CONTRIBUTION OF INCOME TAX ON GOVERNMENT REVENUE OF NEPAL

A Thesis

Submitted to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University, Nepal, in Partial Fulfillment of the Requirements for the Degree of MASTER OF ARTS

In

ECONOMICS

By

Prakash Basaula Roll No.: 89/068 TU Regd. No.: 9-2-288-59-2005 Central Department of Economics Tribhuvan University Kirtipur, Kathmandu April 2019

RECOMMENDATION LETTER

This thesis entitled **CONTRIBUTION OF INCOME TAXONGOVERNMENT REVENUE OF NEPAL** has been prepared by**Mr. Prakash Basaula**under my supervision. I hereby recommend this thesis for examination by the thesis committee as partial fulfillment of the requirements for the Degree of Master of arts in Economics.

.....

Prof. R.K. Shah, Ph.D. (Thesis Supervisor)

Date: 2075/12/20 BS

APPROVAL LETTER

This thesis entitled **CONTRIBUTION OF INCOME TAX ONGOVERNMENT REVENUE OF NEPAL**submitted by**Mr. Prakash Basaula**to the Central Department of Economics,Faculty of Humanities and Social Sciences in partial fulfillment for requirements of Master of Arts in Economics has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of the said degree.

Thesis Committee

.....

Prof. KushumShakya, Ph.D. (Head of the Department)

Prof. KushumShakya, Ph.D. (External Examiner)

.....

Prof. R.K. Shah, Ph.D. (Thesis Supervisor)

Date:2075/12/29 BS 12/04/2019 AD

ACKNOWLEDGEMENTS

My deepest gratitude goes to my thesis supervisor Prof. R.K. Shah for his continued guidance, encouragement, motivation and support at each step of the study. I am grateful toProf. KushumShakya Pandey, Head, Central Department of Economics, for giving me chance to conduct this study.

I express sincere thanks to all the members of Central Department of Economics, who helped me directly and indirectly in the course of collecting research materials. Similarly, my thanks also go to the staffs of MoF, CBS and NRB for providing me required data and information for this study.

I would like to thank Mr. BimalGiri and Mr. PrameshworKunwarand all other friends for their help during preparation of statistical database.

I am indebted to my parentsMr. Ram Prasad Basaulaand Mrs. ChijamayaBasaulaand my sisters Mrs. SaralaPantha, Mrs. KeshKumariGauli, Mrs. NanimayaPantha and Mrs. KalpanaPanthafor their encouragement and continuous support to accomplish this work. Likewise, my special thanks go to mybetter half Mrs. Anita Basaulaand my lovely daughter Ms. Prakriti and son PrabeshBasaulawho have always supported and encouraged me during my study period.

Prakash Basaula

TABLE OF CONTENTS

Page	No.
------	-----

REC	COMMENDATION LETTER	i
API	PROVAL LETTER	ii
AC	KNOWLEDGEMENTS	iii
ABS	STRACT	iv
TAI	BLE OF CONTENTS	V
LIS	T OF TABLES	vi
LIST OF FIGURES		vii
ABBREVIATIONS/ACRONYMS		viii
CH	APTER I: INTRODUCTION	1-5
1.1	Background of the Study	1
1.2	Statement of the Problem	2
1.3	Objectives of the Study	4
1.4	Significance of the Study	4
1.5	Limitations of the Study	4
1.6	Organization of the Study	5
CH	APTER II: REVIEW OF LITERATURE	6-22
2.1	International Context	6
2.2	National Context	11
2.3	Research Gap	21
CH	APTER III: RESEARCH METHODOLOGY	23-24
3.1	Research Design	23
3.2	Nature and Sources of Data	23
3.3	Tools and Techniques of Data Collection	24

3.4	Analy	sis and Presentation of Data	24
CH	APTER	IV: HISTORICAL BACKGROUND OF INCOME	
		TAX IN NEPAL	25-31
4.1	Conce	pt of Tax	25
	4.1.1	Direct Tax	25
	4.1.2	Indirect Tax	25
	4.1.3	Objectives of Tax	25
	4.1.4	Meaning of Income Tax	26
	4.1.5	Types of Income Tax	26
	4.1.6	Income Tax in International Context	27
	4.1.7	Evolution of Income Tax in Nepal	28
	4.1.8	Methods of Income Tax Assessment	31
CHAPTER V: ANALYSIS AND INTERPRETATION OF DATA 32-			32-42
5.1	Trend	of Income Tax in Nepal	32
	5.1.1	Income Tax Rate and Tax Exemption Limit in Nepal	32
	5.1.2	Trend Analysis of Income Tax in Nepal	33
	5.1.3	Government Revenue Structure of Nepal	34
	5.1.4	Composition of Tax Revenue in Nepal	36
	5.1.5	Composition of Direct Tax Revenue	38
	5.1.6	Composition of Indirect Tax Revenue	41
CH	APTER	VI: SUMMARY OF FINDINGS, CONCLUSION AND	
		RECOMMENDATIONS	43-46
6.1	Summ	ary of Findings	43
6.2 Conclusion		44	
6.3]	Recomm	nendations	45
REI	FEREN	CES	47-51

LIST OF TABLES

Table	Title	Page
Table: 5.1	Income Tax Rates of Nepal for the FY 2018/19	32
Table: 5.2	Trend of Income Tax in Nepal	33
Table:5.3	Composition of Total Tax Revenue	35
Table: 5.4	Composition of Total Tax Revenue	37
Table: 5.5	Composition of Direct Tax Revenue	39
Table: 5.6	Composition of Indirect Tax Revenue	41

LIST OF FIGURES

Figure	TitlePage	9
Figure: 5.1	Trend of Income Tax in Nepal	34
Figure: 5.2	Trends of Total Revenue, Tax revenue and Non-Tax Revenue	36
Figure: 5.3	Total Tax Revenue, Direct Tax and Indirect Tax	38
Figure : 5.4	Composition of Direct Tax Revenue	40
Figure: 5.5	Composition of Indirect Tax Revenue	42

ABBREVIATIONS/ACRONYMS

ADB	-	Asian Development Bank
BIMSTEC	-	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
CBS	-	Central Bureau of Statistics
CEDA	-	Center for Economic and Development Administration
CEDECON	-	Central Department of Economics
CPI	-	Consumer Price Index
DoF	-	Department of Finance
Etc.	-	et cetera
FY	-	Fiscal Year
GDP	-	Gross Domestic Product
GoN	-	Government of Nepal
IMF	-	International Monetary Fund
IRD	-	Inland Revenue Department
IT	-	Income Tax
ITA	-	Income Tax Act
Ltd	-	Limited
MoF	-	Ministry of Finance
NA	-	Not Available
No.	-	Number
NPC	-	National Planning Commission
NRB	-	Nepal Rastra Bank
NRs.	-	Nepalese Rupees
PFM	-	Public Finance Management

SAFTA	-	South Asian Free Trade Area
TU	-	Tribhuvan University
USA	-	United States of America
VAT	-	Value Added Tax
Vol	-	Volume
WB	-	World Bank
WTO	-	World Trade Organization

CONTRIBUTION OF INCOME TAX ON GOVERNMENT REVENUE OF NEPAL

Prakash Basaula 2019