

CHAPTER - I

INTRODUCTION

1.1 General Background

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.

Industry sector is on the continuous downslide. Industrial output is moving toward hopeless situation in absence of investment-friendly environment owing to a number of factors including political instability and lack of peace and security, energy crisis, and labor relations etc. This sector's GDP growth rate over past 10 years averaged only to 0.3 percent. Contribution of this sector from 9.0 percent in FY 2000/01 has slipped to 6.5 percent in FY 2010/11. Hence, raising the level of output and employment of the industry sector by attracting domestic and international investment through creation of investment-friendly atmosphere has become another challenge. Another big challenge is the extreme energy crisis the country is facing. Failure to match the demand for electricity with production and supply has adversely affected all sectors including industry and the people of all walks of life like a housewives and students for example. This situation has adversely affected industrial production and production costs leading to deterioration of overall productivity of the country. Current priority of the country, thus, is to produce and supply electricity as per the demand through rapid development of hydropower by raising the level of investment in this area. Millions of youth are compelled to heading for overseas seeking employment due to failure in creating employment opportunities within the country. Statistics for the last three years shows on average 250,000 people leaving the country annually for foreign employment, and the number is on rise. Although foreign employment remains a major source of foreign currency for the country, in the long-run it could fall in the remittance trap. It is another challenge of engaging the youths in the nation's development by creating employment opportunity within the country itself.

The country's economy is gradually becoming consumption oriented due to remittance income and other factors thereby causing hopeless plunge in savings and investment rates. Consumption to GDP that stood at 88.3 percent in FY 2000/01 has gone up to 93.3 percent by FY 2010/11. As a result, the rate of domestic savings has come down to 6.7 percent from 11.7 percent during this period. Consumption oriented economy naturally leads to dependency resulting in the dearth of resource for investment. Hence, it is another challenge of creating the foundation for economic growth through enhancement of saving and investment levels by discouraging unnecessary consumption. (Economic Survey, 2010/11).

In the present world, a government has to spend a lot of money to fulfill its responsibility towards its people. The responsibility may be either for security or for health or education or

other development activities. In each country, the public authority for the protection of common people spends a lot of funds and for the creation of various social economic infrastructures. Protection expenditure includes the purchase of arms and ammunition, maintenance of army or police and administration of justice and jail. Commercial expenditure is also incurred by the government for operating rail ways, air ways and other public enterprises. Which are undertaken by the government for the public interest? The third type of public expenditure made on providing education, health, communication, transportation, water supply, irrigation and public utility facilities to the community . So the government has needed sufficient funds for (a) regular activities (b) commercial activities and (c) development activities. The nation will be able to achieve maximum social welfare if it has sufficient funds.

Government expenditure is increasing day by day because of demand of time, increase in population, social progress, war and preparation for war, increase in price and others. To meet the growing public expenditure and other activities, government has to manage its funds. The sources of public funds are of two types,

a. Internal Sources

b. External Source

Developing country like Nepal, have limited sources of internal funds so most of the development activities depends on the external sources. The external sources of financing are bilateral and multilateral aids, grants and loans from foreign countries or donor agencies. These sources have been limited, inconvenient and not suitable to boots up our economy due to the vested interest of the donor agencies. The reality is that we have been implementing most of the policies and programs of the donor countries /agencies, paying high interest accepting the inappropriate conditions on taking loan.

Internal resource mobilization is equally important to both developed and developing countries. Internal sources of public funds are important not only for necessary financing funds, but also for proper utilization of external sources. Based on the nature of sources, the public funds are also classified into revenue (public income) and borrowing. The public income or revenue includes taxes, fees, fines, penalties. Special assessment, gifted. Borrowing includes both internal and external. Most of the public expenditure is financed through taxation and borrowing. Taxes and charge are withdrawn from the private sector without leaving the government with a liability to the payee. Borrowing involves a withdrawn

made in return for the government's promise to repay at a future date and to pay interest in the interest (Musgrave & Musgrave 1976: 60).

External sources of funds are foreign grants and loans. This kind of funds is received from foreign countries and international organizations. External sources of funds are more important for undeveloped countries like Nepal. It is used for economic development, reconstruction, foreign exchange, to recover from crisis condition, etc. External resources are uncertain, inconvenient and not good for healthy development of nation because they have to be paid after a certain period of time. On the other hand, internal sources of fund includes both tax and non-tax revenue. Continuous uses of external sources of funds to raise necessary public funds are not good because it reduce the liquidity of the government. So, internal sources of funds are more important not only for financing necessary funds but also for mobilization of internal sources. It is better to mobilize internal sources rather than looking with beggars eyes to the donors (Shrestha, 1997: 60).

On the other hands government tries to collect finance resources through internal sources. It is very important to developing country like Nepal. But it is not able to mobilize the internal resource satisfactorily. The major constraints in domestic resource mobilization are poor utilization of natural resources, small and stagnant industrial enterprises, poor rate of economic growth, inadequate tax efforts, deficiencies in tax policies, laws and administration etc (Agrawal, 1978: 60).

The role of tax in Nepal has developed dramatically to enable the government to implement its fiscal policy in order to become more independent. The tax system in Nepal was expanded 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 main objective of the tax system in a developing country is the promotion of saving and

investment and also growth in industry including exports. Nepal has been mobilizing resource for capital formation and plugging back private saving and investments. Taxation in the modern world has been taken as the best device to raising the ratio of saving to national income (Agrawal, 1980: 31).

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.

1.2 Statement of the Problem

Income tax system of Nepal has been facing serious managerial problem. The income tax administration of Nepal has been blamed that it is not so efficient. Since the government expenditure is growing, the source of government revenue must be increased. Income tax is that only a capable taxpayer has to pay tax. Furthermore, only those taxpayers will pay tax whose income is above the exemption limits. As an instrument of economic growth and social justice, Income tax in Nepal has not succeeded in achieving these goals. To enhance the contribution of income tax to the national exchequer thereby minimizing the increasing resource gap, the problem of income tax system of Nepal needed to be solved in time.

Income tax is not collected properly and tax collection expenditure is increasing per year. The problem underlying it is there is not provision of tax education in the secondary level and only a few number of people know about the tax and its importance towards economic development of the nation. Because of the absence of proper knowledge of tax system, Nepalese taxpayers do not make tax planning. Tax evasion and avoidance are increasing tremendously.

There is high tendency of income tax evasion and low level of income tax payment in the country. The tax policy and revenue administration is not effective for the collection of taxes. The tax act and other related acts, rules, regulations and tax rates are not stable. Although the government has granted income tax holidays, incentives, rebates, exemption, there is not significant effect in income tax collection.

Many measures and policies have been taking into account but tax collection hasn't become cost effective. Tax collections are not as per target made by management of IRD. There was vast deviation on the income tax collection. It has not even been successful to collect tax from taxpayers. Who lie in the taxable boundary? In this condition, it is very far to bring into tax net. Due to defective tax administration taxpayers are ready to provide illegal benefit to the administrator but they are not ready to pay small amount as tax. It means they don't want to lie within the tax net. This is one of the major problems of Nepalese income tax assessment procedure. In such situation, it comes to be imperative to make a study of income tax assessment procedure system and suggest ways to improve it.

This study has tried to answer the following questions:

1. Whether the legal provisions relating to income tax assessment procedure in Nepal are appropriate or not.
2. Why the taxpayers are reluctant to pay tax?
3. To increase the Income Tax Revenue, what efforts should be made by the government?
4. Is income tax collection in Nepal is satisfactory?

1.3 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.

1.4 Scope of the Study

This study is basically concerned with the present contribution of income tax to the nation economy and income tax assessment procedures in Nepal. It is clear from the objectives that the areas of the study is to analyze and examine the contribution of income tax to gross domestic product, total budget expenditure, development budget expenditure, regular budget expenditure, total government revenue and direct tax .Income tax system though adopted for more than three decades in Nepal, major improvement have not been made so far in this field.

So, there is a need for deeper and wider study in the income tax system of Nepal. Present study aims to find out the problems faced by assesses while doing the tax assessment of their income. The major areas covered by this study are as follows:

-) Brief introduction of income tax assessment procedure.
-) Provision of income tax assessment under Income Tax Act, 2058
-) Existing position of income tax in Nepal.
-) Tax laws and provisions, income tax rate, exemption limit in income tax.

1.5 Significance of the Study

In any country of the world, capital has the most important role for their developmental programs. A larger amount of capital is needed to finance and to lead any developmental program for the economic betterment of a nation. In most of the countries, the capital is raised through internal and external sources. The external sources are foreign grants and loans. The internal sources include public borrowing, governments bonds, surplus from public undertaking and taxation. Among them, taxation is the pivotal one and income tax is one of the most important ingredients of taxation. Developing country like Nepal requires higher magnitude of financial resource for the developmental programs. Domestic resource have more significant role than the external resource. Among the domestic resource, income tax plays a significant role. It helps to minimize economic inequality in the society and increase the domestic resources mobilization. It measures the economic standard for the people. The income tax assessment procedure system of Nepal is going through various problems. So to find out the major problems and way to improve it has study in the field of income tax assessment procedure is essential.

1.6 Limitations of the study

The major limitations of this study are as follows:

-) This study conforms to Nepalese law, act, rules and regulations to the income tax.
-) Due to the small size, it may not fully represent Nepal as a whole.
-) Due to lack of authoritative secondary data and transparency income tax assessment system, the reason will have covered mainly the theoretical aspect of tax assessment.
-) This study has covered data only fiscal year 1995/96 to 2009/10.
-) Simple technique has been exercised due to time and financial limitations.
-) Due to the reliable data, income tax from house and land rent are excluded from study.

) The current year data of income tax collection is not available so the data analysis limited up to previous years.

1.7 Organization of the Study

This study has been organized in to five chapters. They are as follows:

Chapter -I: Introduction

This is the introduction Chapter. It includes general background, statement of problem, objective of the study, scope, Significance and limitation of the study.

Chapter II: Review of literature

This chapter is about the Review of literature through available and published books, reports, articles and dissertation. Legal provisions relating to income tax assessment procedure in Nepal. It includes conceptual framework and review of previous studies.

Chapter III: Research Methodology

This chapter is on Research Methodology, which includes types of Research, Research Design, population and sample, nature and sources of Data, Data collection Procedure, Data processing and Analysis.

Chapter IV: Presentation and Analysis of Data

This fourth chapter deals with analysis and Presentation of data and empirical investigation which includes Resource gap in Nepal, structure of government revenue in Nepal, composition of direct and indirect tax revenue in Nepalese tax structure, contribution of income tax to GDP, total revenue and total tax revenue. Exemption limits in Nepalese income tax income tax payers in Nepal, methods of income tax assessment in Nepal and master findings of the research.

Chapter V: Summary, Conclusion and Recommendation

The last chapter states the summary, conclusion of the whole study and recommendations have been made respectively. It also offers several avenues for future research.

Bibliography and appendix also are incorporated at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

Conceptual Framework

2.1 Meaning of Tax

With the future globalization of the world financial infrastructure accompanied by the persisting lack of international co-ordination in fiscal affairs. Increasingly the attention on the major developed countries is turned to the problem of erosion of national tax based and international tax erosion avoidance as well as the role played in it to be so called tax haven. Thus, the last years of the past century witnessed the marked intensification of international efforts directed at combating various financially and fiscal abuses that were invariably focused on the countries and territories formally and informally referred to as tax haven.

The government needs money to run its activities such as public welfare, Maintaining peace and security, development plans and to handle day-to-day administration, just like the circulation of blood in the money activities the different organs of the organization. When there is no money no departments or lower level offices of the government work as the part of the body stop working when there is no blood circulation. The government collects revenue from different sources like tax, price of goods or services provided by the government, receipt from public enterprises, fees, fines, grants, etc. In short, all the sources of the government revenue can be divided into two parts- tax and non tax. Tax is the major sources covering most part of the government revenue.

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

objectives of social welfare.

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

According to Findlay Shiras, "Tax is compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefits" (Lekhi, 2000:146).

According to Plehn, "Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the states" (Dhakal, 1998:2).

According to professor Saligman, "A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred" (Lekhi, 2000:146).

From the definitions given above, it is cleared that the taxes are not a voluntary contributions by the taxpayer but it is compulsory in nature. Therefore, one can say that every payment by individuals to the state is not a tax. It is just like withdrawal from the people's income, which reduces their purchasing power. It should be noted here that tax checks production where as public expenditure may support the productive process. In this context, Dalton say "where as taxation, taken alone should almost certainly increase it." So, tax is a necessary contribution by the tax-payer to social objectives like reducing inequalities in income and wealth securing neither level of employment as well as promoting economic stability with growth (Lekhi, 2000: 146).

Many economists have classified taxes into several categories but the major categories of taxes may be direct and indirect taxes. If a person has to pay directly the tax liability to the government, such tax is known as direct tax. A direct tax is really paid by the person on whom it is legally imposed. The taxpayer cannot collect tax from other persons. Income tax, Gift tax, interest tax, property tax, vehicle tax, house and land tax, and contract tax are some example of direct tax. Direct tax is paid according to the income or property earned by a person. So it is found equal with and property. Direct tax has a quality of certainly; the

taxpayers are informed about the amount, time and procedure of payment. Tax payer can easily estimate his tax liability. The government can easily increase or decrease according to proper economic situation of the country. Tax payers pay tax from their own property, so they are conscious about their contribution.

An indirect tax is imposed on one person but paid partly or wholly paid by another. The examples of indirect taxes are customs, excise duty, value added tax etc. indirect tax is transferable. People pay tax when they receive or consumed goods or services. Therefore they don't feel burden to pay lump sum. There is mass participation because every person who receives goods and services pay tax Indirect tax is flexible. Indirect tax can change at higher percent to discourage the harmful goods.

There is uncertainty above the collection of indirect tax. Every person either rich or poor pays equal amount of tax on receipt of goods or services. Therefore it seems as regretful for poor person. If tax imposed on higher rate, consumption reduces and also effects badly on production and employment.

In classical economics tax was taken as an extra burden to the people and the economists were in the favor of small government, which only had to maintain law and order in the state. But now time has changed and the government has to provide maximum social welfare to the people. Thus the government has to burden its revenue. Income tax is a direct tax. In case of Nepal, income tax is the major source of direct tax revenue.

2.2 Objectives of Tax

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

a. To Raise More Revenues

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

b. To Reduce Economic Inequalities

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

c. To Maintenance of Welfare State

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

d. To Encourage Production of Essential Goods

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

e. To Remove Regional Economic Disparity

The government provides tax exemptions, rebates and concession to those industries, which are operated in the backward and remote region. As a result, the economic activities will be increased in these regions so as to remove the regional economic disparity (Amatya, 2004: 8). From the above, we can conclude that the tax has the purpose of raising revenue to help resource mobilization, equal distribution of income and wealth in the society, encouragement in production certain products, encouragement in employment, saving and investment removal of regional imbalances and enforcement of government policy.

2.3 Important in Income Tax

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

Thus from the above lines it is clear that taxes on income are the most important sources of

government revenue in developed countries. But in the context of developing countries income tax cannot produce more revenue because the people of developing countries are poor as a result income tax cannot produce more revenue as in developed countries.

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

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

Therefore, to fulfill the required capital for investment taxation can play an important role. Income tax is a modern tax for Nepal. This is built a scale system, and on the size of the family among the different component of income tax individuals' contribution is the highest with increasing ratio. In our tax structure custom duty, value added taxes, excise duties are major source of revenue, income tax also contributes some portion for capital formation. The history of income tax revenue has been increasing in every year; more over it can certainly 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 channel and also increases the productive capacity of the economy if income tax is properly used it can make significant contribution to other tax revenue income tax has an increasing trends. It can influence on the distribution of income and is regarded as an important instrument of growth and social justice in Nepal.

2.4 Income Tax in International Context

Income Tax was first introduced in Great Britain in 1799 in order to finance wars with France. Only 1980, it was accepted as a permanent tax. In united state of America, first federal income tax was imposed in 1862 to finance civil war expenditure. However it became permanent features only in 1913 after 16th amendment to U.S. constitution. In neighbor country India, at first income tax was introduced in 1860. After introducing Income Tax Act,

1886 New Zealand in 1891, Australia in 1915 and Canada in 1917, after First World War, the income tax became an important source of tax revenue in many developed countries. By 1939, it has become the most important source of revenue in most developed countries and had made appearance in a number of developing nations (Agrawal, 1978:113). From the First World War decade, income tax has shown as an important source of revenue in developed country. In the beginning of introducing time, it was generally levied at flat rate only after 1909; the principle of progression was introduced from the UK and New Zealand.

2.5 Taxation in Ancient Nepal

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

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

2.6 Development of Income Tax Law in Modern Nepal

Although there were tax systems in Nepal in ancient time also, the concept of income tax was brought only by the first budget. The budget introduced in 2004 B.S. stated about the introduction of income tax system in Nepal. However, it was actually introduced only in 2017 when the Finance Act, 2016 and Business Profits and Remuneration Tax Act, 2017 were enacted. The tax could not cover all the source of income and it was replaced by the income tax act, 2019 in 2019. Income tax Act, 2019 with 29 sections divided the head of income into 9 parts covering business profession, occupation, remuneration, house and land and rent, cashier kind investment, agriculture, insurance, business, agency business and other sources.

The act was amended in 2019 extensively. However, considering this act incapable of fulfilling the needs of the time, it was replaced in 2031 by another act. This act having 66 sections, classified the sources of income into 5, namely.

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

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

It generally prescribes the tax rate and exemption limit per tax purposes and it may abolish, add or modify the provisions contained in the income tax law purpose. Income Tax Act, 2031 was not perfect. It had some defect. To avoid the defect of Income Tax Act, 2031 introduced the Income Tax Act, 2058. This act has made some amendments two times by the finance ordinance of 24th Ashadh and 22th Push of 2059 B.S. The development of income tax act in Nepal is presented below

2.7 Business Profit and Remuneration Tax Act

2.7.1 Income Tax Act, 2017 (1960)

The fiscal year 1956/57 (2017 B.S.) was the beginning of the income. Tax act in Nepal. The first law relating to income tax was named "Business profit and Remuneration Tax" the imposition of the tax was governed by the business profit and Remuneration Tax Act, 1960 and rules made there under. This act had 22 sections. With the enactment of that act, the salary tax or personal income tax was levied upon those individuals whose personal income exceeded Rs. 6,000 per year. In the first three years, the exemption was Rs. 7,000. An examination of tax files in the Katmandu district office disclosed 557 personal income tax files of individuals who had paid taxes in one or more years.

Features of this act were as follows:

1. There are the two heads of income i.e. business profit and remuneration only.

2. The basis of calculating the tax liability for the remuneration was the income of the current year and business profit; it was the profit of previous year.
3. Deductions of expenses were not specified for calculating taxable income.
4. Tax on remuneration was deducted at source.
5. The tax officer was empowered to assess tax a best judgment estimate.
6. In case of default, fines up to Rs. 5,000 were prescribed.
7. Profits from industries were granted rebate of 25% and profit from small industries were granted a rebate of 50%.

This act was too narrow and vague. It has many loopholes for the income hiders and inadequate provisions in the act. Because of this reason Income Tax Act 1962 was introduced.

2.7.2 Income Tax Act, 1962

This act was the reform of the "Business profit and Remuneration Tax Act, 1917". This act was amended in 1929 intensively. The main features of the act were as follows.

1. Income was defined as all kinds of income such as profit from business, income from profession, remuneration and occupation, house and Land rent, income from agriculture, insurance business, agency and any other sources.
2. The basis of tax assessment was specified on the best judgment estimate of the tax officers.
3. Provision was made for the installment payment of the tax for the first time.
4. Provision was made for reassessment of tax as well as rectification of arithmetical errors.
5. It had provision regarding carry forward of losses for the period of two years.
6. Provision was made for the exemption of income tax for the new industries for a period of not exceeding ten years.
7. The residential status of the tax payers for the tax purpose was defined.
8. The act granted the power to constitute the income assessment committee.
9. Deductible expenses as well as methods of calculation of taxable income were specified.

This act has also some weakness. The changing the nation had forced to change the income tax Act. Because of this reason, Income Tax Act, 1962 was introduced.

2.7.3 Income Tax Act, 2031 (1974)

The Income Tax Act, 2031 can be said to be the refined form of Income Tax Act 2019. It has 66 sections. It contained many provision of the old one and change and added certain new provisions. To implement this Act, government introduces Income Tax Rules 2039. This rule clarified some provision of this act. This act was amended in eight times for making more practical and eliminating confusing terms. Some specific features of Income Tax Act 2031 were as follows:

1. This act had clarified definition of specific words like income tax, tax payer, year of income firm, company, net income, person philanthropic work, nonresident etc.
2. Head of income source were specified in five heads:
 - a. Agriculture
 - b. Industry, Business, Profession or vocation
 - c. House and land rent
 - d. Other sources
3. The act had made it obligatory for taxpayers to register their industries, business, profession or vocation in the tax office and any changes should be notified.
4. Methods of computing the taxable income from each head has been specified with deductions allowable.
5. Provision relation to computing of net income by agreement in special cases.
6. Carry forward of losses is allowed within subsequent there years.
7. Provisions relating to deduction for life insurance premium and contribution made for philanthropic purposes.
8. Provision relating to correction in the statement of income.
9. Provision relating to correction in the advance
10. Provision relating to made agreement for avoidance of double taxations.
11. Provision relating to maintenance of accounts. Provision relation to rectification.
12. Provision relating to department action in case of negligence provision relating to penalty and appeal

2.7.4 Income Tax Act 2058

In 19th Chaitra, 2058 Income Tax Act, 2058 has been introduced in Nepal. This act has been brought in Nepal to avoid the following defects of Income Tax Act, 2031.

