

CHAPTER-1

INTRODUCTION

1.1 Background of the Study

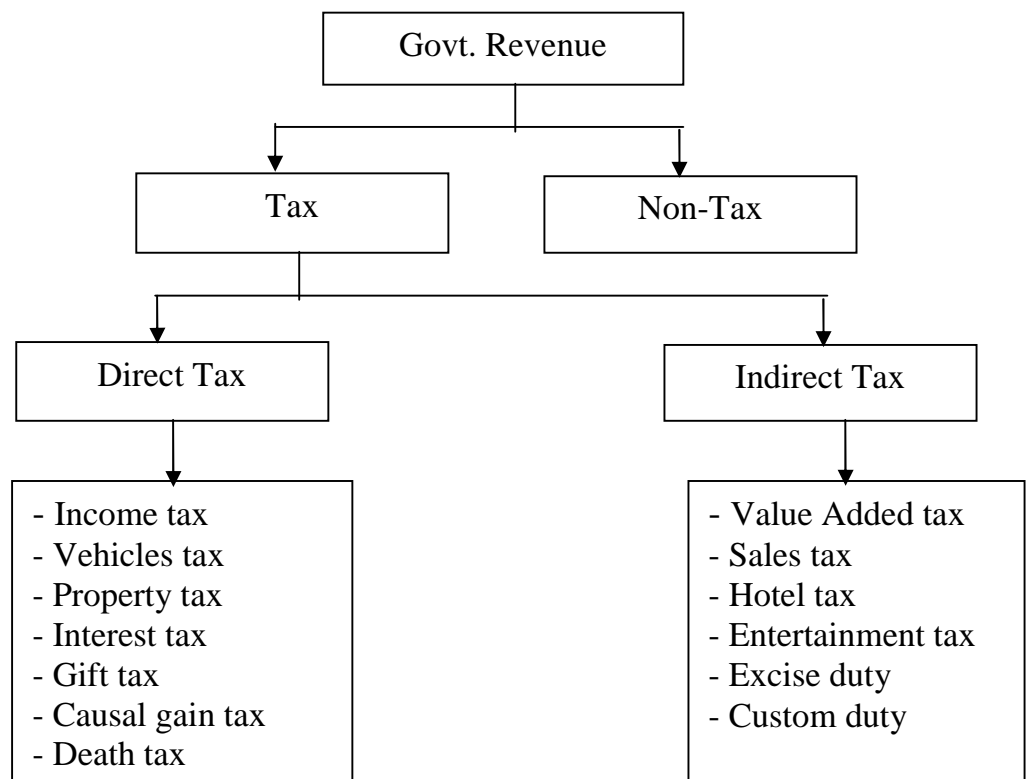
Tax is the main sources of revenue of government. Tax includes the amount which is compulsory contributed by tax payers to the government. The tax is a liability to pay an amount to the government. It is a compulsory contribution to the national revenue from the tax payers according to law. (Bhattraai and Koirala 2067) Tax is the compulsory levy imposed by the government. Non-taxes sources are uncertain and inconvenient because they are imposed as per need of government. It shows that taxes are better source of public revenue and it has been taken as the best effective tool for raising the public fund. In every country, the largest of the government revenue is raised through tax. Thus, its importance can't be ignored on the overall policy scheme of the government.

Tax may be classified into two types; direct and indirect tax. Direct tax is a form of tax paid by a person on whom it is legally imposed. It is collected directly by the government from the person who bears the tax burden. Tax payers need to file tax returns directly to the government. Therefore, direct tax cannot shifted. It is equitable as it is imposed on person as per the property or income. Time, procedure and amount of tax to be paid is known with certainly. It is flexible. The government can change tax rate with the change in the level of property or income. For example; income tax, vehicles tax, property tax, interest tax, expenditure tax, gift tax and in developing countries death tax are also. Indirect tax is a form of tax imposed on one person but partly or wholly paid by another. It is collected by mediators who transfer the taxes to the government and also perform functions associated with filling tax returns. Hence, indirect tax can be shifted. In indirect tax, the impact and incidence of tax are on different person. While indirect tax is imposed on one person but another person abides to pay it partly or wholly. It is the tax on consumption or expenditures. For examples value added tax, sales tax, hotel tax, contract tax,

entertainment tax, excise duty, import & export duty etc. There is less chance of tax evasion as the taxpayers pay the tax collected from consumers. The government can check on the consumption of harmful goods by imposing higher taxes.

The revenue of government can be shown below as organization chart.

Figure 1.1
Chart of Government Revenue



Source : Susila Aryal, 2067

Income tax is the most popular component of direct tax which can't be shifted forward or backward and the tax payer. It is charge on person imposed by income base. It is collected from public enterprises, semi public enterprise, private corporate bodies and individuals. According to income tax act 2058, income includes all the income which is received from business, investment and employment. It is superior than indirect tax because it is imposed on the basis of paying capacity of the tax payer. It will be possible to reduce the gap in

income by imposing higher rate to those who are having higher income and from that collect amount, providing necessary assistance to the people with very poor economic. Hence it will help to make equitable economic distribution in the society.

An income tax is a tax levied on the income of individuals or businesses corporations or other legal entities. Income tax is a personal tax imposed on the net income of individuals and corporation. In most of the countries especially the United States of America, Canada and other countries, the income tax is defined in terms of the 'flow of wealth' of receipt in money or good from taxpayer during the period. The concept of income tax in different countries is found differently because of diverse economic structure, nature of the government and status of people. An income tax is a tax levied on the income of individuals or businesses (corporations or other legal entities). Various income tax systems exist, with varying degrees of tax incidence. Income taxation can be progressive, proportional, or regressive. When the tax is levied on the income of companies, it is often called a corporate tax, corporate income tax, or profit tax. Individual income taxes often tax the total income of the individual (with some deductions permitted), while corporate income taxes often tax net income (the difference between gross receipts, expenses, and additional write-offs). Various systems define income differently, and often allow notional reductions of income such as a reduction based on number of children supported.(google.com)

Income tax is an effective and simple measure to increase tax revenue. But to increase tax revenue through income tax, income tax should be effective enough. The role of income tax laws, rules and regulation is very important to raise the income tax revenue. Thus for the effectiveness of income tax rules and regulations and matters relating with it should improved and properly implemented. Nepal has improving its tax system. As a result new income tax act 2058 has been enacted. It has brought many changes in its scope, assessment procedures and others.

To build up sound financial status and achieving social justice, economic sources should be mobilized effectively through direct tax, income tax. It has been high preference to the developed, developing and underdeveloped countries. People who have paid tax are invested on public expenditure, although they cannot get any direct benefit from their income taxes but it is used by government for all common people. Nepal still has been unable to maximize the collection of income tax. To increase the fund of government should increase the collection of income tax. So, getting the maximum benefits the government should increase the collection of income tax by different ways. At present the contribution of income tax is increasing trend.

This study has been designed to get information on trend of income tax by which revenue collection from income tax and its reforms in Nepal. In this research, ten year period from fiscal year 2000/01 to 2009/10 have been taken for the study.

1.2 Statement of the problem

Nepal is one of the poorest countries having low economic growth rate. It is facing serious financial problem in its economic development process. Nepal has followed liberal, open market oriented economic policy. The economic policy have been largely ineffective economic growth rate has declined. Nepal needs more economic growth than now. It hasn't raised enough funds from tax revenue. Rising the government revenue helps to overcome from these problems by mobilization resources from domestic sources. Income tax is one of the components of government revenue.

In Nepal, there isn't business friendly environment between tax payer and government. Tax payers always try to hide the income wholly or partly. Most of the individual taxpayers don't reveal the sources of income even they earn significant amount. They hardly keep and show their account. So, past experience shows that there is poor tax paying habit in Nepalese. Similarly, tax evasion has become a serious problem of Nepal. Awareness of tax payers, lack of training and education to tax personnel, delay in making assessment,

irresponsible tax administrators in their duties, inconvenient of income tax to national revenue.

The trend of income tax must be increased to achieve the goal to national development and equal economic distribution. The goal can be increase only if the government of Nepal takes steps by bringing the new tax payers into tax net and implementing the tax laws effectively. So, as reforms to discourage the tax evasion practice and loopholes of tax must be trace out. So, This study research to find out trend and reforms of income tax. This study is directed the following issues in the context of Nepal.

- (a) Whether the government collection of income tax for the study period is increasing trend or not ?
- (b) What is the forecasted trend of income tax for coming 5 year's?
- (c) Does the government satisfy with revenue collection from income tax?
- (d) Whether the structure of income tax is appropriate or not?
- (e) Is the Nepalese tax payer satisfactory with contribution of income tax system?
- (f) Whether the government improve of income tax system or not?

1.3 Objectives of the study

The main objective of this study is to identify the collection procedure and trend of income tax. In order to meet the objectives the specific objectives sets for the research study are as follows:

- (a) To find out the trend of income tax is increasing or not.
- (b) To find out forecasted trend of income tax for coming 5 year's.
- (c) To find out the contribution of income tax to total revenue.
- (d) To study of the structure of income tax in Nepal.
- (e) To find out Nepalese tax payer satisfactory with contribution of income tax.
- (f) To provide suggestion for reform of income tax system of Nepal.

1.4 Significance of the study

For economic development of the country, contribution of direct tax is more essential than indirect tax. But the whole tax structure of Nepal is dominated by indirect tax. Among the direct tax, income tax plays vital role in revenue collection. Income tax is compulsory contribution from a person or entity to the government to defray expenses without having any directed personal benefit. (Chudamani Sharma, 2067) It is used to minimize resource gap between haves and haven't. Income tax is used by government to regulatory and development work. So, the importance of income tax cannot minimize for reducing economic inequality as well as development activities. It is the major source of government revenue. It is recognized as a good financial tool to make narrow the inequality in income. Nobody can doubt that the equal distribution of income is also possible thought progressive income tax. It is being realized that contribution of income to revenue of government must be increased in Nepal. So, to expand the government treasury, income tax should be increased. 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. Considering such fact income tax act 2058 has made provision of self tax assessment with certain objectives that are to involve more than more people income tax system and simplify tax administration. To increase its portion in national revenue, research and analysis should be done in the areas of income tax.

This study analyzes the trend of income tax of different year and also provides the clear idea about the it's reforms Nepal. This research might be useful for tax policy maker, tax officer, tax administration, student and all interested people who want to know about income tax.

1.5 Limitation of the study

Everything will have to be confined into a certain boundary. Likewise this research study also has certain limitation; such as limitation of time period, area of study, lack of sufficient relevant data and morality of respondents and also so on. Its main limitations are as follows:

- (a) This study only focuses on income tax and ignores all the other taxes.
- (b) This study is based on availability of reliable data, time period and literature.
- (c) This study covers 10 year's data only.
- (d) Limited business men, tax experts, tax officers, tax administrators and customers are consulted to collect primary data.
- (e) This study is also based on secondary data, the reliability depends upon it.
- (f) Field survey is based in Chitwan for primary data only.
- (g) The forecasted data is included from the FY 2010/11 to 2014/15.

1.6 Organization of the study

Systematic organizing the study is the key factor for writing thesis. The format provided by the research department of T.U. are as follows:

(a) Introduction

The first chapter deals with background information, objectives of the study, statement of problem, research methodology and limitation.

(b) Review of Literature

The second chapter Literature Review includes theoretical framework and review of related literatures prepared by different experts and researchers like as related books, articles, newspaper and thesis.

(c) **Research methodology**

The third chapter Research methodology present the methodology used in this study includes research design, nature and sources of data, method of data collection, data processing and techniques used for data analysis.

(d) **Presentation and analysis of data**

The fourth chapter is the main body of the study which is concern with data presentation and analysis. By presenting the data and analyzing them with the helps of various accounting and statistical tools and techniques followed by methodology.

(e) **Summary, Conclusion and Recommendation**

The fifth chapter or the last chapter of the study summarizes the whole study. Moreover it draws the conclusion and forwards the recommendation of the study.

CHAPTER-2

REVIEW OF LITERATURE

Introduction

A critical review of the literature helps the researchers to develop a through understanding and insight into previous research works that relates to the present study. It is also a way to avoid investigation problems that have already been definitely answered. Thus, a literature review is the process of locating, obtaining, reading and evaluating the research literature.

2.1 Concept of Tax

Tax is a compulsory payment to the government from a person according to law. It is contributed to the government without expectation of any direct benefit to the taxpayer. There are many tax system in the world mainly there are two types of tax which are use in practice in the world they are direct and indirect tax.

Tax is any compulsory levy from individual, household as and firms to central or local government. It is simply a liability to pay an amount to the government. It is compulsory contribution from the taxpayers. Bhattraai and Koirala (2067)

According to Thomas – “A tax is a compulsory charged imposed by the state or public authority in respect of which no specific service to individual is rendered in return”. (Acharya 2008) Likewise, According Prof. Saligman, “A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all with out reference to special benefited conferred.” (Shrestha 2009)

According to Classical Economist Prof. Dalton – “A tax is a compulsory contribution imposed by a public authority, irrespective of the expect amount of service rendered to the taxpayer in return, and not imposed as penalty for any legal offence.(Upreti 2007)

From the above definition, it is clear that a tax is a compulsory levy and those who are taxed has to pay it without getting corresponding benefit from the government. Tax is paid to the state to perform the function of the government and the amount of tax is spent for common benefits and interest of the people.(Adhikari 2009)

2.2 Cannons of Taxation

On the basis of canon or principle, the government of a country formulation suitable tax policy. The major 4 cannons of taxation are as follows:-

1. Canon of Equity
2. Canon of Certainty
3. Canon of Economy
4. Canon of Convenience

The other cannon or principles are as follows which are supported cannons:

5. Canon of Elasticity
6. Canon of Simplicity
7. Canon of Uniformity
8. Canon of Productivity
9. Canon of Diversity
10. Canon of Productivity

2.3 Objectives of Taxation

Tax is a major source of revenue in the developed countries and appearing as an important source of revenue in the developing countries as well. The main objectives of taxation are: (Bhattraï and Koirala, 2067)

1. Raising more revenue
2. Regulating the economy
3. preventing concentration of wealth in a few hands.
4. Redistributing wealth for the common good
5. Boosting up the economy

6. Reducing unemployment problem
7. Removing regional disparities

2.4 Meaning of Income Tax

Income tax is a personal tax imposed on the net income of individuals and corporation. In most of the countries especially the United State of America, Canada and other countries, the income tax is defined in terms of the 'flow of wealth' of receipt in money or good from taxpayer during the period. In flow of wealth method, taxation is imposed on a realization rather than as an accrual basis, and applies only when a transaction occurs between other person and taxpayers.

According to tax economists, "An income tax is a levy imposed upon the income of individuals after the exemption limit. Income tax is direct tax based on the total income of the payer from all sources and is graduated on special system of exemption. Taxes on income is the most important single source of revenue of government of developed and also developing countries either it contribute more or less.

Income tax is very difficult to define income precisely and clearly. So, income is exemplified rather than defined income tax laws of various countries. For example, sec.2 of the India Income Tax Act, 1961 keeps profits and gains, dividend, voluntary, contributions received by charitable trust, value of any perquisite or profit on lieu of salary, any capital gain, winning from lotteries, cross word puzzles etc. under the head income.

According to income tax act 2002, sec(h) income means a person income from any employment, business or investment and the total of that income as calculated in accordance with this act.

2.5 History of Income Tax in Nepal

Great Britain is the first country to introduce Income tax Act in the world. The British government introduced Income Tax Act in 1799 in order to generate revenue to finance for the war against France. The Income Tax Acts

were introduced in USA in 1862, Italy in 1862, India in 1886, Switzerland in 1869 and Nepal in 1959. Bhattraai and Koirala (2067)

A. Taxation in Ancient age of Nepal

The collection of income tax was the key element of the government form ancient age. At that time, taxes are levied to the merchant, travelers and farmers in the form of cash, gold, labour, agricultural products. Although there is no relevant source of ancient tax, in the inscription of Ansubarma, It is noted that Trikar i.e. Bhaga, Bhoga, and Kara. There was no taxation of income in the modern sense of income tax but part of timing from agriculture income and income from business were introduced as a direct tax for the first time in Nepal. Shrestha (2009)

B. Taxation in Nepal before Democracy

In this period, tax system becomes more advanced than the ancient age of Nepal. During this period, revenue maximization was only the main objective of tax policies, Raikar, Birta, Guthi, Sera and Kipat were the five main land tenure among them Birta and Kipat are the main source of revenue. Taxes were imposed primarily on occupations and economic activity not on property. Tax base was very narrow. However, in 1772 Prithivi Narayan Shah introduced 'Pota tax' was regarded revolutionary measures in Nepal's fiscal system. (Shrestha 2009)

The major source of revenue in Nepal till 1951, were land tax, custom and excise duties. The Rana rulers didn't think of development of effective revenue administration system and there is no taxes levied and collected in Nepal except in accordance with law. Gautam (2004)

C. Income Tax in Modern Nepal

After the independence of the country in 1951, the role of government has changed. Since, the government was enforced to operate development activities, besides governing the regular function of maintaining law for the collection of revenue. A sound and efficient income tax system is necessary to maximize the revenue collection from income tax. Whole income tax

system is made of three subsystems i.e. tax policy, income tax laws and income tax administration.

- a. Income Tax act 2017(1960):** On 1960 “Business Profit and Remuneration Act 2017” was enacted. This was the first income tax act in Nepal. This act was not broad and detail. There were only 22 sections in the act. The experience of three years indicated that this act was narrow. So it was replaced by Income Tax Act 2019.
- b. Income Tax Act 2019(1962):** On July 1962, Income Tax Act 1962 was entered. There were 29 sections in this act. The main purpose of the imposition of this act was not only raise government revenue but also reduce inequality in distribution of income and wealth with social justice. Create tax paying habit of the taxpayers also the purpose of this act. It was amended in 2029(1978). This act has some weakness so; this act was replaced by Income tax Act 2031.
- c. Income Tax Act 2031(1974):** To meet the changing environment of the country the Act 1974 was introduced. The Act had 66 sections. Through out this time the Act was amended for eight times 1977, 1979, 1980, 1984, 1985, 1986, 1989 and 1993. The act had classified the incomes in five groups as agriculture, Industry/ Trade/ Profession /Occupation, Remuneration, House Compound and Other sources. This Act was practiced for 28 years, almost three decades.
- d. Income Tax Act 2058(2002):** On 2002, ITA2002 was enacted by parliament by replacing the existing act. This Act is quite advance income tax that has ever introduced in Nepal. The act is independent to levy income tax. The act has 24 chapters and 143 sections. The act has defined three different sources of income (i) Employment (ii) Business (iii) Investment. Tax rates for different income groups, tax rates as per individuals and entities, depreciation rates, provision regarding international taxation, capital gain, panel provision, appeal system etc all matters of income taxation can find with in this act. This act was broad,

scientific and international standard the differences of this act with other act are made clear by its key features, they are as follows (Bhattraai and koirala 2067)

-) All income tax related matters are confined within the Act by abolishing all tax related concessions, rebates and exemption provided by different acts. This act has been made super in regard to all income tax matters.
-) The act has broadened the tax base. Unlike previous tax act, tax rates have been spelled out in the act. The tax rates and concessions have been harmonized on equity grounds.
-) The act has introduced a pool system of charging depreciation. A provision has also been made for depreciating intangible assets.
-) The act has first introduced the taxation of capital gains.
-) The act has provided liberal loss set-off and carry forward/backward provision. Interned adjustments of losses have been clearly specified. Such provision has been from international perspective.
-) The act has first introduced a provision for administrative review to allow the tax administration to correct mistakes made by the tax administrators internally.
-) The act has made provisions for a stringent fine and penalty for the defaulters. There have been made provision for punishment in the fines up to 3,00,000 and imprisonment on conviction up to 3 years.
-) Global incomes of a resident are made taxable. Non residents are also taxed on their incomes with source in Nepal.
-) List of expenses are inclusive. All expenses relating to income have been made admissible.
-) The act has made provision for international taxation. Foreign tax credit has been introduced for the first time.

