

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Nepal is a least developed landlocked country lying between two giant economies, Chinese and Indian economy with a per capita GNI of \$742 at current Price in fiscal year (FY2011/12 Initial). She has been adopting the system of mixed economy to achieve her development goals. In spite of her planned efforts for development, an overwhelming majority of her people enjoy income below the poverty line. More than 25.2 percent of peoples' income falls below the poverty line. (Economic Survey of 2011/12)

In order to uplift the life standard of people, Nepal has given first priority to economic development through planned efforts. In planning experience of 55 years, eleven long term development plans have been completely implemented. The tenth plan, which has only one goal of poverty alleviation emphasizing on agricultural sector development is scheduled to the end in 2007. The Government of Nepal has continued the implementation of the several reform programs initiated in the past. In addition, efforts have been put on the implementation of programs of economic reforms and legal reforms like accession to the World Trade Organization (WTO), Poverty Reduction Growth Facility (PRGF) and Poverty Reduction Growth Credit (PRGC) etc.

According to the initial survey of FY2011/12 Nepal's economic growth rate will estimate 5 percent at basic price 4.56 percent and at producer's price 4.63 percent. This is the maximum growth rate of three years. At basic price, the economic growth rate was grown by 4.3 percent and 3.9 percent in FY2009/10 and FY2010/11 respectively.

Increasing in agriculture production and service production in current year is the causes of satisfactory growth rate to compare with previous year.

In FY2011/12 estimate GDP of Agriculture will grow by 4.93 percent in the comparison to previous year. In FY2010/11 such growth was 4.51 percent.

Growth of the non agriculture sector in FY 2010/11 was 3.4 percent and In FY2011/12 it will estimate 4.27 percent. In FY 2009/10 such growth was 5.39 percent.

Total revenue of the GON increased by 11.6 percent to Rs 200.79 billion in FY2010/11. Such revenue amount is 92.7 percent of annual target of Rs 216.64 billion. Government revenue had increased by 25.4 percent to 179.95 billion in the previous year. Consequently, revenue to GDP ratio remained at 14.9 percent in the review year. Such ratio was 15.4 percent in the previous year. The low growth of revenue mobilization was attributed to the delay in the announcement of the government budget, where revenue mobilization was based on previous year finance act and there was slow growth of capital expenditure. Likewise, decline in the growth rate of import also affect the growth rate of revenue of the government during the review year. (Source: Annual Report FY2010/11 of NRB)

1.1.1 Resource Mobilization for the Development

Resource mobilization is the foundation for economic development of the nation. Since Nepal started her planned development efforts in 1956, the need for mobilization of additional financial resources has been growing by many folds. Additional financial resources can be mobilized either internally or externally. External instruments for resource mobilization consist of foreign grants, subsidies and foreign loans, whereas internal instruments for additional financial resources mobilizations are both tax and non-tax sources of government revenue. Sources of tax include direct taxes on income and wealth and indirect taxes on consumption. Non- tax instruments for revenue collection are government charges, fees, fines, forfeitures, and receipts from sale of commodities, receipts from sale of fixed assets and services, dividend, royalty, principal and interest payment and miscellaneous receipts.

As Nepal has adopted planned development strategy, implementation of such plans play crucial role in the economic development. Planned outlay and progress in implementation of last tenth five years development plans and three years interim plans are presented in table 1.1

Table 1.1: Planned Outlay & Progress of Various Development Plans**(Rs. in million)**

Development Plans	Planned Outlay	Progress	Progress in Percent
1 st Plan (1956-1961)	330	214.4	64.96
2 nd Plan (1962-1965)	600	596.80	99.46
3 rd Plan (1965-1970)	2500	1780	71.20
4 th Plan (1970-1975)	3540	3215.6	90.84
5 th Plan (1975-1980)	Max:11400	8887.6	77.98
	Min: 9197		
6 th Plan (1980-1985)	33940	22092.5	65.09
7 th Plan (1985-1990)	50410	48345.5	95.90
8 th Plan (1992-1997)	167239	155419	92.93
9 th Plan(1997-2002)	337290	278468	82.56
10 th Plan (2002-2007)	456250	443330.6	97.17
3yrs Interim plan(2007-2010)	511378	520603.8	101.8
3yrs Interim plan(2010-2013)	1023704.9	-	-

Source: Various Development Plan, National Planning Commission, Kathmandu

Table 1.1 shows that, in the first development plan that started from the year 1956, total planned outlay was estimated to be Rs 330 million and actual expenditure during the plan was Rs 214.4 million resulting a 64.96 percent of planned expenditure of which 10.3 percent was internally financed and 89.7 percent from external sources. Then resource requirement for succeeding development plans has increased in multiple folds. In the second development plan (1962-1965), planned resources requirement was estimated to be Rs 600 million and actual expenditure was Rs 596.80 million respectively in a 99.46 percent of planned expenditure. Later in the sixth development plan (1980-1985), planned expenditure was Rs

22092.5 of which 65.09 percent was actually expended. In ninth development plan (1997-2002), resources requirement reached Rs 337290 million, 1022 times than planned outlay in the first plan and actual expenditure remained Rs 2784.68 million 82.56 percent of planned outlay and 1299 times than actual expenditure in the first development plan. In the last nine five-year development plans average actual progress remained 82.32 percent. The total expenditure, both regular and development was Rs 443330.6 million, 97.17 percent of planned outlay. For tenth development plan, which has only one goal of poverty alleviation? In the tenth plan, based on an investment analysis, expected and normal projections of economic rate were made, considering the existing situation as well. The normal economic rate in the agriculture sector was 4.1 percent while it was 7.5 percent in the non agriculture sector. Tenth plan's average annual growth rate was 2.67 percent in agriculture sector and 3.59 percent change in non agriculture sector. Three years interim (2007-2010) planned outlay was Rs 511378 million and to compare with the goals the achievement was 101.80 percent. Out of Total expenditure 57.72, 33.78 and 8.50 percent was recurrent expenditure, capital expenditure and principle re-payment respectively.

1.1.2 Taxation in the Economy

Economic development has been the major issue for the countries all over the world. The proof of government's existence lies in its activities for the social and economic upliftment of the nation along with the life standard of the people. In order to realize this goal, the government launches several economic, social, cultural and other development activities. The successful launching of these activities depends on the sufficiency of various types of resources like man, machine, material, money etc. Among these resources the most crucial resource is financial resources that can be derived internally or externally. Internal sources of financial resources consist of tax revenue and non-tax revenue whereas external sources consist of foreign grants, subsidies, foreign loans etc. It is to be noted that internal sources are better and safer means for resources mobilization than external sources. Internal sources

of the government revenue can broadly be divided into two categories; tax revenues and non-tax revenues. The government receives tax revenue as a compulsory payment whereas non-tax revenue is a conditional one. In general, tax revenue can also be categorized into direct and indirect tax revenue.

1.1.3 Resource Mobilization through Taxation

Since Nepal has adopted planned strategy for economic development, the need for mobilizing additional financial resources has been urgency. This growing need has specially addressed the need for internal resource mobilization to overcome the problem of growing resource gap in Nepalese economy, gradually.

If we look the planned and actual outlay of past last tenth five years development plans and three years interim plans resource need has been increasing in multi-folds. And a disturbing phenomenon in Nepalese plan has been the declining share of internal resources in the financing of development efforts. It has forced the country to depend on foreign aid and loans, which has produced bitter experience and mixed consequences. So mobilization of additional financial resource from internal (domestic) sources has become only viable non-inflationary solution compared to foreign source of deficit financing. Table 1.2 showed the contribution tax and non-tax revenue in total revenue.

Table 1.2: Contribution Tax and Non-Tax Revenue to Total Revenue**(Rs in million)**

Year	Tax Revenue		Non-Tax Revenue		Total Revenue
	Amount	%	Amount	%	
2000/01	38865.0	79.49	10028.8	20.51	48893.9
2001/02	39330.6	77.97	11116.0	22.03	50446.6
2002/03	40896.0	74.98	13642.9	25.02	54538.9
2003/04	48173.0	77.29	14158.0	22.71	62331.0
2004/05	54104.7	77.16	16018.0	22.84	70122.7
2005/06	57430.4	79.45	14851.5	20.55	72281.9
2006/07	71126.7	81.09	16585.4	18.91	87712.1
2007/08	85155.5	79.12	22467.0	20.88	107622.5
2008/09	117051.9	81.58	26422.6	18.42	143474.5
2009/10	156294.9	86.86	23650.9	13.14	179945.8
2010/11	172777.6	86.47	27041.1	13.53	199818.7
Average	80109.66	80.13	17816.56	19.87	97926.23

Source: Economic Survey of 2011/12 Ministry of Finance, Government of Nepal, Kathmandu,

Table 1.2 reveals that the contribution of tax revenue and non-tax revenue to the national revenue of Nepal. Tax revenue accounted for Rs 38865 million in the FY 2000/01, the base year for the research. It was 79.49 percent of total national revenue. In the FY 2010/11 revenue yield from tax rose to Rs 172777.6 million, 4.44 times higher than of tax revenue in the FY 2000/01, representing 86.47 percent of total revenue.

Average tax revenue for last 11 year was Rs 80109.66 million that occupies an average 80.13 percent share of total revenue. It indicated that tax revenue has been increasing year by year in absolute amount. The tax revenue decreased to 74.98 percent in the FY 2002/03 and again increased to 77.29 percent in the FY 2003/04 but in the FY 2004/05 it became 77.16 percent. This was mainly because of problem of violence and terrorism nationally and internally, poor

industrial security, several attacks on economic bodies from different angles and corners. And another contributing factor for this sluggishness has been the gap between intended policy and practice in Nepal. Financial problems in Nepal has not been significantly recognized and reflected in development projects. Tax revenue was Rs 156294.9 million in the FY 2009/2010 with threw contribution of 86.86 percentages to total revenue .In next FY 2010/2011 tax revenue amounted Rs172777.6 million,86.47 percentage of total revenue. The main reason behind the increase in tax revenue is the increase in the proportion of vat and excise duties.

Non- tax revenue was Rs 10028.8million in the FY 2000/01, 20.51 percent of total revenue. It rose to Rs million 11116.0corepresenting percent 22.03 of total revenue in the FY 2001/02. In FY2002/03, non-tax revenue amounted Rs 13642.9million, 25.02 percent of total revenue. In the FY 2009/10 and 2010/11 it accounted for Rs 23650.9 million and Rs 27041.1 million that was the 13.14 percent and 13.53 percent of total national revenue respectively. Average contribution of non-tax revenue was Rs 17816.56million in the last eleven years. It was 19.87 percent of average total revenue for the same period.

Non tax revenue decreased by10.5 percent to Rs 23650.9 million in the FY2009/10 as compared to that of the FY2008/09. In the revenue structure, the share of tax and non-tax revenue was 86.47 and 13.53 percent respectively in the FY 2010/11, in comparison to 86.86 and 13.14 percent in the FY 2009/10.

1.2Statement of the Problem

Nepal has been confronting a serious and growing problem of financial resource gap and her need for mobilizing additional resources through internal resources such as income taxation has been urgent. Revenue and expenditure as the ratios of GDP shows higher ratio for total expenditure than that of revenue, signaling adverse impact on the economy in the long run. This is a matter of concern from the long-term perspective of government finance. Since FY 2004/05, total budget is begun to present in the categorization of recurrent, capital expenditure and principle Re-payment. Almost equal existing recurrent expenditure and capital expenditure of FY 2000/01, recurrent expenditure rapidly increase to compare with capital expenditure in the following year, as a result share of capital expenditure remains less

than 40 percent out of total budget in the upcoming years. The share of capital expenditure was less than 30 percent in comparison to earlier year of public movement of 2005/06. In between these years speed of development infrastructure activities was in slow motion. Despite it's gradual progress after the people's movement of 2005/06. It is almost less than 40 percent of the total expenditure.

Capital expenditure was set in diminishing trend (i.e. FY 2001/02 & 2002/03) compared to regular expenditure. Capital expenditure was to Rs 28307.2 million in the FY 2000/01. Then the capital expenditure decreased to Rs 24772.4 and Rs 22356.1 million respectively in the FY 2001/02 & 2002/03. Then it raised to Rs 23095.6 million and Rs 27340.7 million respectively in the FY 2004/05 and 2005/06. In FY 2006/07, FY2007/08 and FY2008/09 it was increasing trend Rs 29606.6 million, Rs 39729.9 million and Rs 53516.1 million respectively. Capital expenditure in the FY2009/10 rose 23.5 percent as compared to previous fiscal year totaling Rs 90237.7 million. Such expenditure in its preceding year was 73088.9 million.

The total capital expenditure incurred in 2010/11 was 67.8 percent of the total budget estimate. Delay in the approval of program, infrastructure development and tender, late announcement of budget through the ordinance and unstable peace and security situation of the country were mainly attributed to such lower growth of capital expenditure in the review year. (Source: Annual Report FY2010/11 of NRB)

It On the other hand recurrent expenditure is in increasing trend. It was Rs 61686.4 million in the FY 2004/05, Rs 67017.8 million in the FY 2006/07, Rs 91446.9 million in the FY 2007/08. It was Rs 127738.9 and Rs 151019.1 million respectively in the FY 2008/09 & 2009/10.

The recurrent expenditure on cash basis rose by 13.5 percent to Rs 166.01 billion in 2010/11 compared to rise 22.3 percent in the previous year. Delay in announcement of annual budget of FY2010/11 was responsible for such growth rate of recurrent expenditure.

The increasing trend in recurrent expenditure and non-constant (increasing & decreasing) trend of development expenditure has become the main problem of economic development

and it needs controlling recurrent expenditure and enhancing capital expenditure for investment in productive sector and narrowing the financial deficit through increased revenue mobilization to achieve the ultimate goal of sustained economic development and growth.

In the context of Nepal's accession to World Trade Organization (WTO) membership, it was great challenge for government to adjust tax rates accordingly without reducing the present level of revenue collection. Revenue mobilization front of economy is sluggish. Revenue collection from direct tax is far behind low compared to indirect taxes. Income tax is the major contributor of direct tax. Although income tax has the potentiality to be second largest source of tax revenue for the government, income tax efforts have been constrained by hastily formulated policies, ambiguous laws, poor enforcement as well as compliance and non-satisfactory image of tax administration. Income tax potentiality has been under utilized. Controlling revenue leakage and increasing tax coverage are some of the existing challenges to resource/revenue mobilization through income taxation.

In the FY 2001/02 and 2002/03 income tax revenue amounted Rs 9803.7 million and Rs 7966.2 million respectively resulting a decrement of 2.31 percent and 10.52 percent. But it was improved in the FY 2003/04 and 2004/05 with an annual increment 16.06 percent and 9.88 percent respectively. In FY2005/06 income tax goal was Rs 11800 million and the achievement was Rs10933.52 million. In the FY2006/07 and FY2007/08 income tax revenue's goal was Rs12710.5million and Rs16869.2 million but the achievement was Rs15731.804 million and Rs19077.813 million. It had reported a growth of 23.77 percent and 13.09 percent respectively.

Revenue collection from income tax in FY2008/09 was Rs 27246.432 million with annual increment 42.81 percent over previous year. The income tax revenue increased by 23.27percent to Rs 41680 million in the FY 2010/11 which has increased by 24 percent to Rs 33811.898 million in previous year. This reflected positive impact of "Tax campaign year". Corporate income tax has been leading the individual income tax in the total income tax structure.

One of the most important tools for shortening resource gap in developing countries, additional revenue collection through the efficient and effective utilization of internal

resources has not been practically prioritized yet. And the potentiality of income tax to mobilize additional financial resources has not yet been recognized properly. So a study on mobilization of additional financial resources through income taxation has become necessary. The specific issues addressed by the study were:

- Ñ Whether there is any resource gap in Nepalese economy or not?
- Ñ Has income tax been an effective internal instrument for financial resource mobilization?
- Ñ What is the role of income tax in total tax structure?

1.3 Objectives of the Study

In the light of above stated problem, the objectives of research are as follows:

1. To study the reasons for growing resource gap in the Nepalese economy.
2. To analyze the role of income tax as an internal instrument of resource mobilization.
3. To identify the role and status of income tax in total tax structure.
4. To estimate the potentiality of revenue yield from Income Tax.
5. To provide suitable recommendations for the improvement of internal resource mobilization through income taxation in Nepal.

1.4 Significance of the Study

Taxation is a powerful tool for mobilizing additional internal resources of any country whether it is undeveloped, underdeveloped or developed one. In developed countries taxation contributes more than 3/4th to their total national revenue in which share of income tax is prominent. But, in the case of underdeveloped and undeveloped countries is different. Income tax has not been contributing the total revenue of country to the extent as it does in developed ones. In developing and under developed as well as least developed countries, where financial resource gap is increasing seriously leading the economy to the state of external dependency, taxation only becomes sustainable and non-inflationary internal remedy to overcome this problem of financial resource gap and deficit financing. Because of poor internal resource mobilization capability, Nepal has been facing a serious resources gap for

many years and this trend seems to be continued in future if suitable measures and not taken in time properly. For the remedy of external dependency and growing resource gap problem, internal revenue base should be strengthened through the mobilization additional financial resources internally specially through income taxation.

In revenue structure of Nepal, the shares of tax revenue and non-tax revenue were 86.47percent and 13.53 percent respectively in the FY 2010/11 in comparison to 86.86 percent and 13.14 percent in the FY 2009/10. Income tax occupies the second largest position in tax revenue representing an average of 35 percent of total tax revenue. In the year prior to the FY 2001/02 and after 2002/03 income tax revenue collection was growing in percent but the FY 2001/02 drastically the growth rate became negative 2.31 percent. In the FY 2002/03 it was negative 9.88 percent. In the FY 2003/04 and 2004/05 it was 16.06 percent and 9.88 percent respectively. The negative change in income tax collection of the FY 2001/02 and 2002/03 has made a serious impact on the economy. In FY 2006/07, FY2007/08 and FY2008/09 the annual growth rate of income tax was 30 percent, 18.64 percent and 39 percent respectively. Annual growth rate of income tax in FY2009/10 and 2010/11 was 36 percent and 15 percent respectively (Source: Annual Report FY2010/11 of IRD)

So, the study on the present and potential role of income tax to mobilize additional fiscal resource was a must. This study concentrated on mobilization of additional internal resources through proper management of income tax to reduce Nepal's external dependency in deficit financial requirement. This study was an attempt to explore potential rooms for additional resource mobilization through internal sources with special focus on income tax (and policy reforms) management.

1.5 Hypotheses of the Study

The following hypotheses have been posed:

Hypothesis: 1

H₀: $p = 0$, there is no significant relationship between the views of tax administrators and taxpayers with respect to the methods of mobilizing additional resources.

H₁: $p \neq 0$, there is significant relationship between the views of tax administrators and taxpayers with respect to the methods of mobilizing additional resources.

Hypothesis: 2

H₀: $p = 0$, there is no significant relationship between the views of tax administrators and taxpayers with respect to the measures for mobilizing additional financial resources internally.

H₁: $p \neq 0$, there is significant relationship between the views of tax administrators and taxpayers with respect to the measures for mobilizing additional financial resources internally.

Hypothesis: 3

H₀: $p = 0$, there is no significant relationship between the views of tax administrators and tax experts/policy makers with respect to the Goal of Income Tax in Nepal

H₁: $p \neq 0$, there is significant relationship between the views of tax administrators and tax experts/policy makers with respect to the Goal of Income Tax in Nepal.

Hypothesis: 4

H₀: $p = 0$, there is no significant relationship between the views of tax administrators and taxpayers with respect to the methods of collecting additional income tax-revenue.

H₁: $p \neq 0$, there is significant relationship between the views of tax administrators and taxpayers with respect to the methods of collecting additional income tax revenue.