1. Income Tax Act, 2031 had a narrow tax base, Global income of residents were not brought into tax net. Only the incomes originated in Nepal ware taxed.

2. Income tax related matters were governed by various acts. Dispersion of tax related Acts had been arisen confusion in the effective implementation of the Act. Such as Employee provident fund Act 1962, Citizen. Investment Trust Act 1992, Industrial Enterprise Act 1992, Electricity Act, 1992 etc.
3. There were no clear provisions regarding taxation of capital gains. The Act was also silent with regard to international taxation.
4. The terminology and provisions in the act were inadequate.
5. The fine and penalty imposed by the Act were very low. As a result, the level of voluntary compliance had decreased substantially.
6. There was a weak mechanism to control the tax avoidance scheme of taxpayers. The taxpayers used to evade to tax through transfer pricing, splitting of income, etc.
7. Tax accounting method was not prescribed in the Act. Despite the provision of self-assessment in the Act, it had not been implemented properly. The self assessment was more in name than in practice.
8. The Act had not distinguished civil liabilities of the taxpayers from criminal liabilities.
9. There was a double appeal system in the Act; the taxpayers were allowed to lodge. An objection against assessment with the Revenue Tribunal or the Director General. The Director General was empowered to acts to a court and there were complaints that he used to make decisions in favors of tax officers. There were no provisions for administrative review.
10. Act because incapable to fulfill the need of time. So, it became compulsory replace to it by new Act.

Due to all these defects of the old act, there was need of introducing the new tax act. Income Tax Act, 2058 is brought by government of Nepal to fulfill this Vacuum. As given by the policy makers; the objectives of the new act are:

1. To bring all the income generating activities within tax net.
2. To increase the base of taxation
3. To bring all the income tax related provisions within one act.
4. To make income tax related provisions clear and transparent.
5. To interlink Nepalese tax system with tax system of other countries.
6. To make tax system based on account
7. To minimize tax avoidance and tax evasion.
8. To make tax system compatible to modern economy.
9. Reducing the scope of discretionary interpretation of the tax administration and

- transparency. There by ensuring simplicity, uniformity and
10. Separating administrative and judicial responsibilities.
 11. Defining the power as well as authority of the tax administration, distinguishing taxpayer's violation of civil duties and criminal offences and
 12. Further streamlining the appeal system by making it mandatory for the tax payers to file on objection with IRD of tax action before revenue appearing to the Revenue Tribunal.

The new Income Tax Act has 143 sections Income Tax Rules, 2059 is also implemented under the provision of this act. As stated in objectives, the new act has many new provisions in comparison to Income Tax Act, 2031 (Kandel, 2003:11).

2.8 Legal Provision Relating to Income Tax

Nowadays, legal support is necessary to impose tax on the public. The interim Constitution of Nepal, 2007 has made clear provision about it.” No taxes shall be levied and collected except in accordance with law.” Present provision of income tax is associated with following legal consideration.

- a. The interim Constitution of Nepal-2063 B.S.
- b. Income Tax Act, 2058 B.S.
- c. Finance Act of current fiscal year
- d. Rule of concerned act.

2.8.1 Sources of Income

Income Tax Act, 2058 is implemented from 19/12/2058 B.S. This Act replaces Income Tax Act, 2031 and other Acts related to income tax. Income Tax Act, 2058 has classified the source of income for the purpose of assessment under the following heads:

1. Income from a Business
2. Income from an Employment
3. Income from an Investment

2.8.1.1 Income from Business

Business is an activity by a commercial enterprise engaged for the purpose of making profit in a continuous and representative basis. In other words business means, the use of factor of production for the purpose of earning profit. According to section 2 ka.ja of income Tax Act,

2058 a business means an industry , a trade, a profession, or the like isolated transaction with a business character and includes a past, present or prospective business. The terms business does not include employment (Bhattari and Koirala2066:19) a person's income from a business for an income year is the person's profit and gains from conducting the business for the year. The following amount derived by the person during the year should be included:

1. Service fees including commission, meeting management or technical service fees.
2. Amount derived from the disposal of trading stock.
3. Net gains from the disposal of business assets or liabilities of the business. Person's depreciable assets of the business.
4. Amount treated as derived in respect of excess depreciation on the disposal of the person's depreciable assets of the business.
5. Gifts received by the person in respect of the business.
6. Amounts derived as consideration for accepting restriction on the capacity to conduct the business.
7. Amount derived that are effectively connected with the business and what would otherwise be included in calculating the person's income from and the investment.
8. Excess amount received due to exchange rate currency.
9. Bad debt recovered.
10. Proportionate amount under long term control.
11. Under payment interest amount according to market rate.
12. Amount included under change of accounting method.
13. Other amount received under business income.

While computing income from business, the following amounts are excluded no profit and income from business for tax purpose.

- a. Exempt amounts under section 10.
- b. Dividends under section 69.
- c. Final with holding payment under section 92.

2.8.1.2 Income from Investment

According to Section 2.ka.kha , investment means and act possessing or investing one or more assets of a similar nature that are used in an integrated fashion. It excluded the act of holding assets, other than non- business chargeable assets, primarily for personal use by the person owing the assets or investing amount on such assets. It also excluded employment or business.

For the purpose of computing, income of any person's income from an investment for an income year is the person's profit and gains from conducting investment for the year. The following amounts derived by the person during the year should be included.

1. Any dividend, interest, natural resource payment, rent, royalty, gain from investment insurance , gain from an unapproved retirement fund interest, or retirement payment made by and approved retirement fund.
2. Net gains from the disposal of the person's non – business chargeable assets on the investment.
3. The excess amount of incoming over the depreciation basis including outgoing on the disposal of depreciable assets of the investment of the person.
4. Gift received in respect of the investment.
5. Amount derived as consideration for accepting restriction on the capacity to conduct the investment.
6. Retirement contribution including those paid to a retirement funds in respect of the person and retirement payments in respect of investment.
7. Amount included under change of accounting method.
8. Excess amount received due to exchange rate currency.
9. Bad debt recovered.
10. Proportionate amount under long terms contract.
11. Under paid interest amount according to market rate.
12. Amount received as compensation.
13. Other amounts required to be included on tax accounting or quantification allocation and characterizations of amounts or transactions between any entity beneficiary or general insurance business.

The following are excluded in calculating, a person's profit and gains form conducting on investment.

- a. Exempt amounts under section 10.
- b. Divided under section 54 and 69.
- c. Final with holding payment under section 92.

Amounts those are included in calculating the person's income from any employment or business.

2.8.1.3 Income from Employment

According to section 2. a. of the act given a definition that employment included a past, present or prospective employment. It can be said that remuneration means the income received by any natural person in respect of any employment or service rendered by the person from the employer in any income year.

An individual's income from employment for an income year is the individual's remuneration from the employment of the individual for the year. The following payments made to the individual by the employer during the year should be included in calculating an individual's remuneration from an employment of the individual for an income year.

1. Payments of wages, salary, leave pay, overtime pay, fees, commission, prizes gifts, bonus and other facilities.
2. Payment of allowance including any cost of living, rent, entertainment and transportation cost.
3. Payment of reimbursement of cost incurred by the individual or an associated of the individual.
4. Payment of the individual's agreement to any conditions of the employment.
5. Payments for the termination or loss or Redundancy.
6. Retirement contribution including those paid by the employer to the retirement fund in respect of the employee and retirement payments.
7. Other payments made in respect of the employment.
8. Other amounts required to be included.

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

- a. Prizes and gifts.
- b. The amount of difference of the interest on loan paid by employer lower rate than the market rate.
- c. Market value of assets in case of the transfer of the assets.
- d. For the payment other than stated above, the value of benefit of the payment to third person.

The following are excluded in calculating an individual's remuneration from an employment.

- a. Amount exempts and final withholding payments.

- b. Meals or refreshments provided in premises operated by or on behalf on an employer to the employer's employees that are available to all the employees on similar terms.
- c. Any discharge or reimbursement of costs incurred by the individual that serve the proper business purpose of the employer, or that is or would otherwise deductible in calculating the individual's income from any business or investment.

Payment of the prescribed small amounts which are so small and thus unreasonable or administratively impracticable to make accounting for them.

2.8.2 Return of Income

A Return of income refers to the statement of income filled up in a prescribed format. According to section 96 of Income Tax Act, 2058 every tax payers should file at the place prescribed by the Department, a return of income not after than 3 months after the end of each financial year. The law has mentioned that the following items should be included in filling income tax return with tax payer's signature:

1. The person's assessable income for the year from each employment, business and investment and the source of that income.
2. The person's taxable income for the year and the tax payable with respect to that income for the year.
3. In the case of a foreign permanent establishment of a non- resident person situated in Nepal, the foreign permanent's repatriated income for the year and tax payable with respect to that income.
4. Any tax paid by the person for the year by withholding, installment or assessment for which a tax credit is available.
5. Any tax paid by the person for the year by withholding, installment or assessment for which a tax credit is available.
6. Any other information that IRD prescribes.

The following should be attached to the returns of income:

- a. Any withholding certified supplied to the person under section 91 with respect to payment derived by the person during the year for which the return is filed.
- b. Any statement provided to the person where a person refuse to sign a return which, in return for payment, he has prepared or assisted in the preparation of a return of income of attachment to a return of income.
- c. Any other notice or information prescribed by the Department

When a person fails to file a return of income for an income year then, such time as the return is filed, an assessment is treated as made in the due date for filling the return of return of the payable by the person for the year in the amount shown in the return and the amount of that tax still to be paid for the year being the amount shown in the return.

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

2.8.2.1 Return of Income not required

Unless requested by the department by notice in writing or by publishing a public notice, the following persons are not required to file a return of income.

- a. A person who has not tax payable for the year under section 3 (a).
- b. A residential individual '
 - who has only one employer at a time during the year and all of whom are residential employers and
 - Who claims only a medical tax credit with respect to medical costs borne by the employer and reduction for retirement contribution made by the employer but does not claim a reduction for donation.
- c. A person who receives a final withholding payment.

If vehicle owner paying flat taxes as per section 11 (schedule 1) is an individual.

2.8.2.2 Extension of Time to File Return of Income

A person who is required to file return of income may make a written request to the department within the date for filling the return, the department may, if there is reasonable cause extend the date by which the return is to be filed; by serving the applicant with a written notice of the department's decision on the application. The department may grant multiple extension not exceeding three months in total by which the return is to be filed. The department will inform the person in writing of its decision on the application.

2.8.3 Tax Assessment

Assessment means "to determine" or "to compute". Income tax assessment means the determination of the amount of income tax imposed in the tax payer for a specified period.

The word assessment comes from the Latin words "ad Sedereassessere" meaning ' to sit through, to fix a rare' or impose a tax. In the most common sense the imposition of a tax by listing on person and property to be taxed and a valuation of the property if each person as basis of apportionment and levy such act usually performed by administrative officers and sometimes by legislature (Ballentines law Dectionary, 1996:99). Thus Income tax liability on a person is determined on the basis of state act. Assessment of the income tax means the computation of total income tax liability and procedure for imposing income, tax liability as well. The world assessment means computation of total income, determination of the amount of tax payable and whole procedure laid down in the act for imposing liability upon the taxpayer (Prappa, 1968:68).

Income Tax Act, 2058 has defined the term "assessment" as an assessment of tax to be paid under this Act and it included an assessment of interest and penalty made under this Act. However, the term did not include an assessment that has been replaced with an amended assessment.

2.8.3.1 Tax Assessment Procedures

The revenue collection from income tax is also based upon the income tax assessment procedure followed. Income tax assessment procedure is highly dependent upon the quality of income tax personnel, taxpayers and tax laws and policies. If income tax is fairly assessment procedure reduce the corruption and evasion and increase the morality which assists to generate additional financial resource through income taxes.

The assessment starts with return of income filed by the taxpayer. It is scrutinized' verified; investigated or audited by the officer in order to determine, whether the information contained in it, accurate and complete the Income Tax Assessment Procedure generally proceeds through four stages:

1. Return of income statement.
2. Assessment of taxable income
3. Determination of tax liability, and

Collection net proceeds after deducting his tax payment.

2.8.3.2 Methods of Income Tax Assessment

Income Tax Act, 2058 provides for the following major methods of assessing income tax;

A. Self Tax Assessment

Self tax assessment is the system in which the tax payer pays himself his income tax by calculating his tax to pay on the preparation of his income and showing his every detail (Joshi, 2004:61).

The first amendment on 1977 of Income Tax Act, 1974 had made the provision of self-tax assessment for the first time. This provision aims to increase awareness in amendment of Income Tax Act has mentioned many provision in this regard and has given high priority to self- tax assessment. But it was not properly implemented in practice before the enforcement of Income Tax Act, 2058.

According to the Act, if a person submits an income return for an income year on the due date indicating the amount of total income, tax liability and tax still payable for the year; it is treated as an assessment has been made. Such assessment is known as self- tax assessment. The tax official validates self- assessment only when the person submits the income return in prescribed format on the due date along with tax payable in a proper way without any error and motive of fraud.

Since the current tax laws have fully adopted self – tax assessment system, it is supposed to be assessed tax on due date until such time as the income return is to be filed although a person fails to file the return. So in case of failure to submit the income return in the due date, the total sum of any tax withheld for payment derived by the person during the year and any tax paid by the person in installments for the year is treated as paid on the due date. It means only the remaining tax is treated as tax arrears until such time as the return is filed and the tax arrears is recovered along with penalty, interest, and fine through amended assessment (Amatya et.al, 2004:261).

For the development of healthy and enriched tax administration, there is completion of keeping the account of transaction, public consciousness towards the tax administration to pay tax previously, the provision of measuring the previous paid tax while paying and self-tax – Assessment are supposed to be the important aspects. Tax administration should assess the tax timely otherwise problem may emerge. To overcome the problem so arise the system of Self- Tax. Assessment can be supposed as the most important tools, by means the revenue could be collected within specific time. it is a system that makes feel the tax payer their

responsibility of paying tax. In the mean time, it is also a helpful to the tax administration to assess tax timely.

For the Self- Tax Assessment, three procedures are to be follows by the tax payer.

- a. Preparation of income and expenditure as prescribe format.
- b. Declaration of net income of each source of income
- c. Showing the Taxable Income

Income not exempted from tax. Income is not of that type where final withholding is made.

In such assessment the taxpayer also should show

- i) Tax payable by the person.
- ii) Amount of tax still to pay by the person for the year being amount shown in the return.

B. Jeopardy Assessment:

In some doubtful situation the tax officials may make jeopardy assessment. The assessment is initiated prior to the date of filling an income return. The assessment is actually made according to the best judgment basis under the special circumstances as when,

- a. The person become bankrupt is wound up or goes into liquidation.
- b. The person is about to leave Nepal indefinitely.
- c. The person is otherwise about to cease activity in Nepal.
- d. The department otherwise considers it appropriate.

Jeopardy assessment can be made either for the whole year or for the part of the year. If the assessment is made for the whole year the taxpayer is not required to file the return for the year. But if the assessment is made for the part, then taxpayer is required to file the return of income for the year on due date.

The department may give the 7 days of time to the taxpayer to produce proof, if any, in own favor with respect of the jeopardy assessment. Moreover, if the tax official makes a jeopardy assessment, the official is required to provide written notice of the assessment to the tax payer mentioning the total tax liability, tax payable along with the date of payment and the manner and reasons of the assessment.

C. Amended Assessments

The department may amend an assessment made by the taxpayer to adjust the assessed person's tax liability. It is done according to the intention of the Act. The tax officials may

amend both the Self- assessment and Jeopardy assessment so as to adjust the tax liability. Amended assessment is carried out after filling return or after the expiry of due date for filling income return. The tax officials may amend an assessment according to the best judgment for as many times as the tax officials think appropriate. The department may amend an assessment within four years at any time where the assessment is inaccurate by the reason of fraud or any un willful neglect by or on behalf of the assessed person.

The tax officials may not amend an assessment if the assessment has been amended or reduced assessed tax by the revenue tribunal or a court of competent jurisdiction except where the order is reopened. This provision should not be a barrier to amend in the case where an order for reinvestigation is issued.

Where the department makes amended assessment the department shall be required to serve a notice of the assessment to the person stating the following:

- a. Tax payable by person, tax still to be paid on the assessment for the income year or the period to which assessment is made
- b. The manner in which the assessment is calculated
- c. The date on which the assessment is payable
- d. Time place and manner of objecting to the assessment.

2.9 Payment, Collection and Refund of Tax

Income Tax Act, 2058 has established two major method of collecting tax, one is voluntary payment of tax and another is collection of tax. Taxpayer voluntarily pays tax within specified time limit, it is known as voluntary payment of tax. if a taxpayer does not pay tax voluntarily within the specified time limit, the tax official collects tax through special effort and it is known as collection of tax.

According to the Act, the tax is to be paid in the form and at the place prescribe by the tax authority. In case a person is required to pay tax at a place as per a notice issued by IRD or IRO, the person has to pay the tax at the same place as mentioned in the notice. In general cases, each person is allowed to make the payment of tax on cash within specified limit. But the person is required to pay the tax with cheque or draft in the case above such limit. Generally in practice, the Inland Revenue Office accepts the amount of submitted with cheque or draft to the IRD or through a recognized bank.

2.9.1 Voluntary Payment of Tax

The tax laws have explicitly focused on the voluntary payment of tax. It is the main obligation of the taxpayers that they have to pay tax voluntarily.

A. Payment of Tax as Withholding

Every person who subject to withhold tax regard to withholding payments is required to deduct tax at source while making such payment, such person is known as a certain payment of investment returns such interest, a natural resource payment, rent, royalty, retirements payment or payment or certain contract. The payments also include service fee such as legal, fee, audit fee and other similar fees.

Every withholding agent has to file a statement in the prescribed manner and from to the concerned IRD within 15 days after the expiry of the month during which amount of payment was made by the agent to a withholder.

B. Payment of Tax by Installments

An individual or an entity having assessable income during an income year from a business or investment is required to pay tax in installments:

Date payable	Amount
By the end of Poush	40% of estimated tax
By the end of Chaitra	70% of estimated tax
By the end of Ashad	100% of estimated tax

While paying tax in installment, the taxpayer should pay remaining amount after deducting the amount of tax paid earlier. If the amount of calculated installment is less than Rs. 2000, the amount of the installment is not required to be paid.

C. Payment of Tax as per the Assessment

The taxpayers who are under obligation of payment of tax as per self- tax assessment system are required to pay tax along with the submission of income return. In such case, the time limit for submission of income return is specified up to 3 months after the expiry of income year to extend time up to 3 months. Similarly, in case of income tax payable on assessment with respect to jeopardy assessment and amended assessment, the tax should be paid within the time limit specified in the notice of respective assessment.

2.9.2 Collection of tax

If the taxpayer does not pay tax voluntarily with the due date, the tax official collection the tax arrears through special efforts. According to the present laws, collection of tax refers to the recovery or realization of tax arrears through such special effort made by the tax official.

The Act has stated the following measures for the recovery of the due amount:

A. Recovery of Tax from Person Owning Money to Tax Debtor (sec. 109)

The tax administration may recover due amount of tax from the following person on account and to the extent of the tax payable by the tax debtor:

- a. Person owing money to the tax debtor.
- b. Person holding money for, or on account of the tax debtor.
- c. Person holding money on account of a third person of payment to the tax debtor.
- d. Person having authority from a third person to pay money to the tax debtor.

A person making a payment to the government will treat as making the payment to the tax debtor. The debtor or any other person may not make a claim against the payer with respect to such amount.

B. Departure Prohibition Order (sec. 106)

If a person did not pay tax within payable time, the department can serve notice to the immigration office to prevent the person from leaving country Nepal for a period of 72 hours from the time of notice served. If the person pays the tax or makes an arrangement of payment, tax administration may be notice in writing served on the office, withdraw the order.

C. Recovery of Tax from Agent of Non- Resident (sec. 110)

The department may be service of notice in writing require a person who is in possession of on assets owned by the tax debtor to pay the tax on behalf of the tax debtor up to the market value of the assets. In case of such payment, the person may recover the payment from tax debtor an amount not exceeding the payment. The tax debtor may not make claim against the person with respect to the retention.

