CHAPTER I

INTRODUCTION

1.1 Background of the Study

The prime concern of every nation of this world is rapid economic growth and Nepal is no exception to this continuing process. Nepal aims for self-reliant economic system to update its living standard of people. Thus, a lot of money has to be spent to carry out development plans, to handle day to day administration, to maintain peace and security and to launch other public welfare activities. So, the government collects revenue for its recurrent expenditure and development works.

Every nation wants to improve its current status through proper utilization of revenue sources. The resources of government can be classified into external and internal. External sources consist of foreign subsidiary, foreign loans, etc. which is used for economic development reconstruction, cover crises and productive use. But these kinds of sources are uncertain and inconvenient because they have to return after a certain due date continuous use of external sources of fund to raise necessary public fund is not good because it reduces the liquidity position of the government, increase over dependency upon other countries and increase the inflation Thus, it is better to mobilize internal or domestic source for activities (Lekhi, 2016).

Another source of government revenue is internal source which constitutes tax and non-tax revenue. Non-tax revenue is conditional which includes fees, fines, royalty, administration and business income, etc. The other internal sources of government revenue are the taxation of customs duty, excise duty, and value added tax, corporate and personal income tax are the sources of tax revenue. These sources are contributing in national capital formation, equal distribution of national income and also occupy the most important place in government treasury because of the importance of this sources in revenue mobilization of a country. Some person likes to say tax as the views of the state.

It is clear that a tax is a compulsory levy and these who are taxed have to pay it without getting corresponding benefit of services and goods from the government. The taxpayer does not benefit from the tax paid to the government. Amount collected through taxation is spent for common interest of the people and it is imposed by state or central government on legal entities or individuals. It is the compulsory levy from

individuals, households and firms to central or local government. It is a kind or money for which it is the legal duty of every citizen of the country to pay the honestly. Tax is computed and paid as prescribed in the law. If a person or entity defiles the tax payment are punished according to the current law. It is neither an exact amount nor a penalty for any legal offense. A taxpayer is not entitled to complain the government, while paying taxes, to give something to him return of the amount he has paid (Dahal, 2013).

Taxes are classified into direct and indirect tax. According to Dalton (2008) :"A direct tax is one which is really paid by the person on when it is legally imposed on one person but paid partly or wholly by another, owing to consequential change in terms of some contract or bargaining between them." Tax payers can't collects direct tax from other persons. Income tax, interest tax, property tax, contract tax, vehicle tax, gift tax, death tax are some examples of direct tax. Direct tax is paid according to the income or property earned by the persons. Indirect tax is that tax which imposed on one person but paid partly or wholly by another. So, impact and the incidence of tax are on different persons. Nepalese tax structure of indirect tax includes customs duty, excise duties, sales tax, entertainment tax, hotel tax, VAT, etc. Taxes on income are the most important single source of revenue for government of developed countries through them at present produce for less revenue in the most developing countries than customs duties and taxes on interval transaction. But taxes are emphasized in all countries in developed as well as developing because they have the potential for the increasing the yield of the tax System and achieving a system of taxation that satisfies the demand for equity and social justice (Singh, 2015, p. 283). Income may be lived on the individuals as well as business firms. The former is known as personal or individual's income tax or simply income tax, while the latter one is more popular by the name of corporation revenue tax.

Income tax is the tax of equality. It is imposed on the basis of payment capacity of tax payers. So it will be possible to reduce the gap in income by imposing higher rate to those who are having income and from that collect amount, providing necessary assistance to the people with very poor economic condition.   Balance regional economic development is also possible through the provision of income tax. The government should charge higher, income tax on the income from urban area and less on the income from remote areas. Income tax holiday and incentives would help to

develop the priority sector of a national economy. "Income tax has become and effective instrument to ensure balanced socio-economic growth.

Income tax plays a very important role in the Nepalese economy. It is the major source of government revenue. It is recognized as a good financial tool to make narrow the inequality in income. It helps to reduce regional economic imbalance by providing tax concession and holiday to business or industries. Which are established in remote areas. It is also helpful for generating the concept of social responsibility toward the nation and keeps the people vigilant to see the public money may not be misused.

Income tax is main source of government revenue. To balance economic development is usable. Nobody can doubt that the equal distribution of income is also possible through progressive income tax. It is being realized that contribution of income to the revenue of government must be increased in Nepal. Nepal has adopted the income tax system for last four and half decades. But Nepal's past experience shows that the government is unable to maximize the share of income tax to the public fund as per expectations.

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

Income tax may be understood very easily if we first define the term Income. Income is, generally regarded, as the best measure of the ability in the sense of economic well- being, for income is the primary determinant of level of living, which a family enjoys.

1.2 Statement of the Problem

Like other developing countries in the world, Nepal has been suffering from resources constraints, massive poverty, rapid growth of population, increasing frictional and seasonal unemployment diseases, aggressive dependent on the agriculture.

Subsistence living standard and poor infrastructure despite over four decades planned development efforts.

A government needs development with higher economic growth to overcome from such serious problem for which government should have adequate financial resources. In Nepal, resources mobilization is still poor that does not cover the requirements. Nepal has been facing serious problem of resource gap and high dependency on foreign loan. Resource gap has incurred in Nepalese finance because the expenditure of government of Nepal has been increasing at a farther rate than the increase in revenue. To meet the growing national expenditure government manages its funds from internal and external source. Such external sources are uncertain, inconvenient and not good for healthy development in case of high dependency. It is better to mobilize internal source rather than expecting with beggars eye to donors.

Past experience shows that there is poor tax paying habit in Nepalese people. There are various problems about income tax administration like proper record about the number of income taxpayers, defective selection of personnel, lack of training and education to tax payers and tax officers, undue delay in making assessment, lack of responsibilities of officials on their work, existence of corruption, lack of motivation to tax personnel etc. Because of inefficiency of the administration and increasing corruption, people have no faith in the working of government and its organization.

By effective implementation of tax law, government can increase the portion of direct tax to the total revenue. For the effective implementation of tax law government should have knowledge about various provision provided by income Tax Act. Among them, provision of fine and penalties is that type of provision, which plays important role to collect tax revenue. If provision of fine and penalties is not appeared, the tax paying of Nepalese people will be poor. In the absence of this provision, people delay in payment of tax, do not submit account, submit false of misleading statement etc. For that purpose, tax administration should be competent. However, the tax administration of Nepal is not effective to impose fine and penalties as per necessary because of corruption, unnecessary outside pressure, lack of information, etc.

Income tax is the main source of government revenue. For the development of nation, every government needs high revenue. Performance of income tax is very constructive for all stakeholders closely attached with the government revenue as well as for a prosperous economic future of the country. Generation income by any

individual and institution is the main source of income tax. If income is favorable then collection of income tax is also favorable. Lower contribution of income tax in government revenue negatively affects the country's development. The variation of income tax contribution brings the variation of government revenue and government development function. Country's economic development and government revenue are the closely related parts. For higher revenue economic development is necessary and for better economic development of a country, higher government revenue is necessary.

Nepal is one of the least-developed and agro-based country. The agricultural sector provides employment to nearly about 74 percent population. The output per head in the agriculture sector is very low in comparison to that of developed countries. Thus the role of taxation has increased as the government has promised to provide the infrastructure for the development process and provide the social service to the poor people, whose volume is dominate in country's demographic structure.

Agriculture sector, which contributes 27.3 percent of GDP is still free from the income taxation (MoF, 2018). About 21.6 percent populations are below the absolute poverty line (NPC, 2018). Thus, in the course of the fulfilling the development objectives, increase in government expenditure, has outpaced the growth in revenue collection. Nepal is thus facing a problem so scarcity of resource for development activities. Few rich capture major economic sources and they are under-taxed either because of tax evidence or evasion and most of the poor people suffer from commodity tax.

The trend of collection of income tax is not satisfactory. Sustainable economic development and good political environment is necessary for the growth of the income. Income is source of income tax. Currently political situation of Nepal is not good from one and half decades it's being worse. There is no good environment for income generating functions. Previously running organization also can't perform better. They are going downwards. Individual's income is also not a good increasing trend. It affects directly income tax and government revenue as well as government activities. The data of income tax may suffer a lot in lack of proper view and analysis practice of it, currently, contribution of income tax in government revenue of Nepal may not be sufficient for development of the nation. During the analysis period of the data of income tax collection remained below the expected level due to various national and international reasons. Therefore, this research study is concentrated on

trend of income tax collection, to review and analysis the contribution in government revenue and to draw recommendation for coming period (Ojha, 2003).

