

**A STUDY ON HOUSE AND LAND TAX (PROPERTY TAX) IN GHORAH  
MUNICIPALITY OF DANG DISTRICT**

**A Thesis**

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**By**

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## **RECOMMENDATION LETTER**

This thesis entitled **A STUDY ON HOUSE AND LAND TAX (PROPERTY TAX) IN GHORAH MUNICIPALITY OF DANG DISTRICT** prepared by Mr. DILLI RAJ DAHAL has completed under my supervision in the partial fulfillment of the requirements for the degree of MASTER OF ARTS in ECONOMICS. I hereby recommend this thesis for evaluation by the thesis communities.

-----  
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(Thesis Supervisor)

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**Date: 2016-08-24**

**2073/05/08**

## **APPROVAL SHEET**

We certify that thesis entitled **A STUDY ON HOUSE AND LAND TAX (PROPERTY TAX) IN GHORAHİ MUNICIPALITY OF DANG DISTRICT** submitted by Mr. DILLI RAJ DAHAL has found satisfactory in scope and quality as a partial fulfillment of the requirements for the degree of MASTER OF ARTS in ECONOMICS. Therefore, we accept this thesis as a part of the said degree.

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This thesis is prepared to fulfill the partial requirements for the Master Degree of Arts Economics, Tribhuvan University, Nepal. Since, it involves intensive study and analysis of the related subjects; it is very effective for the students in skill development as well as career enhancement. This thesis has come in this shape not by the sole effort of me but by the contribution of many individuals and institutions. I am very much grateful to all those people and institutions that helped in completing this thesis directly and indirectly. This study is mainly concerned with a study on House and Land Tax (Property Tax) in Ghorahimunicipality.

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.....

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## ABBREVIATIONS AND ACRONYMS

CEDA	:	Central for Economic Development and Administration
DDC	:	District Development Committee
ed	:	Edition
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
GON	:	Government of Nepal
GM	:	Ghorahi Municipality
H and L	:	House and Land
i.e.	:	That is
LSG	:	Local Self-Government
MLD	:	Ministry of Local Development
MOS	:	Ministry of Finance
SLG	:	Self-Local Government
Sq.ft	:	Square Feet
T.U.	:	Tribhuvan University
UNHCR	:	United Nations High Commissioner for Refugees
VAT	:	Value Added Tax
VDC	:	Village Development Committee
$\Sigma$	:	Summation
%	:	Percent

# CHAPTER – I

## INTRODUCTION

### 1.1 Background of the Study

Property is a type of source. It is a financial source. Property is equally importance for people as income. Property is a kind of accumulated income. It can be save and store in the term of bank balance, land and building, stock, jewelry, investment, motor vehicles etc. The property can be divide in tangible and intangible assets, financial and physical, movable, and immovable. Property is a means of production and base for holding property. In other word, property can used for obtaining incomes. It is the index for calculating the taxpaying capacity of the persons, who hold property. Sometimes based on property ownership, the income tax also can be impose.

In brief, the property can be define as a source for production, basis for obtaining income, it is a base for better lives that can be transfer to other and it can be divided in tangible and intangible. The tax imposed on this property has known as property tax.

In Nepal, the first elected government introduction this tax. Property tax was been introduced by finance act 1959. It was been implemented under property tax act in 1960. Due to ineffectiveness in collecting revenue. It was replace by urban house and land tax later. Urban house and land tax was been introduced in 1962 for collecting Revenue from urban house and land property. Initially, Bhaktpur, Biratnagar, Birgunj, Nepalgunj, Rajbiraj, Janakpur and Butwalin 1963/64 and Bhairawa, Pokhara, Palpa and Hetauda in 1973/74. The tax was been introduced in Bharatpur in 1988/89. The interim government of 2047 again introduced the property tax in 1990 by the finance act in the beginning and by property tax act 1990. However, it was been again replaced by urban house and land tax in 1995/96.

After the introduction of local self-government act in 1999, property tax in given to local bodies right now there are two variant of property taxes. House and land tax and unified integrated property tax. Local bodies are VDCs and Municipalities have the right to collects property tax where up the right of collecting unified property tax has given to Municipality.

In simple word, a tax is a compulsory levy and those who are taxed have to pay it without corresponding benefit of service or goods from the government the tax payer does not have any

right to receive direct benefit from the tax paid. A tax is not a price paid for goods and service by public authority. In another word, it can also said that a tax is a liability to pay an amount to the government. It is a compulsory contribution to the national Revenue from the taxpayers according to law.

Adam Smith defined tax as "a contribution from citizens for the support of the state." (Bhattarai and Koirala 2012:2). Prof. Seligman defined tax as "a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred." (Bhattarai and Koirala 2012:2).

Tax is a permanent instrument of collecting revenues for the government. It is a major source of revenue in the developed countries, and it is appearing as an important source of revenue in the developing countries as well. It has become an instrument of social and economic policy for the government. It can used as a positive instrument of economic growth in under developed countries. Taxes are divided into two distinct types' i.e. direct tax and indirect tax, on the basis of impact and incidence of tax. In Nepalese tax structure direct tax include income tax, land tax, property tax, vehicles tax, house and land tax, rent tax, whereas indirect taxes include sales tax or VAT, entertainment tax, excise duty, custom duty, air flight tax, road and drainage maintenance tax. The major objective of taxation is to make fund available for development and to maintain economic stability.

Oxford Advance Learners Dictionary (1996) defines property as 'a thing or things that are owned by some body. In other words any kind of assets such as building, land, vehicle, silver, gold, jewelry, furniture, plant and machinery equipment etc owned by someone'. The property tax is the compulsory contribution to the public authority, which has based on the capital value of property. Property Tax Act, 2047 has mentioned property as cash or kind and has transferable ownership. It includes movable and immovable property and includes bank account of a taxpayers and investment.

Property tax is direct tax that is imposed individuals or owner's house and land. In Nepalese context, property tax has named as house and land tax. The main variant of local taxes is property tax, which means a tax imposed by local body on the value of property located within the jurisdiction of that local body. Local tax is the tax imposed by local governments. Local self-Governance Act, ss2055, has empowered village development committee and municipality to levy house and land tax within their jurisdiction. House and land here means house and land

occupied by the house with its compound. A property tax (or millage tax) is an ad valorem tax levy on the value of property that the owner of the property is required to pay to a government in which the property is situated. Multiple jurisdictions may tax the same property. There are three general varieties of property: land, improvements to land (immovable man-made things, e.g. buildings) and personal property (movable things). Real estate or realty is the combination of land and improvements to land. Property taxes have usually charged on a recurrent basis (e.g. yearly) (Wikipedia).

The municipality requires sufficient financial resources to clean city, develop the city, and improve the lifestyle of local people by increasing employment and sources of income, carrying out various development and welfare activities in the municipality. Financial resources of municipality can be broadly categorized into four groups, i.e. tax revenue, non-tax revenue, loan and borrowing and gross grants, subsidy. Such collected fund will be utilize under budget needs like administration, development and infrastructure activities, social welfare activities, other facilities and so on.

Property tax is one of the most reliable sources of municipality. The property tax has great potentialities of sources mobilization on the developing countries. Municipality is required additional investment to develop physical infrastructure such as transport, communication, health, education, agriculture research, irrigation, electricity, drinking water etc. that can be manage either by internal sources or external sources. Internal sources may be better in this case. As regular expenditure has been increasing day by day, development is being cup off. In this situation, it is necessary to expand the internal sources. The contribution of the property tax is for the proper raising of the resource of Municipalities.

### **1.1.1 General introduction and short profile of Ghorahi Municipality**

Dang district has covered 2955sq.km.Area of land, 30 VDC's, and 4 Municipalities. Tulshipur, Tripur, Lamahi and Ghorahi Municipality, theGhorahi Municipality is selected for the purpose study. Ghorahi Municipality is in Dang District in the Rapti Zone of Mid-western part of Nepal. It has situated in the east part of Dang Valley and middle part of Dand District. Ghorahi Municipality acquires the status of Municipality in 2035 B.S. The spatial location of Ghorahi is 27<sup>0</sup>59'24"-28<sup>0</sup>06'29" north latitude and 82<sup>0</sup>25'44"-82<sup>0</sup>32'42" is longitude. It has situated at an altitude of 668 meter and area is 74.45 sq.km.

In GM there are only 11 wards and famous temples are Ambikesworivagabati, Gorackshyeratnanath, Siradisai, nama:xugumba. According to the Municipality record, the number of families is 15517 and the total population of Municipality is 62928 among which the male population is 30110(47.85percent) and that of Female is 32818(52.15percent). The population of Ghorahi Municipality is growing rapidly. The prime cause of growth is Migration. In this Municipality, the major sources of income are agriculture, business, service, house rent and others. Among them agriculture is the major sources of livelihood. In this area Chhetri, Brahmin, Tharu, Magar, Gurung, Muslim, Kami, Damai etc. are to be found living. The major religions are Hindu, Buddha, Christian, Muslim etc.

## **1.2 Statement of the Problem**

The prime concern of every nation of the world is economic development countries like Nepal are facing various problems in the process of economic development. For the economic development, various sources have needed. Property tax specially one of the government revenue for developing countries like Nepal.

For the economic development of the country, contribution of property tax especially house and land tax is more equally important as other taxes. However, there are many problems involving in property tax. Among the various problems, some are lack of sound and competent revenue administration, lack of information or computerized system, lack of trained and skillful personnel, poor taxpaying habit of taxpayers, inequality or minimum valuation of house and land for different purpose, corruption and unfair duties and other facilities.

After the review of some published and unpublished reports of related topics, some research gaps have found based on which following research questions are developed to fill-up gap with the help of this study work.

- a. What is the contribution of house and land tax on total revenue of Ghorahi municipality?
- b. What is the trend of house and land tax on Ghorahi Municipality?
- c. What is the emerging problems relating to house and land revenue?

## **1.3 Objectives of the Study**

The major objective of this study is to examine and analyze the role of property tax in revenue collection in Ghorahi Municipality. The specific objectives of this study are as follows:

- a. To assess the contribution of house and land tax to total revenue of Ghorahi Municipality.
- b. To analyze the trend of house and land tax of Ghorahi Municipality.
- c. To identify the major complications relating to house and land tax revenue collection in Ghorahi Municipality.

#### **1.4 Signification of the Study**

House and land tax plays very important role in mobilizing adequate resources and for meeting the increasing financial requirements for Nepal Government Development purposes. Property tax has been very essential to empower the local bodies, which also lead to empower the central government. Mainly this study has covered house and land tax of Ghorahi municipality and it will help to reveal the revenue position of the municipality and study occupies an important role in the series of the studies on Ghorahi municipality. The significance of the study has been as follows:

- a. This study has suggested measures to improve the revenue collection system in Ghorahi Municipality.
- b. It helps tax administration to attract the taxpayers.
- c. It creates proud and ego for paying property tax towards the property holders (taxpayers) which helps tax administration to collect revenue easily.
- d. Other municipality and cities also have benefited to increase revenue from property tax and its mobilization through this study.