1.6 Limitations of the Study

Every research study has its own limitations with the various reasons. Similarly, this research report (thesis) also has certain limitations such as limitation of the time period, area of the study, lack of sufficient relevant data, and morality of respondents and so on. The main limitations are as follows:

1. This study deals with the mobilization of resources through income taxation only.
2. Due to time and resource constraints this research has covered the period of last 11 years data for analytical purpose.
3. Collected data may be deviated from one secondary source to another secondary source.
4. There are limited publication of books, journals and abstracts etc on income tax and resource mobilization aspects.
5. The newly enacted Income Tax Act-2002 has created confusions and misunderstanding to a great extent in the mind of tax stakeholders. So responses of the respondents on questionnaire may not reveal full reality.
6. The responses on questionnaire may be influenced by their personal bias.
7. There may be the subjectivity of researcher to some extent.

1.7 Organization of the Study

The research “Income tax as an Internal Source of Resource Mobilization in Nepal” has been configured in fifth different chapters.

- Ñ First chapter is introductory chapter and it includes background of the study, statement of the problem, objectives of the study, relevance of the study and limitations of the study. Subsequently, need of resource mobilization in economic development, taxation in the economy and resource mobilization through taxation.
- Ñ Conceptual framework of income tax along with taxing principles and objectives is presented in second chapter. And journals, magazines, empirical studies, University theses, books and other relevant materials will be reviewed in the same chapter.
- Ñ Third chapter deals with the research methodology applied for the study and explain the research design, nature and sources of data, data collection procedure along with statistical tools used for the analysis of data and interpretation of the result.
- Ñ Analysis and interpretation of secondary as well as primary data are done in fourth chapter using the statistical tools and methodology, mentioned in methodology chapter.
- Ñ The study concludes with summary, conclusion and some recommendations in the fifth and last chapter.

CHAPTER-II

LITERATURE REVIEW

Several studies in the field of taxation have already been carried out by the Students, Learners, and Researchers, other different purpose in books, booklets and dissertation. This chapter focuses on the available literature in the field of taxation (especially in income tax). This chapter deals about concept, principles, objectives and classifications of tax, historical development of income tax, income tax act and review of empirical studies, books and journals published in different date related with taxation.

2.1 Concept of Tax

The main goal of government in any developing country is the improvement in standard of life of its people through development activities. To plan and implement different development activities, government needs huge amount of different resources. The most crucial resource among these is financial resource. Government can mobilize additional financial resource internally or externally. However internal sources for resource mobilization are better and safer means for sustained economic development.

Internal sources of government for additional financial resources mobilization can be classified into two groups, tax sources and non-tax sources. Tax revenue is a compulsory payment from the public, having taxable income, to the government where as non-tax revenue is a conditional source of revenue of the government.

Tax sources of government revenue has divided into four categories which consists of -
Customs: is the combination of Imports, Exports, Indian Excise Refund and Others, Tax on Consumption and Product of Goods and Services: includes Excise on Industrial product, Value Added Tax, Sales Tax, Entertainment Tax, Hotel Tax, Air flight Tax, Contract Tax, Air flight Tax and Contract Tax, Land Revenue and Registration: consists Land Revenue and House and Land registration Tax and Tax on Property, Profit and Income: Income Tax from Public Enterprises, Income Tax from Semi-Public Enterprises, Income Tax from

Private Corporate Bodies, Income Tax from Individuals-Income Tax from Remunerations, Urban House and Land Tax, Vehicle Tax, Tax on Interest and other Taxes etc.

non-tax sources of the government revenue consist of - Charges, fees, fines and forfeiture, receipts from sales of commodities and services, dividends, royalty and sale of fixed assets, principal and interest payment, donation and other miscellaneous income.

Tax is a compulsory contribution from a person whether it is law made or natural one to the government to defray the expenses incurred in the common interest of all without special reference to special benefit conferred. It is personal obligation to pay tax and there is no direct relationship among tax, benefit and individual. Tax is collected from haves and utilized for the interests of those have not.

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

In Professor Seligman's word "Tax is a compulsory contribution from a person to the government to defray the expenses in the common interest of all without references to special benefit conferred".

Government imposes taxes on the basis of legislation. 'A tax is a contribution from citizens for the support of the state' (**Adam Smith**). The main objective of taxation is to divert control of economic resources from to the state for its own use or transfer to others (R.Godde-1984). Tax is a compulsory contribution to the public authorities to meet the general expenses of the government, which have been incurred for the public welfare and without reference to special benefits. So, tax is a compulsory legal contribution to the government by a person who has Liability to pay tax from his/ her income. The government expands the collected tax amount for general welfare and betterment of nation as well as for the interest of general public. A person who has taxable income is legally bound to pay tax otherwise may be punished under existing rules and regulations. Thus taxes are general contribution of wealth levied upon person, natural or corporate to defray expenses incurred in conferring common benefits upon the residents of the states. Presently almost all the

countries have their respective taxation system in their economy. It has become an indispensable source of revenue for any government.

2.1.1 Taxing Principles and Objectives in Developing Economy

The major sources of government revenues in any country are taxes. Taxes come from the economic activities like employment, industry, trade, profession, investment etc. So the tax system should play the role of facilitator to the economic activities of the nation. The effect of tax on ability of a person to pay tax and on industry and trade should be considered while formulating tax policies. The "**Canons of Taxation**" were developed by senior classical economist Adam Smith. Smith's four canons as outlined in his book entitled 'Wealth of Nation' are as follows:

a) Canon of Equity

This canon states that a good tax is that which is based on the principle of equality. In this principle, it is maintained that the tax must be levied according to tax paying capacity of the individual. Adam Smith has defined this principle as follows:

"The subject of every state ought to contribute towards the support of the government, as nearly as possible, in the proportion to their respective abilities, that is, in proportion to the revenue which they respectively enjoy under the protection of state."

This principle states that the burden of the taxation should be fair and just. Thus, rich people must be charged higher taxes than poor. The higher the income higher the tax, lower the income lower the tax. Tax policy should not discriminate the persons with same income level.

b) Canon of certainty

This canon states that the taxpayers should feel certainty regarding the time of payment, amount to be paid, method of payment, the place of payment and the authority to whom the tax is to be paid. Every taxpayer must know the time of payment, manner and mode of payment, so that he may adjust his expenditure accordingly. In the words of Adam Smith, "The tax which each individual is bound to pay ought to be certain and not arbitrary. The time

of payment, the quantity to be paid, all ought to be clear and plain to the contributor and to every other person." thus, certainty creates confidence in the contributor of the tax. On the other hand, uncertainty makes the tax system arbitrary and unfair to the taxpayers. If the tax is certain, no one can exploit tax payers in anyway.

c) Canon of Convenience

The tax should be levied and collected in such a manner that it provides maximum convenience to the taxpayer. The public authorities should always keep this point in the view that the taxpayers suffer the least inconvenience in the payment of tax. For example, land revenue should be collected at the harvest time. The income tax from the salary class be collected only when they get their salaries from their employers. To quote Adam smith" Every tax ought to be levied at the time or in the manner which is most likely to be convenient for the contributor to pay it." This canon helps to reduce tax evasion to great extent.

d) Canon of Economy

This principle states that the collection expenses of tax should be less than the amount of tax collected so that a surplus to public revenue is generated and the country will be benefited. The amount that goes from the taxpayers pocket should not differ greatly with the amount that actually goes to government's treasury. This principle also implies that a tax should interfere as little as possible with the productive activity and general efficiency community so that it may not create adverse effect on production and employment.

e) Canon of productivity

This canon connotes that the fund raised through taxes should be utilized by the government in the productive sector of the economy so that the taxpayers can see the utilization of their hand-earned money paid as taxes. According to this principle, it is better to impose a few productive taxes than to go in for a large number of unproductive taxes than to go in for a large number of unproductive taxes. These unproductive taxes create complications both for the taxpayers, and the government. Therefore, tax must be imposed in a systematic way so that it may not discourage the productive capacity of the individuals. Unfavorable taxes,

usually, reduce the working efficiency which ultimately reduces the tax paying capacity of the people.

f) Canon of Elasticity

This canon signifies that the taxes should be levied in such a way the amount to be collected can be increased or decreased with the least inconvenience from time to time. In the other words, the government can easily change the tax rates as per the need of the country. Instead of being rigid, tax rates should be made flexible to cope up with the changes in taxpayer's income, properties and transactions.

Other modern economists have added some other canons of taxation. They are:

g) Canon of Diversity

The tax system should not totally depend on one source of revenue. It is risky for the government to depend on a single source of revenue. The government should levy various taxes instead of imposing a single tax. The burden of tax should be scattered among different kinds of people. The burden of paying tax should not centralize on one group of people but it should be diversified in such a way that it ensures a smooth collection in different years.

h) Canon of Simplicity

This principle states that every tax should be simple and understandable to general public. There should be no administrative hassles. The tax payment procedure should not be too lengthy. If the tax system is complex and complicated, the taxpayers will have to seek the assistance of tax experts to understand its implications. This will bring irregularities and corruption.

i) Canon of Neutrality

The tax system should not affect badly to the production and distribution aspect of the nation rather it should facilitate them. The government should impose heavy taxes on harmful products and less tax or not affected. The tax must not have any inflationary effect on the economy.

j) Canon of Co-ordination

This canon states that there should be coordination among various taxes raised in the country. Taxpayers should not be imposed taxes of similar nature by various taxes of similar nature by various tax authorities (i.e. central government or local bodies). (Bhatara and Koirala 2010:6-8).

2.1.2 Taxing Objectives

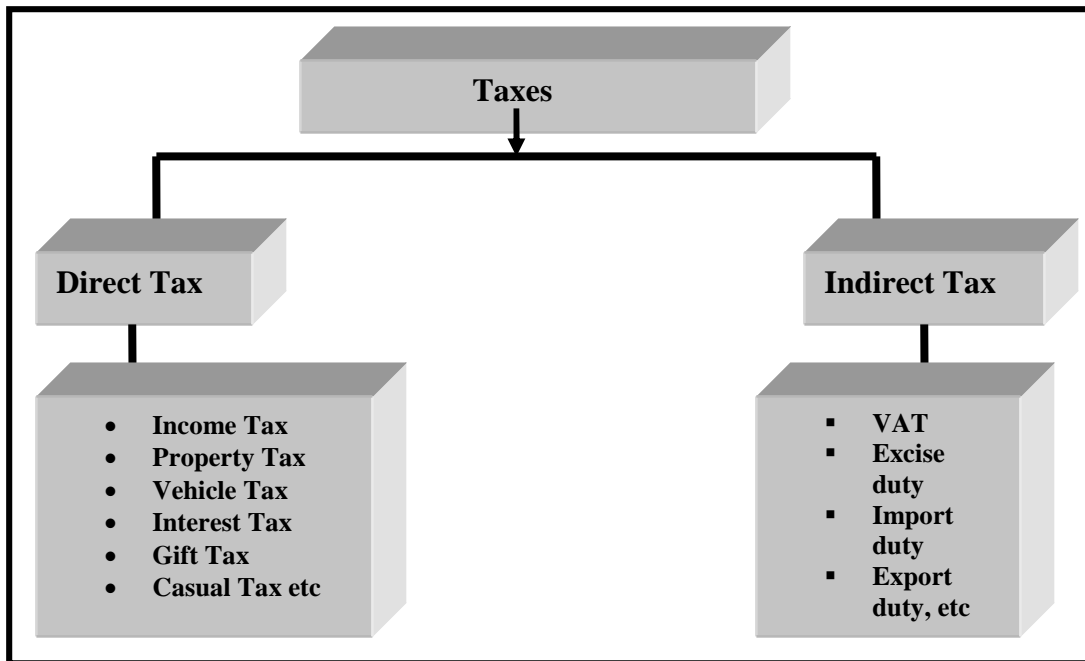
Tax is a permanent instrument of collecting revenues. It is a major source of revenue in the developed countries and is appearing as an important source of revenue in the developing countries as well. It has become an instrument of social and economic policy for the government. The modern objective of taxation is not only to maintain peace and security but also to conduct development activities. The main objectives of taxation are:

- To raise more revenue
- To prevent concentration of wealth in a few hands
- To redistribute wealth for common goods
- To boost up the economy
- To reduce unemployment problem
- To remove regional disparities
- To implement government policy

As stated the above, 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 are the objectives of modern tax.

2.1.3 Classifications of Taxes

On the basis of shifting of burden, tax can be classified into two broad categories: direct and indirect tax. This is the most common and popular classification of tax.



2.1.3.1 Direct Tax

A direct tax is a tax that is paid by the person to whom it is legally imposed. Direct tax is a personal tax and both impact and incident of tax is borne by the taxpayer. There is no possibility of forward and backward shifting. So, full burden of tax is borne by the same taxpayer. According to Dr. Dalton, 'A direct tax is really paid by the person to whom it is legally imposed.' The government collects and realizes

Taxes directly from the taxpayers. In Nepal, contribution of direct taxes to the total tax revenue accounts about twenty-six percent. Income tax, gift tax, interest tax, property tax, vehicle tax, house and land tax, contract tax, expenditure tax, death tax etc are the examples of direct taxes. Direct tax is creditable in many grounds. It is equitable, certain, elastic and economic also. Direct tax creates public awareness by inspiring to assess the utilization of revenue paid by them whether in productive sector or not. In another front, direct tax has some demerits as well. As the impact and incidence of direct tax is to be borne by same person, may feel the economic burden, inspiring the possibility of tax evasion. As the

taxpayers feel the burden of tax imposed by government directly there may be tax-evading attempts. There may be lack of mass participation and it may discourage saving and investment in the economy.

2.1.3.2 Indirect Tax

Indirect tax is the tax collected from other persons by transferring the tax liability, by the taxpayer. The taxpayer transfers the burden of tax to others in the society partially or fully. It is imposed on one person, but the incidence of the tax borne by another person through backward and forward shifting processes. Thus government collects tax indirectly from the general public. So in the case of indirect tax, the person paying the tax and the person bearing the burden of tax is different. Value Added Tax, Hotel Tax, Entertainment Tax, Excise Duty, Export and Import Duties etc are the examples of indirect taxes. Nepal is heavily relying on indirect tax revenue, which seems to be approximately 74 percent total tax revenue.

In the words, most of the developed countries (DCs) generate 3/4th of their internal revenue from direct taxes and out of which income tax is the major component. But the case in undeveloped, developing and least developed countries (LCDs) is different: unfortunately they are depending on indirect taxes. It is because of poor tax administrative efficiency and effectiveness, lack of tax paying culture, dominance of informal sector economy. If we analyses the pros and cons of indirect tax, it seems to be convenient compared to direct tax because incidence and impact of tax is on different persons, and there is mass participation in payment of tax. It is elastic and flexible and reduces the scope for tax evasion. On the other hand demerits of indirect taxes are uncertainty, inequality, lack of awareness and consumer exploitation etc. In essence it can be stated that indirect tax has no role to reduce income and wealth inequality in the economy, rather it creates excess burden and it protects inefficient players in the economy. Thus, ultimately least Developed Countries and Undeveloped Countries have to give more priority to direct taxes for revenue mobilization.

2.1.4 Concept of Income Tax

2.1.4.1 Income

Income means a person's income from any employment, business or investment and the total of that income as calculated in accordance with this act (ITA, 2058). It includes all sort of income received for the provision of labor or capital or both of whatever form or nature in the taxable income.

Income as the economic gain received by the person during the particular period is most satisfactory defined by Henry Simons as the algebraic sum of items. (Due and Friedlander, 1994:256)

- The person's consumption during the period
- The increase in the individual's personal wealth during the period.

Symbolically,

$$Y = C + \Delta W$$

Y = Income

C = consumption

ΔW = change in wealth

2.1.4.2 Income Tax

Income tax is the prime source of government revenue in developed countries (DCs). Income tax is the tax, imposed upon the income of an individual or an entity having taxable income under prevailing laws. Income tax as stated in Income Tax Act-2000 is “the expenses incurred in the process of creating charges and performing auction of property of tax creditor by the Inland Revenue Department (IRD), amount payable by a withholding agent or withholder in the case of withholding payments and assessments under section 99, 100 and 101 of the same act”. It also includes amount payable to the department in respect of a tax

liability of a third party, interest and penalties and amounts payable by way of fines in order to the department as per under 129 of the act (Income Tax Act, 2002).

Nepalese income tax revenue is in increasing trend and it has potentiality to be the second largest source of tax revenue compared to VAT in next ten years. Presently it occupies second position in revenue structure. Income tax contributes about 87 percent to total direct tax revenue and its share on total tax revenue has 24 percent also income tax contribution to the total revenue collection has 21 percent in FY20010/11. In the FY 2007/08 and 2008/09, government revenue from income tax amounted Rs 19077.813 million and Rs 27247.383 million occupying a 22.40 percent and 23.27 percent share in total tax revenue of Rs 85155.5million and 117051.9 million. Similarly in the FY 2009/10, government revenue from income tax amounted to Rs 33821.327 million occupying a 21.64 percent share in total tax revenue of Rs 156294.9 million. . In the FY 20010/11 contribution of corporate income tax, income tax from remuneration, investment income tax and others to the income tax remained 68,14,17and 1 percent respectively. It was 71, 13, 15 and 1 percent respectively in the FY 2009/10 (Annual Statement FY 2009/10, FY2010/11 IRD Lazimpat, Kathmandu

2.1.4.3 Historical Development of Income Tax law in Nepal

Great Britain is the first country in the world to introduce modern in income tax .The objective of imposing income tax sis to fight France, Britain introduced income tax in 1799AD.To generate revenue to finance civil war. On the beginning income tax was levied as per the need but 1860 and 1913 taxes were collect regulary.Income tax act was published in 1886 AD and this tax was collected regularly since then, Italy and New Zealand introduced income tax since then1864 and 1891 respectively. In India, while income tax in its modern form was adopted in 1860.Several experiments were made from 1860 to 1866 and finally the systematic income tax legislation was enacted in 1886.

Since world war first, the developed countries of the world had adopted income tax as major source of public revenue. In the beginning period, income tax was collected at a flat rate. But after 1909, progressive rate was adopted. In today's world progressive rate is preference to flat rate.

The practice of modern income tax in the Nepal is not very long. The idea of introducing income tax in Nepal originated in 2007 BS. When a multi party democratic political system was introduced then the financial minister in his budget speech declared the intention of the government to levy an income tax. His majesty's government issued Finance Act 2016 so as to levy income tax on business profit and remuneration incomes for the assessment and collection of taxes. Business profit and remuneration tax ordinance 2016 was issued. In 2017 it was enacted. This was the first income tax act in Nepal. This act was not broad and detailed. There were only 22 sections in the act and the provisions of taxation of business income and remuneration income were only included. There was no provision of deduction for expenses by taxpayer; Income tax was assessed on the basis of the tax officers." Estimate government employees were the main income taxpayers. This act was replaced by income tax act 2019. There were 29 sections in the act, for the effective implementation of income tax act's objectives. NG enforced "Income Tax Rules 2020".

Income Tax Act, 2019 also has encompassed profession, business, and house and lands rent investment, insurance and other source of income in the addition to business profits and remuneration incomes. It also made the provisions for rectifying arithmetic errors by taxpayers and tax payments in installments. Agriculture income was also made taxable in the act. Finance act, 2023 made agriculture income exempted again Finance Act, 2030 made agriculture income taxable. "Income Tax act 2019" was amended first in 2029. The act was replaced by "Income Tax Act 2031" so as to cope with the changing needs of the country. This act was also called a modified form of previous act. Most of the provisions of the previous act were kept as it is and other was changed. This act lasted for about 28 years.

The act remuneration income source into five groups:

- Agriculture
- Industry, Trade, profession or occupation
- Remuneration
- House and compound rents

- Other sources.

However agriculture income we kept outside the tax net except few years through the finance acts.

In 2058, Income Tax act 2058 was enacted by the parliament by replacing the income Tax act, 2031” This act is broad as compared to the previous act. This act has been made in accordance with global standard. “Income Tax Rules 2059 was framed NG to clarify some provision of the act. Finance ordinance have been making slight amendment in the act every year.

