the term used to define income derived from employment, business and investment. It is the gross income less deduction allowed under the Act. This means, Income Tax Act, 2058 has specified sources of income into three heads.

1. Income from a business (Section 7)
2. Income from employment (Section 8)
3. Income from investment (Section 9)

Section 6 of the Act specifies that the assessable income includes income earned from any country of the world in case of resident and income earned in Nepal in case of non-resident.

2.2 Method of Exemption, Deduction and Self Assessment of Tax

Income Tax Act, 2058 has clearly specified the method of exemption of income, deduction of expenses and self-assessment of tax liability on the due date for filing the return of income for an income year. Those are discussed separately in the following topics.

2.2.1 Method of Exemption of Tax

A. Tax-exempt Amounts: The following amounts are exempt from tax as per section 10 of ITA, 2058 B.S.

a. Amount derived by a person entitled to privileges under a bilateral or a multilateral treaty concluded between the Government of Nepal and a foreign country or an international organization. For example, any amounts received by foreign diplomat working in diplomatic mission in Nepal are exempt from tax. However, the amounts received by local staff working in diplomatic mission in Nepal are taxable.
b. Amount derived by an individual from employment in the public service of the government of a foreign country provided that:

- The individual is a resident person solely by reason of performing the employment or is a non-resident person; and
- The amounts are payable from a public funds of the country.

For example, any amounts received by resident representative i.e. a foreign employee working at UNDP Nepal country office are exempt from tax. However the amount received by a local staff working there are taxable.

c. Amount derived from public fund of the foreign country by an individual who is not a citizen of Nepal by a member of the immediate family of the individual.
d. Amounts derived by an individual who is not a citizen of Nepal from employment by the Government of Nepal on terms of a tax exemption.
e. Allowances paid by the Government of Nepal to widows, elder citizens or disabled individuals.
f. Amount derived by way of gift, bequest, inheritance, or scholarship except as required to be included in calculating income from business, employment or investment.
g. Amount derived by an exempt organization by way of:
   - Gifts (Donation), or
   - Other contributions that directly relate to the exempt organization's function, whether or not the contribution is made in return for consideration provide by the organization. For example, subscription fee received by a club is exempt from tax.
   - Amount derived by Nepal Rastra Bank as per its objectives.

h. Pension received by a Nepali citizen retired from the army or police service of a foreign country provided the amounts are payable from the public fund of that. For example, pension income from India's government fund received by a Nepali citizen from army service of India is exempt from tax. (Bhattrai and Koirala, 2007:3.1)

B. Business Exemptions and concession: ITA, 2058 has provided business exemptions and concessions in section 11.

1. Income derived by a landlord, holding the land within the ceiling prescribed in Land Act, 2021 B.S. from an agriculture business is exempt from income tax. But income from an agriculture business derived by a registered firm or company or partnership or a corporate body or through the land above the holding ceiling as prescribed in the Land Act, 2021 is not tax exempt. Here the agriculture business means the business of producing crops from public or private land or deriving rent from a tenant using land.
2. Incomes derived by cooperative societies, registered under Cooperative Act, 2048 from business mainly based on agriculture and forest products such as sericulture and silk production, horticulture and fruit processing, animal husbandry, diary industries ,poultry faring, fishery, tea gardening and processing, coffee farming and processing, herb culture and herb processing, vegetable seeds farming, bee keeping, honey production, rubber farming, floriculture and production and forestry related business such as lease-hold forestry, agro-forestry, cold storage established for the storage of vegetables and business agriculture seeds, insecticide, fertilizer and agricultural tools (other than machine operated) and rural community based saving and credit cooperatives are exempt from tax. Here, rural community excludes municipalities and adjoining VDCs.
3. A natural person or an entity operating special industry during the whole income year is taxed as under:
    - If the industry is providing direct employment to 600 or more Nepalese citizens throughout the whole year, 90% of the applicable tax rate is applied for the year.
    - The industry operating in remote, undeveloped and underdeveloped areas will have to pay 70%, 75% and 80% of the applicable tax rate respectively up to ten income years commencing from and including the year in which the operation commences.

For tax purpose, special industry means a manufacturing industry other than a liquor or tobacco as categorized in section 3 of the Industrial Enterprises Act 2049.

4. Income of an industry is taxed as under:
    - An industry established in specified Special Economic Zone (SEZ) is exempt from tax for the first five years of its operation and then after taxed at 50% of the tax rate otherwise applicable.
    - Any IT industry established in specified IT Park by publishing notice in the Nepal Gazette, is taxed at 75 percent of the tax rate otherwise applicable (i.e., 25% of the applicable tax rate is exempt from tax).
    - An industry established in remote area is exempt from tax for the first 10 years of its operation.

5. If there is an agreement between a person and Government of Nepal for building and operating infrastructure, the person is entitled to enjoy all tax related concessions prevalent at the time of agreement for a period covered by the agreement irrespective of the provision in present Act.
6. The incomes from business received under exemption and concession including the incomes of an entity conducting petroleum business under Nepal Petroleum Act 2040, are required to calculate separately assuming that these incomes are received by the separate person. That is, incomes received under exemptions and concessions should be separated from other general business and investment incomes.
7. If more than one exemption is available to the same income, only one exemption is available as per the selection made by the taxpayer.
8. If the assets used by the special industry were used previously by another person operating the similar type of special industry the ten years for the latter will be counted from the period of such use by the another person previously. (Bhattarai and Koirala, 2007:3.2)

2.2.2 Method of Tax Deduction: Not all the expenses are deductible while computing income from any business, employment or investment. According to sec.21, of ITA, 2058, the following deductions are not allowed.

1. Personal or Domestic Expenses: Expenses of a domestic or personal nature are costs incurred by individuals in respect of themselves, which means that the individuals spend money for their personal consumption to satisfy their

personal needs. These expenses are not deductible from any of the income heads -: employment, investment or business. Such expenses include:

a. Personal Expenses of an individual:
    - Costs for the provision of shelter as well as meals, refreshment, entertainment or other leisure activities.
    - Expenses incurred with respect to an individual commuting between the individual's home and a place at which the business or investment is conducted. However, computing in the course of conducting a business or investment is allowed for deduction.
    - Cloth expenses for the individual other than clothing that is not suitable for wearing outside of work. This means costs of work dresses such as uniform, apron etc. are allowed for deduction.
    - Expenses for education and training of an individual. If the education is directly relevant to a business or investment conducted by the individual and the education and training does not lead to a general degree or diploma but has a link to the business or investment conducted the expenses for training or education are deductible.

b. If the taxpayer has borrowed money to bear expenses as mention above and needs to pay interest for that, these interests are related to non deductible expenses and therefore also not deductible.

c. The expenses of a domestic or personal nature also include costs incurred by another person in respect of an individual. However, in the following conditions, such expenses are not treated as personal or domestic nature.
    - If the payment is included in calculating the income of the individual. For example, salaries and wages paid to employees are allowed for deduction because employees include such payments in their incomes.
    - If the individual makes a return payment of an equal market value to the person as a consideration of a payment. For example expenses incurred for selling goods and services to customer are allowed for deduction. However, the expenses incurred on goods withdrawn by the proprietor are not allowed for deduction.

- Payments for petty expenses related to tea, stationeries, rips prizes and emergency medical treatment up to Rs.500 at a time whose accounting is not practical or administratively difficult.

2. Tax payable under this Act: The term ‘tax’ also includes any amount payable by way of interest and penalties. So, interest, fine or penalty paid under ITA, 258 are not allowed for deduction.
3. Fines and penalties paid to the government or its local bodies for breach of any law or regulations: It is important to note that fines and penalties paid to corporate bodies like Nepal Telecom, Nepal Electricity Authority etc. banks or financial institutions can be deducted as finance or transactions costs. They are not paid for violating a law but for not meeting contractual obligations.
4. Expenses incurred to drive the tax exempted amounts or final withholding payments. For example, seeds and fertilizers expenses to drive agriculture incomes are not allowed for deductions.
5. Cash payments over Rs. 50,000(except in certain circumstances) by an individual or an entity with an annual turnover of more than Rs. 2 million. The whole amount of cash payments (not only the excess amount) is disallowed for deduction if it is more than Rs. 50,000. However, the clause of Rs. 50,000 is not applicable in the following conditions.
    - If payment is made to the Government of Nepal, a constitutional body, a corporation owned by the Government of Nepal, or a bank or a financial institution.
    - If payment is made to a farmer or a producer producing primary agricultural products.
    - If payment is made to a retirement contribution or retirement payment.
    - If payment is made in an area where banking services are not available. An area having banking services means the area where there are no banking facilities within the surroundings of ten kilometres.
    - If payment is and must necessarily be made in cash or on a day when banking services are closed.
    - If payment is made into a bank account of the payee.

The term ‘cash payment’ means a payment other than made through a bank or financial institution by way of letter of credit, cheque ,draft, money order, telegraphic transfer (TT), money transfer (hundi) and any other form of transfer made between two banks or financial institution.

6. Distribution of profits by an entity such as dividend, reserves, etc.
7. Capital nature expenditure as:
   - Expenses incurred in respect of natural resource prospecting, exploration, and development.
   - Expenses incurred in the acquisition of an asset with the useful life exceeding 12 months.
   - Expenses incurred on the disposal of a liability.

Capital expenditures are allowed only in the form of deduction. However, they are allowed for deduction while computing capital gains.

8. Foreign income tax: However, foreign tax credit not exceeding the average rate of Nepal income tax can be claimed if the person has paid foreign income tax with respect to the foreign assessable income.(Bhattarai and Koirala, 2004)

2.2.3 Method of Tax Assessment: Income Tax Act, 2058 B.S. has specified three types of assessments. They are as follows:

A. Self assessment (Sec.99): In the self assessment a tax payer himself assesses his tax liability. Income tax act 2058 focuses on the self assessment system. Under this act; every assessment will be treated as self assessment. When a person files a return of income a person files a return of income for an income year, and assessment is treated as made on the due date for filing the return of (i) the tax payable by the person for the year and in the amount shown in the return; and (ii) the amount of tax still to be paid for the year being the amount shown in the return.

When a person fail to file a return of income for an income year then, until such time as return is filed, an assessment is treated as made on the due date for filing the return that (i) the amount of tax payable by the person for the year is equal to the sum of any tax withheld from payments derived by the person during the year and any tax paid by the person by installment for the year; and (ii) there is no tax payable on the assessment.

B. Jeopardy Assessment (sec.100): It is the assessment done by the Department in its best judgment prior to the due date for filing a return of income in the circumstances specified in the act. Under this procedure the income tax act 2058 also makes provision under such special circumstances for making assessment.

i. The person becomes bankrupt, is wound up or goes into liquidation.
ii. The person is about to leave Nepal indefinitely.
iii. The person is otherwise about to cease activity in Nepal or
iv. The Department otherwise consider it appropriate.

When an assessment is made under jeopardy assessment with respect to a full income year, the assessed person will not file a return of income for the year. However, with respect to a part of income year the assessed person is still required to grant an opportunity to produce proof; if any, in own favor while making a jeopardy assessment.

C. Amended Assessment (Sec.101): Amended assessment is the assessment dome by the Department on its best judgment to adjust the assessed person's liability to tax in such a manner as is consistent with the intension of the Act within a period of four years. In case the assessment is inaccurate by reason of fraud, the Department may amend an assessment at any time (the period of 4 years is not applicable). But the assessment must be done within one year on receipt of information. However, the department may not amend an assessment if the assessment has been amended of reduced pursuant to an order of the Revenue Tribunal of a court of competent jurisdiction except where the order is reopened.

2.2.4 Registration for Self Assessment of Income Tax

Who earned taxable income during the income year such as proprietorship form, company, partnership form and individual citizen have to file the return of income within the specified time period, should fill up form with their supportive documents at Internal Revenue Department. If all the procedures and requirements are fulfilled, the department will register the file.

2.2.5 Advantages and Disadvantages of Self Assessment of Income Tax

A. Advantages:

a) Easy to calculate tax liability.
b) No long administrative procedure is required.
c) To get chances for being respectful person on the society.
d) It helps to the nation for collection more revenue.

B. Disadvantages:

a) There are high chances of tax evasion by the tax payer.
b) It is not applicable some special sectors like, tobacco and wine industry.

2.3 Review of Related Studies

Brief review of different studies has been performed in this research study. The researcher has consulted many books, dissertations, articles, annual reports of different institutes, news magazines, published and unpublished materials concerning with income taxation during the period thesis writing. Some books, articles, reports, dissertations and theses etc. were reviewed for this study. They are as follows:

2.3.1 Review of Books

While reviewing the books, it was found that most of the books were syllabus oriented but some of them have described the problem and prospects of income tax system and path for reform work which are briefly described below:

Agrawal, G.R. (1978), a senior researcher in the field of Nepalese taxation, had conducted a research entitled, *“Resources mobilization for Development: The reform of income tax in Nepal.”* The main objectives of his study were to examine the problem of growing resources gap in Nepalese finance in the context of the role of income tax, to examine the buoyancy and elasticity of income tax in Nepal including projection of income tax, to examine the ways and means for increasing tax in Nepalese people etc.

Agrawal, G.R. (1980), had written a book entitled *"Resources mobilization in Nepal."* published by CEDA. The books had been divided into eight chapters; the first chapter deals with special reference to Nepal. The second chapter deals with fiscal policies in developing nation and Nepal and third chapter looks at income tax in Nepal from the historical perspective, the fourth chapter deals with structure of Nepalese taxation. In this chapter, writer had concluded the predominant role of indirect taxes in Nepalese tax structure. More than 60% of tax revenue was derived from foreign trade alone. However, the role of income tax had been increasing since 1974/75 A.D. Dr. Agrawal had made an empirical study taking tax policy makers, tax experts, tax administrator, tax lawyers, accountants and tax payers of different parts of Nepal. From the study, he had concluded that Nepalese tax payers were favorably disposed to income tax. However, the major constrains in the effective functioning of tax system seems to be administrative deficiencies, poor taxpaying habits, lack of tax payer's education, complicated procedures and defective tax information system.

Paudyal, S.R. and Timilsina, P.P. (1990), presented a book of income tax named *"Income Tax in Nepal."* They described the theoretical as well as practical aspects of income tax. The book was fully based on T.U. syllabus prescribed for B.Com. They did not describe the problems of income tax system and structure of Nepal. The book was descriptive rather than analytical.

Tiwari, N.R. (2050), published a book named *"Income Tax System in Nepal."* He described the legal provisions relating to income. He also described the process, provisions and methods to assess the income with numerical examples. The book was based on T.U. syllabus. Tiwari did not describe the role of income tax in economic development of Nepal and problems of income tax system. His book was descriptive of legal provisions rather than analytical.

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

Dhakal, K.D. (2001) published a book named *"Income Tax and House and Compound Tax Law and Practice with VAT Act, 2052."* Dhakal described the legal provisions relating to income tax with numerical examples. This book is very useful to know about legal provisions of Income Tax Act, 2031 B.S. The book was fully based on T.U. syllabus. His book was informative rather than analytical. He did not mention the role of income tax and structure of income tax.

Adhikari, B.D. (2002), published a book named *"Income Tax Law: Then and Now."* Adhikari described the legal provision of new Income Tax Act, 2058. Adhikari also described the decisions made by Supreme Court about income tax. Adhikari described the legal provisions with critical analysis. His book was very useful to know the New Income Tax Act 2058 but not analyzed the role of income tax and income tax structure. His book is analytical rather than informative. Writer has not included administrative aspect, role and structure of income tax in his book. The book has only focused on the legal aspect of income tax. Agreement and protocol relating to avoidance of double taxation and the prevention of fiscals evasions with respect to taxes on income between different countries had also included in his books.

Bhattarai, I. and Koirala, G.P. (2004), published a book named *"Income Taxation in Nepal with Tax Planning and VAT."* This book was published second and third time in 2061 and 2064 B.S respectively. The book has described the legal provisions with critical analysis. The book has enough theoretical and practical problems. The book also had added Income Tax Act, 2058 and Value Added Tax Act, 2052. The book also has described brief study about the tax planning. This book is very useful to know the New Income Tax Act with Tax Planning and VAT but not described the Role of Income Tax and Tax Structure.

Mallik, B. (2004), had written a book entitled *"Nepalko Adhunik Aaayakar Pranali."* This book especially deals with the thorough analysis of Income Tax Act, 2058 B.S. with examples. Every section of income tax act has been clarified with suitable examples. He had written about the development of existing income tax and need and importance of income tax system in Nepal. The new provisions made by Income Tax Act 2058, about tax base computation of income, tax exempt amount, allowable deduction, accounting of tax ,capital gain, retirement saving and tax, dividend tax, intimation taxation, tax auditing, have been precisely clarified in his book. Similarly, the book had also explained about tax administration, documentation, information collection, payments of tax, installment tax, income statements, tax-assessments, tax collection, review and appeal, fees and interests, fine and penalties, tax rebates and determination of provision of depreciation etc.

2.3.2 Review of Research Reports and Articles

Some research reports and articles were reviewed for this study, which is briefly described below:

Agrawal, G.R. (1978), in his study of *"Resource Mobilization for Development: The Reform of Income Tax in Nepal."* presented to CEDA, T.U., described the concept of income tax. Agrawal described the resource mobilization through income tax, fiscal policy, role of income tax, legal provisions relating to income tax, legal aspects of income tax, administrative aspects of income tax etc. Agrawal identified the major problems in income tax system as inefficiency of tax administration and tax evasion. Agrawal observed that the tax authorities were insufficient in enforcement of law. There were no integrated programmes for taxpayers' additional fee to remove tax evasion etc. The study also described some steps of administrative improvement. According to the study there was provision of income assessment committee, flat rate of tax to small tax payers, establishment of tax offices etc.

Bhattarai, M.D. (2050), critically analyzed the income tax facilities provided by Industrial Enterprises Act 2049 in his draft, *"Income Tax Facilities Provided by Industrial Enterprise Act 2049, an Analysis of Rajaswa."* Bhattarai described the facilities given to the industries. He also critically analyzed the facilities as continuous

7 / 8 years exemption of income tax would develop the tradition of taking exemption by incorporating legal ways. The deduction allowed on modernization of industries, pollution control device, product and technology development, sales promotion expenses etc. would protect only the big industries but no effect to small industries. Provisions made on advertisement and entertainment or hospitality expenses would create rude on income tax because it is given to all industries in the same manner. There was provision of exemption of income tax of industries which did not get exemption but reinvested on non exempted industries. This provision exempts the tax to the industries of alcohol, tobacco etc. in an industry reinvested on non exempted industry. According to the study, periodic exemption of tax would create bad effects such as; change in sign board, change in name and change in ownership to own family members.

United Nations Organization (1997), published a journal on public finance entitled, *"Guidelines for improving tax administration in developing countries"*. The study was divided into four separate parts. Among them reforming the structural organization of the tax administration are explained in two separate sub topics i.e. guidelines for appropriate initiatives and underlying consideration and explanatory commentary. Functions of tax administration are identification and registration of tax payers, tax payer's education, information provider and assistance etc. The study had detail explained their functions and recommended some valuable suggestion to the developing countries.

Kandel, P. (2001), published *"A Draft of Income Tax Act 2058: A Critical Analysis."* Kandel criticized the Income Tax Act 2058 on several grounds such as exemption of agriculture incomes from income tax export duties levied on export, inequality between different capital earned income, withdrawal of exemption and adjustment for inflation. Kandel further criticized the act for the provision of income tax.

Pant, D.B. (2004), presented an article entitled, *"Problems in Tax Administration and their Remedies."* published in journal of Finance and Development. Pant comprehensively explained about the problems and their remedies related with tax revenue. The major types of practical problems and challenges in tax administration has been mentioned in his article showing limited amount of transaction, showing low selling price, lack of issuing and taking bills, lack of showing the real factory cost, commercial fraud, lack of cooperation in tax auditing legal ambiguity and complexity is in implementation and lack of coordination between Inland Revenue Depart and Revenue Investment Unit. Meanwhile Pant has recommended some valuable suggestions to solve the problems and to overcome the challenges. They are; statistical and information system should be managed properly, fixed norms and standards should be used to assess selling price and factory cost, the billing system should be made compulsorily, coordination between Inland Revenue Office with various entities, revenue investigation department and its related units should play the important role and auditing of tax should be widened etc.

Kandel, P.R. (2004), presented an article entitled, *"Are Tax Incentives Useful? If so, Which One?"* published in Journal of Finance and Development. In this article Kandel tried to seek the answer from the survey of various empirical studies earlier done in Nepal, India, Pakistan and other investment countries. Kandel found that tax incentives are still the controversial matter whether they promote the investment or not. But Kandel argued the most of the developed countries used tax incentives.

As per the studies done in various countries, the conclusion is that among different types of tax incentives, investment allowance or investment tax credit and accelerated depreciation are superior to other types of tax incentives. Tax holiday is the most inferior type of tax incentive which causes revenue loss without enhancing the investment environment. Meanwhile most of the researchers have opposed the tax holiday system both with in Nepal and outside Nepal. Kandel further added the survey of studies indicate the accelerated depreciation system has positive impact on investment. The work of reducing tax rate specially followed after 1990s to such lowest rate was not a proper decision. That's why if Nepal wants to go to tax incentives system again, investment allowance or investment tax credit, not the full holiday in future should be adopted in future.

Neupane, L.B. (2007), had published an article in economic bulletin 'Rajaswa', *"Contribution of Income Tax to Total Tax Revenue*" which shows the contribution of income tax to total tax revenue, has decreased from 23.93% to 20.83% in the FY.056/057 to 061/62. It may be due to the collection of the property tax by municipalities. But it is not only the cause. Emphasis should be given to the income tax collection. To facilitate tax collection, Inland Revenue Department has implemented E-TDS, E-Pan and E-Filing for the better tax compliance. There is provision of tax plate also. But the frequent change in the act decreases tax compliance which is a major drawback on instable political condition.

2.3.3 Review of Dissertations and Theses: Some dissertations and theses were reviewed for this study. They are as follows:

Shivakoti, C. (1981), presented a dissertation entitled *"Income Tax System in Nepal and Some Potential Areas for Reform"* T.U. In this study, Shivakoti tried to show the tax structure in Nepal, role of income tax in Nepalese economy, income tax administration and tax evasion in Nepal along with reforms. Shivakoti had more emphasized on the income tax administration and tax evasion. Shivakoti conducted an opinion survey about the sufficiency of tax incentives and tax holiday to the industries. He took the sample of twenty six respondents, out of them sixteen were in positive and ten were in negative response about the sufficiency of tax incentives and holidays. According to the respondents, following informatory activities should be perfumed.

- There should be prize system which may be as the form of tax incentives or holiday to the taxpayers.
- The period of tax holiday should be extended for industry, which utilized Nepalese raw materials and produces handicrafts.
- For the expansion of industry, additional incentives should be provided.
- The items of deductions should be added.

Thapa, M. (1993), conducted a research entitled *"Income Tax Assessment Procedure in Nepal, an Analytical Study"* T.U. This study was basically concentrated on income tax assessment procedure. Thapa conducted an opinion survey of income tax assessment procedure. Thapa took twenty three respondents as a sample. About the exemption limit, six persons were in positive attitude towards exemption limit, eight were negative attitude and nine were different about the exemption limit. Out of them, those respondents who gave the negative response, suggested to increase the exemption limit. Thapa suggested adjusting exemption limit according to the inflation of the country. Thapa also suggested giving the tax holidays to new industries as investment allowance. Thapa did not mention the assessment procedure legal provision relating to income tax and items of exemptions and deductions. His findings about the problems of income tax assessment procedure were as follows:

- Ad-hoc system in tax assessment.
- In tax assessment process, undue delay in tax assessment and lack of adequate accounting skills are considered at present.
- Adjustment of exemption limit to increase must be done.
- Tax holidays to new industries as investment allowance should be provided.

Archarya, S. (1994), did a research on *"Income Tax in Nepal, a Study of its Structure, Productivity and Problem"* T.U. Archarya had described the structure of income tax, productivity of income tax and problems of income tax system. He presented some numerical and diagrams of structure and productivity of income tax. His study about income tax was not so detailed because he did not explain the provisions relating to income tax and his study was more concentrate on problems of income tax system. Although his findings about the problems of exemptions limit and allowances were considerable and accountable, Archarya showed the problems of exemptions limit as follows:

- Exemption limit being equal to remuneration of tax payers and business individual does not seem reasonable. The exemption limit for remuneration of tax payers should be comparatively higher than the business individual.
- The exemption limit in Nepalese context neither shown any definite relationship with per capita GDP nor with the rate of inflation nor with the poverty line. Thus it seems to be unscientific. His findings about the problems with allowances were as follows:
    - Fifteen percent depreciation allowances for corporate tax payers seem to be inadequate.
    - Private boarding school running now days are basically inclined with profit. They are excluded for income tax, which is not reasonable.

- One and two percent deduction of total income from trade, industry profession and vocational for advertisement and guest hospitality respectively seem to be low.
- Allowances for remuneration taxpayers also are not scientific in specifying the figure in absolute term. Only the proportional figure is recommended, otherwise there should be frequent adjustment in income tax act, which is not so practical.
- Additional allowances are lacking for specific industries provided that they are feasible in Nepalese economy. Tourism industries, cooperative organizations in rural sectors etc. are in this category and should be encouraged. On the other hand, the special allowance for export income of industry does not seem essential such as for carpet of garment industry. It is because that the small business investors are unable to export their products.

Poudyal, K.B. (1998), submitted the Ph.D. thesis entitled, *"Corporate Tax Planning in Nepal."* This thesis report had aimed to examine the implication of tax factors in strategic planning, project planning and optional planning in Nepalese companies. Paudel found that the majority (90%) of the companies considered tax factors while selecting the line of business. Paudel also found that the positive correlation (+0.8) between tax rate and the debt equity because of interest paid on debt is a tax deductible item. Similarly the correlation coefficient between averages fixed assets and corporate tax rate was (+0.75) in small companies and (+0.12) in medium size companies. As against this, in large companies, there was a negative correlation (-0.2), which showed that, increase the fixed assets in large companies resulted decrease in the corporate tax. Paudel addressed that the tax planning should be considered while making corporate planning and such companies should be set up separate tax system to get maximum benefits of provisions provided by tax law. However, tax assessment under the best judgement blocked the application of tax planning in corporate planning. Paudel has recommended the tax incentives should be given to non-industrial companies too and tax rate should be differentiated for resident and non-resident companies.

Kandel, P.R. (2000), presented the Ph.D. thesis entitled, "*Corporate Tax System and Investment Behaviour in Nepal.*" He under took the research work to find out problems relating to corporate tax which blocks the development of the private investments. The main objectives and major findings of his study were as follows:

Objectives:

- To evaluate the **c**orporate tax system in general to examine the sensitivity of certain policy like inflation, capital gain tax, dividend tax and interest tax etc. based on their impact on tax burden.
- To know the relationship of private investment with average effective tax rate (AETR), marginal effective tax rate (METR) and tax incentives in Nepal.

The major findings:

- The METR for debt finance projects are almost negative (i.e. -17%) and positive for equity financed projects and debt equity ratio project by 27% and 19% respectively.
- The statutory tax rate deduction has impact on private investments by 60% and 20%. In his regard, he showed the adjusted R^2 value 0.87 at 5% level of significance.
- Kandel concluded that the statutory tax rate was in moderate level under the financing options; debt mix and equity i.e. it was not much distortive.
- The relationship between inflation rate and effective tax burden in Nepal was negative.

Lamsal, K. (2001), had presented a thesis entitled *"A Study on Contribution of Income Tax on Government Revenue"*. His research had mainly focused on the removing a 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 in utilizing the resources in Nepal. Mr. Lamsal had conducted the research following analytical as well as descriptive research design. Most of the data were from secondary sources and some were from primary sources. Primary data were collected through opinion survey, field visit and interview. Simple statistical analysis such as average and percentage were used for data analyzing tools; graphs, Charts and tables were used to interpret visually the findings of the research. From the research, he had concluded that there was widespread evasion of income tax in Nepal and income tax is a suitable means for raising government revenue. He had recommended measures for controlling tax evasion by controlling illegal business activities, increasing penalties and fines to tax evader, compulsory maintenance of accounts etc.

Shakya, R. (2003), submitted a thesis entitled, *"A Study on Income Tax Collection from Commercial Banks."* The thesis report had aimed to evaluate the contribution if income tax paid by commercial banks in the government revenue, pointed out main tax income tax related problems faced by commercial banks, analyzed relevant options and view of bankers regarding income tax, put forward necessary suggestions and recommendation for income taxation with reference to commercial banks.
Shakya found that during the five years, direct tax revenue has contributed 20.01 percent in an average on total tax revenue and it was 79.99% of indirect tax revenue. Shakya also pointed out some problems pertaining corporate tax has been found in the course of investigation. Those problems are: assessment delay, undue delay in settlement of fixed appeals with revenue tribunal, negative attitudes and behaviours of tax authorities in the time of clearance and payment and vague provisions which produce disputes. The problems have been affecting in profitability of banks i.e. increasing compliance cost and decreasing corporate tax collection. Shakya has recommended that private investment from domestic as well as foreign countries should be encouraged so that economic transaction in the national economic would be increased and boosted up when private institutions invest in different sectors. The banking transaction would also be increased and they make higher profits. As a result, corporate tax collections from those sections as well as from other new corporate sectors would be increased. From this, the government has to show the flexibility in making various laws relating to trade, industries and banking to make incentives in order to form new corporate.