D. Recovery of Tax from Receiver (sec. 108)

Receiver refers to:

- A liquidator

- A receiver appointed out of or by Court of an assets or equity
- A mortgage
- An administrator or executor or a direct heir of a deceased individual estate.
- Any person conducting the affairs of an incapacitated individual.
-

E. Charge over Assets (sec. 104)

If the payer is not able tax on or before the due date, the government can create charge over the assets of the payers by severing notice to him stating:

- a. Details of the assets action.
- b. The extent of charge (Tax, Payable, Interest accrued etc.)
- c. Any cost of charge an action.

If the charge on land and building is taken, the government files application to register the charge inland revenue, who shall suspend the sale or transfer of ownership.

2.9.3 Remission (Sec. 112)

If the department is satisfied and certified writing that the tax or interest or penalty cannot be effectively collected, Government of Nepal may remit in whole or part of such amount payable by the person.

2.9.4 Refund and Set Off

If the department is satisfied that a person has paid tax in excess of his tax liability, the department may apply the excess in reduction of any tax payable but unpaid by the person under the act and refund the remainder, if any, to the person.

2.10 Tax Accounting

2.10.1 Tax Accounting

On the basis of this Act, determination of when a person derived on income or incurs an expense is made according to the generally accepted accounting principles. In calculating the individual's income from an employment or investment for tax purpose, the accounting should be done on cash basis. A company required to maintain its accounts on an accrual basis within the basic framework of generally accepted accounting principles. Other entity operating business or having investment may adopt either cash or accrual basis for maintaining its accounts. Similarly, a natural person operating business may adopt either cash

or accrual basis for maintaining the accounts. However, it is noted that a person enjoying a facility of selecting tax accounting may select cash or accrual basis unless the department prescribes otherwise by written notice.

Table 2.1
Application of tax accounting

Person	Heads of income	Tax Accounting
Natural person	Employment or investment	Cash Basis
Natural person	Business	Cash or Accrual Basis
Company	Business or Investment	Accrual Basis
Other Entity	Business or Investment	Cash or Accrual Basis

Source: Income Tax Act 2058

2.10.2 Accounting of Cash Basis

A person whose accounts for calculating the income from employment, business or investment on cash basis for tax purpose has to treat an amount as derived and include in income only when payment is reviewed or made available to the person and treat an expenses as incurred and deduct in that calculation only when payment is made.

2.10.3 Accounting on Accrual Basis

A person whose accounts for calculating the income on an accrual for tax purpose has to treat an amount as derived and include in income when the person becomes entitled to the payment. For the purpose of deduction in calculating the income, the following expenses are treated as incurred when the person is obliged to make the payment, the value of obligation can be determined with reasonable accuracy and the other payment has been received.

In the case of accrual basis accounting, an appropriate adjustment should be made at the time the payment is received or made so as to account for the inaccuracy that may happen in both income and expenditure including by reason of a change in currency valuations.

If the particulars timing of payment is chosen in order to defer or reduce the total tax payable, the department may adjust the time at which the payment is recognized for tax purposes to prevent the deferral or reduction.

2.11 Appeal

Income Tax Act, 2058 has made provision for two types of appeal system; first to the Inland Revenue Department for an administrative review and, second is to Revenue Tribunal.

2.11.1 Administrative Review (Appeal to Director General)

Income Tax Act, 2058 has introduced to concept of administrative review that will allow the tax administration to correct mistakes, if any, made by the administration internally. The administrative review may be conducted only on review decisions made by the tax officers. A person who is not agreeing with the review able division may file an objection to the decision with the department within 30 days after the decision is made. The objection must be in written form that specifies in detail the cause and the ground upon which it is made. If a person made an application for extension of time limit as a result of its expiry, the department may extend the time limit if there any reasonable cause is shown. The period of extension may be not exceeding 30 days from the date by which an objection must be filed. For purpose of the Act, the administrative review may be conducted on the following decision:

- a. Advance ruling issued by IRD
- b. An estimate by IRD or the decision to make estimate of a person's estimated tax payable.
- c. A decision by IRD to require a person to file a return of income
- d. A decision by IRD on an application by a person to extend the due date by which the person must file a return.
- e. An assessment of income tax payable by a person or determination of the costs of auction of charge assets or interest and penalties payable by a person.
- f. Notification by IRD of an amount to be set aside by a person as a receiver.
- g. A decision by IRD to required a person to pay money owing to a tax debtor to IRD.
- h. A decision by IRD to require a person to pay tax on behalf of a non- resident person.

The enforcement of a review able decision is not affected by the filling of an objection. However, the department may stay or otherwise affect the enforcement of a reviewable decision until an objection field by a person is settled. It is noted that in case of by a person under jeopardy or amended assessment or interest and penalties payable by a person has to deposit 50% of debatable tax and full amount of un-debatable tax and full amount of un-debatable tax.

After consideration of a person's objection filed, the department may allow or disallow the objection in whole or part. The department has to provide a written notice of the decision on an objection to the person's. If the department fails to provide the notice of the decision on an objection within 90 days of an objection filed, the person may treat the objection as disallowed by the department.

2.11.2 Appeal to the Review Tribunal

Section 116 of the Act has specified that a person who is aggrieved by an objection decision may appeal to the Revenue Tribunal in accordance with the Tribunal Act, 2031 if the person has appealed, he/ she should file a copy of the notice of appeal with the department within 15 days. However, the operation and enforcement of an objection decision is not stayed or otherwise affected by an appeal. If director general of the department has made the decision relating to administrative review, the appeal to Revenue Tribunal would be effective.

2.11.3 Fines and Penalties

a. Penalty for Failure to Maintain Documentation or file Statements or Return of Income

A person who fails to maintain proper documentation for an income year or file return for an income year is liable to pay fees for each month and part of month during which the failure continue. The rate of fees would be as the higher of 0.1 percent per annum of the person's assessable income with a gross of any deductions or Rs. 1000 per month whichever is higher. Accordingly , a withholding agent who fails to file a statement as required is liable to pay a penalty at 105 percent per annual applied to the amount of withhold for each month and past of a month during which the failure continues.

b. Interest for Understating Estimated Tax Payable by Installment

A person who understates estimated tax payable by installment basis is liable to pay interest for each month and part of a month from the date the first installment is payable until the date the tax is payable on assessment. The amount of interest is calculated at the standard interest rate.

c. Interest for Failure to Pay Tax

A person who failure to pay tax or before the date on which the tax is payable is liable to pay interest for each month and part of a month for which any of the tax is outstanding calculates the standard interest outstanding.

d. Penalty for Making false or Misleading Statements

A person who makes a statement to the department that is false or misleading in a material particular; or omits from a statement made to the Department any matter or thing without which the statement is misleading in a material particular is liable for a penalty as follows:

- a. Where the statement is happened to be false or misleading without knowingly, 50% of the underpayment of tax ; or
- b. Where the statement is made false or misleading knowingly or recklessly, 100 % of the tax.

Penalty for adding and abetting a person who knowingly recklessly aids or abets another person to commit an offence related to failure to comply with this act, failure to pay tax, makes false or misleading statements or impedes tax administration to counsels or induces another person to commit such an offences, is liable for penalty equal to 100 % of the underpayment of tax.

2.12 Income Tax Administration in Nepal

Income tax is administration directly by the Inland Revenue Department, ministry of finance, and other administrations such as customs administration and revenue administration. The revenue division of this ministry of finance is responsible for formulation tax policy and setting up appropriate administration to implement tax policy. Customs administration helps in income tax administration by collecting advance income tax on important the revenue investigation administration investigate the revenue leakage made by officers and taxpayers for their mutual benefits. And revenue and ministration training center performs training, workshops and seminars for the tax officials.

Tax administration has become challenging and more complicate with the changing environment of international tax system. Inland Revenue Department has taken the responsibility of administration of income tax. Tax administration was set up as the tax Directorate in 1959 for the first time. The Internal revenue Department was established in 1961/62 and the Department and taxation was set up in 1963/64. Tax officers were recruited under this department for the collection of tax revenue. In 1964 there were tax offices in six places i.e. Kathmandu, Birgung, Biratnagar, Nepalgunj, Bhairahwa, and Janakpur, In Kathmandu there were two offices known as Eastern office and western offices. The number of tax offices increased gradually. These offices were classified as zone offices and branch

offices until 1977/78 in 1978/79; zone and branch offices were converted into offices (Khadka, 2005: 100).

Parliament is a tax administration body but it is not taxes levied and collected expect in accordance with law. The government can only impose any tax with sufficient legal support. Legal support is necessary to imposing tax too. Different types of acts and supported law and provided by parliament in the democratic countries even though the parliament is not directly associated with day-to-day operation of income tax management. Thus, the parliament is the first and most important competent of the income tax management in Nepal.

The highest organization of total taxation management body of the country is the ministry of Finance of government of Nepal concerns with the total revenue and expenditure of the government, manages to borrow internal as well as external (foreign) debts as demanded by budge. It is thus treasury of the government. It also concerns with planning and formulation various macro level economic policies of the government for mobilizing resources in the country. It also delegates powers to them for performing daily works related to income tax and other revenue collection.

The most important component of the tax administration in Nepal is Inland Revenue Department. It functions to fulfill the objectives and goals set by ministry of finance. It lunches various programmers, plans and policies related with the implementation of income tax as well as tax management. It looks over not only income tax but also various taxes; direct and indirect taxes and all other non-tax revenue. Although it is the organization of taxation, it is not directly associated with assessment and collection of taxes and other tax as well as non-tax revenue. It also organizes the structure of taxation, manages personnel, improves the systems and controls the systems detectives and personal as well. It constitutes law policy, appeal, audit, investigation and review, tax exemption. This department is situated at Lazimpat and Babarmal, Kathmandu.

The lowest unit and fourth component of tax administration of Nepal is Inland Revenue offices. There are twenty-one Inland Revenue offices in the country performing various jobs under the Inland Revenue Department. These offices are really and airlessly performing implementation of income tax and other tax policies and programmers. They maintain public relations, collect information, felinity taxpayers, and assess the taxpayer's income and

income tax. Due to public relation, they provide feedback to the upper levels for the correction of policies and programmed. This is also important part of the tax management, which is directly, involutes in the ultimate function of whole taxation system (Mallik, 2003: 404).

Inland Revenue Department was established at first in Baishakh, 2058 merging tax Department and value added tax Department. 40 tax offices under tax department and 17 offices under value added tax department were also merged. Now there are 22 Inland Revenue offices all over the kingdom. Out of 21 Inland Revenue offices 4 are handled by gazette first class officers and rest by gazette second-class officers.

Review of Related Previous Study

Various books are written, articles are published and different individuals and institutions in concerning to income tax conduct researchers. Income tax was firstly imposed in fiscal year 1959/60 in Nepal under the 'Business Profit Remuneration Tax Act, 1960.' Then, various studies were made concerning with various aspects of this act such as the structure, role, productivity, legal and administrative framework etc. Summary of the relevant studies are given in the following paragraphs:

2.13 Review of Articles and Books

Adhikari (2001) has explained the need of tax policy that can play significant role in the Nepalese economy. According to him, a little attention on tax administration can minimize the role of tax policy, Nepalese income tax waiting for a comprehensive and integrated taxation plan and significant implementation of the same of reforms. Furthermore, he has stated Nepalese tax system has three types of gaps. They are:

1. Investigation and identification gap:
2. Return filling gap and
3. Assessment and collection gap.

He suggested that the tax administration should be considered as an important component of tax policy to achieve the goal of revenue minimization through income taxation.

Dhakal (2002) wrote his revised edition of his book *"Income Tax and House and Compounded Tax Law and Practice with VAT"* He had described historical aspects of income tax and legal provision relating to income tax with numerical examples. This book

was fully based on the syllabus of B.B.S. third year. This book was published before coming new Income Tax Act, 2058 and it is very useful to know the general information rather than analytical. He had not analyzed the role of income tax, structure of income tax and problems of income tax system in Nepal.

Adhikari (2003) wrote a book entitled "*Modern Taxation in Nepal: Theory and Practice*" This book also has been written according to the syllabus requirement of different facilities. Especially, the B.B.S. third year syllabus of Tribhuvan University has been taken into consideration. Income Tax Act, 2058 has amended by finance ordinance, 2060 has been included. A theoretical as well as practical aspect has been put in the book.

Mallik (2003) published a book named "*Nepalese Modern Income Tax System*" He had described historical aspects of income tax and legal provisions of relating to income tax with numerical examples. This book is very much useful to anyone who is interested to know about general information and legal provision of Income Tax Act, 2002. His book was informative rather than analytical. He has presented the complex act in simple manner so that it would easy to understand the Act. He has shared his expertise in his book. All the provisions of the old act the new act.

Agrawal (2004) published a book named "*Income Tax: Theory and Practice*" this book is useful to anyone who is interested in the subject of taxation. In this book Agrawal has explained Income Tax Act, 2058. The book is also sources of information of the subject of income tax. He brief explains the new terms and provisions. For examples, Foreign Permanent Establishment, Controlled Foreign Entities, Transfer Pricing, Non-Business Chargeable Assets, Qualification, Allocation and Characterization of Amounts etc.

Aryal & Poudel (2004) has written a book entitled "*Taxation in Nepal*" They had explained about the income tax system in Nepal along with house and land tax and VAT. The book has been designed based on the curriculum of B.B.S. Theoretical as well as practical aspects of taxation have been included in this book.

Bhattarai & Koirala (2004) published two books named "*Taxation in Nepal*" and "*Tax Laws and Tax Planning*" First book has been designed in conformity with the syllabus of B.B.S. third year and the second one has designed based on the syllabus of M.B.S. second

year. Relevant theoretical and practical aspects have been discussed in the books. Both books have shown taxable income is computed under employment, business and investment sources.

Khadka (2005) wrote a book entitled "*Modern Tax Administration in Nepal*" This book is very much useful to anyone who is interested in Nepalese income taxation. This book gives almost complete information about the tax system of Nepal from its ancient time to current situation of income tax system. He had shared his expertise in his book. Basically author focuses on the administrative aspects of the tax system in Nepal.

K.C (2007) wrote his revised entitled "*Tax Laws and Tax Planning: Theory and Practical*" He has presented in simple way, which helps everyone to study the book. He has presented practical as well as theoretical aspects on taxation in this book; it includes calculation of income and tax liability of both individual and entity. It explicitly explains inclusion and exclusion from business and investment income, deduction allowed in calculation of taxable income basis timing and accounting issues and characterization of income.

Regmi (2007) in his article entitled "*Income tax evasion as a crime in Nepalese Legislation*" has explained that the current trend of collection of income tax and the contribution of it in the national revenue is far from satisfaction. This study has also suggested tax law with practical solution and well set up mechanism.

2.14 Review of Thesis and Dissertations

There are many dissertations written by various researchers in past years. Among them some dissertations are reviewed here for analysis of literature.

Poudel (2002) presented a dissertation entitled "*Income Taxation in Nepal: A Study of its Structure and Productivity*"

The objectives of her study were:

- To analyze the structure of income tax in Nepal,
- To estimate the elasticity and buoyancy of income tax in Nepal,
- To assess the role of income tax administration in Nepal,

- To evaluate the Success of Voluntary Disclosure of Income Scheme (VIDS) program in brief and to provide the suitable recommendation for improving the scenario of income tax.

The major findings are:

- She has found that overall revenue of Nepal showed an annual growth of 16% Indirect taxation has more significant contribution in total tax revenue,
- Income tax occupied the first rank among the direct taxes, personal income tax slabs has been changed radically from seven slabs in 1975/1976 to two slabs in 1999/2000,
- VIDS could not attract more potential taxpayers into tax net due to lack of good planning and adequate homework of the government,
- Working procedure of the tax administrators is still traditional and cost of administration has not been brought to the satisfactory level.

Serchan (2003) submitted a thesis entitled "*An Analysis of Fines and Penalties Regarding Income Tax System of Nepal*"

The objectives are as follows:

- To analyzing the provisions of fees and tax officer's views about fines and penalties.
- To focused only on provision of fines and penalties.

The major findings are:

- He has found that there were dominant shares of tax revenue in Nepalese government revenue structure.
- He has suggested revising the provision of fees and penalties, introducing reward, prizes and incentives provisions, formulating the clear income tax rules and regulation and clear right and duties of tax officers.

Koirala((2004), presented a dissertation named "Contribution of remuneration Tax on income tax."

The main Objectives are:

- To identify the contribution of income tax from employment income to public revenue of Nepal.
- To analyze the effectiveness of income tax revenue collection from employment income.

His major findings are as follows:

- Income Tax is an important source of collecting government revenue.

- The contribution of employment income to total income tax revenue of Nepal has not been found satisfactory due to various reasons like low pay scale of the employees, ineffectiveness in the implementation of the Act, Tax evasion, etc.
- The contribution of income tax from employment income to income tax revenue can be increased mainly by bringing new taxpayers into tax net and making TDS more effective.
- Current exemption limit is not satisfactory. Exemption limit provided to couple should be quite higher than the exemption limit provided to the individual.
- Exemption limit should be adjusted by considering factors like average cost of living, education expenses, inflationary condition of the country, and number of dependents of the income earner.
- Imposition of income tax on pension income is not justified. Those who accepted imposing income tax on pension income; they responded that additional 25% exemption limit compensates the taxpayers who were not taxed earlier. The respondents who responded that pension income should be taxed were on the ground that the adequate exemption limit does not bring the pension income in income tax bracket.

Basnet (2006) submitted a dissertation entitled *"A Study on Effectiveness of Self-Tax Assessment in Nepal"*

The main Objectives of the study are:

- To this dissertation self tax assessment system is effective in Nepal but not as expected.
- To this thesis, the trend of applying self tax assessment system is increasing.
- It contributes for increment of tax revenue.

Major finding of the study are:

- The numbers of taxpayers are increasing in some extent.
- They are motivated to collect the tax to self-assessment system.
- He has recommended that further policies should be determined to bring the potential taxpayers within the tax net and there should be organized consciousness campaign to provide the orientation for basis accounting system and self-assessment system.

Pokharel (2007) submitted a thesis *"Contribution of Income Tax on Tax Structure of Nepal"* has conducted an empirical investigation.

The main Objectives are:

- To find out the contribution of remuneration tax on income tax
- To identify the major problems and weaknesses regarding to increase effectiveness of tax in Nepal.
- To recommend possible measures required to improve effectiveness of structure of tax.

The majors finding in the study are:-

- According to his investigation, income tax is a suitable means of raising government and tax education is necessary in Nepal for which 91.67% and 98.33% respondents have support respectively.
- He found that inefficient tax administration, tax evasion and inappropriate objectives of income tax were the main cause of low collection of income tax in Nepal. Self-assessment method of assessing income tax is most appropriate in Nepal. 70% of the respondents were favor of fees, fines and penalties were as remaining 30% were against it.
- The recommended measures of the respondents are effective tax management, training and development programs to tax personnel, development of check and balance system can bring efficiency in income tax system in Nepal.

Khadka (2008) wrote a thesis entitled "Income Tax in Nepal" *A Study and Exemptions and Deduction"*

The main objective is

- He had covered tax structure, role of income tax and exemptions and deductions provided in the law.

The Major finding of the study are:

- He had found that there was dominated share of tax structure in the law and in Nepalese government revenue.
- Income tax had occupied third position in his study period and it was increasing trend.
- The Tax/GDP ratio was not found satisfactory. With the income tax, there was the dominated role of corporate income tax but it was in decreasing trend and contribution of individual income tax was second position and it was in increasing trend. Lack of trained employees, Shortage of income tax experts/professional in tax administration, lack of public participation, faculty organizational structure of tax

administration, weakness in government policy, defective income tax act were the major cause for inefficient tax administration observed by him.

- His suggestion about exemption were: revise the exemption limit, elimination double taxation on dividend, tax rebate for submitting true income statement in time, increase income tax rate slab up to 10, increase the exemption limit to individuals as well as family etc.

Bhandari (2009), wrote a dissertation entitled '*Contribution of Income Tax to Economic Development of Nepal*'.

Main Objective of the study:-

- He has examined the collection of income tax and
- its contribution to the economic development of Nepal.

Majors finding in the study are:-

- He has stated that the actual revenue collection in Nepal is lower than the targets set out.
- For this, he has pointed out some responsible factors like poor taxpaying habit of Nepalese taxpayers, poor tax administrative system, widespread income tax evasion, etc.
- He has also studied the income tax structure, trend of income tax collection, and the share of contribution of income tax to the development of Nepalese economy.
- He has put forward some suggestions to overcome those problems such as improving tax administration system, checking income tax evasion, etc.

Bhattari (2010) submitted a thesis entitled "*Effectiveness of Income Tax System in Nepal*"

The main objective of his study is

- To analyze the effectiveness of income tax system in Nepal
- To evaluate the contribution of income in national revenue
- To evaluate present tax administration etc.

His majors finding in the study are:-

- To described the conceptual framework legal provision,
- To composition of total revenue in Nepal, problem of resource gap in Nepal,
- Public awareness towards income tax in Nepal and
- Empirical investigation and effectiveness of tax system in Nepal.

- He undertook the research work to find out the problems regarding to revenue expenditure.

Besides these reports, book and master level dissertations, some articles about income tax published in Rajaswa, Rising Nepal, Gorkhapatra, Kantipur, The Kathmandu Post etc. and publication of Ministry of Finance such as Budget Speech, Economic Survey were reviewed in the study period.

