A STUDY ON TAX COLLECTION SITUATION IN NEPAL

A Thesis

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CHAPTER I
INTRODUCTION

1.1 Background of the Study

Economic development has been one of the most popular slogans in almost all the developing countries all over the world. Similarly, achievement of high rate of economic growth rate, reduction of income disparities and poverty and improvement of living standard of people are some of the development strategies towards which most of the government's efforts have been directed in developing countries. It is known that government needs more revenue for overall economic development and state welfare. Besides this, for meeting day- to-day expenditure, the government also requires some sources of income, these are the challenging tasks, which demand increasing necessity of recurrent expenditure in general and capital expenditure particular. However, resource mobilization is very low, compelling the government to depend on foreign assistance heavily. Capital expenditure has been dependent almost entirely on foreign aid. External assistance is uncertain, inconvenient and not good for healthy development. Foreign aids are not bad for economic development of the nation, but the experience of most of the developing countries shows that there are negative effects of increasing international grants and loans to finance and the public development activities. Thus, the government should depend on its own resources for generating revenue to spend these recurrent as well as capital activities (Lamsal, 2017, p. 18).

The government collects revenue from tax and non-tax sources. Tax is key source for revenue mobilization. Tax is a compulsory contribution, as prescribed by law, to the government for a common benefit upon the residents of the state. Taxes are major fiscal policy instrument and important government policy tools have an important role in increasing the rate of capital formation and thereby a high rate of economic growth can be achieved. Increase in taxes may be directed to increase in saving through the postponement of consumption. To increase in saving as available for making useful and productive investments. Taxation may also play a dual role. On the one hand, taxation may be used to make the maximum volume of resource available to the public sector. On the other hand, taxation may be used to promote useful investment in the private sector and to prevent the resource from being dissipated over speculative and unproductive investment as well as over lavish and luxuries consumption. Thus, taxes in developing countries are the severe means of raising revenue (Luitel, 2018, p. 29).

There are two ways to raise tax either by indirect tax or direct tax. Tax is a direct one when the incidence and impact are on the same person e.g. income tax. Indirect tax simply implies that a tax in which the burden or incidence of tax does not directly fall on the taxpayers but shifts towards other persons and the real income are affected indirectly for example, Value Added Tax, customs duties, etc (Rana, 2012, p. 39).

The tendency of welfare state in the present day world of twenty- first century is increasing rapidly. A welfare state has many duties and responsibilities towards its sovereign principle. Modern government has many functions as: (1) to protect its people. (2) to implement overall development activities in the country and (3) to built various socio- economic infrastructures such as road, electricity, communication, schools and universities etc. Every government needs adequate resources for successful implementation of all these development activities in the country.

Nepal is no exception to the category of welfare state. It has to perform all the duties of a welfare state. Nepal, being a underdeveloped country, the role of government is still vital to build up infrastructure for economic development. It is a challenging task, which demand increasing necessity of regular expenditure in general and development expenditure in particular. Internal resource mobilization is very low and the government depend on foreign assistance for these expenditures yet. Development expenditure depends almost on foreign assistance. But external or foreign assistance is uncertain, inconvenient and not good for healthy economy. The experiences of most of the developing countries show that there are negative impact of increasing international activities. Heavily dependence on foreign aid would hamper the proper utilization of internal resources. More dreadfully, it would give rise to the dependency syndrome; which is not a healthy signal for any economy. Thus, it is better to mobilize internal resources rather than approaching to the donors.

1.2 Statement of the Problem

In the context of present changing scenario, each rule and regulation has virtually seized to function. At the phase of implementation of rules and regulations, some loopholes and drawbacks are seen. Due to some administrative problems, tax laws have not been implemented effectively. Although government has formulated progressive tax laws, there are many more difficulties while determining and collecting tax revenue.

In Nepal, social and economic development is not progressively and sufficiently reached at target point as it has a small economy with limited resources and political instability. Policies and strategies have been largely ineffective. Dependency over foreign aid has been dramatically increasing to meet the deficit of budget.

Taxation is considered as one of the most important part of government receipts. It plays an important role in domestic resource mobilization. Through the taxation, resources of the private sector are transferred to the public sector for the economic development of the country. Sustainable economic development has been the major concern of very developing country.

Nepal, being a developing country, has been facing a serious problem of resource gap. Dependency on foreign assistance is continuously increasing. Resources gap can be narrowed either by curtailing government expenditure or by increasing government receipts. Curtailing government expenditure is not easy task. Increase in regular expenditure can be reduced to some extent. Nepal spends 15.5 percent of the recurrent expenditure for the payment of principal and interest of its debt (MoF, 2018). Other regular expenditures have been rapidly increasing. Resource is needed to fulfill development activities, social services and to maintain the infrastructures already built.

The development of a nation will be possible when the government can mobilize its own internal revenue, through tax and non-tax revenue. Tax revenue constitutes significant portion in government revenue. In the total tax revenue of Nepal, indirect tax has greater portion than direct tax. It is not a good symptom that the portion of direct tax revenue is very low and the government is largely depending upon indirect tax.

For the economic development of the country, contribution of direct tax is more essential rather than indirect tax. Among the direct tax, income tax plays a significant role, but it is not pleasure to quote that the contribution of income tax to the national revenue, research and analysis should be done in the field of income tax. Hence, the following research questions are addressed in the study:

1. What is the trend and structure of taxation in Nepal?
2. What is the contribution of direct and indirect tax on GDP of Nepal?
3. What is the Nepalese laws, acts, rules and regulations to the taxation system?

1.3 Objectives of the Study

The basis objective of this research study is to examine the tax collection system in Nepal. However, the specific objectives of this study are pointed out as follows:

1. To analyze the trend and structure of taxation in Nepal,
2. To examine the contribution of direct and indirect tax on GDP of Nepal,
3. To review the Nepalese laws, acts, rules and regulations to the taxation situation.

1.4 Significance of the Study

In the context of developed and developing country there are so many crucial aspect or sector help for economic development. In such way "Income tax" is one of the fundamental sector, which plays vital role for the overall economic development of country. Contribution of income tax in government revenue collection is relatively more than other taxes. Therefore a few studies have been conducted about structure of income tax to the government revenue of Nepal.

Nepal is one of the lowest tax collection economies in the world as Tax/GDP ratios are the lowest among SAARC countries and among the rest of the world as well. This indicates the poor performance of income tax management of Nepal. For the economic development of the country, contribution of direct tax is more necessary rather than indirect tax but the whole tax structure of Nepal is dominated by indirect tax.

Every year there is a need of mobilizing adequate resources for meeting the increasing financial requirements for GoN development purposes. Thus, income tax seems to be one of the major potential sources for mobilizing a larger amount of financial resources in Nepal. In developing country like Nepal, income tax plays importance role for reducing economic inequality in the society and it is instrument to measure the economic standard of people. But income tax of Nepal is suffering from various problems. The major problems are: inappropriate tax policies, administrative bottlenecks of tax offices and existences of mass poverty. So to identify the problems and to overcome it and to improve existing level of income tax collection, the research on income taxation is essential.

This study is helpful to the economists, planners, tax officers and tax administrators of government. Similarly, this study can also be helpful to the students, teachers, researchers and other individuals who are interested in the income tax system of Nepal.

1.5 Limitations of the Study

The study has been conducted with the following limitations:

- Major data used in this study are based on secondary data. The reliability test has not been done.
- This study is confined to Nepalese laws, acts, rules and regulations to the income tax.
- The study concerns only a period of 11 years from FY 2007/08 to 2017/18.

1.6 Organization of the Study

The study has been divided into five chapters.

The first chapter includes the background of the study, statement of the problem, objectives of the study, significance of the study and limitations of the study. The chapter two contains review of literature. The chapter three explains the research methodology which includes research design, natur and sources of data, data collection procedures, data processing procedures and statistical tools used for the analysis of data as per the need. The chapter four includes presentation and analysis of data. This chapter includes structure of tax including direct and indirect taxes. The chapter five includes summary, conclusions and recommendations.

CHAPTER II
REVIEW OF LITERATURE

2.1 Conceptual Review

The income of the government is called revenue. The government revenue can be classified broadly in to two groups: tax revenue and non-tax revenue. Government receives tax revenues as compulsory payment and non- tax revenue as conditional sources. Duty and fees, penalties, fines and forfeitures, receipt from sales and rent of government services, dividends, interest, royalty and sales of government properties, principal repayment, donation and miscellaneous income, etc. are the sourced of non-tax revenue. Income tax, sales tax, value added tax, property tax, capital gain tax, custom duty, hotel tax, entertainment tax, etc. are the sources of tax revenue. In Nepal, around eighty percent of the government revenue comes from taxation. Hence, tax is the major sources of the government's revenue.

Tax simply means a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the taxpayers according to law. Findlays Shiras defined tax as "A compulsory contribution from a person to the government to defray the expenses of the government which have been incurred for the public good and without references to special benefits" (Agrawal, 2006, p. 25).

In this way, it is clear that a tax is a compulsory levi and tax has to pay without getting corresponding benefit of services and goods from the governments. The taxpayer does not have any right to receive direct deposit from the tax paid.

Income tax also helps to increase the consciousness of the people because the people who have paid the income tax are keen towards public expenditure. It is also helpful for generating the concept of social responsibility towards the nation. In fact income tax is an important internal sources to strengthen the economic growth of a country and to meet the slogan of economic revolution by searching additional sources of revenue. The income tax is imposed keeping in view the capacity of taxpayers to bear the burden of tax. People, whose income level is below prescribed limit, are exempted from income tax liability. Income tax is basically charged for two purposes, one is for collecting revenue to meet the expenses for public welfare activities and another is to create equal society by minimizing the economic gap between haves and have not. Income tax is based on the principle of certainty. It also follows the cannon of economy. Income tax plays very important role in Nepalese economy. Income Tax is one of the better sources of public revenue. It is a tool of achieving maximum social and economic objectives lay down by the Constitution of Nepal (Dhakal, 2002, p. 23).

The objectives of sound financial system and creation of unexploited society cannot be achieved until the mobilization of economic resources effectively through direct tax like income tax. It is therefore given high priority in almost all countries, developed as well as developing because they have potential for increasing the yield of the tax system and achieving a system of taxation that satisfies the demand for equity and social justice. It more or less affects production, growth, economic activities of the government, reduction of dependency on external sources, industrialization, redistribution of income, employment and generation of justice in society.

Income Tax Act (2001) is in operation. Income tax revenue in Nepal is collected through four sources i.e. corporate, individual, house and land rent and interest tax. Among them, corporate income tax constitutes the highest share. Contribution of individual's income tax is in decreasing trend although it occupies the second position in income tax collection. Exemption limit and tax rate of the income tax is determined according to the income level and sector wise but is not adjusted according to the country and number of dependents. Exemption limit is not provided to the corporate bodies (Kafle, 2017, p. 32).

Simply, the tax means a liability to pay an amount to the government. It is a compulsory contribution to the national revenue as per the taxpayer's law. Different person has defined taxation in different ways. Seligman (1978) defined tax as "A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred" (p. 12). In the light of this definition, it can be said that, a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of service or goods from the government. The taxpayers do not have only right to receive the direct benefits from the tax paid. "Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the resident of the state" (Shirras, 1995, p.18).

Among direct taxes, income tax is one of the main sources of revenue. It is a progressive tax system. Income tax is imposed on the basis of ability to pay. The more a taxpayer earns the more he should pay"-is the basic principle of charging income tax. It aims at ensuring equity and social justice in the economy (Plehn, 1978).

Shirras (1995) defined tax as "A compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefits". As mentioned in above definitions, it can be concluded that: tax is a compulsory levy imposed by the government, tax is levied on persons as per the prevailing laws, those who pay tax do not get corresponding benefits prom the government, tax amount is spent for common of the people and tax is collected from haves and spent for the interest of have-nots in the society (Agrawal, 2006, p.18).

Most of the Tax Acts have defined tax as tax levied as per the Act and it also include fines, penalty, interest etc charge for infringement of provisions of the act and rules and directives framed under the Act. According to Finance Act, 2074 government can collect the following area of tax revenues from persons. Such as, custom duty, foreign employment service duty, movies development duty, vehicle duties, registration fee, service fees, and rokka charges, local development charges, telephone ownership fees, rural education development Fees, casual income tax, casino royalty, special duty.

Finally, it can be said that a tax is a liability to pay an amount to the state on account of the fact that the assessor have income of a minimum amount from certain specified sources or that they own certain tangible or intangible property or that they carry on certain economic activities which have been chosen for taxation.

2.1.1 Concept and Types of Tax

Tax refers to a compulsory contribution to the nation by its people for whom the nation provides security to them. Taxes are levied primarily to raise revenue for the government expenditures, although they raise for other purposes as well. According to Seligman "Tax is the compulsory contribution form a person to the government to defray expenses occurred in the common interest of all without reference to special benefit conferred.

According to Plehn;" Taxes are general contributions of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the state". From the above definition, it can be said that tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit. The taxpayer does not have any right to receive direct benefit from tax paid. Due to this compulsory nature, people have expressed different views in different ways about the taxation. "Nothing is certain in this world but death and taxes". While others say' Death means stopping to pay tax" (Kandel, 2006, p. 22).

The concept of modern tax which is an outcome of western thought contains different fundamental principles. Some of them are as follows:

- No taxation without representation,
- Tax can be levied only with the approval of citizens through their representatives.
- Foreigners are required to pay more tax than citizens.
- When a state levies tax, it is to be collected compulsorily and tax payers are compelled to pay as it is their liability.

A government can only impose tax to the natural person and legal person as per the prevailing laws. In the history of tax laws in Nepal, in Lichhabi period, the main source of revenue of the government was tax. There were tri-kara: Bhaga (tax on agriculture), Bhoga (tax on livestock) and Kara (tax on trade). Other different taxes were imposed on different areas. Anshubarma, one of the kings of Lichchhabi period imposed water tax and religious monument repair tax. In the Malla period, there were taxes related to land, trading etc. Jayasthiti Malla imposed taxes on Cremation (Daha Sanskar) and Caste purity. In Shah period also, there was continuation of the tax system of Malla period, i.e. based on land and trade. After unification, different types of taxes like land tax, transit tax, forest product tax, mining tax, market duties were levied. In the Rana period, the main source of government revenue was land tax, customs duties and excise. The tax system was based on contract. Amanat, Jimmal, Mukhiya and Dittha were the persons who used to collect the tax. Sanads and Sawals were the laws guiding tax system. Lagati (based on lagat record) and Hansawali (not based on record) were two types of revenues. Jamma Najodnu, Kachcha Nachhodnu (not to get total and not to leave even a single paisa) was the principle of revenue collection in the Rana period (Rana, 2012, p. 25).

