**CHAPTER Ι**

**INTRODUCTION**

**1.1 Background of the Study**

Nepal is one of the least developed countries of the world with per capital income of 778 US $(CBS,2017) which is lowest in the SAARC country and almost lowest per capital income of the world. Agriculture is the mainstay of the economy. Industrial activity mainly involves the processing of agriculture products. Each and every country likes developed and undeveloped countries want to raise the living standard of the people through various economic activities. Government requires sufficient revenues to carry out development plans, to maintain peace and security and to launch other public welfare activities. In order to carry out such activities the government revenue is normally collected from two sources: Internal source and External sources. External resource can obtain as a loan and grants bilaterally or through international institution. External source of government revenue are uncertain, inconvenient and good for healthy development of nation. In the other hand, internal sources of revenue are certain, convenient and good for economic development of the nation. Internal sources government revenues are tax, fee, and funds revenue from public enterprise, public borrowing etc. Internal source of fund includes both tax and non- tax.

Direct tax is a tax paid by a person on whom it is legally imposed. Direct tax, the person paying and bearing tax is the same. Income tax, Property tax, Vehicle tax, Death and Craft tax are the example of direct tax. An indirect tax is a tax imposed on one person but partly or wholly paid by another. Indirect tax, the person paying and bearing the tax is different. VAT, Sale tax, Hotel tax, Excise duty, and Custom duty are the example of indirect tax.

Non-tax source include different revenue like Gifts, Grants, Revenue from public enterprises, administrative revenue such as registration free, fines and penalties. In Nepal around 70 percent of the government revenue comes from taxation (MoF,2017). Hence tax is a major source of Government revenue. In the context of Nepal, internal sources of taxation play vital role of the economy. It is the backbone of Nepalese economy. It is the pillar of the fiscal policy and Government most imposes taxation to finance various welfare and social services like Education, Health, Communication, Electricity, Transportation, Water, Foods, etc.

Taxes are emphasized on all countries, develop, Underdeveloped and least develop because they have the potential for increasing the field of tax system and achieving system of taxation that satisfies the demand for equality and social justice.

Generally, tax is a compulsory payment made by the individuals or institutions and it is also defined as a levy or other type of financial charge of fee imposed by government on legal entities or individuals. It is a kind or money of which it is the legal duty of every citizen of the country to pay honestly. Tax is computed and paid as prescribed in the law. A tax payer is not entitled to compel the government, while paying taxes, to give something to him in return of the amount he has paid. Taxation can be considered as a convenient method of raising revenue which in turn is linked with the welfare of the people directly or indirectly (Kalauni, 2011).

In developing country like Nepal, government has to spend a lot of money to fulfill its responsibility towards its people. The responsibility may be either for security or for health or education or other developmental activities. In each country, a lot of fund is spent by the public authority for the protection of common people and for the creation of various socio-economic infrastructures. Protection expenditure includes the purchase of arms and ammunition, maintenance of army and police and administration of justice and jail. The expenditure of Nepalese government is increasing year by year because of time, income in population, social progress, war or preparation for war, increase in price, national income and so on.

**1.2 Statement of the Problem**

Nepal is among the poorest and least developed countries in the world, with almost one-quarter of its population living below the poverty line. Besides the country is beset with 25 percent of the population in absolute poverty and half of the labor force either under employed or unemployed (NPC, 2017). Like other developing countries in the world, Nepal has been suffering from resource constraints, mass poverty, rapid growth of population, increasing frictional and seasonal unemployment diseases, aggressive dependent on the agriculture, subsistence living standard and poor infrastructure despite over four decades planned development efforts. In the other hand, Nepal has been facing increasing fiscal deposit due to the continuously growing expenditure and the law revenue performance since its first budget speech in 1951/52. In addition; the country has also been facing the increasing burden of foreign loan. A government needs development with higher economic growth to overcome from such serious problem for which government should have adequate financial resource. In Nepal, resource mobilization is still poor that does not cover the requirements. Nepal has been facing serious problem of resource gap and high dependency on foreign-donation and loan. Resource gap has expenditure of government of Nepal has been increasing at a further rate then the increasing in revenue. To meet the growing national expenditure government manages its funds from internal and external sources. Such external sources are uncertain, inconvenient and not good for health development in case of high dependency. It is better to mobilize internal source rather than expecting with foreign donors. Thus, to raise the government revenue, it is necessary to raise its internal sources of revenue. Internal sources of revenue constitute the tax and non- tax revenue.

 Nepalese government revenue is totally based in taxation revenue and has adopted various policies to strengthen the revenue structure of Nepal. Internal source of revenue is the main source. Tax revenue is one of the internal sources of government revenue. But, there exists lack of proper implementation of different tax policies. Besides this, because of the lack of knowledge about tax, the public always take paying tax as burden for them. Another problem are creating obstacle on the revenue collection which also minimize the country’s economic development.

 Nepal is a developing country. It has been facing the most serious economic problem from the beginning of its development phase to present time. It needs huge amount of capital for economic development of Nepal. Despite the various measures adopted by the government to boost revenue collection there is still a substantial resource gap between expenditure and revenue. The rate of government expenditure is exceeding the rate of growth on revenue collecting almost every year. The budget deficit has been growing and it may have negative effect in the economy. In this context, taxation can be taken as means for resolving this problem by mobilizing additional resource from the domestic resources, small part of total incomes under the preview of direct and indirect tax. On the other hand, there is no agreement as regards to the use of tax method of taxing corporation method and rate of depreciation, use of appropriate type of tax incentive, treatment of tax on inflation. Such problem in developing country generates more indirect tax and less direct tax etc. Similarly, it is very difficult to find tax liability to the government that how much tax can be collected from the certain topic. So it is really being problem for overall nation.

For the economic development of the country, contribution of direct tax is more essential rather than indirect tax, but the main tax structure of Nepal is dominated by indirect tax. Among the direct tax, income tax plays the significant role but it is not pleasurable to quote that the contribution of income tax to the national revenue is very low in Nepal. To increase its contribution to national revenue, many research and analysis should be conducted in the field of tax, but the studies and research work is lacking in the area of income tax. So to identiFY the problem and to overcome them and to improve income taxation, study in the field of income tax is essential. To raise government revenue there is necessary to raise its internal resources of revenue. An internal resource of revenue includes tax and non-tax revenue. Revenue mobilization, foreign grants and loan, domestic borrowings and change in cash reserve are used as fiscal instruments for financing government expenditure.

The study addresses the following research questions:

1. What is the actual contribution of direct and indirect tax in revenue collection in GDP, total revenue and total tax revenue?

2. What is the awareness of tax payers?

**1.3 Objectives of the Study**

We know every task is done with certain objectives. Objectives are the destination point of every plan and work. Every tasks start with the particular objectives. So we also have certain objectives of this study. The main objective of this study is to give a slightest look into theoretical knowledge of direct and indirect tax and its implementation in Nepalese context.

The specific objectives of the study are as follows:

1. To find out the contribution of direct and indirect tax in GDP, total revenue and total tax revenue of Nepal.
2. To find out awareness about direct and indirect tax by consumers and business man.

**1.4 Significance of the Study**

This study is done for analyzing the structure of revenue collection from direct and indirect tax in Nepal. The computed ratio of direct and indirect tax to Gross Domestic Product, Total revenue, Tax revenue with the help of historical data will evaluate the effectiveness of direct and indirect tax in Nepal. So, research is significant in the sense that it will so the trend of direct and indirect tax revenue collection in Nepal.

In developing countries like Nepal, only making act is not solution to maximize tax collection. Its implementation monitoring and its evaluation, to find out peoples view are also a part of solution for improving tax system. Income tax act is the key factor of government's revenue generation. So, this study attempts to call government and policy makers to solve and frequent change in income tax act and aware people about income tax and encourage them to pay tax. This study can find out the difficulties of Income Tax Act, its implementation and its impact on revenue collection system as well as its benefit or contribution on national economy.

Sources of government of Nepal are very limited due to poor and least-developed condition. The government expenditure is increasing but the income of the government is not increasing side by side as compare to expenditure. So the government is facing deficit budget, every year. The deficit financing increases the share of internal as well as external debt. For the payment of internal as well as external debt tax revenue is the main source of government revenue. Income tax is a major component of tax revenue and it will also helpful to make equitable society by equitable distribution of wealth. Balance regional economic development is also possible through the provision of income tax. The government should charge higher rate of income tax on the income from urban area and less rate of income tax on the income from rural area. It has become an effective instrument to ensure balanced socio-economic growth (Dahal, 2013).

**1.5Limitations of the Study**

The study has the following limitations:

1. Major sources of data were secondary sources. But some sources of data were also primary data.

2. Reliability of the secondary data has not been tested.

3. Limited business organizations, tax offices, tax exports and payers were consulted to collect primary data.

4. The research covers the secondary data from FY 2006/07 to FY 2015/16only.

**1.6 Organization of the Study**

The first chapter deals with introduction. This includes background of the study, statement of the problem, objective of the study, significance of the study and limitation of the study. The second chapter reviews different books, dissertations, related articles and journals. The third chapter focuses on the research methodology. In this chapter, the facts like type of research conducted, research design, how data are collected, what kinds of data are used for research purpose and how the data processing and analysis is done. The fourth chapter is presentation and analysis of data used in the study. In this chapter, the secondary data collected from various sources have been presented in a systematic format such as table, charts and figures. These collected have been analyzed by using different mathematical, statistical and analytical tools. Further. The major findings of the study also have been presented.The fifth chapter summaries conclude the whole study and offers suggestion for further improvement. After completion of these five chapters, a list of literature reviewed earlier is included alphabetically in references. Likewise, data, information, calculation sheet, etc. are incorporated in appendixes.

**CHAPTER II**

**REVIEW OF LITERATURE**

In developing countries like Nepal, only making act is not solution to maximize tax collection. Its implementation monitoring and its evaluation, to find out peoples view are also a part of solution for improving tax system. Income tax act is the key factor of government's revenue generation. So, this study attempts to call government and policy makers to solve and frequent change in income tax act and aware people about income tax and encourage them to pay tax. This study can find out the difficulties of Income Tax Act, its implementation and its impact on revenue collection system as well as its benefit or contribution on national economy (Kalauni, 2011).

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**2.1International Review**

**2.1.1 Theoretical Review**

Okafor (2012)explored that the impact of income tax revenue on the economic growth of Nigeria as proxies by the gross domestic product (GDP). Ordinary least square regression method was adopted by the researcher to explore the relationship between GDP as proxy for economic growth and a set of federal government income tax revenue heads from 1981 to 2007. However the researcher found that there is positive relationship between tax revenue and economic development in Nigeria and significant relationship between income tax revenue and money supply.

ADB (2009)concluded that the strong revenue growth of Nepal has come mostly from increased income tax collection, which has now, for the first time exceeded custom revenue. The significant strides made in revenue collection are largely attributed to introduction of important tax reforms and improvement in tax administration, including implementation of a performance based incentive system for tax offices/officers, strengthening the large tax payers office with information technology based tax returns filing and payment systems and overall strengthening of the tax monetary and audit system. The new one-off voluntary declaration of income source (VDIS) campaign and reduction in the property rent tax rate has also helped to improve revenue mobilization.

McGee (2008)studied about interested-adjusted income tax and interest adjusted profit tax. He further states that Croatia was the first country in the world to fully accept the consumption accepts in the field of direct taxes in the alternative form the interest-adjusted income tax and interest-adjusted profit tax. Advocates of consumption as the appropriate claim that income as a tax base discriminates saving, which is taxed twice first as being part of the income that is taxed by income tax and second as capital income that is the part of the comprehensive income of the next period. Saving and investment escape this double taxation in consumption based income and profit taxes, where the METR (marginal effective tax rate) is zero.

Sophia and Gamboa (2001) focused on Ireland’s corporation income tax and individual income tax responsiveness towards GDP and interest rate and found that there is a highly sensitive relation of income tax to interest rate and GDP by a 2.5percent to 1 percent ratio with GDP and 0.014 percent to 1 percent ratio with interest rate.

Kuo (2000)used the following mathematical form for estimating the income tax revenue, the logarithm of real individual income tax was regressed with logarithm of real CPI as Ln(income tax)=a+bLn (CPI) and the study concluded with a positive relationship between real CPI value and the income tax collection in china. This model was further used to estimate tax revenue in china.

Zeitlhofer (1999)analyzed about the macroeconomic relation between Australian income tax collection and interest rate in the Australian economy from 1982 to 2002 using Dicky-Fuller test and distributed lag model and tested for the causal relationship between income tax and interest rate using Granger-Causality test and concluded that interest rate Granger causes income tax in the long run.

Goode (1986)studied about the importance of taxation and has explained that taxation diverts the economic resources from taxpayers to the state for its own use. Taxation not only restraints total spending by households and individuals but influences the allocation and affect the distribution of income and wealth. The level of taxation of a country is measured by the ratio of tax revenue to GDP, which is determined by the demand for government expenditure, the availability and willingness to use non tax source of finance, including borrowing and money creation and taxable capacity. The taxable capacity primarily depends on the percapita income in excess of the subsistence level and ability of government to collect taxes depend on administrative effectiveness. The actual tax ratio reflects both taxable capacity and tax efforts.

Goode (1984) analyzed the objectives of fiscal policy are the promotion of income disparities between households and regions the promotion of economic stability and economic efficiency and the increase of host country returns from natural resource endowments. The primary purpose of taxation is to divert control of economic resources from tax payers to the state for its own use of transfer to others. Taxation not only restrains total spending by household and enterprise but influences the allocation of economic resources, recognizes social costs that are not reflected in the market prices and affects the distribution of income and wealth.

Khetan and Poddar (1976)analyzed on measurement of income tax progression in a growing economy: the Canadian experience with respect to the Canadian personal income tax, it is found that over the period 1961-1971. The average amount of personal income tax collection was regressed with the changes in the price level and different income heads using indexing factor. The indexing factor was for income tax was calculated from the consumer price index data in accordance with income tax regulations. This model estimated income tax revenues with a very high degree of accuracy and examined how these effects are altered by indexing the tax for changes in the price level using CPI.

Schmidt (1959)explained about the relationship between federal income tax collection with money supply and inflation separately by using ADF test for stationary and ARDL test for co-integration. He concluded that there is a complex and intricate significance relationship between the studied variables in the long run.

**2.1.2Empirical Review**

Gale (2014) examined how changes to the individual income tax affect long-term economic growth. The result revealed that the changes in the level of revenues and change in the structure of the tax system can influence economic activities, but not all tax changes have equivalent, or even positive, effective on long-term growth. The argument that income tax cuts raise growth is repeated so often that it is sometimes taken as gospel. However, theory, evidence and simulations studies tell a different and more complicated story. Tax cuts offer the potential to raise economic growth by improving incentives to work, save, and investment. But they also create income effect that reduces the need to engage in productive economic activity, and they may subsidize old capital, which provides windfall gain to asset holders that undermine incentives for new activity. In addition, tax cuts as a stand-alone policy (i.e. not accompanied by spending cut) will typically raise the federal budget deficit. The increases in the deficit will reduce national saving and with it, the capital stock owned by citizens and future national income and raise interest rates, which will negatively affect investment. The net effect of the tax cuts on growth is thus theoretically uncertain and depends on both the structure of the tax cut itself and the timing and structure of its financing.

Cremer, Gahvari and Ladous (2010) studied the properties of two alternative tax structures to the current graduated tax system in France. The comparisons are based on a calibrated and simplified model of French economy containing four types of households with CES preferences. It has found that the switch to a flat tax leads at best to a small (and possible negative) welfare improvement unless the inequality aversion index for the society is extremely high. On the other hand, moving to an optimal general income tax improves welfare over the current system tremendously. To generate this, tem marginal income tax rates in France that are currently set to increase with income should be replaced with one that is U-shaped.

Sanchirico (2008) established that – as a practical matter – inconsistency between motivation and measurement does indeed make a difference. Taxpayers at different levels of income do not, in fact, realize a similar proportion of their earning potential. Indeed, such differences may be substantial enough to be a decisive factor in assessing the effectiveness and adequacy of tax reform. Such was the case during 1990s, the period studied in this article, when the taxation of labor income became more progressive on paper, but less progressive in effect due to counteracting changes in the pattern of labor income realization.

Chaudhary and Hamid (2001) focused to identiFY shortcomings in the tax revenue collection in Pakistan. For this purpose, elasticity of different taxes was estimated. Partial adjustment and regression model were estimated to qualiFY the values for these elasticity’s. Short-run and long-run elasticity’s for direct and indirect taxes were identified. The result indicated that long-run revenue elasticity’ were significantly above unity, which is not very satisfactory for a developing country. It should be well above unitary value. Moreover, tax to base elasticity’ of custom and excise duty was significantly less than unity. Besides, sales tax is also not in full operation. Most of the revenue reliance is on indirect taxes, which is not a very healthy sign for the economic growth and its burden on the society. It means that main tax burden is on the poor. It is on the face that more than 30percent people are living below the poverty line. These finding have important bearings for the policy makers. There is a need to broaden the tax base, improvement upon direct taxes, indirect taxes and rationalize sales tax.

Chaudhary and Altaf (1995) identified in the drawbacks of the estimates provided by different studies regarding potential for agricultural income tax. Besides, the reliability of their result was to be judged by methodology used and quantity of the data utilized in the studies conducted so far. It was aimed to identiFY tax burden by different income classes and by regions, which have not been done by any study so far. The study reveals that there is a good potential for income tax revenue from agriculture. Besides it could be further improved. Since the government needs every paisa to fill in the deficit gap of budget and debt repayment, therefore, it will be an additional source of public revenue which needs to be explored.

Jantracher and Bire (1992) suggested three some ingredients that are necessary for a successful tax administration reform in developing countries. First, the tax structure usually needs to be simplified for ease of compliance to the administration. Second, a reform strategy suitable to the specific circumstances of country must be developed. Finally and overall, there must be a strong political commitment to the improvement of tax administration and best-designed efforts.

Sicat and Virmani (1988) produced a comparative view of the structure of personal income taxes in developing countries, based on a simple methodology which takes account of standard deduction and relative family incomes, on the basis of per capita GDP measurement. The marginal tax rates for the poorest developing countries were substantially lower than those for the upper-middle-income countries and were not found to be significantly different from that of the lower-middle-income countries. The marginal rates for the upper-middle-income countries were, in turn, substantially lower than for the developed countries included as comparators.

Agrawal (1978) found that buoyancy of income tax with respect to GDP for period FY 1967/68 to FY 1975/76 is 2.18 and elasticity is 2.01. he has further identifies that the main defects of the income tax administration as failure to locate new tax payers, to maintain the accounts, delay in assessment, poor tax payers compliance, evasion and avoidance of tax and defective management.

Mansfield (1972) examined two major problems (a) what was the elasticity of the system and its components and how is the size of the elasticity coefficient explained? And (b) what was the buoyancy of the system relative to its elasticity? He found the elasticity coefficient of total tax system was 1.14 and elasticity of different tax heads such as import duties 7.21, income tax 1.08, wealth tax 1.52 and export taxes had a low elasticity of 0.06. Whereas the buoyancy coefficient had measured 1.69 which implies that 1 percent change in GDP will bring out 1.14 percent change in total tax and remaining 0.55 percent change in total revenue due to discretionary changes.

