CHAPTER – 1
INTRODUCTION

1.1 Background Information

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 order to accomplish its responsibility, government requires adequate financial resources that may take a form of taxes, charges or borrowings. Taxes and charges are withdrawn from the private sector without leaving the government with liability to the payee. Borrowing involves a withdrawal made in return for the government's promise to repay at a future and to pay interest in the interim.[1] Borrowing has produced bitter experience as well as mixed consequences in developing nations. The repayment of principal and interest is providing to be a net burden for many of them. It can almost occupy only a marginal and dwindling importance in the financing of development.

In broad sense, public revenue includes all the income and receipts received by the government. But in narrow sense, in includes only income received from taxes.[2] In normal circumstances, taxation seems to be the most effective and perhaps the least harmful ways of mobilizing internal resources. The government imposes tax on people to repay external debt as a consequence of which they cannot save enough money.

Nowadays every countries of the world whether developed or developing have income tax system. Income tax more or less affect on production and growth, economic activities of the government, reduction on foreign debt,

[1]Musgrave, R.A. & Musgrave, P.B.; Public Finance in theory & Practice, McGraw-Hill Book Company, Singapore 1989.

[2]Joshi, Dr. Shyam; An introduction to Nepalese Economy, Nabin Prakashan, Bhotahity Kathmandu 2064.

development of various small and cottage industries, activities and growth of corporate enterprises, allocation of resources, distribution of income, employment, inflation and deflation etc. Tax is the main source of financing government activities. In every country, the largest part of government revenue is raised through taxation. Taxes on income may be levied on individual as well as business firms. The former is known as personal income tax and the later is known as corporate tax. A proper tax system should be able to generate the required amount of revenue. Taxes are emphasized in all countries developed as well developing, because they have the potential for increasing the yield of tax system and achieving a system of taxation that satisfies the demand for equity and social justice.[3]

But when the agriculture sector is large, accounting standards are poor, the level of literacy is low, the most economic activity takes place in small establishment, and the effective taxation of personal income is difficult. As a result income tax is less important in Nepal than in many developing countries.[4] Tax policies must reflect the national development goals and aspiration of a nation. They must aid and compliment the accomplishment of such goals. Tax policies are not only being looked upon as effective tool for raising revenue but also increasingly being used for the regulation of the economy and for providing new direction to it. As the nations goals and policy objectives change, so should change the tax policy. The broad objective of tax policy in developing nations is the promotion of development process for meeting the minimum needs of the masses and improving the quality of life.

Income tax is a personal tax imposed on the net income of individual and corporation. By this method of taxation, such burden i.e., in accordance with the tax paying ability of the individual may be called for the blending of various personal deductions with progressive rate. Although not completely neutral, it

[3] Singh, S.K.; Public Finance in Developed & Developing Countries, S. Chand & Co. Ltd. New Delhi.

[4] Khadka, Rup Bh.; Nepalese Taxation: A path for Reform, Marburg, Marburg Consult for Self-help Promotion,1994.

possesses a number of economic advantages. It is widely accepted that an income base represents the most appropriate single measure of taxable capacity. If properly constructed, it ensures equal taxation of persons with equal ability and increasing taxation of persons with higher income (Govinda Ram Agrawal: Resources Mobilization for Development: The Reform of Income tax in Nepal, CEDA 1978).

Tax is compulsory contribution imposed by public authority using the right given by law. Tax is compulsory contribution imposed by public authority using the right given by law. Taxpayers do not expect any return for his tax paying. It is neither an exact amount nor a penalty for any legal offence. The chief function of taxation is that it ensures collective saving for the purpose of public investment and at the same time provides incentives for promoting private investment.[5] Thus its importance cannot be ignored on the overall policy scheme of the government of the developing economy. Taxes are not voluntary purchase payments but mandatory impositions, payable in line with whatever tax statute has been legislated.[6]

Tax may be classified into two types. They are direct and indirect. Direct tax is that tax which is really paid by a person on whom it is legally imposed. Some of the direct taxes are income tax, property tax, interest tax, death tax, vehicle tax etc. Indirect tax is that tax which is imposed on one person but paid partly or wholly by another. Some of the indirect taxes are sales tax, entertainment tax, passenger tax, hotel tax, export and import duty, excise duties, VAT etc.

Income tax is one of the most popular direct taxes. It is charged on person income according to the law of nation. Income includes all the income, which are received from business, investment and employment. Income tax is superior to

[5]Mathew, T.; Tax Policy; Some Aspects of Theory and Indian Experience, Kalayani Publishers, Delhi,1975.
[6]Musgrave, R.A. & Musgrave, P.B.; Public Finance in Theory & Practice, McGraw-Hill Book Company, Singapore 1989.

indirect tax because it is imposed on the basis of paying capacity of the taxpayer. People whose income is below the taxable income are free from the obligation of income tax.

The contribution of income based taxes is smaller to the total revenue for developing countries in comparison to developed countries and is likely to remain same for sometime to come despite the efforts over the years of many least developed countries to raise more revenue. There are mainly four reasons as why income tax yields less in developing countries as compared to the developed ones. They are problems of defining income, problems of assessing and measuring it, the choice of rates, allowances and deductions, and difficulties of tax collection.[7] But the importance of taxation in the under developed countries cannot be under estimated because saving in such a country do not always take the forms in which resources suitable for economic development are set free. Domestic saving which may be mainspring of economic development may often go into wasteful and unproductive channels which abstracts economic development rather than feed it. Such examples are the hoarding of precious metals, holding of foreign currency, investment in real estate, speculations etc. Savings in these forms are either useless or positively harmful to economic development. The forms have to be changed so the savings can be mobilized for economic development. In this regard taxation can play important role by directing resources from these channels into useful capital formation.[8]

The taxation has been taken as an instrument of redistribution and stability. But experience has revealed that the developing countries have placed more emphasis on the role of taxation as an instrument of resources mobilization in the initial stage of their development and its role as an income redistribution has been given a subordinate importance. Tax system is the subsystem of the total economy. Tax policy is changed with the change in the economic policy of a

[7]Prest, A.R.; Public Finance in Developing Countries, George Weodenfeld & Nicolson ltd., London,1985.
[8]Tripathy, R.N.; Public Finance in Underdeveloped Countries, The World Press Private Ltd. Calcutta, 1968.

country.Change in world economic policy and advancement in information technology has a vast impact on Nepalese economy too. Small economies like Nepal have to adopt the economic policy followed by World Bank, International monetary Fund, Asian Development Bank and other international agencies. Especially, after 1990s, there is reemergence of the liberalization, globalization and privatization system that focuses on the minimum intervention of the state on private economic matters. The 1950s concept of 'high incentive, high tax rate' is changed to the concept of 'low rate, wide net'. This tends in tax system is followed by most of the countries of the world. Nepal is also not an exception in this respect and Nepalese administrators and policy makers too have tried to change the tax policy of the country. Income Tax Act 2058 is the result of the change in all these matters.[9] Before this act, Income Tax Act, 2031 was enacted. Since 19th Chaitra 2050, Income Tax Act, 2058 has been introduced in Nepal. This act was brought in Nepal to avoid the following defects of Income Tax Act, 2031.

a. Narrow base of tax.
b. Taxing only the income originated in Nepal
c. Dispersion of tax related acts i.e. income tax related provisions were given in different acts.
d. Low penalty to tax evaders.
e. Incompatible to self assessment system, and
f. Unsuitable to modern economy.[10]

As the new income tax act has been enacted to overcome the demerits of the previous act and to modify and integrate tax laws in Nepal, it has got many features.

[9]Khandel, Pushpa Raj: Tax Laws and Tax Planning in Nepal, Buddha Academic Publishers & Distributors Pvt. Ltd., Nepal, 2003.
[10] Ibid

One of the main features is that it has complied all of the income tax related provisions within it. Before the implementation of Income Tax Act, 2058 the provision related to the income tax were scattered in different laws such as Industrial Enterprises Act 2049, House and Land Tax Act, 2023, Foreign Investment and Technology Transfer Act, 2049 etc. The previous act has classified income into five heads: income from business, profession, or vocation, income from investment, income from employment, income from House and land rent and income from other sources. But the present act has classified income into three heads: employment income, business income and investment income. It attempts to bring all the incomes into the tax net including capitals gains and dividend income. Earlier, retirement related incomes were out of the tax net, but the new act has included the retirement related incomes and fund related to retirement within the tax net. The new act has made the provision for income returns and self tax assessment. Every tax payer is required to fill up the returns of the income in the prescribed format and file to the concerned internal revenue office within three months after the expiry of the income year. The procedure, place and other provisions about the submission of return of income are clearly mentioned in the laws. The act has made a provision of relaxing the submission of income returns by a person who doesn't have to pay tax or who has received income only as final withholding payments. Income Tax Act, 2031 has made the provision of setting off and carry forward of business losses only for three years from the same sources of income. That means, it had only the intra head recovery provision of three years.

Income Tax Act, 2058 is liberal in this respect than the previous tax act. It has made the provision of inter-head adjustment for one year and intra-head adjustment for four years to ordinary forms of business. For financial sector and long-term contract, the provision is more liberal providing the facility of recovering the losses from previous five years' profit also. This act has prescribed the method and base of tax accounting. It has clearly indicated the cash basis for employment income and investment income and accrual basis for a company.

The accounting of business run by natural person can be kept either on cash basis or accrual basis.

Income Tax Act, 2031 had accumulated provisions related to depreciation. The assets categorizes for depreciation purpose were around 3 dozens. Different rates were allocated to different types of assets. The result was the confusion relating to the rate of depreciation. Accordingly, previous tax act had given alternatives to industries to select one depreciation method: straight line or diminishing balance. However, the rate allowed for both methods were not equivalent. The rates allowed for diminishing balance method were more attractive than the rates allowed for straight line method. To avoid this chaotic situation, new tax has tried to minimize the rooms to play. It has specified diminishing balance based on pool system with 5 categories as assets as the system of depreciation to be used by the business communities. The fines and penalties for the defaulters in old tax act were not as secure as they are in new act. Income Tax Act, 2058 has made the provision of fine and penalty more stringent. It has made over the provision up to 3 years.

1.2 Focus of the Study

The study mainly focuses on the Income Tax Act, 2058. In other words, it is a study of current income tax in a concise manner. It attempts to focus on the different aspects of income tax such as income types, exemptions and deductions, loss recovery provisions, provision for self assessment, penal provisions, tax rates etc. It has also tried to analyze whether the division of incomes: business income, investment income and employment income is justifiable or not. It has also tried to analyze whether the problems and difficulties faced due to Income Tax Act, 2031 has been overcome by the Income Tax Act, 2058 or not. The study has also focused on up to what level the current Income Tax Act has been succeeded in increasing the government revenue. Further more the problems and difficulties arisen during the implementation of the Income Tax Act, 2058 has also been studied. Thus, it attempts to clarify those problems and weakness associated with income tax. Likewise, the study also focuses on the contribution of income tax to the total revenue and total government revenue.

1.3 Statement of the Problem

Economic development is the prime concern of the every nation of the world. Thus, every nation of the world is accomplishing various activities to fulfill these objectives. Nevertheless, underdeveloped countries are facing serous problem of economic development. Nepal is also not an exception to this condition. It needs huge amount of capital for economic development of Nepal. Despite the various measure adopted by the government to boost revenue collection, there is still a substantial resource gap between expenditure and revenue. The rate of government expenditure is exceeding the rate of growth revenue almost every year. In other word, Nepal has been facing persistent budget deficit from the beginning of development phase. The budget deficit has been growing and this may have a negative effect on the economy. External deficits, currency depreciation, inflationary pressure, rising interest rates, which may cause crowding out effect and reduction in economic growth are some of the negative consequences of budget deficits. There is a need of analyzing and suggesting means of resolving budget deficits.

To raise the government revenue, it is necessary to raise sources of revenue, which helps to relive from serious bottleneck of resource gap in the proceeds of economic development program. To bridge the gap between total resources required and supply of the resources, income tax plays a vital role in government revenue.

Income tax in developing nations has been regarded as an instrument of growth and social justice. But experience in most of the developing countries including Nepal have shown income tax has not succeeded in achieving either of these goals because only a small part of total national incomes come under the purview of income tax. In Nepal, indications are that income tax that has not played a significant role in reducing the inequalities of income and wealth. However, the prospect of mobilizing resources through taxation has been encouraging for the developing countries like Nepal. Because it is not possible in these countries to mobilize resources by curtailing the existing level of consumption as the consumption of the people is too low.

Income tax evasion is a serious problem in Nepal and seems a national character. Because of this, resources have not been mobilized efficiently and resources gap is increasing each year in the Nepalese public finance. The practice of tax evasion in Nepal has resulted in increased in burden of indirect tax and unimproved share of direct tax. Poor tax paying habit of Nepalese people and poor recording system of tax office are also the problem of economic development of Nepal. Similarly, there is no integrated program for tax payer's education, assistance, guidance and counseling. The assessment procedure of income tax is not effective, undue delay in tax assessment not only reduces the total revenue, but also brings harassment to the taxpayers.[11] However, the problems can be stated in terms of the following questions.

1. Is it justifiable to divide income in three heads?
2. Is the exemption limit being provided sufficient?
3. What are the weaknesses of Income Tax Act, 2058?
4. What are the problems and weaknesses associated with income tax administration?
5. What are the methods of increasing tax consciousness among the Nepalese people?

1.4 Objectives of the Study

The main objective of the study is to gain an insight into the present income tax and give appropriate suggestions for improvement. At the same time, it attempts to increase the morale of Nepalese people so that they accept tax not as a burden but as a responsibility towards national development. However, objectives of the study can be pointed as follows:

[11]Agrawal, Govinda Ram; Resources Mobilization for Development; The reform of Income Tax in Nepal, CEDA, T.U. 1978.

a. To examine income tax in its historical perspective.
b. To review the income tax system of Nepal in context of its contribution on the total tax revenue and the total government revenue.
c. An analysis of Income Tax Act, 2058 in reference to income heads.
d. To find out the ways and means for increasing tax consciousness among the Nepalese people.
e. To provide suggestions and recommendation regarding the income tax of Nepal.

1.5 Significance of the Study

Developing countries like Nepal requires higher magnitude of financial resources for the development program. Domestic resources have more significant role than the external resources for development program. Among the domestic resources, income tax plays a significant role. In this context, significance of income tax cannot be under estimated in the Public finance of a nation. As per the need of the modern economy and to avoid all the defects of previous income tax, Income Tax Act, 2058 has been introduced. The study helps in better understanding of the act along with the problems and the weaknesses associated with the current income tax. In addition, it suggests the ways of increasing the awareness among the Nepalese people concerning the income tax, which is an immediate need of today. In this context, need and significant of the study can be known easily.

1.6 Limitation of the Study

As every study is followed by some limitations, this study is also not free from limitation. The limitations of the study can be pointed as follows:

a. Both primary as well as secondary data are being used, but the reliability of secondary data has not being examined.
b. Opinions of the respondents have been taken as a sense of truth, which may not be correct, at all time due to the changing trends on people’s thinking.

c. The views of respondents are collected only from Jhapa District only.
d. Time constraints serve as a major limitation to the study.

1.7 Research Methodology

This study used both primary as well as secondary sources of data. The secondary data includes act, rules, relevant books and pamphlets, thesis or dissertations submitted to the central library of Tribhuvan University and books published by CEDA etc. The primary source of data includes opinions survey through questionnaire field visit and information received from the respondents.

1.8 Organization of the Study

The whole study has organized into five chapters. They are:

1) Introduction
2) Review of Literature
3) Research Methodology
4) Presentation and analysis of data
5) Summary, conclusion and recommendation

The first chapter is about the introduction of research study. It includes Background information, Focus of the study, Statement of the problem, Objectives of the study, Significance of the study, Limitations of the study, Research methodology, and Organization of the study.

The second chapter is about the Review of literature. Some books, dissertations, reports and articles have been reviewed for this study.

The third chapter is concerned with Research methodology, which includes research design, population and sample, nature and sample of data, data gathering procedure, data processing procedure and analysis of data, weight of choice and weight of respondents.

[12] Lal, B.B.; Direct Taxes Income Tax, Wealth tax, Gift tax and Tax Planning; Konark Publishers Pvt. Ltd. Delhi 1990.
[13] Agrawal, Govinda Ram; Resources Mobilization for Development; The reform of Income Tax in Nepal, CEDA, T.U. 1978.

The fourth chapter is on the presentation and analysis of data. This is a major part of the study. It aims to make a clear understanding of Income Tax Act, 2058 in reference to income heads.

The fifth chapter is mainly concerned with finding, summary, conclusion and recommendation.

Appendix and bibliography have been presented in the last part of the study.

CHAPTER - II
REVIEW OF LITERATURE

2.1 Concept of Income Tax

Income tax is considered as an important source of revenue in most of the countries whether it is developed or developing countries regardless of its high or low contribution. It is levied on the net income of individual and corporation. Income tax is looked upon as a tool for achieving the social and economic objectives. It has been recognized as a good financial lever to narrow the disparities in income. Regional economic imbalances are being reduced by providing incentive and concessions in income tax for starting new industries in backward areas. Thus, besides being a source of revenue, income tax has become an effective instrument to ensure balanced socio economic growth.[12] Income tax is personal tax imposed on the net income of individual and corporation.

[14]Income Tax Act, 2058
[15]Prest, A.R.; Public Finance in Underdeveloped Countries, Vikas Publishers, New Delhi, 1972.
[16]Poudyal, Santosh Raj and Timsina, Prem Prasad: Income Tax in Nepal, Atharai Enterprises, Kathmandu, 1990
[17]Khandel, Pushpa Raj: Tax Laws and Tax Planning in Nepal, Buddha Academic

By this method of taxation such burden that is in accord with the tax paying ability of the individual may be called for by blending various personal deductions with the progressive rates. Although not completely neutral, it possesses number of economic advantages. It is widely accepted that an income base represents the most appropriate single measure of taxable capacity. It appropriately constructed, it ensures equal taxation of persons of equal ability and increasing taxation of persons with higher income.[13]

For the purpose of obtaining taxable income it is necessary to deduct all allowable expenses or deductions from the net income. Income Tax Act, 2058 has defined taxable income of a person for an income year is equal to the amount as calculated by subtracting reductions, if any, claimed for the year under section 12 or 63 from the total of the person's assessable income for the year from each of the following income heads:

a) Business
b) Employment
c) Investment [14]

According to tax economist, an income tax is levy imposed upon the income of individual after the exemption limit. Only the taxable income is subject to tax, otherwise the objectives and principles of taxation will not be fulfilled. Tax levied on income is known as income tax. Every country has its own peculiar system of taxing personal income. In case of personal income taxation, there is great deal of differences between the two types of countries i.e. developed and underdeveloped countries. First, there are problems of defining income. Second, there are difficulties of assessing anyone individual's income, even if one knows how to define income in general. Third, there are matters connected with fixing of rates and allowances. Fourth, there are problems of assessment.[15]

[18]A. Pechman, Joshep: Federal Tax Policy, The Brookings Institution, Washington D.C. 1976.
[19]Sommerfeld, Ray M. and Others; HBJ Federal Tax Course; HBJ, U.S.A, 1986.

The objective if income tax is to impose on income. It means money or money's worth received from any income in such away that any receipt derived in terms of cash or kind. Income may be received either in cash or kind in the form of perquisites, which can be measured and valued in terms of money. In this case income is not considered from the point of view of permanency temporary income is also taxed. It would not make any difference whether the income is received in installments or lump sum. Salary, fee and other income payable periodically throughout the year, are taxable even if received only once during the previous year.[16] The main issue in taxation has been regarded as to collect revenue. The government passes the acts for getting tax revenue and collects the tax as per the act. Nepal gets a round 80% of the revenue from this source.[17] The objective of taxation, however, has been different for different epochs and for different nation.

The objective adopted in developing countries may not be suitable in the developed ones and vice versa. Likewise, in ancient time, the major objective of taxation has been shifted from security perception to the economic development. The modern objective of taxation is not only to maintain peace and security but also to conduct development activities. Thus, the act has the objective of raising revenue to have resource mobilization equal distribution of wealth and income in the society, encouragement in production of certain products, encouragement in employment, saving and investment, removal of regional imbalance and enforcement of government policy.

In fact, income tax contributes the major source of revenue in most of the advanced countries like U.S.A., U.K. etc. Underdeveloped countries too have tried to tap this lucrative source. Income tax came into being as a result of extending and broadening the tax base and in search of additional source of finance either for waging a costly war or matching the nation building tasks.

[20]Poudyal, Santosh Raj and Timsina, Prem Prasad: Income Tax in Nepal, Atharai Enterprises, Kathmandu, 1990

[21]Mahatta, Hari Prasad; Fundamentals of Nepalese Income Tax, Surya Prasad Mahatta and Anand Prasad Khatioda, Nepal, 1970.

Nepal, too, used this source in order to mobilize internal sources and raise the revenue for economic development. Taxation is a major instrument of social and economic policy having three major goals: to transfer resources from the private to the public sector; to distribute the cost of government fairly by income classes (vertical equity) and among the people in approximately the same economic circumstances (horizontal equity); and to promote economic growth, stability and efficiency.[18] In fact, taxation can be taken as a matter of a cooperation between the tax administration and the taxpayers.

A tax can be defined as any non penal yet compulsory transfer of resources from the private to the public sector, levied on the basis of predetermined criteria, and without receipt of a specific benefit of equal value in order to accomplish some of a government's economic and social objective.[19] Thus, income tax is an important and significant source of revenue of the government. In this present age its importance has increased much on account of the policy of the government to bring about economic equality in the community. The basic principle of income tax should be progressive, incidence in the rates of payment with simplicity and efficiency in administration and collection.