2.1.4.4 Income Tax in the Modern Nepal

After the independent of the country in 1951 the role of government has changed. Since the government was enforce to operate development activities, besides governing the regular function of maintain law and order and the collection of revenue (Bhatta and Shrestha1981:3).A sound and efficient income tax system is necessary to maximize the revenue collection from income tax. Whole income tax system is made of three sub system i.e., income tax policy, income tax laws and income tax administration. Income tax policy is determined buy the government itself through ministry of finance. Income tax policy should be such that the main objectives of the income tax can be attained.

Parliament makes the lows to implement the various polices. The government levies and collects the income tax accordance with low. The constitution of the kingdom of Nepal, 1990 has made the clear provision about it no taxes shall be levied and collected except in accordance with (constitution of kingdom of Nepal1990).Present legal provision of income tax is associated with constitution of the kingdom of Nepal1990, income tax act 2058, income tax rules 2058 finance act of concerned financial year etc.

2.1.4.5 Important of Income Tax

Taxes on income are the most important single source of revenue for government of developed countries through they at present produce for less revenue in most developing countries than customs duties and taxes on the internal transaction(singh1985:208)

Thus from the above lines it is clear that taxes on income are the most important sources of government in developed countries. But in the context of developing countries income tax can not produce more revenue as in developed countries.

In very poor countries income taxes contributes between one sixth and one fifth of total tax revenue, which they are source about one half of total tax revenue in the United States (Singh 1985:208). Like other developing countries Nepal is not an exception from the serious problem of domestic resource mobilization. There is also lack of saving and investment for economic development. To mobilize resource taxation can be used as positive instrument, most of the developing countries indirect taxes play important role that direct taxes or the overall tax structure for a rapid growth it is essential to increase investment.

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

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

2.1.5 Income Tax Act, 2002 (2058 BS)

Income tax is levied on the consideration payment made for the provision of labour (employment income) or capital (investment income) or combination of both (business income). Income Act 2002 has excluded casual receipt such a prizes, lotteries etc. (except those receive in connection with employment, Business and Investment) from the definition of income for the purpose of income tax act, 2058 has been implemented from 19/12/2028

BS. This act has replaced the income tax act 2031(1974) and the other acts related to income tax. Nepal government enacted income tax rules 2059 BS in a accordance with the authority given under section 138 of income tax 2058 has dismissed the section 66. There are various additional provision in this act.

Income Tax Act 2058 has been enacted with wide perspective. Various new concept are introduced in this act as compared to income tax act 2031 many of the concepts put forward in this act were not prevailing at Nepalese tax culture.

2.1.5.1 Objectives of Income Tax Act, 2058

Main objectives of Income Tax Act, 2058 are:

- Bringing all income generating activities into tax net.
- Harmonizing tax rates and concessions on equity grounds.
- Widening the tax base
- Confining all the income tax related matters within the act.
- Making income tax elastic and revenue productive.
- Developing a tax payer-friendly-taxation system by making it clear and transparent.
- Reducing the scope of discretionary interpretation of the tax authorities.
- Minimizing tax avoidance and tax evasion.
- Making taxpayer more responsible by enforcing the self-assessment systems.
- Integrating Nepalese tax system with the tax system of foreign countries.

2.1.5.2 Special Features of Income Tax Act, 2058

The key Feature of income Tax Act, 2058 are as follows:

- All income tax related matters are confined within the act by abolishing all related concessions, rebates and exemption provided by different Acts. This act has been made super in regard to all income tax matters.
- The act broadened the tax base. Tax rates have been spelled out in the act. The tax rates and concessions have been harmonized on equity grounds.
- The act has introduced a block system of charging depreciation. A provision has also been made for depreciating intangible assets.
- The act has first introduced capital gains taxation.
- The act has first introduced liberal loss set-off and carry forward/backward provisions. Inter heads adjustments of losses have been made from international perspective.
- The act has first introduced a provision for administration allow the tax administration to correct mistake made by tax administrator internally.
- The act has been made provisions for a stringent fine and penalty for the defaulters.
- Global incomes of a resident are made taxable. Non residents are also taxed on their incomes with source in Nepal.
- The act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.
- The scope of discretionary interpretation of the tax administration has been drastically reduced ensuring simplicity, uniformity and the transparency. The act has also defined the power and authority of the tax administration.

- The appeal system has been further streamlined by making mandatory for the tax payers to file an objection with the Inland Revenue department for administrative review before appealing the Revenue Tribunal.

2.2 Review of Related of Studies

During the preparation of this study report researcher visited various institutions, business houses, tax regulatory bodies, libraries and publications. Relevant books, university theses, journals and other reference materials were reviewed exclusively. Essence of some useful and relevant ones is presented below in brief.

2.2.1 Review of Books

Khadka in his book entitled 'Income Taxation in Nepal: Retrospect and prospects' (2001) stated that income tax is annually the third largest source of government revenue producing about 21% of tax revenue. He further mentioned the possibility of tax to secure its position second largest revenue generating source contributing around 30% of total tax revenue. Khadka stated that although some attempts have been made in recent time to broaden the coverage the tax base is still narrow both legally and administratively covering less than one percent of total population of Nepal. The success or failure of the fiscal system will depend upon the performance of unified tax administration and the status of the implementation of Value Added Tax and Income Tax as stated by Khadka in the same book. Peter Harris, a Cambridge professor in his article assesses the Nepalese tax system as in the middle of a period of transmission to a more efficient form and recent changes to the income tax may be viewed as preliminary step toward substantial reform and modernization of income tax system. Khadka concluded his book recognizing the income tax as one of the most important source of tax revenue and increasing contribution of income tax to revenue considerably both in absolute and relative terms in the 1990s. Accordingly he expected income tax to be the second largest source (compared to VAT) of tax revenue in Nepal on the future providing about 25 to 30 percent of total tax revenue.

In another book 'The Nepalese Tax System' (2000) the same author (Khadka) attempted to demonstrate how there exist a gap between intended policy and practice of Taxation in

Nepal. The author stressed on politicized bureaucracy, open corruption, and inefficient implementation of development projects for the poor resource mobilization resulting lower economic growth since the 1990s. The author cited several exempted sources of income such as agricultural income, export income, gratuity and pensions and interest income from particular sources over and above an appropriate personal allowance or threshold and varying treatments of dividend over time. The base is eroded by many incentives of which the author is critical since they have not work to the Nepalese tax system as lack of coordinated long term strategy, narrow coverage, artificial tax base, defective organizational structure, weak and traditional type of tax system and administration to a modern one. The direction mentioned for reform includes adopting a long-term coordinated approach, broadening the tax base and rationalizing the tax rates, administrative reforms and enhance tax compliance and to implement local taxes.

In 2003, Kandel authored two books 'Tax Laws and Tax Planning in Nepal' and 'Nepalko Bartaman Kar Byabastha'. These books were designed to fulfill the immediate need of the students and teachers of taxation, in the context of changed Income Tax Act 2002. Kandel, a senior tax academician presented various practical and theoretical aspects of taxation with clear and proper logics supported by theoretical explanations and practical problems.

In 2003, Mallik wrote a book 'Modern Taxation System of Nepal'. This book is very much useful for any one having the interest in Nepalese taxation system. The author presented the history of modern income tax periodically from the very beginning to Income Tax Act 2002 with the justifications of changes and amendments made in the act and regulation. The author presented Income Tax Act-2002, in simple and clear crystal manner with suitable example and explanations wherever necessary. Also he clarified some ambiguous and confusing provisions in income tax act with examples. He shared his knowledge and experience in his book. Mallik further explained bases of tax, inclusion in taxable income exempted amounts and allowable deductions while computing taxable income, timing and methods of tax accounting, qualification, allocation and characterization of amounts, capital gain tax, provisions related to the retirement fund, international taxation and double tax avoidance agreements with different countries, administrative aspects of income tax, advance and final

withholding of tax at sources, income statement and tax assessment procedures, depreciation, loss settlement and other provisions in the new tax act.

In 2011, Amatya, Sapkota and Thapa wrote a book 'Taxation in Nepal: Income Tax, Property Tax and Value Added Tax'. The authors presented a good mix of conceptual base and practical problems and solutions with special reference to the latest provisions of income tax, property tax and value added tax in Nepal in different chapters of this book. The book is designed according to the requirement of BBS 3rd year level as per the syllabus prescribed by the Faculty of Management, T.U. This book gives an in-depth approach to the study of income tax, property tax and value added tax in Nepal in order to meet the specific requirements of the students of this level. This book is useful and helpful to the students of Bachelor of Law (LLB), Master of Law (LLM), Master of Business Studies (MBS) and Master of Public Administration (MPA) of TU as well as CA (Intermediate Level & Final) under ICAN and Bachelor of Business Administration (BBA), Master of Business Administration (MBA) of Kathmandu, Pokhara and Purbanchal Universities. This book is also helpful to the Academicians, Tax Administrators, Taxpayers, Auditing Professionals and Tax Consultants.

K.C. (2007) wrote a book entitled "Tax Laws and Planning: Theory and Practice". K.C. described the provisions made under income tax most related terms in respect with assessment of different income tax and tax planning with practical cases raised and solutions. This book contained twenty-one chapters. K.C. described the concept of income tax, basic concept of income taxation in Nepal, quantification, allocation and characterization of amounts, tax exemptions and concessions, special provisions, withholdings payments, deductions from business and investment income, expenditure disallowed for deductions, calculation of net gains from assets and liabilities, business income, investment income, set off, carry forward and carry back of losses, assessable income and common deductions, taxable income, tax rates and tax liabilities, assessment and return of income, interests, offence and penalty, tax administration, administrative review and appeal, value Added Tax in Nepal and tax planning for various payment sand activities.

He wrote this book for the course requirements of T.U., based on syllables of MBS level. This book emphasized on illustrative examples relevant in Nepalese context. He also included calculation of tax liability of both individual and entity. This book explained proper taxpayers responsible for reporting, methods of taxation of income and need of compliance. This book is useful for the Post-Graduate level of T.U., students of other Universities and Colleges. It is equally important to Chartered Accountants, Auditors, Layers, Business persons, Managers and Investors. This book intends to improve reader's ability to comprehend and apply complex statute, regulations and emphasize to improve analytical skills.

In the essence it has been found that a study of income tax from domestic resource mobilization prospective is necessary in the current context of external dependency of the country to finance her regular and developmental expenditure requirement.

Bhattarai and Koirala co-authored two books entitled 'Taxation in Nepal' and 'Tax Laws and Tax Planning' in 2010. The book is intended for student at the Master level studies/Administration (MBS/MBA, MPA) and bachelor level of law (LLB) under Tribhuwan University. Bhattarai and Koirala described the provisions made under income tax most related terms in respect with assessment of different income tax and tax planning under the book Tax Laws and Tax Planning. This book contained 26 chapters. Bhattarai and Koirala described the income tax, exempt amounts, concessions, tax rates and with holding payments, deductions not allowed, tax accounting and timing, quantification, allowed and characterization of amount, income from business, capital and revenue, capital gain tax, income from investment, set-off and carry forward of losses, residential status, special provisions for individuals and entities, informational taxations, tax administration, officials documentation, record keeping and information collection, returns of income and assessment, collection of tax, remission and refund, administrative appeal and review, penalty provisions, value added tax, tax planning and tax planning for various payments and activities, custom Duty, excise Duty and lastly international taxation.

Both of these books are useful and relevant for University students as well as others having interest in this discipline. Bhattarai and Koirala's book is informative rather than analytical.

They also included some numerical problems in regards of income tax assessment. But this book had not analyzed the importance and role of income tax, major aspects, problems and defaults of Nepalese income tax system. This book is useful for the students of MBS second year.

2.2.2 Reviews of Journals and Articles

In 1978, Agrawal studied on income tax in Nepal for Centre for Economic Development and Administration (CEDA), Tribhuvan University. This research was entitled 'Resource Mobilization for Development: The reform of Income Tax in Nepal'. This was through analysis of income tax and its potentialities in total tax structure as an internal source for resource mobilization to rescue the economy from the state of external dependency to meet her regular and development expenditure requirement. This research was covered historical perspective of income tax, administrative aspects of income tax, role of income tax for some years. Agrawal analyzed the fast growing resource gap problem in Nepalese finance and reasons for such gap were significantly increasing in both regular and development expenditure of the government and increasing government investment in public sector enterprises. He further notified that constraints for domestic resource mobilization were poor utilization of natural resource base, small and stagnant industrial sector, partial monetization of economy, poor performance of public sector enterprises, poor rate of economic growth, deficiencies in tax policies, laws and administration etc. To overcome such problem of resource gap, he recommended mobilizing additional financial resources from domestic sources to finance rising expenditure of the government. The viable alternative solution to Nepal was to keep on matching on the road of development by mobilizing additional domestic resources. He addressed the role of income tax to be a main measure of domestic resource mobilization.

In the same research, the researcher reported the buoyancy of income tax with respect to Gross Domestic Product (GDP) for the period 1967/68 to 1975/76 2.18 and elasticity of income tax 2.01. At the same time income tax was positively responsive to change in GDP because of greater than unity coefficient of buoyancy and elasticity. That the square of Correlation coefficient for income elasticity was 0.94, which indicated a good relation

between GDP and income tax. The base buoyancy of income tax was 2.2 and base elasticity of income tax remained 2.08, which were highest among all the major taxes. He identified the major defects of income tax administration as failure to locate new taxpayers, failure to maintain proper accounts, delay in assessment, proper tax payer compliance, evasion and avoidance of income tax and weak tax administration. He recommended continuous reform in total tax system with the reforms in tax policies by introducing selective wealth tax to supplement income tax including capital gains in income tax, taxation on dividends etc, making reforms in income tax law like language simplification minimization of discretionary power given to tax officers and overall reform in income tax administration.

Again in 1984, Agrawal submitted a report to Ministry of Finance (MOF) entitled 'Direct Tax Reforms in Nepal'. In this report also, he emphasized the urgency for additional financial resource mobilization to overcome the problem of growing resource gap and to escape from the external dependency on foreign aid, grants and foreign loans to meet government expenditure. It was found that income tax revenue growth in total revenue and total taxes. The minimum buoyancy was of income tax and registration fees had the highest buoyancy. He had strongly recommended reform in income tax policies, reform in legal aspects of direct tax with administrative reforms. Self-tax assessment system of tax was to be encouraged. Undue political and vested interest group pressures were to be eliminated. Door to door assessment services to small taxpayers, inclusions of capital gains with in tax net were the recommendations made by him. It is to be noted that most of his recommendations, if not all, have been recognized by recently enacted tax act 'Income Tax Act -2002'.

Kayastha's article 'Problem and Prospects of Resource Mobilization through Direct Taxation in Nepal' was published in journal 'Rajaswa (Journal of Finance and Development) in 1993, where he had shown the role of direct and indirect taxes in Nepal's tax structure. It was found that indirect taxes played a dominant role over direct taxes in total tax revenue for the government. The share of direct tax in total tax structure was expected to grow in comparison with other taxes. He stated an urgent need for initiating certain tax measures for expanding tax base. In his article, he stated lack of tax policies with clear direction and consistency in long term perspective, lack of information and records, lack of efficient human resources, heavy dependence in non-trained and non-technical staff, lack of proper accounting and

auditing system, dominance of informal sector in economy as factors responsible for poor revenue generation and management. He stated the constraints of tax collection to be loopholes and leakages in tax management because of low government salary against high living costs and access discretionary power to tax authorities. He recommended reform in tax laws, rules and regulations to mobilize additional financial resources through income taxation in Nepal.

Nepal Rastra Bank researcher Tula Raj Basyal in his article 'An Analysis of HMG's Real Revenue and Expenditure Growth' stated that average annual compounded revenue growth rate for the last 29 years comes to be 15.4 percent. Government revenue in the FY 1974/75 was Rs 1008.4 million, which rose to Rs 56232.6 million in FY 2002/03. Contribution of revenue to GDP increased from 6.1 percent in the FY 1974/75 to 12.6 percent in the year FY 2002/03. The income elasticity of revenue is 1.026, which showed that when there is 1 percent growth in GDP, it will lead to 1.026 percent revenue growth. Similarly if there is 10 percent increase in national GDP, the revenue will increase by 12.9 percent.

The same researcher analyzed the inflation and real revenue growth also. He stated that in terms of the national urban consumer price index, which rose from 13.3 in the FY 1973/74, the year when weighted average price were first computed to 148.9 in the FY 2002/03 the average compounded inflation rate to come to 8.7 percent. During last three decades (FY 1973/74 through FY 2002/03), it was found that the rate of revenue growth was below the inflation rate in first three years. In the year then after, with the average revenue growth at 15.4 percent and inflation rate 8.8 percent, the ratio of nominal revenue growth over the inflation rate during three decade's period came to 1.062, implying the real revenue growth at 6.2 percent. The same researcher suggested that, it would be necessary for the government to have higher level of real revenue growth, which was possible only when nominal revenue growth rises, and the rate of inflation falls. The fiscal policy would have to concentrate on mobilizing higher amount to nominal GDP through implementation of comprehensive revenue reform measures and strengthening revenue administration.

Govinda Bahadur Thapa in his article in Rajaswa journal described the various causes of poor resources mobilization in Nepal. Majority of the people lying below the line of poverty,

agricultural income which constitutes approximately 40 percent of GDP being tax free, tax holiday for new industries, lack of political stability and commitment were the main causes for poor resource mobilization. He identified that the main constraint for internal resource mobilization was narrow tax base. He had recommended mobilizing additional financial resources internally otherwise national economy will be worsen more day by day. Income tax Act-2002 has somewhat widened its coverage that would help mobilizing domestic resources for the economic development of the nation.

Mr. Surendra Keshar Amatya(2006) wrote an article entitled "Taxation of employment income in Nepal, concept computation and contribution" in PRAVAHA a journal of management Vol. 16, July 2006.He has mentioned about Nepalese income tax Law income year and assessment year, heads and sources of income concept of employment, computation of income from employment non chargeable incomes under employment, common reduction, income tax exemption, and assessment of income tax liability of employment income, surcharge and contribution of employment income to tax revenue of Nepal. He has also shown about estimation and collection of employment income tax during the past decade. In this study, he has clearly pointed that actual collection of employment tax is satisfactory than estimated target.

In 2007 Dr Kamal Deep Dhakal had written an article entitle "Historical perspective on income tax in Nepal." This article has described previous income act shown main fatigue of income tax act 2058 are as follows:

- Provision of set and carry forward of losses
- Classification of pooling of depreciable assets
- Tax on capital gain
- International taxation
- Medical Tax Credit
- withholding and quantification allocation and characterization of amounts

Madan Kumar Dahal, *Economic Journal of Nepal* (2009) article entitled "Taxation in Nepal Structure, Issues and Reforms" He wrote that in developing economies resource gap is critical and widening resulting to huge fiscal and budgetary deficits. The growing resource gap is frequently of by mobilizing internal and external borrowings and consequently shifting the burden of debt to posterity. Therefore, revenue mobilization is challenging proposition in an economy like Nepal where a majority of the people live in abject poverty and the people engaged in economic activities have extremely limited taxable capacity. In addition, legal base of taxation is compressed with unlimited tax shelters and tax administration lacks innovative mechanism to identify new taxpayers and bring them into tax net. The tax burden ratio is estimated to be 15.7% of GDP in FY 2008/09. In Nepal's tax structure revenues are buoyant but inadequate to supplement development activities. Interestingly. There was no adverse impact of conflict on internal revenues and subsequently. ODA to Nepal have increased over the years. The tax system suffers from structural constraints with tremendous administrative and procedural complexities envisaged in the existing Income Tax Act, which lacks simplicity and transparency. The major problems of taxation in Nepal include: (1) marginally high tax rates (2) limited tax base (3) low tax elasticity (4) poor voluntary compliance (5) leakages in tax collection (6) rigid Income Tax Act, 2008 (7) inefficient, indifferent and corrupt tax administration, and (8) no consolidated record of property (land and building) with the Internal Revenue Department. The tax system in Nepal calls for a periodic reforms to ensure growth, equity and stability. The studies and reports on taxation exhibit that several reforms have had been undertaken by the government in the past to simplify and modernize the tax system these reforms were confined to improving tax structure by designing appropriate policy instruments. The reforms in taxation in Nepal consist of three types: (1) reforms in tax laws and regulations (2) reforms in environment, and (3) reforms in tax administration.

