CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Government expenditure is increasing because of demand of time, increase in population, social progress, increase in price, etc. To meet the growing public expenditure, the government has to manage its fund sum he has paid as tax. It does not mean that the taxes are levied for some other purpose than for giving services to public.

Tax is a compulsory payment to the government by the public without any expectation of some specified return. A tax is a compulsory payment by the tax payer in the sense that once levied: the person concerned has to pay it and thus cannot entitle to force the government to give something to him in return of the sum he/she has paid as tax (Shah, 2012).

All the local level institutions should be guided by the Ministry of Local Development so that there will be mechanisms of monitoring and supervision of development activities in the communities. Government of Nepal proclaims the rules and regulations as per the requirement for further improvement. On the basis of rule and regulations of Government of Nepal, the local Institutions enjoy an authority to proclaim necessary rules for smooth operation of the institutions. The general people living below the poverty and geographical constraints should be equally fostered to feel themselves as a citizen of the country and only they can participate in the stream of development.   .

Local institutions are elected bodies. They are responsible to carry out some public functions and are authorized to collect revenue in their area of jurisdiction. They have their own staff, budget and account. Local institutions should be authorized to generate their own revenue in order to respond to the wishes of their constituents through the development of projects serving their needs. In a democratic society it is desirable to establish a clear link between those concerned with spending public funds and those responsible for the raising of revenue.

Tax is the main source of financing government activities. It is received from different source. They are external and internal sources. "External source of fund is foreign grants and loans. Such external sources are uncertain, inconvenient and not good for healthy development if there is heavy dependent on them. It is used for economic development reconstruction, foreign exchange, to recover from crisis condition, for productive use etc. (Timalsina, 2007), Because of different weaknesses of external sources the internal sources should be mobilized.

Internal source of fund is own source within the nation. Internal source of public fund is important not only for financing necessary fund but also for proper mobilization of external source. Internal source of fund includes both tax and non-tax. Tax sources include the amount, which are compulsory contributed by taxpayers to the government. Non-taxes sources are uncertain and inconvenient because they are imposed as per need of the government. It shows that taxes are the better source of public revenue and it has been taken as the best effective tool for raising the public fund.

Taxation means by which governments finance their expenditure by imposing charges on citizens and corporate entities. Government use taxation to encourage or discourage certain economic decisions. Now a days, the prime concern of every nation of the world is rapid economic development and Nepal is no exception to this ever continuing process, aimed at the betterment of her people. Capital plays a vital role in the rapid economic development programmed to solve the various socio-economic problems.

Tax may be imposed on a personal income, fixed property holding on or the on the services or product used on. Tax is a compulsory contribution imposed by public authority using the right given by law. Taxpayer does not expect any return for his tax paying. It is neither an exact amount nor a penalty for any legal offence. Tax may be classified into two types. They are direct and indirect. Direct tax is that tax which is really paid a person on whom it is legally imposed. These are the direct tax: income tax, property tax, interest tax, gift tax, death tax, vehicle tax etc. indirect tax is that tax tax: sales tax, entertainment tax, passenger tax, hotel tax, export and import duty, excise duties, VAT, etc.

To effectively collect the tax, the municipality handles the local tax collection. As the research focuses on the Fungling Municipality only, the local tax collection of Fungling Municipality has been analyzed. Fungling Municipality collects Land and House Registration Tax (Malpot), House and Compound Tax, House and Land Rent Tax, Advertisement tax, Entertainment tax, vehicle tax, business tax and other.

Municipality council is the highest level body that formulates budget, plans and rule to charge tax, fee. Similarly, Municipality Board is an executive team which should follow the decisions and instructions and conduct economic physical construction, educational, tourism activities, and it provides necessary services to the people.

Municipality has not mobilize its resources properly for the welfare of the local people. Tax collector of this municipality were not timely informed in time and not motivated them . In the absence of proper record keeping system of tax related information, Fungling Municipality   cannot determine about the status of revenue. So the necessary attention should be given on proper accounting system and proper use of information technology. Strong political commitment is necessary for the effective implementation and Local Tax and its provisions regarding to property tax. To improve the tax collection procedure, the maximum penalties should be imposed for non-compliance of tax with in the due date. In Fungling municipality there should Tax laws should be clear, comprehensive and simple. It should not contain any loopholes and ambiguity. Therefore Property Tax Act, rules and regulation should be made cleared and simple for all taxpayers as well as for all related persons.   The language used in tax law and policy should be simple and clear. In spite of using the vague meaningful words clear-cut provision should be made. To make the administration capable of facing new challenges, there should be improvement in professionalism as well as development of new professional ethics compatible to the changed context of liberalization.

1.2 Statement of the Problem

There are various problems about tax administration like, proper record about the number of tax payer, defective selection of personnel, lack of training and education to tax payers and tax officer, undue delay in making assessment, lack of responsibilities of officials on their work, experience of corruption, lack of motivation

to tax personnel etc. because of the inefficiency of the administration and increasing corruption, people have no faith in the work of government and its organization.

By effective implementation of tax law of the nation, the tax collection should be effective from each locality. Hence, local tax is viable for the further development of the tax system of the country.

There are various problems of in local tax collection; especially this study will try to find out the answer of following questions;

- What is the revenue structure of Fungling municipality?

- What is the contribution percentage of local tax to revenue of Fungling municipality?

- What are the major problems on local tax collection?

1.3 Objectives of the Study

The main objective of the study is to analyze the contribution of Local Tax in total revenue in Fungling municipality Taplejung. Other specific objectives of the study are listed below:

1. To analyze the revenue structure of Fungling Municipality.

2. To analyze the trend of local tax on Fungling Municipality.

3. To identify the major problems of existing laws related to taxation of Fungling municipality.

1.4 Significance of the Study

The study will be significant for the tax administration in effectively collecting tax, making future plan and policies on the basis of trend value collected. The study will also be more significant to the Tax Expert for further analysis and will be equally important to the tax payer to know the local tax that the Fungling municipality has collected and its contribution to the total revenue. The major importance of the study is as follows;

- It provides the information about trends and projection of local tax of Fungling Municipality.

- Cooperatives information for making future plan and policies.

- This study uses to policy maker, concerned organization, tax payer and researcher.

1.5 Limitations of the Study

Every research study is limited by the various reasons. Similarly, this research study also has certain limitations: such as limitation of the time period, area of the study, lack of sufficient relevant data and morality of respondents and also so on. Its main limitations are summarized below:

a. This study has attempted to analyze the contribution of local tax on total revenue of Fungling municipality only and does not cover the other aspect of tax system.

b. This reliability of the secondary data has depends on the accuracy of the data provided.

c. Primary data fully depends upon the opinion of respondents.

d. The study covers only limited years.

1.6 Organization of the Study

The whole study has organized into the following five chapters:

Chapter – I: Introduction

Chapter one Introduction includes the background of the study, statement of the problem, importance of the study, objectives of the study, limitation of the study and organization of the study.

Chapter – II: Literature Review

It contains review of the laws, journal and previous thesis. It provides theoretical platform for the study of the local tax system.

Chapter – III: Research Methodology

It includes research design population and sample, source of data, data collection, method of data analysis and financial and statistical tools.

Chapter – IV: Data Presentation and Analysis

This chapter mostly concerns with systematic presentation and analysis and interpretation of data where various financial and statistical tools techniques will use. This chapter is also focusing open-end opinions and matters finding of the research.

Chapter – V: Summary, Conclusion and Recommendations

It consists of brief summary, conclusion and recommendations of the study.

CHAPTER-II

REVIEW OF LITERATURE

2.1 Theoretical Review

2.1.1 Municipal Finance in the International Context

The concept of municipal finance is relatively modern despite the existence of some of its components in ancient and medieval periods in all countries because of political, administrative, socio-economic or geographic necessities. The modern concept of local government has ultimately blossomed from the concept of operational freedom of varying degrees that can be exercised within the overall framework of the policy of the country. The major elements of the local self government are politically, as a local democracy; administratively, as a local administrative organization along with well defined territorial jurisdiction over definite human settlements, constituting a distinctive social entity organized within the broad legal framework, enjoying a certain degree of autonomy to regulate its own affairs, etc. the citizen centered local governance, a new concept in the development of local government focuses on the citizen's needs and aspirations. The citizen-centered local governance carries out reforms on the institutions of local governance and requires agreement on basis principles. Three basic principles are advanced to initiate such a discussion.

Responsive governance: This principle aims governments to do the right things that is, to deliver services consistent with citizen preferences.

Responsible Governance: This principle aims for governments should also do it right things that is, manage its fiscal resources prudently. It should earn the trust of residents by working better and costing less and by managing fiscal and social risks for the community. It should strive to improve the quality and quantity of and access to public services. To do so, it needs to benchmark its performance with the best performing local government.

Accountable governance: A local government should be accountable to its electorate. It should adhere to appropriate safeguards to ensure that it serves the public interest with integrity. Legal and institutional reforms may be needed to enable local

governments to deal with accountability between elections reforms such as a citizen's charter and a provision for recall of public officials. A framework of local governance that embodies these principles is called citizen centered governance are the following: Citizen empowerment through a rights based approach (Direct democracy provisions, citizens' charter); bottom up accountability for results; Evaluation of government performance as the facilitator of a network of providers by citizen as governors, tax payers and consumers of public services.

Local government refers to specific institutions or entities created by national constrictions (Brazil, Denmark, France, India, Italy, Japan, Sweden), by state constitutions (Australia, the United States), by ordinary legislation of a higher level of central government (New Zealand), the united kingdom, most countries), by provincial or state legislation (Canada, Pakistan), or by executive order (China) to deliver a range of specified services to a relatively small geographically delineated area. Local governance is a broader concept and is defined as the formulation and execution of collective action at the local level. Thus, it encompasses the direct and indirect roles of informal norms, networks, community organizations and neighborhood associations in pursuing collective action by defining the framework for citizen-citizen and citizen-state interactions, collective decision making and delivery of local public services. Local governance, therefore, includes the diverse objectives of vibrant, living, working and environmentally preserved self-governing communities. Good local governance is not just about providing a range of local services but also about preserving the life and liberty of residents, creating space for democratic participation and civic dialogue, supporting market-led and environmentally sustainable local development, and facilitating outcomes that enrich the quality of life of residents although the concept of local governance is as old as the history of humanity, only recently has it entered the broad discourse in the academic and practice literature. Globalization and the information revolution are forcing a reexamination of citizen-state relations and roles and the relationship of various orders of government with entitles beyond government, and thereby an enhanced focus on local governance. The concept, however, has yet to be embraced fully by the literature on development economics, because of the longstanding tradition in the development assistance community of focusing on either local governments or community organizations while neglecting the overall institutional environment that

facilitates or retards inter connectivity, cooperation, or competition among organizations, groups, norms and networks that serve public interest at the local level (Shah, 2006).