After the dawn of democracy, the first budget was introduced in 1952. After that so many reforms in tax system are carried out in Nepal. Different types of tax laws such as customs, excise, income tax, sales tax/VAT, local tax and others were introduced and abolished. For the self-reliant economic system and sound infrastructure, the government should generate sufficient public revenue. To meet the public expenditure, the government collects fund through external and internal sources.

“Government revenue has grown by an average of 18 percent during the nineties. As a percent of GDP, government revenue increased from 8.8 percent in 1985 to 11.3 in 1996. Due to low level of revenue surplus, development financing of the government continued to the highly dependent on foreign aid. The share of foreign aid in development expenditure stood high, at approximately 55 percent in the nineties. The share of loan in total foreign aid had been growing and external debt of the country increased from 2 percent of GDP in 1975 to 56 percent in 1996. Apart from the government sector, there are a number of non-government organizations injecting financial resources into the economy. The financial investment of the NGOs and INGOs stood as high as Rs.11 billion in 1995 which was more than one-tenth of the total government expenditure in the social sector. Tax revenue accounted for around four-fifth of the total revenue. The most outstanding characteristics of Nepal’s tax systems are its heavy dependence on indirect taxes and rigidity is its structure. Indirect taxes contribute more than 80 percent of the total tax revenue" (Aryal, 2014).

In conclusion, it can be said that tax is a liability to pay an amount to the state which spends common interest of the people. Basically, tax is collected from haves and spent for the interest of have-not in the society. It helps to bridge the gap between haves and have-not.

The main objectives of taxation have been different for different epochs. In ancient times, the major objective of taxation was strengthening the muscle of the state by providing the resources.

In modern days, the main objective of the taxation has been shifted from security perception to economic development. The modern objective of taxation is not only to maintain peace and security but also the conduct development activities. The objectives of the modern taxation can be enumerated as follows:

- To increase the revenue for a welfare state.
- To have equitable distribution of income and property,

- To increase the production of particular goods,
- To increase the employment, saving and investment,
- To minimize the regional disparity,
- To control the production of certain goods and
- To implement the government policy.

Tax has the objectives of the encouragement in production of certain products, encouragement in employment, saving and investment, equal distribution of wealth and income in the society, resource mobilization, removal of regional imbalances and enforcement of government policy by raising revenue.

2.1.2 Structure of Tax Revenue

The revenue of government comes from basically two source tax and non-tax. Non-tax revenue includes different sources like grants and gifts, administrative incomes, business incomes and taxation. Grants and gifts mean the amount given by the people of the country itself voluntarily or by other country. The administrative income denotes the amount charged by the government for providing administrative services such as registration fees, passport fees, tourism fees, and other fee, fines and penalties, forfeiture etc. Other components of non-tax revenue are forest, postal services, dividends, interests, royalty, sales of government property etc. In Nepal, around 20 percent of the revenue comes from these sources (Kandel, 2006). Another source of government revenue is the taxation like customs duty, excise duty, value added tax, corporate and personal income taxes. These are the major components of tax revenue. Nepal Government collects revenue from different sources. Now, the types of these taxes are around thirty. However, from viewpoint of revenue, only four or five types of taxes have importance. For a tax planner, one person should know the meaning and certain provisions related to all these taxes. The following are certain taxes which the business community should encounter tax during day-to-day business life and which provide most of the revenue of Nepal Government.

a. Income Tax: A tax imposed on income base is called income tax. Income tax is divided into two parts- Individual income tax and corporate income tax. Income tax to be paid by individual or couple or sole proprietorship firm is individual income tax whereas income tax to be paid by entity is called corporate income tax.

In Nepal, income tax (combination of both individual and corporate) contributes around 20 percent of the total tax revenue. The marginal tax rate is 25 percent for an individual and 20 percent for an industry, 30 percent for a financial institutions and 25 percent for a corporate body.

Income tax, as the word itself refers to a tax levied on income. In a board sense, income tax is a levy based upon the receipt or gain of the taxpayers within a definite period of time. From the beginning, income tax has always been regarded as a tax based on the cannon of ability. The tax could be adjusted as to exempt the lowest income groups form the operation of the tax and make the richer groups bear the burden of the tax according to their income apart from such considerations as revenue productivity, income tax has been regarded as the ideal tax from the point of view of equity (Due & Friedlaender, 1993, p. 28).

b. Customs Duty Taxes imposed by a country on import and expert of goods when the goods cross the boundaries of the country are called customs duty. Since this tax is levied on goods traded between two notions. It is also called border tax. Customs duty has basically two objectives: collecting revenue and regulating the international trade. Customs duty can be divided into two parts: import duty and export duty. In Nepal, customs duty covers around 32 percent of the total revenue. The customs rates for import duty are composed of 5 percent, 10 percent, 15 percent, 25 percent, 40 percent and 80 percent, whereas customs rates for export are 0.75 percent, 1.5 percent, 2 percent, 4.5 percent, 10 percent, 70 percent and 200 percent. The 200 percent rate is imposed on export of forest wood. Certain items are exempted both from import duty and export duty.

c. Value Added Tax Value added tax is the developed from of sales, tax. The basic objective of value added tax is to collect revenue. It is the tax imposed on the value addition in each stage of production or sales. In Nepal, this tax was introduced in 1997 replacing sales tax, entertainment tax, hotel tax and central tax. The rates of value added taxes in Nepal are 0 percent and 13 percent certain goods are exempted from value added tax. Threshold amount of transaction registering for this tax purposes is NRs. 20 lakhs. The contribution of this tax to total tax is around 30 percent.

d. Excise Duty Taxes levied on manufacture, sale or consumption of goods or service injurious to health or luxurious goods is called excise duty. Previously, it was confined only on national goods. However, in these days, excise duty is levied on imported goods also. This tax is imposed with some objectives like collecting revenue, controlling the consumption of injurious and luxurious goods and sometimes for redistribution purpose. Excise duty provides around nine percent of total revenue in Nepal.

e. Local Tax Local tax is the tax imposed by local governments. it is group of taxes such as property tax, vehicle tax, business tax, etc.

2.1.3 Legal Provision Relating To Vat Collection System

This chapter reviews only the Legal Provision Relating to VAT, referring Value Added Tax 1996 and VAT Rules and Regulation 1997. VAT was introduced in the fiscal year November, 1997 in Nepal. Till 2-3 years of later the VAT was introduced, it could not be practiced in full phase Legal Provisions Relating to VAT is listed below.

2.1.3.1 VAT Act 1997

a) Bill made to Impose and Collect VAT Preamble

Whereas, for increasing revenue mobilization by making effective the process of collection revenues required for the economic development of he country, it is expedient to impose a VAT on all transactions including the sale, distribution, delivery, importation, exportation of goods or services and to collect revenues effectively by regulation the process of collection. Now, therefore, parliament has made this act in the twenty fourth year of the rule of Late King Birendra Bir Bikram Shah Dev.

b) Imposition of Value Added Tax (Section 5)

Under this section VAT is imposed on goods or services supplied, imported into the kingdom of Nepal and exported outside the Kingdom of Nepal. Tax shall be levied on the taxable value of every transaction. No tax shall be levied on the transactions of goods or services set forth in schedule 1, provided that any tax applicable on such goods or services at the time of purchase.

c) Assessment of Tax and Collection (Section 8)

There is compulsion for registered person to assess and collect tax at the taxable value, people who are outside the Kingdom but receipts the services in Nepal also has to assess and collect tax at the taxable value in accordance with the Act and Rules there under.

d) Exemption for Small Vendor (Section 9)

A parson having a transaction below the threshold should not need to register. But he can register if eh wishes voluntarily. So, voluntary registration states often allow those who are not required to be registered to register to register voluntarily. Person can get registered number after the completion of registration process.

e) Registration (Section 10)

Three months (90 days) are given to the person engaged in any transaction form the commencement of this Act. Every person has to fill up the prescribed from for registration. A unique register number is given to such person in time with the registration certificate. After the registration he can display attested copy by the tax officer in different places of his transaction. This number is applicable for all types of transaction then-after. A person should inform the tax officer within 15 days of any changes in the information pertaining to the application for registration as required under sub-section 1and 2.

f) Cancellation of Registration (Section 11)

There are three main conditions for the cancellation of VAT registration. The first case is where a person has been registered for VAT properly, but where the registration is no longer appropriate. This will occur where a person was required to register because the person's business activities exceed the threshold but where, subsequently, the person's level of business activities has declined to below the threshold. The second case is where the person has ceased to carry on business activities. The Final Case is Where the Person has been Registered by Mistake or by Misrepresentation on the Part of the Person.

g) Invoices to be Issued Except otherwise Prescribed (Section 14)

Every registered person is required to issue an invoice to the recipient, in the process of supplying any goods or services. It's a duty of recipient to obtain invoice. The specimen of an invoice is prescribed in the VAT Act.

h) Unregistered Person nor to Collect Tax (Section 15)

Unregistered person not to need to issue an invoice or other documents showing the collection of tax. If he collects tax so collected shall be assessed and collected from him.

i) Accounts of Transactions to be Kept (Section 16)

There are four conditions in this section. First deals about up to date accounts of his transaction. These accounts should be available for inspection to tax office upon is request. Second deals the content of accounts, in which date and value of transaction and registered number of party if any should be included. Thirdly, registered person may use authorized sells and purchase book and lastly every tax payer should preserve the accounts of transaction for a period as prescribed.

j) Tax offset (Section 17)

A registered person can offset the amount of tax he has collected against the tax paid or tax due in importing or receiving goods and services related to his own taxable transactions. No offset or only partial offset is given in the case of airplanes, automobiles, computers and high priced other items as prescribed in act. Offset is given only in the following conditions; i) must be a registered person and ii) should provide essential documents.

k) Assessing VAT (Section 20)

Where a taxable person has not made a return for a period for which a return should have been made, the tax authorities should be given reserve powers to impose an obligation on the taxable person to pay VAT to the tax authorities.

l) Tax Collection (Section 21)

Each taxpayer has to pay tax within a specified period. If it has nor been paid within the specified period the tax officer, on the approval of the director general may collect the tax by using any of the following methods: i) Offsetting the amount, if any is refunded to the tax payer, ii) Seizing the assets (moveable and immovable) of the tax payer, iii) Selling the parts or full assets at a time or in a series, iv) Deduction of amount is made from a corporate body owned by Government or local bodies, v) Deduction of amount from tax payer’s bank account, vi) Deduction of amount from third parties, vii) Withholding imports, exports and other transaction of the tax payer.

Under the subsection and it is stated that tax shall not be collected past six years from the date the tax was assessed.

m) Value Added Tax Rules, 1997

In exercise of the power conferred by section 41 of the Value Added Tax Act, 1996. Government has framed the following rules.

2.1.3.2 Provisions Relating To Registration

a) Application for Registration (Rule 3)

Any person engaged in any transaction at the time of the commencement of the act shall submit an application for registration to the concerned tax officer, in the format as set forth in schedule -1 within 90 days of the commencement of the act. A person intended to engage in any transaction after the commencement of the act shall submit an application for registration to the concerned tax officer, in the format as set forth in schedule -1 prior to the commencement of such transaction In the case of partnership in the format as set forth in schedule -2.

b) Investigation into Application (Rule 4)

The tax officer may for additional documents for the process of registration. It shall be the duty of the applicant to submit such additional details and documents to the concerned tax officer within seven days of such demand. In case of a registrant which is not required to be registered as set forth in sub-section (3) of section 10 of the act, the concerned tax officer shall give a notice setting out that he is not required to be registered, to the applicant within seven days of the application.

c) To grant Certificate of Registration (Rule 5)

The concerned tax officer shall, if he deems it proper to register, upon making investigations pursuant to rule 4 into the application submitted for 2 registration pursuant to rule 3, register the transaction which the applicant has carried out or intends to carry out the transaction and grant the certificate of registration bearing registration number as well in the format as ser forth in schedule -3 to the applicant, within thirty days of the date on which the application was submitted.

d) Entrepreneur Carrying out Small Transactions need not to be Registered (Rule 6)

Any person carrying out transactions not exceeding one million rupees within the last twelve month as set forth in section 9 of the act need not have registered his transactions. Provided that any person who imports into the kingdom of Nepal goods valued at one hundred thousand rupees or more per annum for commercial purpose shall have to register his transactions, but he can register voluntarily after completing the procedures of investigation.

e) Cancellation of Registration Process (Rule 12)

In case the registration of any registered person is cancelled due to the conditions referred to in sub-section (1) of section 11 of the Act and such a registered person or his successor in the event of his absence submits to the concerned tax officer an application, setting out the conditions for cancellation of registration, accompanied by the Tax Return referred to in Schedule-11 as well as the payable tax amount, for the cancellation of registration, within thirty days of the date on which the condition for cancellation of registration occurred, or the concerned tax officer is satisfied that the registration of a registered person in existence of the conditions set forth in sub-section (1) of section 11 is to be cancelled; he (the tax officer) shall cancel the registration of such person, upon getting him to pay the remaining tax amount, and give notice thereof to the concerned registered person or his successor and the Department.

f) Tax Invoices (Rule 17)

Mainly there are two conditions relating to tax invoices. At the time of supplying any goods or services by a registered person, he shall give tax invoices to the recipient. Three copies of tax invoices are essential, and the original copy is given to the recipient, the second copy to be separately recorded so that it can be recorded by the registered person for the purpose of his transaction.

g) Abbreviated Tax Invoices

To conduct retail sales of any goods and services, he should take permission from tax officer by submitting application. Then after he can use abbreviated tax invoices. When low priced goods are sold in large quantities abbreviated tax invoices is used expressing the names grossly.

A registered person who gives an abbreviated tax invoice to the recipient should maintain records thereof as below: i) To prepare and maintain a duplicate copy of the original invoice, ii) Where a transaction has been carried out by maintaining a duplicate of the roll, the total thereof must b calculated and maintained every day, iii) To maintain records of the value, including tax, of each transaction.