The most widely grouping of a tax system is between direct and indirect taxes. A direct tax, according to J.S. Mill, is "one which demanded from a very person who, it is intended or desired, should pay it. Indirect taxes are those which have been demanded in the expectation and intention that he shall indemnify himself at the expense of another." Thus, the distinction is clearly based on phenomenon of shifting. A tax, which cannot be shifted, is indirect.

[22]Pant, Y.P.;Problems in Fiscal and Monetary Policy, Sahayogi Prakashan, Kathmandu,1970.
[23]Bhalta, Bhiv Dev & Shrestha, Rajendra Prasad; Revenue Adminstration in Nepal: CEDA, Kathmandu, 1981.
[24]Prasad, Bhagwati, Inocme Tax, Law and Practice, Wishwa Praksahan, New Delhi 2000.
[25]Dhungana, Mr. Bhavani, Kayatha, Mr. Narendra Rai,Mr. Bal Pd.; An Analysis Of Tax Structure of Nepal, CEDA, T.U., Kathmandu,1976.
[26]Agrawal, Govinda Ram; Resources Mobilization for Development; The reform of Income Tax in Nepal, CEDA, T.U. 1978.

Direct taxes include income tax, property tax, vehicle tax, interest tax, expenditure tax, death tax, gift tax etc. Similarly indirect taxes include value added tax, sales tax, entertainment tax, hotel tax, excise duty etc. A tax which is levied at the time when the income is earned is known as direct tax. We pay the direct tax when we earned our income. On the other hand an indirect tax is the one that is levied when the income is spent. The tax that we pay in the shape of a higher price for a commodity that is taxed is an indirect tax.[20]

The more the country is developed the less will be the use of indirect taxes and vice versa. Underdeveloped countries receive their revenue more from indirect taxes like sales tax, excise tax etc. In contrast to this, the developed countries extract more revenue from direct taxes e.g.: income tax. That is why U.S.A, U.K, Japan etc secure funds more from income tax, whereas Nepal still has not been able to tap this source.[21] Indirect taxes still play their predominant roles in the development of Nepal. The biggest yielder of revenue in underdeveloped countries are the taxes on commodities-import, export and excise duties. They are easiest to collect, administratively, when commodities pas through the hands of a few wholesalers in a small number of places.

Nepal has been able during the past few years to give added confidence in general, by its increased emphasis on direct taxes, even if their percentage yield has not been substantial, as in any other developing country, and there has still been dependence predominantly on commodity taxes.[22]

[27]Singh, S.K.; Public Finance in Developed and Developing Countries, S.Chand & Co. Ltd., New Delhi, 1991.
[28]Vanish S; Illustrated Income-Tax Law, Kitab Mahal, India, 1957.
[29]Pant, Y.P.;Problems in Fiscal and Monetary Policy, Sahayogi Prakashan, Kathmandu,1970.

Both for development and developed nation there is no choice between to tax or not to tax people because without taxing people no government activity can be operated.[23] According to Benjamin Franklin," In this world nothing is certain but death and taxes." Taxes are a portion of the produce of the land and labors of a country placed at the disposal of the government: and are always ultimately paid either from capital or from the revenue of the country. Income tax is a direct tax, which enjoys a pride of place in the revenue of government all over the world. At present, income tax is levied along with the other direct taxes like gift tax, wealth tax etc which results the integrated tax structure aimed at bringing about progressively in taxation and social justice in administration.[24] The imposition of income tax is meant, first to reduce the inequality distribution of wealth with social justice, and secondly to create the tax paying habit of the people.[25] Taxation serve as the major method for transferring resources from private to the public sector.

Taxes should prevent and penalize the diversion of savings into land, buildings, inventories, precious objects, jeweler, foreign exchange and other investment hold or speculative gain or prestige purpose. Thus, tax policies should encourage desired development activities and penalize undesirable activities.[26] Taxes on incomes are the most important single source of revenue for the government of developed countries, though they at present produce for less revenue in most developing countries than custom duties and taxes on internal transactions. But these taxes are emphasized in all countries, developed as well as developing because they have potential for increasing the yield of tax system and achieving a system of taxation that satisfies the demand for equity and social justice. Income liable to tax generally fall into five categories, namely i) wages and salaries, ii) interest on securities and dividends iii) profits of business or vocation, iv) income from property and v) income from other sources.[27]

[30]Bhattarai, Ishwor & Koirala, Girija Prasad ; Tax Laws and Tax Planning, Dhaulagiri Books and Stationeries, Kathmandu, 2065.
[31]Ibid.

Generally an income tax is considered to be a tax, which is levied on income and is paid out of income. Every person who has taxable income is liable to pay tax. Income tax is an effective instrument for keeping unequal distribution of wealth within limits. It is more equitable in so far as it is based on the ability of payer to bear the burden of tax. In progressive system taxation, its importance cannot be underestimated as a source of public revenue for financing war or developmental plans. Being an elastic tax, its rates can be increased according to the requirement of the state.[28]

Taxation policy in a developing country should include the following objectives. First, it should help in promoting savings in the private sector, which in generally found to be very much undeveloped and even in the process of the elementary evolution. Secondly, it is desired to reduce the very large gap between the incomes of the few rich and many poor. Thirdly, taxation should not have undesirable inhibiting effects in terms of inflationary pressure, and thus it should be counter-inflationary in its actions.[29] Tax policy should be such as reducing the unequal distribution of wealth among people so as to bridge the gap of income disparity. For this purpose higher income group has to pay high tax and lower income group has to pay less tax. In course of defining taxation, Seligman has defined taxation as, "Taxation is the compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred".

Thus, it has been made clear that a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefits of services or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax paid. Tax is a liability to pay an amount to the state. The basis for the payment is that they own certain tangible or intangible property or that they carry on certain economic activities which have been chooses for taxation.

[32]Income Tax Act, 2031.
[33]Income Tax Act, 2058.

Thus, taxation has been a very essential element of a government from the very beginning of the state system. The objective of taxation is not only to raise government revenue but also to reduce income and wealth inequality with social justice and to create the tax paying habit of the taxpayers. The three major goals of taxation can be listed as follows:

1) To transfer resources from the private to the public sector.
2) To distribute the cost of government fairly by income classes and among people in approximately the economic circumstances
3) To promote economic growth, stability and efficiency.[30]

Income tax in underdeveloped countries like Nepal plays an important role in contributing to that natural revenue to carry out development plans, to handle day-to-day administration, to maintain peace and security and to launch other public welfare activities. The concept of income tax can be made clear from the following point:

- A tax is a compulsory levy imposed by the government.
- Those that pay tax do not get corresponding benefits from the government.
- Tax amount is spent for common interest of the people.
- Tax is collected from haves and spent for the interest of have rots in the society.
- Tax is levied on person as per the prevailing laws.[31]

The previous income tax act i.e. Income tax act, 2031, had defined income as income earned or received in cash or in kind from the following sources:

1) Employment
2) Agriculture
3) Industry, business, profession or vocation
4) Remuneration
5) House and land rent
6) Other sources.[32]

Income tax is chargeable on the net income of a person earned or received in the kingdom of Nepal or such others income earned in foreign country and year of income, after making appropriate deductions to which he is entitled under the act. Similarly the present income tax act i.e. Income Tax Act, 2058 has defined income as a person's income from any employment, business or investment and the total of that income as calculated in accordance with this act. And tax means income tax imposed as per the act.[33]

In spite of certain limitations and difficulties in the beginning year, today taxation is accepted as a major method of promoting economic growth and of achieving social goals. Many thesis/dissertations have been presented on the study of income tax in Nepal. A review of some are presented below:

In 1976, Mr. Govind Lal Shrestha has presented a case study entitled "Income Tax in Nepal." In this study, he has tried to give some general introduction of income tax along with its historical background and some problems of income tax in Nepal. He suggested that the income tax need more reform to make it more scientific and systematic so as to be based on economic and social justice.

Mr. Narendra Lal Kayastha in his dissertation entitled, "Taxation of Income and Property in Nepal" in 1974 has defined objectives of taxation of income and property and its role in the process of economic development. He has given a brief history of taxation of income and property in Nepal and discussed the problem of income tax in Nepal along with the important recommendation and suggestions. He analyzed the role of income and property taxation in the light of their tax objectives of underdeveloped countries, namely the objectives of growth, equitable distribution and stabilization. A proper tax structure should take into account all these objectives but one and other objectives cannot go equally together. Thus, the priority of these objectives depends upon the prevailing condition of the economy.

The objective of growth is very important in the initial stages of development but after gaining the momentum of growth, the objective of equitable distribution comes to be important, and the objectives of stabilization is considered and emphasized only in the unusual circumstances of inflation. He further adds that for a development country like Nepal, the objectives of growth is the first and the foremost objective with or mild dose of inflation and mildly progressive rate of taxation in order to promote the rate of economic development.

He concludes that before 1951, Nepal did not have scientific economic policy, which could facilitate the economic development of the country. There was high resources gap. Thus, to tap the resources, in 1959/60 the tax structure was diversified and many new taxes like salary tax, business tax, property tax etc were introduced. Before it, the traditional taxes like land revenue tax, custom duties, excise duties etc. were the main taxes. In 1962/63, introducing the comprehensive income tax with a long-term motive, replacing other income tax under varied headings, made a commendable beginning. Besides, urban property tax and foreign investment tax are not successful tax; the later has been abolished as separate tax and has been incorporated into income tax since the fiscal year 1968/69.

He further adds that despite all restraints, the Nepalese income and property tax structure is striving hard to contribute to the economic to the economic development by achieving the goals of growth. However, the contribution of indirect taxes went on increasing both in absolute and relative terms in the overall tax structure of Nepal. In spite of small contribution of income and property taxes at present, it is obviously an encouraging trend from a longer angle.

Miss Rojalin Singh Suwal presented a dissertation entitled "Income Tax System in Nepal" in 1981. In this dissertation, she has studied the problem of financial resource gap in Nepal. She has also studied the resource mobilization and income taxation in Nepal, direct and indirect tax along with their relative importance, origin, definition and concept of income tax, importance of income tax on overall tax structure and the role of income tax system in the process of economic development. In the last chapter, she has given suggestion and recommendation.

According to her, the function of taxation is to direct the flow of resources of the economy into productive and useful channels of investment and to raise the productive capacity of the economy. A serious problem of financial resource gap in Nepal requires an urgent need of domestic resource mobilization into productive investment. In developing countries, taxation is the best instrument in the drive of economic development. Developing nations can utilize more resources into more productive channels by the taxation measure, thus can promote a high rate of economic growth as whole. In Nepal, taxation policy should play a major role in creation of a society free from exploitation.

She has concluded that the tax structure of Nepal has failed to make account of the prevailing economic structure and pattern of income distribution. More effective use of income tax is needed for structural changes and has to be implemented and designed deliberately.

There are many problems regarding income tax in Nepal. Evasion of the tax is the greatest problem of income tax in Nepal. The practice of evasion of tax must be checked to contribute taxes to the economic growth of Nepal by channelizing more resources.

A dissertation named," Income Tax in Nepal" presented by Rosani Shrestha in 1986 has focused on the role of income tax in the process of economic development, objectives of taxation in developing countries. She has explained the historical background of income tax of Nepal and stressed the importance of income tax on all tax structure. According to her, main objectives of tax policies in developing countries like Nepal can be divided into three factors: growth objective, equitable distribution and stabilization. The growth objective as one of the taxation policy should be accumulated through adequate capital to finance developmental projects and accelerate the pace of economic growth for economic development of any country. The tax policy should be such as to encourage people towards productive investment. So, in developing countries special tax concession should be provided such as tax holidays and investment credit needed for industrial development. Likewise, the second objective is equity objective on taxation policy. Equity refers to taxation according to ability to pay. Equitable distribution of income and wealth is directly related to the growth objective of nation. So, the income tax should be more progressive to reduce the inequality of income and wealth. In developing countries a mild dose of inflation is considered to be essential in the process of economic development. So, the total tax structure should be such that it will minimize the inflationary pressure and maximize the growth rate.

"Analytical Study of Income Tax in Nepal" by Chudamani Shivakoti in 1992 has presented concept of income tax along with its historical perspective, role of income tax in Nepal, income tax structure of Nepal, problems of income tax administration in Nepal. He also explained that the taxation plays an effective way of mobilizing internal sources adequately and firmly.

He further adds that taxation policy in a developing country should include three objectives: it should promote saving in the private sector. Secondly, it should reduce wide gap between income of few rich and poorer. Thirdly, it should not have undesirable inhibiting effects in terms of inflationary pressures and it should be or counter-inflationary in its action.

According to him, income tax plays a vital role for the development of the country. It reduces the unequal distribution of wealth among people and is a suitable method to collect funds. It can bridge the increasing gap of disparity of income. For this purpose, higher income group has to pay more tax and lower income group has to pay less tax.

In 1997, Mr. Raj Kumar Bhattrai has presented a dissertation named "Effectiveness of Corporate Income Tax in Nepal". He has descried the history of income tax and corporate income tax, legal provision relating to income tax administration aspect of income tax, tax structure and government mechanism. He found that the share of the tax revenue of the total tax revenue was 78% in average. Similarly, the share of direct tax to the total revenue was 20% in average whereas the share of indirect tax to the total tax revenue was 80% in average and the share of income tax to the total direct tax was 67% in average as substantial share of income tax in total direct tax revenue. There was strong contribution of corporate income tax in total tax revenue. He found that the government policy, act, rules, regulations concerned with the corporate income tax were not effective in increasing tax paying habit in Nepal. He has suggested to prepare to separate corporate Income Tax Act, rules and regulations considering the elements of the system and maintaining stability, designing and developing electronic information and communication, networking among the government and non-governmental organizations, encouraging tax payers through tax education and awareness program, controlling the forward and backward shifting of corporate income tax and making of tax officers more responsible and honesty.

In 2002, Bishwadeep Adhikari has published a book named "Income Tax Law: Then and now". He has explained the legal provision of new Income Tax Act; 2058.He has also described the decision made by Supreme Court about the income tax. The book describes the legal provision with critical analysis. The book is very useful to know the new Income Tax Act but does not mention the role of income tax and income tax structure.

In 2003, Mr. Ishwor Bhattrai and Mr. Girija Prasad Koirala have published a book named tax laws and tax planning. They have explained the legal provisions relating to Income Tax Act, 2058 and Value Added Tax Act, 2052 with illustrative examples. They have reviewed and emphasized important concept in boxes entitled note to remember and key terms are given at the end of the chapter. This book is very useful to know the idea of Income Tax, 2058 and Value Added

Tax, 2052. It gives general idea about tax planning.

In 2005, Mr. Daya Raj Tripathee presented a dissertation entitled "Income Tax System in Nepal and Some Potential Areas for Reform." where he has tried to show the tax structure in Nepal, role of income tax in Nepalese economy, income tax administration and tax evasion in Nepal along with reforms.

The tax revenue has occupied an important place in the government's revenue. About 80% of the total revenue is collected through taxation. The taxation in Nepal is structured by different taxes such as custom, land tax, income tax, vehicle tax, property tax and entertainment tax. The tax i.e. direct tax and indirect tax contributed to the tax revenue. It is believed that when the national economy begins to pace the path of progress the country automatically shifts from indirect to direct taxation but in Nepal direct taxes have shifted to indirect taxation. Hence, indirect tax has dominant role in Nepalese tax structure.

He further adds that the tax administration capability acts as the critical constraint in the tax system of any country. The tax administration in Nepal is not so old in the sense that in Nepal, the system of levying tax on income was begun in 1959 for the first time. The tax administration of Nepal is not effective due to many problems such as inadequate provisions in tax laws, lack of public participation, shortage of income tax experts etc.

Lastly, he has concluded that beside revenue purposed, income tax may be used as a device for minimizing the gap between haves and haves not so as to create the social justice and equalitarian society. To encourage people towards income tax, income tax system should be made legally justified and collected amounts should be utilized appropriately for their benefit. Similarly, proper tax education should be given to them to make them conscious about tax system. The environment must be created for tax officials and tax payers to fulfill their corresponding responsibilities. Income tax evasion may be minimized through sound administration. It is a responsibility of all Nepalese citizens to participate in the efforts made by the state for introducing Nepal as a developed, advanced and powerful nation through better utilization or mobilization of international revenue especially the taxation.

2.2 Income Tax in the International Context

Income tax was first introduced to Britain during the Napoleonic wars, bit it only becomes a permanent feature of the tax system in 1842. It was introduced in order to finance war with France. The main reason for the introduction of this tax was that it was preferable as a substitute for customs and excise duties in raising revenue.

In U.S.A. the first federal income tax was imposed in 1862 to finance civil war expenditure. However, it becomes a permanent feature only in 1913 after the 16th amendment to U.S. constitution. Income taxes of a sort were established in Italy in 1864. New Zealand adopted income tax in 1891, Australia in 1915 and Canada in 1917. After World War I, the income tax becomes an important source of tax revenue in many developed countries. By 1939, it has become the most important sources of revenue in most developed countries and had made appearance in a number of developing nations.

In the beginning income tax was generally levied at a flat rate. The principle of progressive was introduced in the United Kingdom and New Zealand in 1909. The system applied in U.K. was the addition of progressive super tax on the highest income. In U.S.A., a mild progression existed since, the beginning of income tax. Today to meet the growing public expenditure of every nations of the world requires large revenue. There are various sources of government revenue. Among the various sources of government revenue, the most important revenue source is taxation. Most of the developed countries of the world produce more revenue from direct taxes. But in the context of developing countries, indirect taxes produce more revenue than direct taxes.

Income tax developed rather slowly with many ups and downs. The growth needs particularly during the war and national emergencies, and increasing acceptance of the fiscal power of the government gave impetus to the income tax movement. Development of markets, monetization of economy, widespread use of banking facilities, adequate maintenance of records, and improved standards of tax administration facilitated the introduction and establishment of this tax.

Now-a-day, every country of the world has become income tax. Income tax was introduces due to the causes of war and national emergencies. Thus, the second name of income tax is war tax. After the end of the war, the tax was named income tax. The story of income tax, therefore, is the story of war, and the storey of war taxes being retained even after the end of the war. Today, taxes are looked upon as important policy instrument for wagging new form of war-the war against poverty and inequality.

2.3 Historical Background of Income Tax in Nepalese Context

Although there was tax system in Nepal in ancient time also, the concept of income tax was brought only by the first budget. The budget introduced in 2008 BS 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. At the beginning, equivalent tax rates with progression and exemption limit were prescribed by the Finance Acts of 2017 and afterwards to all companies, private firms' individuals and families. The marginal rates of taxation prescribed by these acts were 25 percent. Since, the income tax was imposed only on income from business profit and remuneration; the tax act could not cover all the sources of income and so was replaced by the Income Tax Act, 2019 in 2019. Income Tax Act, 2019 with 29 sections divided the heads of income into 9 parts covering business, profession and occupation, remuneration, house and land rent, cash or kind investment, agriculture, insurance business, agency business and other sources. The act was amended in 2029 extensively. However, considering this act incapable of fulfilling the needs of the time, it was replaced in 2031 by another act.

As stated, Income Tax Act, 2031 replaced income Tax Act, 2019 in 2031. 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.

Income Tax Act, 2031 was revised for 8 times in 1977, 1979, 1980, 1984, 1985, 1986, 1989 and 1992. Since, 19th Chaitra, 2058, Income Tax Act, 2058 has been introduced in Nepal. This act was brought in Nepal to avoid following defects of Income Tax Act, 2031:

a. Narrow base of tax,
b. Taxing only the income originated in Nepal,
c. Dispersion of tax related acts, i.e. income tax related provisions were given in different acts,
d. Low penalty rate to tax evader,
e. Incompatible to self-assessment system, and
f. Unsuitable to modern economy.

The new income tax act has 143 sections. Income Tax Rules, 2059 is also implemented under the provision of this act. The new act has many new provisions in comparison to Income tax Act, 2031. The key features of Income Tax Act, 2058 are:

- All income tax related matters are confined within the Act by abolishing all tax related concessions, rebates and exemption provided by different Acts.
- The Act has broadened the tax base.
- The Act has introduced a pool system of charging depreciation.

- The Act has first introduced the taxation of capital gains.
- The Act has provided liberal loss set-off and carry forward/backward provisions.
- The Act has first introduced a provision for administrative review to allow the tax administration to correct mistakes made by tax administrators internally.
- The Act has made provisions for a stringent fine and penalty for the defaulters.
- Global incomes of a resident are made taxable.
- List of expenses are inclusive. All expenses relating to income have been made admissible.
- The Act has made provision for international taxation. Foreign tax credit has been introduced for the first time.
- The Act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the tax payers from criminal liabilities.

The first slice of income has always been exempted from income tax. The original level of statutory exemption limit was 2000. This limit has been increased from time to time. The statutory exemption limit has been increased to Rs. 65000 for an individual and Rs. 85000 for married couple or family in fiscal year 2059/60, Rs. 80000 for an individual and Rs. 100000 for a married couple or family in the fiscal year 2061/2062, Rs. 100000 for an individual and Rs. 125000 for a married couple or a family in fiscal year 2064/65 and Rs. 115000 for an individual and Rs.140000 for a married couple or a family in the fiscal year 2065/66.

