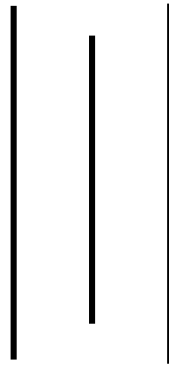


INCOME TAX ASSESSMENT PROCEDURE IN NEPAL

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*In partial fulfillment of the requirement for the degree of
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RECOMMENDATION

This is to certify that the thesis

Submitted by:

Santosh Pathak

Entitled:

INCOME TAX ASSESSMENT PROCEDURE IN NEPAL

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

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

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DECLARATION

I hereby declare that the work reported in this thesis entitled “Income Tax Assessment Procedure in Nepal” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Prof. Dr. Kamal Deep Dhakal and Romakanta Bhattarai** of Shanker Dev Campus, T.U.

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Summary

The economic situation of the country, a major indicator of economic development, has not been satisfactory. The nation has achieved average economic growth rate of 4 percent over a decade. In an environment where our neighbors have been successful in achieving the double digit economic growth, our nation could not achieve the rate as desired owing mainly to political instability overshadowing the economic issues. Besides, fragile peace and security situation, weak infrastructure including electricity, and uneasy labor relations etc also contributed to the cause. These conditions, as in the previous years, prevailed as major challenges to the economy for attaining the higher rate of economic growth.

Agriculture has been making notable contribution to the economy. Despite decline in its contribution of agriculture to GDP, its share is still more than two third. Agriculture production still remains erratic due to high dependency on monsoon owing to weak irrigation facility. Area under paddy cultivation, which has been contributing around 7 percent to GDP, is less than what it was 10 years ago while its production has increased merely by 5.8 percent (average annual growth of 0.5 percent) during this period. Likewise, statistics has shown that per hectare productivity of this crop is higher by 1.0 metric ton in areas with access to irrigation facility than in non-irrigated land. Hence, emphasis on developing agricultural infrastructure including irrigation is utmost necessary for raising the productivity of agriculture sector including the yield of major food crops and commercialization of this sector. Nepal's agriculture sector has lost its competitive edge owing to dearth of fertilizers, seeds, irrigation and other facilities necessary for raising agricultural productivity in a situation whereby its neighboring countries have been providing subsidy and other facilities to this sector. Such a situation has created food security concern of the people dependent upon agriculture. The population dependent on agriculture would be pushed back below the poverty line if a situation arises for agriculture produces of the country losing the market. It is another challenge to sustain competitiveness of the agriculture sector by giving continuity to emphasis on investment and subsidy facilities being provided to this sector.

to achieve not only fiscal objectives but also economic and social objectives.

Nepal is adopting mixed economy and is one of the members of non- alignment movement. But after the restoration of multiparty democracy in 1990, Nepal is slightly entering into the

market economy by means of economic liberation and privatization. Now the Nepalese government and its donor communities are advocating for the public private partnership in development programs. Participatory approaches in the development programs have been introduced to increase the affection of the people on such programs for the sustainable development but it is in its primitive stage and facing hurdles.

The Income Tax Act, 2058 has replaced the old one of fulfill of a foresaid objective. The objective of introducing the new act is to enhance the revenue mobilization through revenue collection procedures. The main Moto of this act is to promote the economic development of the nation. This act has amended about undue performance. For this purpose, there must be better program for taxpayer's education assistance, guidance and counseling.

Objectives of the Study

The main objective of this study is to analyze the system of income tax in Nepal. However, the following specific objectives have been set for the study:

-) To make review of legal provisions relating to income tax assessment procedure in Nepal.
-) To assess the contribution of income tax to tax revenue of Nepal.
-) To analyze the effectiveness or income tax assessment procedure as prescribed under Income Tax Act, 2058.
-) To explore the reasons for poor tax compliance among Nepalese tax payers.

Population and Sample

The total Population of this study comprises all tax administrators, tax experts, and tax payers. Out of them 20 tax experts, 20 tax administrators 20 payers were selected as sample from Kathmandu valley convenience sampling method. Following table shows the category of respondents and the size of sample.

