

TAX PAYER'S ATTITUDE TOWARDS EXEMPTIONS AND
DEDUCTIONS UNDER INCOME TAX ACT 2058

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RECOMMENDATION

This is to certify that the Thesis

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DEDUCTIONS UNDER INCOME TAX ACT 2058

has been prepared as approved by this Department in the prescribed format of the
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according to the prescribed format. We recommend the thesis to
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DECLARATION

I hereby declare that the work reported in this thesis entitled “TAX PAYER’S ATTITUDE TOWARDS EXEMPTIONS AND DEDUCTIONS UNDER INCOME TAX ACT 2058” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Study (M.B.S.) under the supervision of Dr. Kamal Deep Dhakal of Shanker Dev Campus.

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CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal is a developing country. Nepal cannot successfully and properly tear a curtain built from massive poverty, unemployment, heavy dependence on agriculture, lack of adequate industries, low income level and social, political and geographical constraints. So it is the prime concern towards the rapid economic development and Nepal is not exception to this ever continuing process. Nepal has own aims for self-reliant economic system to upgrade its living standard of people. The government has to spend a lot of money to achieve maximum national objectives. In the modern days every government invests its revenue for the social welfare towards its people. From ancient time to modern age government fulfill its responsibility by spending a lot amount towards its people. Generally, in the ancient time, government manages its fund by internal sources and spend highly amount in the war. But, now time has changed, government and people all know their responsibilities. On the one side each government is very careful and serious towards its social responsibility and on the other side people is too much concerned towards the nation and closely watching the activities of the government. People contribute some percentage of their income to the government as the tax and the government has to spend a lot of money to fulfill the responsibilities of its towards the people. The responsibilities may be either for security or health or education or other development activities. Now, to fulfill the high demand of social welfare program and to meet the growing public expenditure, the government must have sufficient fund. The government has two alternatives to

raise the required fund. One is internal sources and other is external sources. External sources of fund are foreign grants and loans. This kind of fund is received from foreign countries and international organization. External sources of fund are more important for undeveloped and underdeveloped countries. It is used for economic development, reconstruction, foreign exchange, to recover crisis condition, productive use etc. (Sharma and Luitel, 2059 B.S). But external sources are uncertain, inconvenient and not good for healthy development of the nation because they have to be paid after a certain time. So, it is better to mobilize internal sources rather than looking with beggars eye to the donors (Pant, 1996). Internal sources fund are own sources within the nation. It is the best alternative for the nation to mobilize internal sources that is certain, convenient and reduces the dependability to other countries use of external sources of fund to raise necessary public fund is not good because it reduces the liquidity position of the government, increases over-dependency upon other countries and increases the inflation. So, internal sources are more important not only financing necessary funds but also for the proper mobilization of external sources. But past experience shows that Nepal is unable to mobilize its internal sources properly or effectively. On the other hand, sources of public revenue can be classified into two types. They are (a) Tax sources and (b) Non tax sources. Tax sources include the amounts, which are compulsory contributed by tax payers to the government. Non tax revenue includes fees, special assessment, gifts and grants, fines and penalties etc. Government imposed non-tax according to the necessary, so it is uncertain and inconvenient. Tax can be defined as the contribution from people and organization to the government from their income either by service or by business without taking corresponding benefits. Tax is the most important sources of government revenue because it occupies largest part of total revenue. According to Prof. Seligman, "Tax as a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred." From the above definition, tax is a

compulsory levy imposed by the government on the people and institutions according to the prevailing laws. Those who pay tax do not get direct or corresponding benefits from the government. Generally, taxes can be classified into two types. They are (a) direct tax and (b) indirect tax. These taxes are collected according to income level or person or organization. Income tax, property tax, interest tax, etc. are direct tax. Indirect tax is that tax which is imposed on one person but paid partly or wholly by another. Custom duty, excise duty, VAT, sales tax, import and export tax and duty etc. are indirect tax. Income tax is most popular direct tax. It is considered as one of the major elements of tax revenue. Income tax is charged on a person's income according to the law of the nation. It covers all the fees, additional fees, fines etc. Income includes all the income, which is received from business, investment and employment. Income tax is superior to other because it is imposed on the basis of paying capacity of tax payers. People whose income is under the taxable income are free from the incidence of income tax. Within the income tax system, exemptions and deductions are more important to know about income tax because they are used continuously and treated differently year to year. To make up-to-date knowledge about the income tax system, it should be known. By knowing it, we can compute net income and tax liability. Income tax law of every nation has clearly mentioned about the exemption of income and deduction of expenses. Income tax reduces concentration of wealth in a few hands by imposing high rates to those persons and organizations who have a high level of income and low rates to those whose income level is less. It also helps to increase the government revenue, which can be used for public welfare to develop infrastructure, provide general services etc. People who are paying tax to the government give more attention about the public expenditure. So the government expends the revenue in a good manner. Income tax is not only essential for collecting government revenue but also to control over consumption to promote saving and generate more employment. First of all, the income tax system was introduced in England to manage the war. Similarly, to manage the civil war, the USA introduced corporate income tax in 1862. In

1909 Federal Corporation income tax was originated. Now a days it is expanded all over the world. Every nation is introducing income tax according to their needs. In Nepal, the first elected government in 1959 introduced “Business Profit and Salaries Tax Act 1960.” At that time, income tax was levied only on business profit and salaries. In earlier days both individual and corporate tax was taxed on progressive rate. The government replaced the prevailing tax act by “Income Tax Act 1962.” In 1974, “Income Tax Act 2031 (1974)” was enacted. Now, “Income Tax Act 2058 (2002)” is in implementation. Income tax plays a very important role in the economic development of Nepal. It is a tool of achieving maximum social and economic objective as laid down by the constitution of Nepal. Taxation in the modern world has been taken as the best effective tool for raising the ratio of saving of the national income” (Pant 1997). It is also recognized as a good financial tool to make narrow the inequality in income. It reduces the regional economic unbalance by providing tax concession and holidays to the business or industry, which is established in remote and backwards areas. “ Income tax is essential not only for collecting government revenue but also to control over consumption, to reduce inequality of income and wealth to promote saving and investment and to accelerate economic development”(Joshi, 2055). It is no doubt that income tax is the main source of government revenue. It is also usable in the balance economic development. Nobody can doubt that, the distribution of income is also possible through progressive income tax rate. The percentage of income tax in government revenue is increasing trend, but government is unable to maximize the share of income tax to the public fund as per expectations. Income tax is assessed on yearly basis. Although the legal provision has been made and updated timely, there are many problems about income tax and exemptions and deductions. There are many problems in income tax practice in Nepal such as; leakage in tax, feeling of people about tax as a penalty, lack of consciousness of people, inability of tax administration to cover new tax payer, delays in computation and collection, lack of accuracy and unity in

accounting system etc (Khadka,1994). The main objectives of taxation are more revenue collection. Exemptions and deductions play important role to collect the tax. Because of all these reasons exemptions and deductions of income tax system must be reviewed and immediate correction can be made.

1.2 Statement of the Problem

The prime concern of every nation is economic development. Every government has responsibility towards its people. The responsibility may be either for peace and security and special services or economic development and other development activities. To fulfill these responsibilities a government has to spend a lot of money (fund). Therefore, government's expenditure is increasing in high rate day by day. The government has to manage its fund from internal as well as external sources to meet the increasing expenditure. External sources are uncertain, inconvenient and it is not good for healthy economic development, if there is

heavy dependence on them. Internal sources are convenient, certain and reliable, so, it is better to mobilize internal sources effectively rather than begging with the donors. Underdeveloped countries are facing various problems in the process of economic development. Nepal is not an exception to this condition. Nepal has facing very serious problems of resources gap and high dependency of foreign loan and grants. Taxes are important sources of public revenue. It is the major instruments to increase the rate of capital formulation to achieve high rate of economic development. Higher resources mobilization is the best option of healthy economic development for the nation. In Nepal, resources mobilization is still poor that doesn't cover the demand of growing expenditure. Because of deficit financing system, the economy has to face the resource gap which is widening continuously with the increment of total expenditure in respect to total revenue collection, the resource gap situation is presenting in the table below:-

Table 1.1
Resource Gap in Nepal

(Rs. In millions)

Fiscal year	Total expenditure	Total revenue	Deficit resource gap
2000/01	79835.10	55647.00	24188.10
2001/02	80072.10	57131.60	22940.60
2002/03	84006.10	67568.90	16437.20
2003/04	89442.60	73614.40	15828.20
2004/05	102560.40	84513.90	18046.50
2005/06	110889.20	86109.60	24779.60
2006/07	133604.20	103517.5	30086.7

Source: - Economic Survey, 2006/07, Ministry of Finance, NG

By analyzing the above table, it can be said that there is significant resource gap in Nepalese budget. Internal and external borrowing is the main sources to fulfill the resources gap. The use of borrowing to fulfill the growing government expenditure brings various problems; mainly it will be repaying huge amount in the future. In Nepal, income tax has not been playing any significant contribution to the government revenue. Government expenditure is increasing day by day but there is no equivalent increase in government revenue. Such unbalanced growth in revenue and expenditure has resulted in massive revenue expenditure gap or budgetary deficit in the country. The major cause of resource gap in Nepal is inadequate and ineffective resource mobilization. The design of tax in Nepal is so poor and

defective that as revenue rising instrument they always have very disappointing performance. The weak performance of tax is clearly reflected in Nepal's low tax GDP ratio. Nepal's direct tax revenue on GDP ratio which was 2.58 percent in 2000/01, 2.36 percent in 2003/04 and 2.50 percent in 2005/06. Perhaps it is the

lowest in the world. To raise government revenue it is necessary to raise its internal sources of revenue. Internal sources of revenue include tax and non-tax revenue. The contribution of tax revenue in the GDP was 9.86 percent in 2000/01, 10.64 percent in 2004/05 and 10.29 percent in 2005/06. Likewise the non-tax revenue on GDP was 2.58 percent in 2000/01, 3.15 percent in 2004/05 and 2.66 percent in 2005/06. In Nepal the contribution of income tax to total revenue is very low comparison to developed countries. Nepal's low revenue collection is due to poorly designed and defective tax system where the taxes are less productive, less responsible and distortion. In Nepal, the

coverage of income tax is very low. There is poor taxpaying habitat of Nepalese people. Tax authorities are inefficient and ineffective in enforcement. Tax offices are looked upon as heaven for corruption. Incompetent personnel are other major problems. The assessment procedure of income tax is ineffective. There are no integrated programs for taxpayer's education, assistance, guidance and counseling (Agrawal, 1973). Rich people are avoiding taxes by using legal loopholes and taking advantages of an inefficient tax administration. The coverage of income is very narrow in Nepal, agricultural income is exempt from income tax widespread income tax evasion, complicated and frequent change in the tax rate and policies etc. are major factor for low contribution income tax revenue at present. Government has adopted various policies to strengthen the revenue structure of Nepal. Government implemented self tax assessment system to enhance the government revenue, although there is high tendency of income tax evasion and avoidance. Nepal highly depends upon the external sources than internal sources. The available resources do not meet the estimated budget fulfilling the aspiration of the people and constructing the social welfare state. Therefore, there is need of improvement of income tax collection system to mobilize internal sources which is also considered as the optimum solution of resources gap and high dependency on foreign loan. At present the exemption limit is distinct into two categories such as an individual and the

family according to the personal status in Nepal. This classification does not recognize the various sizes of the dependent family members. In the Nepalese context this limit neither shows any specific or definite relationship with per capita GDP nor with the rate of inflation and poverty norm. Income Tax Act 2058 has described about the expenses which are allowed for deduction and not allowed for deduction while calculating amount of income tax. Similarly, Finance Act (budget) provides exemption limit to family or couple and individual unit separately. The study would be found out, whether the given exemptions limit and deductions of expenses are sufficient, appropriate, and systematic or not. For this purpose a questionnaire is presented to different people (tax experts, tax administrators and tax payers etc.) for their opinions and suggestions regarding this.

