

**TREND OF INCOME TAX
&
ITS REFORMS IN NEPAL**

By:

PABITRA BHUSAL
BIRENDRA MULTIPLE CAMPUS
T.U. Regd. No.: 7-1-240-756-99
Roll No.: 96/064
Bharatpur, Chitwan

To:

Office of Dean
Faculty of Management
Tribhuvan University

In partial fulfillment of the Requirement for the degree of
Master's of Business Studies (M.B.S)

Bharatpur, Chitwan
November, 2011



TRIBHUVAN UNIVERSITY
BIRENDRA MULTIPLE CAMPUS

Bharatpur, Chitwan

DEPARTMENT OF MANAGEMENT

☎ : 056 { 520253
520689
526159

Fax : 056-520253

Ref No.

Date :

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

PABITRA BHUSAL

Entitled:

TREND OF INCOME TAX

&

ITS REFORM IN NEPAL

has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

.....

(Sushil Dahal)

Thesis Supervisor

.....

(Baikuntha Pd. Bhusal) (Prof. Dr. Ganesh Pd. Kharal)

Head of Research Dept.

.....

Campus Chief



TRIBHUVAN UNIVERSITY
BIRENDRA MULTIPLE CAMPUS

Bharatpur, Chitwan
DEPARTMENT OF MANAGEMENT

☎ : 056 { 520253
520689
526159

Fax : 056-520253

Ref No.

Date :

VIVA-VOCE SHEET

We have been conducted the Viva-Voce examination of the thesis presented

Submitted by:

PABITRA BHUSAL

Entitled:

TREND OF INCOME TAX

&

ITS REFORM IN NEPAL

and found the thesis to be the original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as partial fulfillment of the requirement for Master's Degree of Business Studies (M.B.S.)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (External Expert)

Date:.....

DECLARATION

*I Hereby declare the work reported in this thesis entitled “**TREND OF INCOME TAX & ITS REFORMS IN NEPAL**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Studies (M.B.S.) under the supervision of Sushil Dahal, Lecturer of Birendra Multiple Campus, Bharatpur Chitwan.*

PABITRA BHUSAL

T.U. Regd No. 7-1-240-756-99

Roll No. 96/064

ACKNOWLEDGEMENT

This thesis entitled “TREND OF INCOME TAX & ITS REFORMS IN NEPAL”, prepare for partial fulfillment of the requirement for the Degree in Master’s in Business Studies is an outcome of continuous and immeasurable cooperation and support of many handfull hands. After completion of work, immense joy can be experienced. I’m extremely grateful with all of them we have helped, guided and supervised to complete this work.

I like to pay my sincere thanks my respected thesis supervisors, Lecturer Sushil Dahal, Birendra Multiple Campus for generous guidance, thoughtful encouragement and innovative through out from the very beginning to the end of this research. I also like to thank Lecturer Baikuntha Prasad Bhusal, Head of Research Department, Birendra Multiple Campus for his inspiration, valuable comments, suggestions on the preparation of this work.

I am thankful to my respected teacher Govinda Dhungana helping to solve the statistical problem and the staff of library for their manifold helps and providing good environment for this study. Likewise, I found myself, fortunate enough to receive a good deal of help from staff of Inland Revenue Office, Chitwan and some businessman for providing me relevant information.

Last not least I am responsible for any errors and I opologize for any of them committed that may have remained in this work.

Pabitra Bhusal

TABLE OF CONTENTS

Recommendation
Viva-Voce Sheet
Declaration
Acknowledgement
Abbreviation
List of Table
List of Figure

CONTENTS

S.N.	Title	Page No.
CHAPTER-1 INTRODUCTION		
1.1	Background of the Study	1
1.2	Statement of the Problem	4
1.3	Objectives of the Study	5
1.4	Significance of the Study	6
1.5	Limitation of the Study	7
1.6	Organization of the Study	7
CHAPTER-2 REVIEW OF LITEATURE		
2.1	Concept of Tax	9
2.2	Cannon of Taxation	10
2.3	Objectives of Taxation	10
2.4	Meaning of Income Tax	11
2.5	History of Income Tax in Nepal	11
2.6	Source of Income	11
2.7	Specimen for Computing Income	23
2.8	Method of Income Tax Assessment	27
2.9	Three Installment Payment	28

2.10	Appeal	28
2.11	Offences	28
2.12	Challenges of Income Tax	28
2.13	Income tax Evasion in Nepal	29
2.14	Reforms of Income Tax in Nepal	30
2.15	Achievements in Current Phase	32
2.16	Review of Related Studies	33
2.17	Review of Books	33
2.18	Review of Thesis	34
2.19	Research Gap	36