Note: Interpretation of above points is in following chapters.

#### **1.5 Limitations of the Study**

This study has conducted for the partial fulfillment of Master Degree of arts in economics, so it poses some limitations of its own kind. The main limitations of the study are as follows:

- a. This study cannot provide overall year's information as it has taken six fiscal years for the thesis writing (FY 2009/10 to 2014/15).
- b. Out of 217 municipalities of Nepal, the present study deals with only Ghorahi municipality. The finding of this study may not related to other municipality.
- c. This study has fundamentally based on secondary data and information. However, some primary data also used wherever and whenever needed. Primary data have acquired mostly by using the questionnaire and opinion survey from the different related persons like tax administrator and taxpayers.
- d. Sampling error may occur in this study.

## **1.6 Organizations of the Study**

The study has organized into following five different chapters:

### **Chapter I: Introduction**

This chapter has been included background of the study, statement of the problem, objectives of the study, signification of study and limitation of the study and organizations of the study.

### **Chapter II: Review of Literature**

This chapter has dealt with review of various journals, books, published or unpublished report articles and previous thesis.

### **Chapter III: Research Methodology**

This chapter has included research design, population and sample, source and technique of data collection, data analysis tools and limitations of the methodology.

### **Chapter IV: Data Presentation and Analysis**

In this chapter, the collected data has tabulated and analyzed by the use of various statistical tools, graphs and figure and major findings.

### **Chapter V: Summary, Conclusion and Recommendation**

This chapter has dealt with output of thesis as summary, conclusion and recommendation.



## CHAPTER –II

### REVIEW OF LITERATURE

This is the second chapter of thesis writing. It has mainly divided in to the conceptual part and the other is the review, research gap that have described as follows:

#### 2.1 Conceptual/ Theoretical Review

Property tax plays a vital role in many countries. Nowadays, it is more important all over the world. The purpose of this review is to bring in light in brief the important work done on property taxation in Nepal. So some of the literature related to property tax has reviewed in the following paragraph.

Devkota (1980) has analyzed urban house and land tax. Devkota analyzed property tax legal aspect, evaluation procedure house and land, collection of house and land tax, tax base, structure of tax rate, revenue potentiality, historical aspect and property tax is different nations along with international aspect.

In this report he finds out that the revenue from property tax has not mobilized that much, it has low revenue productivity and contribution from this tax to total revenue is insignificant he find assessment ratio is also very poor. Atlast, Devkota has forwarded some suggestion from the improvement the property tax he also suggests for the more elastic property tax.

Ghimire (1993) had described the classification of tax, base of income or expenditure tax, base of tax in Nepal, procedure of computing net income, weakness of tradition accounting system, classification of tax rate, index of income tax in Nepal, contribution of tax income to national revenue, errors of past provision, some steps of administrative improvement etc. Ghimire found that the tax covered vary low portion of total revenues because of no taxation in agricultural income, narrow base of income of retail business, high exemption limit on remuneration income etc. Ghimire had also noticed some errors of provision relating to income tax. They were progressive tax had not played an effective role for equal distribution of income, unproductive tax concession holiday and rebate, provision of low additional fee as compare to market interest rate etc. Ghimire also suggested some step of administration improvement. They were: provision of income assessment committee, flat rate of tax to small taxpayers, establishment of tax office etc.

Malik (2004) has explained tax act, 2058 with examples wherever necessary. Malik has presented the complex act in simple manner so that it will be easy to understand the act. Malik has shared his expertise in his book. Malik's book is descriptive and analytical. All the Provisions in the act have clarified in simple language. In some cases, Malik has also compared the provisions of the old act and new act. This book is very much useful to anyone who is interested in the subject of taxation.

Sundaran (1970) this book includes annual value how determined, Deductions from income from house property, Amounts not deductible from income from house property owned by co-owners, owners of house property, annual changes etc. defined. The annual value of property consisting of a buildings or lands appurtenant thereto of which the assesses is the owner, other than such portions of such property as Sundaran many occupy for the purpose of any business or profession carried on by Sundaran. The profits of which are chargeable to income tax, shall be chargeable to income tax under the head 'income from house property'.

Thapa (2002) had described the tax system, features of tax and causes of reform the tax. Thapa had characterized the tax system as too many and high rates, multiple objectives of taxes, scheduler rather global approach to income taxation, too many income brackets and high progressively, complicated and ambiguous tax law.

Thapa had identified the areas for the reform of tax system in Nepal. They were; low rates on broad base, simplicity and neutrality, gradual abolition of exemption, deduction and tax holidays to broad tax base, few rates or single rate, few taxes with high revenue productivity, emphasis on tax compliance rather than coercive enforcement, incentives to brewing and investment, conversion of sales and service taxes into VAT. Moreover, excise duty only on cigarette, tobacco, alcohol, automobiles, petroleum and automobiles spare parts, abolition of surcharge and additional duty system to make the tax system, making the tax internationally compatible to attract foreign investment etc.

## **2.2 Empirical Review**

There are various studies carried out by different institutions and individuals. Some of the literature related to property tax has reviewed in the following paragraph.

Acharya (1994) had described that the structure of income tax, productivity of income tax and problem of income tax. Acharya examined the three main objectives of income tax; to reduce

inequality of income distribution, to collect more government revenue and to check inflation. Acharya had also presented some numerical and diagrams of structure and productivity of income tax. Acharya had not explained the provisions relating to income tax, Acharya's study about income tax was not so detailed.

Adhikari (2012) has studied about contribution of House and Land (property) tax to total revenue of Vyas Municipality. The main objective of the study is to examine and analyze the role of property tax in revenue collection in Vyas Municipality. He summarized that; the trend analysis of property tax in the municipality has estimated slowly growing. It has including that; little bit focus on quality service can lead the municipality for the huge collection in the coming days. The major findings of his study are as follows:

- i. While studying the total income, property tax and other income, the highest contribution of property tax on total income was in fiscal year 2010/011 i.e. 35.07 percent and lowest was 0.71 percent in 2002/03 and the property tax revenue was increasing in 2001/02 then decrease in 2002/03 and increase in 2003/04. In 2004/05, the property tax revenue was also increase, then decrease in 2004/05 the increasing trend up to 2008/09 then decreased in 2009/10 and again increased in 2010/11.
- ii. In the fiscal year 2010/011 there is highest contribution of house and land (Property) tax is 74.76 percent and in fiscal year 2002/03 is 13.98 percent, which is lowest.
- iii. While studying the budgeted and actual collection of property tax, the highest collection efficiency was in fiscal year 2010/011 i.e. 132 percent and lowest is in 2005/06 i.e. 42.20 percent.
- iv. In the fiscal year 2002/03 there was total Local tax collected by 912105 and house and land tax collected by 127513 the percentage coverage was 13.98 percent which was lowest and in fiscal year 2010/011 local tax was 4596981 and house and land tax was 3436964 the coverage was 74.76 percent which was highest.
- v. As it has compared with the total Local tax revenue, the highest contribution was 74.76 percent in fiscal year 2010/011 and the contribution was in fluctuating trend during the ten fiscal years.

Dahal (2008) has studied about house and land tax of Dharan Municipality. Dahal has stated about this topic as, direct tax has strategic importance and best sources of tax revenue, the

suitability of house and land tax could not be ignored in the course of raising domestic resources. Notifying the major problem, Dahal added that the problem of tax evasion was inefficient tax administration; there was no certain rule to certify valuation of gold, silver, equipment and goods. Dahal suggested that, house and land tax should applied to reduce the gap between rich and poor people and for the improvement of tax administration, tax education to taxpayers and decentralization of authority and simplification of tax laws and policies were very necessary. Dahal focused that the taxpayers are not ready to pay the tax without compulsion but collection group were not being mobilized effectively. Dahal also described that in Nepal two types of property tax were imagined under LSG Act, 2055.

Kapri (2011) has studied about contribution of House and Compound tax to an annual budget (with special reference to Bhaktapur municipality). The main objective of this study is to examine and analyze the role of property tax in revenue collection in Bhaktapur municipality. The major findings of this study are as follows:

1. Revenue collection was fluctuated in every fiscal year and in F/Y 2060/061 and 2009/10 the tax administration and local people (taxpayers) weren't conscious and aware about house and land tax to Bhaktapur Municipality.
2. Bhaktapur is the smallest town even though its revenue collection from other sources like business tax, service tax, rental tax, fine and penalties, internal grant, external aid and other tax sources were greater than revenue from house and land tax.
3. Revenue from house and land tax was not satisfactory to develop the municipality and daily administrative work due to low collection in amount and in whole percentage will comparison to other revenue sources. Therefore, it is difficult to present in simple bar diagram.
4. Budgeted and Actual collection was not matching so everyone can easily conclude that either tax administration or taxpayers were not aware and conscious about house and land tax. This forecast also not helps to develop the city.
5. The trend must be in increasing order due to increase in valuation of house and land in the market or government rate but the secondary data showed likely to be constant.
6. Most of the taxpayers insisted for non-paying house and land tax in time due to lack of awareness about it.

Kapri recommended that, the municipality should dispatch the information of tax liability in advance. Effective billing system should be launched for informing tax payers about their tax liability. The municipality does not follow the appropriate penalty procedure against the tax defaulter. So it should follow the standard procedures for punitive action against defaulters.

Neupane (1999) has studied about finance of kirtipur municipality. The study based on primary as well as secondary data with the objective to assess the socio-economic condition of Kirtipur Municipality. The researcher has concentrated on the analysis of various potential sources of revenue and pattern of expenditure to identify an appropriate system of financing of the municipality. Neupane has concluded that octroi was the major source of revenue, which covered 86.4 percent to 88.4 percent of its own sources of revenue. There was a little difference between the average percentage of total internal and external sources during study period i.e. 50.3 percent and 49.7 percent respectively. Grants were the main source of external financing. An average 90.6 percent of external sources were covered by the grant itself. Although the potential sources of the revenue were not fully identified revenue was always excess over then total expenditure. The tax structure has not yet been clearly spieled out and planned. On the other hand, development expenditure was always more than regular expenditure. But less attention had paid toward the social programs. Lastly, his finding was, revenue of the Kirtipur Municipality were increasing due to increase in the revenue from octroi not the reasons of improvement in the efficiency of the fiscal administration.

