

EFFECTIVENESS OF EMPLOYMENT INCOME TAX IN NEPAL

A THESIS

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VIVA- VOCE SHEET

We have conducted the Viva- Voce examination of thesis prepared by

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Entitled

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

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DECLARATION

I hereby declare that the thesis “**Effectiveness of Employment Income Tax in Nepal**” submitted to Nepal Commerce Campus, the Faculty of Management, Tribhuvan University is my original work done for the partial fulfillment of requirements for the Master of Business Studies (M.B.S.) under the supervision of Prof. Dr. Bihari Binod Pokhrel, Mr. Surendra Keshar Amatya and Mr. Dhurba Lal Pandey of Nepal Commerce Campus.

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ABBREVIATIONS

ADB	Asian development Bank
C.A	Chartered accountants
C	Column
D.F.	Degree of Freedom
EL	Exemption Limit
F.C.A	Fellow Chartered accountants
F.Y.	Fiscal Year.
G.D.P	Gross Domestic Product
GON	Government of Nepal ⁴
I.T.A	Income Tax Act
IRD	Inland Revenue Development
Mo.F	Ministry of Finance
r	Row
SAARC	south Asia Association of Regional Co-operation.
U.S	United State
U.S.A	United State of America
V.A.T	Value Added Tax
V.D.C	Village development Committee
x^2	Chi Square test

CHAPTER I

INTRODUCTION

1.1 General Background

Nepal is agriculture based least developed country. It has per capita income about 320 US dollars, which is the lowest in South Asia Association for Regional Co-operation (SAARC) countries and almost lower per capita income in the world. The economic status of Nepalese people is very poor in the world. She has deficit budget and it has been making more bad economic condition of the country day by day. Resource gap of the country has been widening in the recent years. In this situation, the main objective of the country is to raise living standard of the people through economic development Activities. It requires resources: man, money, machine and materials. To obtain these particular resources government derives income through external and internal sources.

For the economic development, government accounts responsibility towards their people. To fulfill the responsibility of government security or health or education or other development Activities it needs huge amount of revenue. Government spends a lot of fund for protection of common people and for the creation of various socio – economic infrastructures. There are three types of expenditures, which are incurred by the government i.e. protection, commercial and public expenditure. If the nation has sufficient fund fulfillment of country's need, government expenditure is increasing of time, increase in population, social progress, increase in price, security etc. To meet the growing public expenditure, the government has to manage its fund. It is received from different sources.

External sources of funds are foreign grants and loans. Such external sources are uncertain, inconvenient and not good for healthy development if there is heavy dependent on them. It is used for economic development, reconstruction, foreign

exchange, to recover from crisis condition, for productive use etc. The internal sources should be mobilized effectively due to different weakness of external sources. Developing countries try to mobilize their internal sources to finance for necessary regular and developmental Activities. Government receipts may take a form of taxes, change or borrowing. Taxes and change are withdrawn from the private sector without leaving the government with liability to the payee. Borrowings involve a withdrawal made in return for the government's promise to repay at a future date and to pay interest in the interim.

Internal source of fund is own source from within the country. Internal source of public fund is important not only for fencing necessary fund but also for proper mobilization. Internal source of fund includes both tax and non- tax. Tax sources include the amount, which are compulsorily contributed by taxpayers to the government. Taxes are emphasized on all countries developed as well as developing because they have the potential for increasing the yield of tax system and achieving a system of taxation that satisfies the demand for equality and social justice. Non-taxes sources are uncertain and inconvenient because they are imposed as per need of the government. It shows that taxes are the better sources of public revenue and it has been taken as the best effective tool for raising the public fund.

Tax is the main sources of finance for government activities. In every country, the largest part of the government revenue is raised through taxation. Tax may be imposed on person income. Tax is compulsory contribution imposed by public authority using the right given by law. Taxpayers do not expect any return for his taxpaying. It is neither an expect amount nor a penalty for any legal an exact. The chief function of taxation is that it ensures collective saving for the purpose of public investment and at the same time provides incentives for promoting private investment. Thus, its importance cannot be ignored on the overall policy scheme of the government of the developing economy. Taxes are not voluntary purchase payments but mandatory imposition, payable in line with whatever tax statute has been legislated.

Tax may be classified into two types: direct and indirect. Direct tax which is really paid by a person on whom it is legally imposed. Some of the direct taxes are income tax, property tax interest tax, death tax, vehicle tax, etc. Indirect is that tax which is imposed on one person but paid partly or wholly by another. Some of the indirect taxes are sales

tax, entertainment tax, passenger tax, hotel tax, export and import duty, excise duties, Value Added Tax (VAT) etc.

Income tax is one of the most popular direct taxes. It is charged on person's income. According to the Income Tax Act 2058 (ITA 2058), Income includes all the income, which are received from business, investment and employment. Income tax is superior to indirect tax because it is imposed on the basis of ability to pay of the taxpayer. People whose income is below the taxable income are freed from the obligation of income tax.

It will be possible to reduce the gaps in income by imposing higher rate of tax to those who are having high income and from that collected amount, providing necessary assistance to the people with very poor economic condition. Hence, it will help to make equitable economic distribution in the society. Balanced regional economic development is also possible through the provision of income tax. The government should charge higher income tax on the income from urban area and less on the income from remote area. Income tax holiday and incentives would help to develop the priority sector of a national economy.

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

Income tax is essential not only for collecting government revenue but also for controlling over consumption, for promoting saving and for generating more employment. Nepal still has been unable to maximize the collection of income tax. In structure of total revenue, tax revenue contributes more than 81 percent whereas income tax contributes nearly 17 percent at an average. In total tax revenue, income tax contributes more then 15.39 percent at an average.

Being a least developed country, sources of government revenue are very limited in Nepal. Revenue structure of Nepal mostly depends on the foreign

assistance and loan but it is unfavorable to the country. Domestic resources are most reliable source to keep minimum dependency of income in government revenue.

Income tax is collected from various sources of profits and incomes. Income tax is collected from public enterprises, semi-public enterprises, private corporate bodies, individuals, employment and interest.

The present study has been designed to study the contribution of income tax from income from resident person to income tax revenue of Nepal. Fifteen-year period i.e. from the fiscal year F.Y 1994/95 to F.Y 2006/07 have been taken into consideration for the study. The contribution from F.Y 1994/95 to F.Y 2006/07 has been analyzed and examined. Some recommendations have also been offered to increase employment income's contribution to income tax revenue of Nepal. As compared to previous years, its contribution has been increasing in the recent years.

1.2 Statement of the Problem

Nepal is least developed country having poor economic growth rate. It has been facing serious gap and fiscal gap problem. Total expenditure was exceeded than total revenue in each subsequent year. The government expenditure is continuously rising due to weakness and large investment in selecting development projects and regular expenditure is increasing due to result increasing burden of debt servicing and salary as well as allowances of government personnel. Thus, there is growing difference between expenditure and resource plus foreign aids. In other word, financial resource gap is the major constraint of the Nepalese economy.

To raise the government revenue, it is necessary to raise the sources of revenue, which helps to relive from serious bottleneck of resource gap in the proceeds of economic development program.

To bridge the gap between total resources required and supply of the resources, income tax plays a vital role in government revenue. Collection of advance tax in Nepal has faced various problems like tax evasion, poor tax administration, and unsound income tax, collection ambiguity in tax law, lack of tax conscious people etc. If these problems are overcome, tax can be useful tool in the economic development of the country.

The contribution of income tax to the nation budget must be increased to achieve the goal of nation development and equal economic distribution. The goal can be increased only if the government of Nepal takes steps for making the increased by bringing the new tax payers into tax net and implementing the tax laws effectively so as to discourage the tax evasion practice. Loopholes must be traced out and monitored effectively. Large tax taxpayers who are hiding their income should be brought into tax bracket. So, shortcomings existed at present in income tax system must be avoided to fulfill the desired goal.

1.3 Objectives of the Study

- The research study has the following objectives:
- To examine and analyze the effectiveness of special provisions provided by the ITA 2058 to resident person.
- To analyze the contribution of the income tax from Employment income to government revenue of Nepal.
- To examine and analyze the effectiveness of income tax revenue collection from employment Income.

- To know the employee knowledge and tax experts views about employment income and special provision.
- To recommend the possible measures regarding special provision to individual.
-

1.4 Scope of the Study

The study covers the special provision and contribution of income from employment income to tax revenue of Nepal. The main scopes of the study are given below.

- Role of income tax in Nepal.
- Revenue from income tax from employment Income in income tax revenue of Nepal.
- Role of income tax from employment income in public income of Nepal.
- Role of income tax from employment income to total tax revenue.
- Role of special provision to resident persons.

1.5 Significance of the Study

Nepal is least developed country of the world. The resources collected internally are sufficient to run day-to-day administration of the country but the revenue surplus is not adequate to undertake adequate developmental Activities. So the country is heavily dependent on the foreign aids and grants to undertake its developmental Activities.

Out of various incomes, employment income is an important source. It is a regular source of tax revenue too. Employment income has been contributing to the tax revenue of Nepal. There are lots of theses about income tax but no one has studied in details on the contribution of employment's income to tax revenue and special provision about individual. So, thesis is directed toward acquiring information about income tax revenue collection from employment Income, This study might be fruitful for all researcher, employees and tax experts.

1.6 Plan of the Study

The study has been organized into five chapters. They are as follows:

The first chapter is about introduction that includes the general background, statement of the problem, objectives of the study, scope of the study, significance of the study and limitation of the study.

The second chapter of the study has contained the review of literature. This chapter includes review of books and articles, published and unpublished related materials.

The third chapter of the study is about resource methodology and included research design, population and sample, nature & source of data, data collection procedures, methods of presentation and analysis, tools and techniques of analysis, research variables, weight of choice, selection of respondent and respondent's profile.

The fourth chapter. Presentation and analysis of data which is one of the most important chapters and included the data related to the topic extracted from economic survey and annual reports published by Ministry of Finance. The analysis has been presented accordingly with suitable methods of presentation. Similarly, presentation and analysis of opinion survey has been placed under this chapter. It is the main body of the chapter where descriptive and analytical analysis of the primary information collected through sampling method from various respondents has been studied, analyses and presented accordingly.

The final chapter of the study is related to summary, conclusions and possible recommendations regarding improvement employment income and related issues.

1.7 Limitations of Study

Any research study is limited by the time period, area of the study, information and data. This study has also some limitations. They are as follows:

- Limitation of the study based on the availability of reliable data and sufficient literature.
- Due to the lack of time and other difficulties the field study limited to Kathmandu Valley for primary data purposes.
- Primary data collected from opinion survey.
- Few samples selected for opinion survey.
- The study deals with Nepalese Law, Acts, Ordinance, Regulations, and Circular in respect in income tax.

CHAPTER II

REVIEW OF LITERATURE

Wolf and Pant (2005) write that a literature review is an essential part of all studies. It is a way to discover what other researchers have covered and left in the area. A critical review of the literatures helps the researcher to develop a thorough 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 in the area of the student's interest. The purpose of literature review is to find out what research studies have been conducted in one's chosen field of study and what remains to do. The primary purpose of literature review is to learn not to accumulate. It enables the researcher to know.

- What research has been done in the subject?
- What others have been done in the study?
- What theories have been advanced?
- The approach taken by the other researchers.
- Area of agreement or disagreement.
- Whether there are gaps that can fill through the proposed research?

(A) Theoretical Review

This section deals about the historical background of evolution of income tax in Nepal, heads of Incomes, Tax exempted income, Meaning and classification of tax, canons of taxation, final withholdings payments, exempt organization, Meaning of individual, special provision to individuals common deduction and special fee as additional Tax.

2.1 Historical Background of Evolution of Income Tax in Nepal

Great Britain is the first country to introduce income tax Act in world. Amatya, Pokharel and Dahal (2004) write that the British government introduced income tax Act in 1799 in order to generate revenues to finance the war against France. The income tax

Acts were introduced Switzerland in 1869, USA in 1862, and Italy in 1962 in Nepal in 1959.

Amatya et. al. (2004), additionally, also writes that idea of introducing income tax Act in Nepal originated along with the first 'Budget' on Magh 21, 2008 (1952). Then, Finance Minister of the first budget speech said 'a proposal to levy an income tax including tax on agriculture income is under consideration. Several attempts were made to introduce income tax in subsequent years. However, it couldn't be introduced until; 2061 due to political instability. For the first time Finance Act 2016 had imposed tax on business profit and Employment in Nepal.

In 2017 BS 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 and the provisions of taxation of business income and Employments incomes were only included. There was no provision of deduction for expenses by taxpayers. Income tax was assessed on the basis of the officer's estimation. Government employer was the main income tax payer. This Act was ineffective and was replaced by Income Tax Act 2019. There were 29 sections in the Act. For the effective implementation of income tax Acts objectives, HMG enforced Income Tax Rules 2020.

Income Tax Act 2019 also encompassed Profession, Business, House and Land Rent, Investment, Insurance and Other sources of incomes in addition to business profits and employment incomes. It also made the provisions for rectifying arithmetic errors by taxpayers and tax payments in installments.

Agriculture income was also made taxable in the Act. Finance Act 2023 made agriculture income tax exempted. Again finance Act 2030 made agriculture income taxable. Income tax Act 2019 was as amended first in 2029. The Act was replaced by Income Tax Act, 2031 so as to cope with the changing needs of the country.

Income Tax Act, 2031 had 65 sections and classified the sources or needs of income into 5 categories namely (1) Agriculture, (2) Industry, Business, Profession or Vocation, (3) Employment (4) House and Land Rent and (5) Others Sources. The Act had identified the chargeable income and admissible expenses of each head of income. The other features of these Acts were provision of registration, provision of carry forward of loss, provision of common expenses, provision of self assessment, provision of small tax payer's tax assessment, provision of fine penalty and appeal, provision of tax deduction at source, provision of tax refund, provision of tax exemption by different other Acts and rules, provision of avoidance of double taxation etc. This Act was also called a modified form of the previous Act. Most of the provisions of previous Act were kept as it is and others were changed. This Act lasted for about 28 years. In 2058, ITA 2058 was enacted by the Parliament by replacing the existing Act. This Act is broad as compared to the previous Act. This Act has been made in accordance with the global standard. Income Tax Rule 2059 was framed by the Government of Nepal (so called HMG/N during that period) to clarify some provision of the Act. Finance ordinances have been making slight amendments in the Act every year.