2.6 Sources of Income

Computation of income tax depends upon type and nature of income sources. The Income Tax Act, 2058 has made the classification on incomes in three main categories which are as follows:

-) Income from Employment
-) Income from Business
-) Income form Investment

2.6.1 Income from Employment/Remuneration :

Income from remuneration or employment is one of the important sources of income under the current income tax act. Remuneration means amount given to employee against the service provided by him. Employment is defined by the act under section 2(a) as ‘employment that includes a past, present or prospective employment’. An individual’s remuneration incomes from an employment , termed as income from employment, are included in employment income. All payment or benefits received in respect of employment, including past or future employment, are made taxable. In case of remuneration there used to be one getting service and another providing service. That’s why the income form remuneration or employment can be generating only when a relation of employer and employee or master or servant has been established between payer and payee. Whatever the employee derives form employment in the shape of a regular salary, allowances, overtime payment, bonus etc is included in the income from employment. The employer may be any person like an individual and an entity. The remuneration received by a person form the employment is as following payments made by the employer.

-) Wages, salary, leave pay, overtime pay fees, commission, gifts, prizes, bonus and other facilities.
-) Payment of any personal allowances including any cost of living, rent, entertainment and transportation.

-)] Retirement contribution including those paid by the employer to the retirement fund in respect of the employees and retirement payments.
-)] Payment provided of reimbursement or discharge of cost incurred by the individual or an associate of the individuals.
-)] Amount received in lieu of acceptance of any condition with regard to the terms of employment.
-)] Payments for the termination or loss or redundancy of the employment.
-)] Other amount as given in chapter 6 of the act perquisites and gains due to change in tax according required to be included. (Income Tax Act, 2002)
-)] Dearness allowance, cost of living expenses, rent, retirement and transportation allowance and other personal allowances. However, according to section 38 of the “Income Tax Act 2058”. Remote area allowance up to Rs. 30,000 for A class area, Rs. 24,000 for B, Rs. 18,000 for C, Rs. 12,000 for D and 6,000 for E class area is not included in taxable remuneration of the employee.

Sources: Bhattraai and Koirala (2067)

In addition, too above stated items of remuneration, the following types of perquisites are included in remuneration of a person.

- Prizes and gifts
- Other payments made in respects of employment.
- The amount of difference of the interest on loan paid by employer lower rate than the market value.
- Market value of assets in case of the transfer of the assets.
- For the payment other than stated above, the value of benefit of the payment to a third person.

2.6.2 Income form Business

Profit and gains from conducting the business are considered as business income for the purpose of income tax. (Bhattraai and Koirala 2067) Income tax act, 2058 has defined the business income as a source of income for income tax

purpose. Business defined as an industry, a trade, a profession, or the like isolated transaction with a business character a past, present or prospective business. A person's income from a business for an income year is the person's profit and gain from conducting the business for the year. It is the income generated with the help of capital labour activities. Section 7 of Income Tax Act, 2002 deals with the receipts or receivables to be included in income from business and section 13 and 19 deals the allowable expenses there from, business includes trade, commerce, production, profession, vocation etc.

Business income mainly refers to different types of income earned from different sources of business. The amounts that are included in computation of Income from Business are as follows:

- Service fees including commission, meeting management or technical service fees.
- Amount received from disposal of trading stock.
- Net gain from the disposal of person's business assets/liabilities of the business calculated as under chapter 8.
- Amount receives against the disposal of depreciable assets. (i.e. capital gain from pool disposal of depreciable asset.
- Prize or gift in connection with business.
- Amount received in connection with business operation and not included in the income from investment.
- Amount received instead of acceptance of any restriction regarding business.
- The amount to be adjusted due to the change in accounting system.
- Interest charged on loan and advance at the rate lower than the prevailing market rate i.e. different amount.
- Excess amount received due to exchange rate of currency.
- Bad debt recovered.
- Proportionate amount under long term contract.
- Income deemed to be derived from transfer pricing and other arrangement between assets.

- Other amount received under business income.

Sources: Bhattraï and Koirala (2067)

While computing income tax from business, the following amounts are excluded on profit and income from business for tax purpose.

-) Final withholding payment under section 92.
-) Exempt amounts under section 10.
-) Taxation of dividends under section 54.

Final Withholding Payments

As per sec 92, following payments will be taxed as final withholding payments.

-) Part time teaching salary, writing articles.
-) Amount received from recognize retirement fund.
-) Dividend received from resident company.
-) Gain from investment insurance received from resident company.
-) Rent for the lease or a building associated fitting and fixtures having a sources in Nepal and individuals other than in conducting a business receives that.
-) Gain from unrecognized retirement fund.
-) Interest received by a natural person from bank, financial institute.
-) Meeting fees.
-) Amount received from accumulated home or sick leaves.

Sources: Bhattraï and Koirala (2067)

Tax Exempt Organization

Exempt organization means any entity that should not pay the tax social and religious organization these are not operated for profit earning is provided with such facilities. ITA 2058 2(dha) included the following entities with tax exempt organization.

-) An entity that has been declared as exempt organization issuing notice by the government
-) An amuser sporting association forward for the purpose of promoting social or sporting amenities not involving the acquisition of gain.
-) A religious educational or charitable organization of public character registered without having a profit motive.
-) A village development committee, municipality or district development committee.
-) A political party registered with the election commission
-) Nepal Rastra Bank.
-) The government of Nepal.

Tax exempted Income from Business

The following expenses are allowed for deduction while computing income from business.

- a) **General Deduction:** For the purpose of calculating income from business all expenses incurred during the year, by the person and in the production of income from the business are deductible.
- b) **Interest :** The interest incurred during the year for the debt obligation of the person shall be available for the deduction to the extent that the borrowed money is used in that year or if the money is borrowed for purchase of an asset, that asset is used for that year. The debt obligation is created in the production of the income from business.
- c) **Cost of Trading Stock :** Trading stock includes raw material, chemicals, work in progress, finished goods, stores etc the cost of trading stock is derived as follows:

<u>Particulars</u>	<u>Rs.</u>
Cost of opening stock	xxx
Add: Purchase or production during the year	xxx
Less: Cost of closing stock	(xxx)
Cost of trading stock	xxx

The cost of trading stock should be taken at cost price or selling price which ever is lower. The person keeping account on cash basis can adopt either of the prime cost of factory cost basis for valuation. In case if actual cost could not be derived for the particular trading stock, either of the FIFO or Weighted average cost can be adopted.

- i. **Repair and Maintenance Expenses:** The repair and maintenance expenses is allowed for deduction up to 7% of depreciation base of assets of each group and the rest of the expenses should be capitalized in respective group.
- ii. **Pollution Control Expenses:** This deduction should not be more than 50% of taxable profit before (pollution control cost + donation + research and development expenses). The portions of the pollution control expenses are not allowed, as deduction shall be capitalized in Group D of the assets.
- iii. **Depreciation Expenses:** Depreciation at the prescribed rate is allowed on used depreciable assets owned by the person. The group wise details and rate of depreciation are given as follows:
 -) Group A includes building, structure and similar works of permanent nature. Rate of depreciation for this group is 5%.
 -) Group B includes computer, data processing equipments, office furniture and fixture and other office equipment. The rate of depreciation for this group is 25%.
 -) Group C having 20% depreciation rate. It includes vehicles, automobiles, buses and minibus.
 -) Group D includes construction and earth moving equipment and any tangible assets not included in above groups. The rate of depreciation applicable for this group is 15%.
 -) Group E includes intangible assets like goodwill, patent rights, copyright etc. For this group; depreciation is calculated as divided by the useful life of assets in the pool at the time the assets values.

- iv. **Donation and Contribution:** Donation or contribution given to any tax exempted institutions, who have registered in the Inland Revenue Department (IRD), shall be deducted for the taxable income of the person subjected to the limitation of Rs. 1,00,000 or actual amount or 5% of taxable income which ever is less.

2.6.3 Income from Investment

Profit and gains from conducting an investment are considered as investment income. According to Income Tax Act, 2058 Investment means an act of holding or investing one or more assets of a similar nature that are used in an integrated fashion”. However, it excludes the act of holding assets, other than non-business taxable assets for personal use by the person owing the assets or investing amount in such assets or employment or business related income. Section 2(a.1) defines investments as the holding of one or more properties or the investment in a property subject to the fact that:

- a. The property should not used by the owner himself
- b. The property must not be a business or an employment.

The section further says that the holding of a non-business chargeable asset is also known as investment. An amount given to another person for his utilization is also said to be an investment. The three points are the basic requirements for an investment are:

- a. A person has the legal ownership of a property.
- b. The owner transfers the right to use the property to another person
- c. For such a transfer of right the owner receives certain consideration form the transferee.

For the purpose of calculating income from investment, following income is to be included:

- Any dividend, interest, natural resource payment, rent, royalty.
- Gain from investment insurance, gain from an unapproved retirement payments or retirement fund from approved retirement fund.

- Net gain from disposed of the person's non business chargeable assets of the investment
- Excess amount of incoming over the depreciation basis including outgoing on the disposal of the depreciable assets of the investment of the persons
- Retirement contribution including those paid to a retirement fund in respect of the person and retirement payments on respect of investment.
- Gifts or prizes received by the person in respective of the investment.
- Amount received instead of acceptance of any restriction regarding investment.
- But amounts those are included in calculating the person's income from any employment or business that should be excluded in calculating a person's income from investment.
- Amount included under change of accounting method. (Sec. 24)
- Bad debt recovered. (Sec. 25)
- Proportionate amount under long term contract. (Sec26)
- Excess amount received due to exchange rate currency. (Sec. 28)

Sources: Bhattraai and Koirala (2067)

The following expenses are admissible for deduction while computing taxable income from the head of investment.

- a. Donation (Sec. 12)
- b. Related expenses (Sec. 13)
- c. Interest (Sec. 14)
- d. Repair and maintenance expenses (Sec. 16)
- e. Depreciation (Sec. 19)
- f. Loss form the Investment (Sec. 20)

2.7 Specimen for computing Income

2.7.1 Computation of Income from Employment

For the income year.....

Particulars	Amount
Amounts to be included	xxx
Salary and wages	xxx
Leave pay	xxx
Pay for overtime	xxx
Fees	xxx
Prizes and gifts related to employment	xxx
Bonus	xxx
Other facilities	xxx
Commissions	xxx
Dearness Allowances	xxx
Cost of living subsistence	xxx
Rent	xxx
Entertainment and transportation allowances	xxx
Other personal allowances	xxx
Reimbursement of personal expenses	xxx
Payment for the individual's agreement to any condition regarding employment	xxx
Redundancy or loss related payments	xxx
Other payment made in respect of employment payment	xxx
Retirement payment & contribution to retirement fund	xxx
Amount of vehicle facility	xxx
Amount of services of house keeper, gardener or other domestic assistants	xxx
Accommodation facilities	xxx
Any meal, refreshment or entertainment provided by employer	xxx
Amount of services related to drinking water, electricity,	xxx

telephones and the like utilities in respect of the payers	
Under paid interest by employee to employer for loan taken by the employee	xxx
Other amounts to be included	xxx
Gross Income from Employment	xxx

Source: Income Tax Act, 2058

2.7.2 Computation of Income from Business

For the income year.....

Particulars	Amount
Amounts to be included	
Service Charge	xxx
Disposal of trading stock	xxx
Net gain from disposal of business assets or liability	xxx
Gain from disposal of business assets or liability	xxx
Prizes or gifts in connection with business	xxx
Amount received in lieu of accepting any restriction regarding business	xxx
Amount received from any investment directly related to business	xxx
Incomes to be included due to change in accounting methods	xxx
Excess amount received due to exchange rate variation	xxx
Bad debt recovered	xxx
Proportionate amounts received under long term contracts	xxx
Under payment of interest according to market rate	xxx
Receivable amounts paid to others	xxx
Amounts received for compensation	xxx
Other amounts received under the head of business income	
Gross Income from Business	xxx

Allowable Deduction (A)	xxx
Interest Expenses	xxx
Cost of trading stock	xxx
Repair and Improvement cost	xxx
Pollution Control cost	xxx
Research and Development cost	xxx
Depreciation allowances	xxx
Reserve fund for banks	xxx
Other expenses	xxx
Total Allowable Deductions (B)	xxx
Assessable income from business before loss adjustment (A-B)	xxx
Less: Adjustment of business losses	
a. Unrelieved loss from other business this year	xxx
b. Unrelieved loss from business of previous year	xxx
Total adjustment business loss (a+b)	xxx
Assessable Income from Business	xxx

Source: Income Tax Act, 2058

2.7.3 Computation of Income from Investment

For the income year.....

Particulars	Amount
Amounts to be included	
Dividends payment	xxx
Gain from investment insurance	xxx
Interest received	xxx
Rent received	xxx
Payment received from natural resources	xxx
Royalty income	xxx
Gain from unapproved retirement fund	xxx
Gain from disposal of pool of depreciable assets	xxx

Gift received by the person in respect of the investment	xxx
Retirement contributions, including those paid to a retirement fund in respect of the person	xxx
Amount received in lieu of accepting any restriction regarding investment	xxx
Income to be included due to change in accounting method	xxx
Excess amounts received due to exchange rate variation	xxx
Bad debt recovered	xxx
Under payment of interest according to market rate	xxx
Receivable amounts paid to others	xxx
Amounts received for compensation	xxx
Income received from joint investment	xxx
Other amounts to be included under investment income	xxx
Gross Income from Investment (A)	xxx
Allowable Deductions	
Interest Expenses	xxx
Repair and improvement cost	xxx
Depreciation cost	xxx
Other expenses related to investment	xxx
Total Allowable Deductions	xxx
Assessable income from investment before adjustment (A-B)	xxx
Less: Adjustment of losses	
a. Unrelieved loss from business or investment this year	xxx
b. Unrelieved loss from business of previous years	xxx
Total adjustable loss [(a+b)=C]	xxx
Assessable income from investment (A-B-C)	xxx

Source: Income Tax Act, 2058

2.7.4 Statement of Total Taxable Income

Particulars	Amount
Assessable Income from Employment	xxx
Assessable Income from Business	xxx
Assessable Income from Investment	xxx
Total Assessable Income	xxx
Less: Allowable reductions	
a. Donation	xxx
b. Retirement contribution	xxx
Total Taxable Income	xxx

2.7.5 Statement of Income Tax Liability

Particulars	Amount
First Rs. 160,000 (Individual), 2,00,000(Couple)	Nil
Next 75,000 @ 15%	xxx
Balance Rs. xxx @25%	xxx
Total Tax Liability	xxx
Less: Advance tax paid	xxx
Medical tax credit	xxx
Net tax to be paid	xxx

Source: Income Tax Act, 2058

2.8 Methods of Income Tax Assessment

Income Tax Act, 2058 has specified three types of assessments. They are as follows:

1. Self assessment (Sec 99)
2. jeopardy assessment (Sec 100)
3. Amended assessment (Sec 101)

Self assessment is done by the assesses himself whereas jeopardy and amended assessments are the assessments based on judgment of Department.

2.9 Three Installment Payment

There is a provision of payment of income tax of the current year by three installments that 40%, 70% and 100% by the end of Poush, Chaitra and Ashad respectively.

2.10 Appeal

A tax payer may not be satisfied with the assessment made by tax officers. In such case, he may lodge an objection against the assessment with the Director General (DG) of Inland Revenue Department or go to Revenue Tribunal. The act has made it mandatory for the taxpayers first to file an objection with the Inland Revenue Department for an administrative review and then if unsatisfied with the decision of Director General, he/she can go to Revenue Tribunal.

2.11 Offences

Offences are dealt within the act in a sense of criminal offences of taxpayers as well as tax administrators. They lead to punishment in the form of fines and imprisonment on conviction. The offences attracting both a fine and imprisonment include failures to comply with the act, failures to pay tax, maintaining documentation or filing income returns and statements of estimated tax, making false or misleading statements, impeding or obstructing the tax administration, offences by the authorized and unauthorized persons, offences of aiding or abetting etc. In case if the tax return file is not submitted within the period prescribed by the act, the late fee and interest amount will be charged at the rate of 0.1% per year of the assessable income.

2.12 Challenges of Income Tax:

From the beginning, the contribution of income tax to the revenue of the government has been very minimum. This is because the income tax system in Nepal has been facing many challenges. The inefficiency of income tax administration is one of the reasons. Income tax management is developing

countries like Nepal has been facing problems. The contribution of direct tax and income tax to public revenue is very low to meet the growing public expenditure. Nepalese government has been using deficit financing. As the consequence of this, there is significant resource gap in Nepalese budget. The challenges can be avoided only when the challenges of tax administration is a complex technical mater. The challenges of income tax can be discussed as follows:

- ❖ Failure to locate new taxpayer
- ❖ Assessment delay
- ❖ Poor tax payer's compliance
- ❖ Failure to maintain proper account and records
- ❖ Lack of motivation of tax personal
- ❖ Existence of corruption
- ❖ Instability in government policy
- ❖ Complicated tax laws and procedures
- ❖ Lack of trained and competent tax personal
- ❖ Controlled of tax evasion

2.13 Income Tax Evasion in Nepal

There are different ways of reducing tax liabilities. Tax evasion is the way of reducing tax liability by illegal means. It is done through different ways like non reporting income, under reporting of income, making fraudulent changes in account books, maintaining multiple sets of accounts, operating business transactions under different names, opening bank account in dummy name. Over reporting of expenses fragmentation of income, transfer of pricing etc. Tax evasion is unethical, illegal, uneconomic activity and not paying of tax is against of moral ethics. It is illegal because the law does not permit to evade the tax. It is unethical because the activity of not paying tax is paying tax is against of moral ethics. In the same way, it is uneconomic because it promotes black money in a country.

Basically, there are three types of effects of tax evasion in the economy i.e. loss of revenue to the state, redistribution of income that affects the efficiency of resources allocation in the economy and creating wrong statistics leading to errors in government policies. Evasion of income tax is also associated with the evasion of sales tax, excise duty, custom duty and so on. Since the government imposes higher tax rate to fulfill the growing need of the revenue, it is the honest taxpayers the really bear the burden of tax.