There is provision of cancel the permission granted if registered person is found no to have maintained the records required to be maintained necessary documents to the tax officer.

h) No need to Give Tax Invoices

A person who carries out transactions of used goods of a value exceeding ten thousand rupees, need not issue a tax invoice in such cases where the selling price is less than the buying price of the goods supplied by him.

i) To Submit Tax Return of Tax Period (Rule 26)

For the purpose of tax return a registered person should submit to the concerned tax officer the tax return of one month tax period according to the Bikram Era, within 25 days of the expiry of that period. The tax period of a taxpayer who has registered voluntarily may be fixed at four months. But the registered person is liable in the tax expiry period of 25 days.

j) To Require Submitting a Tax Return through the Heir of Legal Representative (Rule 27)

Incase any registered person dies or becomes mentally or physically incapacitated to submit the tax return, the tax officer may, considering him to have supplied the gods or services till the day preceding his death or becoming mentally or physically unable, require his heir or legal representative to submit a tax return for that period.

k) To Submit a Tax Return Individually or Jointly (Rule 28)

There is a provision of tax payment jointly or superlatively. The conditions are listed below: i) Any taxpayer becomes incapable to submit a tax return or he dies; his heir or guardian, ii) Any taxpayer is a legal person, any director, executive chief or any employee appointed by the management, on behalf of such a taxpayer, iii) In case any taxpayer is a legal person and such legal person is dissolved or liquidated by the liquidator, iv) In other circumstances other than those mentioned above, the person concerned with the taxpayer and prescribed by the tax officer.

l) Tax Officer May Assess Tax (Rule 29)

If a tax officer does not satisfied with the documents of the taxpayers he may asses the tax liability. The concerned taxpayer is given a time limit of seven days to submit evidence is his favor against the tax assessment order issued by the tax officer. It tax in no collected, an order including description of additional charge is issued.

m) To Pay Tax, Additional Fees and Interest Amount (Rule 30)

The concerned taxpayer shall deposit the tax, additional fees and the interest amount referred to in the tax assessment order within seven days of receipt of such an order to the concerned Tax Office.

n) Procedure of Sending Notices of Tax Assessment Order (Rule 31)

If the order is sent by Tele-fax, telex or other similar electronic devises installed at the address of such taxpayer or such order is delivered to himself or at his office or through registered post to his address, it shall be deemed to have been duly delivered. In case of order not received by the taxpayer he should inform the tax officer.

o) Assessment and Recovery to a Tax Collected by an Unregistered Person (Rule 32)

Unregistered person having collected tax should assess and recover within seven days of the issue of the tax assessment order.

p) To Submit a Tax Return Prior to Filling Appeal (Rule 34)

Prior to filling an appeal by a taxpayer against a tax assessment order made, he must submit his tax return of that period to the concerned tax payer.

q) Time-Limit for Applying for Remission of Additional Charges (Rule 36)

For the remission of the additional charges, an application shall be submitted to the Director General within thirty days of the expiry of time-limit prescribed for payment of tax. But additional charge should be granted if an application is not submitted within the time-limit.

r) Tax Assessment Period (Rule 37)

While calculating the period in case a petition has been filed with any court in regard to tax and a stay order has been issued, the period shall be calculated by deducting the period until which the petition is decided.

s) Time-Limit for Collection of Tax (Rule 38)

While calculating the time-limit, in case an appeal has been filed, the period from the date of filing such appeal to the date of decision shall not be included.

t) Application to be Submitted (Rule 43)

For the deduction of sale tax application should be submit to the tax office in the format prescribed by the Act and Rules. And for a claim to deduct Sales Tax or tax, the concerned taxpayer must also submit invoices of payment of sales tax or and other documentary evidence within 15 days of registration. In absence of the documentary evidence tax shall not be necessary action against such tax payer. But if the application is accepted the tax payer may deduct such taxes.

u) Provision Regarding Goods or Services to be Supplied within the Nepal (Section 56)

While purchasing or acquiring the goods or services on which tax of value of ten thousand rupees is payable at a time within the Kingdom of Nepal by Nepal Government or the association, organization or office owned by Nepal Government or constitutional bodies, such goods or services shall be purchased or acquired only with a registered person.

2.2 Review of Previous Studies

2.2.1 International Context

While the SAARC countries have adopted a flat rate, some SAARC countries have different rates for different types of companies in order to achieve various objectives. For example, in Pakistan and Sri Lanka, small companies are subject to a lower corporate income tax rate and, in Bangladesh, listed companies are subject to a lower rate than the normal corporate income tax rate.

Some SAARC countries levy a minimum alternative tax as a supplement to the corporate income tax. For example, in India, where the minimum alternative tax is intended to collect at least some tax from companies that claim a zero tax liability, the tax is levied at the rate of 18.5 per cent of book profits. This tax is creditable against corporate income tax liability. If the minimum alternative tax exceeds the corporate income tax liability, the excess may be carried forward for seven years.

Bangladesh levies a minimum income tax of budget US$ 5,000 or 0.50 per cent of gross receipts on companies that do not have a corporate income tax liability or whose corporate income tax liability is less than the minimum income tax, irrespective of their profit or loss. Similarly, Pakistan levies a minimum alternative tax equal to 1 per cent of turnover on companies which, for whatever reason, do not have a corporate income tax liability or whose corporate income tax liability is less than 1 per cent of their turnover.

The corporate income tax has been used as a tool to industrialise the SAARC countries, where different kinds of tax incentives are granted to industries, such as tax holidays, tax deductions, rebates, accelerated depreciation, and investment and reinvestment allowances. There is a practice of setting up export processing zones, industrial zones and technology parks, and providing various incentives to the industries established in these areas.

While some SAARC countries, such as Bangladesh, have adopted itemised system of deduction, others such as Nepal have adopted the general system. Under the itemised system, the deductible items are specified in the law, and no deduction is allowed unless a particular expense is specifically included in the list of deductible expenses. On the other hand, under the general deduction system, taxpayers are allowed to deduct all business expenses incurred during the year relating to their taxable income. SAARC countries do not allow deduction for certain expenses, such as non-trading expenses, personal expenses, fines, penalties and bribes.

While expenses of a capital nature were not deductible, depreciation on capital assets may be deducted during the useful life of an asset. Bangladesh, India, Nepal and Pakistan had adopted the declining-balance method of depreciation, while Afghanistan, Bhutan and Sri Lanka have adopted the straight-line method. Under the straight-line method, the rate of depreciation is applied to the original value of an asset, and an equal allowance is provided for a number of years. In contrast, under the declining-balance method, the depreciation rate is applied to the written-down value of an asset, and the allowance gradually decreases over the years.

Bangladesh, Bhutan, Pakistan and Sri Lanka had adopted the itemised system of depreciation where depreciable assets are listed in the depreciation table, and the useful life and rate of depreciation of each asset are given separately. On the other hand, Nepal, India and Afghanistan have adopted the pooled system, where depreciation rates are fixed for a group of assets.

All the SAARC countries allow taxpayers to carry over losses and offset them against profits in future years, but the carry-forward period varies from country to country.

For example, in Afghanistan, businesses registered under the Law on Private Domestic and Foreign Investment are allowed to carry forward a net operating loss until it is extinguished, but other entities may carry forward losses for three succeeding years.

Masayuki (2014) stated that value added tax is often described as a regressive tax because it taxes consumption, and the propensity to consume tends to decrease as income rises. These measures include (i) exempting food and social necessities and (ii) taxing luxuries at high rates and necessities at low rates. The author referred that VAT of the subtraction type has two main variants, namely the tax credit method and the subtraction method. These two types of VAT have theoretically the same effects on a firm's liability for VAT and a firm's decision on price in cases where there is only one rate and there are no exemptions

Olu (2015) analyzed the impact of value added tax on key sectoral and macroeconomic aggregates, for Nigeria. A survey of VAT able Nigerian manufacturers, distributors, importers and suppliers of goods and services, organizations was conducted to gain insights into the way VAT is treated by these organizations. The survey shows that a majority of the VAT able organizations treat VAT in a price cascading manner by regarding it as cost contrary to expectations. Evidence from the way VAT revenue is being shared among the three levels of government in Nigeria suggests that this revenue is being re-injected into the economy.

Richard and Gendron (2016) discussed some recent critical literature on VAT in developing countries relating to its revenue productivity, its equity, and its impact on the development of the formal economy. The authors concluded based on two recent country studies that while there is merit in many of the criticisms that have been made, on the whole if a country needs a general consumption tax, as most developing countries do, then VAT is the one to have in almost all cases – although this conclusion certainly does not imply that the VAT already in force in most such countries is necessarily the 'best' VAT for their circumstances.

Feria (2017) reported that in most countries applying a VAT system, the activities and transactions undertaken by public sector bodies are not subject to full taxation. The rationale usually invoked to justify lack of full taxation is of a mixed conceptual and political kind. On one hand, there is a view that the activities of those bodies are hard to tax and that, in practice, it is almost impossible to establish a single VAT treatment applicable to all of them. One the other hand, and more importantly, there is a perception that exclusion of the products supplied by public sector bodies from full taxation, achieves social and distributional aims. The author considered thecurrent legislative framework, with special consideration being given to recent developments in this area, at both legislative and jurisprudential.

Keen and Lockwood (2017) explored the causes and consequences of the remarkable rise of the value added tax (VAT). It is observed that the introduction of a VAT, reduces the marginal cost of public funds and it leads an optimizing government to increase the tax ratio. This leads to the estimation, on a panel of 143 countries for 25 years, of a system describing both the probability of VAT adoption and the revenue impact of the VAT. The results point to a rich set of determinants of VAT adoption, and to a significant but complex impact on the revenue ratio. The estimates suggest, very tentatively, that most countries which have adopted a VAT have thereby gained a more effective tax instrument, though this is less apparent in sub-Saharan Africa.

Eimear, Sean and Toll (2017) examined the distributional effects of Value Added Tax (VAT) in Ireland. Using the FY 2014/2015 Household Budget Survey, the authors assessed the amount of VAT that households pay as a proportion of weekly disposable income. The authors measured VAT payments by equivalised income decile, households of different composition and different household sizes. The current system is highly regressive. With the use of a micro-simulation model the authors estimated the impact of changing the VAT rate on certain groups of items and the associated change in revenue. The authors considered how the imposition of a flat rate across all goods and services would affect households in different categories.

Jalata (2018) examined the role of the VAT on economic growth of Ethiopia from 2003 to 2015 based on theoretical and empirical evidence. Under review both descriptive and inferential in nature was performed that uses data on five economic variables: the gross domestic product (GDP), VAT, total tax revenue (TTR), nontax revenue (NTR), foreign revenue (FR).The finding of the study reveals that VAT comparing with sales tax, boots the general economic growth of the Ethiopia but the issue of regressively resembling to sales tax still continues similarly. VAT, TTR and NTR except FR were significant but all of them positively contributed for economic growth during the periods under review. However, to be effective, it requires strong administration and cooperation of tax payer with taxing authority and government in general.

2.2.2 Nepalese Context

In Nepal, taxpayers may carry forward losses for the following four years, but the carry-forward period is seven years for specified businesses. In Bangladesh, any unused loss in the income year may be carried forward for six years. In Bhutan, losses may be carried forward for three years and in India for eight years. In Pakistan, losses may be carried forward for ten years by banks and six years by others. In Nepal, taxpayers involved in banking, general insurance and long-term contract businesses may, in addition to carrying forward their losses, carry them back and deduct them in calculating the income from the business for any of the five preceding income years.

SAARC countries levy corporate income tax with a flat rate. Tax rate is the same for all taxpayers in Afghanistan (20%), Bhutan (30%), India (30%) and Maldives (15%). There are two rates of corporate income tax in Nepal and Sri Lanka. While Nepal levies 30 per cent on banks and financial institutions, alcoholic beverages and tobacco products and 25 per cent on others, in Sri Lanka, corporate income tax rate is 12 per cent on companies with taxable income up to US$ 5 million and 28 per cent on others.

Dhakal (2008) carried out historical perspective on income tax in Nepal. The study described previous income tax act and shown main factors of Income Tax Act 2058 which are as follows: Provision of set and carry forward of losses, Classification and pooling of depreciable Assets, Tax on capital gain, International taxation, Medical tax credit and Withholding payment and quantification allocation and characterization of the amounts.

Khadka (2010) described corporate income tax in SAARC countries. Where he studied that corporate income tax rate was 35 per cent on banks, 34 per cent on other companies and 20 per cent on small companies in Pakistan. There are different rates for different types of companies in Bangladesh: viz., 27.5 per cent on publicly traded companies, 35 per cent on non-publicly traded companies and merchant banks, 40 per cent on publicly traded cigarette manufacturing companies, 42.5 per cent on other banks, insurance and financial institutions and 45 per cent on cigarette companies and private mobile phone companies.

Dahal (2012) studied on taxation in developing economies through theoretical underpinnings and dimensions. The study mentioned that the subject of taxation had undergone an extensive metamorphosis since last many years. With the advent of supply side economics the role of taxation has become even more crucial. Taxation is not only an effective instrument for resource mobilization - a ‘boot-strap’ operation for financing economic development - but also a ‘tool-kit’ for revenue collection to sustain growth and maintain equity and stability in the economy. If blood circulation is desirable to keep the human body alive so is taxation to keep the economy alive. The laws of blood circulation and of taxes are tantamount to each other. In developing economies, resource gap is critical and widening resulting in huge fiscal and budgetary deficits. The growing resource gap is frequently off-set by mobilizing internal and external borrowings and consequently shifting the burden of debt to posterity. Therefore, revenue mobilization is challenging proposition in developing economies where a majority of the people live in abject poverty and the people engaged in economic activities have extremely limited taxable capacity. In addition, legal base of taxation is compressed with unlimited tax shelters and tax administration lacks innovative mechanism to identify new taxpayers and bring them into tax-net. In developing economies unsanctioned economic activities have greatly increased over the years resulting to poor voluntary compliance due to indifferent attitude of the taxpayers towards government spending. Thus, interface between diminishing efficiency of tax administration and delinquency on the part of taxpayers is becoming critical.

Rana (2012) analyzed Nepal tax system issues, problems and options. The study mentioned that the process of Nepalese tax system started in the mid-1980s as a major component of the structural adjustment program (SAP). This process accelerated in the 1990s after the restoration of democracy. However, some adjustments made in the tax systems (in terms of rates and number of taxes) before the reform process started. The Nepalese reform policy before the restoration of democracy in 1990 focused more on more restrictive, regulative and protective policies to meet the basic need of the people and to achieve various goals viz resource generation, maintaining equity, growth and stabilization of the economy. As a result, it encouraged tax evasion, corruption, difficulty in tax administration creating considerable distortion in the economic incentive during the 1980s. Further, the tax base remained narrow due to large exemptions and incentives under various taxes. Hence, these policies have been replaced by a more liberal, open and market oriented policies based on the distinctive features of globalization, liberalization and privatization after the restoration of democracy in 1990. For economic dynamism, an elastic system is highly advantageous for public expenditure activities which help to balance growth, equity and efficiency.