1.3 Objectives of the Study

Generally, the main objectives of this study are to gain and insight into the exemptions and deductions of present income tax system. Giving the suggestions as much as possible to improve the tax system help the government to collect more revenue and use it in the process of national development. This research does not help the government to collect more revenue but also aware the people about exemption of incomes and deduction of expenses. However, the main objective of the study is:

- To analyze of the contribution of income tax to national revenue of Nepal.
- To examine of deductions facilities provided by the Income Tax Act 2058.
- To evaluate of the exempt limit under the Income Tax Act 2058.
- To examine the views of the tax experts, tax officers and tax payers about the exemptions and deduction facilities provided in the present Income Tax Act.
- To provide suggestions and recommendations about Income Tax Administration and Income Tax Law.

1.4 Scope of the Study

The study tries to cover the major constituents of income tax system in Nepal. It aims to find out the exemption and deduction of income tax provided by Income Tax Act, problems and weakness in income tax system, contributions of income tax to the government revenue and tries to suggest some possible areas for reform. Especially the income tax exemption and deduction is discussed in detail.

In brief the study covers the following aspects of income tax system of Nepal:

Nepalese tax structure.

Role of income tax in Nepal.

Exemption limit and deduction facilities under Income Tax Act 2058.

Existing position of Income Tax in Nepal.

1.5 Need of the Study

Developing country like Nepal requires higher magnitude of financial resources for the development program. Internal resources have more significant role than the external resources for developmental program. The income tax is one of the most important internal sources of government revenue. Income tax plays significant role in the economic. But it is a matter of great embarrassment to quote that the contribution of income tax to the national revenue is very low in Nepal. To increase the contribution of income tax to the national revenue, problem faced by the income tax system should be researched and analyzed objectively and then the corrective actions should be started. Few studies and research works have been conducting in the area of income tax in Nepal. Within income tax, the intensive study on tax exemption and deduction hasn't been done in Nepal. Most of the researchers are based on contribution on income tax or national revenue. They are not giving main emphasis to research on exemption and deduction topic which is maintained in

Income Tax Act. Due to this context need and significance of this study can be known easily.

1.6 limitation of the Study

There are various constraints in this study. Focus is only given to analyze only certain aspects of income tax and study of exemptions of incomes and deductions of expenses in Nepalese income tax. The research should be conducted according to the objectives, statement problems and methodology. It is not complete study of income tax system of Nepal. So, it has the following limitation:

- It is based on exemptions of income and deductions of expenses but not as the complete study of income tax.
- In the context of Nepal related sectors still are unable to provide relevant data properly. There is no systematic database that makes it difficult to carry out on any research in Nepal. Sometimes authority person do not want to provide relevant information, this problem is also incorporate with this study.
- Due to the small size it may not fully represent Nepal as a whole.
- The views of respondents are collected only from Kathmandu valley.
- Absence of required related data of various countries concerned with the study limits to details study.

1.7 Scheme of the Study

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

Introduction

Review of literature

Research methodology

Data presentation and analysis

Summary, conclusion and recommendation

The first chapter is introduction chapter. It includes background, statement of the problem, objectives of the study, scope of the study, need of the study, limitation of the study and scheme of the study. The second chapter is about the review of the literature and conceptual frame works. Books unpublished dissertation reports and articles etc. have been reviewed for the study. Conceptual frame work includes legal provisions regarding Income Tax Act 2058, concept of tax, concept and meaning of income tax, income tax in international context, and some legal provisions of income tax in Nepal etc. The third chapter is concerned with research methodology which includes research design, population and sample, nature and sources of data, data collection procedure, data processing and analysis procedure etc. The fourth chapter is the major part of this study. This chapter is termed as presentation and analysis of data. This chapter includes research gap in Nepal, tax GDP ratio; Nepalese government revenue structure, composition of tax revenue in Nepal, exemption of incomes and deduction of expenses in income tax system etc. and opinion survey have been analyzed. It describes the problems and weakness of tax administration in Nepal. It contains major finding of the study also. Fifth is mainly concerned with summary, conclusion and recommendations Appendix and bibliography are presented in the last part of the study.

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CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

“Research methodology is the way to solve systematically about the research problem” (Kothari, 1990). This is a procedure of planned framework for the research study dealing with the research design, nature of the data, data gathering procedure, population and sample and data processing procedures.

3.2 Research Design

“Research design is the plan structure and strategy of investigation conceived so as to obtain answers to research questions and control variances” (Kerlinger,1986). This research study attempts to analyze the present exemptions and deductions of income tax. Opinion of 50 respondents associated with the income tax. Income tax experts, income tax administrators and income tax players are collected through the questionnaire. Different types of questions regarding income tax are used in questionnaire. Similarly various publications regarding income tax are used for this study. In this way, the research design of this research is descriptive, analytical and empirical.

3.3 Population and Sample

To fulfill the objectives of the study, 50 sample sizes from the Kathmandu valley is selected. Samples are carefully selected by consultation with the supervisors and best judgments of the researcher. The respondents have been divided into three groups. The following table presents the groups of respondents and size of sample.

Table 3.1
Group of Respondents and Size of Samples

S.N.	Group of Respondents	Sample Size
1	Income Tax Experts	10
2	Income Tax Administrators	20
3	Income Tax Payers	20
Total		50

3.4 Nature and Sources of Data

The significance of research basically depends upon the nature availability and accuracy of information .On the side method of data collection constitute important activity of research work and on the other it is very tough task. So far as this research is concerned, I have used two methods of data collection procedure;

- I. Primary data collection.
- II. Secondary data collection.

Primary Data

Primary data and information are collected through the questionnaire from the sample population. The questionnaires were distributed to different respondents. Tax administrators are selected from department and various sector of tax offices. Tax experts are the faculties have experience of tax management, auditors, chartered accountants etc. Taxpayers are selected from various sectors i.e. finance company, bank, insurance company, private company, departmental store etc.

Secondary Data

The secondary data were collected from secondary sources. The major sources of secondary data are as follows:

- Budget speech and economic survey of various years, ministry of finance.

- Reports and record of department of taxation, ministry of finance of Nepal.
- Book and bulletins related to income and public finance.
- National and international newspapers, journals and news magazines.
- Different dissertation related to income tax.
- Other relevant records and data.

3.5 Data Collection Procedure

Data and information used in this study was collected from primary as well as secondary sources. To get the accurate and actual information in time, all questionnaires were distributed and collected personally through field visits.

3.6 Data Processing and Analytical Procedure

For the analysis, all collected data and information of various aspects of income tax were arranged in order and processed. Then, the descriptive tools and statistical tools such as simple percentage, simple average, graphs, charts, diagrams etc. have been applied in the way of analysis so that the findings could be presented and interpreted properly and clearly.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Resource Gap in Nepal

Like other developed countries in the world, Nepal has been suffering from resource constraint, mass poverty, rapid growth of population, aggressive dependence on agriculture, subsistence living standard etc despite over four decades planned development efforts . In Nepal, the source mobilization is still poor that does not cover the growing expenditure. Fiscal deficit is due to the continuously growing expenditure of the government instead of the low revenue performance in Nepal. That is why; country is facing the increasing burden of foreign loan. Widening trend of the different resource gap is show in the table 4.1. In the table (table no. 4.1), 1st resource gap of Rs.4137.6 million in fiscal year 1982/83 reached to Rs.38607.11 million in the fiscal year 2005/06. It is continuously in increasing trend. Resource gap was decreased from the fiscal year 1991/92 to fiscal years 1994/95. In these fiscal years, total revenue was increased in greater percentage than expenditure, so resource gap was decreased. 2nd research gap (after considering foreign grants) was Rs.3047.5 in the starting year and further widen up to Rs.24779.6 million in fiscal year 2005/06. It was decreased in the fiscal year 1989/90 by the 141.10 million than the previous year and also decreased in the fiscal year 19993/94. The government takes internal and external loan to meet deficit finance. Foreign loan had taken Rs.985.80 million in the fiscal year 1982/83 and Rs.8214.30 million in 2005/06. After foreign loan financing, 3rd resource gap was Rs.2061.7 million in the fiscal year 1982/83 and which was increased to Rs.16565.30 million in the fiscal year 2005/06. In 2000/01, maximum foreign loan was taken in comparison to other years, so resource gap was decrease in this fiscal year. The resource gap (after considering foreign loan) was fluctuating trend. The increasing resource gap indicates that it is

necessary to mobilize additional domestic resources. Ultimate and the best measure to fill up the resource gap to increase public revenue through effective tax system.

Table 4.1
Resource Gap in Nepal

Rs. In Million

Fiscal Year	total expenditure (A)	total revenue (B)	resource gap (1st) (C)	foreign grants (D)	resource gap (2nd) (E)	foreign loan (F)	resource gap (3rd) (G)
1982/83	6979.2	2841.6	4137.6	1090.1	3074.5	985.8	2061.7
1983/84	7437.3	3409.3	40288.0	876.6	3151.4	1670.9	1480.5
1984/85	8394.8	3916.7	4478.1	923.4	3554.17	1754.9	1977.8
1985/86	9797.1	4644.5	5152.6	1172.9	3979.7	2501.1	1478.6
1986/87	11513.2	5957.1	5556.1	1285.1	4271.0	2705.8	1565.2
1987/88	14105.0	7350.4	6754.6	2076.8	4677.8	3815.8	862.0
1988/89	18005.0	7776.9	102281.1	1680.6	8547.5	5666.4	2881.1
1989/90	19669.3	9287.5	10381.8	1975.4	8406.4	5959.6	2446.8
1990/91	23549.8	10729.9	12819.9	2164.8	10655.1	6256.7	4398.4
1991/92	26418.2	13512.7	13905.5	1643.8	11261.7	6816.9	444.8
1992/93	30897.7	15148.4	15749.3	3793.3	11956.0	6920.9	5035.1
1993/94	33597.4	19580.8	14016.6	2393.6	11623.0	1963.6	2459.4
1994/95	39060.0	24575.2	14484.8	39327.1	10547.7	7312.3	3235.4
1995/96	46542.4	27893.1	18649.3	4825.1	13824.2	9463.9	4360.3
1996/97	50723.7	30373.5	20350.2	5988.3	14361.9	9043.6	5318.3
1997/98	56118.3	32937.9	23180.4	5402.6	17777.8	11054.5	6723.3
1998/99	59579.0	37251.0	22328.0	4336.6	179891.4	11852.4	6139.0
1999/00	66272.5	42893.8	23378.7	5711.7	17667.0	11812.2	5854.8
2000/01	79835.1	48893.6	30941.5	6753.1	24188.1	12044.0	12144.1
2001/02	80072.3	50445.5	29626.8	6686.1	22940.7	7698.7	15242.0
2002/03	84006.1	56229.8	27776.3	11339.1	16437.2	4546.4	11880.8
2003/04	89442.6	62331.0	27111.6	11283.4	15828.2	7629.0	8199.2
2004/05	102560.4	70122.7	32437.7	14391.2	18046.5	9266.1	8780.4
2005/06	110889.2	72282.1	38607.11	13827.5	24779.6	8214.3	16565.3
2006/07	133604.6	87717.5	45887.1	15800.80	30086.3	10053.50	20032.8

Source: Economic Survey, 2006/07, Ministry of Finance, GON.