Municipal finance is about the revenue and expenditure decisions of municipal governments. It covers the source of revenue that is used by municipal governments-taxes (property, income, sales and excise taxes), user fees, and inters governmental transfers. It includes ways of financing infrastructure through the use of operating revenues and borrowing as well as charges on developers and public-private partnerships. Municipal finance also addresses issues around expenditures at the local level and the accountability for expenditure and revenue decisions, including the municipal budgetary process and financial management. The challenge for local governments is to keep cities economically viable by delivering a high level of services and, at the same time, keeping taxes sufficiently low so as past not to discourage individuals and businesses from locating in their jurisdiction. Over the past two decades, local governments have faced a number of issues and challenges that have put stress on their ability to meet this objective (UN HABITAT, 2009).

2.1.2 Concept of Municipality

The municipality is the town or city with its own local government. The municipalities are the local bodies created for the urban areas to look after the local affairs like sanitation, public health, etc. the main source of finance of the municipal committee are taxation, grant, share of tax levied and collected by state government and income of municipal undertakings (Lekhi, 2007).

The term municipality relates the concept of local government. It is the administrative body for small geographic area, such as city, town, country or state. A local government will typically only have control over their geographical region and cannot pass or enforced laws that will affect a wider area. Local government can elect officials, enact tax and do many other things that national governments do, use on a small scale.

2.1.3 History of Municipal System in Various Part of the World

a) England

In England the concept of municipality emerged with the development is the industrial revolution of 18th century. Borough probably the oldest local government authority in England. The industrial revolution in town, urban areas spring up over night with to provision for civil amentias. As a result royal commission of inquiry was appointed in 1883 was passed by a parliament, which forms the basis of the organization and power of the borough even today. According to this act, the council was made by government electors for a term of 3 years. The council was given power to enact by lows for the government of borough. It was given power over property, police, select lighting market and harbors. Between 1835 to 1882, the act was amended 50 times. The municipal corporation act of 1892 confided all the amendments, which together with its various amendments has between largely suppressed by the local government act 1833 (Nigam, 1968).

In case of England the local government is divided into metropolis and non metropolis area. The metropolis area includes six districts, but all districts do not have same administrative. System, for example, London boroughs are single tier authorities. However, Scotland has two-tier system and belongs to metropolis category (Chandlier, 1991)

b) United States of America

In USA, a local government unit may be the city, incorporated town or village. In most countries a local government unit is classified as urban or village on the basis of the character of its people, that is whether urban, semi-urban or rural. But in USA it is on the basis of the number of inhabitation. Local government units which have 2,500 populations or more are usually considered as urban units, and rest are rural units, there are three types of urban areas namely cities countries and special district. The government of urban units is required to provide all the necessary services for the inhabitation. (Gupta, 1968).

c) India

The history of municipal government in India can be divided into four periods. The pre period when municipalities were created to serve imperial needs, the period from 1882 to 1919 when many attempts were made to turn them into self governing units, the period from 1935 to the present day. The basic objective of the reconstruction was to recognize the whole of local government with a view of making them a training ground of democracy and an effective organ of administration.

In Indian the structure of local government are different in state to state. The municipalities in India are formed according to the law of state. The classification of the municipalities in some states has been on the basis of their revenue. Thus the state government declared the area as municipality depending on their own act (Agrawal, 1960).

2.1.4 Municipal Finance in Nepalese Context

Municipal, as well as local government finance in general in Nepal is at the crosswords. Some major strategic decisions have to be taken, and they are embedded within the current political decision making process on the type of federalism the newly born republic of Nepal will establish. Given the large ethnic diversity, the ongoing problem of social inclusion, and the need to establish sound participation opportunities, local government finance in Nepal is an important issue that will determine the functionality of federalism and the chance of empowerment of local people.

Effective decentralization is an element of good governance and an expansion of democratic practice. It is also a perquisite for effective and efficient public administration. It is recognized that elected local authorities, alongside national regional authorities, are key actors in democratic governance and administration. They collaborate with national and regional authorities but also have their own autonomous spheres of public action. Local democracy thus constitutes an essential element of democracy itself whatever the form of the state, whether federal, regionalized or unitary.

Public responsibilities should be exercised by those elected authorities, which are closet to the citizens. Generally, national, regional and local responsibilities should be differentiated by the constitution and legislation, in order to clarify the respective powers. The constitution should also guarantee access to the resources necessary for the decentralized institutions to carry out functions allocated to them. nepal's recent history has been characterized by weak or dysfunctional local government based on principals of decentralization and devolution in both rural and urban areas. However, the current situation calls for significant legal and administration reforms to enact a system of local government that is both practical and responsible to Nepal's needs, as well as in line with international standards of good and democratic governance. The drafting of a new constitution reprints an opportunity to revisit this area and develop a comprehensive and new approach to local governance.

The history of municipality in Nepal dates back to 1925 when Kantipur was declared as municipality. After the end of the Rana regime in 1950 the then government declared Patan, Kantipur, Bhaktpur, Biratnagar and Birgunj as municipality in 1950. His Majesty Government /Nepal declared Nepal municipal act in 1952 and then it declared Bhadrapur and Tansen as municipality in the same year. Before the sack of democracy, the number of municipalities was 14. In 1962. HMG/Nepal promulgated the Nagar Panchyat Act, 1962. During the Panchyat regime, 19 new municipalities were declared. Thus, the number of municipalities before the restoration of democracy was 33. And after the restoration of democracy in 1990, 25 new municipalities were declared. Many village development committees are in the pipeline of political decision for municipality. Total number of municipalities in Nepal, for the time being, is 58. At present municipalities are being governed under the local self-governance Act, 1999 and Local Self Governance Act (LSGA) and Local Self-Governance Regulation (LSGR), Municipal Act, 1991 was in force. The authority always claims that certain power has been developed to the local governments, village development committee, Municipality and district development committee and governance of local government is based on the principal of decentralization. So, in this paper, attempt has been made to look into the difference in the expenditure and revenue pattern of municipalities before and after into the difference in the expenditure and revenue pattern of municipalities before and after the decentralization of certain power to the municipality.

The article 139 (1) of interim constitution of Nepal, 1950 has explicitly made provision of holding the local election or making according to article 139 (2) to make special political arrangement in the local government bodies in the all party consensus in order to promote decentralization and local governance system but, unfortunately both provisions have not come into action yet. This vacant situation in local level has hampered the effective and efficient service delivery to the people (ADDCN, 1952).

The study report entitled "Nepal's choices in Fiscal Federalism" submitted to ADB, Nepal and ministry of local development has aimed an endeavor to contribute to the ongoing discussion on fiscal federalism in Nepal. It has presented a strategic evaluation of options for setting up a decentralized state structure in Nepal in the context of concepts and international practices of fiscal federalism. The study has recommended for considering only certain elements of the fiscal federalism. The study has recommended for considering only certain elements of the fiscal federal scheme not all the matters to be reflected in the constitutions (Cyan et al, 2009).

2.2 Empirical Review

2.2.1 International Context

There are various studies on the local government and municipal finance in the international sphere, out of which some are viewed as:

Jakson (1959) studied on the local government in England and Wales and found that the organization of local government in every civilized country is similarly in outline. It resembles that the present time in England are curies compromise between ancient forms and modern needs. The brought and brought council although reformed by the comparatively recent municipal corporation large nationwide business with local branches controlled and infected by a central office. The degree of local independence and the measure and mode of central control vary with the circumstances.

Agrawal (1960) studied on the municipal government in India and found that the municipality history of India dates back some hundred and thirty six years. According to municipality evolution history in India, the emergence of these kinds of organization in India was due to financial exigencies which the central government has to face in the 19th century. According to Agrawal the municipality in India served

as an efficient instrument of relief to imperial finances and later as an agency for providing relief to the district officer from some of the details of their task and works. It was lord Ripans government which considers municipal institutions desirable as an instrument of political and popular education through which the people of India could be trained to take an intelligent share in the administration of their own affairs.

Ebel and Yilmaz (2002) puts forward view that there is no set of prescribed rules to determine how a country is being decentralizing. The measure of decentralizing is difficult. But, according to loehr and Maason (1999), the following four indicators can be used for measuring fiscal decentralization:

i)   Revenue Decentralization Ratio (RDR)
ii) Expenditure decentralization ratio (EDR)
iii) Modified expenditure decentralization ration (MEDR)
iv) Fiscal Autonomy Ratio (FAR)

Bahl (2003) studied on restructuring local government finance in developing countries with special reference to South Africa and concluded that the urban government in the developing countries is commonly faced with problems of urban management that for surpass those experienced by their counterparts in the industrialized countries. The prevalence of poverty and generally low incomes makes to difficult at every level of government to raise fiscal resources for the provision of urban services at an increased pace).

UNCDF (2004) published a report entitled local government initiative: Pro-poor infrastructure and service delivery in Rural Asia and concluded that according to the LSGA, local government (VDC, municipality and DDC) have some revenue raising powers, but the local revenue base is limited and stagnant. Due to the lack of sufficient fund to meet the assigned expenditure, there is a high degree of dependency of DDCs and VDCs upon central government transfers (representing 75% of 36 titka KG revenue) is very high. On the other hand , the local government expenditures are small in scale as compare to central government. It is accounted that only 4 percent of total public expenditures is mobilized by local government in Nepal. Central transfers to DDCs have been mainly channeled down through sector ministers to their concerned departments. The fiscal decentralization policy is now to switch to

"Developed" funding though mix of conditional and unconditional grants to the DDCs themselves-but implementation is stalled because of the current suspension of local elected bodies. Local governance is the system of governing the public affairs through appropriate mechanism at the local level, close to the people, lower than the national level, i.e. sub-national, regional, sub-regional and grassroots level in a country.