**2.2 National Review**

**2.2.1 Theoretical Review**

Khadka (2015) showed that SAARC countries provide some allowances under their individual income tax regimes. These allowances are fixed amounts and are deducted from the total income before it is taxed. For example, basic allowance is most common under individual income tax of the SAARC countries. It is simply a slice of the income received free of tax by every taxpayer. The level of basic allowance is AFN 60,000 in Afghanistan, BDT 220,000 in Bangladesh, Nu 100,000 in Bhutan, INR 250,000 in India, MVR 500,000 in the Maldives, NPR 250,000 in Nepal, PKR 400,000 in Pakistan and LKR 400,000 in Sri Lanka. Afghanistan, Bhutan and Sri Lanka have one level of basic allowance for all. Nepal has a higher basic allowance for married couples (NRs.300,000), compared to individuals (NRs.250,000). Bangladesh and India provide higher basic allowance to senior citizens. In Bangladesh, basic allowance for senior citizens above 65 years is BDT 275,000, for disabled persons BDT 350,000, for war wounded freedom fighters BDT 400,000, and for others BDT 220, 000.

Dahal (2013) conducted that unnecessary exemption and rebates announced by government annually through Finance Act have created difficulties for tax administration to implement the income tax law effectively. High earning groups are in one way or other using such provisions to reduce their tax liability. Weak tax administration and improper PFM are major causes of low tax compliance. Corruption has discouraged people to pay tax resulting in further corruption on the part of non-state agents through tax evasion. Forms to be filled up by taxpayers are not as simple they need. This has resulted in requirement of using middleman resulting in more transaction cost. Through IRD since its establishment in 2002has been undertaking different campaigns to increase tax compliance it has not been able to get good results out of its effort.

Sharma and Duwali (2013)presented major compliance issues and incentives for compliance enhancement, which are law registration in income tax and vat. There is no supportive environment for compliance. There are no any new policy and tax rates for the last one year. Large no of case pending in Revenue Tribunal and huge amount of tax dues can be seen there. Similarly, there is problem of tax fraud, data mismatch, under invoicing and none invoicing. This study also includes some incentives for compliance enhancement, which are announcement of tax system reform year, implantation of 5 year strategic plan and 3 year reform plan, Human resource management plan prepared, celebration of National Tax Day along with that revenue research and forecasting unit established, Online taxpayer service system has been introduced.

Bharati (2012) identified some problems of tax administration i.e. tax system in Nepal. His key objectives are to examine the income tax administration system in Nepal, to find out the course of corruption in Nepal and to know the difficulties in the process of assessing income tax under ITA 2002. Similarly he focused on the ways and means of enhancing tax consciousness and on the contribution of income tax in government revenue. This study concluded that there are Complicated Act, rules and regulation, defective income tax administration, corruption and evasions as well as lack of consciousness among tax payers are the main problems of income Tax administration system in Nepal. Similarly corruption and lack of trained personnel is the other problems lying within tax administration. According to him no corruption, trained personnel and awareness to taxpayers are the key requirements for better tax administration.

Kadel and Lamsal (2012)embraced sufficient numerical examples and questions, changed provision of the Act. A new chapter covering the problems related to resident and non-resident is added as per the demand of the teachers and students. It is updated as per the Finance Act, 2010. He has described about historical background, income tax act, rules and administrative aspects, house and land tax but has not shown problems related to income tax. Due to numerous changes and not availability of amended acts in English, the present edition of the book has not been able to update the act and so it is dropped out.

Shrestha (2012) identified economic problems and causes of low tax collections. His main objectives are to review the tax collection system findings and to find out the contribution of tax to national revenue, to find out the problems in tax collection system. Following are the main findings made by the study are income tax is the suitable means of raising government revenue, Public awareness program is necessary to increase tax consciousness and raising the government revenue. Similarly this study show that mass poverty and low income level, increasing habit of tax evasion, inefficient income tax administrations etc. are the major reasons for the low contribution of income tax to national revenue and lengthy process, vague provision in income tax laws, consuming unnecessary time etc. are the major problems facing by the taxpayer while paying the tax.

Bhatta (2011) analyzed that Nepal is one of the least-developed countries surrounded by two fastest growing Asian economies, India and Republic of China. Nepalese economy is suffering from ineffective, effortless and over ambitious plans, programs and policies. Moreover, Nepal is even today fighting against whatever bottleneck identified before the starting of planned period. With the change in time, challenges for Nepalese economy also increase. Apart from other economic problems, Nepal has to face the following problems: low responsiveness and productivity of tax yields, indirect tax dominated tax structure, low tax effort ratio, narrow tax bases, weak tax administration, rigid and complex tax laws and procedures, lack of strong commitment of policy maker and administrator to implement sound tax policy and most importantly lack of political instability.

Bhattrai and Koirala (2011) presented the description of tax laws and tax planning. A simplified version of Income Tax Act 2001. He has presented theoretical as well as practical aspect on taxation in this book. This book is useful to anyone who is interested in the subject of taxation. This book is also helpful to research work. The aim of writing this book is to provide the readers with basic knowledge of general principles and practices of tax law in Nepal and to develop in them basic skills to handle the tax matter in the text has been presented in a very simple and clear manner for better understanding of the law.

Devkota (2011)conducted that mass poverty and low income level, increasing habit of tax evasion, inefficient tax administrations are the major reasons for the low contribution of income tax to national revenue. Clear act, rules and regulation, ineffectiveness of tax administration are the most important instruments for effectiveness of income tax in Nepal. Progressive tax rate is considered as the suitable means of tax and lengthy process, vague provision in income tax laws, consuming unnecessary time are the major problems facing by the tax payer while paying the tax in Nepal.

Timilsina (2011) tried to explain about the tax evasion behavior of taxpayers. People in developing countries like Nepal have greater propensity to evade taxes. Lack of proper measurement of tax assessment, Nepal is facing the problem tax evasion. Because of this, resources have not been mobilized efficiently and resource gap is increasing each year in Nepal Public Finance. His main objectives of the study are to analyze the structure of income tax in Nepal, examine the income tax evasion tendency in Nepal and draw suggestion for the elimination of income tax evasion in Nepal. There is a serious problem of financial resources gap in Nepalese economy. It was 41.69 percent during FY 1975/76 and increased to 53.35 percent during FY 1985/86. It needs to be controlled in time; otherwise it may create a greater problem in national economy. The composition of tax and non-tax revenue is still less satisfactory in Nepal. There were 79.14 percent tax and 20.86 percent non-tax contribution during FY 1985/86.More than 83 percent tax contribution is supposed to be appropriate here in Nepal. Income tax evasion has a decreasing trend in Nepal. There was 107.39 percent income tax evasion in FY 1975/76 and reduced to 58.47percent in FY 1979/80. In an average there is 54.70 percent income tax evasion in Nepal. He has suggested to the government for timely correct the problems of resource gap through by increasing tax coverage through different programs and legal action should be taken towards tax evaders and corruption on the part of tax administration.

Bhattarai (2010) highlighted some problems in implementation of Income Tax Act 2002. His study based on the objectives of finding problems of income tax law, need of reform in income tax system and contribution of income tax in national economy. He finds that there is problem in rules regarding income tax. According to his study complicated tax law, illegal business activities, support of auditors in tax evasion, weak record system of tax administration, social recognition of tax evaders, no belief of people in proper use of tax, unnecessary exemptions and deductions are major problems regarding income tax law. Similarly he suggested that income tax policy should be formulated based on the economic policy of the nation. Policy maker should pay attention on widen tax base to fill the resource gap but ability to pay principle should not be ignored. Along with that he suggested that right and duties should be defined for tax administrators and reward, punishment and promotion should be tied up with the performance of personnel and awareness raising campaign should be increased.

Jabara (2010) discussed that the major constraints existing in the tax system is lack of simplicity and transparency. With an extremely limited tax base, low tax elasticity, relatively higher tax rates, poor voluntary compliance, inefficient tax administration, rigid and incomprehensive tax laws and regulations. The lack of strong political commitment, administrative capability and recording system are the major problems in the implementation of local tax. Furthermore lack of proper accounting and auditing, indifference attitude among tax official and weak appeal system have also been hindrances for the proper functioning of Nepalese tax system.

As a member of WTO, SAFTA and BIMSTEC, Nepal has a binding constraint to lower custom duties will decline in widening resource gap. Similarly, the major issues overpowering taxation are that the overall tax system of Nepal is inelastic in nature. Direct taxes have smaller elasticity in comparison to direct taxes, which indicates taxes are responsible for sluggishness of tax yields.

Lastly mentioned, that for the overall improvement in tax system is to constitute the Central Revenue Board for streamlining overall tax structure by examining its inbuilt structural problem in relation to its organizational structure, method of assessment and tax collection procedure and administrative, technical and judicial complexity of revenue administration.

Karki (2010) found that tax education is most necessary in Nepal to increase the tax consciousness of tax payers. Self-assessment method is more appropriate for Nepal while assessing income tax. Similarly income tax evasion is the major problem of Nepal for income tax generation and income tax administration is not efficient for tax collection. He recommended there should be respected behavior for tax payer and quality service should be maintained to increase the contribution of income tax to Inland Revenue of Nepal. Training and career development should be provided to the tax personal time to time and also tax administration should be free from political pressure.

Rijal (2010) pointed out some problems regarding tax law's implementation. His focus was on tax planning however findings and recommendations are useful in better implementation of income tax law in Nepal. Main objectives of his study are, to compare the past and present application of tax planning in Nepal so as to point out its degree of reform and to examine all the obstacles and challenges which are breaking the modernization path of tax planning. Similarly his study focused on the contribution of tax assess as well as government and tax authorities for enhancing the tax planning. This study concluded that there are problems of tax evasion and avoidance. There is lack of adequate incentives, facilities, rebates, grants etc. Training opportunities to tax officers as well as tax payers are very poor, record keeping system is also very weak and there is lack of motivation for tax personnel. He has concluded his study with the suggestions of maintain up to date taxpayer registration, increase income tax coverage by bringing affluent taxpayers into tax net by using the legal and promotional means and techniques and Strictly enforce the registration of non-resident and non-citizen tax payers. Similarly, fixing target to tax offices in terms of increasing the number of meaningful taxpayers and strengthen co-ordination with other agencies and offices within the tax system are major recommendations.

Shrestha (2010) found that level of income tax collection has been rising. Income tax system of Nepal is suffering from various problems such as narrow tax coverage, mass poverty of Nepalese people, and lack of conscious taxpayers, inefficient tax administration, instability in government policy, etc.

Wasti (2010) found that income tax system of Nepal is not sound and efficient, basically inefficient tax administration, practice of tax evasion and lack of awareness of tax payers. Tax education is most necessary to increase the tax consciousness of tax payers and honest tax officers. It is essential to make tax act more clear so that tax payers and tax officers may not get confused. Similarly rules and regulations are the most important factor for the effectiveness of income tax in Nepal. Lack of trained and competent tax personnel, complicated tax laws and undue delay in making assessment are the most important causes of ineffectiveness of Nepalese tax administration.

Dahal (2009)written that in developing economies, resource gap is critical and widening resulting to huge fiscal and budgetary deficits. The growing resource gap is frequently of by mobilizing internal and external borrowings consequently shifting the burden of debt to prosperity. In addition, legal base of taxation is compressed with limited tax shelters and tax administration lacks innovative mechanism to identiFY new tax payers and bring them in to tax net. The tax system suffers from structural constraints tremendous administrative and procedural complexity envisaged in the existing Income Tax Act which lacks simplicity and transparency. The author points out the major problems of taxation in Nepal as marginally high tax rates, limited tax base, low tax elasticity, poor voluntary compliance and inefficient, indifferent and corrupt tax administration.

The studies and reports on taxation exhibit that several reform have had been under taken by the government in the past to simpliFY and modernized the tax system. The reform in taxation in Nepal consists of three types which are; reformation in tax laws and regulations, reformation in environment and reformation in tax administration.

Shrestha (2009) mentioned that income tax is the suitable means of raising government revenue, Public awareness program is necessary to increase tax consciousness and raising the government revenue. Similarly this study show that mass poverty and low income level, increasing habit of tax evasion, inefficient income tax administrations etc. are the major reasons for the low contribution of income tax to national revenue and lengthy process. Vague provision in income tax laws, consuming unnecessary time etc. are the major problems facing by the taxpayer while paying the tax.

Neupane (2007)showed that contribution of income tax to total tax revenue has decreased from 23.93 percent to 20.83 percent in the FY 1999/00 to FY 2007/08. It may be due to the collection of the property tax by municipalities. But it is not only the cause; emphasis should be given to the income tax collection. To facilitate tax collection, Inland Revenue Department has implemented e-tads, e-pan and e-filing for the better tax compliance. There is provision of tax plate also. But the frequent change in the act decreases tax compliance which is a major drawback of instable political condition.

Khadka (2005) focused on the human resource development of tax administrators. He also gives new ideas on tax administration to reform it such as computerization and autonomous revenue improvement of tax administration in Nepal.

Mallik (2003)explained Income Tax Act, 2002 with explains wherever necessary. The author has presented the complex Act in simple and lucid manner so that it will be easy to understand the act. He has shared his expertise in his book. His book is descriptive and analytical. All the provisions in the act have been clarified in simple language. The author has also clarified why some of the tax exempted amounts have been brought into tax net by the new Act. In some cases he has also compared the provision of the old Act and the new Act.

**2.2.2 Empirical Review**

Timilsina (2007) concluded that the automatic response of tax to income is low. Compare to the period FY 1975/76 to 1994/95, the elasticity coefficients of tax during review period (FY 1975/75 to 2008/09) did not reveal significant differences. The buoyancy and elasticity of income tax during the study period was 1.37 and 0.41 respectively. This study has further concluded that only the discretionary measures cannot generate more revenue freeware. Improvement in tax administration to control the leakage and to broaden the tax bases in practice is important for enhancing the elasticity of the tax.

Neupane (2005) concluded that tax/GDP ratio in Nepal is very nominal as compared to the same ratio in neighboring SAARC and other developing countries. He has also concluded that income tax is the main component of direct tax and its contribution direct tax and total tax revenue is 78.78 percent and 19.02 percent respectively. He has further said that for the economic betterment of the nation, additional internal financial resource mobilization should be strengthened and more should be generated from internal resources. Along with that planned development efforts, political stability, and liberal economy may be the means for such resource mobilization.

Amatya, Pokharel and Dahal (2004) defined all the terms relating to income tax and value added tax. The examples that are presented in this book are very useful to readers to know more about provisions and procedures of the Income Tax Act 2002.

Dahal (2003) addressed the narrow tax base, low tax elasticity, higher burden of indirect tax compared to direct tax lack of voluntary compliance, wide spread tax evasion, leakage’s etc. as main constraints of Nepalese tax system. Including income from agriculture sector, income from domestic industries, social sector and electricity sector, which contributes 52 percent of total GDP, is exempted from income tax. This report has suggested that about 40 percent extra resource mobilization is possible if proposed tax policy and program took place.

Poudel (2002) explained that within the direct tax, income tax is the largest source, which contributed more than 86 percent in FY 1999/00. The contribution of income tax to direct tax has increased significantly since its introduction. The elasticity and buoyancy coefficient of income tax has been found to be 0.16 and 1.36 respectively during the period FY 1975/75 to 1999/00. This shows that Nepalese income tax is very inelastic and there are minimum chances for further discretionary changes.

Dahal (2000) explained has explained that the contribution of income tax to total revenue was 7.8 percent in FY 1975/76 and in 1999/00 it was 14.5 percent. This study has explained that the income tax rates and slabs have been changed radically in recent years. Under new Income Tax Act, 2002, individual income tax is levied with low rates of 15 percent and 25 percent and the corporate income tax is levied with single rate of 25 percent. For bank and financial institutions income the rate is 30 percent of taxable income.

Das (1995) tried to compare the tax and non-tax revenue productivity of Nepal. The elasticity coefficient of tax and non-tax revenue for the study period were 0.98 and 1.02 respectively, while that of buoyancy coefficient were 1.77 and 1.53 respectively, indicates that the discretionary changes made over tax revenue was comparatively more effective than non-tax measures.

Nepal (1995) mentioned that the overall elasticity of total revenue in Nepal’s tax structure for the period FY 1968/69 to FY 1992/93 was 0.64 and Nepalese revenue structure as a whole was regressive in nature. He reveals that the income tax elasticity was less than total revenue due to exemption of agriculture income from tax-net which leads narrow tax base and due to high evasion caused by loopholes on tax laws. But, the buoyancy coefficient of for the total tax revenue was 1.16 during the study period. However, elasticity of income tax was 0.48 in study period.

Gurugharana (1993) found that the elasticity coefficient of total revenue as 0.49 for the period FY 1974/75 to FY 1983/84 and 0.58 for the period FY 1974/75 to FY 1988/89. For the same period, buoyancy coefficients were 1.36 and 1.28 respectively. Except for contract tax (1.89) and sales tax (1.05) the elasticity of remaining taxes i.e. custom, excise, income, hotel, entertainment, land revenue, etc. were extremely low (far below unity) of negative. But low elasticity had shown that the government engaged in imposing high rate on a taxed commodities and regressive nature of tax system.

Pant (1991) measured tax elasticity as 0.495 for the period FY 1974/75 to FY 1983/84 and other hand tax buoyancy has declined to 1.28 in the period FY 1974/75 to FY 1983/84from 1.37. During the period elasticity of custom, excise, and import have improved but elasticity of income contract and hotel tax has declined indicating that efforts to raise revenue through discretionary measures were unproductive.

Dahal (1984) studied various aspects of Nepalese tax structure for the period FY 1952/53 to FY 1981/82 in general and FY 1964/65 to FY 1981/82 in particular. In this period the overall elasticity of the total revenue is equals almost unity (1.01), for indirect, it was marginally higher than unity (1.02) compared with elasticity of direct tax (0.68) and elasticity of tax revenue was 0.92 reflecting the tax system less responsive to change in income. But the buoyancy coefficient for the same time period were 1.54 for total revenue, 1.52 for tax revenue, 1.63 for indirect taxes and 1.23 for direct taxes.

Agrawal (1980) found that the elasticity and buoyancy coefficient different tax heads with respect to GDP. For the period FY 1967/68 and FY 1975/76, income tax has the highest elasticity of 2.18 followed by sales taxes 1.74, excise tax 1.28, land tax 0.12 and custom duties 0.08. Since both the elasticity and buoyancy coefficients of income tax were greater than unity, which implies that the income tax of Nepal was positively responsive to change in GDP. The coefficient of buoyancy was 2.18 and the difference between buoyancy and elasticity was 0.17, which implies that the one percent change in GDP will bring about 2.01 percent changes in total revenue due to discretionary measures.

IDS (1978) reported that the elasticity of the Nepalese tax system was extremely low in comparison with the buoyancy for the period FY 1974/75 to FY 1984/85. The report has indicated that the government had concentrated only introducing the tax base. This study shows the elasticity of tax revenue 0.86 and buoyancy 1.35. Similarly the report found the elasticity of direct tax and indirect tax to be 0.66 and 0.93 respectively. Within these taxes, the elasticity of sales tax, excise duty, import duty, export duty and income tax were reported at 1.00, -0.33, 0.56, 0.66 and 1.06 respectively. Among them, elasticity of indirect tax was more than that of direct tax among all taxes: sales tax was highest (1.75) followed by income tax (1.49), excise tax (1.43), import duty (1.24), export duty (-0.030), whereas the buoyancy of all taxes except export duty was unitary.