The Income Tax Act 2058 contains the following key features:

- All income tax related matters are confined within the Act by abolishing all tax related concessions, rebates and exemption provided by different Acts. This Acts has been made super in regard to all income tax matters.
- The Acts has broadened the tax base. Unlike previous tax Acts, tax rates are spelled out in the Act. The Tax rates and concessions are harmonized on equality grounds.
- The Act has introduced a pool system of charging depreciation. A Provision has also been made for depreciating intangible assets.
- The Acts has first introduced taxation of capital gains.
- The Acts has provided liberal loss set-off and carries for ward /backward provisions. Inter-head adjustment of losses is clearly specified.
- The Act has been introduced a provisions for administrative review to allow the tax administration to correct mistakes made by tax administrators internally.

- The Act has made provision for a stringent fine and penalty for the defaulters. There have been made provisions for punishment in the fines up to Rs. 300,000 and imprisonment on conviction up to 3 years.
- Global income of a resident are made taxable. Non-residents are also taxed on their incomes having 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.
- The Act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.

2.2 Heads of Incomes

Income Tax Act 2058 has classified income of a person into three main heads for the purpose of tax assessment. According to the tax heads, they are: (1) employment income, (2) business income and (3) investment income.

2.2.1 Income from Employment

In a recent study of the concept of employment income, Amatya (2006) writes that Employment income means Employment, fringe benefits and other perquisites derived by an employee from a former employer, present employer or prospective employer on receipt (cash) basis in an income year. Employment income includes salary, wage, leave pay, bonus, commission, emolument, specified allowance, retirement fund contribution, prize, gift, perquisite, compensation, fringe benefits and additional facilities received by an employee from an employer.

ITA 2058 has defined 'employment' as past, present or prospective employment. All payments or benefits received from the employer or his associates in exchange of labor are termed as employment income. An employer is a person who gets service (ie labour) from an employee. Similarly an employee is a person who provides services to the employer to get certain amount or benefits Income Tax Act 2058 (as cited in Bhattarai & Koirala, 2006) argued that in order to include the amount in the employment income, the following two conditions must exist.

(a) There must be an employee – employer relationship between the payee and payer. That is employer or an associate of the employer or third person under the arrangement with the employer or an associate of the employer must make all payments.

(b) The amount paid should be of regular nature, section, 22(2) of the Act has specified that employment income be assessed on cash basis.

2.2.1.1 Amount Included on Employment

According to income tax Act 2058, all the amounts or benefits received in connection in the employment are made taxable. As per section 8(2), while calculating an employee's income from employment for an income year, the following payments made to the employee by the employer during the year are included:

- Payments of wages , salary , and leave pay, fees, commissions, prizes, gifts, bonuses, and other facilities;
- Payments of any personal allowance, including any cost of living subsistence, rent, entertainment and transportation allowance;
- Payments providing any discharge or reimbursement of cost incurred by the individual or an associate of the individual.
- Payment for the individual agreement to any conditions of the employment.
- Payment for redundancy or loss or termination of the employment
- Retirement contributions including those paid by the employer to retirement fund in respect of the employer and retirement payments.
- Others payments made in respect of the employment, and
- Other quantified perquisites:

(1) Availability of motor vehicle wholly or partly for private purpose

- Half percent of Salary increase of employees.
- One Percent of market value of vehicle, increase of other (i.e. consultant)

(2) Provision of house to employee

Two percent of salary increases of employers and 25% of Actual rent (increase of leased building) or prevailing rate (in case of own building) increase of other (i.e. consultant) should be included in the taxable income as quantified perquisites for accommodation facility.

(3) Payments consisting of the provision of the following facilities, the amount of expense incurred by the employer in making the provision as reduced by any contribution made by the employer towards the provision.

- The service of the housekeeper, driver, gardener, or other domestic assistant.
- Any meal, refreshment or entertainment.
- Drinking water, electricity, telephone and the like utilities in respect of the employee's place of residence.

(4) Increase where the interest paid by the employee during the year under the loan is lower than the interest to be paid as per the prevailing interest rate, the amount to the extent it is lower.

2.2.2 Income from Investment

Investment income includes income earned by any person and organization from dividend, interest, payment of natural resource, rent, retirement fund, income received from registered retirement fund, gift and any other non business taxable income.

ITA 2058, section 9, 24, 24, 27, 29, 30, 31 has stated the following heads of income under investment income

- Dividend income other than final withholding,
- Interest income other than final withholding,
- Payment received from natural resources,
- Royalty income,
- Gain from an investment insurance other than final withholding payment,
- Rent income other than final withholding payment,
- Gain from unapproved retirement fund other than final withholding payment,

- Gain from disposal of pool of depreciable assets,
- Retirement contributions, including those paid to a retirement fund in respect of the person,
- Gifts received by the person in respect of the investment,
- Amounts receive in lieu of accepting any restriction regarding investment,
- Incomes to be a included due to the change in accounting methods,
- Excess amounts received due to the exchange rate variation,
- Bad debts recovered relating to investment,
- Under payment of interest according to market rate,
- Receivable amounts paid to others,
- Amounts received for compensation,
- Income received from joint investment,
- Others amount to be included under investment incomes.

2.2.3 Incomes from Business

If any person or corporate body earns income by running any business industry or trade with an income year such income is included while computing taxable. Income (as per the sec. 7, 22, 24, 26, 27, 29, 3, 56, 60)

Following are the heads of business income.

- Service charges,
- Amount derived from disposal of trading stock,
- Net gain from the disposal of business assets or liabilities,
- Amounts received from the disposal of depreciable assets,
- Prize or gifts received in connection with business,
- Amounts received in view of acceptance of restriction regarding business,
- Amounts received from any investment directly related to business,
- Excess amount received due to exchange rate variation,

- Income to be adjusted due to change in accounting methods,
- Incomes included under the provision of accounting methods,
- Bad debts recovered,
- Proportional amount received under long term contract,
- Under payment of interest due to market rate variation,
- Receivable amounts paid to others,
- Amount received for compensation,
- Other amounts received under the head business income.

2.3 Tax-Free Income / Tax Exempted Income

According to ITA 2058, section 10, the following incomes are tax free incomes or tax exempted income even though they seem income from business or employment

- Income earned by a person due to the bilateral or multi lateral treaty between the Government of Nepal and foreign country or international organization.
- Income earned by a person working as foreign government servant on foreign land is non –taxable income.
- A person hired by the Government of Nepal (GoN) for the service of the GoN making agreement of non –payment of tax.
- Allowances distributed by the GoN to the widow, handicapped or old persons are tax-exempted income.
- Donation gift and present etc received by tax- free organization is tax-exempted income.
- Income earned by Nepal Rastra bank is taken tax-free income.

- Amount received in the form pension by a Nepalese ex-army or police worked in foreign land.

2.4 Meaning of Tax

In 2004 Amatya et, al, describes that government of any country requires sufficient revenues to launch development programs, to handle the daily administration, to keep and peace and security and to lunch other public welfare programs. The government or public revenues are collected through various sources. These sources can be (a) taxes (b) revenues from government (c) fees (d) Special assessments (e) fines and penalties and (f) foreign grants. Among them tax is the main source of collecting the public revenues because it occupies the most important part of the government treasure. In Nepal about 81.1% of total revenue comes from tax revenue and the rest 18.9% from Non-tax revenues. (Fy 2063/064)

Tax is compulsory contribution imposed by public authority using the right given by law. Taxpayers don't expect any return for his tax paying. The government mobilizes these taxes for public interest.

Seligman (n.d.) defines (as cited in Dhakal 2057) "A tax is compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit confused".

Similarly Bastable (1892) defines (as cited in K.C. 2006) "A tax is compulsory contribution of wealth of a person or body of person for the service of public powers".

From the above definition it is clear that tax is a compulsory contribution to the state from a person. The natural person and artificial person having tax liabilities pay the taxes to the government. Otherwise the laws punish him. The government doesn't provide any corresponding benefit to the taxpayer for the amount of tax he pays. Tax is

paid to the state to perform the functions of the government and the amount of tax is spent for common benefits and interest of the people.

2.4.1 Classification of Taxes

K.C (2006) writes that Tax may be classified in to various types. Among them direct tax and indirect taxes are most significant.

2.4.1.1. Direct Tax

In the words of Mill (as cited in K.C 2006) "A direct tax is one, which is demanded from the very persons who, it is intended or desired, should pay it".

2.4.1.2 Indirect Tax

Indirect tax is a tax imposed on one person but paid partly or wholly by another. In the words of Mill (as cited in K.C. 2006) "Indirect tax are those which are demanded from one person in the exception and intention that he shall indemnify himself at the expense of another ".

Income tax is one of the most popular direct taxes. It is charged on person income according to the law of nation. Income includes all the income, which are received from business, internment and employment. Income tax is superior to indirect tax because it is imposed on the basis of paying capacity of the taxpayer. People whose income is below the taxable income are free from the obligation of income tax.

2.4.2 Canons of Taxation

Canons of taxation emphasizes of a good tax system. Smith defines (as cited in Kandel 2005) as below.

- " The subject of every state out to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities".
- ." The tax which individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner o payment, the quantity to be paid, ought all to be clear and plain to the contributor and to every other person".
- "Every tax ought to be levied at the time, or in the manner. In which it is most likely to be convenient for the contributor to pay".

- "Every tax ought to be so contrived as both to take out and to keep out of the people as little as possible, over and above what it brings into the treasury of the state".

Besides the above stated canons of taxation given by Adam Smith, There are others to develop by other economists. These cannons given by other economists are as canon of productivity, canon of flexibility, canon of diversity, canon of simplicity and canon of uniformity.

2.4.3 Final Withholdings Payment

As per section 92, the following payments will be taxed as final with holding payments.

- Divided received from resident company.
- Rent for the lease of land or a building and associated fittings and fixtures having a source in Nepal and an individual other than in conducting a business receives that.
- Interest received by a natural person from bank financial institute (but not related to business)
- Gain from investment insurance received from resident entity.
- Amount received from recognized retirement fund.
- Gain from unrecognized retirement fund.
- Meeting fees.
- Amount received from accumulated home or sick leave.
- Part time teaching salary

2.4.4 Exempt Organizations

The Inland Revenue Department (IRD) is responsible to decide where an organization is label to pay tax or not. For getting tax-exempt facility, the organization should apply to the IRD with necessary document that prove the organization.

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

- A religious educational or charitable organization of public character registered without having a profit motive.
- A political party registered with the election commission.
- An amateur sporting association formed for the purpose of promoting social or sporting amenities not involving the acquisition of gain.
- Village Development Committee, Municipality, or District Development Committee.
- Nepal Rastra Bank.
- The Government of Nepal
- An entity that has been declared as exempt organization issuing notice by the government.

2.5 Individual

Individual means a natural person and proprietorship firm whether registered or unregistered owned by the person, if any a couple making an election as single natural person under section 50.

2.5.1 Special Provisions to Individuals

The ITA 2058 and its related laws have mentioned various special provisions to individuals. Self-employer can avail these provisions to save his tax liability. They are as follows.

2.5.1.1 Reduction from Taxable Income

Statutory exemption limit of Rs. 115000/ for individual (Single) and Rs. 140,000 for Couple is allowed to deduct while computing taxable income from the income year 2065/66, Disabled person - 50% of EL.

2.5.1.2 Progressive Tax Rate

1st Rs. 85,000@15% and balance @ 25% should be charge on taxable income after consideration of exemption only for natural resident person. But the Individual operating special industry will enjoy tax conversions on both rates. An individual operating special industry in a remote area will be taxed as follows.

First Rs 115,000 (For individual)	Nil
Next Rs. 85,000	15%
Next balance...	25%

2.5.1.3 Medical Tax Credit

The medical tax credit facility is available to the all taxpayer while computing the tax liability of the natural persons. The medical tax credit of 15 percent of the approved medical bill from the previous year. Maximum amount that can be claimed in the medical tax credit up to Rs. 750 as per rule 17. Further more if the medical tax credit up to Rs. 750, is used but the tax liabilities is less then Rs. 750, such unused amount of medical tax credit is not refundable but it can also be carried forward to next income years

2.5.1.4 Foreign Tax Credit

Amount of in come the tax paid in a foreign country is deductible as tax credit form that tax liability of foreign source income however, such amount does not exceed the average tax rate of Nepal. For this purpose, the average tax rate is calculated as follows

$$\text{Average tax rate} = \frac{\text{Tax liability}}{\text{Taxable income}} \times 100$$

2.5.1.5 Contribution to Approved Retirement Fund

Under section 63 of the Act, Contribution to an approved retirement fund subject to capping threshold set out in the income tax rules, 2059, will be deductible for the income tax purpose by rule 21; in an income year is Rs. 300,000 or 1/3 of assessable income whichever is less.

2.5.1.6 Additional Reduction from Taxable Income in Remote Area

An Individual working in a remote area is entitled to a rebate up to a maximum of Rs. 30,000 by way of additional basic exemption. The exemption limit specified in rule 38 of ITR, 2059 is as under.

Area	A	Rs. 30,000
Area	B	Rs. 24,000
Area	C	Rs. 18,000
Area	D	Rs. 12,000
Area	E	Rs. 6,000

2.5.1.7 Additional Exemption for Pension for Pension Income

In case of pension income, an additional amount of 25% of statutory exemption limit (Rs 115,000 or Rs. 140,000) is allowed to deduct while computing taxable income of an individual of a couple from the income year 2064/65.

2.5.1.8 Life Insurance Premium

Finance ordinance 2065 had provided the facility of reduction from taxable income for the premium not more than seven percent of the insured sum or Rs. 20,000.

2.5.1.9 Capital Gain Tax on Non Business Chargeable Assets

Net gain from disposal of non - business chargeable assets of an individual is taxed at the rate of ten percent.

2.5.1.10 Foreign Allowances

75 percent of foreign allowances received by a Nepalese diplomat are exempt from tax.

2.6 Deduction from Assessable Income

The following payments are allowed for deduction from the assessable income of an individual.