The author evaluated that in developing economies, resource gap is grave and broadening leading to massive fiscal and budgetary deficits. The growing resource gap is compensated by mobilizing internal and external borrowings. Therefore, revenue mobilization has a crucial role in fiscal policy implementation especially in a developing economy like Nepal, where the necessity of public resources for public disbursement is highly sought-after. It is a better source of revenue mobilization than the alternative sources such as loan, grant, foreign aid and deficit financing. In addition, legal base of taxation is compressed with unlimited tax shelters and tax administration at the same time lacking innovative mechanism to categorize new taxpayers and bring them into tax net.

Singh (2014) analyzed about corporate income tax in SAARC region. The study mentioned that member states of SAARC stated levy Corporate Income Tax (CIT) on the profit of legal entities, which is obtained by deducting allowable business expenses incurred directly in earning business income from gross income.

Pant (2016) assessed on problems in tax administration and their remedies. The study comprehensively explained about the problems and their remedies related with tax revenue and major types of practical problems and challenges in tax administration. He mentioned that limited amount of transaction showed low selling price, lack of issuing and taxing bills, lack of showing the factory cost, commercial trend, lack of co-operation in tax auditing, legal ambiguity and complexity in implementation and lack of coordination between Inland Revenue Department and Revenue Investigation Unit. Meanwhile, he recommended some valuable suggestions to solve the problem and to overcome the challenges. They were: statistical and information system should be properly managed; fixed norms and standards should be used to assess selling price and factory cost; the billing system should be made compulsory; coordination between Inland Revenue Office with various entities of government, Revenue Investigation Department and its related unit should play the important role.

Amatya (2016) evaluated taxation of employment income in Nepal, concept, computation and contribution. The study mentioned about Nepalese Income Tax law, income year and assessment year, sources of income, concept and sources of income, concept of employment, computation of income from employment, non chargeable incomes under employment, common reductions income tax exemption assessment of income tax liability on employment income, surcharge and contribution of employment income to tax revenue of Nepal. He has also shown the estimation and collection of employment income tax during the past decade. In this study, he has clearly pointed that actual collection of employment tax is satisfactory.

Thapa (2017) studied tax system and its reforms in Nepal in a descriptive way. The study described the tax system, features of tax, causes of reform the tax and areas for reform. The study characterized the tax system as too many and too high rates, myriad of tax incentives and tax holidays, multiple objectives of taxes scheduler rather global approach to income taxation, too many income brackets and high progressive, complicated and ambiguous tax laws. The study further added that taxes were levied at the manufacturing rather than retail stage which added to the production cost. Too many tax incentives and tax holidays narrowed the tax base and revenue collection.

The study dentified the areas for reform the tax system in Nepal. They were: low rates on broad base, simplicity and neutrality, gradual abolition of exemptions, deductions and tax holidays to broad tax base, few rates or single rate, few taxes with high revenue productivity, emphasis on tax compliance rather than coercive enforcement, incentives to saving and investment, excise duty only on cigarette, tobacco, alcohol, automobiles, petroleum and automobile spare parts, abolition of surcharge and additional duty system to make tax system simple, making the tax system internationally compatible to attract foreign investment.

Prasai (2018) analyzed revenue collection from income tax in Nepal with problems and prospects. The study included effect of different income sources of government revenue. Emphasized efficiency of Nepalese tax system depends upon income tax policies, income tax laws and income tax administration. And juxtaposing economic policy with tax policy is essential for achieving higher productivity of taxation. Further the study tried to show tax administration need to be improved as well as enough concern should be given to research and development to improve tax system or exploitation of possible sources of revenue. Widening equity, imposing similar tax rate to resident and non-resident company, incentives package to honest tax payer and skilled and initiated persons required for sound administration were major immediately focused point to generate adequate revenue from income tax in Nepal.

Dhakwa (2018) analyzed contribution of income tax to government revenue of Nepal. The study was done with basic objectives of analyzing the income tax structure of Nepal, identifying and predicting the share and trend of corporate income tax on government revenue of Nepal. In this study, researcher found that the contribution of tax revenue to total revenue was 77.29 percent in FY 2007/08. However the contribution of tax revenue was in decreasing trend. He also found that there was dominant role of indirect tax revenue in Nepalese tax revenue.

Lamsal (2018) presented contribution of income tax on government revenue. The study mainly focused on the removing and controlling income tax evasion for better resource mobilization. The main objective was to analysis the impact of income tax evasion on government revenue of Nepal. The study set further objectives which were to identify the way and cause of income tax evasion to estimate the volume and tendency of income tax evasion in small trade sector and to examine the role of income tax initializing the resources in Nepal. The study conducted the research following analytical as well as descriptive research design. Most of the data were from primary sources, which were collected through opinion survey field visit and interviews. Simple statistical analysis such as average and percentage were used as for data analyzing tools, graphs, charts and table were used interpret visually the finding of the research. The study concluded that there was widespread evasion of income tax in Nepal and income tax wa a suitable means for raising domestic resources. The study recommended for controlling tax evasion by controlling illegal business activities, increasing penalties and fines to tax evaders, compulsory maintenance of accounts, etc.

Shrestha (2018) described revenue collection from income tax in Nepal. In this study, researcher described the conceptual framework, legal provision administrative aspect and structure of income tax in Nepal. Researcher conducted an opinion survey for problem and prospects of income tax in Nepal. Researcher found the problems of Nepalese income tax system were as mass poverty, narrow tax coverage, lack of consciousness of tax payer, predominance of agriculture, widespread evasion and avoidance of income tax, unscientific tax assessment procedures, inefficient tax administration, complicated tax laws and procedures instability in government policy. Researcher found various weak points in Nepal's tax administration. The major weak points are: failure to maintain proper account and second's defective selection of personally lack of trained and competent tax personnel, undue delay in making assessment, lack of motivating in tax personal, existence of corruption. Researcher suggested that income tax system would succeed if the tax system were widening of tax coverage, tax consciousness to people, minimize the evasion, avoidance problem, and enhance the self assessment system reform.

Kafle (2018) studied on income tax contribution from Nepalese public enterprises with reference to Nepal Electricity Authority. Researcher found that income tax is a suitable source for mobilizing domestic resources. It may enhance the government revenue, promote socio-economic justice and encourage private sector investment. The study found that lack of clear, transparent and progressive economic policy are the main reasons for unsatisfactory income tax system of Nepal. Existing corporate tax rate has been found unsuitable and single rate for all types of corporation is preferred. Increment of managerial efficiency of PEs, clear income tax policy, rules and regulation, effective tax administration system and the contribution of income tax from PEs were major recommendations by researcher.

Pant (2018) analyzed income tax management in Nepal. The study tried to show the income tax system and its role in national economy. The study concluded that there was problem of lack of effective personnel management, reward and punishment system, lack of managerial efficiency, poor income tax assessment procedure, poor tax information system, and lack of tax payer's education, very narrow coverage of income tax.

Aryal (2018) evaluated measuring responsiveness and productivity of Tax yields in Nepal's Tax Structure for the period between FY 1994/95 and FY 2013/14. The major findings of this study are the trend of different source of taxation showed that the contribution of total tax revenue from direct taxes has continuously declined and indirect taxes has continuously raised. The trend shows that magnitude as well as percentage contribution of traditional direct taxes i.e. lands tax decline continuously, oppositely income tax and registration duty are growing. High tax revenue contributor sector i.e. customs duties also was the first position. However, the revenue from import duties had set second position. It had substituted by sales tax. Excise duty was also in increasing trend. Therefore, Nepalese tax revenue was heavily reliant on indirect taxes.

According to his study, elasticity and buoyancy coefficients of overall taxes were less than unity. It meant that it was inelastic in nature. The export duty had negative elasticity. In fact, the inelastic nature of tax system in developing countries was an inheritance characteristic resulting from heavy reliance on indirect taxes. The share of indirect taxes around 70.5 percent and non-tax revenue were 6.9 percent on total revenue.

Poudel (2018) described income tax in Nepal and its structure and productivity**.** The study concluded that the reform of tax administration, successful implementation of VAT and establishment of standardized accounting system were necessary. Total revenue was dominated by tax revenue which is 78.2% and non tax revenue was only 21.9 percent. Tax revenue is increasing in recent days and non tax revenue is decreasing trend.

Luitel (2018) presented contribution of income tax to the government revenue of Nepal. The study concluded that the contribution of income tax to GDP was very low in comparison with other developing countries. There were weak policy and commitments to collect revenue through income tax. Definition of Income was ambiguous and it should be modernized and simplified.

Bhandari (2018) recently studied tax avoidance and anti avoidance rules in Nepalese Perspective. The study concluded that there were narrow tax base, lack of clarification on the assessment procedure, highly corruption in tax administration wide spread of illegal business activities, poor development of intermediaries, unnecessary interference by influential persons and harassment to the tax payers.

2.3 Research Gap

It is concluded that different individuals and institutions have done research on the tax system, by incorporating different aspects such as laws, provisions, tax evasion and avoidance, structure of tax, contribution of income tax and VAT to the government revenue. The findings of previous studies were mostly based on secondary data. Previous research covered only some aspects of income tax structure and provisions. Similarly, previous studies were based on old tax Act. Previous studies had a great role in these days for the proper and effective evaluation of the resources. But earlier studies have become old, hence they need to be updated and validated because of rapid changes taking place in various tax related acts and laws. Thus, to fill the research gap, this study identifies the recent problems, weakness, and contribution of direct and indirect tax. It also gives appropriate suggestions for correcting and improving problems and weakness based on the findings.

CHAPTER III
RESEARCH METHODOLOGY

3.1 Research Design

The basic objective of this study is to examine the contribution of Income Tax on Government Revenue. For the purpose both descriptive as well as analytical research design has been followed. This study describes situation and events occurring at present by accumulating the past information and facts. So, this study is descriptive and analytical types of research. The study attempts to show the present situation of income tax implementation in Nepal and predicts the prospects of income tax in future by the analysis of past information and records.

3.2 Nature and Source of Data

The nature of the study is based on descriptive as well as econometric and statistical model. To achieve the main objectives of this study secondary sources of data and information have been collected. The collection has been done in accordance with the availability and usefulness of this study. The objectives are fulfilled by secondary sources of data. The secondary sources of data were the information received from books, dissertations, journals, newspaper, reports, related websites etc. The sample period for secondary data covers only from FY 2007/08 to 2017/18. The major sources of secondary data are as follows:

i) Annual reports of Income Revenue Department, Ministry of Finance, Government of Nepal.

ii) Published Documents of National Planning Commission and Nepal Rastra Bank.

iii) Economic surveys and Budget Speeches, Ministry of Finance.

iv) Books, dissertations relating to tax administration available at the central library of T.U.

v) National Newspaper, Journals, Magazines and Souvenirs.

vi) Revenue Administration, Training Centre, Kathmandu.

vii) Different publications of Central Bureau of Statistics.

3.3 Procedures of Data Collection

Data and information used in this study are collected from only secondary sources. To get accurate and actual data, different years of economic survey, annual report of Inland Revenue Department (IRD), books related to incomes tax and public finance etc. were used in this research.

3.4 Presentation and Analysis of Data

The collected data and information from secondary sources were processed for tabulation and analysis. According to the subject matter and requirements, data have been tabulated into separate tables and format. Then the simple statistical analysis such as average, percentage etc have been used and calculated where necessary. They are presented and analyzed in the descriptive way. Graphs and diagrams have been presented to depict the findings of the research.

3.4.1 Variables Used in the Model

The GDP taken as the independent variables regressed with income tax revenue heads as the dependent variable in the study.

In this study to estimate the elasticity and buoyancy coefficients, the following dependent variable i.e. income tax regressed with the selected independent variable i.e., GDP.

Dependent Variable	Independent Variable
Income tax	Total GDP

3.4.2 Identification of the Model

Elasticity is defined as the ratio of relative change in dependent variables (tax yields in this study) to the relative change in independent variables (GDP). Mathematically, both elasticity and buoyancy have been calculated based on the following equation.

$$E = \frac{\Delta T}{\Delta Y} \times \frac{Y}{T}$$

Where E=Income elasticity, Δy change in GDP/income and ΔT = change in tax revenue

The formula that is used to estimate elasticity as shown above ignores true functional relationship between the variables. Therefore, elasticity can be obtained by regressing the income y with the tax yield (T) by using following exponential form of Equation as:

$$T = \propto y^{\beta}$$

Where β measures elasticity and buoyancy. Elasticity is defined as the automatic response of revenue to income change (i.e. tax revenue increase, excluding the effects of discretionary changes) and buoyancy as the total response of tax revenue including discretionary changes, associated with a given percentage change in income.

The econometric estimates of buoyancy can be made by using two models:

(a) Linear Model

In this method, the overall tax revenue is regressed to the level of national income as:

$$T_t = a + bY_t$$

Where,

T_t = actual tax revenue in years 't'

Y_t = level of GDP in years 't'

From definition,

$$\beta = \frac{dT_t}{dY_t} \cdot \frac{Y_t}{T_t} = b \cdot \frac{Y_t}{T_t}$$

(b) Log-Linear Model

Under this technique, taxes are regressed to the level of national income as:

$$T_t = \alpha . Y_t^{\beta}$$

Here, the coefficient β itself serves as buoyancy.

The method of computing elasticity requires more rigorous computation in that it measures the responsiveness of automatic tax i.e. total revenue save the effect of discretionary action. Therefore, the historical series of revenue is first adjusted for the

Comment [u1]: What is this?

discretionary changes so as to get simulated revenue series of automatic changes and then the following techniques are applied:

$$IT_t \equiv \frac{(AT_t - RT_t)}{AT_{t-1}} \times IT_{t-1}$$

Where IT = Index of net tax receipts

AT = Actual tax receipts

RT = Receipts due to arbitrary legislative changes.

t=tth year

t-1 = one period lag

3.4.3 Specification of the Model

In this study, the double log linear model have been used to estimate the built – in – flexibility or elasticity with respect to adjusted revenue series is measured from the relation:

$$\text{Ta} = \propto y^{\beta} ----------(1)$$

Taking log on both side

$$\log \text{Ta} = \text{Log} \propto + \beta \log y -------------(2)$$

Similarly, sensitivity or buoyancy coefficient with respect to actual tax revenue series and GDP and its relevant components of GDP is estimated from the relation.

$$T = \propto y^{\beta_1} ---------------(3)$$

Taking log on both sides

$$\log T = \text{Log} \propto + \beta_1 \text{Log}\, y -------------(4)$$

Ta = adjusted tax revenue series

T = Actual Tax revenue series

Y = Total GDP or GNP

β = Elasticity coefficient

Comment [u2]: You need to give name of which method it is.