Income tax evasion should be controlled effectively becomes it has serious affects to the economy. Income tax evasion affects negatively to the economics Position as well as the social status of a country. If income tax evasion is not controlled, Nepal can never solve its problems of resource gap either it increase its taxes rates or applies new sources of tax. (Acharya 2008)

Income tax evasion has been paralyzed all over the world, whether it is developed or underdeveloped countries. But the people of the underdeveloped countries have high practice towards tax evasion. There is widespread evasion in income tax in Nepal, especially due to the poor tax paying habit, administrative difficulties and defectives laws. Tax evasion is increasing day by day due to the low standard of education of tax responsibility among taxpayers. In western and developed countries, the evasion is considered as a social crime. But in Nepal, this act is regarded as clever on the part of taxpayers.(Adhikari 2009)

2.14 Reforms of income tax in Nepal

i. Policy Reform

-) Broadening tax base,
-) Improving tax compliance,
-) Making investment friendly tax policy,
-) Reducing compliance cost and time,
-) Providing excellent service to the tax payers,
-) Focusing on international standard taxation for nation building,
-) Providing performance based incentive to employee,

) Reviewing and analyzing policy impact in the new perspective,

ii. Organization Restructure and Expansion

) Focus on functional organization,

) Implementation of the restructuring organization setup,

) Infrastructure development of office building and open space management,

) Establishment of separate TSO's only to facilities taxpayers regarding tax matters,

) Decentralization of service delivery,

) Scaling of investment for e-tax governance,

) Officer oriented administration,

) Fully IT based administration,

iii. Operational Reform

) Risk minimization of registration, filing payment and reporting,

) Promotion of tax filing and payment by proper self assessment,

) Work to actively collect and use the information and data so as to efficiency implement tax audit and procedure against delinquencies,

) Strict legal action to the tax payers who are engaged in malicious tax evasion and tax delinquency,

) Timely and quick response to complaints from taxpayers regarding tax matters,

iv. E-tax Reform

) E-registration,

) Effective and proper tax consultation through the call center,

) E-filing,

) E-revenue accounting,

-) Risk based audit selection process through RISK ENGINE,
-) Protection of the tax information (taxpayers and national tax property),
-) Implementation of ongoing e-governance master plan,
-) Study of E-payment system,
- v. Enhancing capacity of human resource**
 -) Enhancing the capacity and integrity of tax auditors,
 -) Making performance based transfer system,
 -) Providing performance based incentive,
 -) Preparing to provide workforce to handle efficient, professional and e-based tax administration,
 -) Professional team work,
 -) Making flexible work culture

2.15 Achievements in current phase

-) IRD is continually committed to enhance operational efficiency by re-orienting focus towards excellent service delivery,
-) Technological advancement,
-) IRD has taken up reform agenda in the form of rationalization and Simplification of Standard Operating Procedures (SoPS) and working manuals,
-) Sensitization of international taxation,
-) Wider stakeholder participations in designing tax laws,
-) Taxpayers and consumer awareness programs,
-) To support and facilitate implementation, E-PAN, E-TDS, E-filing, E-accounting,
-) Risk base audit and investigation selection from risk engine,
-) E-monitoring system,
-) Performance Based Incentive System (PBIS) has been introduced to improve employee motivation,

-) Performance based placement and transfer policy is being applied to develop professionalism in IRD and
-) High rate of revenue mobilization.

2.16 Review of Related Studies

Since 1959, Income tax was imposed in Nepal by the first parliamentary government. Then after, various studies were made and researcher conducted by different individuals and institutions concerning with various aspects of this act such as legal aspect, administrative problems, historical aspect and income tax structure etc, they have made appreciable efforts in the field of income tax.

2.17 Review of Books

Bhattraai and Koirala (2067) in their book “**Tax Laws and Tax Planning**” described the theoretical and practical aspect of income tax with related provisions. It was based on TU syllabus. They are unable to describe the tax structure of Nepal and problems of income tax system.

Amatya (1965) wrote a book entitled “**Nepalma Aayakarko Bebastha**”. In this book, he has tried to described different sources of income. He has also analyzed basically the legal aspect of the income tax. This book is old concept and all things mentioned in it are not suitable at present.

Agrawal (2004) has published a book entitled “**Income Tax: theory and practice**”. This book has focused on the students of chartered accountants and taxation. Sufficient theoretical concepts with clear interpretation as well as sufficient examples are included in this book. All terms are clearly defined with ITA 2058’s sections under which the terms are included.

Adhikari (2003) wrote a book entitled “**Modern Taxation in Nepal**”. Adhikari has described the provision and laws related to income taxation of Nepal according to new act 2058. In this book, theoretical concept, income tax system in Nepal, head and sources of incomes, VAT, Property tax, windfall gain tax and other provision has been described. This book is written for students of TU, especially for BBS, MBS and MPA students.

Kandel (2003) wrote a book entitled “**Tax Law and Tax Planning in Nepal**” which is based on government rules and regulations. It is very timely work and extremely helpful for the Master and Bachelor level students. Both acts and rules related to value added tax and income tax appendices. But he had not analyzed the role of income tax, tax structure and problem of income tax.

2.18 Review of Thesis

Kamal Acharya (2008) had conducted a thesis entitled on “**Contribution on Income Tax Revenue with Consideration to Income from Employment**”. He has mentioned about conceptual framework, contribution of income tax to government revenue of Nepal, contribution of employment tax to total revenue, total tax revenue, direct tax revenue and income tax revenue of Nepal. He found that the contribution of employment income in total income tax revenue is insignificant, it is only 16.28% in fiscal year 2005/06 and it is highest percent during his study period. From primary data he has suggest different suggestion, such as tax assessment provision should be made clear and simple, provision of fines and penalties for tax evader, establish co-ordination between tax policy maker, tax personal and other related authority, making tax deduction at source for increase the share of employment income in the tax revenue of Nepal etc.

Akhanda Shrstha (2009) analysis in his thesis name “**Revenue Collection from Income tax and its practical difficulties in Nepal**” has covered the historical background, income tax in modern Nepal, Structure of income tax, income tax collection as a income tax and difficulties of income tax in context of Nepal. He noticed that the actual collection of revenue through income tax is lower than its estimated targets because of poor tax paying habit, poor tax administrative system and wide spread evasion of income tax and so on. He has tried to give some suggestion that income tax policy should be formulated according to the economy policy of the country, must good knowledge about income tax, separate income tax department should be established so that the

specialization could be achieved in matter of income tax and delays assessment should be reduced as possible.

Narayan Kumar Adhikari(2009) presented his thesis “**Contribution of Income Tax to Government Revenue of Nepal**” has focused his study on role and contribution of income tax in the process of economic development. He has declared that income tax has average contribution of 16% of total revenue 20.47% in tax revenue and 80.54% in direct tax revenue from the fiscal year 1997/98 to 2006/07. He found that contribution of individual sector in income tax revenue has been highest in the study period and income tax from employment has very much insignificant contribution in total income. He has suggest that resources mobilization through direct taxation should be focused, increasing tax by making effective changes in income tax policy, rules and regulations bringing new tax payers into tax net, providing incentive programs with sound tax planning.

Bhawani Upreti(2007) had conducted a research in the topic “**Contribution of Income Tax to Government Revenue in Nepal with Special Reference to Nepal Telecom**”. In this study, she has explained the conceptual framework of public enterprise and NTC, contribution of income tax to the public revenue and shared NTC to the income tax. She found that NTC has contributed significant amount of income tax in total income tax revenue. NTC shared 67.25% of total income tax revenues from PES, which were 80.36 in the fiscal year 2002/03. She also found except in fiscal year from 1999 to 2001 the collection of income tax from NTC has been significant during the period. Her suggestions are about income tax system are timely assessment of tax, educated and trained tax officer, coordination between related authorities and clear cut rules and regulations.

Neena Shrestha (2006) has conducted a research in the topic “contribution of income tax on the structure of government revenue in Nepal has tried to shown

the composition of tax and non tax revenue is still less satisfactory in Nepal. She found that the total revenue, total tax revenue and direct tax revenue have an increasing trend of Nepal but in low rate. She has mentioned that tax evasion as the major problem of income tax system in Nepal. In her study, inefficient tax administration, unconsciousness of tax payer, lack of scientific method of tax assessment and collection have identified as the major reason for tax evasion at high level.

2.19 Research Gap

Nepalese income taxation has been playing a significant role in government revenue. Contribution of income tax is increasing every year but it is not satisfactory to meet the budget deficit. Tax evasion and inefficient administration are found to be major causes for low income tax collection. So this study has been undertaken analytically and intensively to analyze the trend of income tax.

Different researchers have research on the topics of income tax in different ways. After studying different research, found various gap on selected topic to make this research different for other research also analyze numerical with theoretical concepts. This thesis is difference than other thesis due to forecast for coming 5 year. By forecasting of coming five year, easily find the trend of income tax. Projection of future trend of income tax and empirical analysis of primary data have been done. This research will be equally beneficial to the policy maker, planners, tax administration, researcher, students and the persons interested in income tax in Nepal.

CHAPTER-3

RESEARCH METHODOLOGY

Research methodology is a way of systematically solving the problem. It has many dimension and research methods to constitute a part which is concerning with research problem or study. Why a research study has been undertaken, how the research problem has been defined, in what way and why the hypothesis has been formulated, what data have been collected and what particular methods has been adopted, why particular techniques of analyzing data has been used and other similar questions are usually answered in research methodology. Thus, an entire process by which we attempt to solve the problem is called research methodology.

3.1 Research Design

Decisions regarding what, where, when, how much by what means concerning an inquiry or research study constitute a research design. “A research design is the arrangement of conditions for the collections and analysis of data in manner that aims to combine relevance to the research purpose with economy procedure.” Kothari (1990)

The analysis of the study is based on certain design keeping as the objectives of the study. The study oriented to analytical research, descriptive research and empirical analysis. In analytical research, the researchers use the facts and past evidence. Analytical research was carried in terms of role total revenue, income tax revenue in composition of tax and non-tax. Descriptive research includes surveys and facts finding enquiry of different kinds. By obtaining them descriptive research was carried out in this study in trend of income tax in Nepal. An empirical analysis has been conducted in order to find out various aspects. To find the stated objectives opinion surveys of respondents are conducted. Respondents have been classified into tax experts,

tax administrators and tax payers. For this, questionnaire was developed and responses were collected regarding the subject matter.

3.2 Population and Sample

All the tax experts, tax administrator, tax payers and other related person of Nepal were considered as total population. Out of them, tax experts, tax administrators and tax payers of the Chitwan district was considered as target sample. Out of target population 75 respondents have been taken as sample size. The respondents have been divided into three groups. 25 respondents are each group tax experts, tax payers and tax administrator.

Table no. 3.1

Groups of Respondents and size of samples from each group

Serial Number	Group of Respondents	Sample Size	%
1	Tax experts	25	33.33
2	Tax Administrator	25	33.33
3	Tax Payers	25	33.33
	Total	75	100

3.3 Nature and Sources of data

Both primaries as well as secondary sources of data have been collected in source of data in order to achieve result from this research. All the possible and useful data as far available have been collected are as follows:

Primary sources data: The primary data were obtained through questionnaire from tax experts, tax administrators and tax payers. Tax experts and tax officers are selected from tax office (IRO) and tax payers i.e. businessmen and consumers are selected from different manufacturing company, trading company and finance company etc.

Secondary sources data: The secondary sources of data were collected from related books, journals, newspapers, reports dissertation and other relevant data or records to this studies. The secondary data of this study are collected from economic survey and annual reports, publication of ministry of finance, economic review, world development bank's reports, published document of Nepal Rastra Bank and national planning commission.

3.4 Data Collection Procedure

A total 75 sets of questionnaire were distributed to the selected respondents in order to get actual and accurate information. Distribution work is done personally rather than sending by any other means. Additional valuable information was also collected from interview with the respondents as well as group discussion with tax payers.

3.5 Data Processing and Analysis Procedure

The information received from primary and secondary sources is firstly tabulated into separate formats systematically in order to achieve desire objectives. After presented into table, it has been analyze in descriptive way with the help of statistical tools such as simple percentage method, ranking methods, graphs, charts and diagrams etc.

CHAPTER-4
PRESENTATION AND ANALYSIS OF DATA

4.1 Analysis of Secondary Data

The secondary data have been obtained from economic survey, budget speech and other related newspaper. The available data related to the study have been tabulated, presented and analyzed and interpreted to reach at some findings. The data collected from economic survey and other related newspapers have been analyzed.

4.1.1 Trend of Total Revenue

Total revenue of the government of Nepal consists of tax revenue and non tax revenue. Total revenue collection in Nepal has been presented for 10 years period from FY2000/2001 to 2009/10 and forecasted revenue from FY 2010/11 to 2014/15.

Table no. 4.1
Trend of Total Revenue

Rs. in million

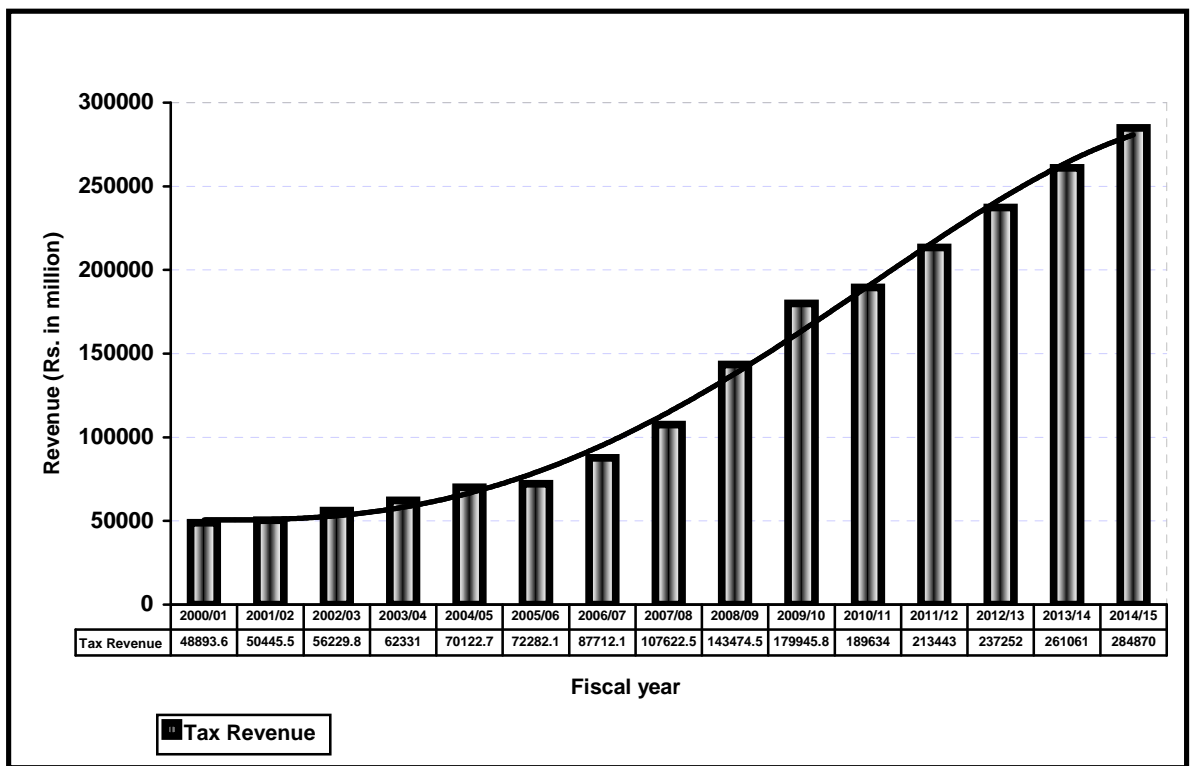
Fiscal Year	Total Revenue
2000/01	48893.6
2001/02	50445.5
2002/03	56229.8
2003/04	62331.0
2004/05	70122.7
2005/06	72282.1
2006/07	87712.1
2007/08	107622.5
2008/09	143474.5
2009/10	179945.8
Forecast 2010/11	189634.0

2011/12	213443.0
2012/13	237252.0
2013/14	261061.0
2014/15	284870.0

Source: Economic survey 2010/11, MOF

Trend of total revenue can be shown in following figure.

Figure no. 4.1
Trend of Total Revenue



From above table and graph, total revenue collection in fiscal year 2000/2001 is 48893.6 million but in fiscal year 2009/10 the revenue collection is 179945.8 million. And the forecasted total revenue of FY 2010/11 is 189634, which is more than FY 2009/10's total revenue. It shows the revenue collection from tax is increasing trend.

4.1.2 Trend of Tax Revenue and Non-Tax Revenue

Tax revenue comprise of custom, excise duty, VAT, income tax, vehicle tax, land & house registration and non tax revenue includes charges, fees, fines, royalty, sale of commodities and service, dividend on share, interest on loans, donation and gifts.

Table no. 4.2
Trend of Tax Revenue and Non-Tax Revenue

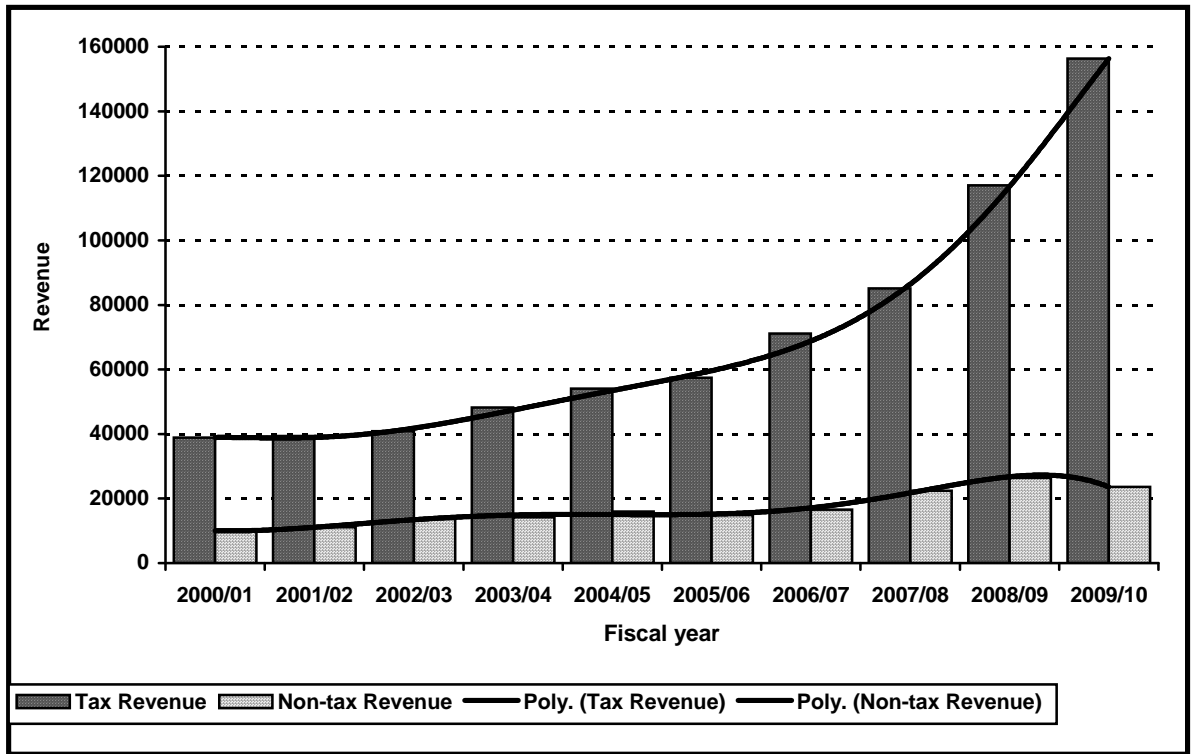
Rs. in million

Fiscal year	Total Revenue		Tax Revenue		Non-tax Revenue	
	Rs.	%	Rs.	%	Rs.	%
2000/01	48893.6	100	38865.0	79.49	10028.8	20.51
2001/02	50445.5	100	39330.6	77.97	11116.0	22.03
2002/03	56229.8	100	40896.0	75.74	13642.9	24.26
2003/04	62331.0	100	48173.0	77.29	14158.0	22.71
2004/05	70122.7	100	54104.7	77.16	16018.0	22.84
2005/06	72282.1	100	57430.4	79.45	14851.5	20.55
2006/07	87712.1	100	71126.7	81.09	16585.4	18.91
2007/08	107622.5	100	85155.5	79.12	22467.0	20.88
2008/09	143474.5	100	117051.9	81.58	26422.6	18.42
2009/10	179945.8	100	156294.9	86.86	23650.9	13.14

Source: Economic survey 2010/11, MOF

Figure no. 4.2

Trend of Tax Revenue and Non-Tax Revenue



From above it is clear that the major part of total revenue is tax revenue. The revenue from tax in year 2000/01 was 38865.0 million and from non tax revenue was 10028.8 million i.e. 79.49% and 20.51% of total revenue respectively. Similarly the revenue from tax in year 2005/06 and 2009/10 were Rs. 57430.4 and Rs. 156294.9 respectively. It shows tax revenue is in increasing trend. And non tax revenue of FY 2000/01, 2005/06 and 2009/10 were Rs. 10028.8, 14851.5, and Rs. 23650.9 million respectively. In the percentage 20.51% is in 2000/2001 and 13.14% is in 2009/10. It shows that non-tax revenue is decreasing trend.