2.2.3 Review of Thesis and Dissertations

Some thesis and dissertations are reviewed for this study and they are as follows:

In 1981, Suwal studied the problem and importance of income tax in solving the problem of financial resource gap in Nepalese economy. She studied per capita burden of income tax and the trend of income tax and effect of income tax on production in Nepal. She concluded that for planned development efforts, income tax to be an important source of revenue to mobilize additional resources internally. Income tax is regarded as an instrument for justifiable distribution of income. She estimated that income tax revenue would increase by 25 percent, if tax administration were improved. She recognized that lack of proper definition of income, law, tax paying capacity, lack of consciousness, high tax rates, corruption etc as major constraints for income tax collection. She recommended for clear and comprehensive definition of terms used in the act, consciousness and awareness programs among taxpayers to improve income tax collection and income tax system in Nepal.

In 1982, Puroshattam Subedi presented a thesis having analysis done on direct and indirect tax and income tax evasion. He showed the contribution of income tax to the total revenue and a heavy reliance on indirect taxes in generating tax revenue for the government. According to him the problem of Nepalese income taxation were poor tax consciousness and wide spread evasion of income tax. In his study, he examined the contribution of income tax to the total revenue and to the total tax revenue. As well as, he showed the growth pattern of income tax collection and its ratio to GDP and elasticity of income tax collection. Subedi concluded that the share of income tax in total revenue was increasing although its coverage was very limited. He recommended for controlling tax evasion practices for proper distribution of income tax, to clarify income tax law, proper tax administration and easy tax assessment procedure to make taxation system revenue productive and tax payer friendly.

Naina Nepal presented a thesis on 'A Study of Problem and Prospects of Income Tax in Nepal' in 1983. The aspects of fiscal system of Nepal, origin and meaning of income tax, existing position of income tax, role of income tax, then the problems and future prospects of income tax were specially focused in her study. Effective and efficient tax administration, expansion of tax coverage, and simplification of assessment procedure, increasing tax

consciousness were her recommendations to utilize domestic resources through taxation efficiently.

Integrated Development System reported that the elasticity of the Nepalese tax was extremely low in comparison with buoyancy for the period 1974/75 to 1984/85. This study indicated the government's concentration on introducing various discretionary measures rather than broadening tax base. This study showed the elasticity of tax revenue 0.86 and buoyancy of income tax 1.35. The elasticity of direct and indirect taxes was reported to be 0.66 and 0.93 respectively. Elasticity of income tax was reported to be 1.06. Except sales tax and income tax, the elasticity of other taxes was either lower than unity or negative whereas the buoyancy of all taxes except export duty was above unity.

In 1987, Prem Prasad Timilsina wrote a thesis entitled 'Income Tax Evasion in Nepal' with the objective of analyzing the structure of income tax and its role in mobilizing additional financial resources in the country. An attention was given towards examining income tax evasion tendency and observing the general opinion on income tax evasion to estimate the volume of income tax evasion in Nepal. One of the objectives of the research was to draw solutions and suggestions for eliminating such evasion. He also showed increasing trend of financial resource gap and income tax evasion tendency because of wide spread illegal business activities, high level of corruption, poor tax paying habit, inefficient tax administration, open border with Indian and political indiscipline in Nepal

In 1995, Daya Raj Tripathi submitted an MBA thesis entitled 'Income Tax System in Nepal and Potential Areas for Reform'. He studied the role, importance, legal and administrative aspects income tax has concluded that the existing income tax law must be reviewed and the tax administration should be made more effective.

In 1996, Shambhu Nath Regmi wrote a thesis on 'The Role of Income Tax in Nepal' discussing the trend and contribution of income tax in particular in the development efforts of the government. He recommended for checking income tax evasion because it was a great challenge for the collection of income tax in Nepal. According to him, if the income tax evasion was controlled properly, its contribution could be strengthened significantly for the economic upliftment of the country

In 2001, Binita Shrestha presented a thesis entitled 'Revenue Collection from Income Tax in Nepal: Problems and prospects'. She analyzed income tax collection policy and its problems and she recommended some measures for effective income tax management mechanism. Although income tax revenue was increasing trend. It was constrained by narrow bracket, majority of people living below the poverty line, lack of consciousness and awareness among taxpayers, ineffective tax administration, defective tax policy, political instability etc to contribute to national revenue significantly

In 2002, Jayanti Poudel made a study on 'Income Taxation in Nepal: A Study of its structure and Productivity'. The objectives of her study were to analyze the structure of income tax, to estimate the elasticity and buoyancy of income tax, to assess role of income tax administration, to evaluate the success the VDIS program in brief and to provide the suitable recommendations for improving existing scenario of income tax collection. She came to find that Income Tax and VAT were the major sources of direct and indirect tax revenue in Nepal. Annual growth in overall revenue collection recorded 16 percent and average annual growth rate of total tax revenue recorded 16.4 percent. The contribution of income tax to direct tax has increased significantly since its introduction. 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 the FY 1975/76 has been reduced to two slabs 15% and 25% in 1999/00. The elasticity and buoyancy coefficients were found to be 0.61 and 1.36 respectively. VDIS program could not cover more paternal taxpayers under tax net because of inadequate government planning and homework. She came to conclude that Nepalese tax administration has been attempting to modify itself to meet the pressing challenges brought about by change in technology and economic policies. However, still its working procedures are traditional and administration cost has not been brought to the satisfactory level. She recommended for broadening income tax base, reform in tax administration, successful implementation of VAT and establishment of standardized accounting system.

Dulal (2004), in his dissertation named "Income Tax in Nepal Study of its Structure and Contribution to Revenue Generation" has explained that the contribution of income tax to total revenue was 7.8 percent in FY 1975/76 and in FY 1999/00 it was 14.5 percent. This study has explained that the income rates and slabs have been changed radically in recent year.

Under new Income Tax Act 2002, in individual income tax is levied with single rates of 25 percent for bank and financial institutions of rate is 30 percent of taxable income.

Neupane(2005) in his dissertation entitled " Income tax as an internal source of resource mobilization in Nepal. He has concluded that the tax/GDP ratio in Nepal is very nominal compared to the same ratio in neighboring SARRC and other developing countries among various objectives of his study. Some objectives are to study the reasons for growing resource gap in Nepalese economics to analyze the role of income tax as an internal instrument of resource mobilization, to identify the role and status of income tax in total tax structure and to provide suitable recommendation for the improvement of internal resource mobilization through income taxation in Nepal. He has also concluded that income tax is the main component of direct tax and its contribution on direct tax and total revenue is 78.78 percent and 19.02 percent respectively. He has further said that for the economic upliftment of the nation, additional internal financial resource mobilization should be strength and generation of more revenue internally planned development efforts, political stability and liberal economy may be the means for such mobilization.

Chalise Rabindra(2007) conducted a thesis entitled " A study on contribution of income tax to government revenue." Mr. chalise had concerned his study to analyze the effect impact of income tax evasion on government revenue of Nepal.

The specific objectives of the study were:

- To study the historical development of income tax in Nepal.
- To analyze/view the structure of government revenue and position of income tax.
- To identify the ways and causes of income tax evasion in Nepal
- To make suggestion and recommendation for the elimination of income tax evasion

His major findings are as follows:

- Nepal has been suffering from capital shortage to accelerate the economic growth. Lots of funds are needed to meet additional financial requirement for the development activities of country.
- Nepal has been heavily relying on foreign loans and grants internal resource are prefer able for sustainable economic development, thus fiscal deficit of Nepal has been increasing.
- Income tax is one of the A study on contribution of income to government revenue most important resource of public revenue and it is consider as a good remedy to cure growing resource gap problem of Nepal.

His recommendations were:-

- Government should try to reduce resource gap by increasing internal revenue and subsidies likewise government should only take the foreign loan for production sector of purposes which has high revenue generating possibility.
- Income tax policy should be made such that the main goal of imports income tax can be achieved.
- Timely revision should be made in the matter of income tax policy according the economics policy of the country. The system of changing income tax policy with change of government should better be avoided.
- The terms and procedure under the income tax act should be simplified so even laymen understand it easily.

Sapkota Umesh (2010) in his dissertation entitled "Resource mobilization through income tax in Nepal." his study on income tax collecting the data from FY1900/01 to2007/08 shows that the income tax is very important source of revenue. Its contribution in total revenue is in increasing trend. The further projection of income tax shows the bright future of income tax in government revenue but the calculation of elasticity and buoyancy of income tax shows the income tax is buoyant rather than elastic. This implies that the role of discretionary power

is significant in the collection of income tax. He had also concluded that there are still some problems of resource mobilization through income tax however he had suggested that we can solve these problems by the collection efforts of people, tax officers, political parties and government.

He had recommended that the growing problem of resource gap in Nepalese finance should be tackled with significant reduction in government expenditure (especially regular expenditure) by utilizing natural resource base effectively and mobilizing additional financial resource internally to meet resource requirement rather than opting for foreign source of deficit financing. As Nepalese revenue structure is heavily dominated by indirect tax that occupying a share of more than three fourth in total tax. It is necessary to increase the share of direct tax through effective and efficient income taxation. Similarly including non professional agriculture income also with in grip of tax after providing certain exemption should further widen the coverage of income tax.

CHAPTER-III

METHODOLOGY FOR RESEARCH

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

3.1 Research Design

This research is an analytical and descriptive in design using historical data to assess the current role of income tax in resource mobilization internally and to explore some potential areas for additional domestic resources mobilization through income taxation to shorten the gap of resource deficit Nepalese Finance. This research has tried to analyze and describe the taxation system by its own procedure. Historical data of last 11 years were taken into consideration. The main variables used in analysis were GDP Tax Revenue and Non-Tax Revenue of Government. Tax revenue of the government was broken down into direct and indirect tax components. Both direct and indirect taxes were again subdivided into different subcomponents.

Both secondary and primary data were collected by using different data collection procedures. Collected data were summarized, tabulated and presented in appropriate formats using diagrams, pie-charts, tables etc.

3.2 Nature and Sources of Data

Both primary as well as secondary sources of data were used for the conduct of this research. Primary data collected by distributing questionnaire and secondary data were collected from published and unpublished various sources.

3.2.1 Secondary Source of Data

Secondary source of data were collected from:

- Different publications of Ministry of Finance like Economic Survey, Budget Speech etc.
- Different reports and statements, journals as well as research findings of Revenue Administration Departments, Harihar Bhawan, Pulchowk.
- Various publications of Inland Revenue Department including circulars, annual statements, income tax act, income filing forms and other relevant materials.
- Developments plans and other publications of National Planning Commission, Kathmandu.
- Different Statistical publication of Central Bureau of statistics (CBS).
- Nepal Rastra Bank Publication
- Useful data and information were collected from different newspaper journals, magazines, websites, empirical studies from Tribhuvan University Central Library, CEDA, SAARC Library, Nepal Rastra Bank Library, NCC Library, ICAN Libraris, and other relevant sources.

3.2.2 Primary Sources of Data

The major tool used for collection of primary data was the administration for questionnaire, consisting of twelve questions to purposive sample of persons. Persons included in the sample were carefully selected by consultations with senior consultants in Revenue Administration Support (RAS), Project (DANIDA), senior academicians in T.U, Selected

FCAs in ICAN and the judgment of the researcher. The respondents included in the sample were the representative of the various subsystem of the tax system.

The purposive sample was selected from three broad categories of respondents associated with the tax system. The respondents were grouped as tax administrators/officers, tax policy makers/experts and taxpayers/ accountants. A total of 100 questionnaires were distributed for all three groups. Beside this, relevant information and data were generated by means of personnel observations, face to face interviews and field visits.

3.3 Sample Size

It was absolutely impossible to take the large sample size from the population in the whole nation. Therefore stakeholders of income tax from Kathmandu valley were included in the sample. The respondents were divided into three groups, each first and second group having thirty/thirty respondents and last group having forty respondents. Respondents include in the sample were top tax officials like DG, DDG in IRD, senior consultants in RAS project (DANIDA) and senior academicians from Tribhuvan University. Category of the respondents in sample and questionnaire distributed to the respondents are presented in table 3.1.

Table 3.1: Groups of Respondents and Questionnaire Distributed

Groups of Respondents	Questionnaires Distributed	% Sample Size
Tax Administrators	30	30
Tax Experts /Policy makers	30	30
Taxpayers	40	40
Total	100	100

3.4 Data Collection Procedure

For primary data, information was collected by developing a schedule of questionnaires and distributed to three distinct types of respondents. Distribution was done through personally field visit to get accurate and actual information in time.

For secondary data, information was collected from published reports of different organizations.

3.5 Statistical Tools for Processing and Analyzing Data

After Collection of primary and secondary data in raw form, they were tabulated and processed according to the needs and objectives of the research. Collected data were presented in appropriate form and analyzed with the help of statistical tools mentioned below.

3.5.1 Rank Correlation Coefficient

Rank Correlation Coefficient was the measurement of relationship between the two variables with respect to their respective ranks. It was also called Spearman's rank correlation coefficient and given by:

$$r_s = 1 - \frac{6\sum d^2}{n(n^2 - 1)}$$

Where,

r_s = Spearman's rank correlation coefficient between variable x and y.

d = Difference between the rank for each pair of observations.

(d = $R_1 - R_2$)

R_1, R_2 = Rank of x and y series respectively.

n = Number of observations.

Σ = Notation meaning “the sum of”

3.5.2 Testing of Hypothesis for Small Samples

The sampling distributions of sample mean when the sample size is large (most commonly $n > 30$) is normally distributed with mean and standard deviation. But what about the situation when sample size is less than 30, the pioneering work in the development of exact sample techniques (small sample technique) was done by an Irish brewery employee William S. Gosset. He used to write under pseudonym of ‘student’ in the beginning of the 20th century. It was first published as ‘student distribution’ and later it was extended by R.A. Fisher. Therefore, the small sample distribution is called ‘student distribution’ or the t- distribution.

3.5.3 Test of Significance of an Observed Correlation Coefficient

The t-statistic also tests the significance of an observed correlation coefficient. From a bivariate normal population, if the observed correlation coefficient of population has to be tested as significant or insignificant (zero), ie. The variables in the population are uncorrelated, the following test is applied.

Setting of Hypothesis:

Null hypothesis and alternative hypothesis are set as follows:

Ho: $\rho = 0$, (Null hypothesis): There was no correlation in the ranked data of the population.

H1: $\rho \neq 0$, (Alternative hypothesis): There is a correlation in the ranked data of the population.

(Where ρ was Spearman’s rank correlation coefficient in the population)

$$t = \frac{r_s \sqrt{n-2}}{\sqrt{1-r_s^2}}$$

Where, n is the number of pairs of observations.

The t-statistic, in this case, is based on (n-2) degrees of freedom at 5 % level of significance.

A two tailed test was appropriate, so by looking at table values in the row, the number of paired observation and the column for a significance level of 0.05, the critical values for t can be found. The four hypotheses have been set and tested in the empirical study in Chapter 5.

Decision:

If calculated $t \leq t$ tabulated at 5% level of significance and (n-2) degree of freedom H_0 is accepted, ie. r_s is insignificant.

If calculated $t > t$ tabulated at 5% level of significance and (n-2) degree of freedom H_0 is rejected, ie. r_s is significant.

3.6 Weight of Choice

During the period of primary opinion survey, the respondents were required either to rank their answer or to give yes/no answer or to write their opinion. In the case of ranking the answer, the rating scale of probable answers was varied within the question and from question to question. Probable answer were to be rated on one to five scales. Scale was to be given according to the weight assigned by the respondents. The scale one was for most important answer (which have got five points) and five for the least important answer (which has got one point).

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

Presentation, analysis and interpretation of secondary as well as primary data were done in this chapter using the statistical tools and methodology.

4.1 Presentation and Analysis of Secondary Data

The need for mobilizing additional financial resources has been growing rapidly since planned development efforts began in Nepal. This need has specially pronounced the urgency for domestic resource mobilization. If we see the details of financial outlay in various development plans, it is clear that over a period of 55 years, the resource need increased by 3102 times being the twelve(Three years interim) plan outlay of Rs 1023704.9 million in comparison to the First Plan outlay of Rs 330 million. This indicated a rapidly increasing trend in financial outlays for development. Moreover the actual expenditure vis-à-vis planned outlay indicates from 64.96 percent during First Plan to 101.8 percent during Eleven (Three years interim plan 2007-2010).

In developing nations, used of foreign aids and loans had produced bitter experiences as well as mixed consequences. The repayment of principal and interest is providing to be a net burden for many of them. It can at most occupy only a marginal and dwindling important in the financing of development activities. Mobilization of resources from domestic sources is the only viable solution as compared to foreign source of deficit financing. Greater stress needs to be played a financing of development efforts in Nepal. Foreign aid should be taken as complement of domestic efforts not substitute for domestic sources of government financing.

4.1.1 Resource Gap in Nepalese Finance

Scarcity of resources has constrained the realization of development goals in underdeveloped and developing countries. So is the case of Nepal, she has been facing serious and growing problem of resource gap in her finance since her first budget speech in the FY 1951/52.

Resource gap is taken to be the difference between expenditure and revenue. The outlook of resource gap can be seen as:

Resource Gap A = Expenditure – Revenue

Resource Gap B = Resource Gap A – Foreign Grants

Resource Gap C = Resource Gap B – Foreign Loan

To fill the growing resource gap, a large amount of external aids, loans and internal loans to be borrowed but scarcity of resources seemed to be never ending phenomenon in Nepal. In the first budget of Nepal, there was a regular expenditure of Rs 42 million and there was no development expenditure. A total of Rs 30.5 million was collected as revenue and the government did not take any foreign loan and grant.

Table 4.1: Resource GAP in Nepalese Finance (From 2000/01 to 2010/11)

(Rs in Million)

	Total Expenditure	Total Revenue	Resource Gap A	Foreign Grants	Resource Gap B	Foreign Loans	Resource Gap C
Years	A	B	A - B	C	A -(B+C)	D	A - (B+C+D)
2000/01	79835.1	48893.6	30941.5	6753.4	24188.1	12044	12144.1
2001/02	80072.2	50445.5	29626.7	6686.1	22940.6	7698.7	15241.9
2002/03	84006.1	56229.8	27776.3	11339.1	16437.2	4546.4	11890.8
2003/04	89442.6	62331	27111.6	11283.4	15828.2	7629	8199.2
2004/05	102560.4	70122.7	32437.7	14391.2	18046.5	9266.1	8780.4
2005/06	110889.2	72282.1	38607.1	13827.5	24779.6	8214.3	16565.3
2006/07	133604.6	87712.1	45892.5	15800.8	30091.7	10053.5	20038.2
2007/08	161349.9	107622.5	53727.4	20320.7	33406.7	8979.9	24426.8
2008/09	219662	143475.45	76187.5	26382.8	49804.7	9968.9	39835.8
2009/10	259689.1	179945.8	79743.3	38545.9	41197.4	11223.4	29974
2010/11	295363.4	199819	95544.4	45922.2	49622.2	12075.6	37546.6
Average	146952.2	98079.87	48872.36	19204.83	27672.07	9245.436	20422.1

Source: Economic Survey of FY2011/12, MOF, GON, Kathmandu

Resource Gap A: (A-B)

It is taken as difference between total expenditure and total revenue. This resource gap was Rs27111.6 million in FY2003/04 it was minimum gap of resource during the study period. Resource gap is always in increasing trend and reached maximum Rs95544.4 million in FY2010/11. From the Table, it was cleared that this type of resource gap was increasing trend. The average annual resource gap remained was Rs48872.36 million during last 11 years. These figures clearly indicated that the poor performance of domestic resource mobilization.