For the economic development of the country, contribution of direct tax is more essential rather than indirect tax, but the main tax structure of Nepal is dominated by indirect tax. Among the direct tax, income tax plays the significant role but it is not pleasurable to quote that the contribution of income tax to the national revenue is very low in Nepal. To increase its contribution to national revenue, many research and analysis should be conducted in the field of tax, but the studies and research work is lacking in the area of income tax. So to identify the problem and to overcome them and to improve income taxation, study in the field of income tax is essential. To raise government revenue there is necessary to raise its internal resources of revenue. An internal resource of revenue includes tax and non-tax revenue. Revenue mobilization, foreign grants and loan, domestic borrowings and change in cash reserve are used as fiscal instruments for financing government expenditure (Pant, 1991).

There to raise government revenue it is necessary to raise its internal sources of revenue. Internal sources of revenue constitute the tax and non tax revenue. Nepalese government revenue is totally based in taxation revenue and has adopts various policies to strengthen the revenue structure of Nepal. Although revenue has some problems in the Nepalese tax structure and they are:

- What is the trend and composition of income tax in Nepal?
- What is the contribution of income tax on national revenue of Nepal?

1.3 Objectives of the Study

The general objective of the study is to analyze the contribution of income tax on government revenue. The specific objectives are as follows:

1. To examine the trend and composition of income tax in Nepal,
2. To analyze the contribution of income tax on national revenue of Nepal.

1.4 Significance of the Study

In developing countries like Nepal, only making act is not solution to maximize tax collection. Its implementation monitoring and its evaluation, to find out peoples view are also a part of solution for improving tax system. Income tax act is the key factor of government's revenue generation. So, this study attempts to call government and

policy makers to solve and frequent change in income tax act and aware people about income tax and encourage them to pay tax. This study can find out the difficulties of Income Tax Act, its implementation and its impact on revenue collection system as well as its benefit or contribution on national economy (MoF, 2018).

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

Income tax is one of the major potential sources for mobilizing a large amount of financial resources in Nepal. But income tax evasion decreases the government's revenue collection, which blocks the economic development of Nepal. Hence the impact of income taxation for the utilization of resources of Nepal has been chosen as a relevant topic for the present study.

This study also concerned with appropriate suggestion for the estimation and correction of income tax evasion. This study would be helpful to the economists, planners, tax officers, tax administrators and government. So that income tax evasion can be controlled and sufficient resources could be mobilized from taxation.

The present study aims to find out the contribution of direct tax to the national revenue of Nepal. The major study areas covered by the study are as follows:

- Nepalese tax structure,

- Government revenue from direct tax as well as indirect tax,

- Existing situation of resource gap of in Nepal,

- Exiting position of income tax in Nepal.

1.5 Limitations of the Study

The limitations of this study are as follows:

- The research study is based on secondary data only. The reliability and validity of data depend on collected data.

- This research study has covered data from FY 1999/2000 to 2016/2017.

1.6 Organization of the Study

The first chapter is introductory which deals background of the study, statement of the problem, objectives of the study, significance of the study and limitations of the study. The second chapter reviews related books, articles, magazines, newspapers, international publications,   previous studies, reports, theses and dissertations. The third chapter deals research deign, nature and sources of data statistical tools and techniques. The fourth chapter has been shown analysis and interpretation of data. The fifth chapter includes summery, conclusion and recommendations.

CHAPTER II

REVIEW OF LITERATURE

2.1 Conceptual Framework

Economic growth is the major objective of any nation. Growth requires production of goods and services, which in turn requires investment. There are many areas where the private sector has shown little interest. Some of these areas include education, infrastructure. The private sector is not interested to invest in these areas due to the existence of externality. This gives rise scope for government investment in these sectors. There is ample evidence to prove that infrastructure and human capital are prerequisites for economic growth. The government requires resources for such investment. Majority of government resources are generated through tax. Hence, adequate amount of tax revenue and proper utilization of resources become the fundamentals of economic development.

Figure 2.1

Conceptual Framework
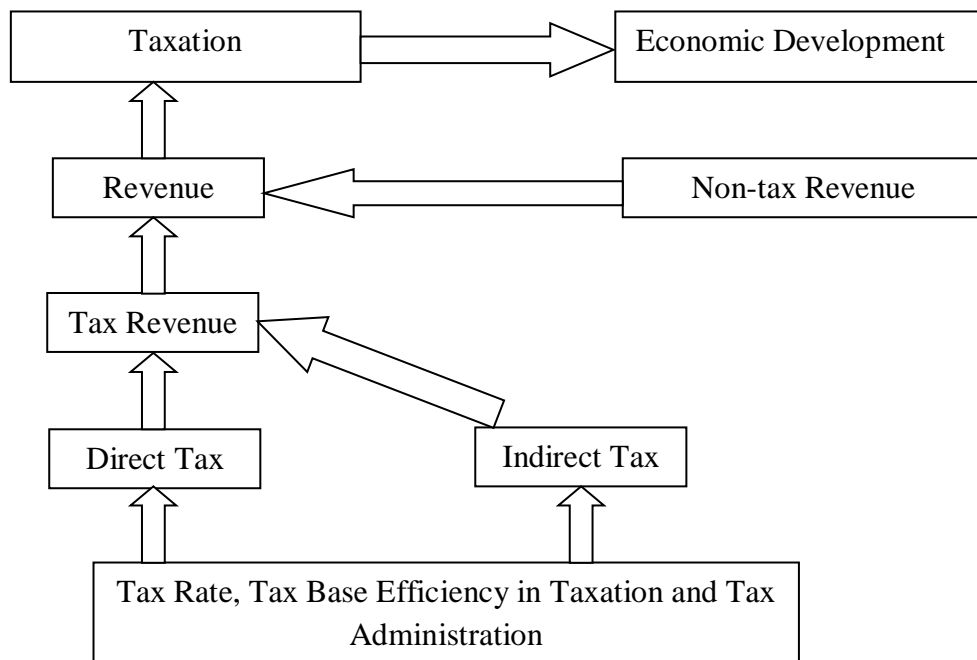
2.2 International Review

Shauh (1995) suggested that the problem, which is the greatest universal concern at the present, is development. Development economics is a distinct yet very important

extension of both traditional economics and political economy. Development simply implies the maximization of the welfare of the society and efficient allocation of resources. History reveals that the development of the industrialized countries concentrated their attention on economic growth. By the same token, the economics model at the post wartime followed by underdeveloped countries was also growth dominated. But paying attention simply on growth of economy led to the increment in the gap between haves and haves not with the failure of trickledown effect. So in 1960 the concept of sustainable development was dominate and still it is the main concern of economists, ecologist and sociologists, reflecting the increasing concern about environment.

Until the late 1950s the two major source of revenue were land tax and tariff on foreign trade. After 1959, however, sales, and property taxes, as well as several other minor taxes, were introduced. An import-export tax and various business taxes, such as a sales tax, were the principal sources of revenue. The lad tax, which accounted for a considerable portion of revenue prior to 1960, no longer provided an important source of revenue. Income tax on individual incomes accounted for less than 7 percent of revenues. Most of the other taxes were progressive in nature (Kalauni, 2011).

Across all these sources of collecting the public revenue taxation is the main sources and it occupies the most important place in the government treasury. A tax is a compulsory contribution from a person whether it is law made or natural one to the government to defray the expenses incurred in the common interest of all without special references to special benefit conferred. It is personal obligation to pay tax and individual. Tax is collected haves and utilized for the interest of those have not. Government imposes taxes on the basis of legislation. The main objective of taxation is to divert control of economic resources from the state for its own use or transfer to other (Goode, 1986). Tax is a compulsory contribution to the public authorities to meet the general expenses of the government, which have been incurred for public welfare and without references to special benefits. Tax is a compulsory legal contribution to the general expenses of the government by a person who has liability to pay tax from his/her income. The Government expenses the collected tax amount for general public welfare and betterment of nation as well as for the interest of general public. A person who has taxable income is legally bound to pay tax; otherwise may be punished under existing rules and regulation. Thus taxes are general

contribution of wealth levied upon person, natural or corporate to defray expenses incurred in conferring common benefit upon residents of the state presently almost all the countries have their respective taxation system in their economy. It has become an indispensable source of revenue for the government.

Shauh (1995) conducted research and suggested that research problems were the increasing resource gap and how income tax can be the means for resource mobilization. The main objective of this research were to show the contribution of income tax in government revenue to show the resource gap in Nepalese finance to highlight the importance of income tax as a source to avoid financial deficit to find out the rate and per capital burden of income tax and trend and structure of income tax in Nepal.