2.6.1 Retirement Contributions to an Approved Retirement Fund

Subject to under section 63 of the ITA 2058, Contribution to an approved retirement fund, subject to a capping threshold, set out in the ITR 2059 will be deductible for the income tax purpose. The limit prescribed by rule 21, in an income _____ year _____ is Rs. 3, 00,000 or one third of assessable income whichever is lower.\

2.6.2 Donation Amount

Donation to approved exempt organizations deductible up to a maximum of Rs. 1, 00,000 or Five percent of the adjusted taxable income. However the GoN may prescribe, by a notification in the Nepal Gazette, as to allow full or partial deduction at the time of assessing income of the expense incase for special purpose or donation given by the person.

2.7 Special Additional Tax

The Finance Ordinance, 2059 had prescribed a special fee at the rate of three percent on taxable income of a person. However, this provision is not applicable to that slab of taxable income where 25% tax rate is applicable. It means special fee is not levied on that slab of taxable income where income tax rate is zero percent and 15 percent in the tax of resident individual or couple similarly it is also levied on and realized from any taxable income in the case of entity and a non resident person. It is noted that special fee is not income tax. However, the income ordinance 2060 has prescribed. The special fee at the rate of one and half percent on such taxable income to be applicable for the income year 2060/061 and onward it means the rate of special fee has been decreased to 1.5 percent in the income year 2060/061 and is change thereafter. Resently F,Y.2064/065 special fee 1.5 % has been totally removed .

2.8 Exemption limit

ITA 2058 has provided basic exemption limit for the resident individual and couple for the income year 2063/064, the exemption limit for individual and couple are Rs.1,15, 000 and Rs. 140,000 respectively.

B. Review of Related Studies

In the course of the study, various books, articles, dissertations and other reference materials were reviewed. Some useful ones are mentioned below.

In 1978, Mr. Kedar Bilas Pandey presented his research report on 'An Analysis of Income Tax in Nepal'. In his study, he has shown the role of direct tax in total revenue and tax revenue, dominant role of indirect tax in Nepalese tax system and the role of income tax to control the inflationary trend of the country. Also he has discussed the legal aspect, role and problems of income tax, structure and economic effect of income tax in Nepal, mode of mobilizing additional resources from income tax.

In 1981, Miss Rojalin Singh Suwal presented a thesis report entitled 'Income Tax System in Nepal.' She has studied the problem and the importance of income tax in solving financial resource gap problem in Nepal. She has also shown the rate and per capita burden of income tax in Nepal. She has shown the trend of income tax and effect of income tax on production in Nepal. Her conclusion was that: income tax is an important source of revenue to mobilize additional resources for planned development moreover from the social point of view. Income tax is regarded moreover from the social point of view. Income tax is regarded as an instrument for equal distribution of income. With a further improvement in tax administration, in future years, an increase of more than 25 percent is expected to be collected every year. The major problems in income tax collection as identified by her were: the absence of clear and comprehensive definition of income, low tax paying capacity and tax consciousness, high tax rates, corruption, etc. She has suggested some factors like increasing tax consciousness to the taxpayers, clear and comprehensive definition of the incomes for improvements to HMG/N regarding tax and tax administration for the collection of income tax in Nepal.

In 1984, Dr. Govind Ram Agrawal has presented a report to Ministry of Finance entitled 'Direct Tax Reforms in Nepal'. In his report, he has shown resource gap

in Nepal was in its increasing trend. So, the dependency on foreign aid was increasing. He has shown an urgent need to mobilize additional resources from domestic resources. He has shown that growth rate of direct taxes had been lower than the growth rate of total revenue as well as total taxes had been lower than the growth rate of total revenue as well as total taxes. Registration fees have the maximum buoyancy whereas income tax has the lowest buoyancy; urban property tax has been found to be most elastic. He has strongly recommended a Revenue Service. Political and other pressures should not be subjected to tax administration. Self-assessment should be encouraged. Assessment of small taxpayers should be on a door-to-door basis. Capital gains should be included in income for income tax purpose. Most of the suggestions recommended by him have been adopted in the new Act.

In 1984, Miss Roshani Shrestha wrote a research report entitled 'Income Tax in Nepal.' She has described the historical background of income tax in Nepal and the role of income tax in Nepalese tax structure. She has studied the problems of income tax in Nepal. She has found that revenue from the income tax is small due to tax evasion, which shows that income tax policy is not well operated and the collective revenue is low. To increase the revenue from taxation, per capita income should first be increased. Growing per capita, real income provides a handed to collect larger tax revenue. To increase income tax revenue, there must be efficient administration. She has suggested that practice of tax evasion must be checked if the taxes are to contribute to the economic to the economic growth of Nepal.

In 1987, Mr. Prem Prasad Timsina wrote a thesis entitled 'Income Tax Evasion in Nepal'. The objectives of his study were: to analyze the structure of income

tax in Nepal, to study the role of income tax in mobilizing resources in Nepal, to examine income tax evasion tendency in Nepal to observe the general opinion about income tax evasion in Nepal, to estimate the volume of income tax evasion in Nepal and to draw suggestions for the elimination of income tax evasion in Nepal. He has shown serious problem of financial resource gap in Nepalese economy. He has stated that income tax evasion tendency by Employment taxpayers are increasing in Nepal. He has pointed out different causes of income tax evasion in Nepal namely-widespread illegal business, high corruption, poor tax paying habit, inefficient tax administration, open border with India and political indiscipline in Nepal viz.-non reporting of income from illegal business, non maintenance of accounts, failure to submit income statements, non reporting of family member's incomes, underreporting of income from different at sources (TDS). He has concluded that income tax evasion is in decreasing trend in Nepal. But due to lack of authentic data, he was unable to prove it statistically.

In 1989, Miss Shanti Baral presented a research report entitled 'Income Tax in Tax Structure of Nepal'. She has shown the contribution of income tax in tax revenue and total revenue of Nepal. She has shown that contribution of direct tax has been decreasing and indirect tax has been increasing. Also she has stated the problems of raising government revenue. Nepalese people's tendency to evade tax has been the main reason of least contribution of direct tax. She has found lack of clear and comprehensive definition of income, lack of punishment to tax evaders, lack of tax consciousness, lack of efficient tax administration, lack of public information and lack of scientific method of tax collection and trained tax collectors as main causes of income tax evasion.

In 1990, Mr. Santosh Raj Poudel and Mr. Prem Prasad Timsina wrote a book 'Income Tax in Nepal.' This book has been written on the Income Tax Act, 2031. They have given a detailed computation of income from various sources. They have also described other theoretical aspects of income taxation. This book was mainly written for the course requirement of Bachelor's level in management. This book is not relevant today, as the Act has been changed. But some description and historical aspects can be drawn for the study.

In 1994, Mr. Sanjaya Acharya in his thesis report entitled 'Income Taxation in Nepal: A Study of its Structure, Productivity and Problems' has assessed the existing problems and future prospects of income taxation in Nepal. He has also analyzed the structure of Nepalese income tax and examined the productivity of income tax revenue in Nepal. He has shown that contribution of individual in total income revenue has the greatest share; central level tax administration seems to be inefficient. He has recommended for the transfer of employees of tax offices in every two or three years of interval in order to check the unofficial linkages between them and the taxpayers, social status of income taxpayers should be higher than non-payers, etc.

In 1994, Mr. Hari Bahadur Bhandari wrote a research report entitled 'Contribution of Income Tax to Economic Development of Nepal'. In his dissertation, he has examined the collection of income tax and its contribution to the economic development of Nepal. He has stated that actual revenue collection in Nepal is lower than the targets set out. For this, he has pointed out some responsible factors like poor tax paying habit of Nepalese taxpayers, poor tax administrative system, widespread income tax evasion, etc. He has also studied the income tax structure, trend of income tax collection, and the share

of contribution of income tax to the development of Nepalese economy. He has put forward some suggestions to overcome those problems such as improving tax administration system, checking income tax evasion, etc.

In 1995, Mr. Balanda Poudel made a study on Nepalese tax structure in his reasearch report entitled 'A Study of Nepalese Tax Structure'. He has made a review of revenue structure of HMG/N, analyzed revenue generation from individual taxes, analyzed the relationship of direct and indirect taxes with total revenue and GDP and assessed various weaknesses and problems of present tax system and put forward suitable recommendation to solve them. He has suggested thattax system will be successful and effective with the political support, administrative efficiency and people's confidence. Given these conditions, the measures to be taken and the policy to be adopted should be such that could generate more revenue for our economic development.

In 1995, Mr. Shiva Narayan Shahu presented a master's level thesis entitled 'Contribution of Income Tax in National Revenue of Nepal'. His study has focused on the role and contribution of income tax in the economic development of Nepal. He has found that very insignificant percent i.e. 0.35 percent of the population of Nepal fall in income tax bracket. He has shown that income tax occupies the fourth rank in the revenue composition of Nepal. Indirect taxes like customs, excise and sales tax occupy first, second and third rank respectively.

In 1996, Mr. Dayaraj Tripathee in his thesis report entitled 'Application of Best Judgment in Income Tax Assessment with reference to income Tax Act, 1974' has shown the role of best judgment in income tax assessment. He has described the existing provision of best judgment in the ITA, 1974 and suggested best judgment assessment especially when taxpayer does maintain regular accounts and if he submits false particulars. Many cases that have filed in Supreme Court regarding income tax

assessment are concerned with best judgment assessment. It has been a source of corruption, as the officials do possess many of these powers to assess the tax. He has suggested implementing VAT system effectively so that best judgment assessment will be minimized and there is less possibility of tax evasion.

In 1996, Mr. Shree Krishna Kharel presented a thesis entitled 'Self Assessment under Income Tax Act in Nepal'. In his work, he has made a review of tax laws about self-assessment, analyzed the problems faced by the assesses while doing the self-assessment of their own income and made relevant recommendation to reform income tax laws as well as administration in future. He has concluded that self-assessment of tax is a suitable means of raising domestic resources and it would be effective if taken seriously. He has further expressed that effectiveness of self-assessment of tax depends upon its appropriate reformation.

In 2001, Miss Binita Shrestha wrote a thesis on 'Revenue Collection from Income Tax in Nepal, Problems and Prospects'. She has analyzed the effectiveness of income tax collection policy, examined the problems of revenue collection from income tax and recommended measures for improvement of income tax law and management in Nepal. She has found that level of income tax collection has been rising. Income tax system of Nepal is suffering from various problems such as narrow tax coverage, mass poverty of Nepalese people, lack of conscious taxpayers, inefficient tax administration, instability in government policy, etc.

In 2002, Mr. Satyendra Timilsina wrote a thesis entitled 'Personal Income Taxation in Nepal: A study of Exemptions and Deductions'. He has analyzed the existing system of tax exemption and the deductions and given suggestions to improve the tax system so that government can collect more revenue and use it

in the process of national development. He has measured the extent of exemption limit provided to the individual and the family and examined its appropriateness to its subsistence requirements and analyzed the existing nature of standard deductions. He has suggested the following:

- Standard deductions should be reintroduced.
- Exemption should be provided to the couple/family considering the dependents.
- Income tax revenue and personal income tax revenue is increasing every year.
- A number of Rs. 40,000 exemptions should be provided in the assumption that employment income of a section officer in a government institution should not be taxed.
- Morale of the tax officials should be increased.

In 2002, Mr. Kamal Deep Dhakal wrote his revised edition of his book 'Aayakar Tatha Ghar-jagga Kar sambandhi Kar ra Lekha'. This book was based on income Tax Act, 2031. This book is very much useful in getting knowledge about the history of taxation and the practice under the previous Act.

In 2003, Mr. Bidhyadhar Mallik published a book named 'Nepal Ko Aadhunik Aayakar Pranali'. This book is very much useful to anyone who is interested in the subject of taxation. In his book, Mr. Mallik has explained Income Tax Act., 2058 with examples wherever necessary. He has presented the complex Act in simple and lucid manner so that it will be easy to understand the Act. He has shared his expertise in his book. His book is descriptive and analytical. All the provisions in the Act have been clarified in simple language. He has also clarified why some of the tax-exempted amounts have been brought into tax net by the new Act. In some cases, he has also compared the provisions of the old Act and the new Act.

In 2003, Mr. Ishwor Bhattarai and Mr. Girija Prasad Koirala published two books named 'Taxation in Nepal' and 'Tax Laws and Tax Planning'. First book has been

designed in conformity with the syllabus of BBS 3rd year and the second one has been designed based on the syllabus of MBS 2nd year. Relevant theoretical and practical aspects have been discussed in the books. Both books have shown how taxable incomes are computed under employment, business and investment sources.

In 2003, Dr. Chandra Mani Adhikari wrote a book entitled 'Modern Taxation in Nepal: Theory and Practice'. This book also has been written according to the syllabus requirement of different faculties. Especially, the BBS third year syllabus of Tribhuvan University has been taken into consideration. Income Tax Act, 2058 as amended by Finance Ordinance, 2060 has also been included. Theoretical as well as practical aspects have been put in the book.

In 2003, Mr. Ishwor Man Rai and Mr. Narayan Prasad Baskota published a book entitled 'Taxation in Nepal'. This book has also been designed according to the syllabus of BBS 3rd year. Computations regarding different sources of incomes have been included in this book.

In 2003, Dr. Puspa Raj Kandel wrote two books on taxation-one book entitled 'Tax Laws and Tax planning' and another 'Nepal Ko Bartaman Kar Byabastha' for BBS third year. He has presented practical as well as theoretical aspects on taxation in these books.

In 2003, Mr. K. P. Aryal and Mr. Surya Prasad Poudel wrote a book entitled 'Taxation in Nepal'. This book is also designed as per the syllabus of BBS third year. They have also included theoretical and practical aspects of taxation in their book.

In 2003, Mr. Surendra Keshar Amatya, Dr. Bihari Binod Pokharel and Rewant Kumar Dahal wrote a book entitled 'Taxation in Nepal'. This book is also designed to meet the requirement of BBS third year syllabus. Theoretical as well as practical aspects of taxation have been included in the book. This book is a descriptive one, not analytical.