4.2 Revenue Structure of Nepal

Every government is responsible to perform numerous functions for the betterment of the people in the country. A government needs huge volume of income to fulfill different type of expenditures. For this purpose, government collects revenue from different sources. Thus, the income of the government through all sources like taxes, borrowings, fees, donations etc are called public revenue. In general, government income sources are mainly classified into two categories named tax revenue and non-tax revenue. These both sources are subject to non-repayment and their sum constituted the government revenue. Beside these sources, government has other sources, which are subject to repayment such as loans and grants. However, grants are not compulsorily repaid. These are desirable only to meet the fiscal deficits. The trend and composition of tax revenue and non-tax revenue in different fiscal years are presented below:

Table 4.2
Magnitude of Revenue Collection in Nepal

Rs. In million

Fiscal Year	Total Revenue	Tax Revenue Amount		Non Tax revenue	
		Amount	% as an total revenue	Amount	% as total revenue
1991/92	13552.60	9875.50	73.6	3640.10	26.94
1992/93	15148.30	11662.40	79.99	3485.90	23.01
1993/94	19580.19	15371.50	78.51	4209.40	21.49
1994/95	24605.10	19660.00	80.00	4945.10	20.00
1995/96	27893.10	21668.00	77.68	6225.10	22.32
1996/97	30373.50	24424.30	80.41	5949.10	19.58
1997/98	32937.90	25939.80	78.75	6998.10	21.25
1998/99	372561.00	28752.90	77.19	8498.10	22.82

1999/00	42893.70	33152.10	77.29	9741.10	22.71
2000/01	48892.70	388653.00	74.49	10028.80	20.51
2001/02	50446.30	39331.30	77.97	11115.00	22.03
2002/03	56229.44	42587.00	75.73	13642.44	24.27
2003/04	62330.55	48172.50	77.29	14158.05	22.71
2004/05	70122.7	54104.7	77.16	16018.0	22.84
2005/06	70643.60	57430.40	76.33	14851.7	23.67
2006/07	87717.5	71127.5	81.09	16590.00	18.91

Sources: Economic Survey, 2006/07, Ministry of Finance, GON

From the above table, it can be assessed easily that in the fiscal year 1991/92 the figure for total revenue stood at Rs 13552.60 consisting of tax revenue of Rs.9875.50 and non tax revenue of Rs.3640.1. Tax revenue seemed to be increasing up to the fiscal year 1994/95 which amounted to Rs.19666.0 (80%). The following two fiscal years showed rise and fall of it. Again from the fiscal year 1996/97 the figure for tax revenue seemed to be decreasing for three following up to the year 1998/99. In the fiscal year 2006/07, the figure for tax revenue stood at Rs. 71127.5 which was at 81.09% of total revenue. And the amount of non tax revenue was 16590 with 18.91 % of total revenue of this year.

Figure 4.1

Revenue collection from tax revenue and non-tax revenue

4.2.1 Tax Revenue Structure of Nepal

Taxes are not a voluntary contribution of the taxpayer but it is compulsory in nature. Generally, tax is a compulsory contribution imposed by the public authority. Taxation is the main source of income of the government. Tax revenue comprises compulsory, unrequited, non-payable receipts collected by government for public purpose. It includes interest collected on tax areas and penalties collected on non-payment or late payment of taxes. Tax revenue is principle sources of the

government revenue: however, its contribution is different in different countries significantly. In the context of Nepalese economy, tax revenue is major sources of government to mobilize sources effectively and properly. Tax revenue, one of the principle sources of the government revenue, is a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the taxpayers in return. It covers theoretically and practically following heads such as person, organization, business firms and even foreigners who are doing business of consuming goods or using service in Nepal. In the fiscal trend of Nepal, tax revenue structure is a combination of two tax elite. They are namely direct tax and indirect tax. The trend and composition of tax revenue for the fiscal years 1991/92 to 2005/06 are given in the table below:

Table 4.3
Trend and Composition of Tax Revenue

Rs. In million

Fiscal Year	Total Revenue	Tax Revenue Amount		Non Tax revenue	
		Amount	% as an total revenue	Amount	% as total revenue
1991/92	9875.50	1595.10	16.15	8280.40	83.85
1992/93	11662.40	2036.10	17.46	9626.30	82.54
1993/94	15371.50	2855.30	18.58	12515.90	81.42
1994/95	19660.00	3849.30	19.58	15810.70	80.42
1995/96	21668.00	4655.90	21.49	17012.10	78.51
1996/97	24424.30	5340.00	21.86	19084.30	78.14
1997/98	25939.80	6187.90	23.86	1995.90	76.15
1998/99	28752.90	7516.10	26.14	21236.80	73.80
1999/00	33152.10	8951.50	25.14	24200.60	74.44
2000/01	388653.00	10159.40	25.46	28704.50	77.58
2001/02	39331.30	10597.50	29.94	28733.80	75.58

2002/03	42587.00	10105.80	22.41	32481.20	75.7
2003/04	48172.50	11912.60	23.27	41032.90	75.84
2004/05	54104.7	13071.8	24.16	41032.90	75.68
2005/06	57430.40	3968.10	24.32	43462.30	73.31
2006/07	71127.5	18980.5	26.69	52147.0	

Sources: - Economic survey, 2006/07, Ministry of Finance, GON

From the above table, it is clear that the Nepalese tax structure is completely dominated by indirect tax revenue. However, the percentage of indirect tax as the total tax revenue is decreasing continuously. In the similar manner, the percentage of direct tax to total tax revenue is increasing in subsequent years. The volume of direct tax and indirect tax was Rs.1595.10 million and Rs.8280.40 million which was 16.15 percent and 83.85 percent of total revenue respectively. The direct tax was increasing gradually from Rs.1595.10 millions to Rs.10597.50 millions in the fiscal year 1991/92 to 2001/02. It slightly decreased in next year then increased in next two successive years. In fiscal year 2005/06 it dramatically declined to Rs. 3968.10 which was 24.32% in total revenue and it increase up to 18980.5 which was 26.61% in total revenue at 2006/07.

Similarly, the amount of indirect tax revenue is also in an increasing trend. It has increased from Rs.8280.40 million to Rs.32481.20 million in fiscal year between 1991/92 to 2002/03. It slightly decreased in fiscal year 2003/04 and again increased to 52147.0 in fiscal year 2006/07. The percentage contribution of indirect tax to total tax revenue was in a decreasing trend from the fiscal year 1998/99 but after then it went on fluctuating up to the fiscal year 2006/07. The contribution of indirect tax revenue to total tax revenue was minimum 73.80 percent in 1998/99 and maximum 83.85 percentages in year 1991/92. In developed economic like U.S.A. etc. direct tax plays a leading role for the internal resource mobilization where as in developing

countries like Nepal, indirect tax plays pioneering role by dominating direct tax. It shows the magnitude of economic development.

Figure 4.2
Trend of Composition of Tax Revenue

4.2.1.1 Direct Tax Revenue

Direct tax is actually paid by the person on whom it is imposed legally. By definition, direct tax is a charge imposed by government authority up on property, individual or transactions to raise money for public purpose. Direct tax is levied by the government on the income and wealth received by households and business entries in order to raise revenue and as an instrument of fiscal policy. Direct tax is so called because it is normally assumed to be the real burden of payment which falls directly on the person or business enterprise. They are fully responsible to pay tax and cannot be passed on to anybody else. Direct tax is progressive because the amount which is paid as tax varies significantly to the income and wealth of the taxpayer. With very limited tax base and narrow coverage, direct tax in Nepal seems to less effective to mobilize the domestic resources. So, it is an inevitable instrument of the fiscal policy and hence it must be designed and practiced properly. In general, revenue productively of the direct tax goes on increasing as the economy of the country grows over time. If the economy growth increase, per capita income per annum of that country will automatically rise, in depth, it means that it possesses the ability to pay direct tax. Thus, the magnitude of direct tax goes up and substitutes in the place of indirect tax's magnitude. So, higher magnitude of the direct tax indicates a highly developed country. In contrast, lower the share of direct tax indicates to the less developed or developing country and hence country needs to accelerate the growth path by substituting the share of indirect tax to direct tax. Thus, it lies as a minor source of tax revenue source of Nepal. Nepalese economy direct tax is the

comparison of different taxes namely income tax, land tax and wealth tax, interest tax, tax on registration etc.

In the current situation, income tax is one of the major sources of direct tax. Nepal is levying different types of income tax. Its categories interest tax. On the other side, properties tax in another major direct tax. It includes land revenue, Bhumikar, and house and land registration and house and land tax.

4.2.1.2 Composition of Direct Tax Revenue

In Nepalese tax structure; the major components of direct taxes are income tax, land tax and house and land registration tax on property. Until the fiscal year 1993/94 vehicle tax was considered as a direct tax and since 1994/95's budget speech, it has been classified under the indirect tax. On the other hand, interest tax and urban house and land rent tax were included under the income tax since 1994/95. Thus the contribution has been larger. The share of each component of direct taxes is given below.

Table 4.4
Composition of Direct Tax Revenue

Rs .In Million

Fiscal Year	Income Tax	Land Tax	House and Land Registration	Tax on Property	Others	Total Direct
1991/92	875.0	64.80	571.20	67.70	16.40	1595.00
1992/93	1198.20	69.30	685.50	80.00	3.10	2036.20
1993/94	1921.20	61.00	772.20	49.80	51.10	2855.30
1994/95	2823.40	34.90	902.80	88.20	0.00	3849.30
1995/96	3431.40	18.20	1048.40	157.90	0.00	4655.90
1996/97	4123.30	5.90	1009.50	201.20	0.00	5340.00
1997/98	4898.10	3.60	1000.60	285.60	0.00	6187.90

1998/99	6170.60	1.40	1001.80	342.70	0.00	7516.10
1999/00	7420.30	4.60	1011.30	515.00	0.00	8951.50
2000/01	9114.00	5.10	607.80	432.50	0.00	10159.40
2001/02	9802.70	0.80	1131.00	562.00	0.00	10159.40
2002/03	7966.20	0.00	1414.30	559.50	165.8	10105.80
2003/04	9245.9	0.00	1697.00	700.60	268.6	11912.60
2004/05	10159.40	0.00	1799.20	806.50	306.7	13071.80
2005/06	10373.70	0.00	2181.10	847.60	565.70	13968.10
2006/07	15034	0.00	2253.5	995.0	697.8	18980.3

Source: Economic Survey, 2006/07, Ministry of Finance, GON.

From the above table, the largest share in the direct tax is occupied by income tax, followed by house and land registration tax then tax on property (mainly transportation means). From the fiscal year 1991/92, the income tax went on increasing continuously till 2000/01 which amounted to Rs 9114.00 million .But it fluctuated between fiscal years 2001/02 to 2002/03.Then it went on increasing onwards. In the fiscal year 2006/07, the income tax is Rs 15034 million. However, the land tax which had an amount of Rs 64.80 million in the fiscal year 1991/92 increased successively in the initial two fiscal years .Thereafter, it went on fluctuating on next four fiscal years. Then the revenue collection land tax was declining .Finally it was nil due to the conflict situation in the country. So different organizations were closed and business activities were reduced. Besides, house and registration tax increased from Rs 571.20 million to Rs. 1048.40 million between the fiscal year 1991/92 to 1995/96 and slightly fluctuated for the next five fiscal years. Finally the amount of 607.80 million in the fiscal year 2000/01 went on increasing and to Rs 2253.5 million in the fiscal year 2006/07. However, tax on property fluctuated initially in beginning fiscal year 1991/92 to 1993/94 from the amount Rs 67.70 million to Rs 49.80 million, but with the start of fiscal year 1994/95, the tax went on increasing till 1999/00 with the amount of Rs 515.00 million .Afterwards, it

fluctuated for the three fiscal years. It reached the amount of Rs 700.60 million and went on increasing .Thereafter; the total direct tax had shown the positive response throughout all fiscal years. Though it slightly dropped to 10105.80 million in the fiscal year 2002/03.But it went on increasing for the next fiscal years.