From the initial stages, the finance act is every year prescribed the progressive tax rates with exemption limit to all companies, private firms, individuals and families. Income tax rates were ranged between 5% and 25%. The highest level of marginal tax is levied with two rates 15% and 25% while corporate income tax is levied with a single or flat rate of 25%. However banks and financial institutions are liable to pay income tax @30% of taxable income. The industrial enterprise/company is liable to pay income tax only @ 20% of the taxable income. The industries established and opened in backward districts are entitled to certain facilities, concession and rebates in the income tax.

Agriculture income was kept outside the tax net except for few years through finance acts. House and land rent and interest were included in the total income during some years. Foreign investment was tax free from fiscal year 2016/17 to fiscal year 2025/26 and was included in the total income from fiscal year 2026/27. Several other sources of income including income of cooperatives, interest earned by foreign investors, allowances provided to employees, dividends and exports income were exempted from the income tax under different laws. These incomes, however, have been brought into the income tax net from fiscal year 2057/58. Income tax Act, 2058 has brought all the incomes, including capital gains into income tax net.

The withholding tax system has been adopted from the very beginning. Initially it was limited to salaries but it was made applicable to interest, dividends, commission, bonus, imports and purchases. Income Tax Act 2058 has limited withholding tax to some income viz. income from employment, royalties, dividends, interest, rent, retirement payments and gains from investment (life assurance) insurance. A specific relief is provided for resident individual taxpayers running a small business. If such taxpayers have income exclusively from a business having a source in Nepal, income and annual turnover do not exceeds Rs. 120000 and Rs. 1200000 respectively and if they elect to apply this provision for the year, they are imposed as a fixed amount that depends on the area where the business is conducted in the fiscal year 2064/65. The annual tax rate is Rs. 2000 for metropolitan or sub-metropolitan cities, Rs. 1500 for municipalities and Rs. 1000 for anywhere else in Nepal.

Until fiscal year 5054/55, income tax was assessed on the income of previous year. The concept of levying income tax on the current year income was introduced in fiscal year 2055/56. Under this system, tax payers are required to pay income tax in three installments on the basis of latest tax returns or the estimated income of the current year, which ever is the highest. Initially, income tax was assessed under the official assessment. In fiscal year 2048/49, a self-assessment system was introduced for registered for public limited companies and firms. It was applied to industry, trade and professional firms which had their accounts audited by recognized auditors. The Income Tax Act, 2058 has made a provision of a purely self-assessment system and tax official will make only an amended assessment.

CHAPTER-III
RESEARCH METHODOLOGY

This chapter is dedicated to research methodology applied in the study for the achievement of desired objectives.

3.1 Introduction

A sound research study needs to follow a proper methodology in order to achieve predetermined objectives. Research Methodology is a sequential procedure and methods to achieve the objectives of the study. Primary as well as Secondary data are used to fulfill the objectives of the study. Opinion survey technique is adopted to collect the primary data about different aspects of income tax. While conducting opinion survey, questionnaires were distributed to different groups who are related to income tax. They are income tax payers, income tax administrator, income tax experts, accountants, lawyers etc. Secondary data are collected from the publication of different offices or organization.

The collected data are tabulated into the separate format and table. Some statistical tools such as simple average and percentage are made where necessary. The results are expressed in the form of descriptive and analytical.

3.2 Research Design

This research study attempts to analyze the present income tax where opinion of 30 respondents associated with the income tax viz. income tax payers, administrators and experts are collected through questionnaire. The questionnaire includes the problem of tax administration, weakness associated with the current income tax, methods of increasing tax consciousness among the Nepalese people, provision of self- assessment of tax, controlling tax evasion, exemption level etc. Hence, the research methodology followed in this study can be learned as survey cum descriptive research design.

3.3 Population and Sample

The population for this study comprises all the persons belonging to income tax of Nepal. 30 samples from Jhapa district have been taken to fulfill the objective of the study. The respondents have been divided into 3 groups. The following table shows the groups of respondents and size of sample.

Group of Respondents and Size of Sample from Each Group.

S.N.	Group of respondents	Sample size
1.	Income tax experts	10
2.	Income tax administrators	10
3.	Income taxpayers	10
	Total	30

3.3 Nature and Source of Data

The data used for this study are both primary and secondary. The primary data are collected from primary sources. The primary sources of data are the opinion survey through questionnaire, filed visit and information received from the respondents.

The secondary data are collected from secondary sources. The secondary sources of data are information received from books, journals and articles concerned with the study. The major sources of secondary data are as follows:

i. Economic survey of various years, Ministry of Finance, HMG, Nepal.
ii. Reports and records of Department of Taxation.
iii. Books related to income tax.
iv. Thesis and dissertations submitted at Central Library, T.U.
v. Research studies by Center for Economic Development and Administration concerning the income tax.

3.5 Data Gathering Procedure

The data of this study are collected from two sources. Primary data collected by using questionnaire method. A set of questionnaire was developed and distributed to the selected respondents in order to get actual and accurate information. Some of the information was also collected from interview with the respondents.

The secondary data are collected according to the organization of different publications/books of different organizations.

3.6 Data Processing Procedure and Analysis of Data

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

3.7 Weight of Choice

The respondents are requested either to rank their answer or to give yes/no response or to write their opinion. In the case of ranking the answer, the scale varies from question to question. The scale is given according to the number of probable answer. For e.g. if the probable answers are 5, the scale is given 1 to 5 where 1 stands most important and 5 least important. The total points get by each choice are converted into percentage of total points available to all choice. The choice having higher percentage is ranked as most important and the choice having lowest percentage is ranked as least important.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

4.1. Tax Structure of Nepal

Modern economic development of Nepal had started with the initiation of first economic planning 1956. Since then, taxes have been used for the achievement of national economic goals. So, taxes play vital role to the economic development of Nepal. Tax structure of any country comprises both direct and indirect taxes.

4.1.1. Composition of Total Revenue

Total revenue in Nepal is composed of both tax revenue and non-tax revenue. When the HMG of Nepal presented first national budget in 1951/52 the revenue structure was typically that of traditional economy with 73% of government receipts coming from non tax source and land tax, out of 73% the share of non tax revenue was 43%. In 1960's the share of non-tax revenue was declined drastically because of the increasing contribution of indirect tax on foreign trade.

The table no. 4.1.1 shows the share of tax revenue and non-tax revenue in total revenue. Moreover, it shows the tax and non-tax revenue as percent of total revenue. We can also see that total revenue is increasing. But from the year 2004/05 there has been wide increment in total revenue. It was Rs. 10729.3 million in 1994/95 and now it has reached Rs. 107622.5 million in 2011/12. The trend shows the total tax revenue is increasing consistently i.e. it was Rs. 8175.8 million in the fiscal year 1994/95 which has increased to Rs. 85155.5 million in 2011/12.

The composition of total revenue from the fiscal year 1994/95 to fiscal year 2011/12 is shown as follows:

Table No. 4.1.1

Composition of total revenue

Figures in Rs. Million

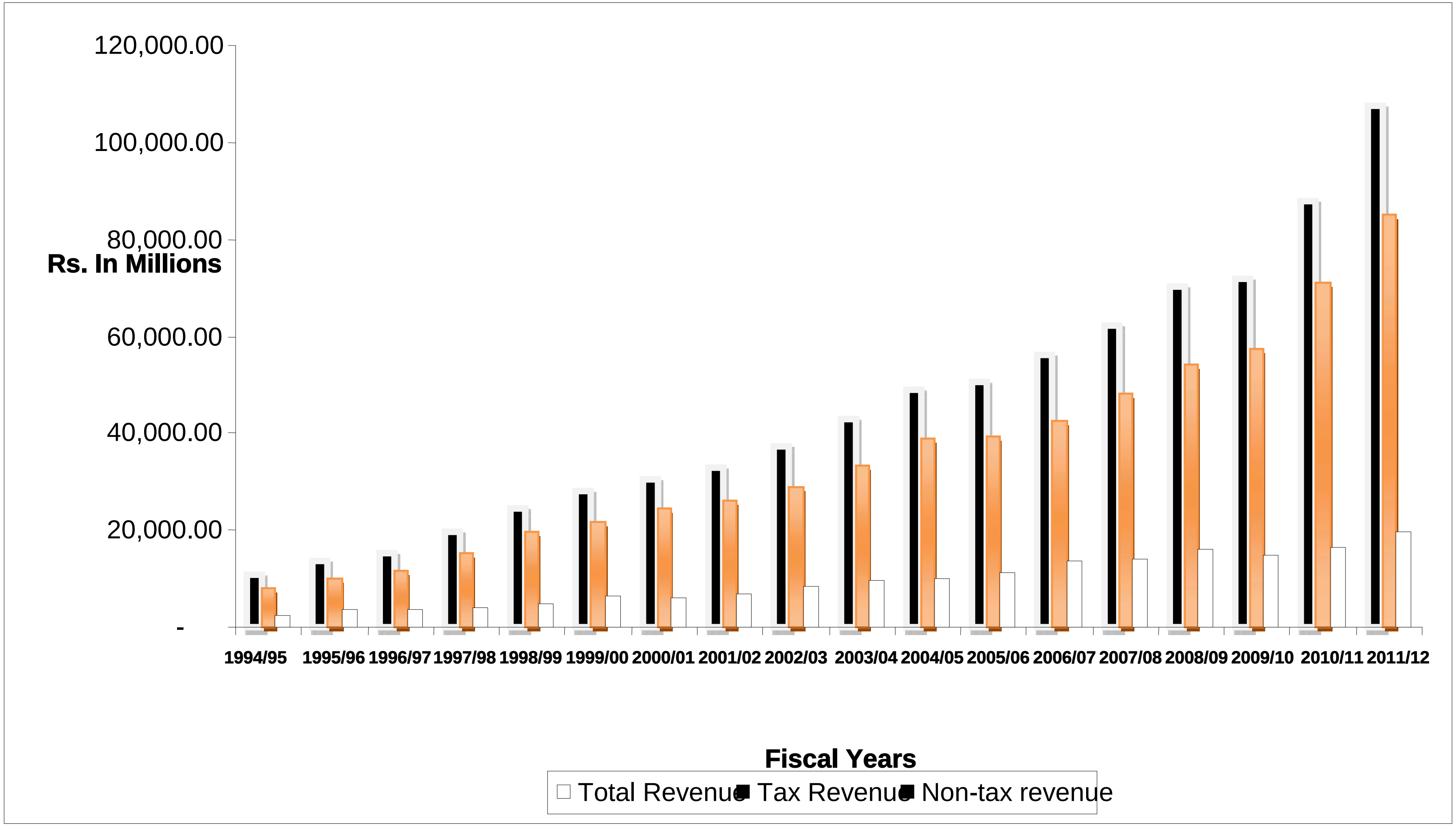
Fiscal Year	Total Revenue	Tax Revenue	Tax revenue as % of total revenue	Non-tax revenue	Non-tax revenue as %of total revenue
1994/95	10,729.30	8,175.80	76.20	2,553.50	23.80
1995/96	13,512.70	9,875.60	73.08	3,637.10	26.92
1996/97	15,148.40	11,662.50	76.99	3,485.90	23.01
1997/98	19,580.90	15,371.50	78.50	4,209.40	21.50
1998/99	24,605.10	19,660.00	79.90	4,945.10	20.10
1999/00	27,893.10	21,668.00	77.68	6,225.10	22.32
2000/01	30,373.50	24,424.30	80.41	5,949.20	19.59
2001/02	32,937.90	25,939.80	78.75	6,998.10	21.25
2002/03	37,251.30	28,752.90	77.19	8,498.40	22.81
2003/04	42,893.70	33,152.10	77.29	9,741.60	22.71
2004/05	48,893.90	38,865.10	79.49	10,028.80	20.51
2005/06	50,445.60	39,330.60	77.97	11,115.00	22.03
2006/07	56,229.70	42,587.00	75.74	13,642.70	24.26
2007/08	62,331.10	48,173.30	77.29	14,157.80	22.71
2008/09	70,122.70	54,104.70	77.16	16,018.00	22.84
2009/10	71,733.10	57,430.40	80.06	14,851.70	20.55
2010/11	87,711.20	71,127.00	81.09	16,584.20	18.91
2011/12	107,622.50	85,155.50	79.12	19,783.80	20.88

From the above table, it can be seen that the non-tax revenue is not consistent as compared to tax revenue. It is fluctuating both in increasing and decreasing trend. It was 23.80 percent in 1994/95 and has reached 20.88 percent in 2011/12. The share of tax revenue to total revenue was 76.20 percent in

1994/95 which has reached 79.12 percent in 2011/12. The share of tax revenue as percent of total revenue shows that the tax is the most viable source of increasing government revenue.

The composition of total revenue shows that the tax revenue has occupied about 3/4th portion of the total revenue. The composition of total revenue is shown graphically as follows:

Figure 4.1.1: Composition of Total Revenue



4.1.2 Composition of Total Tax Revenue

Tax revenue is composed of direct and indirect tax. There has been simultaneous increase in direct tax, indirect tax and total tax revenue in absolute terms. In 1994/95 this amount was Rs. 1368.5 million, Rs. 6807.3 million and Rs. 8175.8 million respectively and during this twenty years period, this amount has increased to Rs. 23087.8 million Rs. 62067.7 million and Rs. 85155.5 million respectively. From this we can see that there has been a drastic change in composition of tax revenue in this period of twenty year.

Despite, a huge increment of direct tax, its contribution to total tax revenue has not increased in the same proportion. As for example, we can see in the table that in the fiscal year 1994/95 the share of direct tax was only Rs. 8951.5 million but its contribution to total tax revenue was 27 percent. But we take a look at the fiscal year 2011/12 the direct tax is Rs. 23087.8 million but its percentage share in the total tax revenue is only 27.11 percent.

The contribution of indirect tax in 1994/95 was 83.26 percent amounting to Rs. 3807.3 million and decreased to 72.89 percent amounting to Rs. 62067.7 million in the year 2011/12. It implies the dominant role of indirect tax in total tax revenue. As direct tax is considered regressive in nature, the tax structure of Nepal is not justifiable on equity ground and progressiveness. From the given table, we can see that there is greatest reliance on indirect tax making our tax system regressive in nature and needs to shifts towards direct tax. The composition of total tax revenue has been also shown graphically.

Table No. 4.1.2

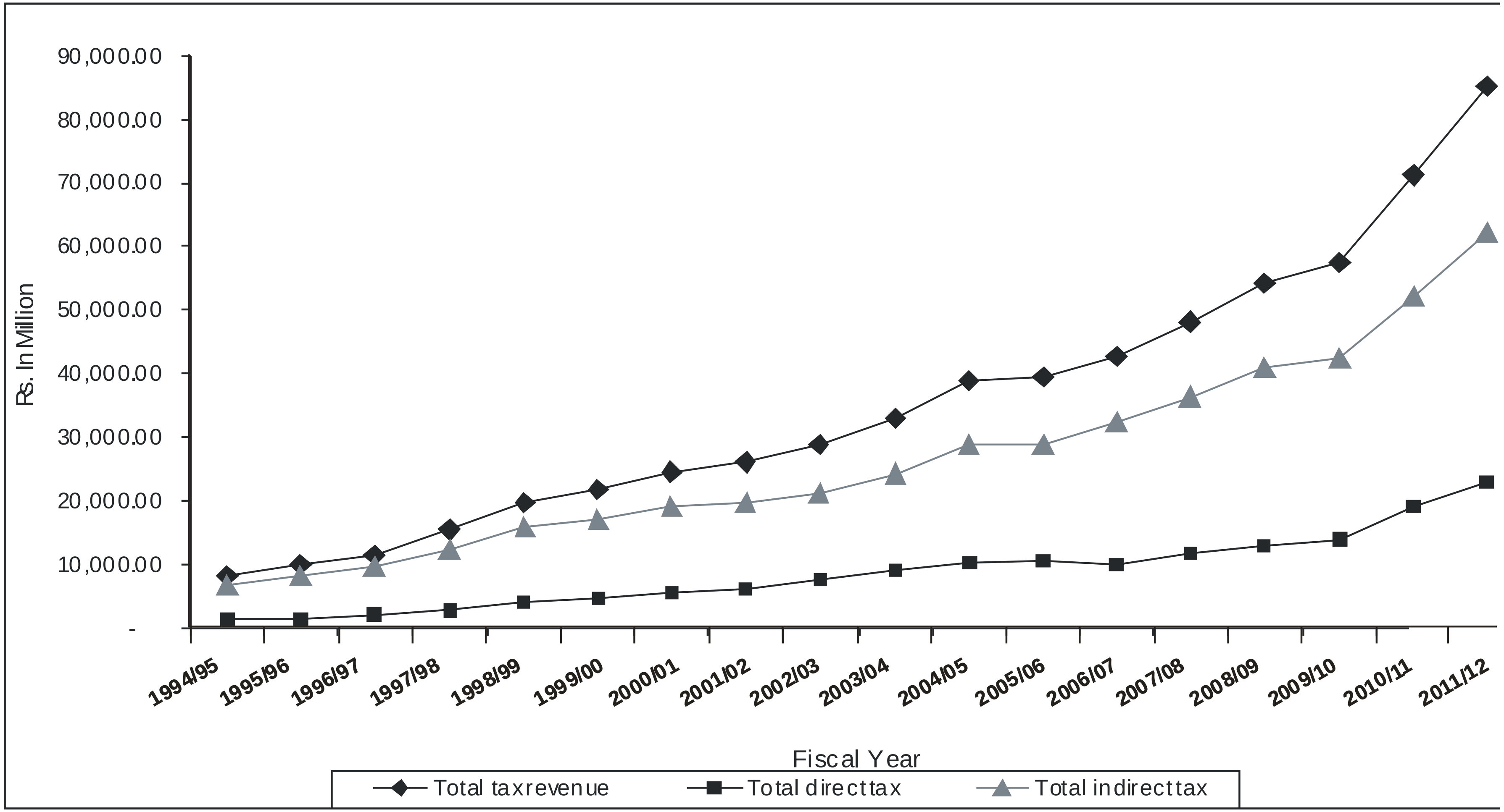
Contribution of direct and indirect tax to total tax revenue

(Rs. in Million)

Fiscal Year	Total tax revenue	Total direct tax	% share of direct tax to total tax revenue	Total indirect tax	% share of indirect tax to total tax revenue
1994/95	8175.8	1368.5	16.74	6807.3	83.26
1995/96	9875.6	1595.2	16.15	8280.4	83.85
1996/97	11662.5	2036.2	17.46	9626.3	82.54
1997/98	15371.5	2855.3	18.58	12516.2	81.42
1998/99	19,660.00	3,849.30	19.58	15,810.70	80.42
1999/00	21,668.00	4,655.90	21.49	17,012.10	78.51
2000/01	24,424.30	5,340.00	21.86	19,084.30	78.14
2001/02	25,939.80	6,187.90	23.85	19,751.90	76.15
2002/03	28,752.90	7,516.10	26.14	21,236.80	73.86
2003/04	33,152.10	8,951.50	27.00	24,200.60	73.00
2004/05	38,865.10	10,159.40	26.14	28,705.70	73.86
2005/06	39,330.60	10,597.50	26.94	28,733.10	73.06
2006/07	42,587.00	10,105.80	23.73	32,481.20	76.27
2007/08	48,173.30	11,912.30	24.73	36,261.00	75.27
2008/09	54,104.70	13,071.90	24.16	41,032.80	75.84
2009/10	57,430.40	13,858.10	24.14	42,572.30	75.86
2010/11	71,127.00	18,980.29	26.69	52,146.43	73.31
2011/12	85,155.50	23,087.80	27.11	62,067.70	72.89

Source: Appendix III, Master Table

Figure 4.1.2: Composition of Total Tax Revenue



4.1.3 Contribution of Various Taxes as percent to GDP

The contribution of total revenue on GDP is increasing in slow motion. In 1994/95 it was 9.24 percent and now in 2011/12 it was 13.11 percent. There was a vast increment in the contribution of total revenue on GDP in the year 2005/06. But again it had a decreasing trend. The contribution of tax revenue on GDP is increasing satisfactorily. In 1994/95 it was 7.04 percent and now in this period of twenty years it was 10.37 percent in the year 2011/12.

Taxes are divided into two parts viz. direct tax and indirect tax. Moreover, indirect tax has significant role in taxation which contributes about three folds more than the direct tax. In 1994/95 the contribution of indirect tax and direct tax was 6.62 percent and 2.40 percent respectively. But in 2011/12 it has reached to 7.56 percent and 2.81 percent respectively.

The contribution of income tax on GDP is increasing gradually. It has contributed 2.06 percent in the year 1994/95 which has reached to 2.48 percent in the year 2010/11. Income tax which is a direct tax plays a vital role in the economy. Similarly, the contribution of land tax and house & land registration tax in 1994/95 was 0.07 percent and 0.39 percent respectively. But now the land tax is at zero level and house & land registration tax has reached to 0.43 percent. Hence, income tax is in leading role among the direct tax.

Within, indirect tax the contribution of custom duty on GDP is higher than other tax. In the year 1992/93 it was 2.44 percent and now in this period of twenty years it has increased to 2.49 percent only. The contribution of sales tax/VAT is also in an increasing trend. It has contributed 3.96 percent in the year 2010/11. VAT as a substitute of sales tax is increasing in recent years. The contribution of excise duties was 1.03 percent in 1994/95. But its contribution has decreased to a certain extent but again from last few years it is increasing and it has reached to 2.20 percent in the year 2011/12. The contribution of contract tax was in an increasing trend i.e. it was 0.15 percent in the year 1994/95 and it reached up to 0.26 percent in the year 1999/2000 but after 2000 it started decreasing gradually and reached to zero percent in the year 2004/05 and is still zero percent in the year 2011/12. The contribution of various taxes as percent to GDP is given in the following tables.