β_1 = Buoyancy coefficient

$\propto$ = Constant

Here Ta and T are dependent variables and y is independent variable.

Hypothesis developed here that, there is good and strong relationship between respective independent variable (GDP or GDP components) and dependent variable (tax head i.e. income tax).

Common statistical test namely F-test has been used to test the significance of the coefficients of elasticity and buoyancy at one percent level of significance and to test the reliability of the model being used. The R^2 value has been calculated to see how good relationship between the dependent and independent variables are in the equation.

3.4.4 Test of Significance

Simple statistical tools like ratio, percentage, average and regression analysis have been used and, elasticity and buoyancy have been calculated for analysing responsiveness and productivity of income tax.

Tests of significance of the parameter estimate are one approach of hypothesis testing. A test of significance is a procedure by which sample results are used to verify the truth or falsify null hypothesis. Whether a parameter is statistically significant or not is tested by the t-test of null hypothesis vis-à-vis alternative hypothesis. If null hypothesis is rejected, then it can be inferred that there is certain relationship between tax revenue (dependent variable) and GDP (an independent variable). Opposite is true when null hypothesis is accepted.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Analysis of Tax Structure of Nepal

For the developing countries like Nepal, the role of taxation in the process of economic development is considerably significant. In this respect, the tax structure has vital role in economic development. Government has introduced several taxes mainly to raise revenue. The trend and composition of tax revenue in recent years is examined in this chapter.

4.1.1 Tax Structure of Nepal

Total revenue of Nepal can be decomposed into tax revenue and non-tax revenue. Tax revenue contributes about three quarters of total revenue while non-tax revenue represents about the quarter of total revenue. The non-tax revenue includes the form of fees, fines, penalties, dividend, interest, sales of goods and services and so on.

Table 4.1 showed that during the study period (FY 2007/08 to 2017/18), the amount of both tax and non-tax revenue in absolute term has increased. In FY 2007/08, the amount of tax and non- tax revenue are NRs. 57430.4 million and NRs. 14851.6 million respectively. In the FY 2010/11, the shares of tax revenue and non-tax revenue on total revenue are NRs. 117051.9 million and NRs. 26422.6 million respectively. Similarly, the contribution of tax revenue and non-tax revenue for the FY 2013/14 are NRs. 211721.8 million and NRs. 32651.1 million respectively. In percentage term, the contribution of tax revenue and non-tax revenue on total revenue for the FY 2013/14 are 86.64 percent and 13.36 percent respectively. But for the 2017/18 contribution of tax revenue and non-tax revenue on total revenue are 89.89 percent and 10.11 percent respectively

Table 4.1

Contribution of Tax and Non-Tax Revenue as Percentage of Total Revenue

(NRs. in million)

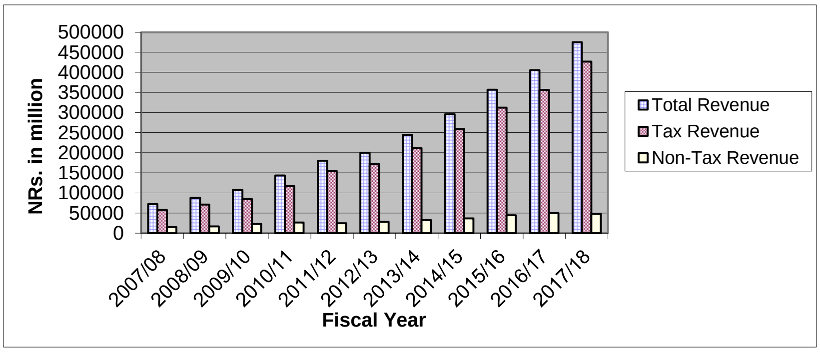
Fiscal Year	Total Revenue	Tax Revenue		Non-Tax Revenue	
		Amount	Percent	Amount	Percent
2007/08	72,282.0	57,430.4	81.54	14,851.6	18.46
2008/09	87,711.9	71,134.1	81.09	16,585.3	18.91
2009/10	107,546.1	85,024.9	79.06	22,521.2	20.94
2010/11	143,474.5	117,051.9	81.58	26,422.6	18.42
2011/12	179,946.0	154,667.7	85.90	24,278.3	14.10
2012/13	199,818.8	171,822.5	86.0	27,995.9	14.00
2013/14	244,372.9	211,721.8	86.64	32,651.1	13.36
2014/15	296,021.1	259,214.9	87.57	36,806.2	12.43
2015/16	356,620.8	312,441.3	87.61	44,179.5	12.39
2016/17	405,866.4	355,955.7	87.70	49,910.7	12.30
2017/18	475,012.1	427,011.0	89.89	48,001.1	10.11

Source: Economic Survey, Ministry of Finance, GoN, FY 2017/18

Table 4.1 and Figure 4.1 show that the contribution tax and non-tax revenue had increased to 81.58 percent and 18.42 percent respectively in the FY 2010/11. For 2015/16, their contributions were 87.61 percent and 12.39 percent respectively. The dominant role of tax revenue is thus, quite satisfactory as its amount had increased more significantly than the non-tax revenue over the period FY 2007/08 to 2015/16. The total revenue of FY 2017/18 was NRs. 475012.1 million, tax revenue is NRs. 427011.0 and non-tax revenue was NRs. 48001.1 million respectively.

Figure 4.1

Contribution of Tax and Non-Tax Revenue as Percentage of Total Revenue



Source: Based on the Table 4.1

4.1.2 Trend and Composition of Tax Revenue

Total tax revenue is composed of direct tax and indirect tax. During the study period, there has been simultaneous increase in total, indirect and direct tax revenue as shown in Table 4.2 and Figure 4.2.

Table 4.2 and Figure 4.2 depicted that the percentage of indirect tax is greater than direct tax. In a good tax system both types of taxes must be complementary and not competitive. Direct tax is considered as superior from welfare aspect and however it is considered as a crucial instrument to remove inequalities of income and wealth. Though direct tax is more reliable, indirect taxes also enable every body to contribute to the public revenue. It needs proper balance between two in order to reduce disparity of income and wealth and for proper distribution of tax burden. In FY 2007/08, the amount of total, direct and indirect tax revenue were NRs. 574304.4 million, NRs. 13968.1 million and NRs. 43462.3 million respectively.

Table 4.2

Contribution of Direct and Indirect Tax Revenue as Percentage of Total Tax Revenue

(NRs. in million)

Fiscal Year	Total Tax Revenue	Direct Tax		Indirect Tax	
		Amount	Percent	Amount	Percent
2007/08	57,430.4	13,968.1	24.32	43,462.3	75.68
2008/09	71,134.1	18,987.7	26.69	52,146.4	73.31
2009/10	85,024.9	22,957.2	27.00	62,067.7	73.0
2010/11	117,051.9	34,320.7	29.32	82,731.2	70.68
2011/12	154,667.7	40,122.8	25.94	114,544.9	74.06
2012/13	171,822.5	47,699.9	27.76	124,122.6	72.24
2013/14	211,721.8	56,446.4	26.66	155,275.4	73.34
2014/15	259,214.9	71,407.5	27.55	187,807.4	72.45
2015/16	312,441.3	84,734.6	27.12	227,706.7	72.88
2016/17	355,955.7	98,490.8	27.67	257,464.9	72.33
2017/18	427,011.0	121,118.7	28.36	305,892.3	71.64

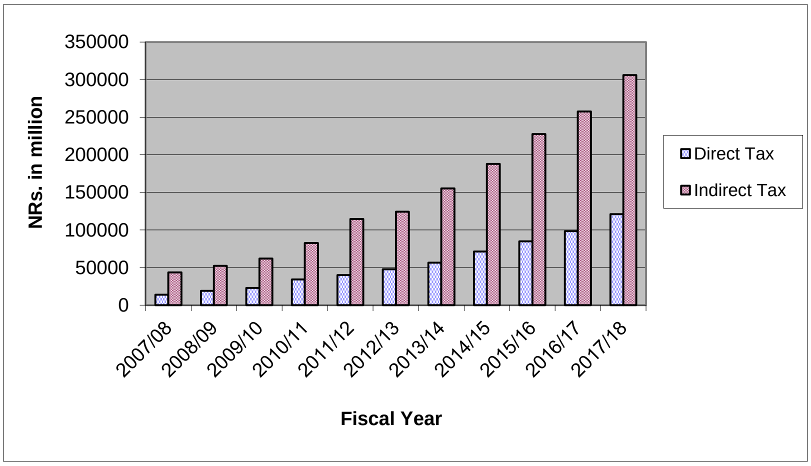
Source: Economic Survey, Ministry of Finance, GoN, FY 2017/18

These amounts increased to NRs. 117051.9 million, NRs. 34320.7 million and NRs. 82731.2 million respectively in the FY 2010/11. In FY 2016/17, these amounts were NRs. 355955.7 million, NRs. 98490.8 million and NRs. 257464.9 million respectively. In FY 2017/18 the total tax revenue was NRs. 427011.0 million, in which direct tax revenue was 28.36 percent of total tax revenue and indirect tax revenue increased to 71.64 percent of total tax revenue.

In the Nepalese perspective, while the direct tax seems to be justified, the indirect tax is unavoidable. The direct tax is justified because it helps to mobilize revenue for the national exchequer and also assists to narrow the gap in the distribution of income and wealth between the richer and the poorer sections of the society, which is essential for development. However, under the existing circumstances, the direct tax cannot generate sufficient revenue to the national exchequer. It is only through the indirect tax that adequate revenue can be mobilized and the consumption of harmful commodities or the investment in the unproductive sectors of the economy can effectively be discouraged. Thus, though there is the need for Nepal government to rely upon the direct tax, which would have a more dominating role in the Nepalese economy, at least for mobilizing adequate resources for development.

Figure 4.2

Contribution of Direct and Indirect Tax Revenue as Percentage of Total Tax Revenue



Source: Based on the Table 4.2

4.1.3 Trend and Composition of Direct Tax

In Nepal's tax structure, the main components of direct tax are income tax and land registration taxes. Table 4.3 and Figure 4.3 depicted that in FY 2007/08, their contributions in total direct tax revenue were NRs. 10373.7 million and NRs. 2181.1 million respectively as shown in Table 4.3. The remaining part of the direct tax is covered by other direct taxes. During the FY 2007/08 period, the contributions in percentage term are 84.40 percent, 15.59 percent and 0.01 percent respectively.

Table 4.3

Composition of Direct Tax Revenue

(NRs. in million)

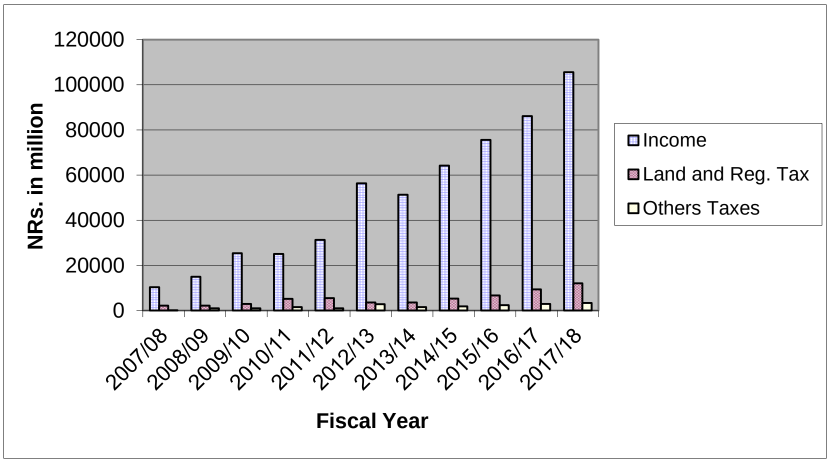
Fiscal Year	Total Direct Tax	Income Tax		Land and Reg. Tax		Others Taxes	
		Amount	Percent	Amount	Percent	Amount	Percent
2007/08	13,968.1	10,373.7	84.40	2,181.1	15.59	1.90	0.01
2008/09	18,987.7	15,034.0	82.84	2,253.5	11.84	1,007.7	5.32
2009/10	22,957.2	25,407.7	82.89	2,940.7	12.71	1,007.2	4.40
2010/11	34,320.7	25,142.4	80.06	5,223.3	15.29	1,590.7	4.65
2011/12	40,122.8	31,285.6	83.86	5,511.1	13.70	972.8	2.44
2012/13	47,699.9	56,428.0	87.37	3,572.5	6.70	2,819.9	5.93
2013/14	56,446.4	51,303.0	90.89	3,588.4	6.36	1,555.0	2.75
2014/15	71,407.5	64,186.7	89.98	5,340.2	7.48	1,880.6	2.63
2015/16	84,734.6	75,613.6	89.24	6,671.1	7.87	2,449.9	2.89
2016/17	98,490.8	86,165.6	87.49	9,399.4	9.54	2,925.8	2.97
2017/18	121,118.7	105,648.8	87.23	12,044.1	9.94	3,425.8	2.83

Source: Economic Survey, Ministry of Finance, GoN, FY 2017/18

The share of income tax was 84.40 percent in FY 2007/08 and decreased to 82.84 percent in FY 2008/09. But, this contribution decreased to 80.06 percent in FY 2010/11 and again increased to 89.98 percent in FY 2014/15.

Figure 4.3

Composition of Direct Tax Revenue



Source: Based on the Table 4.3

The share of land and registration tax in direct tax in FY 2007/08 (15.59 percent) but decreased to 11.84 percent in FY 2008/09, and increased to 12.71 percent in FY 2009/10. The other tax includes tax on property, profit and income. It can be concluded that direct tax was increasing trend up to FY 2014/15. The composition of direct tax revenue in the FY 2015/16 is NRs. 84734.6 million, in FY 2016/17 was NRs. 98490.8 million and in FY 2017/18 was NRs. 121118.7 million. Among them in FY 2017/18 income tax was NRs. 105648.8 million, land & registration tax was NRs. 12044.1 and other taxes were NRs. 3425.8 million respectively.