Figure 4.3

Revenue Collection from Direct Tax

4.2.1.3 Indirect tax Revenue

Indirect tax, a popular approach concerning taxation implies in the world is a very powerful missile of fiscal policy adopted especially for the optimum level of resources mobilization with the principle - "more gain from the taxpayers, no pain to the tax payers. Theoretically, it is a tax; which falls firstly and directly on the taxpayers, but the person must bear it sharing the tax burden, so, the real income is indirectly affected. In short, indirect tax is imposed on one person but it is paid either partly or wholly by another person. So the impact and the incidence of tax are on different persons. Nepal depends heavily on the indirect tax rather than the direct tax because there is not any-good alternative. Since 1951, indirect tax had grown rapidly and speedily. If indirect tax is effective and proper, it mobilizes the internal resources. So most of the developing countries mobilize it effectively and properly of the demotic resources. The major component of indirect tax in Nepalese tax structure constitutes custom duty, excise duty, VAT/ sales tax and contract tax. Custom duties are composed of mainly import duties, exports duties. Other components of indirect tax like entertainment tax, hotel tax contribute very nominal share because they are included in VAT since 1997. Others form of indirect taxes include remission of Indian exercise duties, road bridge tax and other taxes.

4.2.1.4 Composition of Indirect Tax Revenue

In Nepalese tax structure; the indirect tax refers to three categories of taxes namely custom duties, VAT/ sales tax and exercise duties. The total indirect tax revenue realized during the study period, namely custom duties contributed the highest share up to fiscal year 2003/004 followed by VAT/ sales tax and exercise duty. But in Fiscal year 2004/05 VAT/sales tax is higher than customs duties. The share of the major components of the indirect taxes is given below.

Table 4.5
Composition of Indirect Tax Revenue

Rs. In Million

Fiscal Year	Customs Duties*	Sales Tax/VAT	Excise Duties**	Other Taxes***	Indirect Tax
1991/92	3358.90	2840.70	1414.40	666.40	8280.40
1992/93	3945.00	3438.20	1452.80	790.30	9626.30
1993/94	5255.00	4693.10	1592.20	1103.60	12515.90
1994/95	7018.10	6031.30	1657.30	1309.10	15810.70
1995/96	7327.40	6431.30	1944.30	1350.60	17012.10
1996/97	8309.10	7126.50	2298.10	1241.30	19084.30
1997/98	8502.20	7122.60	2885.80	883.70	19751.90
1998/99	9517.70	7882.20	2953.20	404.80	21236.80
1999/00	10813.30	9854.90	3127.60	334.60	24200.60
2000/01	12552.10	12047.80	3770.00	303.30	28704.50
2001/02	12658.80	11964.00	3807.70	0.00	28733.80
2002/03	14236.40	13559.70	4785.10	0.00	32481.20
2003/04	15554.80	1478.90	6226.70	0.00	36260.40
2004/05	15701.60	18885.40	6445.90	0.00	41032.90
2005/06	15344.40	21610.70	6507.60	0.00	43462.30
2006/07	16707.6	26095.6	9343.2	0.00	52146.4

Sources: - Economic survey 2006/07 ministry of finance, GON

**Custom duties include import export, India exercise refund and other*

***Exercise duties are the sum of taxation, industrial product and higher contact.*

****Other taxes include entertainment tax, Hotel tax, Air flight tax, contract tax, Road and bridge maintenance tax and others.*

Above table shows the contribution of customs duties to indirect tax is in an increasing trend. Its share in the fiscal year 1991/92 was Rs.3358.90 million which reached up to Rs.15701.60 million in the fiscal year 2004/05 and slightly decreases in fiscal year 2005/06 and it was increase in 2006/07. Likewise, the share of VAT/sales tax to indirect tax was also in an increasing trend which contributed Rs.2840.70 million in the fiscal year 1991/92 that reached up to 7126.50 in fiscal year 1996/97 and slightly decreased in next year. Thereafter it was fluctuating till fiscal year 2001/02 and also it was in increasing trend. Similarly, revenue collection from excise duties was increasing trend which contributes Rs.1414.40 in fiscal year 1991/92 and it reached up to 2343.2 in fiscal year 2006/07. Other tax is nil in the fiscal year 2002/03 to 2006/07 and indirect tax is continuously increasing.

Figure 4.4

Composition of Indirect Tax Revenue

4.2.2 Non-Tax Revenue structure of Nepal

Like tax revenue, non-tax revenue is another source of the government revenue in the revenue structure of Nepal. It is not imposed compulsory by public authority to the taxpayers. Fees, fines, penalties, dividend, interest sales of goods etc are the bases of non-tax revenue. The composition of non-tax revenue in Nepalese tax system are the following factors such as charges, fees, fines, forfeiture, receipts from sales of commodities and services, dividends, royalty, sales of fixed assets, principal and interest payment etc

Table 4. 6

Composition of Non-Tax Revenue

Rs. In million

Fiscal Year	Charges, Fee, Fines and Forfeiture	Receipts From sales of Commodities	Divided	Royalty and Sales of Fixed	Principle and interest Payment	Miscellaneous	Total
1991/92	1106.30	765.00	644.40	137.80	974.40	12.20	3640.10
1992/93	333.40	889.50	755.50	59.90	1431.10	16.50	3485.90
1993/94	248.00	1270.00	775.70	90.40	1811.00	14.30	4209.40
1994/95	207.10	1388.30	1060.10	196.90	2083.80	9.60	4945.10
1995/96	286.10	1673.30	1363.00	67.80	2818.80	16.10	6225.10
1996/97	270.80	1799.60	1134.40	447.90	2220.70	75.80	5949.20
1997/98	329.60	2255.50	1363.00	565.20	2641.10	75.70	6998.10
1998/99	336.10	2146.60	1782.80	202.20	3927.50	102.80	8498.10
1999/00	386.30	2428.90	2507.50	563.30	3751.00	104.60	9741.60
2000/01	386.70	2728.00	2336.50	949.60	3497.20	130.80	10028.60
2001/02	512.80	2611.10	2512.90	723.90	3109.50	1638.80	11115.00
2002/03	579.60	3063.000	2497.60	1945.14	2464.30	3092.80	13642.44
2003/04	1202.50	3497.00	2661.10	1465.00	3507.10	1852.35	14158.05
2004/05	1359.90	3849.90	4589.90	1931.40	2714.30	1572.60	16018.00
2005/06	1927.70	3932.30	3394.80	1196.80	3251.30	1148.70	14851.60
2006/07	1945.4	4776.8	4937.7	1091.8	2085.7	1748.1	16585.5

Sources: - Economic survey 2006/07 ministry of finance, GON

The above table shows that the figure of charges, fines and forfeitures which stood at Rs 1106.30 in the fiscal year 1991/92 fluctuated in such a manner that it dramatically dipped to 333/40 in the fiscal year 1992/93. Afterwards, the trend was in a non uniform manner .Finally, it has a sum of 1945.4 in the fiscal year 2006/07 as a non tax revenue. In 1991/92, the figure for receipts from the sales of commodities stood

at 765.00 in the fiscal year 1991/92. The trend was upward except the fall in the fiscal year 1998/99 and 2001/02.

In the similar manner, the amount for dividend which stood at Rs 644.40 in the fiscal 1991/92 increased slowly and uniformly up to fiscal year 1995/96. Afterwards, the trend was oscillatory. Moreover, that for royalty and sales of fixed assets triggered a fluctuation path, reaching a maximum of 1931.40 in the fiscal year 2004/05 and a minimum of 59.90 in the fiscal year 1992/93. In addition to, the figure for principal and interest payment which stood at Rs 974.40 in the fiscal year 1991/92 increased gradually up to the fiscal year 1995/96. Afterwards, the trend was in a fluctuation manner. Moreover, the collection of non tax revenue by miscellaneous way was oscillatory reaching a maximum of 3092.80 in the fiscal year 2002/03.

4.3. Tax and Non-Tax Revenue in GDP

In order to understand the growth pattern of taxation properly, it would be desirable to examine the share of tax revenue and non-tax revenue in GDP.

Following table present an account of the tax and non tax revenue as percentage of GDP.

Table 4.7
Tax and Non-Tax Revenue as Percentage of GDP

Rs. In Million

Fiscal Year	Gross Domestic product	Tax revenue	Non-tax revenue	Percentage of GDP	
				Tax/GDP	Non Tax/GDP
1991/92	144933	9875.50	3640.10	6.81	2.51
1992/93	165368	11662.40	3485.90	7.05	2.11
1993/94	191596	15371.50	4209.40	8.02	2.20

1994/95	209974	19660.00	4945.10	9.36	2.36
1995/96	239570	21668.00	6225.10	9.05	2.60
1996/97	269570	24424.30	5949.20	9.06	2.21
1997/98	289798	25939.80	6998.10	8.95	2.41
1998/99	330018	28752.90	8498.10	8.71	2.58
1999/00	366251	33152.10	9741.60	9.05	2.67
2000/01	394052	388653.00	10028.60	9.86	2.58
2001/02	406138	39331.30	11115.00	9.69	2.74
2002/03	407546	42587.00	13642.44	9.73	3.12
2003/04	474919	48172.50	14158.05	10.14	2.98
2004/05	508751	54104.7	16018.00	10.64	3.15
2005/06	557869	57430.40	14851.60	10.29	2.66
2006/07	612607	71127.5	16585.5	12.32	2.89

Source: Economic survey 2006/07, Ministry of finance, GON.

Above table represents an account of tax and non-tax revenue as percentage of GDP. In the GDP, the tax revenue had been increased much higher than the nontax revenue over the study period 1991/92 to 2005/06. The share of tax revenue increased from 6.81 Percent of the GDP in fiscal year 1991/92 to 10.64 percent in year 2004/05. Then it was slightly decreased to 10.29 percent in 2005/06. The share of the non-tax revenue barely increased from 2.51 percent of the GDP in fiscal year 1991/92 to 3.12 percent in fiscal year 2004/05. There after it was in a fluctuating trend. The relationship between tax and GDP are known as tax/GDP ratio. This is an indicator of the utilization of taxable capacity. The above table shows rather disappointing scenario of tax/GDP ratios for the different fiscal years of study period.

4.4 Direct tax and indirect tax Revenue in GDP

The revenue is composed of direct and indirect tax. The contribution of direct tax revenue is very low in Nepal in comparison to developed countries like United State

and Japan etc. because, being an under developed country, the people of Nepal live in subsistence level and all of their income is spent on consumption. As a result, direct tax cannot produce more revenue than indirect tax. To know the contribution of direct tax and indirect tax revenue it will be desirable to examine the share of direct tax and indirect tax revenue in GDP. The following table indicated the share of direct and indirect tax revenue in GDP.

Table 4.8
Direct Tax and Indirect Tax Revenue as Percentage of GDP

Rs. In Million

Fiscal Year	Gross Domestic product	Direct Tax	Indirect Tax	Percentage of GDP	
				Tax/GDP	Non Tax/GDP
1991/92	144933	1595.00	8280.40	1.10	5.71
1992/93	165368	2036.20	9626.30	1.23	5.82
1993/94	191596	2855.30	12515.90	1.49	6.53
1994/95	209974	3849.30	15810.70	1.83	7.53
1995/96	239570	4655.90	17012.10	1.94	4.11
1996/97	269570	5340.00	19084.30	1.98	7.08
1997/98	289798	6187.90	19751.90	2.14	6.62
1998/99	330018	7516.10	21236.80	2.28	6.44
1999/00	366251	8951.50	24200.60	2.44	6.72
2000/01	394052	10159.40	28704.50	2.58	7.29
2001/02	406138	10159.40	28733.80	2.61	7.24
2002/03	407546	10105.80	32481.20	2.26	7.05
2003/04	474919	11912.60	36260.40	2.36	7.64
2004/05	508751	13071.80	41032.90	2.51	8.93
2005/06	557869	13968.10	43462.30	2.50	7.79
2006/07	612607	18980.3	52146.4	2.83	8.09

Source: Economic survey 2006/07, Ministry of finance, GON.