2.15 Research Gap

The role of revenue is crucial for the overall development of the country. Since more than 80% of the total revenue is collected from the tax source. To achieve the target goals of taxation only tax policies and acts are not enough. To achieve target goals, tax policies and acts must be implemented in effective manner. In Nepal, more tax policies and acts are made but it is not implemented so the target goal is not achieved. Tax administration is an important part of taxation system. It is necessary for successful implementation of tax laws and policies. The government had made move tax laws and policies to collect tax revenue but lack of permanent government is not effective so far.

Even though several studies have been carry out different in topics about the tax. There is still lack of research on the “Income Tax Assessment Procedure in Nepal”. The aforementioned studies conducted by various researchers have taken data up to fiscal year 2008/09 only. But I have taken data from fiscal year 1995/96 to 2009/10 analyzed in depth and fiscal year 2010/11 is available date only for eight month. This study attempts to trace the contribution of income tax revenue to make review legal provision relating to income tax assessment procedures. The objective of this study is to analyze the income tax assessment procedures under the Income Tax Act, 2058. So, This study will be fulfills to these interested person scholars, students, stakeholders, teachers, civil society, businessman and Government for academically as well as policy perspective.

CHAPTER -III

RESEARCH METHODOLOGY

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

It refers to the various sequential steps (along with a rationale of each step) to be adopted by a researcher in studying a problem with certain object in a view. It would be appropriate to mention that research projects are not susceptible to be studied will determine the particular steps to be taken order too. (C.R. Kothari, 1990, 19).

The basic objective of this study is to examine the Income Tax Assessment Procedure in Nepal. So, suitable research methodology as per requirement of the study is being followed. To achieve this objective the basis would be followed by primary as well as secondary data. These data will be evaluated and analyzed with the help of statistical tools. Mainly two aspects; descriptive, and analytical are used on this study. So this chapter explains about the research design, sources of data, data collection procedure, methods of analysis of data and tools for the analysis.

3.1 Research Design

Research design is a plan, structure and strategy of investigation so as to obtain answer to research questions. To achieve the stated objectives of the study, the opinions of various 60 respondents like tax administrators, tax experts and taxpayers were collected through structured questionnaire. The questionnaire includes provision of fines and penalty, effectiveness of income tax assessment system, the most important factors for the effectiveness of income tax assessment including necessary suggestions for achieving effectiveness of income tax in Nepal, income tax administration in Nepal etc. similarly, various information published by organization about income tax were used for this study. In this way the research design of this study is descriptive and empirical analysis.

3.2 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
Total		60

Source: Opinion Survey 2011

3.3 Nature and Sources of Data

Both primary as well as secondary data have been collected in order to achieve the real and factual result from this research. The collection is done in accordance with the availability and usefulness of data during the study period. The major sources of data were as follows:

A. Primary Source of Data

The primary data were collected from the questionnaire survey. The questionnaire was distributed to three categories of respondents, which were tax administrators, tax experts and taxpayers. Tax administrations were selected from Inland Revenue Department, Various sectors of Inland Revenue office. Tax experts were selected from the Tribhuvan University, Auditors association of Kathmandu municipality, Revenue Administration Training Center and intellectuals having well knowledge of Tax assessment.

B. Secondary Source of Data

The secondary sources of data were collected from various books, dissertations, publications journals reports, newspapers etc. The major sources of secondary data were as follows.

1. Budget speech and economic survey of various years Ministry of Finance Government of Nepal
2. Annual Reports of Inland Revenue Department, ministry of finance Government of

Nepal

3. Dissertation related to income tax Books Related to income and public finance.
4. Book related to income and public finance
5. Rejaswa, Revenue Administration Training Center, Kathmandu.
6. Official website of Inland Revenue Department; *www.ird.gov.np*.
7. Various, magazines, newspapers, journals and souvenirs
8. Other relevant records and data related to this study.

3.4 Data Collection Procedure

The data of this study were collected from two sources. Primary data were collected by using questionnaire. First of all questionnaire was developed and distribution was done through personally field visit. Secondary data were collected from published reports of different organization.

3.5 Data Processing Procedure and Analyzing Procedure

The data and information collected through primary as well as secondary sources are first processed for tabulation. Data are tabulated into various tables according to the subject in order. It is then presented and analyzed in descriptive way. They are analyzed using suitable statistical tools. The statistical tools like Simple percentage, Simple average, Correlation, Graphs, charts and diagrams and other statistical and financial tools etc

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

4.1. Presentation and Analysis of Secondary Data:

This chapter is focused on the presentation and analysis of secondary data. The secondary data have been obtained from economic survey, economic report of NRB, and Annual report of IRD, NRB, Newsletter and other related newspapers. Those data have been tabulated and presented into graphs and charts and analyze to get into findings.

The data collected from economic survey and other relevant sources have been analyzed dividing into sub-headings. They are; structure of total revenue (tax and non-tax revenue) on Nepal, structure of resource gap in Nepal, composition of tax revenue in Nepal, composition of direct tax revenue, composition of income tax revenue, contribution of income tax. and to analyze the contribution, contribution of income tax on National Revenue, contribution of income tax on tax revenue, Contribution of income tax on Direct tax revenue total revenue, total tax revenue are taken into basis.

4.1.1 Nepalese Government Revenue Structure

Government revenue of Nepal is comprised of different taxes such as custom, excise, sales tax/vat, Income tax, land revenue and registration, miscellaneous taxes and non-tax revenues. The income of the government through all source like custom duty, value added tax, income tax, land revenue and registration charges and fees, fines and forfeiture, Royalty etc. is called public revenue. Public revenue may be divided into two main heading (a) Tax Revenue (b) Non Tax Revenue. Generally tax is compulsory contribution imposed by a public authority. Tax revenue comprise compulsory, unrequited, non-payable receipts collected by government for public purpose It includes to rest collected on tax arrears and penalties collected on non-payment or late payment of taxes. Tax revenue, however its contribution differs significantly in different countries. In the context of Nepalese, economy, tax revenue is major source of government to mobilize internal sources effectively and properly as it has been dominating the government revenue by contributing around three quarters of total revenue. The composition of total revenue from fiscal year 1995/96 to 2009/10 and first eight month of fiscal year 2010/11 is presented in the below .

Table 4.1
Composition of Total Revenue (Rs. in millions)

Fiscal Year	Total Revenue	Tax Revenue	Non- tax Revenue	Percentage as total Revenue	
				% Tax Revenue	%Non-Tax Revenue
1995/96	27893.10	21668.00	6225.10	77.68	22.32
1996/97	30373.20	24424.00	5949.20	80.41	19.59
1997/98	32938.20	25939.80	6998.40	78.75	21.25
1998/99	37250.90	28752.50	8498.40	77.19	22.81
1999/00	42893.70	33152.10	9741.60	77.29	22.71
2000/01	48893.90	38865.10	10028.80	79.49	20.51
2001/02	50446.64	39330.64	11116.00	77.96	22.04
2002/03	56229.62	42586.92	13642.70	75.74	24.26
2003/04	62331.00	48173.00	14158.00	77.29	22.71
2004/05	70122.70	54104.70	16018.00	77.16	22.84
2005/06	72281.90	57430.40	14851.50	79.45	20.55
2006/07	87712.10	71126.70	16585.40	81.09	18.91
2007/08	107622.54	85155.54	22467.00	79.12	20.88
2008/09	143474.50	117051.90	26422.60	81.58	18.42
2009/10	179945.80	156294.90	23650.90	86.86	13.14
*2010/11	123006.10	107031.00	15975.10	87.01	12.99

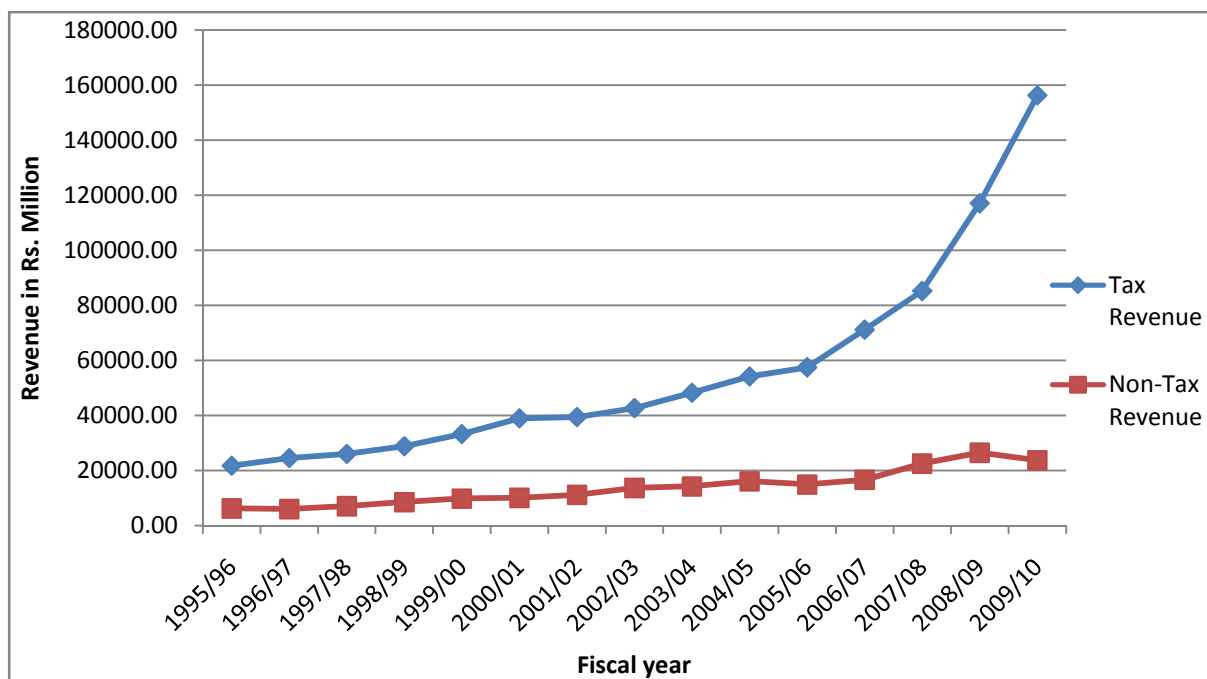
Source: Economic Survey 2010/11

B First eight month of F.Y. 2010/11 of tax and non- tax revenue is presented above table

From above table 4.1 the tax revenue was 86.86 percent in fiscal year 2009/10 as compared to 77.7 percent in fiscal year 1995/96. The share of non –tax revenue of fiscal year 2009/10 was 13.14 percent and that was 22.32 percent in the initial fiscal year 1995/96. This indicates that the role of tax revenue is very important in revenue mobilization of Nepal to meet the government expenditure. The total tax revenue in fiscal year 1995/96 was 21668.00 million, which is increasing every year and reached Rs 156294.90 million in fiscal year 2009/10 but in percentage on the total revenue has been fluctuating from 75.74 percent to 86.86 percent. The highest contribution of tax revenue to total revenue was 86.86 percent with amounting Rs 156294.90 million in fiscal year 2009/10 and lowest contribution was 75.74 percent with amounting Rs 42586.92 million in fiscal year 2002/03.

The amount of non tax revenue is increasing every year except year 1996/97, 2005/06 and 2009/10 with amount of Rs 6225.10 million to Rs 23650.90 million. Non-tax revenue for the fiscal year 1996/97 was Rs 5949.20 million and it had decreased by Rs 275.90 million in compare to previous year. It further decreased to Rs 14851.70 million in the fiscal year 2005/06. Then after, it is increasing continuously in absolute terms except fiscal year 2009/10 had decreased by Rs. 2771.70 but percentage contribution has been fluctuating. Highest contribution was 24.26 percent in fiscal year 2002/03 with amounting Rs 13642.70 million and lowest contribution was 13.14 percent in fiscal year 2009/10 with amounting of Rs 23650.90 million. Composition of total revenue from fiscal year 1995/96 to 2009/10 is presented in the figure below.

Figure 4.1
Trend of Tax and non-tax Revenue



From the above figure 4.1 clearly shows that tax revenue has been significantly contributed in total revenue and non-tax revenue has been poor contributed. In conclusion, we can say that tax is the most important source of government revenue. It is suitable source of collecting revenue internally. However, there is fluctuation in the revenue that is tax revenue and non-tax revenue is in increasing trend it has clearly shown in the above figure.

4.1.2 Resource Gap in Nepal

Like other developing countries in the world, Nepal has been suffering from resource constraint, mass poverty, rapid growth of population, aggressive dependence on agriculture and subsistence living standard etc despite over decades planned development efforts. In Nepal, the sources mobilization is still poor that does not cover the growing expenditure. Fiscal deficit is due to the continuously growing expenditure of the government instead of the low revenue performance in Nepal. That is why country is facing the increasing burden of foreign loan. Widening trend of the different resources gap is presented in below table.

Table 4.2
Resource Gap in Nepal (In millions)

Fiscal Year	Total Expenditure (A)	Total Revenue (B)	Resource Gap (A-B)= a	Foreign grants (C)	Resource Gap {A-(B+C) = b	Foreign Loan (D)	Resource Gap {A-(B+C+D)= e
1995/96	46542.40	27893.10	18649.30	4825.10	13824.20	9463.90	4360.30
1996/97	50723.70	30373.20	20350.50	5988.30	14362.20	9043.60	5318.60
1997/98	56118.30	32938.20	23180.10	5402.60	17777.50	11054.50	6723.00
1998/99	59579.00	37250.90	22328.10	4336.60	17991.50	11852.40	6139.10
1999/00	66272.50	42893.70	23378.80	5711.70	17667.10	11812.20	5854.90
2000/01	79835.10	48893.90	30941.20	6753.40	24187.80	12044.00	12143.80
2001/02	80072.20	50446.64	29625.56	6686.10	22939.46	7698.70	15240.76
2002/03	84006.10	56229.62	27776.48	11339.10	16437.38	4546.40	11890.98
2003/04	89442.60	62331.00	27111.60	11283.40	15828.20	7629.00	8199.20
2004/05	102560.40	70122.70	32437.70	14391.20	18046.50	9266.10	8780.40
2005/06	110889.20	72281.90	38607.30	13827.50	24779.80	8214.30	16565.50
2006/07	133604.60	87712.10	45892.50	15800.80	30091.70	10053.50	20038.20
2007/08	161349.90	107622.54	53727.36	20320.70	33406.66	8979.90	24426.76
2008/09	219662.00	143474.50	76187.50	26382.80	49804.70	9968.90	39835.80
2009/10	259689.10	179945.80	79743.30	38545.90	41197.40	11223.40	29974.00

Source: Economic survey, 2010/11

From table 4.2, resource gap A of Rs 18649.3 million in the fiscal year 1995/96 reached to Rs. 79743.30 million in the fiscal year 2009/10. It is continuously increasing trend. Resource gap A was decreased in the fiscal year 1998/99, 2001/02, 2002/03 and 203/04 compare to previous year. After 2003/04, it is again in increasing trend and reached up to Rs. 79743.30

million in fiscal year 2009/10.

After considering foreign grants, Resource gap B was Rs. 13824.20 in the starting year and further widen up to Rs.24187.8 million in fiscal year 2000/01. It was decreased in the fiscal year 2001/02 by the 1248.34 million than previous year and also decreased in the fiscal year 2002/03, 2003/04 and 2009/10. The government takes internal and external loan to meet deficit finance. Foreign loan had taken Rs.9463.9 million in the fiscal year 1995/96 and Rs 11223.4 million in 2009/10.

After foreign loan financing; resource gap C was Rs.4360.3 million in the fiscal year 1995/96 and increased to Rs. 29974 million in the fiscal year 2009/10. Thus, this increasing resource gap indicates that it is necessary to mobilize additional domestic resource is to increase public revenue through effective tax system.

4.1.3 Composition of Tax Revenue Structure in Nepal

Tax is compulsory contributions impose by a public authority. Tax revenue is the principle source of the government revenue however its contribution differs significantly in different countries. In the context of Nepalese economy, tax revenue is the major measure to mobilize internal resource effectively and properly as it has been dominating the government revenue by contributing around 80 percent of the tax revenue.

On the basis of form, the classifications of taxation are (i) direct taxes and (ii) indirect taxes. In developing countries like Nepal direct tax is considered a principle sources for a complete solution of estimated tax revenue because lower per capital income. So, the contribution of indirect tax is higher than direct tax's contribution.

The trend and composition one of tax revenue for fifteen years (1995/96 to 2009/10) and first eight month period of fiscal year 2010/11 has been presented in table 4.3 below.

Table4.3
Trend and Composition of Tax Revenue

Fiscal year	Total Tax revenue	Direct tax	Indirect tax	Percentage of tax Revenue	
				Direct tax	Indirect Tax
1995/96	21668.00	4655.90	17012.10	21.49	78.51
1996/97	24424.30	5340.00	19084.30	21.86	78.14
1997/98	26939.80	6187.90	20751.90	22.97	77.03
1998/99	28752.90	7516.10	21236.80	26.14	73.86
1999/00	33152.10	8951.50	24200.60	27.00	73.00
2000/01	38865.00	10159.40	28705.70	26.14	73.86
2001/02	39330.60	10597.50	28733.10	26.94	73.06
2002/03	40896.00	10881.90	30014.10	26.61	73.39
2003/04	48173.00	11912.60	36260.40	24.73	75.27
2004/05	54104.70	13071.80	41032.90	24.16	75.84
2005/06	57430.40	13968.10	43462.30	24.32	75.68
2006/07	71126.70	18980.30	52146.40	26.69	73.31
2007/08	85155.40	23087.70	62067.70	27.11	72.89
2008/09	117051.90	34320.70	82731.20	29.32	70.68
2009/10	156294.90	41750.00	114544.90	26.71	73.29
*2010/11	107030.88	28328.50	78702.38	26.47	73.53

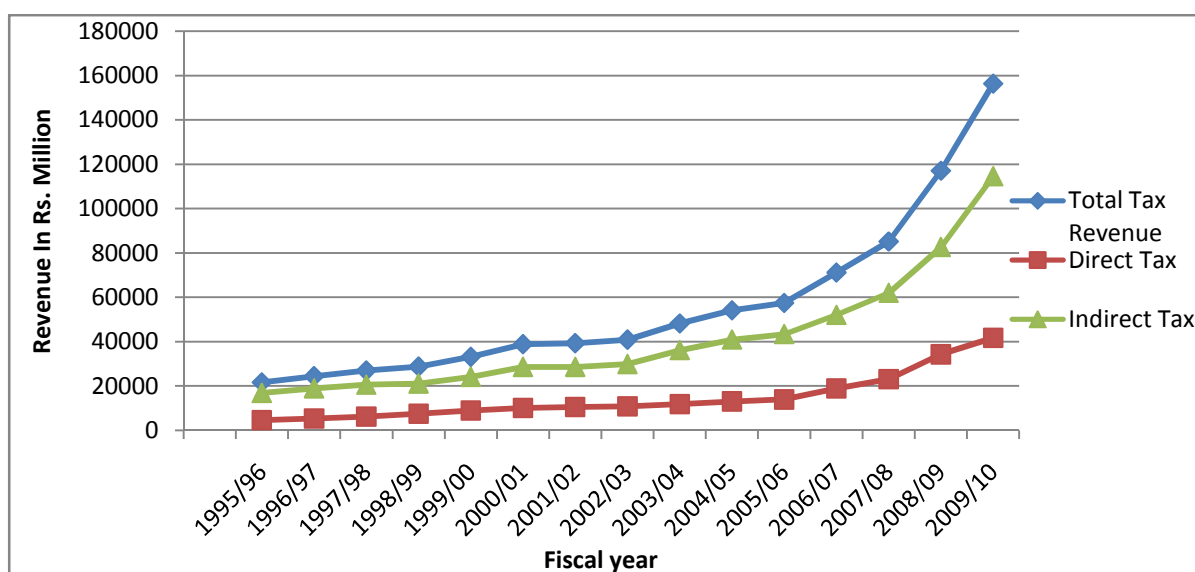
Source: Economic survey, 2010/11

B First eight month of F.Y. 2010/11 of direct tax and indirect tax is presented in above table

The trend and also in absolute value, total tax revenue, direct tax and indirect tax are increasing. Direct tax includes income tax, land revenue and registration, urban house and land tax, property tax, vehicle tax whereas indirect tax includes customs, sales tax, value added tax, entertainment tax, hotel tax, air flight tax, contract tax, road and bridge maintenance tax. In Nepalese tax revenue share of indirect tax larger than the direct taxes, the average contribution of direct tax in total tax revenue is 21.49 percent to 29.32 percent. It has not gone down by limit of 21.49 in year 1995/96 and not exceeded by 29.32 in year 2008/09, which ever recorded but fiscal year 2009/10 has been decrease to 26.71 percent. In comparisons to the other developed country like USA, UK, Japan etc. contribution of direct tax in Nepal is very low. Being an undeveloped country most of Nepalese people live in the level of subsistence and all of their income is spent out on consumption. This could be a reason that direct tax is not producing more revenue than indirect tax.