Table 3.1

Group of Respondents and size of sample

S. N.	Groups of Respondents	Size of samples
1	Tax administrators	20
2	Tax experts	20
3	Tax payers	20

Source: Opinion Survey 2011

Finding of secondary data analysis

-) Government revenue is the composition of external revenue and internal revenue. There is dominant share of tax revenue in Nepalese government revenue. The contribution of tax revenue is increasing trend as it had contributed by 77.68 percent in fiscal year 1995/96 on total revenue and it was increase to 86.86 percent in 2009/10 but non -tax revenue is decreasing from 22.32 percent to 13.14 percent in fiscal year 1995/96 to 2009/10.
-) There is serious and growing financial gap which creates great problem in Nepal, it seems to be never ending problem in Nepalese economy. The resource gap in the fiscal year 2009/10 is Rs. 29974 million, it extends from Rs.4360.3 million in fiscal year 1995/96. The highest resource gap is Rs. 39835.8 in fiscal year 2008/09 on the study period. The main cause of resource gap is lack of mobilization of other domestic resources, government expenditure is increasing at faster a faster rate than the increasing in revenue, raising inflation rate, increase the burden of debt serving, defective government expenditure program, and other political in performance, less commitment, and weak management functions.
-) Nepalese tax revenue is the composition of direct and indirect tax. There is dominant role of indirect tax revenue in Nepal. The contribution of direct tax and indirect tax on total tax revenue is 21.5 percent and 78.5 percent respectively in 1995/96, which becomes 26.71 percents and 73.29 percent in 2009/10. The trend shows that the share of direct tax is increasing but still the indirect tax has dominant role.
-) Direct tax revenue is the composition of land tax, house and land registration, Income tax, tax on property and other taxes. The contribution of income tax, property tax and other taxes on direct tax is 77.09 percent in 1995/96 and that for year 2009/10 is 86.8 percent. The contribution of land tax, house and land registration tax on total direct tax is 22.92 percent in fiscal year 1995/96 and 13.20 percent in fiscal year 2009/10.
-) Nepalese income tax revenue is the composition of Business tax (from public enterprises, semi-public enterprises, private corporate bodies, and individuals), remuneration, and tax interest, income tax of Rs. 31285.6 was collected in 2009/10. The share of public enterprise, Private Corporation, individual, remuneration and tax on interest of income tax

is 3.62 percent, 39.11 percent, 35.29 percent 14.11 percent and 7.88 percent of total income tax revenue respectively. The highest sharing on the beginning year 1995/96 was individual 42.84 percent and year 2009/10 was private corporate 39.11 percent.

-) The contribution of income tax on GDP, total revenue, total tax revenue, and direct tax revenue are 2.95%, 17.39%, 20.02%, 74.98% respectively in the year 2009/10, which has increasing trend of income tax to GDP, total revenue, total tax revenue and direct tax revenue in the study period. The relation between income tax and direct tax revenue, total revenue, and GDP has been found a perfect positive correlated.
-) Income tax is an effective tool to reduce the gap between rich and poor. Wide spread evasion of tax, small number of taxpayer, defective government expenditure programs, poor taxpaying capacity, lack of tax consciousness are the main causes of ineffectiveness of income tax in reducing the gap between rich and poor.
-) Exemption limited of income in Nepal is increasing for individual Rs. 1,60,000 and couple Rs. 2,00,000 in fiscal year 2009/10.
-) Income tax rate is 15 percent and 25 percent personal income over exemption limit, 30 percent for bank, and finance companies, 25 percent for other corporate taxpayers, and 20 percent for special industry.

Finding of Empirical data analysis

-) 91.67 percent of the respondent intervened said that income tax is the suitable means of raising government revenue and 8.33 percent respondent intervened said that income tax is not suitable means of raising government revenue.
-) 95 percent of the respondent intervened said that Public awareness program is necessary increase tax consciousness and raising the government revenue and 5 percent respondent said that public awareness program is not necessary to increase tax consciousness and raising government revenue.
-) The present level of Tax revenue collection of the government is not satisfactory. 18 percent respondents are satisfactory and 82 percent are unsatisfactory of contribution on national revenue. Mass poverty and low-income level, increasing habit of tax evasion, defective income tax administration and inappropriate rate, and exemption limit are the major reasons for the low contribution of income tax to national revenue.
-) The income tax assessment procedure also seems ineffective. Lack of adequate information about income assessment, taxpayer want to escape paying tax, lack of proper

recording system in tax administration and non maintenance of books of account by the taxpayer are considered as the major problems in income tax assessment procedure.