In 2004, Mr. Jagadish Agrawal published a book named 'Income Tax: Theory & Practice'. This book is useful to anyone who is interested in the subject of taxation. In his book, Mr. Agrawal has explained Income Tax Act, 2058. He wants to serve all the concerned people like tax Practitioner, Chartered Accountants, Registered Auditors, Accountants, and other Managerial Personnel in big organization. The book is also sources of information on the subject of income tax. He brief explain fixed assets &

depreciation treatment on income tax purpose, Mr. Agrawal provides a schedule for depreciation.

In 2004, Mr. Girija Prasad Koirala prepared a master's level thesis entitled on 'Contribution of income tax from employment income to Public Revenue of Nepal'. Mr. Koirala has mentioned about tax and non-tax revenue in Nepal, composition of direct tax and indirect tax revenue in Nepalese tax structure, structure of direct tax in Nepal. Contribution of income tax in total revenue, tax revenue and direct tax revenue of Nepal, tax/GDP ratios including SAARC countries and other countries for 1997, structure of income tax in Nepal and contribution of income tax from Employment in total revenue, total tax revenue, direct tax revenue and income tax revenue of Nepal. Accordingly, he has done empirical investigation on the basis of primary data collected by survey method. He has suggested various alternative and provisions that should be done regarding taxation of employment income after the detailed analysis of empirical study.

In 2005, Mr. Jhalak Mani Lamsal presented his master's level thesis on 'Effectiveness of Employment Tax in Nepal'. The objectives of his study were: to find out the contribution of Employment tax on income tax, to identify the major problems and weakness of Employment tax in Nepal and to check out the major facilities & benefits provided by income tax Act 2058 on the employment tax. He has find out that out of the total tax revenue, the contribution of income tax revenue is very low and suggest increasing the contribution of income tax in the public revenue, the focus should be given in the various tax incentives programs with the help of sound tax planning. He has also suggested that income tax from employment has very much significant contribution in total tax revenue. It should be increased. The collection and tax assessment provision should be made clear and simple so those taxpayers would be encouraged to pay income tax.

In 2005, Mr. Uttam Gautam presented his reasearch report entitled 'A Study of Deductions and Exemptions'. He has studied the exemptions and deductions provided by Income Tax Act, 2058 objectives of his studies were: To analyze the exemptions of income which are provided by the tax Act. To study the provision of exemptions limit provided to individual, couple and family, to analyze the deductions of expense, which are allowed by the income tax Act, and to find out the contribution of income tax in public revenue of Nepal. He has suggested the followings.

- In the agricultural income, there must be some exemption limit and the income above this limit must be taxed.
- The exemption limit must be adjusted according to the inflationary situation of the country on yearly basis.
- 10% of tax rebate should be provided to the tax payers who submit true statement within the specified period of time.
- Double taxation on dividend must be eliminated.
- Clear provisions should be made in the case of education.
- All the items of deductions should be clearly defined in the Act.
- Laws relating to income tax should be clear, simple and comprehensive. It should not contain any loopholes and ambiguity. Therefore it should be reviewed frequently and reformed.
- The success of effectiveness of any system entirely depends upon implementation provision, which is the major responsibility of administration in Nepal; one of the most important unsound income tax systems is efficient and unscientific income tax administration.

In 2006, Mr. Dansi Ram Bhandari presented a reasearch report named ‘Taxation knowledge of tax payers in Nepal’. He tried to know the views of taxpayers about Nepalese tax system. He also tried to make relevant suggestion and to generate practical ideas of modern taxation for the taxpayers. He has commended that to increase good knowledge of income tax to taxpayer clear income tax laws, dynamic tax administration, stability of economic and taxation policy played important role. He has also suggested that to increase income tax knowledge of taxpayers, tax related information should be published regularly.

In 2006, Mr. Jit Bahadur K.C wrote a book entitled “Tax laws and tax planning” for MBS second year. He has presented practical as well as theoretical aspects on taxation in this book. This book is useful to any one who is interested in the subject of taxation. This book is also useful to research work.

In this way, various thesis, reports and articles have been reviewed while preparing this research report Books are found mainly based on Tribhuwan University (T.U) syllabus

requirement of T.U. Almost theses were written on different aspects of income taxation. Thus, this study remains a unique and original.

CHAPTER III

RESEARCH METHODOLOGY

This chapter is devoted to the research methodology applied in the study to achieve the goals. Both primary and secondary sources of data were used in the study. Opinion survey technique was adopted while collecting primary data. Questionnaires were distributed to income tax experts and employees so as to know their opinion towards various aspects of income from resident person. Economic survey was used as the major source of secondary data. Different statistical tools were used to analyse the data. In this study, correlation, simple average, percent and chi-square test for hypothesis have been used to analyse the collected data.

3.1 Research Design

Most of the material of this study was concerned with past phenomena of the performance in numerical or theoretical terms. The study was oriented to:

(I) Analytical Research

In analytical research, the researcher used the facts and the information already available and analyses to make a critical evaluation of the materials. Analytical research had been carried out in terms of role of total tax revenue, income tax revenue and taxes of resident persons in the public revenue of Nepal.

(ii) Descriptive Research

Include survey and fact-finding enquires of different kinds. It is concerned with finding of facts relating to the subject matter, obtaining important data and getting of knowledge by describing them. Descriptive research has been carried out the study of income tax and income from employment.

3.2 Population and Sample

All the tax expert and taxpayers in Nepal were considered as total population. Out of them, the experts and taxpayers in Kathmandu valley were considered as target sample. The denominations of the respondents have been presented in table 3.1

Table: 3.1

Group of Respondents and Sample Size.

S.No.	Denomination of the respondents	Sample
1.	Tax experts	30
2.	Employees	30
	Total	60

3.3 Nature and Sources of Data

Both primary and secondary data were used in the study. The primary data were the opinion of experts and employees regarding employment tax. Primary data were obtained through questionnaire method followed in most cases face to face interviews/discussions with the selected persons included in the purposive sample.

The secondary sources of data were the statistic relating to tax published by the Government of Nepal. They are obtained from Economic survey, bulletins etc.

3.4 Selection of the Respondents

After careful study of the subject matter, a set of questionnaire was developed and distributed to two respondent groups' viz .tax experts and employees. Tax experts comprises of chartered accountants, lawyers, professors and MBS student (Major tax) Employees comprises of employees of government organisations and other private organisations.

3.5 Data Collection Procedure

A set of questionnaire was developed and distributed to the selected respondents in order to get Actual and accurate information. Distribution work was done personally rather than sending by any other means. Additional was collected from interviews with the respondents.

3.6 Procedures of Processing and Analysis of Data

The information collected from primary and secondary sources were first tabulated in to separate format systematically in order to achieve the desire objectives. The data were then tabulated in to various tables according to the subject in order. Then simple analysis was done by using statistical tools such as percent, average, correlation, chi-square (χ^2) test for hypothesis etc.

Available data were presented and analysed in description way. In primary data analysis, some hypothesis was tested to know whether there was significant difference between the opinion of tax experts and taxpayers.

3.7 Weightage of the Choice

The questionnaire asked for either to give yes/no response or to give their opinions. Respondents were also given alternatives to rank. In this case, the first preferred choice got the highest point and the last preferred choice got the

lowest point. The total points got by each alternative were converted in to percent of total points available to the all alternatives. The alternative with the highest percent was ranked as most important and the alternative with the lowest percent was ranked as the least important, For example, if there were five points alternatives, the most important ranked by the respondents got five points and the least important alternative ranked by the respondents got one point. The alternative, which was not ranked, does not get any points.

3.8 Profile of Respondents

Questionnaires were distributed to fifty respondents- tax experts and employees. All of them, questionnaires were received form both groups. The following table reveals the different numbers and percent of the respondents.

Table 3.2

Profiles of Respondents

S.N.	Respondents	Total sample		Responses received	
		No.	%	No	%
1.	Tax experts	30	50	30	50
2.	Employees	30	50	30	50
	Total	60	100	60	100

Source: Primary data

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter deals with the presentation, analysis and interpretation of relevant data of taxation in order to fulfill the objective of this study. To obtain best result the data has been analyzed according to the research methodology as mentioned in third chapter. Pant (1998) writes that a report can be worth less if interpretation is faulty, even if valid and reliable data have been collected.

The data after collection help to be processed and analyzed in accordance with the outline lay down for the purpose at the time of developing the research plan. The purpose of this chapter is to introduce to the mechanics of data analysis and interpretation. Giles Studies (as cited in Kothari 2004) explores that data analysis is the relationships or differences supporting or conflicting with original or new hypothesis or differences supporting or conflicting with original or new hypothesis should be subjected to statistical test of significance to determine with what validity data can be served to indicate and conclusion”

4.1 Analysis of Secondary Data

This chapter focuses on the presentation and analysis of secondary data. The secondary data have been obtained from economic survey, budget speech and other related newspapers. The available data related to the study have been tabulated, presented, analyzed and interpreted to reach at some findings.

The data collected from economics survey and other related newspapers have been analyzed by dividing into 10 sub-headings. They are: structure of government revenue in Nepal; tax and non-tax revenue of Nepal; Structure of direct tax in Nepal.

Contribution of income tax in total revenue total tax revenue and direct tax revenue of Nepal, Structure of income tax in Nepal, Contribution of employment tax to total tax, direct tax and income tax revenue of Nepal, Estimation and collection of employment income tax in Nepal, Structural composition of income tax collection in Nepal and fiscal and resource gap in Nepal for the thirteen -year period i.e. from the F.Y 1994/95 to F.Y 2006/07.

4.1.1 Structure of Government Revenue in Nepal

Government revenue of Nepal is comprised of tax revenues and non-tax revenues. Tax revenues consist of customs, tax on consumption & product of goods and services, land revenue & registration and tax on property, profit & Income. Similarly Non-Tax Revenue includes Charges, Fees, Fines and Forfeiture, Receipts from sales of commodities and services, Dividend, Royalty and sale of Fixed Assets, Principal and Interest payment, and miscellaneous items. The structure of government revenue in Nepal has been presented in table 4.1 and 4.2 for theirteen -year period from F.Y 1994/95 to F.Y 2006/07.

Table 4.1

Structure of Government Revenue in Nepal from F.Y. 1994/95-F.Y. 2006/07.

Rs. in Million

F/Y	Customs	Tax on consumption & product of goods and services	Land Revenue & Registration	Tax on property, profit & income	Total Tax Revenue	Non-tax Revenue	Total Revenue
1994/95	7,018.1	8,792.6	937.7	2,911.6	1,966.0	4,945.1	24,605.1
1995/96	7,327.4	9,684.7	1,066.6	3,589.3	21,668.0	6,225.1	27,893.1
1996/97	8,309.1	10,775.2	1,015.4	4,324.6	24,424.3	5,949.2	30,373.5
1997/98	8,502.2	11,249.7	1,004.2	5,183.7	25,939.8	6,998.1	32,937.9
1998/99	9,517.7	11,719.1	1,003.2	6,512.9	28,752.9	8,498.4	37,251.3
1999/00	10,813.3	13,387.3	1,015.9	7,935.6	33,152.2	9,741.6	42,893.7
2000/01	12,552.1	16,153.6	612.9	9,546.5	388,65.11	10,028.6	48,893.7
2001/02	12,658.8	16,074.3	1,131.8	9,465.7	39,330.6	11,114.9	50,445.5
2002/03	14,236.4	18,244.8	1,414.3	8,691.5	42,586.9	13,642.9	56,229.8
2003/04	15,554.8	20,705.6	1,697.5	10,215.1	48,173.0	14,158.0	62,331.0
2004/05	15,701.6	25,331.3	1,799.2	11,272.6	54,104.7	16,018.0	70,122.7
2005/06	15344	28118.3	2181.1	11787	57430.4	14851.6	72282.1
2006/07	16708	35439	2253.5	16727	71127	16590	87712.1

Source: *Economic Survey 2006/07, Ministry of Finance, GON.*

Table 4.2

Structure of Government Revenue in Nepal, from F.Y.1994/95 to F.Y 2006/07 in percent.

F/ Y	Customs	Tax on consumption & product of goods & services	Land Revenue & Registration	Tax on Property profit & Income	Non-tax Revenue	Total
1994/95	28.52	35.73	3.81	11.83	20.10	100
1995/96	26.27	34.72	3.82	12.87	22.32	100
1996/97	27.36	35.47	3.34	14.24	19.58	100
1997/98	25.81	34.15	3.05	15.74	21.25	100
1998/99	25.55	31.46	2.69	17.48	22.82	100
1999/00	25.21	31.21	2.37	18.5	22.71	100
2000/01	25.67	33.03	1.25	19.53	20.52	100
2001/02	25.09	31.86	2.24	18.76	22.03	100
2002/03	25.32	32.44	2.52	15.46	24.26	100
2003/04	24.96	33.22	2.72	16.39	22.71	100
2004/05	22.39	36.12	2.57	16.08	22.84	100
2005/06	21.22	38.90	3.01	16.30	20.54	100
2006/07	19.04	40.40	2.57	19.07	18.91	100

Referring table 4.1 and 4.2, by the various tax and non-tax revenues, tax on consumption and product of goods and services has the highest percent of contribution towards total revenue of Nepal. Its contribution in millions of rupees has been increasing per year. In F.Y 1994/95, total revenue was 24,605.1 millions and tax on consumption and product of goods and services was Rs 8,792.6 millions; which indicates 35.73% tax on consumption and product of goods and services to total revenue. In F.Y 2006/07, out of total revenue Rs 87712.1 millions, tax on consumption and product of goods and services has the share Rs. 35439 millions, which means

40.40% contribution. The mean contribution of tax on consumption and product of goods and services over the thirteen years is 34.5% of the total revenue of Nepal.

The customs occupied the second place among the total revenue. The contribution of customs has been showing increasing trend. In the F.Y. 1994/95, out of total revenue of Rs 24,605.1 millions, Rs. 7,018.1 millions was raised from customs. It means 28.52% contribution to the total revenue by customs. In F.Y 2006/07, Rs 16708 millions has been raised from customs out of total revenue of Rs.87712.1 millions. The mean contribution of customs over the 13-year period is 24.46% i.e. highest revenue source in the total revenue of Nepal.