CHAPTER-3 RESEARCH METHODOLOGY

3.1	Research Design	37
3.2	Population and Sample	38
3.3	Nature and Sources of Data	38
3.4	Data Collection Procedure	39
3.5	Data Processing and Analysis Procedure	39

CHAPTER-4 PRESENTATION AND ANALYSIS OF DATA

4.1	Analysis of Secondary Data	40
4.1.1	Trend of Total Revenue	40
4.1.2	Trend of Tax Revenue and Non Tax Revenue	42
4.1.3	Structure of Tax Revenue	44
4.1.4	Composition of Direct tax and Indirect Tax in Total Tax Revenue	46
4.1.5	Trend of Income Tax	48
4.1.6	Structure of Income Tax Revenue	49
4.1.7	Trend of Income Tax to Total Tax Revenue	51
4.1.8	Trend of Income Tax to Direct Tax Revenue	53
4.1.9	Trend of Income Tax in GDP ratio	55

4.1.10	Trend of Resource Gap in Nepal	56
4.2	Opinion Survey	57
4.2.1	Income Tax as a Suitable Means of Raising Government Revenue	58
4.2.2	Need of Public Awareness	59
4.2.3	Appropriate Method for Assessing income Tax	60
4.2.4	Effectiveness of Income Tax Administration	61
4.2.5	Opinion Towards Satisfactory Contribution of Income Tax Revenue	62
4.2.6	Attitude Towards Problems in Paying Income Tax	64
4.2.7	Income Tax Paying Habits of Tax Payer's Compliance	67
4.2.8	Suggestions Regarding to Reform of Income Tax	70
4.3	Major Findings of the Study	71

CHAPTER-5 SUMMARY, CONCLUSION & SUGGESTION

5.1	Summary	75
5.2	Conclusion	77
5.3	Suggestion	80

REFERENCES

QUESTIONNAIRE

APPENDIX

LIST OF TABLE

Table No.	Title	Page No.
3.1	Groups of Respondents and Size of Sample from each group	38
4.1	Trend of Total Revenue	40
4.2	Trend of Tax Revenue and Non-Tax Revenue	42
4.3	Structure of Tax Revenue	44
4.4	Composition of Direct Tax and Indirect Tax in Total Tax Revenue	46
4.5	Trend of Income Tax	48
4.6	Structure of Income Tax Revenue	50
4.7	Trend of Income Tax to Total Tax Revenue	52
4.8	Trend of Income Tax to Direct Tax Revenue	53
4.9	Trend of Income Tax in GDP Ration	55
4.10	Resource Gap in Nepal	57
4.11	Group of Respondents and Number from each group	58
4.12	Income Tax as Suitable Means of Raising Government Revenue	58
4.13	Need of Public Awareness Program	59
4.14	Appropriate Method for Assessing of Income Tax	60
4.15	Effectiveness of Income Tax Administration	61
4.16	Opinion Towards Satisfactory Contribution of Income Tax Revenue	62
4.17	Problem in Tax Paying	65
4.18	Suggestions to Improve Income Tax Paying Habit/ Tax Payer's Compliance	68

LIST OF FIGURE

Figure No.	Title	Page No.
1.1	Chart of Government Revenue	2
4.1	Trend of Total Revenue	41
4.2	Trend of Tax Revenue and Non-Tax Revenue	43
4.3	Structure of Tax Revenue	45
4.4	Composition of Direct Tax and Indirect Tax in Total Tax Revenue	47
4.5	Trend of Income Tax	49
4.6	Structure of Income Tax Revenue	51
4.7	Trend of Income Tax to Total Tax Revenue	52
4.8	Trend of Income Tax to Direct Tax Revenue	54
4.9	Trend of Income Tax in GDP Ration	56
4.10	Income Tax as Suitable Means of Raising Government Revenue	59
4.11	Appropriate Method for Assessing of Income Tax	60
4.12	Effectiveness of Income Tax Administration	62

ABBREVIATION

B.S.	:	Bikram Sambat
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
Govt.	:	Government
i.e.	:	That is
IMF	:	International Monetary Fund
IRD	:	Inland Revenue Department
ITA	:	Income Tax Act
IRO	:	Inland Revenue Office
Ltd.	:	Limited
Mgmt	:	Management
MBS	:	Master in Business Studies
MOF	:	Ministry of Finance
No.	:	Number
NRB	:	Nepal Rastra Bank
Pvt.	:	Private
r	:	Correlation
Rs.	:	Rupees
S.N.	:	Serial Number
TU	:	Tribhuvan University
VAT	:	Value Added Tax
&	:	And
%	:	Percent
E-PAN	:	Electronic Permanent Account Number
E-TDS	:	Electronic Tax on Deducted at Sources
NTC	:	Nepal Telecom