Shah (2006) studied on the capitalization and the theory of local public and concluded that the concept of local government means to specific institutions or entities created by national government, by provincial or state legislation, or by executive orfer to deliver specified services to a relatively small geographically outlined area. However, local governance is the broader concept.

Qiao and shah (2006) studied on local government and finance and concluded that the current system of local government organization and finance in china has some positive feature. Local government assumes a predominant role in the delivery of public services. In this role, they are guided primarily by national mandates, yet they have significant opportunity to adopt and innovate to meet local circumstance. They have undone a phenomenal job in improving infrastructural deficiencies. Good quality infrastructure is after all, seen as important inducement to investors to pump capital into their jurisdictions. New investment enables local government to enlarge their tax bases and local leadership to assure greater political clout. These benefits provide strong incentives for local government to focus on local economic development policies. They also stimulate a great spirit of competition to uplift local economies.

Kelly (2010) studied on decentralization can help to reform the governance system by improving efficiency (links mix and level of services to local the local citizen demand), improving effectiveness (mobilize citizen's participation, innovation and ownership and allows competition in public services as best practices). Finally it can be said that decentralization is in essence a neither political decision nor mechanical dilemma.

2.2.2 Nepalese Context

Timalsena (1996) has studied about the municipal finance with special reference to Biratnagar municipality focusing on the income and expenditure pattern of the municipality. His study was based on primary data with secondary inputs and based on various books, reports and organizational progress reports. Moreover, his study also includes different issues of financing and its alternatives sources for effective mobilization of financial resources. He found that the local bodies can mobilize financial resources in the form of various taxes, service charges and fees and concluded that ht local bodies, all municipalities and municipal corporations are increasing their financial resources through octoroi, tax, professional tax, roof-top tax and rent tax.

Pahadi (1997) has studied about the municipal finance of Nepal with special focus on Janakpur municipality. His study is based on the secondary sources of data. The study focused on social and economic condition, sources of income and pattern of expenditure, administration and budget formulation policy of the municipality and concluded that the local tax is the main internal source of revenue, especially the octroy tax is the main source of internal revenue and other for of tax has nominal role in the internal revenue generation of the municipality.

Gautam (2002) studied about the municipal finance in Nepal. His study is based on the revenue and expenditure pattern of Nepalgunj municipality. He has concluded that the revenue utilization capacity of the municipality was very low which has caused high balance forward of the generated revenue. He had also concluded that despite the huge potentiality of revenue generation in different areas, the authorities have not paid proper attention to explore the potential areas of revenue.

Adhikari (2006) studied on the topic entitled "Towards Local democracy" and has mainly focused on the context of decentralization of district planning. He has captured the theoretical framework of decentralization and planning process. It has just touched the revenue and expenditure assignment of local government in general and district development committees in specific. The study has highlighted the role of local government committees in specific. The study has highlighted the role of local government associations such as ADCN, NAVIN, and MUAN in the decentralization

process in Nepal. Furthermore, the study has explored and analyzed determinant factors of successful planning, participating, decentralizing and development management of the district level.

Kandel (2006) has studied on expenditure pattern of local government and submitted to Asian Development Bank of Nepal has focused on expenditure patterns of local governance in the context of rural poverty alleviation (The study has reviewed the various aspects of the responsibility given to the local bodied); present status of LBs expenditure in Nepal; the present status of poverty in the rural sector of Nepal; and the rural poverty reduction strategy of Nepal, and central government's responsibility that can be transferred to local bodies in the context of rural poverty alleviation. Besides, the policy improvements needed to strengthen local bodies to reduce rural poverty in Nepal also has been analyzed.

Similarly, expenditure assignment needs to be preceding revenue assignment. Equalization fund should be transferred to the local government bodies on the formula based grant system (Pyakuryal et al, 2009). There are tremendous causes against the borrowing of sub-national government. According to this school of thought, there may be high chance of misuse of loan amount politically. It is hard to repay the loan and create the burden for future generation and it may put the potential revenue resources in future.

Sharma (2011) studied about the municipal finance in Baglung DDC focusing on the revenue and expenditure of the area and has concluded that the local bodies are heavy dependent on the central government's grant and foreign grant as well. His study reveals that 86 percent of the total revenue of Baglung district constitutes the central grants which show high dependency on the central grants. For the sustainable development of the place, internal resources must be fully mobilized.

Nepal (2014) studied on the revenue and expenditure analysis of Banepa Municipality and concluded that the average share of internal revenue of municipality is 29.75 percent and the average share of external revenue is 70.24 percent with the average share of administration expenditure is 40.63 percent and the share of capital expenditure is 59.73 percent respectively. The achievement of administration

expenditure is weak and has a weak local fiscal dependency ratio and fiscal autonomy index.

Gurung (2009) described about contribution of income tax to national revenue of Nepal. This study had mainly focused about conceptual framework, legal provision and structure of income tax. This study had conducted by using an empirical investigation about various aspects of income tax in Nepal. He has taken 60 persons as a sample as tax experts, tax payers, and tax administrators. The result of the study showed that the contribution of direct and indirect tax revenue were 20.63% and 79.40% respectively in 2014/71. Income tax revenue has occupied third position on the basis of mean contribution other sources of revenue, the contribution of income tax to total revenue was 8.84%. It may enhance the revenue of government, promote to distribute justice and encourage private sector investment. Nepalese government expenditure is increasing at the faster rate than the increase in revenue, the resource gap has existed in Nepalese economy and it is in increasing trend, tax/GDP ration of Nepal is found satisfactory, the exemption limit is not satisfactory. This study had suggested for a sound and effective income tax system. They were establishment, promotion and reward system to efficient and honest tax personnel, increase public participation to minimize the tax evasion, strict action against corruption, income tax, rules and regulation should be made at higher rate for income tax evaders, more deduction should be provided for export promote and separate income tax department should be established.

Ghimire (2005) described Income tax self assessment procedure in Nepal under Income tax Act 2002. He has mainly focused on Conceptual framework, studies in self assessment, provisions related to income tax Act. This study has conducted an empirical investigation about various aspects of Income tax in Nepal and has taken 60 persons as a sample as tax experts, tax payers and tax administrators. This study has found income tax as suitable means of raising government revenue. Public awareness program is necessary to increase tax consciousness and raising the government revenue. Self tax assessment is a suitable means while assessing the income tax in Nepal. Lack of proper accounting system, lack of knowledge about self assessment procedure, lack of correct auditing system is the weakness of self assessment system.

Sharma, (2009) considered VAT as broader based tax system. He puts the reason for the adoption of VAT as :- (a) It is based modern theory (b) It raises the revenue (c) It is more informative (d) It is free from cascading effect (e) It is based on self - assessment system. (f) It is likely to reduce tax evasion. Prior to its implementation he advises to incorporate various suggestions. Some of them are: (a) long term policy with clear vision (b) updating taxpayer's profile (c) Transparency and uniformity in the tax rules, regulations and circulars. (d) Data based computer system must be introduced. (e) Simple book keeping system should be provided.

Ghimire (2007) presented a dissertation entitled, "Income Tax in Nepal: Its Structure and Contribution from Public Enterprises to Government Revenue". His findings are that the contribution of income tax from PEs, semi PEs, private corporate bodies, individuals' tax, remunerations tax and interest to total income tax are 21.26%, 0.60%, 0.12%, 69.23%, 4.38% and 4.42% of income tax in 1982/83 respectively and each are 19.87%, nil, 15.86%, 49.63%, 9.38% and 5.25% of income tax in 2001/02 respectively. His recommendations to public enterprises are; to better perform, to reduce the tax imposition, to audit the financial statements, to pay tax dues regularly, to maintain the cash flow favourable, and to make income transparent.

Koirala (2008) described about "Effectiveness of Advance Taxation on Income Tax Generation in Nepal". The objectives of his study were: To evaluate the feasibility and effectiveness of advance taxation on income tax and overall revenue generation in Nepal, to examine the current position of advance taxation in Nepal. He has found that advance taxation is also one of the tax assessing and tax collecting procedure as per Income Tax Act 2007.

Shrestha (2010) examined and analyzed the tax incentives provided by ITA 2002. The study shows the composition of total revenue of government was tax revenue, direct tax and income tax 70% 20% and 15% respectively in FISCAL YEAR 2005/006. It shows that taxation has been a major source of government revenue. But the contribution of tax revenue was in the increasing trend. Income tax has been considered as suitable source for the mobilizing internal resources. It can be used as a positive instrument to boost government revenue collection, to develop the economic conditions of Nepalese people and promote distribute justice

and to cure resource gap problem. 10 years tax rebate is not sufficient to increase the scope of tax planning in the remote area for the special industries.

Shahi (2015) studied on the revenue structure of Narayan Municipality, Dailekh. He found that Tax is suitable sources to raise revenue. Inappropriate tax rate, lack of education to tax payer, inefficient tax administration, complicated tax act, rule and regulation etc are the major problem in tax collection system. The study shows that the contribution of tax revenue to total revenue is 1.67% ,1.06%, 1.09%, 3.03% and 4.28% revenue collect form local tax in fiscal year 2009/2010, 2010/11, 2011/12, 2012/13 and 2013/14 respectively of total revenue of NMD . And that of non tax revenue is 98.33%, 98.94%,98.91%,96.97% and 95.72% in Fiscal Year 2009/2010, 2010/11, 2011/12, 2012/13 and 2013/14 respectively of total revenue of NMD . It shows non-tax revenue has been a major source of actual revenue of NMD. Hence local tax revenue is in increasing trend, but it is not sufficient to playing effective role in NMD.

2.3 Research Gap

In this way, various books, thesis, reports and articles published in journals and newspaper are reviewed while preparing this thesis. Income tax can play greater role for strengthening the economy. They explained about the trend, structure, role, rules and acts regarding income tax of Nepal. Most of the books are related with income tax provision and laws and extremely based on the syllabus of bachelors' level. Most of the research studies have identified the major problems of Nepalese income tax system as tax evasion at high level and infective tax administration. If administration aspects of Nepalese income tax system can be improved the problem of tax evasion may be controlled automatically.