Non-tax revenue occupies the third place regarding its contribution to total revenue of Nepal. Its contribution was Rs 4,945.1 millions in F.Y 1994/95 and Rs. 16590 millions in F.Y 2006/07. It has been increasing per year except in year 1996/97. The mean contribution of non-tax revenue over the 13 years comes to be 21.79 percent.

Tax on property, profit and income occupied the fourth place regarding its contribution to the total revenue of Nepal. Tax on property, profit and income consists of income tax from public enterprises, income tax from semi-public enterprises, income tax from private corporate bodies, income tax from individuals, income tax from Employments, urban house and land tax, vehicle tax, tax on interest and other taxes. It has share of Rs 2,911.6 millions and Rs. 16727 millions in years F.Y 1994/95 and F.Y 2006/07 respectively i.e. 11.83% contribution in F.Y 1994/95 and 19.07% contribution in F.Y 2006/07. It has been increasing per year in year 2000/01 and then after decreasing. The mean contribution of tax on property, profit and income in total revenue of Nepal is 16.32 percent.

Land revenue and registration has the lowest average contribution of 2.64 percent in total revenue of Nepal. Its contribution in F.Y 1994/95 was Rs. 937.7 millions i.e. 3.8 percent and in F.Y 2006/07 was Rs. 2253.5 millions i.e. 2.57 percent in total revenue of Nepal. The percent contribution has been fluctuating

but amount contribution in total revenue has been increasing per year except for certain years.

4.1 .2 Tax and Non-Tax Revenue in Nepal

Total revenue of Nepal consists of tax- revenue and non-tax revenue. Tax revenue consists of customs, excise, sales tax, income tax, land revenue and registration and miscellaneous taxes. Similarly, non-tax revenue comprises of charges, fees, fines and forfeiture, receipts from sales of commodities and services, dividend, royalty and sale of fixed assets, principal and interest payments and others.

Table 4.3

Composition of Tax and Non-Tax Revenue in Nepal from F.Y 1994/95 - F.Y 2006/07.

Rs. in Million

F.Y	Total Revenue	Tax Revenue	In Percent (%)	Non-Tax Revenue	In Percent (%)
1994/95	24,605.1	19,660.0	79.90	4,945.1	20.1
1995/96	27,893.1	21,668.0	77.68	6,225.1	22.32
1996/97	30,373.5	24,424.3	80.41	5,949.2	19.59

1997/98	32,937.9	25,939.8	78.75	6,998.1	21.25
1998/99	37,251.3	28,752.9	77.19	8,498.4	22.81
1999/00	42,893.7	33,152.2	77.29	9,741.6	22.71
2000/01	48,893.7	38,865.0	79.49	10,028.6	20.51
2001/02	50,445.5	39,330.6	77.97	11,114.9	22.03
2002/03	56,229.8	42,568.9	75.74	13,642.9	24.26
2003/04	62,331.0	48,173.0	77.28	14,158.0	22.72
2004/05	70,122.7	54,104.7	77.16	16,018.0	22.84
2005/06	72282.1	57430.4	79.56	14851.6	20.55
2006/07	87712.1	71127	81.09	16590	18.91

Source: Economic Survey 2006/07, Ministry of Finance, GON.

Table 4.3 showed the composition of tax and non-tax revenues in Nepalese revenue structure for the eleven years i.e. from F.Y. 1994/95 to F.Y 2006/07. In Nepalese revenue structure, tax revenue has always been nearly four times of non-tax revenue. This means the heavy contribution of tax revenue in total revenue of Nepal. The amount of tax revenue has been increasing per year, but percent contribution of tax revenue in total revenue has been fluctuating. In F.Y 1994/95, out of total revenue of Rs. 24,605.1 millions, 79.90 percent i.e. Rs. 19,660 millions has been contributed by tax revenue. Its contribution in F.Y 2006/07, out of total revenue of Rs. 87712.1 millions, Rs. 71127 millions has been collected from tax revenue. The mean contribution of tax revenue over the 13 years period is 78.20 percent.

Non-tax revenue was the lowest contribution as compared to tax revenue. Its contribution to total revenue has been increasing trend except in year 1996/97. In F.Y 1994/95, Rs. 4,945.1 millions has been collected as non-tax revenue out of total revenue Rs. 24,605.1 millions, which is about 20.1 percent of total revenue. Its contribution over the 13 years period has been fluctuating in F.Y

2006/07, out of total revenue of Rs. 87712.1 millions, Rs 16590 millions has been contributed from non tax revenue. The mean contribution of non-tax revenue is the 13 years period is 21.87 percent.

4.1.3 Direct Tax and Indirect Tax Revenue in Total Tax Revenue of Nepal

Total revenue consists of tax revenue and non-tax revenue. Total revenue consists of direct tax revenue and indirect tax revenue. Table 4.4 shows the composition of direct tax and indirect tax revenue in total tax revenue of the country from the F.Y 1994/95 to F.Y 2006/07. Direct tax includes income tax, land revenue and registration, urban house and land tax, property tax, vehicle tax, etc. Indirect tax includes customs, excise, VAT, entertainment tax, hotel tax, air flight tax, contract tax, road and bridge maintenance tax.

Table 4.4

**Contribution of Direct and Indirect Tax in Total Revenue of Nepal from F.Y
1994/95 - F.Y 2006/07.**

Rs. in
Million

F. Y	Total Tax Revenue	Direct Tax Revenue	Percent (%)	Indirect Tax Revenue	Percent (%)
1994/95	19,660.0	3,849.3	19.58	15,810.7	80.42
1995/96	21,668.0	4,655.9	21.49	17,012.1	78.51
1996/97	24,424.3	5,340.0	21.86	19,084.3	78.14
1997/98	25,939.8	6,187.9	23.85	19,751.9	76.15
1998/99	28,752.9	7,516.1	26.14	21,236.8	73.86
1999/00	33,152.2	8,951.5	27.00	24,200.6	73.00
2000/01	38,865.0	10,159.4	26.14	28,705.7	73.86
2001/02	39,330.6	10,597.5	26.94	28,733.1	73.06
2002/03	42,586.9	10,105.7	23.73	32,481.2	76.27
2003/04	48,173.0	11,912.5	24.73	36,260.5	75.27

					Registr ation			
1994/95	3,849.3	100	2,823.5	73.35	937.7	24.36	88.2	2.29
1995/96	4,655.9	100	3,431.4	73.70	1,066.6	22.91	157.9	3.39
1996/97	5,340.0	100	4,123.4	77.22	1,015.4	19.01	201.2	3.77
1997/98	6,187.9	100	4,898.1	79.16	1,004.2	16.23	285.6	4.61
1998/99	7,516.1	100	6,170.2	82.09	1,003.2	13.35	342.7	4.56
1999/00	8,951.5	100	7,420.6	82.90	1,015.9	11.35	515.0	5.75
2000/01	10,159.4	100	9,114.0	89.71	612.9	6.03	432.5	4.26
2001/02	10,597.5	100	8,903.7	84.02	1,131.8	10.68	562.0	5.3
2002/03	10,105.7	100	8,131.9	80.47	1,414.3	14.0	559.5	5.53
2003/04	11,912.5	100	9,514.4	79.87	1,697.5	14.25	700.6	5.88
2004/05	13,071.9	100	10,466. 2	80.07	1,799.2	13.76	806.5	6.17
2005/06	13968.1	100	10939.4	79.86	2181.1	15.61	847.6	6.07
2006/07	18980.5	100	15732	82.88	2253.5	11.87	995	5.24

Note: 1. Miscellaneous Taxes included urban house and land tax and vehicle tax. Income tax occupied the highest rank among various taxes in direct tax revenue. Income tax revenue consists of income tax from public enterprise, semi public enterprise, private corporate bodies, individuals, Employment, tax on interest and other taxes. The contribution of income tax revenue has been showing an increasing trend except in years 2001/02 and 2002/03. In F.Y 1994/95, out of direct tax revenue of 3,849.3 millions, Rs. 2,823.5 millions has been contributed by income tax revenue. This is about 73.35% of the total direct tax revenue. In F.Y 2006/07, out of total direct tax revenue of Rs. 18980.5 millions, Rs. 15732 millions has been contributed by income tax revenue. It is about 82.88% of the total direct tax revenue. The mean contribution of income tax over the 13 years period comes to be at 81.23 percent of the direct tax revenue of Nepal.

Land revenue and registration occupied the second place among direct tax revenues. The trend of land revenue and registration is fluctuating. In F.Y

1994/95, out of total direct tax revenue of Rs. 3,849.3 millions, Rs. 937.7 millions was contributed by land revenue and registration. It is 24.36% of total direct tax revenue. In F.Y 2006/07, total direct tax revenue was Rs. 18980.5 millions and land revenue and registration amounted to Rs. 2253.5, which is 11.87% of direct tax revenue. The mean contribution of land revenue and registration over the 13-year period comes to be at 13.75% of the direct tax revenue of Nepal.

Miscellaneous taxes occupied third and last position among various taxes. The trend of miscellaneous taxes has been fluctuating. In F.Y 1994/95, Rs. 88.2 million has been collected as miscellaneous taxes. It was 2.29 percent of total direct tax revenue. In F.Y 2006/07, Rs. 995 million has been collected as miscellaneous taxes out of Rs. 18980.5 millions of direct tax. It was 5.24 percent of total direct taxes.

4.1.5 Structure of Income Tax in Nepal

Nepalese income tax structure is formed by contribution of income tax from public enterprises, semi-public enterprises. Private corporate bodies, individuals, Employment, tax on interest and others. This has been presented in table 4.6 and 4.7. Here, public enterprises consist of 100% government ownership and semi-public enterprises include 51% government ownership. Private corporate bodies mean public limited companies; individuals denote sole traders, partnership and private companies. Employment refers to salaries earned by government and non-government sectors employers.

Table 4.6

Composition of Income Tax in Nepal from F.Y 1994/95 - F.Y 2006/07.

Rs. in Million

F/Y	Total Income Tax Revenue	Public Enterprise	Semi-Public Enterprise	Private Corporate Bodies	Individuals	Employments (Remunerations)	Tax on Interest	Other Taxes
1994/95	2,823.5	860.2	-	440.1	1,293.1	118.4	111.6	-
1995/96	3,431.4	1,144.5	-	563.9	1,470.1	133.1	119.8	-
1996/97	4,123.4	1,231.1	-	858.4	1,711.4	168.1	154.4	-
1997/98	4,898.1	1,317.8	-	925.1	2,120.8	322.2	212.2	-
1998/99	6,170.2	1,526.5	-	1,155.0	2,772.7	396.5	319.5	-
1999/00	7,420.6	2,198.8	-	1,339.5	3,016.4	451.5	414.4	-
2000/01	9,114.0	2,928.0	0.00	1,924.3	3,200.5	597.3	463.9	-
2001/02	8,903.7	1,769.3	0.00	1,412.0	4,419.1	835.6	467.7	-
2002/03	8,131.9	1,251.0	0.00	1,236.3	3,362.2	1,252.6	864.0	165.8
2003/04	9,514.5	2,056.6	0.00	1,531.3	3,533.4	1,391.2	733.4	268.6
2004/05	10,466.1	1,332.4	0.00	2,467.8	3,926.3	1,675.9	757.0	306.7
2005/06	10939.4	1957	0.00	340453	4234.7	1764.1	774.9	565.7
2006/07	15732	1019.7	0.00	5717.1	5234.4	2007.9	1054.9	697.8

Source: *Economic Survey 2006/07, Ministry of Finance, GoN.*

From the above table, total income tax revenue seemed to have an increasing trend up to FY 2000/01. Then in 2001/02, and 2002/03, it is in decreasing trend. In F.Y 1994/95 Rs. 2,823.5 millions was raised from income tax revenue. In F.Y 2006/07, Rs 15732 millions was raised as income tax revenue.

The income tax contribution of individuals has occupied first position in total income tax revenue of Nepal. In F.Y 1994/95, Rs 1,293.1 millions was raised from individuals as income tax. From then, it has been increasing trend up to 2001/02. Then it is significantly decreasing in year 2002/03 amounts Rs 1,056.90 millions i.e. by 23.92%. In the F.Y 2006/07, out of total income tax revenue of Rs. 15732 millions, Rs. 5234.5 millions has been raised from

individuals. It is about 33.27% contribution by individuals in the total income tax revenue. The mean contribution of income tax from individuals in total income tax revenue from F.Y 1994/95 to F.Y 2006/07 has been computed to be 40.22 percent.

Income tax from public enterprises has occupied second position regarding its contribution in total income tax revenue of Nepal. In F.Y 1994/95, out of total income tax revenue of Rs. 2,823.5 millions, Rs. 860.2 millions has been contributed by public enterprises.. Its contribution has been increasing trends up to 2000/01. Then it is in decreasing trends in 2001/02, 2002/03. In F.Y 2004/05 out of total income tax revenue of Rs.15732 millions, Rs.1019.7 millions has been contributed by public enterprises. . The mean contribution of income tax from public enterprise in total income tax revenue has been computed to be 26.23 percent.

Private corporate bodies occupied third position out of total income tax revenue. In F.Y 1994/95, private corporate bodies paid Rs.440.1 millions out of Rs.2,823.5 millions total income tax revenue, i.e. private corporate bodies contributed 15.59% of total income tax revenue in F.Y 2006/07. Its contribution has been increasing trends up to 2000/01 and then it is decreased in the year 2001/02 and 2002/03. In F.Y 2006/07, out of total income tax revenue of Rs.15732 millions, private corporate bodies have contributed Rs.5747.1 millions. The average contribution of private corporate bodies from F.Y 1994/95 to F.Y 2006/07 comes to be 20.81 percent.

Income tax from employment (remuneration) has occupied fourth position in total income tax revenue of Nepal. In the F.Y 1994/95, total income tax revenue was Rs. 2,823.5 millions and Rs.118.4 millions was contributed by employment

income tax. Income tax from employment has been increasing in all the fiscal years. In F.Y 2006/07, total income tax revenue was Rs.15732 millions included Rs.2007.9 millions as income tax from Employment. It is significantly increase in the F.Y 2006/07 amounted by Rs.243.8 millions which shows that contribution of employment tax has been significantly increase in recent years. The mean contribution of tax from Employment on total income tax revenue came to be about 10.50 percent.