Reejal (1976) explained that Nepalese tax structure, as a whole was fairly elastic, with elasticity coefficient 1.82 and buoyancy coefficient 2.18 respectively for that study period by using Proportional Adjustment method of Shahota. This study has indicated that the Nepalese tax structure as a whole was elastic. This study found that the income tax to be highly elastic 4.39 which was highest among all the tax categories. The buoyancy of income tax for the study period was 3.13. The different between buoyancy and elasticity coefficient of income tax for the period was -1.26. The tax system as a whole had buoyancy of 2.18 compare to elasticity of 1.28 which indicates the positive impact of legislative change on the revenue productivity of the tax system.

**2.3 Research Gap**

The gap between government expenditure and internal resource is known as resource gap. In Nepal, internal resource mobilization is still poor due to resource constraints, mass poverty, rapid growth of population, aggressive dependence on agriculture, etc. and it is not sufficient to cover the growing expenditure. Mobilization of internal resource through income taxation is one of the vital solutions for more revenue collection.

There is gap between this research and the previous research, most of the previous researcher have focused the contribution of various income in the government revenue, structure of the government revenue and the income tax from various sources etc. but this thesis has tried to find out the collection of revenue from direct and indirect taxation in Nepal since 2006/07 with covering 10 years data. Various studies have been done on the topic of revenue collection from direct and indirect tax, but no one has given focus on mobilization of resource and trend analysis through direct and indirect tax. This research focused previous analysis and future trend analysis to compute elasticity and buoyancy of direct and indirect tax in Nepal and it has also focused problem and prospects in such field.

Many individuals and institutions have studied different aspects of tax system in Nepal such as legal, administrative and historical. But all of them are found theoretical-oriented and there is no any practical significance. However, all of them help to understand the theoretical concept of direct and indirect income tax in Nepal.

**CHAPTER III**

**RESEARCH METHODOLOGY**

**3.1 Research Design**

This study is based on descriptive method using primary and secondary data. To assess the structure of income tax, the data from FY 2006/07 to FY 2015/16 have taken into consideration. This study analyzes the structure of income tax in Nepal using descriptive method to describe the data, illustrating the data in tables, graphs and charts for clarity of the available data and information.

This research has been analytical and descriptive in design using historical data to assess the current role of income tax in resource mobilization internally and to explore some potential areas for additional domestic resource mobilization through income taxation to fill the gap of resource deficit in Nepalese economy.

**3.2 Population and Sampling**

 In order to benefit this study, 100 sample sizes from Kathmandu valley is selected. Persons included in the sample are carefully selected by consultation with the tax experts, tax administrators and tax payers. The respondents have been divided in to three groups i.e., tax administrators, experts and tax payers.

**3.3 Nature and Sources of Data**

 In order to achieve the real and accurate result in this research, both primary as well secondary data have been collected but most of the data and information used in this study are based on secondarydata.

**3.3.1 Primary Sourcesof Data**

The primary data have been collected from the responses of person relating to income tax representing from the various sector of Kathmandu valley. For this purpose, structured questionnaire has included the question relating to specific objectives of direct and indirect tax in Nepal. Major problems of direct and indirect tax system, remedy to minimize tax evasion existed in Nepalese income tax administration, causes of ineffectiveness of the income tax administration, the most important factor for effectiveness of income tax system including necessary suggestions for achieving effectiveness of income tax in Nepal. To get the accurate and actual information total 100 questions were distributed to selected respondents of different groups such as tax administrators, tax experts and tax payers. Set of 25 questionnaires each were distributed to tax administrator and tax expert and at least 15 questionnaire each were collected, again 50 questionnaires were distributed to tax payers among them all questionnaires were collected for the purpose of analysis. The following table shows the questionnaires distributed and collected for each group of respondent:

**Table 3.1**

**Questionnaires Distributed and Collected for Each Group of Respondents**

|  |  |  |
| --- | --- | --- |
| **Group of Respondents** | **Questionnaires Distributed** | **Questionnaire Collected** |
| Tax Administrators | 25 | 15 |
| Tax Experts | 25 | 15 |
| Tax Payers | 50 | 50 |
|  | 100 | 80 |

**3.3.2 Secondary Sources of Data**

The secondary sources of data are the information received from books, journals, newspaper, reports and dissertations etc.

 The major sources of secondary data are as follows:

* Economic Surveys and Budget Speeches of Ministry of Finance (MoF)
* Reports and Records of Inland Revenue Department (IRD),Ministry of Finance (MoF)
* Published Documents of National Planning Commission and Nepal Rastra Bank (NRB)
* Rajaswa, Revenue Administration Training Centre, Kathmandu
* Theses and dissertations
* National Newspapers, Journals, News Magazines
* Other Published and Unpublished Reports, Journals and Articles on the concerned subject, etc.

**3.4 Data and Information Collection Procedures**

Data and information are used in this study has collected from the primary and secondary sources. In primary source, a total 100 sets of questionnaire are developed and distributed to the selected respondents. Distribution is done personally through field visits rather than sending by any means to get accurate and actual information in time. The questionnaires are administered in personal meeting with the respondents and additional information is also collected from interview with the respondents.

**3.5 Data Analysis Procedures**

The useful data and information are collected from various reliable sources. These data and information are firstly processed for tabulation and analysis purpose. Available data are tabulated into separate tables and format as per requirements of the subject matter. Tabulated data are analyzed by using simple statistical tool such as average; percentage etc. and they have been presented and analyzed in descriptive way. Graphs, Charts and diagrams are also presented to interpret visually the findings of the study.

**3.6 Data Presentation and Analysis Tools**

As data analysis is very important task to the researcher, researcher must be very careful to use the tools to analyze the data, while choosing the tools; researcher must choose the best one as it can show the clear picture of the data and its finding.

In order to analyze and interpret the collective data after necessary adjustments various financial as well as statistical tools have been used. Brief explanations of such tools have been presented below:-

1. **Table Method**: Various tables are formulated to tabulate the data. A matter table is also presented in the appendix.
2. **Simple Percentages**: It is the most popular tool to analyze the data in research work. As it is easy to understand the data in the percentage form most of the data in the research work are used in the percentage form.
3. **Simple Average**: It also next popular tool in data analysis work. Which gives the information about the data in average?
4. **Graphs, Charts and Diagrams**: These tools are used for visually description of the data, trend line, bar diagrams are used for the purpose. It helps to understand about the data easily to everyone even to the uneducated people.

**CHAPTER IV**

**PRESENTATION AND ANALYSIS OF DATA**

This is the fourth chapter which is the most important in the thesis writing. The main body of the thesis is presentation of the collected data and also its analysis. Here we are showing the data presentation and analysis of collection of revenue from direct and indirect taxation in Nepal. This is the major part of the study. It aims to make clear understanding about contribution of direct and indirect tax in total revenue collection of the Nepal.

**4.1 Tax Structure of Nepal**

Every government is responsible to perform numerous as well as welfares activities for the betterment of the people and for the purpose of developing country. So, for that reasons government needs huge amount of fund to fulfill various types of expenditure. For this purpose taxes play vital role to the economic development of Nepal. Generally, the government collecting revenue is classified into two categories;

* Tax Revenue and
* Non – Tax Revenue

**4.1.1 Structure of Total Revenue**

Total revenue in Nepal is collected of both tax revenue and non- tax revenue. These both sources are subject to non- repayment and their sum constitute the government or public revenue. And beside these sources, government has other sources which are subject to repayment such as loans and however grants are not compulsory repaid these sources are desirable only to meet these fiscal defects.

Nepalese economy is characterized by a law revenue performance in contrast to the growing public expenditure. The trends and composition of tax revenue and non- tax revenue of Nepalese government is presented in a table 4.1, from the FY 2006/07 to 2015/16 at a table given below. The table shows that the share of tax revenue has always been greater than the share of non- tax revenue. In FY 2015/16, the share of tax revenue and non- tax revenue is 86.47 percent and 13.53 percent respectively as compared with 77.97 percent and 22.03 percent in FY 2006/07. This indicates that the tax revenue has been placed as major source of government revenue in Nepal. The table is shown as follows:

**Table 4.1**

**Collection of Tax and Non- Tax Revenue in Total Revenue of Nepal**

(Rs. in million)

|  |  |  |  |
| --- | --- | --- | --- |
| **Fiscal Year** | **Total Revenue** | **Tax Revenue** | **Non- Tax Revenue** |
| **Amount** | **PercentCompared with the Total Revenue** | **Amount** | **PercentCompared with the Total Revenue** |
| 2006/07 | 50445.6 | 39330.6 | 77.97 | 11115.0 | 22.03 |
| 2007/08 | 54538.9 | 40896.0 | 74.99 | 13642.9 | 25.01 |
| 2008/09 | 62331.0 | 48173.0 | 77.29 | 14158.0 | 22.71 |
| 2009/10 | 70122.7 | 54104.7 | 77.16 | 16018.0 | 22.84 |
| 2010/11 | 72282.1 | 57430.4 | 79.45 | 14851.7 | 20.55 |
| 2011/12 | 87712.2 | 71126.7 | 81.09 | 16585.5 | 18.91 |
| 2012/13 | 107622.5 | 85155.5 | 79.12 | 22467.0 | 20.88 |
| 2013/14 | 143474.5 | 11705.2 | 81.58 | 2642.26 | 18.42 |
| 2014/15 | 179945.8 | 156294.9 | 86.86 | 23650.9 | 13.14 |
| 2015/16 | 199818.7 | 172777.6 | 86.47 | 27041.1 | 13.53 |
| Average | 102829.49 | 84234.13 | 80.20 | 18595.31 | 19.80 |

Sources: Economic Survey, MoF, 2016.

Table 4.1 shows that he composition of tax revenue and non- tax revenue in total revenue structure. It can be seen that revenue collection trend in increasing trend. Since the FY 2006/07 to the FY 2015/16 the revenue has increased from Rs.50445.6 million to Rs.199818.7 million. Similarly tax revenue as well as non tax revenue is also increasing trend. Total tax revenue has increased from Rs. 39330.6 million to Rs.172777.6 million in FY 2006/07 to 2015/16. It is the main source of revenue collection. Its contribution is always higher than non-tax revenue. Similarly non tax revenue has also increased from Rs.11115.0 million to Rs.27041.1 million in FY 2006/07 to 2015/16. But the non tax revenue collection in 2007/08is decreased to Rs.14851.7 million, after that it is in the increasing trend.

The tax revenue collection is seen to be in gradually increasing trend. The contribution portion of non tax revenue to total revenue is fluctuating during the study period. The collection of non- tax to total revenue is maximum 25.01percent in FY 2007/08. The contribution of tax and non- tax revenue on total tax revenue is shown in the following diagram:

**Figure 4.1**

**Trend Line Showing Total Revenue, Tax Revenue and Non- Tax Revenue**

Source: Based on Table 4.1

Figure 4.1 shows that three trends lines which are total revenue, tax revenue and non- tax revenue. It is clear that upper line is total revenue which is ascending upward. Middle is tax revenue it is higher than non tax revenue which is represented by lower line. So, total revenue is combination of tax and non- tax revenue.

**4.1.2 Collection of Direct and Indirect Tax on Total Tax Revenue in Nepal**

Tax revenue is the main source of government revenue. Total tax revenue is divided broadly into Direct tax revenue and Indirect tax revenue. Direct tax revenue includes income tax, property tax, interest tax, gift tax, vehicle tax, expenditure tax, contract tax etc. whereas, Indirect tax revenue is composed of taxes like sales tax, VAT, entertainment tax, passenger tax, hotel tax, import tax, export tax, excise duty etc.

The structure of Nepalese tax revenue is presented in given below table, in term of direct tax revenue and indirect tax revenue from the FY 2006/07 to 2015/16. From the table below, it is clear that the whole Nepalese tax structure is dominated by indirect tax revenue.

**Table 4.2**

**Collection of Direct and Indirect Tax on Total Tax Revenue**

(Rs. in million)

|  |  |  |  |
| --- | --- | --- | --- |
| **Fiscal Year** | **Total Tax****Revenue** | **Direct Tax** | **Direct Tax** |
| **Amount** | **percentCompared with Total Tax Revenue** | **Amount** | **percentCompared with Total Tax Revenue** |
| 2006/07 | 39330.6 | 10597.5 | 26.94 | 28733.1 | 73.06 |
| 2007/08 | 40896.0 | 8414.8 | 20.58 | 32481.2 | 79.42 |
| 2008/09 | 48173.0 | 11912.6 | 24.73 | 36260.4 | 75.27 |
| 2009/10 | 54104.7 | 13071.8 | 24.16 | 41032.9 | 75.84 |
| 2010/11 | 57430.4 | 13968.1 | 24.32 | 43462.3 | 75.68 |
| 2011/12 | 71126.7 | 18980.3 | 26.69 | 52146.4 | 73.31 |
| 2012/13 | 85155.5 | 23087.7 | 27.11 | 62067.8 | 72.89 |
| 2013/14 | 117051.9 | 34320.7 | 29.32 | 82731.2 | 70.68 |
| 2014/15 | 156294.9 | 41746.4 | 26.71 | 114548.5 | 73.29 |
| 2015/16 | 172777.6 | 41466.6 | 24.00 | 131311.0 | 76.00 |
| Average | 80694.1 | 21756.7 | 25.5 | 62477.5 | 74.54 |

Source: Economic Survey,MoF, 2016.

Table 4.2 shows that the completely Nepalese tax is dominated by indirect tax revenue during this study period, tax share of direct tax in total tax is increasingsimultaneously before FY 2007/08, but FY 2007/08, direct tax has decreased by 11.92 percent the previous FY because of instability of government and political conflict in the country. FY 2007/08 to 2015/16, revenue from direct tax is at increasing rate. The maximum share of direct tax into the total revenue during the FY 2013/14 remained at 29.32 percent (i.e. Rs.34320.7million). Similarly, share of indirect tax revenue is found fluctuating in different year. The composition of indirect tax revenue to total tax revenue is maximum 79.42 percent on FY 2010/11. From FY 2010/11 to 2014/15, indirect tax revenue percentages are seems to be same. After 2007/08, it is in the decreasing trend and in the FY 2010/11; it came up to 70.68 percent, which is minimum till our study period.

The composition of direct tax revenue is maximum Rs.41746.4 in FY 2011/12 and minimum is 20.58 percent in FY 2007/08. The average contribution of indirect tax and direct tax is74.54 percent and 25.5 percent respectively, during the study period.

Therefore, on the basis of available data for the study, contribution of direct tax is on increasing trend till FY 2010/11 then decreasing and contribution of indirect tax is on decreasing trend from the FY 2008/09 to 2012/13. These seem that government is trying to create good status of country among other country. The contribution of direct and indirect tax revenue on the total tax revenue is shown in the following bar diagram.

**Figure 4.2**

**Direct and Indirect Tax on Total Tax Revenue**

Source: Based on Table 4.2

From the above figure, it is clariFY that the completely Nepalese tax structure is dominated by indirect tax revenue on comparison with direct tax. Indirect taxation with a dominant role in tax structure, it is not good symptom of economic development because in the developed country direct tax would be highest portion than indirect tax. It is not happening for few years but every year, indirect tax is always one step front than direct tax. In the FY 2012/13 the share of direct tax is Rs.41466.6 million and of indirect tax is Rs.131311.0 million, which is 24 percent and 76 percent respectively, shared of the total tax revenue.

**4.1.3 Structures of Direct Tax Revenue in Nepal**

Income tax, House & Land registration tax and Vehicle tax are the major sources of Direct Tax in the context of Nepal. Table no. 4.1.3 shows the share of major components of direct tax:

**Table 4.3**

**Major Source of Direct Tax and their Relative Percentage to Direct Tax**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Fiscal Year** | **Direct Tax Revenue** | **Income Tax** | **House, Land Registration** | **Vehicle Tax** |
| **Rs.** | **Totalpercent** | **Rs.** | **percent of DTR** | **Rs.** | **percent of DTR** | **Rs.** | **percent of DTR** |
| 2006/07 | 10597.5 | 100 | 8903.7 | 84.02 | 1131.8\* | 10.68 | 562.0\*\* | 5.30 |
| 2007/08 | 8414.8 | 100 | 6771.4 | 80.47 | 1178.1 | 14.00 | 465.3 | 5.53 |
| 2008/09 | 11912.8 | 100 | 9514.7 | 79.87 | 1697.5 | 14.25 | 700.6 | 5.88 |
| 2009/10 | 13071.8 | 100 | 10466.1 | 80.07 | 1799.2 | 13.76 | 806.5 | 6.17 |
| 2010/11 | 13968.1 | 100 | 10939.4 | 78.32 | 2181.1 | 15.61 | 847.6 | 6.07 |
| 2011/12 | 18980.3 | 100 | 15731.8 | 82.88 | 2253.5 | 11.87 | 995.0 | 5.25 |
| 2012/13 | 23087.7 | 100 | 19077.8 | 82.63 | 2940.7 | 12.74 | 1069.2 | 4.63 |
| 2013/14 | 34320.7 | 100 | 27247.4 | 79.39 | 5223.4 | 15.22 | 1850.0 | 5.39 |
| 2014/15 | 41746.4 | 100 | 33814.6 | 81.00 | 5581.5 | 13.37 | 2350.3 | 4.63 |
| 2015/16 | 41466.6 | 100 | 36283.3 | 87.50 | 3455.6 | 8.33 | 1727.8 | 4.17 |
| Average | 21756.7 | 100 | 17875.0 | 81.6 | 2744.2 | 12.00 | 1137.4 | 5.40 |

 (Rs. in million)

Sources: Economic Survey, MoF, 2016.

🞿 Land revenue has been included

🞿🞿 Urban house and land tax have been included

 Now, these are not government revenue.

Table 4.3 shows that the income tax occupied the largest share in the direct tax revenue. The percent share of income tax to direct tax in FY 2006/07is 84.02 percent amounting Rs.8903.7 million. After FY 2006/07 the share of income tax percentage are decreasing trend but amount of income tax is increasing trend. In FY 2012/13 Income tax is 87.50 percent amounting Rs.36283.3 million which is highest share of in the direct tax revenue during this study period. Again FY 2007/08 Income tax share is only Rs.6771.4 million, which is the lowest share amount of this study period. The average share of income tax revenue, house and land registration and vehicle tax were 81.6 percent, 12.00 percent and 5.40 percent amounting Rs.17875.0 million, Rs.2744.2million and Rs.1137.4 million in this study period. The major portions of direct tax cover by income tax that’s why to increase the volume of direct tax we must focus in the income tax. The percentage of vehicle tax to direct tax is found to be very lower in comparison to income tax and House & land registration tax.

We can present this data in the form of Bar Diagram also:

**Figure 4.3**

**Income Tax, House, Land Registration and Vehicle Tax on DT**

 Source:Based on Table 4.3

Figure 4.3 shows that the composition of direct tax. Above bar diagram shows that in every year income tax revenue is in increasing trend. So, it is the major source of Direct tax. Similarly house, land registration and vehicle tax also seems to increasing trend but this increasing trend is very low than income tax. So, we conclude that income tax play the important role to increase the direct tax.

Average amount of components of direct tax is shown:

**Figure 4.4**

**Average Composition of Direct Tax**

Source: Based on Table 4.3.

Data shows that the average composition of Direct tax. We can see that pie chart, income tax’s share is highest 81.6percent, House & land registration tax share is 12.00percent and Vehicle tax is only 5.40percent, which is very low comparison than income tax and house and land registration tax revenue. Above pie chart shows that income tax covered the maximum area, so we can conclude that income tax is the major component of Direct tax.