Pradhan (2001) had explained the conceptual framework of public enterprises and the Nepal Telecommunication Corporation, conceptual framework of income tax, contribution of income tax to the public revenue and share of Nepal Telecommunication Corporation to the income tax. Her suggestion was, about the income tax system, promotion and reward to efficient and honest personnel, motivation to personnel. Tax education to taxpayer and officer, strict action to corruption, increase the public participation. Although she had more emphasized on the study of Nepal Telecommunication Corporation, she had not mentioned the legal provision relating to income tax and provision of fine and penalties.

Rajbanshi (2009) has mentioned about the property tax as a suitable source for the collection of public revenue and mobilizing internal resources. He suggested that, by giving the information about property tax by effective media large volume of revenue could be collected. Effective fine and penalties system could help to increase the tax paying habit of people. He highlighted that the House and Land Tax should be applied to reduce the gap between rich and poor people. He

added that door to door visit programmer should be managed to make aware and collect property tax in the municipality. Clear Act, rules and regulation could be the most important for effectiveness of property tax in Nepal.

Shrestha (2006) has explained that the property tax was a suitable source for the collection of public revenue and mobilizing internal resources. The specific objective of property tax and was to increase the public revenue. Healthy administration, awareness of taxpayers and fair investigation etc. were most to control tax evasion. She explain that the inefficient tax administration, lack of consciousness of tax payers, increasing habit of tax evasion etc. were the major problem of the property tax system in Nepal. She also added that the House and Land tax should be applied to reduce the gap between rich and poor people.

Shrestha (2010)has used statistical tools as a major tool of analysis. To achieve objectives, she has taken seven-year period and applied the secondary data and primary data. According to the conclusion of her study, the major findings were;

- 1) Most of the Nepalese people are not aware of property tax. Due to lack of tax education property holder are deprived from right to paying tax. If they are informed effectively about the property tax can expect the increase in tax volume as well as paying house and land tax time.
- 2) In the administrative aspect there are a lot of weakness for efficient administration, and collection of this tax. There must be high degree of honesty and morality.
- 3) Due to various problems related to property tax, revenue collection from property tax is relatively low in LSMC. For economic development of Nepal, the problems relating to property tax system in Nepal should be solved and resources should be effectively utilized.

Shrestha suggests have been recommended for the sound and effective property tax system. House and land tax rate, discount rate, price and other motivating factor should be advertised by newspaper, TV, Radio etc. to attract and motive taxpayers.

Timilsina (2007) has started that the problem of systematic record of land registration in Nepal. He has also explained about need of classification of land according to its uses and area. Without the classification of land, the collection of land revenue through such land will be not justifiable

and equitable. He has suggested that is necessary to restructure the policy regarding land registration tax.

### **Some research reports**

Dhungana and Pradhan (1973) of an institution center for economic development and administration (CEDA) surveyed the property taxes for the first time and performed a general account on the revenue potentiality, assessment administrative mechanism of law, Administrative loopholes, problems and suggestions have made for the prospects and future score for the development and had proposed for improvement and implementation procedure of property taxation. The report published as the titled of “Evaluation of Urban Property (1<sup>st</sup> phase Kathmandu)”. The report consists of various aspects of urban property tax in Nepal. It also deals with housing trained and revenue potentiality of Kathmandu.

Shah, Kayastha and Rai (1974) have analyzed the property tax of five districts in the report entitled “Evaluation of Urban Property”. The five districts are Biratnagar, Birgunj, Nepalgunj, Bhairawa and Janakpur. In this report, they have also dealt with housing trend, revenue potentiality valuation procedure of land, plinth area rate and building categorization etc.

Devkota (1980) has analyzed urban house and land tax. Devkota analyzed property tax legal aspect, evaluation procedure house and land, collection of house and land tax, tax base, structure of tax rate, revenue potentiality, historical aspect and property tax is different nations along with international aspect. In this report Devkota finds out that the revenue from property tax has not mobilized that much, it has low revenue productivity and contribution from this tax to total revenue is insignificant he find assessment ration is also very poor. At the last Devkota has forwarded some suggestion from the improvement the property tax Devkota also suggests for the more elastic property tax.

The Local Fiscal Commission prepared a report on the "local government finance in 2057 (B.S.)." The objectives of the report were to investigation into the local taxes and resources and to provide services to public through the democratically formulated local government. Finance decentralization would satisfy principle of subsidiary recognizing the responsibilities and segregating the revenue sources between central level and local level. The report spells out that

the problems of resources mobilization in local level are unclear responsibilities, traditional tax base, small geographical area, less financial autonomy, less and unscientific subsidy system, lack of relationship between central and local bodies, lack of supervision and control, and inefficient

Local Self-Governance Act, 2055 and local self-government regulation rule, 2056 focused on fiscal power granted to the local bodies. As per these legal provisions, municipalities can collect service charge and fee related to approval of building design. As per the regulation the main source of revenue given to municipality is the property tax like house and land tax and unified property tax.

Kathmandu Metropolitan City has prepared a working paper relating to the implantation of property tax. The paper says that valuation of house and land is based on actual market price and actual blue print map. The paper has suggested punishing person or taxpayer who gives wrong information and who does not follow metropolitan city regulation

### **2.3 Research Gap**

Research gap refers to the gap between previous research and this research. Many research studies have been conducted by the different students, experts and researcher about house and land tax (property tax). There have been found numerous research studies on this topic done by the students of master level. Most of them have chosen the Kathmandu valley for this study area. Therefore, they are limited by area and not able to cover the concept of people who are staying out of valley. There have been found numerous research studies on municipal finance and contribution of enterprise tax of various municipalities. But a study on house and land tax (property tax) in Ghorahi municipality cannot be found the review of related studies.

Therefore, above reasons encourages to do the research on this topic. Thinking the scarcity of research on property tax the area of Mid-west region, it has been written the thesis on this topic for the study area of Ghorahimunicipality, which is situated at Dang District of Rapti Zone. This study covers the period of sixyears data starting from FY 2009/10 to FY 2014/15. This study has been also presented about other revenue heads and expenditure heads of Ghorahi municipality. The study can be beneficial to all the concerned parties and people as well.



## **CHAPTER- III**

### **RESEARCH METHODOLOGY**

#### **3.1 Research Design**

The research design serves as a framework for the study, guiding the collection and analysis of data, the research instruments to be utilized, and the sampling plan to be followed. Thus, in this study historical, empirical, descriptive and analytical research designs are used. The required data and information for research have collected through primary & secondary sources. Descriptive research has designed thoroughly going the acts, rules and regulations relating with this study to describe the situation and events occurring at present context. It was attempted to provide proper knowledge of limits and way of calculating the property tax individual and couple. Analytical research has designed by collecting past phenomena, actual and budgeted data from municipality administration. To shows the present status of revenue sources and its utilization. Field survey has been conducted and observed and some interacts have also be done with selected respondents through questionnaires, short-talks and interviews for empirical research. For this study selected samples were divided into two groups;

- (i) Tax administration and
- (ii) Tax payers

#### **3.2 Population and Sample**

For this study the person, having habitation and residing within the boundary of Ghorahi Municipality city are the population. It has divided into 11 wards and 15517 families are living here. Among the population size, the sample had chosen and selected which represents the characteristic of the whole population. The result and conclusion drawn from the samples will be approximately valid and reliable to the whole population. Due to limits of time, it is not an easy task to visit and observe throughout all the people. Therefore, 35 people are selected as sample units and categories them into two groups.

#### **3.3 Nature and Sources of Data**

As estate earlier, this study has based on both primary and secondary data. The sources of primary data are respondents, informants and employees of municipality. For this, a total 35 sets of structured questionnaires were been developed and distributed to the selected respondents of

taxpayers and the entire ward office secretary under municipality. Different acts, rules, regulations, financial reports of Ghorahi Municipality, earlier studies of thesis and related books were secondary sources of data.

### 3.4 Data Collection Procedures

A total 35 sets of questionnaire were been developed and distributed to the selected respondents. Distribution was been done personally through field visits to get accurate and actual information in time. The questionnaires were administered Tax administration; Property taxpaying and others related parties to tax field are the total population of the research. Stratified and purposive sampling methods have been used to select the sample. Persons included in the sample has carefully selected by consultation with the tax administration, Professors and lectures of Tribhuvan University and judgment of the researcher. The respondents have been divided into two groups. The following table shows the groups of respondents and the size of samples.

**Table 3.1**

**Groups of Respondents and Size of Samples for Each Group**

S.N.	Group of respondents	Sample size	Code used
1	Tax administration	8	A
2	Tax payers	27	B
Total		35	

8 tax administrations are selected in which 8 responded. There are indefinite numbers of Property Taxpayers, among them 27 taxpaying property are selected and all of them responded.

### 3.5 Data Analysis Tools

To make easier, the collected data from primary and secondary sources are first tabulated into various tables according to the subject in order. For the purpose of analysis, few statistical tools have been used. These are; Simple percentage, Simple average, Graphs, charts and Least square linear trend analysis.

#### a) Simple Percentage:

It is the most popular tool to analyze the data in research work. As it is easy to understand the data in the percentage form most of the data in the research work are used in the percentage form.

**b) Simple Average:**

It is also next popular tool in data analysis work, which gives the information about the data in average.

**c) Graphs, Charts:**

It is very simple and easy to give clear picture about the data by the help of the graph and charts. It helps to understand about the data easily to everyone even to the uneducated people.

**d) Least Square Linear Trend Analysis:**

Trend analysis has been a very useful and commonly applied statistical tool to forecast the future events in quantitative terms. This analysis takes the historical data as the basis of forecasting. The future trend is forecasted by using the following formula.

$$Y = a+bx$$

Where,

Y = the dependent variable

a = Y intercept

b = the slope or the rate of change of Y per unit change in X

X = the independent variable

## **CHAPTER –IV**

### **PRESENTATION AND ANALYSIS OF DATA**

The basic objective of the chapter is analysis and elucidates the collected data. Thus, this chapter has devoted to be presentation, analysis and scoring the empirical finding methodology. Various statistical tools have used in the evaluation of this study. In this chapter, we have analyzed six fiscal years (2009/10 to 2014/15). This chapter is analysis the different calculating method from available data to support the major purpose.

#### **4.1 Structure of Total Income from Tax and Other Sources in Ghorahi Municipality**

The municipality needs and requires such amount/fund or budget to clean city, develop the city, improve the lifestyle of local people by increasing employment and sources of income carry out development plans, to handles day today administration, for maintaining people and security and to launch other public welfare programmers.