Table No. 4.1.3

Contribution of Various Taxes as Percent to GDP (Rs. In Million)

Year	Total revenue as % GDP	Tax revenue	Direct tax	Indirect tax	Custom duties	Excise duties	Sales tax VAT	Contract tax	Income tax	Land tax	House and Land registration
1994/95	9.24	7.04	1.18	5.86	2.44	1.03	1.74	0.15	0.68	0.07	0.39
1995/96	9.32	6.81	1.1.	5.71	2.51	0.98	1.96	0.15	0.62	0.04	0.39
1996/97	9.16	7.05	1.23	5.82	2.01	0.88	2.08	0.18	0.73	0.04	0.41
1997/98	10.22	8.02	1.49	6.53	2.49	0.83	2.45	0.19	1.01	0.03	0.40
1998/99	11.72	9.36	1.83	7.53	2.94	79.00	2.87	0.24	1.36	0.02	0.43
1999/00	11.65	9.05	1.94	7.11	2.67	0.81	2.69	0.26	1.47	0.01	0.44
2000/01	11.27	9.06	1.98	7.08	2.69	0.85	2.64	0.23	1.56	-	0.37
2001/02	11.37	8.95	2.14	6.82	2.49	0.89	2.46	0.26	1.73	-	0.35
2002/03	11.29	8.71	2.28	6.44	2.44	0.90	2.39	0.19	1.91	-	0.30
2003/04	11.74	9.07	2.45	6.62	2.57	0.86	2.70	0.10	2.06	-	0.28
2004/05	11.95	9.50	2.48	7.01	2.66	0.92	2.94	0.07	2.23	-	0.15
2005/06	17.18	13.40	3.61	9.79	3.61	1.30	4.07	0.10	3.03	-	0.39
2006/07	12.81	9.70	2.30	7.40	2.60	1.09	3.07	-	1.81	-	0.32
2007/08	13.19	10.20	2.52	7.68	3.29	1.32	3.06	-	2.16	-	0.36
2008/09	13.91	10.73	2.59	8.14	3.11	1.28	3.75	-	2.24	-	0.36
2009/10	12.31	9.85	2.38	7.30	2.63	1.12	3.71	-	2.02	-	0.37
2010/11	13.08	10.61	2.83	7.78	2.49	1.38	3.96	-	2.48	-	0.43
2011/12	13.11	10.37	2.81	7.56	2.57	2.20	0.05	-	2.32	-	0.36

Source: Appendix-IV, Contribution of different source of revenue as percent of GDP

4.1.4 Composition of Indirect Tax

Nepalese tax structure is heavily dependent on indirect taxes, which contributed 72.89 percent in 2011/12. Nepalese tax revenue is dependent mainly on taxes on international trade and sales tax/VAT on goods and services supplemented by taxes on income and property to some extent.

The major components of indirect tax in Nepalese tax structure constitutes custom duty, excise duty, sales tax/VAT and contract tax. Custom duty has been classified mainly into import duty and export duty. Other components of indirect tax like entertainment tax, hotel tax, air flight tax and other tax. The others of indirect tax include Indian excise refund, road and bridge maintenance tax and other taxes. The compositions if indirect taxes are given in the following table and graph.

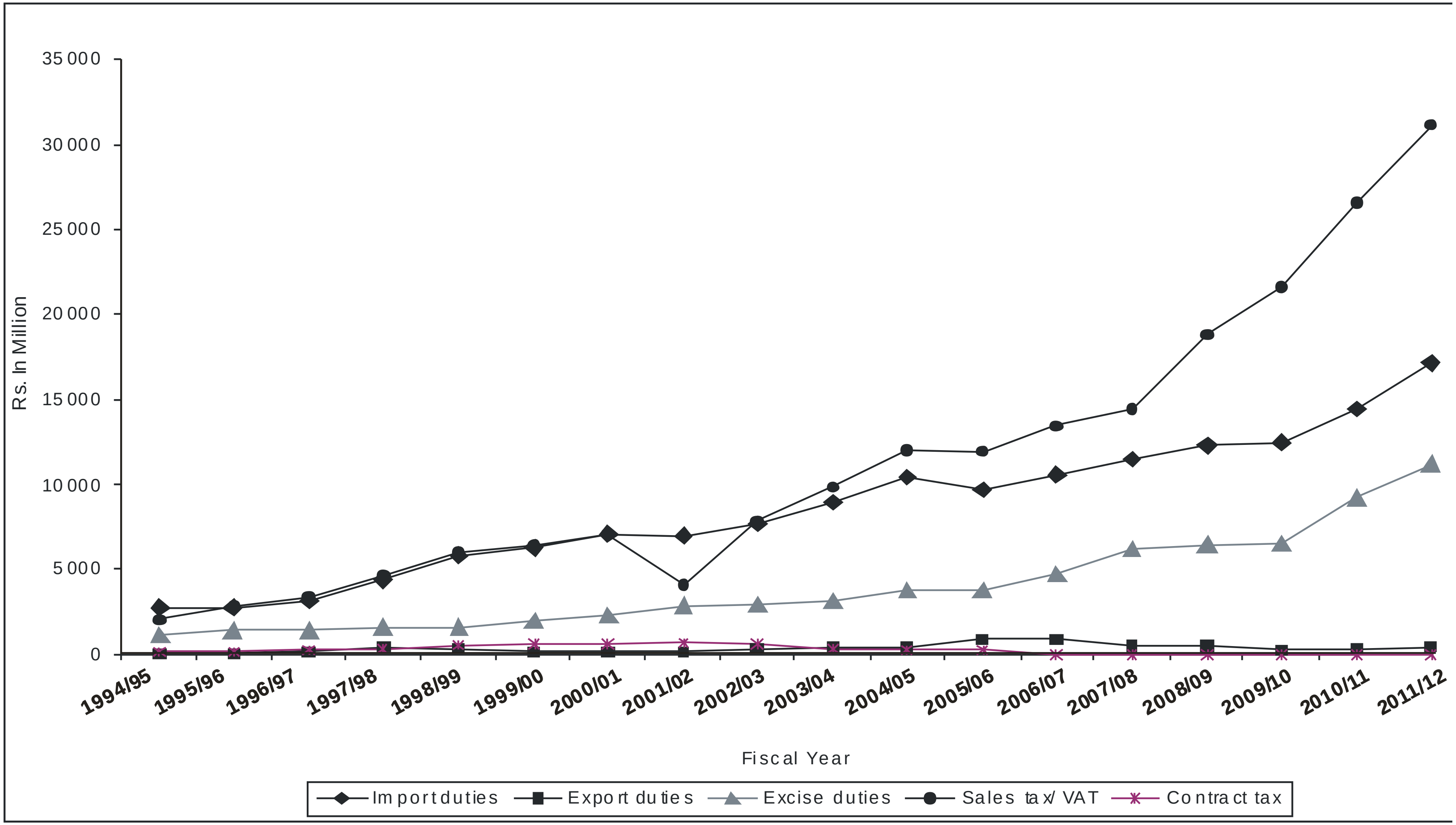
Table No. 4.1.4

Major Sources of Indirect Tax and Their Percentage to Indirect Tax

(Rs. In Million)

Year	Total indirect tax	Import duties	%	Export duties	%	Excise duties	%	Sales tax/ VAT	%	Entertainment tax	%	Hotel tax	%	Contract tax	%	Air tax	%	Other	%
1994/95	6807.3	2752.6	40.44	78.5	1.15	1200.2	17.63	2026.1	29.76	39.4	0.58	115.6	1.98	173.3	2.55	173.4	2.55	248.2	3.65
1995/96	8280.4	2795.2	33.76	114.7	1.39	1414.3	17.08	2840.7	34.31	38.3	0.46	191.3	1.7	213.3	2.58	177.9	2.15	494.7	5.97
1996/97	9626.3	3178	33.01	140.7	1.46	1452.8	15.09	3438.2	35.72	53.1	0.55	223.4	2.32	293	3.04	250.7	2.14	641.4	6.66
1997/98	12516.2	4356	34.8	427	3.41	1592.5	12.72	4693.1	37.5	112.2	0.9	219.1	1.75	356.5	2.85	270.7	2.16	489.1	3.91
1998/99	15810.7	5,840.10	36.94	332.50	2.1	1,657.30	10.48	6031.7	38.15	91.10	0.57	229.10	1.45	505.20	3.19	278.20	1.76	845.50	5.35
1999/00	17012.1	6,246.50	36.72	149.90	0.88	1,944.30	11.43	6431.3	37.8	100.40	0.59	284.20	1.67	613.40	3.61	311.10	1.83	931.00	5.47
2000/01	19084.3	7,093.20	37.17	167.80	0.88	2,298.10	12.04	7126.5	37.34	114.00	0.58	301.10	1.58	621.30	3.25	314.20	1.65	1,048.10	5.49
2001/02	19751.9	7,019.40	35.54	217.10	1.09	2,885.80	14.61	4122.6	36.06	90.60	0.46	45.90	0.23	761.50	3.85	343.30	1.74	1,265.70	6.41
2002/03	21236.8	7,698.30	36.25	378.00	1.78	2,953.20	13.91	7882.2	37.11	23.50	0.11	1.50	0.01	618.00	2.91	240.70	1.13	1,441.40	6.79
2003/04	24200.6	8,989.90	37.02	432.50	1.79	3,127.60	12.92	9854.9	40.72	28.50	0.12	1.80	0.01	374.50	1.55	-	-	1,420.90	5.87
2004/05	28705.7	10,391.90	36.20	492.60	1.72	3,771.20	13.14	12047.8	41.97	30.40	0.11	0.10	-	304.00	1.06	0.10	-	1,667.60	5.81
2005/06	28733.1	9,678.40	33.68	917.40	3.19	3,807.00	13.25	11964	41064	2.10	0.01	-	-	301.20	1.04	-	-	2,063.00	7.18
2006/07	32481.2	10,567.70	32.53	855.60	2.63	4,785.10	14.73	13459.7	41.44	-	-	-	-	-	-	-	-	2,813.10	8.66
2007/08	36260.5	11,451.70	30.98	526.50	1.42	6,226.70	16.85	14478.9	39.17	-	-	-	-	-	-	-	-	4,277.20	11.57
2008/09	41032.8	12,333.64	30.06	514.63	1.25	6,445.90	15.71	18885.4	46.03	-	-	-	-	-	-	-	-	2,853.23	6.95
2009/10	42572.3	12,469.32	29.29	290.54	0.68	6,507.60	15.29	21610.7	50.76	-	-	-	-	-	-	-	-	1,694.14	4.00
2010/11	52146.4	14,423.15	28.61	360.78	0.69	9,243.40	17.73	26558.9	50.93	-	-	-	-	-	-	-	-	1,560.17	3.00
2011/12	62067.7	17,128.17	27.59	433.42	0.7	11,189.58	18.03	31154.6	50.19	-	-	-	-	-	-	-	-	3,500.80	5.64

Figure 4.1.3: Composition of Major Indirect Tax



The share of export duty in custom duty is very low as compare to the import duty. It was 1.15 percent in 1992/93 and increased to 7.00 percent in 2011/12. At the other hand, the share of import duty was 40.44 percent in the year 1994/95 which has decreased to 27.59 percent in the year 2011/12. From the above table it is clear that the share of import duty is very high than export duty but the share of import duty in recent years is not satisfactory as compare to previous years. The sales tax/VAT has become an important source of overall tax revenue with an increasing trend, which contributed 50.19 percent to indirect tax in 2011/12 as compared to 29.76 percent in 1994/95. The share of excise duty was 17.63 percent in 1992/93 but it decreased to 10.48 percent in the year 1998/99. But again it took up its position and rose to 18.03 percent in 2011/12.

The contribution of entertainment tax has decreased from 0.58 percent in 1994/95 to zero percent in 2006/07 and has remained the same till 2011/12. Similarly, the share of hotel tax, contract tax and air flight tax was 1.98 percent, 2.55 percent and 2.55 percent respectively in 1994/95. But their contribution has reached to zero percent in 2006/07 and has remained the same till present.

4.1.5 Composition of Direct Tax

The major components of direct tax comprise income tax, land tax and house & land registration tax. The contribution of income tax to direct tax is higher than other tax. The share of the major components of the direct tax is given in the following table and graph.

Table No. 4.1.5

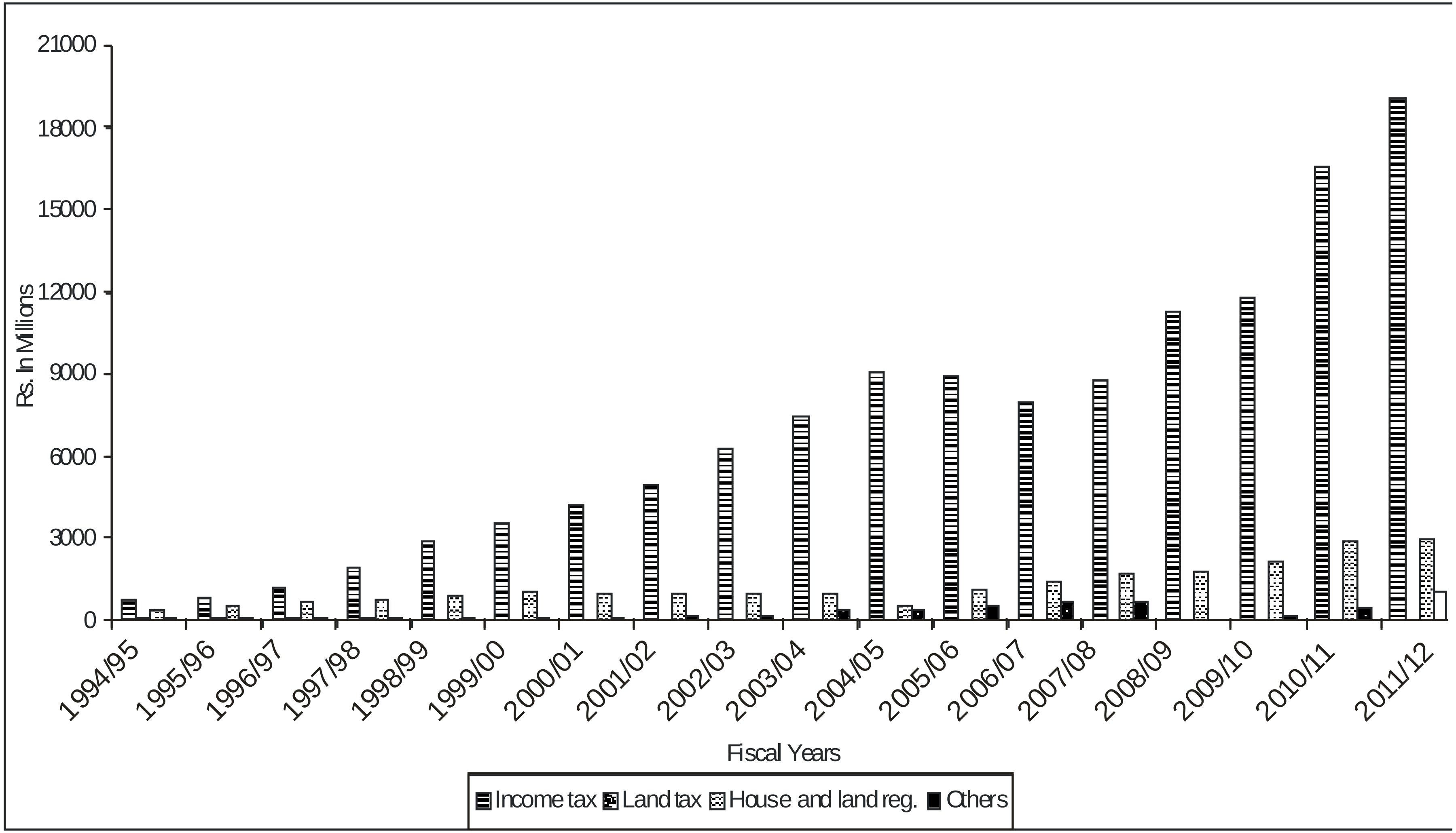
Components of Direct Tax and Their Percentage to Direct Tax

(Rs. In Million)

Year	Direct tax	Income tax	%	Land tax	%	House and land reg.	%	Others	%
1994/95	1,368.50	784.00	57.29	82.10	6.00	456.60	33.36	45.80	3.35
1995/96	1,595.20	897.30	56.25	64.80	1.06	571.30	35.81	61.80	3.87
1996/97	2,036.20	1,214.90	59.67	69.40	3.41	685.50	33.67	66.40	3.26
1997/98	2,855.30	1,929.60	67.58	61.00	2.14	772.20	27.04	92.50	3.24
1998/99	3,849.30	2,857.60	74.24	34.90	0.91	902.80	23.45	54.00	1.40
1999/00	46,655.90	3,518.60	75.57	18.20	0.39	1,048.40	22.52	70.70	1.52
2000/01	5,340.00	4,218.40	79.00	5.90	0.11	1,009.50	18.90	106.20	1.99
2001/02	6,187.90	5,008.80	80.95	3.60	0.06	1,000.60	16.17	174.90	2.83
2002/03	7,516.10	6,293.50	83.73	1.40	0.02	1,001.80	13.33	219.40	2.92
2003/04	8,951.50	7,539.10	84.22	4.60	0.05	1,011.30	11.30	396.50	4.43
2004/05	10,159.40	9,116.90	89.74	5.10	0.05	607.80	5.98	429.60	4.23
2005/06	10,597.50	8,906.00	84.04	0.80	0.01	1,131.00	10.67	559.70	5.28
2006/07	10,105.80	7,966.20	78.83	-	-	1,414.30	13.99	725.30	7.18
2007/08	11,212.30	8,805.30	78.53	-	-	1,697.50	15.14	709.40	6.33
2008/09	13,071.90	11,272.60	86.24	-	-	1,799.20	13.76	-	-
2009/10	13,858.10	11,787.00	85.05	-	-	2,181.10	15.74	110.00	0.08
2010/11	18,980.30	16,608.10	87.50	-	-	2,855.90	15.05	483.70	2.55
2011/12	23,087.80	19,077.81	82.63	-	-	2,940.74	12.74	1,069.25	4.63

Source: Appendix- III

Figure 4.1.4: Components of Direct Tax



Income tax occupies largest share in the direct tax and that the percentage share of this component in the fiscal year 1994/95 was 57.29 percent amounting to Rs. 784.0 million which reached to 82.63 percent amounting Rs. 19077.81 million in 2011/12.

Land tax contributed 6 percent of direct tax in 1994/95, which decreased gradually and reached even zero percent in 2004/05 and was still the same in the year 2009/10. The house and land registration is decreasing year by year. Its share was 33.36 percent in 1994/95 and in 2011/12 it was 12.74 percent.

4.1.6 Contribution of Direct Tax

The most serious gap, which the tax structure exhibits, was in the share of direct tax. Its share in tax revenue and total revenue was 27.11 percent and 21.45 percent respectively in 2011/12 as against 16.74 percent and 12.75 percent in 1994/95, which is given in the following table.

Table No. 4.1.6

Contribution of Direct Tax

(Rs. In Million)

Fiscal Year	Direct tax (DT)	DT as % of total tax	DT as % of GDP	DT as % of total revenue
1994/95	1368.5	16.74	1.18	12.75
1995/96	1595.2	16.15	1.1	11.8
1996/97	2036.2	17.46	1.23	13.44
1997/98	2855.3	18.58	1.49	14.58
1998/99	3849.3	19.63	1.83	15.64
1999/00	4655.9	21.49	1.94	16.69
2000/01	5340	21.86	1.98	17.58
2001/02	6187.9	23.85	2.14	18.79
2002/03	7516.1	26.14	2.28	20.18
2003/04	8951.5	27	2.45	20.87
2004/05	10159.4	26.14	2.48	20.78
2005/06	10597.5	26.94	3.61	21.01
2006/07	10105.8	23.73	2.3	17.97
2007/08	11912.5	24.73	2.52	19.11
2008/09	13071.9	24.16	2.59	18.64
2009/10	13858.1	24.14	2.38	19.32
2010/11	18980.29	26.69	2.83	21.64
2011/12	23087.8	27.11	2.81	21.45

Source: Appendix - III

From the above table, it is clear that the contribution of direct tax on total tax revenue was increased to 26.94 percent in 2004/05. But after that, it went on decreasing for few years and than again it stood up back with 27.11 percent in 2011/12.

The share of direct tax on GDP is very low. Its share in 1994/95 was only 1.18 percent. Despite low contribution, it was increasing steadily. But after 1996/97 it took up its position and reached to 2.81 percent in 2011/12. In the other hand, the share of direct tax on total revenue has remained from 11 percent to 22 percent. Its share in 1994/95 was 12.75 percent and 21.45 percent in 2011/12.

4.1.7 Contribution of Income Tax in Nepal

Nepal has started practicing of income tax very late. The idea of introducing income tax in Nepal originated along with the first budget on 1952. Finally in 1959, Business Profits and Salaries Tax Act1960, was introduced. At that time income tax levied only on business profit and salaries. After about three years of experience of income tax, the government replaced the prevailing tax act by Income Tax Act, 1962. In 1974, Income Tax Act, 1974 (2031) was enacted. However, this act is replaced by Income tax Act, 2002 (2058). The contribution of income tax on various revenue is given in the following table.