Tax on interest has occupied fifth position in total income tax revenue. In F.Y 1994/95, Rs.111.67 millions was collected as tax on interest out of Rs.2823.5 millions of total income tax revenue. Interest tax has been increasing trends in all the years except 2003/04 to 2005/6. In F.Y 2006/07, out of total income tax revenue of Rs.15732 millions, Rs.1054.9 millions has been collected as interest tax.. The mean contribution of tax on interest came to be 6.27 percent of total income tax revenue.

Semi-public enterprises and other taxes have very much insignificant contribution in income tax revenue. Contribution of semi-public enterprises to income tax revenue has been nil. The mean contribution of other taxes to income tax revenue from F.Y 1994/95 to F.Y 2006/07 came to be nearly 1.37 percent.

Contribution of public enterprise, semi-Public enterprises, Private corporate bodies, individuals, Employments, Tax on interest and other taxes to total income tax revenue is shown as table 4.7.

Table 4.7

**Composition of Income Tax in Nepal from F.Y 1994/95 - F.Y 2006/07 in
percent**

F.Y	Total Income Tax Revenue	Public Enterpri se	Semi- Public Enterpri se	Private Corpora te Bodies	Individua ls	Employm ents	Tax on Interest	Other Taxes
1994/95	100	30.47	-	15.59	45.80	4.19	3.95	-
1995/96	100	33.35	-	16.43	42.84	3.88	3.49	
1996/97	100	29.86	-	20.82	41.50	4.08	3.74	-
1997/98	100	26.90	-	18.89	43.30	6.58	4.33	-
1998/99	100	24.74	-	18.72	44.94	6.43	5.18	0
1999/00	100	29.63	-	18.05	40.65	6.08	5.58	0
2000/01	100	32.13	0	21.11	35.12	6.55	5.09	0
2001/02	100	19.87	0	15.86	49.63	9.38	5.25	0
2002/03	100	15.38	0	15.20	41.34	15.40	10.62	2.04
2003/04	100	21.61	0	16.09	37.14	14.62	7.71	2.82
2004/05	100	12.73	0	23.58	37.51	16.01	7.23	2.93
2005/06	100	17.89	0	31.11	38.71	16.12	7.08	5.17
2006/07	100	6.48	0	36.34	32.27	12.7	6.70	4.89

Source: *Economic Survey 2006/07, Ministry of Finance, GON.*

Total Income tax revenue is the combination of income from public enterprise, semi public enterprise, private corporate bodies, individual Employments, tax on interest and other taxes. Total income tax revenue is 100 percent. Income tax contribution of individuals has occupied first position in Income tax revenue of Nepal. In F.Y 1994/95, 45.80 percent of income tax revenue was raised from individuals. The percent contribution of individuals has been fluctuating trend. In F.Y 2006/07, it contributed only 32.27 percent. The mean contribution of income tax from individuals in total income tax revenue from F.Y 1994/95 to F.Y 2006/07 has been computed to be 40.23 percent.

The percent contribution of public enterprises occupied second position in total income tax revenue of Nepal. Its percent contribution has been also fluctuating

trend. In F.Y 1994/95, the percent contribution of public enterprises to total income revenue was 30.47 percent. But in F.Y 2006/07, this is about 64.8percent. The mean contribution of income tax from public enterprise in total income tax revenue has been computed to be 26.23 percent.

Private corporate bodies occupied third position out of total income tax revenue. In F.Y 1994/95, Private corporate bodies contributed 15.59 percent of total income tax revenue. Its percent contribution has been fluctuation trends. In F.Y 2006/07, It is about 36.34 percent contribution in total income tax revenue of Nepal. The average contribution of private corporate bodies to income tax revenue from F.Y 1994/95 to F.Y 2006/07 comes to be 20.61 percent.

The percent contribution of income tax from employment has occupied fourth position in total income tax revenue of Nepal. In F.Y 1994/95, 4.19 percent was contributed by Employments tax. In F.Y 2006/07, its contribution is 12.79 percent. the mean contribution of tax from employment on total income tax revenue came to be about 10.45 percent.

Contribution of tax on interest has occupied fifth position in total income tax revenue. In F.Y 1994/95, 3.95 percent of total income tax revenue was collected from tax on interest. In F.Y 2006/07, it is 6.70 percent of total income tax revenue; the mean contribution of tax on interest comes to be 6.27 percent of total income tax revenue.

Semi-Public enterprise and other taxes have very much insignificant percent contribution on in income tax revenue. The percent contribution of semi public enterprises to income tax revenue has been nil. The mean contribution of other

taxes to income tax revenue from F.Y 1994/95 to F.Y 2006/07 came to be nearly one percent.

4.1.6 Contribution of Income Tax in Total Revenue, Total Tax Revenue and Direct Tax Revenue of Nepal

Nepal is facing a serious and growing fiscal resource gap and her need for mobilizing additional financial resources from domestic sources through taxation has been urgent. The base for levying taxes may be consumption, income and capital. Taxes on income and capital are known as direct taxes whereas taxes on consumption are known as indirect taxes. Tax structure of Nepal is composed of both direct and indirect taxes. Income tax has been playing a vital role to generate government revenue for the economic development of the nation.

Table 4.8

Contribution of Income Tax in Total Revenue, Total Tax Revenue and Direct Tax Revenue of Nepal from F.Y 1994/95 - F.Y 2006/07 (In %)

F Y	Income Tax Revenue	Total Revenue	%	Total Tax Revenue	%	Direct Tax Revenue	%
1994/95	2,823.5	24,605.2	11.47	19,660.0	14.36	3,849.3	73.35
1995/96	3,431.4	27,893.1	12.30	21,668.0	15.84	4,655.9	73.70
1996/97	4,123.4	30,373.5	13.58	24,424.3	16.88	5,340.0	77.22
1997/98	4,898.1	32,937.9	14.87	25,939.8	18.88	6,187.9	79.16
1998/99	6,170.2	37,251.3	16.56	28,752.9	21.46	7,516.1	82.09
1999/00	7,420.6	42,893.7	17.30	33,152.2	22.38	8,951.5	82.90
2000/01	9,114.0	48,893.7	18.64	38,865.1	23.45	10,159.4	89.71
2001/02	8,903.7	50,445.5	17.65	39,330.6	22.64	10,597.5	84.02
2002/03	8,131.9	56,229.8	14.46	42,586.9	19.09	10,105.7	80.47
2003/04	9,514.5	62,331.0	15.26	48,173.0	19.75	11,912.5	79.87
2004/05	10,466.1	70,122.7	14.92	54,104.7	19.34	13,071.9	80.06
2005/06	10939.4	72282.1	15.13	57430.4	19.04	13968.1	78.32
2006/07	15732	87712.1	17.93	71127	22.11	18980.5	82.88

Source: *Economic Survey 2006/07, Ministry of Finance, GON.*

Income Tax in Total Revenue of Nepal

The percent contribution of income tax in total revenue of Nepal has been presented in table 4.8. Its contribution on total revenue has fluctuating trend. In the F.Y 1994/95, total revenue was Rs. 24,605.1 millions and income tax revenue was Rs. 2,823.5 millions. It was about 11.47% of total revenue of Nepal. In F.Y 2006/07, total revenue was Rs. 87712.1 millions and income tax revenue was Rs. 15732 millions. It is about 17.93% of total revenue.

Income Tax in Tax Revenue of Nepal

The percent contribution of income tax revenue in total tax revenue is presented in table 4.8. In the F.Y 1994/95, out of total tax revenue of Rs. 19,660 millions, Rs. 2,823.52 millions has been contributed by income tax revenue. It is 14.36% contribution by income tax revenue. In F.Y 2006/07, out of total tax revenue of Rs. 71127 millions, Rs. 15732 millions has been contributed by income tax revenue. It is 22.11% contribution by income tax revenue in tax revenue of Nepal.

Income Tax in Direct Tax Revenue of Nepal

The percent contribution of income tax revenue in direct tax revenue is presented in table 4.8. In the F.Y 1994/95, out of direct tax revenue of Rs. 3849.33 millions, Rs. 2823.5 millions has been contributed by income tax revenue. It is 73.35% of direct tax revenue was collected as income tax revenue. In F.Y 2006/07, out of total direct tax revenue of Rs. 18980.5 millions, Rs. 15732 millions has been contributed by income tax revenue. It is 82.88% of total direct tax revenue.

4.1.7 Contribution of Income Tax from Employment in Total Revenue, Total Tax Revenue, Direct Tax Revenue and Income Tax Revenue of Nepal:

Income Tax from Employment in Total Revenue of Nepal

Income tax from Employment has very much insignificant contribution in total revenue of Nepal. In F.Y 1994/95, total revenue was Rs. 24,605.19 millions and income tax

from Employment was Rs. 118.4 millions. It was about 0.48% contribution. The contribution has been increasing in the trend. In F.Y 2006/07, total revenue was Rs. 87712.1 millions, and income tax from Employment was Rs. 2007.9 millions. It was about 2.29% of total revenue. The average contribution of income tax from Employment was about 9.39 percent in total revenue of Nepal.

Table 4.9

Contribution of Income Tax from Employment in Total Revenue Total Tax Revenue, Direct Tax Revenue and Income Tax Revenue of Nepal from F.Y 1994/95 - F.Y 2006/07 (In %)

Fiscal Year	Income Tax from Employment	Total Revenue	%	Total Tax Revenue	%	Direct Tax Revenue	%	Income Tax Revenue	%
1994/95	118.4	24605.2	0.48	19660.0	0.60	3849.3	3.08	2823.5	4.19
1995/96	133.1	27893.1	0.48	21668.0	0.61	4655.9	2.86	3431.4	3.88
1996/97	168.1	30373.5	0.55	24424.3	0.69	5340.0	3.15	4123.4	4.08
1997/98	322.2	32937.9	0.98	25939.8	1.24	6187.9	5.21	4898.1	6.58
1998/99	396.5	37251.3	1.06	28752.9	1.38	7516.1	5.28	6170.2	6.43
1999/00	451.5	42893.7	1.05	33152.2	1.36	8951.5	5.04	7420.6	6.08
2000/01	597.3	48893.7	1.22	38865.1	1.54	10159.4	5.88	9114.0	6.55
2001/02	835.6	50445.5	1.66	39330.6	2.12	10597.9	7.88	8903.7	9.38
2002/03	1252.6	56229.8	2.23	42586.9	2.94	10105.7	12.39	8131.9	15.40
2003/04	1391.2	62331.0	2.23	48173.0	2.89	11912.5	11.68	9514.5	14.62
2004/05	1675.9	70122.7	2.39	54104.7	3.10	13071.9	12.82	10466.1	16.01
2005/06	1764.5	72282.1	2.44	57430.4	3.07	13968.1	12.63	10939.4	16.12
2006/07	2007.9	87712	2.29	71127	2.82	18980.5	10.58	5732.	12.76

Source: Economic Survey 2006/07, Ministry of Finance, GON.

Income Tax from Employment in Total Tax Revenue of Nepal

Income tax from Employment has also very insignificant contribution in total tax revenue of Nepal. In the F.Y 1994/95, total tax revenue was Rs. 19,660.5 millions and income tax from Employment was only Rs. 118.4 millions. It was about 0.60% contribution. In the F.Y 2006/07, total tax revenue was Rs. 71127 millions and income tax from Employment was Rs.2007.9 millions. It was about 2.8% contribution. The average contribution of income tax from Employment in total tax revenue of Nepal came to be 2.10 percent from the fiscal year F.Y 1994/95 to F.Y 2006/07.

Income Tax from Employment in Direct Tax Revenue of Nepal

Income tax from Employment was Rs. 118.4 millions in F.Y 1994/95 out of total direct tax revenue of Rs. 3849.33 millions. It was about 3.08% of direct tax revenue. The contribution has been increasing the trend except in year 2002/03. In F.Y 2006/07, total direct tax revenue of Rs. 18980.5 millions included Rs 2007.9 millions as income tax from Employment. It was about 10.58% contribution. The mean contribution of income tax from Employment in Direct tax revenue of Nepal was about 8.51 percent.

Income Tax from Employment in Income Tax Revenue of Nepal

Income tax revenue is collected from various sources of incomes. Income tax from Employment is a source of income among them. The contribution of Employment income-to-income tax revenue has not been so satisfactory. In F.Y 1994/95, total income tax revenue Rs. 2,823.55 millions consisted Rs. 118.4 millions as income tax from Employment. It was about 4.19% of total income tax revenue. The percent contribution has been increasing. In the F.Y 2006/07, total income tax revenue was Rs. 15732 millions. Out of this, Rs. 2007.9millions was contributed by income tax from Employment. This was about 12.76% of total income tax revenue of Nepal. The average contribution in income tax revenue came to be 10.50 percent.

4.1.8 Estimation and Collection of Employment Income Tax in Nepal

The following table 4.10 exhibits that except in the F.Y 1994/95 and 1995/96, the Actual collection was more than estimated target of employment income tax during the last decade in Nepal.

Table 4.10

Estimation and collection of Employment Income tax During F.Y 1994/95 to F.Y 2006/07.

Rs. in Million

F. Y	Estimated Target	Actual Collection	Collection as % of Target
1994/95	170.00	118.43	69.66
1995/96	150.00	133.14	88.76
1996/97	165.61	168.13	101.52
1997/98	180.00	322.22	179.01
1998/99	350.00	396.52	113.01
1999/00	432.41	451.46	104.64
2000/01	552.24	597.30	108.16
2001/02	675.00	835.56	123.79
2002/03	1230.00	1252.60	101.84
2003/04	1300.00	1391.19	107.01
2004/05	1800.00	1675.86	108.93
2005/06	1677.00	1764.5	105.21
2006/07	1934.00	2007.9	103.82

Source: 1. Government of Nepal, Ministry of Finance, Budget Speech of F.Y 1994/95 to 2006/07.

2. Government of Nepal, Ministry of Finance, Economic Survey of Fiscal Year F.Y 1994/95 to 2006/07, Statistical. Table No. 2.2

The employment income tax collection was in increasing trend during the review years. In the F.Y 2006/07 the actual realization of employment income tax reached about Rs. 2 billion representing a growth of 13.79% over the preceding F.Y. 2005/06.