Kafle, S. (2004), presented a dissertation named, *"Income Tax Contribution from Nepalese Public Enterprise with Reference to Nepal Electricity Authority."* Kafle tried to determine the effectiveness of income tax revenue collection from public enterprises and major problems of income tax system and Kafle also tried to find out the contribution of income tax from Nepalese electricity authorities to total revenue income tax revenue as national revenue of Nepal. Kafle found that income tax on total tax revenue was 8.36% in the fiscal year 1992 / 93 and it increased up to 22.64% in fiscal year 2001 / 02. Income tax revenue / GDP ratio, income tax revenue / total tax revenue and income tax revenue / direct tax revenue ratios are 2.2%, 22.64% and 84.02% respectively in the fiscal year 2001 / 02. The contribution of income tax from Nepal Electricity Authority to total income tax revenue has also been flotation the average contribution is 2.57%. In the composition of income tax from Nepal Electricity Authority on the tax from public enterprises has shared 8.5% in an average. Lack of clear transparent and progressive economic policy, the main reason for unsatisfactory tax collection was due to the lack of effective income tax system of Nepal.

Khatiwada, A.K. (2004), conducted a research entitled, *"Structure of Income Tax System in Nepal, A Managerial Study,"* T.U. Khatiwada aimed to evaluate the structure of income tax system and managerial study. khatiwada accepted that ITA, 2058 and provisions are difficult to understand, language is vague and unclear, narrow base i.e. agricultural income has not been included in tax net, provision of double taxation in dividend, insufficient provisions related to capital gains.

Khatiwada also analyzed the income tax management system in Nepal is not effective and efficient due to ineffective management system, inadequate government policy and defective income tax laws. Khatiwada also mentioned the major constraints of effective and efficient income tax management system are:

- Lack of motivated and trained human resources.
- Inadequate experts in tax management, non-maintenance of books and accounts, time consuming process of income assessment i.e. not scientific assessment.
- Misuse of power by tax administrators.
- Less consciousness of taxpayers.

Khatiwada also added income tax assessment procedure is not sound and effective, high level of evasion found in income tax, income tax administration as a high degree of corruption has been found. He did not mention any provision about exemption of incomes and deduction of expenses in Nepal.

Niraula, B.S. (2005), did a research study named, *"Study of Incentives and Facilities to Industry under Income Tax Act, 2058,"* T.U. This study aimed to examine and analyze the effectiveness of tax incentives and facilities to industries. Niraula conducted that:

- Income tax incentives and facilities do not play the major role in the establishment of industries but other factors such as political stability, industrial environment, administrative efficiency and availability of market, raw materials, labours, infrastructures etc. play key role in establishment of industries. If these facilities are available, the incentives and facilities provided by the ITA might play major role in the establishment of industries.
- Investment tax credit and investment allowance play vital role in the establishment of new industries.
- A flat rate of 20% income tax to all industries seems to be little bit higher to small industries.
- A deduction facility of PCC and R&D had been tremendous effect to achieve its objectives and industries are exploiting these facilities.
- Tax rebate of 25% and 30% to the undeveloped and underdeveloped areas not sufficient.

Niraula has recommended that investment tax credit and investment allowances should be provided to new industries. The rate of 20% to the export industry is higher and it should be minimized. Niraula further recommended that the contradiction between the Income Tax Act and Industrial Enterprises Act should be eliminated. Niraula further conducted from time to time to make aware about the tax incentives and facilities to current taxpayers and potential investors.

Bhandari, D.R. (2006), submitted a dissertation named, *"Taxation Knowledge of Taxpayer in Nepal."* He had pointed out the present position of taxation knowledge of taxpayers in Nepal. Tax payers don't know about the rapid change government policy, rule and regulation etc. are the main problems of the study. Similarly he suggested to the government by following ways:

- To increase the income tax knowledge of tax payers, for that tax related information should be published regularly.
- Special taxpayer education program is necessary for employees and small taxpayers which help to increase the government revenue of the country.
- The school as well as campus level curriculum should be included tax related education so that tax payer education program can more effective.

Pokhrel, S.L. (2007), in his thesis *"Contribution on Income Tax on Tax Structure of Nepal"* has conducted an empirical investigation. According to his investigation, income tax is a suitable means of raising government revenue and tax education in necessary in Nepal for which 91.67% and 9.33% respondents have supported positively and negatively respectively. He found that inefficient tax administration, the tax evasion and inappropriate objectives of income tax were the main causes of low collection of income tax in Nepal. Self assessment method of assessing income tax is most appropriate in Nepal. About 70% of the respondents were in favour of imposing fees, fines and penalties whereas remaining 30% were against it. The recommended measures of the respondents are effectives tax management; training and development programs to tax personnel, development of check and balance system can bring efficient and effective result in income tax system in Nepal.

Baidawal, K. B. (2009), has submitted a MBS thesis entitled *"Effectiveness of income Tax System in Nepal."* The study had described the conceptual framework, legal provision, composition of total revenue in Nepal, problem of resources gap in Nepal and public awareness toward income tax system in Nepal. He undertook the research work to find out the problem regarding to revenue & expenditure. The main objective of his study was to analyze the effectiveness of income tax system in Nepal, to evaluate the contribution of income in National revenue, to evaluate present income tax administration, etc. He found that income tax can be used as positive collection to develop the economic condition of Nepalese people.

Yadav, S.K. (2009), submitted a MBS thesis entitled *"A Study on Income Tax Contribution to Government Revenue in Nepal."* The thesis had described the structure of revenue collection of income tax in Nepal, evaluation of the ratio of income tax revenue to GDP, total revenue and direct tax revenue, and suggested about exemption limit of income tax in Nepal. In his study he had recommend on the following ways:

- Tax payers should be highly literate by conducting seminar, workshop and interaction.
- The income tax assessment procedure must be improved by reducing assessment delay.
- Reducing delay on the best judgment to taxpayers and
- Creating the confidence between taxpayers and tax officers.

2.3.4 Research Gaps

All the research studies mentioned above are concerned with the study of the taxation system, income tax contribution to revenue collection, taxation knowledge by the taxpayers etc. During the research study, the researcher viewed various books, reports articles, dissertations and theses. Most of the researchers are concerned on legal and assessment procedure of income tax, administrative and historical aspect of income tax. The theses and dissertations presented by the researchers have focused about the trend of income tax collection and buoyancy of income tax with GDP, inefficiency of income tax administration, widespread of tax evasion, value added tax, role of income tax system in Nepal, problems and prospects of income tax in Nepal, corporate tax planning in Nepal, income tax collection from commercial banks etc. There were no detail studies made on the topic of Exemptions, Deductions and Self Assessment of Income Tax System in Nepal. There is a limited number of research studies carried out specifying tax payer groups and concentrated on exemptions, deductions and self-assessment of income tax system in Nepal. No attention has been paid on particular problem like exemption of incomes, deduction of expenses and self-assessment of tax liability to file a return by the due date of income tax system. Most of the studies have been taken for various problems on the research objectives and no thoroughly study on the particular subject problem. The researcher has found that no more studies have been done in exemptions, deductions and self-assessment of income tax system in

Nepal. This study will help to know the provisions of exemptions, deductions and self-assessment system provided by ITA, 2058 and will help to get optimum benefits within the frame of ITA by exempting of incomes, deducting of expenses and self-assessment of tax liability to file a return by the due date of income tax system to taxpayers. The solution of the necessary problems in this study has been taken analytically and intensively from the IRD and other sources in Nepal. This study will be fulfilling to those interested persons, students, teachers, scholars, taxpayers etc. for academically as well as policy perspectives.

CHAPTER–III

RESEARCH METHODOLOGY

This chapter is concerned with detail discussion of the methodology used in this study by covering the procedure of getting research problems answers as per the objectives. In other words, research methodology describes the methods and processes applied in the entire aspects of the study. Opinion survey techniques were used to gather the primary data about different aspects of income tax. While conducting opinion survey, questionnaires were distributed to different groups who were belonged to income tax. They were taxpayers, income tax experts, income tax administrators etc. The secondary data were collected from the published and unpublished data of different organizations and agencies. The chapter is divided into six parts as Research Design, Population and Sample, Nature and Sources of Data, Data and Information Gathering Procedure, Data Processing Analysis Procedures, and Weight of Choice.

3.1 Research Design.

Research design is a plan, structure and strategy of investigation so as to answer to research study questions. The research study attempts to analyze the present condition of **"Exemptions, Deductions and Self Assessment of Income Tax System in Nepal."** This study includes three types of research as descriptive, analytical and empirical research. The study of Income Tax Act, the role of income tax, indirect tax and direct tax in total revenue etc., are studied as a part of descriptive research. Analytical research is conducted to analyze the trend and contribution of income tax to government revenue in Nepal, the effectiveness of income tax administration in Nepal, and the system of exemptions, deductions and effectiveness of self assessment of income tax in Nepal. It is mainly done through the secondary sources of data for empirical research. The primary information i.e. opinion of respondents as well as secondary information were used to analyze the study. The opinions of 60 respondents associated with the income tax viz. income tax policy makers or experts, administrators and taxpayers were collected through structured questionnaires. The questionnaire included the public awareness of income tax, problems faced by the taxpayers, soundness of income tax administration, exempted incomes, exemption limit, deduction of expenses, methods of effective implementation of self assessment of income tax, weaknesses associated with the current Income Tax Act, 2058, structure of present income tax administration in Nepal, self assessment is the best assessment and suggestion for the achieving the effectiveness of self assessment of income tax in Nepal, sufficiency of provisions etc. In this way research methodology applied in this study can be taken as descriptive, analytical and empirical research design.

3.2 Population and Sample

Population refers to the entire groups of people, organizations, and events of interests that the researcher wishes to investigate. Similarly, sample is a collection of items or elements from a population which represents as a whole. Hence, a sample is only a portion or subset of the population. It comprises some observations selected from the population. In this study, population comprises all persons belonging to income tax of Nepal. Only the targeted area relating to government revenue or national revenue is set for the research population. In order to fulfill the objectives, 60 samples size from Kathmandu valley have been taken into the consideration. The total number of questionnaire distributed were 65 among which only 60 were properly filled up and used. The sample size was selected from three different groups of respondents with the consultation of supervisor and best judgment of the researcher. The following table shows the group of respondents and sample size.

Table: 3.1

Group of Respondents and Size of Sample from Each Group

S.N.	Group of Respondents	Sample Size
1	Income Tax Experts	10
2	Income Tax Administrators	25
3	Income Taxpayers	25
	Total Respondents	60

3.3 Nature and Sources of Data

Necessary data and information to describe this study have been collected from primary as well as secondary sources. They are as:

A. Primary Data: Primary data were collected through administrating structured questionnaire to sample population. The same questionnaires were distributed to all respondents. Tax administrators and experts were selected from Inland Revenue Department related offices situated in Kathmandu and taxpayers were selected representing various sectors i.e. trading company, finance company, consultancy, firm, School, and individual citizen also.

B. Secondary Data: Secondary data and information were obtained from various secondary sources. The secondary sources of data are the information received from books, journals, newspapers, annual reports, economic surveys budget speech are specified bellow:

- Budget speech of various years, Ministry of Finance (MOF), Government of Nepal (GON).
- Economic survey of various years, Ministry of Finance, Government of Nepal.
- Books related to income tax.
- Dissertations related to income tax.
- National and international news paper, journals and news magazines.
- Official website of Inland Revenue Department: www.ird.gov.np
- Official website of Ministry of Finance: www.mof.gov.np
- Reports and records of Inland Revenue Department.
- Other relevant records and data.
- Statistical abstracts published by Department of Taxation, MOF of Nepal.
- Reports from Central Bureau of Statistics.

3.4 Data and Information Gathering Procedure

Data and information used in this study were collected from primary and secondary sources. To get accurate and actual information in time all questionnaires were distributed and collected personally through field visit. Some of the information was also collected from interview with the respondents to get actual and accurate information. The numerical data or secondary data were collected from the annual reports of IRD/N (Inland Revenue Department, Nepal), economic survey of Ministry of Finance, publication of CEDA / TU, budget speeches of various years, publication of different organizations, reports, news, bulletins, abstracts, journals etc.

3.5 Data Processing and Analysis Procedures

The data from primary and secondary sources are tabulated initially into distinct format. For the analysis, all collected data and information of various aspects of income tax were arranged in order and processed. Then, the descriptive tools and statistical tools such as simple percentage, rank, simple graphs, charts, bar diagrams, table and trend line, figures etc. according to the subject in order have been applied in the way of analysis so that the findings could be presented and interpreted precisely and properly in order.

3.6 Weight of Choice

The respondents are requested to give their opinion on the objective answer or to give yes / no responses. While ranking the answer, the rank may be varying from one question to another. The rank is given according to the numbers of probable answers. For example, if the probable answers are 9, the real or rank is given 1 to 9 where 1 stands as the most important and 9 is the least important. Then, the total point obtained by each choice is converted into percentage and the choice having the lowest percentage is ranked as the most important where the choice having the highest percentage is ranked as the least important.

CHAPTER–IV

PRESENTATION AND ANALYSIS OF DATA

Presentation is the act of introducing and appearing or giving a particular impression for any cause of a problem or problems. It means the researcher or researchers show or shows the found impression formally at related area or ceremony where as analysis is a method of studying specific content and analyzing communications materials in a systematic, objective and quantitative manner to measure variables. The communication materials may be newspaper articles, editorials, T.V. programmes, letters, diaries, ethnographic materials, minutes of meeting, etc.

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 like taxes, borrowings, fees, donations etc. are called public revenue. Those expenditures and revenues should be presented formally to perform the numbers of functions in a public arena so that the presentation and analysis of data can be done properly. The presentation and analysis of data can be described as in the following topics.

4.1 Tax Structure of Nepal

Modern economic development of Nepal was started with the initiation of first economic planning in 2013 B.S. (1956 A.D.) Since then taxes have been used for the achievement of national economic goals. So, taxes play vital role for the economic development of Nepal. Tax structure should be known to study about the taxes. Tax structure refers to the level as well as relative importance of various taxes in the composition of total tax revenue of the country. Tax structure of any country is composed of both direct and indirect taxes. Total tax structure of Nepal from the fiscal 1995/96 to 2008/09 A.D. is presented below in subsequent topics.

4.1.1 Composition of Total Revenue

Total revenue of Nepal is composed of tax revenue and non-tax revenue. When the Government of Nepal presented first national budget in the fiscal year 1951/52 A.D., the revenue structure was typically formed with traditional economic with 73% of government receipts coming from non-tax sources and land tax. Out of 73% of the share, the non-tax revenue was 43% (Budget Speech of 1951/52, MOF, GON). In 1960, the share of non-tax revenue was declined drastically because of increasing contribution of indirect tax on foreign trade. In 2008/09 the share of non-tax revenue was 22.71% of the total revenue as compared to 22.32% in 1995/96. In the other hand, the share percentage of tax revenue of the fiscal year 1995/96 was 77.68% of the total revenue and was decreased to 77.43% in the fiscal year 2008/09 which has been presented in the following table 4.1

Table: 4.1

Composition of Total Revenue

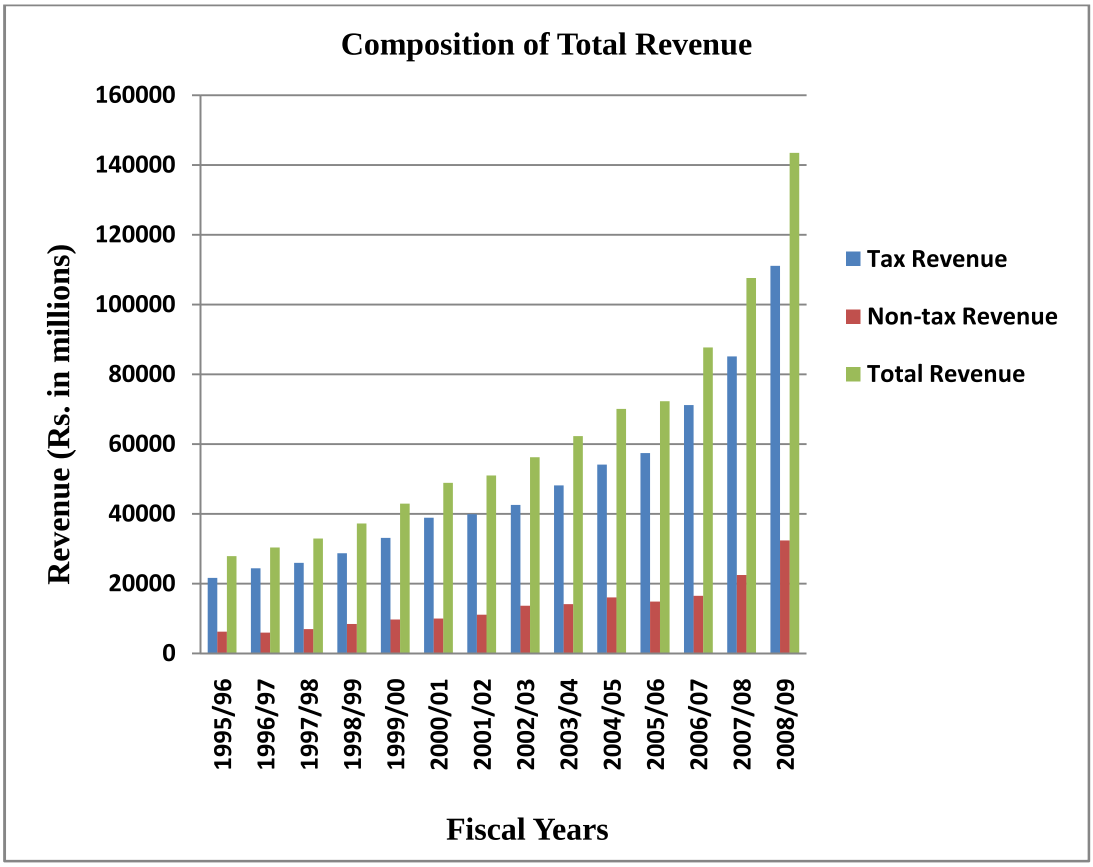
(Rs. in millions)

Fiscal Year	Total Revenue	Tax Revenue	Tax Revenue % of Total Revenue	Non-tax Revenue	Non-tax Revenue% of Total Revenue
1995/96	27893.0	21668.0	77.68	6225.0	22.32
9196/97	30374.9	24425.2	80.41	5949.7	19.59
1997/98	32938.2	25940.0	78.75	6998.2	21.25
1998/99	37247.1	28753.0	77.19	8494.1	22.81
1999/00	42903.6	33162.0	77.29	9741.6	22.71
2000/01	48889.6	38860.8	79.49	10028.8	20.51
2001/02	50990.6	39875.6	78.21	11115.0	21.80
2002/03	56229.7	42587.0	75.74	13642.7	24.26
2003/04	62331.0	48175.7	77.29	14155.3	22.71
2004/05	70123.1	54105.1	77.16	16018.0	22.93
2005/06	72282.1	57427.0	79.45	14855.1	20.55
2006/07	87712.1	71168.0	81.14	16544.1	18.86
2007/08	107622.4	85155.5	79.12	22466.9	20.88
2008/09	143474.48	111092.37	77.43	32382.11	22.57
Total	871011.88	682395.27	-	188616.61	-
Average	62215.1343	48742.5193	78.35	13472.615	21.65

Source: Annual Report 2065/66 B.S., Page No. 12 or Appendix – III

From the above table, it can be concluded that the source of tax revenue on total revenue is fluctuating from 75% to 81%. From the study, total tax revenue, total non-tax revenue and total revenue were Rs. 682395.27 million, Rs. 188816.61 million and Rs. 871011.88 million respectively whereas average percentage of collected tax revenue and non-tax revenue were 78.35% and 21.68% respectively during the fiscal year from 1995/96 to 2008/09 A.D. period. So the tax revenue contributes about three fourth of total revenue. This also indicates that the tax revenue plays the significance role in total revenue. The composition of total revenue is shown graphically (in bar diagram) as follows:

Figure: 4.1



4.1.2 Composition of Tax Revenue

The revenue is the sum of direct and indirect tax. There has been simultaneous increase in direct tax, indirect tax and total tax revenue in absolute term. In the fiscal year 1995/96, the total amount of direct, indirect and total tax revenue were Rs. 4585.0 million, Rs. 17083.0 million and Rs. 21668.0 million respectively. During the period of fourteen years, these amounts became Rs. 34320.73 million, Rs. 76771.64 and Rs. 111092.37 million in the fiscal year 2008/09 respectively. The basic reasons for the increment were; due to the expansion of the tax base and tax rates both wide and deep.

Despite the absolute increment of direct tax and indirect tax found during the study period, its total share in total revenue is shrinking continuously from 21.16% amounting Rs. 4585.0 million in the fiscal year 1995/96 to 30.89% amounting Rs. 34320.73 million in the fiscal year 2008/09. The contribution of indirect tax in the fiscal year 1995/96 was 78.84% amounting Rs 17083.0 million and decreased to 69.11% amounting Rs. 76771.64 million in the fiscal year 2008/09. The average collection of tax revenue, direct tax and indirect tax were Rs. 48742.5193 million, Rs. 12704.37 million and Rs. 36038.1464 million respectively. The average direct tax and indirect tax were 26.06% and 73.94% on the total revenue found during the study period. This implies the significant role in the tax revenue. As indirect tax is considered regressive in nature, the structure of tax in Nepal is not justifiable on equity ground and progressiveness.

From the following table it can be concluded that there is the greatest reliance on indirect tax making in our tax regressive system in nature and it needs to shift towards direct tax. The composition of total tax revenue has been shown in the table 4.2 below.

Table: 4.2

Contribution of Direct and Indirect Tax to Total Tax Revenue

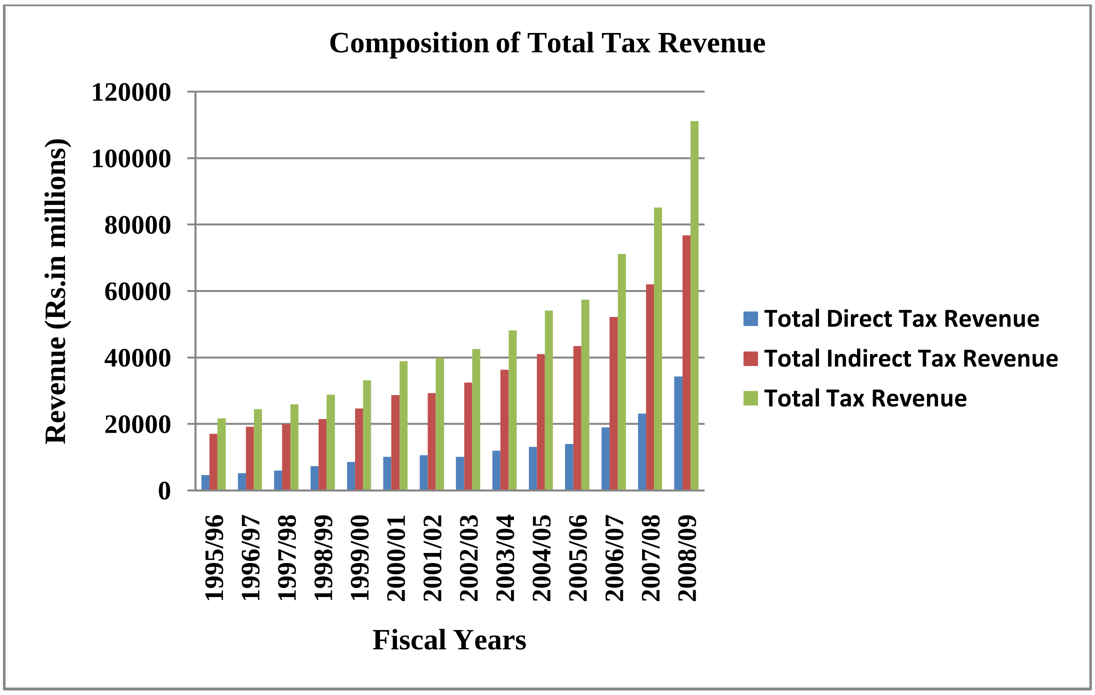
(Rs. in millions)

Fiscal Year	Total Tax Revenue	Total Direct Tax	% Share of Direct Tax to Total Revenue	Total Indirect Tax	% Share of Indirect Tax to Total Revenue
1995/96	21668.0	4585.0	21.16	17083.0	78.84
1996/97	24425.2	5234.0	21.43	19191.2	78.57
1997/98	25940.0	6013.0	23.18	19927.0	76.82
1998/99	28753.0	7297.0	25.38	21456.0	74.62
1999/00	33162.0	8555.0	25.80	24607.0	74.20
2000/01	38860.8	10159.4	26.14	28701.4	73.86
2001/02	39875.61	10599.0	26.58	29276.61	73.42
2002/03	42587.0	10105.8	23.73	32481.2	76.27
2003/04	48175.7	11901.9	24.71	36273.8	75.29
2004/05	54105.1	13061.3	24.14	41043.6	75.86
2005/06	57427.0	13961.5	24.31	43465.5	75.69
2006/07	71168.0	18979.7	26.67	52188.3	73.33
2007/08	85155.5	23087.80	27.11	62067.8	72.8876
2008/09	111092.37	34320.73	30.89	76771.64	69.11
Total	682395.27	177861.13	-	504534.05	-
Average	48742.519	12704.37	26.06	36038.146	73.94

Source: Appendix III

On the basis of above data, the composition of Total Tax Revenue in rupees in million from the fiscal year 1995/96 to the fiscal 2008/09 can be plotted in the following bar diagram. Please refer the figure no. 4.2 below.

Figure: 4.2



4.1.3 Contribution of Various Taxes as Percentage of GDP

The contribution of total revenue on GDP has increased from 11.65% to 14.95% as compared the fiscal year 1995/96 and the fiscal year 2008/09. The contribution of tax revenue on GDP is increasing satisfactorily. In the fiscal year 1995/96, the share of tax revenue was only 9.05% which has increased to 11.57% in the fiscal year 2008/09. Within the tax revenue, there is significant role of indirect tax, which contributes about three folds more than the direct tax. In the fiscal year 1995/96, the contribution of indirect tax and direct tax was 7.14% and 1.92% respectively and which was increased to 8.00% and 3.58% in the fiscal year 2008/09.

The contribution of income tax on GDP is increasing gradually. It contributed 1.43% in the fiscal year 1995/96, which has increased to 2.84% in the fiscal year 2008/09. Within in direct tax, income tax is in the leading role at present. The contribution of land tax and house & building registration tax was 0.0076% and 0.44% respectively in the fiscal year 1995/96 but in the fiscal year 2008/09, the contribution of land tax is at zero level and the contribution of house & building registration tax is 0.54%. In the other hand, the contribution of house & building registration tax is fluctuating year to year.

Within the indirect tax, the custom duty is composed of import and export duties which has contributed the share of 2.67% of total GDP in the fiscal year 1995/96 and in the fiscal year 2006/07 the contribution was 2.14% of total GDP but the data of the custom duty of the fiscal years 2007/08 and 2008/09 have not been included. From the study of the available data, it is cleared that the import duty is always higher than the export duty in the context of Nepal (Appendix- IV), and the custom duty could not be collected as per the increasing volume of import and export of goods and materials. The contribution of sales tax/VAT is in increasing trend. It contributed 2.69% in the fiscal year 1995/96, which has been increased to 4.14% in the fiscal year 2008/09. VAT is a substitute of sales tax, contract tax, entertainment tax, hotel tax etc. which is increasing in the recent years. The contribution of excise duty was 0.81% in the fiscal year 1995/96 but it is 1.69% in the fiscal year 2008/09. From the study it is cleared that the overall amount and percentage of various taxes on GDP has been increased in the fiscal year 2008/09 as compared to the fiscal year 1995/96. The contribution of various taxes as percentage to GDP has been in the following table no. 4.3 below.

Table: 4.3

Contribution of Various Taxes as Percentage of GDP

Fiscal Year	Total Revenue As % of GDP	Tax Revenue As % of GDP	Direct Tax As % Of GDP	Indirect Tax As % of GDP	Custom Duty As % of GDP	Excise Duty As % of GDP	Sales Tax or VAT As % of GDP	Contract Tax As % of GDP	Income Tax As % of GDP	Land Tax As % of GDP	House & Building Reg. Tax As % of GDP
1995/96	11.65	9.05	1.92	7.14	2.67	0.81	2.69	0.26	1.43	0.0076	0.44
1996/97	11.27	9.06	1.94	7.12	2.69	0.85	2.64	0.23	1.53	0.0022	0.37
1997/98	11.37	8.96	2.07	6.88	2.49	0.99	2.46	0.26	1.69	0.0012	0.35
1998/99	11.28	8.71	2.21	6.50	2.44	0.90	2.39	0.19	1.87	0.0004	0.30
1999/00	11.71	9.05	2.34	6.72	2.57	0.86	2.70	0.10	2.03	0.0013	0.28
2000/01	12.41	9.86	2.58	7.28	2.77	0.96	3.06	0.0771	2.31	0.0013	0.15
2001/02	12.55	9.81	2.61	7.20	3.11	0.94	2.94	0.07	2.19	-	0.28
2002/03	12.85	9.73	2.31	7.42	2.62	1.09	3.08	-	1.86	-	0.32
2003/04	13.13	10.15	2.51	7.64	2.52	1.31	3.05	-	2.00	-	0.36
2004/05	13.79	10.64	2.57	8.07	2.57	1.27	3.72	-	2.06	-	0.35
2005/06	12.96	10.30	2.50	7.79	2.22	1.17	3.88	-	1.96	-	0.39
2006/07	13.08	10.61	2.83	7.78	2.14	1.39	3.89	-	2.35	-	0.33
2007/08	13.11	10.374	2.81	7.56	-	1.36	3.63	-	2.32	-	0.36
2008/09	14.95	11.57	3.58	8.00	-	1.69	4.14	-	2.84	-	0.54

Source: Appendix – IV

4.1.4 Composition of Indirect Tax

Nepalese tax revenue is mainly dependent on taxes on international trade and sales/VAT on goods and services supplemented by taxes on income tax and property tax to some extent. Nepalese tax structure is heavily dependent on indirect taxes, which contributed 69.11% (Table no. 4.2) on total tax revenue in the fiscal year 2008/09.