4.1.3 Structure of Tax Revenue

Tax revenue consists of customs, Tax on consumption and product of goods services, Land revenue registration, Tax on property profit & income. The structure of tax revenue in Nepal has been presented in this table.

Table no. 4.3
Structure of Tax Revenue

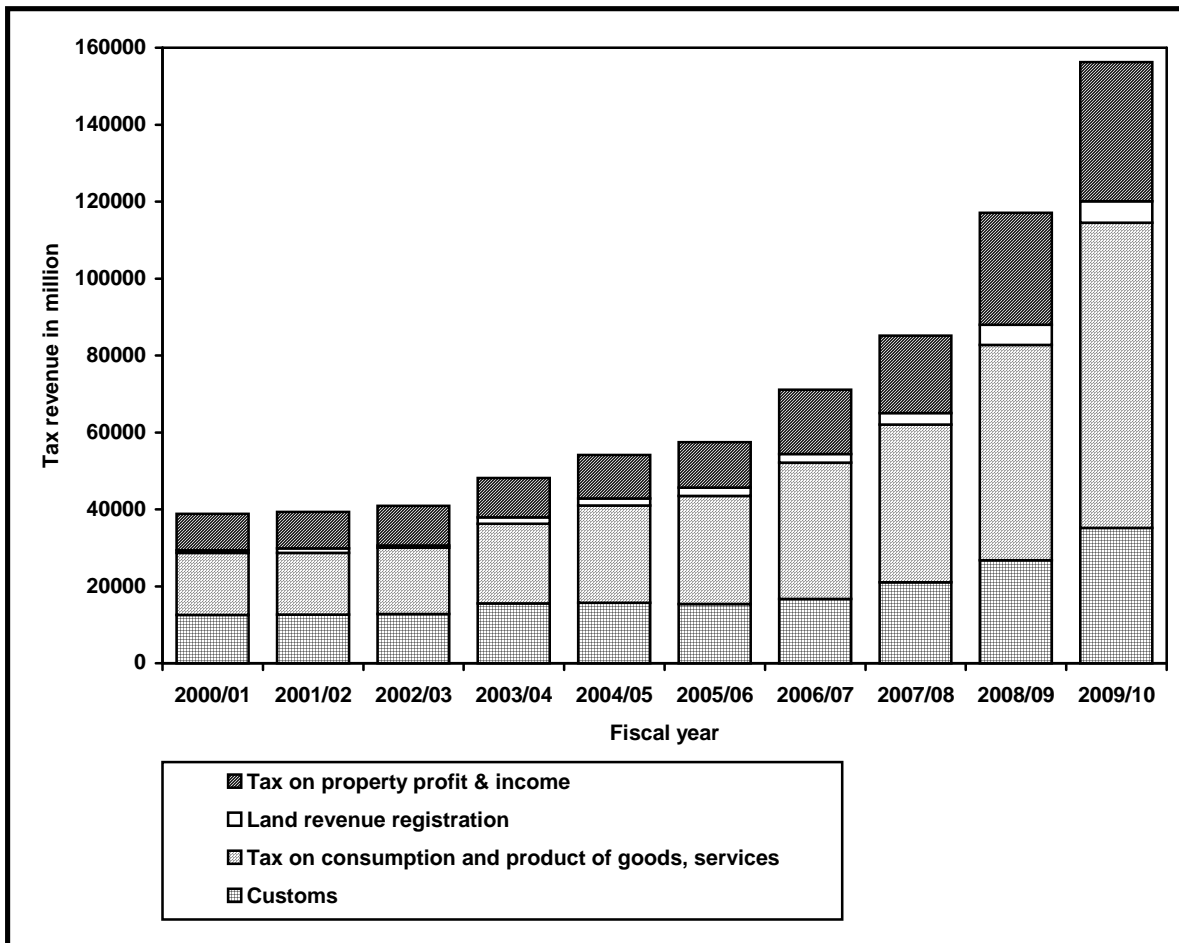
Rs. in million

Fiscal Year	Customs	Tax on consumption and product of goods, services	Land revenue registration	Tax on property profit & income	Total
2000/01	12552.1	16153.6	612.9	9546.5	38865.1
2001/02	12650.0	16074.3	1131.8	9465.7	39321.8
2002/03	12783.2	17230.9	607.8	10274.1	40896.0
2003/04	15554.8	20705.6	1697.5	10215.1	48173.0
2004/05	15701.6	25331.3	1799.2	11272.6	54104.7
2005/06	15344.0	28118.3	2181.1	11787.0	57430.4
2006/07	16707.6	35438.8	2253.5	16726.8	71126.7
2007/08	21062.4	41005.3	2940.7	20147.0	85155.4
2008/09	26792.9	55938.3	5223.3	29097.4	117051.9
2009/10	35150.8	79394.1	5511.1	36238.9	156294.9
Average	18429.94	33539.05	2395.89	16477.11	70841.99

Source: Economic survey 2010/11, MOF

The above data can be shown in following figure.

Figure no. 4.3
Structure of Tax Revenue



In Nepal the major sources of government revenue is tax revenue. From above data, in the tax revenue the major sources of tax is tax on consumption product goods and services which includes excise on industrial products and value added tax is Rs. 33539.05. Another major source of tax is custom tax which includes, imports and exports is Rs. 18429.94. Similarly, 3rd and 4th source of tax is tax on property profit & income and land revenue registration are Rs. 16477.11 and Rs. 2395.89 respectively. The tax collection from different year is shown in above table and figure which shows every sources of tax in increasing trend. For example: Customs is Rs. 12552.1 in FY 2000/01 and Rs. 35150.8 in FY 2009/10. Similarly, Tax on property profit & income is Rs.9546.5 in FY 2000/01 and Rs.36238.9. It shows that the sources of tax is increasing trend.

4.1.4 Composition of Direct Tax & Indirect Tax in Total Tax Revenue

Total revenue consists of tax revenue and non tax revenue. Total tax revenue consists of direct tax revenue and indirect tax revenue. Direct tax includes income tax, land revenue and registration, urban house and land tax property tax, vehicle tax etc. Indirect tax includes customs, excise, value added tax, entertainment tax, hotel tax, and contact tax. Table 4.4 shows the composition of direct tax and indirect tax revenue in total tax revenue of the country from fiscal year 2000/01 to 2009/10.

Table no. 4.4

Composition of Direct tax & Indirect Tax in Total Tax Revenue

Rs. in million

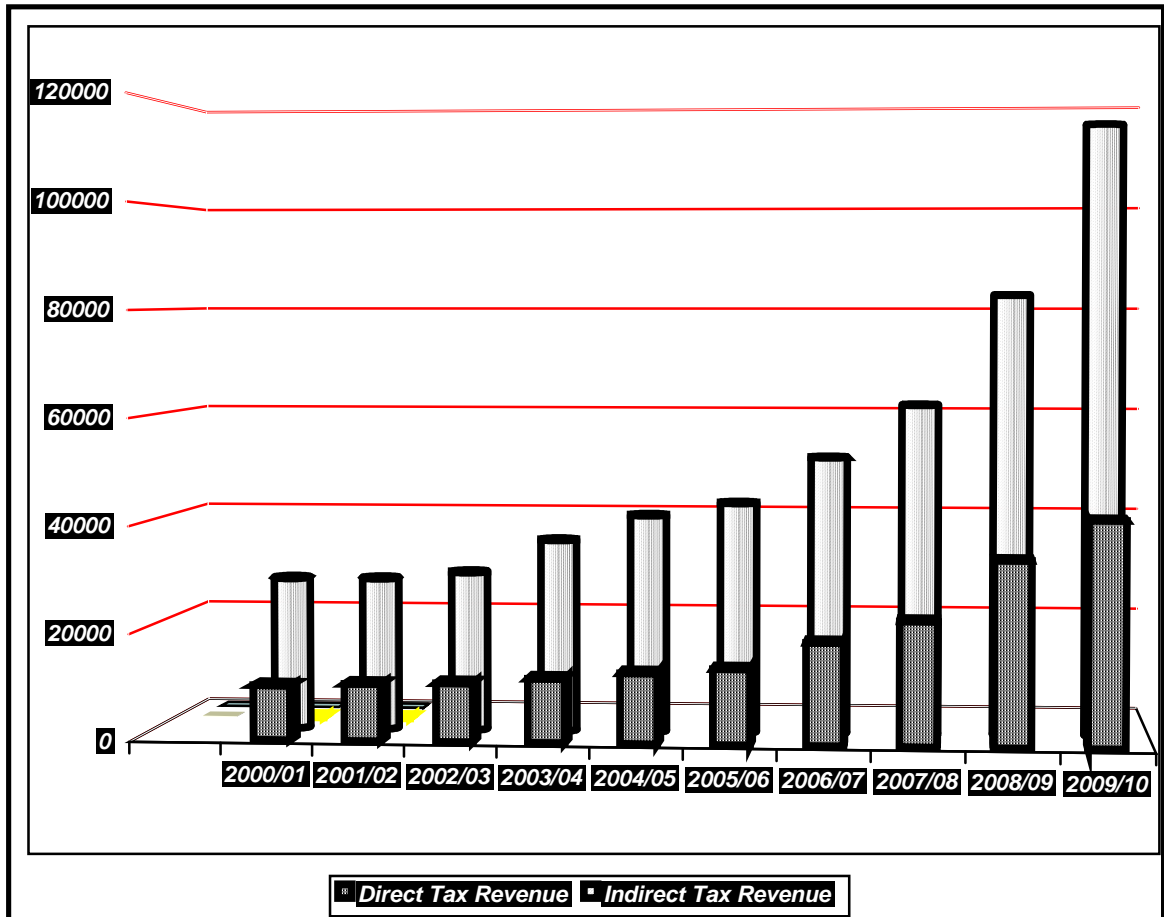
Fiscal year	Tax Revenue		Direct Tax Revenue		Indirect Tax Revenue	
	Rs.	%	Rs.	%	Rs.	%
2000/01	38865.0	100	10159.4	26.14	28705.7	73.86
2001/02	39330.6	100	10597.5	26.95	28724.3	73.05
2002/03	40896.0	100	10881.9	26.61	30014.1	73.39
2003/04	48173.0	100	11912.6	24.73	36260.4	75.27
2004/05	54104.7	100	13071.8	24.16	41032.9	75.84
2005/06	57430.4	100	13968.1	24.32	43462.3	75.68
2006/07	71126.7	100	18980.3	26.69	52146.4	73.31
2007/08	85155.5	100	23087.7	27.11	62067.7	72.89
2008/09	117051.9	100	34320.7	29.32	82731.2	70.68
2009/10	156294.9	100	41750.0	26.71	114544.9	73.29

Source: Economic survey 2010/11, MOF

The following figure shows the composition of composition of direct tax & indirect tax in total tax revenue in different fiscal year.

Figure no. 4.4

Composition of Direct Tax & Indirect Tax in Total Tax Revenue



The above table shows that the total tax revenue was dominated by indirect tax revenue. The share of direct tax revenue in total tax revenue for the period 2000/01 was 10159.4 million which 26.14% of total tax revenue is. Similarly, in 2009/10 direct tax is 41750.0 million which 26.71% of total tax revenue is. It is noted that the amount of direct tax is increasing trend but the percent of direct tax revenue to total tax revenue is fluctuating trend. Revenue from indirect tax also increasing trend in amount but in percentage of total tax revenue is in increasing trend up to 2004/05, after this year it is decreasing trend upto 2008/09. So we can say that indirect tax revenue to total tax revenue is fluctuating trend. Its contribution to total tax revenue was minimum level is 70.68% in 2008/09 and maximum level is 75.84% in 2004/05.

4.1.5 Trend of Income Tax

Income tax is the main source of revenue of total tax revenue. Income tax includes corporate tax and individual tax. The following table shows the revenue collection from income tax from fiscal year 2000/01 to 2009/10.

Table no. 4.5
Trend of Income Tax

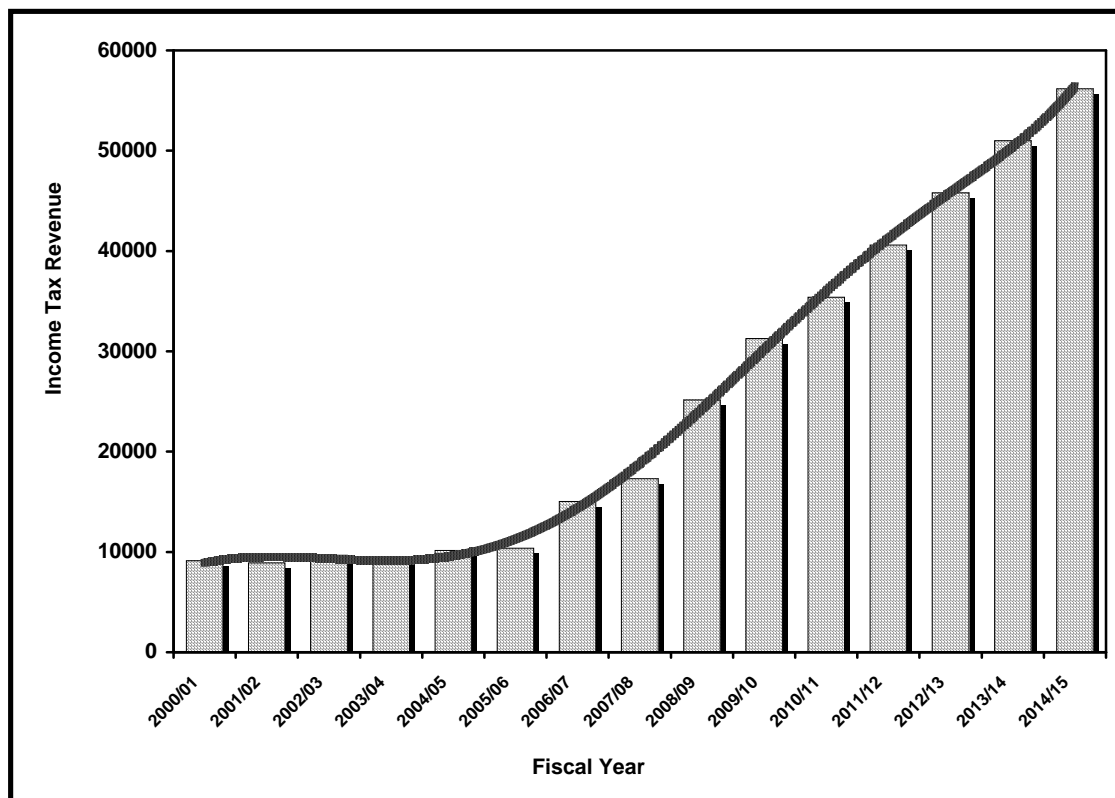
Rs. in million

Fiscal Year	Income Tax Revenue
2000/01	9114.0
2001/02	8903.7
2002/03	9675.8
2003/04	9245.9
2004/05	10159.4
2005/06	10373.7
2006/07	15034.0
2007/08	17311.2
2008/09	25142.4
2009/10	31285.6
Forecasted 2010/11	35408.0
2011/12	40601.0
2012/13	45794.0
2013/14	50987.0
2014/15	56180.0

Source: Economic survey 2010/11, MOF and appendix

The trend of revenue collection from income tax can be shown in following figure.

Figure 4.5
Trend of Income Tax



In the fiscal year 2000/01 revenue collection from income tax was Rs. 9114.0 million and Rs.31285.64 in fiscal year 2009/10. The forecast income tax of FY 2010/11 is 35408 and by its increasing trend income tax is 56180 in the FY 2014/15. From the table and figure that we can say income tax revenue is increasing trend.

4.1.6 Structure of Income Tax Revenue

Income tax includes corporate tax, individual tax and interest tax. Corporate tax includes income from public enterprises, income from semi public enterprises and income tax from private corporate bodies. Individual tax includes income from individual, income from remuneration and tax related to interest income. Public enterprise consists of 100% government ownership and semi public enterprise includes 51% government ownership. Private corporate bodies mean individual denote sole traders, partnership and private limited

companies. Remuneration refers to salaries earned from the services provided to the government and non-government sectors. The structure of income tax revenue in different year is given in following table.