-) The provision given for self-tax assessment in new tax act may complex. The provision of income tax act, rules with regards to self-assessment should be made simple, encourages the taxpayer for self-tax assessment by providing incentives.
-) Taxes payers are unknown about newly introduce income tax act and its provision on Jeopardy assessment. The major causes which made jeopardy assessment unsatisfactory are lack of information about taxpayer to tax officer, unwillingness of tax officers' tendency of officers towards high corruption and lack of clear provision in income tax laws.
-) The time limit for the file return after passing the income year, it can be find that the time limit should be extended to 6 month.
-) The provision of fee, fine and penalties under the income tax act of Nepal are considered as reasonable.
-) Heavy penalty should be charge to those taxpayers who submit false statement while submitting the self –tax assessment statement and those taxpayers who do not submit account fee tax purposed.
-) The relationship between the views of tax administrator and taxpayer with respect to suggestions to improve taxpaying habit or taxpayer's compliance in Nepalese people. It can be find that opinion of taxpayers and tax administrators regarding the suggestion to improve that paying habit or taxpayer's compliance in Nepalese people are same.
-) There is relationship between the view of tax administrator and taxpayer with respects to problems faced by the taxpayer while paying tax. It can be find that taxpayers and tax administrators regarding the problem faced by taxpayers while paying tax is not significantly difference.
-) Vague provision in Income Tax Act, lengthy process, consuming unnecessary time, expectations of illegal incentives by the tax personnel and lack of co-ordination by tax administration is the major problems facing by the taxpayer while paying tax.
-) Income tax administration of Nepal is considered as ineffective for tax assessment. Main causes of ineffective tax administration in application of tax assessment are lack of meaningful tax payer's information. Lack of proper incentives to tax personal, lack of knowledge about tax assessment procedure, lack of co-ordination within department and unnecessary outside pressure.

) Self –tax assessment is a suitable method while assessing the income tax in Nepal lack of proper accounting system , lack of knowledge about self-tax assessment procedure, lack of correct auditing system are the weakness of self-tax assessment system, it does not seem possible to apply it in full extent. Income Tax Act, 2058 all the return files is treated as self- assessment. But in previous Act, 1974 the best judgment, committee assessment were most popular, however the Act, 1974 had made provision of the self assessment since the early 1990's the provisions were limited in home than in practice because of lack of proper preparation. The system of self –tax assessment may also reduce the workload of the tax personnel and helps taxpayer to understand their duties.

Conclusion

Taxes are the lifeblood of every government but it cannot be over emphasized that the blood is taken from the arteries of the taxpayers and therefore the transfusion has to be accomplished in accordance with the justice and fair play. Tax revenues have played a significant role in mobilization of internal resources. Income tax plays the major role collection of government revenue. Income tax is not levied only with the purpose of collecting revenue but with purpose of reducing the gap between rich and poor. It is thus levied with the purpose of equal distribution of income. In this sense it will help to create the people welfare, nation and egalitarian society. Simple and clear tax law, sound, fair and consciousness on general public, adoption of proper reasonable methods for assessment are fundamental requirements of effective income tax system. Income tax assessment plays a vital role in the collection of income tax. Proper, fair and reasonable system and method of income tax assessment do not help only to increase the revenue but certainly helps to minimize. There are economic gap between different levels of people in the society.

The Income Tax Act, 2058 is existing laws relating to income tax administration. The effectiveness of income assessment entirely depends upon implementation of provision, which is the major responsibility of income tax administration. Income tax assessment procedure is not effective and various problems exist in the income tax assessment such as; lack of adequate information about the assessment, maintain adhock books of account, assesses do not maintain book of accounts, lack of proper recording system in tax office and assesses want to escape from to pay tax. Presently, income tax assessment is performed by self- tax assessment; the self- tax assessment system is widely applied in income tax

assessment. It is blamed that the law is complicated and vague. There is need of efforts for simplification of the law. If the tax fails to be par with the international tax norms, it will not be able to attract the foreign investment. The tax law should be coherence with the economic situation of the country. Simplification can be introduced through policy changes, legal changes, structural changes, procedural changes and changes in the mentality.

The strategy to increase income tax revenue should base on widening of tax base on fair and equitable tax administration. The prospects of widening tax are to bring in mote and mire people under the tax net and bring in more and more unreported and under reported. The number can be increased with the effective tax policy. The identification of unreported and under reported personal income is a complicated process. Though, this problem cannot be solved completely but can be minimizing though effective tax administration. The revenue collection proves income tax is also base upon the income tax assessment procedure followed. Income tax assessment procedure is a significant aspect of the administration. The quality of income tax personnel, taxpayers and tax law and policies If income tax is fairly assessed the amount of collection may increase and effective, and efficient assessment procedure reduces the corruption and evasion and increase the morality, which assists to generate additional financial resources. Through income taxes Provision is act and languages have to make clear and some reforms in income tax administration are needed to effective income tax assessment.