The major components of indirect tax in Nepalese tax structure are custom duty, excise duty, VAT or sales tax etc. and the other components of indirect tax like entertainment tax, hotel tax, contract tax, sales tax, air tax etc. are included in VAT and have nominal contribution on tax revenue.

The share of custom duty to indirect tax was 34.1915% in average for the 12 years period i.e. from the fiscal year 1995/96 to the fiscal year 2006/07.The contribution of custom duty was 37.45% to indirect tax in the fiscal year 1995/96. We can see fluctuation on percentage of custom duty on indirect tax in different years. In 2006/07 fiscal year, the contribution of custom duty was 27.4631% to the indirect tax revenue. The VAT or sales tax has become an important source of overall tax revenue with relatively increasing trend which contributed 51.71% to indirect tax in the fiscal year 2008/09 in comparison with 37.65% in 1995/96 fiscal year. During the period of 14 years, the contribution of excise duty was fluctuating and little bit in increasing trend.
Thus, it can be concluded that the total collection of indirect tax during the 14 years period which have been kept in the research study was Rs. 504534.05 million and average collection of indirect tax during the period was Rs. 36038.1464 million. The entertainment tax, hotel tax, contract tax, and air flight tax have been included into the VAT, so, they have their zero contribution to indirect tax from the fiscal year 2001/02 for air flight tax and from the fiscal year 2002/03 for entertainment, hotel and contract tax respectively. The composition of Indirect Tax has been shown in the following table no. 4.4 below for further clearance.

Table: 4.4

Major sources of Indirect Tax and the Relative Percentage of Indirect Tax

(Rs. in millions)

Fiscal Year	Total Indirect Tax	Custom Duty		Excise Duty		Sales Tax/VAT		Entertainment Tax		Hotel Tax		Contract Tax		Air Flight Tax		Others Tax	
		Contri-bution	%	Contri-bution	%	Contri-bution	%	Contr-bution	%	Contri-bution	%	Contri-bution	%	Contri-bution	%	Contri-bution	%
1995/96	17083.0	6396.9	37.446	1944.3	11.38	6431.0	37.65	100.4	0.59	284.2	1.66	613.1	3.59	311.1	1.82	1002.0	5.87
1996/97	19191.2	7260.8	37.834	2298.1	11.97	7127.0	37.14	114.0	0.59	301.1	1.57	621.3	3.24	314.4	1.64	1154.5	6.02
1997/98	19927.0	7236.1	36.313	2885.8	14.48	7123.0	35.75	90.6	0.45	45.8	0.23	761.6	3.82	343.4	1.72	1440.7	7.23
1998/99	21456.0	8076.0	37.6398	2953.2	13.76	7882.0	36.74	23.5	0.11	1.5	0.01	618.7	2.88	210.7	0.98	1690.4	7.88
1999/00	24607.0	1392.5	38.17	3137.6	12.75	9882.0	40.18	11.5	0.05	1.8	0.01	374.5	1.52	0.5	0.002	1806.6	7.34
2000/01	28701.4	10884.5	37.9232	3770.0	13.13	12042.8	41.96	30.4	0.11	0.1	.0003	304.0	1.6	0.8	.0028	1668.8	5.81
2001/02	29276.61	12658.9	43.239	3807.7	13.01	11947.9	40.81	2.0	0.01	0.005	0.00	300.5	1.03	-	-	559.6	1.91
2002/03	32481.2	11422.9	35.1677	4777.5	14.71	13467.3	41.46	-	-	-	-	-	-	-	-	2813.5	8.66
2003/04	36273.8	11966.5	32.9894	6221.4	17.15	14498.2	39.97	-	-	-	-	-	-	-	-	3587.7	9.89
2004/05	41043.6	13039.2	31.7691	6446.3	15.71	18896.0	46.04	-	-	-	-	-	-	-	-	2662.1	6.49
2005/06	43465.5	12369.8	28.4589	6506.4	14.97	21615.4	49.73	-	-	-	-	-	-	-	-	2973.9	6.84
2006/07	52188.3	14332.5	27.4631	9343.2	17.9	26095.6	50.00	-	-	-	-	-	-	-	-	2417.0	4.63
2007/08	62067.8	-	-	11198.58	18.03	29815.7	48.04	-	-	-	-	-	-	-	-	21062.52	33.9
2008/09	76771.64	-	-	16220.88	21.13	39700.92	51.71	-	-	-	-	-	-	-	-	20849.84	27.2
Total	504534.05	125036.6	34.1915	81501.96	16.15	226524.8	44.90	372.4	0.23	634.51	0.40	3593.7	2.24	1180.9	.9017	65689.16	13.02
Average	36038.1464	10419.7167	34.1915	5821.57	16.15	16180.34	44.90	53.2	0.23	90.64	0.40	513.39	2.24	196.82	.9017	4692.082	13.02

Source: Appendix- III

4.1.5 Composition of Direct Tax

In Nepal, the major components of direct taxes are income tax, land tax, and house and building registration tax. Until the fiscal year 1993/94 vehicle tax was considered as a direct tax and since the fiscal year 1994/95 budget speech, it has been classified under the indirect tax. On the other hand, interest tax and urban house &land rent tax were included under the income tax since the fiscal year 1994/95. Thus the contribution of income tax has become larger than other direct taxes.

From the study of direct tax of fourteen years, income tax has occupied the largest share in the direct tax and that the percentage share of this component in the fiscal year 1995/96 was 74.84% with the amounting Rs. 3431.4 million. Land tax which comprised 0.40% of direct tax in 1995/96 fiscal year has contributed only 0.05% in the fiscal year 2000/01 and zero in the fiscal year 2008/09. The share of land tax was decreased sharply in the mid 1970s during the rise in the relative importance of indirect taxes and income tax with large exemptions granted under land revenue system. Since the fiscal year 1996/97, land revenue collection authority has been transferred to total government revenue and has led to become revenue source of control government. Thus land tax has been a negligible contribution to the revenue structure in Nepal. During the research period, it has been found that the total collection of 14 years of income tax, land tax and house & building registration tax were Rs.145137.97 million, Rs. 38.8 million, and Rs. 24294.73 million respectively in which average collection of those taxes were 81.6%, 0.0927% and 13.66% respectively. The share of the major components of the direct tax can be more clarified from the table no. 4.5 below.

Table: 4.5

Composition of Direct Tax

(Rs. in millions)

Fiscal Year	Direct Tax (DT)	Income Tax (IT)	% Share of IT on DT	Land Tax (LT)	% Share of LT on DT	House and Building Reg. Tax (HBRT)	% Share of (HBRT) on DT	Others Tax (OT)	% Share of OT on DT
1995/96	4585.0	3431.4	74.84	18.2	0.40	1048.4	22.87	87.0	1.89
1996/97	5234.0	4123.3	78.78	5.9	0.11	1009.5	19.29	95.3	1.82
1997/98	6013.0	4898.1	81.46	3.6	0.06	1000.6	16.64	110.7	1.84
1998/99	7279.0	6170.0	84.56	1.4	0.02	1001.8	13.73	123.8	1.6966
1999/00	8555.0	7420.6	86.74	4.6	0.05	1011.3	11.82	118.5	1.39
2000/01	10159.4	9110.0	89.67	5.1	0.05	607.8	5.98	436.5	4.30
2001/02	10599.0	8903.6	84.00	-	-	1121.3	10.58	574.1	5.42
2001/03	10105.8	8132.2	80.47	-	-	1414.2	13.99	559.4	5.54
2003/04	11901.9	9504.0	79.85	-	-	1697.5	14.26	700.4	5.88
2004/05	13061.3	10456.0	80.05	-	-	1799.2	13.78	806.1	6.17
2005/06	13961.5	10933.6	78.31	-	-	2180.3	15.62	847.6	6.07
2006/07	18979.7	15730.0	82.88	-	-	2238.7	11.80	1011.0	5.33
2007/08	23087.8	19077.8	82.63	-	-	2940.74	12.74	1069.26	4.63
2008/99	34320.73	27247.37	79.39	-	-	5223.39	15.22	1849.97	5.39
Total	177861.13	145137.97	81.60	38.8	0.0927	24294.73	13.66	8389.63	4.72
Average	12704.37	10366.99	81.60	6.47	0.0927	1735.34	13.66	599.26	4.72

Source: Appendix- III

4.1.6 Contribution of Direct Tax as percentage of GDP, TR and TTR

The contribution of direct tax in the tax revenue and total revenue was 30.89% and 23.92% respectively in the fiscal year 2008/09. From the table no. 4.6, the contribution of direct tax on total tax revenue was increased until to the fiscal year 2000/01 and was started to fluctuate 1 to 2 percent. The share of direct tax on total tax revenue was 21.16% in the fiscal year 1995/96. After then it was being increased slowly up to 30.89% in the fiscal year 2008/09. The main reason of this low contribution of direct tax in Nepal is the exemption of income from agricultural sectors.

The share of direct tax on GDP is very low. Its share in the fiscal year 1995/96 was only 1.92% and it remained about 1 to 2 percent up to the fiscal year 1996/97. After the fiscal year 1997/98, its share started to increase 2.83% in the fiscal year 2006/07 and 3.58% in the fiscal year 2008/09. In the other hand, share of direct tax on total revenue remained from 16.44% in the fiscal year 1995/96 to 23.92% in the fiscal year 2008/09. The average percentage of direct tax on tax revenue, GDP and total revenue were 26.06%, 2.6445% and 20.42% respectively found during the study period. It can be more cleared from the table no. 4.6 below.

Table: 4.6

Contribution of Direct Tax on Tax Revenue, GDP and Total Revenue

Fiscal Years	Direct Tax (DT)	DT as % of Tax Revenue	DT as % of GDP	DT as % of Total Revenue
1995/96	4585.00	21.16	1.92	16.44
1996/97	5234.00	21.43	1.94	17.23
1997/98	6013.00	23.18	2.07	18.26
1998/99	7297.00	25.38	2.21	19.59
1999/00	8555.00	25.80	2.34	19.94
2000/01	10159.40	26.14	2.58	20.78
2001/02	10599.00	26.58	2.61	20.79
2002/03	10105.80	23.73	2.31	17.79
2003/04	11901.90	24.71	2.51	19.0947
2004/05	13061.30	24.14	2.57	18.63
2005/06	13961.50	24.31	2.50	19.32
2006/07	18979.70	26.67	2.83	21.64
2007/08	23087.80	27.11	2.813	21.45
2008/09	34320.73	30.89	3.58	23.92
Total	177861.13	26.06	2.6445	20.42
Average	12704.37	26.06	2.6445	20.42

Source: Appendix- III

4.1.7 Contribution of Income Tax in Nepal

Nepal started delay in practicing of income tax. First of all income tax was imposed by pleading to the people in Nepal in the fiscal year 1959/60 as business profit and remuneration tax. Since then it has been contributing revenue to the nation. In the beginning of this system of income tax, it contributed Rs. 203 thousand as revenue in the fiscal year 1959/60. Income tax was initially levied on business income and salary income. In 1962, the first income tax act was enacted which replaced the Business Profit and Remuneration Tax, 1959 into Income Tax Act, 1962. After the introduction of new act, the share if income tax was about 10 folds increased within four years. The contribution of salary tax and business tax to total income tax during the first four years after the introduction of income tax is given in the following table.

Table: 4.7

Income Tax Revenue Collection (Amount Rs. in thousands)

Pleading	**1959/60**	**1960/61**	**1961/62**	**1962/63**
Business	162	339	1031	1767
Salary Tax	41	67	135	169
Total	203	406	1166	1936
Foreign Investment Tax	-	-	1	140
Grand total	203	460	1167	2076

Source: Budget speeches and economic survey of various fiscal years, MOF

While studying about the contribution of income tax on different revenue heads in Nepal, it is clear that income tax was increased about eight folds in the fiscal year 2008/09 against in the fiscal year 1995/96. Total income tax in the fiscal year 1995/96 was Rs. 3431.4 million and it has been increased to Rs. 27247.37 million in the fiscal year 2008/09. The share of income tax to total direct tax was only 74.84% in the fiscal year 1995/96 and it had increased to 79.39% in the fiscal year 2008/09. Similarly, the share of income tax to total tax revenue was increased to 24.53% from 15.84%. The share of income tax to total revenue and GDP was 18.99% and 2.84% respectively in the fiscal year 1995/96 and 2008/09 which are also in increasing trend. The average percentage of collection of income tax on direct tax, tax revenue, total revenue and

GDP were 81.60%, 21.27%, 16.66 % and 2.16% respectively during the fourteen years period which were taken as the base for research study. More information can be grabbed about the contribution of income tax on different revenue heads in Nepal from the following data (Table no. 4.8).

Table: 4.8

Contribution of Income Tax on Different Revenue Heads (Rs. in millions)

Fiscal Year (FY)	Total GDP (TGDP)	Total Revenue (TR)	Total Tax Revenue (TTR)	Total Direct Tax (TDT)	Total Income Tax (TIT)	TIT As % Of TGDP	TIT As % Of TR	TIT As % Of TTR	TIT As % Of TDT
1995/96	239388.0	27893.0	21668.0	4585.0	3431.4	1.43	12.30	15.84	74.84
1996/97	269570.0	30374.9	24425.2	5234.0	4123.3	1.53	13.57	16.88	78.78
1997/98	289798.0	32938.2	25940.0	6013.0	4898.1	1.69	14.87	18.88	81.46
1998/99	330018.0	37247.1	28753.0	7297.0	6170.0	1.87	16.57	21.46	84.56
1999/00	366251.0	42903.6	33162.0	8555.0	7420.6	2.03	17.30	22.38	86.74
2000/01	394052.0	48889.6	38860.8	10159.4	9110.0	2.31	18.63	23.44	89.67
2001/02	406138.4	50990.6	39875.6	10599.0	8903.6	2.19	17.46	22.33	84.00
2002/03	437545.8	56229.7	42587.0	10105.8	8132.2	1.86	14.46	19.10	80.47
2003/04	474918.5	62331.0	48175.7	11901.9	9504.0	2.00	15.25	19.73	79.85
2004/05	508651.0	70123.1	54105.1	13061.3	10456.0	2.06	14.91	19.33	80.05
2005/06	557869.6	72282.1	57427.0	13961.5	10933.6	1.96	15.13	19.04	78.31
2006/07	670588.7	87712.1	71168.0	18979.7	15730.0	2.35	17.93	22.10	82.88
2007/08	820814.0	107622.4	85155.5	23087.80	19077.8	2.32	17.73	22.40	82.63
2008/09	960012.0	143474.48	111092.37	34320.73	27247.37	2.84	18.99	24.53	79.39
Total	6725615.0	871011.88	682395.27	177861.13	145137.97	2.16	16.66	21.27	81.60
Average	480401.07	62215.1343	48742.5193	12704.37	10366.9979	2.16	16.66	21.27	81.60

Source: Appendix- III

From the above table it can be said that the income tax is one of the prime source of direct tax in Nepal. But the contribution of income tax to the total tax revenue is still lower than the developed countries. Nevertheless, income tax is most likely to surpass the custom duties in future and will be the second largest source of revenue and the first largest source will be VAT.

4.1.8 Composition and Trend of Income Tax

Till the fiscal year 1993/94 income tax revenue was divided into corporate income tax, individual income tax and remuneration. From the fiscal year 1993/94, the income tax revenue was divided into four groups. They were; corporate income tax, individual income tax, house and land rent tax and interest tax. Corporate tax is collected from Government Corporation, public & private limited companies and partnership firms. Individual income tax is collected from remuneration, industry, business, profession and others. Interest tax is collected from banks and financial companies which are paid by those companies/banks on all the type of deposits. House and land rent tax is levied on income obtained from renting houses and land in urban areas. The composition and trend of income tax revenue is given in the following tables 4.9 and 4.10.

Table: 4.9

Components of Income Tax (Rs. in millions)

Fiscal Years / Source Of IT	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
A. Corporate IT	**4355.1**	**3728.2**	**4827.9**	**5330.7**	**5432.8**	**11624.4**	**10531.41**	**14860.742**
i. Govt. Corporation	1770.7	1251.6	2056.6	1331.6	185.9	1018.3	204.585	321.030
ii. Public Ltd. Co.	1429.9	1236.3	1531.3	2467.6	3522.8	5711.3	7186.458	9919.687
iii. Private Ltd. Co.	1154.5	1240.3	1240.0	1531.5	1724.1	4894.8	3140.371	4620.025
B. Individual IT	**3731.7**	**3177.1**	**3539.4**	**3871.7**	**4234.7**	**2510.0**	**6737.36**	**9606.57**
i. Remuneration IT	834.9	1240.3	1391.5	1677.0	1751.5	2028.8	4199.1	5520.77
ii. Industry, Business Profession & Others	2896.8	1936.8	2147.9	2194.7	2483.2	481.2	2538.26	4085.80
C. House & Land Rent Tax	**348.5**	**381.7**	**403.3**	**496.3**	**509.1**	**599.4**	**721.102**	**993.67**
D. Interest Tax	**468.3**	**845.2**	**733.4**	**757.3**	**757.0**	**996.2**	**1087.92**	**1786.38**
Total	**8903.6**	**8132.2**	**95040.0**	**10456.0**	**10933.6**	**15730.0**	**19077.8**	**27247.374**
% Increase of Inc. Tax Collection	(2.27)	(8.66)	16.87	10.02	4.57	43.87	21.28	42.82

Source: Annual Report of Inland Revenue Department, 2008/09

From the above table, the income tax was more decreased in the fiscal year 2002/03 in comparison with the fiscal year 2001/02. Income tax increased by 16.87% in the fiscal year 2003/04 and started to increase in decreasing rate till the fiscal year 2005/06. The highest increase rate 43.87% in the fiscal year 2006/07, 21.28%increment in 2007/08 and 42.82% in the fiscal year 2008/09 is seen from the table analysis. Here, we can see the fluctuating increasing rate in the above studies. Corporate income tax plays the vital role in total income tax.

The contribution of individual income tax was in increasing trend up to the fiscal year 2005/06 from the fiscal year 2002/03 and it decreased in the fiscal year 2006/07 and again increased in the fiscal years 2007/08 & 2008/09. Industry, business, profession and others contribution in income tax is relatively lower than remuneration tax in the recent three years of the study periods.

The contribution of house and land rent and interest taxes were also in increasing trend. The contributions were Rs. 348.5 and Rs. 468.3 million respectively in the fiscal year 2001/02. In the fiscal year 2008/09, it was Rs. 993.67 and Rs. 1786.38 million respectively.

The percentage decreased in income tax collection was by 8.66% in the fiscal year 2002/03 than in 2001/02. Income tax collection increased in the fiscal year 2005/06 was only 4.57% than in 2004/05. The income tax was highly increased in the fiscal year 2006/07 by 43.87% and increased by 42.82% in the fiscal year 2008/09.

Table: 4.10

Composition of Income Tax (Rs. in millions)

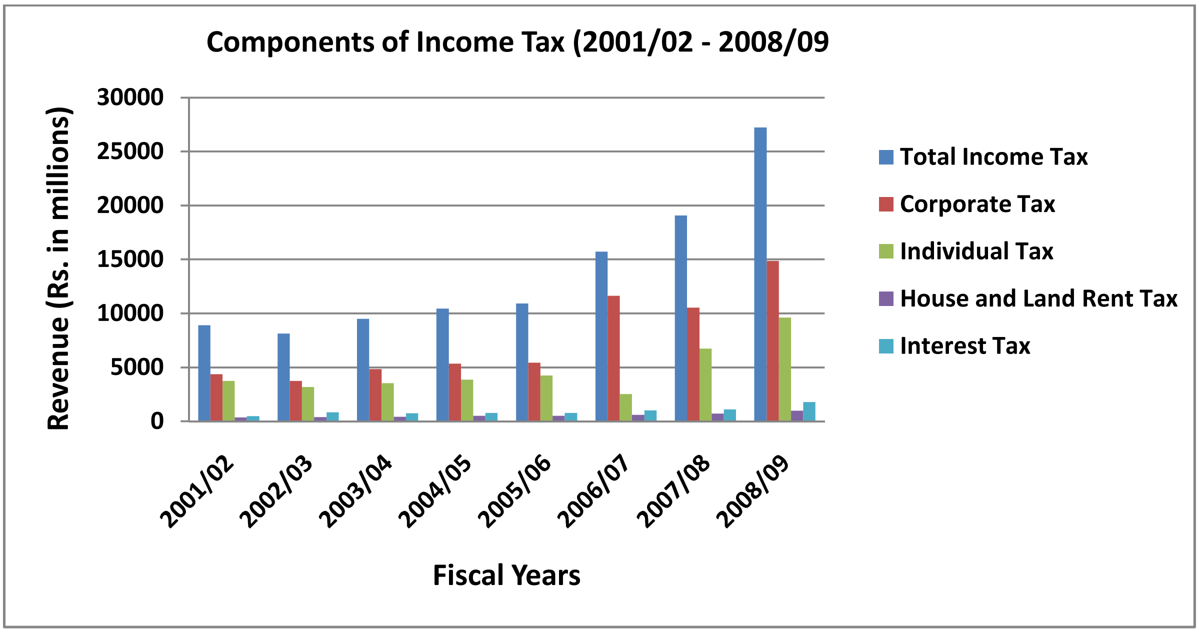
Fiscal Years	Total Income Tax (TIT)	Corporate Tax	% of TIT	Individual Tax	% of TIT	House & Land Rent Tax	% of TIT	Interest Tax	% of TIT
2001/02	8903.6	4355.1	48.91	3731.7	41.91	348.5	3.91	468.3	5.259
2002/03	8132.2	3728.2	45.84	3177.1	39.07	381.7	4.69	845.2	10.39
2003/04	9504.0	4827.9	50.80	3539.4	37.24	403.3	4.24	733.4	7.717
2004/05	10456.0	5330.7	50.98	3871.7	37.03	496.3	4.75	757.3	7.242
2005/06	10933.6	5432.8	49.69	4234.7	38.73	509.1	4.66	757.0	6.924
2006/07	15730.0	11624.4	73.90	2510.0	15.96	599.4	3.81	996.2	6.333
2007/08	19077.8	10531.414	55.20	6737.36	35.32	721.102	3.78	1087.93	5.703
2008/09	27247.374	14860.742	54.54	9606.575	35.26	993.67	3.65	1786.39	6.556
Total	109948.574	60691.256	55.18	37408.535	34.01	4453.07	4.05	7431.72	6.757
Average	13748.0718	7586.4	55.18	4676.0669	34.01	556.634	4.05	928.964	6.757

Source: Annual Report of IRD or Table no. 4.9

From the above table, it is clear that the share of corporate income tax on total income tax was 48.9139% in the fiscal year 2001/02; it decreased to 45.8449% in the fiscal year 2002/03 and started to increase till the fiscal year 2004/05 and again decreased to 49.689% in the fiscal year 2005/06. In the fiscal year 2006/07, the contribution of corporate tax was 73.8996%. Then, it had started to decrease. In the fiscal year 2008/09, it had decreased to 54.5401%.

Individual income tax contributed 41.9123% in the fiscal year 2001/02 which had decreased up to 37.0285% in the fiscal year 2004/05. It contributed 38.7311% and 15.9568% in the fiscal years 2005/06 and 2006/07. The contribution of house and land rent tax was in between 3% to 5%. From the above table, we can see the lowest contribution of house and land rent tax to income tax in the fiscal year 2008/09 (i.e. 3.6468%). Interest tax contributed 5.2597% in the fiscal year 2001/02 which had increased to 10.3933% in the fiscal year 2002/03 and it had started to decrease till the fiscal year 2007/08. But, in the fiscal year 2008/09 it increased to 6.5562%. It can be more clear from the following bar diagram, figure no. 4.3.

Figure: 4.3



4.1.9 Income Tax Rates

Tax rate and its structure have been changing frequently since its introduction in the fiscal year 1959/60 A.D. Since the fiscal year 1959/60 to this date, there are various records of highest and lowest income tax rate. In the fiscal year 1963/64, the lowest income tax rate was 4% and in the fiscal year 1975/76, the highest income tax rate was 60%. After the introduction of income tax, tax rate is charged on different slabs. In the fiscal year 1975/76, the income tax rate for personal income was 10% to 60% for 7 different slabs. From the fiscal year 1998/99 to till date, the income tax rate for personal income is 15% and 25% for two different slabs.

ITA, 1974 A.D. and earlier income tax laws had not specified the tax rates and Finance Act used to specify the tax rates for each year. Unlike earlier income tax laws, ITA, 2001 has specified the tax rates applicable to different tax payers in schedule 1. Tax rates differ in stricture and in terms of percentage depending on whether the taxpayer is an individual or entity.

- <u>For Individual or Couple</u>

- A resident individual or a resident couple having **taxable income from employment** is taxed as under:

For Individual	For Couple	Tax Rate
Up to Rs. 1,60,000	Up to Rs. 2,00,000	1%
Next Rs. 1,00,000	Next Rs. 1,00,000	15%
Next Rs. 22,40,000	Next Rs. 22,00,000	25%
Balance	Balance	35%

- A resident individual or a resident couple having **taxable income from business and / or investment only** is taxed as under:

For Individual	For Couple	Tax Rate
Up to Rs. 1,60,000	Up to Rs. 2,00,000	Nil
Next Rs. 1,00,000	Next Rs. 1,00,000	15%
Next Rs. 22,40,000	Next Rs. 22,00,000	25%
Balance	Balance	35%

- A resident individual or a couple having taxable income exceeding Rs. 25 lakh is imposed an additional tax of 40% of tax liability of taxable exceeding Rs. 25 lakh.
- A resident individual or a resident couple having taxable **income from employment and business and / or investment** is taxed as under:

For Individual	For Couple	Tax Rate
Up to Rs. 1,60,000*	Up to Rs. 2,00,000*	1%
Next Rs. 1,00,000	Next Rs. 1,00,000	15%
Next Rs. 22,40,000	Next Rs. 22,00,000	25%
Balance	Balance	35%

Even if the assessable income from employment is less than exemption limit, 1% social security tax is imposed on whole exemption amount enjoyed by taxpayer.

- Tax is imposed only at 20% instead of 25% as a highest rate to the individual engaged in a special industry.
- Taxable income of an individual earned from export is taxed at 15% on the slab where 25% tax rate applicable normally.
- The resident couples are normally taxed as two single individuals. A resident individual and the resident spouse of the individual may elect to be treated as couple under section 50 of the Act, 2001.
- An individual working in a remote area is entitled to a hardship allowance call a remote area allowance up to a maximum of Rs. 50,000 by way of additional basic exemption. The exemption limit specified in Rule 38 of ITR, 2059 is as under:

Area ‘A’	Rs. 50,000
Area ‘B’	Rs. 40,000
Area ‘C’	Rs. 30,000
Area ‘D’	Rs. 20,000
Area ‘E’	Rs. 10,000

- An individual having pension income is entitled to a 25% basic exemption as additional exemption.
- A disable resident individual is entitled to a 50% basic exemption as an additional exemption.
- Nepalese diplomats working abroad at Diplomatic Mission are taxed only after deducting 75% of foreign allowances from their taxable income.
- If a resident has invested (life) insurance, annual premium paid or Rs. 20,000 (whichever is lower) is subject to reduction from taxable income.
- If a resident individual is a woman having remuneration income only, she is entitled to a rebate of 10% on tax liability.
- A specific relief is provided for resident individual taxpayer running a small business. If such taxpayers have income exclusively from a business having a source in Nepal, income and annual turnover do not exceed Rs. 2,00,000 and Rs. 20,00,000 respectively and if they elect to

apply this provision for the year, they are imposed as a fixed amount that depends on the area where the business is conducted. The annual tax will be as follows:

- Metropolitan or sub-metropolitan cities Rs. 3,500
- Municipalities Rs. 2,000
- Anywhere else in Nepal Rs. 1,250

- The tax applicable to **public transport** is as follows.

Types of Vehicle	**Annual tax per vehicle (Rs.)**
a. Minibus, Mini Truck, Truck, Bus	1,500
b. Car, Jeep, Van, Micro Bus	1,200
c. Three wheeler, Auto Rickshaw, Tempo	850
d. Tractor and Power Tiller	750

**If the owner is a natural person, the vehicle tax will be final.*

- Gains from the disposal of non-business chargeable assets i.e., obtained in the course of private activity, are taxed at the rate of 10%. However, if the ownership of disposed-off non business chargeable assets (land and house) has been more than 5 years, only 5% tax is applicable on such gain. But, if the ownership of the disposed-off non-business chargeable assets (land and house and land) has been less thah 5 years, 10% tax is applicable on such gain.
- Non-resident individuals taxable with their income sourced in Nepal. The tax imposed on this income is 25%. But if the income is subject to withholding tax, the withholding rate is applied. (Bhattarai and Koirala, 2068; 32-33)

The income tax rate for partnership firms, corporations and on resident was 15% to 60% for different slabs in the fiscal year 1975/76 which decreased to 30% to 25% for total taxable income. Income tax Act, 2001 has provided rebates or facilities to the special industries. So, only 20% tax is levied on the income of a special industry. According to the Income Tax Act, 2001, entities are taxed on a flat basis. The percentage of the flat rate depends on the nature of the entity or the kind of the entity's business respectively. Such as:

- The taxable income of any entity is generally taxed at the rate of 25% unless prescribed otherwise.
- The income of an approved retirement fund is exempt from tax.
- Banks; financial institutions; general insurance companies; liquor and tobacco industries; or entity established under Nepal Petroleum Act, 2040 are taxed at the rate of 30%.
- Entity wholly operating as special industry and entity that has operated any road, bridge, tunnel, rope-way, flying bridge etc. after their construction or entity has operated trolley bus or tram are taxed at the of 20%.
- Entity wholly engaged in projects to build public infrastructure, own operate and transfer it to government, or entity engaged in power generation, transmission and distribution is taxed at the rate of 20%.
- Export income of an entity that has earned income from export is taxed at the rate of 20%.
- Income of an estate of a deceased resident individual or trust of an incapacitated resident individual is taxed as a resident individual.
- Repatriated income of a foreign permanent establishment of a non-resident person situated in Nepal is taxed at the rate of 5%.
- Taxable income of a non-resident person providing shipping, air-transport or telecommunication services (however 2% tax is applied in case these services are being provided within Nepal) is taxed at the rate of 5%. (Bhattarai and Koirala, 2068; 34-35)

For every year, Finance Act prescribes the exemption limit for individual, family and couple. Above the exemption limit, different income tax rate have been levied in the different fiscal years. The exemption limits in the different fiscal years are shown as in the following table.