In previous study there is no any research done in this municipality from this study it will analyze the secondary data and consumers perceptions on the basis of their opinions., it will be hat consider the total local tax of Fungling Municipality is

decreased or increased in each year. Its contribution to government revenue is not regarded satisfactory comparison to other taxes of Nepal government. These studies also explore the contribution to the revenue structure of the country on the basis of municipality. The revenue administration in Nepal is weak because of lack of the tax policies with a clear direction and consistency in a long run perspective lack of information and records, lack of trained staff and heavy dependence on non-technical staff, lack of proper accounting and auditing system in general for business firms. However, local tax laws and administration in Nepal are to be deeply scrutinized but not properly implemented. Manpower development planning within the administration is desired for the efficiency of tax personnel side by side. Tax educations packages are to be made and initiated hence tax administration and tax compliance could be improved. Due to various problems related to tax, revenue collection form tax is relatively low in Fungling Municipality.

CHAPTER – III

RESEARCH METHODOLOGY

This chapter is devoted to research methodology applied in the study for the achievement-designed objectives.

3.1 Research Design

The questionnaire includes effectiveness of local tax to increase revenue, problems in effectively collecting local tax, appropriate tax rate on property etc. Similarly various information published by organizations about income tax, are used for this study. In this way the research design of this study are descriptive analytical and empirical.

3.2 Population and Sample

All the tax experts and employees in Nepal are considered as total population. The tax expert, taxpayers and administrators in Nepal are considered as target population. To fulfill the objectives of the study, 35 samples size is selected from different denomination. Persons selected for empirical study are carefully selected by consultation with lecturers and best judgment method. The respondents are from two groups. The group of respondents and size of sample is stated in table 3.1.

Table 3.1

Group of Respondents and size of samples

SN	Group of Respondents	Sample Size
1.	Tax Experts / Tax Administrators (A)	10
2.	Tax Payers (B)	25
	Total	**35**

3.3 Nature and Sources of Data

The nature of the study is descriptive as well as analytical. The research study is based on primary data as well as secondary data. Primary data are collected from questionnaires. Secondary data are collected from Fungling municipality office. To achieve the possible and useful data as for available have been collected the major sources data are as follows:

a) **Primary Sources of Data**: The primary data needed are the opinions of tax experts, tax administrator and tax payers. Needed primary data are obtained through questionnaire method followed in most cases face to face interviews/discussions with the selected persons included in the purpose sample. The same questionnaire was distributed two groups i.e. tax exports and tax payers. Tax exports are the auditors, tax officer who have knowledge and idea about tax. Tax administrators are selected from officer of Fungling Municipality and officer of IRD and other government employee. Taxpayers are selected from different field i.e. teaching, manufacturing, finance, businessman etc.

b) **Secondary Sources of Data**: The secondary sources of data are collected from various books, dissertations, publications, journals, reports, newspapers etc. The major sources are as follows:

   i)   Official website of Inland Revenue Department : www.ird.gov.np

   ii)   Official website of Ministry of Finance : www.mof.gov.np

   iii)   Annual reports of Inland Revenue Department, Ministry of Finance

   iv)   Economic surveys and budget speeches, Ministry of Finance

   v)   Self governance act 1998 and rules 1999.

   vi)   Unpublished report of Fungling Municipality

   vii)   Annual Report Fungling Municipality

   viii) Various magazines, newspapers, journals and souvenirs, etc.

3.4 Data Collection Procedures

The data of the study were collected from primary source as well as secondary source. Primary data were collected by using questionnaires method. A set of questionnaires was developed and distributed to the related respondents in order to get actual and accurate information. Secondary data were collected from published reports.

3.5 Data Processing and Analysis of Data

The data of the research study are collected from questionnaires, the primary data are collected according to the need of the study and they are adjusted with the corresponding subject matter. And the collected and processed data are analyzed to draw the conclusions using tabulation, simple percentage and central tendency of statistical method. Necessary tabulates are used as required.

3.6 Tools Used

For the purpose of achieving the objective different taxation tools and statistical tools have been adopted.

3.6.1Taxation Tools

- ❖ Composition of Total Revenue

- ❖ Local Tax of Taplejung

- ❖ Composition of Local Tax

- ❖ Contribution of Local Tax to Total Revenue

- ❖ Contribution of House and Land Registration to Local Tax

- ❖ Contribution of House and Compound Tax to Local Tax

- ❖ Contribution of House Rent Tax to Local Tax

- ❖ Contribution of Vehicle Tax to Local Tax

- ❖ Contribution of Business Tax to Local Tax

❖ Contribution of Advertisement Tax to Local Tax

3.6.2 Statistical Tools

❖ Mean

❖ Standard Deviation

❖ Percentage

❖ Graph

❖ Bar Diagram

❖ Pie-chart

CHAPTER- IV

DATA PRESENTATION AND ANALYSIS

This is the major part of the study. It aims to make clear understanding about the contribution of local tax to total revenue of Fungling Municipality   which is presented in this chapter. The basic objective of this study is to analyze the contribution of tax to total revenue of Fungling Municipality. This chapter presents the analysis and interpretation of data to meet the objective. For the data related to total revenue and budget sheet etc. have been collected and analyzed as a secondary source. For primary source of data revenue related 15 Tax expert/administration of Fungling Municipality, Employer of Fungling Municipality office and 30 tax payer of Fungling Municipality have been selected as sample of the study. Questionnaires were distributed to more than 35 persons but responses were received only from 35 persons in May, 2017. Besides questionnaire informal discussions are also made with officers of account department of Fungling Municipality and some selected tax payers to get more information about the tax revenue collection system of Fungling Municipality and problems in law related to taxation of Fungling Municipality.

Fungling municipality in the Himalayas of Taplejung district in the Mechi Zone of north eastern Nepal. This municipality was format merging to village development committee i.e. Fungling and Dokhu in May, 2014. At the time of 2011 Nepal Census it had a population of 19085 people (Fungling 14974 and Dokhu 4111) living in 480 individual households. Taplejung Municipality is only one municipality of Taplejung district which consist the area of 125.357 Sq.km. This municipality is formed by merging. Four Village Development Committee i.e. Phungling Hangdewa, Phurumbu, Phawakhola. This municipality is divided in eleven wards and total population 26, 406 (Source: District Development Committee, 2073/74).

Demography

The main inhabitants of this municipality are, Limbu, Rai, Chhetri, Tamang, Brahmin, Sherpa, Bhote, Newar and Gurung.

Transportation

Taplejung municipality is linked with roadway and airway. It is connected to the rest of country through the Mechi highway, 268 km road which begins in Kechana of

Jhapa district and ends in Taplejung district. Passengers' buses and jeeps to Taplejung are easily available in Birthamod, Jhapa. Suketar airport has flights from Biratnagar and Kathmandu.

4.1 Data Analysis

Raw data are properly processed tabulated and analyzed. They are presented into graphs, and tables. Developed tables are based on secondary data as well as questionnaire. Open ended questions are arranged in a descriptive way.

4.1.1 Composition of Total Revenue

Total revenue of Fungling Municipality is composed of both tax revenue and non-tax revenue since Local Self-Governance Act, 1999 was enacted in 1999. Municipalities have been given authority to collect various taxes, fees, service charges, property rental etc.

Below table 4.1 shows composition of total revenue of Fungling Municipality, this includes tax and non- tax revenue from FY 2009/10 to 2014\2015. It seems that the share of tax revenue has always been lower than the share of non-tax revenue. In FY 2009/10, the share of tax-revenue and non-tax revenue is 1.67% and 98.33% respectively as compared with 5.31% and 94.69% in FY 2014\15. This indicates that the role of tax revenue is to much lower. Tax revenue has been placed as a little source of Fungling Municipality revenue. The composition of total revenue from FY 2011/12 to 2016\17 is present in table 4.1.
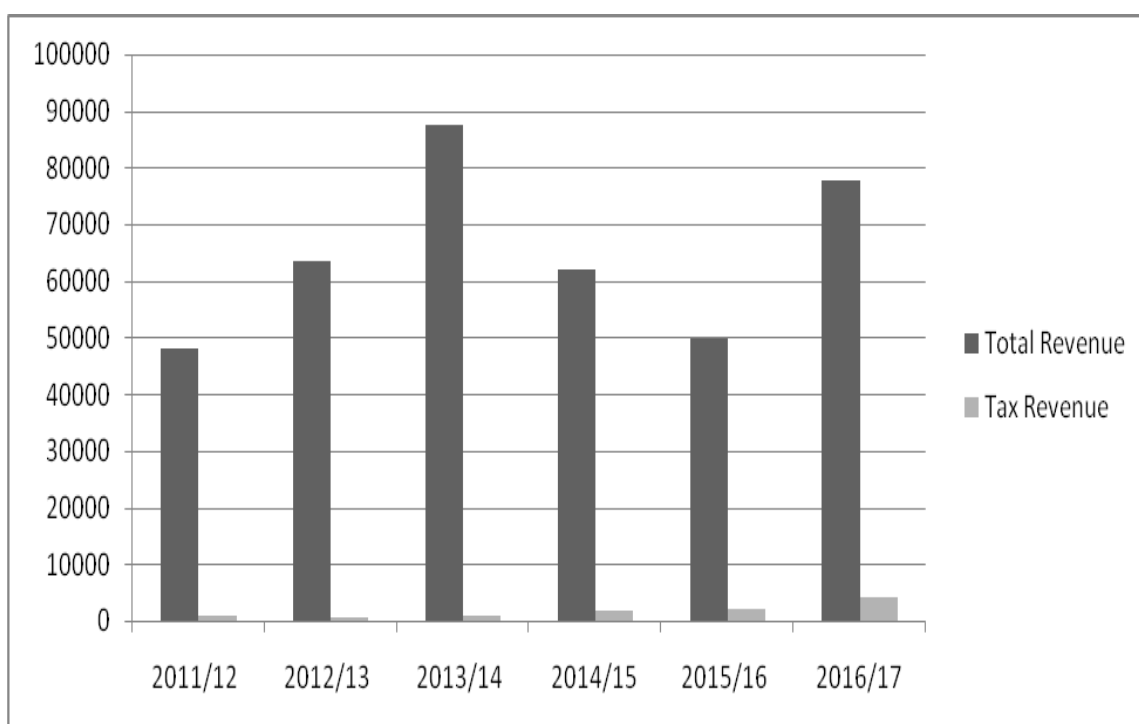
Table 4.1 Contribution of Tax and Non-Tax Revenue to Total Revenue of Fungling Municipality

(Rs. In '000)

Fiscal Year	Total Revenue	Tax Revenue	Percentage of Tax Revenue to Total Revenue	Non-Tax Revenue	Percentage of Non-Tax Revenue to Total Revenue
2011/12	48206	803	1.67	47403	98.33
2012/13	63459	675	1.06	62783	98.94
2013/14	87539	954	1.09	86584	98.91
2014/15	61885	1876	3.03	60008	96.97
2015/16	49852	2133	4.28	47718	95.72
2016/17	77743	4131	5.31	73612	94.69

Source: Budget Speech FY 2011/12 to 2016/17. Ministry of Finance,2017.