Wasti (2010) was adopted historical and descriptive research design. The author used only secondary data of 21 years from FY 1974/75 to 1994/95. Data collection and analysis procedures were consulting the required government and non-government offices and simple arithmetic rule chart and diagram were applied to analyze data from that research he had found out and concluded that income tax can be the vital source for internal resource mobilization to fulfill resource gap. Only 0.35 percent of total population came and the categories of tax payers in Nepal during his research period. He found that collection of income tax was gradually growing and the contribution of income tax in total tax revenue and total national revenue were 9.95 percent and 7.94 percent respectively. Similarly, the author also concluded that individual tax payer had higher contribution income tax then salaried taxpayers.

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

Goode (1986) analyzed the objectives of fiscal policy are the promotion of income disparities between households and regions the promotion of economic stability and economic efficiency and the increase of host country returns from natural resource endowments. The primary purpose of taxation is to divert control of economic resources from tax payers to the state for its own use of transfer to others. Taxation

not only restrains total spending by household and enterprise but influences the allocation of economic resources, recognizes social costs that are not reflected in the market prices and affects the distribution of income and wealth.

Sanchirico (2016) established that as a practical matter, inconsistency between motivation and measurement does indeed make a difference. Taxpayers at different levels of income do not, in fact, realize a similar proportion of their earning potential. Indeed, such differences may be substantial enough to be a decisive factor in assessing the effectiveness and adequacy of tax reform. Such was the case during 2010s, the period studied in this article, when the taxation of labor income became more progressive on paper, but less progressive in effect due to counteracting changes in the pattern of labor income realization.

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

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

Bharati (2012) identified some problems of tax administration i.e. tax system in Nepal. His key objectives are to examine the income tax administration system in Nepal, to find out the course of corruption in Nepal and to know the difficulties in the process of assessing income tax under ITA 2002. Similarly he focused on the ways and means of enhancing tax consciousness and on the contribution of income tax in government revenue. This study concluded that there are Complicated Act, rules and

regulation, defective income tax administration, corruption and evasions as well as lack of consciousness among tax payers are the main problems of income Tax administration system in Nepal. Similarly corruption and lack of trained personnel is the other problems lying within tax administration. According to him no corruption, trained personnel and awareness to taxpayers are the key requirements for better tax administration.

Yadav, Mohsin, Maira and Tuladhar (2015) focused on the structure and trend of income tax and its contribution to government revenue, composition of direct tax, ways of generating more income tax, prospect of online tax paying system, tax evasion and ways of controlling, trend of resource gap and contribution of income tax revenue to GDP. Primary data were collected through a set of questionnaire from tax administrators, tax experts and tax payers. Data analysis was performed with the use of chi-square statistical method. Findings shows that the attitude towards paying income tax have significant difference in tax experts, tax administrators and tax payers whereas attitude towards income tax rate, tax paying habit, good source of government revenue, environment of paying income tax, effectiveness of income tax act 2002 for collecting government revenue, income tax system, effectiveness of income tax system for achieving its objectives, the practice of income tax evasion, poor tax paying habit and tax evasion the crucial factor for low income tax collection, online tax paying system there is no significant difference. Finally, online tax payment system should be implemented to ease taxpayer, implementing computerized system to keep track of all tax payers and tax payers should be educated sufficiently on the importance of tax.

2.3 National Review

In developed countries, the most of the important feature of the tax policy has been the raised of the personal income tax to a significant proportion in the revenue structure. The income tax was introduced to the finance the war in most of these countries. But it remained in place after the war, primary as relatively modest tax on higher incomes and latter becomes a mass-tax during or soon after the second world war, Since then, the personal income tax revenue has a trend of unparalleled increase in real and especially in nominal terms.

It may be possible to reduce the gap in income by imposing higher rate to those who are having higher income and from that collected amount providing necessary assistance to the people with very poor economic condition, Hence it will help to make equitable economic distribution in the society. Balanced regional economic development is also possible through the provision of income tax. The government should charge higher income tax on the income from urban area and less on the income from remote area. Income tax is the main source of revenue of the government, which is paid by people (i.e. tax payer) in developing countries as well as developed countries. Government conducts welfare projects for people by the help of tax collection. Hence the income tax is prerequisites for the development of the nation and daily operation of government activities (Devkota, 2011).

Great Britain is the first country in the world to introduce the modern income tax in 1799 to finance the war fought with France. USA introduced income tax in 1862 to generate revenue to finance civil war. In India income tax and its modern form was adopted in 1860, several experiments were made from 1860 to 1866 and finally the systematic income tax legislation was enacted in 1886. The history of taxation in Nepal dates back to antiquity. Nevertheless, the modern tax system gained its momentum with the establishment of democracy, and implementation of the first consolidated budget took place in 1951 (Dahal, 2013).

The main goal of government in any developing is the improvement in life standard of its people through development activities. To plan and implement different activities, government needs huge amount of different resources. Government can mobilize additional financial resources internally or externally. However internal sources for resource mobilization can be raise within the century. The government collects the revenue from different sources such as tax remittance from public enterprises fees, fines, grants and financing from loan.

Tax is compulsory contribution from people to government to undertake work of public good. Many tax experts have given the definition of tax in their own words. They have focused the different aspect of tax according to their own view. Tax is compulsory contribution from a person to the government to destroy the expenses incurred in the common interest of all without reference to special benefit conferred (Dhakal, 2001, pp. 1-2). A tax is a compulsory payment to the government without expectation of direct benefit in return to the payer. Tax is imposed on the person by

the government according to the law of the country the person on whom taxis imposed must pay taxes. Otherwise the law punishes him. The government doesn't provide any corresponding benefit to the tax pays for the amount of tax he pays. It is used for the common goods of the country. This means the government of the amount of tax paid by tax payer provides no special benefit (Amatya, 2003).

Agrawal (1984) showed about 20 percent growth rate of income tax revenue during the period from FY 1971/72 to FY 1982/83. In his report, he pointed out some problems about Nepalese income tax system. Tax officers did not like to make assessment on the basis of account whereas taxpayers did not like to prepare account for income tax purpose. There has been no significant Increase in the number of income tax payers (over the last three years) despite substantial increase in business activities. Non-gazette officers seem to have working for quite a number of years without being transferred. The author focused on the students of chartered accounts and taxation. This material has also focused to be a practitioner's reference and handbooks, rather than the cortical compilation on the subject. The material is not only based on description fact but also has interpreted the various provision of the new act. Some sections of ITA 2001 Act have compared with the international act have compared with the international accounting standard.

To solve these problems, following measures are suggested:

- Income tax of small taxpayers should be assessed door-to-door basis.

- The coverage of income tax payer should be increased.

- Transfer of non-gazette officers should be made in every three years.

- Self-assessment by taxpayers.

- Effective taxpayer's information system to be developed.

- Exemption limit of income tax to be tied up with the cost of living index.

- Additional deduction for .the education of twos-children, medical expenses.

- Political and undesirable pressure in tax administration should be minimized.

- Capital gain should be included income for the purpose of income tax.

Mallik (2003) accepted that a lot of commitment, pain staking efforts and resources are needed to reform tax system. There is always a chance of failure in terms of

sustaining the achievement and it is the continuing process of improvement. Thus he accepted the reform process is 'more complicated. But he argues the proper and integrated planning process as well as constant monitoring and evaluation efforts; our pace of reforms at the advent of 21st century can be promising. The author further suggests with the convergence of the visionary political leadership, the aspiring private sector to have a friendly, equitable and just tax system and a tax administration eager to transform into a professional and service oriented cadre, all together will be able to become important partners of reform process .

Kandel (2001) criticized the Income Tax Act 2002 on several grounds. Exemption of agricultural income from income tax, expert duties levied on export, inequality between different capital earned income withdrawals of the provision of exemption suddenly and no adjustment for inflation are the major issues.

Adhikari (2003) explained the need of tax policy that plays a vital role in the whole fiscal policy. The author further said that the little attention on tax administration has minimized the role of tax policy. He has presented the issue in Nepalese tax administration. Such issues are: tax structure, major sector of income tax, trend and growth of income tax- He has accepted that Nepalese income tax system is waiting for comprehensive and integrated taxation plan and a scientific implementation of the same by way of reform.

The author explained the types of income tax gap, which are investigation and identification gap, internal turn filing gap, assessment and collection gap. The author tried to declare the mission vision and activities of internal revenue department. The author suggests achieving all the practical purpose, objectives and goals; tax administration should be regarded as an important component of tax policy (Adhikari, 2003).