Resource gap B: A-(B+C)

This resource gap is after the foreign grants. It is taken as different between total expenditure and total revenue plus foreign grants. This type of resource gap was Rs24188.1 million in FY2000/01 which was increased to Rs49804.7 million in FY 2008/09 which was also maximum resource gap. In FY 2010/11 resource gap was Rs49622.2 million. The minimum gap was Rs15828.2million in FY 2003/04. Government expenditure was increasing every year, but not sufficient increased in government revenue so resource gap also growing. It shows that foreign grants should be encouraged to increase for minimizing the resource gap. The average resource gap was Rs 27672.07 million during the study period.

Resource gap C: A-(B+C+D)

This resource gap is taken as difference between total expenditure and total revenue plus foreign grants plus foreign loans. In FY2003/04 the gap was minimum Rs 8199.2 million which was increase to Rs39835.8 in FY2008/09, it was maximum resource gap during the study period. In FY 2010/11 the resource gap was Rs37546.6 million. The average gap was Rs20422.1 million during last 11 years.

Moreover, foreign loan largely depends on the fiscal policy adopted by the nation. Foreign loan creates extra burden to economic because debt servicing charge increase every year. The foreign loan should be taken as a complementary resource focused should be in mobilizing

internal resource properly. The increasing magnitude of resource gap clearly indicated that there is urgent need of mobilization of additional resource at domestic front.

The increasing gap between government expenditure and revenue and high fiscal deficit have contributed causing economic distortion such as increasing in prices, large flow of imported goods and service, low level of domestic savings and heavy reliance on external debt, leading the economy to the state of external dependency.

4.1.1.1 Reasons for Growing Resource Gap

A serious growing resource gap has occurred in Nepalese finance because of expenditure requirement of the government was growing at a much faster than its ability to mobilize additional resources. These were many reasons for such excess of expenditure over revenue. The following may be listed as specific ones.

- **Increase in Recurrent and capital Expenditure of Government**

Significant increased in recurrent and capital expenditure of government had resulted in phenomenal growth in resource gap.

Table 4.2: Capital and Recurrent Expenditure of Government (From FY 2000/01 to 2010/11)
(Rs in million)

Years	Capital Expenditure	Recurrent Expenditure	Total Expenditure
2000/01	28307.2	45837.3	74144.5
2001/02	24772.4	48863.9	73636.3
2002/03	22356.1	52090.5	74446.3
2003/04	23095.6	55552.1	78647.7
2004/05	27340.7	61686.4	89027.1
2005/06	29606.6	67017.8	96624.4
2006/07	39729.9	77122.4	116852.3
2007/08	53516.1	91446.9	144963.0
2008/09	73089.0	127738.9	200827.9
2009/10	90237.7	151019.1	241256.8
2010/11	107847.5	170295.4	278142.9
Average annual growth rate in %	17.99	15.22	33.21

Source: Economic Survey of FY 2011/12 MOF, Kathmandu.

As depicted in the table 4.2, both recurrent and capital expenditure of the government were significantly rising. Recurrent expenditure rose from Rs 45837.3 million in the FY 2000/01 to Rs 170295.4 million in FY2010/11 with an average annual growth rate of 15.22 percent. In the FY 2005/06 it was increase by 8.6 percent over expenditure of the FY 2004/05. Capital expenditure of the government showed fluctuating trend. It was Rs 28307.2 million in the FY 2000/01. The growth rate of capital expenditure in the FY 2002/03 became negative of 9.8 percent. Again in the FY 2011/12(initial) capital expenditure became negative by 41.7 percent. Average annual growth rate of capital expenditure during last 11 years remained 17.99 percent. The higher growth rate of recurrent expenditure inspired by security expenses had been major cause for growing resource gap with average annual growth rate of 33.21 percent annually in total expenditure.

- **Burden of Debt Servicing Charges**

There was a conspicuous trend towards loans rather than grants in the composition of foreign aid in Nepal. This imposed the rising burden of debt servicing in the form of commitment charges, interest and repayment of principal. In the FY 2000/01, Nepal borrowed Rs12044 million from both bilateral and multilateral sources of foreign loan. In the FY 2001/02 it declined to Rs 7698.7 million and Rs 4546.4 million in the FY 2002/03, then after the years 2003/04 and 2004/05 it increased to Rs 7629 million and Rs 9266.1 million respectively. In FY2005/06 the foreign loan was decreased to Rs 8214.3 million. Foreign loan borrowed Rs 12075.6 million in FY 2010/11. The fiscal deficit that was on decreasing trend since fiscal year 2001/02 reversed again from 2004/05. The ratio of fiscal deficit to GDP which was 5.0 percent in the fiscal year 2008/09 stood at 3.5 percent in FY2009/10.

Fiscal deficit, the result imbalance between expenditure and revenue is being financed through foreign loan, domestic borrowing and change in cash reserves. Of the fiscal deficit Rs49622.2 million in FY2010/11, Rs 12075.6 million (24.3 percent) was through foreign loan. Rs42515.8 million (85.7 percent) through domestic borrowing and remaining Rs 4969.1 million (-10 percent) through the change in cash reserve.

Although the amount of foreign loan as a source for deficit financing also increased trend, overall burden of debt servicing charges and interest payment is in rising trend which has been a disturbing phenomenon for internal resource mobilization.

- **Poor Utilization of Natural Resource Base**

Nepal's inability to utilize its natural resource base has been contributing to the expansion of gap between income and expenditure. Most important natural resources water resources, mineral resources and forest resources have not been tapped effectively for financial resource mobilization.

- **Poor Economic Growth and Inadequate Tax Efforts**

The revenue potential of a country is directly correlated with its level of economic development. Nepal is least developed country having a very nominal economic growth rate, if not negative. Nepalese economy witnessed a negative growth of 0.5 percent in the FY 2001/02 against the growth rate of 4.7 percent in the FY 2000/01. The growth rate remained a positive of 3.9 percent in the FY 2002/03, 4.7 percent in the FY 2003/04, 3.5 percent in the FY 2004/05, 3.4 percent in the FY 2005/06 and 2.8 percent in the FY 2006/07. Higher economic growth of 5.8 percent has been attained in FY2007/8. Similarly in other years the economic growth rate was about near by 4 percent. Economic growth of 3.51 percent in average was achieved in last ten years. As per economic growth, last ten years was not satisfactory. This nominal economic growth rate has also contributed the growth in resource gap. In FY 2011/12 the growth rate will estimate at 5 percent.

- **Political Instability and Rising Inflation**

The Nepalese economy suffered from political instability even after the restoration of democracy in 1990. Frequent changes in government and its impact on economy are so serious. Political leaders never seem serious and aware of sustained and broad economic development of the country.

Consumer price index (CPI) is being published since previous FY2010/11 as per the fourth household budget survey with 2005/06 as a new base year. According to this, the average consumer price inflation rate in the first eight month of current FY 2011/12 stood at 7.7 percent. While this figure was 9.7 percent during the same period of the previous fiscal year. The average CPI rate in the first eight month of current FY2011/12 has declined and near to 7 percent as per the budget speech of 2010/11 and the monetary policy published by Nepal Rastra bank.

By geographical regions, the price index was 5.6 percent in Kathmandu valley, 7.1 percent in Terai and 8.6 percent in Hills in mid March 2012. While these figures were 13.9 percent, 7.9 percent and 11.6 percent respectively in the corresponding period of the previous fiscal year.

Inflationary pressure was felt highest in Hilly region in this fiscal year while Kathmandu had felt highest pressure in the previous fiscal year.

Since last few year, internal and external factor are the causes of price rise which increased the level of government expenditure in Nepal.

4.1.2 Role of Income Tax in Resource Mobilization

The success of development efforts of any country depends on its ability to mobilize additional internal resources to finance recurrent and capital expenditure requirements. Tax sources are considered safer and better means for the mobilization of additional financial resources as compared to other internal and foreign sources of deficit financing. Income tax is one of the major components in total tax revenue that plays a vital role in internal resource mobilization. The role of total tax and income tax for additional financial resource mobilization is analyzed on the basis of their relative contribution to the Gross Domestic Product.

4.1.2.1 Tax Efforts Ratio and per capita income : International Comparisons

The level of taxation is typically measured by tax revenue as a share of GDP. Comparing levels of taxation across countries provides a quick overview of the fiscal obligation and incentives facing private sector.

Low ratios of tax revenue to GDP may reflect weak administration and large scale tax avoidance or evasion. Low ratios may also reflect a sizable parallel economy with unrecorded and undisclosed income. Tax revenue ratios tend to rise with incomes, with higher income countries relying on taxes to finance a much broader range of social service and social security than lower income countries. (World development indicator)

Table 4.3: GDP, Per Capita Income and Tax Revenue as percentage of GDP

Of Selected Countries in 2011

Countries with different income Group	GDP(in million) of US \$	GNI per Capita(In US \$)	Tax revenue as % of GDP
<u>Low Income</u>			
Nepal	18,884	540	10.9
Bangladesh	110,612	770	8.5
Haiti	7,346	700	9.4
<u>Lower middle Income</u>			
Pakistan	211,092	1120	10.2
Bhutan	1689	2070	10.7
Sri Lanka	59,475	2580	15.3
India	1,847,982	1410	17.7
<u>Upper Middle Income</u>			
Thailand	345,649	4420	17
Mexico	1,155,316	9240	29.7
China	7,298,097	4930	17
Brazil	2,476,652	10720	34.4
<u>High Income</u>			
United State	15,094,000	48450	26.9
United Kingdom	2,431,589	37780	39
Switzerland	635,650	76380	29.4
Japan	5,867,157	45180	28.3

Source: World Development Indicator 2011(World Bank)

Nepal is one of the poorest countries with GDP US \$18,884 million and GNI per capita US \$ 540 in 2011, according to the World Development indicator. The contribution of tax revenue as a percentage of GDP in 2011 was 10.9 percentage.

Table 4.3 shows that the highest GDP of United States \$15,094,000 million while tax revenue as percentage of GDP was 26.9 in 2011.similary ,the highest contribution of tax revenue to GDP was 39 percent in the case of United Kingdom.

4.1.2.2 Tax/GDP Ratio in Nepal

Nepal is one of the nominally taxed economies all over the world. As already stated the average Tax/GDP ratio in developing and developed countries ranged 8 to 20 and 25 to 40 percent. But the fact in Nepal is different. Tax/GDP not exceeded 15 percent. It was clustered around 10.84 percent during the study period of the FY 2000/01 to 2010/11. The contribution of tax revenue to Gross Domestic Product for last 11 years from the FY 2000/01 to 2010/11 presented in table 4.4.

Table 4.4: Contribution of Tax Revenue in GDP of Nepal (FY 2000/01 to 2010/11)**(Rs in million)**

Fiscal Year	Gross Domestic Product	Tax Revenue	Tax/GDP Ratio %
2000/01	413428	38865.0	9.40
2001/02	430396	39330.6	9.13
2002/03	460325	40896.0	8.88
2003/04	500699	48173.0	9.62
2004/05	548485	54104.7	9.86
2005/06	611118	57430.4	9.39
2006/07	675859	71126.7	10.52
2007/08	755257	85155.5	11.27
2008/09	909528	117051.9	12.86
2009/10	1083415	156294.9	14.42
2010/11*	1246423	172777.6	13.86
Average	694084.81	80109.66	10.84

Source: Economic Survey of FY 2011/12, MOF, GON, Kathmandu**# GDP is taken as GDP at basic prices (current)***** Revised Estimate**

The above table 4.4 showed a fluctuating Tax/GDP ratio with an average of 10.84 percent during the period 2000/01 to 2010/11. In the FY 2000/01 this ratio was 9.40 percent that fell down to 8.88 percent in the FY 2002/03. Again it rose to 9.62 percent with an annual increment of 8.33 percent over the ratio in previous year. In the years then after, this ratio has been found above 9 percent indicating a slightly better contribution of tax revenue to Gross Domestic Product. The highest contribution of tax revenue to GDP remained 14.42 percent in the FY 2009/10. In the year after 2006/07, it has increased continuously and reached to 14.42 percent in the FY 2009/10 then decreased and remained 13.86 percent in the FY 2010/11.

As already stated, the average Tax/GDP ratio in Nepal for last 11 years of observation was found 10.84 percent. This ratio has been found far below than the ratio in other developing

and developed countries. It was because lack of internal revenue generation capability of the country with the mobilization of additional internal resources in more efficient manner. So it was found that Tax/GDP ratio should be strengthened by strengthening internal revenue base of the country.

4.1.2.3 Income Tax / GDP Ratio in Nepal

Income Tax divided by GDP gives the Income Tax/GDP ratio. This ratio shows the share of Income Tax to GDP. Here the table 4.5 showed the Income Tax/GDP ratio of Nepal for the study period.

Table 4.5: Contribution of Income Tax as percent to GDP (FY 2000/01 to 2010/11)
(Rs in million)

Fiscal Year	Gross Domestic Product	Income Tax Revenue	Income Tax as % of GDP
2000/01	413428	9110	2.20
2001/02	430396	8919.86	2.07
2002/03	460325	8059.575	1.75
2003/04	500699	9514.782	1.90
2004/05	548485	10466.226	1.90
2005/06	611118	10933.52	1.78
2006/07	675859	15731.804	2.32
2007/08	755257	19077.813	2.52
2008/09	909528	27246.432	2.99
2009/10	1083415	33811.48	3.12
2010/11	1246423	41725.408	3.34
Average	694084.8182	17690.627	2.35

Source: Economic Survey of FY 2011/12, MOF & Annual Reports of IRD

It was seen that income tax to GDP ratio ranged between 1.75 and 3.34 percent during the period of research. Income tax/GDP ratio was 2.20 percent in the base year of the research FY 2000/01. It declined to 1.75 percent in the FY 2002/03. In the year then after, contribution of income tax to GDP gradually began to improve with a 1.90percent in the FY 2003/04 and 2004/05 but the nominal decreasing trend appeared and reached 1.78 percent in FY2005/06. After then the increasing trend was maintained till the FY 2010/11, the average income tax revenue since the FY 2000/01 to 2010/11 was Rs 17690.627 million and average percent contribution of income tax revenue to GDP was 2.35 percent. The reasons for nominal share and declining trend of income tax to GDP were abnormalities like shutdown, strike, terrorism, violence and imposition of state of emergency by the government and political instability seen in the economy.

4.1.3 Role of Income Tax in Nepal's Tax Structure

Tax structure referred to the level as well as relative importance of various taxes in the composition of total tax revenue of a country. Structural analysis of tax deals with the balance between direct and indirect taxes. The base for levying taxes may be consumption, income tax and capital. Indirect taxes are taxes imposed on consumption where as taxes imposed on income and capital are known as direct taxes. Tax structure of any country is composed of both direct as well as indirect taxes.

4.1.3.1 Structure of Nepalese Revenue

Total revenue is comprised up of total tax revenue and total non-tax revenue. Tax revenue consists of customs, taxes imposed upon consumption and production of goods and services, land revenue and registration fees and taxes on property, profit and income. Non-tax revenue is a composite of government charges, fees, fines and forfeiture receipts from sale of commodities and services, dividend, royalty and sale of fixed assets, principal and interest pay and other miscellaneous receipts. The structure of Nepalese revenue for last 11 years is presented in table 4.6.

Table 4.6: Structure of Nepalese Revenue (From FY 2000/01 to FY 2010/11)**(Rs in million)**

Year	Tax Revenue		Non-Tax Revenue		Total Revenue	
	Amount	%	Amount	%	Amount	%
2000/01	38865.0	79.49	10028.8	20.51	48893.8	100
2001/02	39330.6	77.97	11116.0	22.03	50446.6	100
2002/03	40896.0	74.98	13642.9	25.02	54538.9	100
2003/04	48173.0	77.29	14158.0	22.71	62331.0	100
2004/05	54104.7	77.16	16018.0	22.84	70122.7	100
2005/06	57430.4	79.45	14851.5	20.55	72281.9	100
2006/07	71126.7	81.09	16585.4	18.91	87712.1	100
2007/08	85155.5	79.12	22467.0	20.88	107622.5	100
2008/09	117051.9	81.58	26422.6	18.42	143474.5	100
2009/10	156294.9	86.86	23650.9	13.14	179945.8	100
2010/11	172777.6	86.47	27041.1	13.53	199818.7	100
Average	80109.66	80.13	17816.56	19.87	97926.23	100

Source: Economic Survey of FY 2011/12 Ministry of Finance (MOF), Government of Nepal (GON), Kathmandu.

Nepalese revenue structure was heavily dominated by tax revenue with an average contribution of 80.13 percentages. It had grown absolutely from Rs 38865.0million in the FY 2000/01 to Rs 172777.6million in the FY 2010/11. The relative contribution of tax revenue to the total revenue had been fluctuating with in the range of 74.98 and 86.86 percent. In the FY 2000/01 tax revenue was 79.49 percent of total revenue of Rs 48893.8million. In the FY 2010/11 out of total revenue Rs 199818.7 million, the share of tax revenue was 86.47 percent with an absolute contribution of Rs 172777.6million. The tax revenue grew by 10.5 percent in the fiscal year 2010/11 compared to that of the previous fiscal year. Such revenue had increased by 33.5 percent in the fiscal year 2009/10 compared to its preceding fiscal year. The average contribution of tax revenue during last eleven years was 80.13 percent.

Non-tax revenue has low contribution in total revenue as compared to tax sources of government revenue generation. Contribution from non-tax revenue has remained 19.87 percent in average. In the FY 2000/01, non-tax revenue accounted Rs 10028.8 million with the contribution of 20.51 percent in total revenue. Then after revenue collection from non-tax sources remained fluctuating with an average annual contribution of Rs 17816.56million. In the FY 2010/11, non-tax revenue was Rs 27041.1million; it was 13.53 percent of total revenue. Non-tax revenue in the FY 2010/11 increased by 14.3 percent as compared to that of the FY2009/10.

Total revenue in the FY 2000/01 was Rs 48893.9million and it rose to Rs 199818.7million in the FY 2010/11, which was increased by11.04 percent in comparison to the FY 2009/10.

4.1.3.2 Structure of Nepalese Tax Revenue

Nepalese total tax revenue is divided broadly into direct tax revenue and indirect tax revenue. Direct tax revenue includes revenue from land revenue and registration fees, taxes on property, taxes on profit and income where as indirect tax revenue is composed of taxes like customs an export and import, taxes on consumption and production of goods and services. The absolute and relative share of direct and indirect taxes in total tax revenue is presented in table 4.7.

Table 4.7: Structure of Nepalese Tax Revenue (From 2000/01 to 2010/11)**(Rs in million)**

Fiscal Year	Total Tax Revenue		Direct Tax Revenue		Indirect Tax Revenue	
	Amount	%	Amount	% to TTR	Amount	% to TTR
2000/01	38865.0	100	10159.4	26.14	28705.6	73.86
2001/02	39330.6	100	10597.5	26.95	28733.1	73.05
2002/03	40896.0	100	10881.9	26.61	30014.1	73.39
2003/04	48173.0	100	11912.6	24.73	36260.4	75.27
2004/05	54104.7	100	13071.8	24.16	41032.9	75.84
2005/06	57430.4	100	13968.1	24.32	43462.3	75.68
2006/07	71126.7	100	18980.3	26.68	52146.4	73.32
2007/08	85155.4	100	23087.7	27.11	62067.7	72.89
2008/09	117051.9	100	34320.7	29.32	82731.2	70.68
2009/10	156294.9	100	41750.0	26.71	114544.9	73.29
2010/11	172777.7	100	48655.1	28.16	124122.6	71.84
Average	80108.87	100	21580.46	26.44	58528.41	73.56

Source: Economic Survey of FY2011/12, MOF, GON, Kathmandu

Table 4.7 reveals that indirect tax has been playing a dominant role in Nepalese tax structure. In the FY 2000/01, direct tax and indirect tax contributed Rs10159.4 million and Rs 28705.6 million in total tax revenue Rs 38865 million. Total tax revenue rose to Rs 172777.7 million in the FY 2010/11, out of which Rs 48655.1 million from direct tax and Rs 124122.6 million from indirect tax.