Table: 4.11

Exemption Limit in Nepal (Amount in Rupees)

Fiscal Years	Individual	Couple	Family	All Taxpayers
1959/60 – 1962/63	-	-	-	7000
1963/64 – 1964/65	-	-	-	6000
1965/66 – 1966/67	-	-	-	5000
1967/68 – 1973/74	3000	4500	6000	-
1974/75	4500	6000	6000	-
1975/76	5500	6500	7500	-
1976/77 – 1978/79	6500	7500	8500	-
1979/80 – 1980/81	7500	10000	10000	-
1981/82 – 1982/83	10000	15000	15000	-
1983/84 – 1989/90	15000	20000	20000	-
1990/91 – 1991/92	20000	30000	30000	-
1992/93 – 1996/97	25000	35000	35000	-
1997/98	30000	40000	40000	-
1998/99	40000	50000	50000	-
1999/2000	50000	60000	60000	-
2000/01 – 2001/02	55000	75000	75000	-
2002/03	65000	85000	85000	-
2003/04	80000	100000	100000	-
2004/05	85000	115000	115000	-
2005/06	100000	125000	125000	-
2006/07	115000	140000	140000	-
2007/08	115000	140000	140000	-
2008/09	115000	140000	140000	-
2009/2010	160000	200000	200000	

Source: Finance Acts of Various Years, MOF, GON

The above table shows that there was only one exemption limit for all individual, taxpayers from the fiscal year 1959/60 to 1966/67. After the fiscal year 1966/67, individual taxpayers were categorized into three heads i.e. individual, couple and family. From the fiscal year 1967/68 to 1978/79, exemption limit was distinct for three categories. But from the fiscal year 1979/80 to till the date, the exemption limit for couple and family is treated equal. This indicates that the exemption limit is given only 2 categories i.e. individual, family or couple. Above the exemption limit of individual income, different sets of tax rates are levied for different slabs. The following table shows the rates for personal income tax in Nepal.

Table: 4.12

Rates for Personal Income Tax in Nepal (Slab Amounts in Rupees)

Fiscal Year	Slabs and Tax Rates on Slabs Over Exemption Limit							
	1st	2nd	3rd	4th	5th	6th	7th	8th
1975/76	5000 @7%	5000 @10%	10000 @20%	10000 @30%	10000 @45%	50000 @55%	Balance @60%	-
1980/81	5000 @5%	5000 @10%	10000 @15%	20000 @20%	20000 @30%	30000 @40%	Balance @50%	-
1985/86	5000 @10%	5000 @15%	10000 @20%	15000 @25%	15000 @40%	30000 @40%	30000 @50%	Balance @55%
1990/91	10000 @15%	15000 @20%	15000 @20%	25000 @40%	30000 @45%	Balance @50%	-	-
1995/96	40000 @10%	25000 @20%	Balance @35%	-	-	-	-	-
2000/01	75000 @15%	Balance @25%(g)	Balance @30%(a)	Balance @33%(b)	-	-	-	-
2001/02	75000 @15%	Balance @25%	Additional @1.5%	-	-	-	-	-
2002/03	75000 @15%	Balance @25%	Additional @1.5%	-	-	-	-	-
2003/04	75000 @15%	Balance @25%	Additional @1.5%	-	-	-	-	-
2004/05	75000 15%	Balance @25%	Additional @1.5%	-	-	-	-	-
2005/06	75000 @15%	Balance @25%	Additional @1.5%	-	-	-	-	-
2006/07	75000 @15%	Balance @25%	Additional @1.5%	-	-	-	-	-
2007/08	75000 @15%	Balance @25%	Additional @1.5%	-	-	-	-	-
2008/09	75000 @15%	Balance @25%	Additional @1.5%	-	-	-	-	-
2009/10	75000 @15%	Balance @25%	Additional @1.5%	-	-	-	-	-

Source: Finance Acts of Various Years, MOF, GON

Where, (a) = Remuneration, (b) = Others, (g) = General

From the above table, the rates for personal income tax in Nepal are different slabs. In the fiscal year 1975/76, the tax rate for personal income was 7% to 60% for 7 different slabs. After the fiscal year 1975/76, the slabs were increased to 8 in the fiscal year 1985/86. But after the fiscal year 1985/86 the number of slabs and rates of personal income tax are decreasing till date. From the fiscal year 2001/02 to the fiscal year 2009/2010 there was 15% rate for first Rs. 75000 and 25% rate for balance amount and additional 1.5% rate is levied on balance amount paying with 25% rate. Similarly, income tax is charged for partnership firms, corporation and non-residents. The exemption limit for them is not provided by the Income Tax Act. Tax is charged on the income after deducting all expenses. The rate and slabs for partnership firms, corporations and non-residents approved for different years are given below in the table no. 4.13.

Table: 4.13

Income Tax Rates for Partnership Firms, Corporations and Non-residents

(Figures in Rupees)

Fiscal Years	Slab Amount or Total Amount and Tax Rates Over Exemption Limit							
	1st	2nd	3rd	4th	5th	6th	7th	8th
1975/76	10000 @15%	10000 @25%	10000 @40%	50000 @50%	Balance @60%	-	-	-
1980/81	5000 @5%	5000 @10%	10000 @15%	20000 @20%	20000 @30%	30000 @40%	Balance @50%	-
1985/86	5000 @10%	5000 @15%	10000 @20%	15000 @25%	15000 @30%	30000 @40%	30000 @50%	Balance @55%
1990/91	10000 @15%	15000 @20%	20000 @35%	25000 @40%	30000 @45%	Balance @50%	-	-
1995/96	Total @33%	-	-	-	-	-	-	-
2000/01	Total @30%(a) @25%(b)	-	-	-	-	-	-	-
2001/02	Total @30%(a) @25%(b) @20%(c)	-	-	-	-	-	-	-
2002/03	Total @30%(a) @25%(b) @20%(c)	-	-	-	-	-	-	-
2003/04	Total @30%(a) @25%(b) @20%(c)	-	-	-	-	-	-	-
2004/05	Total @30%(a) @25%(b) @20%(c)	-	-	-	-	-	-	-
2005/06	Total @30%(a) @25%(b) @20%(c)	-	-	-	-	-	-	-
2006/07	Total @30%(a) @25%(b) @20%(c)	-	-	-	-	-	-	-
2007/08	Total @30%(a) @25%(b) @20%(c)	-	-	-	-	-	-	-
2008/09	Total @30%(a) @25%(b) @20%(c)	-	-	-	-	-	-	-
2009/10	Total @30%(a) @25%(b) @20%(c)	-	-	-	-	-	-	-

Source: Finance Acts of Various Years, MOF, GON

(a) = For banks & financial companies and alcohol & tobacco industries

(b) = For others including partnership firms *(c) = For special Industries*

The above table no. 4.13 shows that the income tax rate for partnership firms, corporation and non-residents were different for different slabs in the earlier years. But in the fiscal year 1995/96, the rate and slab was only one. From the table we can see the progressive tax rates and slabs in the earlier years and flat tax rates for total amount in the recent years. The income tax rates for the fiscal year 1975/76 were 15% to 60% for 5 different slabs. But in the fiscal year 1995/96, tax rate for the total amount was 33% and from the fiscal year 2001/02 to till date, the tax rates are 30% for banking & financial institutions and tobacco & alcohol industries, 25% for others including partnership firm and 20% for the special industries at a flat rate on taxable income. Please refer table no. 4.13 above for more clearance.

4.2 An Analysis of Exemptions and Deductions of Income Tax

Income Tax Act, 2031 B.S was replaced by new Income Tax Act, 2058 B.S. has classified the income heads into the following three heads. They are: (a) Income from Business (b) Income from Employment and (c) Income from Investment. The Act has defined the income heads as follows:

a) **Income from Business:** Business means any industry, a trade, a profession or the like isolated transaction with a business character and includes a past, present or prospective business. By contrast to employment, business is an earning activity typically consisting of not only the provision of labour but the combined provision of labour and capital including land with the help of organization. Thus, the earnings or incomes or gains obtained by doing any authorized business are called the income from business.

b) **Income from Employment:** Employment is a kind of profession, a job, or a work which is performed repeatedly in an organization, institution, office or in a corporation or in a company etc. for their livelihood by the people. The income earned with the help of labour is defined as an employment income. In other words, the payment of benefit received either in cash or any other legal kinds from the employment or people associate in exchange of labours are defined as income from employment.

c) **Income from Investment:** Investment is an act of using or utilizing money or any other legal property in any types of authorized activity for the purpose of earning profit. Thus, the income earned with the help of using capital as defined an investment income. Income Tax Act, 2058 B.S. has defined investment as an act of holding or investing one or more assets.

For the calculation of net income of these three heads of income, the Act has defined the incomes or amounts, which are taxable & non-taxable and expenses or expenditures, which are allowed for deduction & not allowed for deduction for consumptions of income. For that matter the Act has made following provisions.

4.2.1 Income from a Business

Income Tax Act, 2058, Section 7 has clearly mentioned the incomes or amounts, which are includable in computing the income from business. They are:

a. Service charge(Sec. 7.2)
b. Disposal of business or trading stock (Sec.7.2)
c. Net gain from disposal of business assets or liabilities (Sec. 7.2)
d. Gain from disposal of pool of depreciable assets (Sec. 7.2)
e. Prizes or gifts in connection with business (Sec. 7.2)
f. Amount received in lieu of accepting any restrictions regarding business (Sec. 7.2)
g. Amount received from any investment directly related to business (Sec. 7.2)
h. Income to be included due to change in accounting methods (Sec. 22.6)
i. Excess amounts received due to exchange rate variation (Sec.24.4)
j. Bad debts recovered (Sec. 25.1)
k. Proportionate amounts received under long-term contracts (Sec. 26.1)
l. Under payment of interest according to market rate (Sec. 27.1)
m. Receivable amounts paid to others (Sec. 29)
n. Amount received for compensation (Sec.31)
o. Other amount received under the head of business income

While computing income tax from business the following amounts are excluded on profit and income from business for tax purpose.

a. Exempt amounts under Section 10

b. Taxation of dividends under Section 54
c. Find withholding payments (Section 92) and
d. Dividends distributed by controlled foreign entity at the end of the fiscal year under Section 69.

4.2.2 Income from an Employment

Income Tax Act, 2058, Section 8 has clearly defined about the incomes which are includable in computing income from employment. An individuals' income from an employment for an income year is the individuals' remuneration from the employment of the individuals for the year. For the purpose of computing income from an employment, the following amounts or incomes received by individual in respect of any employment of services rendered by him/her in any of income shall be included.

a. Any wages, salary, leave pay, overtime pay, fees, commission, prizes, gift, bonuses and other facilities belong to an employment.
b. Any personal allowances, including any cost of living, dearness subsistence, rent entertainment and transportation allowances.
c. Any payment for reimbursement of costs incurred by the individual or an associate of the individual.
d. Any payments of individual's agreement to any conditions of the employment.
e. Any payments for redundancy or loss or termination of the employment.
f. Retirement contributions, including those paid by the employers to a retirement fund in respect of the employees and retirement payments.
g. Other payments made in respect of the employment.
h. Other amounts includable on tax accounting or qualification, allocation and characterization of accounts.

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

Non-Includable Amounts on Employment Income: The following amounts are not includable in computing the net income from employment.

a. Amount exempt under section 10 and final withholding payments.
b. Meals or refreshments provided in premises operation by or on behalf of an employer's employees is available to all the employees or similar terms.
c. Payments of prescribed small amounts, which are so small and thus unreasonable or administratively impractical to make accounting for them (only up to Rs. 500 at once expenses may be stationery, boxis, gift, tea/coffee expenses, emergency medical expenses and pointed by department).
d. Any discharges or reimbursement costs incurred by the individual:
    i. That serves the proper business purpose of employees.
    ii. That would otherwise be deductible in calculating the individual's income from any business or investment.

4.2.3 Income from an Investment

Section 9 of Income Tax Act, 2058 has defined the income received from an investment for income tax purpose. For the purpose of computing income of any person from an investment for an income year is the person's profits and gains from conducting the investment for the year and there shall be included following.

a. Any dividend, interest, natural resource payment, rent royalty, gain from investment insurance, gain from an unapproved retirement fund, interest or retirement payment made by an approved retirement fund, gain received from non-approved retirement payment from approved retirement fund.
b. Net gains from the disposal of the person's non-business chargeable assets of investment.
c. Excess amount of incoming over the depreciation basis including outgoing on the disposal of depreciation assets of the investment of the person.
d. Gifts received by person in respect of investment.
e. Bad debts recovered related to investment.
f. Underpayment of interest related to investment.
g. Compensation received.
h. Exchange gain.
i. Amount required being included due to change in accounting system.

j. Income from natural resources.
k. Royalty received.
l. Rent received except from and land.
m. Interest received by a natural person/bank.
n. Retirement contributions including those paid a retirement payments in respect of investments.
o. Amounts desired as considerations for accepting restriction on the capacity to conduct the investment.
p. Other amounts required to be included on tax accounting or qualification, allocation and characterization of amounts or transaction between any entity and beneficiary or general insurance business.

In the above provisions, the Act has included the amounts derived as consideration for accepting or restriction on the capacity to conduct the investment. It is fruitful to the investors who receive the compensations against the restriction. But it will not be possible to implement if the Act does not clarify the nature of restriction, cause of imposing restriction, process of computing compensation and entity which gives compensation of non-includable amount on investment income. The Act has defined the amounts, which are excluded in computing income from an investment under Section 93. They are:

a. Exempt amount under Section 10,
b. Taxation of dividend under Section 54,
c. Dividend distributed by a controlled foreign entity at the end of the year under Section 69 and final withholding payments, and
d. Amounts those are included in calculating the person’s income from any employment or business.

4.2.4 Exemption from Income Tax

Income Tax Act, 2058 has clearly defined amounts which are exempt and other concessions. They are described in the following Sections.

A. Exempt Amounts: The following amounts are exempted from tax under Section 10 of Income Tax Act, 2058:

- Amount derived by a person entitled to privilege under a bilateral or multinational treaty concluded by government of Nepal with any foreign country or international agencies.
- Amount derived by an individual from employment in the public service of the government of a foreign country provided that:
    a. The individual is a resident person solely by reason of performing the employment or is a non-resident person, and
    b. The amounts are payable from the public funds of the county.
- Amounts derived from foreign sources by an individual or member of his/her family who is not a citizen of Nepal.
- Amounts derived by an individual who is not a citizen of Nepal but employed by Nepal Government in terms of tax exemption.
- Allowances paid by Nepal Government to widows, elder citizens or disable individuals.
- Amounts derived by way of gift, bequest, inheritance or scholarship other than stated in Sections 7, 8, and 9.
- Amounts derived by an exempt organization as discussed earlier by way of gift or other contributions whether or not the contribution is made in return or considerations provided by the organization.
- Amount received by Nepal Rastra Bank as per objectives.
- Amount received as pension from foreign government treasury by a Nepalese citizen as a retirement army or policemen.
- The income of recognized retirement funds is also out of net tax.

B. Exempt Organization: Income Tax Act, 2058 has included following entities within tax exempt organizations.

a. A religious, educational, or charitable organization of a public character.
b. An amateur sporting association formed for the purpose of promoting social or sporting amenities not involving in the acquisition of gain by the association or by its individual members.
c. A political party registered with the Election Commission.

d. A Village Development Committee, District Development Committee, Metropolitan City, Sub-metropolitan City or Municipality.
e. Nepal Rastra Bank.
f. Government of Nepal.

However, the assets and amounts derived by the entity should not provide a benefit to any person except a payment for assets or services rendered by the entity in pursuit of the work related to tax exempt organizations discussed above. If it is not the case, it would not be tax exempt organization.

C. Business Exemptions and Concessions: The following business exemptions and concessions are mentioned in Section 11 of Income Tax Act, 2058.

- An agricultural income derived from sources in Nepal during an income year by a person other than the income from agricultural business derived by a registered firm or partnership or a corporate body or through the land about the holding ceiling as prescribed in the Land Act, 2021 is exempted from income tax.
- Income derived by a cooperative societies registered under Cooperative Act, 2048, from business mainly based on agriculture and forest products such as sericulture and silk production, horticulture and fruit processing, animal husbandry, dairy industries, poultry farming, fisheries, tea gardening & processing, coffee farming & other processing, herbs culture & herbs processing, vegetables seeds processing, bee-keeping & honey production, rubber farming, floriculture & production and forestry related to business such as lease-hold forestry, agro-forestry, cold-storage established for the store of vegetables and business agricultural tools other than machine operated and rural community based saving and credit cooperatives are exempt from tax. Dividends distributed by such societies are also exempted from tax.
- Income derived from sources in Nepal during an income year by a person from a special industry is tax as follows:
    i. To the industry which has provided direct employment to 600 or more Nepalese citizens throughout the year, 10% rebate or is provided or 90% of the total rate is applicable to the income for the period or forever.

ii. The special industry operated in a underdeveloped, undeveloped, highly undeveloped area and remote zone are imposed 80%, 75% 70% tax and total tax exempt (0% Tax) respectively of the total taxable income for the period of ten years from commencing or including the year in which the operation commences.

iii. The special industries based on information technology (IT) established in an information technology (IT) park like Banepa, by publishing notice in the Nepal Gazette is provided 25% rebate otherwise applicable on existing rate forever.

iv. The industry operating in Special Economic Zone (SEZ) is provided 20% rebate on taxable income for the period of 1^{st} 10 years from establishment.

For tax purpose, special industry means a manufacturing industry other than liquor or tobacco industry as categorized in Section 3 of the Industrial Enterprises Act, 2049.

- A person who is entitled to concession under Subsections a, b, or c shall calculate the income referred to in those Subsections though the income was only driven as separable.
- When a person qualifies for more than one concession under Subsection (b) I with respect to the some income shall only be entitled to one concession with respect to that income but shall be entitled to select which concession applies.
- If there is an agreement between a person and the Government of Nepal for building and operating infrastructure, the person is entitled to enjoy all tax related concessions prevalent at the time of agreement for a period covered by the agreement irrespective of the provision in the present Act.
- The incomes received business exemptions and concessions including the income of an entity conducting petroleum business under Nepal Petroleum Act, 2040 are required to calculate separately assuming that these incomes are received by the separate person. That is, incomes received under business exemptions and concessions should be separated from other general business and investment incomes.
- If more than one exemption is available to the same income, only one exemption is available as per the selection made by the taxpayer.

- If the assets used by the special industry were used previously by another person operating the similar type of special industry, the 10 years for the latter will be counted from the period of such use by the another person previously.

D. Donations, Gifts to Exempt Organization: Section 12 of the Income Tax Act, 2058 has mentioned the provisions of donations or gifts to exempt organization. The provisions are:

a. Donation made to an exempt organization, approved by Inland Revenue Department (IRD) is allowed for reduction from taxable income. Reductions allowed to an individual or an entity will not exceed to Rs. 100,000 or 5% of adjusted taxable income. However, the government of Nepal may prescribe by a notification in the Nepalese Gazette, as to allow full or partial deduction at the time of assessing income of the expense incurred for special purpose or donation given by the person.
b. Donation given to national political parties up to Rs. 5,000,000 before three months of election is deductible expenses from taxable income. Likewise donation given to Lumbini Development Fund and Pashupati Development Fund up to Rs. 5,000,000 is tax exempt amount.

From the above provision, it is clear that the donation given to political parties is allowed for deduction but it has not been able to solve the voice of the people for transparency of donation amount given by businessmen to political parties. To have the transparent transactions, the donated amount should be published in the national newspaper, magazine or broadcast through media like T.V, Radio etc.

4.2.5 Deduction Allowed

Chapter 5 of the Income Tax Act, 2058 has provided the provisions relating to expenses which are allowed for deduction and not allowed for deduction are discussed from Section 13 to Section 20 under the chapter. They are discussed or analyzed as in the following.

A. General Deductions (Sec. 13): For the purpose of calculating a person's income for an income year from any business or investment, there will be deduction of all actual costs to the extent incurred during the year by the person and in the production of income from business or investment.

B. Interest Expenses (Sec. 14): For the purpose of calculating the income of a person for an income year from a business or investment, there shall be deduction of all interest incurred during the year. Interest on loan used for the purpose of production of income or purchasing the fixed assets by the taxpayers is deductible. The limitations in this respect are that the borrowed capital should be used for the business during the year. If the loan taken for the purchase of an asset, the asset should be purchased and used during the year otherwise, it is not deductible for tax purpose.
However, there is another limitation as regards to interest expenses. The amount of such interest should not exceed 50% of the taxpayer's adjusted taxable income for the year calculated without including the interest received or without deducting any interest incurred by the taxpayer in case of the persons controlled by exempt entity. Any interest not deducted in current year can be forward to next year.

It is an unlawful step to businessmen not to get the deduction of full amount of interest. It does not fulfill the objectives of industrial or economic development. There is a controversial condition between the law of banking and law of income tax because according to the law of banking, interest must be paid to bank but according to the law of income tax there is a provision of not getting the deduction of full amount of interest for an income year.

C. Cost of Trading Stock (Sec. 15): While calculating the taxable income of business, the allowance for trading stock is deductible. The repair and improvement expenses and depreciation of plant and machinery should not be added while calculating factory overhead or variable factory overhead. To calculate the allowable cost of trading stock, the following formula can be used which is as follows:
Cost of Trading Stock = Opening Value of Trading Stock + Cost of Purchase + Cost of Acquisition + Cost of Production – Cost of Closing Stock

Opening stock is the closing stock of last years. The cost of purchase is the total of invoice value of purchase, transportation up to the business place, custom duties clearance expenses, loading and unloading expenses and other expenses incurred in this respect.

The cost of production is calculated either by prime cost basis or absorbed cost basis. The prime cost is the sum of the direct material, direct labour and variable factory overheads. Under absorption cost method, the prime cost is the sum of direct material, direct labour, variable factory overheads and fixed factory overheads. The valuation of closing stock is done at cost price or market price whichever is less. If the identifying of cost of each item is not possible, FIFO or weighted average can be used.

D. Repair and Improvement Costs (Sec. 16): The Income Tax Act specifies that the cost of repair and improvement of the depreciable assets used in business or investment are deductible from the income of concerned year. However, according to the Act, such costs should not exceed 7% of the depreciable basis of the pool at the end of the income year. If the repair and improvement cost is more than 7% of the block of the concerned asset, the balance amount is capitalized as added to the depreciation basis written-off in the next year.

According to the proving, the 7% limitation is not applicable on the expenses incurred on an overall checking of the aircraft in terms of the standards fixed by Civil Aviation Authorities of Nepal.

E. pollution Control Costs (Sec. 17): Income Tax Act, 2058 has allowed to deduct expenses on pollution control used in conducting the business in the same year. If the expenditure on pollution control device is more than 50% of the adjusted taxable income, it will be capitalized as depreciation at the beginning of the next income year or in the subsequent years under block – ‘D’. The adjusted taxable income means net profit before deducting interest paid to tax exempt controlling entity, pollution control expenses, Research Development (R & D) expenses and donations. Thus the allowable limit of deduction for Pollution Control Cost (P.C.C.) is actual P.C.C. or 50% adjusted taxable income from business whichever is less.

Government has a will of controlling pollution and then protection of environment but it has not spent a little bit money to control pollution. In the other hand all the expenses made by the businessmen to control pollution are not allowed for deduction and it has made a standard limit for spending amount. It can be said that it is not a good symptom of controlling pollution.

F. Research and Development Costs (Sec. 18): For the purpose of calculating a person's income for an income year from any business, there shall be deduction on Research and Development Costs. Income Tax Act, 2058 has allowed deducting expenses on Research and Development Expenses at actual R & D costs or 50% of adjusted taxable income from business whichever is less. Excess R & D costs can be capitalized and recovered in next year as depreciation.

G. Depreciation Expenses (Sec. 19): For the purpose of calculating a person's income for an income year from any business or investment, there shall be deduction in respect if depreciation of depreciable assets owned and used by the person during the year in the production of person's income from the business or investment. But the following provisions will be applied in respect of depreciation of machineries, equipments and other machines installed in electricity projects that are involving in building power station, generating and transmitting electricity and in the projects conducted by an entity so as to build public infrastructure, own operate and transfer to the Government of Nepal.

In case where the old machines, equipment and other machinery that are already installed require replacement in any income year as they are out of overdue of being too old, the balancing value of the old machines, equipments, and other machineries remained after cost shall be allowed as expenses for the year.

All the time of transfer of other assets to the Nepalese Government except of old assets replace in accordance with above paragraph, the balancing value of remained after subtracting the depreciation up to the year of transfer from their cost shall be allowed as expenses.

For the purpose of depreciation calculating, depreciable assets are categorized into five groups on their size, nature, cost, durability, similarity, utility and so on as A, B, C, D and E block pool or group. Depreciations are charged at the rate of 5%, 25%, 20%, and 15% for A, B, C, and D block respectively and for pool E depreciation is charged on the basis of cost divided by useful life.

Rates of depreciation are far from reality because there is no specific estimation of provision for real age of assets and depreciation rate in Nepal. In the other hand, there is no any specific provision of depreciation of assets, which are taken in case and installment payment basis. It shows a weak point of new Income Tax Act, 2058.

H. Loss Recovery: Income Tax Act, 2058 has made a provision for the deduction of the loss occurred in a business. As per the law, the loss can be set-off from the profit of any business or investment in subsequent 4 years while calculating the income. In case of long-term contract related to business or financial institutions, the loss can be carried back to the preceding years. However, in case of loss recovery from previous years' income in case of financial institutions (bank and insurance companies), the firm should at first adjust the loss amount from reserve fund related to risk bearing of previous years. Then, only the remaining amount of loss should be recovered from previous years' income. In different types of business and financial institutions, loss can be set-off or loss recovery can be done by following ways.

- Business loss can be carried forward up to 4 years.
- Loss of bank (only if loan loss provision is not maintained) and general insurance can be carried back to 5 preceding years.
- Loss of BOT/BOOT (build public infrastructure own, operate & transfer) can be carried forward up to 7 years.
- Loss of an entity conducting petroleum business can be carried forward up to next 12 years.
- Loss can be carried backward as per the notice of the department in case of long-term contract.
- Donation and retirement contribution cannot be reduced if there is loss in instead of assessable income.

- In case of more than one business or investment, taxpayer may prioritize in which the loss or part of loss is deducted.
- Loss from business or investment during the periods of full or partial tax exemption cannot be carried forward.
- Loss prior to the change in ownership cannot be deducted after the change.

Carry forward of the losses for 4 years is not sufficient as compared to other countries. It is not enough to encourage the business for taking risk. The provision of carry backward is also thoughtful because of the accounting system of Nepal is not so standard to apply this provision.

4.2.6 Expenses not allowed for Deduction

Section 21 of Income Tax Act, 2058 has not allowed deducting the following expenditure while calculating the taxable income from any business or investment or employment.

1. Personal Nature or Domestic Expenditure: expenses of a domestic or personal nature are costs incurred by individuals in respect of themselves, which means that the individuals spend money for their personal consumption to satisfy their personal needs. These expenses are not deductible from any of the income heads, employment, investment or business. Such expenses include:

   a. Personal Expenses of an Individual as:
      - Costs for the provision of shelter as well as meals, refreshment, entertainment or other leisure activities.
      - Expenses incurred with respect to an individual commuting between the individual’s home and a place at which the business or investment is conducted. However, computing in the course of conducting a business or investment is allowed for deduction.
      - Cloth expenses for the individual other than clothing that is not suitable for wearing outside of work. This means costs of work dress such as uniform, apron etc. are allowed for deduction.
      - Expenses for education and training of an individual directly relevant to a business or investment conducted by the individual and the education institute and training does not lead to general degree or diploma but has a

link to the business or investment conducted the expenses for training or education are deductible.

b. If the taxpayer has borrowed money to bear expenses as mentioned above and needs to pay interests for that, these interests are related to non-deductible expenses.

c. The expenses of a domestic or personal nature also include costs incurred by another person in respect of an individual. However, in the following conditions, such expenses are not treated as personal or domestic nature.

- If the payment is included in calculating the income of the individual. For example, salaries and wages paid to employees are allowed for deduction because employees include such payments in their income.
- If the individual makes a return payment of an equal market value to the person as a consideration of a payment. For example expenses incurred for selling goods and services to customers are allowed for deduction. However, the expenses incurred on goods withdrawn by the proprietor are not allowed for deduction.
- Payments for petty expenses related to tea, stationeries, tips, prizes and emergency medical treatment up to Rs.500 at a time whose accounting is not practical or administratively difficult.

2. Income tax, fines and similar types of penalties paid under ITA, 2058 to a government or any political division of a government of any country for breach of any law or subsidiary legislation are not deductible expenses. But the fines, penalties, interests etc. paid to corporate bodies like Nepal Telecom, Nepal Electricity Authority etc., banks or financial institutions can be deducted as finance or transaction costs because they are paid not for violating a law but for not meeting contractual obligations.

3. Expenses incurred to derive the tax exempted amounts or final withholding payments. For example; seeds and fertilizers expenses to drive agricultural incomes are not allowed for deductions.