Thapa (2002) described the tax system, features of tax and causes of reform the tax. The author had defined the areas for the reform of tax system in Nepal. They were low rates on broad base, simplicity and neutrality, gradual abolition of exemption deduction and 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 brewing and investment, conversion of sales and service taxes into VAT, excise duty only on cigarette, tobacco, alcohol, automobiles, petroleum and abolition

of surcharge and additional duty system to make the tax system, making tax system internationally compatible to attract foreign investment.

Pant (2004) comprehensively explained about the problems and their remedies related with tax revenue and major types of practical problems and challenges in tax administration. The author had mentioned in his article was showing limited amount of transaction showing low selling price, lack of issuing and taxing bills, lack of showing the real 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. The auther had 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 and auditing on the topic "corporate tax structure and production" in 1993. Such as corporate tax rate reduction from that research they reached the summery and conclusion in the elasticity of rental rate of capital stock and in the benefit-cost ratio.

Neupane (2011) provided an overview of the key economic factors that shape tax policy reform in many high incomes. Countries, developing countries, and transition economies. The paper describes and evaluates global and regional development with respect to tax rate and revenue ratios owner the last some 20 years, and discusses selected structural reform initiatives that have been high on the policy agenda over this period. In particular, it focuses on developments relating to experiments with the restructuring of corporate tax, the impact of corporate taxes is key reform initiative that have been high on the policy agenda. Over this period in particular it focuses on developments relating to experiments with the restructuring of corporate tax, the impact of corporate taxes on IDI, Key reform initiatives including dual income taxes and flat taxes, as well as the world wide spread of the VAT and policy development associated with climate change and natural resource taxation.

Dhakal (2012) described previous Income Tax Act showed main fatigue of Income Tax Act 2001 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

- With holding payment and quantification allocation and characterization of the amounts

Lamsal (2001) mainly focused on the removing and controlling income tax evasion for better resource mobilization. His main objective was to analysis the impact of income tax evasion government revenue of Nepal he set further objective which were to indentify 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. Mr. Lamsal had conducted that research following analytical as well as descriptive research design. Most of the data were from primary sources. Primary data 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.

Shrestha (2012) described the conceptual framework, legal provision administrative aspect and structure of income tax in Nepal. She has been conducted an opinion survey in respect of problem and prospects of income tax in Nepal. The findings about problem of Nepalese income tax system were mass poverty narrow tax coverage, and lack of consciousness of tax payer, predominance of agriculture widespread evasion and avoidance of income tax, unscientific tax assessment procedure in efficient tax administration, complicated tax laws and procedures instability in government policy. She had found various weak point of Nepal ease tax administration. The major weak point are: failure to maintain proper account and seconds 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.

The author suggests that income tax system will be succeeded if the system were widening of tax coverage, tax consciousness to people, minimize the evasion and avoidance problem, and enhance the self-assessment system reform in income tax assessment and administration system.

Kafle (2009) presented that income tax is a suitable source of mobilization domestic resources. It may enhance the government revenue promote socio- economic justice encourage private sector investment. Lack of clear transparent and progressive economic policy is the main reason for unsatisfactory with sound effectiveness of income tax system of Nepal. Existing cooperate tax rate has been found suitable and single rate for all types of corporation is preferred. Incensement of managerial efficiency of PEs clear income tax policy, rules and regulation, effective tax administration system and effective of some considerable points to increase the contribution of income tax from public enterprises.

Neupane (2011) presented the findings were there is poor domestic resource mobilization, poor performance of public sector enterprises, poor economic growth and inadequate tax effort etc. In order to solve this problem revenue generation from internal sources are very important in which income tax is one of the major source. He had also found that corporate income tax is equally important than other so government has to give attestation for well growth of industrial sector.

Devkota (2011) conducted that mass poverty and low income level, increasing habit of tax evasion, inefficient tax administrations are the major reasons for the low contribution of income tax in developing countries.

Bhattrai and Koirala (2011) presented the description of tax laws and tax planning. A simplified version of Income Tax Act 2001. He has presented theoretical as well as practical aspect on taxation in this book. This book is useful to anyone who is interested in the subject of taxation. This book is also helpful to research work. The aim of writing this book is to provide the readers with basic knowledge of general principles and practices of tax law in Nepal and to develop in them basic skills to handle the tax matter in the text has been presented national revenue. Clear act, rules and regulation, ineffectiveness of tax administration are the most important instruments for effectiveness of income tax in Nepal. Progressive tax rate is considered as the suitable means of tax and lengthy process, vague provision in

income tax laws, consuming unnecessary time are the major problems facing by the tax payer while paying the tax in Nepal.

Timilsina (2011) tried to explain about the tax evasion behavior of taxpayers. People in developing countries like Nepal have greater propensity to evade taxes. Lack of proper measurement of tax assessment, Nepal is facing the problem tax evasion. Because of this, resources have not been mobilized efficiently and resource gap is increasing each year in Nepal Public Finance. The main objective of the study is to analyze the structure of income tax in Nepal, examine the income tax evasion tendency in Nepal and draw suggestion for the elimination of income tax evasion in Nepal. There is a serious problem of financial resources gap in Nepalese economy. It was 41.69 percent during FY 1975/76 and increased to 53.35 percent during FY 1985/86.

It needs to be controlled in time; otherwise it may create a greater problem in national economy. The composition of tax and non-tax revenue is still less satisfactory in Nepal. There were 79.14 percent tax and 20.86 percent non-tax contribution during FY 1985/86. More than 83 percent tax contribution is supposed to be appropriate here in Nepal. Income tax evasion has a decreasing trend in Nepal. There was 107.39 percent income tax evasion in FY 1975/76 and reduced to 58.47 percent in FY 1979/80. In an average there is 54.70 percent income tax evasion in Nepal. The author has suggested to the government for timely correct the problems of resource gap through by increasing tax coverage through different programs and legal action should be taken towards tax evaders and corruption on the part of tax administration.

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

Shrestha (2012) identified economic problems and causes of low tax collections. His main objectives are to review the tax collection system findings and to find out the contribution of tax to national revenue, to find out the problems in tax collection

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

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

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

Khadka (2015) showed that SAARC countries provide some allowances under their individual income tax regimes. These allowances are fixed amounts and are deducted from the total income before it is taxed. For example, basic allowance is most

common under individual income tax of the SAARC countries. It is simply a slice of the income received free of tax by every taxpayer.

Dahal (2003) explained that the contribution of income tax to total revenue was 7.8 percent in FY 1975/76 and in 1999/00 it was 14.5 percent. This study has explained that the income tax rates and slabs have been changed radically in recent years. Under new Income Tax Act, 2002, individual income tax is levied with low rates of 15 percent and 25 percent and the corporate income tax is levied with single rate of 25 percent. For bank and financial institutions income the rate is 30 percent of taxable income. The author addressed the narrow tax base, low tax elasticity, higher burden of indirect tax compared to direct tax lack of voluntary compliance, wide spread tax evasion, leakage's etc. as main constraints of Nepalese tax system. Including income from agriculture sector, income from domestic industries, social sector and electricity sector, which contributes 52 percent of total GDP, is exempted from income tax. This report has suggested that about 40 percent extra resource mobilization is possible if proposed tax policy and program took place.

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

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

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

Timilsina (2007) highlighted that the automatic response of tax to income is low. Compare to the period FY 1975/76 to 1994/95, the elasticity coefficients of tax during review period (FY 1975/75 to 2005/06) did not reveal significant differences. The buoyancy and elasticity of income tax during the study period was 1.37 and 0.41 respectively. This study has further concluded that only the discretionary measures cannot generate more revenue freeware. Improvement in tax administration to control the leakage and to broaden the tax bases in practice is important for enhancing the elasticity of the tax.

Basnet (2017) emphasized on the current Nepalese income tax administration is not active and effective. The effectiveness of income tax completely depends upon implementation of income tax laws and provisions, which are the major responsibilities of income tax administration. Public awareness program is necessary for raising government revenue. Tax evasion is the major reason for unsatisfactory contribution of income tax to government revenue. To increase the contribution of income tax to government revenue, self-assessment method is more appropriate while assuming income tax. Progressive tax rate is suitable for Nepal.

The Himalayan Times (2017 focused on business exceeding the set target by NRs. 13.89 billion, the government's revenue collection stood at NRs. 208.72 billion of this FY 2016-17. With this, the government has collected around 37 per cent of the total annual collection target of the current fiscal. Income tax is one of the important and suitable means of raising government revenue. Contribution of income tax to government revenue is not satisfactory. In other word Nepalese income tax system is not efficient because various problems existed in the income tax such as increasing habit of tax evasion, defective income tax law, lack of experts in tax administration, lack of awareness of tax payers, etc.