Despite the increment in absolute share of direct tax in total tax revenue during the study period, its relative share was shrinking continuously from 26.14 percent in the FY 2000/01 to 24.16 percent in the FY 2004/05. Then after, in the FY 2008/09 the share of direct tax was Rs 34320.7 million in total tax revenue of Rs 117051.9 million, was making the highest relative contribution of 29.32 percent. The share of direct tax again declined to 26.71 percent in the FY 2009/10 and 28.16 percent in FY 2010/11. The mean contribution of direct tax in total tax revenue remained average 26.44 percent from the FY 2000/01 to 2010/11.

The share of indirect tax to total tax revenue was Rs 28705.6 million representing 73.86 percent of total tax revenue of Rs 38865 million in the FY 2000/01. In the FY 2004/05, contribution of indirect tax rose to 75.84 percent of total tax revenue. Since the FY 2006/07 indirect tax to total tax ratio began to decline in spite of increment collection of tax in absolute term. In the FY 2010/11 indirect tax revenue accounted Rs 124122.6million, which was 71.84 percent of total tax revenue. The average share of indirect tax in total tax revenue for the period 2000/01 to 2010/11 was 73.56 percent.

In this way, Nepalese tax structure has heavily been dominated by indirect tax. As indirect tax is considered regressive in nature, the tax structure of Nepal is not justifiable on equity ground it might be on administrative grounds in UDCs like Nepal. Therefore attention should be given in mobilizing additional financial resources through direct taxation.

4.1.3.3 Structure of Direct Tax in Nepal

Direct tax in Nepal is composed up of income tax, land revenue and registration fees and vehicle tax. The composition of total direct tax revenue is presented in table 4.8.

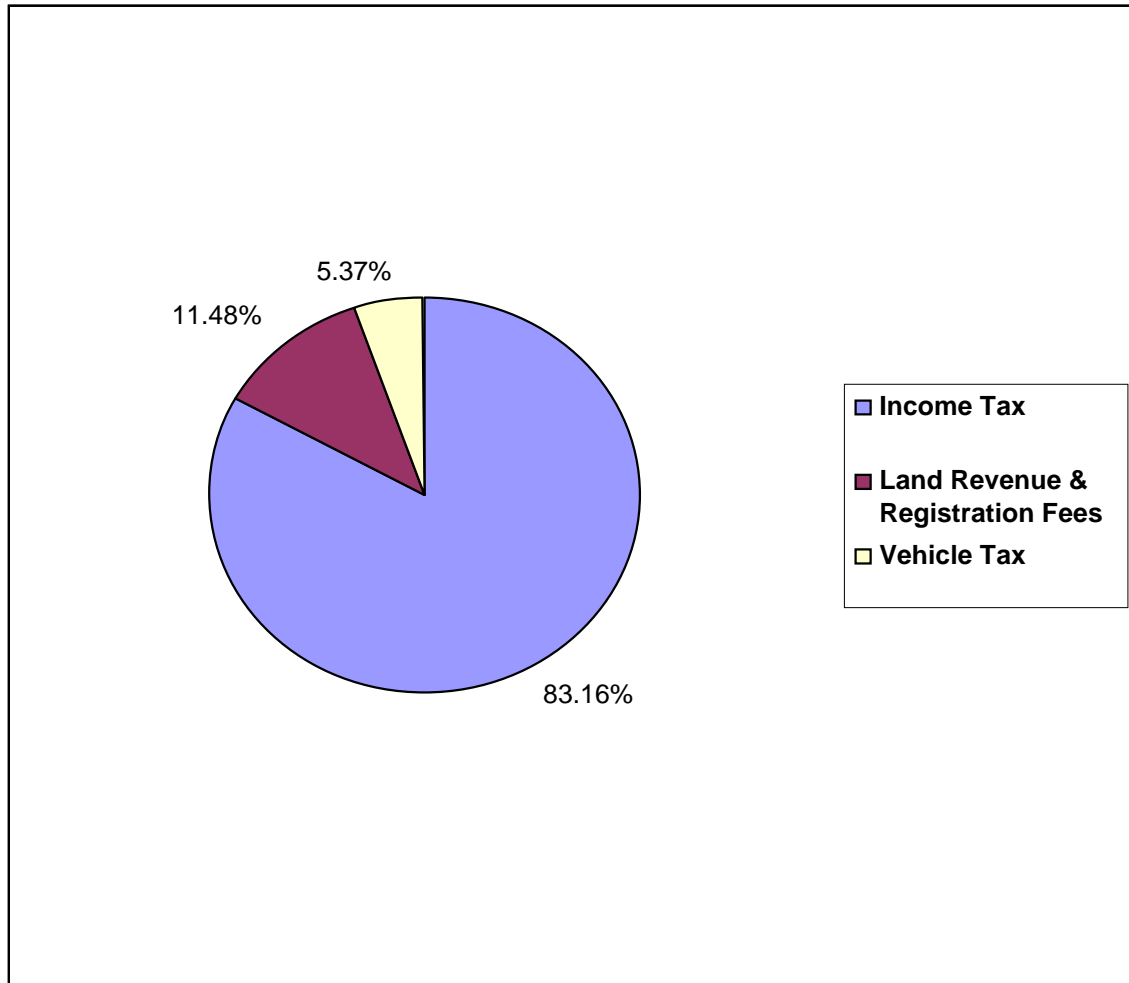
Table 4.8: Structure of Direct Tax in Nepal (From FY 2000/01 to 2010/11)**(Rs in million)**

Fiscal Year	Total Direct Tax Revenue		Income Tax Revenue		Land revenue and Registration Fees		Vehicle Taxes	
	Amount	%	Amount	% of DTR	Amount	% of DTR	Amount	% of DTR
2000/01	10159.4	100	9114.0	89.71	612.9	6.03	432.5	4.26
2001/02	10597.5	100	8903.7	84.02	1131.8	10.68	562	5.3
2002/03	10881.9	100	9841.6	90.44	607.8	5.58	432.5	3.97
2003/04	11912.6	100	9514.5	79.87	1697.5	14.25	700.6	5.88
2004/05	13071.8	100	10466.1	80.07	1799.2	13.76	806.5	6.17
2005/06	13968.1	100	10939.4	78.32	2181.1	15.61	847.6	6.07
2006/07	18980.3	100	15731.8	82.88	2253.5	11.87	995	5.25
2007/08	23087.7	100	19077.8	82.63	2940.7	12.74	1069.2	4.63
2008/09	34320.7	100	27247.4	79.39	5223.3	15.22	1850	5.39
2009/10	41750.0	100	33821.0	81.01	5511.1	13.2	2417.9	5.79
2010/11	48655.1	100	42060.1	86.45	3572.5	7.34	3022.6	6.21
Average	21580.46	100	17883.4	83.16	2502.85	11.48	1194.22	5.37

Source: Economic Survey of 2011/12, MOF, GON, Kathmandu

Table 4.8 shows the major components of Nepalese direct tax are income tax, land revenue and registration fees and vehicle tax including urban house and land taxes with amount of various years. These all components of direct tax were clearly showed in below figure with percentage.

Figure 4.1: Average Combination of Direct Tax Revenue in Nepal



Source: Table 4.8

The share of income tax, which is the most important source for direct tax revenue, was 89.71 percent of total direct tax in the FY 2000/01. The ratio of income tax to direct tax fell down to 84.02 percent in the FY 2001/02 and further it declined to 78.32 percent in the FY 2005/06. In the FY 2006/07, share of income tax in direct tax structure improved and making the contribution of 82.88 percent in total tax revenue. But the years after 2006/07, it declined to 82.63, 79.39 and 81 percentage respectively in the FY 2007/08, 2008/09 and 2009/10. Again share of income tax in direct tax structure improved in FY 2010/11 with 86.45 percent. It is seen that total amount of income tax is in increasing trend but the percentages of income tax to direct tax in fluctuating. The mean contribution of income tax in

total direct tax revenue had been found average Rs17883.4 million,83.16 percent during the last eleven years of the observation.

Land revenue and registration fees claimed second largest share in total direct tax structure. Contribution from this tax to total direct tax has been fluctuating with in the range of 6.03 percentages to 15.61 percent during the period of the study. In the FY 2000/01, out of total direct tax revenue of Rs10159.4million, tax from land revenue and registration fees accounted for Rs 612.9 million which was 6.03 percent in relative figure. The figure increased to 10.68 percent in the FY 2001/02 and then 15.61 percent in the FY 2005/06. But the percentage was declined to 7.34 percent in the FY2010/11. Land revenue and registration fees contributed Rs 2502.85million, 11.48 percent to total direct tax revenue from the FY 2000/01 to 2010/11.

Vehicle tax had the lowest role in direct tax structure of Nepal. In the FY 2000/01, collection of revenue from this source was Rs 432.5million, 4.26 percent of total direct tax revenue collection. Since FY 2000/01 to till FY2010/11 vehicle tax had continuously increase but percentage collection of vehicle tax to direct tax was fluctuating time and again. It rose to Rs 3022.6 million with 6.21 percent in the FY 2010/11 out of total direct tax revenue of Rs 48655.1million. The mean contribution of vehicle tax to direct tax structure remained 5.37 percent from the FY 2000/01 to 2010/11.

The major portions of direct tax cover by income tax that's why to increase the volume of direct tax we must focus in the income tax. The percentage of miscellaneous tax to direct tax is found to be lower in comparison to income tax and land revenue & registration fees.

4.1.3.4 Structure of Income Tax in Nepal

The structure of Nepalese income tax is composed up of income tax from Public Enterprises, income tax from Semi-Public Enterprises, income tax from Private Corporate Bodies, income tax from individuals, income tax from employment and taxation on Interest and other taxes. Public enterprises are hundred percent government owned corporations and semi-public.

Enterprises include having fifty percent above government ownership. Private corporate bodies consist of public limited companies, private limited companies and partnership firms. Individual include proprietorship firm, sole traders and other individuals and employment refers to salaries earned by government and non-government sector employers. Interest tax is collected from banks or finance companies that pay interest on all type of deposits. Others tax includes capital gain, dividend and windfall gain tax etc. The structure of Nepalese income tax is presented in table 4.9 and figure in Rs and percent respectively.

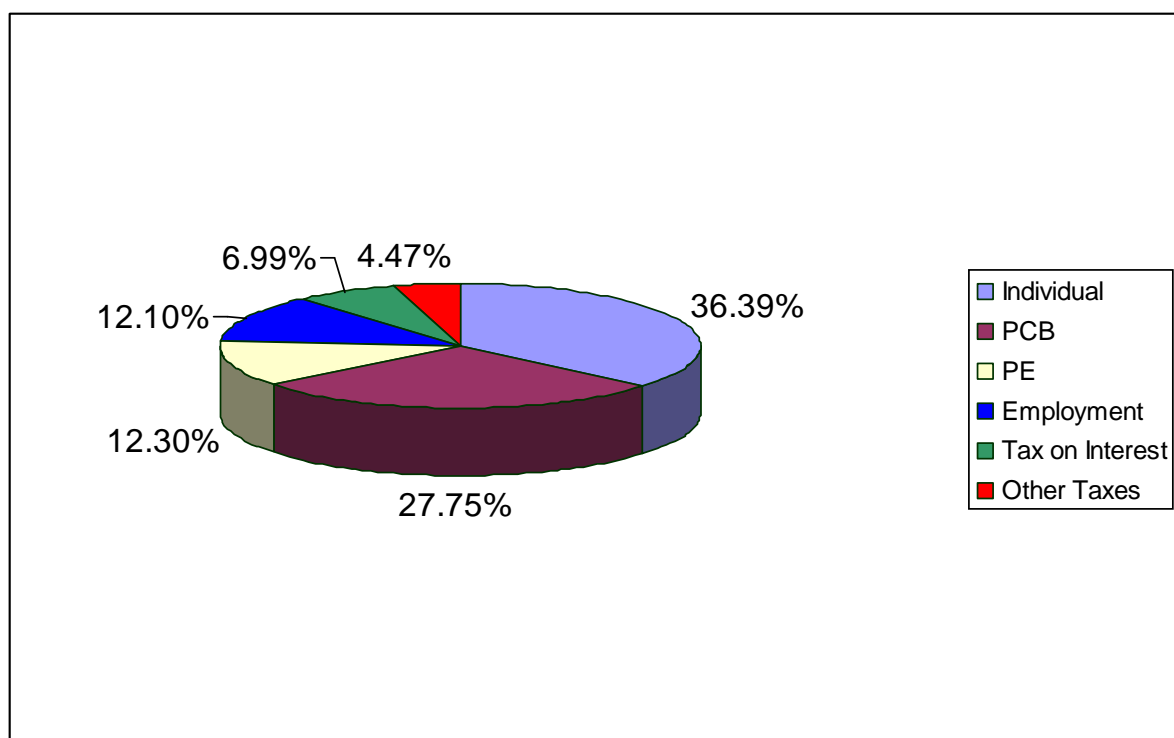
Table 4.9: Structure of Income Tax in Nepal (From FY 2000/01 to 2010/11)
(Rs in million)

Fiscal Year	Total Income Tax Revenue		Public Enterprises		Private Corporate Bodies		Individuals		Employments (Remuneration)		Tax on Interest		Other Taxes	
	Amounts	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
2000/01	9114	100	2928	32.13	1924.3	21.11	3200.5	35.12	597.3	6.55	463.9	5.09	0	0
2001/02	8903.7	100	1769.3	19.87	1412	15.86	4419.1	49.64	835.6	9.38	467.7	5.25	0	0
2002/03	9841.6	100	2928	29.75	1924.3	19.55	3362.2	34.16	597.3	6.08	864	8.78	165.8	1.68
2003/04	9514.5	100	2056.6	21.61	1531.3	16.1	3533.4	37.14	1391.2	14.62	733.4	7.71	268.6	2.82
2004/05	10466.1	100	1332.4	12.73	2467.8	23.58	3926.3	37.51	1675.9	16.01	757	7.24	306.7	2.93
2005/06	10939.4	100	195.7	1.79	3404.3	31.12	4234.7	38.71	1764.1	16.13	774.9	7.08	565.7	5.17
2006/07	15731.8	100	1019.7	6.48	5717.1	36.34	5234.4	33.27	2007.9	12.76	1054.9	6.71	697.8	4.44
2007/08	19077.8	100	204.6	1.07	7186.5	37.67	6381.2	33.45	2451	12.85	1087.9	5.7	1766.6	9.26
2008/09	27247.4	100	959.1	3.52	9425.1	34.59	9877.5	36.25	3195.6	11.73	1685.1	6.18	2105	7.73
2009/10	33821	100	1131.8	3.35	12234.4	36.17	11039.9	32.64	4413.1	13.05	2466.4	7.29	2535.4	7.5
2010/11	42060.1	100	1281.8	3.05	13965.5	33.2	13627.4	32.4	5863.3	13.94	4130.5	9.82	3191.6	7.59
Average	17883.4	100	1437	12.3	5562.96	27.75	6257.87	36.39	2253.84	12.1	1316.88	6.99	1054.84	4.47

Source: Economic Survey of FY2010/11, Ministry of Finance, Kathmandu

Table 4.9 revealed that income tax revenue collection was in fluctuating trend from FY 2000/01 to FY 2003/04. Total income tax revenue collection in the FY 2000/01 was Rs 9114 million that rose to Rs 42060.1 million in the FY 2010/11, 4.61 times higher than in base year. In the FY 2001/02 income tax collection decreased by 2.31 percent in compared to the income tax revenue collection in previous year. It again decreased to Rs 9514.5 million in the FY 2003/04. Then after the FY 2003/04 income tax revenue was increasing trend. Average annual income tax revenue collection was Rs 17883.4 million, which was very low in comparison with the revenue collection of neighboring SAARC countries and other developing as well as developed countries.

Figure 4.2: Average Combination of Income Tax in Nepal



Source: Table 4.9

The income tax contribution of individuals has occupied first position in average income tax revenue of Nepal during the study period. In FY 2000/01 Rs 3200.5million was collected from individual income tax, a percent contribution was 32.12 percent. It was decreasing

trend. Its minimum contribution to 32.4 percent amounting Rs13627.4million in FY2010/11.It's maximum contribution was 49.64 percent in FY2001/02 amounting Rs4419.1 million. The average contribution was 36.39 percent amounting Rs6257.87 million during the study period.

Private Corporate Bodies occupied second position out of average income tax revenue during the study period. In the FY 2002/01, Private Corporate Bodies paid Rs1924.3 million out of Rs 9114 million i.e. 21.11 percent of total income tax revenue. In FY 2001/02, Private Corporate Bodies paid Rs 1412 million out of Rs 8903.7 million of total income tax revenue, i.e.15.86 percent it was minimum percentage in the study period. In the FY2007/08 its contribution was 37.67 percent it was maximum. Till FY 2007/08 it was in increasing trend but in Fy2010/11, it decreased to 33.2 percent amounting Rs 13965.5 million. The average contribution of Private Corporate Bodies was 27.75 percent during the study period.

Income tax from Public Enterprises has occupied third position regarding its contribution in average income tax revenue of Nepal during the study period. In FY 2000/01, out of the total income tax revenue of Rs 9114 million Rs 2829 million has been contributed by Public Enterprises, which was 32.13 percent. It has been found to be fluctuating between 1.07 percent to32.13 percent of total income tax revenue collection during study period. In the FY2002/03 its contribution was 29.75 percent amounting Rs 2829 million out of total income tax revenue of 9841.6 million. Minimum was in 2007/08, it contributed 1.07 percent amounting Rs 204.6 million. In FY 2010/11 it reached to3.05 percent ,it was in increased compared to FY2007/08.The average contribution of Public Enterprises in total income tax revenue has been computed to be 12.3 percent amounting Rs 1437 million during the study period.

Employment (Remuneration) occupied fourth position out of average income tax revenue during the study period. In FY 2000/01, employment paid Rs 597.3 million out of total income tax revenue, i.e. employment contributed 6.55 percent of total income tax revenue of FY 2000/01.In the Fluctuating trend it reached to 14.62 percent in FY2003/04.Its contribution was maximum in FY 2005/06 amounting Rs 1764.1 million of 16.13 percent out of total income tax revenue amounting Rs10939.4 million. Then its contribution decreased to

12.76 percent to total tax revenue of FY2006/07. At the end of our study period it was 13.94 percent amounting Rs5863.3 million. Average contribution was 12.01 percent amounting Rs 2253.84 million during the study period.

Tax on interest occupied fifth position out of average income tax revenue during the study period. It contributed 5.09 percent amounting Rs463.9 million in FY2000/01. It is fluctuating till the end of the study period. From FY 2000/01 to 2006/07 it was in an increasing trend then it went on decreasing to 5.7 percent amounting Rs 1087.9 million in FY2007/08. It again increased and reached to 9.82 percent amounting Rs4130.5 million in FY2010/11. It was the maximum contribution during the study period. The average contribution was 6.99 percent amounting Rs1316.88 million.

Other taxes occupied last position of average income tax revenue during the study period. It was nil in FY 2000/01 to FY 2001/02. In FY 2002/03 it contributed 1.68 percent amounting Rs 165.8 million. It increased to 5.17 percent in FY 2005/06. Then there is fluctuation in its contribution. It contributed maximum in FY2007/08, its contribution was 9.20 percent. At the end of the study period in FY2010/11 it was 7.59 percent amounting Rs 3191.6 million which was high collection in amount. So it seems that it has been growing from 2002/03. The average contribution was 4.47 percent amounting Rs 1054.84 million during the study period.

The contribution of semi-public enterprises to the total income tax revenue in Nepal seemed to be very insignificant. Contribution from this sector has been nil till now. It has happened because of privatization of semi-public enterprises and very poor performance of existing enterprises suffering from heavy losses year after year.

4.1.4 Major Findings of the Study

From the study of the secondary data analysis the major findings are:

1. Resource gap is taken to be the difference between government expenditure and revenue. The resource gap has been increased from Rs30941.5 million in FY2000/01 to Rs95544.4 million in FY 2010/11 which indicates the poor performance of domestic resource mobilization.