4. Cash payments over Rs. 50,000 (except in certain circumstances) by an individual or an entity with an annual turnover of more than Rs. 2,000,000 (two million). The

whole amount of cash payment (not only the excess amount) is disallowed for deduction if it is more than Rs. 50,000. However, the clause of Rs, 50,000 is not applicable in the following conditions.

a. If payment is made to the Government of Nepal, a constitutional body, a corporation owned by the Government of Nepal, or a bank or a financial institution.
b. If payment is made to a farmer or a producer producing primary agricultural products.
c. If payment is made to a retirement contribution or retirement payment.
d. If payment is made in an area where banking services are not available. An area having banking services means the area where there are no banking facilities within the surrounding of 10 kilometers.
e. If payment is must or necessarily be made in cash on a day when banking services are closed.
f. If payment is made into a bank account of the payee.

The term ‘cash payment’ means a payment other than made through bank or financial institution by way of letter of credit, cheque, draft, money order, telegraphic transfer (TT), money transfer (hundi) and any other form of transfer made between two banks or financial institutions.

5. Distribution of profits by an entity such as dividend, reserves etc.

6. Any other amounts which is denied by other provisions of the law.

7. Capital Nature Expenditure: The expenditure of capital nature means the following expenses;

a. Expenses incurred in respect of natural resource prospecting, exploration, and development.
b. Expenses incurred in the acquisition of an asset with a useful life exceeding 12 months.
c. Expenses incurred on the disposal of a liability

Capital expenditures are allowed only in the form of depreciation. However, they are allowed for deduction while computing capital gains.

8. Foreign Income Tax: Foreign income tax cannot be shown as expenditure other than those in Section 71 of the Income Tax Act, 2058. The foreign tax credit not exceeding the average rate of Nepal Income Tax can be claimed if the person has paid foreign income tax with respect to the foreign assessable income.

4.3 Empirical Investigation

An empirical investigation has been conducted in order to find out various aspects of income tax imposition from the experience of the real world. The major tool used for this purpose is an opinion survey through questionnaire which was dispatched to 80 persons representing tax experts, tax administrators and taxpayers, but only 60 responses were received. The questionnaire (Appendix – II) had included the various aspects of income tax concerning with the provisions of Exemptions, Deductions and Self Assessment including contributions of income to the Government Revenue and effectiveness of self assessment of income tax in Nepal. This chapter also analyzes information collected from primary sources i. e. through questionnaire. The questionnaires were either asked for a yes / no responses or asked for ranking of choice according to the number of alternatives where a first choice was most important and last choice was least important or there also were options to put respondents' views in written form wherever necessary. The responses received from various respondents have been arranged, tabulated into the separate format, have been expressed in percent of total numbers or points and analyzed in order to facilitate the descriptive analysis of the research study. The following table shows the groups of respondents and code used to represent them.

Table: 4.14

Groups of Respondents and Code Use

S. N.	**Groups of Respondents**	**Sample Size**	**Code Used**
1	Tax Experts	10	A
2	Tax Administrators	25	B
3	Tax Payers	25	C
	Total	60	-

Source: Opinion Survey, 2011/2012 A.D.

4.3.1 Public Awareness towards Income Tax System in Nepal

In order to know whether the people are well informed or not about income tax system in Nepal, a question was asked, "Do you think that the most of the Nepalese people are well informed about the self assessment of income tax system in Nepal?" The respondents' responses are presented in the following table no. 4.15.

Table: 4.15

Information about Income Tax System in Nepal

Group of Respondents	Yes		No		Total	
	Number	%	Number	%	Number	%
A	Nil	Nil	10	100	10	100
B	Nil	Nil	25	100	25	100
C	7	28	18	72	25	100
Total	7	11.6667	53	88.3333	60	100

Source: Opinion Survey, 2011/2012 A.D.

From the opinion survey, it is found that cent-percent Tax Experts and Tax Administrators believe that people are not informed about income tax system in Nepal. Only 28% of Taxpayers said that people are well informed about income tax system in Nepal and 72% of taxpayers believe that the Nepalese people are not well informed about income tax system in Nepal. In total, 88.3333%of respondents believe that people are not well informed about in income tax system in Nepal.

Above survey approved that public awareness program is necessary in Nepal for making people well informed about for income tax system. Awareness should be given through local newspaper and mass media in order to make the people conscious.

4.3.2 Problems Faced By Taxpayers While Paying Income Tax

To know the problems facing by the taxpayers while paying income tax, the respondents were requested to choose the most appropriate option among the four options and they were requested to specify if they feel any best option. The question was "In your opinion, what type of problem is facing by the taxpayers while paying income tax?" In response, they did not specify any specific alternative. Responses received from respondents are tabulated as follows:

Table: 4.16

Problem Faced by Taxpayers while Paying Tax

S.N.	**Problems**	**Respondents**							
		A		**B**		**C**		**Total**	
		No.	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**
a	Time consuming process	4	40	13	52	10	40	27	45
b	Expectation of illegal incentives by tax personnel	2	20	Nil	-	10	40	12	20
c	Vague Provision in Income Tax Laws	2	20	7	28	3	12	12	20
d	Lack of Co-operation of Income Tax Administrators	2	20	5	20	2	8	9	15
Total		10	100	25	100	25	100	60	100

Source: Opinion Survey, 2011/2012 A.D.

From above the survey 45% of the total respondents believed that their main problem is time consuming process while paying income tax. 20%, 20% of the total respondents found their main problem is Expectation of illegal incentives by tax personnel, Vague Provision in Income Tax Laws respectively. It means that the major problem is the time consuming process. People are not fully aware about the procedures to be followed while paying tax. There are so many provisions such as installment payment, installment statement and others. And tax payers are often penalized for making mistakes so people generally hesitate to go to the tax office. Such hesitation of tax payers has further doubled the problem of consuming time.

4.3.3 Methods for Effective Implementation of Self Assessment of Income Tax in Nepal:

In order to know the view of respondents towards the methods for effective implementation of self assessment of Income Tax in Nepal, a question was asked, "What should be done for the effective implementation of self assessment system of income tax in Nepal?" and they were requested to choose the best options and rank them. The responses received are tabulated as below in the table no. 4.17. To find out the best alternative, I have taken out the total scores given by the all respondents and then given rank for the lowest percentage secured option is Rank 1.

Table: 4.17

Methods for Effective Implementation of Self Assessment of Income Tax

Options	Methods	Respondents					
		Group			Total	%	Rank
		A	B	C			
a.	Strengthen and improve tax administration	46	74	69	189	11.25	3
b.	Improve income tax laws & regulations	45	79	97	221	13.15	4
c.	Income tax education to the tax payers	31	59	77	167	9.94	1
d.	Develop information technology	50	143	154	347	20.65	7
e.	Develop skilled man power	42	136	141	319	18.99	6
f.	Make political commitment	26	90	54	170	10.12	2
g.	Reward and punishment	40	119	108	267	15.89	5
	Total	280	700	700	1680	100	-

Source: Opinion Survey, 2011/2012 A.D. / Appendix – VI "A", "B" & "C"

From the above table we can say that for the effective implementation of self assessment of income tax in Nepal, income tax education to the tax payers should be given because this became the most important method / factor, which has stood in rank 1st given by the total respondents' scores. In the same ways, make political commitment, strengthen and improve tax administration, improve in income tax laws and regulation, reward and punishment, develop skilled man power and develop information technology are others important methods for achieving effective implementation of self assessment of Income Tax in Nepal.

4.3.4 Most Important Factor for Effectiveness of Income Tax in Nepal

In order to know the important factor for effectiveness of income tax in Nepal respondents were requested to choose the most appropriate option in their responses from the given choices. The question was, "What is the most important factor for effectiveness of income tax in Nepal?" Table No. 4.18 gives a breakdown of responses:

Table: 4.18

Most Important Factor for Effectiveness of Self Assessment of IT in Nepal

Options	Important Factors	Respondents' Group							
		A		B		C		Total	
		No.	%	No.	%	No.	%	NO.	%
a.	Honest Taxpayers	2	20	8	32	2	8	12	20
b.	Honest Tax Officers	2	20	2	8	5	20	9	15
c.	Clear Act, Rules & Regulations	4	40	10	40	11	44	25	41.667
d.	Effective Income Tax Administration	2	20	5	20	7	28	14	23.333
Total		10	100	25	100	25	100	60	100

Source: Opinion Survey, 2011/2012 A.D.

The most important factor for effectiveness of self assessment of income tax in Nepal has been chosen from the options provided. Respondents had not written any specific factor in the space provided to write. From the above table analysis the most important factor for effectiveness of self assessment of income tax in Nepal is to have clear Act, rules and regulations. The important factors in order of the preference of the respondents were as follows:

1. Clear acts, rules and regulation
2. Effective income tax administration
3. Honest tax payers
4. Honest tax officers

It can be concluded that clear act, rules and regulation is needed for the Effectiveness of Self Assessment of Income Tax in Nepal.

4.3.5 Weakness of Income Tax Act, 2058

In order to know the weakness of Income Tax Act, 2058 for low collection of income through self assessment of income tax, a question was asked to respondents, "Do you believe that the contribution of income tax through self assessment is not satisfactory because of weaknesses in Income Tax Act 2058?" The opinion survey result on Yes or No responses is in the table4.19 as follows:

Table: 4.19

Weakness of Income Tax Act, 2058

S.N.	Respondents	Yes		No		Total	
		NO.	%	No.	%	No.	%
1	A	3	30	7	70	10	100
2	B	10	40	15	60	25	100
3	C	20	80	5	20	25	100
Total		**33**	**55**	**27**	**45**	**60**	**100**

Source: Opinion Survey, 2011/2012 A.D.

Above table shows that 30% of Tax Experts, 40% of Tax Administrators and 80% of Taxpayers believe that tax collection through self assessment system is low because of weaknesses in Income Tax Act, 2058 B.S. and 55% of total respondents believe it. In the same ways, 70% of Tax Experts, 60% of Tax Administrators and 20% of Tax Payers believe that there is no any cause for collection of low income tax through self assessment system, because weaknesses in Income Tax Act, 2058. From the analysis, most of the Tax Experts and Tax Administrators had denied to accept the weaknesses in Income Tax Act, 2058 whereas most of the taxpayers accepted the fact.

In this survey, the respondents who had opted the 'Yes' response, were asked a question, "What is the major weakness in Income Tax Act, 2058 for low contribution for income tax through self assessment?" and they were requested to specify the major weakness in the Act. Some of them had specified their view in short. The different views of those have been listed in the following points.

Major weaknesses in Income Tax Act, 2058 for collection of Income through self assessment system are as follows:

a) There is no clear rule to provide necessary tax clear certificate for every investors and property holder. It should be compulsory for every financial transaction which is done through financial institution, and they need tax clear certificate.

b) There is always burden to proof taxable income for tax officer because of income tax act 2058 in some cases.

c) Self assessment is fully based on tax payers. It's also not so effective to collection more revenue through self assessment system. In this system always there are high chances of fraud by tax payers.

d) After the merging of VAT and Tax office there are so many taxpayers, it has created the difficulty in the tax administration, so it is also weakness of Income Tax Act, 2058.

4.3.6 Situation of Present Income Tax Administration in Nepal.

To know the present situation of income tax administration in Nepal the respondents were asked, "What do you feel about present income tax administration of Nepal?" whether it is efficient, inefficient of satisfactory, their responses were tabulated as below:

Table: 4.20

Situation of Present Income Tax Administration in Nepal

Options	**Situations (Conditions)**	**Respondents' Group**								
		A		**B**		**C**		**Total**		**Rank**
		No.	%	No.	%	No.	%	No.	%	
a.	Efficient	1	10	5	20	4	16	10	16.6667	3
b.	Inefficient	2	20	9	36	17	68	28	46.6667	1
c.	Satisfactory	7	70	11	44	4	16	22	36.6667	2
Total		10	100	25	100	25	100	60	100	-

Source: Opinion Survey, 2011/2012 A.D.

From the above table we can say that only 16.67% of the total respondents believed that present Income Tax Administration is efficient. 46.67% of the respondents believed that it is inefficient. 36.67% of the respondents said that it is in satisfactory condition of Income Tax Administration of Nepal. From the analysis of the data, it is concluded that most of the Tax Experts and Tax Administrators do not want to say the present Income Tax Administration in Nepal is inefficient but most of the Taxpayers emphasized on the inefficiency of present Income Tax Administration in Nepal. The respondents who said the present tax administration is inefficient, they were asked the question, “What is the major cause for inefficient of income tax administration?” Please choose form the following options. And the received result is tabulated as in the table no. 4.21 below:

Table: 4.21

Major Causes of Inefficient Income Tax Administration in Nepal

Options	**Major Causes**	**No. of Respondents Supporting the Causes from Different Options**								
		A		**B**		**C**		**Total**		**Rank**
		No.	**%**	**No.**	**%**	**No.**	**%**	**No.**	**%**	
a.	Lack of trained and competent tax officers	1	50	5	55.556	7	41.18	13	46.4286	1
b.	Lack of delegation of authority among tax personnel	-	-	-	-	-	-	-	-	-
c.	Lack of proper direction	-	-	-	-	1	5.88	1	3.5714	4
d.	Lack of effective communication	-	-	-	-	1	5.88	1	3.5714	4
e.	Unnecessary outside pressure	-	-	-	-	1	5.88	1	3.5714	4
f.	Undue delay in making assessment	-	-	-	-	-	-	-	-	-
g.	Lack of co-ordination among the tax related departments	-	-	1	11.111	1	5.88	2	7.1429	3
h.	Complicated tax laws	1	50	3	33.333	6	35.29	10	35.7143	2
Total		2	100	9	100	17	100	28	100	-

Source: Opinion Survey, 2011/2012 A.D. and Table No. 4.20

From the analysis of the above table, it is concluded that most of the tax officials don’t like to say that the present tax administration of Nepal is inefficient but it is going on inefficient and satisfactory ways. From the data it is clear that only 28 persons out of total of 60 persons believed that the present tax administration is inefficient. From the given options, the most important cause of inefficiency of tax administration ranked is lack of trained and competent tax officers and second most important cause is complicated tax laws. Other options chosen by the respondents are lack of co-ordination among the tax related departments, lack of proper direction, lack of effective communication and unnecessary outside pressure respectively.

4.3.7 Soundness of Income Tax Administration in Nepal.

In order to know the views of respondents towards the soundness of income tax administration of Nepal a question was asked, "Do you believe that the income tax administration is not sound after merging of tax and VAT office?" If yes what is the main reason? And they were requested to choose the best alternative among four and to specify any other if they want to write. They didn't specify any in the space provided. The responses received from respondents are tabulated as below in the table no. 4.22 and 4.23:

Table: 4.22

Soundness of Income Tax Administration

S.N.	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
1	A	2	20	8	80	10	100
2	B	5	20	20	80	25	100
3	C	19	76	6	24	25	100
Total		26	43.3333	34	56.6667	60	100

Source: Opinion Survey, 2011/2012 A.D.

From the above table shows that only 20% of the tax experts and 20% of tax administrators believed that the tax administration is not sound after the merging of tax and VAT office, but in contradiction 76% of the tax payers said there is no soundness of the tax administration after merging VAT and tax office. Out of total respondents, 43.33% of them said that the tax administration is not sound after the merging of tax and VAT office. The reasons for such in the opinion of respondents chosen from the options are as follows in the following table no.4.23:

Table: 4.23

Important Reasons for Unsoundness of Tax Administration

Options	Important Reasons	No. of Respondents Supporting the Reasons from Different Options								Rank
		A		B		C		Total		
		No.	%	No.	%	No.	%	No.	%	
a.	Difficulty in management due to the large number of taxpayers	1	50	3	60	4	21.05	8	30.77	2
b.	Inefficient tax officers	-	-	-	-	9	47.37	9	34.62	1
c.	Complication due to disharmony between income tax and VAT	-	-	-	-	4	21.05	4	15.38	4
d.	Increasing habit of tax evasion of taxpayers once they are registered in VAT	1	50	2	40	2	10.53	5	19.23	3
Total		2	100	5	100	19	100	26	100	-

Source: Opinion Survey, 2011/2012 A.D. and Table No. 4.22

From the above survey, only 2 out of 10 tax experts believed that income tax administration is not sound after merging of tax and Vat office. Among them 50% said difficult in management due to large number of tax payers and 50% said due to increasing habit of tax evasion by the tax payers once they are registered in VAT. Only 26 persons out of 60 persons supported that the tax administration is unsound. In total, 34.62% respondents believed in option b., reason of unsoundness of income tax administration which is due to inefficient officers. The option a. difficult in management due to the large number of tax payers got 2nd rank related to the reason for unsoundness of tax administration. And in the same ways 15.38% of the total respondents believed that complication due to disharmony between income tax and VAT and 19.23% of them believed due to increasing habit of tax evasion of taxpayers once they are registered in VAT. These are also the main reasons for unsoundness of income tax administration in Nepal.

4.3.8 Self Assessment is the best Assessment for Income Tax

In order to know the views of respondents, the self assessment is the best assessment for the income tax assessment or not, a question was asked, “Do you believe that self assessment is the best assessment for the income tax assessment?” They were requested only choose yes or no answer for the method of assessment for income tax assessment. The responses received are tabulated in the following table.

Table: 4.24

Self Assessment is the best Assessment for Income Tax Assessment

S.N.	Respondents' Group	Yes		No		Total	
		No.	%	No.	%	No.	%
1	A	8	80	2	20	10	100
2	B	11	44	14	56	25	100
3	C	12	48	13	52	25	100
Total		31	51.6667	29	48.3333	60	100

Source: Opinion Survey, 2011/2012 A.D.

From the above table analysis, 80% of tax experts believed that self assessment of tax is the best assessment of income tax assessment. In the same ways 44% of tax administrators and 48% of tax payers also think it is the best method of the assessment of tax. In total respondents, 51.6667% believed that self assessment system is the best assessment system for the income tax assessment in Nepal. So, we can say that self assessment of income tax is the best assessment for the tax assessment in Nepal but for the effectiveness in self assessment awareness to the taxpayers should be spread all over the country.

4.3.9 Suggestions for Achieving Effectiveness of Self Assessment of Income Tax in Nepal

To know the other important factors for achieving the effectiveness of self assessment of income tax in Nepal, a question was asked, "Do you have any others suggestions for achieving effectiveness of self assessment of income tax in Nepal?" For this question respondents were requested to write their suggestions in their own regarding the achieving effectiveness of self assessment of Income Tax in Nepal. The responses received in total are summarized as follows.

i. Taxpayers should be encouraged to pay tax by giving facilities like, unemployment allowance, medical treatment facilities, pension allowance giving gratuity etc. if they are unable to earn.

ii. Public awareness program should be given for the successful implementation of self assessment of income tax in Nepal so, the tax education should be given from the school level and through mass media like, TV. Newspaper, Radio, Phone, Internet, Fax etc. should be used to aware the people.

iii. Taxpayers may hide their real income, so the proper checking system by the tax officers should be done effectively.

iv. Tax clear certificate should be given for every tax payer even who runs the small business activities also.

v. Tax system should be simple, transparent and clearly understandable to the general public.

vi. There should be proper co-ordination among tax related departments, such as Department of Revenue Investigation, Custom Department and Inland Revenue Department. Networking of information system should be developed according.

vii. Training programs should be organized to the tax personnel in order to make them up to date and develop effective tax management system.

viii. Clear Acts, rules and regulation are necessary for the effectiveness of self assessment of Income Tax assessment system in Nepal.

ix. The necessary Acts, rules and regulations formed should be strictly implemented. For that matter follow up system regarding the collection of tax can be considered.

x. Rewards and punishments system must be taken into consideration and implementation for the tax payers who pay the tax in time or not.

xi. Corruption should be in minimum level with the various attempts of the government and corruptors should be kicked out from their job and they must be penalized with more amounts than they corrupted.

xii. Supervisions, inspections, suggestions, directions and instructions facilities should be maintained in related tax departments as well as other government offices or taxpaying offices and individuals etc.

4.3.10 Soundness and Efficiency of Existing Income Tax Assessment Procedure in Nepal

In order to know the respondents opinion about the soundness and efficiency of existing Income Tax Assessment Procedure in Nepal, a question was asked, “Do you think that the existing income tax assessment procedure is sound and efficient?” The responses from respondents are tabulated in the following table no. 4.25 as follows:

Table: 4.25

Soundness and Efficiency of Existing Income Tax Assessment Procedure

Responses / Respondents	Yes		No		Total	
	No.	**%**	**No.**	**%**	**No.**	**%**
Group “A”	3	30	7	70	10	100
Group “B”	10	40	15	60	25	100
Group “C”	7	28	18	72	25	100
Total	**20**	**33.33**	**40**	**66.67**	**60**	**100**

Source: Opinion Survey, 2011/2012 A.D

From the above table it is known that the responses received as 20 respondents i.e. 33.33% of total respondents were agreed that the soundness and efficiency of existing income tax assessment procedure whereas 40 respondents i.e. 66.67% of the total respondents were not agreed about the soundness and efficiency of existing income tax procedure. Most of the respondents of all codes (“A”, “B”, “C”) were disagreed about the soundness and efficiency of existing assessment procedure in Nepal. Thus it can be concluded that the existing income tax assessment procedure is not sound and efficient.

In order to know the causes of unsoundness and inefficiency of existing income tax assessment procedure in Nepal, the next question was asked as, “Whether your answer is ‘Yes’ or ‘No’, what are the major causes which are responsible for the unsound and inefficient tax assessment procedure?” It was requested to all the respondents to rank their answer from 1 to 9 from the given options in the order to reference from first (most important) to the last (least important). The responses received from all the respondent i. e. 60 respondents were arranged as the most important to the least important (Appendix – VII "A", "B", & "C") which are given in the table no. 4.26 as below:

Table: 4.26

Major Causes for Unsound and Inefficient Tax Assessment Procedure

S.N	Major Causes	Groups of Respondents			Total	%	Rank
		A	B	C			
a.	Defective assessment procedure	50	135	123	308	11.4074	5
b.	Lack of public participation	44	115	95	254	9.4074	3
c.	Lack of trained and competent employees	43	142	134	319	11.8148	6
d.	Inefficient organizational structure of tax administration	55	140	145	340	12.5926	7
e.	Scarce of income tax experts or professionals in tax administration	71	159	185	415	15.3704	9
f.	Weakness in government's economic policy	35	74	89	198	7.3333	1
g.	Lack of coordination within the tax department	75	137	160	372	13.7778	8
h.	Complicated tax laws and provisions	29	98	95	222	8.2222	2
i.	Corruption	48	125	99	272	10.0741	4
Total		**450**	**1125**	**1125**	**2700**		**-**

Source: Opinion Survey, 2011/2012 A.D / Appendix – VII "A", "B", & "C"

In the above table, the percentage was calculated by total frequency of all codes ("A", "B", "C") divided by the sum total of the total frequencies. The question was asked to rank from 1 to 9 where 1 was most important and 9 the least important. So, the lowest number of total frequency is the highest value and vice-versa. Thus, having the lowest percentage carries most important cause.

The table shows that the group of "A" (Tax Experts), the respondents were agreed that the most major cause of being unsound and inefficient tax assessment procedure was "Complicated tax laws and provisions" whereas group "B" (Tax Administrators) were agreed for that the most major cause was "Weakness in government's economic policy" and the respondents from group "C" were agreed that the most major causes of being unsound and inefficient tax assessment procedure were "Lack of public participation and Complicated tax laws and provisions." But in overall calculating and studying, the lowest percentage which means highest weight for being unsound and inefficient tax assessment procedure was "Weakness in government's economic policy." According to the respondents' point of view, the main causes which are responsible for the unsound and inefficient tax assessment procedure are ranked as follows:

1. Weakness in government's economic policy
2. Complicated tax laws and provisions
3. Lack of public participation
4. Corruption
5. Defective assessment procedure
6. Lack of trained and competent employees
7. Inefficient organizational structure of tax administration
8. Lack of coordination within the tax department
9. Scarce of income tax experts or professionals in tax administration

Except these above causes, the respondents were asked to specify any other major cause and some of them specified the major cause in the place provided to write in their own words. They are tentatively highlighted consolidating in the following points as the weaknesses and causes of being unsound and inefficient tax assessment procedure.

a. Lack of reward and punishment
b. Social recognition to the wealthy person
c. Political safety to the corruptors
d. No barriers to politics by the person of not paying income tax
e. Lack of honesty in business sectors
f. Non participation of taxpayers i.e. under reporting of income and transaction
g. Lack of modern technology to find out the fraud and manipulation of money and transactions
h. Lack of proper direction for collecting tax
i. Undue delay in making assessment
j. Unnecessary outside pressure and lack of effective communication for problem solution etc.

From the above causes in overall, it can be concluded that the main responsible factor of creating unsound and inefficient tax assessment procedure is weakness in government's economic policy.

The few of the respondents had given few suggestions orally to overcome the unsound and inefficient tax assessment procedure as to have simplified tax laws is very necessary or essential so that the taxpayers become aware, satisfied and motivated to pay tax and they themselves feel proud of it.

4.3.11 Contribution of Income Tax to National Revenue of Nepal

In order to know the respondents opinion about the contribution of income tax to national revenue of Nepal, a question was asked to answer in 'Yes' 'No' options as, "Do you think that the contribution of income tax to national revenue of Nepal is satisfactory?" the responses from respondents are tabulated as in the following table no. 4.27 as follows:

Table: 4.27

Contribution of Income Tax to National Revenue of Nepal

Responses	**Yes**		**No**		**Total**	
Respondents	**No.**	**%**	**No.**	**%**	**No.**	**%**
Group "A"	3	30	7	70	10	100
Group "B"	10	40	15	60	25	100
Group "C"	7	28	18	72	25	100
Total	**20**	**33.33**	**40**	**66.67**	**60**	**100**

Source: Opinion Survey, 2011/2012 A.D

From the above table it is known that the responses received as 20 respondents i.e. 33.33% of total respondents were agreed that the contribution of income tax to national revenue of Nepal whereas 40 respondents i.e. 66.67% of the total respondents were not agreed about the contribution of income tax to national revenue of Nepal. Most of the respondents of all codes ("A", "B", "C") were disagreed about the contribution of income tax to national revenue of Nepal. Thus it can be concluded that the contribution of income tax to national revenue of Nepal is not satisfactory.

In order to know the causes which are responsible for unsatisfactory contribution of income tax to national revenue, the next question was asked as, "If your answer is 'No', what are the major causes which are responsible for the unsatisfactory contribution of income tax to national revenue of Nepal?" For the answer of this question, the respondents who opted the 'No' option were requested to rank their answers from 1 to 9 from the given options in the order to reference from first (most important) to the last (least important). The responses received from those i. e. 40 respondents were arranged as the most important to the least important (Appendix – VIII "A", "B", & "C") which are given in the table no. 4.28 as below:

Table: 4.28

Causes of Unsatisfactory Contribution of Income Tax to National Revenue

S.N	**Major Causes**	**Groups of Respondents**			**Total**	**%**	**Rank**
		A	**B**	**C**			
a.	Defective assessment procedure	35	92	99	226	12.5556	7
b.	Lack of public participation	28	52	64	144	8.0000	2
c.	Lack of trained and competent employees	23	73	84	180	10.0000	4
d.	Inefficient organizational structure of tax administration	34	63	89	186	10.3333	5
e.	Scarce of income tax experts or professionals in tax administration	50	91	131	272	15.1111	8
f.	Weakness in government's economic policy	27	45	71	143	7.9444	1
g.	Lack of coordination within the tax department	57	99	122	278	15.4444	9
h.	Complicated tax laws and provisions	19	66	77	162	9.0000	3
i.	corruption	42	94	73	209	11.6111	6
Total		**315**	**675**	**810**	**1800**	**100**	**-**

Source: Opinion Survey, 2011/2012 A.D / Appendix– VIII "A", "B", & "C"

In the above table, out of 60 respondents only 40 respondents were agreed for unsatisfactory contribution of income tax to national revenue of Nepal (Table No. 4.27). In the above table, the percentage was calculated by total frequency of all codes ("A", "B", "C") divided by the sum total of the total frequencies. The question was asked to rank from given options 1 to 9 where 1 was most important and 9 the least important. So, the lowest number of total frequency is the highest value and vice-versa. Thus, having the lowest percentage carries most important cause.

The table shows that the group of "A" (Tax Experts), the respondents were agreed that the most major cause of being unsatisfactory contribution of income tax to national revenue of Nepal was "Complicated tax laws and provisions" whereas group "B" (Tax Administrators) were agreed for that the most important cause was "Weakness in government's economic policy" and the respondents from group "C" were agreed that the most major cause of being unsatisfactory contribution of income tax to national revenue of Nepal was "Lack of public participation." But in overall calculating and studying, the lowest percentage which means highest weight for being unsatisfactory contribution of income tax to national revenue of Nepal was "Weakness in government's economic policy." According to the respondents' point of view, the main causes which are responsible for the unsatisfactory contribution of income tax to national revenue of Nepal are ranked in order as follows:

1. Weakness in government's economic policy
2. Lack of public participation
3. Complicated tax laws and provisions
4. Lack of trained and competent employees
5. Inefficient organizational structure of tax administration
6. Corruption
7. Defective assessment procedure
8. Scarce of income tax experts or professionals in tax administration
9. Lack of coordination within the tax department

Except these above causes, the respondents were asked to specify any other major cause and some of them specified the major cause in the place provided to write in their own words. They are tentatively highlighted consolidating in the following points as the weaknesses and causes of being unsatisfactory contribution of income tax to national revenue of Nepal

a. Lack of reward and punishment to the taxpayers and tax administrators
b. Social recognition to the wealthy person
c. Political safety to the corruptors
d. No barriers to politics by the person of not paying income tax
e. Lack of honesty in business sectors
f. Non participation of taxpayers i.e. under reporting of income and transaction
g. Lack of modern technology to find out the fraud and manipulation of money and transactions between tax payers and tax administrators
h. Lack of proper direction for collecting tax
i. Undue delay in making assessment
j. Unnecessary outside pressure and lack of effective communication for problem solution etc.