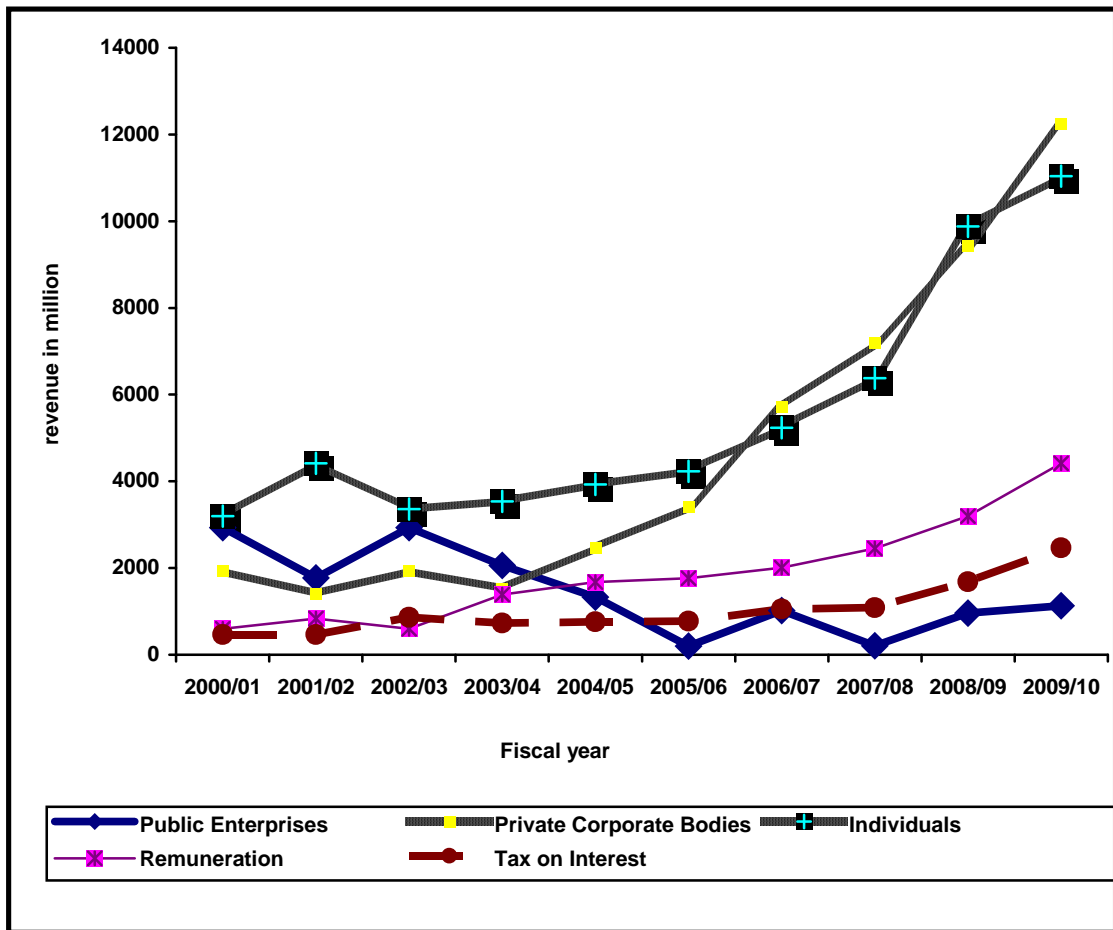
Table no. 4.6
Structure of Income Tax Revenue

Rs. in million

Fiscal Year	Public Enterprises	Semi Public	Private Corporate Bodies	Individuals	Remuneration	Tax on Interest	Total
2000/01	2928.0	0.0	1924.3	3200.5	597.3	463.9	9114.0
2001/02	1769.3	0.0	1412.0	4419.1	835.6	467.7	8903.7
2002/03	2928.0	0.0	1924.3	3362.2	597.3	864.0	9675.8
2003/04	2056.6	0.0	1531.3	3533.4	1391.2	733.4	9245.9
2004/05	1332.4	0.0	2467.8	3926.3	1675.9	757.0	10159.4
2005/06	195.7	0.0	3404.3	4234.7	1764.1	774.9	10373.7
2006/07	1019.7	0.0	5717.1	5234.4	2007.9	1054.9	15034.0
2007/08	204.6	0.0	7186.5	6381.2	2451.0	1087.9	17311.2
2008/09	959.1	0.0	9425.1	9877.5	3195.6	1685.1	25142.4
2009/10	1131.8	0	12234.4	11039.9	4413.1	2466.4	31285.6
Average	1452.52	0	4722.71	5520.92	1892.9	1035.52	14624.6

Source: Economic survey 2010/11, MOF

Figure 4.6
Structure of Income Tax Revenue



From the above table, individuals occupied first position in total income tax revenues. Private corporate bodies, remuneration, tax on interest and public enterprise are second, third, fourth and fifth position from 2004/05 respectively. The share of semi public was nil in each year from 2000/01 to till because the source of revenue was restrict and share of semi-public enterprise was not calculated separately also.

4.1.7 Trend of Income Tax to Total Tax Revenue

Total tax revenue includes tax from tax from customs, tax on consumption and products of goods and services, tax from land revenue and registration, tax on property & incomes. So, income tax is one of the components of total tax revenue.

Table no. 4.7

Trend of Income Tax to Total Tax Revenue

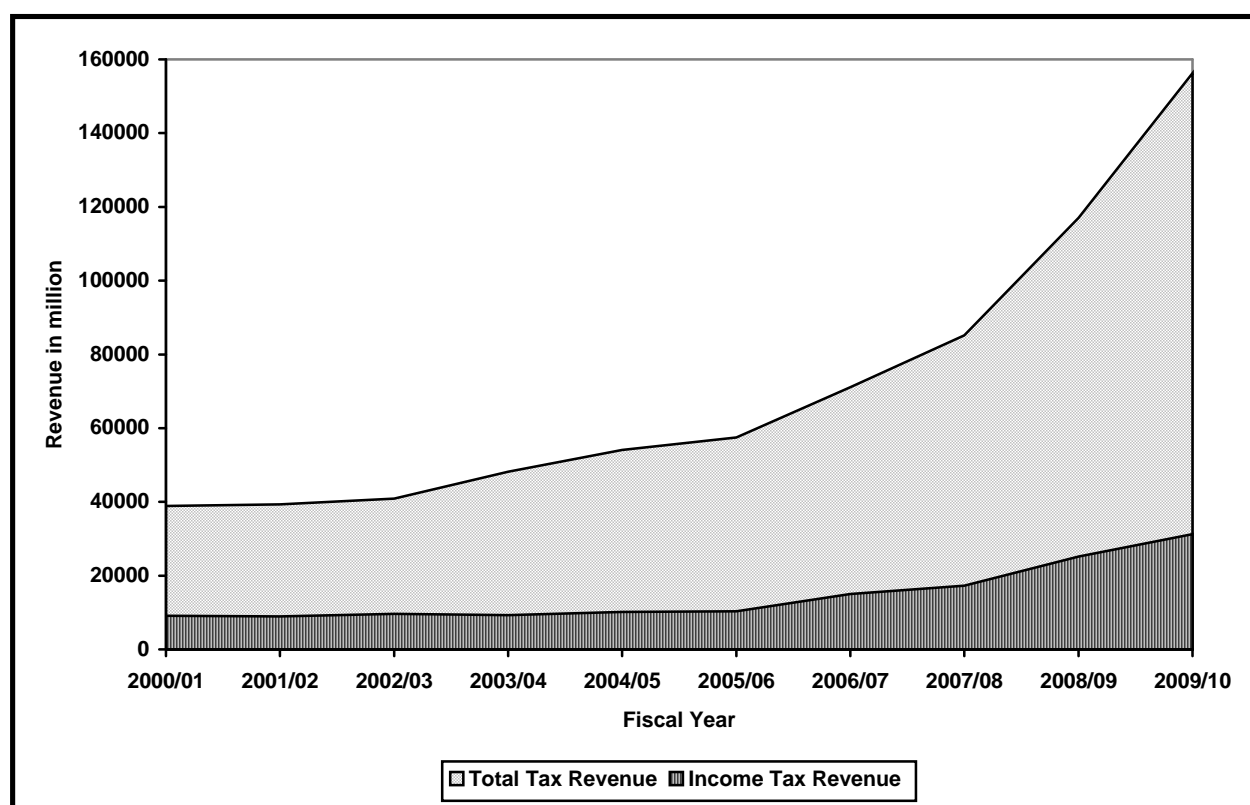
Rs. in million

Fiscal Year	Total Tax Revenue	Income Tax Revenue	% of Income tax in tax revenue
2000/01	38865.0	9114.0	23.45
2001/02	39330.6	8903.7	22.64
2002/03	40896.0	9675.8	23.66
2003/04	48173.0	9245.9	19.19
2004/05	54104.7	10159.4	18.78
2005/06	57430.4	10373.7	18.06
2006/07	71126.7	15034.0	21.14
2007/08	85155.5	17311.2	20.33
2008/09	117051.9	25142.4	21.48
2009/10	156294.9	31285.6	20.02

Source: Economic survey 2010/11, MOF

Figure no. 4.7

Trend of Income Tax to Total Tax revenue



In fiscal year 2000/01, the contribution of income tax to total tax revenue was 23.45%. Similarly, in fiscal year 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08, 2008/09 and 2009/10 were 22.64%, 23.66%, 19.19%, 18.78%, 18.06%, 21.14%, 20.33%, 21.48 and 20.02% respectively. Above table shows in an aggregate the contribution of income tax revenue is 20.88. The following table shows the trend of income tax to total tax revenue in different year.

4.1.8 Trend of Income Tax to Direct Tax Revenue

Direct tax revenue includes tax from land revenue, house and land registration fees and tax on property, profit & incomes. So, income tax is one of the components of direct tax revenue. The following table shows the trend of income tax to total direct tax revenue in different year.

Table no. 4.8
Trend of Income Tax to Direct Tax revenue

Rs. in million

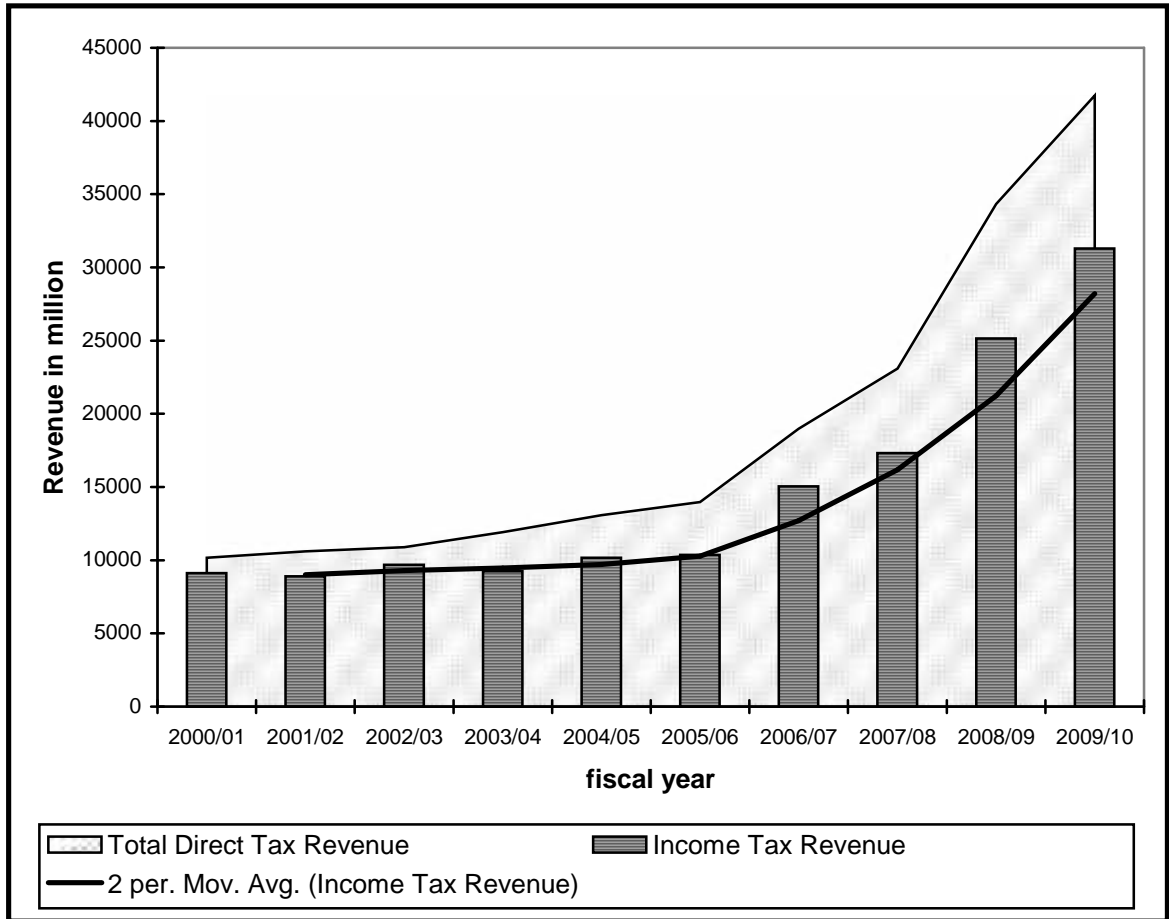
Fiscal Year	Total Direct Tax Revenue	Income Tax Revenue	% of Income tax in Direct Tax Revenue
2000/01	10159.3	9114.0	89.71
2001/02	10606.3	8903.7	83.95
2002/03	10881.9	9675.8	88.92
2003/04	11912.6	9245.9	77.61
2004/05	13071.8	10159.4	77.72
2005/06	13968.1	10373.7	74.27
2006/07	18980.3	15034.0	79.21
2007/08	23087.7	17311.2	74.98
2008/09	34320.7	25142.4	73.26
2009/10	41750.0	31285.6	74.94

Source: Economic survey 2010/11, MOF

The explanation can be shown in following figure.

Figure no. 4.8

Trend of Income Tax to Direct Tax Revenue



In fiscal year 2000/01, the contribution of income tax to direct tax revenue was 89.71% which was 9114.0. Similarly, in fiscal year 2001/02 is 83.95% and 74.94% of total direct tax cover by income tax. Above table shows in an aggregate the contribution of income tax on direct tax revenue is 79.46%. The trend of direct tax and income tax isn't increased equally ratio therefore the percentage shows decreasing trend but actually from above table and figure, trend of income tax to direct tax revenue is increasing trend.

4.1.9 Trend of Income Tax in GDP Ratio

Here, this analysis has been made to know about analysis of the share of taxation in total Gross Domestic Product (GDP) of Nepal. Nepalese economic activity is very slow and does not show any drastic positive change. The moderate tax/GDP ratio ranged from 15%-18% is other developing countries (WB1991) but in Nepal, it is obvious from the fact that tax ratio never equal to 15% and it was around 10% in average.

Table no. 4.9
Trend of Income Tax in GDP Ratio

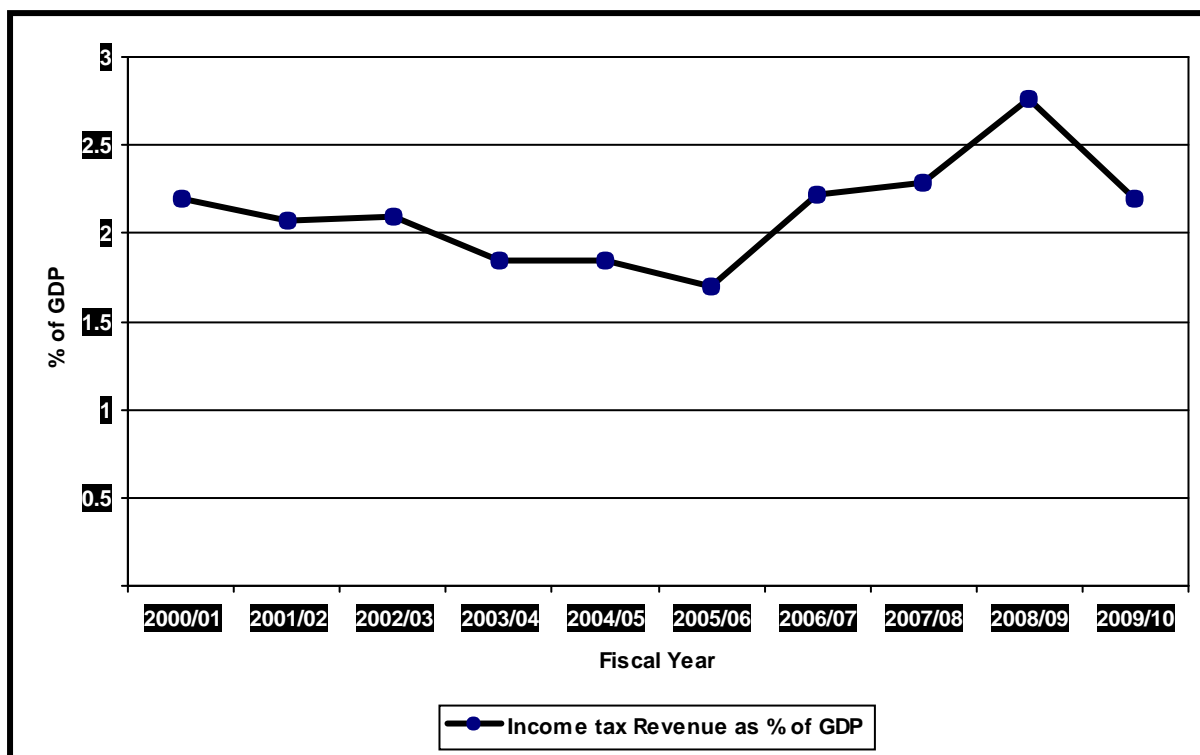
Rs. in million

FY	GDP	Tax Revenue	Tax Revenue as % of GDP	Income tax Revenue	Income tax Revenue as % of GDP
2000/01	413429	38865.0	9.40	9114.0	2.20
2001/02	430397	39330.6	9.14	8903.7	2.07
2002/03	460325	40896.0	8.88	9675.8	2.10
2003/04	500699	48173.0	9.62	9245.9	1.85
2004/05	548485	54104.7	9.86	10159.4	1.85
2005/06	611118	57430.4	9.40	10373.7	1.70
2006/07	675859	71126.7	10.52	15034.0	2.22
2007/08	755262	85155.5	11.27	17311.2	2.29
2008/09	909309	117051.9	12.86	25142.4	2.76
2009/10	1060881	156294.9	14.73	31285.6	2.95
Average	636576.4	70842.87	10.57	14624.57	2.20

Source: Economic survey 2010/11, MOF

Note: GDP is taken in current price

Figure no. 4.9
Trend of Income Tax in GDP Ratio



By table and figure it is addressed that trend of income tax in GDP ratio isn't satisfactory level. It is fluctuate time to time. The average of income tax for the nine years has been computed to be 10.11. Its contribution is high in the fiscal year 2008/09.

4.1.10 Trend of Resource Gap in Nepal

A resources gap is the serious problems of Nepal in the beginning of the economic development. Like other developing countries in the world, Nepal has been suffering from resource constraint, mass poverty, rapid growth of population, aggressive dependence on agriculture income, subsistence living standard etc.

Source mobilization of Nepal is still poor and that doesn't cover the growing expenditure. Fiscal deficit is due to continuously growing expenditure of the government instead of the low revenue performance in Nepal. So, the country is facing the increasing burden of foreign loan.

Table no. 4.10
Resource Gap in Nepal

Rs. in million

Fiscal Year	Total Expenditure	Total Revenue	Resource Gap
2000/01	79835.1	48893.6	30941.5
2001/02	80072.2	50445.5	29626.7
2002/03	84006.1	56229.8	27776.3
2003/04	89442.6	62331.0	27111.6
2004/05	102560.4	70122.7	32437.7
2005/06	110889.2	72282.1	38607.1
2006/07	133604.6	87712.1	45892.5
2007/08	161349.9	107622.5	53727.4
2008/09	219661.9	143474.5	76187.4
2009/10	259689.1	179945.8	79743.3

Source: Economic survey 2010/11, MOF

From above table, it is observed that the value of resource gap is in increasing trend expect year 2001/02, 2002/03 and 2003/04. Average resource gap is in the ten year period was 44205.15 million. Political instability and inflation are the main causes of increasing resource gap. Increasing trend of resource gap is not well for the country. To fulfill the resource gap country can increase internal revenue like taxes.