The amount of indirect tax in the year 1995/96 was Rs.17012.1million, 78.51 percent of total tax revenue, but even after 14 years in the year 2009/10 share of tax is 73.29 percent, in Rs. 114544.9 million. Percentage contribution of indirect tax to total tax revenue is fluctuating over the study period from 78.51 percent is the maximum and 70.68 percent is the minimum. We can show the trend of total tax revenue, direct tax and indirect tax is shown in below.

Figure 4.2
Composition of Tax Revenue



Above figure 4.2, shows that total tax revenue has been significantly contributed in indirect tax and direct tax has been poor contributed. In conclusion, we can say that indirect tax is the most important source of government total tax revenue. It is suitable source of collecting revenue internally. However, there is fluctuation in the total tax revenue that is indirect tax and direct tax amount is increasing.

4.1.4 Composition of Direct tax revenue

Direct tax is levy by the government on the income and wealth received by households and business enterprises on order to raise revenue as an instrument of fiscal policy. It is progressive so far as the amount paid varies significantly according to the income and wealth of tax payer. Direct tax in Nepalese economy is composed of different taxes namely: income tax, land tax, property and wealth tax, tax on registration. In Nepalese tax revenue structure, the contribution of direct tax and share of other components are shown in the table 4.4.

Table 4.4
Composition of Direct Tax (Rs in Million)

Fiscal year	Total direct tax	Land Revenue Registration				Tax of property profit and income				
		Land tax	House land registration	Total	% of total direct tax	Income tax	Tax on property	Other tax	Total	% of total direct tax
1995/96	4655.9	18.2	1048.4	1066.6	22.91	3431.4	157.9	0	3589.3	77.09
1996/97	5340.0	5.9	1009.5	1015.4	19.01	4123.4	201.2	0	4324.6	80.99
1997/98	6187.9	3.6	1000.6	1004.2	16.23	4898.1	285.6	0	5183.7	83.77
1998/99	7516.1	1.4	1001.8	1003.2	13.35	6170.2	342.7	0	6512.9	86.65
1999/00	8951.5	4.6	1011.3	1015.9	11.35	7420.6	515.0	0	7935.6	88.65
2000/01	10159.4	5.1	607.8	612.9	6.03	9114.0	432.5	0	9546.5	93.97
2001/02	10597.5	0.8	1131.0	1131.8	10.68	8903.7	562.0	0	9465.7	89.32
2002/03	10881.9	0	607.8	607.8	5.59	9675.8	432.5	165.8	10274.1	94.41
2003/04	11912.6	0	1697.5	1697.5	14.25	9245.9	700.6	268.6	10215.1	85.75
2004/05	13071.8	0	1799.2	1799.2	13.76	10159.4	806.5	306.7	11272.6	86.24
2005/06	13968.1	0	2181.1	2181.1	15.61	10373.7	847.6	565.7	11787.0	84.39
2006/07	18980.3	0	2253.5	2253.5	11.87	15034.0	995.0	697.8	16726.8	88.13
2007/08	23087.7	0	2940.7	2940.7	12.74	17311.2	1069.2	1766.6	20147.0	87.26
2008/09	34320.7	0	5223.3	5223.3	15.22	25142.4	1850.0	2105.0	29097.4	84.78
2009/10	41750.0	0	5511.1	5511.1	13.20	31285.6	2417.9	2535.4	36238.9	86.80
*2010/11	28328.5	0	1746.5	1746.5	6.17	22293.7	2012.9	2275.4	26582.0	93.83

Source: Economic survey, 2010/11

In the table 4.4, direct tax is classified into land revenue and registration and tax on property, profit and income. Land revenue and registration is further classified into land revenue and house and land registration. House and land revenue registration is higher than land revenue each year. The share of Land revenue and registration was Rs.1066.6 million in fiscal year 1995/96 it has started to decline each year. It was Rs.1066.6 million in 1995/96 and declined to 612.9 million in the fiscal year 2002/01 and to Rs.607.8 million in the fiscal year 2002/03. Percent of decreasing compare to the previous year declined by about 40 percent in fiscal year 2000/01 and 46.3 percent in the year 2002/03. It has fluctuated percentage from 6.03 to

22.91 percent. Mean contribution of land revenue and registration is 18.2%. The highest percentage contribution was 22.91% in the fiscal year 1995/96 with amounting Rs.1066.6 million and lowest was 5.59 % in the fiscal year 2002/03 with amounting Rs. 607.8 million. Another source of direct tax revenue is tax on property, profit and income. The share of property, profit and income tax revenue is not more than 93.97% over the study period. Total amount of it was Rs.3589.3 in the initial period and increasing each year except fiscal year 2001/02 and 2003/04. Its highest share was Rs. 36238.9 million in the fiscal year 2009/10 and lowest of Rs.3589.3 million in the fiscal year 1995/96.

4.1.5 Composition of Income Tax Revenue

Income tax is an important source of the direct tax. In the present situation, Nepal is leaving three different types of income tax. They are individual income tax corporate income tax and Interest tax. Base of individual income tax covers all natural person and sole traders (Proprietorship), Partnership etc. having income of taxable capacity. Corporate covers public enterprises and semi- public enterprises and private corporate bodies. Here, public enterprises means hundred percentage government ownership, semi- public consistence more than 51% bodies mean public limited companies and Remuneration refers to salaries earned from government or non government sectors.

Table 4.5
Composition of Income Tax Revenue (In Millions)

Fiscal Year	Total Income	Public Enterprise	Semi-Public Enterprise	Private Corporate Bodies	Individual	Remunerations	Tax on Interest
1995/96	3431.4	1144.5	0	563.9	1470.1	133.1	119.8
1996/97	4123.4	1231.1	0	858.4	1711.4	168.1	154.4
1997/98	4898.1	1317.8	0	925.1	2120.8	322.2	212.2
1998/99	6170.2	1526.5	0	1155	2772.7	396.5	319.5
1999/00	7420.6	2198.8	0	1339.5	3016.4	451.5	414.4
2000/01	9114	2928	0	1924.3	3200.5	597.3	463.9
2001/02	8903.7	1769.3	0	1412	4419.1	835.6	467.7
2002/03	9675.8	2928	0	1924.3	3362.2	597.3	864
2003/04	9245.9	2056.6	0	1531.3	3533.4	1391.2	733.4
2004/05	10159.4	1332.4	0	2467.8	3926.3	1675.9	757
2005/06	10373.7	195.7	0	3404.3	4234.7	1764.1	774.9
2006/07	15034	1019.7	0	5717.1	5234.4	2007.9	1054.9
2007/08	17311.2	204.58	0	7186.46	6381.21	2451.04	1087.9
2008/09	25142.4	959.1	0	9425.1	9877.5	3195.6	1685.1
2009/10	31285.6	1131.8	0	12234.4	11039.9	4413.1	2466.4
2010/11*	22293.7	732	0	8933.1	6715.2	3270.5	2642.9

Source: Economic survey, 2010/11

Table 4.6
Composition of Income Tax Revenue (In percentage)

Fiscal	Total income	Public enterprise	Semi-public	Private corporate	Individual	Remunerations	Tax on interest
1995/96	100	33.35		16.43	42.84	3.88	3.49
1996/97	100	29.86		20.82	41.50	4.08	3.74
1997/98	100	26.90		18.89	43.30	6.58	4.33
1998/99	100	24.74		18.72	44.94	6.43	5.18
1999/00	100	29.63		18.05	40.65	6.08	5.58
2000/01	100	32.13		21.11	35.12	6.55	5.09
2001/02	100	19.87		15.86	49.63	9.38	5.25
2002/03	100	30.26		19.89	34.75	6.17	8.93
2003/04	100	22.24		16.56	38.22	15.05	7.93
2004/05	100	13.11		24.29	38.65	16.50	7.45
2005/06	100	1.89		32.82	40.82	17.01	7.47
2006/07	100	6.78		38.03	34.82	13.36	7.02
2007/08	100	1.18		41.51	36.86	14.16	6.28
2008/09	100	3.81		37.49	39.29	12.71	6.70
2009/10	100	3.62		39.11	35.29	14.11	7.88
*2010/11	100	3.28		40.07	30.12	14.67	11.85

Source: Economic survey, 2010/11

The composition of income tax revenue for the recent 15 years is presented in the above table. The amount of income tax is gradually increasing without any disturbance expect in fiscal year 2001/02 and 2003/04. In the fiscal year 1995/96 the amount of income tax was Rs. 3431.4 million whereas in 2009/10 the amount increases up to Rs 31285.6 million. This amount is the total of income tax from public enterprises, semi- public enterprises, private corporate bodies, individuals, Remuneration and interest tax. The total income tax had collected largest amount of Rs 31285.6 million in the fiscal year 2009/10.

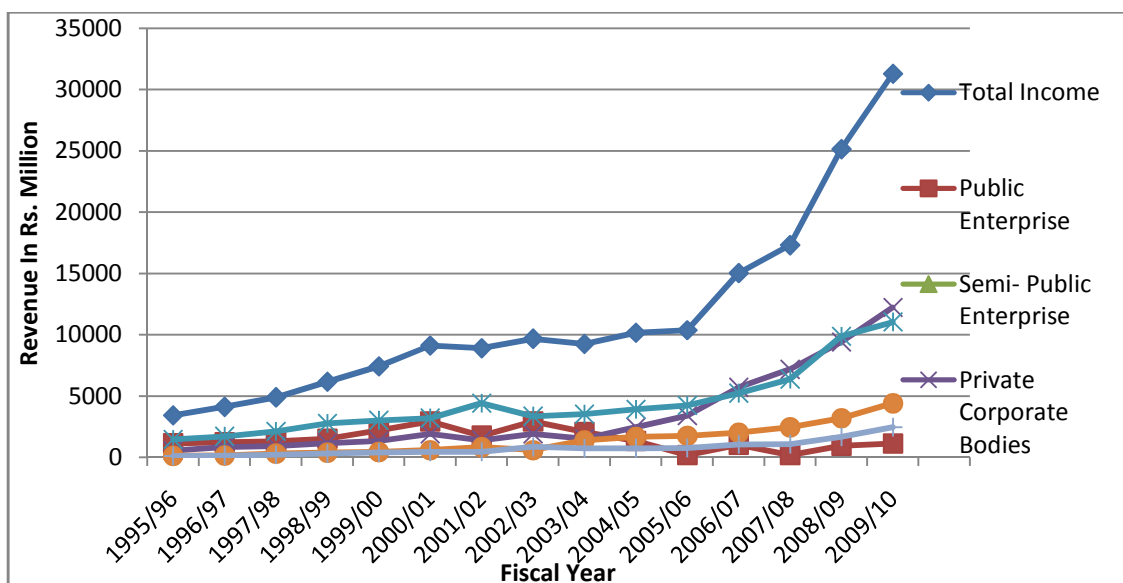
From the above table 4.6 contribution of income tax to total income tax from public enterprise is 18.63 percent in average. Total amount contribution from public enterprises has fluctuated from Rs. 195.7 million to Rs. 2928 million. Total amount of contribution is increasing each year from Rs 1144.5 million in the initial year of study period and reached Rs.2928 million in the fiscal year 2000/01 but the contribution ration of this tax is not so satisfactory, when it is came up to 2007/08, it was fall down to 1.18 percent up to the year 2007/08, the contribution of public enterprises in income tax revenue was in the second but it is in fifth position in 2007/08. From the above table contribution from semi- public enterprises is not contributed and Private corporate bodies are the second positioning revenue

generating sector for income tax since 1995/96 to 2009/10. The contribution of private corporate bodies is 25.30 percent on an average for the study period of 15 years (1995/96 to 2009/10), the contribution of this sector was increasing trend except in year 2001/02, and 2003/04. The highest ratio is 41.51 percent of contributing in year 2007/08 and lowest ratio 15.86 percent in year 2001/02.

Individual income tax is largest revenue generating sector of income tax revenue, contribution of individuals to total income tax is the highest in each year share of individuals was Rs 1470.1 million in the fiscal year 1995/96 and increased to Rs. 11039.9 million in last year of study. In amount it is increasing each year except fiscal year 2002/03 but in percentage it is decreasing trend. The percentage contribution was highest 49.63% in the fiscal year 2001/02 when it was Rs 4419.1 million and lowest contribution is 34.75% in 2002/03 in fiscal year 2002/03.

The average contribution from remuneration is 10.14 percent. Tax revenue from remuneration is increasing each year except in year 2002/03, 2006/07 and 2008/09. The highest contribution ratio is 17.01 percent and lowest 3.88 percent in year 2005/06 and 1995/96 respectively. The average contribution from interest on tax is 6.16 percent. Tax on interest is also increasing trend except year 2003/04. The highest amount of contribution to income tax is Rs. 2466.4 million in fiscal year 2009/10 and lowest amount is Rs.119.8 million in year 1995/96.

Figure 4.3
Composition of Income Tax



We show the trend composition of income tax in above figure no 4.3. It can be calculated that public enterprise, private corporate bodies, individuals, remuneration are in fluctuating trend.

4.1.6 Contribution of Income Tax

Contribution of income tax to the GDP, Total Revenue, and Total tax Revenue and direct Tax Revenue is computed as below.

Income Tax in the Gross domestic Product (GDP)

Table 4.7 shows the percentage contribution of income tax in gross domestic product (GDP). Contribution of income tax in GDP was 1.43 percent in the fiscal year 1995/96. Maximum contribution of income tax revenue as a percentage of GDP is 2.95 Percent in the fiscal year 2009/10. From the fiscal year 1995/96 it is continuously increasing from 1.43 percent up to 2.95 Percent except in fiscal year 2001/002, 2003/04 and 2005/06 declined to 2.07 percent, 1.85 percent and 1.70 respectively, see the trend in figure 4.5

Contribution of Income Tax to Total Revenue

Total revenue constitutes tax and non- tax revenue. In the Nepalese government revenue structure, tax revenue has occupied the most part of public revenue, i.e. about two third part in total revenue. Share of income tax as a percentage of total revenue is presented in the table 4.7. The share of income tax as a percentage of total revenue has fluctuated from 12.30 percent to 18.64 percent. Average contribution is 15.99 percent over the study period. Contribution for the fiscal year 2000/01 was maximum 18.64 percent thereafter again the ratio started to decline in the fiscal year 2005/06 to 14.35 because of bad political situation the ratio was recorded. The figure 4.6 shows income tax as a percent of total revenue.

Contribution of Income Tax to the Total Tax Revenue

Total tax revenue constitutes direct and indirect tax revenue. There is dominant role of indirect tax in the Nepalese tax revenue structure. The contribution of income tax to the direct tax revenue is presented in the table 4.7. Contribution was 15.84 percent in the initial period of study. The highest contribution of income tax was 23.45 percent in the fiscal year 2000/01 but average contribution is 20.22 percent. The share of income tax as a percent of total tax revenue was 15.84 percent in the fiscal year 1995/96 which was the lowest contribution over the study period. The trend of income tax percentage of total tax revenue is presented below.

Table 4.7**Contribution of Income Tax to GDP, Total Revenue, Total Tax Revenue and Direct Tax Revenue. (Rs. In millions)**

Fiscal year	GDP	Total Revenue	Total tax Revenue	Direct tax Revenue	Income tax Revenue	% of income tax on GDP	% of Income tax on Total Revenue	% of Income tax on Total tax Revenue	% of Income tax on Direct tax Revenue
1995/96	239388	27893.1	21668	4655.90	3431.4	1.43	12.30	15.84	73.7
1996/97	269570	30373.2	24424	5340.00	4123.4	1.53	13.58	16.88	77.22
1997/98	289798	32938.2	25939.8	6187.90	4898.1	1.69	14.87	18.88	79.16
1998/99	330018	37250.9	28752.5	7516.10	6170.2	1.87	16.56	21.46	82.09
1999/00	366251	42893.7	33152.1	8951.50	7420.6	2.03	17.30	22.38	82.9
2000/01	413428	48893.9	38865.1	10159.40	9114	2.20	18.64	23.45	89.71
2001/02	430396	50446.64	39330.64	10597.50	8903.7	2.07	17.65	22.64	84.02
2002/03	460325	56229.62	42586.92	10881.90	9675.8	2.10	17.21	22.72	88.92
2003/04	500699	62331	48173	11912.60	9245.9	1.85	14.83	19.19	77.61
2004/05	548485	70122.7	54104.7	13071.80	10159.4	1.85	14.49	18.78	77.72
2005/06	611118	72281.9	57430.4	13968.10	10373.7	1.70	14.35	18.06	74.27
2006/07	675859	87712.1	71126.7	18980.30	15034	2.22	17.14	21.14	79.21
2007/08	755257	107622.5	85155.54	23087.70	17311.2	2.29	16.09	20.33	74.98
2008/09	909309	143474.5	117051.9	34320.70	25142.4	2.77	17.52	21.48	73.26
2009/10	1060881	179945.8	156294.9	41750.00	31285.6	2.95	17.39	20.02	74.94
2010/11*	1219116	123006.1	107031	28328.50	22293.7	1.83	18.12	20.83	78.7

Source: Economic survey, 2010/11

Contribution of Income Tax to Total Direct Tax Revenue

The table 4.7 showed the contribution of income tax to the direct tax revenue in Nepal. There is the dominated role of income tax in the direct tax revenue. Average share of income tax to direct tax is 79.31 percent. In the beginning of the study it was 73.7 percent and reached maximum in to 89.71 percent. The contribution of income tax is not less than 73.26 percent in any years. However in the year 2001/02, 2003/04, 2005/06, 2007/08 and 2008/09, it was decreased. This could be the existing Nepalese situations either political or other effect contribution of income tax to the direct tax revenue slightly increases in the year 2006/07 but it was decrease trend from this fiscal year.