2.4 Research Gap

There is gap between present research and previous research conducted. The context has been changed every year and new problems and issues were found every year. The gap between government expenditure and internal resource is known as resource gap. In Nepal, internal resource mobilization is still poor due to resource constraints, mass poverty, rapid growth of population, aggressive dependence on agriculture, etc. and it is not sufficient to cover the growing expenditure. Mobilization of internal

resource through income taxation is one of the vital solutions for more revenue collection.

Income Tax is the one part of entire tax structure of Nepal. In recent years, the government has taken several measures to reduce tax-induced distortions, strengthening tax administration, simplifying tax laws and procedures to make them more transparent to increase government revenue. Therefore, this study has been conducted analytically and intensively to analyze the role of income tax in government revenue. Many individuals and institutions have studied different aspects of tax system in Nepal such as legal, administrative and historical. But all of them are found theoretical-oriented and there is no any practical significance. However, all of them help to understand the theoretical concept of income tax. So, this research fills the gap of practical relevance of resource mobilization through income tax in Nepal.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

Income tax system and structure is based on various rules, regulations and acts are always setting on different countries own socio-economic status. Descriptive research design is more suitable to analyze Nepalese corporate income tax structure for contribution of corporate income tax. The study needs to analyze its past performance in different time period with respective indirect. So, historical as well as descriptive research design has been used.

To assess the structure of income tax, the data from FY 1999/00 to FY 2015/16 have taken into consideration. This study analyzes the structure of income tax in Nepal using descriptive method to describe the data, illustrating the data in tables, graphs and charts for clarity of the available data and information. This research has been analytical and descriptive in design using historical data to assess the current role of income tax in resource mobilization internally and to explore some potential areas for additional domestic resource mobilization through income taxation to fill the gap of resource deficit in Nepalese economy.

3.2 Nature and Sources of Data

The nature of research study is descriptive as well as analytical. Mainly, this study is conducted on the basis of secondary data. The data relating to the tax were collected from annual reports of IRD of different years, Economic Surveys of various years, published by MoF, Nepal Rastra Bank's Economic bulletins of various issues and publications of Central Bureau of Statistics, etc.

3.3 Tools and Techniques of Data Collection

In order to analyze the research study, different statistical and mathematical tools like ratio, percentage, mean, median, diagrams, graphs, correlation, etc. have been used.

Similarly, different statistical tools such as diagrams, graphs, charts, pie charts, trend lines are used and mean, percentage, etc. also are used to validate of the study.

3.4 Data Analysis Procedures

The collection data are classified, tabulated and analyzed in descriptive and analytical way as per the subject matter likewise, the required accounting principle,

mathematical approaches and legal provision of ITA, 2001 are taken into consideration in data analysis procedures.

3.5 Analysis and Presentation of Data

To analyze the trend of income tax in Nepal, trend line has explored. This will useful to highlight the income tax in different fiscal year under study period. To show the relationship between income tax and total revenue, different diagrams have used. This diagram will helpful to show the relationship between two variables which is income tax and total revenue.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This is the major part of the study. This chapter deals with the analysis and interpretation of trend and structure of income tax. The analysis of data is carried out by organizing, and assessing statistical results from different figures, tables and charts. In this chapter the data and information in connection with the taxation in Nepal are presented and analyzed which are already published and trying to find out the trend and contribution of income tax to government revenue.

4.1 Trend of Income Tax in Nepal

4.1.1 Income Tax Rate and Tax Exemption Limit in Nepal

The income tax is a fairly general tax. The system of income taxation in Nepal has forty-five years of history starting from the fiscal year 1959/60 as business profit and remuneration tax. During this period, exercises with four income tax Acts were formulated with numerous tax rates and exemption limit schedules. Income tax was initially levied on busyness income and salary income. The rate of income tax has been changing continuously since its introduction in FY 1959/60 to the present time. Finance Act prescribes the exemption limit for individual and couple which are as follows:

Table 4.1

Individual / Couple having Taxable Income from Employment

For Individual	For Couple	Tax Rates (%)
Up to NRs. 350,000	Up to NRs. 400,000	1
Up to NRs. 350,000 to 450,000	Up to NRs. 400,000 to 500,000	10
Next NRs. 450,000 to 650,000	Next NRs. 500,000 to 700,000	20
Next NRs. 650,000	Next NRs. 700,000 to 2,000,000	30
Above 2,000,000 (20% surcharge to top of above rates)	Above 2,000,000 (20% surcharge to top of above rates)	20

Source: Economic Survey, FY 2018/19, MoF/GoN

4.1.2 Trend Analysis of Income Tax in Nepal

Trend of income tax in different fiscal years under this study can be shown in following table:

Table: 4.2

Trend of Income Tax in Nepal

(NRs. in billion)

Fiscal Year	Total Revenue (TR)	Income Tax	Income Tax as % of TR
1999/00	4289.38	675.70	15.75
2000/01	4889.39	911.40	18.64
2001/02	5044.56	890.37	17.65
2002/03	5622.97	813.19	14.46
2003/04	6233.10	951.47	15.26
2004/05	7012.27	1046.61	14.92
2005/06	7228.19	1093.94	15.13
2006/07	8771.21	1573.18	17.93
2007/08	10762.25	1907.78	17.72
2008/09	14347.45	2724.74	18.99
2009/10	17799.09	3382.13	19.00
2010/11	19837.59	4135.03	20.84
2011/12	24437.29	5130.30	20.99
2012/13	29602.11	6418.67	21.68
2013/14	36292.36	7560.82	20.83
2014/15	39350.66	7751.60	19.69
2015/16	46042.55	9428.99	20.47
2016/17	60,918.00	15,774.00	25.89

Source: Economic Survey and Budget Speech, various Issues from 1999/00 to 2016/17, Ministry of Finance, Government of Nepal, 2017.

Table 4.2 show that the trend of income tax is increasing every year during last 13 year, but in initial 2 year income tax is in decreasing trend. The amount of income tax is NRs.911.40 billion in the FY 2000/01. Then after in FY 2001/02 and 2002/03 income tax is decreases and reached to NRs. 813.19 billion in FY 2002/03. From FY 2003/04 income tax is increasing each year but it decreases to NRs. 6060.52 billion in the FY 2016/17. It shows nowadays the trend of income tax in Nepal is in positive or growing situation from FY 2003/04, which is right trend for Nepal.

4.1.3 Government Revenue Structure of Nepal

The funds required by government are normally collected from two sources: debt and revenues. The revenue of government comes from two sources: tax and non-tax

revenue. Non tax source includes different revenues like, interest, dividend, rent and royalty, administrative fee, penalties, fine and forfeiture. Tax source includes custom duty, excise duty, vat and income tax. The trend of tax and non-tax revenue of Nepal is shown in following table:

Table 4.3

Composition of Total Revenue

(NRs. in billion)

Fiscal year	Total Revenue	Tax Revenue		Non-tax Revenue	
		Amount	%	Amount	%
1999/00	4289.37	3315.21	77.29	974.16	22.71
2000/01	4889.39	3886.51	79.49	1002.88	20.51
2001/02	5044.56	3933.06	77.97	1111.50	22.03
2002/03	5622.97	4258.70	75.74	1364.27	24.26
2003/04	6233.10	4817.50	77.29	1415.80	22.71
2004/05	7012.27	5410.47	77.16	1601.80	22.84
2005/06	7228.19	5743.04	79.45	1485.15	20.55
2006/07	8771.21	7112.67	81.09	1658.54	18.91
2007/08	10762.25	8515.55	79.12	2246.70	20.88
2008/09	14347.45	11705.19	81.58	2642.26	18.42
2009/10	17799.09	15978.53	89.77	1820.56	10.23
2010/11	19837.59	17722.72	89.34	2114.87	10.66
2011/12	24437.29	21172.18	86.64	3265.12	13.36
2012/13	29602.11	25921.49	87.57	3680.62	12.43
2013/14	36292.36	31243.99	86.06	5048.37	13.94
2014/15	39350.66	35350.57	89.86	4000.08	10.14
2015/16	46042.55	41242.44	89.58	4800.11	10.42
2016/17	60,918.00	49975.52	82.04	10942.48	17.96

Source: Economic Survey and Budget Speech, various Issues from 1999/00 to 2016/17, Ministry of Finance, Government of Nepal, 2017.