4.1.4 Total Revenue, Tax and Non-Tax Revenue in GDP

In order to understand the growth pattern of taxation properly, it would be desirable to examine the share of total revenue, tax revenue and non-tax revenue in term of GDP. Table 4.4 in this connection presents an account of the total, tax revenue and non-tax revenues as percentage of GDP. In the GDP, tax revenue was increasing much higher than the non-tax revenue over the period FY 2007/08 to 2017/18 and in FY 2013/14, tax revenue also increased much in comparison with non-tax revenue.

Table 4.4 and Figure 4.4 presented that the share of tax revenue increased from 8.78 percent of the GDP in FY 2007/08 to 13.76 percent in FY 2012/13, the share of non-tax revenue barely increased from 2.27 percent of the GDP in FY 2008/09 to 2.41 percent in FY 2014/15, the share of tax revenue and non-tax revenue of the GDP were 14.28 percent and 2.24 percent respectively in FY 2011/12. Whereas the share of tax revenue of the GDP increased to 17.61 percent and decreased for non-tax revenue by 2.35 percent respectively in the FY 2013/14. The relationship between tax and GDP is known as tax/GDP ratio. This was an indicator of the utilization of taxable capacity. Table 4.4 shows rather disappointing scenario of total revenue/GDP ratio for the study period. However, it increased from 11.05 percent in FY 2007/08 to 21.48 percent in FY 2016/17. But this growth is not continuous.

Table 4.4

Total Revenue, Tax Revenue and Non-Tax Revenue as Percentage of GDP

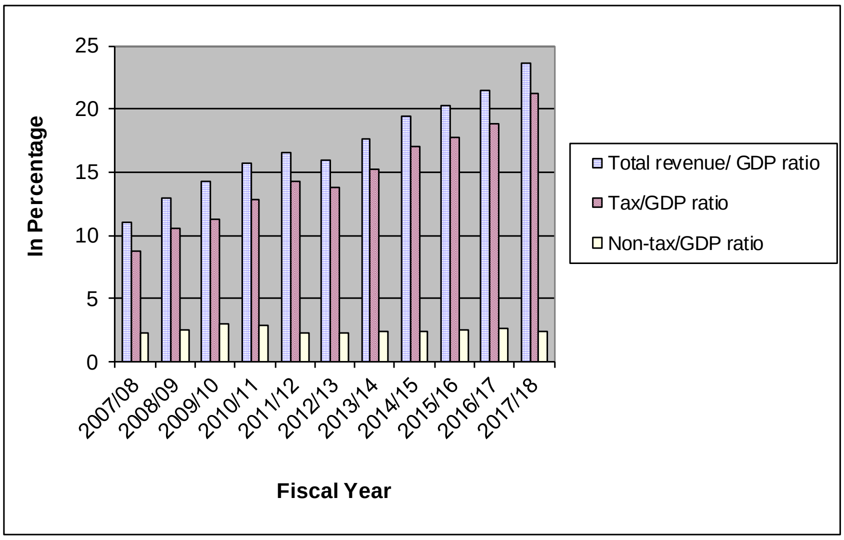
(NRs. in million)

Fiscal Year	GDP	Total Revenue	Tax Revenue	Non-Tax Revenue	Percentage of GDP		
					Total Revenue/ GDP Ratio	Tax/GDP Ratio	Non-Tax/GDP Ratio
2007/08	654,084	72,282.0	57,430.4	14,851.6	11.05	8.78	2.27
2008/09	675,859	87,711.9	71,134.1	16,585.3	12.98	10.52	2.45
2009/10	755,257	107,546.1	85,024.9	22,521.2	14.24	11.26	2.98
2010/11	909,528	143,474.5	117,051.9	26,422.6	15.77	12.87	2.91
2011/12	1,083,420	179,946.0	154,667.7	24,278.3	16.61	14.28	2.24
2012/13	1,248,480	199,818.8	171,822.5	27,995.9	16.00	13.76	2.24
2013/14	1,387,480	244,372.9	211,721.8	32,651.1	17.61	15.26	2.35
2014/15	1,525,220	296,021.1	259,214.9	36,806.2	19.41	17.00	2.41
2015/16	1,758,740	356,620.8	312,441.3	44,179.5	20.28	17.77	2.51
2016/17	1,889,410	405,866.4	355,955.7	49,910.7	21.48	18.84	2.64
2017/18	2,007,280	475,012.1	427,011.0	48,001.1	23.66	21.27	2.39

Source: Economic Survey, Ministry of Finance, GoN, FY 2017/18

Figure 4.4

Total Revenue, Tax Revenue and Non-Tax Revenue as Percentage of GDP



Source: Based on the Table 4.4

The ratio was still much lower than that of many other developing countries. By world standard, this was a very low level of taxation in our case. In FY 2017/18 total revenue and GDP ratio was 23.66 percent, tax to GDP ratio was 21.27 percent and non-tax to GDP ratio was 2.39 percent.

4.1.5 Direct and Indirect Tax Revenue as Percentage of GDP

The share of direct and indirect tax revenue as percentage of gross domestic product is presented in Table 4.5 and Figure 4.5. In terms of GDP, the share of direct tax revenue increased from 2.13 percent in FY 2007/08 to 3.70 percent in FY 2011/12 whereas the share of indirect tax revenue increased from 6.64 percent in FY 2007/08 to 10.57 percent FY 2011/12. And the share of direct and indirect tax revenue in GDP were 4.68 percent and 12.31 percent respectively in FY 2014/15. However, this increment was not continuous. It was thus, the indirect tax through which larger percentage of revenue was transferred to Nepal government.

Table 4.5

Direct and Indirect Tax Revenue as Percentage of GDP

(NRs. in million)

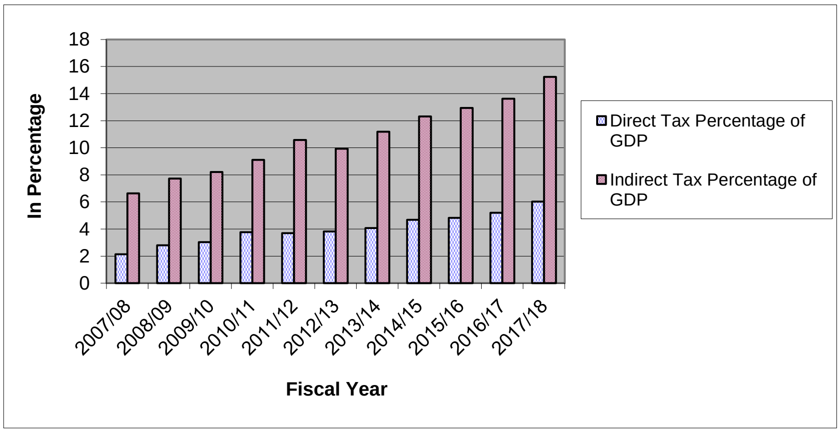
Fiscal Year	GDP	Direct Tax	Indirect Tax	Percentage of GDP	
				Direct Tax	Indirect tax
2007/08	654,084	13,968.1	43,462.3	2.13	6.64
2008/09	675,859	18,987.7	52,146.4	2.81	7.72
2009/10	755,257	22,957.2	62,067.7	3.04	8.22
2010/11	909,528	34,320.7	82,731.2	3.77	9.10
2011/12	1,083,420	40,122.8	114,544.9	3.70	10.57
2012/13	1,248,480	47,699.9	124,122.6	3.82	9.94
2013/14	1,387,480	56,446.4	155,275.4	4.07	11.19
2014/15	1,525,220	71,407.5	187,807.4	4.68	12.31
2015/16	1,758,740	84,734.6	227,706.7	4.82	12.95
2016/17	1,889,410	98,490.8	257,464.9	5.21	13.63
2017/18	2,007,280	121,118.7	305,892.3	6.03	15.24

Source: Economic Survey, Ministry of Finance, GoN, FY 2017/18

The value of direct tax to GDP ratio and indirect tax to GDP ratio were 6.03 percent and 15.24 percent in FY 2017/18 respectively.

Figure 4.5

Direct and Indirect Tax Revenue as Percentage of GDP



Source: Based on the Table 4.5

4.1.6 Composition of Direct Tax Revenue

Direct tax in Nepalese economy is composed of different taxes namely: land revenue and registration and tax on properly, profit and income. In Nepalese tax revenue structure, the contribution of direct tax and share of its components are shown in Table 4.6. Property tax includes urban house and land tax and vehicle tax. Income tax includes income from public enterprise, income from private corporate bodies, income from semi public enterprises, income from individuals, income from remuneration and taxes on interest.

Table 4.6 showed that direct tax is classified into land revenue and registration and tax on property, profit and income of the total revenue. In FY 2011/12, the share of land revenue and registration fee was 5.48 percent. Land revenue and registration is further classified into land tax and house and land registration. There is no land tax after the implementation of Income Tax Act 2002. The total amount of house and land registration fee is the total amount of land revenue and registration. The share of land revenue and registration is in fluctuating trend. Its share was 14.61 percent in FY 2007/08 but it reached to 5.48 percent in FY 2012/13. The contribution of land revenue and registration fee in the FY 2007/08 was 14.61 percent, which gradually decreased in FY 2008/09, FY 2010/11, and FY 2011/12. But in FY 2014/15 it decreased and reached to 6.10 percent.

Table 4.6

Composition of Direct Tax

(NRs. in million)

FY	Total Direct Tax	Land Revenue and Registration				Tax on Property, Profit and Income				
		Land Tax	House and land Registration	Total	Percent of Direct Tax	Income Tax	Tax on Property	Other Taxes	Total	Percent of Direct Tax
2007/08	13,968.1	0.0	2,181.1	2,181.1	14.61	10,373.7	97	0	10,470.7	85.10
2008/09	18,987.7	0.0	2,253.5	2,253.5	11.86	15,034.0	900.8	96	16,030.8	88.09
2009/10	22,957.2	0.0	2,940.7	2,940.7	12.20	25,407.7	1,001.0	116	26,524.7	87.75
2010/11	34,320.7	0.0	5,223.3	5,223.3	15.21	25,142.4	1,000.4	617	26,759.8	84.78
2011/12	40,122.8	0.0	5,511.1	5,511.1	9.69	31,285.6	2,000.9	588	33,874.5	90.31
2012/13	47,699.9	0.0	3,572.5	3,572.5	5.48	56,428.0	3,000.6	402	59,830.6	94.51
2013/14	56,446.4	29.4	3,559.0	3,588.4	6.35	51,303.0	2,182.0	0	53,485.0	88.20
2014/15	71,407.5	1,030	4,210.2	5,340.2	6.10	64,186.7	1,803.0	74.6	66,064.3	84.20
2015/16	84,734.6	0.0	4,961.3	6,671.1	5.32	75,613.6	2,925.9	1,143.4	79,682.9	94.68
2016/17	98,490.8	21.9	9,377.5	9,399.4	9.54	86,165.6	9,399.4	11,574.1	107,139.1	87.48
2017/18	121,118.7	33.1	12,011.0	12,044.1	9.94	105,648.8	12,044.1	14,784.7	132,477.6	87.22

Source: Economic Survey, Ministry of Finance, GoN, FY 2017/18

The other source of direct tax revenue is tax on property, profit and income. In FY 2007/08 the share of tax on property, profit and income was 85.10 percent to 87.22 percent in FY 2017/18. But the total amount of Tax on property profit and income has gradually increased and reached to Rs 45082.6 million in FY 2012/13. The share of it's to direct tax revenue in FY 2012/13 was 94.51 percent. Over the study period, its share was not less than 85 percent and not more than 90 percent of direct tax revenue. The researcher also conclude that income tax was greater weighted in the total direct Tax. In FY 2017/18 its contribution to total direct tax revenue was 87.22 percent which was the caused of underdevelopment of the economy.

4.2 Composition of Income Tax Revenue

Income tax is an important source of direct tax. In the present situation, Nepal is levying three different types of income tax. They are corporate income, individual income and interest tax. Base of the individual income tax covers all individuals having income of taxable capacity.

Table 4.7

Composition of Income Tax Revenue

(NRs. in million)

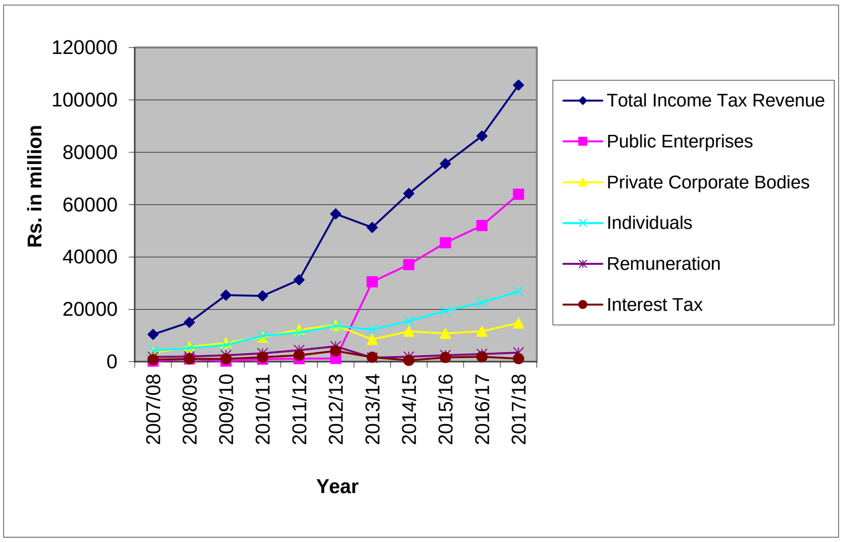
F/Y	Total Income Tax Revenue	Public Enterprises	Private Corporate Bodies	Individuals	Remuneration	Interest Tax
2007/08	10,373.7	195.7	3,404.3	4,234.7	1,764.1	774.9
2008/09	15,034.0	1,019.7	5,717.1	5,234.4	2,007.9	1,054.9
2009/10	25,407.7	204.6	7,186.5	6,381.2	2,451.0	1,087.9
2010/11	25,142.4	959.1	9,425.1	9,877.5	3,195.6	1,685.1
2011/12	31,285.6	1,131.8	12,234.4	11,039.9	4,413.1	2,466.4
2012/13	56,428.0	1,281.8	13,965.5	13,627.4	5,863.3	4,130.5
2013/14	51,303.0	30,494.4	8,515.8	12,292.8	1,555.0	1,750.2
2014/15	64,186.7	37,067.2	11,578.0	15,541.5	1,880.6	527.9
2015/16	75,613.6	45,423.0	10,756.6	19,434.0	2,449.9	1,655.5
2016/17	86,165.6	52,033.7	11,574.1	22,557.8	2,925.8	1930
2017/18	105,648.8	63,965.0	14,784.7	26,899.1	3,425.8	1,176.8

Source: Economic Survey, Ministry of Finance, GoN, FY 2017/18

The composition of income tax revenue is presented in Table 4.7 and Figure 4.6. Table 4.7 and Figure 4.6 examined that income tax introduced in Nepal as business profit and remuneration tax in FY 1959/60, it contributed Rs. 203 thousand as revenue. From Table 4.7, it is revealed that income tax revenue was increasing each year except FY 2007/08.