4.2 Opinion Survey

The survey result has been conducted to find out the various aspect of income tax in Nepal. The structured questionnaire was prepared and distributed for this purpose. The opinion of the various 75 respondents associated with distinct denominations i.e. tax administration, tax experts and tax payers were collected. The questionnaire has covered role of income tax, major problem of income tax system, problems facing by tax payer, the most important factors

for the effectiveness of income tax system in Nepal. The respondents were asked either to response yes/no or for ranking of choices according to no of alternatives where first choice was the most important and last choice was least important. Number of respondents in each denomination is equal 25. Information received from the respondents are tabulated and analyzed in the proper way.

Table no. 4.11

Group of Respondents and Number from each group

S.N.	Group of Respondents	No.
1.	Income tax administrators	25
2.	Income tax experts	25
3.	Income tax payers	25
	Total	75

Source: Estimate figure

4.2.1 Income Tax as Suitable Means of Raising Government Revenue

To know whether income tax as a suitable means of raising government revenue in Nepal, a questions was asked “Do you consider that income tax is the suitable means of raising government revenue in Nepal?” The respondent’s responses are tabulated in the following table:

Table no. 4.12

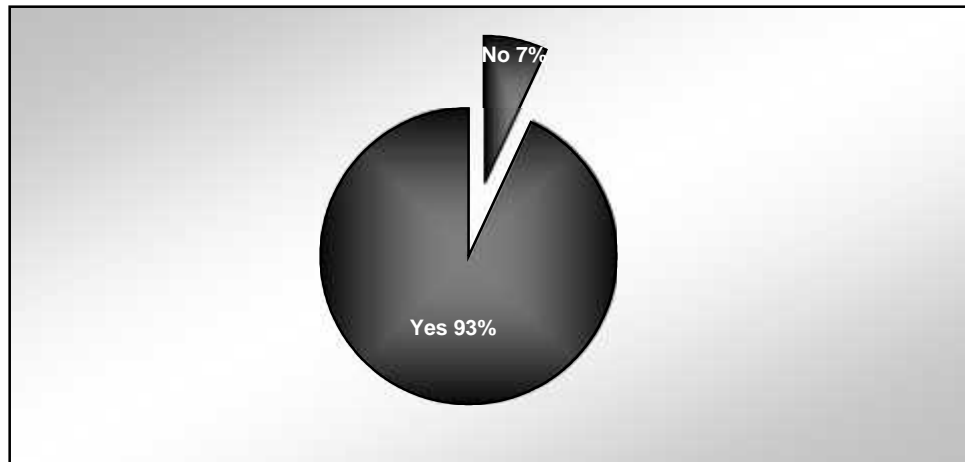
Income Tax as Suitable Means of Raising Government Revenue

Response Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax administrators	24	96	1	4	25	100
Tax Experts	24	96	1	4	25	100
Tax payers	22	88	3	12	25	100
Total	70	93	5	7	75	

Source: Field survey 2011

Figure No. 4.10

Income Tax as Suitable Means of Raising Government Revenue



From the opinion survey, it is found that 96 percent of tax administrators & tax experts and 88 percent of tax payers recognize income tax as a suitable means of raising government revenue. Only 4 percent tax administrators & tax experts and 12 percent tax payer doesn't recognize. In aggregate, 93 percent respondent recognized and 7 percent doesn't recognized income tax as a suitable means of raising government revenue in Nepal.

4.2.2 Need of Public Awareness Program

To know the respondents view towards public awareness program the questions was put "Do you think that public awareness program is necessary in Nepal for raising the government revenue?" opinion result summarized.

Table no. 4.13

Need of Public Awareness Program

Response Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax administrators	25	100	-	-	25	100
Tax Experts	25	100	-	-	25	100
Tax payers	25	100	-	-	25	100
Total	75	100	-	-	75	100

Source: Field survey 2011

All of the samples of tax administrator, tax experts and tax payer approved that public awareness program are necessary in Nepal for raising government revenue. Thus, it can be concluded that public awareness program is very much necessary for raising Nepalese government revenue.

4.2.3 Appropriate Method for Assessing of Income Tax

Income tax collection depends on the income tax assessment procedures. Therefore, assessment procedure should be appropriate and effective. A question, “Which income tax assessment method is more appropriate in Nepal?” was asked to know the respondents’ opinion about appropriate method of income tax assessment. The response is presented in the table below.

Table no. 4.14

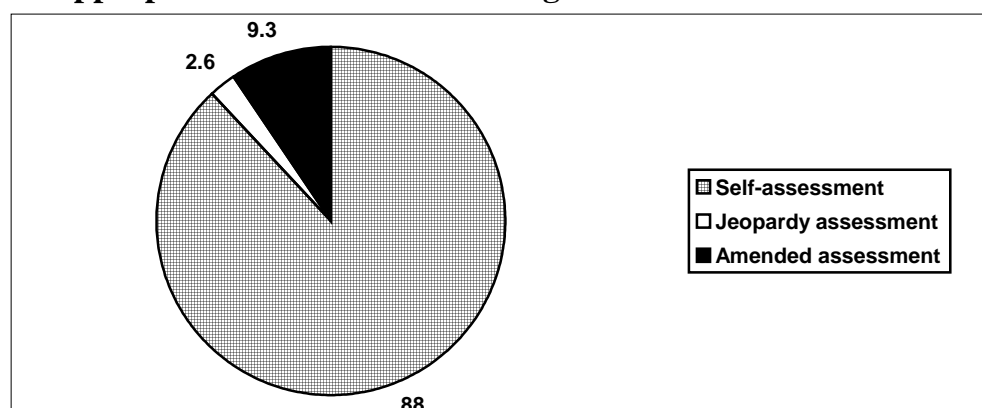
Appropriate Method for Assessing of Income Tax

S N	Assessment	Tax adminis trators	Tax experts	Tax payers	Total	%	Rank
1	Self-assessment	18	23	25	66	88	1
2	Jeopardy assessment	-	2	-	2	2.6	3
3	Amended assessment	7	-	-	7	9.3	2
	Total	25	25	25	75		

Source: Field Survey, 2011

Figure No. 4.11

Appropriate Method for Assessing Income Tax



From above table and figure 88 percent respondents approved self-assessment method is more appropriate to assess income tax. Only 2.6 percent respondents are in favor of jeopardy assessment and 9.3 percent in favor of amended tax assessment. The respondent category that is most in favors of self-assessment is tax payers. While ranking together the opinion of both groups the corresponding prioritized reasons for more appropriate methods for tax assessments are as follows:

1. Self-assessment
2. Amended assessment
3. Jeopardy assessment

From above table it is concluded that the self-assessment is the more appropriate method for tax assessing of income tax.

4.2.4 Effectiveness of Income Tax Administration

To know the respondents view regarding effectiveness of income tax administration in Nepal a question, "Do you agree that Nepalese income tax administration is effective?" was asked. The responses are tabulated in the following table.

Table no. 4.15
Effectiveness of Income Tax Administration

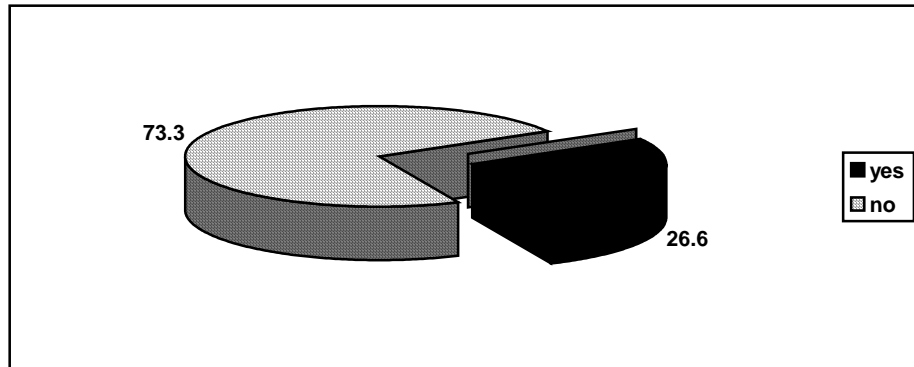
Response Respondent	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Tax administrators	17	68	8	32	25	100
Tax Experts	3	12	22	88	25	100
Tax payers	-	-	25	100	25	100
Total	20	26.6	55	73.3	75	100

Source: field survey 2011

The table shows on the following figure.

Figure No. 4.12

Effectiveness of Income Tax Administration



From the table it has been clear that Nepalese income tax administration is not effective. Most of the respondents i.e. 73.3 percent of respondents recognize it ineffective. The high percentage of respondent who are in favors in Nepalese tax administration is the tax administrators themselves.

4.2.5 Opinion Towards Satisfactory Contribution of Income Tax Revenue

Income tax has contributed about only 21 percent to public revenue in Nepal. It is blamed that contribution of income tax to national revenue is not satisfactory. To know the fact, the question was asked to respondent “In your opinion is contribution of income tax to national revenue of Nepal satisfactory?” opinion result is presented in the following table:

Table no. 4.16

Satisfactory Contribution of Income Tax Revenue

Response Respondent	Yes		No		Total	
	No.	Perce ntage	No.	Perce ntage	No.	Perce ntage
Tax administrators	5	20	20	80	25	100
Tax Experts	6	24	19	76	25	100
Tax payers	10	40	15	60	25	100
Total	21	28	54	72	75	100

Source: field survey 2011

From this table, only 20 percent tax administrators and 24 percent of tax payers approve that income tax contribution to public revenue is satisfactory. But 60 percent tax payers argue that contribution of income tax to national revenue in Nepal is unsatisfactory. In aggregate, 28 percent respondents argue that Nepalese income tax contribution is satisfactory.

From above table, we can assume tax experts is constant factor and we can calculating hypothesis between tax administrator and tax payers .

Test of Hypothesis:

Respondents	Yes	No	Row Total
Tax administrators	5	20	25
Tax payers	10	15	25
Column Total	15	35	50

Null hypothesis H_0 : There is no significant difference between in the view of tax administrators and tax payers regarding income tax contribution is satisfactory in Nepal.

Alternative hypothesis H_1 : There is significant difference between in the view of tax administrators and tax payer regarding income tax contribution is satisfactory in Nepal.

Test statistic: Under H_0 , the test statistic is

$$\chi^2 = \frac{(f_e - f_o)^2}{f_e}$$

Where, f_o = Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row total} \times \text{column total}}{\text{Grand Total}}$$

Calculating of χ^2

Row column	f_o	f_e	$f_o - f_e$	$(f_e - f_o)^2$	$\frac{(f_e - f_o)^2}{f_e}$
1,1	5	$(25 \times 15)/50 = 7.5$	-2.5	6.25	0.833
1,2	20	$(25 \times 35)/50 = 17.5$	2.5	6.25	0.357
2,1	10	$(25 \times 15)/50 = 7.5$	2.5	6.25	0.833
2,2	15	$(25 \times 35)/50 = 17.5$	2.5	6.25	0.357
					= 2.381

Degree of freedom = $(r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$

Level of significance = 5% = 0.05

Tabulated $\chi^2_{0.005} = 3.841$

Conclusion: Since calculated χ^2 < tabulated χ^2 , it is not significant and H_0 is accepted which means that there is no significant difference in tax administrators and tax payers views regarding to income tax contribution is satisfactory in Nepal.

4.2.6 Attitude toward problems in paying income tax

To know the problem facing by the taxpayers while paying income tax, the respondents were requested to rank their choice from 1 to 5 according to their preference. The question was "In your thinking, what types of problems are facing by the tax payer while paying income tax." The respondents responses are presented below:

Table no. 4.17
Problem in Tax Paying

S. N	Problems	Point Received				Percent (%)	Rank
		Tax administrator	Tax expert	Tax payer	Total		
1.	Consuming unnecessary time	91	45	94	230	25.56	1
2.	Expectation of illegal incentive by tax personnel	31	33	30	94	10.44	5
3.	Vague provision in income tax laws	78	61	68	207	23.00	2
4.	Lengthy process	67	75	28	170	18.89	4
5.	Lack of cooperation by tax administrator	33	86	80	199	22.11	3
	Total				900	100	

Source: Field survey 2011

In above table, Rank is given to the lowest percentage and 5 to highest. Here lowest percentage is obtained by the problem which is treated as the important problem by the respondents. In the questionnaire, the respondents were requested to give number 1 to the most appropriate of least to the least appropriate. From ranking position, the major problems facing by the taxpayer while paying income tax ranked in order of preference of the respondents are as follows.

1. Consuming unnecessary time
2. Vague provision in income tax laws
3. Lack of co-operation by tax administrator
4. Lengthy process
5. Expectations illegal incentives to the personnel

To know whether the opinion of tax administrator and tax payer are related or not, t rank co-relation coefficient was used. But the views t tax experts are kept in constant.

Hypothesis:

There is no significant relationship between the view of tax administrator and tax payer with respects to problem faced by the taxpayer while paying tax.

Calculating correlation by formula

$$R = 1 - \frac{6 \sum d^2}{n(n^2-1)}$$

$$pr = 0.6745 \frac{1Zr^2}{\sqrt{n}}$$

Let, variable X and Y denotes views of tax payers and tax administrator respectively.

Calculation of correlation coefficient

S.N.	Problems	Total Points (X)	Rank (R1)	Total Points (Y)	Rank (R2)	Difference (R1-R2)	(R1-R2) ²
1.	Consuming unnecessary time	94	1	91	1	0	0
2.	Expectation of illegal incentive by tax personnel	30	4	31	5	-1	1
3.	Vague provision in income tax laws	68	3	78	2	1	1
4.	Lengthy process	28	5	67	3	2	4

5.	Lack of cooperation by tax administrator	80	2	33	4	-2	4
Total							10

According to formula

$$R = 1 - \frac{6 \sum d^2}{n(n^2-1)}$$

$$= 1 - \frac{6(10)}{5(5^2 - 1)}$$

$$= 0.50$$

Again,

$$pr = 0.6745 \frac{1Zr^2}{\sqrt{n}}$$

$$= 0.6745 \frac{1Z0.50^2}{\sqrt{5}}$$

$$= 0.226$$

Here, r is greater than pr. Relation isn't significant because to be significant r should be 6 times greater than pr. However, the value of r is positive, and there is some relationship between views of taxpayers and tax administration. So, null hypothesis is rejected. It can be conclude that the opinion of tax payers and tax administrators regarding the problem faced by taxpayers while paying tax isn't significantly difference.

4.2.8 Income Tax Paying Habits of Tax Payer's Compliance

The respondents were requested to rank suggestions according to rank suggestions according to preference for the important of tax paying habit or tax payer's compliance. For this purpose the question was asked, "what is your suggestion to improve tax paying habit or tax payer's compliance in Nepalese people?" The respondent's responses are presented below:

Table no. 4.18
Suggestions to Improve Income Tax Paying Habit/Tax Payer's
Compliance

S. N	Problems	Point Received				Percent (%)	Rank
		Tax experts	Tax Admin	Tax payer	Total		
1.	Better public relation by tax officers	41	38	43	122	9.68	5
2.	Incentive to regular tax payers	74	61	65	200	15.87	4
3.	Simplification of tax assessment procedure	104	94	112	310	24.60	1
4.	Heavy fine and penalties to defective tax payer	25	48	33	106	8.41	6
5.	Simplification of tax laws & rules	74	75	86	235	18.65	3
6.	Tax education to tax payers	102	104	81	287	28.78	2
	Total				1260	100	

Source: Field survey 2011

From above table, it is clear that the suggestions to improve tax paying habit or tax payer's compliance according to preferences are as follows:

1. Simplification of tax assessment procedure
2. Tax education to tax payers
3. Simplification of tax laws & rules
4. Incentive to regular tax payers
5. Better public relation by tax officers

6. Heavy fine and penalties to defective tax payer

To know whether the opinion of tax administrator and tax payer are related to not. We can test rank correlation coefficient. But the views of tax experts are kept in constant.

Hypothesis:

There is no significant relationship between the views of tax administrator and tax payer with respect to suggestions to improve income tax paying habit or tax payer's compliance in Nepalese people.

Calculation correlation by formula

$$R = 1 - \frac{6 \sum d^2}{n(n^2-1)}$$

$$pr = 0.6745 \frac{1Zr^2}{\sqrt{n}}$$

Let, variable X and Y denotes views of tax payers and tax administrator respectively.

S.N.	Suggestions	Total Points (X)	Rank (R1)	Total Points (Y)	Rank (R2)	Difference (R1-R2)	(R1-R2) ²
1.	Simplification of tax assessment procedure	112	1	94	2	-1	1
2.	Tax education to tax payers	81	3	104	1	2	4
3.	Simplification of tax laws & rules	86	2	75	3	-1	1
4.	Incentive to regular tax payers	65	4	61	4	0	0

5.	Better public relation by tax officers	43	5	38	6	-1	1
6.	Heavy fine and penalties to defective tax payer	33	6	48	5S	1	1

According to formula

$$\begin{aligned}
 R &= 1 - \frac{6 d^2}{n(n^2-1)} \\
 &= 1 - \frac{6(8)}{5(5^2-1)} \\
 &= 0.60
 \end{aligned}$$

Again,

$$\begin{aligned}
 pr &= 0.6745 \frac{1Zr^2}{\sqrt{n}} \\
 &= 0.6745 \frac{1Z0.60^2}{\sqrt{5}} \\
 &= 0.193
 \end{aligned}$$

Here, r is greater than pr. It is 3.10 times greater. The relationship r should be 6 times greater than pr. However, there exists some relationship between the views of tax payer and tax administrator. So, null hypothesis is rejected. Therefore we can concluded that the opinion of tax payers and tax administrator regarding the suggestion to improve income tax paying habit or tax payer's compliance in Nepalese people are same.

4.2.8 Suggestions Regarding to Reforms of Income Tax

An open question was asked to the respondents to know there suggestions regarding to reforms of income tax. The responses received from the respondents are given below:

1. To carry all tax payers in mainstream, the government the must conduct public awareness programs and should be done transparent tax collection procedure.
2. Tax personnel should be trained and motivated.
3. Proper monitoring by tax authorities is needed.
4. Revenue administration should be made flexible.
5. Simplified tax system and lower rate of tax is effective tool to recover more tax revenue.
6. Tax payers should make aware of the provision of taxation.
7. Need of changing the behaviour of them.
8. Government should provided sufficient remuneration to collect more tax revenue.
9. Simplification in the procedure.
10. Tight tax policy should be applied on equitable basis.
11. Discourage tax evasion through fine and penalties.
12. Government should reward to regular tax payers.

4.3 Major finding of the study

After analyzing the data from primary and secondary sources, following findings have been drawn out with tax experts, tax administrator and tax payers are as under.

- a. Income tax collection in FY 2000/01 was 9114.0, in 2002/03 was 9675.8 similarly, Rs. 31285.6 was in FY 2009/10. It has proved that income tax is increasing trend.
- b. The forecasted income tax of FY 2011 will Rs. 35408.0 and the forecasted income tax will be Rs 56,180.0 in the year of FY 2014/15. It shows the forecasted is increasing trend. The increasing trend is 14%, 12%, 11% increasing. It shows that the future trend of income tax is increasing in decreasing ratio.
- c. The contribution of income tax to total tax revenue was 23.45% in FY 2000/01 and 20.02% in FY 2009/10. From it shows that contribution of

income tax to total tax revenue is decreasing. The mean contribution of income tax during ten year's is 20.86%.