There is no possibility to carry out expenses without income or sources of revenue. To manage and fulfill the expenditure for above purpose, the local self- government's economic condition must be sound in course of collecting revenues for utilization and allocation in necessary areas and sectors. The main source of revenue or income for the government organization is taxes and other sources to develop its locality or geographical area, maintain rules and regulations, and proper functioning of administration. The municipality has been generating revenues and funds through different headings imposed to the local and other people, which are the means of valid and reliable sources. They are; Malpot tax, House and land tax, house rent tax, Business tax, vehicle tax, entertainment tax, Advertisement tax, services, fines& penalties, charges & income fees, sales tax, income from investment, others incomes, internal aid, external aid and last year surplus. The structure of total income from such headings of Ghorahi Municipality has presented in the fiscal year 2009/10 to 2014/15.

**Table: 4.1****Structure of Total Income from Tax and Other Sources of Ghorahi Municipality**

Heads of Income	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Internal Sources						
Local Tax	6587046.83	8169548.47	9043567.25	9865428.23	10136422.95	11054215.55
Service Charge	4087562.82	4820164.05	5498657.31	5608759.66	6072328.19	6532458.18
Service Fees	9046579.67	10546083.85	9868173.45	11000546.85	11220644.34	11854627.62
Sales	562483.50	–	–	1198546	801762	1058924
Resource Mobilization	83264.50	–	123468	–	–	214580
Principal amount, interest, dividend	–	124365.65	80576.16	–	–	154685
Other Income	1625897.50	2058976.32	3591425.95	2865759.71	3148216.50	3854629.45
Total of Internal Sources	21992834.82	25719138.34	28205868.12	30539040.45	31379373.98	34724119.80
Total of External Source	56794321.86	45682317.18	65834619.53	66498573.45	75111482.25	81011265.75
Grand Total	78787156.68	71401455.52	94040487.65	97037613.9	106490856.23	115735385.55

Source: Account Section of Ghorahi Municipality

Note: The valuation of house and land for tax purpose is given in appendix-II

The table 4.1 shows the details structure of various taxes and other income of Ghorahi Municipality in six fiscal years. From the above table, in the FY 2009/10 the total income

collected was Rs.78787156.68. In the FY 2010/11 the Municipality had generated Rs.71401455.52. The municipality has succeeded to collected 94040487.65, 97037613.9, 106490856.23 and 115735385.55 in the FY 2011/12, FY 2012/13, FY 2013/14 and 2014/15 respectively. The table indicates that the total income from tax and other sources of GM is increasing in each fiscal year except the year 2010/11. Due to the immigration of families from various urban places, there has been increasing in population size. However, total income in 2010/11 has decreased because of external grants.

The data indicates that the GM, total revenue is highly dominated by Service Fees. Besides service fees, Local tax and service charges occupies major portion of the revenue. Similarly, the internal revenue is also equally dependent on the other income like fines and penalties, deposit forfeit, and other. Subsidies, Foreign Aid, donation and gift, and sales also occupies significant portion of total income of GM.

#### **4.2 Total Income from House and Land Tax and Total Internal Income**

Among the total internal sources/income of Ghorahi Municipality, the contribution of the house and land tax has presented in the table below. The table has been helpful to express the comparison between house and land tax and other sources of tax.

**Table 4.2**

##### **Total Income from House and Land Tax and Other Internal sources/Tax of GM**

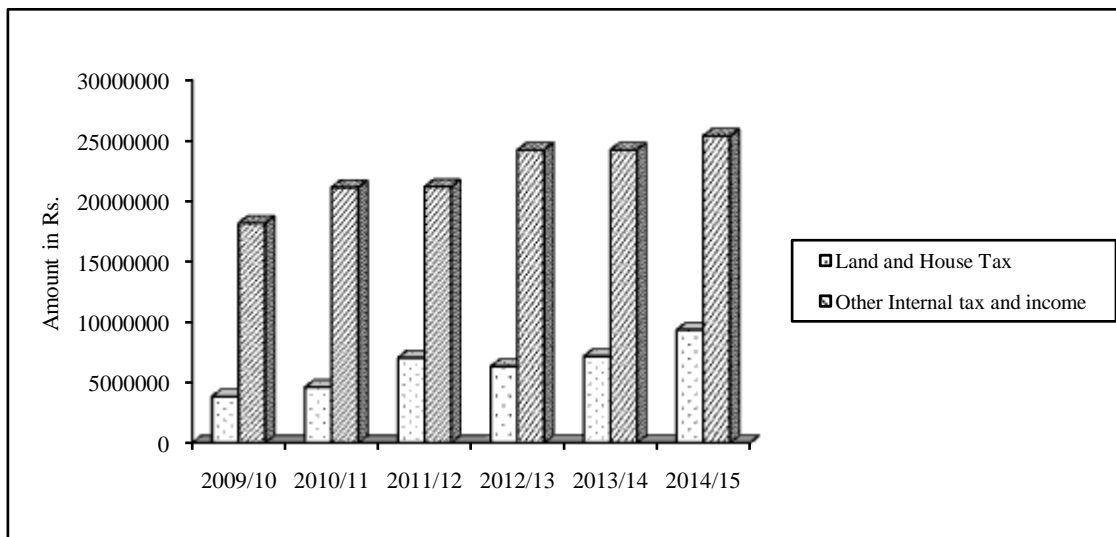
Particular	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
Land and House Tax	3826789.24	4592316.85	7029816.73	6318927.91	7158541.15	9346897.45
percent Land and House Tax	17.40	17.86	24.92	20.69	22.81	26.92
Other Internal tax and income	18166045.58	21126821.49	21176051.39	24220112.54	24220832.83	25377222.35
Percent Other Internal tax and	82.60	82.14	75.08	79.31	77.19	73.08

income						
Total Internal Sources/Income	21992834.82	25719138.34	28205868.12	30539040.45	31379373.98	34724119.80

Source: - Account Section of Ghorahi Municipality

**Figure 4.1**

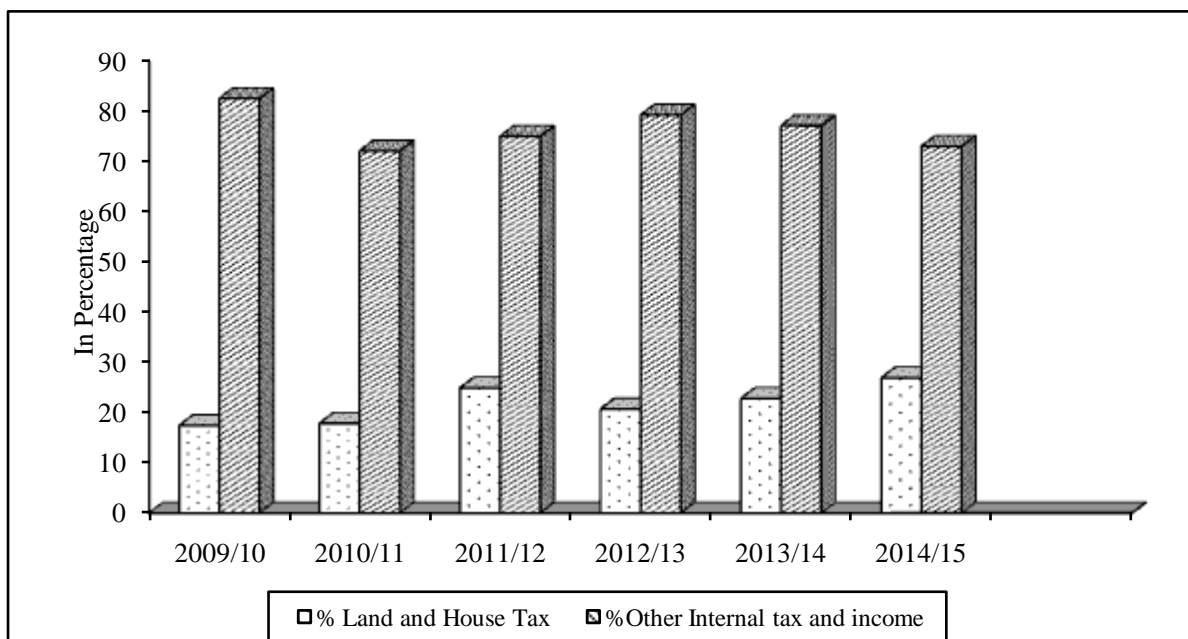
**Property tax and other internal tax/income**



Source: - Account Section of Ghorahi Municipality

**Figure 4.2**

**Percentage Land and House Tax and Percentage other Internal Sources**



Source: - Account Section of Ghorahi Municipality

Table 4.2, figure 4.1 and figure 4.2, portrays the contribution of House and Land Tax (Property tax) to total internal sources/income. In the fiscal year 2009/10, its contribution of property tax is 17.40 percent on total internal sources/income. In fiscal year 2010/11, its contribution of property tax is 17.86 percent. Similarly, in fiscal year 2011/12, its contribution is 24.92 percent. In FY 2012/13, FY 2013/14, and FY 2014/15, its contribution is 20.69 percent, 22.81 percent, and 26.92 percent respectively. In this way, we concluded that in the FY 2014/15 is higher contribution and in the FY 2009/10 is lower contribution on total internal sources in the six fiscal year.

The amount of other internal sources/income is increasing in every FY. The other internal tax and income on FY 2009/10 is 18166045.58 and in FY 2014/15 is 25377222.35. The percentage contribution of other internal tax and income to the total internal income are 82.60 percent, 82.14 percent, 75.08 percent, 79.31 percent, 77.19 percent and 73.08 percent for the fiscal year 2009/10 - 2014/15 respectively. It shows that the contribution of property tax is very low comparison to other internal sources in Ghorahi Municipality.