Figure 4.6

Composition of Income Tax Revenue



Source: Based on the Table 4.7

Total income tax was NRs. 10373.7 million in FY 2007/08 and increased to NRs. 56428 million in FY 2012/13 again increased to NRs. 64186.7 million in FY 2014/15 and reached NRs.86165.6 million in FY 2016/17. This was the total of income tax from public enterprises, semi- Public enterprises, private corporate bodies, individual remuneration and tax or interest. Contribution of total tax to total income tax from public enterprises is 12.3 percent on average in FY 2016/17. Total amount contribution from public enterprises fluctuated from NRs. 162.2 million to NRs. 63965 million in FY 2017/18. In FY 2009/10, contribution from public enterprises is the minimum i.e. NRs. 204.6 million. In FY 2011/12 it was increased by NRs.1131.8 million than the previous year. But in 2012/13, it was drastically increased by NRs.1281.8 million. It shows that contribution for unsatisfactory contributions of income tax are poor performance of public enterprises, weakness in government's economic policy, defective income tax etc.

Similarly, contribution from private corporate bodies was Rs. 3404.3 million from FY 2007/08 to NRs. 11578 million in FY 2014/15. It found that contribution from private corporate bodies was increasing each year except in FY 2007/08. In FY 2007/08 its contribution to total income tax was NRs. 3404.3 million and increased to NRs. 13965.5 million in FY 2012/13. Likewise, contribution of individual tax to total income tax was highest in each year. Share of individual is NRs.4234.7 million in the FY 2007/08 and increased to NRs. 15541.5 million in the last year of the study period FY 2014/15. In amount it is increasing each year. Moreover, average contribution from remuneration and tax on interest is NRs.149.47 ten million and NRs. 88.79 ten million respectively. Tax revenue from remuneration is increasing each year. It is NRs. 1764.1 million in FY 2007/08 and reached to NRs. 1880.6 million in the FY 2014/15. Tax on interest was also in increasing trend but in FY 2009/10 it increased by NRs. 1087.9 million to NRs.4130.5 million in FY 2012/13. In FY 2017/18 total income tax revenue is NRs. 105648.8 million among them income from public enterprises was NRs. 63965 million, income from private corporate bodies was NRs. 14784.7, from individual NRs. 26899.1, from remuneration NRs. 3425.8 and from interest tax was NRs. 1176.8 million respectively.

4.2.1 Contribution of Income Tax & Government Revenue

Table 4.8 and Figure 4.7 presented that the income tax has increased two folds in FY 2012/13 as compared with FY 2007/08. Total income tax was NRs. 10373.7 million for the FY 2007/08 and it increased to NRs. 56428 million in FY 2012/13. Contribution of income tax in GDP was 1.59 percent in fiscal year FY 2007/08. It showed that share of tax on GDP of Nepal was very low. It lies between one percent to three percent during the study period. In the FY 2012/13 the contribution of income tax to the GDP is 4.52 percent. The maximum contribution of income tax to GDP during the study period was 5.26 percent in FY 2017/18. Total revenue constitutes tax and non- tax revenue. In Nepalese government revenue structure, tax revenue has occupied the most of the part of public revenue i.e. about one third of the total revenue has fluctuating from 7.28 percent to 32.78 percent. Average contribution was 18.03 percent over the study period. Contribution for the FY 2012/13 was maximum 28.24 percent but it is minimum to 14.35 percent in FY 2007/08.

Total tax revenue constitutes direct and indirect tax revenue. There is a dominant role of indirect tax in the Nepalese tax revenue structure. The contribution of income tax on total revenue was 32.84 percent in FY 2012/13. This was also the highest contribution of income tax to the total tax revenue. The share of income tax as a percentage of total tax revenue was 29.8 in FY 2009/10. There is the dominated role of income tax in the direct tax revenue. In FY 2010/11, percent of income tax on direct tax was 73.26 percent and it was the minimum contribution of income tax to the direct tax revenue. The contribution of income tax on direct tax was 87.49 percent in FY 2016/17. The contribution of income tax on direct tax was 87.23 percent in FY 2017/18.

Table 4.8

Contribution of Income Tax on Various Revenues

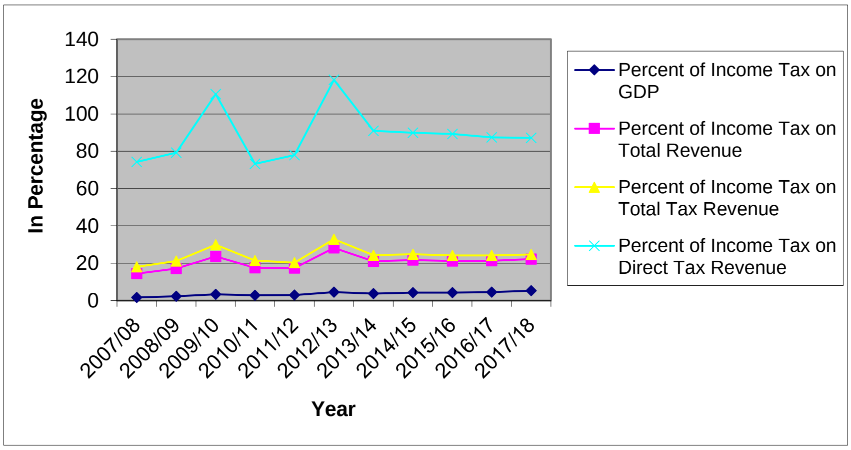
F/Y	Total Income Tax (Rs. in Million)	Percent of Income Tax on GDP	Percent of Income Tax on Total Revenue	Percent of Income Tax on Total Tax Revenue	Percent of Income Tax on Direct Tax Revenue
2007/08	10,373.7	1.59	14.35	18.06	74.27
2008/09	15,034.0	2.22	17.14	21.13	79.18
2009/10	25,407.7	3.36	23.62	29.88	110.67
2010/11	25,142.4	2.76	17.52	21.48	73.26
2011/12	31,285.6	2.89	17.39	20.23	77.97
2012/13	56,428.0	4.52	28.24	32.84	118.30
2013/14	51,303.0	3.70	20.99	24.23	90.89
2014/15	64,186.7	4.21	21.68	24.76	89.89
2015/16	75,613.6	4.30	21.20	24.20	89.24
2016/17	86,165.6	4.56	21.23	24.21	87.49
2017/18	105,648.8	5.26	22.24	24.74	87.23

Source: Economic Survey, Ministry of Finance, GoN, FY 2017/18

Figure 4.7

Contribution of Income Tax on Various Revenues

(In Percentage)



Source: Based on Table 4.8

4.2.2 Income Tax Collection Performance in Nepal

The collection performance of income tax compared to the estimate amount is shown in the following Table 4.9 and Figure 4.8.

Table 4.9

Collection Performance of Income Tax

(NRs. in million)

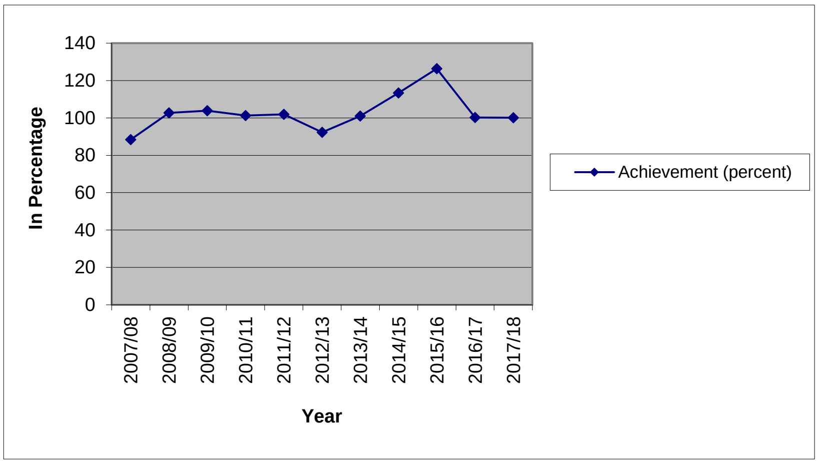
FY	Estimated	Actual Collections	Achievement (percent)
2007/08	81,816.6	72,282.0	88.35
2008/09	85,375.8	87,711.9	102.74
2009/10	103,667.1	107,546.1	103.82
2010/11	141,725.3	143,474.5	101.23
2011/12	176,503.8	179,946.0	101.95
2012/13	216,644.4	199,818.8	92.23
2013/14	241,774.2	244,372.9	101.00
2014/15	261,205.0	296,021.1	113.32
2015/16	282,197.4	356,620.8	126.37
2016/17	405,266.4	405,866.4	100.15
2017/18	474,812.1	475,012.1	100.04

Source: Economic Survey, Ministry of Finance, GoN, FY 2017/18

Table 4.9 and Figure 4.8 examined that total revenue was in increasing trend but the performance of total revenue collection was not satisfactory. The collection was only 103.82 percent of estimate in the FY 2009/10. Tax was collected excess than the target in FY 2007/08, FY 2010/11 to 2013/14 and in FY 2015/16 it was 126.37 percent. The highest percentage of collection over the estimates in FY 2011/12 i.e. was 101.95 percent. From the above study, the study concluded that there was tax evasion in the process of collecting taxpayers, which was the main problem of income tax collection in Nepal.

Figure 4.8

Collection Performance of Total Revenue



Source: Based on Table 4.9

4.3 Responsiveness of Tax System

Elastic tax system is preferred rather than buoyant. It is because that discretionary change raises income tax revenue in one hand but it increases burden to the general people and also widens the problem of tax evasion on the other. However, major sources of government revenue may have a low elasticity in which case the authorities must seek additional revenue by introducing discretionary changes. The growth in tax revenue may come about through high buoyancy - including growth through discretionary changes as opposed to natural growth through elasticity. Discretionary change is defined as the change in tax rate and base, introducing new taxes, administrative reforms and other changes due to discretionary action of the legislation and executives. Thus, discretionary change is desirable to mobilize additional resources in a particular situation where the taxes may have low elasticity. However, reliance on such changes will have to be reduced in the long run and more and more resources should be mobilized through built- in flexibility of the tax system and discretionary changes is also unpopular action, which faces strong protest in implementation.

4.3.1 Calculation of Elasticity And Buoyancy

The relevant variables to calculate elasticity and buoyancy of income tax are given in Table 4.10. The responsiveness of any tax system directly relies on the economic structure or base of that particular country. In this context, base elasticity is highly useful to analyze to what extent the movement (growth or decline) of taxes are affected by its base. If the coverage of base is not wide enough- perhaps this is true in developing countries- the growth of revenue will remain stagnant. In our case, agriculture income has been totally income tax free since the fiscal year FY 1978/79. So it is relevant to calculate base elasticity and base buoyancy. The elasticity and buoyancy calculated by taking GDP from non-agricultural sector only are regarded as base elasticity and base buoyancy respectively.

To get buoyancy coefficient of income tax, we substitute the value of GDP and total income tax revenue in place of Y and T of log linear model. If we use adjusted income tax revenue figures, we get elasticity coefficient of income tax.

4.3.2 Calculation of Net Income Tax Series

The ratio of percentage change in the income tax revenue to the percentage change in national income gives the buoyancy coefficient of an income tax under consideration. The term elasticity excludes the discretionary changes i.e. change in tax rate, tax base etc. thus; elasticity is also regarded as the method of measurement of automatic response of revenue to income changes.

Actual revenue data reflect both normal growth and discretionary changes. So, we construct a hypothetical net revenue series from gross revenue by separating the discretionary effects. The discretionary effect means: (a) Legal change in tax rate or base, Introduction of new tax, certain administrative efforts and improvement in the tax administration.

The automatic effect is the total tax increase in any given period minus the increase due to discretionary actions. The Sahota method under proportional adjustment method is used to eliminate discretionary effect. It adjusts the actual figure of the current year on the basis of the adjustment figure of the previous year.

Since the budget documents do not provide actual revenue derived from discretionary changes separately, budget estimates have been used to compute such series.

Table 4.10

Trend of Net Income Tax Series (FY 2007/08 - 2017/18)

(NRs. in million)

Fiscal Year	Estimated Income Tax	Discretionary Change (DC)	D .C .as % of Income Tax.	Actual Income Tax (AT_t)	AT_t as % of Est. Income Tax	RT_t	ITt
2007/08	7,019.8	1276.0	12.3	10,373.7	85.8	422.1	722.82
2008/09	7,658.1	992.2	6.6	15,034.0	89.7	272.1	877.12
2009/10	10,688.1	2,032.6	8.0	25,407.7	103.1	391.8	1,076.22
2010/11	15,136.2	6,511.9	25.9	25,142.4	106.8	1,598.1	1,434.74
2011/12	17,773.9	1,282.7	4.1	31,285.6	100.7	304.2	1,799.46
2012/13	19,779.6	5,529.9	9.8	56,428.0	91.3	893.2	1,998.19
2013/14	19,317.7	1,590.4	3.1	51,303.0	79.9	276.0	2,441.48
2014/15	21,105.4	3,337.7	5.2	64,186.7	80.8	414.2	2,552.06
2015/16	23,058.3	6,593.5	8.72	75,613.6	81.7	621.60	2,667.64
2016/17	24,740.8	6,901.9	8.01	86,165.6	82.1	512.20	2,856.32
2017/18	28,562.4	10,142.3	9.6	105,648.8	85.2	598.30	3,186.45

Source: Budget speech of various years MoF.

Note": 1) For calculating IT_t, Sahota Method is used

2) IT = Income tax, DC = Discretionary change, AT_t = Actual income tax, RT_t = Actual discretionary Change, IT_t = Net income tax revenue

4.4 Calculation of Elasticity and Buoyancy Coefficients

The relevant variables to calculate elasticity and buoyancy of income tax are presented in the following Table 4.11.