**4.1.4 Structure of Indirect Tax**

The major sources of Indirect tax are: - Custom duties, Excise duties and VAT. In the context of Nepal, Indirect tax is the major source of tax revenue. In other hand Nepalese tax structure is mainly dependent on indirect taxes which contributed 76.0percent of total tax revenue in FY 2015/16. The major component of indirect tax is VAT which covered the maximum share of indirect tax. After that, custom duties play the second position and excise duties share is very low than VAT and Custom duties. Custom duty has been classified mainly into import duty and export duty and Indian excise. Value Added Tax components are selling and distribution tax, tourism, import and production etc. Table 4.4 shows the major sources of indirect tax revenue, which is given below:-

**Table 4.4**

**Major Sourcesof Indirect Tax andtheir Relative Percentage to Indirect Tax**

(Rs. in million)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Fiscal Year** | **Indirect Tax Revenue** | **Custom Duties** | **Excise Duties** | **VAT** |
| **Rs.** | **Total percent** | **Rs.** | **percent of DIRT** | **Rs.** | **percent of IDTR** | **Rs.** | **percent of IDTR** |
| 2006/07 | 28733.1 | 100 | 12658.8 | 44.06 | 3807.0 | 13.25 | 12267.3 | 42.69 |
| 2007/08 | 32481.2 | 100 | 14236.4 | 43.83 | 4785.1 | 14.73 | 13459.7 | 41.44 |
| 2008/09 | 36260.4 | 100 | 15554.8 | 42.9 | 6226.7 | 17.17 | 14478.9 | 39.93 |
| 2009/10 | 41032.9 | 100 | 15701.6 | 38.27 | 6445.9 | 15.71 | 18885.4 | 46.02 |
| 2010/11 | 43462.3 | 100 | 15344 | 35.3 | 6507.6 | 14.97 | 21610.7 | 49.73 |
| 2011/12 | 52146.4 | 100 | 16707.6 | 32.04 | 9343.2 | 17.92 | 26095.6 | 50.04 |
| 2012/13 | 62067.8 | 100 | 21062.5 | 33.93 | 11189.6 | 18.03 | 29815.7 | 48.04 |
| 2013/14 | 82714.7 | 100 | 26792.9 | 32.39 | 16220.9 | 19.61 | 39700.9 | 48.0 |
| 2014/15 | 114548.5 | 100 | 35143.49 | 30.68 | 24479.0 | 21.37 | 54926.0 | 47.95 |
| 2015/16 | 131311.0 | 100 | 38080.2 | 29.00 | 27575.3 | 21.00 | 65655.5 | 50.00 |
| Average | 62477.5 | 100 | 22128.2 | 36.24 | 11098.0 | 17.38 | 29689.5 | 46.38 |

Sources: Economic Survey, MoF, 2016.

Note:

1. Custom duties include import + export + Indian excise refund + others.
2. Excise duties include industrial products specially alcohol and tobacco.
3. VAT includes sales tax, tourism, production, import, contract and consultation and other service.

Custom Duties, Excise Duties and VAT on Indirect Tax Revenue has been shown in Figure 4.5:

**Figure 4.5**

**Custom Duties, Excise Duties and VAT on IDT**

Source: Based on Table 4.4

Figure 4.5 reflects that the VAT and Custom duty occupied major position in indirect tax. In FY 2006/07 the contribution of custom duty is 44.06 percent, which is maximum percent in this study period. After 2006/07, share of custom duty is decreasing trend and it is 29.0 percent in FY 2012/13. The average percentage collection of custom duty to indirect tax is 36.24 percent during this study period. This bar diagram shows that share of VAT is fluctuating, in FY 2006/07, its share is 42.69 percent. And in FY 2012/13 its share is highest in this study period which is 50.0 percent. The average percentage collection of VAT is 46.38 percent, similarly average percentage of excise duty is 17.38 percent.

The researcher can conclude that the VAT is the major source of indirect tax revenue collection. It is fluctuating trend which contributed 42.69 percent in FY 2006/07 and percentage of maximum contributed is 50.04 percent in FY 2008/09. The average of VAT contribution is 43.86 percent during the study period.

Average amount of components of indirect tax is shown as pie chart:

**Figure 4.6**

**Custom Duties, Excise Duties and VAT on IDT**

Source: Based on Table 4.4

Figure 4.6 shows that average highest contribution is from VAT which is 46.38percent, next is Custom duty which is 36.24percent and excise duty having 17.38percent share only, which is lowest percentage in this study period. This pie – chart also shows that the VAT is the major component of Indirect tax revenue collection during this study period.

**4.1.5 Contribution of Direct Tax in GDP, Total Revenue and Total Tax Revenue**

The contribution of direct tax on GDP, Total revenue and Total tax revenue is shown below:

**Table 4.5**

**Contribution of Direct Tax in GDP, Total Revenue and Total Tax Revenue**

(Rs. in million)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Fiscal Year** | **Direct Tax Revenue** | **GDP at Basic Prices (Current)** | **Total Revenue** | **Total Tax Revenue** | **percent of DT in GDP** | **percent of DT in Total Revenue** | **percent of DT in Total Tax Revenue** |
| 2006/07 | 10597.5 | 430397 | 50445.6 | 39330.6 | 2.46 | 21.01 | 26.94 |
| 2007/08 | 10105.8 | 460325 | 56229.7 | 42587.0 | 2.19 | 17.97 | 23.73 |
| 2008/09 | 11912.6 | 500699 | 62331 | 48173.0 | 2.38 | 19.11 | 24.73 |
| 2009/10 | 13071.8 | 548485 | 70122.7 | 54104.7 | 2.38 | 18.64 | 24.16 |
| 2010/11 | 13968.1 | 611118 | 72282.1 | 57430.4 | 2.28 | 15.32 | 24.32 |
| 2011/12 | 18980.3 | 676210 | 87712.2 | 71126.7 | 2.81 | 21.63 | 26.68 |
| 2012/13 | 23087.7 | 756756 | 107622.5 | 85155.5 | 3.05 | 21.45 | 27.11 |
| 2013/14 | 34320.7 | 910160 | 143474.5 | 117051.9 | 3.77 | 23.92 | 29.32 |
| 2014/15 | 41746.4 | 1203066 | 179945.8 | 156294.9 | 3.47 | 23.20 | 26.71 |
| 2015/16 | 41466.6 | 1391547 | 199818.7 | 172777.6 | 3.00 | 20.75 | 24.00 |
| Average  | 21756.7 | 623488.8 | 102829.49 | 80694.1 | 2.64 | 20.30 | 25.77 |

Sources: Economic Survey, MoF, 2016.

Total tax revenue = direct tax revenue + indirect tax revenue

Total revenue = Tax revenue + Non tax revenue

Table 4.5 shows that the contribution of direct tax on GDP is 2.46 percent in FY 2006/07. After that it seems average level contribution till 2008/09. After 2008/09, contribution of direct tax on GDP is increased. In FY 2010/11, the contribution of direct tax on GDP is maximum, which is 3.47 percent. After FY 2008/09, Direct tax contribution is in decreasing trend. In FY 2015/16, its contribution is only 3.0 percent. Above table shows that contribution of Direct tax on GDP is very low. Similarly, the contribution of direct tax on total revenue is fluctuated. In FY 2009/10, its contribution is 21.01 percent and 20.75 percent in FY 2015/16. The average contribution to total revenue is 20.30 percent. Maximum contribution of direct tax to total revenue is 23.92 percent in FY 2013/14 and minimum is 15.32 percent in FY 2010/11.

The contribution of direct tax on total tax revenue is maximum 29.32 percent in FY 2013/14. Its contribution is 26.94 percent in FY 2009/10. After that it is fluctuated trend. In FY 2010/11, the contribution of direct tax on total tax revenue is very low, which is only 23.73 percent. The average contribution of direct tax to total tax revenue is 25.77 percent during this study period.

From the above table we conclude that the Total Revenue, Total tax Revenue and GDP are maximum in the FY 2013/14 compared to past years. The average contribution of direct tax to total revenue, total tax revenue and GDP is 20.30 percent, 25.77 percent and 2.64 percent respectively during this study period.

**4.1.6 Contribution of Indirect Tax in GDP, Total Revenue and Total Tax Revenue**

We can show the contribution of Indirect tax to GDP, Total Revenue and Tax revenue from this following table:

**Table 4.6**

**Contribution of Indirect Tax in GDP, Total Revenue and Total Tax Revenue**

(Rs. in million and percentage)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **FISCAL YEAR** | **Indirect Tax Revenue** | **GDP at Basic Prices (Current)** | **Total Revenue** | **Total Tax Revenue** | **percent of IDT in GDP** | **percent of IDT in Total Revenue** | **percent of IDT in Total Tax Revenue** |
| 2006/07 | 28733.1 | 430397 | 50445.6 | 39330.6 | 6.67 | 56.95 | 73.06 |
| 2007/08 | 32481.2 | 460325 | 56229.7 | 42587.0 | 7.05 | 57.76 | 76.27 |
| 2008/09 | 36260.4 | 500699 | 62331 | 48173.0 | 7.24 | 58.17 | 75.27 |
| 2009/10 | 41032.9 | 548485 | 70122.7 | 54104.7 | 7.48 | 58.52 | 75.84 |
| 2010/11 | 43462.3 | 611118 | 72282.1 | 57430.4 | 7.11 | 60.13 | 75.68 |
| 2011/12 | 52146.4 | 676210 | 87712.2 | 71126.7 | 7.71 | 59.45 | 73.31 |
| 2012/13 | 62067.6 | 756756 | 107622.5 | 85155.5 | 8.22 | 57.67 | 72.89 |
| 2013/14 | 82731.2 | 910160 | 143474.5 | 117051.9 | 9.09 | 57.65 | 70.66 |
| 2014/15 | 114548.5 | 1203066 | 179945.8 | 156294.9 | 9.53 | 63.66 | 73.29 |
| 2015/16 | 131311.0 | 1391547 | 199818.7 | 172777.6 | 9.50 | 65.72 | 76.00 |
| Average | 62477.5 | 748688.8 | 10282.5 | 80694.1 | 7.48 | 59.57 | 74.23 |

Sources: Economic Survey,MoF, 2016.

Total tax revenue = direct tax revenue + indirect tax revenue

Total revenue = Tax revenue + Non tax revenue

Table 4.6 shows that the contribution of indirect tax on GDP is 6.67 percent in FY 2009/10. This table shows that the contribution of indirect tax on GDP is very low, so it must be increased. Its contribution is maximum in FY 2014/15, which is 9.53 percent. Indirect tax contribution on GDP is same level till in FY 2011/12, after that itsseems in increasing trend. The contribution of indirect tax to total revenue is fluctuated. Its contribution is 50.95 percent in FY 2009/10. In FY 2015/16, its contribution is 65.72 percent, which is maximum during this study period. The average contribution of indirect tax on total revenue is 59.57 percent.

On the other hand, the contribution of indirect tax on total tax revenue is 73.06 percent in FY 2009/10. The maximum contribution of indirect tax to total tax revenue is 76.27 percent in FY 2010/11 and minimum is 70.66 percent in FY 2013/14. The average contribution of indirect tax revenue to total tax revenue is 74.23 percent, where average amount of contribution of indirect tax on total revenue and total tax revenue is Rs.10282.5 millions and Rs.80674.1millions during this study period.

**4.1.7Collection of Total Revenue in Nepal**

Target and collection of national revenue are given in the following table:

**Table 4.7**

**Target and Collection of Total Revenue**

(Rs. in thousands)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Types of Revenue** | **Target** | **Collection** | **Collectionpercent** | **Collection of Last Year** | **Growth Rate** |
| Total Revenue | 179213050 | 179945820 | 100 | 143474489 | 25 |
| Non – Tax Revenue | 28967410 | 23650898 | 82 | 22892174 | 3 |
| Tax Revenue | 150245640 | 156294922 | 104 | 111092373 | 41 |
| Indirect Tax | 104447640 | 114544749 | 110 | 82731168 | 38 |
| Direct Tax | 45798000 | 41750183 | 91 | 34320739 | 22 |
| PrincipalReturn | 4058000 | 1953951 | 48 | 3530408 | -45 |

Source: Yearly Report,2015/16,IRD.

Table 4.8 shows that the target total revenue is Rs.179213050 thousands and actual collection is 100 percent amounting Rs.179945820 thousands. Target non-tax revenue is Rs.28967410 thousand and actual collection is 82 percent amounting Rs.23650898 thousands. On the other hand the target tax revenue is Rs.150245640 thousands and actual collection is 104 percent amounting Rs.156294922 thousands. Target indirect tax revenue is Rs.104447640 thousands and actual collection is 110 percent amounting Rs.114544749 thousands. Target direct tax revenue is Rs.45798000 thousands and actual collection is 91 percent amounting Rs.41750183 thousands. Target principal return is Rs.4058000 thousands and actual collection is only 48 percent amounting Rs.1953951 thousands.

Above table cleared that targets are success except principal return and non- tax revenue. Non- tax revenue collected only 82 percent and Principal return collected only 48 percent. Otherwise it seems success to collect its target amount.

**4.1.8 Structural Composition of Corporate Income Tax**

Corporate income tax is a considerable source of public revenue. It is calculated by adding all the allowable expenses the corporate tax base is explained and presented in the preceding sub chapter. In Nepal there is not adequate reconciliation system of the corporate income. The government set target about revenue collection. The tax administrators are required to meet the target only. Therefore the government target is most important rather than corporate profits. But now days, the concept of self-assessment system has been accepted in income tax Act. 2058. After the enactment of income tax act 2058, the books of account of corporate sector have been kept a little bit differently from the income tax is computed by adding public and private income tax including individual and sole trading income and other institutions too. The following table has been drawn corporate income tax from the FY 2009/10 to 2015/16.

**Table 4.8**

**Structure Composition of Corporate Income Tax**

(Rs. in million and percentage)

|  |  |  |  |
| --- | --- | --- | --- |
| **Fiscal Year** | **CITR** | **Total** | **Corporate Income Tax** |
| **Public Sector** | **percent** | **Private Sector** | **percent** |
| 2006/07 | 3181.3 | 100 | 1769.3 | 55.62 | 1412.0 | 44.38 |
| 2007/08 | 2487.3 | 100 | 1251.0 | 50.30 | 1236.3 | 49.70 |
| 2008/09 | 3587.9 | 100 | 2056.6 | 57.32 | 1531.3 | 42.68 |
| 2009/10 | 3800.2 | 100 | 1332.4 | 35.06 | 2467.8 | 64.94 |
| 2010/11 | 3600.0 | 100 | 195.7 | 5.44 | 3404.3 | 94.56 |
| 2011/12 | 6736.8 | 100 | 1019.7 | 15.14 | 5717.1 | 84.86 |
| 2012/13 | 7391.1 | 100 | 204.6 | 2.77 | 7186.5 | 57.23 |
| 2013/14 | 10384.1 | 100 | 959.0 | 9.24 | 9425.1 | 90.76 |
| 2014/15 | 13366.4 | 100 | 1131.9 | 8.47 | 12234.5 | 91.53 |
| 2015/16 | 15249.8 | 100 | 1206.0 | 7.91 | 14043.9 | 92.09 |
| Average | 6978.5 | 100 | 1112.6 | 24.73 | 5865.9 | 75.27 |

Source: Economic Survey,MoF, 2016.

Table 4.8 reveals the structure of total corporate income tax revenue as well as other income tax of Nepal. The table shows the total corporate income tax revenue including public sector income tax and private sector income tax revenue to the government of Nepal during the FY 2009/10 to 2015/16. The public sector contribution is 55.62 percent in FY 2009/10, while the private sector contribution is 44.38 percent in FY 2009/10.

The researcher can see this table that the major portion of corporate income tax revenue is covered by private sector after FY 2008/09. The share of private sector is 94.56 percent in FY 2010/11 amounting Rs.3404.3 million but amount is maximum in FY 2015/16, which is Rs.14043.9, million and its contribution percentage is only 92.09 percent. Above table shows that average contribution of private sector to total corporate income tax revenue is Rs.5865.9 million, which is 75.25 percent.

On the other hand, public sector corporate income tax revenue is in decreasing trend after FY 2009/10. Its contribution to total corporate income tax is maximum in FY 2011/12, amounting Rs.2056.6 million and its contribution is 57.32 percent only. Similarly its contribution is minimum in FY 2010/11 amounting Rs.195.7 million and its contribution is 5.44 percent only. Public sector average contribution to total corporate income tax revenue is Rs.1112.6 million, which is 24.73 percent.

**Figure 4.7**

**CITR and its Composition**

Source: Based on Table 4.9

Figure 4.7 shows that the composition of total corporate income tax revenue with its major components. In X- axis shows the different year and Y- axis shows the revenue collection of different year. We can conclude that major portion of total corporate income tax is covered by private sector.

**Figure 4.8**

**Composition of CITR**

Source:Based on Table 4.9.

Figure 4.8 showsthat the CITR and its major components: private sector and public sector respectively. This trend line shows that CITRis mostly fluctuated during this study period. There is heavy distance between Private sector and Public sector, which is shown the above trend line. This indicates that public sector is decreasing and private sector is in increasing trend.

**4.1.9 Contribution of Corporate Income Tax Revenue on Income Tax Revenue**

Corporate income tax, individual’s income tax, employment, interest tax and others taxes are the major components of Income Tax Revenue. Income tax revenue includes all these taxes, when the income tax revenue is calculated. The size of income tax revenue largely depends upon the size of corporate sector. CITR in Nepal has played a vital role in income tax revenue because higher the size of corporate sector higher will be the CITR and total income tax revenue and vice versa. Following table shows the contribution of CITR to total income tax revenue:

**Table 4.9**

**Contribution of Corporate Income Tax Revenue on Income Tax Revenue**

(Rs. in million)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Fiscal Year** | **Income Tax** | **Total percent** | **Corporate Income Tax** | **Total CITR** | **percent** |
| **Public Sector** | **percent** | **Private Sector** | **percent** |
| 2006/07 | 8903.7 | 100 | 1769.3 | 19.87 | 1412.0 | 15.86 | 3181.3 | 35.73 |
| 2007/08 | 8131.9 | 100 | 1251.0 | 15.38 | 1236.3 | 15.20 | 2487.3 | 30.58 |
| 2008/09 | 9514.7 | 100 | 2056.6 | 21.61 | 1531.3 | 16.09 | 3587.9 | 37.7 |
| 2009/10 | 10466.1 | 100 | 1332.4 | 12.73 | 2467.8 | 36.31 | 3800.2 | 49.09 |
| 2010/11 | 10939.4 | 100 | 195.7 | 1.97 | 3404.3 | 31.12 | 3600.0 | 32.91 |
| 2011/12 | 15731.8 | 100 | 1019.7 | 6.48 | 5717.1 | 36.34 | 6736.8 | 42.82 |
| 2012/13 | 19077.8 | 100 | 204.6 | 1.07 | 7196.5 | 37.67 | 7391.1 | 38.74 |
| 2013/14 | 27247.4 | 100 | 959.0 | 3.52 | 9425.1 | 34.59 | 10384.1 | 38.11 |
| 2014/15 | 33811.5 | 100 | 1131.9 | 3.35 | 12234.5 | 36.18 | 13366.4 | 39.53 |
| 2015/16 | 41725.4 | 100 | 1206.0 | 2.89 | 14043.9 | 33.66 | 15249.8 | 36.54 |
| Total | 185548.8 | 100 | 11126.2 | 88.87 | 58668.8 | 293.02 | 69784.9 | 381.8 |
| Average | 18554.9 | 100 | 1112.6 | 8.89 | 5866.9 | 29.30 | 6978.5 | 38.18 |

Source: Economic Survey,MoF, 2016.