### 4.3 Contribution of House and Land Tax to Total Revenue

Ghorahi Municipality has internal and external sources of collecting revenue among them the most important internal source is house and land tax. It is also regular sources to collected



internal revenue. Therefore, we can say it is paying vital role in Ghorahi Municipality. It contributes a lot in total revenue collection of GhorahiMunicipality. It can be shown in table 4.3

**Table 4.3**

**Contribution of House and Land Tax to Total Revenue of Ghorahi Municipality**

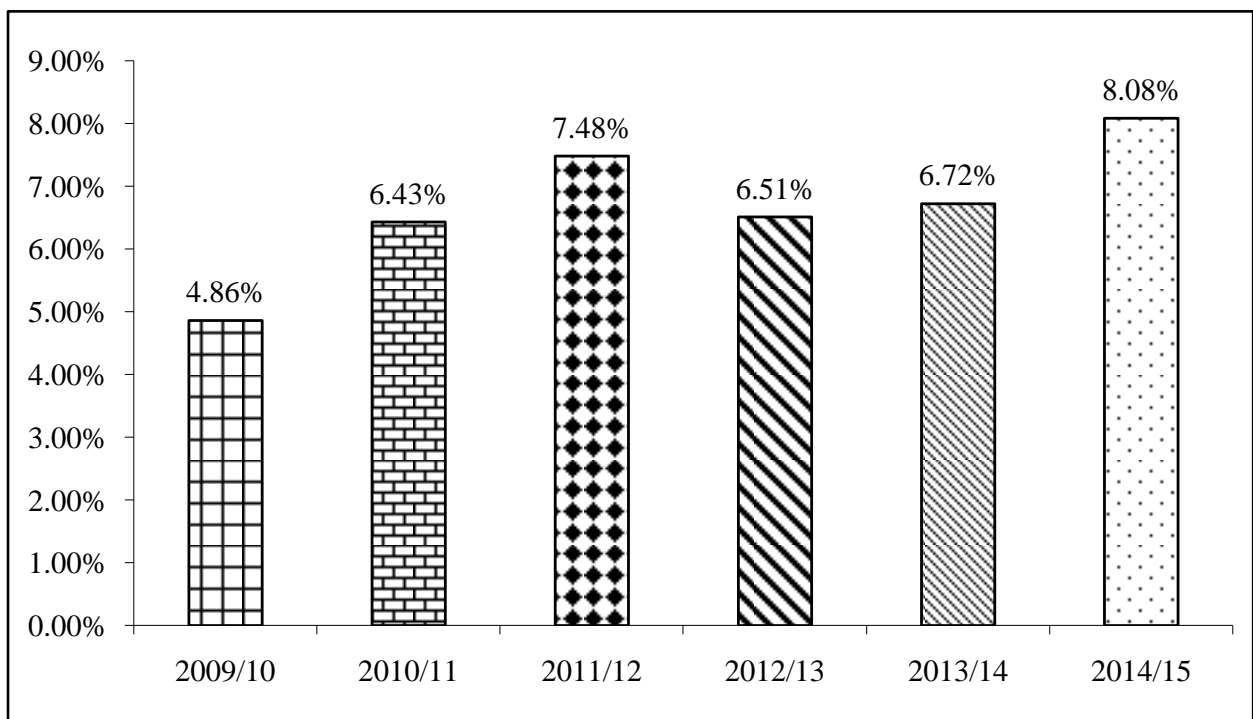
Fiscal year	Total revinue	Contribution of house and land tax	percentage of property tax
2009/10	78787156.68	3826789.24	4.86
2010/11	71401455.52	4592316.85	6.43
2011/12	94040487.65	7029816.73	7.48
2012/13	97037613.9	6318927.91	6.51
2013/14	106490856.2	7158541.15	6.72
2014/15	115735385.6	9346897.45	8.08
Total	563492955.5	38273289.33	40.07
Average*	93915492.59	6378881.56	6.68

Note:Average\*: - Total/ Numbers of Years

Source: - Account Section of GhorahiMuniciplity

**Figure 4.3**

**Contribution of House and Land Tax to Total Revenue of Ghorahi Municipality**



Source: - Account Section of Ghorahi Municipality

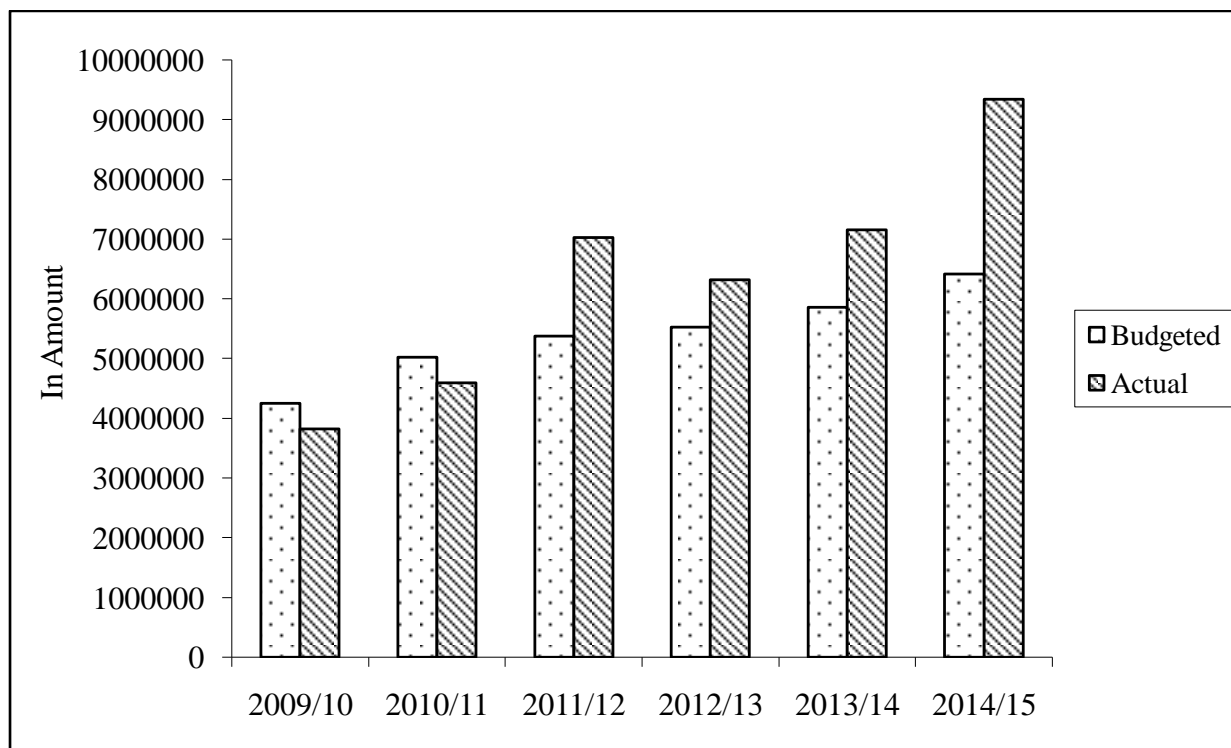
Table 4.3 and figure 4.3, shows that start in FY 2009/10 to end fiscal year 2014/15 are increasing the amount of contribution of house and land tax this time except FY2011/12. Hence, the higher amount of house and land indicators is preferable for the total revenue. Therefore, in this table the amount of house and land is about increasing trend during this period. The FY 2014/15 is the maximum amount contributes in total revenue and in the FY 2009/10 is the minimum amount contributes in total revenue during this period. The average amount is contribution of house and land in total revenue of Ghorahi Municipality is Rs.6378881.56. From the above table 4.3, the average contribution of house and land tax by 6.68 percent. Among the given time period of data, share of percentage contribution of house and land tax on total revenue can be observed highest at 8.08 percent in the FY 2014/15 and FY 2009/10 is lower contribution 4.86 percent.

#### 4.4 Budgeted and Actual Collection of House and Land Tax

In every organization is depended upon the effective budgeting and its correct implementing. If we have well budgeting capacity and also it's implementing power, developing of the nation is not so difficult. Here, we are presenting that how much amount is budget for different fiscal year and how much is collected actually in this figure 4.4

Figure 4.4

### Budgeted and Actual House and Land Tax of Ghorahi Municipality



Source:- Account Section of Ghorahi Municipality

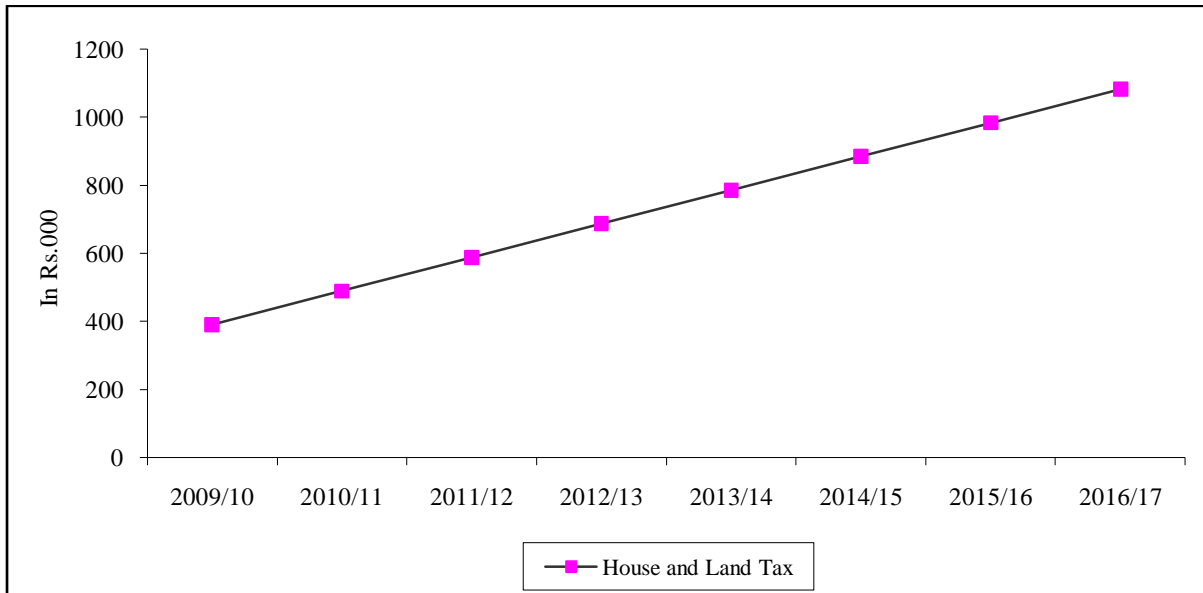
Figure 4.4 presents the revenue from property tax was fluctuating over the last six fiscal years 2009/10 to 2014/15. The collection efficiency was also fluctuating over the every fiscal year. In FY 2014/15, the highest collection efficiency is 145.70 percent. And the lowest collection efficiency is 90.04 percent in the FY 2009/10. Ghorahi Municipality was not collect effectively budgeted house and land tax in different fiscal year.

#### 4.5 Analyze the Trend of House and Land Tax

The trend analysis is a reliable source for analyzing the future trend of the valuation data from which the trend is calculated through the information of past information. The trend analysis helps to forecast future amount of house and land tax of Ghorahi Municipality. Forecasted revenue suggests to the Government for future policy and revenue management practices. Under this study, it is shown that the revenue collection policy of Government. The trend of House and Land Tax of Ghorahi Municipality has shown by the figure 4.5

**Figure 4.5**

**Trend line of House and Land Tax of Ghorahi Municipality**



Source:- Account Section of Ghorahi Municipality

(The Calculation is given in Appendix II)

Figure 4.5, shows the past trend of House and Land Tax of Ghorahi Municipality is increasing.

From Appendix II,

$a = 637.89$ ,  $b = 49.41$  and estimated  $Y = 637.89 + 49.41X$  which clearly shown in trend line below.