- d. Income tax collection from individual and corporate tax which is public enterprises, semi public, private corporate bodies, individuals, remuneration and tax on interest. To compare between individuals and corporate tax, individuals occupied first position in total income tax but in this FY 2009/10 corporate tax occupied first position.
- e. Only 20 percent tax administrators and 24 percent of tax payers approve that income tax contribution to public revenue is satisfactory. But 60 percent tax payers argue that contribution of income tax to national revenue in Nepal is unsatisfactory. In aggregate, 28 percent respondents argue that Nepalese income tax contribution is satisfactory.
- f. To improve tax paying habit or tax payer's compliance is simplification of tax assessment procedure, tax education to tax payers and simplification of tax laws & rules.
- g. Total revenue is the combination of tax revenue and non tax revenue. Tax revenue is 79.49% of total revenue in FY 2000/01 and 86.86% was in FY 2009/10. Tax revenue includes customs, tax on consumption and product of goods/services, land revenue registration and tax on property profit & income. It shows that tax revenue is increasing. Non tax revenue is 20.51% of total revenue in FY 2000/01 and 13.14% of total revenue in FY 2009/10. From analyzed that tax revenue is increasing trend and non-tax revenue is decreasing trend.
- h. Total revenue collection is in increasing but slightly . In FY 2000/01 total revenue was 48893.8, 2001/02 was Rs. 50446.6 and similarly 2009/10 was Rs. 179945.8. It shows the revenue collection from tax is increasing trend.
- i. Nepalese government revenue is the composition of direct tax revenue and indirect tax revenue. Direct tax includes income tax, land revenue and registration, land tax, property tax and vehicles tax etc. Indirect tax revenue includes customs, excise duty, value added tax, entertainment

tax, hotel tax and contract tax. Average contribution direct and indirect tax revenue to total tax revenue is 26.27% and 73.73% respectively during the ten years period.

- j. The contribution of income tax on the direct tax revenue is in aggregate 79.46%. In FY 2000/01, the contribution of income tax to direct tax revenue was 89.71%, in FY 2001/02 was 83.95%. Similarly, 74.94% is in FY 2009/10. From the data, we get that trend of income tax to direct tax revenue is decreasing trend.
- k. Income tax revenue /GDP ratio is in FY 2000/01 was 2.20% and it was 2.95% in FY 2009/10. It shows that the income tax and GDP ratio of Nepal isn't satisfactory. And Resource gap of Nepal is increasing trend from 2003/04. Resource gap was highest in this year 2009/10 and average gap was 40205.15 million during the period. To fulfill the resource gap Nepal can increase internal revenue like taxes.
- l. Nepal have deficit budget. It have neither surplus budget nor balance budget. If government expenditure is equal to government receipt that is balance budget. If receipt is more than expenditure that is surplus budget. And If receipts is less than expenditure that is deficit budget. In Nepal each and every year's expenditure is more than revenue. That is deficit budget. The deficit budget doesn't play important role in economy so the government should increase the receipts. To increase the total receipts the government should collect more revenue from tax because foreign grants is not good and permanent way to raise the revenue.
- m. Government expenditure include recurrent expenditure, capital expenditure and principal repayment. Government expenditure is in increasing trend. In fiscal year 2000/01 total expenditure was Rs.79835.1 million, in FY 2001/02 the expenditure was Rs. 80072.2 million. Similarly in FY 2009/10 total expenditure was Rs. 259689.1 million. It shows the government expenditure is in increasing each and every year.

- n. Government receipts include revenue and foreign grants. The main source of receipts is revenue. Total receipts in fiscal year 200/01 was Rs.55647.0 million. Similarly, From 2001/02 to 2009/10 was Rs. 57131.6, Rs. 67568.9, Rs. 7361.44 Rs. 84513.9, Rs.86109.6, Rs.103512.9, Rs.127943.2, Rs.169857.3, Rs. 218491.7 million.
- o. Income tax as a suitable means of raising revenue.
- p. Public awareness programme is very necessary for raising Nepalese government revenue.
- q. Appropriate method for assessing of income tax is self-assessment tax system among self-assessment, jeopardy assessment and amended assessment tax system.
- r. Nepalese income tax administration isn't effective or ineffective.
Effective income tax admin
- s. instruction is important factor for effectiveness of income tax.
- t. The contribution of income tax to public revenue is satisfactory but the contribution of income tax to national revenue in Nepal is unsatisfactory.
- u. The major problems facing by the tax payer while paying income tax is consuming unnecessary time, vague provision in income tax laws, lack of co-operation by tax administrator.

CHAPTER-5

SUMMARY, CONCLUSION AND SUGGESTION

5.1 SUMMARY

The government collects revenue from various sources such as taxes, fees, special assessment, fine and penalties, foreign grants etc. Among them tax is the main source of collecting the public revenues because it occupies the most important part of the government treasure. Tax is the compulsory payment to the government from a person according to law. Among internal source taxation is a prime factor. It is the pillar of the fiscal policy.

Tax is the contributed to the government without expectation of the direct benefit in the broad sense there are two types of taxes that is direct and indirect taxes. Income tax, gift tax, interest tax, property tax, vehicle tax, house & land tax and etc are the example of direct tax. Export and import duty, excise duty, sales tax, value added tax, entertainment tax, hotel tax and contract tax are the examples of indirect tax. The idea of introducing income tax in Nepal originated along with the first budget on 21th magh 2008(1952) . Then the first elected government introduced “Business profit and remuneration Act 2017” to impose income tax on remuneration and business profit in Nepal. Business profit and remuneration tax act 2017 had so narrow coverage that income tax imposed only on business profit and remuneration. It was replaced by the Nepal income tax Act 2019 after two years. After that income tax rule 2020 enacted with the view of implementations the objective of the income tax act. It was also replaced by another income tax act 2031. In the course of development and modernization of income tax system the new income tax act 2058 has been enacted. Similarly, the new income tax rules 2059 have also been enacted for the effective implementation of the objective of the act. Income tax act 2058 has classified the heads of income in to three categories i.e. business, employment and investment.

Income tax is levied on taxable income that is obtained by subtracting deductible expenses from chargeable incomes. But sometimes a tax payer may face the situation of loss due to the occurrence of deductible expenses in excess of chargeable incomes. In respect of business or investment a tax payer is entitled to set off or carry backward or forward of such unrelieved loss as per tax law. The unrelieved loss of an income year incurred by a person from his business or investment is calculated as the excess of deductible expenses over chargeable income ignoring the treatment of unrelieved losses.

Regarding the present study entitled to “Trend of Income Tax and Its Reforms in Nepal” had been done. In this study, trend of income tax has been analyzed. Trend of income tax to total revenue, to total tax revenue, to direct tax revenue, to GDP, and its composition has been analyzed.

Various books, articles, journals and other relevant materials are studied during the course of study. Almost the secondary data are collected from economic survey, published by ministry of finance, Nepal government annual report published by Inland Revenue Department (IRD) and other publications. And primary data are used from field survey in different areas of Chitwan District. Various concepts of taxation have been discussed in the conceptual framework of study. Meaning of tax, historical background of income tax, heads of incomes etc has been taken in the consideration.

The researcher has discussed about various aspects of research methodology, such as research design, data collection procedure, size of population and samples, nature and sources of data, selection of the respondents, procedure of selection and analysis of data etc, in third chapter.

Secondary data as well as primary data have been used in this study. Economic survey has been used as the major sources of the secondary data. An opinion survey has been used in this study to collect the reliable primary data for the study. Primary data have been collected from three

respondent group tax experts, tax administrators and tax payer. Tax experts consist of chartered accountant, lawyer and tax administrators consists officers of Inland Revenue Department, Internal revenue office and service center and tax payers consist of employee working in government offices, bank and private organization. A total 75 sets of questionnaire were distributed to the selected respondents in order to get actual and accurate information. Distribution work is done personally rather than sending by any other means. Additional valuable information was also collected from interview with the respondents as well as group discussion with tax payers.

Simple, average, rank correlation coefficient and hypothesis testing have been used to analyze and interpret the data so as to obtain designed result. For the analysis of secondary data, data has been tabulated and present in figures and also described. Percentage and average have been computed of the ten year from 2000/01 to 2009/10. Major findings of secondary data analysis have been put in the end of the chapter.

Data obtained from opinion survey with the respondents have been tabulated and analyzed to achieve design result. Hypothesis have been set out and tested in order to see the similarity or dissimilarity in the opinions of tax experts and tax payers. Rank correlation between tax experts and tax administrator or tax payers views. Major findings of the primary data have been put in the end of the chapter. Conclusion of the study are in the last chapter. Some recommendations are also giving in the end of the study to growing or increasing to income tax in Nepal. In this way, this study has been completed with the achievement of the stated objectives.

5.2 CONCLUSION

The conclusions of this study or mentioned below:

- a. The contribution of income tax was Rs.9114.0 in FY 2000/01 to total revenue but Rs.31285.6 was in FY 2009/10. The average

contribution of income tax to total revenue is Rs. 16624 i.e. 16.58% of total revenue. The contribution of income tax is increasing trend.

- b. Income tax has average contribution of 20.86% of total tax revenue and 79.46% in direct tax revenue from 2000/01 to 2009/10. Among direct taxes, contribution of income tax has the highest contribution.
- c. Income tax revenue in Nepal is collected through four sector i.e. corporate income tax, individual income tax, house and land rent tax and interest tax. Among them, share of the individuals income tax is highest or increasing trend except this last year.
- d. Total income tax revenue consists of various source i.e. public enterprise, semi-public enterprises, private corporate bodies, individuals, remuneration, tax on interest etc. On average, Income tax from individuals has occupied first position i.e. 37.75%, private corporate bodies occupied second position i.e.32.29% in total income tax in Nepal. Similarly Remuneration, public enterprise and tax on interest have occupied 3th, 4th and 5th position respectively.
- e. Revenue structure of Nepal is composed of tax and non-tax revenues. Tax revenue has the increasing contribution in total revenue i.e. in average 79.57% of total revenue. In FY 2009/10 its contribution has 86.86% which has been highest during the study period.
- f. Tax revenue consists direct and indirect tax revenue has been heavily dominated by indirect tax. From FY 2000/01 to 2009/10 aggregate contribution of indirect tax revenue has been found 73.72% in tax revenue.
- g. Income tax/GDP ratio of Nepal isn't good. The study showed the lower contribution of income tax to GDP ratio is only 2.20% and only 10.57% contributed by tax to GDP ratio. The contribution of income tax to GDP ratio was 2.20% in FY 2000/01. It is decreasing

trend from 2000/01 to 2005/06 and only increased. From FY 2006/07, it increasing and reached 2.95% in FY 2009/10.

- h. People aren't well informed about tax system of Nepal. Public awareness program are necessary in Nepal for raising government revenue.
- i. Income tax as a suitable means of raising government revenue and self-assessment tax system is appropriate method to collection of income tax.
- j. Tax Administration is also facing various problems such problems are under delay in making assessment, complicated tax laws, lack of coordination and lack of proper direction.
- k. Major problem that employees faced while paying income tax is procedural completion and provision of fines and penalties under income tax system is reasoned.
- l. The success of effectiveness of income tax system entirely depends upon implementation of provision, which is major responsibility of income tax administration. Various problems existed in the income tax such as increasing habit of tax evasion, inefficient income tax administration, detective income tax law are the reasons of lower contribution of income tax.
- m. To increase income tax continuously, provisions in act and language have to be made clear and some reforms in income tax administration are needed to raise tax revenue.
- n. Due to reform, the corruption in income tax administration can be decreased, the efficiency and transparency can be improved and the tax administration will treat the payers as responsible citizen to a considerable extent. The cost of tax collection to tax payer, government and economy as a whole can be reduced to some extent.

5.3 SUGGESTION

On the basis of this study, the following suggestions are made in order to trend of income tax and its reforms in Nepal.

- a. The contribution of income tax to total revenue, direct tax revenue and total tax revenue should be increased by making effective changes in income tax policy, rule and regulations bringing new tax payers into tax net, providing incentive programs with sound tax planning.
- b. Direct tax revenue is heavily dominated by indirect tax revenue. It is necessary to increase. So, as direct the economy towards the channel of development, resources mobilization through direct taxation should be focused.
- c. Income tax policy should be formulated according to the economic policy of the country; income tax policy should be revised timely.
- d. The member involved in formulating income tax policies must have depth knowledge about income tax.
- e. There are various type of problem that the taxpayers face while paying income tax. So the problems and troubles should be minimized as far as possible. Tax administrator should be made more responsible, tax clearance certificate should be provide to the tax payers while paying income tax, taxation knowledge to employee should be provided, refund of tax should be made without delay. Procedural complications in paying income tax should be made simplification.
- f. Effectiveness of income tax system depends upon the income tax administration. In Nepal, one of the most important reason for unsound income tax system is inefficient and unscientific income tax administration.
- g. The provision of fines, penalties and punishments should be made at higher rate for income tax evaders.

- h. Tax personnel should be encouraged, punished and transferred based on work and experience. Regular and effective training system, reward, prize and punishment system should be established for effective personnel management.
- i. Government should provide sufficient remuneration to collect more tax revenue, it should be transparent to collect more tax revenue and every sector.
- j. The staff of tax office should develop working culture. When the taxpayer visits the office, they should be provided with respect and co-operation.
- k. To increase tax more deduction should be provided.
- l. Income tax rules and regulation should be clear and simple for all the taxpayers as well as for tax administrators. The definition made in income tax act should be further clarified and well defined in simple language.
- m. Separate income tax department should be established so that it's specialization could be achieved in matter of income tax.
- n. Computerized information system is necessary to keep up to date records. Skilled technician should be entry in this related field.
- o. The administration should pay great attention to bring the income from house and land rent, doctor's clinic, consultancy service into income tax net. In these sector, income tax has been highly evaded.
- p. There must be good faith , co-ordination between tax payers and tax collectors.
- q. Effective public participation is necessary to minimize the income tax evasion. Tax authority should do continuous effort in order to develop the taxpayers' positive attitude toward taxation.

There has been the problem of collection income tax revenue from a long time in Nepal. The problem can be minimized and income tax will follow a substantial increment in revenue structure of Nepal if the above mentioned recommendations are managed timely and effectively.

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Various Related Magazines, Articles and Journals

Websites:

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www.mof.gov.np

www.taxworld.com

www.customs.gov.np

www.nrb.org.np

www.google.com

“Questionnaire to Tax Experts, Tax Administrator and Tax Payers”

Dear sir/Madam

First of all, I would like to introduce myself as a student of Birendra Multiple Campus, Tribhuvan University, MBS final year. In order to fulfill the partial requirement of master degree in business studies of Tribhuvan University of Nepal. I am conducting the research work entitled “Trend of Income tax and It’s Reforms in Nepal”.

I have sent this questionnaire to spare some of yours valuable time to provide your valuable experience, suggestion and opinions concerning with income tax system of Nepal. This will be very much appreciated if you could provide your important time for filling this questionnaire.

I promise that the information you provide me will surely utilized in research work. I hope for your kind co-operation and support with many many thanks.

Your Sincerely

Pabitra Bhusal

Birendra Multiple Campus

Questionnaire

Date:

Name :

Designation:

Office/Organization:

Occupation:

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

1. Are you familiar about income tax?
 - a. Yes ()
 - b. No ()
2. Do you think that people are well informed about tax system of Nepal?
 - a. Yes ()
 - c. No ()
3. Do you consider that the income tax as a suitable means of raising government revenue?
 - a. Yes ()
 - b. No ()
4. Do you think that public awareness program is necessary in Nepal for raising the government revenue?
 - a. Yes ()
 - b. No ()
5. Which is income tax assessment system used in Nepal?
 - a. Self-assessment ()
 - b. Jeopardy assessment ()
 - c. Amended assessment ()
6. Which method is more appropriate in Nepal while assessing income tax please rank?
 - a. Self-assessment ()
 - b. Jeopardy assessment ()
 - c. Amended assessment ()

7. Do you agree that Nepalese income tax administration is effective?
 - a. Yes ()
 - b. No ()
8. In your opinion is contribution of income tax to national revenue of Nepal satisfactory?
 - a. Yes ()
 - b. No ()
9. In your thinking, what types of problems are facing by the tax payer while paying income tax.
 - a. Consuming unnecessary time ()
 - b. Expectation of illegal incentive by tax personnel ()
 - c. Vague provision in income tax laws ()
 - d. Lengthy process ()
 - e. Lack of cooperation by tax administrator ()
10. what is your suggestion to improve tax paying habit or tax payer's compliance in Nepalese people?
 - a. Better public relation by tax officers ()
 - b. Incentive to regular tax payers ()
 - c. Tax education to tax payers ()
 - d. Heavy fine and penalties to defective tax payer ()
 - e. Simplification of tax laws & rules ()
 - f. Implication of tax assessment procedure ()
11. In your opinion, what should be the specific objective of income tax in Nepal?
 - a. To enhance the government revenue ()
 - b. To meet government expenditure ()
 - c. To achieve national economic development ()
 - d. To check inflation ()
 - e. Other (please specify) ()

12. In your opinion is income tax system of Nepal sound and efficient?
 - a. Yes ()
 - b. No ()

13. In your opinion which income tax rate is suitable for Nepal, please rank?
 - a. Progressive ()
 - b. Proportional ()
 - c. Regressive ()

14. It is said that tax evasion is most often practice in tax system, do you agree this statement ?
 - a. Yes ()
 - b. No ()

15. In your opinion, the provision of fines fees and penalties under income tax system is reasonable?
 - a. yes ()
 - b. No ()

16. In your opinion, what is the most important factor for effectiveness of income tax in Nepal to raise the government revenue, please rank?
 - a. Clear act, rules and regulations
 - b. Conscious and honest tax payers
 - c. Moral and honest tax officers
 - d. Effective tax administration
 - e. Political non interruption
 - f. Others, please specify.....

17. Do you have any other suggestions for achieving effectiveness or increasing income tax in Nepal? If yes, Please specify

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.....

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Appendix - I

Forecast of total revenue

Let, x and y denotes fiscal year and total revenue respectively. And take 5 years only for forecast of total revenue next year's.