From the above table, the share of direct tax in GDP was in an increasing trend from fiscal year 1991/92 to fiscal year 2001/02 which was 1.10 percent to 2.61 percent. And it slightly decreased in next fiscal year. Thereafter it went on increasing in next two years. In fiscal year 2005/06 it was at 2.50 percent. The share of indirect tax revenue increased from 2.51 percent in the fiscal year 1991/92 to 7.79 percent in fiscal year 2005/06. However, this increment is not continuous which peaked 7.53 percent in fiscal year 1994/95 then started to decline continuously until 1998/99, and again started to rise in fiscal year 1999/00 and decreased to fiscal year 2002/03. It was also increased in 2004/05 to 8.93 percent. Finally, it decreased slightly in 2005/06.

4.5 Exemption Limit in Nepal

Exemption limits directly influence income tax revenue collection. Taxpayer having low tax paying capacity should exclude from the tax net for the social justice and economic balance between rich and poor. The exemption limit provided in the various years is presented in below the table 4.9. In the earlier time, there was equal amount of exemption to all the taxpayer i.e. individual, couple, family and corporate bodies. Exemption limit to all taxpayers was Rs.7000 in the fiscal year 1959/60 to 1962/63. In the fiscal year 1965/66 to 1966/67 it was Rs.5000 for all. After 1967/68, tax payers were categories in to three heads, i.e. individual, couple and family. After 1979/80 to till now the exemption limit for couple and family is same. The exemption limit to the family was Rs 6000 in the fiscal year 1967/68 to 1974/75 whereas it was Rs.4500 to the couple and Rs 3000 for the individual. The exemption limit to individual, couple and family were 5500, Rs.6500 and Rs.7500 respectively in the fiscal year 1975/76. In the fiscal year 1992/93 to 1996/97 the limit was Rs.25000 for individual and Rs.35000 for couple or family. It is increasing till now. From the table 4.9, it is clear that exemption limit is extended according to need of

time and income condition. At present time, individual having the taxable income Rs.125, 000 is exempted from tax and that for couple or family is Rs.140, 000.

Table 4.9
Exemption Limit in Nepal

Fiscal Year	Individual	Couple	Family	All taxpayers
1959/60	-	-	-	7000
1963/64	-	-	-	7000
1965/66	-	-	-	5000
1967/68	3000	45000	6000	-
1974/75	4500	6000	6000	-
1975/76	5500	6500	7500	-
1976/77	6500	7500	8500	-
1979/80	7500	10000		-
1981/82	10000	15000		-
1983/84	15000	20000		-
1990/91	20000	30000		-
1992/93	25000	35000		-
1997/98	30000	40000		-
1999/00	40000	50000		-
2000/01	55000	75000		-
2001/02	55000	75000		-
2002/03	65000	85000		-
2003/04	80000	85000		-
2004/05	100000	125000		-
2005/06	105000	130000		-
2006/07	125000	140000		-

Source: Finance Acts of Various Year, Ministry of Finance, GON.

4.8 Empirical Study

An empirical investigation was conducted in order to find out the various aspects of income tax from the experience of the real world. In this empirical study, the analysis has been done about income tax on the basis of information collected from the tax experts, tax administrators and tax payers. The major tools used for this purpose is questionnaire. In this study, the questions were asked to 50 different individuals related to this field i.e. tax experts, tax administrators (tax officers), tax payers. The questionnaire has covered various aspects of income tax concerning with the exemptions and deductions (see the format of questionnaire in appendix). The respondents were asked either to responses yes/no or selecting one alternatives among different alternatives or for ranking of choices according to number of alternatives while first choice is the most important and last choice is least important. The information received from the respondents are tabulated and analyzed in the proper way. The following table shows the groups and number of respondents.

Table 4.10

Group of Respondents and Number

S.N.	Group of respondents	Number
1	Income Tax Experts	10
2	Income Tax Administrators(officer)	20
3	Income Tax Payers	20
Total		50

1. Effectiveness of Income Tax Administration in Nepal

To know the opinion about the effectiveness of income tax administration in Nepal, a question was asked with the respondents “Do you consider that the income tax

administration in Nepal is effective?” The responses received from the respondents are tabulated as follows:

Table 4.11
Effectiveness of Income Tax Administration of Nepal

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	4	40	6	60	10	100
Tax Administrators	12	60	8	40	20	100
Tax Payers	6	30	14	70	20	100
Total	22	44	28	28	50	100

Source: Opinion Survey

From the above table (Table no. 4.11), the question received 100 percent response as 44 percent of total respondents agree that the income tax administration of Nepal is effective and 56 percent of the total respondents do not agree about the effectiveness of income tax administration in Nepal. Most of the respondents Disagree about the effectiveness of income tax administration in Nepal. 70 percent Of tax payers were against the effectiveness of income tax administration. So, it can be conducted that the income tax administration in Nepal is ineffective.

Similarly, another question was asked to the respondents who were disagreed about the effectiveness of income tax administration in Nepal. To know their opinion the question was asked, “If no, what are the causes which are the responsible for the creation of ineffective tax administration?” The respondents were requested to rank their answer from 1 to 6. But some respondents ranked and some made tick mark. The responses of the respondents are presented as follows:

Table 4.12
Causes of Ineffective Tax Administration

Alternatives	Respondents			Total Frequency	Percent	Rank
	Tax experts	Tax adm*.	Tax payers			
Defective Income Tax Act.	4	6	12	22	19	3
Less Public Participation	6	5	12	23	20	2
Lack of trained employee	3	7	7	17	15	4
Weakness in government's economic policy	6	6	12	24	21	1
Faulty organizational structure of tax administration	4	5	6	15	13	5
Shortage of income experts/ professionals in tax administration	4	5	5	14	12	6
Total				115	100	

Source: Opinion Survey

*Tax administrators.

In the above table (Table no. 4.12), percentage was calculated according to the total frequency are obtained by each alternative. For ranking purpose percentage of each alternative was matched with each other and assigned first rank to the highest percentage. According to the respondents' point of view, the main cause for the creation of ineffective income tax administration in Nepal were ranked as follows.

1. Weakness in government's economic policy.
2. Less public participation.
3. Defective Income Tax Act.
4. Lack of trained employee.
5. Faulty organization structure of tax administration.

6. Shortage of income tax experts/professionals in tax administration.

From the above table as well as other discussion with respondents, it can be concluded that the main causes for the creation of ineffective tax administration are lack of trained employee, shortage of tax experts and less public participation.

2. Opinion about the Current Income Tax Rate

To know the opinion on current income tax rate, respondents were requested to select one among the three alternatives (high, medium, low). The question was asked, “What is your opinion about the current income tax rate?” The responses received from respondents are tabulated below:

Table 4.13
Opinion about the Current Income Tax Rate

Respondents	Tax experts	Tax administrators	Tax Players	Total	
				No.	Percent
High	1	0	13	14	28
Medium	7	18	6	31	62
Low	2	2	1	5	10
Total	10	20	20	50	100

Source: Opinion Survey

The above table (Table no.4.13) shows that 100 percent responses were received. Out of 100 percent responses, 62 percent respondents agreed that the current income tax rate is medium. 28 percent respondents agreed on high tax rate whereas 10 percent respondents agreed on low tax rate. From the table, it is concluded that the current income tax rate is medium. Majority tax experts and tax administrators were agreed on it whereas; majority respondents felt that the rate is not absolutely high, but it is higher as compared to taxpaying capacity of Nepalese people.

3. Sufficiency of Exempted Items of Income Tax

Income tax has provided exemption to the various income or different items of income. Act has mentioned the tax free incomes and tax exemption organization. To know the sufficiency of exempted items of income a question was asked “Do you think that the exempted items of income are sufficient?” The responses are tabulated as follows:

Table 4.14
Sufficiency of Exempted Items of Income Tax

Respondents	Yes		No		Not responses		Total	
	No.	%	No.	%	No.	%	No.	%
Tax experts	4	40	5	50	1	10	10	100
Tax administrators	16	80	2	10	2	20	20	100
Tax payers	12	60	5	25	3	15	20	100
Total	32	64	12	24	6	12	50	100

Source: Opinion survey

By observing the table (Table no.4.14) 64 percent respondents agreed that exemption items are sufficient. 24 percent respondents disagreed about the sufficiency of exempted items. 12 percent of the respondents did not provide any response. As who gave the negative responses about the sufficiency of exempted items of income were asked another question “If no, what kind of income should be exempted?” They were requested to write their opinion. Most of the respondents did not give any response about it. However, only 4 tax experts, 3 tax payers and 1 tax administrator provided response. The respondents suggested that following income must be tax exempted from incomes.

Tax Experts

- Income from interest and rent.

- Income derived by tax exempted organization.
- Income from provident fund (capital gain).
- Remote area allowance.
- Income from life insurance.

Tax Administrators

- Medical allowance.
- Retirement benefits.

Tax payers

- Medical allowance.
- Over time allowance.
- Remote area allowance.
- Income from life insurance.

From the above list, income from life insurance premium, medical allowance and remote area allowance etc. must be tax exempted incomes.

4. Appropriateness of Current Income Tax Exemption Limit

Finance Act of Nepal yearly prescribed the tax rate and exemption limit of income. From the very beginning the tax rate and exemption limit are changing year to year. To know the respondents’ view about the current exemption limit, a question was put “Do you think that the current income tax exemption limit is appropriate?” The responses are presented as follows:

Table 4.15
Appropriateness of Current Income Tax Exemption

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	2	20	8	80	10	100

Tax Administrator	16	80	4	20	20	100
Tax payers	3	15	17	85	20	100
Total	21	42	29	58	50	100

Source: Opinion survey

From the above table (Table no.4.15) 58 percent respondents were against the appropriateness of current exemption limit whereas 42 percent respondents were in favor of it. Majority of tax experts and tax payer agreed with inappropriateness of exemption limit. From the above table and personal discussion with respondents it can be concluded that the current income tax is inappropriate.

The respondents who were against the appropriateness of current exemption limit were asked another question “If no, how much the exemption limit should be to an individual unit?” The responses of the respondents are tabulated as follows:

Table 4.16
Suggested Exemption Limit for an Individual Unit

Responses	Tax experts	Tax administrators	Tax payers	Total	
				No.	%
Rs. 180000	2	-	-	2	6.90
Rs. 200000	4	1	10	15	51.72
Rs. other (if any)	2	3	7	12	41.38
Total	8	4	17	29	100

Source: Opinion survey

On the response about the exemption limit of individual it was found that 6.90% in favor of Rs. 1, 80,000. 51.72% of the respondents suggested that the exemption limit should be Rs. 2, 00,000. But 12 respondents (41.38) who specified on other (if any). They suggested Rs, 2, 25, 000, Rs. 3, 00,000 and Rs. 3, 50,000 as tax exemption limit for an individual unit. From the above table as well as personal discussion with

the respondents, it can be said that according to the economic condition and income level of Nepalese People, it is found that the appropriate exemption limit for an individual is Rs. 1,50,000.

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

Table 4.17
Exemption Limit for a Family

Responses	Tax experts	Tax administrators	Tax payers	Total	
				No.	%
Rs. 200000	3	-	8	11	37.93
Rs. 250000	4	3	7	14	48.28
Rs. other (if any)	1	1	2	4	13.79
Total	8	4	17	29	100

Source: Opinion survey

From the above table (Table no.4.17) it is clear that most of the respondents (i.e. 48.28%) suggested for Rs. 2, 50,000 as exemption limit for a family. 37.93% of the respondents were suggested for Rs.2, 00,000. Four respondents who specified as other(if any) was Rs, 3,00,00 by two respondents and Rs. 4,00,000 by two respondents. One the personal discussion with the respondents, the researcher found exemption limit must be equal to family surviving amount different part of the country.