Here, it is clear that house and land (Property) tax is positive trend, other thing remaining the same future house and land tax will be grow up.

## **4.6 Data Analysis**

This investigation has been conducted in order to find out various aspects of tax imposition in Ghorahi Municipality. This chapter analyzes information collected from primary sources, i.e. through questionnaire. The questionnaires were distributed to tax related employees and taxpayers of Ghorahi Municipality. The response received from various respondents has been arranged tabulated and analyzed in order to facilitate the descriptive analysis of study. The respondents were requested to response on question by two ways; by yes or no response and by

choosing the rank starting from 1-5. (The sample of questionnaires is shown in appendix-I).The following table shows the groups of respondents and code used to represent them

**Table 4.6**

**Group of Respondents and Code Used**

S.N.	Group of Respondents	Code used	Sample Size	Response
1.	Tax administration	A	8	8
2.	Tax payer	B	27	27
	Total		35	35

Source:- Field Survey,2016

**4.6.1 Registration of House and Land**

House and land are required to register in the municipality for the purpose of tax. LSA has mentioned about the compulsory registration of property. Municipality its self should investigate whether the house and land are registered or not. The data gathered through the question regarding the registration of property in Ghorahi Municipality from aware property holders are presented in the table 4.6.1

**Table 4.6.1**

**Number of Registered and Non – Registered Property Holders**

Respondents	Yes		No		Total	
	No.	percent	No.	percent	No.	percent
A	8	100	-	-	8	100
B	19	70.37	8	29.63	27	100
Total	27	77.14	8	22.86	35	100

Source: - Field Survey Questionnaire no. 1, 2016

Table 4.6.1 shows that out of total 35 sampled respondents 27 (77.14 percent) have registered their house and land in Ghorahi Municipality office. While remaining 8 (22.86 percent) property holders have not registered.

#### 4.6.2 Payment of Property Tax

The property tax should be paid by the property holders, which are registered in the municipality office. In case of Ghorahi Municipality, there are 15485 property holders within its area. In this municipality, many property holders are registered and those who have registered also are not paying property tax regularly. If the municipality were able to adopt the proper action for those property holders, who are not paying property tax regularly, it would assist to generate sufficient revenue for the municipality. The question whether they were paying property tax or not had been asked to the registered property holders. The result of responses have been presented below in table 4.6.2.

**Table 4.6.2**

**Number of Property Holder Paying and Not Paying Property Holders**

Respondents	Yes		No		Total	
	No.	percent	No.	Percent	No.	percent
A	8	100	-	-	8	100
B	16	59.26	11	40.74	27	100
Total	24	68.57	11	31.43	35	100

Source: - Field Survey Questionnaire no. 2, 2016)

Table 4.6.2 presents the property holder paying and not paying property tax. This table shows that out of total sampled 35 registered property holders, 24 (68.57 percent), respondents are paying property tax and remaining 11 (31.43 percent) property holders are not paying property tax. This data shows that the maximum property holders are paying tax. However, the record of Ghorahi Municipality shows many tax defaulters.

### 4.6.3 Necessity of Property Tax

In case of Ghorahi Municipality, there are 15485 property holders within its area. In this municipality, many property holders are registered and those who have registered also are not paying property tax regularly. The question "whether the property tax paying to the municipality is essential?" was asked to property holders. The result of responses is present in table 4.6.3.

**Table 4.6.3**

#### Necessity of Property Tax

Respondents	Yes		No		Total	
	No.	percent	No.	Percent	No.	percent
A	8	100	-	-	8	100
B	18	66.67	9	33.33	27	100
Total	26	74.29	9	25.71	35	100

Source: - Field Survey Questionnaire no. 3, 2016

Table 4.6.3 presents the essential of paying property tax. This table shows that out of total sampled 35 property holders, 26 (74.29 percent), respondents said paying property tax is essential and remaining 9 (25.71 percent) property holders said paying property tax is not essential.

### 4.6.4 Necessity of Tax Awareness Programs to Public

To know the necessity of tax awareness programs to public a question was been asked, "Do you think tax awareness programs to public are necessary for raising tax revenue of Ghorahi Municipality? The responses are tabulate as below:

**Table 4.6.4**

#### Necessity of Tax Awareness Program

Respondents	Yes		No		Total	
	No.	percent	No.	Percent	No.	Percent

A	5	62.50	3	37.50	8	100
B	20	74.07	7	25.93	27	100
Total	25	71.43	10	28.57	35	100

Source: - Field Survey Questionnaire no. 4, 2016

From the above table it has been cleared that 71.43 percent of respondents are in support of questions "Do you think tax awareness programs to public is necessary for raising tax revenue of GM? And 28.57 percent of respondents were in against the questions.

Hence, it can concluded that tax awareness is necessary to public to increase consciousness of the taxpayers and easy collection of the tax by making feel the taxpayer that they are fulfilling the duty of the good citizen.

#### 4.6.5 How can made effective program to encourage

Another question regarding how can made effective programs to encourage the taxpayers to pay tax was been asked to the respondents. Different types of alternatives such as public notice, media, letter, telephone were given. The responses are given in table 4.6.5.

**Table 4.6.5**

#### **Modes of Communication of Tax Liabilities**

Respondents	Public relation		Media		Seminar		Reward system		Total	
	No.	percent	No.	Percent	No.	Percent	No.	percent	No.	percent
A	2	25.00	3	37.50	-	-	3	37.50	8	100
B	10	37.04	8	29.63	4	14.81	5	18.52	27	100
Total	12	34.29	11	31.43	4	11.43	8	22.86	35	100

Source: Field Survey questionnaire no. 5, 2016



From the above table, 12 (34.29 percent), responded that they got information through public relation. 11 (31.43 percent), got the information through media (TV, Radio, Local Newspapers).4 (11.43 percent), from seminar and 8 (22.86 percent), from reward system. Hence, the majority of the respondents get the information through media and public relation.

#### 4.6.6 House and Land Tax (property Tax) a Suitable Means of Raising Revenue of Local Body

In order to know whether house and land tax a suitable means of raising revenue of local body, a question was asked, "Do you consider that the house and land tax is a suitable means of raising revenue of local body?" The responses are as presented in the table 4.6.6.

**Table 4.6.6**

#### Means of Raising Revenue of Local Body

Respondents	Yes		No		I don't know		Total	
	No.	percent	No.	percent	No.	percent	No.	percent
A	8	100	-	-	-	-	8	100
B	17	62.96	1	3.70	9	33.33	27	100
Total	25	71.43	1	2.86	9	25.71	35	100

Source: Field Survey questionnaire no. 6, 2016

From the above table, table clear that 71.43 percent of the respondents are in favors' of house and land tax as a suitable means of raising the revenue and 2.86 percent are against and 25.71 percent shows the ignorant about property tax.

#### 4.6.7 Property Tax as Additional Resources

The pattern of perception of the tax administrative and taxpayers regarding the mobilizing of additional resources presented data given below.

**Table 4.6.7**

#### **Additional Resources**

Causes	A	B	Total		Rank
			No.	percent	
1.Amended adjustment of property tax	3	6	9	25.71	2
2.Revision of tax rate structure	2	10	12	34.29	1
3.Income of administrative efficiency	-	4	4	11.43	4
4.Widening tax base and tax coverage	2	4	6	17.14	3
5.Increment of taxpaying habit of Nepalese	1	3	4	11.43	4

Source: Field Survey questionnaire no. 7, 2016

The response regarding the additional resources is showed revision of tax rate structure which has 34.29 percent at first position. Amended adjustment of property tax act has scored 25.71 percent and ranked second position. Widening tax base and tax coverage has ranked to third position. Income of administrative efficiency and increment of taxpaying habit of Nepalese people has few responses, so these are rank as least of all.

#### 4.6.8 Tax Evasion Practices

In order to find out whether tax evasion is practice or not, one question was been asked, "Is a tax evasion major constraint for tax collection" Do you agree with this statement? The response of respondents has tabulated as below.

**Table 4.6.8**

#### **Tax Evasion is Major Constraint for Tax Collection**

Respondents	Yes		No		I don't know		Total	
	No.	percent	No.	percent	No.	percent	No.	percent
A	7	87.50	1	12.5	-	-	8	100
B	15	55.56	5	18.52	7	25.93	27	100
Total	22	62.86	6	17.14	7	20.00	35	100

Source: Field Survey questionnaire no. 8, 2016

The table reveals that 62.86 percent respondents supported tax evasion as a major problem of tax collection system of GM, 17.14 percent were against and only 20.00 percent were show there ignorant about tax evasion.

#### 4.6.9 Present Rate of Property Tax

**Table 4.6.9**

#### **Opinion about the present property tax rate**

Respondents	Positive		Negative		Indifference		Total	
	No.		No.		No.		No.	

		percent		percent		percent		percent
A	6	100	2	-	-	-	8	100
B	6	22.22	12	44.44	9	33.33	27	100
Total	12	34.29	14	40.00	9	25.71	35	100

Source: Field Survey questionnaire no. 9, 2016

34.29 percent of response has suggested positive, 40.00 percent negative and 25.71 percent indifference.

#### 4.6.10 Property Tax Collection is Sufficient or Not

House and land tax (Property Tax) is one of the vital tax that Ghorahi Municipality collects. To know the view of the respondents about that contribution of house and land tax to total revenue of municipalities. A question was been asked, "Do you think that the contribution of house and land tax to total revenue of Ghorahi Municipality is sufficient?" the response has tabulated as below:

**Table 4.6.10**

#### **Property Tax collection is Sufficient or Not**

Respondents	Yes		No		Total	
	No.	percent	No.	percent	No.	percent
A	2	25.00	6	75.00	8	100
B	10	37.04	17	62.96	27	100
Total	12	34.29	23	65.71	35	100

Source: - Field Survey Questionnaire no. 10, 2016

From the above table it is clear that 65.71 percent of the respondents said it is not sufficient collection of the revenue in Ghorahi Municipality and 34.29 percent of the respondents said it is sufficient.

#### 4.6.11 Complication of Property Tax

When taxpayer comes to pay tax in Ghorahi Municipality, they may have problem and complication in paying tax. The language and terms used in tax law are complicated and most of taxpayers are confused what documents should be presented at time of paying tax. Therefore, In order to know opinion of respondents about the complication in paying house and land tax, a question was been asked, “Do you have complications in paying house and land tax?” Their responses as follows:

**Table 4.6.11**

#### **Complication of Property Tax**

Respondents	Yes		No		Total	
	No.	percent	No.	percent	No.	Percent
A	4	50.00	4	50.00	8	100
B	25	92.59	2	7.41	27	100
Total	29	82.86	6	17.14	35	100

Source: - Field Survey Questionnaire no. 11, 2016

From the above table, 82.86 percent of respondents felt complication in paying property tax. During the field-survey, most of the respondents complicating too much delayed in making assessment, administrative harassment, complicated laws and others. They were asking for GM should go at taxpayer's door to collection tax effectively whereas 17.14 percent which is consist of tax administrative responded there is not complication in pay property tax.