4.1.9 Structural Composition of Income Tax Collection in Nepal

In Nepal, the corporate income tax has a higher composition. In the total income tax collection, followed by employment (Employment) income tax and investment income tax as shown in the following table 4.11.

Table 4.11

Structure of Income Tax Collection during 2000/00 to F.Y 2006/07.

Rs. in Million

S. N.	Heading	FY 2002/03		FY 2003/04		F.Y 2004/05		FY 2005/06		F.Y 2006/07	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1.	Corporate income tax	5549.78	68.25	6816.87	71.65	7345.00	70.18	7756	70.89	11605	73.76
2.	Employment income Tax	1252.60	15.40	1391.19	14.62	1675.86	16.01	1649.8	15.07	2007.9	12.7
3.	Investment income Tax	1321.81	16.25	1292.22	13.58	1424.77	13.61	1518.8	13.89	2080	13.22
4.	Windfall gair Tax	2.30	0.03	5.40	0.06	6.77	0.07	7.7	0.7	11.70	0.07
5.	Others (Not Specified)	5.40	0.07	8.81	0.09	13.82	0.13	7.8	0.08	26.55	0.169
Total Income:		8131.89	100	9514.49	100	10466.22	100	10937.4	100	15732	100

Source: 1. Budget speech of FY 2002/03 to F.Y 2006/07, Government of Nepal, MoF.

2. Website: www.fcgo.gov.np, statement of Revenue Collection FY F.Y 2006/07

Corporate income tax is composed of taxes collected from government corporations, public limited companies, private limited companies, private firms and other institutions. Likewise, investment income tax comprises of taxes realized on rent, interest, capital gain, bonus and others. Windfall gain (causal benefit/prize) is a separate taxable income that is subject to a tax rate of 25%. It is outside the coverage/scope of income tax Act, 2058.

4.1.10 Resources Gap in Nepal

Like other developing countries in the world, Nepal has been suffering from resource constraint, mass poverty, rapid growth of population, aggressive dependence on agriculture, subsistence living standard etc despite planned development efforts of over four decades.

Table 4.12
Resources Gap in Nepal

Fiscal year	Total Expenditure (A)	Total revenue (B)	Resource Gap ^a A-B	Foreign Grants (C)	Resource Gap ^b {A-(B+C)}	Rs. In foreign Loan D	Million Resource Gap {A-(B+C+D)}
1994/95	39060.0	24605.2	14454.8	3937.1	10517.	7312.3	3205.4
1995/96	46542.4	27893.1	18649.3	4825.1	713824.2	9463.9	4360.3
1996/97	50723.7	30373.5	20350.2	5988.3	14361.9	9043.6	5318.3
1997/98	56118.3	32937.9	23180.4	5402.6	17777.8	11054.5	6723.3
1998/99	59579.0	37251.0	22328.0	4336.6	17991.4	11852.4	6139.0
1999/00	66272.5	42893.8	23378.7	5711.7	17667.0	11812.2	5854.8
2000/01	79835.1	48893.6	30941.5	6753.4	24188.1	12044.0	12144.1
2001/02	80072.3	50445.5	29626.8	6686.1	22940.7	7698.7	15242.0
2002/03	84006.1	56229.8	27776.3	11339.1	16437.2	4546.4	11890.8
2003/04	89442.6	62331	27111.6	11283.4	15828.2	7629.0	8199.2
2004/05	102560.4	70122.7	32437.7	14391.2	18046.5	9266.1	8780.4
2005/06	110889.2	72282.1	38607.1	13827.5	24779.6	8214.3	16565.3

2006/07	133604.6	87712.1	45892.5	15800.8	30091.7	10053.5	20038.2
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Source : Economic survey, 2006/07, Ministry of Finance, GoN.

In Nepal, the source mobilization is still poor that does not cover the growing expenditure. Fiscal deficit is due to the continuously growing expenditure of the government instead of the low revenue performance in Nepal. That is why: the country is facing the increasing burden of foreign loan. Widening trend of the different resource gap is showed in above table 4.12.

As showed in above table, resource gapa of Rs. 14,454.8 million in fiscal year F.Y 1994/95 reached to Rs 45892.5 million in the fiscal year F.Y 2006/07. It is continuously increasing trend. Resource gap a was only decreased in the fiscal year 2001/02, 2002/03 and 2003/04 as compared to previous year. Resource gap b (after considering foreign grants) was Rs. 10,517.7 in the starting year and further widen up to Rs 24,188.1 million in the fiscal year 2000/01. It was decreased in the fiscal year 1999/00 and 2001/02 ,2002/03 and 2003/04. The government takes internal and external loans to meet deficit finance. Foreign loan reached Rs. 7,312.3 million in the fiscal year F.Y 1994/95 and Rs. 10053.5 million in F.Y 2006/07. After foreign loan financing, resource gapc was Rs. 3,205.4 million in the fiscal year F.Y 1994/95 and increased to Rs. 15,242 million in the fiscal year 2001/02, 02/03 and the government takes internal and external loans to meet deficit finance. Foreign loan reached Rs. 7,312.3 million in the fiscal year 2001/02. It was decreased in the fiscal year 1998/99, 99/00, 02/03, and 03/04 than the previous year. In F.Y 2006/07, the resource gap was Rs 20038.2 million. The above analysis showed a clear indication of the serious and grouping financial resource gap problem in Nepal. The increasing magnitude of resource gap clearly indicates that there is an urgent need for mobilizing additional resources. Income Tax has appeared as one of the most effective fiscal policy instruments to mobilize additional resources and for achieving the desired developmental objectives of Nepal. Increasing resources gap indicates that it is necessary to mobilize additional domestic resources. Ultimate and the best measure to fill up the resource gap are to increase public revenue through effective tax system.

4.1.11 Major findings

The major findings of the study are pointed out as follows.

Nepalese revenue structure consists of tax and non-tax revenues. Tax on consumption and product of goods and services has occupied first place regarding its contribution to total revenue of Nepal. The mean contribution of tax on consumption and product of goods and services over the thirteen years period is 34.5 percent of the total revenue of Nepal. Non-tax revenue and tax on property profit and income has averages of 21.52 percent 21.87 percent and 16.32 percent respectively. Land revenue and registration has the lowest average contribution of 2.64 percent in total revenue of Nepal.

Total revenue of Nepal consisted of tax revenue and non-tax revenue. In F.Y 1994/95, Act of total revenue of 24605.1 million 79.90 percent was contributed by tax revenue and 20.1percent was contributed by non-tax revenue contributed 81.09 percent and 18.91 percent respectively. The mean contribution of tax and non-tax revenue during the thirteen-year period was 78.20 percent and 21.87 percent respectively. Tax revenue has the largest contribution in total tax revenue of Nepal. In Nepalese revenue structure tax revenue has always been nearly four times of non-tax revenue.

Nepalese tax revenue is the composition of direct and indirect tax revenue. Average contribution of direct and indirect tax revenue to total tax revenue is 24.67 percent and 75.33 percent during the F.Y 1994/95 to F.Y 2006/07 respectively.

The structure of direct tax revenue is the composition of income tax revenue land, revenue and registration and miscellaneous taxes. Among direct tax revenues income tax revenue has occupied the largest share the mean contribution of income tax over the thirteen years period was 81.23 percent of the direct tax revenue of Nepal. Average contribution of land revenue and registration and miscellaneous taxes was 11.87 percent and 5.24 percent of total direct tax revenue respectively.

Nepalese income tax structure is formed by contribution of income tax from public enterprises, semi-public enterprises, private corporate Bodies, Individuals, Taxes on employment tax on interest and other taxes. Contribution of individual has occupied first position in total income tax revenue of Nepal. The mean contribution of income tax from individuals in total income tax revenue from F.Y 1994/95 to F.Y 2006/07 has been computed to be 40.23 Percent public enterprises, private corporate, bodies Employment,

interest other taxes and semi public enterprises have occupied second, third, fourth, fifth, sixth and seven position in total income tax revenue of Nepal.

Contribution of income tax has been increasing trend. Its contribution in the thirteen years averaged 17.93 percent, 22.11 percent, and 82.88 percent in total revenue, tax revenue and direct tax revenue in Nepal respectively.

Income tax from Employment has been increasing trend average contribution on of Employment in total revenue; total tax revenue Act tax revenue and income tax revenue have been 1.87 percent, 2.10 percent, 8.52 percent and 10.5 percent respectively. It shows that income tax from Employment has very much insignificant contribution in total revenue and total tax revenue of Nepal.

The employment income tax collection was in increasing trend during the review year. In the fiscal year F.Y 2006/07 the Actual realization of employment income tax reached about Rs. 200 Billion representing a growth in of 13.82 percent over the preceding fiscal year 2005/06.

Nepalese Government expenditure is increasing at the faster rate than the increase in revenue. Therefore resource gap has existed in Nepalese economy and it is increasing trend. Resource gap in F.Y 2006/07 was 20038.2 million, had extended from 3,205.4 million in F.Y 1994/95.

4.2 Empirical Analysis

An empirical Analysis has been conducted in order to find out various aspect of employment income. For this, questionnaire was development and responses were collected from the respondents. A set of 60 questionnaires was received from the respondents. Respondents were classified into two groups- tax experts and employees. The responses received from various respondents have been arranged, tabulated and analysis in order to facilitate the descriptive analysis of the study. (See appendix B)

The questionnaire was asked either for a yes/no response or asked for ranking of the choices according to the number of alternatives where the first choice was the most important and the least choice was the least important. For analysis purpose, choices were assigned weight according to the number of alternatives. If the number of alternatives were five, the first preferred choice would get five points and the last preferred choice would get one point. Any alternative, which was not ranked, did not get any point. The total points available to each choice were converted into percent with reference to the total points available for all choices. The choice with the percent score was ranked as the most important choice and the one with the percent score was ranked as the last choice.

The following table shows the group of respondents.

Table: 4.13

Groups of the Respondents

S.No.	Group of respondents	Sample size
1.	Tax experts	30
2	Employees	30
Total		60

4.2.1 Employment Income is a Suitable Means of Collecting Government Revenue:

To know the respondent's opinions about the Employment Income is a suitable means of collecting government revenue. The question ' Do you think that Employment income is a suitable means of collecting government revenue?' was asked. The responses received from the respondents are tabulated as follows:

Table: 4.14

Employment Income is a Suitable Means of Collecting Government Revenue.

Response	Yes		No		Total	
	Nos	%	Nos	%	Nos	%
Respondents						
Tax Experts	21	70	9	30	30	100
Employees	18	60	12	40	30	100
Total	39	65	21	35	60	100

Source: Opinion Survey 2009

The above table showed that about 65 percent of the respondents approved that employment income as a suitable means of collecting government revenue and 35 percent of the respondents showed their dissatisfaction regarding the employment income as a suitable means of collecting government revenue.

In conclusion, it can be said that most of the respondents opined that employment income is a suitable means of collecting government revenue.

Test of Hypothesis:

Respondents	Yes	No	Row Total
Tax Experts	21	9	30
Employees	18	12	30
Column Total	39	21	60

Null Hypothesis, Ho: There is no significant difference in tax experts and employees views regarding the Employment income is a suitable means of collecting government revenue.

Alternative Hypothesis, H1: There is a significant difference in tax experts and employees views regarding the Employment income is a suitable means of collecting government revenue.

Test Statistic: Under Ho, the test statistic is

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

Where, F_o = Observed Frequency

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

Calculation of χ^2

(Row, Column)	F_o	F_e	$F_o - F_e$	$(f_o - f_e)^2$	$\frac{(f_o - f_e)^2}{f_e}$
(1 , 1)	21	$\frac{30 \times 39}{60} = 19.5$	1.5	2.25	0.1154
(1 , 2)	9	$\frac{30 \times 21}{60} = 10.5$	- 1.5	2.25	0.2143
(2 , 1)	18	$\frac{30 \times 39}{60} = 19.5$	- 1.5	2.25	0.1154
(2 , 2)	12	$\frac{30 \times 21}{60} = 10.5$	1.5	2.25	0.2143
					$\sum(f_o - f_e)^2 = 0.6594$

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

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

Level of significance,

$$\text{Tabulated } \chi^2_{0.05(1)} = 3.841$$

Conclusion:

Since calculated $\chi^2 <$ tabulated χ^2 it is not significant and H_0 is accepted which means that there is no significant difference in tax experts and employees views regarding the employment income is a suitable means of collecting government revenue.

4.2.2 Opinion towards Contribution of Employment Income-to-Income Tax Revenue of Nepal:

In order to know whether Employment tax is contributing the income tax revenue or not, a question asked to the respondents was ‘in your opinion, is Employment income contributing significantly to the income tax revenue of Nepal?’ The question was intended to know the respondents opinion towards the role of Employment income in the income tax revenue. The responses received from respondents have been tabulated below:

Table 4.15

Contribution of Employment Income-to-Income Tax Revenue of Nepal

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%

Tax Experts	12	40	18	60	30	100
Employees	15	50	15	50	30	100
Total	27	45	33	55	60	100

Source: Opinion Survey 2009

The above table showed that 55 percent of the respondents showed their dissatisfaction regarding the contribution of Employment income to income tax revenue of Nepal and about 45 percent of the respondents replied that employment income's contribution in the income tax revenue was significant.

Hence, it can be concluded that contribution of Employment income to the income tax revenue is not significant.

Test of Hypothesis:

Respondents	Yes	No	Row Total
Tax experts	12	18	30
Employees	15	15	30
Column total	27	33	60

Null Hypothesis, Ho: There is no significant difference in tax experts and employees views regarding the contribution of Employment income to income tax revenue of Nepal.

Alternative hypothesis, H1: there is significant difference in tax experts and employees views regarding the contribution of Employment income to income tax revenue of Nepal.