Table No. 4.1.7

Contribution of Income Tax on Direct Revenue Heads

(Rs. In Million)

Fiscal Year	Income tax (IT)	IT as % of direct tax	IT as % of tax revenue	IT as % of total revenue	IT as % of total GDP
1994/95	784.00	57.29	9.59	7.31	0.68
1995/96	897.30	56.25	9.09	6.64	0.62
1996/97	1,214.90	59.67	10.42	8.02	0.73
1997/98	1,929.60	67.58	12.22	9.85	1.01
1998/99	2,857.60	74.24	14.54	11.61	1.36
1999/00	3,518.60	75.57	16.24	12.61	1.47
2000/01	4,218.40	79.00	17.27	13.89	1.56
2001/02	5,008.80	80.94	19.31	15.21	1.73
2002/03	6,293.50	83.73	21.89	16.89	1.91
2003/04	7,539.10	84.22	22.74	17.58	2.06
2004/05	9,116.90	89.74	23.46	18.65	2.23
2005/06	8,906.00	84.04	22.64	17.65	3.03
2006/07	7,966.20	78.83	18.71	14.15	1.81
2007/08	8,805.30	73.92	18.28	14.13	1.86
2008/09	11,272.60	86.24	20.83	16.08	2.24
2009/10	11,787.00	85.05	20.52	16.43	2.02
2010/11	16,608.10	87.50	23.35	18.93	2.48
2011/12	19,077.81	82.63	22.40	17.73	2.32

Source: Appendix - III

Income tax was increased 24 folds in 2011/12 as against in 1994/95. Total income tax in 1994/95 was 784 million and it increased to 19077.81 million in 2011/12. The share of income tax to total direct tax was 57.29 percent in 1994/95. It was the lowest contribution during the study period. The share of income tax to total direct tax is increased to 82.63 percent in 2011/12. The share of income tax to total tax revenue was 9.59 percent in 1994/95, which increased to 23.46 percent in 2004/05, after then it decreased to 18.28 percent in 2007/08. After 2008/09, it has increased considerably and its contribution to the total tax revenue reached to 22.40 percent in 2011/12.

Similarly, the share of income tax on total revenue and GDP was 7.31 percent and 0.68 percent respectively. After 1994/95, its share increased sharply up to study period. In 1994/95, its share was 8.02 percent of total revenue and 0.73 percent of GDP, which increased to 17.73 percent and 2.32 percent of total revenue and total GDP in 2011/12 respectively.

From the above table, it can be concluded that the income tax is one of the prime sources of direct tax in Nepal. But the contribution of income tax to total tax revenue is still lower than the developed countries. Nevertheless, income tax is most likely to increase in the future and be the major sources of revenue.

4.1.8 Composition and Trend of Income Tax

Until 1995/96, income tax revenue was divided into corporate income tax, individual income tax and remuneration. After 1995/96, the income tax revenue was divided into four group i.e. corporate income tax, individual income tax, house & land rent tax and interest tax. Corporate tax is collected from Government Corporation, public and private limited companies and partnership firms. Individual tax is collected from remuneration, and industry business, profession or vocation. Interest tax is collected from banks or finance companies that pay interest on all types of deposits and the house rent tax is levied on income obtained from renting house and land in urban areas. The composition and trend of income tax is given in the following table.

Table No. 4.1.8

Components of Income Tax

(Rs. In Million)

Source of income tax	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Corporate income tax:								
-Government	5990	4371	3656	4839	5327	5396	11516	9768
corporation	2930	1770	1252	2057	1332	1859	1018	184
-Public Ltd. company	1930	1430	1236	1531	2468	3537	5711	7110
-Private Ltd. company	1130	1171	1168	1251	1528	1687	4786	2473
Individual income tax:								
-Remuneration	2400	3732	3177	3539	3872	4234	2029	5971
-Industry, business,	600	832	1240	1392	1677	1752	2029	2295
profession or vocation	1800	2897	1937	2148	2195	2483	481	3677
House and land rent tax	260	348	382	403	496	209	599	627
Interest tax	460	468	848	733	757	757	996	962
Total	9110	8919	8060	9515	10453	10896	15621	17328

Source: Annual reports of various years, Inland Revenue Department

From above table, it can be seen that the aggregate amount of corporate income tax was Rs. 5990 in 2004/05 but after 2004/2005 it was gradually decreasing up to 2009/10. In 2010/11 the amount of corporate income tax was Rs. 11,516 million which mean double amount of the 2009/10 and again decreased in 2009/10 to some extent. Within corporate income tax, from 2004/05 to 2007/08 Government Corporation had contributed to most to income tax but after 2007/08 public limited company has highest contribution. Hence, Private limited company has least contribution to the income tax. In overall, corporate income tax plays the vital role in contributing income tax.

The contribution of individual income tax to the income tax was in an increasing trend. But its contribution in 2009/10 has not been satisfactory as compared to other previous years as its amount decreased to Rs. 2029 million. Hence, again it had a very great increment in the year 2010/11 i.e. double amount of the year 2011/12 Rs. 5971 million. Among the individual income tax, remuneration is increasing in satisfactory level but the industry, business, profession or vocation decreased to Rs. 481 million in 2008/09.

The contribution of house and land rent tax and interest tax is in an increasing trend. These contributions were Rs. 260 million and Rs. 460 million in 2005/06 which increased to Rs. 627 million and Rs. 962 million in 2011/12 respectively.

Table No. 4.1.9

Composition of Income Tax

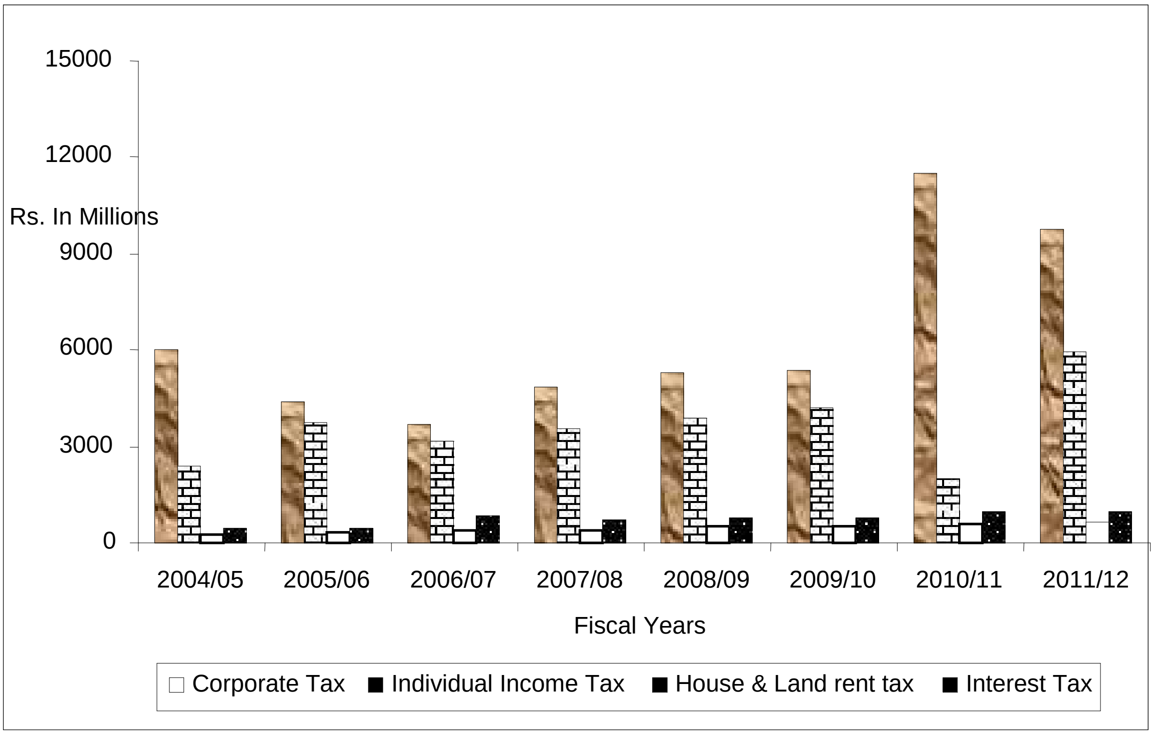
(Rs. In Million)

Year	Total Income Tax	Corporate Tax	% of Income tax	Individual Income Tax	% of Income Tax	House & Land rent tax	% of income tax	Interest Tax	% of Income Tax
2004/05	9110	5990	65.75	2400	26.34	260	2.85	460	5.05
2005/06	8919	4371	49.01	3732	41.84	348	3.90	468	5.25
2006/07	8060	3656	45.36	3177	39.42	382	4.79	845	10.48
2007/08	9515	4839	50.86	3539	37.19	403	4.24	733	7.70
2008/09	10454	5327	50.96	3874	37.51	496	4.74	757	7.24
2009/10	10896	5396	49.52	4234	38.86	509	4.67	757	6.95
2010/11	15140	11516	76.06	2029	13.40	599	3.96	996	6.58
2011/12	17328	9768	56.37	5971	34.46	627	3.62	962	5.55

Source: Annual report of various years, Inland Revenue Department.

The share of corporate income tax on total income tax was 65.75 percent in 2004/05, which decreased to 45.36 percent in 2006/07. But it started to increase and reached 76.06 percent in 2010/11 and again it decreased to 56.37 percent in 2011/12. Individual Income tax had contributed 26.34 percent in 2004/05 to total income tax, which reached to 34.46 percent in 2011/12. The contribution of house and land rent tax is between 2 to 5 percent. Its share in 2004/05 was 2.85 percent of total income tax, which reached to 3.62 percent in 2011/12. Similarly, contribution of interest tax on total income tax was 5.05 percent in 2004/05, which reached to 10.48 percent in 2006/07. But again it decreased to 5.55 percent in 2011/12. The composition of income tax has been shown graphically as follows:

Figure 4.1.5: Composition of Income Tax



4.2 Analysis of Income Tax Act 2058 with reference to Income Heads

Income Tax Act, 2031 is being replaced by Income Tax Act, 2058. Income Tax Act, 2058 has classified the income into the following 3 heads:

1. Business
2. Employment and
3. Investment

The act has defined the income heads as follows:

1. **Business:** Business means any industry, a trade, a profession, or the like isolated transaction with a business character and includes a past, present or prospective business.
2. **Employment:** Employment includes a past, present, or prospective employment.
3. **Investment:** Investment means an act of holding or investing one or more assets of a similar nature that are used in an integrated fashion but excludes-

i. Act of holding of assets, other than non business chargeable assets, primarily for personal use by the person owing the assets or investing amount on such assets; or

ii. Employment or business.

4.2.1 Income from a Business

Income Tax Act, 2058, section 7, has clearly mentioned the incomes or amounts, which are includable in computing the income from business. A person's income from business for an income year is the person's profits and gains from conducting the business for the year. While calculating a person's profit and gains from business, the following amounts derived by the person during the year will be included which are as follows:

a. Service fees including commission, meeting management or technical service fees.
b. Amounts derived from disposal of trading stock.
c. Net gains from the disposal of business assets or liabilities of the business.
d. Amounts treated as derived in respect of excess depreciation on the disposal of the person's depreciable assets of the business.
e. Gifts received by the person in respect of the business.
f. Amounts derived as consideration for accepting restriction on the capacity to conduct the business.
g. Amounts derived that are effectively connected with the business and that would otherwise be included in calculating the person's income from an investment.
h. Other amounts required to be included like change in accounting method, transfer pricing, recovery of bad debts, compensation received etc.

<u>Non-includable amounts on profit and gains of business:</u>

The following amounts are excluded in calculating income from business:

a. Amounts exempt under section 10, 54 and 69.
b. Final withholding payments under section 92.

4.2.2 Income from an Employment

Income Tax Act, 2058 has specified the income from Employment. As per the act, any type of remuneration from any employment is taxable income. According to Section 8(2) of the act, the remuneration received by a person from employment is the following payments made by the employer:

a. Any wages, salary, leave pay, overtime pay, fees, commission, prizes, gifts, bonuses and other facilities.

b. Any personal allowance, including any cost of living, subsistence, rent, entertainment, and transportation allowance.
c. Payments providing any discharge or reimbursement of costs incurred by the individual or an associate of the individual.
d. Payments for the individual's agreement to any condition s of the employment.
e. Payments for redundancy or loss or termination of the employment.
f. Retirement contributions (i.e. provident fund, gratuity etc) including those paid by the employer to a retirement fund in respect of the employee, and retirement payments.
g. Other payments made in respect of the employment, and
h. Other quantified perquisites:

1. Availability of motor vehicle wholly or partly for private purpose.
   i. 0.5%of salary in case of employees.
   ii. 1%of market value of vehicle in case of other (i.e. Consultant).

2. Provision of house to employees:
   i. 2%of salary in case of employees
   ii. 25% of actual rent (in case of leased building) or prevailing rate (in case of own building) in case of other (i.e. consultant)

3. The amount of expenses incurred by the employer in making the provision as reduced by any contribution made by the employer towards the provision.
   i. The services of housekeeper, chauffeur (driver), gardener or other domestic assistant.
   ii. Any meal, refreshment or entertainment.
   iii. Drinking water, electricity, telephone and the like utilities in respect of the employee's place of residence.

4. In case where the interest paid by the employee during the year under the loan is lower than the interest to be paid as per the prevailing interest rate, the amount to the extent it is lower.

Non-includable amounts on employment income:

The following incomes are excluded in calculating the employment income of an employee:

a. Amounts exempt from tax under section 10.
b. Final withholding payments under section 92.
c. Meals and refreshments provided to employees at business premises/work site if provided to all employees under equal terms section 8(3).
d. Settlement by or reimbursement to an employee of expenses incurred solely for the purpose of business section 8(3).
e. Payments by the employer for petty expenses relating to tea expenses, stationeries, tips, prizes and emergency medical treatment up to Rs. 500 at a time whose accounting is not practical and administratively difficult section 8(3).

4.2.3 Income from an Investment

Income Tax Act, 2058 has defined investment as an act of holding or investing one or more assets. A person's income from an investment for an income year is the person's profits and gains from conducting the investment for the year. While calculating a person's profits and gains from an investment, the following amounts derived by the person during the year are included:

a. Any dividend, interest, natural resource payment, rent, royalty, gain from investment insurance, gain from an unapproved retirement fund interest, or retirement payment made by an approved retirement fund.
b. Net gains from the disposal of non-business chargeable asset of the investments.
c. Amounts treated as derived in respect of excess depreciation on the disposal of the person's depreciable assets of the business.
d. Gifts received in respect of the investment.
e. Amounts derives as consideration for accepting restriction on the capacity to conduct the investment, and
f. Other amounts required to be included as a result of tax accounting or quantification or as specified by the Act.

Non-includable amounts on investment

However, the following are excluded in calculating income from investment:

a) Amounts exempted from tax under section 10, dividends under section 54 and 69, and final withholding payments as per section 92 and
b) Amounts that are to be included in the person's income from employment or business.

4.2.4 Business Exemptions, Exempt Amounts and Other Concessions

Income Tax Act, 2058 has mentioned the amounts, which are exempt and other concessions. They are described in the following section.

1) Tax-Exempt Amounts:

The following amounts are exempt from tax as per section 10.

a. Amount derived by a person entitled to privileges under a bilateral or a multilateral treaty concluded between the Government of Nepal and a foreign country or an international organization.

b. Amount derived by an individual from employment in the public service of the government of a foreign country provided that:
   i. The individual is a resident person solely by reason of performing the employment or is a non-resident person; and
   ii. The amounts are payable from the public funds of the country.

c. Amounts derived from public fund of the foreign country by an individual who is not a citizen of Nepal or by a member of the immediate family of the individual.

d. Amounts derived by an individual who is not a citizen of Nepal from employment by Government on terms of a tax exemption.

e. Allowances paid by Government to widows, elder citizens, or disabled individuals.

f. Amounts derived by way of gift, bequest, inheritance, or scholarship, except as required to be included in calculating income under this Act.

g. Amount derived by an exempt organization by way of:
   i. Gifts (Donation), or
   ii. Other contributions that directly relate to the exempt organization's function, whether or not contribution is made in return for consideration provided by the organization. For example, subscription fee received by a club is exempt from tax.

h. Pension received by a Nepali citizen retired from the army or police service of a foreign country provided the amounts are payable from the public fund of that country.

2) **Business Exemptions and Concessions:**

Income Tax Act, 2058 has provided business exemptions and concessions in section 11.

a. An agricultural income derived from sources in Nepal during an income-year by a person, other than the income from an agriculture business derived by a registered firm, or company, or partnership, or a corporate body, or through the land above the land holding ceiling as prescribed in the Land Act, 2021, is exempt from income tax.

b. Incomes derived by cooperative societies, registered under Cooperative Act, 2048 (1991), from business mainly based on agriculture and forest products such as sericulture and silk production, horticulture and fruit processing, animal husbandry, diary industries, poultry farming, fishery, tea gardening and processing, coffee farming and processing, herbiculture and herb processing, vegetable seeds farming, bee-keeping, honey production, rubber farming, floriculture and production and forestry related business such as lease-hold forestry, agro-forestry, cold storage established for the storage of vegetables and business of agricultural seeds, insecticide, fertilizer and agricultural tools (other than machine operated)and rural community based saving & credit cooperatives are exempt from tax. Dividends distributed by such societies are also exempt from tax.

c. A natural person or an entity operating special industry* during the whole income year is taxes as under:

   i. If the industry is providing direct employment to 600 or more Nepalese citizens throughout the whole year, 90%of the applicable tax rate is applied for the year.

   ii. The industry operating in remote, undeveloped and underdeveloped area will have to pay 70%, 75% and 80% of the applicable tax rate respectively up to ten income years commencing from and including the year in which the operation commences.

d. Income of an industry is taxed as under:

   i. An industry established in specified Special Economic Zone (SEZ) is exempt from tax for the first 5 years of its operation and then after taxed at 50% of the tax rate otherwise applicable.

   ii. An IT industry established in specified IT Park by publishing notice in Nepal Gazzette, is taxed at 75% of the tax of the tax rate otherwise applicable.

   iii. An industry established in remote area is exempt from tax for the first ten years its operation.

   iv. The provision of 2% exemption in tax rate given to a company listed in Nepal Stock Exchange has been waived from fiscal year 2063/64.

e. If there is an agreement between a person and the Government of Nepal for building and operating infrastructure, the person is entitled to enjoy all tax related concessions prevalent at the time of agreement for a period covered by the agreement irrespective of the provision in present Act.

f. The incomes received under business exemptions and concessions including the income of an entity conducting petroleum business under Nepal Petroleum Act 2040 are required to calculate separately assuming that these incomes are received by the separate person. That is, incomes received under business exemptions and concessions should be separated from other general business and investment incomes.

g. If more than one exemption is available to the same income, only one exemption is available as per the selection made by the taxpayer.

h. If the assets used by the special industry were used previously by another person operating the similar type of special industry the ten year for the latter will be counted from the period of such use by the another person previously.

* Special industry, in taxation means a manufacturing industry other than a liquor or tobacco as categorized in section 3 of the Industrial Enterprises Act 2049.

4.2.5 Deductions Allowed

Chapter 5 of income Tax Act, 2058 has provided the provision relating to expenses, which are allowed for deduction and not allowed for deduction. The expenses allowed for deduction are discussed below:

1) General Deduction (Sec. 13):

Subject to Income Tax Act, 2058 for the purpose of calculating a person's income from any business or investment, there will be deductions of all expenses to the extent incurred:

i. during the income year,
ii. by the person, and
iii. in the generation of income from business or investment.

2) Interest (Sec. 14):

i. The interest incurred during the year for the borrowed fund of the person is allowed for deduction to the extent that: the borrowed money is used in that year, if the money is borrowed for purchase of an asset and that asset is used in that year, or in other case, the debt obligation is created in the production of income from business or investment.
ii. If a resident entity pays interest to the controlling entity, the resident entity may deduct the interest without exceeding the sum of (a) All interests that are to be included in the entity's taxable income, and (b) 50% of the

entity's adjusted taxable income for the year calculated without including any interest income and deducting any interest expenses.

iii. Portion of interest not deducted during the year because of the limitation will be deducted in the next income year.

iv. For this purpose, the controlling entities are the following entities which own or control the resident entities to the extent of 25% or more at any time during the income year. (a) Exempt organizations or associates of exempt organizations. (b) Persons or associates of persons getting business concessions under sec 11. (c) Non-resident persons or associates of non resident persons. (d) Any combination of a, b and c.

3) Cost of Trading Stock (Sec. 15)

i. Trading stock includes these stocks with a person: raw materials, work-in-progress and finished goods. But it does not include stock in foreign currencies.

ii. The cost of trading stock is derived as follows:

	Cost of opening stock	xxx
Add:	Purchase or produced during the year	xxx
		xxx
Less:	Cost of closing stock	xxx
	Cost of trading stock	xxx

iii. The closing stock of last year will be the opening stock for this year. Closing stock should be taken/valued at cost price or market price whichever is lower.

iv. The person keeping accounts on a cash basis can adopt either the prime cost or factory cost as basis for the valuation of trading stocks.

v. The person keeping accounts on an accrual basis must adopt factory cost basis for valuation of trading stocks.

vi. In case of actual cost could not be derived for the particular trading stock; either FIFO or Weighed Average Cost Method can be adopted.

vii. The prime cost is derived as follows:

Cost of raw materials consumed	xxx
Direct labour cost	xxx
Factory variable overhead	xxx
Cost of trading stock	xxx

viii. The factory cost is derived as follows:

Cost of raw materials consumed	xxx
Direct labour cost	xxx
Factory overhead (Fixed + Variable)	xxx
Factory Cost	xxx

4) Repair & Improvement Cost (Sec. 16)

i. The repair and improvement cost incurred during the year for the depreciable assets owned and used by a person in generating income from business or investment is deductible.

ii. Eligible repair & improvement cost is 7%of depreciation basis of asset pool at the end of the income year.

iii. The unabsorbed repairs is capitalized at the beginning of the next income year in respective blocks (i.e. Blocks A, B, C and D).

iv. However, this repair and improvement limit is not applicable to airline business for overhauling of aircraft according to the standards prescribed by Civil Aviation Authority of Nepal (CAAN).