From the above causes in overall, it can be concluded that the main responsible factor of creating unsatisfactory contribution of income tax to national revenue of Nepal is weakness in government's economic policy.

The few of the respondents had given few suggestions verbally to have the satisfactory contribution of income tax to national revenue or to overcome the unsatisfactory contribution of income tax to national revenue of Nepal as to have simplified tax laws is very necessary or essential so that the taxpayers become aware, satisfied and motivated to pay tax and they themselves feel proud of it.

4.3.12 Opinion on Current Income Tax Rates

In order to know the opinion on current income tax rates, respondents were requested to tick the best alternative among three alternatives (High, Medium and Low). The question was asked, "What is your opinion about the current income tax rates?" The respondents' responses are tabulated as follows in the table no. 4.29.

Table: 4.29

Opinion on Current Income Tax Rates

S.N.	Major Causes	Groups of Respondents			Total	%	Ranking
		A	B	C			
1	High	3	6	12	21	35	2
2	Medium	6	16	13	35	58.33	1
3	Low	1	3	-	4	6.67	3
Total		**10**	**25**	**25**	**60**	**100**	**-**

Source: Opinion Survey, 2011/2012 A.D

Out of the cent-percent responses, it is cleared that 58.33% of the total respondents were agreed that the current income tax rates are medium whereas 35% of the total respondents were agreed on high tax rates and only 6.67% of the total respondents were agreed on low tax rates. From the above table, it can be concluded that the current income tax rates are medium. From the study it is found that some respondents feel that the current income tax rates are not higher bit in absolute terms, the rates are higher as compared to taxpaying capacity of Nepalese people.

4.3.13 Sufficiency of Exempted Items of Income Tax

Income Tax Act, 2058 has provided exemption to the various incomes. The Act has clearly pointed the exempt organizations which are tax free organizations and the exemption provided to different items of incomes. To know the sufficiency of exempted items of income, a question was asked, “Do you think that the exempted items of incomes are sufficient?” The responses on ‘Yes’, ‘No’ options were as follows in the following table no. 4.30.

Table: 4.30

Sufficiency of Exempted Items of Income Tax

Respondents / Responses	Groups of Respondents			Total	%	Ranking
	A	B	C			
Yes	4	18	10	32	53.33	1
No	6	7	15	28	46.67	2
Total	10	25	25	60	100	-

Source: Opinion Survey, 2011/2012 A.D

There were 100 percent responses received from the respondents. Out of 60 respondents, 32 respondent i. e. 53.33% were agreed that the exempted items of income are sufficient whereas 28 respondents i. e. 46.67% were disagreed about the sufficiency of exempted items. Those respondents who gave the responses ‘No’ about the sufficiency of exempted items of income were asked another question as, “If no, what type of incomes should be exempted?” They were requested to write their responses in the place provided to write. Most of the respondents did not response about it. Only few responses were received which are classified and mentioned below according to the codes used in number-wise. The types of incomes should be exempted are:

A. Tax Experts:

1. Provident fund
2. Life insurance premium
3. Export earning
4. Remote area allowance
5. Interest received from government banks
6. Awards and rewards
7. Scholarship, and
8. Rational exemptions should be given to all kind of incomes.

B. Tax Administrators:

1. Life insurance premium
2. Citizenship investment fund

C. Taxpayers

1. Over time allowance
2. Retirement benefits
3. Income of foreign employee
4. Life insurance premium
5. House rent
6. Educational allowances for the children
7. Electricity and water
8. Medical expenses on the basis of bills
9. Tiffin allowance

The majority of remunerated taxpayers, the responses of group “C” were related with employment income.

4.3.14 Adequacy of Current Income Tax Exemption Limit

Finance Act of Nepal yearly prescribes the tax rate and exemption limit of income. When the income tax introduced, tax rates and exemption limit are changing yearly. To know the respondent’s view about the current exemption limit, a question was asked to get the ‘Yes’ or ‘No’ responses as, “Do you think that the current income tax exemption limit is adequate for individual and couple or a family?” The responses are tabulated in the following table no. 4.31 as follows:

Table: 4.31

Adequacy of Current Income Tax Exemption Limit

Respondents / **Responses**	**Groups of Respondents**			**Total**	**%**	**Ranking**
	A	**B**	**C**			
Yes	4	10	3	17	28.33	2
No	6	15	22	43	71.67	1
Total	10	25	25	60	100	-

Source: Opinion Survey, 2011/2012 A.D

From the above table, it can be seen that the current income tax exemption limit is inadequate because 43 respondents out of 60 i.e. 71.67% of total respondents were against the adequateness of current exemption limit whereas only 28.33% of the respondents i.e. only 17 out of 60 persons were for the adequateness of current exemption limit. The respondents who were against the adequateness of current exemption limit were asked a question as, “If no, what exemption limits do you suggest for individual and couple or a family?” The table including current existing limit was given to get the suggested limit providing space to write the limit for individual and couple or a family. The responses are arranged in the following table no. 4.32 and 4.33 respectively for individual and for a couple or a family.

Table: 4.32

Suggestion for Exemption Limit for an Individual

Respondents / Responses	Groups of Respondents			Total	%	Ranking
	A	B	C			
Rs. 2,40,000	-	2	3	5	11.63	3
Rs. 2,50,000	2	4	4	10	23.25	2
Rs. 2,00,000	4	9	15	28	65.12	1
Total	6	15	22	43	100	-

Source: Opinion Survey, 2011/2012 A.D

From the above table, the responses about the exemption limit of an individual were found that 65.12% of the total respondents were in favour of Rs. 2,00,000 whereas 23.25% of the respondents suggested that the exemption limit should be Rs. 2,50,000 and 11.63% of total respondents suggested Rs. 2,40,000.

Table: 4.33

Suggestion for Exemption Limit for a Couple or Family

Respondents / Responses	Groups of Respondents			Total Number	%	Ranking
	A	B	C			
Rs. 2,75,000	1	3	2	6	13.95	4
Rs. 2,90,000	-	2	5	7	16.28	3
Rs. 3,00,000	2	5	5	12	27.91	2
Rs. 3,50,000	3	5	10	18	41.86	1
Total	6	15	22	43	100	-

Source: Opinion Survey, 2011/2012 A.D

From the above table, it is clear that only 6 respondents out of 10 from group “A”, 15 respondents out of 25 from group “B” and 22 respondents out of 25 from group “C” suggested about the exemption limits for both individual (table no. 4.32) and a couple or a family. It can be known from the table that most of the respondents i.e. 41.86% suggested for Rs. 3,50,000 as exemption limit for a family, 27.91% of the respondents suggested for Rs.3,00,000 and Rs. 2,90,000 & Rs. 2,75,000 suggested by the respondents of 16.28% & 13.95% respectively. It can be concluded that most of the respondents are in favour of Rs. 3,50,000 as an exemption limit for a family or a couple. On the personal discussion with the respondents, the researcher found that more people were in support to provide income tax exemption limit equivalent to annual remuneration income of a government employed section officers.

4.3.15 Family Exemption Limit According to the Number of Dependents

Income Tax Act has provided exemption limit to a family but it has not defined the number of dependents within a family. So, to know the opinion about the exemption limit of a family according to the number of dependents, a question was asked, "Do you agree that the family exemption limit just be provided according to the number of dependents in the family?" The responses on 'Yes' and 'No' options were as follows as given in the table no. 4.34 below.

Table: 4.34

Family Exemption Limit on the Basis of Number of Dependents

Respondents / Responses	Groups of Respondents			Total	%	Ranking
	A	B	C			
Yes	2	8	15	25	41.67	2
No	8	17	10	35	58.33	1
Total	10	25	25	60	100	-

Source: Opinion Survey, 2011/2012 A.D

The above table shows the responses of respondents about the family exemption limit that must be provided according to the number of dependents in family. Out of the 100% responses, 58.33% respondents disagreed whereas 41.67% of the respondents agreed that the family exemption limit must be provided according to the number of dependents. The majority of respondents of group "A" and "B" were disagreed but 15 respondents out of 25 from group "C" were agreed on providing the family exemption limit according to the number of dependents in families. On the personal discussion, either of any group of respondents having micro family was against on providing the family exemption limit according to the number of dependents due to their low exemption limit. But as a whole, it can be concluded that the most of the respondents disagreed on providing the family exemption limit according to the number of dependents in family. Researcher also found that respondents were in favour to provide exemption limit to a family according to the number of dependents but it is difficult to execute because it is impossible to apply in real field.

4.3.16 Exemption Limit According to the Inflationary Situation of the Country

One question was asked to know the opinion of respondents about exemption limit that should be adjusted according to the inflationary situation of the country. The question was, “do you agree that exemption limit should be adjusted according to the inflationary situation of the country?” the responses were as given in the table no.4.35 as follows:

Table: 4.35

Exemption Limit According to the Inflationary Situation of the Country

Respondents / Responses	Groups of Respondents			Total	%	Ranking
	A	B	C			
Yes	4	17	20	41	68.33	1
No	6	8	5	19	31.67	2
Total	10	25	25	60	100	-

Source: Opinion Survey, 2011/2012 A.D

The above table shows that 68.33% of the total respondents were agreed to adjust the exemption limit according to the inflationary situation of the country whereas only 31.67% of the total respondents were disagreed about it. Thus it can be concluded that the exemption limit of a family or an individual should be adjusted according to the inflationary situation of the country. But this situation makes the tax administration more complicated and vague rather than every year’s fiscal policy. The fiscal policy may provide tax relief to accommodate inflation if provisioned.

4.3.17 Opinion on Providing Exemption Limit on Agriculture Income

After the commencement of Income Tax Act, agricultural income has been treated as taxable income in sometimes in a specific case and sometimes as exempted income too. The new Income Tax Act has exempted agricultural income tax other than the income from company, partnership or corporate body or through the land above the holding ceiling and prescribed in Land Act 2021 B.S. To know the opinion on it, one question was asked as, “What is your opinion about exemption providing on agricultural income?” The respondents were given four options to choose the most appropriate answer. The following table no.4.36 gives the breakdown of the responses.

Table: 4.36

Opinion on Providing Exemption Limit on Agriculture Income

Respondents **Responses**	**Groups of Respondents**			**Total**	**%**	**Ranking**
	A	**B**	**C**			
Yes, it should be exempted	6	15	20	41	68.33	2
No, it should not be exempted	2	6	-	8	13.33	1
It should be treated as other income	2	2	3	7	11.67	3
Other (if any, specify)	-	2	2	4	6.67	4
Total	10	25	25	60	100	-

Source: Opinion Survey, 2011/2012 A.D

From the above table, it shows 68.33% of the total respondents were in support to exempt the agricultural income whereas 13.33% of the total respondents were against the exemption facilities of agricultural income. Only 11.67% of the total respondents were in favour to treat it as other income. Only four respondents out of 60 respondents i.e. 2 from group “B” and 2 from group “C” specified their responses as other options as the suggestions which are mentioned as follows:

- Certain area and the income of marginal farmers should be exempted.
- Based on subsistence farming and commercial farming for the first, it should be exempted.
- A practical arrangement for taxing agriculture income should be formulated, for example, that should be based on the size of landholding.

- Exemption facilities should be provided up to certain limit of production only.

4.3.18 Sufficiency about the Itemized Deductions

Income Tax Act, 2058 has provided different kinds of expenses as deductions. Some expenses are allowed for deduction as itemized deduction and some are standard deduction. In order to know the attitude towards the item wise deduction of expenses, a question was asked as, "Do you think that the itemized deductions are sufficient?" Respondents were given 'Yes' or 'No' options to support the answer. The responses received are tabulated as in the following table no. 4.37 below.

Table: 4.37

Sufficiency about the Itemized Deductions

Respondents / Responses	Groups of Respondents			Total	%	Ranking
	A	B	C			
Yes	4	15	10	29	48.33	2
No	6	10	15	31	51.67	1
Total	10	25	25	60	100	-

Source: Opinion Survey, 2011/2012 A.D

From the above table the majority of the respondents were against the sufficiency of itemized deductions of expenses. Except tax administrators, majority of tax experts and taxpayers were against of itemized or item wise deductions of expenses. From the study, it can be concluded that there is insufficiency about itemized deductions. The respondents who were against the sufficiency about itemized deductions were asked another question as, "If no, what kind of other expenses should be deducted while computing taxable income?" The respondents were requested to write their answer in the blank space designed in order of importance. Only a few respondents replied about the expenses to be deducted while computing taxable incomes which are classified according to the codes used in number wise.

A. Tax Experts

- Repair and maintenance expenses should be fully allowed. There is no meaning of allowing only 7% on the depreciation base according to the existing provision.
- Special Economic Zones (SEZ) should be created and alternative tax administration, exemption allowed for industries, processing units, infrastructure development projects in such regions are to be specified properly.

B. Tax Administrators

- Daily T. A. expenses from residence to business
- Educational expenses
- Travelling expenses
- Delivery expenses

C. Tax Payers

- House rent
- Educational allowances
- Medical expenses on the basis of bills
- Tiffin allowance
- Travelling allowance

4.3.19 Sufficiency of Provisions Relating to Exemption and Deduction under Nepalese Income Tax Act

For sufficiency of provisions related to exemptions and deductions under Nepalese Income Tax Act, respondents were requested to give their responses in 'Yes' / 'No' alternatives. The question was asked as, "In your opinion, are the provisions relating to exemptions and deductions under the Nepalese Income Tax Act, 2058 B.S. sufficient in all aspects?" The responses received on the question are tabulated in the following table no. 4.38 as below.

Table: 4.38

Sufficiency of Provisions Relating to Exemption and Deduction

Respondents / Responses	Groups of Respondents			Total Number	%	Ranking
	A	**B**	**C**			
Yes	4	18	5	27	45	2
No	6	7	20	33	55	1
Total	10	25	25	60	100	-

Source: Opinion Survey, 2011/2012 A.D

From the above table it is seen that 45% of respondents were agreed whereas 55% of respondents were disagreed about sufficiency of provisions relating to exemptions and deductions under the Nepalese Income Tax Act. From the above table, it can be concluded that majority of the respondents were against the sufficiency.

The respondents who gave the negative responses were requested to answer another question in order of rank in their own relating to the sufficiency of exemption and deduction under Income Tax Act. The question was, “If no, in which aspects the improvements are needed?” The responses received by the respondents for the improvement needed in different aspects relating to the sufficiency of exemption and deduction under Income Tax Act are mentioned code wise as follows:

Group “A”: Tax Experts

a. Tax rates
b. Payment system
c. Income statement
d. Tax administration
e. Monitoring unit
f. Attitude of tax administration
g. Tax base enlargement
h. Tax laws
i. Exemption limit
j. First of all, business income should be brought into tax net, and then tax should be imposed on the basis of level of income using multiple tax rates.

k. All rental incomes of the landlords or in urban areas should be brought into tax net by deforming the minimum rent that could be collected from tenants by the house owner, then excess of the rent should be taxed using appropriate rate.
l. Depreciation allowance should be simplified.

Group "B": Tax Administrators

a. Tax laws
b. Accounting system
c. Specification of job of the department
d. Tax administration
e. Computerized system in all tax offices
f. Functional system
g. Simplification of the language
h. Complicated provisions

Group "C": Taxpayers

a. Language
b. Depreciation
c. Remuneration income
d. Tax administrations
e. District wise tax offices
f. Exemption limit on the basis of market price
g. Property tax

From the analysis of above different aspects for improvement, most of the respondents have suggested to improve tax laws and language to be simplified. They also focused to improve the tax administration too.

4.3.20 Suggestions about Income Tax Act in Nepal

Income Tax Act, 2058 B.S. is better than earlier Income Tax Act, 2031 B.S. but the new Act is not free from weakness and vagueness and complicated language used. Thus a question was asked to give suggestions about Income Tax in Nepal. The question was asked as, "Do you have any suggestions about income tax in Nepal?"

Only a few respondents covering all kinds of group had given the suggestions which are mentioned below.

- The tax laws needed to be simplified, early interpreted and understood even a layman.
- Tax administration and assessment procedures are also required to be simplified and should be made taxpayers as friendly.
- Accessibility of the tax administration should be improved.
- Utilization of revenue takes vital role to revenue generation and voluntarily self registration and assessment.
- Public awareness is needed and political commitment and credibility should be necessary.
- Income Tax Act should facilitate people to pay tax by making honestly and friendly organization and employees.
- It should give focus on the area of taxation rather than high tax rate.
- Lowering tax rate and increasing tax base.
- Increasing exemption limit.
- Motivating for self compliance.
- Developing competence among tax personnel.
- Starting court cases to evading people/entity.
- Compulsory declaration of assets of each individual.
- Different privileges and nation-wise recognitions must be given to the regular and high taxpayers and abroad visiting should be provided.
- Punishment should be given for not paying tax to the government.

4.4 Major Findings

From Secondary Data: According to the preceding chapters, some important findings can be drawn. The major findings of this research study from secondary data are summarized below:

1. The composition of the government revenue is internal revenue and external revenue. Internal revenue includes both tax revenue and non-tax revenue. Tax revenue is dominating to non-tax revenue of Nepalese Government. The contribution of tax revenue shows the increasing trend which contributed

77.68% in the fiscal year 1995/96 on the total revenue but it was 77.43% in the fiscal year 2008/09.

2. The total tax revenue, total non-tax revenue and total revenue collected were Rs. 682395.27 million, Rs. 188616.61 million and Rs.871011.88 million respectively whereas average collection of tax revenue non-tax revenue and total revenue were Rs. 48742.52 million, Rs. 13472.615 million and Rs.62215.1343 million respectively during the period of 14 years which was taken as the research study period.
3. The average collection of direct tax and indirect tax were Rs. 12704.37 million and Rs. 36038.1464 million respectively and average percentage of direct and indirect tax on total revenue were 26.06% and 73.94% respectively during the 14 years period which was taken into consideration as the research study purpose.
4. The average tax collection in indirect tax viz. custom duties for the period of 12 years, excise duties and sales tax / VAT during the 14 years period were Rs. 10419.7167 million, Rs. 5821.57 million and Rs.16180.34 million respectively and average percentage on total indirect tax were 34.1915% for 12 years, 16.15% and 44.90% for 14 years period respectively.
5. The average tax collection in direct tax viz. income tax for 14 years period, land tax for 6 years period and house & building registration tax during 14 years period were Rs. 10366.99 million, Rs. 6.47 million and Rs. 1735.34 million respectively whereas average percentage on the same were 81.60%, 0.0927% and 13.66% respectively.
6. The average percentage of direct tax on tax revenue, GDP and total revenue for the period of 14 years i.e. from the fiscal year 1995/96 to the fiscal year 2008/09 were 26.06%, 2.6445% and 20.42% respectively (Table 4.6).
7. The average percentage collection of income tax on direct tax, tax revenue, total revenue and GDP were 81.60%, 21.27%, 16.66% and 2.16% respectively for the period of 14 years (Table 4.8).
8. Nepalese tax revenue is the composition of direct and indirect tax revenue. But there is the dominant role of indirect tax revenue. The contribution of direct tax and indirect tax revenue were 21.16% and 78.84% respectively in the fiscal year 1995/96 whereas 30.89% and 69.11% respectively in the fiscal year

2008/09 (Table no. 4.2). It shows the contribution of direct tax is in increasing trend and indirect tax is in decreasing trend.

9. Among the various sources of the government revenue custom duty, VAT, income tax and excise duty are the major sources of government revenue.
10. The tax revenue on GDP of Nepal is not satisfactory. It has never exceeded 12% from the fiscal year 1995/96 to the fiscal year 2008/09. In the fiscal year 1995/96 it was only 9.05%, 10.61% in the fiscal year 2006/07 and 11.57% in the fiscal year 2008/09 (Table no. 4.3). It shows the increasing trend to tax/GDP ratio in slower pace.
11. Income tax is the composition of corporate income tax, individual income tax and investment income tax. Corporate income tax is collected from government corporations, public limited companies, partnership firms and private limited companies. Individual tax is collected from remuneration, industry and business profession etc. and investment tax is collected from dividend tax, interest tax, royalty, rent tax etc.
12. All incomes generated by an individual are not taxable income because the minimum cost expenses required for living cannot be taxed. So, from the commencement of income tax in Nepal, some extents of amounts are exempted from income tax. The extent is known as exemption limit. Income tax exemption limit in Nepal has been changing on the basis of time and condition. From the empirical studies, respondents have suggested to change exemption limit according to the inflationary situation of the country. In the fiscal year 2008/09, the exemption limit for individual and for a family or a couple were Rs. 1,15,000 and Rs. 1,40,000 respectively. In the fiscal year 2009/10, the exemption limit was extended as per the time and condition up to Rs. 1,60,000 for an individual and Rs. 2,00,000 for a family and a couple where 1% tax is levied is on those ceiling amount according to the new provision. The exemption limit has not been provided to partnership firms, corporation and non-residents. From the view of the majority respondents, the suggestion to increase exemption limit as per time and condition for individuals and families or couples were Rs. 2,00,000 and Rs. 3,50,000 respectively (table no. 4.32 and 4.33).
13. The income tax rates and slabs have been changed radically in recent years. Personal income tax rates which ranged from 7% to 60% in seven slabs in

1975/76 (Table no. 4.12) was reduced to only two rates i.e. 15% up to Rs 75,000 and 25% for the rest amounts in fiscal year 2000/01. Similarly income tax rate has been reduced from 60% in the fiscal year 1975/76 to 30% for banking and financial companies and firms, 25% for other including partnership firm and 20% for special industries in 2008/09 and 2009/10.

14. In Nepal, the coverage of income tax base is low. Agricultural income is exempted from income tax. Exclusion of agriculture income from the tax net alone cuts out about half of the GDP. On the other hand, employment income is taxed more heavily than the capital income. Retirement amount received by Nepalese people being retired from the service by army or police of foreign country is also exempted from income tax. Such provision provided loopholes for tax evasion.
15. Some exemptions granted to achieve certain objectives are not effective. Tax incentive is one of the examples. Although the concession encourage for the establishment of industries in certain areas but they vanish or change names, ownership or place of the business when the tax incentives facility expires.
16. Income Tax Act has clearly mentioned the organizations which are tax free are called tax exempt organization. The Act has exempted a social, religious, educational or charitable organization of a public character registered without having profit motive.
17. Donation made to an exempt organization approved by IRD is allowed for deduction from taxable income. Deduction allowed for individual an individual or entity should not be exceeded Rs, 1,00,000 or 5% of adjusted taxable income. However, the Government of Nepal may prescribe, by a notification in the Nepal Gazette, as to allow full or partial deduction at the time of assessing income of the expenses incurred for special purpose or donation given by the person. Here the Act has not defined, “What is special purpose?”
18. Donation given to national political parties up to Rs. 50,00,000 before three months of election and donation given to Lumbini Development Fund and Pashupati Development Fund up to Rs. 50 lakhs is deductible expenses from taxable income. From the above provision it is clear that the donation given to political parties is allowed for deduction but it has not been able to solve the

voice of people of "transparency of donation amount given by business to political parties."

19. For the purpose of calculating the income of person for an income year from a business or investment or employment, all the interest expenses are allowed for deduction. But in the case of an exempt-controlled resident organization/entity, it can deduct the amount of interest but not exceeding the sum of all the interest derived by the entity during the year that is to be included in calculating the entity to taxable income for the year and 50% of entity's taxable income for the year calculated without any interest derived by the entity or deducting any interest by the entity. It is an unlawful step to business which is not getting the deducting of full amount of interest. Here a controversial condition existed between the law of banking and law of income tax because law of banking says that the interest must be paid to bank but the law of income tax does not give the deduction of full amount of interest for an income year.
20. For the purpose of calculating a person's income for an income year from any business, no deduction is otherwise allowed for the cost of trading stock except the allowance determined by subtracting the amount of closing value of trading stock of the business from the opening value of trading stock plus the cost of trading stock of business acquired by the person during the year.
21. For the purpose of calculating a person's income for an income year from many businesses or investments, there shall be deduction of all costs to the extent incurred during the year in the respect of the repair or improvement of depreciated assets owned and used by the person during the year in the production using the person's income from the investment or business. But the deduction allowed should not exceed 7% of the depreciation basis of the pool at the end of income year and the deduction shall be allowed with respect to cost in order to which they are incurred. Any excess cost or part thereof, for which deduction is not allowed, shall be added to the depreciation basis of the pool to which it relates in accordance. The provision of adding any cost or part thereof to the depreciation basis amount is not contextual and lawful provision because it shows that the repair and maintenance cost of depreciable assets has not got full approval. In the other hand, the tendency of carrying forward of this cost will increase the income tax revenue of the government in some

extent but it will not bring the cordial relationship between the taxpayers and government.

22. All the costs made on pollution control by a person during the year in conducting the business are allowed for deduction. But the expenses shall not exceed 50% of the person's taxable income calculated without deduction for pollution control costs. Any excess costs or part thereof for which a deduction for pollution control costs is not allowed shall be capitalized and may be depreciated in accordance. Here the government has a will of controlling pollution and then protection of environment but has not spent a little bit money/amount on it. In the other hand, all the expenses made by the business to control pollution are not allowed for deduction and has made a standard limit for it. Thus, it is not good symptom of pollution control.
23. All the expenses made on research and developments by a person during the income year in conducting the business are allowed for deduction. But the deductions allowed shall not exceed 50% of the person's taxable income calculated without a deduction for research and development costs. Any excess amount or part thereof for which deduction is not allowed shall be capitalized and may be depreciated in accordance. Researcher is an instructor of development for successful industrial development. So, research and development work is more important and must be expanded. Expenses made on it must be approved and should be allowed for deduction for tax purpose. But the provision of income tax has not given full deduction on it. It is a myopic vision of the government.
24. Depreciation of depreciable assets owned and used by the person during an income year in the production of person's income from the business or investment allowed for the deduction. But the following provision shall be applied in respect of depreciation of the machines, equipment and other machinery installed in the electricity projects that are involving in building power station, generating and transmitting electricity and in the projects conducted any entity so as to build public infrastructure own, operate transfer to the government.
25. Any unrelieved loss of the year incurred by a person from any other business and unrelieved loss of the previous four years incurred by a person from any business are allowed for deduction. In the context of generating and

transmitting electricity and the projects conducted by an entity so as to build public infrastructure, own, operate and transfer to the government of any unrelieved loss of the previous 7 years are allowed for deduction, carry forward of losses for 4 years is not sufficient to encourage the business for taking risk. The provision of carry backward is also thoughtful because the accounting system of Nepal is not so standard to apply this provision.

26. 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 such as domestic expenses, income tax, tax exempt expenses mentioned under Section 10 or final withholding payments, distribution of profits by an identity expenses of capital nature, foreign income tax and any other amount to the extent to which a deduction is not derived, defined and clarified the amounts by the Act. This kind of provision will provide a loophole for tax administration and tax experts.
27. A person whose annual turnover for an income year does not exceed 20,00,000 is not allowed for deduction for a cash payment of more than Rs. 50,000 incurred at once. But if the payment of more than Rs. 50,000 is made to the government, a constitutional body, a corporation owned by the Government of Nepal, a bank or financial institution is allowable. A farmer or producer producing primary agricultural products even in the case where the products are primarily processed by the farmer himself/herself or in an area where banking services are at least 10 K.M. away from the place, the cash expenses or payment more than Rs. 50,000 is deductible.
28. Income Tax Administration of Nepal is not efficient due to various causes like weakness in government's economic policy, complicated tax laws and provisions, lack of public participation and lack of trained & competent employees etc.
29. Income Tax System of Nepal is suffering from various problems and weaknesses such as lack of trained employees, lack of cooperation in tax administration, increased corruption, voluntary compliance, ambiguous provisions under the Nepalese tax laws; limited tax base is difficult to maintain the account for tax purpose, relatively high tax rate, lack of timely adjustment of tax laws etc.

From Primary Data: An opinion survey was conducted in order to find out the various aspects of income tax specially related to exemption, deduction and self assessment of income tax system in Nepal. From the opinion survey of various respondents (Sixty Respondents) i.e. Tax Experts, Tax Administrators and Taxpayers, the following findings have been drawn as:

a) Public awareness programmers are necessary in Nepal for making people well informed about income tax system. In total 88.3333% of the total respondents believed that people are not well informed about income tax system in Nepal.

b) 45% of the total respondents accepted that the major problem faced by the tax payers while paying income tax among various problems was time consuming process.

c) Among the various methods for the effective implementation of self assessment of income tax in Nepal, income tax education to the tax payers should be given because this became the most important method / factor, which has stood in rank 1st given by the total respondents' scores. In the same ways, make political commitment, strengthen and improve tax administration, improve in income tax laws and regulations, reward and punishment, develop skilled man power and develop information technology are others important methods for achieving effective implementation of self assessment of Income Tax in Nepal.

d) The most important factor was chosen for effectiveness of self assessment of income tax in Nepal is to have clear Act, rules and regulations. The important factors in order of the preference of the respondents were as follows:

    - Clear acts, rules and regulation
    - Effective income tax administration
    - Honest tax payers
    - Honest tax officers

e) 30% of Tax Experts, 40% of Tax Administrators and 80% of Taxpayers believe that tax collection through self assessment system is low because of weaknesses in Income Tax Act, 2058 B.S. and 55% of total respondents believe it. Major weaknesses in Income Tax Act, 2058 for collection of Income through self assessment system are as follows:

    - There is no clear rule to provide necessary tax clear certificate for every investors and property holder. It should be compulsory for every financial transaction which is done through financial institution, and they need tax clear certificate.