Table 4.11

GDP, Total Income Tax Revenue and Adjusted Normal Growth of Income Tax

(NRs. in million)

Fiscal Year	Total GDP	Total Income Tax	Net or Adjusted Income Tax
2007/08	654,084	10,373.7	722.82
2008/09	675,859	15,034.0	877.12
2009/10	755,257	25,407.7	1076.22
2010/11	909,528	25,142.4	1,434.74
2011/12	1,083,420	31,285.6	1,799.46
2012/13	1,248,480	56,428.0	1,998.19
2013/14	1,387,480	51,303.0	2,441.48
2014/15	1,525,220	64,186.7	2,552.06
2015/16	1,758,740	75,613.6	2,667.64
2016/17	1,889,410	86,165.6	2,856.32
2017/18	2,007,280	105,648.8	3,186.45

Source: i) GDP from non agriculture sector economic survey of various years MoF

ii) For total income tax and adjusted income tax revenue series.

In this context, base elasticity is highly useful to analyze to what extent the movement (growth or decline) of taxes are affected by its base. If the coverage of base is not wide enough- perhaps this is true in developing countries- the growth of revenue will remain stagnant.

Table 4.12

GDP and Total Income Tax Revenue in Different Fiscal Years

(NRs. in million)

Fiscal year	Total GDP	Total Income Tax
2007/08	654,084	10,373.7
2008/09	675,859	15,034.0
2009/10	755,257	25,407.7
2010/11	909,528	25,142.4
2011/12	1,083,420	31,285.6
2012/13	1,248,480	56,428.0
2013/14	1,387,480	51,303.0
2014/15	1,525,220	64,186.7
2015/16	1,758,740	75,613.6
2016/17	1,889,410	86,165.6
2017/18	2,007,280	105,648.8

Source: Total GDP from Non agriculture Sector Economic Survey, FY 2017/18

The values R^2 (the coefficient of determination), t- statistics, f- statistics are helpful for insuring the relationship of the related variables. The tabular values of F and t statistics are taken and hence inferences are drawn. The regression results and relevant statistical values are given in the following tables.

The elasticity and buoyancy of income tax are 0.88 and 1.16 respectively. The buoyancy was higher than unity but elasticity was lesser than unity. The elasticity coefficient, which is equal to unity, indicated that one rupee change in GDP causes equal amount change in income tax yield. The buoyancy of income tax is higher than unity (i.e.1.16), which indicated that government tried to mobilize the internal resources through built-in flexibility.

Table 4.13

Elasticity and Buoyancy of Nepalese Income Tax Revenue with Base GDP

(FY 2007/08 to 2017/18)

Statistics Income Tax	**Estimated log α**	**Estimated β1and β**	**r (coefficient of Correlation)**	**R^2 (Coefficient of Determination)**	**t-statistics (Calculated)**	**F-statistics (Calculated)**
Buoyancy (β1)	6.72	1.16	0.98	0.96	12.26	125.89
Elasticity (β)	2.52	0.88	0.97	0.94	11.25	102.52
Difference		**0.28**				

Source: Calculated From SPSS Computer Software

The difference between base buoyancy and base elasticity is 0.28, which indicated that one percent change in GDP causes 0.28 percent change in income tax yield through discretionary change in FY 2007/08 to FY 2017/18. That means role of discretionary change was lesser than automatic growth in income tax in given period. The Table 4.13 shows us that the elasticity and buoyancy for period FY 2007/08 to 2017/18 found 0.88 and 1.16 respectively. The value of coefficient of determination was 0.96 which was very high, showing goodness of fit.

The value of elasticity shows the income tax is inelastic with respect to proxy base. The low value of base elasticity and base buoyancy coefficient of income tax indicates poor relationship between base and tax. That is change in base only can not bring desired changed in the tax revenue and some other factors are also responsible which are to be applied to bring change in the tax revenue structure.

The value of correlation coefficient (r) is greater than 0.9 that means there is strong positive relationship between related dependent and independent variable. The coefficient of determination (R^2) measures the goodness of fit of regression. The R^2 for income elasticity is 0.94 and for buoyancy is 0.96 which indicates that the association between GDP and income tax holds good. The value of R^2 is also high for base elasticity and base buoyancy. Here R^2 measures variation in income tax revenue due to the variation in GDP. The value of R^2 is comparatively greater in the case of buoyancy than in the elasticity of relevant variable.

CHAPTER V

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

In fact income tax is an important internal source to strengthen the economic growth of a country and to meet the slogan of economic revolution by searching additional sources of revenue. Income tax helps to increase the consciousness of the people because the people who have paid the income tax are keen towards public expenditure. It is helpful for generating the concept of social responsibility towards the nation. The main objective of these studies is to analyze the contribution of income tax on government revenue. The specific objectives are: a) to analyze the trend and structure of taxation in Nepal, b) to examine the contribution of direct and indirect tax on GDP of Nepal and c) to review the Nepalese laws, acts, rules and regulations to the tax. Findings of summary are as follows:

- The study found that during the study period, the amount of both tax and non-tax revenue in absolute term increased. In FY 2010/11, the share of tax revenue and non-tax revenue on total revenue were NRs. 117051.9 million and NRs. 26422.6 million respectively. Similarly, the contribution of tax revenue and non-tax revenue in FY 2013/14 were NRs. 211721.8 million and NRs. 32651.1 million respectively. In percentage term, the contribution of tax revenue and non-tax revenue on total revenue in FY 2013/14 were 86.64 percent and 13.36 percent respectively. The contribution increased to 81.58 percent and 18.42 percent respectively in FY 2010/11. In FY 2015/16, their contributions were 87.61 percent and 12.39 percent respectively. The dominant role of tax revenue was thus, quite satisfactory as its amount increased more significantly than the non-tax revenue over the period FY 2007/08 to 2015/16. The total revenue in FY 2017/18 was NRs. 475012.1 million, tax revenue was NRs. 427011.0 and non-tax revenue was NRs. 48001.1 million respectively.
- The study found that the percentage of indirect tax on total tax revenue was greater than direct tax. In the Nepalese perspective, while the direct tax seems to be justified, the indirect tax is unavoidable.

- The share of income tax was 84.40 percent in FY 2007/08 and decreased to 82.84 percent in FY 2008/09. But, this contribution decreased to 80.06 percent in FY 2010/11 and again increased to 89.98 percent in FY 2014/15. The share of land and registration tax in direct tax increased to 15.60 percent in FY 2007/08, and decreased to 12.71 percent in FY 2009/10. The other tax includes tax on property, profit and income tax. It can be concluded that direct tax is increasing trend through out the study period. The composition of direct tax revenue in FY 2015/16 was NRs. 84734.6 million, in FY 2016/17 was NRs. 98490.8 million and in FY 2017/18 it was NRs. 121118.7 million. Among them in FY 2017/18 income tax was NRs. 105648.8 million, land & registration tax was NRs. 12044.1 and other taxes were NRs. 3425.8 million respectively.

- The study found that the share of tax revenue increased from 8.78 percent of the GDP in FY 2007/08 to 13.76 percent in FY 2012/13, the share of non-tax revenue barely increased from 2.27 percent of the GDP in FY 2007/08 to 2.41 percent in FY 2014/15, the share of tax revenue and non-tax revenue of the GDP were 14.28 percent and 2.24 percent respectively in 2011/12. Whereas the share of tax revenue of the GDP increased to 17.61 percent and decreased non-tax revenue by 2.35 percent respectively in FY 2013/14.

- In 2017/18 total revenue and GDP ratio was 23.66 percent, tax to GDP ratio was 21.27 percent and non-tax to GDP ratio was 2.39 percent. In terms of GDP, the share of direct tax revenue increased from in FY 2007/08 to 3.70 percent in FY 2011/12 whereas the share of indirect tax revenue increased from FY 2006/07 to 10.57 percent in FY 2011/12. And the share of direct and indirect tax revenue in GDP were 4.68 percent and 12.31 percent respectively in FY 2014/15. However, this increment was not continuous. It was thus, the indirect tax through which larger percentage of revenue was transferred to Nepal government. The value of direct tax to GDP ratio and indirect tax to GDP ratio were 6.03 percent and 15.24 percent in FY 2017/18 respectively.

- The study found that direct tax is classified into land revenue and registration and tax on property, profit and income of the total revenue. In FY 2012/13, the share of land revenue and registration fee was 5.48 percent. Land revenue and registration was further classified into land tax and house and land registration.

There is no land tax after the implementation of Income Tax Act 2001. The share of land revenue and registration was in fluctuating trend. Its share was NRs.2181.1 million in FY 2007/08 but it reached to Rs. 3572.5 million in FY 2012/13. The contribution of land revenue and registration fee in FY 2007/08 was 14.61 percent, which gradually decreased in FY 2008/09, FY 2010/11, and FY 2011/12 because of decreasing in buying and selling of land in the country in these periods. But in FY 2014/15 it decreased and reached to 6.10 percent.

- In FY 2007/08 the share of tax on property, profit and income was 85.10 percent. But the total amount of Tax on property profit and income gradually increased and reached to NRs 45082.6 million in FY 2012/13. The share of it to direct tax revenue in FY 2012/13 was 94.51 percent. Over the study period, its share was not less than 85 percent and not more than 90 percent of direct tax revenue. The researcher also concluded that Income tax was greater weighted in the total direct Tax. In FY 2017/18 its contribution to total direct tax revenue was 87.22 percent which was the caused of underdevelopment of the economy.
- Total income tax was increased to NRs. 56428 million in FY 2012/13 again increased to NRs. 64186.7 million in FY 2014/15 and reached NRs. 86165.6 million in FY 2016/17. Total amount contribution from public enterprises fluctuated from NRs. 162.2 million to NRs. 63965 million. In FY 2009/10, contribution from public enterprises was minimum i.e. NRs. 204.6 million. In FY 2011/12 it increased by NRs. 1131.8 million than the previous year. But in FY 2012/13, it drastically increased by NRs.1281.8 million.
- Tax revenue from remuneration was increasing each year. It was NRs. 1764.1 million in FY 2007/08 and reached to NRs. 1880.6 million in FY 2014/15. Tax on interest was also in increasing trend but in FY 2009/10 it increased by NRs.1087.9 million to NRs.4130.5 million in FY 2012/13. In FY 2017/18 total income tax revenue was NRs. 105648.8 million among them income from public enterprises was NRs. 63965 million, income from private corporate bodies was NRs. 14784.7 million, from individual NRs. 26899.1 million, from remuneration NRs. 3425.8 million and from interest tax was NRs. 1176.8 million respectively.

- The collection was only 103.82 percent of estimate in FY 2009/10. Tax was collected excess than the target in FY 2007/08, FY 2010/11 to FY 2013/14 and in FY 2015/16 it was 126.37 percent. The highest percentage of collection over the estimates in FY 2011/12 i.e. was 103.82 percent. From the study, the researcher concluded that there was tax evasion in the process of collecting taxpayers, which was the main problem of income tax collection in Nepal.
- The difference between base buoyancy and base elasticity is 0.28, which indicates that one percent change in GDP causes 0.28 percent change in income tax yield through discretionary change. That means role of discretionary change is greater than automatic growth in income tax in given period.
- The study found that the elasticity and buoyancy for period FY 2007/08 to 2017/18 found 0.88 and 1.16 respectively. The value of coefficient of determination was very high, showing goodness of fit. The value of elasticity shows the income tax is inelastic with respect to proxy base. The low value of base elasticity and base buoyancy coefficient of income tax indicates poor relationship between base and tax. That is change in base only can not bring desired changed in the tax revenue and some other factors were also responsible which are to be applied to bring change in the tax revenue structure.
- The value of correlation coefficient (r) is greater than 0.9 that means there was strong positive relationship between related dependent and independent variable. The R^2 for income elasticity is 0.94 and for buoyancy is 0.96 which indicates that the association between GDP and income tax holds good. The value of R^2 was also high for base elasticity and base buoyancy. Here R^2 measures variation in income tax revenue due to the variation in GDP. The value of R^2 was comparatively greater in the case of buoyancy than in elasticity of relevant variable.

5.2 Conclusion

Currently, income tax revenue in Nepal is collected through four sector i.e. corporate income tax, individual income tax, house and land rent tax and interest tax. Among them, income tax was the highest share. Contribution of individual's income tax was in decreasing trend although it occupied second position in income tax collection.

Income tax is one of the most important resources of the government revenue and it is considered as a good remedy to cure growing and serious resources gap problems of Nepal. Contribution of income tax for the economic development of Nepal is significantly increases in recent years as compared to past eleven years but did not meant that its share in satisfactory level.

The effectiveness of tax system depends on the existing management and leadership. A vigilant and transparent tax administration and capability of timely reviews in policy backsliding would be a pre-requisite for sustaining the gains in the revenue front. The realization of sincere and active support of officials involved and taxpayers affected should remain always in high priority in the tax administration.

Frequent changes in fiscal policies and programs show a never ending phenomenon of transitional period. It is difficult but not impossible to think over very seriously by concerned high authority and general people to bring tax administration system in the right direction and right shape in order to enhance the economic development of Nepal. The reform the policy needs a far sight clear cut and long term vision. If the problems relating to tax administration system in Nepal can be solved and resources are effectively utilized then only the prospects of tax administration will be bright and the economic development of Nepal will be achieved.

The study found that total revenue is in increasing trend but the performance of total revenue collection is not satisfactory.

5.3 Recommendations

The recommendations based on the findings are given below:

- The study found that the percentage of indirect tax is greater than direct tax. Direct tax is considered as superior from welfare aspect and however it is considered as a crucial instrument to remove inequalities of income and wealth. Thus it is essential to make the system of taxation broad based in order to meet the growing financial requirements of a modern welfare state. Though direct tax is more reliable, indirect taxes also enable every body to contribute to the public revenue. It needs proper balance between two in order to reduce disparity of income and wealth and for proper distribution of tax burden.

- The major problems of Nepalese tax system consists with the problems of tax education. Most of the respondents are unknown about the tax policy of the Nepal. The government should bring tax orientation, tax awareness program to its tax payers.
- Areas such as the expansion of tax base, laws relating to tax and change in tax rates should be reviewed, revised, and implemented them.
- The services delivery by the tax administration to the taxpayers needs to be improved as per the need of the time.
- As the revenue mobilization is based on the efficiency of tax administration, effectiveness and professionalism. Professional training and proper tax education seems inevitable for the human resources to affect structural changes in the tax administration and the tax system should be kept aloof from politics.

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