In respect if repair and improvement expenses for assets acquired under lease or hire, the allow ability of such expenses will be governed by the terms and conditions in lease agreement. Where the lease agreement clearly states that repair and improvement expense will be borne by lessee, such expenses will be deductible under Sec. 13 and 19 of ITA, 2058.

5) **Pollution Control Cost (Sec. 17):**

Pollution control cost means cost incurred by a person with respect to process or an asset that seeks to control pollution or otherwise protect or sustain the environment. Pollution control cost though are of capital nature are allowed for deduction to an extent from taxable income of the person. Actual pollution control cost, or 50% of adjusted taxable income from all businesses conducted by the person, whichever is less is deductible. The portion of pollution control cost not allowed as deduction will be capitalized at the beginning of the next income year under Block 'D'.

Government has allowed deduction of pollution control cost in order to control pollution and protect the environment. But a standard limit for deduction has been dissatisfying factor for business to use assets or process for pollution control or protect/sustain the environment. So, it is not good symptom of pollution control.

6) **Research & Development cost (Sec. 18):**

R & D cost means cost incurred by a person for the purposes of developing the person's business and improving business products and process. However, it does not include cost in respect of natural resource prospecting, exploration and development incurred by a person in the production of the person's income from a business, which is treated as an outgoing for an asset used by the person in tat production. Research and development cost though these are of capital nature are allowed for deduction to an extent from taxable income of a person. Actual Research & Development cost or, 50% of adjusted taxable income from all the businesses whichever is less is deductible. The portion of Research & Development cost not allowed as deduction will be capitalized at the beginning of the next income year under Block 'D'.

7) **Bad Debts (Sec. 25.2):**

Under the following conditions, bad debts can be written off:

i. If the outstanding loan of bank or financial institution has become a bad debt in accordance with the standards prescribed by Nepal Rastra Bank.

ii. In other case, the person receiving payment believes that the amount could not be recovered after taking reasonable steps (to recover the amount or loan.) If any bad-debt deducted earlier is recovered, it should be included in income under respective heads.

8) **Depreciation Allowance (Sec. 19):**

For the purpose of calculating a person's income for an income year from any business or investment, there shall be deducted in respect of depreciation of depreciable assets owned and used by the person during the year in the production of person's income from the business or investment, the allowances granted to the person for the year under schedule 2.

Depreciation is the depletion in the value of assets by wear and tear obsolescence, or the passing of time. Depreciation at prescribed rate is allowed on used depreciable assets owned by the person. The block wise details and rates of depreciation are given in the following table:

Block	Particulars of assets	Rate of Depreciation (%)
A	Building, Structure, and similar works of a permanent nature	5%
B	Computers, data processing equipments, furniture, fixtures and office equipments	25%
C	Automobiles, bus and mini bus	20%
D	Construction and earth moving equipments, portion of pollution control cost and Research & Development cost and any tangible assets not included in above blocks (Plant and Machinery, etc.)	15%
E	Intangible assets other than not included in block 'D' (Patent, Design, Software, etc)	Rate in % calculated as cost divided by the useful life of the assets in the pool at the time the asset is most recently acquired by the person and rounded down to nearest half.

Depreciation basis (pool-wise) is calculated as under:

	Opening depreciation basis	xxx
Add:	Additional during the year (time-wise)	xxx
		xxx
Less:	Disposal during the year	xxx
	Depreciation basis	xxx

Depreciation = Depreciation rate applicable to that block X Depreciable basis.

These under noted entities are allowed an additional depreciation of 1/3rd of the rate prescribed on the assets falling under Blocks A, B, C & D:

a. Entity engaged in building public infrastructure to transfer to the Government of Nepal and any other entity engaged in power generation, transmission or distribution of electricity.
b. Entity wholly engaged in operating special industry, operating road, bridge, tunnel, ropeway or flying bridge constructed by the entity, trolley bus or trams.
c. Entity that earned income from export in an income year.

Addition during the year in any Block is divided into two parts: absorbed and unabsorbed portion. Such division is based on the latter of the time the asset is first owned/used or the cost is incurred. The table is given herewith to clarify the position:

Time	**Absorbed Portion**	**Unabsorbed Portion**
Shrawan first to Poush end	3/3	Nil
Magh first to Chaitra end	2/3	1/3
Baishak first to Ashad end	1/3	2/3

During the income year the absorbed portion of the addition is only considered for calculating depreciation. The assets falling under block A, B, C, & D should be included in respective blocks whereas in case block 'E', the individual assets should be shown in Block 'E'. If the block balance after depreciation during an income year comes less than Rs. 2000, the whole amount is allowed as expenses during the income year. Gains (loss) on disposal of pool of depreciable assets are treated as normal revenue (expenses).

9) **Losses from Business (Sec. 20):**

For the purpose of calculating income from business for an income year from a business or an investment, the following losses are allowed for deduction:

- Any unrelieved loss of the year incurred by the person from any other business
- Any unrelieved loss of the previous four income years incurred by the person from any business. However, in case of electricity projects involving in building power station, generating and transmitting electricity and the projects conducted by any entity so as to build public infrastructure own, operate & transfer (BOOT) to the Government of Nepal, any unrelieved loss of the previous seven years. Similarly, loss of an entity conducting petroleum business under Nepal Petroleum Act 2040 can be carried forward up to next 12 years.

Business loss, thus can be carried forward up to succeeding four income years and offset against business or investment income. Loss from domestic business can be offset against all types of income from any source (domestic or foreign). Loss from foreign business can be offset against foreign business or investment.

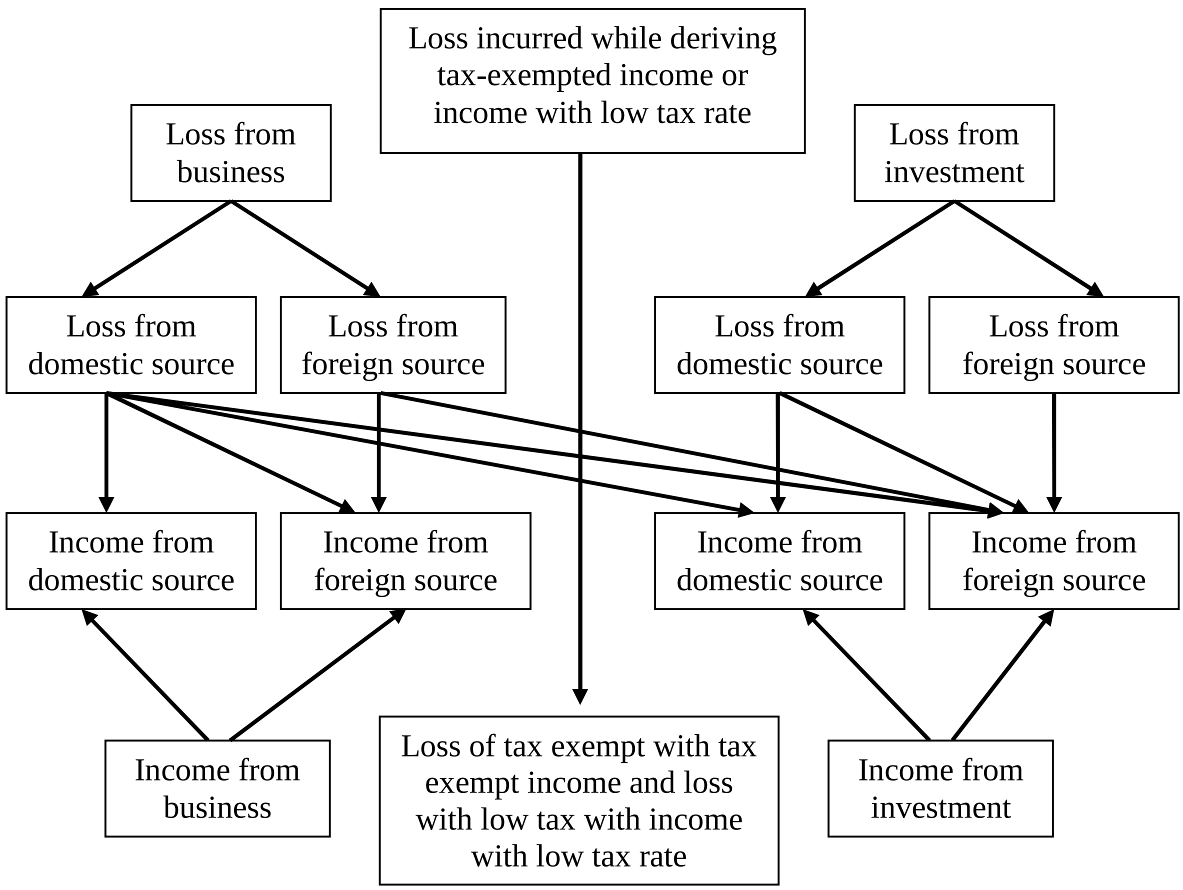
While calculating the income of a person for an income year from an investment, any unrelieved loss of the year incurred by the person from any other investment is allowed for deduction. In other words, loss from investment cannot be carried backward or forward. It is to be adjusted from the respective head only in the year. Losses from a domestic investment can be deducted only against investment income whether domestic or foreign. Losses from foreign investment can be deducted from foreign investment income only.

Any unrelieved loss incurred in deriving non-taxable income is allowed for deduction only against the person's non-taxable income. Loss relating to business with low tax rates can be adjusted only with the income of business with same tax rate. Loss from a special industry getting concessions cannot be adjusted with the income of normal business. Special industry is taxed at concessional rate as compared to normal business.

In case of long term contract, the Department may, by notice in writing, allow the loss to be carried back to preceding income year to years; and treated as an unrelieved loss of that year or years in an amount exceeding the amount by which inclusions in calculating the income from business to which the long term contract relates for that year or years exceed deductions relating to the contract.

A loss resulting from business or investment during the periods of full or partial tax exemptions cannot be carried forward.

Adjusted of Losses under ITA, 2058



Although, present provision of loss recovery is more liberal on comparison to old one, it is not sufficient to encourage business for taking risk. Similarly, it discriminates one type of activity favoring other types of activities. The loss offsetting provision related to business is much attractive than the loss offsetting provision related to investment. Accordingly, loss offsetting system for industry is much tougher than the loss recovery system for financial activities.

4.2.6 Deductions Not Allowed:

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

1) Personal or Domestic Expenses:

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

a. Personal expenses of an individual:
   - Costs for the provision of shelter as well as meals, refreshment, entertainment or other leisure activities.
   - Expenses incurred with respect to an individual commuting 'between the individual's home and a place at which the business or investment is conducted.
   - Cloth expenses for the individual other than clothing that is not suitable for wearing outside of work.
   - Expenses for education and training of an individual.

b. If the taxpayer has borrowed money to bear expenses as mentioned above and needs to pay interest for that, these interests are related to a nondeductible expenses and therefore also not deductible.
c. The expenses of a domestic or personal nature also include costs incurred by another person in respect of an individual. However, in the following cases, such expenses are not treated as personal or domestic nature:
   - If the payment is included in calculating the income of the individual.
   - If the individual makes a return payment of an equal market value to the person as a consideration of a payment.
   - Payments for petty expenses related to tea, stationeries, tips, prizes and emergency medical treatment up to Rs. 500 at a time whose accounting is not practical or administratively difficult.

2) Tax payable under this Act. The term 'tax' also includes any amount payable by way of interest and penalties. So, interest, fine and penalty paid under ITA, 2058 are not allowed for deduction.
3) Fines and penalties paid to government or its local bodies for breach of any law or regulations. Fines and penalties paid to corporate bodies like Nepal Telecom, Nepal Electricity Authority etc, banks or financial institutions can be deducted as finance or transaction costs. They are paid not for violating a law but for not meeting contractual obligations.
4) Expenses incurred to derive the tax exempted amounts or final withholding payments.
5) Cash payments over Rs. 50000 (except in certain circumstances) by an individual or an entity with an annual turnover of more than Rs. 2 million. The whole amount of cash payment (not only the excess amount) is disallowed for deduction if it is more than Rs. 50000. However, the clause of Rs. 50000 is not applicable in the following conditions:

- If the payment is made to the Government of Nepal, a constitutional body, a corporation owned by the Government of Nepal, or a bank or financial institution.

- If payment is made to a farmer or a producer producing primary agricultural products.
- If payment is made to a retirement contribution or retirement payment.
- If payment is made to an area where banking services are not available. An area having service means the area where there are not banking facilities within the surrounding of ten kilometers.
- If payment is and must is necessarily be made in cash or on a day when banking services are closed.
- If payment is made into a bank account of the payee.

6) Distribution of profits by an entity such as dividend, reserves, etc.
7) Capital nature expenditure. Capital expenditure is allowed only in the form of depreciation. However, they are allowed for deduction while computing capital gains. Expenses of capital nature mean the following expenses:

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

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

4.3 An Empirical Analysis

4.3.1 Introduction

An empirical investigation has been conducted in order to find out various aspects of income tax from the experience of real life situations. The major tool used for this purpose is an opinion questionnaire, which was dispatched to 30 persons representing tax experts, tax administration and tax payers. (See the format of questionnaire and the list of respondents in appendix II and V respectively).

The questionnaire either asked for a yes/no response or asked for ranking of choices according to number of alternatives where first choice was most important and last choice was least important. For analysis purpose choices were assigned weight according to the number of alternatives. If the number of alternatives were four then the first preferred choice got four points and the second preferred choice got three and the third choice got two points and the last preferred choice got one. Any alternative, which was not ranked didn't get any point. The total points available to each choice were converted into percentages in reference to the total 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 least choice.

The following table shows the groups of respondents and code used to represent them.

Table No. 4.3.1

Groups of Respondents and Code Used

S.N	Groups of Respondents	Sample Size	Code Used
1.	Tax Experts	10	A
2.	Tax administrators	10	B
3.	Tax payers	10	C
	Total	**30**	

Source: Opinion survey

4.3.2 Income tax as a suitable means of raising domestic resources

In order to know the respondent's opinion on the suitability of income tax I raising domestic resources, a question was asked, "In your opinion, is the income tax a suitable means of raising domestic resources? The responses received from the respondents are tabulated as follows:

Table No. 4.3.2

Income Tax as a Suitable Means for Raising Domestic Resources

Response / Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	10	100	-	-	10	100
B	10	100	-	-	10	100
C	10	100	-	-	10	100
Total	30	100	-	-	30	100

Source: Opinion survey

The cent percent of respondents approved the income tax as a suitable means or raising domestic resources. Hence, it can be concluded that there is no doubt in the suitability of income tax for raising domestic resources.

In order to know the reasons of income tax as a suitable means for raising domestic resources, the next question was asked "If yes, why it is a suitable means for raising domestic resources?" The respondents were requested to rank their responses from 1 (most important) to 4 (least important). The responses have been tabulated below.

Table No. 4.3.3

Reasons for the Suitability of Income Tax in Raising Domestic Resources

S.N.	**Reasons**	**Group**			**Total Points**	**%**	**Rank**
		A	**B**	**C**			
1.	It is harmful to depend fully on external sources	26	25	26	77	26	2
2.	Among the internal sources, taxation seems to be the most viable method	37	38	30	105	35	1
3.	It is not possible to cut the consumption level of people as it is already too low	16	15	20	51	17	4
4.	Several limitations of public borrowing	21	22	24	67	22	3
	Total				300	100	

Source: Opinion Survey

In the above table, percentage was calculated according to the total points obtained by each reason. For ranking purpose, percentage of each reason was matched with each other and assigned first rank to the highest percentage. More than 90 % of the respondents have given first preference to point no. 2 (i.e. Among the internal sources, taxation seems to be the most viable method). In their opinion income tax has high potentiality and moreover direct tax plays a vital role in generating government revenue. Similarly, least preference has been given to point no. 3 (i.e. it is not possible to cut the consumption level of people as it is already too low).

In overall, it can be concluded that the income tax has the high potentiality and strategic importance, which denotes its suitability in raising domestic resources.

4.3.3 Division of Income Heads

The new income tax i.e. Income Tax Act, 2058 has divided income into three heads: business income, employment income and investment income. In order to know the respondent's view on the division of income into three heads, a question was asked, "Income Tax Act, 2058 has divided income into three heads viz. business income, employment income and investment income. Is it justifiable?" The responses have been tabulated below:

Table No. 4.3.4

Division of Income Heads

Response / Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	10	100	-	-	10	100
B	10	100	-	-	10	100
C	9	90	1	10	10	100
Total	29	97	1	3	30	100

Source: Opinion survey

From the above table, it has been clear that 97 percent of the respondents approved the division of income into three heads and only 3 percent of respondent disagree with the division of income heads. In their opinion the Income Tax Act, 2058 is very ambiguous; division of income into three heads has made many of their activities easier. As the source of income are of three types: capital, labour and mix of capital and labour, it is justifiable to divide income into three heads as income from investment, income from employment and income from business.

But one respondent disagree with this view. Thus, they were asked another question, "If no, into how many heads should the income be divided.

Please, specify your views." In response to this question the respondent preferred to add "other income" as the income heads. There should be heads of "other income" in order to place the income which is neither related with business, employment nor investment. Thus, overall the conclusion can be drawn out that it is justifiable to divide income into three heads.

4.3.4 Appropriateness of a Current Income Tax Exemption Limit

Finance Act of Nepal yearly prescribes the tax rates and exemption limit of income. From the very beginning of income tax, exemption limit are changing year to year. The exemption limit has been increased to Rs. 115000 for an individual and Rs. 140000 for married couple or a family in the fiscal year 2064/65 against Rs. 100000 and Rs. 125000 for individual and married couple or family respectively in the fiscal year 2063/64. To know the respondent's view about the current exemption limit, a question was asked, "The exemption limit has been increased to Rs. 115000 for an individual and Rs. 140000 for married couple or a family. Is it appropriate". The responses were as follows:

Table No. 4.3.5

Appropriateness of Current Income Tax Exemption Limit

Responses \ Respondents	A	B	C	Total	Percentage
Yes	4	3	1	8	27
No	6	7	9	22	73
Total	10	10	10	30	100

Source: Opinion survey

From the above table, it is clear that the current income tax exemption limit is inappropriate. About 77 percent of the respondents were against the appropriateness of current exemption limit where as 23 percent of the respondents were for the appropriateness of current exemption limit. Respondents who were against the Appropriateness of current exemption limit were asked a question, “If no, how much the exemption limit should be for an individual?” The responses were as follows:

Table No. 4.3.6

Exemption Limit for an individual

Respondents / Responses	A	B	C	Total	Percentage
Rs. 150000	2	1	1	4	18
Rs. 200000	4	6	3	13	59
Rs. 250000	-	-	5	5	23
Other (if any specify)	-	-	-	-	-
Total	6	7	9	22	100

Source: Opinion survey

On the response about the exemption limit of an individual, it was found that 18 percent favour Rs. 150000, 59 percent of the respondent suggested that the exemption limit should be Rs. 200000 and 23 percent of the respondents suggested for Rs. 250000. From the above table, it is clear that the exemption limit for an individual should be Rs. 200000.

Similarly, a question was raised on the topic of exemption limit for a family as, “How much exemption limit should be for a family?” The responses were in the following table.

Table No. 4.3.7

Exemption Limit for a Family

Responses \ Respondents	A	B	C	Total	Percentage
Rs. 200000	1	1	-	2	9
Rs. 250000	3	4	4	11	50
Rs. 300000	2	2	5	9	41
Other (if any specify)	-	-	-	-	-
Total	6	7	9	22	100

Source: Opinion survey

From the above table, it is clear that most of the respondents (i.e. 50%) suggested for Rs. 250000 as exemption limit for a family. 41 percent of the respondents suggested for Rs. 300000 and only 9 percent of the respondent favored Rs. 200000 as exemption limit for a married couple or a family.

4.3.5 Specific Goal of Income Tax in Nepal

Income tax is imposed on person’s income in order to achieve some specific goal. As regard to specific goal of income tax in Nepal, respondents were requested to rank their answer from 1(most important) to 4 (least important). The question was “What should be the goal of income tax in Nepal?” Table 4.3.8 gives the breakdown of response.

Table No. 4.3.8

Specific Goal of Income Tax in Nepal

S. N	Goals of income tax	Group			Total Points	%	Rank
		A	B	C			
1.	Increase the revenue of the government	25	31	32	88	30	1
2.	Reduce the gap between poor and rich	26	28	24	78	26	3
3.	Promote private sector investment	28	26	28	82	27	2
4.	Reduce in unemployment.	21	15	16	52	17	4
	Total				300	100	

Source: Opinion Survey

As we can see in the table above that about 30 percent of the respondent has favored that the main goal of taxation in Nepal is to increase the revenue of the government. So, it is ranked first. Similarly, promoting the private sector investment is ranked second. It is also an important factor to reduce the gap between poor and rich which in turn will reduce unemployment.