#### 4.6.12 Reason of Complication in paying property tax

**Table 4.6.12**

#### **Reason of Complications in Paying Property Tax**

Reason	A	B	Total	
			No.	Percent
1.Complicated tax laws	5	7	12	34.29
2.Administrative harassment	-	3	3	8.57
3.Too much delay in making assessment	3	5	8	22.86
4.Bad behavior of tax officer	-	10	10	28.57
5.Other	-	2	2	5.71
Total	8	27	35	100

Source: Field Survey questionnaire no. 12, 2016

According to the above compliance 34.29percentopinion has indicated about complicated tax laws. There are not simple tax laws. 8.57 percent of response about the administrative harassment and 22.86 percent of responses about the too much delay in making assessment. 28.57 percent of response about the bad behavior of tax officer and 5.71 percent respondent response there is not complication in paying property tax.

#### 4.6.13 Existing Problem

In order to know whether existing problem related to house and land tax, a question asked "Do you know what is existing problem related to house and land tax ?" The responses are as presented in the table.

**Table 4.6.13**

#### **Existing Problem related to H&L Tax**

Reason	A	B	Total	
			No.	percent
1.Corruption in tax authority	2	7	9	25.71
2.Lack of appropriate information	1	6	7	20.00

3.Inappropriate tax rate	3	5	8	22.86
4.Defective tax laws	2	7	9	25.71
5.Other	-	2	2	5.71
Total	8	27	35	100

Source: Field Survey questionnaire no. 13, 2016

From above table clear that 25.71 percent of the respondents are in favors of corruption in tax authority and 20.00 percent are lack of appropriate information is existing problem related to house and land tax in Ghorahi municipality. 22.86 percent, 25.71 percent and 5.71 percent are inappropriate tax rate, defective tax laws and other respectively has been existing problem related to house and land tax in Ghorahi municipality.

## **4.7 Major Findings**

Based on data presented and analysis them in above section of this chapter. The major findings have listed below:

### **4.7.1 Major findings of Secondary Data**

The study has been show the role the property tax revenue structure, total revenue, contribution of hose and land tax to total revenue, the contribution portion in total expenditure by property tax, the budgeted and actual collection of house and land tax, collection efficiency, the trend of house and land tax. According to the secondary data presentation, the major findings are as follows:

- 1) In Ghorahi Municipality, service charge is the major source of internal revenue.
- 2) In Ghorahi Municipality there is highest portion of external sources in total revenue structure.
- 3) In Ghorahi Municipality, grants are the main external sources of revenue.
- 4) In Ghorahi Municipality, the total revenue has been equal to the total expenditure in six fiscal periods.

- 5) In Ghorahi Municipality, potential sources of revenue are not fully identify.
- 6) While studding the total income from house and land tax (property tax) and total internal sources/revenue, the highest contribution of property tax on total internal sources/income was in FY2014/15 that is 26.92 percent and lowest was 17.40 percent in FY 2009/10 and the property tax revenue was increasing trend in each fiscal year.
- 7) While studding the house and land tax to total revenue. The highest contribution of house and land tax on total income was in FY 2014/15 that is 8.08 percent and lowest was 4.86 percent in FY 2009/10 and the property tax was in increasing trend up to FY 2011/12 then decreasing in FY 2012/13 and again increased up to FY 2014/15. The contribution was in fluctuating trend during the six fiscal years.
- 8) While studding the budgeted and actual collection of property tax, the highest collection efficiency was in FY 2014/15 i.e. 145.70 percent and lowest was in FY 2009/10 i.e. 90.04percent. Hence, in Ghorahi Municipality, there is a variance between the budgeted and actual collection of house and land tax (property tax).
- 9) While studding the trend of house and land tax, the past/actual trend of property tax is maximum in FY 2014/15 and minimum in FY 2009/10. The past trend of property tax is slowly increasing.

#### **4.7.2 Major findings of Empirical Analysis**

Based on the empirical analytical analysis some of the major findings are summarize below:

- 1) 68.57 percent respondents are paying property tax and remaining 31.43 percent property holders are not paying property tax regularly. This data shows that the maximum property holders are paying tax in time.
- 2) Near about 77.14percent respondents have registered their house and land in municipality.
- 3) Tax awareness program is necessary to public to increase consciousness of the taxpayers and easy collection of the tax by making feel the taxpayers that they are fulfilling the duty of the good citizen. For making the public welfare program effective, tax authority should provide tax education to the public so that taxpayers can understand the importance and



use of tax. And also need to do advertisement about the tax through the media (like TV, Radio, Local newspapers) and public relation etc. as a result public encourage to pay tax and can collect the revenue.

- 4) House and land tax is a suitable means for raising revenue on total body and it should be increase to increase the revenue of Ghorahi Municipality.
- 5) The factor of resource mobilization is revision of tax rate structure and amended adjustment of property act.
- 6) 62.86 percent respondents supported tax evasion as a major problem of tax collection system of Ghorahi Municipality. There are various reasons for wide spread tax evasion.
- 7) As property tax collecting by Ghorahi Municipality is not sufficient, it can be increase by the following ways; by awareness program, by regular evaluation and monitoring, by identifying the new tax area, by increasing the tax rate.
- 8) 82.86 percent of respondents felt complicating in paying tax. During the field survey most of the respondents complicating, complicated laws, too much delay in making assessment, administrative harassment and others.
- 9) In municipality there are various existing problem, they are:-
  - a) Corruption in tax authority.
  - b) Lack of appropriate information.
  - c) Inappropriate tax rate.
  - d) Defective tax rate.
  - e) Others.

## CHAPTER- V

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter presents the overall Summary of the study and conclusions drawn from the analysis of the study. This also includes the recommendation to correct certain aspects, which will help to improve the collection of the house and land (property) tax and the position of property tax in Ghorahi Municipality.

#### 5.1 Summary

Nepal is a small and one of the least developed countries of the world. In Nepal, there are many villages and towns. Until now, in Nepal, there are about 3000 Village Development Committees and 217 Municipalities. Local bodies can play an important role in the development process of the country. They have greater responsibilities to cater the need of the localities. It is vital for local bodies with the right to do something for the betterment of its residents. The government can declare a settlement as a municipality, if the minimum annual income of the area is five million and the total population of the settlement is 20 thousand people. In this way, villages have been diverted into municipalities.

Tax is any compulsory levy from individuals' households and firms to central or local government. It is simply a liability to pay an amount to the government. Tax is a permanent instrument of collecting revenues for the government. To increase the government revenue of the Nepalese government is trying to extract money or valuable contribution from people through taxation. Government is increasing the area of the tax revenue in these days, like malpotkar, excise duty, octroi duty, vat, entertainment tax, vehicle tax, property tax, house rent tax etc. among them Urban house and land (property) tax is the important resource of government revenue.

Property tax is a direct tax that is imposed on individuals or owner's house and land. In the Nepalese context, property tax is named as house and land tax. The main variant of local taxes is property tax, which means a tax imposed by local bodies on the value of property located within the jurisdiction of that local body. Local tax is the tax imposed by local governments. Local Self-Governance Act, 2055, has empowered village development committees and municipalities to levy house and land tax within their jurisdiction. House and land here means house and land occupied by the house with its compound.

The government formulates effective and result oriented rules and regulation to collect tax. Not only effective rules and regulation are important to collect revenue but also effective implementation of rules and regulation is equally important. In Nepal, property tax was been introduced by finance act, 1959 A.D. It was been implemented under property tax Act in 1960 A.D. Due to ineffectiveness of collecting revenue. It was been replaced by urban house and property tax later. Urban house and land tax was been introduced in 1962 A.D. for collecting revenue from urban house and land property. Initially, this tax was introduced in Kathmandu, Lalitpur, Bhaktapur, Biratnagar, Birgunj, Nepalgunj, Rajbiraj, Janakpur and Butwal in 1963/64 it was introduced to Bhadrapur and Dharan in 1964/65 and Bhairawa, Pokhara, Palpa and Hetauda in 1973/74 A.D. The interim government of 2047 B.S. again introduced property tax in 1990 A.D. by the finance act in beginning and by property tax act 1990. After the introduction of local self-government act in 1999, property tax had given to local bodies (Kandel, 2003:3)

The study has focused the role of property tax revenue structure, contribution, actual and budgeted, trend and composition of house and land tax of Ghorahi Municipality, which has situated in Dang district of Mid-western area of Nepal. All together there are 217 municipality among them Ghorahi Municipality is one which has 11 wards. The trend analysis of property tax in the Municipality has estimated slowly growing. It is indicating that little bit focus on quality service can lead the Municipality for the huge collection in the coming days.

Ghorahi Municipality, as a local self-government has been playing a very crucial role in the development of the study area. Financial management has considered as the backbone for the development of the municipality. Here, it is worth concluding that the development of Ghorahi Municipality, depends on its right utilization of its financial resources, otherwise, it will remain only as a tiny political spot in the district where the interests of few political parties will be served, than the welfare of the residents of the municipality.

## **5.2 Conclusion**

Following conclusions have drawn from the analysis of the study:-

- 1) The system of property tax is the best methods of collecting tax revenue, which help the economic development of the nation. Poor mobilization of internal resources as tax is the main causes of funds insufficiency so government should mobile tax revenue in the aspect. Ghorahi Municipality has been collecting property tax since the enactment of local self-governance act 1999 A.D rules 1999 A.D.

- 2) In Nepal, the history of house and land tax is not so long. It started only on 1962/63 A.D. House and Land tax in Nepal even with general and uniform rule falls for short of justifying itself as a good tax. Its contribution to government revenue has not regarded satisfactory in comparison to other taxes.
- 3) The tax collection procedure of Ghorahi Municipality is not scientific because of lack of the tax policies with a clear direction and consistency in a long run perspective lack of information and records, lack of trained staff and heavy dependence on no-technical staff, lack of proper accounting and auditing system.
- 4) The total income from tax and other sources of Ghorahi Municipality is increasing in each six year. The municipality is also not able to identify the potential sources of tax revenue within area. The municipality only negligible amount had collected in the head of entertainment tax, advertisement tax, tourist service charge, principal amount, dividend and bonus.
- 5) The contribution of the property tax to the total internal tax revenue of Ghorahi Municipality is increasing but the municipality did not have any improvement in collection procedures.
- 6) Collecting efficiency of budgeted house and land tax was fluctuating over the every fiscal year. Ghorahi Municipality could not success to making good plan for collect house and land tax.
- 7) The contribution portion in total expenditure by property tax of Ghorahi Municipality has been very low.
- 8) The trend of house and land tax is slowly increasing.
- 9) The majority of property holders are paying property tax in Ghorahi Municipality office but the taxpayers are not paying their tax regularly.
- 10) The property holders are aware of property tax through act/law, public relation and media (TV, radio, local newspapers) out of aware property holders, maximum property holders have registered their house and land.