5. Family Exemption must be provided on the Basis of Number of Dependents

Income Tax Act has provided limit to a family or a couple. But it has not mentioned the number of dependents in a family. So, to know the opinion of the respondents the

exemption limit of a family must be provided on the basis of number of dependents. A question was put “Do you agree that family exemption must be provided according to the number of dependents?” the responses of the respondents are tabulated as follows:

Table 4.18
Family Exemption Limit on the Basis of Number of Dependents

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	6	60	4	40	10	100
Tax administrators	12	60	8	40	20	100
Tax payers	15	75	5	25	20	100
Total	33	66	17	34	50	100

Source: Opinion survey

Above table (Table 4.18) shows that 100 percent response was received. 66 percent respondents agreed that the exemption limit must be provided according to the number of dependents. But 34 percent respondents were disagreed to provide exemption according to the number of dependency. On the personal discussion with the respondents the researcher found that the respondents were supporting to provide exemption limit to a family according to the number of dependents. But it is very difficult to implement in the practical field.

6. Exemption Limit on the Basis of Inflation Situation of the Country

To know the opinion of the respondents whether the exemption limit should be provide according to the inflation of the country. The question was asked “Do you feel that exemption limit should be adjusted according to the inflations situation of the country?” The responses of the respondent are tabulated as follows:

Table 4.19

Exemption Limit According to the Inflation Situation of the Country

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	10	100	-	-	10	100
Tax administrators	20	100	-	-	20	100
Tax payers	20	100	-	-	20	100
Total	50	100	-	-	50	100

Source: Opinion survey

From the above table (Table no.4.19) it is clear that 100 percent response was received. According to the table, all of respondents agreed to adjust the exemption limit according to the inflation situation of the country.

7. Opinion on Providing Exemption an Agriculture Income

From the commencement of Income Tax Act, agriculture income has been treated as taxable income for some time and tax exempted income for some time. The new Income Tax Act 2058 has defined agricultural income. To know the views of respondents about it, a question was asked “What is your opinion on providing exemption an agricultural income?” The responses of the respondents are presented as follows:

Table 4.20
Exemption Facility for Agriculture Income

Responses	Tax experts	Tax administrators	Tax payers	Total	
				No.	%
Yes, it should be exempted	8	16	10	34	68
No	-	-	2	2	4
It should be treated as other income	-	4	4	8	16
Other (if any specified)	2	-	4	6	12
Total	10	20	20	50	100

Source: Opinion Survey

The above table (Table no.4.20) shows that, 68 percent respondents agreed that agricultural income should be tax exempted income whereas 4 percent respondents were against the exemption on agricultural income. Similarly, another 16 percent respondents supported that the agricultural income should be treated as other income and 12 percent respondents who specified other if any following opinion were presented as follows.

- Commercial agricultural income should be taxed as other income.
- Organizational agriculture income should be given for limit period of establishment.
- A separate, agriculture Income Tax Act should be presented.

On the personal discussion with the respondents as well as the above table the researcher found that the agricultural income should be tax exemption income because 80% to 90% people are based on agricultural income. In our country farming system is based on traditional system. Traditional system does not provide sufficient income to the family for living. So, it should be exempted.

8. Opinion on Providing Additional Exemption to the Individual Working in Different Remote Areas

To know the view of the respondents about additional exemption which is given to the person, who are working in different remote area of the country is suitable or not, a question was put “An individual working in remote area A, B, C, D and E can get an additional exemption of Rs. 30,000, 24,000, 18,000, 12,000 and Rs, 6,000 respectively is it suitable? The responses of the respondents are tabulated as follows:

Table 4.21

Opinion on Providing Additional Exemption to the Individual Working in Different Remote Areas

Respondents	Yes		No		No responses		Total	
	No.	%	No.	%	No.	%	No.	%
Tax experts	5	50	5	50	-	-	10	100
Tax administrator	16	80	2	10	2	10	20	100
Tax payers	12	60	4	20	4	20	20	100
Total	33	66	11	22	6	12	50	100

Source: Opinion survey

According to the table (Table no.4.21), 66 percent respondents agreed that the current additional exemption to the individual who are working in different remote areas was sufficient. 22 percent respondents disagreed with the current additional exemption facility. 12 percent respondents did not provide any responses. According to the table, majority respondent were agreed with the current additional exemption limit for an individual who are working in different remote areas is proper or suitable.

On the personal discussion with the respondents it was found that according to the economic condition and per capita income of country current additional tax exemption to the individual working in different area is suitable or proper.

Similarly, another question was asked to know the opinion of the respondents who disagreed in current additional exemption limit to the individual who are working in different remote areas. The question was asked “if no, how much exemption limit should be?”

Out of the 11 respondents (see in above table) 5 respondents did not mention any thing, 3 respondents suggested following amount given in the table.

Areas	A	B	C	D	E
Amount Rs.	60000	40000	30000	25000	20000
Amount Rs.	50000	40000	30000	20000	10000

On the other hand, other three respondents suggested the following points.

- It cannot be quantized in amount. The amount which a person gets in remote area should be exempted means extra benefit derived should be totally exempted.
- It should be adjusted as per the life style of the area.
- It should be adjusted availability of basic needs.

9. Additional tax Exemption Facility to the Special Industries Established in Different Areas

Income Tax Act 2058 has provided additional exemption facility for 10 income year to the special industries established in different areas. To know the view of the respondents about such facility, they were asked whether the tax rate for the special industries established in remote, undeveloped and underdeveloped areas i.e. 70%,

75% and 80% respectively is suitable for 10 income year or not. Their responses are tabulated as below:

Table 4.22

Additional Tax Exemption Facility to the special Industries Established in Different Areas

Respondents	Yes		No		No responses		Total	
	No.	%	No.	%	No.	%	No.	%
Tax experts	6	60	2	20	2	20	10	100
Tax administrator	12	60	3	25	3	15	20	100
Tax payers	13	65	5	25	2	10	20	100
Total	31	62	12	24	4	14	50	100

Source: opinion survey

By observing the table (Table no.22), it can be said that 62 percent respondents agreed with the current additional exempt facility (30% of tax rate for remote areas, 25% for undeveloped area and 20% for underdeveloped areas) to the special industries established in different area which is applicable for 10 income year. 24 percent or 12 respondents disagreed with the present additional tax exempted facilities to the special industries established in different area, 14 percent respondents did not provide any responses about the questions. Majority tax experts, tax administrators and tax payers agreed with present exemption facility. So, it can be concluded that the current facility is proper.

Similarly, another question was asked to the respondents who disagreed with the present additional tax exempt facility provided by Income Tax Act 2058 to the special industries established in different remote areas. To know the opinion of the respondents, given the question was put to them, “how much additional tax exempted facilities should be?” The responses were given by the respondents are as follows:

Out of 12 respondents (see above table)

- 7 respondents suggested the facility should be given for long period of time to attract the industry in such areas.
- 3 respondents suggested that the special industries established in remote, undeveloped and underdeveloped area should pay tax only 40%, 50 % and 75% of the tax rate respectively for 10 income year.
- 2 respondents did not provide any responses.

10. Opinion of Medical Tax Credit Facility

According to Income Tax Act 2058 medical tax credit facility is given to an individual. Rs. 750 or 15% of eligible medical expenses whichever is less allowed to deduct as medical tax credit facility. To know the opinion of the respondents about appropriateness of such medical tax credit facility to an individual, the question was asked “Do you think that medical tax credit is given to an individual up to Rs.750 or 15% of eligible medical expense is proper?” The responses received from the respondents are tabulated as follows.

Table 4.23

Opinion on Appropriateness of Medical Tax Credit Facility

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	4	40	6	60	10	100
Tax administrators	10	50	10	50	20	100
Tax payers	2	10	18	90	20	100
Total	16	32	34	68	50	100

Source: Opinion survey

The above table (table no.4.23)shows that, out of 50 respondents, 68 percent respondents disagreed with the present medical tax credit facility (Rs. 750 or 15% of eligible medical expenses whichever is less) provided by Income Tax Act 2058.

Majority tax experts and tax payers were against with present medical tax credit facility. Only 16 or 32 percent respondents were agreed.

From the table as well as personal discussion with the respondents, the researcher found that the present medical tax credit facility is less. So the present tax credit facility is not proper.

Similarly, another question, “If no, how much will be proper?” was asked to the respondents who were disagreed with present medical tax credit facility. The responses are tabulated as follows:

Table 4.24
Proper Amount of Medical Tax Credit

No. of alts*	Respondents	Tax experts	Tax administrators	Tax payers	Total	
					No.	%
a	Amount (Rs. 750)	1	8	4	13	38.24
b	Actual medical expenses	3	-	8	11	32.35
c	...% of eligible medical expenses	*-	-	-	-	-
d	Others (if any specified)	2	2	6	10	29.41
Total		6	10	18	34	100

Source: Opinion survey

*Alternatives

From the above table (Table no.4.24), it was found that 13 or 38.24 percent respondents (see first alternative) provided their suggested amount, they are as follows:

Respondents	Medical tax credit facility should be Rs.
2	Rs. 10000 per year
6	Rs. 5000 per year

2	Rs. 3000 per year
3	Rs. 25000 per year

Similarly, 11 or 32.35 percent respondents suggested actual medical expenses should be deductible. Out of 10 respondents (see 4th alternative), 4 respondents suggested that it is not effective yet. 4 respondents suggested that total medical expenditure done on government hospital. And 2 respondents suggested that the medical tax credit facility should be based on income level of the people

11. Opinion on Deduction Facility of Repairs and Improvement Cost

According to Income Tax Act 2058, the repair and improvement cost is allowable to deduct but such facility is provided to deduct only 7 percent of depreciation basis of assets pool. To know the opinion of respondents about such facility the question was asked, “Do you agree that repairs and improvement cost is allowable to deduct, 7 percent of depreciation basis of assets pool, is it proper?” The responses of the respondents are tabulated as below:

Table 4.25

Opinion on Appropriateness of Existing Deduction Facility of Repair and Improvement Cost

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	8	80	2	20	10	100
Tax administrators	20	100	-	-	20	100
Tax payers	8	40	12	60	20	100
Total	36	72	14	28	50	100

Source: Opinion survey

By observing the table (Table no. 4.25), it can be said that 72 percent respondents supported present repairs and improvement cost deductive facility. Majority tax experts and all tax administrators agreed with the present facility. 28 percent respondents were found against the present deduction facility of repair and improvement cost. Majority tax payers were disagreed with the present facility. So, it can be concluded that the repairs and improvement cost is allowable to deduct, 7 percent of depreciation basis of assets pool, it is proper.

Similarly, another question was asked to the respondents who were disagreed with the present repairs and improvement cost deduction facility. To know their opinion, the question was asked “if no, how much should be deducted?” The responses are tabulated as below:

Table No. 4.26

Opinion for Different Alternatives of Repairs and Improvement Cost Deduction Facility

No. of alts*	Respondents	Tax experts	Tax payers	Total	
				No.	%
1	...% of depreciation basis	1	5	6	42.86
2	...% of actual expenses	-	2	2	14.28
3	Actual expenses	1	5	6	14.86
4	Others (if any specified)	-	-	-	-
Total		2	12	14	100

Source: Opinion survey

*Alternatives

Above table (Table no. 4.26) shows that 42.86 percent respondents were selected 1st alternative. Out of 6 respondents (1st alternative) provided following opinion: 4 respondents suggested 10% of depreciation basis whereas 2 respondents suggested 15% of depreciation basis. Similarly, 42.86 percent respondents (3rd alternative)

suggested that actual repair and improvement cost must be facilitated for deduction. In 2nd alternative, one respondent suggested 75% and another respondent suggested 50% of actual expenses should be deducted.

On the personal discussion with the respondents the researcher found that actual repair and improvement cost must be facilitated for deduction. But in practical field, it was very difficult to determine actual repair and improvement cost which must be accepted the tax authorities. There is high chance of fraud.

12. Opinion about the Present Depreciation System

Income Tax Act 2058 has classified assets into five (5) class and different rates are determined for each class for depreciation propose. The whole legal provisions relating to depreciation is given in section 19 in Income Tax Act 2058. To know the opinion about the depreciation system, a question was asked “are you satisfied with the present depreciation system of income tax?” The responses about it are break down as follows.