Table 4.9 shows that the contribution of CITR to income tax revenue seems to be fluctuated. Its percentage is decreasing trend but amount is in increasing trend, after FY 2011/12. Contribution of CITR to income tax revenue in FY 2009/10is 35.73 percent amounting Rs.3181.3 million. Its contribution is maximum in FY 2009/10, which is 49.09 percent, amounting Rs.3800.2 million but in FY 2015/16, its contribution is Rs.15249.8 million, which is only 36.54 percent. Contribution of CITR to income tax revenue is minimum in FY 2010/11, which is only 30.58 percent, amounting Rs.2487.3 million. The average contribution of CITR to income tax is 38.18 percent, amounting Rs.6978.5 million.

Table 4.9 shows that the contribution of Private sector to CITR seems to be higher than Public sector after FY 2009/10. Maximum area of CITRis occupied by the Private sector. Private sector contribution to CITRis maximum in FY 2012/13, 37.67 percent amounting Rs.7196.5 million but its contribution in FY 2015/16is Rs.14043.9 million, which is only 33.66 percent. Private sector contribution to CITRis minimum in FY 2007/08, amounting Rs.1236.3 million, which is 15.20 percent. Its average contribution to CITRis Rs.5866.9 million, which is 29.30 percent.

On the other hand, contribution of Public sector to CITRis Rs. 1767.3 million, which is 19.87 percent in FY 2009/10. After that its contribution to CITRis in decreasing trend. Its contribution is very low or minimum in FY 2012/13, amounting Rs.204.6 million which is only 1.07 percent. Its average contribution is Rs.1112.6 million, which is 8.89 percent only.

The CITR and income tax revenue position has been shown from FY 2009/10 to 2015/16 in the following.

**Figure 4.9**

**CITR and Income Tax Revenue**

Source: Based on Table 4.10

Data shows that contribution of private sector to total income tax is higher than the public sector. This diagram shows that private sector contribution to total income tax revenue is in increasing trend but public sector contribution is in decreasing trend. This indicate that maximum share of income tax is covered by the private sector.

**Figure 4.10**

**Trend Line Showing Income Tax Revenue and CITR**

Source: Based on Table 4.10

Figure 4.10 shows that the income tax revenue and public sector tax revenue is in increasing trend but the private sector revenue is in decreasing trend. In the other hand this trend line shows the contribution of CITR to total income tax revenue. This trend line also cleared that the contribution of private sector tax revenue to CITRis maximum than public sector tax revenue.

**4.1.10 Structure of Customs in Nepal**

A customs duty is tariff or tax on the import as well as export of goods. It is a border tax. Nepalese customs administration collects customs duty, Value Added Tax, Excise and other taxes at the border points. The government of Nepal has enacted Customs Act 2064 with an aim to amend and consolidate the prevailing customs laws in order to make safe and facilitate international trade by making customs administration systematic, transparent and accountable (Bhattarai&Koirala, 2011).

The main source of customs is imports, exports, Indian excise refund and others. Composition of customs is given in the following table:

**Table 4.10**

**Major Sources of Custom Duties and their Relative Percentage to Custom Duties**

 (Rs. in million)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Fiscal Year** | **Custom Revenue** | **Total percent** | **Imports** | **Exports** | **Indian Excise Refund** | **Others** |
| **Rs.** | **percent** | **Rs.** | **percent** | **Rs.** | **percent** | **Rs.** | **percent** |
| 2006/07 | 12658.8 | 100 | 9678.4 | 76.45 | 917.4 | 7.25 | 1700.9 | 13.44 | 362.1 | 2.86 |
| 2007/08 | 14236.4 | 100 | 10567.7 | 74.23 | 855.6 | 6.02 | 2370.6 | 16.65 | 442.5 | 3.10 |
| 2008/09 | 15554.8 | 100 | 10666.9 | 68.57 | 527.1 | 3.39 | 3882.7 | 24.96 | 478.1 | 3.08 |
| 2009/10 | 15701.6 | 100 | 12299.1 | 78.34 | 697.9 | 4.44 | 2188.3 | 13.94 | 516.3 | 3.28 |
| 2010/11 | 15344 | 100 | 11744.6 | 76.54 | 625.6 | 4.07 | 2314.4 | 15.08 | 659.4 | 4.23 |
| 2011/12 | 16707.6 | 100 | 13626.1 | 81.55 | 708.7 | 4.24 | 1896.5 | 11.35 | 476.3 | 2.85 |
| 2012/13 | 21062.5 | 100 | 17128.2 | 81.32 | 445.6 | 2.12 | 2997.1 | 14.23 | 491.6 | 2.33 |
| 2013/14 | 26792.9 | 100 | 22056.6 | 82.32 | 793.75 | 2.97 | 3211.1 | 11.98 | 728.8 | 2.72 |
| 2014/15 | 35151.6 | 100 | 29964.78 | 85.24 | 907.94 | 2.58 | 3521.0 | 10.02 | 757.86 | 2.16 |
| 2015/16 | 41364.1 | 100 | 35691.93 | 86.29 | 1201.99 | 2.91 | 3623.7 | 8.76 | 846.49 | 2.05 |
| Total | 214574.3 | 100 | 173424.3 | 790.85 | 7681.58 | 40.0 | 27706 | 140.4 | 5759.45 | 28.66 |
| Average | 21457.4 | 100 | 17342.4 | 79.09 | 768.16 | 4.00 | 2770.6 | 14.04 | 575.95 | 2.87 |

Source: Economic Survey,MoF, 2016.

Table 4.11 shows that the Import is the main source of customs. Import’s contribution to custom is 76.45 percent amounting Rs. 9678.4 million in FY 2009/10 and it is 86.29 percent, amounting Rs.35691.93 million in FY 2015/16, which is maximum contribution of import’s to the custom during this study period. Overall we can conclude that the contribution of import is maximum than other components. During this study period its contribution is minimum in FY 2011/12, only 68.57 percent amounting Rs.10666.9 million. Import’s average contribution is 79.09 percent amounting Rs.1734.2 million.

Indian excise refund takes the second position to contribute the custom revenue. Indian excise refund seems to be in fluctuating trend. In FY 2009/10 its contribution is 13.44 percent amounting Rs.1700.9 million. Its contribution is maximum in FY 2011/12, 24.96 percent amounting Rs.3882.7 million and its contribution is minimum in FY 2015/16, 8.76 percent but amount is maximum Rs.3623.7 million.

Similarly, third position is occupied by exports. Its contribution to custom is 7.25 percent amounting Rs.917.4 million in FY 2009/10, which is maximum percentage in this study period. But in FY 2015/16 its contribution is 2.91 percent which is minimum percentage but amount is Rs.1201.99 million, which is maximum, during this study period. The average contribution is 4 percent, amounting Rs.768.16 million.

Last position is occupied by others taxes. Its contribution to custom is Rs.362.1 million, which is 2.86 percent in FY 2009/10. Its contribution is maximum in FY 2010/11, amounting Rs.659.4 million which is 4.23 percent. But the amount is maximum in FY 2012/13, amounting Rs.846.49 million, which is only 2.05 percent. The average contribution of others taxes is Rs.575.95 million, which is 2.87 percent only.

The contribution of average amount can be presented in figure 4.11.

**Figure 4.11**

**Composition of Customs**

Source: Based on Table 4.11

Maximum area is occupied by the import in the above pie chart. So, import is the one of the main source of customs. Indian Excise refund also play vital role to increase the custom duty in Nepal. Similarly, Export and Other sources are the major sources of custom duty in Nepal.

**4.1.11 Structure of VAT**

VAT is an indirect tax is imposed on different goods and services on the basis of value added amount in different stages of production and distribution. It is a substitute of sales tax, hotel tax, contract tax and entertainment tax administered in different form stages. Though, it is collected at each stage of production and distribution, it is eventually borne by the final consumer. (KC, 2006).

VAT is a modern tax system to improve the collection of taxes; it is also regarded as the backbone of income tax system because VAT contributes maximum revenue to indirect tax revenue in Nepal. Here, composition of VAT in FY 2014/15 (actual) and FY 2015/16 (actual) are given in the following table:-

**Table 4.11**

**Collection of Value Added Tax**

(Rs. in thousands)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Category**  | **Item** | **Fiscal Year 2014/15(Actual)** | **Percent** | **Fiscal Year2015/16 (Actual)** | **Percent** |
| **1.1.02.10** | **Value Added Tax** | **54920856** | **100** | **61692838** | **100** |
| 1.1.02.11 | Production | 6016916 | 10.96 | 6768301 | 10.97 |
| 1.1.02.12 | Import | 34541025 | 62.89 | 39306573 | 63.71 |
| 1.1.02.13 | Selling and Distribution | 3299200 | 6.01 | 4251741 | 6.89 |
| 1.1.02.14 | Contract and Consultation | 2192455 | 3.99 | 3115281 | 5.05 |
| 1.1.02.15 | Tourism | 2221398 | 4.04 | 1116897 | 1.81 |
| 1.1.02.19 | Other Services | 6649862 | 12.11 | 7134051 | 11.56 |

Source: Budget Speech of 2014/15 and 2015/16.

Table 4.14 shows that total collection of VAT amount in FY 2015/16is greater than in FY 2014/15. So, it is cleared that VAT is in increasing trend. Above table also shows that the import is the major source of VAT.In FY 2014/15, its contribution is 62.89 percent amounting Rs.34541025 thousands and in FY 2015/16 its contribution is 63.71 percent amounting Rs.39306573 thousands. The contribution of production is the second position of VAT. Production contribution in FY 2014/15isRs.6016916 thousands and in FY 2015/16, its contribution is Rs.6768310 thousands respectively.

On the other hand, other services take the third position to contribution of VAT. Its contribution isRs.6649862 thousands in FY 2011/12 and Rs.7134051 thousands in FY 2015/16 respectively.

Again, selling and distribution takes forth position to contribution of VAT. Its contribution were in FY 2011/12isRs.3299200 thousands and in FY 2015/16isRs.4251741 thousands respectively. Similarly, contract and consultation contribution were in FY 2014/15isRs.2192455 thousands and in FY 2015/16isRs.3115281 thousands respectively. At last tourism sector contribution is very low; its contribution isRs.2221398 thousand in FY 2014/15 and Rs.1116897 thousands in FY 2015/16 respectively.

It can be presented as below:

**Figure 4.12**

**Combination of VAT**

Source: Based on Table 4.13

Figure 4.12 shows that the combination of VAT in FY 2014/15. This pie-chart shows that maximum area occupied by the import, 62.89 percent. Similarly, others service covered 12.11 percent, production 10.96, selling and distribution 6.01 percent, tourism 4.04 percent and contract and consultation takes very low space, which is only 3.99 percent.

**Figure 4.13**

**Combination of VAT**

Source: Based on Table 4.13

Figure 4.13 shows that the combination of VAT in FY 2015/16. This pie-chart's maximum space covered by import, which is 63.71 percent, that means import is the main source of VAT. Similarly, other service, Production, Selling and distribution, contract and consultation takes; 11.56 percent, 10.97 percent, 6.89 percent, 5.05 percent and 1.81 percent area of this pie- chart respectively.

**4.1.12 Structure of Excise Duty**

Excise duty is a form of an indirect tax which is imposed on the consumption of selected goods such as alcohol beverages, tobacco product etc. typical examples of excise duties are taxes on tobacco and alcohol.

Before the enactment of Excise Act 2058, the excise duty is imposed only on domestically produced goods. But after enactment of excise act 2058, it is imposed both domestically produced and foreign goods. Today more than fifty commodities are subject to excise duty. The excisable products include molasses, plastic goods, fruit juice, liquor, tobacco, soft drinks, ethanol, iron, marble, vehicles etc. Here, composition of excise in FY 2014/15 and FY 2015/16 are given in the following table:

**Table 4.12**

**Collection of Excise Duties fromDifferent Sources**

(Rs. in thousands and percentage)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Category** | **Item** | **Fiscal Year 2014/15(Actual)** | **percent** | **Fiscal Year 2015/16(Actual)** | **percent** |
| **1.1.02.20** | **Excise Duty** | **24473089** | **100** | **26996523** | **100** |
| 1.1.02.21 | Cigarette | 4509957 | 18.43 | 5136492 | 19.03 |
| 1.1.02.22 | Bidi | 2544 | 0.01 | 2876 | 0.011 |
| 1.1.02.23 | Liquor | 3741036 | 15.29 | 5264953 | 19.50 |
| 1.1.02.25 | Beer | 2843302 | 11.62 | 3122788 | 11.57 |
| 1.1.02.26 | Other industrial product | 2500274 | 10.22 | 2160175 | 8.00 |
| 1.1.02.27 | Import excise duty | 10550456 | 43.11 | 10568110 | 39.15 |
| 1.1.02.28 | Foreign employment services | 44 | 0.00018 | 55 | 0.0002 |
| 1.1.02.29 | Health service | 158503 | 0.65 | 197711 | 0.73 |
| 1.1.02.30 | Education service fee | 166973 | 0.68 | 340368 | 1.26 |

Source: Budget speech of FY 2014/15 and FY 2015/16, IRD Report 2015/16.

Above table shows that the major sources of excise duty in FY 2014/15 and FY 2015/16. We can see that, cigarette contribution to excise is higher than other sources and it occupied the maximum share in the excise duties. Its contribution to excise is 18.43 percent amounting Rs.4509957 thousands and 19.03 percent amounting Rs.5136492 thousands in FY 2014/15 and FY 2015/16 respectively. This indicates that cigarette plays the vital role in the contribution of excise.

Combination of Excise Duty can be presented as pie - chart given below:

**Figure 4.14**

**Combination of Excise Duty**

Source: Based on Table 4.14

Above pie-chart shows that, contribution of import to excise duty is higher than other sources, it is 43.11 percent. Similarly, cigarette’s contribution 18.43 percent, liquor 15.29 percent, other product 10 percent, beer 11.62 percent, education service fee 1 percent, health service 0.68 percent and foreign employment services 0.00018 percent. This pie-chart cleared that maximum area is occupied by import excise duty, so it is the major source of excise duty.

**Figure 4.15**

**Combination of Excise Duty in FY . 2012/13**

Source: Based on Table 4.14

Figure 4.15 shows that the combination of Excise duty in FY 2015/16. The major sources of excise duties are import, cigarette, liquor and beer etc. among them import excise duty play the vital role to increase the excise duty revenue. Import contribution to excise is 39.15 percent in FY 2015/16.Similarly; cigarette, bidi, liquor, beer, other industrial product, foreign employment services, health service and education service fee contribution to excise duty are 19.03 percent, 0.011, 19.50 percent,11.57 percent, 8 percent, 0.0002 percent, 0.73 percent and 1.26 percent respectively.

**4.2 Problems of Resources Gap in Nepal**

Nepal is an under develop country. Increasing trend of resources gap is the major problem of Nepal. It has a lot of resources but the resource mobilization is the main challenge of the country. The internal resource plays the vital role in economic development of the country. Government collects their resources from different ways. The tax structure is major source of revenue for the government. Government has imposed two types of tax like direct and indirect tax. In the present tax structure the government revenue comes from indirect taxes rather than direct tax. Tax policy has to be made a part of the instrument of the development goals.

**Table 4.13**

**Domestic Resource Gap Pattern of Nepal**

(Rs. in million and Percentage)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Fiscal Year** | **Total Govt. Exp.(A)** | **Total Govt. Revenue (B)** | **Resource Gap****(A-B)** | **percent of Resource Gap** |
| 2006/07 | 80072.2 | 50445.6 | 29626.6 | 37.00 |
| 2007/08 | 84006.1 | 56229.7 | 27776.4 | 33.06 |
| 2008/09 | 89442.6 | 62331 | 27111.6 | 30.31 |
| 2009/10 | 102560.4 | 70122.7 | 32437.7 | 31.63 |
| 2010/11 | 110889.2 | 72282.1 | 38607.1 | 34.82 |
| 2011/12 | 133604.6 | 87712.2 | 45892.4 | 34.34 |
| 2012/13 | 161349.9 | 107622.5 | 53727.4 | 33.30 |
| 2013/14 | 219662.0 | 143474.5 | 76187.5 | 34.68 |
| 2014/15 | 259689.1 | 179945.8 | 79743.3 | 30.71 |
| 2015/16 | 295363.4 | 199819.0 | 95544.4 | 32.35 |
| Average | 153663.95 | 97938.51 | 50665.44 | 33.22 |

Source: Economic Survey, MoF, 2016.

Table 4.13 shows that during the last 10 years period there is 30 percent to 38 percent and average 33.22 percent resource gap in Nepal. The amount of resource gap Rs.29626.6(37percent) millions in FY 2009/10is maximum and Rs.27111.6 (30.31percent) millionsin FY 2008/09is minimum during this 10 year period. After FY 2009/10 resource gap is in decreasing trend. Resource gap is 32.35 percent amounting Rs.95544.4 million in FY 2015/16. During this study period percentage of resource gap is fluctuating but amount of Total Govt. revenue is ratio is increased. At last we conclude that, increasing ratio of Govt. revenue should greater than the total Govt. expenditure to reduce the resource gap.

**Figure 4.16**

**Resource Gap**

Source: Based on Table 4.15.

Data shows that, in every year resource gap is in increasing trend. Resource gap in FY 2009/10is 37 percent amounting Rs.29626.6millions which is reached 32.35 percent amounting Rs.95544.4 millions in FY 2015/16. During this study period government expenditure is more excess than revenue, this indicate that the increasing trend of resource gap is the major problem of Nepal.

**Figure 4.17**

**Resource Gap in Nepal**

Source: Based on Table 4.15.

Figure 4.17 shows that the total government expenditure is high and at the top among three trend lines. Second one is government revenue which is less than government expenditure and comes below the government expenditure. Resource gap is the last line, it is cleared that the amount of resource gap is growing every year. Total expenditure is increasing highly but total revenue is increasing slowly.

**4.2.1 Revenue Expenditure**

Nepalese government has been suffering from resource constraint, mass poverty, rapid population growth, aggressive dependence on agriculture, low living standard etc. despite over four year decades planed development efforts. These activities also help to increase the resource gap in Nepal.