Figure 4.4

Income Tax as a Percentage of GDP

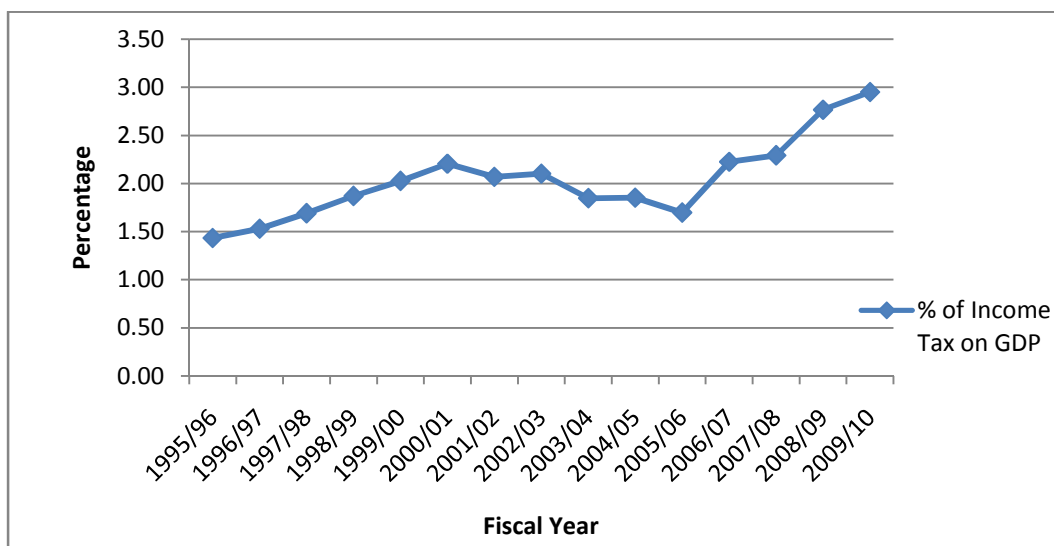


Figure 4.5

Income Tax as a Percentage of Total Revenue

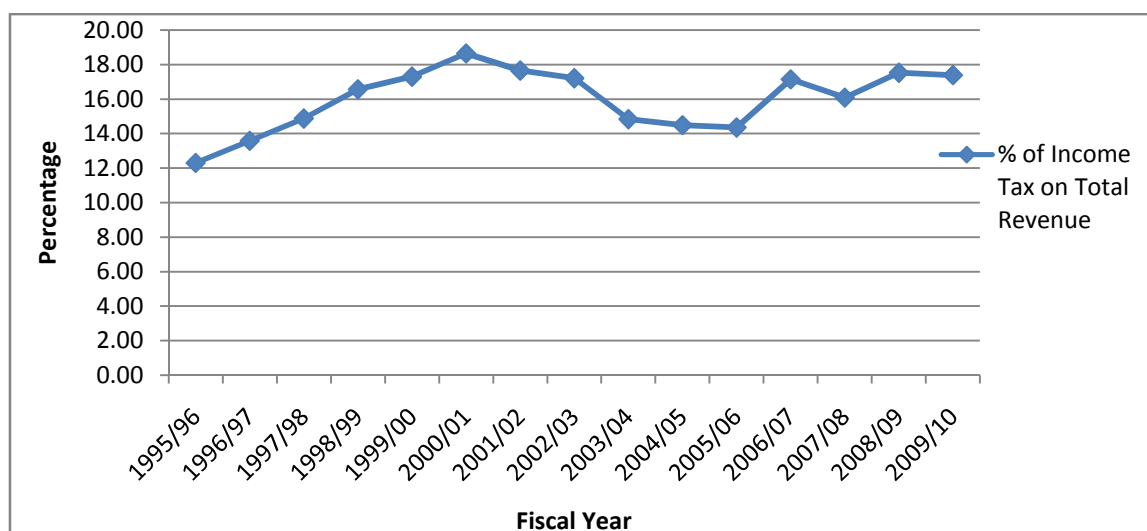


Figure 4.6

Income Tax as a Percentage of Total Tax Revenue

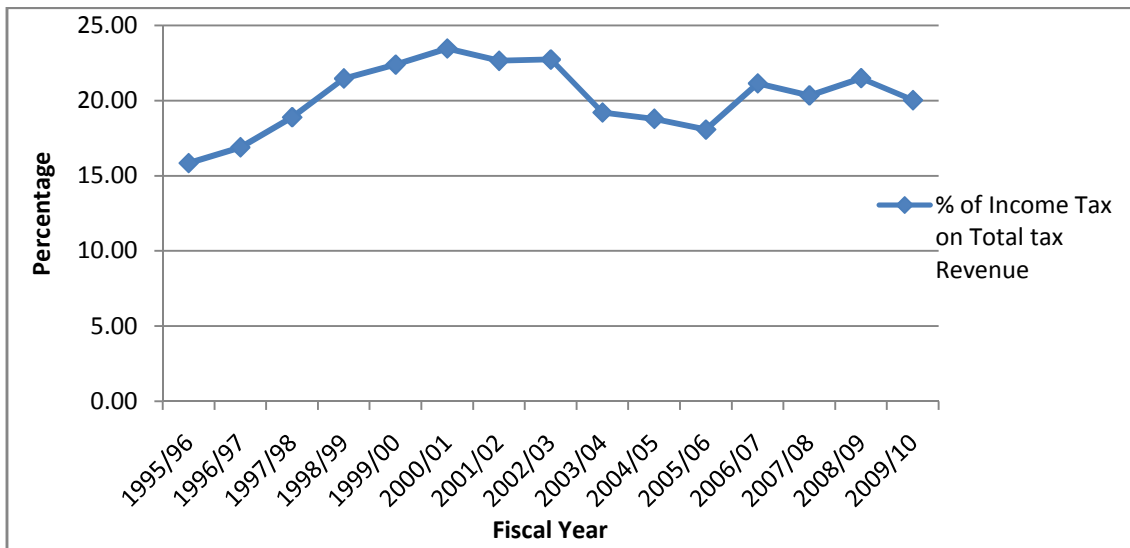
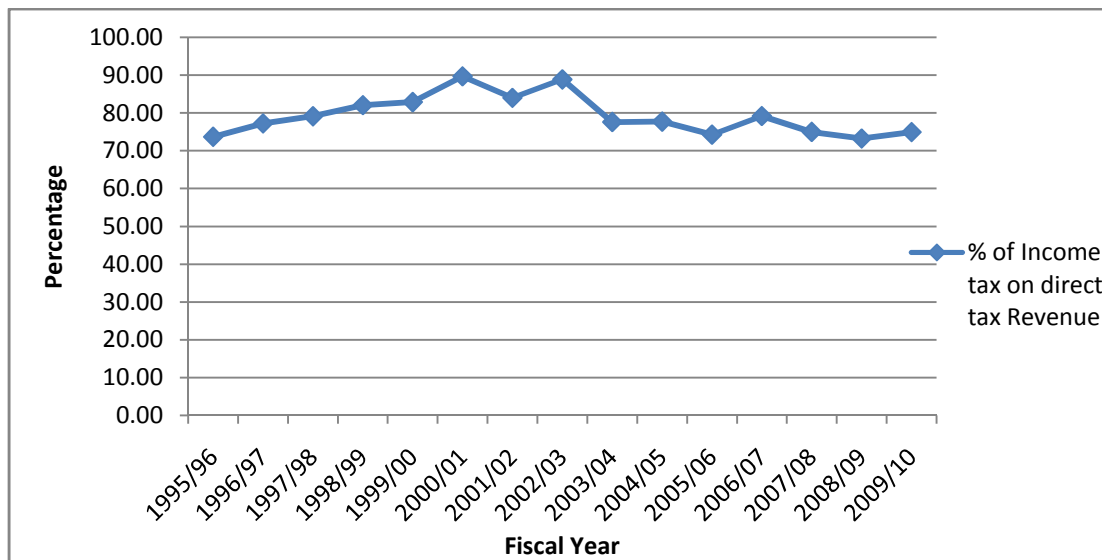


Figure 4.7

Income Tax as a Percentage of Direct Tax Revenue



The trend of income tax as the percentage of direct tax is presented in the figure 4.7. From the above analysis it is clear that there is significant contribution of income tax in Nepal to increase GDP, total revenue, tax revenue and direct tax revenue. From the table and trend figure of percentage analysis we can conclude that the increasing and decreasing trend of income tax affects GDP, total revenue, tax revenue and direct tax revenue. Once the income tax increased we can see all these are increasing and vice versa. Shown in above table 4.7 and figure 4.4, 4.5, 4.6 and 4.7 for detail.

4.1.7 Exemption Limit in Nepal

Exemption limit directly influence income tax revenue collection. Taxpayer having low tax paying capacity should from the tax net for the social justice and economic balance between rich and poor. The exemption limit provided in the various years is presented in the table 4.1.8 in the earlier time there was equal amount of exemption to all the taxpayers i.e. individual, couple, family and corporate bodies. Exemption limit to all tax payers was Rs 7000 in the fiscal year 1959/60 to 1962/63. The exemption limit to the corporate tax payer was curtailed from the fiscal year 1965/66. The exemption limit to the couple and family was equal each year except 1967/68 to 1973/74 and 1975/76 to 1978/79. The exemption limit to the family was Rs 6000 in the fiscal year 1967/68 to 1973/74 where as it was Rs 4500 to the couple. The exemption limit to couple and family was Rs 6500 and 7500 respectively in the fiscal year 1974/75 and it was further extended by Rs. 1000 for both for the fiscal year 1976/77 to 1978/79. From the table 4.8 it is clear that exemption limit is extended according to need of time and income condition. At present time, individual having the taxable income Up to 160000 are exempted from tax and that for couple is Rs.200000.

Table 4.8

Exemption Limit in Nepal from Fiscal Year 1959/60 to 2010/11

Fiscal Year	Individual	Couple	Family	All taxpayers
1959/60 to 1962/63	-	-	-	7000
1963/64 to 1964/65	-	-	-	6000
1965/66 to 1966/67	-	-	-	5000
1967/68 to 1973/74	3000	6000	6000	
1974/75	4500	6000	6000	
1975/76	5500	7500	7500	
1976/77 to 1978/79	6500	8500	8500	
1979/80 to 1980/81	7500	10000	10000	
1981/82 to 1982/93	10000	15000	15000	
1983/84 to 1190/91	15000	20000	20000	
1991/92	20000	30000	30000	
1992/93 to 1996/97	25000	35000	35000	
1997/98	30000	40000	40000	
1998/99	40000	50000	50000	
1999/00	50000	60000	60000	
2000/01	55000	75000	75000	
2001/02	55000	75000	75000	
2002/03	65000	85000	85000	
2003/04	80000	100000	100000	
2004/05	800000	100000	100000	
2005/06	100000	125000	125000	
2006/07-2007/08	115000	140000	140000	
2008/09-2010/11	160000	200000	200000	

Source: Finance Acts of Various year, Ministry of finance, GON

4.1.8 Income Tax Rate in Nepal

Income tax rate in Nepal for the various years is presented in the table 4.1.9 and 4.1.10 at the introduction time of income tax, there was narrow coverage and high tax rate but at present it is taken the principle of low rate wide coverage. In the history of Nepal, the highest tax rate for personal income was 60 percent in the fiscal year 1975/76. In 1980/81, the tax rate for personal income was 5 percent to 50 percent for different seven slabs. The tax rate and also no of slabs increased to 55 percent and eight slabs in 1985/86. But after that, rate and slabs is decreased. At present, there is only 15 percent and 25 percent tax rate for personal income with two slabs. But, tax is levied at flat rate to the corporation at the present.

Table 4.9
Income Tax Rate In Nepal For Personal Income (Slabs over Exemption Limit)

	1		2		3		4		5		6		7		8	
	Amount	Rate%	Amount	Rate%	Amount	Rate%	Amount	Rate%	Amount	Rate%	Amount	Rate %	Amount	Rate%	Amount	Rate%
1982/83	5000	5	5000	10	10000	15	20000	20	20000	30	30000	40	Balance	50		
1983/84	5000	5	5000	10	10000	15	20000	20	20000	30	30000	40	40000	50	Balance	55
1984/45 to1988/89	5000	10	5000	15	10000	20	15000	25	15000	30	30000	40	20000	50	Balance	55
1989/90 to 1990/91	5000	10	5000	15	10000	20	15000	25	15000	30	30000	40	Balance	50		
1991/92	10000	15	15000	25	20000	35	25000	40	30000	45	Balance	50				
1992/93	10000	10	20000	20	20000	30	20000	40	Balance	50	-	-				
1993/94	25000	15	40000	25	Balance	40		-	-	-	-	-				
1994/95	25000	15	40000	25	Balance	35	-	-	-	-	-	-				
1995/96	25000	10	40000	25	Balance	35	-	-	-	-	-	-				
1996/97to 1997/98	40000	10	25000	20	Balance	-	-	-	-	-	-	-				
a)Remuneration	-	-	-	-	-	30	-	-	-	-	-	-				
b) Others	-	-	-	-	-	33	-	-	-	-	-	-				
1998/99	45000	15	Balance	25	-		-	-	-	-	-	-				
1999/00 to2005/06	75000	15	Balance	25	-		-	-	-	-	-	-				
2006/07-08	85000	15	Balance	25		-	-	-	-	-	-	-				
2008/09-10	100000	15	Balance	25		-	-	-	-	-	-	-				
2009/10-11	200000	1	100000	15	2200000	25	Balance	35	-	-	-	-				

Source: - Finance Act of the Various Years, Ministry of Finance, GON.

Table 4.10

Income Tax Rate in Nepal Partnership Firms, Corporation and Non- Residents

Fiscal year	1		2		3		4		5		6		7		8	
	Amount	Rate %	Amount	Rate %	Amount	Rate %	Amount	Rate %	Amount	Rate %	Amount	Rate %	Amount	Rate %	Amount	Rate%
1984/45 to 1988/89	5000	10	5000	15	10000	20	15000	25	15000	30	30000	40	20000	50	Balance	55
1989/90 to 1990/91	5000	10	5000	15	1000	20	15000	25	15000	30	30000	40	Balance	50		
1991/92	10000	15	15000	25	20000	35	25000	40	30000	45	Balance	50				
1992/93	10000	10	20000	20	20000	30	20000	40	Balance	50						
1993/94	25000	15	40000	25	Balance	40										
1994/95 to 1995/96	Total	33	-													
1996/99 to 2010/11		33	-													
a) For Bank, Finance , financial firms	Total	30	-													
b) For special industry	Total	20	-													
c)other (including partnership firms)	Total	25														

Source: - Finance Acts of Various Years, Ministry of Finance, GON

Table 4.11**Registration of Taxpayers and Returns of Income for the Fiscal Year 2010/11**

Tax heading	No. of Registered upto last year	Taxpayers			Registration of Return of income /Remarks		
		This year's Addition	Deducted number in this year	Total no. of Registered Taxpayer	Brought down From last year	No. of Submission in this year	Total
Income tax	195498	24856	749	2196025	121867	67476	189343
Corporate	190546	24430	749	214227	1231116	67476	188583
Public enterprises	26991	96	2	27085	135	24	159
Public limited com	498	98	13	583	708	4052	1209
Private Ltd. Corporate	11476	2652	43	14085	5783	56997	10435
Individual firm	150692	19574	685	169581	110435	5293	167432
Other entity	889	2010	6	2893	4055	9	9348
Remuneration	2824	426	0	3250	234	0	243
Income tax in investment	2128	0	0	2128	517	0	517
Rent	2128	0	0	2128	517	0	517
Interest	0	0	0	0	0	0	0
Capital gain	0	0	0	0	0	0	0
Provided	0	0	0	0	0	0	0
Other investment	16	0	0	0	0	0	0
Special fee	0	0	0	0	0	0	0
Total	195498	24856	749	219605	121867	67476	189343

Source: - Annual Report 2009/10, Inland Revenue Department, ministry of Finance,

Table 4.12
Detail of Assessment for the Fiscal Year 2010/11

Tax Heading	Total Brought down and field this year	Among the dues		Assessment				
		Number	Amount	Among the current fiscal year		Total		Carried forward to the next Year
Number	Amount			Number	Amount	Number	Amount	
Income tax	195498	3745	3628054	1639	1493108	5387	5121162	185235
Corporate	190546	3745	3628054	1639	1480049	5387	5108103	184434
Public enterprises	26991	18	1868826	0	18	18	2068747	133
Public limited com	498	149	1002929	1065917	165	165	746625	1011
Private Ltd. Corporate	11476	971	503731	242894	1428	1428	380977	8707
Individual firm	150692	2542	215652	165325	3670	3670	42928	165542
Other entity	889	65	36915	6013	106	106	13059	9041
Remuneration	2824	0	0	13059	0	0	0	250
Income tax in investment	2128	0	0	0	0	0	0	534
Rent	2128	0	0	0	0	0	0	534
Interest	0	0	0	0	0	0	0	0
Capital gain	0	0	0	0	0	0	0	0
Provided	0	0	0	0	0	0	0	0
Other investment	16	0	0	0	0	0	0	0
Special fee	0	0	0	0	0	0	0	0
	195498	3745	3628378	1639	1493984	5387	5123362	185235

Source: - Annual Report 2010/11, Inland Revenue Department, Ministry of Finance,

4.2 Presentation of Empirical data Analysis

The survey result has been conducted to find out the various aspects of income tax and income tax act in Nepal. The structured questionnaire was prepared and distributed for this purpose. The opinion of the various 60 respondents associated with distinct denominations i.e. tax administration; tax expert and taxpayers were collected. The questionnaire has covered role of income tax, major problem of income tax system problems facing by taxpayer. (See the format of questionnaire in a appendix).

The respondents were asked either to response Yes/No or for ranking of choices according to number of alternative where first choices were the most important and last choice was least important. If the number of alternative were five, the first preferred choice get five points and the last preferred choice get one point. The total points available to each choice were converted into percentage in reference to the points available for all choices. The choice with the highest score of percentage was ranked as the most important choice and one with the lowest percentage being ranked as last choice. The responses so far received have arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study with the help of different suitable statistical tools as per the objective.

The group of respondents and number from each group is percentage as below.

Table 4.13
Group of Respondents

S.N.	Group of Respondents	Number
1	Tax Experts	20
2	Tax Payers	20
3	Tax Administrators	20
	Total	60

Total Seventy questionnaires were distributed to the respondents among which sixty of them can be received in time. That is only 85% of the distributed questionnaire was collected.

4.2.1 Income Tax as Suitable Means of Raising Government Revenue

To know whether income tax as a suitable means of rising government revenue in Nepal, a question was asked” Do you consider that income tax is the suitable means of raising government Revenue in Nepal? “the respondents were requested to give their answer in the form of ‘yes’ or ‘no’ the respondent’s responses are tabulated as follows:

Table 4.14

Income Tax as Suitable Means of Raising Government Revenue

Respondent \ Respons	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Experts	20	100	-	-	20	100
Tax Payers	15	75	5	25	20	100
Tax Administrators	20	100	-	-	20	100
Total	55	91.67	5	8.33	60	100

Source: Opinion Survey, 2011

From the opinion survey, it is found that sent percent of tax administrator recognize income tax as a suitable means of raising government revenue; only 25 percent taxpayer does not recognize income tax as a suitable means of raising government revenue in Nepal. Hence the government of Nepal must lunch more effective programs to collect more revenue from this resource.

4.2.2 Necessity of Public Awareness Program

To know the view of respondent, about the need of public program in Nepal for raising government revenue, the question was asked “Do you think that public awareness program is necessary for raising government revenue?” The responses of the respondents are tabulated as below:

Table 4.15**Necessity of Public Awareness Program**

Respondent \ Response	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Experts	20	100	-	-	20	100
Tax Payers	17	85	3	15	20	100
Tax Administrators	20	100	-	-	20	100
Total	57	95	3	5	60	100

Source: Opinion Survey, 2011

Cent percent of tax expert and tax payer and tax administrator have positive attitude that public awareness program is necessary for raising government revenue. Only 5 percent taxpayer does not recognize public awareness program is necessary for raising government revenue. From the survey, in aggregate 95 percent respondent approved on need of public awareness program, thus it can be concluded that public awareness program is necessary for raising Nepalese government revenue.

4.2.3 Contribution of Income Tax to National Revenue

The respondent were asked to response on question, “In your opinion, is contribution of income tax to national revenue of Nepal satisfactory?” to know about the role of income tax revenue. The view of respondent is presented in table 4.16 below.

Table 4.16**Satisfactory Contribution of Income Tax Revenue**

Respondent \ Response	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Experts	2	10	18	90	20	100
Tax Payers	8	40	12	60	20	100
Tax Administrators	1	5	19	95	20	100
Total	11	18	49	82	60	100

Source: Opinion Survey, 2011

Ninety percent tax experts, sixty percent tax payers and ninety five percent tax administrators view is same as the contribution of income tax revenue is not satisfactory. In aggregate eighty

two percent respondent approved contribution of income tax is unsatisfactory. To know the reason behind unsatisfactory of income tax, the respondent who are in a favor or unsatisfactory contribution were asked, “If no what are the major reason?” The respondents were requested to rank their choice from 1 to 5 according to priority.

Table 4.17
Reasons for Unsatisfactory Contribution of Income Tax to National Revenue

S.N.	Reasons	Point Received				Percent	Rank
		Tax Experts	Tax Payers	Tax Adms	Total		
1	Defective Income Tax Act	39	52	44	135	16.28	4
2	Mass Poverty and low income level	98	85	89	272	32.81	1
3	Increasing habit of tax evasion	68	63	48	179	21.59	2
3	inefficient income tax administration	44	60	52	156	18.81	3
4	Inappropriate rate and exemption limit	41	36	50	87	10.49	5
	Total				829	100	

Source: Opinion Survey, 2011

From the opinion of respondents, the major reasons for unsatisfactory contribution of income tax to national revenue ranked in order of the priority as follows:

1. Mass poverty and low-income level;
2. Increasing habit of tax evasion;
3. Defective income tax act;
4. Inappropriate rate and exemption limit.

It can be concluded that mass poverty and low-income level is most important reason for the unsatisfactory contribution of income tax to national revenue of Nepal.

4.2.4 Effectiveness of Income Tax Assessment Procedure

Effectiveness of income tax assessment procedure enhances to raise the tax revenue. To know whether income tax assessment procedure is effective or not, a question, “Do you think that Income Tax Procedure in Nepal is effective? Was asked the responses received from the respondents are tabulated as below:

Table 4.18**Effectiveness of Income Tax Assessment Procedure**

Respondent \ Responses	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Experts	5	25	15	75	20	100
Tax Payers	12	60	8	40	20	100
Tax Administrators	12	60	8	40	20	100
Total	29	48.33	31	51.67	60	100

Source: Opinion Survey, 2011

Majority of tax expert disapproved that income tax assessment procedure is effective. But, Forty percent tax payer and tax administrator's view is against the effectiveness of income tax assessment procedure. To know the reason for ineffectiveness of income tax assessment procedure, the respondents who disapproved income tax assessment procedure is effective, were asked an additional question and requested them to rank reasons in the order to priority. The question was "If no what may be the problems". The responses of these respondents are tabulated as below:

Table 4.19**Reasons for Ineffectiveness of Income Tax Assessment Procedure**

S.N.	Reasons	Total Point Received				Percent	Rank
		Tax Expert	Tax Payers	Tax Adms	Total		
1.	Tax Payers don't maintain their books of a/c	20	-	30	50	13.16	4
2.	Lack of adequate information about income assessment	80	50	20	150	39.47	1
3.	Taxpayer wants to escape for paying tax	50	20	50	120	31.58	2
4.	Lack of proper recording system in tax administration	30	30	-	60	15.79	3
	Total				380	100	

Source: Opinion Survey, 2011

On the basis of the study, the most important reasons according to priority for ineffectiveness of income tax assessment procedure are show below:

1. Lack of adequate information about income assessment;
2. Taxpayer wants to escape for paying tax;
3. lack of proper recording system in tax administration;
4. Taxpayer does not maintain their books of account.