- There is always burden to proof taxable income for tax officer because of income tax act 2058 in some cases.
- Self assessment is fully based on tax payers. It's also not so effective to collection more revenue through self assessment system. In this system always there are high chances of fraud by tax payers.
- After the merging of VAT and Tax office there are so many taxpayers, it has created the difficulty in the tax administration, so it is also weakness of Income Tax Act, 2058.

f) The situation of present income tax administration in Nepal found that 16.67% of the total respondents believed that present Income Tax Administration is efficient. 46.67% of the respondents believed that it is inefficient. 36.67% of the respondents said that it is in satisfactory condition of Income Tax Administration of Nepal. From the opinion survey the most important cause of inefficiency of tax administration ranked is lack of trained and competent tax officers and second most important cause is complicated tax laws. Other options chosen by the respondents are lack of co-ordination among the tax related departments, lack of proper direction, lack of effective communication and unnecessary outside pressure respectively.

g) Only 20% of the tax experts and 20% of tax administrators believed that the tax administration is not sound after the merging of tax and VAT office, but in contradiction 76% of the tax payers said there is no soundness of the tax administration after merging VAT and tax office. Out of total respondents, 43.33% of them said that the tax administration is not sound after the merging of tax and VAT office. Only 26 persons out of 60 persons supported that the tax administration is unsound.

h) 80% of tax experts believed that self assessment of tax is the best assessment of income tax assessment. In the same ways 44% of tax administrators and 48% of tax payers also think it is the best method of the assessment of tax. In total respondents, 51.6667% believed that self assessment system is the best assessment system for the income tax assessment in Nepal. So, it can said that self assessment of income tax is the best assessment for the tax assessment in

Nepal but for the effectiveness in self assessment awareness to the taxpayers should be spread all over the country.

i) Encouragement to the taxpayers, public awareness programmes, proper checking system to stop the hiding of income, tax clear certificate system, simplicity & transparency in tax system, coordination among tax related departments, training programmes to the tax personnel, formulation of clear Acts, rules & regulations and their implementation, reward & punishment system, prevention of corruptions in the field of tax, supervisions, inspections, suggestions, directions and instructions facilities should be maintained for achieving effectiveness of self assessment of income tax in Nepal.

j) The existing income tax assessment procedure is considered as unsound and inefficient. The major causes of being unsound and inefficient were ranked on the basis of the respondents views are as follows:
   - Weakness in government's economic policy
   - Complicated tax laws and provisions
   - Lack of public participation
   - Corruption
   - Defective assessment procedure
   - Lack of trained and competent employees
   - Inefficient organizational structure of tax administration
   - Lack of coordination within the tax department
   - Scarce of income tax experts or professionals in tax administration

k) 20 respondents i.e. 33.33% of total respondents were agreed that the contribution of income tax to national revenue of Nepal whereas 40 respondents i.e. 66.67% of the total respondents were not agreed about the contribution of income tax to national revenue of Nepal. Most of the respondents of all codes ("A", "B", "C") were disagreed about the contribution of income tax to national revenue of Nepal. Thus it can be concluded that the contribution of income tax to national revenue of Nepal is not satisfactory. The main causes which are responsible for the unsatisfactory contribution of income tax to national revenue of Nepal are ranked in order as follows:
   - Weakness in government's economic policy
   - Lack of public participation

- Complicated tax laws and provisions
- Lack of trained and competent employees
- Inefficient organizational structure of tax administration
- Corruption
- Defective assessment procedure
- Scarce of income tax experts or professionals in tax administration
- Lack of coordination within the tax department

l) Income tax rates of Nepal are considered as medium. Most of the tax experts and tax administrators were agreed that the income tax rates are medium whereas most of the taxpayers were agreed as high income tax rates.

m) Out of 60 respondents, 32 respondents i.e. 53.33% were agreed that the exempted items of income are sufficient whereas 28 respondents i.e. 46.67% were disagreed about the sufficiency of exempted items.

n) The current income tax exemption limit is not adequate. Most of the respondents suggested to provide Rs. 2,00,000 and Rs. 3,50,000 exemption limit for an individual and a couple or a family respectively.

o) The family exemption limit must not be provided according to the number of dependents because of impracticability.

p) The exemption limit of a family or an individual should be adjusted according to the inflationary situation of the country. But this situation makes the tax administration more complicated and vague rather than every year's fiscal policy. The fiscal policy may provide tax relief to accommodate inflation if provisioned.

q) 68.33% of the total respondents were in support to exempt the agricultural income whereas 13.33% of the total respondents were against the exemption facilities of agricultural income. Only 11.67% of the total respondents were in favour to treat it as other income. Thus it can be concluded that the agricultural income should be exempted from income tax.

r) The majority of the respondents were against the sufficiency of itemized deductions of expenses. Except tax administrators, majority of tax experts and taxpayers were against of itemized or item wise deductions of expenses. From the study, it can be concluded that there is insufficiency about itemized deductions.

s) 45% of respondents were agreed whereas 55% of respondents were disagreed about sufficiency of provisions relating to exemptions and deductions under the Nepalese Income Tax Act. To have the sufficient provisions relating to exemption and deduction under Nepalese Tax Act improvements are needed in languages, tax rates, laws, tax administration, exemption limit, tax base payment system etc.

t) The suggestions received from the empirical study or opinion survey 2011/2012 A.D. about the various aspects of income tax in Nepal are as follows:

- The tax laws needed to be simplified, early interpreted and understood even a layman.
- Tax administration and assessment procedures are also required to be simplified and should be made taxpayers as friendly.
- Accessibility of the tax administration should be improved.
- Utilization of revenue takes vital role to revenue generation and voluntarily self registration and assessment.
- Public awareness is needed and political commitment and credibility should be necessary.
- Income Tax Act should facilitate people to pay tax by making honestly and friendly organization and employees.
- It should give focus on the area of taxation rather than high tax rate.
- Lowering tax rate and increasing tax base.
- Increasing exemption limit.
- Motivating for self compliance.
- Developing competence among tax personnel.
- Starting court cases to evading people/entity.
- Compulsory declaration of assets of each individual.
- Different privileges and nation-wise recognitions must be given to the regular and high taxpayers and abroad visiting should be provided.
- Punishment should be given for not paying tax to the government.

CHAPTER–V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

In our country, there is lack of the financial resources and a lot of funds are required to do the development activities. Nepal has been suffering from the shortage of Capital to accelerate the economic growth. There is so much resources gap, so in order to fulfill the shortage, government is depending on the foreign grants and loans. So to fulfill the resource gap income tax, a direct tax is most important sources of internal revenue. Due to the low economic activities and lesser development of the corporate sectors, the contribution of income tax to the total revenue is very low.

Being landlocked, developing and mountainous country, Nepal has to cope with the various kinds of difficulties such as economic, social, demographic, cultural, political, developmental and diplomatic etc. The nation requires sufficient fund to fulfill its responsibilities towards its people and territory while coping with the difficulties. The basic needs like food, health, education, securities are to be provided and other needs like administration, social welfare and foreign trade etc. are to be raised from internal and external sources of income. External sources of fund are foreign grants and loans which are received from foreign countries and international organizations and internal sources of fund are tax sources and non-tax sources which are received by the government from the people and their activities handled by them out of their income. Tax sources are made up of direct and indirect taxes where income tax is one of the most important components of direct tax.

The composition of the government revenue is internal revenue and external revenue. Internal revenue includes both tax revenue and non-tax revenue. Tax revenue is dominating to non-tax revenue of Nepalese Government. The contribution of tax revenue shows the increasing trend. Income tax is the composition of corporate income tax, individual income tax and investment income tax. Corporate income tax is collected from government corporations, public limited companies, partnership firms and private limited companies. Individual tax is collected from remuneration, industry and business profession etc. and investment tax is collected from dividend tax, interest tax, royalty, rent tax etc. All incomes generated by an individual are not taxable income because the minimum cost expenses required for living cannot be taxed. So, from the commencement of income tax in Nepal, some extents of amounts are exempted from income tax. The extent is known as exemption limit. Income tax exemption limit in Nepal has been changing on the basis of time and condition. From the empirical studies, respondents have suggested to change exemption limit according to the inflationary situation of the country.

In Nepal, the coverage of income tax base is low. Agricultural income is exempted from income tax. Exclusion of agriculture income from the tax net alone cuts out about half of the GDP. On the other hand, employment income is taxed more heavily than the capital income. Retirement amount received by Nepalese people being retired from the service by army or police of foreign country is also exempted from income tax. Such provision provided loopholes for tax evasion. Some exemptions granted to achieve certain objectives are not effective. Tax incentive is one of the examples. Although the concession encourage for the establishment of industries in certain areas but they vanish or change names, ownership or place of the business when the tax incentives facility expires. Income Tax Act has clearly mentioned the organizations which are tax free are called tax exempt organization. The Act has exempted a social, religious, educational or charitable organization of a public character registered without having profit motive. Donation made to an exempt organization approved by IRD is allowed for deduction from taxable income. Deduction allowed for individual an individual or entity should not be exceeded Rs, 1,00,000 or 5% of adjusted taxable income. However, the Government of Nepal may prescribe, by a notification in the Nepal Gazette, as to allow full or partial deduction at the time of assessing income of the expenses incurred for special purpose or donation given by the person. Here the Act has not defined, “What is special purpose?” Donation given to national political parties up to Rs. 50,00,000 before three months of election and donation given to Lumbini Development Fund and Pashupati Development Fund up to Rs. 50 lakhs is deductible expenses from taxable income. From the above provision it is clear that the donation given to political parties is allowed for deduction but it has not been able to solve the voice of people of "transparency of donation amount given by business to political parties."

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 such as domestic expenses, income tax, tax exempt expenses mentioned under Section 10 or final withholding payments, distribution of profits by an identity expenses of capital nature, foreign income tax and any other amount to the extent to which a deduction is not derived, defined and clarified the amounts by the Act. This kind of provision will provide a loophole for tax administration and tax experts. Income Tax Administration of Nepal is not efficient due to various causes like weakness in government's economic policy, complicated tax laws and provisions, lack of public participation and lack of trained & competent employees etc. Income Tax System of Nepal is suffering from various problems and weaknesses such as lack of trained employees, lack of cooperation in tax administration, increased corruption, voluntary compliance, ambiguous provisions under the Nepalese tax laws; limited tax base is difficult to maintain the account for tax purpose, relatively high tax rate, lack of timely adjustment of tax laws etc.

Public awareness programme is necessary in Nepal for making people well informed about income tax system. Among the various methods for the effective implementation of self assessment of income tax in Nepal, income tax education to the tax payers should be given because this became the most important method or factor. The most important factor was chosen for effectiveness of self assessment of income tax in Nepal is to have clear Act, rules and regulations. After the merging of VAT and Tax office there are so many taxpayers, it has created the difficulty in the tax administration, so it is also weakness of Income Tax Act, 2058. From the opinion survey the most important cause of inefficiency of tax administration ranked is lack of trained and competent tax officers and second most important cause is complicated tax laws. Other options chosen by the respondents are lack of co-ordination among the tax related departments, lack of proper direction, lack of effective communication and unnecessary outside pressure respectively. Encouragement to the taxpayers, public awareness programmes, proper checking system to stop the hiding of income, tax clear certificate system, simplicity & transparency in tax system, coordination among tax related departments, training programmes to the tax personnel, formulation of clear Acts, rules & regulations and their implementation, reward & punishment system, prevention of corruptions in the field of tax, supervisions, inspections, suggestions, directions and instructions facilities should be maintained for achieving effectiveness of self assessment of income tax in Nepal.

The family exemption limit must not be provided according to the number of dependents because of impracticability. The exemption limit of a family or an individual should be adjusted according to the inflationary situation of the country. But this situation makes the tax administration more complicated and vague rather than every year's fiscal policy. The fiscal policy may provide tax relief to accommodate inflation if provisioned. The main causes which are responsible for the unsound and inefficient tax assessment procedure and unsatisfactory contribution of income tax to national revenue of Nepal are ranked in order as follows:

- Weakness in government's economic policy
- Lack of public participation
- Complicated tax laws and provisions
- Lack of trained and competent employees
- Inefficient organizational structure of tax administration
- Corruption
- Defective assessment procedure
- Scarce of income tax experts or professionals in tax administration
- Lack of coordination within the tax department

Within the Income Tax System, exemptions, deductions and self assessment are more important to understand about income tax. Income tax has many phenomena but in this research study, role played by exemptions, deductions and self assessment for the contribution of income tax and their effects have been considered. Exemption of incomes, deductions of expenses and rates the income tax should be determined on the basis of income level people & different sectors, number of dependents and inflationary situation of the country. Income tax administration should be able to motivate the taxpayers to make their self assessment of their incomes according to the government economic policy. For that, regular supervisions, inspections, checking, auditing, updating new technology, standard accounting system encouragements, simplification of technical and vague languages etc. are necessary.

Income tax system of Nepal has been blamed as being inefficient system. Being various problems relating to income tax revenue collection from income tax is low as compared to other countries but while analyzing data relating to it, it is found neither bad nor worse because it is being improved continuously. However income tax laws and administration in Nepal are to be deeply scrutinized and properly implemented. If the problems relating to income tax system in the country can be solved and resources re effectively utilized then only the prospects of revenue through income tax will be effective and bright so that the economic development of Nepal will be achieved.
At last to reduce the prevalent problems in income tax system in Nepal relating to exemptions, deductions and self assessment, the possible and suitable alternatives should be adopted, followed and implemented for positive result in the future, which are recommended in this research study.

5.2 Conclusion

Developing countries like Nepal is facing serious problems since the process of economic development. Lack of sufficient financial resource and its efficiency is the main constraint for the economic development of Nepal. Sufficient funds are required to meet the objectives of economic development. But, Nepal has not been able to collect necessary funds or revenues. Due to poor performance on internal revenue collection and its mobilization, Nepal has been heavily relying on foreign loans and grants. Thus, the dependency is increasing day by day which is not desirable for any economy. Thus, it is the most necessary activity to mobilize the internal fund or revenue to the optimum level.

To increase the government internal revenue, Nepalese government is trying to extract money from people through taxation. Within tax, income tax is the most important source of government revenue which is considered as a good remedy to cure growing resource gap in Nepal. In the country, the history of income tax is not so long. It was started only on late fifties. The income tax was introduced as a train on business profit and the remuneration income. The first elected government believed on the first income tax and no specific Act was made to define and treat income tax. The first Income Tax Act was introduced in 1959/60. Since then four income tax Acts have been implemented. From the very beginning, the concept of exemptions, deductions and other forms of tax relief in income tax have emerged in Nepal. All income of an individual cannot be taxable income because the minimum cost required for subsistence cannot be taxed. The exemptions, deductions and other form of tax relief are essential to encourage an individual to work more. The tax relief works as an incentive to an individual. So the concept of exemption, deduction and other tax reliefs are emerged in the country from the very beginning of income tax.

Exemption limit and the rate of the income tax is determined according to the income level and sector wise but has not been adjusted according to the inflationary situation of the country and number of dependents. Income Tax System of Nepal has been blamed as being inefficient system. Being various problems relating to income tax, revenue collection from income tax is low as compared to other developing countries like India, Sri Lanka, Pakistan etc. nevertheless, if the data are analyzed relating to it, it is found that it is neither bad nor worse because it is being improved continuously. However income tax laws and administration in Nepal are to be deeply scrutinized and properly implemented. The provisions made on the Act have to be mentioned clearly and language has to be made clear and some reforms in tax administration system are needed.

The economy of a nation largely depends on the well developed private sector. The private sector can be developed through corporate friendly laws, rules and regulations as well as the process of industrialization. A good corporate culture is very important to develop corporate sector. As Nepal is adopting the mixed economy for last five decades and have been liberalized from 1990's. By constitution, Nepal has encouraged the foreign investments. Various corporate friendly, laws rules has been formulated. Many public enterprises have been privatized and liquidated; some are in the process of privatization. Nepal has entered to WTO from 23rd. April 2004 and has given emphasis to foreign trade and foreign direct investments. Also the rate of custom duties has been lowered and relief in other trade barriers. Due to liberalized/ economy number of multinational companies has been established. Through there is establishment of multinational companies, there are facing various challenges. The challenges are open boarder, smuggling of goods and services, improper billing, tax evasion, political instability, strike, insecurity and unhealthy relation between labor union and the management. So, business environment should be improved and mass media should be used for the public awareness about the income tax system. Income tax is very important sources of tax for the generation revenue from internal source. We can see the status of a country with the contribution of income tax to national revenue. If the ratio of contribution is high then the status of development is more. So in developed countries the contribution from income tax to national revenue is very high. In order to increase the contribution from income tax, Nepal has adopted the new Income Tax Act 2058 B.S. Form the 19th. Chaitra, 2058 B.S., this act has been formulated so as to encourage the foreign investors. Especially the self assessment of Income Tax System has been introduced with the broad tax base to collect the more internal revenue and the facilities of exemptions and deductions have been provided. The income tax act 2058 has encouraged developing the corporate culture in the country. It has transformed the ad-hoc based accounts to account based self assessment. The strengths of the act are broad base, appropriate rate of tax, appropriate method of calculation of depreciation provision for loss carry forward for consecutive year, provision of installment and use of the information technology.

Though the acts have good aspects, in the implementation there are following challenges, the acts, rules and regulation are not consistent, the tax education part is very poor, and tax payers evade the tax by showing less transaction. Also there is smuggling of goods due to the open boarder and inefficiency of the administration. Though tax department is applying IT, it is not well informed or educated to tax payers as well as the tax personnel. The tax personnel don’t get appropriate training. There is no proper effective program for the tax payers to motivate for the paying of income tax. There should be introduced motivation program to the tax payers to pay tax by giving them extra facilities such as unemployment allowance, medical facilities, education facilities to the children of the tax payer etc. if the problems relating to income tax system in Nepal can be solved and resources are effectively utilized then only the prospects of revenue through income tax will be more effective and bright and the economic development of Nepal will be achieved.

5.3 Recommendations

As earlier described, there are various problems regarding to income tax of Nepal. The existing tax assessment procedure is also unsound and inefficient. The major causes of being unsound and inefficient tax assessment procedure are weakness in government's economic policy, lack of public participation, complicated tax laws and provisions, lack of trained and competent employees etc. in the opinion survey, it was noticed that most of the respondents were dissatisfied with the government economic policy, complicated tax laws and provisions and lack of public participation. The research study mostly focused into the problems that are related to exemption of incomes, deduction of expenses and self assessment of filing a return of income for an income year by a person in income tax system in Nepal. So, the recommendations made for other than exemptions, deductions and self assessment of income tax system of Nepal may be considered as the general recommendations. Hence, on the basis of this study, following recommendations are recommended by the researcher in order to increase the contribution of income tax through exemption of incomes, deduction of expenses and self assessment in government revenue collection as well as for the effectiveness of self assessment of income tax in Nepal.

Exemption of Incomes

1. To increase the income tax revenue, the present tax base must be widened by including the incomes from agriculture sector; retirement amount received by Nepalese people being retired from the service of army or police of foreign country and currently exempted other sources of income.
2. In the agricultural income, there should be some exemption limit and the income above the limit should be taxed.
3. The present provision of an individual and a family exemption are not appropriate. It should be raised to minimum of Rs. 2,00,000 for an individual and Rs. 3,50,000 for a couple or a family.
4. The exemption limit should be adjusted according to the inflationary situation of the country of yearly basis.
5. There are many provisions relating tax exemption and concessions. Some concessions granted to achieve certain objectives are not effective. Tax concessions encourage the establishment of industries in certain area but they vanish or change their names, ownership or place of the business when the

concession facilities expire. Thus proper investigation, inspection and supervision are to be taken place in time to time. The incentives provided to special industries are not effective. Such kinds of concessions do not encourage opening the industries in remote area, for that purpose special package should be introduced.

6. Little percentage of tax rebates should be provided to the tax payers who submit true income statement within the specified period of time.
7. Income tax on total export amount is not appropriate because income tax should be based on income not on the total amount. So, the provision of taxing on export income should be introduced. Similarly, export fee on export transaction should be eliminated or exempted.
8. Double taxation on dividend should be eliminated.
9. Income Tax Act has mentioned the tax free (exempt) organizations. The Act has exempted a social, religious, educational or charitable organization of a public character registered without having profit motive. In the case of non-transparent private business like boarding school, NGO's or other entities where the profit is earned but the sake of tax planning the profit is called retained earnings or something else. So, they should be taken into tax net.
10. Retirement contributions are nothing else than the product of sacrifice of present earning. Those are the bases for living standard of oldness of employees. So, they should be excluded from income tax.
11. Dearness allowance is given to meet the living standard of employees. It is not lawful to include in taxable income. So, it should be fully exempted from income tax.

Deduction of Expenses

1. Donation given to a political parties registered with the election commission is allowed for deductions. But it has not been able to solve the voice of the people of 'transparency of donation amount given to political parties by the businessmen'. So, donation amount given to political parties should be transparent through any media or by the related authority.
2. Deductions allowed from an employment income are not sufficient. Thus, the following deductions should be provided to the taxpayers whose source of income is only the remuneration.

a. Medical expenses made by tax payers.
b. Expenses made for house rent.
c. Educational expenses for tax payers himself/herself if he/she is still studying in an educational institution.
d. Life insurance premium.
e. Pregnant delivery expenses for certain limit.
f. Expenses for better education of taxpayers' children.

3. Clear provisions should be made in the case of deduction. All the items of deductions should be clearly defined in the Act.
4. Deductions allowed from business or investment incomes are not sufficient. So, the following deductions should be provided to the taxpayers whose source of income is business or investment.
   a. In the case of controlled resident entity, full deduction of interest expenses is not allowed. It is not lawful step to businessmen who operate the business with loan or debt amount. So, it should be fully allowed for deduction within an income year.
   b. The provision of adding any excess loss or part of repair and improvement costs to the depreciation basis amount is not contextual and lawful provision because it shows that the repair and improvement cost of a depreciable asset has not got full approval or deduction. Therefore, it should be fully allowed for deduction within an income year.
   c. To control pollution and protection of environment, environmental protection is more essential and should be expended on it and expenses made on it should be approved and should be fully allowed for deduction within an income year. The Act should not make standard limit on it.
   d. For successful industrial development, research and development is more essential and should be expended on it. Expenses made on it should be approved and fully allowed for deduction within an income year and the standard limit should not be made on it.
   e. There should be specific provision of depreciation of assets, which are taken on lease and installment basis. The Act should not be silent on it.

Provisions made on depreciation allowances should be generally understandable by all the people.

f. Carry forward of losses for 4 years is not sufficient as compared to other developing countries and developed nations. So, it should be extended up to 5 to 6 years. The provisions of carry backward of losses should be considered because the accounting system of Nepal is not so standard to apply this provision.

Besides these recommendations, the following recommendations are made to compensate the loss of revenue due to the provision of additional exemptions and deductions recommended by the researcher.

- The income tax policy should be formulated so as to match with the economic policy of the country.
- The members involved in formulating income tax policies must have deep knowledge about income tax.
- Timely revision and adjustment should be made in the matter of in the matter of income tax policy
- Income tax policy should be formulated so as to satisfy the following criteria.
  i. It should be progressive ensuring social justice.
  ii. It should be consistent with tax administration capacity.
  iii. It should not be used against national priority and efficient resource use.

5. The success of effectiveness of any system entirely depends upon implementation of provisions which is the major responsibility of administration. In Nepal, one of the most important reasons for becoming unsound income tax system is inefficient and unscientific income tax administration. Thus, the following recommendations are made for the improvement of income tax administration in Nepal.
   a. All the tax personnel should be given comprehensive training on various aspects of taxation on regular basis. For this, a separate training section within tax department should be established.
   b. The performance, responsibilities, authorities and duties should be clearly defined.

c. Financial benefits and extra incentives should be provided to the personnel to decrease corruption.
d. Effective reward and punishment system should be established.
e. Working environment of the tax offices should be improved and other facilities should be provided.
f. The administration should try to increase effective public participation to minimize the income tax evasion.
g. Income tax experts/professional should be increased in tax administration.
h. Coordination between staffs and departments should be established.
i. Delays in assessment should be reduced as soon as possible.
j. Fair and scientific provision of promotion and career development should be introduced.
k. The cost of revenue collection is one of the determinants of administrative efficiency. So, the concerned authority should pay due attention on it.
l. An integrated information system should be developed to prepare the list of potential taxpayers and gather information of various aspects relating to income tax.
m. The system of recording by computer should be developed in all income tax administration.
n. The education system should be developed relating to income tax to provide ideas about it to the taxpayers on regular basis.

6. Laws relating to income tax should be clear, simple and comprehensive and it should not contain loopholes. The following recommendations made for the information of existing tax law in Nepal are as follows:
    a. The language should be simple and clear instead of using the vague meaningful words, and clear cut provision should be undertaken.
    b. The definition made in Income Tax Act should be further clarified and well defined.
    c. The assessment and tax collection provisions should be made clear and simple.
    d. The provisions of fines, penalties and punishment should be made clear and simple.

e. The assessment of time limit after the submission of income statement should be reduced.
f. Discretionary power of the tax officers should be curtailed and their rights and duties should be clarified in Income Tax Act.

7. The reward, prize, incentives provisions should be introduced in the Act to encourage the taxpayers to pay tax voluntarily rather than coercive measures.
8. Clear provisions should be made in the case of deductions. All the items of deductions should be clearly defined in the Act.
9. There should be compulsory provision of auditing
10. The administrative personnel should pay great attention to bring the incomes from house and land rent, doctors' clinic, consultancy services, tuition centre etc. into income tax net because in these sectors the income tax has been highly evaded.
11. Unnecessary political and outsiders' pressure should be avoided.
12. The provision of tax deduction at source and advance payment to tax should be extended to different sources of income as far as possible.

Self Assessment of Income Tax

1. The rate of total tax to GDP is very low. The contribution ratio can be increased by levying tax on education, public transport etc. and broadening the tax net.
2. Direct tax as percentage of total tax is very low so, it should be increased by applying self assessment of Income Tax with doing promotional activities and awareness program to the general tax payers through mass media, such as Newspaper, using telephone, internet, fax, TV, Radio etc.
3. To increase the indirect tax especially the VAT the government should encourage the entrepreneurs to join VAT, take PAN and systematize the custom duty.
4. The transaction record between tax payers more than one lakh should be exchanged among Inland Revenue Offices.
5. Tax education especially the self assessment education should be given to general public. For this purpose tax education should be included in the syllabus of secondary level education in school.

6. Highest tax paying person should be motivated by giving different facilities and by honoring him/her.
7. The income tax act should be very simple and easily understood by the general public. It should not be very vague and so large.
8. Political commitment should be needed for the improvement of income tax system in Nepal.
9. There should be effective coordination among the different tax related departments.
10. Need to improve information technology to provide better effective service to the tax payers at the least cost and time.
11. Provision of reward, prize and incentives should be introduced to encourage the tax payers to pay tax voluntarily rather than through coercive measures.

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Official Websites:

www.ird.gov.np

www.mof.gov.np

Appendix - I

Dear Sir / Madam

I am Bhesha Raj Pandey, a student of Shanker Dev Campus, Putalisadak, Kathmandu, Faculty of Management, Department of Accountancy, M.B.S. Final Year (2062 / 063 Batch). In order to fulfill the partial requirement of the Degree in Masters of Business Studies, I am preparing a thesis named **"Exemptions, Deductions and Self Assessment of Income Tax System in Nepal."** For that, I have prepared and submitted the thesis proposal to the campus.

I would be very much appreciated if you kindly spare of fens of your busy and valuable time for completing my research work in the given time. I anticipate your suggestions as far as possible.

Thank You!

……………………………..

Yours Sincerely

Bhesha Raj Pandey

Campus Roll No.: 692 / 062

T.U. Reg. No.: 7-3-39-233-2005

1st Year Passed in Examination 2066 *B*.S., Roll No.: 392735

2ndYear Passed in Examination 2064 B.S., Roll No.: 4123

Appendix – II

Questionnaire

Name: ……………………… ……………. ……………………………..

Occupation: ……………………………………

Designation /Position: …………………………

Office/ Organization: ………………………………………………………….

Please you are requested to tick (√) the suitable answer of your choice in the brackets as directed in the following questions provided with two alternatives, to choose the best alternative wherever instructed, to write the number in order (e.g. 1 to 10) wherever appropriate in the brackets to rank the provided answers in order of preference from 1st (most important) to the last (least important) answers to the questions with three or more alternatives and to specify any alternative answer with your hand writing in the respective spaces provided below.

1. Do you think that most of the Nepalese people are well informed about the self assessment of income tax system in Nepal?
   a. Yes [ ]   b. No [ ]

2. In your opinion, what type of problem is facing by the taxpayers while paying income tax? Please choose the most appropriate alternative.
   a. Time Consuming Process [ ]
   b. Expectation of illegal incentives by tax personnel [ ]
   c. Vague Provisions in Income Tax Laws [ ]
   d. Lack of Co-operations of Income Tax Administrators [ ]
   e. Other, if any please specify: ……………………………………………

3. What should be done for the “effective implementation of self assessment system of income tax in Nepal?” Put your answers in rank.
   a. Strengthen and improve tax administration [ ]
   b. Improve income tax laws & regulations [ ]
   c. Income tax education to the tax payers [ ]
   d. Develop information technology [ ]
   e. Develop skilled man power [ ]
   f. Make political commitment [ ]
   g. Reward and Punishment [ ]
   h. Other, if any please specify: ……………………………………………

4. What is the most important factor for effectiveness of income tax in Nepal? Please choose the most appropriate option.
   a. Honest Tax payers [ ]
   b. Honest Tax officers [ ]
   c. Clear Act, rules and regulation [ ]
   d. Effective income Tax administration [ ]
   e. Other, if any please specify: ……………………………………………

5. Do you believe that the contribution of income tax through self assessment is not satisfactory because of weaknesses in Income Tax Act 2058?
   a. Yes [ ] b. No [ ]

   If yes, what is the major weakness in income tax act 2058, for low contribution for income tax through self assessment?