Revenue expenditure gap and resource gap are the similar word. In this contest, three types of gaps are measured and used in the analysis of resource gap. Below table shows the overall resource gap pattern of Nepal:

**Table 4.14**

**Overall Resource Gap Pattern of Nepal**

 (Rs. in millions)

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Fiscal Year** | **Total Govt. Exp.****(A)** | **Total Govt. Revenue (B)** | **Resource Gap(1)****(A-B)** | **Foreign Grants****(C)** | **Resource Gap (2)****A-(B+C)** | **Foreign Loan (D)** | **Resource Gap( 3)****A-(B+C+D)** |
| 2006/07 | 80072.2 | 50445.6 | 29626.6 | 6686.1 | 22940.5 | 7698.7 | 15241.8 |
| 2007/08 | 84006.1 | 56229.7 | 27776.4 | 11339.1 | 16437.3 | 4546.4 | 11890.9 |
| 2008/09 | 89442.6 | 62331.0 | 27111.6 | 11283.4 | 15828.2 | 7629.0 | 8199.2 |
| 2009/10 | 102560.4 | 70122.7 | 32437.7 | 14391.2 | 18046.5 | 9266.1 | 8780.4 |
| 2010/11 | 110889.2 | 72282.1 | 38607.1 | 13827.5 | 24778.9 | 8214.3 | 16564.6 |
| 2011/12 | 133604.6 | 87712.2 | 45892.4 | 15800.8 | 30091.6 | 10053.5 | 20038.1 |
| 2012/13 | 161349.9 | 107622.5 | 53727.4 | 20320.7 | 33406.7 | 8979.9 | 24426.8 |
| 2013/14 | 219662.0 | 143474.5 | 76187.5 | 26382.8 | 49804.6 | 9968.9 | 39835.7 |
| 2014/15 | 259689.1 | 179945.8 | 79743.3 | 38545.9 | 41197.4 | 11223.4 | 29974.0 |
| 2015/16 | 295363.4 | 199819.0 | 95544.4 | 45922.2 | 49622.2 | 12075.6 | 37546.6 |
| Total | 1536639.5 | 979385.1 | 506654.4 | 204499.7 | 284107.4 | 80655.8 | 212498.1 |
| Average | 153663.95 | 97938.51 | 50665.44 | 20449.97 | 28410.74 | 8065.58 | 21249.81 |

Source: Economic Survey,MoF, 2016.

**Resource Gap 1 (A-B)**

Resource gap in FY 2009/10is Rs.29626.6 million and it is Rs.95544.4 millions in FY 2015/16. Maximum resource gap is Rs.95544.4 millions in FY 2015/16 and minimum resource gap is Rs.27111.6 million in FY 2011/12. From this table, it is cleared that this type of resource gap is increasing trend. The average resource gap is Rs.50665.44 million during this study period.

**Resource Gap 2 A- (B+C)**

This resource gap is after the foreign grants. To calculate Resource gap 2, it should subtract total revenue plus foreign grants from total expenditure. This type of resource gap is Rs.22940.5 million in FY 2009/10, which is increased to Rs.49622.2 million in FY 2015/16. This type of resource gap is maximum Rs.49804.6 millions in FY 2013/14 and minimum Rs.15828.2 million in FY 2011/12. The average resource gap is Rs.28410.74 million during this study period.

**Resource Gap 3 A-(B+C+D)**

This type of resource gap receives after subtraction of total revenue plus foreign grants plus foreign loan from total government expenditure. These types of resource gap were Rs.15241.8 million in FY 2009/10 and it is reached to Rs.37546.6 million in FY 2015/16. This type of resource gap is maximum in FY 2013/14is Rs.39835.7 millions and minimum is Rs.8199.2 million in FY 2011/12. The average resource gap is Rs.21249.81 million during this study period.

**4.2.2 Problems in Public Expenditure**

Nepalese government has a poor revenue structure. Every year its total expenditure is higher than total revenue. These types of trend create the high resource gap in Nepal. The increasing trend of government expenditure can be fulfilled either by internal resources or through inflow of foreign aid. The increasing rate of growth in government expenditures creates many problems in public expenditure management. As a result, deficit financing takes place in the economy. Following table shows the total government revenue and foreign aid and their contribution to total government expenditure:-

**Table 4.15**

**Share of Government Revenue and Foreign Aid**

 (Rs. in millions)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Fiscal Year** | **Total Govt. Exp.(A)** | **Total Govt. Revenue (B)** | **Total Rev. as percent of T.E.** | **Foreign Aid** | **Foreign Aid as percent of T.E.** |
| 2006/07 | 80072.2 | 50445.6 | 63 | 14384.8 | 17.96 |
| 2007/08 | 84006.1 | 56229.7 | 66.94 | 15885.5 | 18.91 |
| 2008/09 | 89442.6 | 62331 | 69.69 | 18912.4 | 21.14 |
| 2009/10 | 102560.4 | 70122.7 | 68.37 | 23657.3 | 23.07 |
| 2010/11 | 110889.2 | 72282.1 | 65.18 | 22041.8 | 19.88 |
| 2011/12 | 133604.6 | 87712.2 | 65.65 | 25854.3 | 19.35 |
| 2012/13 | 161349.9 | 107622.5 | 66.70 | 29300.6 | 18.16 |
| 2013/14 | 219662.0 | 143474.5 | 65.32 | 36351.7 | 16.55 |
| 2014/15 | 259689.1 | 179945.8 | 69.29 | 49769.4 | 19.16 |
| 2015/16 | 295363.4 | 199819.0 | 67.65 | 57997.8 | 19.64 |
| Average | 153663.95 | 97938.51 | 66.78 | 29415.56 | 17.39 |

Source: Economic Survey,MoF, 2016.

Table 4.15 shows that the contribution of government revenue and foreign grants in financing expenditure. In FY 2009/10, government expenditure is Rs.80072.2 millions, during this FY maximum share of expenditure is covered by total govt. revenue. Government revenue contribution is 63 percent and foreign aid contribution is 17.96 percent in FY 2009/10 respectively.

Maximum share of revenue to expenditure is 69.69 percent in FY 2011/12 and minimum contribution is 63 percent in FY 2009/10 during this study period. In average contribution of govt. revenue to govt. expenditure is 66.78 percent.

Similarly, the contribution made by foreign aid to total government expenditure is 17.96 percent amounting Rs.14384.8 million in FY 2009/10 and it is reached to 19.64percent amounting Rs.57997.8 million in FY 2015/16. It is also clear from the table that contribution made by foreign aid to government expenditure is fluctuated during this study period. It is maximum 23.07 percent in FY 2011/12 and minimum 16.55 in FY 2013/14. Average contribution of foreign aid to total government expenditure is 17.39 percent amounting Rs.29415.56 million. The conclusion from the above analysis is that government disserving in increasing every year. Government’s expenditure is increasing at a higher rate than the growth of government revenue. The growth rate of domestic saving has not increased substantially even the external capital inflow has been increasing with higher rate.

**4.3 Empirical Investigation**

An empirical investigation has been conducted for collecting data about opinions and attitude towards Direct and Indirect tax revenue collecting of Nepal. An opinion questionnaire survey has been used as a major tool of this investigation. The questionnaire is distributed to the tax administrators, tax experts and tax payers. Respondents are to feel more comfortable in filling the questionnaire out alone at their own choice of time. They are allowed to fill the questionnaire anonymously in seek of confidentiality. The responses received from various respondents have been arranged tabulated and analyzed in order to facilitate the descriptive analysis of the study.

The questionnaire is designed the respondents are required to give yes/ no answer or rank in according to the priority or give their opinion. In case of ranking, choices are designed weights according to the number of alternative provided. For example, if the number of alternatives were five the first preferred choice would get five points and the last preferred choice would get one point. Any alternative which is not ranked did not get any point. The total points available to each choice were converted into percent with reference to the total points available for all choices. The choice with the percent score is ranked as the most important choice and the percent score is ranked as the last choice.

The respondents were requested to response on questionnaire by this way:

* They were requested to response simply by yes or no response.
* They could response by selecting one or more options.
* They could response by ranking the choices starting from 1 to most important as per number of choice.
* Respondents had also option to put their views by writing wherever necessary.

**Table 4.16**

**Denominations of Respondents Code Used**

|  |  |  |
| --- | --- | --- |
| **Denominations of Respondents** | **Questionnaire Collected** | **Code Used** |
| Tax administrators | 15 | A |
| Tax experts | 15 | B |
| Tax payers | 50 | C |
|  | 80 |  |

*Source:* Field survey, 2016.

**4.3.1 Knowledge about Direct Tax and Indirect Tax**

Most of the respondent is not familiar with direct and indirect tax. Specially, tax administrator and tax experts are familiar to direct tax and indirect tax in Nepal. To know the responses attitude toward direct and indirect tax education, a question is asked; “Do you think that people are well familiar with direct and indirect tax in Nepal?” the responses have been tabulated below:

**Table 4.17**

**Knowledge about Direct Tax and Indirect Tax**

|  |  |  |  |
| --- | --- | --- | --- |
| **Option** | **No. of Respondents** | **Ranking Position** | **Percent of Respondents** |
| Yes | 3 | 2nd | 3.75 |
| No | 77 | 1st | 96.25 |
|  | 80 |  | 100 |

Source: Field Survey, 2016.

Table 4.19 shows that 3 respondents or 3.75 percent of the respondents have some sort of knowledge about Direct tax and Indirect tax and 77 or 96.25 percent respondents have not sort knowledge about direct and indirect tax. Some respondents from government are very familiar toward direct tax and indirect tax. It found that the senior level staffs are familiar about direct tax and indirect tax but junior level staff and business persons are not perfectly familiar to direct tax and indirect tax in Nepal.

**4.3.2 Attitude towards an Appropriate Means of Raising the Government Revenue**

In order to know whether direct and indirect tax as a suitable means of raising revenue of Government, a question is asked; “Do you think that the direct and indirect tax are a suitable means of raising the Government revenue?” The responses are as presented below:

**Table 4.18**

**Appropriate Means of Raising the Government Revenue**

|  |  |  |  |
| --- | --- | --- | --- |
| **Option** | **No of Respondents** | **Ranking Position** | **Percent of Respondents** |
| Yes | 73 | 1st | 91.25 |
| No | 7 | 2nd | 8.75 |
|  | 80 |  | 100 |

Source: Opinion Survey, 2016.

Table 4.20 shows that 91.25 percent of the respondents are in favors of direct tax and indirect tax is the suitable means of raising the revenue. And 8.75 percentare against, hence direct tax and indirect tax are the suitable means of revenue and it should be increased.

**4.3.3 Attitude towards Satisfactory Level of Actual and Budgeted Revenue Collection from Direct and Indirect Tax**

To know the attitude towards satisfactory level of actual and budgeted revenue collection, a question is asked; “Do you think that the revenue collection from direct and indirect tax is satisfactory as it had been expected? The responses have been tabulated below:

**Table 4.19**

**Satisfactory Level of Actual and Budgeted Revenue Collection from Direct and Indirect Tax**

|  |  |  |  |
| --- | --- | --- | --- |
| **Option** | **No. of Respondents** | **Ranking Position** | **Percent of Respondents** |
| Yes | 3 | 2nd | 3.75 |
| No | 77 | 1st | 96.25 |
|  | 80 |  | 100 |

Source: Opinion Survey, 2016.

From the above table, 3.75 percent respondents are agree that direct and indirect tax is collection it had been expected but 96.25 percent respondents are not agree. So, it is clear that the revenue collection from direct and indirect tax is not satisfactory as it had been expected. In order to know, the cause of not satisfactory as it had been expected the next question is asked; “If no, how can government decrease the gap between the actual and budgeted revenue collection from direct tax and indirect tax revenue?” the respondents were requested to rank their answer from (i) to (iv) and table 4.21 (b) shows the respondents result. The answer is tabulated like this:-

**Table 4.20**

**Ways of Decreasing the Gap between Actual andBudgeted Revenue Collection fromDirect and Indirect Tax**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Category** | **Ways of Decreasing Gap** | **Respondents** | **Total Points** | **Percent** | **Rank** |
| **A** | **B** | **C** |
| i) | By making tax administrationSystem effective. | 3 | 2 | 3 | 8 | 26.67 | 2nd |
| ii) | By decreasing tax evasion | 4 | 3 | 4 | 11 | 36.67 | 1st |
| iii) | By applying the strict punishment system to tax payer who do tax evasions | 2 | 4 | 1 | 7 | 23.33 | 3rd |
| iv) | Conducting tax education program. | 1 | 1 | 2 | 4 | 13.33 | 4th |
|  | Total |  |  |  | 30 | 100 |  |

Source: Opinion Survey, 2016.

From the above table it is clear that the gap between actual and budgeted tax can be decreased by decreasing the tax evasion, by making tax administration system effective, by applying the strict punishment system to tax payer, who do tax evasion and conducting tax education program. It can be taken rank wise:

1. By decreasing tax evasion.
2. By making tax administration system effective.
3. By applying the strict punishment system to tax payer who do tax evasions.
4. Conducting tax education program.

**4.3.4 Satisfaction Level of Contribution of Direct and Indirect Tax to National Revenue**

To know whether the contribution of direct and indirect tax to national revenue are sound or not, a question is asked; “In your opinion is contribution of direct and indirect tax to national revenue of Nepal satisfactory?”

The responses received from the various respondents and tabulated as below:

**Table 4.21**

**Satisfactory Level of Contribution of Direct and Indirect Tax to National Revenue**

|  |  |  |  |
| --- | --- | --- | --- |
| **Option** | **No. of Respondents** | **Ranking Position** | **Percent of Respondents** |
| Yes | 4 | 2nd | 5 |
| No | 76 | 1st | 95 |
|  | 80 |  | 100 |

Source: Opinion Survey, 2016.

From the above table it has been clear that most of the respondents i.e. 95 percent of respondents are not satisfied with the contribution of direct and indirect tax to national revenue of Nepal. Only 5 percent respondents are agreeing that revenue collection from direct and indirect tax to national revenue is satisfactory.

In order to know, the cause of not satisfied with contribution of direct tax to the national revenue of Nepal the next question is asked; “If no what are the major reasons?” the respondents were requested to rank their answer from (i) to (viii).

The responses received from the various respondents and tabulated as below:

**Table 4.22**

**Major Reasons of Low Satisfaction of Direct and Indirect Tax**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Category** | **Major Problems** | **Groups** | **Total Points** | **Percent** | **Rank** |
| **A** | **B** | **C** |
| i) | In adequate economic policy | 4 | 1 | 1 | 6 | 5.56 | 7th |
| ii) | In efficient tax administrative | 7 | 8 | 8 | 23 | 21.30 | 1st |
| iii) | Complicated tax act, rules and regulation | 8 | 7 | 6 | 21 | 19.44 | 2nd |
| iv) | Lack of consciousness in taxpayer. | 5 | 6 | 5 | 16 | 14.81 | 4th |
| v) | Unwillingness of tax payers to pay tax. | 6 | 5 | 7 | 18 | 16.67 | 3rd |
| vi) | Lack of awareness to tax payers | 1 | 2 | 2 | 5 | 4.63 | 8th |
| vii) | Difficulty in maintain account for tax purpose | 3 | 4 | 3 | 10 | 9.26 | 5th |
| viii) | Lack of training and sufficient incentives to employees. | 2 | 3 | 4 | 9 | 8.33 | 6th |
|  | Total  |  |  |  | 108 | 100 |  |

Source: Field Survey, 2016.

The major problems of direct and indirect tax of Nepal were ranked in order of the preference of the respondents as follows:-

1. In efficient tax administrative
2. Complicated tax act, rules and regulation
3. Unwillingness of tax payers to pay tax.
4. Lack of consciousness in tax payer.
5. Difficulty in maintain account for tax purpose
6. Lack of training and sufficient incentives to employees
7. In adequate economic policy
8. Lack of awareness to tax payers.

It can be concluded from the above results that in the opinion of respondents, the direct and indirect tax of Nepal is not sound and efficient, basically due to inefficient tax administration, complicated tax act, rules and regulation and Unwillingness of tax payers to pay tax etc.

**4.3.5 Attitude towards Most Important Factors for Effectiveness of Income Tax in Nepal**

In order to know the most important factor for effectiveness of income tax in Nepal respondents were requested to rank their response on given choices. The question is asked; “what is the most important factor for effectiveness of income tax in Nepal?” the responses are as tabulated below:

**Table 4.23**

**Important Factors for Effectiveness of Income Tax in Nepal**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Category** | **Factors** | **Group** | **Total Points** | **Percent** | **Rank** |
| **A** | **B** | **C** |
| i) | Honest tax officer | 4 | 3 | 4 | 11 | 36.67 | 1st |
| ii) | Honest tax payers | 3 | 1 | 2 | 6 | 20.00 | 3rd |
| iii) | Clear act, rules and regulation | 2 | 4 | 3 | 9 | 30.00 | 2nd |
| iv) | Effective income tax administration | 1 | 2 | 1 | 4 | 13.33 | 4th |
|  | Total |  |  |  | 30 | 100 |  |

Source: Field Survey, 2016.

The important factor for effectiveness of income tax is ranked in order of the preference of the respondents is as follows:

1. Honest tax officers
2. Clear act, rules and regulation
3. Honest tax payers
4. Effective income tax administration

It can be concluded that important factors for effectiveness of income tax in Nepal are honest tax officer, clear act, rules and regulation, honest tax payers and effective income tax administration.

**4.3.6 Attitude towards Income Tax System in Nepal**

To know whether the income tax system of Nepal is sound and efficient or not a question is asked; “Are you satisfied with the present Income tax system of Nepal?” the responses received from the various respondents are tabulated as follows:

**Table 4.24**

**Satisfaction towards Existing Income Tax System**

|  |  |  |  |
| --- | --- | --- | --- |
| **Option** | **No. of Respondents** | **Ranking Position** | **Percent of Respondents** |
| Yes | 8 | 2nd | 10.0 |
| No | 72 | 1st | 90.0 |
|  | 80 |  | 100 |

Source: Field Survey, 2016.

Table 4.24 shows that most of the respondents i.e. 90 percent of respondents are not satisFY with the existing income tax system of Nepal. Only 10 percent respondents are satisFY ing this existing income tax system.

In order to know, the cause of not satisFY with the existing income tax system of Nepal the next question is asked; “If no, what are the major problems of the income tax system of Nepal?” The responses are as tabulated below:

**Table 4.25**

**Major Problems of Income Tax System in Nepal**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Category** | **Major Problems** | **Groups** | **Total Points** | **Percent** | **Rank** |
| **A** | **B** | **C** |
| i) | Inappropriate income tax policy. | 6 | 6 | 8 | 20 | 18.52 | 2 |
| ii) | Lack of political commitment. | 8 | 7 | 7 | 22 | 20.37 | 1 |
| iii) | Complicated income tax act, rules and regulation | 5 | 5 | 4 | 14 | 12.96 | 4 |
| iv) | Lack of education to tax payer. | 7 | 8 | 6 | 21 | 19.44 | 3 |
| v) | Lack of training and sufficient incentive to employee. | 4 | 4 | 5 | 13 | 12.04 | 5 |
| vi) | Inappropriate rate and exemption unit. | 3 | 1 | 3 | 7 | 6.48 | 7 |
| vii) | Practice of Tax evasion. | 2 | 3 | 1 | 6 | 5.56 | 6 |
| viii) | Illegal business activities | 1 | 2 | 2 | 5 | 4.63 | 8 |
|  | Total  |  |  |  | 108 | 100 |  |

Source: Opinion Survey, 2016.

Table 4.27 shows that the major problem in Income tax system in Nepal is ranked in order of the preference of the respondents as follows:-

1. Lack of political commitment.
2. Inappropriate income tax policy.
3. Lack of education to tax payer.
4. Complicated income tax act, rules and regulation
5. Lack of training and sufficient incentive to employee
6. Practice of Tax evasion.
7. Inappropriate rate and exemption unit.
8. Illegal business activities

It can be concluded from the above results that in the opinion of respondents, the income tax system of Nepal is not sound and efficient basically due to lack of political commitment, inappropriate income tax policy, Lack of education to tax payer, Lack of training and sufficient incentive to employee etc.