Table 4.27

Opinion about the Present Depreciation System

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	9	90	1	10	10	100
Tax administrators	18	90	2	10	20	100
Tax payers	11	55	9	45	20	100
Total	38	76	12	24	50	100

Source: Opinion survey

From the above table (Table no.4.27), out of the total respondents, 76 percent respondents were satisfied with present depreciation system of income tax whereas only 24 percent of total respondents were not satisfied with the present depreciation

system. So, it can be concluded that majority of the respondents are satisfied with present depreciation system.

13. Problems and Weakness of Nepalese Income Tax System

Income tax system of Nepal has been blamed that it is not efficient. To know the opinion of the respondents about causes of problems and weakness of Nepalese income tax system, a question was asked, “What are the major problems and weakness in Nepalese income tax system?” The respondents were requested to rank the given causes (their answer) from 1 to 10. Out of total respondents, more than half respondents ranked but other made tick mark. For ranking purpose, opinions of the respondents are presented as below:

Table 4.28

Problems and Weakness of Nepalese Income Tax System

S.N.	Problems and weakness	Respondents			Total No.	Percent	Rank
		Tax experts	Tax adm.*	Tax payers			
1	Voluntary compliance	7	14	9	30	12.10	4
2	Relatively high tax rate	5	10	7	22	8.87	7
3	Difficulty to maintain the account for tax purpose	3	7	5	15	6.05	9
4	Limited tax base	7	15	3	25	10.08	5
5	Lack of cooperation in the administration	9	11	14	34	13.71	2
6	Lack of provisions under the Nepalese income tax laws	2	5	4	11	4.43	10
7	Ambiguous provision under the Nepalese income tax laws	6	10	8	24	9.68	6

8	Lack of trained employee	8	17	12	37	14.92	1
9	Lack of timely adjustment of tax laws	5	7	7	19	7.66	8
10	Increased corruption	7	15	9	31	12.50	3
Total					248	100	

Source: Opinion survey

*Tax administrators

By observing the above table (Table no.4.28), according to preference of the respondents major problems and weakness of the Nepalese income tax system are ranked as follows:

1. Lack of trained employees.
2. Lack of cooperation in tax administration.
3. Increased corruption.
4. Voluntary compliance.
5. Limited tax base.
6. Ambiguous provision under the Nepalese income laws
7. Relatively high tax rate.
8. Lack of timely adjustment of tax laws.
9. Difficulty to maintain the account for tax purpose.
10. Lack of provisions under the Nepalese income tax laws.

Other problems stated by the respondents are as follows:

1. Tax evasion (which come into voluntary complains).
2. Complicated language in tax act laws.
3. Lack of monitoring system.
4. Lack of education and motivation system.

From the above table, it can be said that the major problems and weakness of Nepalese Income Tax System are lack of trained employees, lack of cooperation in tax administration, increased corruption, limited tax base, relatively high tax rate, complicated language in act.

After the personal discussion with the respondents, the researcher found that increased corruption was major problem and weakness of Nepalese Income Tax System. Tax administrators and tax payers both blamed each other for this situation but both aspects were found to be equally responsible for increment of corruption. Besides, this complicated language was found to be another major problem.

14. Sufficiency of Provisions under the Income Tax Act 2058

To know the opinion of the respondents about the sufficiency provision made under Nepalese Income Tax Act 2058, they were requested to select one between two alternatives. The question was, “In your opinion, are the provision made under the Nepalese Income Tax Act sufficient in all respect?” The responses about the question are tabulated as below:

Table 4.29
Sufficiency of Provisions of Income Tax Act 2058

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	2	20	8	80	10	100
Tax administrators	14	70	6	30	20	100
Tax payers	8	40	12	60	20	100
Total	24	48	26	52	50	100

Source: Opinion survey

By observing the table (Table no.4.29), it was found that 52 percent respondents disagreed with sufficiency of provision made under the Nepalese income tax system

whereas 48 percent respondents found to be agreed the sufficiency of provision made Income Tax Act.

On the personal discussion with the respondents the researcher found that the provisions are made under the Nepalese Income Tax Act insufficient in all respect.

15. Suggestion for the improvement in the present Income Tax Act 2058.

The respondents were requested to give their opinions or suggestions in regard to the improvement of the present Income Tax Act 2058. As per their valuable opinions, the required suggestions are concluded so far.

Out of the total respondents, only 20 respondents provided their suggestions. More than half or 30 respondents did not provide any responses about the question. The opinions or suggestions for the improvement in the present Income Tax Act 2058 are listed below:

Tax experts

- The provision should be clear and understandable.
- Tax administration should be transparent.
- Awareness rising.
- Monitoring the compliance.
- Decrease corruption.
- Implementation of rules and regulation.
- Tax base should be expanded.

Tax administrators

- Harder law.
- Tax education should be improved.
- Tax law should be made very simple to increase tax compliance.

- Efficient manpower and expert should be encouraged to join tax administrations.
- Timely feedback system.
- Implementation level should be improved.

Tax payers

- Tax payment system should be simple.
- Improved in tax administration.
- Language should be simple.
- Tax education.

From the above list it is found that the language of tax act must be simple. Tax education should be improved. Tax base should be expanded.

4.9 Major Findings

On the basis of preceding chapters some important finding can be drawn. Major's findings of this research study are summarized follows:

4.9.1 Major Finding of Primary Data

There is highly resource gap in Nepal. Some part of gap is fulfilled by foreign loan and grants. Income tax is the major sources of the government revenue. Government revenue is the composition of external revenue and internal revenue. The contribution of tax revenue to total revenue is in an increasing trend and in the percentage it is in a fluctuating trend. Nepalese tax revenue is the composition of direct and indirect revenue. Direct tax revenue is the composition of income tax, house and land registration, tax on property and others. Indirect tax revenue is the composition of custom duty, VAT, excise duties and other taxes etc. Nepalese income tax revenue is collected from public enterprises, semi-public enterprise, private corporate and remuneration etc. the tax GDP ratio of Nepal is not found

satisfactory as compare to other developing countries. Income tax is the important sources of internal revenue of government.

In the earlier year, there was equal amount of exemption limit for all types of tax payers, from the fiscal year 1965/66 to 1966/67 it was Rs.5000 of all. Then it was divided into three categories i.e. individual, couple and family up to fiscal year 1978/79. From 1980/81 it was divided into two categories i.e. individual and couple of family. Both exemption limits were increased according to time and situation. Now, Rs. 1.25,000 is exemption limit for an individual and Rs 1, 40,000 for family or couple. At the present situation, the exemption limit is insufficient for both. Some provisions of deduction facilities are sufficient and some provisions are insufficient. An opinion survey has been conducted in order to find out the appropriateness of exemption and deduction and some other aspects of Income Tax Act 2058. From the opinion survey with tax administrators tax experts and tax payers following points have been drawn.

- Income tax administration in Nepal is ineffectiveness.
- Weakness in government's policy, less public participation, defective Income Tax Act, lack of trained employee, faulty organization structure of tax administration, shortage of income tax experts/professional in tax administration are the main causes for the creation of ineffective tax administration.
- Current income tax rate is medium in Nepal.
- Exempted items mentioned in Income Tax Act 2058 are sufficient.
- Current income tax exemption limit is inappropriate for individual as well as family or couple.
- Family exemption should be provided according to the number of dependents.
- Exemption limit can be provided adjusting with inflations situation of country.
- In Nepal most of the people's income is based on traditional income so, it must be out of tax net.

- According to the economic condition and per capita income of the country, current additional tax exemption limit (Rs. 30,000, 24,000, 18,000, 12,000 and Rs. 6,000 to A, B, C, D and E areas respectively) to the individual working in different remote area is proper or suitable.
- Special industries established in remote, undeveloped and underdeveloped area of the country get additional tax exemption facilities i.e. 30%, 25% and 20% of tax rate respectively and it is applicable for 10 income year is proper at present context of Nepal.
- At present context, the medical tax credit facility (Rs. 750 or 15% of eligible medical expenses whichever is less) to the individual is not proper or appropriate.
- Present repair and improvement cost (7% of depreciation basis of assets pool) of different assets pool's deduction facility is appropriate or proper.
- Most of the tax experts, tax administrators and tax payer are satisfied with present depreciation system.
- Provisions made under the Nepalese Income Tax Act 2058 are insufficient in all respect.

4.9.2 Major Findings of Secondary Data

- Government revenue includes external revenue and internal revenue. The sources of the internal revenue are tax and non tax revenue. There is dominant share of tax revenue in Nepalese government revenue. Tax revenue was fluctuating trend it was 75.73 percent in fiscal year 2002/03, 77.29 percent in 2003/04 and 81.09 percent in 2006/07. Similarly, non tax revenue was also in a up and down trend that was 24.27 percent in 2002/03, 22.71 percent in 2003/04 and 18.91 percent in 2006/07.
- Nepalese tax revenue is the composition of direct and indirect tax. There is dominate role of indirect tax revenue in Nepalese tax revenue. The direct tax was high in 2001/02 by 26.94 percent and it was 26.69 percent in 2006/07.

The direct tax was also fluctuating trend that it was 1991/92 in 83.85 percent and 73.81 percent in 2006/07.

- The tax –GDP ratio of Nepal is not found satisfactory compare to other countries. Tax- GDP ratio was 10.14 percent in 2003/4, which was in an increasing trend and non- tax revenue was 2.98 percent in 2003/04.
- Indirect tax revenue is the composition of custom duty, VAT, excise duty and other tax. Out of the various indirect taxes, the custom duty has occupied the first position and VAT has occupied second position and contribution is in an increasing trend.
- Direct tax revenue is composition of tax on property, profit and income and land revenue and registration.
- Nepalese income tax revenue is composition of income from public enterprises, semi public enterprises, private corporate bodies ,individuals, remuneration and tax on interest,
- Income tax is the important source of internal revenue of Government.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary and conclusion

Income tax is a suitable means of raising government revenue and mobilization of the domestic sources. To achieve the goal of the national development and for economic growth of the country some specific objectives of income tax has to be set up. For this purpose specified program should be implemented. Nepal is one of the least developed countries. Nepal cannot successfully and properly tear a curtain built from massive poverty, hunger, diseases, unemployment, heavy dependence on agriculture, lack of adequate industries. Yet,

Nepalese economy is suffering from ineffective and effortless plan, program and policy of development. Nowadays, prime concern of every nation of the world is rapid economic development and Nepal is not exception to this ever continuing process. Nepal has its own aims for self-reliant economic system to upgrade its living standard of people. Thus a lot of money has to be spent by the government to achieve maximum national objectives. Government collects revenue to pay regular expenditure, to do development works and to provide social welfare activities towards its people.