Calculation of regression equations

Year (X)	Total Revenue (Y)	XY	X²
1	72282	72282	1
2	87712	175424	4
3	107623	322868	9
4	143475	573898	16
5	179946	899729	25
15	591037	2044201	55

Let the regression equation of Y on X be

$$Y = a + bX \dots\dots\dots(i)$$

To find the values of a and b we have the following two normal equations.

$$Y = na + b \sum X \dots\dots\dots(ii)$$

$$\sum XY = a \sum X + b \sum X^2 \dots\dots\dots(iii)$$

Substituting the values of n, $\sum X$, $\sum Y$, $\sum XY$, $\sum X^2$, and $\sum Y^2$ in equation (i) and (ii)

We get,

$$591037 = 5a + 15b \dots\dots\dots(iv)$$

$$2044201 = 15a + 55b \dots\dots\dots(v)$$

Now, multiplying (iv) by 3 then subtracting (v), we get

$$1773111 = 15a + 45b$$

$$\underline{2011201 = 15a + 55b}$$

$$-238090 = -10b$$

$$\text{or } b = 23809$$

Putting the value of b in (iv), we get

$$591037 = 5a + 15b$$

$$591037 = 5a + 15 \times 23809$$

$$591037 = 5a + 357135$$

$$\text{or } a = 46780$$

Substituting the values of a and b in (i), we get the regression equation

$$Y^{\wedge} = 46780 + 23809x$$

Total revenue of next five year's will

$$\text{For the FY 2010/11} = 46780 + 23809 \times 6 = 189634$$

$$\text{For the FY 2011/12} = 46780 + 23809 \times 7 = 213443$$

$$\text{For the FY 2012/13} = 46780 + 23809 \times 8 = 237252$$

$$\text{For the FY 2013/14} = 46780 + 23809 \times 9 = 261061$$

$$\text{For the FY 2014/15} = 46780 + 23809 \times 10 = 284870$$

Appendix - II

Forecast of income tax

Let, x and y denotes fiscal year and income tax respectively. And taken previous 5 years data for forecasting of income tax of next 5 year. Let, FY 2005/06 is year 1 , 2006/07 is year 2 and so on.

Calculation of regression equations

Year (X)	Income tax (Y)	XY	X ²
1	10373	10373	1
2	15034	30068	4
3	17311	51933	9
4	25142	100568	16
5	31285	156425	25
15	99145	349367	55

Let the regression equation of Y on X be

$$Y = a + bX \dots\dots\dots(i)$$

To find the values of a and b we have the following two normal equations.

$$Y = na + b \sum X \dots\dots\dots(ii)$$

$$\sum XY = a \sum X + b \sum X^2 \dots\dots\dots(iii)$$

Substituting the values of n, $\sum X$, $\sum Y$, $\sum XY$, $\sum X^2$, and $\sum Y^2$ in equation (i) and (ii)

We get,

$$99145 = 5a + 15b \dots\dots\dots(iv)$$

$$349367 = 15a + 55b \dots\dots\dots(v)$$

Now, multiplying (iv) by 3 then subtracting (v), we get

$$\begin{array}{r} 297435 = 15a + 45b \\ 349367 = 15a + 55b \\ \hline -51932 = -10b \\ \text{or } b = 5193.2 \end{array}$$

Putting the value of b in (iv), we get

$$99145 = 5a + 15b$$

$$99145 = 5a + 15 \times 5193$$

$$\text{or } a = 4250$$

Substituting the values of a and b in (i), we get the regression equation

$$\hat{Y} = 4250 + 5193x$$

Income tax of next five year's will

For the FY 2010/11	= 4250 + 5193 × 6 = 35408
For the FY 2011/12	= 4250 + 5193 × 7 = 40601
For the FY 2012/13	= 4250 + 5193 × 8 = 45794
For the FY 2013/14	= 4250 + 5193 × 9 = 50987
For the FY 2014/15	= 4250 + 5193 × 10 = 56180

Appendix - III
Gross Domestic Product as Current Price

Rs. in ten million

Industries	Fiscal Year											
	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	R. 2010/11	P
Agriculture and forestry	15378.1	16392.5	17063.4	18362.1	19668.6	20859.1	22353.6	24332.3	30547.7	37885.8	44505.1	
Fishing	184.4	216.5	216.8	250.4	268.2	311.3	328.7	386.8	407.6	423.6	462.5	
Mining and quarrying	181.7	214.9	231.0	250.7	274.8	313.4	341.7	437.5	508.4	578.2	657.5	
Manufacturing	3840.9	3773.6	3882.6	4167.3	4488.5	4784.0	5217.2	5718.5	6544.7	7049.0	7725.8	
Electricity, gas and water	775.0	913.8	1144.7	1197.4	1278.2	1317.2	1484.1	1521.9	1462.9	1652.6	1484.6	
Construction	2558.5	2883.8	3095.5	3325.4	3664.4	4095.2	4509.9	5413.4	6352.1	7108.2	8515.6	
Wholesale and retail trade	6992.8	6477.8	6869.5	7921.9	7983.9	9021.4	9264.8	10530.6	12412.1	14621.8	17461.6	
Hotels and restaurants	845.9	714.3	754.0	894.2	889.5	939.8	1004.3	1150.3	1394.3	1746.6	2193.2	
Transport, storage and communications	3142.5	3495.9	3936.2	4628.3	5133.6	6125.0	6955.5	7681.8	9261.8	9523.9	10281.6	
Financial intermediation	1145.5	1220.2	1286.1	1372.8	1734.2	2197.9	2846.7	3353.9	3910.0	4614.1	5528.8	
Real estate, renting and business activities	3526.7	3652.5	3825.1	3999.1	4924.2	6004.2	7079.1	7363.6	8162.5	9131.9	10309.6	
Public administration and defence	528.8	723.7	807.0	801.9	954.8	1096.7	1222.7	1435.2	1855.6	2169.3	2457.2	
Education	1737.2	2082.3	2458.2	2631.3	3167.1	3499.6	4093.9	4872.2	6264.2	7434.8	8099.3	
Health and social work	417.8	462.6	540.8	582.5	701.7	784.2	856.8	1096.3	1374.4	1514.7	1643.1	
Other community, social and personal service activities	1289.6	1180.8	1243.6	1414.0	1526.2	1684.0	2177.4	2650.0	3408.9	4149.2	4795.5	
Gross value added	42545.4	44405.2	47354.5	51799.4	56657.9	63033.0	69736.4	77944.2	93867.1	109603.7	126121.0	
Financial intermediation services indirectly measured (FISIM)	1202.6	1365.5	1322.1	1729.4	1809.4	1921.2	2150.5	2418.5	2936.2	3515.6	4209.4	
Gross value added at basic prices	41342.8	43039.6	46032.5	50069.9	54848.5	61111.8	67585.9	75525.7	90930.9	106088.1	121911.6	
Taxes less subsidies on products	2809.0	2904.6	3190.6	3605.0	4092.7	4296.6	5196.8	6040.1	7874.4	11011.2	12665.1	
Gross domestic product at producers price	44151.9	45944.3	49223.1	53674.9	58941.2	65408.4	72782.7	81565.8	98805.3	117190.5	134681.6	

P = Preliminary, R = Revised

Note : Nepal Standards Industrial Classification (NSIC) Major Division 16 & 17 estimates are included in Major Division 15.

Source: Central Bureau of Statistics

Appendix - IV Non Tax Revenue

Heading	Fiscal Year												First Eight Months*							
	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2009/10	2010/11	
Charges, Fees, Fines and Forfeiture																				
Firm Registration	24.80	20.71	28.61	27.08	32.96	33.61	38.63	38.67	51.88	57.96	120.25	135.99	192.77	194.54	255.94	618.08	498.54	354.70	314.32	
Arms Registration	3.26	3.43	3.92	4.74	5.09	5.38	6.58	6.00	7.19	7.87	8.51	11.96	14.70	20.43	28.94	38.64	39.24	27.78	26.69	
Vehicle Licence	0.29	0.32	0.25	0.20	0.28	0.24	0.26	0.15	0.14	0.16	0.24	0.37	0.36	0.45	0.43	1.18	0.63	0.33	0.37	
Judiciary	7.14	5.09	5.72	5.29	6.82	9.47	10.60	9.50	11.11	11.95	63.54	63.59	67.74	85.03	133.93	207.28	302.38	124.41	190.23	
Administration, Penalty & Forfeiture	4.74	5.02	11.48	7.83	8.91	9.73	9.58	10.68	19.22	10.43	10.21	11.91	50.68	19.60	18.66	19.83	27.10	10.57	17.06	
Receipts from sales of Commodities and Services	9.37	6.85	7.24	9.02	11.86	8.79	11.63	12.34	14.22	27.55	37.75	48.16	59.29	69.03	73.99	351.11	129.19	191.61	80.54	
Drinking Water	127.00	138.83	167.33	179.96	225.55	214.66	242.89	272.80	261.11	306.30	349.70	384.99	393.23	477.68	489.31	529.53	588.72	324.02	335.69	
Irrigation	0.68	1.68	1.92	1.91	2.11	2.14	1.41	0.91	0.65	0.56	0.53	0.50	0.37	0.38	0.55	0.55	0.32	0.19	0.23	
Electricity	0.14	0.15	0.17	0.17	0.16	0.13	0.15	0.11	0.13	0.14	0.06	0.11	0.13	0.13	0.09	0.18	0.19	0.12	0.07	
Postal Service	0.13	0.25	0.25	0.20	0.23	0.24	0.03	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.02	
Food and Agriculture	11.28	16.00	15.76	16.57	19.88	20.17	22.66	22.96	23.03	21.99	24.70	34.57	24.63	22.68	18.68	19.00	20.36	12.62	14.51	
Education	2.11	2.89	2.10	3.07	2.87	3.41	4.34	5.06	4.59	4.23	4.28	4.86	5.72	4.82	4.80	5.59	6.97	2.78	3.18	
Forest	2.98	2.09	2.27	3.72	5.85	5.05	8.35	9.40	12.80	11.23	12.87	14.12	14.31	21.98	23.92	26.24	31.00	17.46	21.12	
Transport	34.26	33.59	44.21	36.97	39.05	37.46	52.52	60.26	54.62	68.36	67.41	55.37	41.02	51.03	54.02	67.90	72.10	30.28	34.88	
Others	56.85	64.24	74.34	90.32	103.25	122.47	144.83	163.47	155.50	190.44	226.69	272.09	296.57	366.40	377.11	393.97	413.94	253.09	258.19	
Dividend	77.57	106.01	136.30	113.44	131.10	178.28	250.75	233.65	251.39	249.76	296.11	438.99	339.48	493.77	502.59	719.74	735.20	422.66	301.49	
Financial Institutions	75.58	103.77	128.13	112.07	127.67	145.52	213.58	207.63	228.28	190.43	110.31	174.25	131.39	343.05	343.95	373.58	253.21	170.00	311.25	
Trading Concerns	0.06	0.93	4.72	-	3.10	12.40	0.97	1.34	0.88	1.10	0.91	0.31	0.47	0.06	0.00	0.06	0.00	0.06	0.02	
Industrial Undertakings	0.65	0.08	0.20	0.01	0.28	-	10.32	0.00	0.00	0.61	0.30	4.08	0.32	3.00	8.03	2.61	1.61	2.60	1.62	
Services Sector	1.91	1.23	3.25	1.36	0.05	20.36	13.80	22.66	16.18	57.62	151.03	330.35	207.50	147.66	150.61	343.49	480.35	290.00	150.00	
Extra	-	-	-	-	-	0.06	12.11	2.02	6.05	0.00	3.56	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Royalty and Sale of Fixed Assets	9.04	19.69	6.78	44.79	56.52	20.23	56.33	94.96	72.39	194.55	146.50	193.14	119.68	109.18	577.36	254.17	294.84	194.39	166.55	
Royalty from Mining	0.23	0.51	0.22	0.30	0.39	1.11	1.17	0.54	1.53	1.19	0.98	3.40	1.36	1.67	1.76	2.49	2.77	1.46	1.90	
Other Royalties	5.13	9.18	2.55	39.41	44.07	9.48	37.09	48.31	63.72	114.21	100.22	133.31	95.36	100.30	133.26	240.49	273.73	186.73	153.01	
Mint	3.32	10.00	4.01	5.08	12.06	9.64	18.07	46.11	7.14	79.14	45.30	56.43	34.96	7.21	482.54	11.19	18.34	6.20	11.64	
Others	0.36	-	-	-	-	-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Principal and Interest Payment	181.10	208.31	281.88	222.07	246.11	392.75	375.10	349.72	310.95	246.43	350.71	271.43	325.13	208.57	344.01	461.69	240.11	297.45	102.73	
Loan Corporations	60.61	121.04	108.98	86.28	124.49	223.52	217.60	205.06	188.07	151.67	182.67	123.84	151.05	100.97	266.89	351.78	194.43	289.61	70.99	
Interest from Loans to Companies & Corporations	119.19	87.24	172.42	135.71	121.24	168.27	156.51	143.71	120.68	91.12	165.40	145.30	173.29	105.73	75.16	108.01	44.48	46.41	31.07	
Others	1.30	0.03	0.48	0.08	0.38	0.96	0.99	0.95	2.20	3.64	2.64	2.29	0.79	1.87	1.96	1.90	1.20	1.43	0.67	
Miscellaneous Items	1.43	0.96	1.61	7.38	7.57	10.28	10.46	13.08	163.88	309.28	182.53	157.26	114.87	174.81	77.48	63.09	37.68	19.08	17.60	
Miscellaneous	1.43	0.96	1.61	7.38	7.57	10.28	10.46	13.08	163.88	309.28	182.53	157.26	114.87	174.81	77.48	63.09	37.68	19.08	17.60	
Total	420.94	494.51	622.51	594.92	699.81	849.94	974.16	1002.88	1111.60	1364.29	1415.80	1601.80	1485.15	1658.54	2246.20	2642.26	2965.09	1283.38	1397.51	

*Provisional
Source: Financial Comptroller General Office.

Appendix - V Tax Revenue

	Fiscal Year													First Eight Months			
	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2008/09	2009/10	2010/11		
Customs	951.77	1081.33	1255.21	1365.00	1278.32	1555.48	1570.16	1534.40	1670.76	2106.24	2679.29	3515.08	1540.99	2148.09	2365.57		
Imports	760.83	895.09	1039.19	967.84	1039.19	1066.69	1229.91	1174.46	1362.61	1772.62	2305.66	2995.52	1277.40	1895.89	2049.09		
Exports	37.8	43.25	49.26	91.24	49.26	52.71	69.79	62.56	70.87	44.56	79.64	91.54	52.84	26.36	11.60		
Indian Excise Refund	120.60	133.17	145.62	170.09	145.62	308.27	218.83	231.44	189.65	299.21	321.11	352.10	166.40	201.15	182.65		
Others	23.54	8.92	21.14	36.21	44.25	47.81	51.63	65.94	47.63	48.16	72.88	75.92	45.67	44.69	62.23		
Tax on Consumption and Product of Goods and Services	1171.00	1338.73	1615.36	1607.63	1723.09	2070.56	2533.13	2811.83	3543.88	4100.53	5593.83	7989.41	3296.21	4893.08	5564.60		
Excise on Industrial Products	295.32	312.76	377.12	380.70	377.12	627.67	644.59	650.76	934.32	1118.96	1622.09	2830.61	922.13	1307.93	1708.42		
Value Added Tax	876.59	1025.97	1238.24	1226.73	1345.97	1447.89	1888.54	2161.07	2609.56	2981.57	3970.09	5492.89	2374.08	3370.81	3844.31		
Other Taxes	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.65	16.71	0.00	14.34	11.95		
Land Revenue and Registration	100.32	101.59	61.29	113.18	60.28	169.75	179.92	218.11	225.35	294.07	522.33	551.11	272.27	318.05	174.65		
Land Revenue	0.14	0.66	0.51	0.06	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
House and Land Registration	100.18	101.13	60.78	113.10	60.28	169.75	179.92	218.11	225.35	294.07	522.33	551.11	272.27	318.05	174.65		
Tax on Property, Profit & Income	651.29	793.56	954.65	946.57	1027.41	1021.51	1127.26	1178.70	1672.68	2014.20	2909.24	3623.89	1699.15	1943.19	2658.20		
Income Tax from Public Enterprises	152.65	219.88	292.80	178.93	292.80	285.66	333.24	19.57	101.97	20.46	95.91	113.18	48.14	23.20	73.28		
Income Tax from Semi-Public Enterprises	-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0	0.00	0.00	0.00	0.00	0.00	0.00		
Income Tax from Private Corporate Bodies	115.50	133.95	192.43	141.20	192.43	153.13	246.78	340.43	571.71	718.65	942.51	1223.44	506.29	585.01	893.31		
Income Tax from Individuals	277.27	301.64	320.05	441.91	336.22	353.34	392.63	423.47	523.44	638.12	967.75	1103.99	573.91	546.03	671.52		
Income Tax from Remunerations	39.65	45.15	59.73	83.56	59.73	139.12	167.59	176.41	200.79	245.30	319.56	441.31	180.64	253.08	327.05		
Urban House and Land Tax	12.33	11.85	0.29	0.23	0.29	0.00	0.00	0.00	0	0.00	0.00	0.00	0.00	0.00	0.00		
Vehicle Tax	21.94	39.65	42.96	55.97	42.96	70.06	80.65	84.76	99.50	106.92	185.00	241.79	125.64	179.04	201.29		
Tax on Interest	31.95	41.44	46.39	46.27	86.60	73.34	75.20	77.49	105.49	108.29	168.51	246.64	118.89	165.28	264.29		
Other Taxes	-	0.00	0.00	0.00	16.58	26.86	30.67	56.57	69.28	176.66	210.50	253.54	165.64	191.05	227.54		
Total	2075.29	3315.21	3886.50	3983.06	4089.60	4817.30	5419.47	5743.04	7112.67	8515.55	11705.19	15629.49	6808.02	9322.39	10703.10		

*Provisional; Due to reclassification of the headings of revenue, amount of revenue of some tax headings do not match with previous data.

Source : Financial Comptroller General Office.

Appendix - VI
Government Expenditure and Income

	Fiscal Year											
	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Expenditure	5957.90	6627.25	7983.51	8007.22	8400.61	8944.26	10256.04	11088.92	13,360.46	16,134.99	21,966.20	25,968.91
Recurrent Expenditure	3194.42	3557.91	4583.73	4886.39	5209.05	5555.21	6168.64	6701.78	7712.24	9144.69	12773.89	15101.91
Capital Expenditure	2299.21	2548.07	2830.72	2477.24	2235.61	2309.56	2734.07	2960.66	3972.99	5351.61	7308.90	9023.77
Principal Re-payment	464.27	521.27	569.06	643.49	955.95	1079.49	1353.33	1426.48	1675.23	1638.69	1883.41	1843.23
Receipts	4158.76	4860.55	5564.70	5713.16	6756.89	7361.44	8451.39	8610.96	10351.29	12794.32	16985.73	21849.17
Revenue	3725.10	4289.38	4889.36	5044.55	5622.98	6233.10	7012.27	7228.21	8771.21	10762.25	14347.45	17994.58
Foreign Grants	433.66	571.17	675.34	668.61	1133.91	1128.34	1439.12	1382.75	1580.08	2032.07	2638.28	3854.59
Overall Surplus (+) Deficit (-)	-1799.14	-1766.70	-2418.81	-2294.06	-1643.72	-1582.82	-1804.65	-2477.96	-3009.17	-3340.67	-4980.47	-4119.74
Sources of Financing Deficits												
Foreign Loan	1185.24	1181.22	1204.40	769.87	454.64	762.90	926.61	821.43	1005.35	897.99	996.89	1122.34
Internal Loan	471.00	550.00	700.00	800.00	888.00	560.78	893.81	1183.42	1789.23	2049.64	1841.71	2991.40
Cash Balance (-) Surplus	142.90	35.48	514.41	724.19	301.08	259.14	-15.77	473.11	214.59	393.04	2141.87	6.00

Source : Financial Comptroller General Office.