Answer:

………………………………………………………………………………………

…………………………………………………………………………

6. What do you feel about present income tax administration of Nepal? Choose the best alternative.
   a. Efficient [ ]
   b. Inefficient [ ]
   c. Satisfactory [ ]

If inefficient is your answer, what are the major causes? Please tick the most appropriate alternative from the following options.

a. Lack of trained and competent tax officers [ ]
b. Lack of delegation of authority among tax personnel [ ]
c. Lack of proper direction [ ]
d. Lack of effective communication [ ]
e. Unnecessary outside pressure [ ]
f. Undue delay in making assessment [ ]
g. Lack of co-ordination among the tax related departments [ ]
h. Complicated tax laws [ ]
i. Other, if any please specify: …………………………………………..

7. Do you believe that the income tax administration is not sound after merging of tax and VAT office?

a. Yes [ ] b. No [ ]

If yes, what is the main reason? Choose the best alternative.

a. Difficulty in management due to the large number of taxpayers [ ]
b. Inefficient tax officers [ ]
c. Complication due to disharmony between income tax and VAT [ ]
d. Increasing habit of tax evasion of taxpayers once they are registered in VAT [ ]
e. Other, if any please specify: ……………………………………………

8. Do you believe that self assessment is the best assessment for the income tax assessment?

a. Yes [ ] b. No [ ]

9. Do you have any others suggestions for achieving effectiveness of self assessment of income tax in Nepal? Please state.

Answer:

…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………..

10. Do you think that the existing income tax assessment procedure is sound and efficient?

a. Yes [ ] b. No [ ]

Whether your answer is 'Yes' or 'No', what are the major causes which are responsible for the unsound and inefficient tax assessment procedure? Answer in rank wise from the options starting from 1 to 9.

a. Defective assessment procedure [ ]
b. Lack of public participation [ ]
c. Lack of trained and competent employees [ ]
d. Inefficient organizational structure of tax administration [ ]
e. Scarce of income tax experts/professionals in tax administration [ ]
f. Weakness in government's economic policy [ ]
g. Lack of co-ordination within the tax department [ ]
h. Complicated tax laws and provisions [ ]
i. Corruption [ ]
j. Other, if any, please specify: ………………………………………………...

11. Do you think that the contribution of income tax to national revenue of Nepal is satisfactory?

a. Yes [ ] b. No [ ]

If your answer is No, what are the major causes which are responsible for unsatisfactory contribution of income tax to national revenue? Give your answers from the following options in order of rank from 1 to 9.

a. Defective assessment procedure [ ]
b. Lack of public participation [ ]
c. Lack of trained and competent employees [ ]
d. Inefficient organizational structure of tax administration [ ]
e. Scarce of income tax experts/professionals in tax administration [ ]
f. Weakness in government's economic policy [ ]
g. Lack of co-ordination within the tax department [ ]
h. Complicated tax laws and provisions [ ]
i. Corruption [ ]
j. Other, if any, please specify: ………………………………………...

12. What is your opinion about the current income tax rates? Give the answer which is appropriate from the following options.

a. High [ ]
b. Medium [ ]
c. Low [ ]

13. Do you think that the exempted items of incomes are sufficient?

a. Yes [ ] b. No [ ]

If no, what kind of incomes should be exempted? Please give your answer in order/rank of important.

a. ……………………………………………………………………...
b. . ……………………………………………………………………...
c. ……………………………………………………………………...
d. . ……………………………………………………………………...
e. ……………………………………………………………………...
f. ……………………………………………………………………...

14. Do you think that current income tax exemption limit is adequate for individual and couple or a family?

a. Yes [ ]   b. No [ ]

If no, what exemption limits do you suggest for? Please write in the spaces provided below.

S.N.	**Types**	**Existing Limit**	**Suggested Limit**
a	An individual	Rs. 1,60,000	
b	A couple or a family	Rs. 2,00,000	

15. Do you agree that family exemption limit just be provided according to the number of dependents in the family?

a. Yes [ ]   b. No [ ]

16. Do you agree that exemption limit should be adjusted according to the inflationary situation of the country?

a. Yes [ ]   b. No [ ]

17. What is your opinion about exemption providing on agricultural income? Please choose the best option.

a. Yes, it should be exempted [ ]

b. No, it should not be exempted [ ]

c. It should be treated as other income [ ]

d. Other, if any, specify: ………………………………………………….

18. Do you think that the itemized deductions are sufficient?

a. Yes [ ]   b. No [ ]

If no, what kind of other expenses should be deducted while computing taxable income? Please write your answer in order/rank of importance.

a. ……………………………………………………………………………….
b. ……………………………………………………………………………….
c. ……………………………………………………………………………….
d. ……………………………………………………………………………….
e. ……………………………………………………………………………….
f. ……………………………………………………………………………….

19. In your opinion, are the provisions relating to exemptions and deductions under the Nepalese Income Tax Act, 2058 B.S. sufficient in all aspects?

a. Yes [ ]   b. No [ ]

If no, in which aspects the improvements are needed? Please specify your answer in the order of importance.

a. ………………………………………………………………………………
b. ………………………………………………………………………………
c. . ………………………………………………………………………………
d. . ………………………………………………………………………………
e. ………………………………………………………………………………
f. ………………………………………………………………………………

20. Do you have any suggestions about income tax in Nepal?

Suggestion:

………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………
………………………………………………………………………………………
………………………………

Thank You for Your Good Co-operation

Bhesha Raj Pandey
MBS II Year
Shanker Dev Campus

Appendix – III

Master Table

Total GDP, Total Revenue, Revenue from Direct & Indirect Taxes and Non-tax Revenue

(Rs. in millions)

Fiscal Ye	Total GDP	Total Revenue	Tax Revenue	Non-tax Revenue	Direct Taxes					Indirect Taxes										
					Income Tax	Land Tax	House and Building Reg.	Others	Total	Import Duties	Export Duties	Excise Duties	Sales Tax Or VAT	Enter-taine-d Tax	Hotel Tax	Cont-ract Tax	Air Flight Tax	Others	Total
1995/96	239388.0	27893.0	21668.0	6225.0	3431.4	18.2	1048.4	87.0	4585.0	6247.0	149.9	1944.3	6431.0	100.4	284.2	613.1	311.1	1002.0	17083.0
1996/97	269570.0	30374.9	24425.2	5949.7	4123.3	5.95.9	1009.5	95.3	5234.0	7093.0	167.8	2298.1	7127.0	114.0	301.1	621.3	314.4	1154.5	19191.2
1997/98	289798.0	32938.2	25940.0	6998.2	4898.1	3.6	1000.6	110.7	6013.0	7019.0	217.1	2885.8	7123.0	90.6	45.8	761.6	343.4	1440.7	19927.0
1998/99	330018.0	37247.1	28753.0	8494.1	6170.0	1.4	1001.8	123.8	7297.0	7698.0	378.0	2953.2	7882.0	23.5	1.5	618.7	210.7	1690.4	21456.0
1999/00	366251.0	42903.6	33162.0	9741.6	7420.6	4.6	1011.3	118.5	8555.0	8960.0	432.5	3137.6	9882.0	11.5	1.8	374.5	0.5	1806.6	24607.0
2000/01	394052.0	48889.6	38860.8	10028.8	9110.0	5.1	607.8	436.5	10159.4	10391.9	492.6	3770.0	12042.8	30.4	0.1	304.0	0.8	1668.8	28701.4
2001/02	406138.4	50990.6	39875.6	11115.0	8903.6	-	1121.3	574.1	10599.0	11508.4	1150.5	3807.7	11947.9	2.0	0.005	300.5	-	559.6	29276.61
2002/03	437545.8	56229.7	42587.0	13642.7	8132.2	-	1414.2	559.4	10105.8	10567.7	855.2	4777.5	13467.3	-	-	-	-	2813.5	32481.2
2003/04	474918.5	62331.0	48175.7	14155.3	9504.0	-	1697.5	700.4	11901.9	11439.1	527.4	6221.4	14498.2	-	-	-	-	3587.7	36273.8
2004/05	508651.0	70123.1	54105.1	16018.0	10456.0	-	1799.2	806.1	13061.3	12302.9	736.3	6446.3	18896.0	-	-	-	-	2662.1	41043.6
2005/06	557869.6	72282.1	57427.0	14855.1	10933.6	-	2180.3	847.6	13961.5	11744.5	625.3	6506.4	21615.4	-	-	-	-	2973.9	43465.5
2006/07	670588.7	87712.1	71168.0	16544.1	15730.0	-	2238.7	1011.0	18979.7	13623.9	708.6	9343.2	26095.6	-	-	-	-	2417.0	52188.3
2007/08	820814.0	107622.4	85155.5	22466.1	19077.8	-	2940.7	1069.26	23087.8	-	-	11189.6	29815.70	-	-	-	-	21062.5	62067.8
2008/09	960012.0	143474.5	111092.4	32382.11	27247.37	-	5223.4	1849.97	24320.7	-	-	16220.9	39700.92	-	-	-	-	20849.8	76771.64
Total	6725615	871011.9	682395.3	188616.61	145137.9	38.8	24294.7	8389.63	177861.1	118595	6441.2	81501.9	226524.8	372.4	634.51	3594	1181	65689.2	504534.05
Average	480401.1	62215.13	48742.51	13472.615	10366.79	6.47	1735.3	599.26	12704.37	9882.95	536.77	5821.57	16180.34	53.2	90.64	513.4	196.8	4692.08	36038.146

Source: 1. Budget Speech and Economic Surveys of Various Years, Ministry of Finance, Govt. of Nepal.

2. Annual Reports of Various Years, Inland Revenue Department (IRD), Govt. of Nepal

Appendix – IV

Contribution of Different Sources of Revenue as Percentage of GDP of Various Fiscal Years

(Amount in Percentage)

Fiscal Year	Total GDP In Million Rupees	Total Revenue	Tax Revenue	Non-tax Revenue	Direct Taxes					Indirect Taxes									
					Income Tax	Land Tax	House and Building Reg.	Others	Total	Import Duties	Export Duties	Excise Duties	Sales Tax Or VAT	Enterta-inment Tax	Hotel Tax	Contra-ct Tax	Air Flight Tax	Others	Total
1995/96	239388.0	11.65	9.05	2.06	1.43	.0076	0.44	0.04	1.92	2.61	0.06	0.81	2.69	0.04	0.12	0.26	0.13	0.42	7.14
1996/97	269570.0	11.27	9.06	2.21	1.53	.0022	0.37	0.04	1.94	2.63	0.06	0.85	2.64	0.04	0.11	0.23	0.12	0.43	7.12
1997/98	289798.0	11.37	8.96	2.41	1.69	.0012	0.35	0.04	2.08	2.42	0.07	0.996	2.46	0.03	0.0158	0.26	0.12	0.49	6.88
1998/99	330018.0	11.28	8.71	2.57	1.87	.0004	0.30	0.04	2.21	2.33	0.11	0.90	2.39	0.0071	0.0005	0.19	0.06	0.51	6.50
1999/00	366251.0	11.71	9.05	2.66	2.03	.0013	0.28	0.03	2.34	2.45	0.12	0.86	2.70	0.0031	0.0005	0.10	.0001	0.49	6.72
2000/01	394052.0	12.24	9.86	2.55	2.31	.0013	0.15	0.11	2.58	2.64	0.13	0.96	3.06	0.0077	-	0.0771	.0002	0.42	7.28
2001/02	406138.4	12.55	9.81	2.74	2.19	0.00	0.28	0.14	2.61	2.83	0.28	0.94	2.94	0.0005	-	0.07	-	0.14	7.20
2002/03	437545.8	12.85	9.73	3.12	1.86	0.00	0.32	0.13	2.31	2.42	0.20	1.09	3.08	-	-	-	-	0.64	7.42
2003/04	474918.5	13.13	10.15	2.98	2.00	0.00	0.36	0.15	2.51	2.41	0.11	1.31	3.05	-	-	-	-	0.76	7.64
2004/05	508651.0	13.79	10.64	3.15	2.06	0.00	0.35	0.16	2.57	2.42	0.15	1.27	3.72	-	-	-	-	0.52	8.07
2005/06	557869.6	12.96	10.30	2.66	1.96	0.00	0.39	0.15	2.50	2.11	0.11	1.17	3.88	-	-	-	-	0.53	7.79
2006/07	670588.7	13.08	10.61	2.47	2.35	0.00	0.33	0.15	2.83	2.03	0.11	1.39	3.89	-	-	-	-	0.36	7.78
2007/08	820814.0	13.112	10.374	2.74	2.32	0.00	0.36	0.13	2.81	-	-	1.36	3.63	-	-	-	-	2.57	7.56
2008/09	960012.0	14.95	11.57	2.38	2.84	0.00	0.54	0.19	3.58	-	-	1.69	4.14	-	-	-	-	2.17	7.997

Source: Appendix – III

Appendix – V

Name of the Respondents, their Designation, and Concerned Department/Office

Tax Experts: Group – 'A'

S.N.	Name of the Respondents	Position	Department/Office
1	Dr. D.P.Paudel	Senior Economist	MOF., Sundhara
2	Dr.Rup Bahadur Khadka	National Advisor	RAS. Project, Lajimpat
3	Saraswati Adhikari	C.A.	Rastriya Banijya Bank
4	Hem Raj Pandey	Auditing Officer	Auditor General's Office, Babarmahal
5	Govinda Sharma	Inc. Tax Specialist	IRD. , Lazimpat
6	Badri Karki	Editor	Overall Service and Consultancy, Kalimati
7	R.M.Singh	Senior Tax Officer	FNCCI, Teku
8	Janak Raj Pokharel	C.A.	ADB. ,Singhadarbar
9	Maheshwor Sharma (Paudel)	Director General	MOF. ,Sundhara
10	Keshav Kumar Pandey	Legal Officer	RAS. Project,Lazimpat

Income Tax Administrators: Group – 'B'

S.N.	Name of the Respondents	Position	Department/Office
1	Govinda Bahadur Baniya	Director	IRD. , Lazimpat
2	Murari Bahadur Karki	,,	,,
3	Devi Das Koirala	,,	,,
4	Nar Sagar Shrestha	,,	,,
5	Bishnu Prasad Nepal	,,	,,
6	Yagya Prasad Dhungel	,,	,,
7	Badri Prasad Gautam	,,	,,
8	Shankar NIraula	,,	,,
9	Baikuntha Nidhi Sharma	,,	,,
10	Nisit Kumar Paudel	,,	,,
11	Gopal Prasad Ghimire	,,	,,
12	Dirgha Bahadur Pokharel	,,	,,
13	Keshav Kumar Pandey	,,	,,
14	Lok Prasad Neupane	,,	,,
15	Dirgha Raj Mainali	,,	,,
16	Chandi Ghimire	,,	,,
17	Prakash Paudel	,,	,,
18	Gopal Prasad KOirala	,,	,,
19	Lal Bahadur Khatri	,,	,,
20	Sharad Chandre Paudel	,,	,,
21	Hem Raj Subedi	Section Officer	,,
22	Surya Prasad POkharel	,,	,,
23	Krishna Singh Basnet	,,	,,
24	Binod Lamichhane	,,	,,
25	Narayan Prasad Sharma	,,	,,

Income Tax Payers: Group – 'C'

S.N	Name of the Respondents	Position	Department/Office
1	Dambar Bahadur Chand	Account Officer	Nepal Telecom, Bhadrakali
2	R. K. Thapa	Account Officer	Nepal Gas Udhyog Pvt. Ltd., Balaju
3	Jaganath Acharya	Account Officer	Nebico Biscuit p.Ltd.Balaju
4	Bhakta Bahadur Shakya	Account Officer	Nep.Poly Pipe Indu.,Balaju
5	Nani Kaji Karki	Account Officer	DDC, Balaju
6	Madhav Raj Gurung	Account Officer	Ktm.Floor Mill P.Ltd.Balaju
7	Ganesh Man Shrestha	Depart. Head, HRM	Rastriya Banijya Bank Singhadarbar
8	Kabiraj Adhikari	Depart.Head, Finance	,,
9	Rajan Jung Thapa	Account Officer	DDC, Balaju
10	Satya Narayan Rauniyar	Chief Accountant	DDC,Lainchaur
11	Dibya Dhoj Karki	Research & Planning, Chief Officer	Rastriya Banijya Bank, Singhadarbar
12	Uttam Dhungana	Account Officer	,,
13	Bhusan Shrestha	Finance Manager	Nepal Telecom, Bhadrakali
14	Lab Raj Dhakal	Account Officer	NBL, Jamal
15	Nirajan Basnet	Finance Manager	Nepal liver Ltd. Kalimati
16	R. B. Shrestha	Managing Director	Nepal Pipe Industries Pvt. Ltd. Balaju
17	Deepak K. Shrestha	Finance Manager	Bottlers Nepal Ltd., Balaju
18	Sitaram Neupane	Account Officer	Godawari Village Resort, Godawari
19	Shekhar Neupane	Finance Controller	,,
20	Bhaskar Sharma	Account Officer	Shakti Hume Pipe Pvt. Ltd., Balkhu
21	Sukdev Prasad Pathak	Finance Officer	RBB, Singhadarbar
22	Sundarlal Manandhar	Section Officer	ADB, Singhadarbar
23	Sita Mishra	Finance Manager	,,
24	Ganga Ram Bhandari	Account,Officer	FDB, Babarmahal
25	Sushan Shrestha	Secretary	,,

Source: Opinion Survey, 2011/2012 A.D.

Appendix – VI "A"

Group 'A': Tax Experts

Empirical Investigation of Methods for the Effective Implementation of Self Assessment of Income Tax in Nepal

Options	Methods (Factors)	Responses of the Respondents of Group – 'A'										Total	Rank
		1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th		
a.	Strengthen and improve tax administration	4	5	6	7	7	5	1	3	1	7	46	6
b.	Improve income tax laws & regulations	5	6	7	6	6	1	2	4	2	6	45	5
c.	Income tax education to the taxpayers	6	7	5	1	1	2	4	1	3	1	31	2
d.	Develop information technology	7	4	4	2	5	6	3	7	7	5	50	7
e.	Develop skilled man power	9	3	1	5	4	4	7	5	6	4	42	4
f.	Make political commitment	1	2	2	3	2	3	5	2	4	2	26	1
g.	Reward and punishment	2	1	3	4	3	7	6	6	5	3	40	3
												Total 280	

Source: Opinion Survey 2011/2012 A.D.

Appendix – VI "B"

Group – 'B': Tax Administrators

Empirical Investigation of Methods for the Effective Implementation of Self Assessment of Income Tax in Nepal

S. N	Methods (Factors)	Responses of the Respondents of Group – 'B'																									Total	Rank
		1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	12th	13th	14th	15th	16th	17th	18th	19th	20th	21st	22nd	23rd	24th	25th		
a	Strengthen and improve tax administration	1	5	2	5	6	5	1	4	3	7	1	3	4	3	2	3	3	1	4	3	1	2	2	1	2	74	2
b	Improve income tax laws & regulations	4	7	1	4	5	4	2	3	4	4	2	4	3	5	3	2	2	3	3	2	2	3	3	3	1	79	3
c	Income tax education to the tax payers	6	1	3	6	1	3	3	2	1	3	3	2	2	1	1	1	1	2	2	1	3	1	5	2	3	59	1
d	Develop information technology	7	6	4	7	7	6	7	6	5	6	7	5	6	7	6	6	4	5	1	4	4	7	6	7	7	143	7
e	Develop skilled man power	5	4	5	3	4	2	5	7	6	5	6	7	7	6	7	7	5	4	5	5	6	6	7	6	6	136	6
f	Make political commitment	3	2	6	2	2	1	4	1	2	2	5	1	1	2	4	5	7	7	6	6	7	4	1	4	5	90	4
g	Reward and punishment	2	3	7	1	3	7	6	5	7	1	4	6	5	4	5	4	6	6	7	7	5	5	4	5	4	119	5
																											Total 700	

Source: Opinion Survey 2011/2012 A.D.

Appendix – VI "C"

Group – 'C': Taxpayers

Empirical Investigation of Methods for the Effective Implementation of Self Assessment of Income Tax in Nepal

S. N	Methods (Factors)	Responses of the Respondents of Group – 'C'																									Total	Rank
		1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	12th	13th	14th	15th	16th	17th	18th	19th	20th	21st	22nd	23rd	24th	25th		
a	Strengthen and improve tax administration	2	1	1	3	1	2	3	5	2	5	2	5	7	4	1	2	2	4	1	3	2	3	4	1	3	69	2
b	Improve income tax laws & regulations	3	2	3	4	7	1	4	4	3	6	3	6	6	5	2	3	4	3	2	4	3	4	5	6	4	97	4
c	Income tax education to the tax payers	5	3	2	5	6	6	1	3	4	4	4	7	2	1	3	5	1	1	3	5	1	1	1	2	1	77	3
d	Develop information technology	6	7	6	7	5	7	7	6	6	7	6	4	3	6	7	6	6	7	7	7	6	5	6	7	7	154	7
e	Develop skilled man power	7	6	5	6	4	5	6	7	7	1	7	3	4	7	6	7	7	5	6	6	5	6	7	5	6	141	6
f	Make political commitment	1	4	4	1	2	3	2	1	1	2	1	1	1	2	4	1	3	2	4	1	4	2	2	3	2	54	1
g	Reward and punishment	4	5	7	2	3	4	5	2	5	3	5	2	5	3	5	4	5	6	5	2	7	7	3	4	5	108	5
																											Total 700	

Source: Opinion Survey 2011/2012 A.D.

Appendix – VII "A"

Group 'A': Tax Experts

Empirical Investigation of Major Causes which are responsible for the unsound and inefficient tax assessment procedure

S.N.	Major Causes	Responses of the Respondents of Group – 'A'										Total	Rank
		1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th		
a	Defective assessment procedure	9	4	2	5	3	6	6	5	7	3	50	6
b	Lack of public participation	2	8	3	2	2	4	7	6	6	4	44	4
c	Lack of trained and competent employees	3	7	1	6	1	3	2	3	8	9	43	3
d	Inefficient organizational structure of tax administration	1	6	8	4	6	5	4	4	9	8	55	7
e	Scarce of income tax experts or professionals	7	3	7	9	7	9	8	9	5	7	71	8
f	Weakness in government's economic policy	8	2	6	3	5	2	1	1	2	5	35	2
g	Lack of coordination within the tax department	6	9	9	8	9	7	9	8	4	6	75	9
h	Complicated tax laws and provisions	5	1	4	1	4	1	3	7	1	2	29	1
i	corruption	4	5	5	7	8	8	5	2	3	1	48	5
												Total 450	

Source: Opinion Survey 2011/2012 A.D.

Appendix – VII "B"

Group – 'B': Tax Administrators

Empirical Investigation of Major Causes which are responsible for the unsound and inefficient tax assessment procedure

S. N.	Major Causes	Responses of the Respondents of Group – 'B'																									Total	Rank
		1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	12th	13th	14th	15th	16th	17th	18th	19th	20th	21st	22nd	23rd	24th	25th		
a	Defective assessment procedure	5	8	5	4	9	4	9	4	8	5	4	9	4	8	6	1	5	2	9	3	1	9	3	5	5	135	5
b	Lack of public participation	3	2	7	5	2	1	2	8	4	4	1	2	5	2	4	9	7	8	8	2	3	8	9	6	3	115	3
c	Lack of trained and competent employees	4	3	6	8	5	5	3	7	5	3	5	5	8	3	3	8	6	7	7	8	2	7	7	9	8	142	8
d	Inefficient organizational structure of tax administration	1	6	1	3	3	6	1	6	6	7	6	3	3	6	5	7	8	9	6	9	9	6	8	8	7	140	7
e	Scarce of income tax experts or professionals	7	1	8	9	4	9	7	3	7	6	9	4	9	1	7	6	9	6	5	7	8	5	6	7	9	159	9
f	Weakness in government's economic policy	6	7	2	1	1	2	8	2	1	2	2	1	1	7	2	2	3	4	1	6	7	1	1	3	1	74	1
g	Lack of coordination within the tax departments	8	4	9	7	6	7	6	9	3	8	7	6	7	4	8	5	4	5	2	1	4	2	5	4	6	137	6
h	Complicated tax laws and provisions	2	5	3	2	7	8	5	1	9	1	8	7	2	5	1	3	1	3	4	5	6	3	4	1	2	98	2
i	Corruption	9	9	4	6	8	3	4	5	2	9	3	8	6	9	9	4	2	1	3	4	5	4	2	2	4	125	4
																											Total 1125	

Source: Opinion Survey 2011/2012 A.D.

Appendix – VII "C"

Group – 'C': Taxpayers

Empirical Investigation of Major Causes which are responsible for the unsound and inefficient tax assessment procedure

S. N.	**Major Causes**	**Responses of the Respondents of Group – 'C'**																									**Total**	**Rank**
		1st	**2nd**	**3rd**	**4th**	**5th**	**6th**	**7th**	**8th**	**9th**	**10th**	**11th**	**12th**	**13th**	**14th**	**15th**	**16th**	**17th**	**18th**	**19th**	**20th**	**21st**	**22nd**	**23rd**	**24th**	**25th**		
a	Defective assessment procedure	9	5	9	4	4	8	2	4	6	4	5	6	5	1	6	7	6	8	1	7	2	3	5	3	3	123	4
b	Lack of public participation	2	7	2	8	1	4	1	3	7	5	3	7	1	3	3	1	4	2	7	6	1	2	6	5	4	95	2
c	Lack of trained and competent employees	6	6	3	7	5	5	3	5	9	8	4	1	2	4	4	4	2	6	8	9	7	7	7	6	6	134	5
d	Inefficient organizational structure of tax administration	3	1	1	6	6	6	5	8	2	3	1	9	6	9	5	5	8	5	9	8	8	9	8	7	7	145	6
e	Scarce of income tax experts or professionals	4	8	7	9	9	7	7	9	1	9	7	8	7	7	9	9	7	7	6	5	9	8	9	8	9	185	8
f	Weakness in government's economic policy	1	2	8	2	2	1	6	2	5	1	6	2	9	6	8	8	1	1	2	4	3	5	2	1	1	89	1
g	Lack of coordination within the tax departments	5	9	6	5	7	3	8	6	8	7	8	3	8	8	7	6	9	9	5	2	4	6	4	9	8	160	7
h	Complicated tax laws and provisions	7	3	5	1	8	9	4	7	4	2	2	5	3	5	1	3	5	3	4	3	5	1	1	2	2	95	2
i	Corruption	8	4	4	3	3	2	9	1	3	6	9	4	4	2	2	2	3	4	3	1	6	4	3	4	5	99	3
																											Total 1125	

Source: Opinion Survey 2011/2012 A.D.

Appendix – VIII "A"

Group 'A': Tax Experts

Empirical Investigation of Major Causes which are Responsible for the Unsatisfactory Contribution of Income Tax to National Revenue

S.N.	Major Causes	Responses of the Respondents of Group – 'A'							Total	Rank
		1st	2nd	3rd	4th	5th	6th	7th		
a	Defective assessment procedure	9	4	2	5	3	6	6	35	6
b	Lack of public participation	2	8	3	2	2	4	7	28	4
c	Lack of trained and competent employees	3	7	1	6	1	3	2	23	2
d	Inefficient organizational structure of tax administration	1	6	8	4	6	5	4	34	5
e	Scarce of income tax experts or professionals	7	3	7	9	7	9	8	50	8
f	Weakness in government's economic policy	8	2	6	3	5	2	1	27	3
g	Lack of coordination within the tax department	6	9	9	8	9	7	9	57	9
h	Complicated tax laws and provisions	5	1	4	1	4	1	3	19	1
i	corruption	4	5	5	7	8	8	5	42	7
									Total 315	

Source: Opinion Survey 2011/2012 A.D.

Appendix – VIII "B"

Group – 'B': Tax Administrators

Empirical Investigation of Major Causes which are responsible for the Unsatisfactory Contribution of Income Tax to National Revenue

S. N.	Major Causes	Responses of the Respondents of Group – 'B'											
		1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	1
a	Defective assessment procedure	5	8	5	4	9	4	9	4	8	5	4	9
b	Lack of public participation	3	2	7	5	2	1	2	8	4	4	1	2
c	Lack of trained and competent employees	4	3	6	8	5	5	3	7	5	3	5	5
d	Inefficient organizational structure of tax administration	1	6	1	3	3	6	1	6	6	7	6	3
e	Scarce of income tax experts or professionals	7	1	8	9	4	9	7	3	7	6	9	4
f	Weakness in government's economic policy	6	7	2	1	1	2	8	2	1	2	2	1
g	Lack of coordination within the tax departments	8	4	9	7	6	7	6	9	3	8	7	6
h	Complicated tax laws and provisions	2	5	3	2	7	8	5	1	9	1	8	7
i	Corruption	9	9	4	6	8	3	4	5	2	9	3	8

Source: Opinion Survey 2011/2012 A.D.

Appendix – VIII "C"

Group – 'C': Taxpayers

Empirical Investigation of Major Causes which are responsible for the Unsatisfactory Contribution of Income Tax to National Revenue

S. N	Major Causes	Responses of the Respondents of Group – 'C'												
		1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	12th	13th
a	Defective assessment procedure	9	5	9	4	4	8	2	4	6	4	5	6	5
b	Lack of public participation	2	7	2	8	1	4	1	3	7	5	3	7	1
c	Lack of trained and competent employees	6	6	3	7	5	5	3	5	9	8	4	1	2
d	Inefficient organizational structure of tax administration	3	1	1	6	6	6	5	8	2	3	1	9	6
e	Scarce of income tax experts or professionals	4	8	7	9	9	7	7	9	1	9	7	8	7
f	Weakness in government's economic policy	1	2	8	2	2	1	6	2	5	1	6	2	9
g	Lack of coordination within the tax departments	5	9	6	5	7	3	8	6	8	7	8	3	8
h	Complicated tax laws and provisions	7	3	5	1	8	9	4	7	4	2	2	5	3
i	Corruption	8	4	4	3	3	2	9	1	3	6	9	4	4

Source: Opinion Survey 2011/2012 A.D.