4.3.6 Weaknesses Associated with Income Tax Act, 2058

In the course of development and modernization of income tax system the new "Income Tax Act, 2058" has been enacted to overcome the weaknesses and problems associated with previous income tax i.e. Income Tax Act, 2031. Although, the Income Tax Act, 2058 has been designed and developed according to the need of modern economy, it is not free from some weaknesses and problems. In order to know the respondent's view on the weaknesses associated with the new act, question was asked, "What are the weaknesses associated with Income Tax Act, 2058?" The respondents were requested to rank their answer from 1 to 4. The responses received from respondent are tabulated below:

Table No. 4.3.9

Weaknesses Associated with Income Tax Act, 2058

S.N	Weaknesses	Group			Total Points	%	Rank
		A	B	C			
1.	Ambiguous provision of the act	37	28	21	86	29	2
2.	Structure of exemption riddled with loopholes which may encourage tax evasion	25	36	35	96	32	1
3.	Unclearified system of calculating depreciation	18	14	20	52	17	4
4.	Unjustifiable loss offsetting system discriminating one type of activities favouring other types of activities	20	22	24	66	22	3
	Total				300	100	

Source: Opinion Survey

It can be concluded from above result that in the opinion of the respondents, there exist weaknesses in the income tax act, which need to be removed. Most of the respondents agree that the major weakness associated with the current act is structure of exemption riddled with loopholes which may encourage tax evasion. There are also some other weaknesses prescribed by the respondents besides the available alternatives such as lack of simple language in the act, complicated administrative procedure.

In course of personal discussion with the respondents, most of the respondents suggested that a simple and clear language should be used in the act. It results in better understanding of the act encouraging effective implementation of the act.

4.3.7 Provision of Self-Assessment

Self-assessment tax system is regarded as a best measure for collecting revenue and encouraging taxpayers in the payment of tax. A self-assessment system was introduced in the fiscal year 2048/49 for registered public limited companies and firms. It was also applied to industry trader and professional firms which had made a provision of a purely self-assessment system and tax officials will make only an amended assessment. Thus, to know the opinion of respondents on the provision of self-assessment, a question was asked, "Income Tax Act, 2058 has made provision of self-assessment for every taxpayer. Is it good measure of collecting income tax?"

Table No. 4.3.10

Provision of Self-Assessment

Respondents / Responses	A	B	C	Total	Percentage
Yes	9	9	10	28	93
No	1	1	-	2	7
Total	10	10	10	30	100

Source: Opinion survey

From the above table, it is clear that self-assessment of tax is a good measure of collecting income tax. Most of the respondents i.e. 93 percent accepted self-assessment as an effective measure in motivating and encouraging tax payers in the payment of tax resulting increment in collection of income tax.

In order to know the reason of accepting self-assessment tax system as a good measure of collecting income tax, next question was asked, "If yes, why it is good measure of collecting income tax?" The respondents were requested to rank their answer from 1 (most important) to 4 (least important). The responses have been tabulated below:

Table No. 4.3.11

Self assessment as a good measure of collecting income tax

S.N	Reasons	Group			Total Points	%	Rank
		A	B	C			
1.	Encourage taxpayers in the payment of tax	32	33	30	95	34	1
2.	Helps the taxpayers to know their own liability	30	26	27	83	30	2
3.	Helps to maintain their books of accounts	22	14	14	50	17	4
4.	Helps to reduce additional impact or boredom of taxpayers	16	17	19	52	19	3
	Total				280	100	

Source: Opinion Survey

It can be concluded that in the opinion of respondents, the self-assessment tax system helps in a collection of income tax by encouraging the taxpayers in the payment of tax helping them know their liability.

4.3.8 Tax paying habit of Nepalese people

To know the tax paying habit of Nepalese people, a question was asked, “Do you think that the tax paying habit of Nepalese people is poor?” The responses have been tabulated below:

Table No. 4.3.12

Tax Paying Habit of Nepalese People is Poor

Response / Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	10	100	-	-	10	100
B	10	100	-	-	10	100
C	8	80	2	20	10	100
Total	28	93	2	7	30	100

Source: Opinion survey

Since 93 percent of the respondents were agreed that the tax-paying habit of Nepalese people is poor, and 7 percent of the respondents argued that there is poor tax paying capacity, which is the reason for not paying tax. Thus, it is clear that the tax paying habit of Nepalese people is poor.

In order to know the reason for poor tax paying habit, a question was asked, "What are the reason for poor tax paying habit?" the reasons given by tax experts, tax administrators and tax payers are presented below on priority basis of each respondent.

Tax Experts

i. Lack of tax awareness.
ii. Tax avoiders are enjoying more freedom.
iii. Higher tax rate.
iv. Inefficient tax administration.

Tax Administrators

i. Poor enforcement of law.
ii. Lack of tax awareness.
iii. Tax evasion culture.
iv. Poverty and poor mentality.

Tax Payers

i. Lack of awareness about the benefit of tax payment.
ii. Improper utilization of revenue by Government Department.
iii. Lack of reward and motivational factor to high tax payer.
iv. Improper assessment at tax by tax officer.

4.3.9 Problems and weaknesses associated with Nepalese tax administration

To know the causes of problems and weaknesses of Nepalese administration, a question was asked, "What are the problems and weaknesses associated with Nepalese tax administration?" The respondents were requested to rank their answer from 1 (most important) to 4 (least important). The responses have been tabulated below:

Table No. 4.3.13

Major Problems and Weaknesses of Nepalese Tax Administration

S.N	Problems and Weaknesses	Group			Total Points	%	Rank
		A	B	C			
1.	Lack of trained employees	34	21	26	81	27	1
2.	Increased corruption	26	14	30	70	23	4
3.	Ambiguous provision under the Nepalese income tax laws	21	35	15	71	24	3
4.	Lack of cooperation in tax administration	19	30	29	78	26	2
	Total				300	100	

Source: Opinion Survey

The major problems and weaknesses associated with the Nepalese tax administration were ranked in order of performance of the respondents as follows: (see table for details)

1. Lack of trained employees.
2. Lack of co-operation in tax administration.
3. Ambiguous provision under the Nepalese income tax laws.
4. Increased corruption.

In the personal discussion with the respondents, most of the taxpayers said that increased corruption is the major problem and weakness of Nepalese tax administration. From the above ranking, on overall, it can be conclude that the major problems and weakness of Nepalese tax administration is lack of trained employees.

4.3.10 Methods of Increasing Tax Consciousness

Tax consciousness in public is the essential of an effective tax system. Taxpayer's service and assistance in tax offices can go a long way in crating the tax consciousness in public. To know the opinion of respondents on the methods of increasing tax consciousness, a question was asked, "What are the methods of increasing tax consciousness among the Nepalese people?" The respondents were requested to rank their answer from (most important) to 5 (least important). The responses have been tabulated as follows:

Table No. 4.3.14

Methods of Increasing Tax Consciousness

S.N	Methods	Group			Total Points	%	Rank
		A	B	C			
1.	Encouraging tax payers involvement in tax policies	25	24	25	74	17	5
2.	Educating and counseling taxpayers on a regular basis	37	38	34	109	24	1
3.	Rights and duties of taxpayers should be specified in certain and	32	35	33	100	22	2
4.	Encouraging self-assessment tax system	26	25	31	82	18	4
5.	Good cooperation between taxpayers and tax administrators	30	28	27	85	19	3
	Total				450	100	

Source: Opinion Survey

The methods of measuring tax consciousness among the Nepalese people were ranked in order of the preference of the respondent's which are as follows: (see above table for details)

1. Educating and counseling taxpayers on a regular basis.
2. Rights and duties of taxpayers should be specified in certain and clear terms.
3. Good co-operation between taxpayers and tax administrators.
4. Encouraging self-assessment tax system.
5. Encouraging taxpayer's involvement in tax policies.

There are also some other methods stated by the respondents such as more investigation and reconciliation of bills and documents of taxpayers, informing taxpayers through various media such as radio, T.V. and news paper about the tax policies. Some also suggested to have control corruptions and train employees.

Thus, it can be concluded from the above results that in the opinion of the respondents, tax consciousness can be increased through regularly educating and counseling taxpayers and by making the rights and duties of taxpayers clear.

To assist the comparative analysis of the above view of the tax administrations and taxpayers (keeping the view of tax experts constant), we can test by rank correlation coefficient (r) and probable error (Pr).

Hypothesis

Here, we have a hypothesis that there is no significant relationship between the views of tax administrations and taxpayers with respect to the methods of increasing tax consciousness among the Nepalese people.

We have formula,

$$r = 1 - \frac{6 \quad d^2}{n(n^2 - 1)}$$

$$\Pr = 0.6745 \frac{(1 - r^2)}{\sqrt{n}}$$

Table No. 4.3.15

Calculation of Correlation of Coefficient

S. N	Methods	Total points x	Re-rank R_1	Total points y	Re-rank R_2	Difference of rank d= R_1-R_2	Square of R_1-R_2 d^2
1.	Encouraging taxpayers involvement in tax policies	28	3	25	5	-2	4
2.	Educating and counseling taxpayers on a regular basis	38	1	34	1	0	0
3.	Rights and duties of taxpayers should be specified in certain and clear terms	35	2	33	2	0	0
4.	Encouraging self-assessment tax system	24	5	31	3	2	4
5.	Good cooperation between tax payers & tax administrations	25	4	27	4	0	0
	n = 5						

Source: Table 4.3.13

Note: x refers to tax administrators and y refers tax payers

Substituting the value we have,

$$r\ \mathrm{X}1\,\mathrm{Z}\frac{6(8)}{5(5^2\ \mathrm{Z}1)}$$

$= 0.60$

$$\mathrm{Pr}\ \mathrm{X}0.6745\frac{f\,1\,\mathrm{Z}(0.6)^2\ \mathrm{A}}{\sqrt{5}}$$

$= 0.19$

Here, r is greater than Pr. It is 3.16 times greater. The relation is not significant because relationship, r should be 6 times greater than Pr. However, the value of r is not so small and it is more than 0.5, so there exist some relationship between the views of tax administrators and tax payers. Hence, our null hypothesis is rejected. Therefore, we can conclude that methods of increasing tax consciousness among the Nepalese people are for both groups of respondents.

Findings of Empirical Investigation:

a. It is cent percent true that the income tax is a suitable means for raising domestic resources. As direct taxes have strategic importance and is best sources of tax revenue, the suitability of incomes tax cannot be ignored in course of raising domestic resource.

b. Most of the respondents agree with the division of income heads into three. As there is three sources of income: labour, capital and mix of labour and capital, the division of income into three heads as employment income, investment income and business incomes is purely justifiable.

c. Current exemption limit is not appropriate. Most of the respondents suggested providing Rs. 150000 for an individual and Rs. 250000 for a married couple or family.

d. The main goal of income tax in Nepal is to increase the revenue of the Government. Similarly, other goals are promoting private sector investment; reduce the gap between poor and rich.
e. Most of the respondents agree that the structure of exemption of the current act is riddled with loopholes which may encourage tax evasion. Moreover, the current act has ambiguous provision, which creates problems and difficulties in its implementation. Thus, the language uses should be simple and in a clear way for its successful implementation.
f. The self-assessment tax system can be accepted as a good measure for collecting revenue. It encourages taxpayers in the payment of tax by helping them know their own liability. And also, it reduces administrative costs.
g. Tax paying habit of Nepalese people is poor, 93 percent of respondents approved it. The major reasons for poor tax paying habit are poverty, poor mentality, lack of tax awareness etc. Some respondent also said that people want to escape from taxation; they think government tax system is difficult which is the reason for poor tax paying.
h. Main problems and weakness of Nepalese tax administration are lack of trained employees, lack of cooperation in tax administration, lack of transparency and accountability and lack of motivation by administration.
i. Tax consciousness in public is the essential of effective tax system. Tax consciousness among the people can be increased by educating them in a regular basis and clarifying their rights and duties in a specified terms. Other methods such as informing taxpayers through various media such as radio, T.V., newspaper about the tax policies etc can be used.

CHAPTER – V
MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATION

5.1 Major Findings

On the basis of preceding chapters some important findings can be drawn. The major findings of this research study are summarized below:

1. The Nepalese government revenue is the composition of external revenue and internal revenue. Internal revenue includes both tax and non-tax revenue. Among tax and non-tax revenue, there is dominant share of tax revenue in Nepalese government revenue. It has contributed 80.28 percent in 1983/84 on total revenue but it was decreased to 73.08 percent in 1991/92. Again it has rose to 81.09 percent in 2008/09 and again decreased to 79.12 percent in 2009/10. So it has both increasing and decreasing trend.
2. Tax revenue is the composition of direct and indirect tax in the Nepalese tax revenue. The contribution of direct and indirect tax revenue to total tax revenue was 16.74 percent and 83.26 percent respectively in 19992/93 which has reached to 27.11 percent and 72.89 percent in 2009/10. There is dominant role of indirect tax in Nepalese tax revenue.
3. Among the various sources of indirect tax the major taxes are import duties, export duties, sales tax/VAT, excise duty, entertainment tax, hotel tax, contract tax, air tax and other tax. The contribution of import duties, export duties, sales tax/VAT, excise duty, entertainment tax, hotel tax, contract tax, air tax and other tax to indirect tax was 40.44 percent, 1.15 percent, 29.76 percent, 17.63 percent, 39.4 percent, 1.98 percent, 2.55 percent, 2.55 percent and 3.65 percent respectively in 1992/93 which has

become 27.59 percent,7 percent, 50.19 percent, 18.03 percent (Entertainment, Hotel, Contract, Air tax contribute zero percent) , 5.64 by other tax in 2009/10 respectively.

4. Direct tax revenue is the composition of income tax, land tax, house and land registration tax and other tax. The share of income tax, land tax, house and land registration tax and other tax to direct tax was 57.29 percent, 6.00 percent, 33.36 percent, 3.35 percent respectively in 1990/91 which has reached to 82.63 percent, (Land tax contributed Zero percent), 12.74 percent, 4.63 percent respectively in 2009/10. The contribution of income tax to government revenue is in increasing trend.
5. Income tax has been considered as a suitable source for mobilizing internal resources. It can be used as appositive instrument to boost government revenue collection, to develop the economic conditions of Nepalese people and promote distributive justice and to cure resource gap problem.
6. The tax/GDP ratio of Nepal is not found satisfactory. In 1992/93, the tax/GDP ratio was only 7.04 percent and 10.37 percent in 2007/08. The direct tax/GDP ratio was 1.18 percent in 1992/93 which has reached to 2.81 percent in 2009/10. Similarly, in 1992/93 indirect tax/GDP was 5.86 percent and has become 7.56 percent in 2009/10. It indicates the increasing trend in a slower pace.
7. Within income tax, there is the dominant role of corporate income tax but it is in decreasing trend, which was 67.26 percent in 200/01 but it decreased to 51.20 percent in 2009/10. The contribution of individual income tax is in second position, which is in an increasing trend.
8. All income of an individual cannot be treated as taxable income because the minimum cost required for subsistence cannot be taxed. So, from the very beginning of income tax in Nepal, some extents of income amounts are exempted from income tax. This is called exemption limit. Income tax exemption limit in Nepal has been changed on the basis of time and income condition. In the recent year, the exemption limit provided for an

individual and a family or couples was Rs. 115000 and Rs. 140000 respectively. The exemption limit is not provided for partnership firm corporations and non-residents. The exemption limits provided to income taxpayers are not sufficient and it needs increment.

9. The income Tax Act, 2058 has divided income into three heads as business income, investment income and employment income.
10. Some exemptions granted to achieve certain objectives are not effective. Tax incentive (concession) is one of the examples of this. Tax concessions encourage establishment of industries in certain areas but they vanish or change names, ownership or place of the business when the tax concession facility expires.
11. Income Tax Act has clearly mentioned the organizations, which are tax-free and is called tax exempt organization. Act has exempted a social, religious, educational or charitable organization of a public character registered without having profit motive.
12. Donation given to exempt organization is allowed for deduction. But the amount shall not exceed Rs. 100000 or 5% of the person's taxable income for the year which is less. This provision is not able to solve the voice of people of transparency of donation amount given by businessmen to political parties. In other hand, HMG may prescribe, by a notification in the Nepal Gazette, as to allow full or partial deduction at the time of assessing a person's income of the expenses incurred for a special purpose. But the act has not clarified "What is a special purpose?"
13. For the purpose of calculating the income of a person for an income year from a business or investment, all interest are allowed for deduction. But in case of an exempt controlled resident entity, it may deduct the amount of interest but not exceeding the sum of all the interest derived by the entity during the year that is to be included in calculating the entity's taxable income for the year and 50 percent of entity's taxable income for the year

calculated without including any interest derived by the entity or deducting any interest by the entity.

14. For the purpose of calculating a person's income for an income year from any business or investment, there shall be deducted all costs to the extent incurred during the year in the respect of repair and improvement of depreciable assets owned and used by the person during the year in production of the person's income from the business or investment. But the deduction allowed should not exceed 7% of the depreciation basis of the pool at the end of the income year and the deduction shall be allowed with respect to cost in the order in which they are incurred. Any excess cost, or a part thereof, for which a deduction is not allowed shall be added to the depreciation basis prevailing in the beginning of the subsequent income year, of the pool to which it relates.

15. All the expenses made on pollution control by a person during the year in conducting the business are allowed for deduction. But the expenses shall not exceed 50% of the person's taxable income calculated without deduction for pollution control costs. Any excess cost, or part thereof, which a deduction is not allowed, shall be capitalized and may be depreciated in accordance with schedule 2. The objective of government is to control pollution and protect environment. But a standard limit being imposed for education has not succeeded in encouraging business to use assets or process of pollution control. So, it is not a good symptom of pollution control.

16. All the expenses made on research and developments by a person during the year in conducting the business are allowed for deduction. Bit it shall not exceed 50% of the person's taxable income calculated without a deduction for research and development costs. Any excess, or part there of, which deduction is not allowed shall be capitalized and may be depreciated in accordance with schedule 2. For successful industrial development, research and development is more important and most be

expended on it. Expenses made on it must be approved and should be allowed for deduction for tax purpose. But the provision of income tax has not given full deduction on it. It is a myopic vision of government.

17. The act has classified assets into five categories along with the rates for the purpose of depreciation. They are: A - 5%, B - 25%, C – 20%, D - 15% and E - the cost divided by the useful life of the assets in the pool calculated at the time the asset is most recently required by the person and rounded down to the nearest half years. The act has special provision of additional depreciation of 1/3 of the rate prescribed on the assets categories engaged in building public infrastructure to transfer to HMG and other infrastructure to transfer to HMG and other entity engaged in power generation, transmission or distribution of electricity etc. Only the entities engages in such activities are facilitated by special provision of additional depreciated. Individuals even though engaged in similar activities cannot enjoy such facilities. On the other hand, there is no any specific provision of deprecation of assets, which are taken in no lease and installment payment basis. It shows a weak point of new income tax act.

18. The act has a provision of loss recovery from a business or investment. But losses are treated differently depending on whether they result from conducting a business or an investment and whether they are of domestic or foreign nature. Losses from domestic business can offset against all types and sources of income, whereas losses from a domestic investment can be offset only against any type of investment income. Foreign losses can be offset only against foreign income. Foreign business losses can be offset against foreign business income or investment. Losses from foreign investment can be offset against foreign investment income. Unrelieved business losses of previous 4 years are allowed to carry forward. But, in case of electricity project involving in building power station, generating and transmitting electricity and the projects conducted by any entity so as

to build public infrastructure, own operate and transfer to his Majesty's Government, any unrelieved loss of previous 7 years are allowed to carry forward. If a person incurs a loss for an income year from any banking business, the person may carry back the loss and deduct it in calculating the income from the business for any of the five preceding income years. The loss recovery provision has not been justifiable one type of activity favoring other type's activities.

19. A person whose annual turnover for an income year exceeds Rs. 200000 is not allowed a deduction for a cash payment in excess of Rs. 50000 incurred at once other than in the given conditions.
20. The small business person (taxpayers) who are resident natural persons and who derived income from Nepalese source only are entitled to presumptive taxation. The threshold for presumptive taxation is Rs. 1200000 annual turnover or Rs. 120000 income. It is levied at a rate of Rs. 2000 in metropolitan or sub metropolitan cities, Rs. 1500 in municipalities and Rs. 1000 in other areas.
21. Income tax administration in Nepal is not efficient enough due to its various weak points such as lack of trained employees, increased corruption, ambiguous provision etc.
22. The opinion survey with tax experts, tax administrates and taxpayers conducted for the income tax has drawn the following conclusions.
    a. It is cent percent true that the income tax is a suitable means for raising domestic resources. As direct taxes have strategic importance and is best sources of tax revenue, the suitability of incomes tax cannot be ignored in course of raising domestic resource.
    b. Most of the respondents agree with the division of income heads into three. As there is three sources of income: labour, capital and mix of labour and capital, the division of income into three heads as employment income, investment income and business incomes is purely justifiable.

c. Current exemption limit is not appropriate. Most of the respondents suggested providing Rs. 150000 for an individual and Rs. 250000 for a married couple or family.

d. The main goal of income tax in Nepal is to increase the revenue of the Government. Similarly, other goals are promoting private sector investment; reduce the gap between poor and rich.

e. Most of the respondents agree that the structure of exemption of the current act is riddled with loopholes which may encourage tax evasion. Moreover, the current act has ambiguous provision, which creates problems and difficulties in its implementation. Thus, the language uses should be simple and in a clear way for its successful implementation.

f. The self-assessment tax system can be accepted as a good measure for collecting revenue. It encourages taxpayers in the payment of tax by helping them know their own liability. And also, it reduces administrative costs.

g. Tax paying habit of Nepalese people is poor, 93 percent of respondents approved it. The major reasons for poor tax paying habit are poverty, poor mentality, lack of tax awareness etc. Some respondent also said that people want to escape from taxation; they think government tax system is difficult which is the reason for poor tax paying.

h. Main problems and weakness of Nepalese tax administration are lack of trained employees, lack of cooperation in tax administration, lack of transparency and accountability and lack of motivation by administration.

i. Tax consciousness in public is the essential of effective tax system. Tax consciousness among the people can be increased by educating them in a regular basis and clarifying their rights and duties in a specified terms. Other methods such as informing taxpayers through various media such as radio, T.V., newspaper about the tax policies etc can be used.