Table 4.3 shows that the role of tax revenue is very important in revenue mobilization of Nepal to meet the government expenditure. In FY 1999/00 the government revenue mobilization has stands at NRs. 4289.37 billion out of which NRs. 3315.21 billion (77.29 percent) is mobilized from tax revenue source. The remaining NRs. 974.16 billion (22.71 percent) is collected from non-tax sources such as fees, fines, interest and dividends. In FY 2015/16 government revenue increases to NRs. 46042.55 billion with contribution of tax revenue being 89.58 percent. The share of revenue from non-tax source decreases to 10.42 percent. The highest contribution of tax revenue to total revenue is 89.86 percent during the study period. It can be shown clearly that the tax

revenue of the government is very high in comparison to non-tax revenue and total revenue is in increasing trend.

4.1.4 Composition of Tax Revenue in Nepal

Tax revenue is divided in to two classes one is direct and the other is indirect. A direct tax is such type of tax, which is imposed upon the person out of his income or property. A direct tax is really paid by the person on whom it is legally imposed. Income tax, property tax, gift tax, vehicle tax and others are the best examples of direct taxes. On the other hand, and indirect tax is such type of tax which is imposed upon any person without direct collecting from him. An indirect tax is imposed on person but paid partially or wholly by another. Sales tax, vat, entertainment tax, custom, excise duty are the good examples of this tax. The figure of direct tax and indirect tax revenue from FY 1999/00 to FY 2016/17 is presented in the following table:

Table: 4.4

Composition of Total Tax Revenue

(NRs. in billion)

Fiscal Year	Total Tax Revenue	Direct Tax		Indirect Tax	
		Amount	%	Amount	%
1999/00	3315.21	895.15	27.00	2420.06	73.00
2000/01	3886.51	1015.94	26.34	2870.57	73.66
2001/02	3933.06	1059.75	26.94	2873.31	73.06
2002/03	4258.70	1010.58	23.73	3248.12	76.27
2003/04	4817.50	1191.26	24.73	3626.04	75.27
2004/05	5410.47	1307.18	24.16	4103.29	75.84
2005/06	5743.04	1396.81	24.32	4346.23	75.68
2006/07	7112.67	1898.03	26.69	5214.64	73.31
2007/08	8515.55	2308.77	27.11	6206.77	72.89
2008/09	11705.19	3432.07	29.32	8273.12	70.68
2009/10	15978.53	4039.60	25.28	11938.93	74.72
2010/11	17722.72	4672.03	26.36	13050.69	73.64
2011/12	21172.18	5777.02	27.29	15395.16	72.71
2012/13	25921.49	7301.26	28.17	18620.23	71.83
2013/14	31243.99	8673.65	27.78	22570.34	72.22
2014/15	35350.57	9966.99	28.19	25383.50	71.81
2015/16	41242.44	12056.13	29.24	29186.31	70.76
2016/17	49975.52	25975.00	51.97	24022.52	48.02

Source: Economic Survey and Budget Speech, various Issues from 1999/00 to 2016/17, Ministry of Finance, Government of Nepal, 2017.

Figure 4.1

Composition of Direct and Indirect Tax Revenue
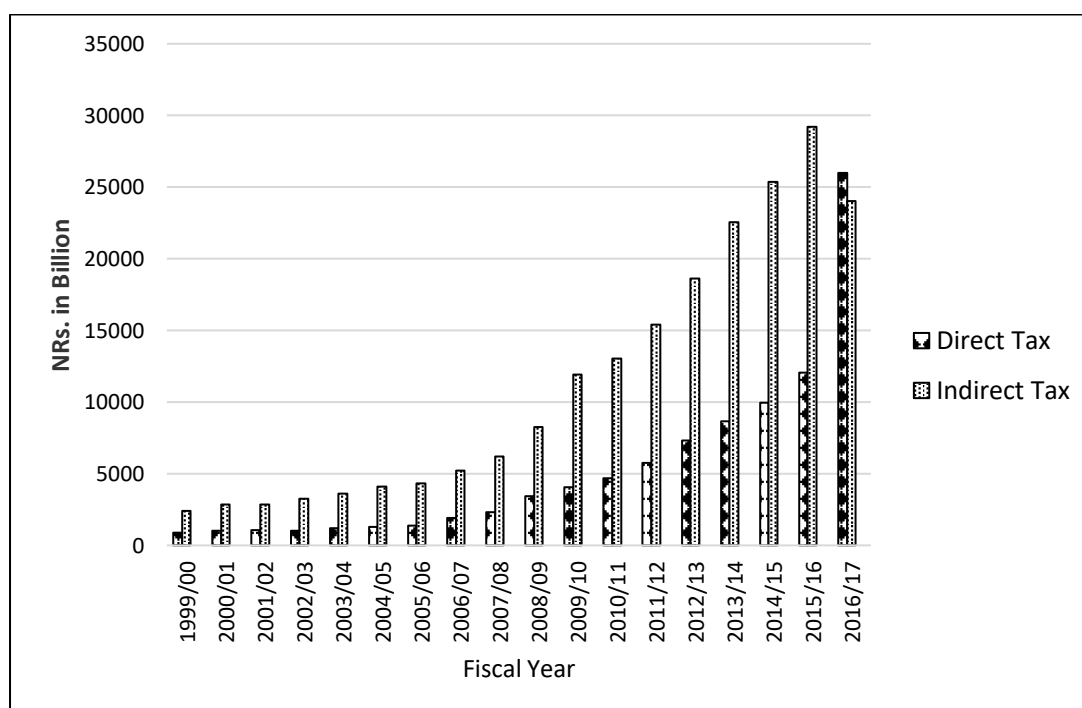
Source: Based on table 4.4.

Table 4.4 shows that total tax revenue, direct tax and indirect tax are in increasing trend. The amount of direct tax is NRs. 895.15 billion in the first FY 1999/00. It is increasing each year and has reached to NRs. 41242.44 billion in FY 2015/16. Contribution of direct tax to total tax revenue is fluctuating over the study period from 27 percent to 29.24 percent. Similarly the amount of indirect tax is NRs. 2420.06 billion in FY 1999/00. It i s increasing each year and has reached to NRs. 29186.31 billion in FY 2015/16. Contribution of indirect tax to total tax revenue is fluctuating over the study period from 73 percent to 70.76 percent.

4.1.5 Composition of Direct Tax Revenue

The major components of direct tax are income tax, property tax, social security tax and other tax (including land revenue and registration). The share of major components of direct tax is given below in the following table:

Table 4.5

Composition of Direct Tax Revenue

(NRs. in billion)

Fiscal Year	Total Direct Tax	Income Tax		Property Tax		Social Security Tax		Other Taxes (including Land Revenue and Registration)	
		Amount	%	Amount	%	Amount	%	Amount	%
1999/00	855.10	675.70	79.02	NA	NA	NA	NA	NA	NA
2000/01	1015.94	911.40	89.69	NA	NA	NA	NA	NA	NA
2001/02	1059.75	890.37	84.03	56.06	5.29	NA	NA	113.18	10.68
2002/03	1010.58	813.19	80.45	36.89	3.65	NA	NA	160.78	15.90
2003/04	1191.26	951.47	80.00	68.50	5.75	NA	NA	169.75	14.25
2004/05	1307.18	1046.61	80.07	80.65	6.17	NA	NA	179.92	13.76
2005/06	1396.81	1093.94	78.32	84.76	6.07	NA	NA	218.11	15.62
2006/07	1898.03	1573.18	82.89	99.50	5.24	NA	NA	225.35	11.87
2007/08	2308.77	1907.78	82.63	106.92	4.63	NA	NA	294.07	12.74
2008/09	3432.07	2724.74	79.39	185.00	5.39	NA	NA	522.33	15.22
2009/10	4039.60	3382.13	83.73	551.10	13.64	NA	NA	106.37	2.63
2010/11	4672.03	4135.03	88.51	357.25	7.65	70.98	1.52	108.77	2.33
2011/12	5777.02	5130.30	88.81	358.84	6.21	155.50	2.69	132.38	2.29
2012/13	7301.26	6418.67	87.91	534.02	7.31	188.06	2.58	160.52	2.20
2013/14	8673.65	7560.82	86.96	667.12	7.69	244.90	2.82	200.81	2.32
2014/15	9966.99	7751.60	77.80	869.91	8.72	1023.94	10.27	321.54	3.21
2015/16	12056.13	9428.99	78.20	872.82	7.24	1391.16	11.54	362.71	3.02
2016/17	21706.74	18,774.00		972.00		1591.02		369.72	

Source: Economic Survey and Budget Speech, various Issues from 1999/00 to 2016/17, Ministry of Finance, Government of Nepal, 2017.