Figure 4.1 Contributions of Tax and Non-Tax Revenue to Total Revenue of Fungling Municipality

Source: Table 4.1, Budget Speech FY 2011/12 to 2016/17. Ministry of Finance,2017.

Table 4.1 shows that in study period every fiscal year the total tax revenue is too much lower than Non–tax revenue, tax Revenue is little contribution in total revenue of Fungling Municipality .The total revenue is decreasing in FY 2011/12 but Highly increasing in FY 2013/14 . However the tax revenue is decreasing in FY 2011/13. In the remaining FY during study period the revenue is in increasing trend. The contribution of tax revenue to total revenue is maximum 4.28 % in FY 2014\2015 and minimum 1.06% in FY 2010\11. The contribution portion of non tax revenue to total revenue is also fluctuating during the study period it is increasing highest 98.94% in FY2010\11. It is in decreasing trend up to 98.91%, 96.97%, 95.72%, 94.69% in FY 2013/14, 2014/15, 2015/16, 2014\15 respectively.

This table concluded that the tax revenue of from 2011 to 14 increasing trends, in 2014 to 2015 decreasing trends and again Increase in 2016/17. So, the percentage of contribution of tax revenue is found fluctuating in different years due to earthquake and some other reasons.

4.1.2 Details of Tax Revenue Structure of Fungling Municipality from Different Sources

The detail revenue structure of Fungling Municipality from different sources is shown in the table below 4.2. The table is the foundation of the data presentation of this research work. The data are drawn from the budget sheet of Fungling Municipality of a period of six year i.e., form 2011/12 to 2016/17. It includes the income incurred from various fees, tax and other income which are shown in following table with percentage. Total revenue consists of tax and non tax revenue generated by the Fungling Municipality. They are shown separately in the table. Item wise tax and non tax revenue of different fiscal year are given. The overall income during the study period is in increasing trend which is shown in the table 4.2:

Table 4.2

Details of Tax Revenue Structure of Fungling Municipality from Different Sources

Structure of Total Revenue from Tax and Other Sources of Fungling Municipality Sources	2011/12		2012/13		2013/14		2014/15	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Recommendation Fees	198800	24.76	140510	20.8	182017	19.06	298676	15.92
Panjikaran Fees	-	-	12358	1.83	14823	1.55	15792	0.84
Business Registration Renew	22650	2.82	43475	6.44	30443	3.19	66613	3.55
House Rent Tax	12814	1.59	10699	1.58	8940	0.94	10660	0.57
Tactor Revenue	52000	6.47	19450	2.87	1100	0.11	600	0.03
United assets Tax	133308	16.60	273536	40.5	469970	46.1	727539	38.78
House Map/ Building Permit Fee	73340	9.14	37070	5.5	162621	17.09	504442	26.88
House Map/ Building Application Fee	0	0.00	0	0.00	0	0.00	47328	2.52
Amin Fees	0	0.00	0	0.00	0	0.00	88500	4.71
Cleaning Fee	34750	4.33	48050	7.11	47800	5	68500	3.65
Relation Proof fee	5450	0.68	2400	0.35	2650	0.28	18850	1.00
Other Fee	10060	12.54	18368	2.72	32632	3.42	19892	1.06
House and Land /Malpot Tax	3882	0.48	1750	0.25	0	0.00	0	0.00
Pratilipi/Copy Fee	276	0.034	437	0.06	206	0.02	7037	0.37
Four side Proof	0	0.00	0	0.00	0	0.00	1630	0
Local Road Development and Repair fee	1542	0.19	0	0.00	0	0.00	0	0.00
United and Malpot	132878	16.55	58357	8.64	1615	0.16	0	0.00
Service fee	30282	3.77	3917	5.8	0	0.00	0	0.00
Penalty	0	0.00	5000	7.4	0	0.00	0	0.00
Advertisement Tax	0	0.00	0	0.00	0	0.00	0	0.00
Back odder Revenue	0	0.00	0	0.00	0	0.00	0	0.00

Source: Budget Speech FY 2011/12 to 2016/17. Ministry of Finance,2017.

Table 4.2 shows that details structure of various taxes and other income of Fungling Municipality in various fiscal years of local tax revenue is lower in FY 2010/11 is least contribution than other FY year, But FY 2014/2015 contribution is high than Another FY year. Total income of Fungling Municipality is Rs.4, 82, 05845 in FY2009/10 and Rs. 7, 77, 42,905 and in FY2014\2015. The total revenue of Fungling Municipality is increasing every year except FY 2010/11. United assets tax is the major source of revenue of Fungling Municipality.

This table concluded that the recommendation fees were collected more than others revenues. The second largest source of revenue of Fungling Municipality is united assets Tax. Similarly, there are many sources of income like: house rent, tractor revenue, building print fee, relation proof fee, cleaning, local road development and repair fee etc.

### 4.1.3 Tax Collection Performance of Fungling Municipality

Estimated budget is a forecast for future which is depends upon past data, practices and experience it should help to be collection tax and evaluation expenditure in future. The given table and figure help to know the prevailing budget practice done by Fungling Municipality and its success of collection in different FY. In present table 4.3

Table 4.3 Collection Performance of Tax-Revenue of Fungling Municipality

Year	Estimation	Collection	Difference	Collection (%)
2011/12	14,72500	802633	669867	54.51
2012/13	1232500	675377	557123	54.78
2013/14	1564407	954817	609590	61.03
2014/15	3447266	1876059	1571207	54.42
2015/16	3299000	2109084	1189915	63.93
2016/17	3789946	2802388	987558	73.94

Source: Budget Speech FY 2011/12 to 2016/17. Ministry of Finance,2017.

Figure 4.2 Collection Performance of Tax-Revenue
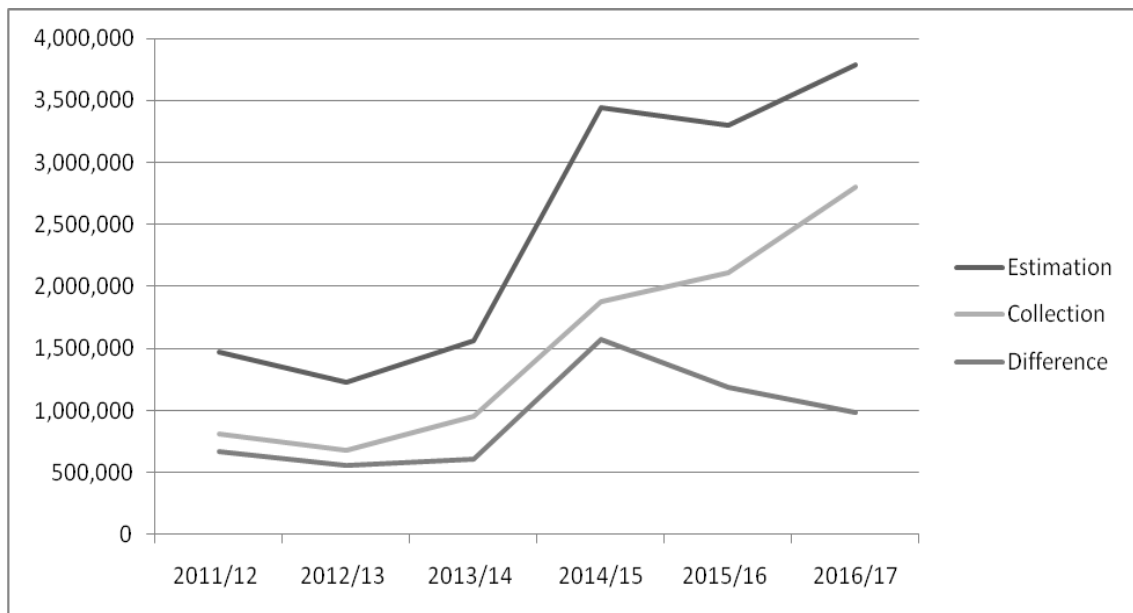
Source: Table 4.3 Budget Speech FY 2011/12 to 2016/17. Ministry of Finance, 2017.

Table 4.3 shows that in study period starting the collection is only 54.51% of estimation and end period 73.94 % of estimation in FY2014\2015. The highest performance in percentage is 73.94% in FY 2014\2015. The lowest performance percentage is 54.42% in FY 2012\13.

Revenue from tax is in increasing trend except FY 2014/15 but the collection performance of tax is not satisfactory. There is no database system for estimation of tax which is based on hunch.