**4.3.7Attitude towards Market Monitoring Situation/Environment to the Tax Officers**

In order to find out the market monitoring situation in Nepalese market, a question is asked; “Do you think tax officer easily go to the market for monitoring the tax evasion?” The responses are tabulated as below:

**Table 4.26**

**Market Monitoring Situation of Nepal**

|  |  |  |  |
| --- | --- | --- | --- |
| **Option** | **No. of Respondents** | **Ranking Position** | **Percent of Respondents** |
| Yes | 6 | 2nd | 7.50 |
| No | 74 | 1st | 92.5 |
|  | 80 |  | 100 |

Source: FieldSurvey, 2016.

Table 4.26 shows that the 92.5 percent respondents agree that the tax officer can’t go to market monitoring, this result indicate that Nepalese market monitoring situation is very poor or lack of peace and security are the major problem to go market monitoring. Only 7.50 percent respondents are agreeing that tax officer can go to market monitoring.

**4.3.8 View on Adequate Administrative and Legal Opportunities for Redressing Tax Payers Grievance**

Nepalese tax administration has been suffered since many years. The legal provision is closely related to tax administration. Now the tax act and rule/ regulation have not covered the all type of tax payers. So, the respondents are requested for giving their opinion about adequate administrative and legal opportunities for redressing their grievances. That is given in following table:

**Table 4.27**

**Views on Adequate Administrative and Legal Opportunities for Redressing Tax Payers’ Grievances**

|  |  |  |  |
| --- | --- | --- | --- |
| **Option** | **No. of Respondents** | **Ranking Position** | **Percent of Respondents** |
| Yes | 6 | 2nd | 7.5 |
| No | 74 | 1st | 92.5 |
|  | 80 |  | 100 |

Source: Field Survey, 2016.

Table 4.27 shows that the 92.5 percentof the respondents were given their opinion that there have been inadequate opportunities for redressing their grievance. It does not; however mean that there is no provision for appeal system as such. It takes a long time to given decisions on appeals. Sometime even decades to settle appeals filed with the revenue tribunal. Moreover, when a tax payer files an appeal in the revenue tribunal, he must deposit half the amount of tax due in cash. Only 7.5 percent respondents are readdressing their grievance.

**4.3.9Attitude towards Complication Faced in Paying Tax**

To know the facing complication, a question is asked; “Have you faced any complication in paying tax?” The responses are tabulated below:

**Table 4.28**

**Views on Complication Faced in Paying Tax**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Category** | **Option** | **No. of Respondents** | **Ranking Position** | **Percent of Respondents** |
| 1. | Yes | 74 | 1st | 92.5 |
| 2. | No | 6 | 2nd | 7.5 |
| Total |  | 80 |  | 100 |

Source: Field Survey, 2016.

Table 4.28 shows that the 92.5 percent of respondents face complication in paying income tax whereas 7.5 percent of respondents are not face complication.

To know the cause of facing complication a question is asked; “If yes, what type of problem have you faced?” The respondents were provided four reasons and requested to rank them. The response received from the various respondents and tabulated as follows:

**Table 4.29**

**Reasons for Facing Complication in Paying Tax**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Category** | **Problems** | **Respondents** | **Total Points** | **Percent** | **Rank** |
| **A** | **B** | **C** |
| i) | Complex Tax Law and Procedure | 4 | 2 | 3 | 9 | 30.0 | 2nd |
| ii) | Administrative Inefficiencies | 3 | 4 | 4 | 11 | 36.67 | 1st |
| iii) | Corruption | 2 | 3 | 2 | 7 | 23.33 | 3rd |
| iv) | Others (Please SpeciFY ) | 1 | 1 | 1 | 3 | 10.0 | 4th |
|  | Total |  |  |  | 30 | 100 |  |

Source: Field Survey, 2016.

Table 4.29 shows that the major reason of facing complication in paying income tax from the above table according to the respondents preference are as follows:-

1. Administrative Inefficiencies
2. Complex Tax Law and Procedure
3. Corruption
4. Others (Please SpeciFY )

**4.3.10 Attitude towards Step should be taken to Direct and Indirect Revenue Collection in Nepal**

To know the step should be taken to improve revenue collection from direct and indirect tax in Nepal, a question is asked; “In your opinion what step should be taken to improve direct and indirect tax revenue collection in Nepal?” The responses received from the various respondents and tabulated as follows:-

**Table 4.30**

**Steps to be Takento Improve Direct Tax and Indirect Tax Revenue Collection in Nepal**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Category** | **Options/steps** | **Respondents** | **Total Points** | **Percent** | **Rank** |
| **A** | **B** | **C** |
| i) | Conducting tax education program and cultivate or nurture taxpaying | 6 | 5 | 4 | 15 | 23.81 | 2 |
| ii) | Setting and monitoring tax collection targets | 4 | 4 | 2 | 10 | 15.87 | 3 |
| iii) | Making taxpayers aware of their rights, obligation, and consequences of failure to comply with tax laws. | 3 | 3 | 5 | 11 | 17.46 | 4 |
| iv) | Sending regular reminder notice to taxpayers | 2 | 2 | 3 | 7 | 11.11 | 5 |
| v) | Providing more incentive recognition and other support to taxpayers. | 5 | 6 | 6 | 17 | 26.98 | 1 |
| vi) | Other………… | 1 | 1 | 1 | 3 | 4.76 | 6 |
|  | Total |  |  |  | 63 | 100 |  |

Source: Field Survey, 2016.

The above list shows that most of the respondents have chosen the option of providing more incentives and recognition and other support to taxpayers for improving direct tax and indirect tax revenue collection in Nepal. 26.98 percent respondents ranked this is a most influential option. They said that by providing more incentives, rebates recognition and other supports, tax payers would be willing to pay the tax honestly. If they get the social recognition regarding of paying the tax, then they will feel proud and dignity of them. Above table shows that following step to be taken to improve direct tax and indirect tax revenue collection in Nepal:-

1. Providing more incentive recognition and other support to taxpayers.
2. Conducting tax education program and cultivate or nurture taxpaying
3. Setting and monitoring tax collection targets
4. Making taxpayers aware of their rights, obligation, and consequences of failure to comply with tax laws.
5. Sending regular reminder notice to taxpayers
6. Others………

**4.3.11Attitude towards Essential Factor for Making Tax Administration and Tax Collection System in Nepal**

To know the essential factor for making tax administration and tax collection system in Nepal, a question is asked; “what are the essential factors for making tax administration and tax collection system in Nepal?”

The responses received from the various respondents and tabulated as follows:

**Table 4.31**

**Essential Factors for Making Tax Administration and Tax Collection System in Nepal**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Category** | **Options** | **Respondents** | **Total Point** | **Percent** | **Rank** |
| **A** | **B** | **C** |
| i) | Proper training to tax personnel | 5 | 6 | 6 | 17 | 15.74 | 3rd |
| ii) | Better information system | 4 | 4 | 8 | 16 | 14.81 | 4th |
| iii) | Simple tax procedure | 6 | 7 | 5 | 18 | 16.67 | 2nd |
| iv) | Tax education to taxpayers | 7 | 8 | 7 | 22 | 20.37 | 1st |
| v) | Better public relation by tax personnel | 2 | 2 | 3 | 7 | 6.48 | 7th |
| vi) | Establishment and implementation of effective reward and punishment system | 3 | 3 | 4 | 10 | 9.26 | 6th |
| vii) | Identification and clear cut advertisement about tax incentive | 8 | 5 | 2 | 15 | 13.89 | 5th |
| viii) | Other……….. | 1 | 1 | 1 | 3 | 2.78 | 8th |
|  | Total |  |  |  | 108 | 100 |  |

Source: Field Survey, 2016.

Table 4.31 shows that in the Nepalese contest, tax education to the tax payers is necessary. Only the educated and qualified people do make the activity of tax administration and tax collection effective. Respondents claimed that most of the tax payers were uneducated or they knew a very few about the tax law, tax planning etc. they suggested that tax education is indispensable for making tax administration and tax collection system effective.

From above table, the essential factors for making tax administration and tax collection system effective were ranked in order to the preference of the respondents as follows:-

1. Tax education to taxpayers
2. Simple tax procedure
3. Proper training to tax personnel
4. Better information system
5. Identification and clear cut advertisement about tax incentive
6. Establishment and implementation of effective reward and punishment system
7. Better public relation by tax personnel
8. Other………..

**4.3.12Suggestions for Achieve Effectiveness of Direct Tax and Indirect Tax Revenue Collection**

To know the other important factor for effectiveness of direct tax and indirect tax, a question is asked; “Do you have any suggestion for achieving effectiveness of direct tax and indirect tax revenue collection system in Nepal?” The response are received and presented as below:-

1. The income tax act should be simplified.
2. Effective tax management and training and seminar to the tax personnel.
3. Reward and punishment system should be implemented without any partiality.
4. The Inland Revenue department should make offer to educate the tax payer and tax personnel.

**4.4 Major Findings of the Study**

1. The study shows that the collection of total revenue is in increasing trend. In FY .2014/15, It is Rs.179945.8 millions and Rs.199818.7 millions in FY .2015/16. On the other hand contribution of tax revenue to total revenue in FY .2014/15is 86.86 percent and FY 2015/16, it is 86.47 percent but the contribution of Non-tax revenue is very low comparisons with the tax revenue. Non-tax revenue’s contribution to total revenue is 13.14 percent and 13.53 percent in FY .2014/15 and FY 2015/16 respectively.
2. Nepalese Tax Revenue includes both direct and indirect tax revenue. We can find this study period, Indirect tax plays the dominant role in Nepalese tax revenue structure. The contribution of direct tax and indirect tax to total revenue is 24.0 percent and 76 percent respectively in FY 2015/16. This study shows that Nepalese tax revenue structure is not good. To improve the tax structure, we also need to increase the contribution of direct tax to total tax revenue.
3. The contribution of Income tax, House, land registration tax and Vehicle tax revenue in FY 2009/10 were 84.02 percent, 10.68 percent and 5.3 percent respectively, which reached to 87.50 percent, 8.33 percent and 4.17 percent in FY 2015/16. This study shows that income tax’s contribution is in increasing trend but House, land registration and vehicle tax is in fluctuating trend.
4. The contribution of Custom duty, Excise duty and VAT on Indirect tax is 44.06 percent, 13.25 percent and 42.69 percent respectively in FY 2009/10. And in FY 2015/16 their contribution is 29 percent, 21 percent and 50 percent respectively. It shows that the custom duties were in decreasing trend but Excise duty and VAT were in increasing trend.
5. Contribution of direct tax to GDP is very low comparison with indirect tax. Direct tax’s contribution to GDP is 2.46 percent in FY 2009/10 and 2.64 percent in FY 2015/16 respectively. This indicates that its contribution is fluctuated, after FY 2011/12 its contribution is in increasing trend.
6. Contribution of Indirect tax to GDP is 6.67 percent in FY .2009/10 and 7.48 percent in FY 2015/16. During this study period, indirect tax contribution to GDP is in increasing trend.
7. Income tax has been considered as suitable sources for mobilization internal resources. It can be used as a positive instrument to boast up government revenue collection to develop the economic condition of Nepalese people and promote distribution justice and to cure resource gap problem.
8. Corporate income tax, individual income tax, employment tax and interest on other taxes are the major sources of income tax. These all income taxes are included, when the total income tax is calculated. During this study period all those taxes contribution were in increasing trend.
9. Import, Export, Indian excise refund and others taxes are the major sources of Custom duty. Those all taxes are consider while calculating the total custom duty. This study period all those taxes contribution were in fluctuating trend.
10. Private sector contribution to CITRis higher than Public sector contribution. Private sectors contribution is 44.38 percent and 92.09 percent in FY 2009/10 and 2015/16 respectively but public sector contribution is 55.62 percent and 7.90 percent in FY 2009/10 and FY 2015/16 respectively. During this study period, the average portion covered by public and private sector is 24.73 percent and 75.27 percent respectively.
11. CITR portion in income tax revenue is 49.09 percent of maximum in FY 2009/10 and minimum contribution of CITR to total income tax revenue is 30.58 percent in FY . 2010/11 and it is 36.54 percent in 2015/16. CITRis contributed 38.18 percent to income tax revenue on average during this study period.
12. The domestic resource gap in FY 2006/07is Rs.29626.6 millions and Rs.95544.4 millions in FY 2015/16. This indicates that domestic resource gap is in increasing trend. Average resource gap is Rs.50665.44 millions, during this study period.
13. Total government revenue’s contribution to total government expenditure is 63 percent in FY 2009/10 and 67.65 percent in FY 2015/16. This indicates that the government revenue’s contribution to total government expenditure is in fluctuating trend. Its average contribution is 66.78 percent. Similarly, the contribution of foreign aid is 17.95 percent and 19.16 percent in FY 2009/10 and 2015/16 respectively. Its average contribution is 17.395. This indicates that Nepalese government expenses were maximum bearded by government revenue. But foreign aid contribution also in increasing trend, which is not good for our country.
14. Nepalese tax payers are not well familiar about direct and indirect tax, so to increase the tax revenue, tax education is most necessary in Nepal.
15. Direct and indirect tax is the suitable means of revenue collection in Nepal. Respondents are maximum voted that; we can collect a huge amount of tax from direct and indirect tax in Nepal.
16. Nepalese government would not able to collect expected or budgeted tax revenue from direct and indirect tax. That means the revenue collection from direct tax and indirect tax is not satisfactory as it had been expected.
17. Maximum number of respondents is not satisfied with the contribution of direct and indirect tax to national revenue of Nepal.
18. The most important factor for effectiveness of income tax is: honest tax officers, clear act, rules and regulation, honest tax payers and effective income tax administration.
19. Most of the respondents thought that existing income tax system is not effective. In efficient income tax administrative, practice of tax evasion, lack of education to tax payers, complicated income tax act, rules and regulation, lack of training and sufficient incentive to employees etc. are the major problem of income tax system in Nepal.
20. Market monitoring task is difficult due to lack of peace and security.
21. Tax payers grievance are not redressing by the tax administration. It takes long time period to give decision, no provision for appeal system are the major problem of tax administrations.
22. Maximum numbers of respondents are faced complicating situation, while taxpaying. The major reasons of facing complication situation are: administrative inefficiencies, complex tax law and procedure and corruption etc.
23. To improve direct and indirect tax revenue collection, we take systematic steps like : providing more incentive recognition and other support to tax payers, conducting tax education programmed, setting and monitoring tax collection, making tax payers aware of their rights and sending regular reminder to tax payer etc.
24. 11. Essential factors for making tax administration and tax collection system effective are as follows: Tax education to tax payers, simple tax procedure, proper training to the personnel, better information system, identification and clear cut advertisement about tax incentive etc.
25. Respondents are suggested to achieve effectiveness of direct and indirect tax revenue collection from this ways: Reward and punishment system should be implemented without any partiality, effective tax management and training and seminar to the tax personnel etc.

**CHAPTERV**

**SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

**5.1 Summary of Findings**

Nepal is one of the least developed countries of the world has always suffering from economic disaster. Lack of sufficient financial resources is the major constraint of economic development in developing countries like Nepal. Moreover, Nepal has a great problem of misuse of available resources, lack of good governance, which has slowed down the development of the nation. In this situation, to increase the government revenue Nepalese government is trying to extract money or valuable contribution from people through taxation. In developing countries like Nepal, total expenditure has been increasing every year due to the expansion of government activities. Nepal is always facing with the financial problem every year. There is a serious problem of resource gap, which is in increasing trend. In Nepal, government accumulates require fund mainly from internal and external source to finance regular and development expenditure, because of the inadequacy of the internal sources for the development of the nation, Nepal comes under compulsion to rely on foreign loan and grants. Nepal has been unable for proper mobilization of internal resources therefore fiscal deficit of Nepal has been increasing day by day. Among the internal resources tax is pivotal one. Tax should play important role to solve the problems of fiscal deficit. But in Nepal actual collection of revenue through tax is lower than estimated targets it is so because of the poor taxpaying habit of Nepalese tax payer, poor administrative system and widespread evasion of tax are as follows:

1. Tax revenue can be classified as direct tax and indirect tax. A direct tax is really paid by same person on whom it is legally imposed. Tax payer cannot collect direct tax from other. Income tax, property tax, vehicle tax, house and land tax, contract tax, gift tax and interest tax etc. are the main sources of direct tax. Similarly, an indirect tax is imposed on one person but paid partly or wholly by another. Custom duty, VAT and excise duty, sales tax, entertainment tax, hotel tax etc. are the main part of indirect tax.
2. Secondary data shows that the contribution of tax and non-tax revenue is 80.20 percent and 19.80 percent in FY 2015/16; it shows that the tax revenue has been major sources of government revenue. Direct and Indirect tax are the major sources of Nepalese tax revenue. But there is dominant role of indirect tax revenue in Nepalese tax revenue. The contribution of direct and indirect tax to total tax revenue is 24 percent and 76 percent respectively in 2015/16. The contribution of income tax, house and land registration tax and vehicle tax to direct tax revenue in FY 2009/10 were 84.02 percent, 10.68 percent and 5.30 percent respectively which reached to 87.50 percent, 8.33 percent and 4.17 percent respectively in FY 2015/16. In the composition of direct tax, income tax plays the vital role, which contribution seems to be increasing every year. The percentage contribution of house and land registration is in decreasing trend and the income tax has occupied second position at present on the basis of mean contribution of GDP. Its contribution to govt. revenue is in increasing trend so the income tax in future will also contribute very well. Income tax has been considered as suitable means for mobilization internal resources. Similarly, the contribution of custom duty, excise duty and VAT on indirect tax were 44.06 percent, 13.25 percent and 42.69 percent in FY 2009/10 and contribution of each taxes were reached 29 percent, 21 percent and 50 percent respectively in FY 2015/16. It shows that a custom duty is in decreasing trend and excise and VAT were in increasing trend.
3. During this study period, contribution of direct tax to GDP is 2.46 percent in FY 2009/10 and which reached 3.0 percent in FY 2015/16. It was fluctuated; this ration is not satisfactory to GDP. Similarly, contribution of indirect tax to GDP is 6.67 percent in FY 2009/10 and which reached 9.50 percent in FY 2015/16. It is in increasing trend.
4. Nepalese domestic resource gap has been fluctuated during this study period. Government expenditure is Rs.80072.2 million and revenue is Rs.50445.6 million in 2009/10, that year resource gap is Rs.29626.6 million, which is 37 percent. In FY 2015/16, government expenditure is Rs.295363.4 million and revenue is Rs.199819.0 million, which was 32.36 percent, it crated the resource gap Rs.95544.4 million which is average gap to government expenditure is 33.22 percent. On the average contribution of total government revenue to govt. expenditure is 63.74 percent during this study period. Government revenue is 67.65 percent of maximum level in FY 2015/16 and 62.73 percent minimum level in FY 2009/10.
5. In this study I have attempted to analyze the practice of Direct tax and Indirect tax in Nepal, Its revenue collection trend for past 10 FY . The share of direct and indirect tax revenue to different tax head is analyzed. Empirical analysis has been done with the help of self structured questionnaire. This study is divided into five chapters. Prior to the body of the thesis, several pages of preliminary materials such as title page, viva-voce sheet, Recommendation, Declaration of the researcher, Acknowledgement, Table of contents, List of table, List of figures and Abbreviations used have been included.

**5.2 Conclusion**

Nepal is one of the lowest taxed economies in the world. Every year, it has been suffering from social and economic problems. The government of Nepal is not being able to collect necessary government revenue to cure such problem. Due to poor performance on internal revenue collection and mobilization, the government of Nepal has still dependency is increasing which is not desirable for any economy. Thus remedy should be made in due time by the country to run in the path or economic development.