Government collects revenue from different sources. The sources of government revenue can be classified into two sectors i.e. external sources and internal sources. External sources of government revenue are foreign loan, foreign borrowing, grants, donations etc. External sources are uncertain, inconvenient and not good for healthy economic development of the nation because it should be repaid after certain time with interest and it increases the dependability of the country. So, it is better to mobilize internal sources rather than external sources. Internal sources fund are own sources within the nation. Internal sources of

revenue can be classified into two types. They are: non-tax sources and tax sources. Fines and penalties, gifts and grants, royalty etc. are the example of nontax revenue. Tax is a compulsory levy imposed by the government to the people and industries according to the prevailing laws. Those who pay tax do not get any direct and corresponding benefits from the government. Tax revenue is important sources of government revenue. Taxation is regarded as an effective instrument, it monitor various economic activities in the country. Income tax, VAT, property tax, import and export duty, hotel tax etc. are the example of tax revenue Tax can be classified into categories i.e. direct tax and indirect tax. The tax which is collected from the person or organization to which it is legally imposed is known as direct tax. Income tax, vehicles tax etc. are the example of direct tax. Indirect tax is imposed on one person or organization but party or wholly paid by others. VAT, hotel tax, import and export duty etc. are the example of indirect tax. Income tax is a most popular direct tax. It is superior to other tax because it is imposed on the basis of paying capacity of the tax payers, according to the nation. Income tax reduce concentration of wealth in a few hand by imposing high rate to those person or organizations who have high level of income and low rate to those whose income level is less. In the ancient time, tax system was based on Vedas, Smrities and Purans. First of all income tax system was introduced into England to manage the war. Then, USA introduced „corporate Income Tax“ in 1862. Nowadays, it is expanded all over the world. In Nepal, the first elected government in 1959 introduced “Business Profit and Remuneration Act 1960.” In 1974 “Income Tax Act 2031” was enacted. Now “Income Tax Act 2058” is implementing Income tax is main source of government revenue. It is used to balance economic development of the country. It is a tool for achieving maximum social economic objective. But government of Nepal is unable to maximize the share of income tax to the public fund as per expectation. Nowadays, in Nepal, income tax is collected through four sectors i.e. corporate income tax, individual income tax, house and land rent tax and interest tax. Among them, share of individual income tax is the

highest. There is high resources gap or budgetary deficit in the country. The main cause of resources gap in Nepal is inadequate and ineffective resources mobilization. Income tax system of Nepal has been blamed as not effective enough. There are many problems in income tax practice and revenue collection through income tax in Nepal such as increasing habit of tax evasion, defective income tax law, inefficient tax administration, narrow coverage, unscientific tax assessment,

leakage in tax, lack of accuracy and unity in according system etc. but if we analyze the data relating to income tax, it has been found that revenue collection from income tax is increasing trend.

There are different legal provisions about income tax exemption and deduction of expenses in “Income Tax Act 2058”. It is necessary to know about the exemption and deduction of expenses to make up to date knowledge about the income tax system. The act has satisfied about the exemption limit to individual unit and family or couple. It has described about the expanses which are allowed for deduction and not allowed for deduction while calculating taxable income and tax liability. At present exemption limit and tax rate of the income tax is determining according to the income level and sector-wise but it is not adjusted according to the inflationary situation of the country and number of dependents. Exemption limit is not provided to the corporate bodies. The study carried out, the given exemption limits and deduction of expenses are sufficient, appropriate or not. 50 respondents have been selected to fulfill the objective of this study. Total respondents have divide into three groups i.e. tax experts, tax administrators and taxpayers. Data has been collected from primary and secondary sources to conduct the study. Different charts, diagrams percentage etc. are used to analyze the data. An opinion survey has been collected from primary and secondary in other to find out the various aspects of income tax, exemptions and deductions. From the opinion survey of various respondents i.e. tax experts, tax administrators and taxpayers, it can be concluded that the income tax

administration in Nepal is ineffective. According to the economic level, income level of the family and inflation situation of the country present exemption limit is inappropriate for both individual and family of couple. It must be increased and should be adjusted with inflation of country. Similarly, additional exemptions facilities who are working in different remote areas are sufficient, additional tax exemption facility to the special industries established in different remote area are proper. But, present medical tax facility is insufficient.

5.2 Recommendations

Nepal has already taken the membership of WTO. In this global environment Nepalese Income Tax system should fit with the global environment. Tax authorities should think in global perspective. For better utilization or mobilization of limit sources and to achieve the goal of the taxation following recommendations can be drawn based on findings of the research study.

Following recommendations are made on tax exemption and deduction:

- Present tax base must be widened by including the house and rent income given for different purpose.
- Present exemption limit for individual and family is not sufficient. It must be raised to Rs.1, 50,000 for individual and Rs.2, 00,000 for family. Some additional exemption can be provided for maximum two children and two dependents parents.
- Some addition exemption and consecution is given for some period to encourage establishing industries in different remote areas but it is not effective because businessman change names, ownership or place of the business when the concessions facilities expire. So, separate special package should be introduced for this purpose like establishment of medium industrial areas.

- Income Tax Act 2058 has mentioned some organization as tax exempt organization. Social, religious, educational etc. that are established and registered without having any profit motive, so there are tax exempt organizations. At present, in the case of non-transparent private business like boarding schools, higher secondary schools, NGO's, other educational institutions whereas maximum profit is earned but it is out of tax net. So, it should be brought into tax net by making separate law and rules.
- Dividend received from private residential company is final withholding payment and it can be included in income from investment, after deducting all the expenses regarding with the dividend.
- Clear provisions should be made in the case of deduction in that act. All the items of deductions should be clearly defined in the act. The relationship between clause to clause and sub-clause to sub-clause or other creates double meaning which creates loopholes so, it should be reduced in the act.
- Donation up to Rs. 50 lakh given before six month until election to the political parties registered with the election commission is allowed for deduction. There is no transparency of donation amount given by businessmen to political parties. This facility highly supports to make the corruption. So, such facility should be eliminated from the tax act. Amount can be provided to the political parties by the government according to their receiving vote from previous election.
- Deduction allowed from an employment income is not sufficient. So, the following deduction should be provided to the taxpayers whose sources of income are only the remuneration.
 - Standard limit of expenses for better education of their two children.
 - Actual medical expenses made by taxpayers for own self.
 - Standard limit of expenses made for house rent.

If the tax payer is still studying in an education institution, some limit of educational expenses of taxpayers should be deductible.

- Deduction allowed from business of investment incomes is not sufficient. o the following, deduction should be provided to the tax payers whose sources of income are business or investment.
 - In the case of tax exempt Organization controlled resident entity, full deduction of interest expenses is not allowed. It is not lawful step to the businessmen who operate the business with loan or debt amount.
So it should be fully allowed for deduction within an income year.
- Income tax, rules and regulation should be clear and simple for all the tax payers as well as for tax administrators.
- The language of Act should be simple and clear.
- Clear provision should be made in case of deduction. All the items of deduction should be clearly defined in the Act.
- To promote export, more deduction should be provided.
- The provision of tax deduction at source and advance payment of tax should be extended to different sources of income as far as possible.
- Computerized information system is necessary to keep up to date records of income tax.
- Proper tax education should be provided to tax officials as well as tax payer regularly.
- Unnecessary outside pressures should be avoided.
- Income tax experts/profession should be increases in tax administrations.

Following recommendations are made in income tax law.

- The language of act should be simple and clear. The definition made in income Tax Act should be further clarified and well defined.

- The assessment and tax collection provisions should be made clear and simple so that taxpayers would be encouraged to pay income tax.
- The provisions of fines, penalties and punishments should be made at higher rate for income tax evaders.
- Discretionary power of the tax officials should be curtailed in the act.
- The provision of rewards, prize, and incentive should be introduced in the act to encourage the taxpayers to pay tax voluntarily rather than coercive measures.
- Special provisions should be made in the act for research and development.

Following suggestions are made for the improvement of income tax administration in Nepal.

- The members who are involved in formulating income tax plans and policies must have deep knowledge about income tax.
- All the tax personnel should be given training on various aspects of taxation on regular basis. For this purpose, a separate training department should be established.
- Effective reward and punishment system should be established for personnel.
- Income tax experts/professionals should be increased in tax administration.
- Detail record of taxpayer and amount of tax must be kept and after some period of time or at the oldest period of taxpayers, some percentage of tax paid by taxpayers previously can be refunded to the taxpayers for their security which encourage paying tax to the taxpayers and reducing the tax evasion.
- Working environment of the tax offices should be improved. Necessary machine instruments and modern equipment should be provided.
- Due to the lack trust between taxpayers and tax officer, their relationship is not good. The behavior of personnel towards taxpayers should be improved.

- Tax officer and personnel must be helpful and should provide good suggestion to the taxpayers.
- Effective monitoring system and information system be established to prepare the list of potential taxpayers and gather information of various aspects and improve tax administration. A separate monitoring department can be established.
- Tax education should be provided to taxpayers on regular basis.
- Fear and scientific provision of promotion and career development opportunity to the personnel should be introduced. Financial benefits and extra incentives should be provided to the personnel.

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QUESTIONNAIRES

TAX PAYER'S ATTITUDE TOWARDS EXEMPTIONS AND
DEDUCTIONS UNDER INCOME TAX ACT 2058

Name of the Respondent:

Position:

Department:

Tenure of service:

(Please tick your answers in the following and put in order of preference from first to last number if there are more than four alternatives)

1. Do you consider that the income tax administration in Nepal is effective?

a) Yes b) No

If no, what are the causes, which are responsible for the creation of ineffective tax administration? (Please Rank)

- a. Defective income tax.
- b. Less public participation.
- c. Lack of trained employee.
- d. Weakness in government 's economic policy.
- e. Faulty organizational structure of tax administration.

f. Shortage of income tax experts / professionals in tax administration.

g. Others (if any, specify)

2. What is your opinion about the current tax rate?

a) High b) Medium c) Low

3. Do you think that the exempted items of income are sufficient?

a) Yes b) No

If no, what kind of income should be exempted?

Please note in order:

a)

b)

c)

4. Do you think that current income tax exemption limit is appropriate?

a) Yes b) No

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

a) Rs.1, 50,000 b) Rs.1, 80,000 c) Rs. 2, 00,000

d) Other (if any specify)

Similarly, how much exemption limit should be for family?

a) Rs 1, 50,000 b) Rs. 2, 00, 000 c) Rs. 2, 50, 000

d) Other (if any specify).

5. Do you agree that family exemption must be provided according to the number of dependent?

a) Yes b) No

6. Do you feel that exemption limit should be adjusted according to the inflations situation of the country?

a) Yes b) No

7. What is your opinion on providing exemption on agricultural income?

a) Yes, it should be exempted.

b) No

c) It should be treated as other income.

d) Other (if any, specify).

8. An individual working in remote areas A, B, C, D and E can get an additional exemption of Rs. 30, 000, Rs. 24, 000, Rs. 18, 000, Rs. 12,000 and Rs. 6, 000 respectively is it suitable.

a) Yes b) No

If no, how much exemption limit should be? Please write your opinion amount of other:

Area: A B C D E

Amount:

9. Special industries established in remote, undeveloped and underdeveloped areas should pay tax 70%, 75% and 80% respectively of the tax rate; it is applicable for 10 income years is it proper or suitable.

If no, how much it should be, please write your opinion in percent or other:

a) Area: Remote Undeveloped Underdeveloped

Amount:

b) Other (if any, specify)

10. Do you think that medical tax credit is given to an individual up to Rs. 750 or 15% of eligible medical expenses in proper?

a) Yes b) No

If no, how much will be proper? Please write your opinion.

a) A fixed amount Rs.

b)% of eligible medical expenses.

c) Actual medical expenditure

d) Other (if any, specify),

11. Do you agree that, repair and improvement cost is allocable up to 7% of the

depreciation basis of assets pool. It is sufficient?

a) Yes b) No

If no, how it should be?

a)% of depreciation basis.

b).....% of actual expenses.

c) Actual expenses only.

d) Other (if any, specify)

12. Are you satisfied with the present depreciation system of income tax?

a) Yes b) No

13. What are the major problem and weakness in Nepalese income tax? (Please Rank)

a) Voluntary compliance.

b) Relatively high tax rate.

c) Difficult to maintain the account for tax purpose.

d) Limited tax base.

e) Lack of corporation in tax administration.

f) Lack of provisions under the Nepalese income tax laws.

g) Ambiguous provisions under the Nepalese income tax laws.

- h) Lack of trained employees.
- i) Lack of timely adjustment of tax laws
- j) Increased corruption
- k) Others (if any, specify).

14. In your opinion, are the provisions made under the Nepalese Income Tax Act sufficient in all respect?

- a) Yes b) No

15. Please give your suggestion for the improvement in the present Income Tax Act 2058.

- a).....
- b).....
- c).....
- d).....

Thank You !yadav