2. Nepal has been facing serious growing problem of resource gap. The major reason of growing resource gap is increase in recurrent expenditure and capital expenditure.
3. Tax effort ratio measures the country economic performance. In Nepal, the contribution of tax revenue to GDP 10.9 percent and per capita income was US\$ 540 in 2011 which was lowest among the SARRC countries. In USA contribution of tax to GDP was 26.90 percent during same period and its per capita income was US\$ 48450. Though tax effort ratio is to some extent equal, its amount is very high because of its high GDP.
4. Tax revenue has contributed 10.84 % (in an average) to GDP out of which only 2.35 % share occupied by income tax.
5. Government revenue is the composition of tax revenue and non tax revenue. There is dominant share of tax revenue in Nepalese government revenue. The contribution of tax revenue to government shows the fluctuating trend. Tax revenue has occupied 80.13 % (in an average) of total revenue composition of Nepalese revenue structure.
6. Nepalese tax revenue is composed of both direct and indirect tax revenue. There is dominant role of indirect tax revenue in Nepalese tax revenue. The contribution average of direct and indirect tax to total tax revenue was 26.44 percent and 73.56 percent respectively. It reveals that tax structure of Nepal is not a justifiable on equity ground and progressiveness because indirect tax is considered regressive in nature.
7. The contribution of income tax, land revenue & registration fees and vehicle tax to direct tax revenue in average were 83.16, 11.48 and 5.37 percent respectively. In the composition of direct tax income tax was the giant one which contribution seems to be increasing every year. Income tax has occupied second position at present on the basis of mean contribution to GDP. Its contribution to government revenue is in increasing trend so the income tax in future will also contribute very well.
8. Income tax had been considered as suitable source for mobilization internal resources. It can be used as a positive instrument to boost up government revenue

collection to develop the economic condition of Nepalese people and promote distributive justice and to cure resource gap problem.

9. Income tax is composed of corporate income tax, individual tax, employment, tax on interest and others. Income tax revenue from individuals is the major contributor for income tax structure in Nepal. (Average 36.39 %).

4.2 Presentation and Analysis of Primary Data

In order to enhance the study from the experience of real world scenario, an empirical investigation was conducted. The major tool used for this purpose was administration of a questionnaire dispatched to 100 respondents of different categories. A total of 65 (65%) questionnaire were received in useable form. Of these 15 (23.08 %) were from tax administrators, 20 (30.77%) were from tax consultants/policy makers and 30 questionnaires (46.15 %) were received from tax payers. The detailed break down of a response by group have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study. (See the format of questionnaire in appendix A).

The questions in the questionnaire were either asked for a yes/no response or for ranking of choices on a 1 to 5 scale where 1 was the most important and 5 was the least important. For analytical purpose, choices 1 to 5 were assigned weights were first preferred choice would get 5 points and the least preferred choice would get 1 point. Any alternative which was not ranked did not get any point. The total points available to each choice converted into percentage in response to the total points available for all choices. The choice with the highest score was ranked as the most important choice and one with the lowest percentage being ranked as the least choice. Table 4.10 shows the groups of respondents, responses on questionnaire by group and code used to respondents

Table 4.10: Responses on Questionnaire by Group and Code Used

SN	Groups of Respondents	Total Sample		Responses		Code
		No.	Percent	No.	Percent	
1.	Tax Administrators	30	30%	15	23.08%	I
2.	Tax Experts/Policy Makers	30	30%	20	30.77%	II
3.	Taxpayers	40	40%	30	46.15%	III
	Total	100	100%	65	100%	

4.2.1 Internal Resource Mobilization for Economic Development

The first question in the questionnaire was “Is internal resource mobilization an appropriate means for economic development?” Respondents were to tick either yes option or no option. The responses received to the question are presented in table 4.11.

Table 4.11: Internal Resource Mobilization an Appropriate Means for Economic Development

Respondents	Yes		No		Total	
	No	Percent	No	Percent	No	Percent
I	15	100%	-	-	15	100%
II	18	90%	2	10%	20	100%
III	30	100%	-	-	30	100%
Total	63	96.67%	2	3.33%	65	100%

Source: Opinion Survey, 2012

The above table 4.11 showed that out of 65 respondents 63 (96.67 percent) of respondents approved internal resource mobilization to be an appropriate means for economic development while remaining 2 respondents (3.33 percent) respondents in the sample did not agree on it. So, it can be concluded that for the economic development of the nation, resource mobilization through internal sources is an appropriate means and it should be strengthened more.

4.2.2 Methods of Mobilizing Additional Financial Resources

Respondents were requested to rank their answers on 1 (more important) to 5 (least important) scales as the method of mobilizing additional financial resources. The break down of responses received is presented in table 4.12.

Table 4.12: Methods of Mobilizing Additional Financial Resources

SN.	Suggested Methods	Groups			Total Points	Percent	Rank
		I	II	III			
1.	Planned development efforts	57	74	90	221	27.66%	1
2.	Economic liberalization	49	42	84	175	21.90	3
3.	Generation of more revenue internally	39	47	92	178	22.28%	2
4.	Foreign grants, subsidies & loans	17	32	38	87	10.89%	5
5.	Political stability	33	45	60	138	17.27%	4
	Total				799	100%	

Source: Opinion Survey, 2012

The various methods of mobilizing additional financial resources were ranked in order of the preference of the respondents as follows:

1. Planned development efforts
2. Generation of more revenue internally
3. Economic liberalization
4. Political stability
5. Foreign grants, subsidies & loans

From the above table, it can be concluded that planned development efforts, generation of more revenue internally and economic liberalization seems most effective methods for additional financial resource mobilization as opined by respondents.

To know, whether there is significant relationship or not between the above mentioned views of tax administrators and taxpayers (keeping the views of tax experts/policy makers constant), it is tested by Spearman's Rank Correlation Coefficient.

Test of Hypothesis:

Hypothesis: 1

H₀: P = 0, there is no significant relationship between the views of tax administrators and taxpayers with respect to the methods of mobilizing additional resources.

$$r_s = 1 - \frac{6\sum d^2}{n(n^2 - 1)}$$

Table 4.13: Calculation of Spearman's Rank Correlation Coefficient

SN	Suggested Methods	Total Point s	Re- Rank	Total Point s	Re- Rank	Differenc e of Rank	Square of R ₁ - R ₂
		X	R ₁	Y	R ₂	d = R ₁ - R ₂	d ²
1	Planned development efforts	57	1	90	2	-1	1
2	Economic liberalization	49	2	84	3	-1	1
3	Generation of more revenue internally	39	3	92	14	2	4
4	Foreign grants, subsidies & loans	17	5	38	5	0	0
5	Political Stability	33	4	60	4	0	0
n = 5							Σd ² = 6

Source: Table 4.12

Note: X refers to responses of Tax Administrators and Y refers to responses of Taxpayers.

Substituting the value,

$$r_s = 1 - \frac{6 \times 6}{5(5^2 - 1)}$$

$$= 0.7$$

Where, n = the no. of points of observations.

Calculation of t – test.

$$t = \frac{r_s \sqrt{n-2}}{\sqrt{1-r_s^2}}$$

$$= \frac{0.70 \sqrt{5-2}}{\sqrt{1-0.70^2}}$$

$$t = 1.6980$$

The t tabulated in this case, based on (n-2) degree of freedom at 5% level of significant is 3.182. Since the t tabulated is greater than t calculated, i.e. 3.182 > 1.6980. Thus the null hypothesis (Ho) is accepted. This means that there is no significance relationship between views of tax administrators and taxpayers with respect to the methods for mobilizing additional financial resources.

4.2.3 Measures for Mobilizing Additional Financial Resources Internally

Respondents were asked to rank different internal measures for additional financial resource mobilization according to the relative weights assigned by them for different measures. The measures prescribed and their ranking is presented in table 4.14.

Table 4.14: Measures for Mobilizing Additional Financial Resources Internally

SN.	Suggested Methods	Groups			Total Points	Percent	Rank
		I	II	III			
1.	Income Tax	60	56	72	188	29.84%	2
2.	Value Added Tax	68	72	71	211	33.49%	1

3.	Customs	35	32	30	97	15.40%	3
4.	Property Tax	38	10	10	58	9.21%	5
5.	Capital Gain Tax	28	20	28	76	12.06%	4
	Total	-	-	-	630	100%	-

Source: Opinion Survey, 2012

In the choice of respondents, the various measures for mobilizing additional financial resource internally were ranked as follows in order to preference.

1. Value Added Tax
2. Income Tax
3. Customs
4. Property Tax
5. Capital Gain Tax

It can be concluded from the above tabulated results that in the opinion of respondents, Value Added Tax, Income Tax and Customs were found to be the most important measures for internal resource mobilization internally.

To know whether there is significant relationship or not between the above mentioned views of tax administrators and taxpayers (keeping the views of tax experts/policy makers constant), it is tested by Spearman's Correlation Coefficient.

Test of Hypothesis:

Hypothesis: 2

H₀: p = 0, there is no significant relationship between the views of tax administrators and taxpayers with respect to the measures for mobilizing additional financial resources internally.

$$r_s = 1 - \frac{6\sum d^2}{n(n^2 - 1)}$$

Table 4.15: Calculation of Spearman’s Rank Correlation Coefficient

S. N.	Suggested Methods	Total Points	Re-Rank	Total Points	Re-Rank	Difference of the Rank	Square of R ₁ - R ₂
		X	R ₁	Y	R ₂	d = R ₁ - R ₂	d ²
1	Income Tax	60	2	72	1	1	1
2	Value Added Tax	68	1	71	2	-1	1
3	Customs	35	4	30	3	1	1
4	Property Tax	38	3	10	5	-2	4
5	Capital Gain Tax	28	5	28	4	1	1
n =5							Σd ² =8

Source: Table 4.14

Note: X refers to responses of Tax Administrators and Y refers to responses of Taxpayers.

Substituting the value,

$$= 1 - \frac{6(8)}{5(5^2 - 1)}$$

$$= 0.60$$

Where, n = the no. of points of observation

Calculation of t,

$$t = \frac{r_s \sqrt{n-2}}{\sqrt{1-r_s^2}}$$

$$= \frac{0.60 \sqrt{5-2}}{\sqrt{1-0.60^2}}$$

$$= 1.299$$

Here, t tabulated in this case based on (5-2) degree of freedom at 5% level of significance is 3.182. Since the t tabulated is greater than t calculated ie.3.182 > 1.299. Thus the null hypothesis (H₀) is accepted. This means there is no significant relationship between the tax administrator’s view and taxpayer’s view with respect to the measures for mobilizing additional financial resources internally.

4.2.4 Role of Income Tax in Internal Resource Mobilization

To know the role of income tax in internal resource mobilization, a question “what is the role of income tax in internal resource mobilization?” was asked and the respondents were requested to tick/rank their answers (at scale 1 to 5). The responses received from various respondents are tabulated below.

Table 4.16: Role of Income Tax in Internal Resource Mobilization

SN	Role of income Tax	Groups			Total Points	Percent	Rank
		I	II	III			
1	Most important	65	90	140	295	90.77%	1
2	Important	5	15	10	30	9.23%	2
3	Less Important	-	-	-	-	-	-
4	Not Important	-	-	-	-	-	-
5	I don't know	-	-	-	-	-	-
	Total				325	100%	

Source: Opinion Survey, 2012

From the above table, role of income tax in internal resource mobilization is important. Out of 65 responses received, 59 respondents (90.77%) ticked on most important option and remaining 6 Respondents (9.23%) opted for important option.

Thus, a valid conclusion can be drawn that role of income tax as an internal resource mobilization is very much significant one.

4.2.5 Goal of Income Tax in Nepal

In order to know the specific goal of income tax in Nepal, a question was asked “what should be the goal of income tax in Nepal?” The respondents were request to rank their answers on 1 to 5 scales for the available five alternatives. Table 4.17 gives a breakdown of responses.

Table 4.17: Goal of Income Tax in Nepal

SN.	Goals	Groups			Total Points	Percent	Rank
		I	II	III			
1.	Enhancement of the government revenue	40	55	142	237	27.30%	1
2.	Promote distributive justice	45	50	117	222	25.58%	2
3.	Promote private sector investment	41	26	35	102	11.75%	5
4.	Facilitating income tax payers	25	45	64	134	15.44%	4
5.	Encourage tax payers to feel responsibility of paying tax	27	41	105	173	19.93%	3
	Total				868	100%	

Source: Opinion Survey, 2012

The goals of income tax in Nepal as ranked by the respondents, in order of preference should as follows: (see table 4.17 for detail.)

1. Enhancement of the government revenue
2. Promote distributive justice
3. Encourage tax payers to feel responsibility of paying tax
4. Facilitating income tax payers
5. Promote private sector investment

It can be concluded from the above tabulated results that in the opinion of the respondents, enhancement of the government revenue should be first followed by promoting distributive justice and encouraging taxpayers to feel responsibility of paying tax.

To know whether there is significant relationship or not between the above mentioned views of tax administrators and tax experts/policy makers (keeping the views of taxpayers/accountants constant), it is tested by Spearman's Rank Correlation Coefficient.

Test of Hypothesis:

Hypothesis: 3

H₀: p = 0, there is no significant relationship between the views of tax administrators and tax experts/policy makers with respect to the Goal of Income Tax in Nepal

$$r_s = 1 - \frac{6\sum d^2}{n(n^2 - 1)}$$

Table 4.18: Calculation of Spearman's Rank Correlation Coefficient

SN	Goals	Total Point	Re-Rank	Total Point	Re-Rank	Difference of the Rank	Square of R ₁ -R ₂
		X	R ₁	Y	R ₂	d = R ₁ -R ₂	d ²
1	Enhancement of the government revenue	40	3	55	1	2	4
2	Promote distributive justice	45	1	50	2	-1	1
3	Promote private sector investment	41	2	26	5	-3	9
4	Facilitating income tax payers	25	5	45	3	2	4
5	Encourage tax payers to feel responsibility of paying tax	27	4	41	4	0	0
n=5							Σd ² =18

Source: Table 4.17

Note: X refers to responses of Tax Administrators and Y refers to responses of Tax experts / policy makers.

Substituting the value,

$$= 1 - \frac{6(18)}{5(5^2 - 1)}$$

$$= 0.10$$

Where, n = the number of points of observations.

Calculation of t,

$$t = \frac{r_s \sqrt{n-2}}{\sqrt{1-r_s^2}}$$

$$= \frac{0.10 \sqrt{5-2}}{\sqrt{1-0.10^2}}$$

$$= 0.174$$

The t tabulated in this case, based on (5-2) degree of freedom at 5% level of significance is 0.174. Since, the t tabulated is greater than t calculated ie. 3.182 > 0.174. Thus the null hypothesis is accepted. This means there is no significant relationship between the views of tax administrators and tax experts/policy makers with respect to the goal of income tax in Nepal.

4.2.6 Methods of Collecting Additional Income Tax Revenue

Respondents were requested to assign relative weights for different methods of increasing income tax revenue collection. Table 4.19 give the breakdown of responses received from the various respondents.

Table 4.19: Methods of Collecting Additional Income Tax Revenue

SN	Suggested Methods	Groups			Total Points	Percent	Rank
		I	II	III			
1.	Increasing tax rate	40	49	77	166	18.12%	4
2.	Broadening the tax coverage	53	60	85	198	21.62%	3
3.	Reducing the rate and	51	68	80	199	21.73%	2

	increasing the tax base						
4.	Imposition of new taxes	34	37	71	142	15.50%	5
5.	Developing the tax consciousness and awareness among tax payers	44	75	92	211	23.03%	1
	Total				916	100%	

Source: Opinion Survey, 2012

The major methods to increase income tax revenue were ranked in order to know performance of respondents as follows (see table 4.19 for detail).

1. Developing the tax consciousness and awareness among tax payers
2. Reducing the rate and increasing the tax base
3. Broadening the tax coverage
4. Increasing tax rate
5. Imposition of new taxes

It can be concluded from the above tabulated results that in the opinion of respondents, developing the tax consciousness and awareness among tax payers would increase the tax revenue significantly. Second best method suggested was reducing the tax rate and increasing the tax base.

To know whether there is significant relationship or not between the above views of tax administrators and taxpayers (keeping the views of tax experts / policy makers constant), it is tested by Spearman's Rank Correlation Coefficient.

Test of Hypothesis:

Hypothesis: 4

H₀: p = 0, there is no significant relationship between the views of tax administrators and taxpayers with respect to the methods of collecting additional income tax revenue.

$$r_s = 1 - \frac{6\sum d^2}{n(n^2 - 1)}$$

Table 4.20: Calculation of Spearman's Rank Correlation Coefficient

SN	Suggested Methods	Total Point s	Re- Ran k	Total Point s	Re- Rank	Difference of the Rank	Square of R ₁ - R ₂
		X	R ₁	Y	R ₂	d = R ₁ -R ₂	d ²
1	Increasing tax rate	40	4	77	4	0	0
2	Broadening the tax coverage	53	1	85	2	-1	1
3	Reducing the rate and increasing the tax base	51	2	80	3	-1	1
4	Imposition of new taxes	34	5	71	5	0	0
5	Developing the tax consciousness and awareness among tax payers	44	3	92	1	2	4
n=5	Total						Σd ² = 6

Source: Table 4.19

Note: X refers to responses of Tax Administrators and Y refers to responses of Taxpayers

Substituting the value,

$$r_s = 1 - \frac{6(6)}{5(5^2 - 1)}$$

$$= 0.70$$

Where, n = the number of points of observations.

Calculation of t,

$$t = \frac{r_s \sqrt{n-2}}{\sqrt{1-r_s^2}}$$

$$= \frac{0.70 \sqrt{5-2}}{\sqrt{1-0.70^2}}$$

$$= 1.698$$

In this case, t tabulated, based on (5-2) degree of freedom at 5% level of significance is 3.182. Since, the t tabulated is greater than the t calculated ie. $3.182 > 1.698$. Thus the null hypothesis (H_0) is accepted. This means that there is no significant relationship between the views of tax administrators and taxpayers with respect to the methods of collecting additional income tax revenue.

4.2.7 Tax Paying Habit of Nepalese People

During the opinion survey, it was found that Nepalese people were reluctant to pay tax in majority. In the opinion of respondents, it was due to lack of tax consciousness, high cost of living, administrative harassment and special social difference between payment and non-payment of tax. Some proposed methods of increasing tax paying habit of Nepalese people as ranked by respondents are presented in table 4.21.

Table 4.21: Methods of Developing Tax Paying Habit of Nepalese People

SN	Suggested Methods	Groups			Total Points	Percent	Rank
		I	II	III			
1.	Educating Tax payers	58	76	118	252	23.84%	1
2.	Simplifying tax laws	45	60	92	197	18.64%	4
3.	Simplifying assessment procedures	55	74	105	234	22.14%	2
4.	Providing more information to tax payers	31	53	82	166	15.70%	5
5.	Incentive to regular tax payers	48	63	97	208	19.68%	3
	Total				1057	100%	

Source: Opinion Survey, 2012

The major methods of developing tax paying habit of Nepalese people were ranked in order of performance of respondents as follows. (See table 4.21 for detail).

1. Educating Tax payers
2. Simplifying assessment procedures

3. Incentive to regular tax payers
4. Simplifying tax laws
5. Providing more information to tax payers

It can be concluded that educating tax payers, simplifying assessment procedures and incentive to regular tax payers will be the most effective instruments to make them conscious in paying tax. Simplifying tax laws, providing more information to tax payers will also significantly improve tax paying habit of Nepalese people. In the answering option if others, some of the respondents suggested that we should develop good Governance and corporate culture should not harass the tax payers to develop tax paying habit effectively.

4.2.8 Procedure for Income Tax Assessment

It has been blamed that the assessment procedure of income tax under income tax act 2002 is not convenient one. To know the fact, during the process of opinion survey a question was asked, “Do you think that the assessment procedure of income tax is convenient one?” Respondents were requested to tick on either yes option or no option for their responses that if the procedure for income assessment under income tax act-2002. The detailed of responses received from respondents are presented in table 4.22.