This study on direct tax and indirect tax, collecting data from the FY 2009/10 to FY 2015/16, shows that the direct and indirect taxes are the very important sources of government revenue. Its contribution in the total revenue is in increasing trend. The timely change policies with respect to income tax, VAT, custom duty, excise duties are very important in the collection of direct and indirect tax. The future projection of direct and indirect tax shows the bright future of government revenue.

During this study period, Contribution of total tax revenue to government in FY 2009/10 is 77.97 percent and in the FY 2015/16, it is 86.47 percent. On the other hand, contribution of direct tax and indirect tax to total tax revenue is 24 percent and 76 percent in FY 2015/16; this figure shows that there is still dominant role of indirect tax. Similarly, contribution of direct tax to GDP is 3.0 percent and indirect tax contribution is 9.50 percent in FY 2015/16.

After finishing this study, we conclude that the Nepalese tax revenue is heavily dominated by indirect tax revenue. Only one fourth of tax revenue has been contributed by direct tax revenue. So, it is necessary to increase the share of direct tax revenue to total tax revenue. To increase its contribution, resource mobilization through direct tax be focused. The contribution of income tax or direct tax to total tax revenue should be increased by making withholding effective change in income tax policy rules and regulation. Lunching new tax payers into tax, e-tax help increase income tax’s share in tax and direct tax revenue.

Among various taxes; Custom duty, excise duty and value added tax were there major sources of indirect tax. Contribution of each taxes to total indirect tax were 44.06 percent, 13.25 percent and 42.69 percent respectively in FY 2009/10 and it is increased to 29 percent, 21 percent and 50 percent in FY 2015/16. It shows that the custom duties were in decreasing trend, excise duty in increasing trend and VAT was fluctuated during this study period. On the other hand major sources of direct taxes are; Income tax, land and house registration and vehicle tax. Contribution of each tax to total direct tax are 84.02 percent, 10.68 percent and 5.3 percent respectively in FY 2009/10, which reached to 87.50 percent, 8.33 percent and 4.17 percent in FY 2015/16. This study shows that income tax’s contribution was in increasing trend but house and land registration and vehicle tax was in fluctuating. It may be due to the political instability. Over the past several years Nepal has been adopting the policy of lowering tax rates and widening its coverage, which is not supported by credible reform measures lower the revenue collection. In this regard, providing adequate education to tax payers, simpliFY ing and making income assessment procedure more transparent reforming tax administration and utilizing other effective measures to offset the revenue loss caused by lower tax rates has been focused very significant to strengthen internal revenue base of country.

Contribution of tax revenue to GDP has been focused very nominal compare to the same ratio in other neighboring SAARC and other developing countries. In Nepal, contribution of indirect tax to GDP is 6.67 percent in FY 2009/10 it reached to 7.48 percent in FY 2015/16. This shows that indirect tax contribution to GDP was in increasing trend. Similarly, contribution of direct tax to GDP is very low comparison with indirect tax. Its contribution to GDP in FY 2009/10 is 2.46 percent and it isreached to 2.64 percent in FY 2015/16 respectively. This indicates that its contribution was fluctuated.

Corporate sector is in initial stage of development in Nepal which is small and stagnant in nature comparing to other developing country. The performance of corporate sector, especially the industry is very poor their number profitability, investment in fixed assets, share of market transactions are all in weak position nevertheless, the important of contribution of corporate income tax to government revenue is important to Nepal like developing country. During this study period, private sector contribution to CITR is higher than public sector contribution. Private sectors contribution is 44.38 percent and 92.09 percent in FY 2009/10 and 55.62 percent and .90 percent in FY 2015/16. CITR portion in income tax revenue is 49.09 percent of maximum in FY 2009/10 and it is 36.54 percent in 2015/16.

Nepal is facing a serious and growing resource gap or fiscal deficit in every year. Nepalese resource gap is growing in increasing trend, which is not good for developing countries like; Nepal. To solve the fiscal deficit, tax structure should play important role. Tax structure is the main sources of government revenue in this regard. It is need to raise the tax revenue by widening the tax base refining the tariff structure at regular intervals. Resource gap in FY 2009/10is Rs.29626.6 million and Rs.95544.4 million in FY 2015/16. This indicates that resource gap is in increasing trend.

An Opinion survey has been conducted in order to find out various aspects of tax imposition in Nepal. The questionnaire was distributed to the tax administrators, tax experts and tax payers. It has concluded that government should increase the tax education in Nepal to increase tax consciousness of tax payers. To increase our national tax revenue the tax policy needs a clear and simple procedure, to lunch tax education packages, avoids all types of political pressure etc. are the major idea to improve total tax revenue in Nepal.

**5.3 Recommendations**

Tax is one of the most important internal sources of government revenue. As there are certain types of source of government, which have the vital role in the coverage of the expenditure in the budget. There is direct and indirect tax, which are the main subject of this study.

After doing the above research about Tax structure and its contribution on revenue collection in Nepal. The following specific suggestions have recommended for the effective and efficient mobilization of additional financial resources through direct and indirect taxation in Nepal:

1. The researcher can find this study period, Indirect tax plays the dominant role in Nepalese tax revenue structure. The contribution of direct tax and indirect tax to total revenue is 26.94 percent and 73.06 percent in FY 2009/10 and 24.0 percent and 76 percent in FY 2015/16 respectively. This study shows that Nepalese tax revenue structure is not good. To improve the tax structure, we also need to increase the contribution of direct tax to total tax revenue.
2. Nepalese tax payers are not well familiar about direct and indirect tax, so to increase the tax revenue, tax education is most necessary in Nepal.
3. Unwillingness of tax payers to pay tax is the major problem of Nepal. So, people should be encouraged to pay tax voluntarily. A system should be introduced that a taxpaying citizen is entitled to receive more incentives than a non-taxpaying citizen.
4. Tax payers, who submit true income statement with in the specified period of time, should be provided certain percentage of tax rebate.
5. Most of the tax payers are not satisfied with the behavior of tax administration. Thus they should be trained properly to deal with tax payers properly. So that sense of cooperation may rise.
6. Effective incentive mechanism for the tax administration, which honesty takes their responsibilities and work against the tax evasion must be promotion cease reward honoring etc.
7. In the present Nepalese environment there exists instability of political situation so government should create an environment of strong political commitment for effective revenue collection on direct and indirect tax.
8. Training programs must be provided tax offices for development of skill manpower administration with current information technology.
9. Unproductive, corrupted, inefficient staff lacking practical and specialized training is a serious problem. So, providing training to such is highly essential.
10. Separation income tax department should be established so that the specialization could be achieved in matter of income tax.
11. Recent decreasing trend of CITR indicates that it is necessary to protect corporate sector from different external security threaded; so, priority should be given to maintain its existence.
12. Income tax policy should be formulated according to the economy policy of the country. Income tax policy should be revisiting timely.
13. The domestic resource gap in FY 2009/10is Rs.29626.6 millions and Rs.95544.4 millions in FY 2015/16. This indicates that domestic resource gap is in increasing trend. Government should reduce this resource gap by increasing internal revenue and subsidies likewise; government should take the foreign loan for productive sector or purpose, which has high revenue generating possibility.

14. Tax law should be simplified instead of using vague meaningful words, clear cut provision should be made.

15. There should be a policy to develop the efficient fair and equitable tax administration to increase the income tax revenue.

16. Tax payers grievance are not redressing by the Nepalese tax administration. To improve the tax administrative task, following recommendation is presented:

* Delay in assessment should be reduced as possible.
* Computerized information system is necessary to keep up to data records of income tax.
* Unnecessary political pressure should be avoided.
* Proper tax education should be provided to tax officials as well as tax payers regularly.

17. Government should appoint the capable market supervisors to increase the direct and indirect tax revenue and to apply the tax rules and regulations.

18. Existing income tax system is not effective. To make tax system effective, following recommendation are presented:-

* The language of act and rules should be simple and clear.
* The assessment and tax collection provisions should be making clear and simple, so that tax payers would be encourage paying income tax.
* To give training and sufficient incentive to employee
* Discretionary power of the tax officials should be curtailed in the act.
* The assessment of the time limit after the submission of income assessment should be reducing

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**APPENDIX - I**

**Collection from Major Sources of Income Tax in Nepal**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Fiscal Year** | **Total Income tax revenue** | **Public enterprises** | **Private corporate Bodies** | **Individual** | **Employment****( Remuneration)** | **Tax on****Interest** | **Other****Taxes** |
| **Rs.** | **percent** | **Rs.** | **percent** | **Rs.** | **percent** | **Rs.** | **percent** | **Rs.** | **percent** | **Rs.** | **percent** | **Rs.** | **percent** |
| 2006/07 | 8903.7 | 100 | 1769.3 | 19.87 | 1412.0 | 15.86 | 4419.1 | 49.63 | 835.6 | 9.38 | 467.7 | 5.26 | - | - |
| 2007/08 | 8131.9 | 100 | 1251.0 | 15.38 | 1236.3 | 15.20 | 3362.2 | 41.35 | 1252.6 | 15.40 | 864.0 | 10.64 | 165.8 | 2.03 |
| 2008/09 | 9514.5 | 100 | 2056.6 | 21.61 | 1531.3 | 16.09 | 3533.4 | 37.14 | 1391.2 | 14.62 | 733.4 | 7.72 | 268.6 | 2.87 |
| 2009/10 | 10466.1 | 100 | 1332.4 | 12.73 | 2467.8 | 23.58 | 3926.0 | 37.51 | 1675.9 | 16.01 | 757.0 | 7.24 | 306.7 | 2.93 |
| 2010/11 | 10939.4 | 100 | 195.7 | 1.79 | 3404.3 | 31.12 | 4234.7 | 38.71 | 1764.1 | 16.12 | 774.9 | 7.09 | 565.7 | 5.17 |
| 2011/12 | 15731.8 | 100 | 1019.7 | 6.48 | 5170.1 | 36.34 | 5934.4 | 33.27 | 2007.9 | 12.76 | 104.49 | 6.72 | 697.8 | 4.43 |
| 2012/13 | 19077.8 | 100 | 204.6 | 1.07 | 7186.5 | 37.67 | 6381.2 | 33.45 | 2451.0 | 12.85 | 1087.9 | 5.70 | 1766.6 | 9.26 |
| 2013/14 | 27247.4 | 100 | 959.0 | 3.52 | 9425.1 | 34.59 | 9629.9 | 35.34 | 3195.6 | 11.73 | 1685.1 | 6.18 | 2352.7 | 8.63 |
| 2014/15 | 33811.5 | 100 | 1131.9 | 3.35 | 12234.5 | 36.18 | 9884.2 | 29.23 | 4413.1 | 13.05 | 2466.47 | 7.29 | 3681.4 | 10.89 |
| 2015/16 | 41725.4 | 100 | 1206.0 | 2.89 | 14043.9 | 33.66 | 11919.4 | 28.57 | 5784.3 | 13.86 | 4169.1 | 10.0 | 4603.6 | 11.03 |
| Total | 185549.5 | 100 | 11126.2 | 88.69 | 58658.8 | 280.29 | 62524.8 | 364.2 | 24771.3 | 135.78 | 13110.99 | 73.84 | 14408.9 | 57.19 |
| Average | 185549.5 | 100 | 1112.6 | 8.87 | 5865.9 | 28.03 | 6252.5 | 36.4 | 2477.1 | 13.58 | 1311.1 | 7.38 | 1440.9 | 5.72 |

Source: Economic Survey, MoF, 2016.

**APPENDIX - II**

**Summary of National Revenue in Nepal**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Fiscal Year** | **2006/07** | **2007/08** | **2008/09** | **2009/10** | **2010/11** | **2011/12** | **2012/13** | **2013/14** | **2014/15** | **2015/16** |
| **Rs.** | **percent** | **Rs.** | **percent** | **Rs.** | **percent** | **Rs.** | **percent** | **Rs.** | **percent** | **Rs.** | **percent** | **Rs.** | **percent** | **Rs.** | **percent** | **Rs.** | **percent** | **Rs.** | **percent** |
| Total Rev. | **50445.6** | **100** | **56229.7** | **100** | **62331** | **100** | **70122.7** | **100** | **72282.1** | **100** | **87712.2** | **100** | **107622.5** | **100** | **143474.0** | **100** | **179945.8** | **100** | **199818.7** | **100** |
| N.TR | 11115.0 | 22.03 | 13642.7 | 24.26 | 14158.0 | 22.71 | 16018.0 | 22.84 | 14851.7 | 20.55 | 16585.5 | 18.90 | 22467.0 | 20.87 | 26422.6 | 18.4 | 23650.9 | 13.14 | 27041.1 | 19.80 |
| Tax Rev. | 39330.6 | 77.97 | 42587.0 | 75.74 | 18175.0 | 77.29 | 54104.7 | 77.16 | 57130.4 | 79.45 | 71126.7 | 81.09 | 85155.5 | 79.12 | 117051.0 | 81.5 | 156294.9 | 86.86 | 172777.6 | 86.47 |
| **IDTR** | **28733.1** | **100** | **32481** | **100** | **36260.4** | **100** | **41032.9** | **100** | **43462.3** | **100** | **5214.4** | **100** | **62067.8** | **100** | **82714.7** | **100** | **114548.5** | **100** | **131311.0** | **100** |
| Custom | 12658.8 | 44.06 | 14236.4 | 43.83 | 15554.8 | 42.9 | 15701.6 | 38.27 | 15344 | 35.3 | 16707.6 | 32.04 | 21062.5 | 33.93 | 26792.9 | 32.3  | 35143.49 | 30.68 | 38080.18 | 29 |
| Excise | 3807.0 | 13.25 | 4785.1 | 14.73 | 6226.7 | 17.17 | 6445.9 | 15.71 | 6507.6 | 14.97 | 9343.2 | 17.92 | 11189.6 | 18.03 | 16220.9 | 19.6 | 24479.02 | 21.37 | 27575.31 | 21 |
| VAT | 12267.3 | 42.69 | 14478.9 | 39.93 | 26095.6 | 50.04 | 13459.7 | 41.44 | 18885.4 | 46.02 | 21610.7 | 49.73 | 29815.7 | 48.04 | 39700.9 | 48.0 | 54926.02 | 47.95 | 65655.49 | 50 |
| **DT** | **10597.5** | **100** | **10105.8** | **100** | **11912.6** | **100** | **13071.8** | **100** | **13968.1** | **100** | **18980.3** | **100** | **23087.7** | **100** | **34320.7** | **100** | **41746.37** | **100** | **41466.63** | **100** |
| Income tax | 8903.7 | 84.02 | 8131.9 | 80.47 | 9514.7 | 79.87 | 10466.1 | 80.07 | 10939 | 78.32 | 15731.8 | 82.88 | 19077.8 | 82.63 | 27247.4 | 79.3 | 33814.56 | 81 | 36383.3 | 87.50 |
| H & L Reg. tax | 1131.8\* | 10.68 | 1414.3 | 14.0 | 1697.5 | 14.25 | 1799.2 | 13.76 | 2181.1 | 15.61 | 2253.5 | 11.87 | 2940.7 | 12.74 | 5223.4 | 15.2 | 5581.49 | 13.37 | 3455.55 | 8.33 |
| Vehicle tax | 562.0\*\* | 5.3 | 559.5 | 5.35 | 700.6 | 5.88 | 806.5 | 6.17 | 847.6 | 6.07 | 995.0 | 5.24 | 1069.2 | 4.63 | 1850.0 | 5.3 | 2350.32 | 5.63 | 1727.78 | 4.17 |

Source: Economic Survey, MoF, 2016.

🞿 Land Revenue has been included, 🞿🞿 Urban House and land tax have been included, now, these are not government revenue.

**APPENDIX - III**

**QUESTIONNAIRE FOR THE RESPONDENTS**

Questionnaire to tax Administrators / Tax Experts /Tax Payers

Name o f Respondents: Designation:

Office / Organization: Occupation:

Please tick (√) the answer of your choice or wherever appropriate put in order of preference from 1 to last number on the basis of alternatives. Number 1 stand for the most important and vice – versa.

1. Do you think that people are familiar with direct and indirect tax?

 (a) Yes (b) No

2. Do you think that the direct and indirect tax as an appropriate mean of raising the government revenue?

 (a) Yes (b)No

3. Do you think that the revenue collection from direct and indirect tax is satisfactory as it had been expected?

(a) Yes (b) No

If No, how can government decrease gap between the actual and budgeted revenue collection from direct and indirect tax? (Please rank)

1. By making tax administration system effective
2. By decreasing tax evasion
3. By Applying the strict punishment system to tax

payer, who do tax evasion.

4. In your opinion is contribution of direct and indirect tax to national revenue of Nepal satisfactory?

 (a) Yes (b) No

If No, what are the major reasons (Please rank):-

a) Inadequate economy policy

b) Inefficient tax administrative

c) Complicated tax act, rules and regulation

d) Lack of consciousness in tax payer.

e) Unwillingness of tax payers to pay tax.

f) Lack of awareness to tax payers

d) Difficulty in maintain account for tax purpose

e) Lack of training and sufficient incentives toemployees

5. What is the most important factor for effectiveness of income tax in Nepal? (Please rank)

(a) Honest tax officer

(b) Honest tax payers

(c) Clear act, rules and regulation

(d) Effective income tax administration

6. Are you satisfied with the present Income tax system of Nepal?

 (a) Yes (b) No

 If not, what are the major problems in Income tax system? (Please rank according to priority)

1. Inappropriate income tax policy.
2. Lack of political commitment.
3. Complicated income tax act, rules and regulation.
4. Lack of education to tax payer.
5. Lack of training and sufficient incentive to employee.
6. Inappropriate rate and exemption unit.
7. Practice of Tax evasion.
8. Illegal business activities
9. Do you think, tax officer easily go to the market for monitoring the tax evasion?

 Yes No

1. Do you think tax payers have adequate administrative and legal opportunities for redressing their grievance?

 Yes No

1. Have you faced any complicating in paying tax?

 Yes No

 If yes, what type of problem have you faced? (Please rank)

1. Complex tax law and procedure.
2. Administrative inefficiencies.
3. Corruption
4. Other (please speciFY )……………
5. In your opinion what steps should be taken to improve direct and indirect tax revenue collection? (Please rank according to the priority )

(a) Conducting tax education programs to cultivate or

 nurture taxpaying culture among taxpayers.

(b) Setting and monitoring tax collection targets.

(c) Making taxpayers aware of their rights, obligations,

 And consequences of failure to comply with tax

 laws.

(d) Sending regular reminder notice to taxpayers.

(e) Providing more incentive recognition and other

 Support to tax payers.

(f) Others (please speciFY )……………………….

1. What are the essential factors for making tax administration and tax collection system effective in Nepal?(Please rank according to the priority)

(a) Proper training to tax personnel.

(b) Better information system.

(c) Simple tax procedures.

(d) Tax education to taxpayers.

(e) Better public relations by tax personnel.

(f) Establishment and implementation of effective reward

 and punishment system.

(g) Identification and clear cut advertisement about tax

 incentives.

(h) Other (please speciFY )……………

12. Do you have any suggestion for achieving effectiveness in direct and indirect tax collection system? If yes, please speciFY ;

 ……………………………………………………………………………

 ……………………………………………………………………………

 …………………………………………………………………………