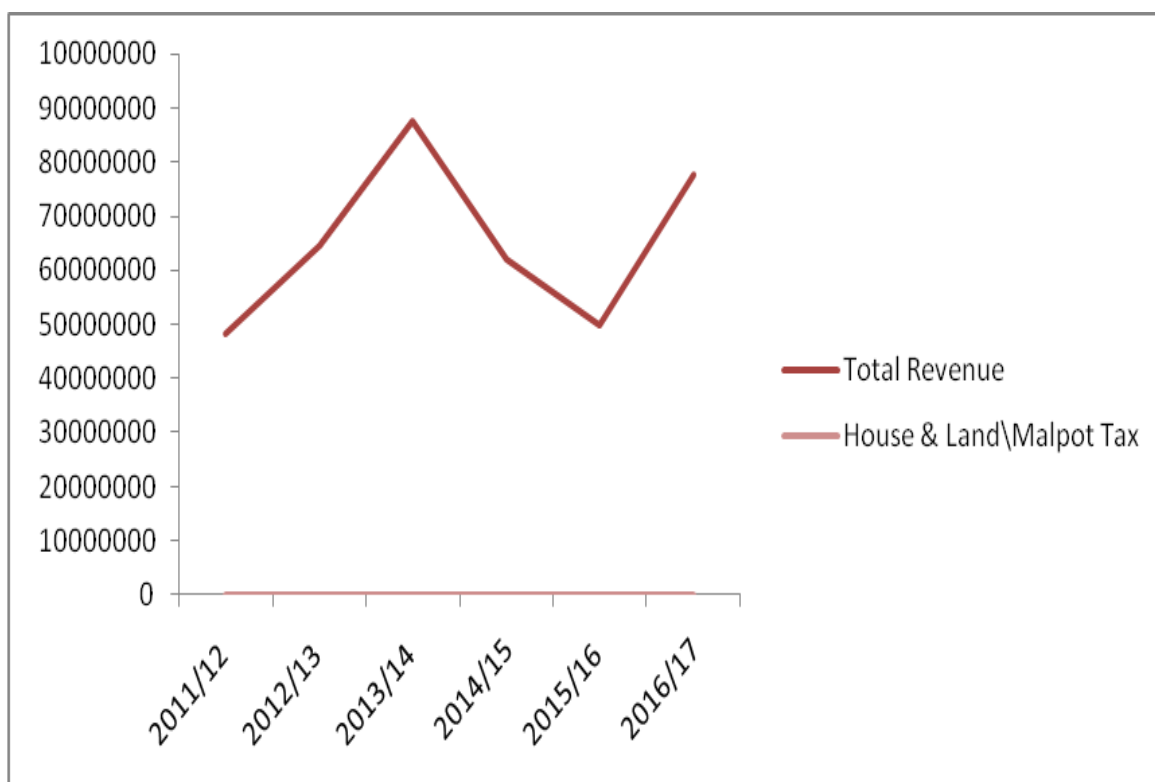## 4.1.4 Contribution of House and Land/Malpot Tax to Total Revenue

To know the contribution of individual tax to total revenue, House and Land/ Malpot Tax is not playing vital role in Fungling Municipality revenue structure. This tax the contribution of House and Land Tax to total revenue of Fungling Municipality is shown in table 4.4 and figure 4.3.

Table 4.4 Contribution of House and Land\Malpot Tax to Total Revenue

Fiscal Year	Total Revenue	House and Land\Malpot Tax	Percentage of House and Land/Malpot Tax Revenue to Total Revenue
2011/12	4,82,05,845	3882	0.008
2012/13	6,43,58,976	1750	0.003
2013/14	8,75,38,989	0	0.00
2014/15	6,18,84,967	0	0.00
2015/16	4,98,52,013	0	0.00
2016/17	7,77,42,905	2193	0.003

Source: Budget Speech FY 2011/12 to 2016/17. Ministry of Finance,2017.

Figure 4.3 Contributions of House and Land\Malpot Tax to Total Revenue

Source: Table 4.4 Budget Speech FY 2011/12 to 2016/17. Ministry of Finance,2017.

Table 4.4 shows that the contribution of House and Land Tax is not playing effective role in total revenue of Fungling Municipality. House and land malpot tax collection only in Study period tax collection 0.008%, 0.003, 0.003 in FY 2011/12, 2010/11 and 2015/16 respectively. Otherwise in FY 2011/12, 2012/13 and 2013/14 were not collections.

Total house and land Malpot tax collection is high in 2011/12. This tax the contribution of House and Land Tax to total revenue of Fungling Municipality is not good it is satisfactory.

## 4.1.5 Contribution of House Rent Tax to Total Revenue of Fungling Municipality

House Rent Tax is imposed on house rent whose houses are situated within the area of Fungling Municipality. Fungling Municipality has not actual data about the total house rent income of the people of Fungling Municipality. The payment of house rent tax is only optional for people. The collection of House Rent Tax is not remarkable in the study period but there is possibility to collect huge amount of tax from house rent. The collection of House Rent Tax in the study period is presented table 4.5:

Table 4.5 Contribution of House Rent Tax to Total Revenue

Fiscal Year	Total Revenue	House Rent Tax	% of House Rent Tax Revenue to Total Revenue
2011/12	4,82,05,845	12814	0.027
2012/13	6,43,58,976	10699	0.016
2013/14	8,75,38,989	8940	0.01
2014/15	6,18,84,967	10660	0.17
2015/16	4,98,52,013	19048	0.38
2016/17	7,77,42,905	27697	0.035

Source: Ministry of Finance, FY 2011/12 to 2016/17

Figure 4.4 Contributions of House and Land\Malpot Tax to Total Revenue
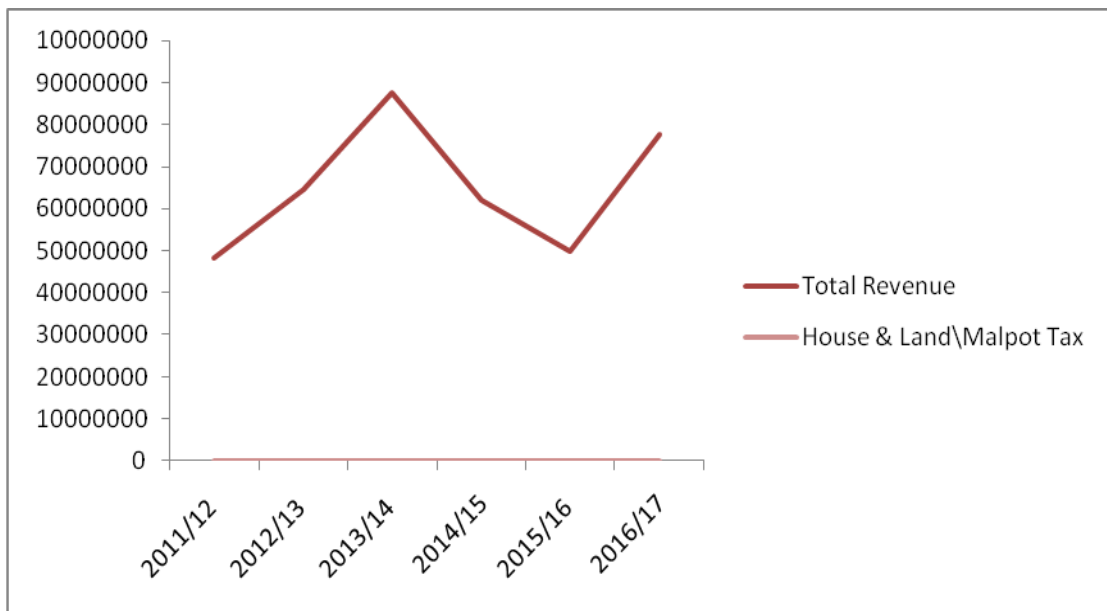
Source: Table 4.5 Ministry of Finance FY 2011/12 to 2016/17

Table 4.5 shows that the contributions of House Rent Tax are fluctuating trend and in FY 2013/14 higher house rent collection 0.38% and in FY 2013/14 lower house rent collection 0.01%.

The 4.5 concluded that the contribution of House Rent Tax were fluctuating trend in this municipality. Some consumers were not paid tax in time. The house owners were cheated the government.

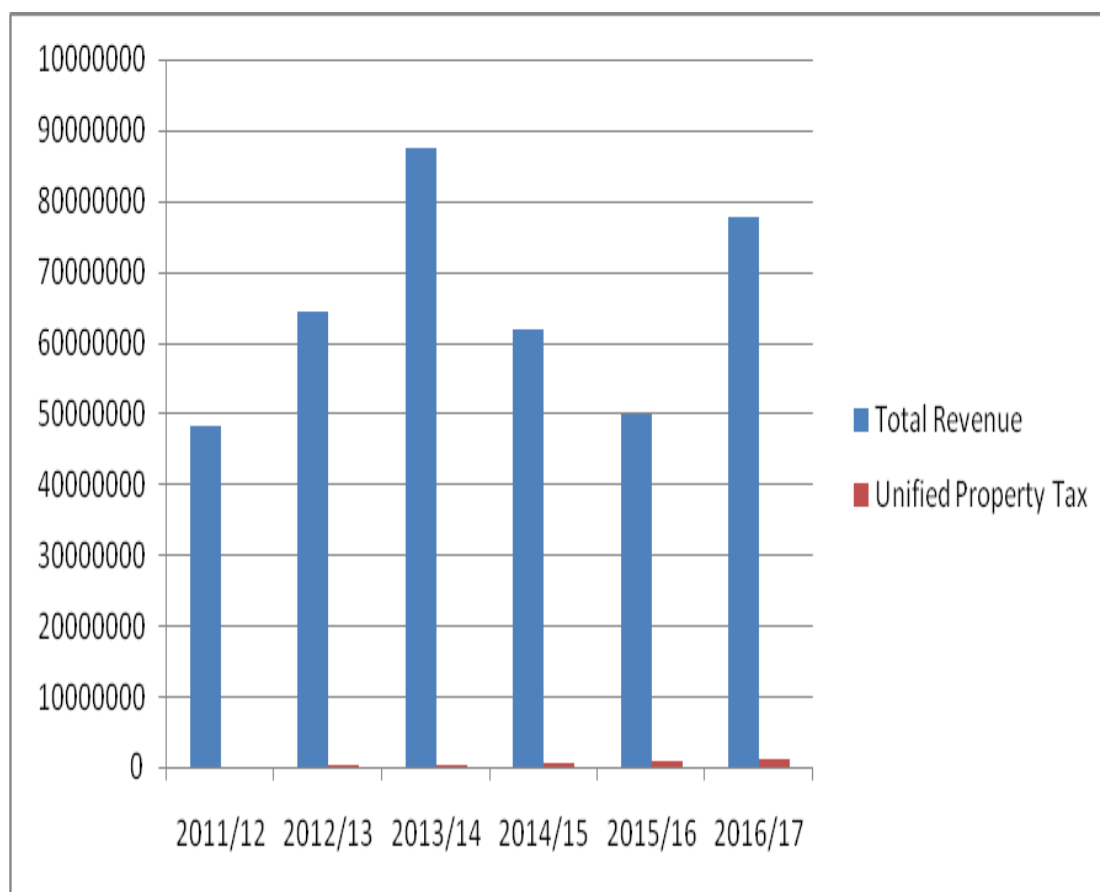## 4.1.6 Contribution of Unified Property Tax to Total Revenue

Unified Property Tax was used to collect by local body since 1999. In the study period the contribution of Unified Property Tax is major sources of Fungling Municipality total revenue. The actual collection of Unified Property tax has been presented in the table 4.6.