Table 4.5 shows that collection trend of direct tax is increasing every year during last 13 year. The table also shows that the contribution of income tax to direct tax is higher than other tax and it has occupied the largest share in the direct tax. The percentage share of income tax to direct tax is 79.02 percent amounting NRs. 675.70 billion in FY 1999/00. It is 78.20 percent amounting NRs. 9428.99 billion in FY 2015/16. On the other hand, the percentage of property tax, social security tax and other tax to direct tax is very lower in comparison to income tax. There percentages of contribution to direct tax revenue are fluctuating during the study period.

4.1.6 Composition of Indirect Tax Revenue

The composition of indirect tax in Nepal is presented below in table 4.10. An indirect tax is imposed on one person but paid partly or wholly by another. Indirect tax

includes custom duty (export or import duty). Excise duty, sales tax (VAT) and others (entertainment tax, hotel tax, passenger tax, etc).

Table 4.6

Composition of Indirect Tax Revenue

(NRs. in billion)

Fiscal Year	Total Indirect Tax	Customs Duties		Tax on Consumption and Product of Goods and Services					
				Value Added Tax		Excise Duty		Other Taxes	
		Amount	%	Amount	%	Amount	%	Amount	%
1999/00	2420.06	1081.33	44.68	1625.97	42.40	312.76	12.92	NA	NA
2000/01	2870.57	1255.21	43.73	1238.24	43.13	377.12	13.14	NA	NA
2001/02	2873.31	1265.88	44.06	1226.73	42.69	380.70	13.25	NA	NA
2002/03	3248.12	1423.64	43.83	1345.97	41.44	478.51	14.73	NA	NA
2003/04	3626.04	1555.48	42.90	1447.89	39.93	622.67	17.17	NA	NA
2004/05	4103.29	1570.16	38.27	1888.54	46.03	644.59	15.70	NA	NA
2005/06	4346.23	1534.40	35.31	2161.07	49.72	650.76	14.97	NA	NA
2006/07	5214.64	1670.76	32.04	2609.56	50.04	934.34	17.92	NA	NA
2007/08	6206.77	2106.24	33.93	2981.57	48.04	1118.96	18.03	NA	NA
2008/09	8273.12	2679.29	32.39	3970.09	47.99	1622.09	19.61	1.65	0.02
2009/10	11938.93	3521.89	29.50	5492.09	46.00	2414.76	20.23	510.19	4.27
2010/11	13050.69	3571.35	27.37	6166.36	47.25	2633.85	20.18	679.13	5.20
2011/12	15395.16	4339.06	28.19	7093.04	46.07	3001.61	19.50	961.45	6.24
2012/13	18620.23	5693.18	30.58	8341.84	44.80	3623.47	19.46	961.74	5.16
2013/14	22570.34	6798.06	30.12	10111.06	44.80	4541.10	20.12	1120.12	4.96
2014/15	25383.50	6770.49	26.70	11216.07	44.20	5253.00	20.70	2143.94	8.44
2015/16	29186.31	7592.91	26.00	13492.00	45.90	6336.18	21.70	1756.22	6.40
2016/17	24022.52	5023.20	20.91	9849.08	4099	7304.20	30.40	1846.24	7.68

Source: Economic Survey and Budget Speech, various Issues from 1999/00 to 2016/17, Ministry of Finance, Government of Nepal, 2017.

Table 4.6 shows that the custom duty and VAT have occupied major portion in indirect tax revenue. The contribution of custom duty to indirect tax is 44.68 percent amounting NRs. 1081.33 billion in FY 1999/00. Then its ratio has decreased and reached to 26.00 percent amounting 7592.91 at the end of the study period i.e., FY 2015/16. The VAT has become an important source of overall tax revenue. The contribution of VAT has 42.40 percent which is NRs. 1625.97 billion in the FY 1999/00. The percentage contribution of VAT has increased and reached to 50.04 percent amounting NRs 2609.56 in the FY 2006/07. Then its ratio is continuously decreases and reaches to 45.90 percent which is NRs. 13492.00 billion in the FY 2015/16. The share of excise duty is 12.92 percent which is NRs 312.76 billion in the

FY 1999/00. The contribution of excise duty to indirect tax fluctuates during the study period and finally reaches to 21.70 percent which is NRs. 6336.18 billion. There is no seems the contribution of other taxes in the initial phase of study period. It starts from FY 2008/09 in which the contribution of other taxes in FY 2008/09 is 0.02 percent amounting NRs. 1.65 billion. The contribution of other taxes is increased and it reaches to 6.40 percent amounting NRs. 1756.22 billion at the last year of the study period which is FY 2016/17.
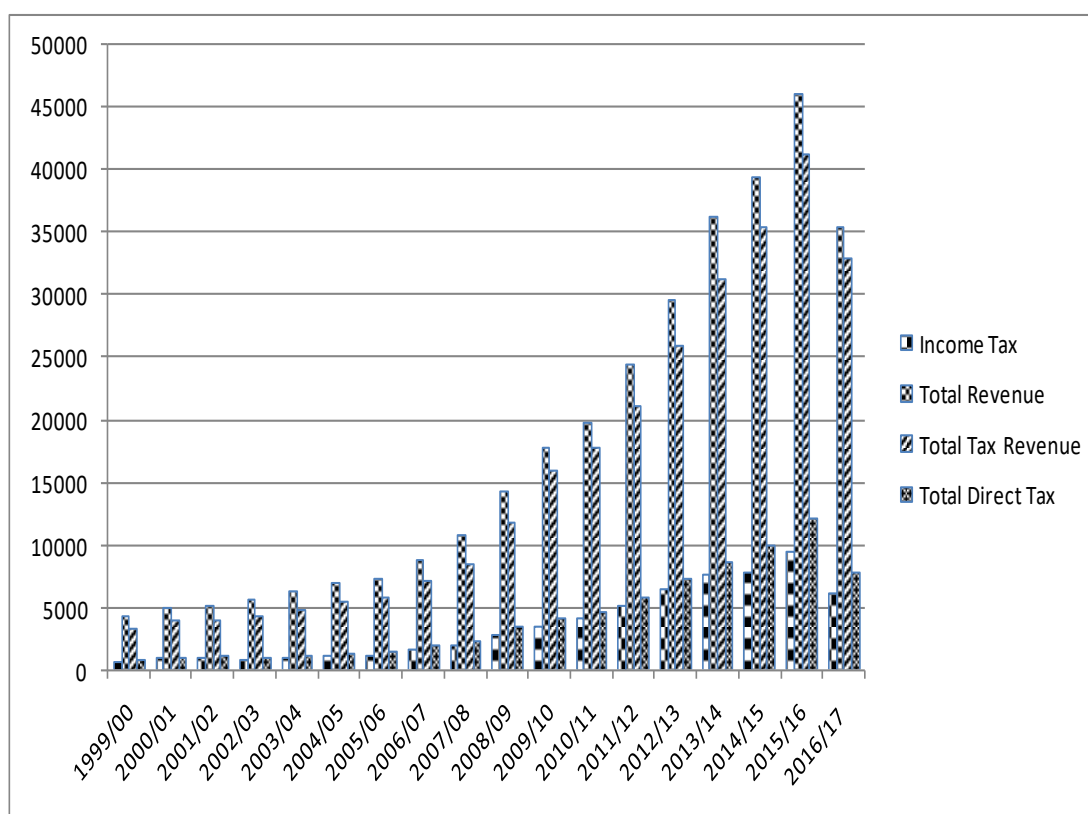
4.2 Contribution of Income Tax

The contribution of income tax to gross domestic product (GDP), total revenue, total tax revenue and total direct tax in Nepal is shown in following table:

Table: 4.7

Contribution of Income Tax

Fiscal Year	GDP Basic Price	Income Tax		Total Revenue (TR)		Total Tax Revenue		Total Direct Tax	
		Amount	Income Tax as % of GDP	Amount	Income Tax as % of TR	Amount	Income Tax as % of Total Tax Revenue of	Amount	Income Tax as % of Total Direct Tax
1999/00	36625.1	675.70	1.84	4289.38	15.75	3314.83	20.38	855.10	79.02
2000/01	41342.9	911.40	2.2	4889.39	18.64	3886.51	23.45	1015.94	89.71
2001/02	43039.7	890.37	2.07	5044.56	17.65	3933.06	22.64	1059.75	84.02
2002/03	46032.5	813.19	1.77	5622.97	14.46	4258.70	19.09	1010.58	80.47
2003/04	50069.9	951.47	1.9	6233.10	15.26	4817.50	19.75	1191.26	79.87
2004/05	54848.5	1046.61	1.91	7012.27	14.93	5410.47	19.34	1307.18	80.07
2005/06	61111.8	1093.94	1.79	7228.19	15.13	5743.04	19.05	1396.81	78.32
2006/07	67585.9	1573.18	2.33	8771.21	17.94	7112.67	22.12	1898.03	82.89
2007/08	75525.7	1907.78	2.53	10762.25	17.73	8515.55	22.03	2308.77	82.63
2008/09	90952.8	2724.74	3.00	14347.45	18.99	11705.19	23.28	3432.07	79.39
2009/10	108341.5	3382.13	3.12	17799.09	19.00	15978.53	21.17	4039.60	83.72
2010/11	124848.2	4135.03	3.31	19837.59	20.84	17722.72	23.33	4672.03	88.51
2011/12	138748.2	5130.30	3.70	24437.29	20.99	21172.18	24.23	5777.02	88.81
2012/13	152285.3	6418.67	4.22	29602.11	21.68	25921.49	24.76	7301.26	87.91
2013/14	172459.6	7560.82	4.38	36292.36	20.83	31243.99	24.21	8673.65	86.96
2014/15	212000.0	7751.60	3.65	39350.66	18.56	35350.57	21.92	9966.99	77.77
2015/16	224900.0	9428.99	4.19	46042.55	20.47	41242.44	22.86	12056.13	78.21
2016/17*	2293989	6060.52	2.69	35391.1	17.12	32975.92	18.78	7838.1	129.32

Source: Economic Survey and Budget Speech, various Issues from 1999/00 to 2016/17, Ministry of Finance, Government of Nepal, 2017.

Figure 4.2

Contribution of Income Tax

Source: Based on the table 4.7.

Table 4.7 shows the contribution of income tax to GDP over the study period of 17 years. The maximum contribution of income tax to GDP is 4.38 percent in FY 2013/14 while the minimum contribution stands at 1.77 percent in FY 2002/03. Similarly the average contribution of income tax to GDP is 2.82 percent. In overall the contribution of income tax to GDP is in increasing trend after the FY 2002/03 under this study.

The contribution of income tax to total revenue over the study period of 17 years, the maximum contribution of income tax to total revenue is 21.68 percent in FY 2012/13 while the minimum contribution stands at 14.46 percent in FY 2002/03. Similarly the average contribution of income tax to total revenue is 18.16 percent. In overall the contribution of income tax to total revenue is in increasing trend after the FY 2002/03 under this study but there is little decrease in contribution of income tax to total revenue at the FY 2013/14 and FY 2014/15 which is 20.83 and 18.56 percent respectively.

The contribution of income tax to total tax revenue over the study period of 17 years, the maximum contribution of income tax to total tax revenue is 24.76 percent in FY 2012/13 while the minimum contribution stands at 19.05 percent in FY 2005/06. Similarly, the average contribution of income tax to total revenue is 21.98 percent. In overall the contribution of income tax to total revenue is in fluctuating trend.

The contribution of income tax to total direct tax revenue over the study period of 17 years, the dominant part of direct tax revenue is income tax. The maximum contribution of income tax to total tax revenue is 89.71 percent in FY 2000/01 while the minimum contribution stands at 77.77 percent in FY 2014/15. Similarly the average contribution of income tax to total revenue is 82.84 percent. In overall the contribution of income tax to total revenue is in fluctuating trend.

CHAPTER V

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

Nepal is the least-developed country in the world with low per capita income having 774 US$. Its economic growth rate is very low (0.77% in FY 2014/15 and has projected 5.5 percent in FY 2016/17). 21.8 percent of total population lives below poverty line (MoF, 2018). Financial resource gap is the major constraint of the Nepalese economy. In other words, there is growing difference between public expenditure and public revenue in Nepalese economy. Due to increasing gap between expenditure incurred and revenue collection, Nepal has heavily depends on both the external as well as internal debt to fill the budget deficit. Nepalese economy is highly dependent on external loan and internal loans which is considered undesirable for the economy.

The government of every nation requires sufficient revenue to lunch the development programmers, handle day to day operation, keep peace and security and lunch other public welfare programs. Government revenue should be increase to fulfill the financial resource gap. Income tax is one of the major instruments to fulfill the gap. The government collects revenue from various sources such as taxes, fees, fine and penalties etc. Among them tax is the main source of collecting the public revenues because it occupies the most important part of the government revenues.

The major findings of this study are summarized as below:

- There is a dominant share of tax revenue in Nepalese total government revenue. The contribution of tax revenue shows the fluctuating trend as it has contributed 77.29 percent in FY 1999/00 on the total revenue, which increases to 89.58 percent in the FY 2015/16.

- In Nepalese economy tax revenue comprises of direct and indirect taxes. The contribution of direct and indirect tax revenue was 27 percent and 73 percent respectively in FY 1999/00. The contribution of direct tax to total tax revenue is little increase to 29.24 percent in FY 2015/16 whereas the percentage of

indirect tax to total tax revenue was little decreased to 70.76 percent in FY 2016/17.

- The major components of direct tax are income tax, house and land tax, property tax, vehicle tax. Among them income tax occupies the large share, which is 79.02 percent of direct tax in the FY 1999/00 as a beginning of the study period and 78.20 percent at the end of study period FY 2016/17.

- The trend of the contribution of income tax to government revenue has been fluctuating trend, which justifies the need to focus on appropriate implementation of the income tax acts for a better revenue generation.

- The tax exemption limit in Nepal has been continuously increased from NRs. 15,000 for an individual, NRs. 20,000 for couple in the FY 1992/93 to FY1996/97 and increased to NRs. 350,000 for an individual, NRs. 400,000 for couple and family during FY 2016/17.

- Corporate income tax, individual income tax and investment income tax are the major types of income tax in Nepal. Corporate income tax is collected from Government Corporations, Public Limited Companies, partnership firms and private limited companies. Individual tax is collected from remuneration, industry and business profession etc and investment tax is collected from dividend tax, interest tax, royalty and rent tax.

- The share of income tax as a percentage of GDP increased from 1.84 percent in the FY 1999/00 to 4.19 percent at the end of study period FY 2015/16. This shows that share of income tax as a percentage of GDP is in increasing trend.

5.2 Conclusion

Income tax is one of the important and suitable means of raising government revenue. Contribution of income tax to government revenue is not satisfactory. In other word Nepalese income tax system is not efficient because various problems existed in the income tax such as increasing habit of tax evasion, defective income tax law, lack of experts in tax administration, lack of awareness of tax payers, etc.The current Nepalese income tax administration is not active and effective. The effectiveness of income tax completely depends upon implementation of income tax laws and provisions, which are the major responsibilities of income tax administration. Public

awareness program is necessary for raising government revenue. Tax evasion is the major reason for unsatisfactory contribution of income tax to government revenue. To increase the contribution of income tax to government revenue, self-assessment method is more appropriate while assuming income tax. Progressive tax rate is suitable for Nepal.

One of the major problem is there is a lengthy process while paying tax. There is a possibility to make the current provision of fines and penalties reasonable by increasing them. Clear Acts Rules and Regulations are most important factors for effectiveness of income tax in Nepal for raising government revenue. Current fines and penalty is reasonable and we should implement it properly to bring the tax evaders into tax net. The role of income tax is very important in revenue mobilization of Nepal to meet the government expenditure and there is vital role of income tax to fulfill the resource gap problem of Nepal.

5.3 Recommendations

On the basis of this study and analysis, the following suggestions have been recommended for effective and efficient income tax system in Nepal:

- It is necessary to increase the share of direct tax in total tax revenue through effective and efficient taxation system.

- Tax ratio should be increase gradually on long run basis to meet the government expenditure. For this the tax basis should be widened. There must be coordination between the departments of tax.

- For the specialization of income tax matter separate income tax department should be established.

- There is a necessity of Public awareness program for raising government revenue. Progressive tax rate is suitable for Nepal so there must be strong commitment to implement it.

- The terms and procedure under income tax act should be simplified so that every person could understand easily.

- The provision of fines, penalties and punishment should be made at higher rate for income tax evaders.

- Tax principle should be adopted according to ability to pay.

- The provision of reward, prize and incentives should be introduced in the act to encourage the taxpayers to pay tax voluntarily rather than coercive measures.

- The percentage of direct tax to total tax can be increased by applying self-assessment of income tax along with promotional activities and awareness programs.

- The member involved in formulating income tax act and policy must have deep knowledge about the economic condition, living standard, economic indicator and existing income tax acts of the country.

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