- 11) House and land tax (property tax) is one of the vital taxes that Ghorahi Municipality collects. It is not sufficient of the revenue in GhorahiMunicipality. Tax evasion as a major problem of tax collection system of Ghorahi Municipality. In Ghorahi Municipality, there are complications of property tax they are too much delay in making assessment, administrative harassment, complicating laws, and bad behavior of administrate.
- 12) Corruption in tax authority, lack of appropriate information, inappropriate tax rate, defective tax laws and others are the major existing problem related to property tax in Ghorahi Municipality.
- 13) If the problem relating to House and Land tax in Nepal to be solve and resources are effectively utilize then only the prospects of revenue collection from House and Land tax will be brought.

### **5.3 Recommendations**

Property tax has accepted as an important source of government revenue of Nepal. The growing need of resource for the development of Nepalese economy can be meet through effective large volume of property tax. Through there are number of problems, the contribution of property tax is likely to be significant in the future. Based on the above findings and conclusions the following recommendations have made.

- 1) Entertainment tax, advertisement tax, tourist tax and principal amount, dividend and bonus are common local level taxes; therefore, municipality should collect these types tax.
- 2) There are many possibilities to increase internal sources of revenue; the municipality has not tried to identify other potential sources of revenue available within the municipality area. The municipality could identify the potential sources of revenue to boot up the income level of the municipality.
- 3) Municipality receives grants the central government in the form of development and administrative grants. Ghorahi Municipality is also receiving such type of grants every year. However, this grant has not been utilizing more effectively. Therefore utilization of grant should be more effective and use in suitable sector.

- 4) Ghorahi municipality should organize seminar and meeting of house and land tax for improvement.
- 5) The municipality was not succeeding to collect budgeted house and land tax in different fiscal year. Therefore, the municipality should prepare budget based on realistic and proper planning.
- 6) Ghorahi Municipality should give detail information about current house and land tax to collection and property tax pay.
- 7) In the absence of proper record keeping system of tax the government do not look and determined about the state of revenue so, it is necessary attention should be force on proper accounting system (i.e. computerized billing system) .
- 8) House and land tax rate, discount rate, prize and other motivating factor should be advertised by newspaper, TV, radio etc. To attract and motivate taxpayer.
- 9) Appeal and penalty system of house and land tax should use in practice not only in legal provision.
- 10) The relation between municipality and taxpayers should be sound and positive. The municipality should promise that they would use the fund for the benefits of them.
- 11) Local property tax should be guide as per market based as well as the use basis by taxpayer.
- 12) Tax education should be start from the school level.

By the points given, we can conclude that to have the efficient tax collection and effective tax administration, government should lunch various programs so that tax payer can feel that paying the tax is their duty they are paying the tax for the development of the country. They are obeying the duty of the good citizen. Until and unless, we can make feel the people themselves their responsibilities, government cannot collect the tax effectively. Therefore, the different program relating to the tax should be organize.

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**WEBSITES:** [www.munghorahi.gov.np](http://www.munghorahi.gov.np)

[www.mld.gov.np](http://www.mld.gov.np)

[www.ird.gov.np](http://www.ird.gov.np)

[www.muanncpal.org.np](http://www.muanncpal.org.np)



## APPENDIX - I

Dear Sir/ Madam

I am going to prepare a thesis Entitled "A Study on House and Land Tax (Property Tax) in Ghorahi Municipality" for partial fulfillment of Master of Arts in Economics. So I want some valuable information on house and land tax (property tax) which are closely related to achieve my objectives. This questionnaire is designed to obtain your opinion to carry out my study. I humbly request you to fill these questionnaires. I would appreciate for your help to me filing the questionnaires. You need not mention your name and I assure you that all the information given to me will be kept strictly confidential.

Yours Sincerely

Dilli Raj Dahal

Central Department of Economics

Tribhuvan University

Kirtipur, Kathmandu.

### **Questionnaire on Analytical study on House and Land Tax(Property Tax) of GM**

**Please tick the answer which ever in your view and please write your suggestion and option in opened end questionnaires.**

1) Have you registered your house and land in municipality?

a) Yes       b) No

2) Do you make payment of house and land tax (property tax) to municipality?

a) Yes       b) No

3) Do you think that paying tax to the municipality is essential?

a) Yes       b) No

4) Do you think tax awareness programs to public are necessary for raising tax revenue of Ghorahi Municipality?

a) Yes  b) No

5) If yes, how can made effective programs to encourage the taxpayers to pay tax?

\_\_\_\_\_

6) House and land tax (property tax) is a suitable means of raising revenue of local body?

a) Yes  b) No  c) I don't know

7) To generate more additional resources from property tax what factor's do you approve to mobilize?

a) Amended adjustment of property tax Act

b) Revision of tax rate structure

c) Income of administrative efficiency

d) Widening tax base and tax coverage

e) Increment of taxpaying habit of Nepalese people

8) Is a tax evasion major constraint for tax collection system of Ghorahi Municipality?

a) Yes  b) No  c) I don't know

9) What is your opinion about present rate of property tax?

a) Positive  b) Negative  c) Indifferent

10) Do you think that the contribution of house and land tax (property tax) to total revenue of Ghorahi Municipality is sufficient?

a) Yes  b) No

11) Do you have complications in paying property tax?

a) Yes  b) No

12) If yes, please point out reasons:-

a) Complicated tax laws

b) Administrative harassment

c) Too much delay in making assessment

d) Bad behavior of tax officer

e) Others please specify

13) Do you know what is the existing problem related to house and land tax?

---

'Thank You for Your Kind Co-operation.

## APPENDIX - II

### Methods of Valuation of House and Land

#### a) Valuation of House

##### Rates for Valuation of Building

Classification of houses	Total life in year	Depreciation rate per year in ( percent)	Average cost per Sq. ft. (In Rs.)
R.C.C. frame structure	100	0.75	835
Kiln bricks (Stones) with cement mortar.	70	1	775
Kiln bricks (Stones) with mud-mortar.	35	2	625
Green (Raw) with mud-mortar.	25	3	350

(Source: Revenue department of Ghorahi Municipality)

#### **NOTES:**

1. Classifications of house are Green (Raw) bricks with mud-mortar Kiln bricks (Stones) with mud mortar Kiln bricks (Stones) with cement mortar, R.C.C. frame structure.
2. The main auditorium of cinema hall is valued by applying a 25 percent discount in aforesaid rates that means 75 percent is applicable
3. House and land of green (Raw) brick with mud mortar and thatched roof or house made of bamboo or wood with thatched roof is not valued for the propose of house and land tax.
4. In case of destroyed or demolished house, the values of destroyed or demolished portion is deducted for the purpose of valuation of physical structure.
5. Kiln bricks with mud mortar is valued at the average cost per sq. ft. is of Rs.625
6. Kiln with cement mortar is valued Rs.775as per sq.
7. R.C.C., frame structure is valued of Rs.835 as per sq.

#### b) Valuation of Land:

Land is valued at the rate prescribed by the local committee formed for the purpose of valuation of land. If such rate has not been prescribed, land is valued by applying the rate prescribed by the Land Revenue Office for the purpose of registration.

- Valuation of land= Area of land (in kattha/Ropani, etc)× Valuation rate (per kattha/Ropani, etc)
- Land is valued at government's rate of valuation.

### **Assessment of House and Land Tax**

#### **Rate of House and Land Tax**

Value of House and Land	Rate of Tax (in percent)	Amount
First up to 10 lakh	Nil	Nil
Next up to 10 lakh	-	600
Next up to 30 lakh	0.1	3000
Next up to 50 lakh	0.5	25000
Next up to 1 core	1.0	100000
Remaining amount	1.5	-

*(Source: Working paper of Ghorahi Municipality)*

## APPENDIX-III

### Analyze the Trend of House and Land Tax

Let the trend line be,

$$Y = a + bX \quad \text{----- (i)}$$

Where, Y = dependent variable (here house and land tax)

X = time

b = slope of trend line

a = Y- intercept

Calculation of Trend Analysis of House and Land Tax of Ghorahi Municipality

( In Rs.0000)

Year	T	X=2(T-3.5)	X <sup>2</sup>	H&L Tax (Y)	XY
2009/10	1	-5	25	382.68	-1913.4
2010/11	2	-3	9	459.23	-1377.69
2011/12	3	-1	1	702.98	-702.98
2012/13	4	1	1	631.89	631.89
2013/14	5	3	9	715.85	2147.55
2014/15	6	5	25	934.69	4673.45
Total		$\sum X=0$	$\sum X^2=70$	$\sum Y=3827.32$	$\sum XY=3458.82$

Since  $\sum X=0$ ,

$$\text{So, } a = \sum Y/n = 3827.32/6 = 637.89$$

$$b = \sum XY/\sum X^2 = 3458.82/70 = 49.41$$

Substituting the values of a and b in (I) the equation of the trend line is

$$Y = 637.89 + 49.41X$$

For the trend values:

$$\text{When } X = -5, Y = 637.89 + 49.41 \times (-5) = 390.84$$

$$X = -3, Y = 637.89 + 49.41 \times (-3) = 489.66$$

$$X = -1, Y = 637.89 + 49.41 \times (-1) = 588.48$$

$$X = 1, Y = 637.89 + 49.41 \times (1) = 687.3$$

$$X = 3, Y = 637.89 + 49.41 \times (3) = 786.12$$

$$X = 5, Y = 637.89 + 49.41 \times (5) = 884.94$$

$$\text{Estimated For 2015/16, } X = 2(7-3.5) = 7$$

$$\text{Estimated For 2016/17, } X = 2(8-3.5) = 9$$

$$\text{Estimated For 2017/18, } X = 2(9-3.5) = 11$$

$$\text{Estimated For 2018/19, } X = 2(10-3.5) = 13$$

$$\text{When } X = 7, Y = 637.89 + 49.41 \times (7) = 983.76$$

$$X = 9, Y = 637.89 + 49.41 \times (9) = 1082.58$$

$$X = 11, Y = 637.89 + 49.41 \times (11) = 1181.4$$

$$X = 13, Y = 637.89 + 49.41 \times (13) = 1280.22$$

**\*THE END\***