4.2.5 Suitability of Self-Tax Assessment System in Nepal

Current Income Tax Act has fully adopted self-tax assessment system, it is supposed to be assessed tax on due date until such time as the income return is to be filed although a person fails to file the return. To know the view about the suitability of self-tax assessment system in Nepal, the question, “Do you think that self-tax assessment system is suitable in Nepal?” was asked to respondents. The responses are presented as below:

Table 4.20
Suitability of Self-Tax Assessment System in Nepal

Respondent \ Response	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Experts	12	60	8	40	20	100
Tax Payers	16	80	4	20	20	100
Tax Administrators	14	70	6	30	20	100
Total	42	70	18	30	60	100

Source: Opinion Survey, 2011

Sixty percent of tax expert, eighty percent of taxpayer and seventy percent of tax administrator have accepted that the self-tax assessment system is suitable in Nepal. In aggregate seventy percent respondent approved self-tax assessment system is suitable in Nepal. So, it can be concluded that self-tax assessment system is suitable in the context of Nepal.

An Additional question was asked to those respondents, who had replied self-tax assessment is not suitable in Nepal, to know the reasons for unsuitability. The question was “If no, what are the reasons?” The responses received from the respondents are tabulated as below:

Table 4.21
Reasons of Unsuitable of Self-Tax Assessment System in Nepal

S.N.	Reasons	Point Received				Percent age	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	Lack of proper accounting system	36	13	43	92	34.07	1
b.	Lack of knowledge about Self-tax assessment procedure	35	18	21	74	27.41	2
c.	Lack of correct auditing	17	5	24	46	17.03	4
d.	Lack of believe upon government	32	14	12	38	21.49	3
	Total				270	100	

Source: Opinion Survey, 2011

Reasons for unsuitability of self-tax assessment according to preference:

1. Lack of proper accounting system;
2. Lack of knowledge about self-tax assessment procedure;
3. Lack of believes upon government.
4. Lack of correct auditing system;

From the above table 4.21, it is observed that the reasons of unsuitability of self-tax assessment in Nepal, lack of proper accounting system, lack of knowledge about self tax assessment procedure, lack of believe upon government, and lack of correct auditing system.

4.2.6 Self Tax Assessment Provision in the New Income Tax Act, 2058

In 1977, the method as self-tax assessment provision as introduced as first time in Nepal. At present time, Act has fully adopted self-tax assessment method; various provisions for self-tax assessment have been introduced. To know if there is any shortcoming in the provision regarding self-tax assessment method, a question, “Do you think that provision given for self tax assessment in the new Income Tax Act is sufficient? Was asked the responses as provide by respondents are tabulated as below:

Table 4.22**Self Tax Assessment Provision in the New Income Tax Act, 20058**

Respondent \ Response	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Experts	6	30	14	70	20	100
Tax Payers	8	40	12	60	20	100
Tax Administrators	15	75	5	25	20	100
Total	29	48.33	31	51.67	60	100

Source: Opinion Survey, 2011

Sufficiency of self-tax Assessment provision in Income Tax-Act, 2058. 51.67 percent respondents are in favor that the provision for self-tax assessment in the new Income Tax Act is not sufficient.

The respondents who said the provision given for self-tax assessment in act is not sufficient were asked an additional question to know the how it can be made sufficient. The responses as provided by respondents are tabulated as below.

Table 4.23**Improvement Regarding Self-tax Assessment Provision**

S.N.	Reasons	Point Received				Percent age	Rank
		Tax Experts	Tax Payers	Tax Adms	Total		
a.	Income tax rules and regulations related to self-assessment should be made simple	6	12	4	22	53.66	1
b.	Encourage the assessed for self-assessment by providing incentives	8	4	3	15	36.59	2
c.	Assessment of tax should be made in time	3	-	1	4	9.75	3
	Total				41	100	

Source: Opinion Survey, 2011

For the improvement regarding self-tax assessment provision in income tax act, following points are mentioned according to preference.

1. Income tax rules and regulation related to self- assessment should be made simple.
2. Encourage assesses for self- tax assessment by providing incentives.
3. Assessment of tax should be made in time.

From the above analysis, it is concluded that the provision for self- tax assessment should be made simple. A clear- cut rules can be communicated to the taxpayer easily and they felt their duty to submit the income statement of their transaction. Furthermore, incentive should be provided to those taxpayers who submit file return in time.

4.2.7. Awareness about the Provision of Income Tax Assessment Method

In new Income Tax Act 2058, it has been introduced three methods for income tax assessment. Out of which one method is jeopardy assessment. To know the knowledge of the relevant persons, whether they are familiar with jeopardy assessment or not, a question, "Do you know about Jeopardy assessment method?" was asked. The respondents' response is as follows:

Table 4.24

Knowledge about Jeopardy Assessment Method

Respondent \ Responses	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Expert	11	55	9	45	20	100
Tax Payers	3	15	17	85	20	100
Tax Administrators	15	75	5	25	20	100
Total	29	48.33	31	53.33	60	100

Source: Opinion Survey, 2011

53.33 percent respondents have no knowledge about jeopardy assessment, which is introduced in new Income Tax Act. Only 48.33 percent respondents are familiar with this provision. It can be concluded that person who should be familiar with provision of income tax assessment method have no knowledge about it.

4.2.8 Application of Jeopardy Assessment

To know whether jeopardy assessment has been applied satisfactorily in income assessment, a question, "In your opinion has Jeopardy assessment been applied satisfactory in income tax assessment?" was asked. Their responses are tabulated as below:

Table 4.25
Application of Jeopardy Assessment

Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Experts	3	15	17	85	20	100
Tax Payers	5	25	15	75	20	100
Tax Administrators	8	40	12	60	20	100
Total	16	26.67	44	73.33	60	100

Source: Opinion Survey, 2011

From the above table, it is clear that jeopardy assessment has not applied satisfactory in income tax assessment in Nepal. In order to know the major causes of unsatisfactory, next question was asked as "what are the major causes, which makes jeopardy assessment unsatisfactory?". The responses given by the respondents are tabulated as below:

Table 4.26
Major Causes that Make Jeopardy Assessment Unsatisfactory

S.N.	Causes	Total Point Received				Percentage	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	Lack of information about taxpayer to officer	36	5	44	85	40.47	1
b.	lack of clear provisions in income tax laws	8	4	12	24	11.43	4
c.	Unwillingness of tax officers	42	13	17	72	34.29	2
d.	Tendency of tax officers towards high corruption	14	8	7	29	13.81	3
	Total				210	100	

Source: Opinion Survey, 2011

The major causes that make jeopardy assessment unsatisfactory according to preference of respondents are as follows:

1. Lack of information about taxpayer to officer;
2. Unwillingness of tax officers;
3. Tendency of tax officers towards high corruption;
4. lack of clear provisions in income tax laws;

It can be concluded that lack of information about taxpayers to tax officers and unwillingness of tax officers, are basic reasons to unsatisfactory of jeopardy assessment.

4.2.9 Application of Amended Assessment Method

In the earlier, when self- assessment method has not fully adopted, best judgment method was widely used. To know amended assessment it widely used or not after enforcement of new income tax Act, question, "Has amended assessment been widely applied in income tax assessment in Nepal?" was asked. The responses provided by the respondents are presented as below:

Table 4.27

Application of Amended Assessment Method

Respondent \ Respons	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Expert	8	40	12	60	20	100
Tax Payers	9	45	11	55	20	100
Tax Administrators	7	35	13	65	20	100
Total	24	40	36	60	60	100

Source: Opinion Survey, 2011

60 percent respondents were not in favor that the amended assessment method has been widely applied in income tax assessment in Nepal. 40percent of respondents were in favor and they have asked the question, in which circumstances it has been frequently applied, the response of respondents is presented in table 4.28.

Table 4.28
Circumstances in which Amended Assessment has been applied frequently

S.N.	Causes	Point Received				Percent age	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	In case where the tax payer do not maintain regular account	2	3	3	8	27.59	2
b.	In case where the tax payer submit false particulars	8	6	4	18	62.06	1
c.	In case where they maintain account can't be accepted as valid	-	2	1	3	10.35	3
	Total				29	100	

Source: Opinion Survey, 2011

From the above table 4.28 , it is clear that 62.06 percent respondent approved that amended tax assessment has been applied frequently in case where the taxpayers submit false particulars.27.59 percent respondent approved that amended assessment has been applied frequently incase where the taxpayer do not maintain regular account.

4.2.10 Problems on Income Tax Assessment Procedure in Nepal

Problems on income tax assessment procedure in Nepal, the respondents were requested to rank various problems from 1 to 5 according to priority. A question asked, “What are the problems on income tax assessment procedure in Nepal?” The responses received from the respondents are tabulated as below.

Table 4.29
Problems on Income Tax Assessment Procedure in Nepal

S.N.	Causes	Total Point Received				Percent age	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	Maintenance of adhock books of account;	95	60	92	247	22.13	2
b.	Lack of adequate information about the assessment	98	96	84	278	22.93	1
c.	Assesses do not maintain books of account	64	72	73	209	20.53	3
d.	Assesses want to escape from to pay tax	57	68	74	199	17.06	4
e.	Lack of proper recording system in tax offices	61	85	52	198	17.33	5
	Total				1131	100	

Source: Opinion Survey, 2011

The problems on income tax assessment procedure in Nepal according to the scale of preference of the respondents are as follows

1. Lack of adequate information about the assessment;
2. Maintenance of ad hock books of account;
3. Assesses do not maintain books of account;
4. Lack of proper recording system in tax offices;
5. Assesses want to escape from to pay tax;

To know the relationship between the opinions of tax administer and tax payer are related, correlation coefficient was used. But the views of tax expert are kept I constant.

Hypothesis:

There is no significant relationship between the opinion of taxpayer and tax administrator with respect to the problems of income tax assessment procedure in Nepal.

Calculating correlation by formula,

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

$$Pr = \frac{1 - r^2}{\sqrt{n}}$$

Let, variable X and Y denotes of taxpayers and tax administrator respectively.

Table 4.30
Calculation of Correlation Coefficient

S. N.	Factors	Total points (X)	Rank R ₁	Total Points (Y)	Rank R ₂	Difference (R ₁ -R ₂)	Square of Difference (R ₁ -R ₂) ²
a.	Maintain adhock Books of Account	60	5	92	1	4	16
b.	Lack of adequate information about assessment	96	1	84	2	-1	0
c.	Assesses do not maintain books of account	72	3	73	4	-1	1
d.	Assesses wants to escape form to pay tax	68	4	74	3	1	1
e.	Lack of proper recording system in tax office	85	2	52	5	-3	9
	Total						d ² =28

Substituting the value we have,

$$R = \frac{6(28)}{5(5^2 - 1)} = 0.4$$

$$Pr = 0.6745 \frac{1 - (0.4)^2}{\sqrt{5}} = 0.25$$

Here, r is greater than p, The relation is not significant because to be significant relationship r should be 6 times greater than p. However, the value of r is moderate; there exist some relationship between the view of taxpayers and tax administration in regarding problem of income tax assessment procedure in Nepal. So, null hypothesis is rejected. It means that the problems of income tax assessment procedure in Nepal are same for the group of respondents.

4.2.11 Attitude towards the Time Limit for the File Return

According to new Income Tax Act, 2058 every taxpayer should file at the place prescribed by the Department a return of income no later than 3 months after the end of each income year. To know the respondent opinion about the time limit to given for the file return after passing the income year, question, “In your opinion what should be time limit to be given for the file return after passing the income year? Was asked the responses are tabulated as below:

Table 4.31

Time Limit for the File Return

S.N.	Causes	Point Received				Percentage
		Tax Experts	Tax Payers	Tax Adms.	Total	
a.	1 Month	-	-	-	-	0
b.	3 Month	9	8	7	24	40
c.	6 Month	5	11	11	27	45
d.	1 Year	6	1	2	9	15
	Total	20	20	20	60	100

Source: Opinion Survey, 2011

Form the above table, 45% respondent approved that 6 month time limit should be given for the file return after passing the income year. The 3 months time limit is given for the file return after passing the income year but form this survey result, it can be concluded that the time limit should be extended to 6 month.

4.2.12 Attitude towards Penalty for False Statement

Submission of false income statement is an offence. It is blamed that taxpayers do not keep record and statements in proper and correct way. To know the respondents' opinion to impose penalty to those taxpayers who submit false statement for self-tax assessment purpose, a question, "Do you favor heavy penalty on these taxpayer who submit false statement of self-tax assessment?" was asked. The respondent's responses are presented in table 4.32

Table 4.32

Attitude towards Penalty for False Statement

Respondent \ Response	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Expert	13	65	7	35	20	100
Tax Payers	11	55	9	45	20	100
Tax Administrators	19	95	1	5	20	100
Total	43	71.67	17	28.33	60	100

Source: Opinion Survey, 2011

From the above table 4.32 it is observed that 65% tax expert, 55% taxpayer and 95% tax administrator are in favor of imposing heavy penalty on those taxpayers who submit false statement of self-tax assessment, whereas only 28.33% respondent did not favor on heavy penalty. From this opinion survey, it can be concluded that heavy penalty should be changed to those taxpayers who submit false statement while submitting the self-tax assessment statement.

4.2.13 Attitude towards Fine and Penalty for Non Submission of Account

Because of unawareness of tax law, majority assesses do not maintain their books of accounts, though law has made compulsory to maintain books of accounts. It is also mentioned in the Act that assess have to maintain books of accounts and are required to submit it on demand. To know the respondents' opinion about the fine and penalty to the taxpayer who do not submit account for tax purpose. A Question, "Do you favor heavy fine and penalty on those taxpayers who do not submit accounts for tax purpose?" was asked. Responses as provided by the respondents are tabulated below:

Table 4.33**Attitude towards Fine and Penalty for Non Submission of Account**

Respondent \ Response	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Expert	14	70	6	30	20	100
Tax Payers	11	55	9	45	20	100
Tax Administrators	13	65	7	35	20	100
Total	38	63.33	22	36.67	60	100

Source: Opinion Survey, 2011

63.33 percent respondents were in favor of on heavy fine and penalty to those taxpayers who do not submit account for tax purpose. Their argument is that it is their duty to maintain books of account and required to submit the account whenever demanded by department. Only 36.67 percent were not in the favor. It can be concluded that heavy fine and penalty should be charged to those taxpayers who do not submit account for tax purpose.

4.2.14 Attitude towards Problems in Paying Income Tax

To know the problems faced by the taxpayers while paying income tax, the respondents were requested to rank their choice from 1 to 5 according to their priority. The question was, “In your opinion what types of problems are facing by the taxpayer while paying income tax”. Responses received from respondents are tabulated as below:

Table 4.34**Problems in Paying Income Tax**

S.N.	Causes	Point Received				Percentage	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	Consuming unnecessary time	57	58	41	156	19.23	3
b.	Expectations of illegal incentives to the personnel	39	46	64	149	18.37	4
c.	Vauge provision in income tax laws	74	69	59	202	24.91	1
d.	Lengthy process	68	61	69	199	24.53	2
e.	Lack of co-operation by tax administrator	35	38	32	105	12.94	5
	Total				811	100	

Source: Opinion Survey, 2011

From the above table, the major problems faced by the taxpayer while paying income tax ranked in order of preference of the respondents are as follows:

1. Vague provision in income tax laws;
2. Lengthy process;
3. Consuming unnecessary time;
4. Expectations of illegal incentives to the personnel;
5. Lack of co-operation by tax administrator;

To know whether the opinion of tax administrator and taxpayer are related or not, t rank correlation coefficient was used. But views of tax experts are kept in constant.

Hypothesis

There is no significant relationship between the view of tax administrator and taxpayer with respects to problems faced by the taxpayer while paying tax.

Calculating correlation by formula,

$$R_{X1} = \frac{6\phi d^2}{n(n^2 - 1)}$$

$$Pr X0.6745 \mid \frac{1-r^2}{\sqrt{n}}$$

Let, variable X and Y denotes of taxpayers and tax administrator respectively.

Table 4.35
Calculation of Correlation Coefficient

S. N.	Factors	Total points (X)	Rank R ₁	Total Points (Y)	Rank R ₂	Difference (R ₁ -R ₂)	Square of Difference (R ₁ -R ₂) ²
a.	Consuming unnecessary time	57	3	41	4	-1	1
b.	Expectation of illegal incentives	39	4	64	2	2	4
c.	Vague provision in income tax laws	74	1	54	3	-2	4
d.	Lengthy process	68	2	69	1	1	1
e.	Lack of co-operation by tax administrator	35	5	32	5	0	0
	Total						d ² =10

Source: Table 4.34

$$R = X1 - \frac{6(10)}{5(5^2 - 1)} X0.5$$

$$Pr = X0.6745 - \frac{1 - (0.5)^2}{5} X0.23$$

Here, R is greater than P; the relation is not significant because to be significant r should be 6 times greater than p. However, the value of R is positive; there is some relationship between the view of taxpayers and tax administration. So, null hypothesis is rejected. It can be concluded that the opinion of taxpayers and tax administrators regarding the problem faced by taxpayers while paying tax is not significantly different.

4.2.15 Tax Paying Habits and Taxpayer's Compliance

The respondents were requested to rank suggestions according to preference for the importance of taxpaying habit or taxpayers compliance. For this purpose that question was asked, "What is your suggestion to improve taxpaying habit or taxpayer's compliance in Nepalese people?" The respondents' responses are presented below:

Table 4.36
Suggestions to Improve tax Paying Habit/Taxpayer's Compliance

S.N.	Causes	Point Received				Percentage	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	Simplification of tax assessment procedure	108	119	112	339	21.52	2
b.	Tax education to taxpayers	102	96	114	312	19.81	3
c.	Simplification of tax law and rules	113	134	109	356	22.60	1
d.	Incentives to regular taxpayer	84	75	78	237	15.05	4
e.	Better public relation by tax officers	73	63	51	187	11.87	5
f.	Heavy fine and penalties to defective taxpayers	45	38	61	144	9.15	6
	Total				1125	100	

Source: Opinion Survey, 2011

From the above table, it is clear that the suggestions to improve taxpaying habit or taxpayer's compliance according to the preferences are as follow:

1. Simplification of tax law and rules;
2. Simplification of tax assessment procedure;
3. Tax education to taxpayers;
4. Incentives to regular taxpayer;
5. Better public relation by tax officers;
6. Heavy fine and penalties to defective taxpayers.

To know whether the opinion of tax administrator and taxpayer are related or we can test rank correlation coefficient. But the views of tax experts are keep in constant.

Hypothesis

There is significant relationship between the views of tax administrator and taxpayer with respect to suggestions to improve taxpaying habit or taxpayer's compliance in Nepalese people.

Calculating correlation by formula,

$$R_{X1} = \frac{6\phi d^2}{n(n^2 - 1)}$$

$$Pr X0.6745 \mid \frac{1-r^2}{\sqrt{n}}$$

Let, variable X and Y denotes of taxpayers and tax administrator respectively.

Table 4.37
Calculation of Correlation Coefficient

S. N.	Factors	Total points (X)	Rank R ₁	Total Points (Y)	Rank R ₂	Difference (R ₁ -R ₂)	Square of Difference (R ₁ -R ₂) ²
a.	Simplification of tax assessment procedure	119	2	112	2	0	0
b.	Tax education to taxpayers	96	3	114	1	2	4
c.	Simplification of tax law and rules	134	1	109	3	-2	4
d.	Incentives to regular taxpayer	75	4	78	4	0	0
e.	Better public relation by tax officers	63	5	51	6	-1	1
F	Heavy fine ad penalties to defective taxpayers	38	6	61	5	1	1
	Total						d ² =10

Source: Table 4.37

$$R = X1 - \frac{6(10)}{6(6^2 Z1)} X0.71$$

$$Pr = X0.6745 \frac{1 - (0.71)^2}{\sqrt{6}} X0.14$$

Here, r is greater than p, it is 5.07 times greater. The relation is not significant because to be significant r should be 6 times greater than p. However, the value of r is not so small and it is more than 0.5. So there exists some relationship between the view of taxpayers and tax administration. So, null hypothesis is rejected. Therefore, we can conclude that the opinion of taxpayers and tax administrators regarding the suggestion to improve that paying habit or taxpayer's compliance in Nepalese people are same.

4.2.16 Effectiveness of Tax Administration in Tax Assessment

It is blamed that the administration is not effective. So to know where tax administration is effective or not, question, "Do you think that tax administration in Nepal is effective?" was asked to respondents. The respondents' opinions were found negative. The following table represents their responses.

Table 4.38

Effectiveness of Tax Administration in Tax Assessment

Respondent \ Respons	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax Expert	2	10	18	90	20	100
Tax Payers	7	35	13	65	20	100
Tax Administrators	14	70	6	30	20	100
Total	23	38.33	37	61.67	60	100

Source: Opinion Survey, 2011

From the table 4.38 it is observe the 61.67 percent of the respondents accepted that tax administration in Nepal is ineffective. Only 38.33 percent respondent approve that tax administration is effective. From this opinion result, it is clear that tax administration in Nepal in application of tax assessment is not effective.

The respondents were asked an additional question is what the possible causes for ineffectiveness of tax administration. The respondents were requested to rank the reasons according to the priority.