Table 4.22: Procedure for Income Tax Assessment

Respondents	Yes		No		Total	
	No.	Percent	No	Percent	No.	Percent
I	12	80%	3	20%	15	100%
II	15	75%	5	25%	20	100%
III	23	76.66%	7	23.34%	30	100%
Total	50	76.92%	15	23.08%	65	100%

Source: Opinion Survey, 2012

Table 4.22 shows that out of 65 responses received in total, 50 (76.92%) felt income assessment procedure under income tax act-2002 to be convenient while 15 (23.08%) respondents opposed. Thus it can be concluded that most of the respondents felt income assessment procedure to be convenient. In the opinion of those who felt it inconvenient, the

reasons for inconvenience were complex legal formalities, lack of relevant tax information, more time consuming and administrative harassment.

4.2.9 Self Assessment System and Power of Tax Authorities

Two questions were in the questionnaire were aimed at self assessment system and powers given to the tax authorities under income tax act-2002. The questions included in the questionnaire were: Income Tax Act-2002 has emphasized on ‘Self assessment Procedure’ do you favor it? And Income Tax Act-2002 has curtailed wide spread discretionary power of tax officers to some extent, do you agree it? The responses received from different respondents are presented in table 4.23 and 4.24 respectively.

Table 4.23: Self Assessment

Respondents	Yes		No		Total	
	No.	Percent	No.	Percent	No.	Percent
I	9	60%	6	40%	15	100%
II	11	55%	9	45%	20	100%
III	20	66.67%	10	33.33%	30	100%
Total	40	61.54%	25	38.46%	65	100%

Source: Opinion Survey, 2012

From the above table, it was cleared that 40 (61.54%) of the total responded in favor of self assessment system. It is to be noted that concept of self tax assessment system is one of the most effective procedure of income tax act-2002.

Table 4.24: Power of Tax Officers

Respondents	Yes		No		Total	
	No.	Percent	No.	Percent	No.	Percent
I	10	66.67%	5	33.33%	15	100%
II	13	65%	7	35%	20	100%
III	18	60%	12	40%	30	100%
Total	41	63.08%	24	36.92%	65	100%

Source: Opinion Survey, 2012

As regards the curtailment of discretionary power given to the tax authorities, only 41 (63.08%) felt that income tax act -2002 has curtailed it to some extent but not sufficiently. And 24 respondents (36.92%) strongly denied it stating that tax officers have been enjoying excess administrative power till.

It can be concluded that concept of self tax assessment system should be encouraged strongly. And because there exists a feeling of discretionary power to tax authorities, their duties and rights should be further clarified.

4.2.10 Income Tax Rates in Nepal

Lower rate and wider coverage is considered as one of the underlying characteristics of modern, scientific and rational taxation system. Optimality of tax rates specified in income tax act-2002 was tested through opinion survey. A question “Are the income tax rates as prescribed by income tax act -2002 optimal?” was asked. The details of responses received from different respondents have been shown in table 4.25.

Table 4.25: Income Tax Rates in Nepal

Respondents	Yes		No		Total	
	No.	Percent	No.	Percent	No	Percent
I	13	86.67%	2	13.33%	15	100%
II	16	80%	4	20%	20	100%
III	27	90%	3	10%	30	100%
Total	56	86.15%	9	13.85%	65	100%

Source: Opinion Survey, 2012

From the analysis of the table, it was found that out of 65 responses received 56 respondents (86.15percent) thought tax rates were optimal and need not be changed. But remaining 9 respondents (14 percent) of the respondents thought that tax rates to be high and recommended to reduce by 15 to 20 percent for all categories of tax payers.

4.2.11 Amendment in Income Tax Act-2002

The last question in the questionnaire was asked to know if respondents would recommend (want) any amendments to be made in income tax act-2002 or not. The respondents who felt necessity of amendments were also asked to specify the aspects of amendments were to be made. Out of total 65 responses received 43 respondents did not feel any changes to be made at present? Remaining 22 respondents were found in favor of amendments in different aspects of the act. The respondents who felt necessity were requested to rank their choice on 1 to 5 scales (most important to least important) as to the suggested amendments in income tax act-2002. The breakdown of responses received is presented in table table 4.26.

Table 4.26: Amendment in Income Tax Act-2002

Respondents	Yes		No		Total	
	No.	Percent	No.	Percent	No.	Percent
I	3	20%	12	80%	15	100%
II	9	45%	11	55%	20	100%
III	10	33.33%	20	66.67%	30	100%
Total	22	33.85%	43	66.15%	65	100%

Source: Opinion Survey, 2012

Table 4.26 showed that out of 65 responses received in total, 43 (66.15%) respondents ticked not necessary to amendments in income tax act-2002 and remaining 22 (33.85%) respondents felt there is necessary to amendments in income tax act-2002. As necessity feeling of 22 respondents, suggested amendments and priority given by them were presented in table below.

Table 4.27: Suggested Amendments in Income Tax Act-2002

SN	Suggested Methods	Groups			Total Points	Percent	Rank
		I	II	III			
1.	Structural amendment	8	21	30	59	17.77%	4
2.	Amendment in tax coverage	11	29	26	66	19.88%	3
3.	Amendment in assessment procedure	15	39	34	88	26.51%	1
4.	Amendment in tax rates	5	16	20	41	12.35%	5
5.	Reform in Administrative aspects	12	26	40	78	23.49%	2
	Total				332	100%	

Source: Opinion Survey, 2012

It was found that in the recommendations of 33.85 percent respondents of sample, amendments in income tax act -2002 were to be made in following order of preferences.

1. Amendment in assessment procedure

2. Reform in Administrative aspects
3. Amendment in tax coverage
4. Structural amendment
5. Amendment in tax rates

From the above analysis, it can be concluded that simplification in assessment procedure, reform in administrative aspects and amendment in tax coverage seem most effective amendments in income tax -2002.

4.2.12 Major Findings of the Study

According to the responses received from all kinds of Respondents, the major findings from the empirical investigation are:

1. All Respondents agreed that Internal Resource mobilization an appropriate means of economic development. (100% of I, 90% of II and 100% of III i.e. 96.67% in an average).
2. Planned development efforts and generation of more revenue internally are major method of mobilizing additional financial resource.
3. The most important measures for mobilizing additional financial resources internally are VAT and Income Tax.
4. Enhancement of the government revenue and promote distributive justice should be the main goal of income tax in Nepal. Income Tax plays the vital role in internal resource mobilization.
5. To develop the tax paying habit of Nepalese People Tax Payers should be educated and Assessment Procedure should be simplified.
6. Concept of Self Tax assessment System should be encouraged; power, rights and duties of Tax Authorities should be clarified.

CHAPTER- V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepal is a small, least developed landlocked country situated between two large countries China and India having the per capita GNI of \$ 742 at current price in the FY 2011/12(Initial). She has been adopting the system of planned efforts to achieve her development goals. In spite of it, overwhelming majority of her people enjoy income below the poverty line.

Nepal has been heavily relying on external and internal debt to adjust with growing problem of resource gap because of low revenue collection compared to a huge recurrent and capital expenditure requirement. In the planning experience of 55 years, it has been realizing that resources requirement is growing in multiple folds and internal capability of the country to finance these growing resources requirement is deteriorating leading the country to the state of external dependency, which has produced bitter experiences as well as mixed consequences. Scarcity of resources has constrained the realization of development goals in underdeveloped and developing countries, as is the case in Nepal. The first resource gap in Nepalese finance was experienced in the budget speech of the FY 1951/52. Since then it has been increasing in multiple folds. In the FY2000/01 a resource gap of Rs 30941.5 million was observed which slightly decreased to Rs 29626.7 million in the FY 2001/02 and Rs 27111.6 million in the FY 2003/04.but it was increased Rs 38607.1 million in the FY2005/06 then after the years it was in increasing trend till the study period. In the FY 2010/11 resource gap of Rs 95544.4 million has been experienced. The main reasons for such growing resource gap were found to be sharp increase in recurrent and capital expenditure requirement of the government, high burden of debt servicing charges, poor utilization of natural source base, poor economic growth and inadequate tax efforts, political instability as well as raising inflation. Thus it is urgent to mobilize additional financial resources internally

for strengthening internal revenue base of the country to meet recurrent and capital expenditure requirement. Internal measures for additional financial resources mobilization consist of tax and non-tax sources of government revenue. The research has found that the contribution of tax revenue about 80 percent and non-tax revenue 20 percent in total revenue structure of Nepal during last eleven years of observation. In this regard, tax revenue has been found as a major instrument for additional internal financial resource mobilization.

Among various taxes, Customs Duty, Value Added Tax and Excise duty were three major sources of indirect tax revenue. Income tax, Land Revenue & Registration Fee and Vehicle taxes were component of direct tax. Income tax was one of the major components of direct tax. It contributed to direct tax was 86.45 percent in FY2010/11. It was increasing to compare with FY 2009/10. It may be due to "Tax enforcement campaign Year".

Over the past several years Nepal has been adopting the policy of lowering tax rates and widening its coverage, which is not supported by credible reform measures lower the revenue collection. In this regard, providing adequate education to taxpayers, simplifying and making income assessment procedure more transparent, reforming tax administration, promoting 'Self Assessment System' and utilizing other effective measures to off set the revenue loss caused by lower tax rates has been found very significant to strengthen internal revenue base of the country.

Contribution of tax revenue to GDP has been found very nominal compared to the same ratio in other neighboring SAARC and other developing countries. Nepal's Tax/GDP ratio was found to be 10.9 percent and the same ratio was found 17.7 percent in India, and 15.3 percent in Sri Lanka. Income Tax to GDP ratio also was found very insignificant. It was 2.2 percent in the FY 2000/01 and 3.34 percent in the FY 2010/11 with an average of 2.35 percent during last eleven years of observation.

Nepalese revenue structure has been heavily dominated by tax revenue occupying an average of 80.13 percent of total national revenue. The average contribution of non-tax sources has remained 19.87 percent. It was also found that with in the comparison of total tax revenue, indirect tax occupies a lion's share. Direct tax has not been contributing to the total to the extent it would have to do. As the indirect tax is considered regressive in nature, the structure

of Nepalese tax has not been found justifiable on equity ground although it may be in administrative ground. Structural analysis of direct tax showed a dominant role of income tax. The share of income tax in the total direct tax has been found 83.16 percent during the period of observation. Land revenue and Registration fees and Vehicle taxes occupy 11.48 percent and 5.37 percent of total direct tax respectively. Total income tax revenue has been found to be a composition of income tax from Public Enterprises, Private Corporate Bodies, Individual, Employment (Remuneration), Tax on Interest and Others. Individual was the major portion of income tax. It was contributed by 36.39 percent on average during the study period. Private Corporate Bodies was increasing trend and Public Enterprise was increasing trend which shows that Nepal is going towards privatization.

5.2 Conclusions

The conclusions of the study were as follows:

- 1) Nepalese economy has been suffering from serious and growing problems of financial resource gap. The gap has been sharply increasing in recent years leading the countries to the state of external dependency, which has produced bitter experience and mixed consequences. The major reasons for this problem are significant increase in recurrent and capital expenditure of government, increasing burden of debt servicing charges, poor utilization of natural resources base, poor economic growth, inadequate tax efforts of the government as well as political instability and more expenditure used in armed police force and other unproductive sector.
- 2) Tax/GDP ratio in Nepal is very much nominal as compared to the same ratio in neighboring SAARC developing countries. Total tax revenue has been found only 10.84 percent of Gross Domestic Product (GDP) and income tax to GDP ratio also was insignificant. It was only 2.2 percent in the FY 2000/01, then it started to fluctuate continuously till the FY 2004/05 and slightly increasing and reached 3.34 percent in the FY 2010/11 with an average of 2.35 percent during the last eleven years.

- 3) Nepalese Revenue Structure is heavily dominated by tax revenue with a contribution of 80.13 percent to total tax revenue. It has growth from Rs 38865 million in the FY 2000/01 to Rs 172777.6 million in the FY 2010/11. Share of non-tax revenue has remained an average of 19.87 percent of total revenue.
- 4) Total tax revenue is composed of direct and indirect tax revenues. Indirect tax has been playing a dominant role in total tax structure. Its contribution to the total tax revenue was 73.86 percent in the FY 2000/01 and 71.84 percent in the FY 2010/11 with an average of 73.56 percent where as direct tax revenue has been contributed only 26.44 percent. Among the components of direct tax income tax is the major one.
- 5) Income tax has been making a contribution of 83.16 percent in direct tax. Since FY 2000/01 to FY 2003/04 income tax was fluctuating trend then it was in increasing trend till the study period. Within the structure of income tax, income tax contribution by individuals was highest of 36.39 percent of total revenue collection from income tax. Income tax paid by Private Corporate Bodies, income tax paid by Public Enterprises, income tax from Employment (Remuneration) , taxation on interest income and income tax paid by Other taxes occupy the second, third, fourth, fifth and sixth ranks respectively.
- 6) For the economic upliftment of the nation, additional internal financial resources mobilization should be strengthened. Effective methods for such mobilization as found by the study were planned development efforts, generation of more revenue internally, political stability and foreign grants, subsidies & loans etc.
- 7) Income Tax, VAT, Customs and Excise duty have been found to be the most effective internal measures for revenue generation.
- 8) Taxation on Capital Gains under Income Tax Act-2002 has been concluded a right move towards widening the tax bracket thereby mobilization of additional financial resources internally.
- 9) The goal of income tax in Nepal should be enhancement of the government revenue first followed by promoting distributive justice, encourage people to feel the

- responsibility of paying tax as facilitating tax payers and promote private sector investment.
- 10) Additional income tax revenue can be collected by developing the tax consciousness and awareness among tax payers, reducing the tax rate increasing the tax base, expanding the coverage of tax, increasing tax rate as well as imposition of new taxes.
 - 11) Some of the Nepalese people were found reluctant to pay tax because of lack of proper tax education, lack of relevant information and complex legal formalities while making payment of tax.
 - 12) It was found that assessment procedure for income under 'Income Tax Act-2002' to be compared to previous acts. Still 23.08 percent of respondents in the sample thought that that procedure for income assessment is still cumbersome because of informational deficiency, complex legal formalities; time consuming, administrative harassments to some extent as well as because of discretionary power give to tax authorities.
 - 13) Account based taxation and self assessment tax system are the basic spirit of modern and scientific taxation system.
 - 14) Although Income Tax Act-2002 has addressed the expectation of ordinary tax stakeholders, some people are still not satisfied and have complained against unnecessarily extended coverage of tax and demanded elimination of scope for tax planning confusions.
 - 15) 'Income Tax Act-2002' doesn't need any significant amendments (66.15 percent Respondents opinion) but effective implementation and sound follow up mechanism should be ensured to make it revenue productive.

5.3 Recommendations

On the basis of above analysis and conclusions, the following specific suggestions have been recommended for the effective and efficient mobilization of additional financial resources through income taxation.

- 1) The growing problem of resources gap in Nepalese finance should be tackled with significant reduction in government expenditure (especially regular expenditure) by utilizing natural resource base effectively and mobilizing additional financial resources internally to meet resource requirements rather than opting for foreign sources of deficit financing.
- 2) As Nepalese revenue structure is heavily dominated by indirect taxes that are occupying a share of more than three fourth in total tax. It is necessary to increase the share of direct tax through effective and efficient income taxation.
- 3) Generally 15 percent to 18 percent total tax GDP ratio is regarded as moderate standard but Nepalese total tax/GDP ratio is contributing 10.84 percent in average during the studying period. To increase the total tax revenue, bringing the private educational institution, public transportation etc. Into tax net should increase direct tax revenue.
- 4) The coverage of income tax should further be widened by including non-professional agricultural income also with in the grip of tax after certain exemption. Capital gains and dividend should be fully taxed instead of present partial taxation at present.
- 5) The hostility, harassment and corruption that currently exist between the tax officer and business community or government must end if Nepal is to have modern tax system. In order to make income tax effective for resource mobilization in Nepal, there should good co-operation and co-ordination.
- 6) Procedure for income assessment should be simplified. Complex legal formalities and delays in assessment should be avoided.

- 7) A nation wide campaign should be launched to inform and explain tax rules and regulations , tax programs and benefits of paying tax with a view of stimulating public to pay taxes through the media of Radio, FM, Television, newspapers and special programs in the educational institutions and public places.
- 8) Account based taxation and self tax assessment system should be encouraged to make it revenue productive and tax payer friendly.
- 9) Effective and efficient two way information system between taxpayers and tax authorities should be developed and maintained. Tax administration should possess a multiple sources information system.
- 10) Income tax evasion and avoidance should be minimized enforcing heavy fines and penalties, controlling widespread illegal business activities and increasing administrative efficiency of the tax authorities and through the awareness programs among taxpayers.
- 11) The tax system should be practical and effective. It should match the national economic condition. It should be equally beneficial to the taxpayers.
- 12) Income tax management has lengthy process of income assessment. The taxpayer never wants the lengthy and time consuming process of assessment. That is why management has to try to make it faster and shorter process of income assessment.
- 13) Up to date record of existing as well as potential tax payers should be kept. Programs should be formulated and implemented to locate new group of tax payers. Co-ordination with other departments and organizations should be developed to find the income earning group.
- 14) It has been found that Nepal is highly depending on foreign source for revenue mobilization. Now it is urgent in Nepal to do something for the better collection of resource from the internal sources rather than foreign grants and loan.

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APPENDIX A
QUESTIONNAIRES

I am conducting a research on “Income Tax as an Internal Source of Resource Mobilization in Nepal”. It would be very much appreciated if you could spare some of your time for fulfilling this questionnaires. Your kind help and valuable suggestions are essential for the completion of the research.

Yours Sincerely

Sita Shrestha

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Name:

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Designation:

(Please either ticks your answer or wherever appropriate put in order of performance from 1 to 5 where 1 is the most important and 5 is the least important)

1. In your opinion, is resource mobilization an appropriate means for economic development?

Yes () No()

2. Additional financial resources can be mobilized through (scale 1 to 5)

I. Planned development efforts()

II. Economic liberalization ()

III. Generation of more revenue internally ()

IV. Foreign grants, subsidies & loans()

V. Political stability()

3. Which of the following is the most important measures for resource mobilization internally?

- I. Income Tax()
- II. Value Added Tax()
- III. Customs()
- IV. Property Tax()
- V. Capital Gain Tax()

4. Role of income tax in internal resource mobilization is (scale 1 to 5)

- I. Most important ()
- II. Important()
- III. Less important()
- IV. Not important()
- V. I don't know()

5. What should be the goal of Income Tax in Nepal? (scale 1 to 5)

- I. Enhancement of the government revenue()
- II. Promote distributive justice()
- III. Promote private sector investment()
- IV. Facilitating income tax payers ()
- V. Encourage tax payers to feel responsibility of paying tax ()

6. Tax paying habit of Nepalese people can be developed by (scale 1 to 5)

- I. Educating Tax payers()
- II. Simplifying tax laws()
- III. Simplifying assessment procedures()
- IV. Providing more information to tax payers()
- V. Incentive to regular tax payers ()
- VI. Others (if any).....

7. Do you think that the assessment procedure of income tax is convenient one?

Yes () No()

8. Are the income tax rates as prescribed by Income tax Act-2002 optimal?

Yes () No()

9. Income Tax Act-2002 has emphasized on 'Self tax assessment Procedure'. Do you favor it?

Yes () No()

10. Income Tax Act-2002 has curtailed wide spread discretionary power of tax officers to some extent, do you agree it?

Yes () No()

11. Income Tax revenue can be increased through

- I. Increasing tax rate()
- II. Broadening the tax coverage ()
- III. Reducing the rate and increasing the tax base ()
- IV. Imposition of new taxes ()
- V. Developing the tax consciousness and awareness among tax payers ()

12. Would you recommend any amendments in Income Tax Act-2002?

Yes () No()

If yes, Please specify your recommendation(scale 1 to 5)

- I. Structural amendment()
- II. Amendment in tax coverage()
- III. Amendment in assessment procedure()
- IV. Amendment in tax rates ()
- V. Reform in administrative aspects ()

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