Table 4.6 Contribution of Unified Property Tax to Total Revenue of Fungling Municipality

Fiscal Year	Total Revenue	Unified Property Tax	% of Unified Property Tax Revenue to Total Revenue
2011/12	48205845	133308	0.28
2012/13	64358976	273536	0.43
2013/14	87538989	469970	0.54
2014/15	61884967	727539	1.18
2015/16	49852013	905770	1.82
2016/17	77742905	1115707	1.44

Source: Ministry of Finance, FY 2011/12 to 2016/17

Figure 4.5 Contribution of Unified Property Tax to Total Revenue

Source: Table 4.6, Ministry of Finance FY 2011/12 to 2016/17.

Table 4.6 shows that there is highest contribution of Unified Property Tax to total revenue of Fungling Municipality, i.e. less than 1% in the first three periods. Form FY 2009/2010 to 2011/2012 and 2012/2013 to 2014/2015 it is contribution more than 1%.

In the study period the contribution of Unified Property Tax is major sources of Fungling Municipality total revenue. In fiscal year 2011 to 2014 increasing trend and the 2014 to 15 decreasing trends and in 2016 again increasing trend.

4.1.7 Contribution of Entertainment Tax to Total Revenue of Fungling Municipality

According to Local Self-Governance Act, 1999 Fungling Municipality   is allowed to charge Entertainment Tax on cinema hall, video hall, and cultural exhibition hall. Now Fungling Municipality   Not collection the Entertainment tax in the study Period.

4.1.8 Contribution of Advertisement Tax to Total Revenue of Fungling Municipality

According to Local Self-Governance Act, 2055, any local body can charge Advertisement Tax on sign board, globe board and stall etc.   Now Fungling Municipality is charging tax on interdiction board, advertisement board, electric board, banner and poster. Actual tax collection form Advertisement Tax by Fungling Municipality has been presented in the table 4.7.

Table 4.7 Contribution of Advertisement Tax to Total Revenue of Fungling Municipality

Fiscal Year	Total Revenue	Advertisement Tax	% of Advertisement Tax Revenue to Total Revenue
2011/12	4,82,05,845	0	0.00
2012/13	6,43,58,976	0	0.00
2013/14	8,75,38,989	0	0.00
2014/15	6,18,84,967	0	0.00
2015/16	4,98,52,013	0	0.00
2016/17	7,77,42,905	15000	0.019

Source: Budget Speech FY 2011/12 to 2016/17, Ministry of Finance, 2017.

Table 4.7 shows that the contribution of Advertisement Tax to total revenue of Fungling Municipality advertisement tax is not collection in study Period FY 2011/12 to 2015/16 and total revenue in FY 2014\2015 Rs.15, 000, (0.019%).

Fungling Municipality   is charging tax on interdiction board, advertisement board, electric board, banner and poster. Actual tax collection form Advertisement Tax by Fungling Municipality has been collected only fiscal year 2016. It may be good source of revenue of Fungling Municipality, if it collects data about the new advertisement Tax payer through field visit.

## 4.1.9 Contribution of Business Registration Renewal Tax to Total Revenue of Fungling Municipality

Fungling Municipality   has been started to charge Business Tax from 2001 according to Local Self-Governance Act 1999. Fungling Municipality   is charging tax on flat basis as the size of business. Actual tax collection from different FY has been presented in table 4.8.

Table 4.8

Contribution of Business Registration Renewal Tax to Total Revenue of Fungling Municipality

Fiscal Year	Total Revenue	Business Tax	% of Business Tax Revenue to Total Revenue
2011/12	4,82,05,845	22650	0.05
2012/13	6,43,58,976	43475	0.07
2013/14	8,75,38,989	30443	0.03
2014/15	6,18,84,967	66613	0.10
2015/16	4,98,52,013	38760	0.78
2016/17	7,77,42,905	93115	1.19

Source: Budget Speech FY 2011/12 to 2016/17, *Ministry of Finance, 2017.*

Figure 4.6 Contribution of Business Registration Renewal Tax to Total Revenue of Fungling Municipality
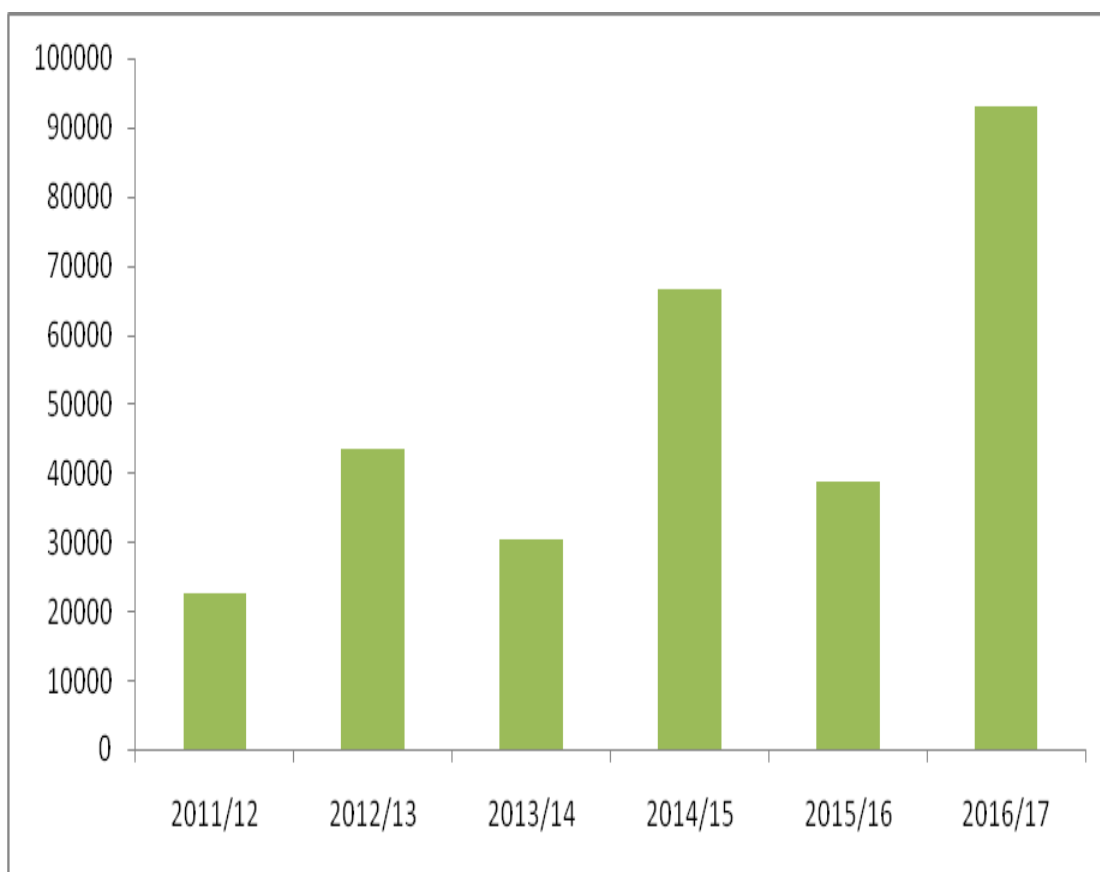
Source: Table 4.8 Budget Speech FY 2011/12 to 2016/17, *Ministry of Finance, 2017.*

Table 4.8 shows that the contribution of Business Tax to total revenue is negligible. The tax collection is Rs.22650 and 0.05 % to total revenue in FY 2011/12. And that is decreasing down to Rs30443 in FY 2013/14. The minimum contribution is 0.03% in FY 2011/12. Again, it is increasing Rs .66613 and 0.10% in FY 2014/15 up to Rs.93115.and 1.19% in FY 2014/15. It may be good source of revenue for Fungling Municipality, if it collects data about the new Business Tax payer through field visit.

This chapter is devoted to the presentation and analysis of contribution of local tax to total revenue of Fungling Municipality Taplejung and opinions about total local tax as well as the composition of local tax through definite course of research methodology. To achieve the stated objective of the study and also to make easier to understand the finding, qualitative as well as quantitative data and information has been analyzed.

4.2 Data Presentation from Empirical Investigation

4.2.1 Introduction

An empirical investigation has been conducted from the experience of the real world in order to find out various aspects of local tax. This chapter analyzes information collected from primary sources, i.e. through questionnaire. The questionnaires were distributed to tax related employees and taxpayers of Fungling Municipality. The major tool used for this purpose is an opinion questionnaire, which was dispatched to 35 persons and responses were collected from 35 persons only. Among them, 25 were tax payer, 5 were tax experts (C.A, tax teacher), and 5 were administrators. The respondents were requested to response on questionnaire by two ways:

- They could response simply by yes or no response

- They could response by selecting one or more options

Table 4.9 Classification of Respondents

The following table shows the number of respondents of different types.

S. N.	Code	Respondents	Sample Size
1.	A	Tax Experts /Administration	10
2.	B	Tax Payers	25
		Total	35

Source: Filed Survey, 2017

4.2.2 Tax as a Suitable Means of Raising Revenue of Local Body

In order to know whether tax as a suitable means of rising revenue of local body, a question was asked; "Do you consider that   the income tax is a suitable means of raising revenue of local body"? The responses are as presented in the table 4.10.

Table 4.10 Taxes as a Suitable Means of Raising Revenue of Local Body

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	10	100	0	0	10	100
B	23	92	2	8	25	100
Total	**33**	**94**	**2**	**6**	**35**	**100**

Source: Field Survey, 2017

Table 4.10 shows that ninety four percent of respondents are in favor of tax as a suitable means of raising revenue and only six percent of respondents do not recognize tax as a suitable means of raising revenue. Hence it can be concluded that tax is suitable source of revenue.

4.2.3 Necessity of Tax Awareness Programs to Public

To know the necessity of tax awareness programs to public, a question was asked; "Do you think tax awareness programs to public is necessary for raising tax revenue of Fungling Municipality?" The responses have been tabulated as table 4.11.

Table 4.11 Necessity of Tax Awareness Programs to Public

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	10	100	0	0	10	100
B	22	88	3	12	25	100
Total	**32**	**91**	**3**	**9**	**35**	**100**

Source: Field Survey, 2017

Table 4.11 shows that ninety one percent of respondents are in support of questions "Do you think tax awareness programs to public are necessary for raising tax revenue of Fungling Municipality And nine percent of respondents were in against the questions. Hence it can be concluded that tax awareness is necessary to public to increase consciousness of the taxpayer.