Table 4.39**Reasons for Ineffective Tax Administration in Tax Assessment**

S.N.	Causes	Point Received				Percent age	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	Lack of knowledge about tax assessment procedure	65	67	12	144	19.59	3
b.	Lack of meaningful taxpayers information	85	51	49	185	25.17	1
c.	Lack of proper incentives to tax personnel	81	52	23	156	21.22	2
d.	Lack of co-ordination within Department	62	56	19	137	18.64	4
e.	Unnecessary outside pressure	52	44	17	113	15.38	5
	Total				735	100	

Source: Opinion Survey, 2011

The most possible reason for ineffectiveness of tax administration in case of tax assessment stated by the respondents according to the scale of preference is as follows.

1. Lack of meaningful taxpayers information;
2. Lack of proper incentives to tax personnel;
3. Lack of knowledge about tax assessment procedure;
4. Lack of co-ordination within department;
5. Unnecessary outside pressure.

The main cause indicated by the respondents about ineffective tax administration in case of tax assessment is lack of meaningful taxpayer's information. The other reasons are lack of proper incentives to tax personnel, lack of knowledge about tax assessment procedure, lack of co-ordination within department, and unnecessary outside pressure. Because of the above reasons, the tax administration in Nepal is ineffective.

Table 4.40
Important Factors for Improvement of Income Tax Administration in Case of Tax Assessment Procedure

S.N.	Causes	Point Received				Percentage	Rank
		Tax Experts	Tax Payers	Tax Adms.	Total		
a.	Effective information system	65	87	77	229	20.35	2
b.	Improving assessment procedure	98	102	82	282	25.06	1
c.	Controlling the negligence of taxpayers	80	44	94	218	19.38	3
d.	Effective information system	70	59	68	197	17.52	5
e.	Discouraging corruption practices	62	83	54	199	17.69	4
	Total				1125	100	

Source: Opinion Survey, 2011

The most important factors for improvement of income tax administration in application of tax assessment procedure ranked according to scale of preference by respondent are as follows:

Improving assessment procedure;

1. Effective information system;
2. Controlling the negligence of taxpayers;
3. Discouraging corruption practices;
4. Effective reward and punishment system;

Others Suggestion for improving tax Administration in Case of Tax Assessment procedure

Another open question was asked to get suggestion for improving income tax assessment procedure. The question was, “Do you have any other suggestions for improving income tax assessment procedure new Income Tax Act 2058, if yes please specify, Some respondents have given some suggestions, which are listed as below

1. Procedure should be made more simple and short.
2. Tax officer should be well trained.
3. Effective implementation of tax rules and laws.
4. Clarity and wide interpretation are required on disputed expenses head.
5. Improve taxpayer's education and control corruption.
6. format should be simplified and monitoring and supervision are needed
7. computer assessment system should introduce to get fair and transparent information

It can be concluded that clear act, rules and regulation, and simple procedure is most important factor for the improvement of tax assessment procedure in Nepal.

4.3 Major Findings of the Study

The major findings of this study are summarized as below

4.3.1 Finding of secondary data analysis

-) Income tax has been considered as a suitable means of raising government revenue and mobilizing internal resources. It may enhance the revenue of government to meet the development expenditure. The government develop the economic condition of Nepalese people, promote distributive, justice, minimize, regional disparity, and to cure resource gap problems, income tax is a crucial factor. To meet the government expenditure, achieve the goal of national development not only that, to decrease poverty and illiteracy also has equally important role of income tax.
-) 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.

4.3.2 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.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepal has been suffering from capital shortage to acquire the goal of economic growth. Nepal is not being able to collect necessary fund. The expenditure of Nepalese government is increasing year by year. Therefore, it has been heavily relying on the external and internal debt to meet the budget deficit because of the low revenue collection compared to the total expenditure. The dependence is increasing and it is not desirable for any economy. Internal resources are preferable for sustainable economic development. To meet the expenditure, Nepalese government is trying to extract money or valuable contributing from its people through taxation. To solve the problem of fiscal deficit, income tax should play an important role and it has been considered as a good remedy to cure the growing resource gap problem in Nepal.

Like other developing countries, lack of sufficient financial resources is the main constraint for national economic development of Nepal. A lot of fund is required to meet the additional financial requirement for the development activities of the country. Nepal has been suffering from shortage of funds to accelerate the economic growth. There is so much resource gap. So in order to fulfill the shortage, government is depends on the foreign grants and loans. So to fulfill the resource gap income tax, direct tax is most important sources of internal revenue. External sources are uncertain and guided by socio-political motives of the donor country, so, it is not good for the country. Internal sources of fund is own sources derived with in the country. Internal sources of fund includes both tax and non-tax revenue.

Among internal sources taxation is a prime factor. It is the pillar of the fiscal policy. Regarding the fact the present study entitled to "Income Tax Assessment procedure in Nepal" had been done. In this study contribution of income tax to national revenue has been analyzed, examination. Contribution of income tax to direct tax, tax/GDP ratio, composition of direct tax etc has been analyzed. Various books, articles, dissertation and other relevant materials are studied during the course of study. Almost dissertations have been found on written on various aspects of income tax. Books are mainly based on the syllabus of universities, so they are descriptive than analytical. Various concepts of taxation have been discussed in the conceptual framework of study. Sources of government revenue, meaning of

tax, classification of tax, historical background of income tax, heads of incomes etc has been taken in the consideration.

The researcher has discussed about various aspects of research methodology such as research design, data collection procedure, size of population and samples, nature and sources of data, selection of the respondents, procedure of selection and analysis of data etc. in the third chapter. Primary data as well as Secondary data have been used in this study. Economic survey has been used at the major sources of the secondary data. An opinion survey technique has been used in this study to collect the reliable primary data for the study. The research has found that the mean contribution of tax and non-tax revenue was 79.13% and 20.86% respectively in total revenue structure of Nepal during the period of last thirteen years. In this regards tax revenue has been found as a major instrument for additional internal financial resource mobilization. Nepalese tax revenue is the composition of direct and indirect tax revenue. Nepalese tax structure is dominated by indirect tax revenue. Indirect tax revenue contributes three times more than the direct tax revenue. During the study period, the average of direct and indirect tax revenue were 25.48% and 74.52% respectively. Indirect tax includes custom duties, VAT and excise on industrial products. There was a dominant role of custom duties and VAT in indirect tax revenue.

Nepal is adopting three types of income tax they are corporate income tax, individual income tax and tax on interest. There was dominant role of individual income tax in total tax revenue its contribution was 43.93% in average. The contribution of income tax on total government revenue, total tax revenue and direct tax revenue were 16 %, 20.22% and 79.31% in average in the study period of last fifteen years. During the study period revenue collection from income tax was in increasing trend but the performance was not satisfactory. Income tax estimates and collection performance showed the dissatisfactory performance of income tax in Nepal. In order to find out the problem in the income tax administration in case of income tax assessment, a set of questionnaires were distributed among tax administrators, tax experts and taxpayers. On the opinion survey empirical investigation has found weakness of the income tax act as well as the income tax administration.

According to the investigation, income tax is a suitable means of raising government revenue but people are not well informed about the income tax system of Nepal. It is found that income tax administration of Nepal is not efficient. Lack of trained and competent tax

personnel, complicated tax laws, lack of tax awareness to taxpayers etc. are the main causes of income tax administration being inefficient. Only 18% respondents believed that contribution of income tax to national revenue of Nepal is satisfactory and 82% of them not satisfactory. The major reason for unsatisfactory contribution is mass poverty therefore low income level is most important reason for the unsatisfactory contribution of income tax to national revenue of Nepal. 48.33 percent respondent believe that income tax procedures in Nepal is effective and 51.57 percent respondent are not believe, cause lack of adequate information about income assessment, taxpayers wants to escape for paying tax, lack of proper recording system in tax administration, tax payers does not maintain their books of account. Some respondents made advices like this, effective income tax management and training and seminar to the tax personnel, effective government economic policy, political non-interruption, effective income tax act and efficient income tax administration can lead the income and its administration effectively.

Lastly, Self-tax assessment system is the appropriate system while assessing the income tax. Concept of self- tax assessment system should be encouraged. Power, rights and duties of tax authorities should be clarified. From the investigation it is clear that 70% of respondents approved that self tax assessment system is appropriate system while assessing the income tax. Some recommendations are also given in the end of the study to increase the contribution of income tax to national revenue of Nepal. In this way, this study has been completed with the achievements of stated objectives.

5.2 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 adhoc 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.

5.3 Recommendations

Besides these economic condition, instability of politics and government and lack of peace and securities in the nation are also blocking for the development of corporate sector. On the basis of findings of the study, the following recommendations are made to improve various aspects of income Tax.

1. Taxation should be increased gradually on long run basis to meet the deficit in budget. For this, the tax base should be widened. The principle of the ability to pay should be completely adopted.
2. Income tax policy should be formulated according to the economic policy of the country. Income tax policy should be revised timely.
3. Income tax Act, rules and regulations should be clear and simple for all the taxpayers as well as tax experts and administrators. The following recommendations are made in Income Tax Law.
 -) The language of the Act should be simple and clear.
 -) The income tax assessment procedure and tax collection should be made clear and simple so that taxpayer would be encouraged to pay income tax.
 -) Time limit for filling return should be extended to six months.
 -) The assessment of time limit after the submission of income tax assessment should be reduced.
 -) The rate of fine and penalties should be increased for those tax payers who submit false income statement and who do not submit income statement for tax purpose.
4. The members involved in formulating income tax policies must have deep knowledge about income tax.
5. The following recommendations are made to increase taxpaying habit and reduce taxpayer's compliance.
 -) Simplification of tax law and rules
 -) Simplification of tax assessment procedure
 -) Tax education to taxpayers.
 -) Incentives to regular taxpayers.
 -) Better public relation by tax officers.
 -) Heavy fine and penalties to defaulter taxpayers.
 -) Tax personnel should be encouraged punished and transferred on the basis of their work and experience regular and effective training system, reward, prize and

punishment system should be established for effective personnel management.

- J Provision regarding deduction should be simplified. All items of deduction should be clearly defined in the Act.
 - J The provision of tax deduction at source and advance payment of tax should be extended to different source of income as far as possible, and expenditure paid without tax deduction at source should not be granted for deducted on while computing assessable income.
 - J A research and intelligence center should be established in each tax office for proper planning and to collect the information in regarding to income tax evaders, potential new taxpayers and non residents who have conducted business without registration.
6. The following suggestions are recommended to increase tax coverage.
- J Maintains up to date of taxpayer's registration. A control register should be kept at the tax department.
 - J Fix target to tax office in terms of meaningful taxpayers.
 - J Co-ordination should be strengthened with chamber of commerce, Public sectors enterprise, Local Bodies, etc. For location of new taxpayers.
 - J The government should levy tax on agriculture after providing certain exemption limit.
 - J Capital gain should be calculated after adjusting time value of money (inflationary situation) for the tax purpose.
 - J The exemption limit must be adjusted in accordance to inflationary situation of the country on the year basis.
 - J The taxpayers, who submit the true income statement with in the specified period of time, should be provided certain percentage tax rebate should be given.
 - J Effective public participation is necessary to minimize the income tax evasion. The continuous effort should be done by tax authority to build the taxpayers positive attitude towards taxation.
7. The following recommendations are made for the improvement of income tax administration in case of income tax assessment.
- J Should be improved tax assessment procedure by giving training to tax officer, tax payers and administrator.
 - J Computerized. Information system is necessary to keep up to date record of income tax. So that tax payers do not evade tax income.

-) Controlling taxpayer's negligence while preparing and submitting income statement to the Inland Revenue Department.
-) Proper tax education should be provided to tax officials as well as tax inspectors, and taxpayers regularly.
-) Computerized assessment system should be introduced to get fair and transparency income tax assessment.
-) To improve income tax there should be proper co- ordination with the tax department.

Effective and proper audit system is necessary in order to make self- tax assessment system successful. The performance of audit is poor in Nepal, both quantitatively and qualitatively. The tax payers consider that they are being harassed by tax audits whereas the government does not get much revenue as a result of audit. Audit has always being controlled oversea in Nepal. Scientific system of selection of taxpayers for audit such as on the basis of computer generated intelligence may be relevant for Nepal.

BIBLIOGRAPHY

Books

- Adhikari, C. M. (2003). *Modern Taxation in Nepal: Theory and Practice*. Kathmandu: Pairabi Prakashan. Publishers and Distributors.
- Agrawal, G. R. (1978). *Resource Mobilization for Development: The Reform of Income Tax in Nepal*, Kathmandu: CEDA.
- Agrawal, G. R. (1980). *Resource Mobilization in Nepal*, Kathmandu, CEDA.
- Agrawal, J. (2008). *Income Tax: Theory and Practice*. Kathmandu: Buddha Academic Publishers and Distributors.
- Amatya, S K. Pokharel, B. B. and Dahal, R.K. (2008). *Taxation in Nepal*. Kathmandu: M.K. Publishers and Distributors.
- Aryal, K.P. and Poudel, S.P. (2010). *Taxation in Nepal*. Kathmandu: M.K. Publishers and Distributors.
- Bhattarai, N. and Shrestha, R.S. (1976). *Tax Laws in Nepal: A Study*. Kathmandu: Rupesh Prakashan.
- Bhattarai, I. and Koirala, G.P. (2066). *Taxation in Nepal and Tax Laws and Tax Planning*. Kathmandu: Asmita Books Publishers.
- Dhakal, K. D.(2002). *Income Tax and House and Compound Tax Laws and Practice with VAT*. Kathmandu: Kamal Prakashan.
- Dhakal, K. D. (1998). *Income Tax and House and Compound Tax Laws and Practice with VAT*. Kathmandu: Kamal Prakashan.
- Joshi, P. R. (2006). *Research Methodology*. Kathmandu: Buddha Academic Publishers and Distributors..
- K.C., J. B. (2007). *Tax Laws and Tax Planning: Theory and Practical*. Kathmandu: Khanal Books Prakashan.
- Kandel, P. R., (2003), *Tax Law and Tax Planning in Nepal* : Buddha Accademic Publisher and Distributors Pvt. Ltd.
- Khadka, R. (2001). *Income Taxation in Nepal*, Kathmandu: Ratna Pustak Bhandar

- Khadka, R (2005). *Modern Tax Administration in Nepal*. Kathmandu: Ratna Pustak Bhandar.
- Kothari, C.R. (1990). *Research Methodology Methods and Techniques*. New Delhi: Wiley Eastern Ltd.
- Lekhi, R.K. (2000). *Public Finance*. New Delhi: Kalyani Publishers.
- Mallik, B. D. (2003). *Nepalese Modern Income Tax System*. Kathmandu: Mrs. Anita Mallik Publishers.
- Musgrave, R. A., & Musgrave, P. B. (1976). *Public finance in theory and practice*. New York: McGraw Hill Kogakush Company.
- Pant, P. R. and Wolff, H.K. (2002). *A Hand Book for Social Science Research and Thesis Writing*. Kathmandu: Buddha Academic Publishers and Distributors Pvt. Ltd.
- Shrestha, A. M. (1997). *Economics*, Kathmandu: Education Books Centre

Journals and Articles

- Adhikari, C.M. (2001). *"Issues and Reforms in Nepalese Income Tax Administrator"* **Rajaswa**, Volume.1 Lalitpur: Harihar Bhawn.
- Agrawal, G. (1978). *"Resource Mobilization for Development: The Reform of Income Tax in Nepal"* Kathmandu: CEDA, T.U.
- Regmi, S. R. (2007). *"Income Tax Evasion is a crime in Nepalese Legislation"* **The Rising_Nepal**, 23rd March.
- Thapa, G. B. (2000). *"Structure of Nepalese Revenue, Status and Challenges"* **Mirmire**, Year 28, No.1, Nepal Rasta Bank.
- Annual Statement (Various Years), Inland Revenue Department, Ministry of Finance, Government of Nepal.
- Budget Speeches (Various Years), Ministry of Finance, Government of Nepal.
- Economic Survey (Various Years), Ministry of Finance, Government of Nepal.
- Income Tax Act -1974, Ministry of Finance, Government of Nepal.
- Income Tax Act -2058, Ministry of Finance, Government of Nepal.
- Income Tax Rules -2058, Ministry of Finance, Government of Nepal.

Thesis and Dissertation

Basnet, F. (2006). *A Study on Effectiveness of Self-Tax Assessment in Nepal*. An Unpublished Master Degree Thesis Submitted to Shanker Dev Campus, T.U.

Bhandari L.(2009), *Contribution of Income Tax to Economic Development of Nepal*. An Unpublished Master Degree Thesis Submitted to Shanker Dev Campus, T.U.

Bhattarai, U. (2010). *Effectiveness of Income Tax System in Nepal*. M.B.S. An Unpublished Master Degree Thesis Submitted to Shanker Dev Campus, T.U

Khadka, S. (2008). *Income Taxation in Nepal: Analysis of Structure and Problems*. An Unpublished Master Degree Thesis Submitted to Shanker Dev Campus, T.U.

Koirala G.P.(2004), *Contribution of remuneration Tax on income tax*. An Unpublished Master Degree Thesis Submitted to Shanker Dev Campus, T.U.

Pokharel, A.P. (2007). *Contribution of Income Tax on Tax Structure of Nepal*. M.P.A. Thesis, Central Department of Public Administration, T.U.

Poudel, J. (2002). *Income Taxation in Nepal: A Study of its Structure and Productive*. An Unpublished Master Degree Thesis Submitted to Shanker Dev Campus, T.U.

Serchan, T. (2003). *An analysis of Fines and Penalties Regarding Income Tax System of Nepal*. An Unpublished Master Degree Thesis Submitted to Shanker Dev Campus, T.U.

Websites:

www.cbs.gov.np

www.customs.gov.np

www.fego.gov.np

www.ird.gov.np

www.mof.gov.np

www.nrb.org.np

www.npc.gov.np

V. Inappropriate rate and exemption limit. []

VI. Lack of tax deduct program []

4) Do you think that income tax assessment procedure in Nepal is efficient?

Yes [] No []

If no, please specify why the problem lies? (1-4)

I. Taxpayer's do not maintain their books of account. []

II. Lack of adequate information about income Assessment. []

III. Taxpayer's want to escape for paying tax. []

IV. Lack of proper recording system in Tax administration []

5) Do you think that Self Tax Assessment System is suitable in Nepal?

Yes [] No []

If no, please give why it is not suitable? (Please rank according to the priority 1-4)

I. Lack of proper accounting system. []

II. Lack of knowledge about self – tax Assessment procedure. []

III. Lack of correct auditing system. []

IV. Lack of seminar, meeting and conference about self tax Assessment.

V. Any others, please specify

6) Do you think that provision given for self- tax assessment in the new income tax Act, 2058 in sufficient? Yes [] No []

7) In new income tax Act, Do you know about jeopardy assessment method ?

Yes [] No []

8) In your opinion has Jeopardy assessment been applied satisfactory in income tax assessment method? Yes [] No []

If no, what are the major causes, which make jeopardy assessment unsatisfactory?

- I. Lack of information about taxpayer to officer
- II. Unwillingness of tax officers
- III. Tendency of tax officers towards high corruption
- IV. lack of clear provisions in income tax laws

9) Has amended assessment been widely applied in income tax assessment in Nepal?

Yes [] No []

If yes, in which circumstance has it been frequently applied?

- I. In case where the taxpayers submit false particulars.
- II. In case where the taxpayers don't maintain regular account.
- III. In case where the maintain account can't be accepted as valid.
- IV. If any, please specify

10) What are the problems you came absorbed in income tax assessment procedure in Nepal?

- I. Maintain adhoc books of account. []
- II. Lack of adequate information about the tax assessment. []
- III. Assesses do not maintain books of account. []
- VI. Lack of proper recording system in tax offices. []
- V. if any, please specify

11) In your opinion what should be the time limit to be given for the file return after passing the income year?

- I. 1 month []
- II. 3 month []
- III. 6 month []
- IV. 1 year []

12) Do you favor any penalty on those tax payers who submit false statement of self- tax assessment? Yes [] No []

13) Do you heavy fines and penalty on those tax payers who do not submit account for tax purpose?

Yes [] No []

14) In your opinion what types of problems are facing by the tax payers while paying income tax?

- I. Consuming unnecessary time.
- II. Expectation illegal incentive by tax personnel.
- III. Vague provision in income tax laws.
- IV. Lengthy process.
- V. Lack of co-operation by tax administrator
- VI. If any, please specify

15) What is your suggestion to improve tax paying habit or tax payer's compliance in Nepalese people? (Please rank according to priority)

- I. Simplification of tax assessment procedure. []
- II. Tax education to tax payers/ assesses. []
- III. Simplification of tax law and rules. []
- IV. Incentive to regular tax payers. []
- V. Better public relation by tax officers. []
- VI. Heavy fines and penalties to defective tax payers. []
- Vii. Any others, please specify

16) Do you think tax administration in Nepal is effective?

If not, what are the possible reasons?

- I. Lack of knowledge about tax assessment procedure. []
- II. Lack of meaningful taxpayer's information. []
- III. Lack of proper incentives to tax personnel. []
- IV. Unnecessary outside pressure. []
- VI. If any, please specify

Thanks