5.2 Conclusions

Nepal is one of the least developed countries suffering from chronic social and economic diseases. She is not being able to collect necessary government revenue to cure such diseases. Due to poor performance on internal revenue collection and mobilization, she has still depended on foreign grants and loans. The dependence is increasing which is not desirable for any economy. Thus, remedy should be made in due time by the country to run in the path of economic development.

To increase the government revenue, Nepalese government is trying to extract money or valuable contribution from people through taxation. Income tax is one of the most important resources of government revenue and is considered as a good remedy to cure growing resources gap problem in Nepal.

In Nepal, the history of income tax is not so long. It started only on late fifties. Though, the percentage share of income tax to government revenue is in an increasing trend at present but it is not regarded satisfactory in comparison to other developing countries. Currently, income tax system of Nepal encompasses four taxes i.e. corporate individual tax, individual income tax, house rent and interest tax. Among them, contribution of corporate sector is higher.

At present income tax revenue is collected in Nepal according to the Income Tax Act, 2058. The act has classified income into three heads: employment, business and investment. It attempts to bring all the incomes into the tax net including capital gain and divided income. The new act has made a provision of self-tax assessment for every taxpayer to increase voluntary compliance by taxpayers and to create fair, equitable, transparent and acceptable tax system.

Due to various problems related to income tax, revenue collection from income tax is low in Nepal. It is charged that the act is ambiguous and the administration is not efficient enough. Nevertheless, if we analyze the data relating to it we can find out that it is neither bad nor worse but it is continuously increasing. However, the act and the administration in Nepal are to be deeply scrutinized and properly implemented. The provisions made on the act have to be mentioned clearly and language has to be made clear and understandable. Some reforms in tax administration are needed. If the problems related to income tax system in Nepal can be solved and resources are effectively utilized then only the prospects of revenue collection from income tax will be bright and the economic development of Nepal will be achieved.

5.3 Recommendations

In the light of findings of the study, the following recommendations have been made for the sound and effective income tax implementation:

1. The income tax policy should be formulated so as to match with the economic policy of the country.
2. The members involved in formulating income tax policies must have deep knowledge about income tax.
3. Timely revision and adjustment should be made in the matter of income tax policy.
4. Laws relating to income tax should be clear, simple and comprehensive. It should not contain any loopholes and ambiguity. Therefore it should be reviewed frequently. The following suggestions are made for the reformation of existing tax laws in Nepal.
   - The language should be simple and clear. In spite of using the vague meaningful words, clear-cut provision should be made.

- The definition made in Income Tax Act should be further classified and well defined.
- The assessment and tax collection provisions should be made clear and simple.
- The provision of fines, penalties and punishment should be made at a higher rate for income tax evaders.
- The tax payers should be encouraged to pay tax voluntarily through reward, price, incentive provisions rather than coercive measures.
- Special provision should be made in the act for research and development.
- Micro level clarification should be given for the effective implementation of the act.
- The performance, responsibilities, authorities and duties should be clearly defined.
- Financial benefit and extra incentives should be provided to the personnel to decrease corruption. Furthermore, tax officers should be selected on the basis of secret ballot system in order to control corruption.
- Working environment of the tax offices should be improved by providing necessary equipment, machinery and vehicles.
- Income tax experts/ profession should be increased in tax administration.
- Coordination between staffs and department must be established.
- Delays in assessment should be reduced as soon as possible.
- The cost of collection is one of the determinants of administrative efficiency. So, the concerned authority should pay due attention on it.
- Tax education should be provided to taxpayers on a regular basis.

6. In Nepal, one of the most important reasons for unsound income tax system is inefficient and unscientific income tax administration in Nepal.

- All the tax personnel should be given comprehensive training on various aspects of taxation on a regular basis. For this, a separate training section within tax dependent should be established.

- The performance, responsibilities, authorities and duties should be clearly defined.
- Financial benefit and extra incentives should be provided to the personnel to decrease corruption. Furthermore, tax officers should be selected on the basis of secret ballot system in order to control corruption.
- Working environment of the tax offices should be improved by providing necessary equipment, machinery and vehicles.
- Income tax experts/ profession should be increased in tax administration.
- Coordination between staffs and department must be established.
- Delays in assessment should be reduced as soon as possible.
- The cost of collection is one of the determinants of administrative efficiency. So, the concerned authority should pay due attention on it.
- Tax education should be provided to taxpayers on a regular basis.

6. The present level of exemption limit is not appropriate. It should be raised to Rs. 150000 for an individual and Rs. 250000 for a couple or family.
7. Self-assessment tax system should be encouraged for collecting income tax and motivating taxpayers in the payment of tax. It also reduces the administrative costs.
8. Tax consciousness is a must for a sound income tax system. It can be done through various media such as radio, TV and newspaper by informing taxpayers about the tax policies. Similarly, timely clarity over issues not clear in the act by the Department is an effective measure in increasing tax consciousness among the taxpayers.
9. Donation given to political parties registered with the election commission is allowed for deduction. But it is unable to solve, the voice of people of 'transparency' of donation amount given by businessmen to political parties-so such donation amount should be transparent.
10. The standard limit allowed for deduction in case of research and development expense and pollution control expenses is not a good

symptom of effective tax system. Thus, whole amount spent on such expense should be approved and allowed for deduction.

11. There should be specific provision of depreciation of assets, which are taken on lease and installment basis. Act should not be silent on it. Provisions made on depreciation allowances must generally understandable by all people.
12. Retirement contributions are nothing else than the product of sacrifice of present earnings. These are the bases for the living standard of oldness of employees. So it should be excluded from income tax.
13. 10 percent of tax rebate should be provided to the taxpayers who submit true income statement within the specified period of time.

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APPENDIX: I

Dear sir,

I would like to introduce myself as the student of Kankai Adarsha Awasiya Campus, M.B.S. (final year). In order to fulfill the partial requirement of Master's Degree in Management, I am conducting a research work entitled **"An Analytical Study on Income Tax Act, 2058"**.

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

Sincerely yours

Pawan Agrawal

APPENDIX: II

Questionnaire

Name of the Respondents:

Position:

Department:

Tenure of Service:

(Please tick your answer in the following, if the question is provided with 2 alternatives and put in order of preference from 1 to last number if there are 4 or more alternatives)

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

   a. Yes b. No

2. If yes, why it is a suitable means for raising domestic resources? (Rank your answer)

   a. It is harmful to depend fully on external sources.
   b. Among the internal source, taxation seems to be the most viable method.
   c. It is not possible to cut the consumption level of people as it is already too low.
   d. Several limitations of public borrowings.
   e. Any other (please specify) …………………….

3. Income Tax Act, 2058 has divided income into three heads viz. business income, employment income and investment income. Is it justifiable?

   a. Yes b. No

4. If no, into how many heads should the income be divided? Please specify your views.

   ………………………………………………………………………………

5. The exemption limit has been increased to Rs. 115,000 for individuals and Rs. 140,000 for family respectively. Is it appropriate?

   a. Yes b. No

6. If no, how much the exemption limit should be for an individual?

   a. Rs. 150000 b. 200000

   c. Rs. 250000 d. Rs. Other (if any specify)

7. Similarly, how much exemption limit should be for a family?

   a. Rs. 200000 b. Rs. 250000

   c. Rs. 300000 d. Rs. 350000

8. What should be the goal of income tax in Nepal (Rank your answer.)

   a. Increase the revenue of Government.
   b. Reduce the gap between poor and rich.
   c. Promote private sector investment.
   d. Reduce in unemployment.
   e. Others (please specify)……………………….

9. What are the weaknesses associated with Income Tax Act, 2058? (Rank your answer)

   a. Ambiguous provision of the act.
   b. Structure of exemption riddled with loopholes which may encourage tax evasion.
   c. Unclearified system of calculating depreciation.
   d. Unjustifiable loss offsetting system discriminating one type of activities favoring other type of activities.
   e. Any other (please specify)…………………….

10. Income tax Act, 2058 has made the provision of self assessment for every tax payer. It is in good measure of collecting income tax?

    a. Yes b. No

11. If yes, why it is a good measure of collecting income tax? (Rank your answer)

    a. Encourage taxpayer in the payment of tax.
    b. Helps the tax payers to know their own liability.
    c. Helps to maintain their books of account.
    d. Helps to reduce additional impact or burden of taxpayers.
    e. Any other (please specify)…………………….

12. Do you think tax paying habit of Nepalese people is poor?

    a. Yes b. No

13. If yes, what are the reasons for poor tax paying habit?
    a. ……………………………………………………………………………….
    b. ………………………………………………………………………………..
    c. ………………………………………………………………………………..
    d. ………………………………………………………………………………..
14. What are the problems and weakness, associated with Nepalese Income tax administration? (Rank your answer)
    a. Lack of trained employees.
    b. Increased corruptions.
    c. Ambiguous provision under the Nepalese Income Tax Laws.
    d. Lack of co-operation in tax administration.
    e. Any other (please specify)…………………….
15. What are the methods of increasing tax consciousness among the Nepalese people? (Rank your answer)
    a. Encouraging taxpayer involvement in tax policies.
    b. Educating and counseling taxpayers on a regular basis.
    c. Rights and duties of taxpayers should be specified in certain and clear terms.
    d. Encouraging the self-assessment tax system.
    e. Good co-operation between taxpayer and tax administration.
    f. Any other (please specify)…………………….

Thanking You

APPENDIX: III

List of Respondents

Tax Experts

S.N.	Names of the Respondents	Position	Dept. and Office
1.	Sushil Agrawal	Chartered Accountant	Sushil Agrawal and Co., Birtamode
2.	Shekar Sharma	Lecturer	Kankai Adarsha Awasiya Campus, Birtamode
3.	Raju Kafle	Lecturer	Kankai Adarsha Awasiya Campus, Birtamode
4.	Damber Bhandari	Ass. Manager	Nepal Bank Ltd., Birtamode
5.	Rohit Shrestha	Consultant	Finance, Rastrya Banijya Bank
6.	Narayan Agrawal	Consultant	Bank of Asia, Biratnagar
7.	Suresh Kumar Chapagain	Lecturer	Kankai Adarsha Awasiya Campus, Birtamode
8.	Tika Shreshta	Consultant	Inland Revenue Department, Bhadrapur
9.	Bindya Rai	Section Chief	Internal Audit, Agricultural Development Bank
10.	Sunil Man Shakya	Auditor and Advocate	S.Shakya and Co., Teku

Income Tax Administrators

S.N.	Names of the Respondents	Position	Dept. and Office
1.	Krishna Prasad Parajuli	Tax Officer	Inland Revenue Department, Bhadrapur
2.	Durba Pokhrel	Tax Officer	Inland Revenue Department, Bhadrapur
3.	Prakash Guatam	Tax Officer	Inland Revenue Department, Bhadrapur
4.	Bir Bahadur Shrestha	Accountant	Inland Revenue Department, Bhadrapur
5.	Robin Adikari	Section Officer	Inland Revenue Department, Bhadrapur
6.	Ramesh Dahal	Section Officer	Inland Revenue Department, Bhadrapur
7.	Raj Balla Puri	Section Officer	Inland Revenue Department, Bhadrapur
8.	Toya Sapkota	Section Officer	Inland Revenue Department, Bhadrapur
9.	Shankar Khanal	Section Officer	Inland Revenue Department, Bhadrapur
10.	Ganesh Pokhrel	Section Officer	Inland Revenue Department, Bhadrapur

Income Tax Payers

S.N.	Names of the Respondents	Position	Dept. and Office
1.	Bimal Agrawal	Senior Accountant	Little Flower English School, Birtamode
2.	Raju Sahewala	Proprietor	Shiv Shakti, Birtamode
3.	Anurada Karna	Customer Service Dept.	Nepal Investment Bank, Birtamode
4.	Shiv Kumar Agrawal	Proprietor	Wholesale Cloth Merchant, Birtamode
5.	Damber Bhandari	Ass. Manager	Nepal Bank Ltd., Birtamode
6.	Rajendra Thapa	Chief	Finance Development, Nepal Gas Udyog Pvt.Lt
7.	Radha Swami Dhakal	Principal	Amity College, Birtamode
8.	Priyanka Agrawal	Customer Service Dept.	Sunrise Bank Ltd., Birtamode
9.	Bishal Chettri	Principal	Little Flower English School, Birtamode
10.	Kuldip Shrestha	Ass. Manager	Kumari Bank Ltd., Birtamode

Appendix: IV

Master Table: Total GDP, Total Revenue, Revenue from Direct and Indirect Tax

(Rs. In million)

Fiscal Year	Total GDP	Total Revenue	Tax Revenue	Non-tax revenue	Direct Tax					Indirect Tax								
					Income tax	Land tax	House and land reg.	Others *	Total	Import duties	Export duties	Excise duties	Sales tax/VAT	Entertainment tax	Hotel tax	Contract tax	Other **	Total
1994/95	116,127.00	10,729.30	8,175.80	2,553.50	784.00	82.10	456.60	45.80	1,368.50	2,752.60	78.50	1,200.20	2026.1	39.40	115.60	173.30	248.20	6,807.30
1995/96	144,933.00	13,512.70	9,875.60	3,637.10	897.30	64.80	571.30	61.80	1,595.20	2,795.20	114.70	1,414.30	2,840.70	38.30	191.30	213.30	494.70	8,280.40
1996/97	16,535.00	15,148.40	11,662.50	3,485.90	1,214.90	69.40	685.50	66.40	2,036.20	3,178.00	140.70	1,452.80	3,438.20	53.10	223.40	293.00	641.40	9,626.30
1997/98	191,596.00	19,580.90	15,371.50	4,209.40	1,929.60	61.00	772.20	92.50	2,855.30	4,356.00	427.00	1,592.50	4,693.10	112.20	219.10	356.50	489.10	12,516.20
1998/99	209,976.00	24,605.10	19,660.00	4,945.10	2,857.60	34.90	902.80	54.00	3,849.30	5,840.10	332.50	1,657.30	6031.7	91.10	229.10	505.20	278.20	15,810.70
1999\00	239,388.00	27,893.10	21,668.00	6,225.10	3,518.60	18.20	1,048.40	70.70	4,655.90	6,246.50	149.90	1,944.30	6431.3	100.40	284.20	613.40	311.10	17,012.10
00/01	269,570.00	30,373.50	24,424.30	5,949.20	4,218.40	5.90	1,009.50	106.20	5,340.00	7,093.20	167.80	2,298.10	7126.5	114.00	301.10	621.30	314.20	19,084.30
2001/02	289,798.00	32,937.90	25,939.80	6,998.10	5,008.80	3.60	1,000.60	174.90	6,187.90	7,019.40	217.10	2,885.80	4122.6	90.60	45.90	761.50	343.30	19,751.90
2002/03	329,960.00	37,251.30	28,752.90	8,498.40	6,293.50	1.40	1,001.80	219.40	7,516.10	7,698.30	378.00	2,953.20	7882.2	23.50	1.50	618.00	240.70	21,236.80
2003/04	365,470.00	42,893.70	33,152.10	9,741.60	7,539.10	4.60	1,011.30	396.50	8,951.50	8,989.90	432.50	3,127.60	9854.9	28.50	1.80	374.50	-	24,200.60
2004/05	409,250.00	48,893.90	38,865.10	10,028.80	9,116.90	5.10	607.80	429.60	10,159.40	10,391.90	492.60	3,771.20	12047.8	30.40	0.10	304.00	0.10	28,705.70
2005/06	293,595.00	50,445.60	39,330.60	11,115.00	8,906.00	0.80	1,131.00	559.70	10,597.50	9,678.40	917.40	3,807.00	11964	2.10	-	301.20	-	28,733.10
2006/07	438,920.00	56,229.70	42,587.00	13,642.70	7,966.20	-	1,414.30	725.30	10,105.80	10,567.70	855.60	4,785.10	13459.7	-	-	-	-	32,481.20
2007/08	472,563.00	62,331.10	48,173.30	14,157.80	8,805.30	-	1,697.50	709.40	11,212.20	11,451.70	526.50	6,226.70	14478.9	-	-	-	-	32,683.80
2008/09	504,118.00	70,122.70	54,104.70	16,018.00	11,272.60	-	1,799.20	-	13,071.80	12,333.64	514.63	6,445.90	18885.4	-	-	-	-	38,179.57
2009/10	582,722.00	71,733.10	57,430.40	14,851.70	11,787.00	-	2,181.10	110.00	14,078.10	12,469.32	290.54	6,507.60	21610.7	-	-	-	-	40,878.16
2010/11	670,575.00	87,711.20	71,127.00	16,584.20	16,608.10	-	2,855.90	483.70	19,947.70	14,423.15	360.78	9,243.40	26558.9	-	-	-	-	50,586.23
2011/12	820,919.00	107,622.50	85,155.50	19,783.80	19,077.81	-	2,940.74	1,069.25	23,087.80	17,128.17	433.42	11,189.58	31154.6	-	-	-	-	59,905.77

Source: Economic Surveys of various years, Ministry of Finance, HMG, Nepal
Annual Report of various years, Inland Revenue Department, HMG, Nepal
* Other included vehicle tax and other taxes
** Other included Indian excise refund, others, Road and bridges maintenance tax and others

Appendix: V

Contribution of Different Source of Revenue as Percent of GDP

(In Percent)

Fiscal Year	Total GDP	Total Revenue	Tax revenue	Non-tax revenue	Direct Tax					Indirect Tax									
					Income tax	Land tax	House and land reg.	Others *	Total	Import duties	Export duties	Excise duties	Sales tax/VAT	Entertainment tax	Hotel tax	Air flight tax	Contract tax	Other **	Total
1994/95	116,127.00	9.24	7.04	2.20	0.68	0.07	0.39	0.04	1.18	2.37	0.07	1.03	1.74	0.03	0.09	0.15	0.15	0.21	5.86
1995/96	144,933.00	9.32	6.81	2.51	0.62	0.04	0.39	0.04	1.10	2.43	0.08	0.98	1.96	0.03	0.13	0.12	0.15	0.34	5.71
1996/97	16,535.00	9.16	7.05	2.11	0.73	0.03	0.41	0.04	1.23	1.92	0.09	0.88	2.08	0.03	0.14	0.12	0.18	0.39	5.82
1997/98	191,596.00	10.22	8.02	2.20	1.01	0.02	0.40	0.05	1.49	2.27	0.22	0.83	2.45	0.07	0.11	0.14	0.19	0.26	6.53
1998/99	209,976.00	11.72	9.36	2.36	1.36	0.02	0.43	0.03	1.83	2.78	0.16	0.79	2.87	0.06	0.11	0.13	0.24	0.40	7.53
1999\00	239,388.00	11.65	9.05	2.60	1.47	0.01	0.44	0.03	1.94	2.61	0.06	0.81	2.69	0.04	0.12	0.13	0.26	0.39	7.11
00/01	269,570.00	11.27	9.06	2.21	1.56	-	0.37	0.04	1.98	2.63	0.06	0.85	2.64	0.04	0.11	0.12	0.23	0.39	7.08
2001/02	289,798.00	11.37	8.95	2.41	1.73	-	0.35	0.06	2.14	2.42	0.07	0.99	2.46	0.03	0.02	0.12	0.26	0.44	6.82
2002/03	329,960.00	11.29	8.71	2.58	1.91	-	0.30	0.07	2.28	2.33	0.11	0.90	2.39	0.01	-	0.07	0.19	0.44	6.44
2003/04	365,470.00	11.74	9.07	2.67	2.06	-	0.28	0.11	2.45	2.45	0.12	0.86	2.70	0.01	-	-	0.10	0.39	6.62
2004/05	409,250.00	11.95	9.50	2.45	2.23	-	0.15	0.10	2.48	2.54	0.12	0.92	2.94	0.01	-	-	0.07	0.41	7.01
2005/06	293,595.00	17.18	13.40	3.79	3.03	-	0.39	0.19	2.61	3.30	0.31	1.30	4.07	-	-	-	0.10	0.70	9.79
2006/07	438,920.00	12.81	9.70	3.11	1.81	-	0.32	0.16	2.30	2.41	0.19	1.09	3.07	-	-	-	-	0.64	7.40
2007/08	472,563.00	13.19	10.20	3.00	2.16	-	0.36	0.15	2.67	2.42	0.11	1.32	3.06	-	-	-	-		6.91
2008/09	504,118.00	13.91	10.73	3.18	2.24	-	0.36	-	2.60	2.45	0.10	1.28	3.74	-	-	-	-		7.57
2009/10	582,722.00	12.31	9.85	2.55	2.02	-	0.37	0.21	2.60	2.14	0.50	1.12	3.71	-	-	-	-		7.47
2010/11	670,575.00	13.08	10.61	2.47	2.48	-	0.43	0.11	3.02	2.15	0.05	1.38	3.96	-	-	-	-		7.54
2011/12	820,919.00	13.11	10.37	2.41	2.32	-	0.36	0.13	2.81	2.09	0.05	1.36	3.80	-	-	-	-		7.30

Source: Derived from Appendix VI of Master table