4.2.4 Attitude towards Tax Collection System

To know whether the tax collection system of Fungling Municipality   is satisfactory, a question was asked as; "Are you satisfy with the tax collection system of Fungling Municipality?" The responses received from respondents are tabulated as Table 4.13:

Table 4.12 Satisfaction towards Existing Tax Collection System of Fungling Municipality

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	6	24	4	76	10	100
B	2	8	23	92	25	100
Total	**8**	**23**	**27**	**77**	**35**	**100**

Source: Field Survey, 2017

 Table 4.12 shows that most of the respondents i.e. seventy seven percent are not satisfied with the existing tax collection system of Fungling Municipality.

4.2.5   Major Problems in Local Tax Collection System

To know the major cause of ineffectiveness of the local tax administration, the respondent ranked according to their aspect. We have given seven option of major cause to be ineffectiveness of the local tax administration in Nepal; they ranked and gave first rank according to their vision. Some respondent had given first rank to "Lack of proper direction" from the administration In order to know the cause of dissatisfaction with the tax collection system of Fungling Municipality, the question asked: "What the major problems are in tax collection system? The respondents were requested to rank their answer from 1 to 7. The table 4.13 shows the response.

Table 4.13 The Major Problems in Tax Collection System

S.N.	Major problems	Group A			Group B			Total		
		Point	%	Rank	Point	%	Rank	Point	%	Rank
1	Inefficient Tax Administrator	27	5.36	6	24	4.60	7	51	4.98	7
2	Complicated Tax Acts, Rules and Regulations	58	11.53	4	115	22.07	2	173	16.89	3
3	Inappropriate Tax Rate	139	27.63	2	151	28.98	1	290	28.32	1
4	Lack of Education to Tax Payer	145	28.82	1	107	20.53	3	252	24.60	2
5	Lack of Training and Incentive to Employee	65	12.92	3	33	6.33	6	71	6.93	6
6	Illegal Activities	44	8.74	5	38	7.29	5	82	8.00	4
7	Practice of Tax Evasion	25	4.97	7	53	10.17	4	78	7.61	5
	Total	**503**	**100**		**521**	**100**		**1024**	**100**	

Source: Field Survey, 2017

The shows that the major cause of ineffectiveness of the local tax administration, the respondent ranked according to their aspect. They ranked and gave first rank according to their vision. Five percent tax expert/ administrator were said that inefficient tax administrator and 4 percent consumer said Inefficient tax administrator.

4.2.6. Sufficiency of Contribution of Tax to Total Revenue

To find out the sufficiency of contribution of tax to total revenue of Fungling Municipality, a question has been asked, "Do you think that the contribution of tax to total revenue of Fungling Municipality is sufficient?" the responses of respondent have been presented on following table 4.14.

Table 4.14 Sufficiency of Contribution of Tax to Total Revenue of Fungling Municipality

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	0	0	10	100	10	100
B	0	0	25	100	25	100
Total	**0**	**0**	**35**	**100**	**35**	**100**

Source: Field Survey, 2017

Table 4.14 shows that 100% of the respondents expressed that contribution of tax to total revenue of Fungling Municipality is not sufficient.

4.3   Major Findings of the Study

The study has focused the role of local tax revenue contribution, trend and composition of local tax of Fungling Municipality. An option survey has been conducted in order to find out the role of tax in local body and other aspects of tax. From the option survey with tax administrators and tax payers and On the basis of data presentation and analysis of secondary data collected from revenue department and budget department of Fungling Municipality. The following findings have been

On the ground of this study as per objectives of this study is as follow:

i.   Tax is suitable sources to raise revenue.

ii.   A public awareness program is necessary to increase tax consciousness and raising the revenue.

iii. Local tax has been considered as suitable resource for the collection of public revenue and mobilizing internal resources.

iv. Inappropriate tax rate, lack of education to tax payer, inefficient tax administration, complicated tax act, rule and regulation etc are the major problem in tax collection system.

v. Defective tax laws, poor enforcement of fine and penalties, defective tax administration, inappropriate tax rate are responsible factor for tax evasion.

vi. Effective utilization of fund and transparency of fund, clear cut rule and regulation, .responsible tax officer, honest tax payer are the factor to enhance the effectiveness of tax system of Fungling Municipality

vii. Distribution of tax to total revenue is not satisfactory though there is a place to enhance the area to charge tax.   Identification of new tax area, regular evaluation and monitoring are necessary to increase the contribution of tax.

viii. Advertisement Tax, Entertainment tax and Environment Taxes may be new area to charge tax to local body.

ix. . Being lack of regular information tax paying habit of people is poor.

x. Most of the businessmen and consumers do not have knowledge about the local tax's rules and regulations etc.

xi. The total revenue is decreasing in FY 2011/12 but Highly increasing in FY 2013/14. However the tax revenue is decreasing in FY 2011/13. In the remaining FY during study period the revenue is in increasing trend. The percentage of contribution of tax revenue is found fluctuating in different years. The contribution of tax revenue to total revenue is maximum 4.28 % in FY 2014\2015 and minimum 1.06% in FY 2010\11.

xii. The contribution portion of non tax revenue to total revenue is also fluctuating during the study period it is increasing highest 98.94% in FY2010\11. It is in decreasing trend up to 98.91%, 96.97%, 95.72%, 94.69% in FY 2013/14 , 2014/15, 2015/16 , 2014\15 respectively.

xiii. Entertainment Tax to contribution total revenue of Fungling Municipality was nil in every FY Fungling Municipality   should to charge this Tax if it collects data about the new Entertainment Tax payer through field visit.

xiv. The contribution of Advertisement Tax to total revenue collection in only 15000 Ruppes in FY 2014\2015. Fungling Municipality   should to charge this Tax if it collects data about the new Advertisement Tax payer through field visit.

CHAPTER-V

SUMMARY, CONCLUSION AND

ECOMMENDATIONS

5.1 Summary of Findings

The study has focused the role of local tax revenue contribution, trend and composition of local tax of Fungling Municipality Taplejung .Nowadays the Nepal Government is heading towards the federal republic country. Economic freedom is the most important condition to get success for this purpose. Especially local government should be independent economically, technically and politically. In this connection the internal source of revenue is more reliable source for the successful operation of any government body.

Government revenue is the composition of external and internal revenue. Internal revenue includes both tax and non-tax revenue. Nepalese tax revenue is the composition of direct and indirect tax revenue. There is dominant role of indirect tax revenue in Nepalese tax revenue structure. Indirect tax revenue contributed three times more than the direct tax. Direct tax revenue is the composition of income tax, land tax, house and land registration tax and other tax. There was dominant role of income tax in total direct tax. However, the contribution of local tax like house and land registration (Malpot), house and compound tax, house rent tax, advertisement tax and other collected by the municipality in the total revenue of government.

The major findings of the study are as follows:

- Local tax has been considered as suitable resource for the collection of public revenue and mobilizing internal resources.

- Inappropriate tax rate, lack of education to tax payer, inefficient tax administration, complicated tax act, rule and regulation etc are the major problem in tax collection system.

- The total revenue is decreasing in FY 2011/12 but highly increasing in FY 2013/14. However the tax revenue is decreasing in FY 2011/13. In the remaining F/Y during study period the revenue is in increasing trend. The percentage of contribution of tax revenue is found fluctuating in different years. The contribution of tax revenue to total revenue is maximum 4.28 % in FY 2014\2015 and minimum 1.06% in FY 2010\11.

- The contribution portion of non tax revenue to total revenue is also fluctuating during the study period it is increasing highest 98.94% in FY2010\11. It is in decreasing trend up to 98.91%, 96.97%, 95.72%, 94.69% in FY 2013/14, 2014/15, 2015/16, 2014\15 respectively.

- Inappropriate tax rate, lack of education to tax payer, inefficient tax administration, complicated tax act, rule and regulation etc are the major problem in tax collection system.

- Defective tax laws, poor enforcement of fine and penalties, defective tax administration, inappropriate tax rate are responsible factor for tax evasion.

5.2 Conclusion

The government of Nepal is not being able to collect necessary revenue to overcome such problems. Due to the poor performance on internal resource mobilization, the government of Nepal has still been dependent on foreign Grants and loans. The dependency is increasing which is not desirable for the economy. Thus some remedial actions should be made in due time by the country to run in the path of economic development. On the basis of the data analyzed and major findings drawn, it can be concluded that there is good prospect of local tax in Taplejung. The total local tax of Fungling Municipality has increased in each year except in Two year. Its contribution to government revenue is not regarded satisfactory comparison to other taxes of Nepal government. Its contribution to the revenue structure of the country is negligible due to various reasons as mention below.

The revenue administration in Nepal is weak because of lack of the tax policies with a clear direction and consistency in a long run perspective lack of information and records, lack of trained staff and heavy dependence on non-technical staff, lack of

proper accounting and auditing system in general for business firms. However, local tax laws and administration in Nepal are to be deeply scrutinized but not properly implemented. Manpower development planning within the administration is desired for the efficiency of tax personnel side by side. Tax educations packages are to be made and initiated hence tax administration and tax compliance could be improved. Due to various problems related to tax, revenue collection form tax is relatively low in Fungling Municipality. For enhancing the social welfare of the people, the problems related to tax system should be solved and revenue should be efficiently utilized.

5.3 Recommendations

On the basis of finding of the study, the following recommendations are made regarding contribution of local tax in increasing total revenue:

- ➤ To increase local tax and eventually total revenue, the effective tax collection policy should be launched in less dominated source like entertainment, vehicle and advertisement.

- ➤ Municipality should mobilize its resources properly for the welfare of the local people.

- ➤ Tax collector also should be well informed and self motivated.

- ➤ People should be encouraged to pay tax voluntarily. A system should be introduced that a tax-paying citizen is entitled to receive more benefits and incentives than non-taxpaying citizen.

- ➤ Property Tax Act, rules and regulation should be made cleared and simple for all taxpayers as well as for all related persons.

- ➤ To make the administration capable of facing new challenges, there should be improvement in professionalism as well as development of new professional ethics compatible to the changed context of liberalization.

- ➤ Tax personnel should be encouraged, punished and transferred on the basis of their work and experience not on the basis of outside pressure.

- ➤ To control the corrupt practice in local administration, the Fungling Municipality should monitor effectively.

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