Test statistic, under Ho, the test statistic is

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

Calculation of χ^2

(Row, Column)	f _o	f _e	f _o -f _e	(f _o - f _e) ²	(f _o - f _e) ²

(1, 1)	12	$30 \times 27 = 13.5$ 60	- 1.5	2.25	0.167
(1, 2)	18	$30 \times 33 = 16.5$ 60	- 1.5	2.25	0.136
(2, 1)	15	$30 \times 27 = 13.5$ 60	- 1.5	2.25	0.167
(2, 2)	15	$30 \times 33 = 16.5$ 60	- 1.5	2.25	0.136
					$\sum (fo-fe)^2 = .606$ fe

$$\text{Calculated } \chi^2 = \sum \frac{(fo-fe)^2}{fe} = 0.606$$

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

$$\text{Level of signification } \alpha = 5\% = 0.05$$

$$\text{Tabulated } \chi^2_{0.05 (1)} = 3.841$$

Conclusion, since calculated $\chi^2 <$ tabulated χ^2 , it is not significant and H_0 is accepted which means that there is no significant difference in tax experts and employees views regarding the contribution of employment income to income tax revenue of Nepal.

4.2.3 Opinion towards Factors for Increasing the Contribution of Employment Income to Income Tax Revenue of Nepal

To know the factors not increase the contribution of employment income tax to the income tax revenue of Nepal, the question was asked, " How can the contribution of income from employment to income tax revenue be increased?" the following table shows the rank wise responses received from the respondents.

Table: 4.16

Factors for Increasing the Contribution of Employment Income-to-Income Tax Revenue of Nepal.

S.No.	Alternative	Total Points	Percent	Rank
a)	Reduction in exemption limit	72	11	3
b)	Increasing tax rates	60	9	4
c)	Making tax deduction at source effective	240	38	1
d)	Change in income tax policy, rules and regulation	220	34	2
e)	Others	51	8	5
		643	100	

Source: Opinion Survey 2009

The above table showed that main factor for increasing the contribution of employment income-to-income tax revenue of Nepal is making tax deduction at source effective. The other factors for increasing the contribution of employment income-to-income tax revenue of Nepal are ranked below in order of preferences.

1. Making tax deduction at source effective.
2. Change income tax police rules and regulation.
3. Reduction in exemption limit
4. Increasing tax rates
5. Others

Other important factors stated by the respondents are as follows.

1. Making self assessment of tax easier and release
2. Provide more facilities to the taxpayers employees.
3. Increasing pay scale of employees.

4. Bringing new taxpayers in to tax net.

4.2.4 Exempted and Deducted Items of Income from Employment:

To know the respondents opinion about the exempted and deducted items of income from employment, a question was asked, ' Do you think that exempted and deducted items of income from employment are sufficient?' The responses received from the respondents are tabulated below.

Table 4.17

Exempted and deducted items from employment income

Respondents	Yes		No		Total	
	Nos	%	Nos	%	Nos	%
Tax Experts	15	50	15	50	30	100
Employees	9	30	21	70	30	100
	24	40	36	60	60	100

Source: Opinion Survey 2009.

Form the above table it is clears that 60 percent of the respondents responded that exempted and deducted items of income from employment not sufficient and only 40 percent of the respondents accepted that exempted and deducted items of income from employment are sufficient.

In conclusion, it can be said that most of the respondents opined exempted and deducted items of income from employment are not sufficient.

Test of Hypothesis

Respondents	Yes	No	Row Total
Tax experts	15	15	30
Employees	9	21	30
Column Total	24	36	60

Null hypothesis; Ho: there is no significant difference in tax experts and employees views regarding exempted and deducted items of income from employment are sufficient.

Alternative hypothesis, H1: There is significant difference in tax experts and employee's views regarding exempted and deducted items of income from employment are sufficient.

Test statistic, under Ho, The test statistic is

$$\chi^2 = \sum \frac{(fo-fe)^2}{fe}$$

Calculation of χ^2

(Row , Column)	fo	fe	(fo-fe)	(fo-fe) ²	$\frac{(fo-fe)^2}{fe}$
(1,1)	15	$\frac{30 \times 24}{60} = 12$	3	9	0.75
(01,2)	15	$\frac{30 \times 36}{60} = 18$	-3	9	0.5
(2,1)	9	$\frac{30 \times 24}{60} = 12$	-3	9	0.75
(2,2)	21	$\frac{30 \times 36}{60} = 18$	3	9	0.5
					$\sum \frac{(fo-fe)^2}{fe} = 2.50$

Degree of freedom=(r-1)(c-1)=(2-1)(2-1)=1 X1=1

Level of significance $\alpha = 5\% = 0.05$

Tabulated $\chi^2_{0.05(1)} = 3.841$

Conclusion:

Since calculated $\chi^2 <$ tabulated χ^2 it is not significant and Ho is accepted which means that there is no significant difference in tax experts and employees views regarding exempted and deducted items of income from employment are sufficient.

4.2.5 Opinion towards Some Taxable Incomes to be Made Tax Exempted:

To know the respondents' opinions towards tax exemption for taxable income, the question asked was " What incomes (currently be taxed) would you expect to be made tax-exempted?" The responses received from the respondents are tabulated below.

Table: 4.18

Opinion towards Some Taxable Income to be Made Tax - Exempted

S.N	Income	Total Points	Percent	Rank
1.	Medical expenses, life insurance premium paid by employer.	145	19	3
2.	Dashing allowances.	180	24	2
3.	Transportation allowances	122	16	4
4.	House - rent allowances	220	29	1
5.	Other. Allowances	90	12	5
	Total	757	100	

Source: Opinion Survey 2009.

From the above table, we find that most important head of income to be made tax exempted is House-Rent allowances. While ranking together the opinions of both the groups, the corresponding prioritized reasons for making some taxable income tax-exempted are as follows:

1. House-Rent allowance.
2. Dashing allowances.
3. Medical expenses, life insurance, premium paid by employer.
4. Transportation allowances.
5. Others.

4.2.6 Problem Faced by Employees While Paying Employment Tax:

To know the respondents' opinions regarding the problems faced by employees while paying income tax, a question was asked to them. The question was "What types of problem that employees faced while paying employment tax?" The responses received from the respondents are tabulated below.

Table: 4.19 Opinions towards problem faced by employees while paying Employment tax

S.N.	Problems	Total Points	Percent	Rank
1.	Due to lack of taxation knowledge, employers do not know how to file returns.	204	24	2
2.	Procedure complication	230	27	1
3.	Weak and immature treatment by tax administration	125	15	4
4.	Hesitation to pay income tax due to income	180	22	3
5.	Others	100	12	5
	Total	839	100	

Source: Opinion Survey 2009

From the above table, we found that most important problem faced by employees while paying employment tax is procedural complications. While ranking together the opinions of both the groups, the corresponding prioritized problems are as follows:

1. Procedural complications.
2. Due to lack of taxation knowledge, employees do not know how to file returns.
3. Hesitation to pay income tax due to low income.
4. Weak and immature treatment by tax administration.
5. Others.

4.2.7 Opinion towards the Current Exemption Limit:

To know whether the current exemption limit is appropriate or not, the question asked was ' Do you think that current income tax exemption limit is appropriate?' The responses received from the respondents are tabulated as below.

Table 4.20 Opinions towards the Current Exemption Limit

Respondents	Yes		No		Total	
	Nos	%	Nos	%	Nos	%
Tax Experts	16	53.33	14	46.67	30	100
Employees	10	33.33	20	66.67	30	100
	26	43.33	34	56.67	60	

Source: Opinion Survey 2009.

From the above table, it has been clear that about 57 percent of the respondents responded that current exemption limits provided to individuals and couples was unsatisfactory. About 43 percent of the respondents replied that current exemption limit was satisfactory. From the above responses, it can be concluded that current exemption limit seems to be unsuitable.

Test of Hypothesis:

Respondents	Yes	No	Row Total
Tax Experts	16	14	30
Employees	10	20	30
Column Total	26	34	60

Null Hypothesis; Ho: there is no significant difference in tax experts and employees views regarding current exemption limit.

Alternative Hypothesis, H1: There is significant difference in tax experts and employees views regarding current exemption limit.

Test statistic, under Ho, The test statistic is

$$\chi^2 = \sum (f_o - f_e)^2$$

$$\frac{(fo-fe)^2}{fe}$$

Calculation of χ^2

(Row ,Column)	fo	fe	(fo-fe)	(fo-fe) 2	(fo-fe) 2 — fe
(1,1)	16	$\frac{30 \times 26 = 13}{60}$	3	9	0.6923
(1,2)	14	$\frac{30 \times 34 = 17}{60}$	-3	9	0.5294
(2,1)	10	$\frac{30 \times 26 = 13}{60}$	-3	9	0.6923
(2,2)	20	$\frac{30 \times 34 = 17}{60}$	3	9	0.5294
					$\sum (fo-fe)^2 = 2.4434$ fe

$$\text{Calculated } \chi^2 = \sum \frac{(fo-fe)^2}{fe} = 2.4434$$

fe

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

$$\text{Level of significance } \alpha = 5\% = 0.05$$

$$\text{Tabulated } \chi^2_{0.05(1)} = 3.841$$

Conclusion:

Since calculated $\chi^2 <$ tabulated χ^2 , it is not significant and H_0 is accepted which means that there is no significant difference in tax experts and employees' opinion regarding current exemption limit.

4.2.7.1 Suggestion for the Exemption Limit:

A supplementary question was asked " If not, how much amount would you suggest for the exemption limit? The opinions about for individuals and couples are shown below separately. The opinions of respondents about individuals are presented in the following table.

Table 4.20 (a) Suggestion for the Exemption Limit

Respondent s	Range of exemption limit (Rs)								
	Total	120000-140000		140000-160000		160000-180000		More than 180000	
		Nos	%	Nos	%	Nos	%	Nos	%
Tax Experts	14	3	21.43	5	35.71	4	28.57	2	14.29
Employees	20	5	25	4	20	7	35	4	20
Total	34	8	23.53	9	26.47	11	32.35	6	17.65

Source: Opinion Survey 2009.

From the above table, 21.43 percent of the tax experts suggested that exemption limit should be in the range between Rs 120000-140000, 35.71 percent suggested between Rs 140000-160000, 28.57 percent suggested between Rs 160000-180000 and 14.29 percent suggested more than 180000. Similarly, 25 percent of employee suggested that exemption limit should be in the range between Rs 120000-140000, 20 percent suggested Rs 140000-160000, 35 percent suggested Rs160000-180000 and 20 percent suggested more than Rs 180000, In total 32.35 percent suggested that exemption limit should be the range between 160000 -180000. So that current exemption limit of individual should be in the range between 160000-180000.

Similarly, the opinions of respondents about couples are presented in the following table.

Table 4.20

Suggestion for the Exemption Limit

Respondents	Total	Range of exemption limit (Rs)
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		130000-150000		150000-170000		170000-190000		More than 190000	
		Nos	%	Nos	%	Nos	%	Nos	%
Tax Experts	14	2	14.28	4	28.57	3	21.43	5	35.71
Employees	20	3	15	4	20	6	30	7	35
	34	5	14.70	8	23.53	9	26.47	12	35.29

From the above table 14.28 percent of tax experts suggested that exemption limit should be in the range between Rs 130000-150000, 28.57 percent suggested between Rs 150000-170000, 21.43 percent suggested Rs 170000-190000 and 35.71 percent suggested more than Rs 190000. Similarly, 15 percent suggested that exemption limit should be in the range between Rs 130000-150000, 20 percent suggested between Rs 150000-170000, 30 percent suggested Rs 170000-190000 and 35 percent suggested more than Rs 190000. In total 35.29 percent suggested that exemption limit should be more than Rs 190000. So, we conclude that current exemption limit of couple should be more than Rs 190000.

4.2.8 Opinions about Exemption Limit of Couple as Compare to Individual:

To know whether the current exemption limit of couple should be satisfactory as compare to individuals or not, the question asked was “is the current exemption limit of couple is satisfactory as compare to individual?” The responses received from the respondents are tabulated as below.

Table 4.21

Opinions about Exemption Limit of Couple as Compare to Individuals:

Respondents	Yes		No		Total	
	Nos	%	Nos	%	Nos	%
Tax Experts	12	40	18	60	30	100
Employees	10	33	20	67	30	100
Total	22	37	38	63	60	

Source: Opinion Survey 2009

From the above table, about 63 percent of total respondents suggested that exemption limit of couple is not satisfactory as compare to individuals. While 37 percent of respondent viewed that exemption limit of couple is satisfactory as compare to individuals. Thus, from above result, we conclude that current exemption limit of couple is not satisfactory as compare to individuals.

Test of Hypothesis:

Respondents	Yes	NO	Row total
Tax Expert	12	18	30
Employees	10	20	30
Column total	22	38	60

Null Hypothesis, Ho: there is no significant difference in tax experts and employee's views regarding the current exemption limit of couple as compare to individuals.

Alternative Hypothesis, H1: There is signification difference in tax experts and employees views regarding the current exemption limit of couple, as compare to individuals.

Test Statistic: Under Ho, the test statistic is

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

Calculation of $(\chi)^2$

(Row, Column)	fo	fe	fo - fe	(fo – fe)2	(fo – fe)2 fe
(1,1)	12	30x22 =11 60	1	1	0.0909
(1,2)	18	30x38=19 60	-1	1	0.0526
(2,1)	10	30x22 =11 60	-1	1	0.0909
(2, 2)	20	30x38 =19 60	1	1	0.0526
$\sum (fo-fe)^2 = 0.287$					fe

Calculated $\chi^2 = \sum (fo - fe)^2 = 0.287$

fe

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

Level of significance, $\alpha = 5\% = 0.05$

Tabulated $\chi^2_{0.05 (1)} = 3.841$

Conclusion,

Since calculated $(\chi)^2 < \text{tabulated } (\chi)^2$, it is not significant and H_0 is accepted which means that there is no significant difference in tax experts and employees views regarding the current exemption limit of couple as compare to individuals .

4.2.9 Opinions Towards the Exemption Limit for Senior and Disable Citizens:

Income Tax Act, 2058 has not made any provision of deduction for expenses and exemption limit for senior and disabled citizens than that of others. To know the views of respondents about the exemption limit for senior and disabled citizens, a question

was asked, “Do you think that exemption limit for senior and disabled citizens should be more than that of others?” The responses received from the respondents are tabulated below:

Table 4.22

Opinions towards the Exemption Limit for Senior and Disabled Citizens.

Respondents	Yes		No		Total	
	Nos	%	Nos	%	Nos	%
Tax Experts	15	50	15	50	30	100
Employees	8	27	22	73	30	100
Total	23	38	37	62	60	100

Source: *Opinion Survey 2009*

From the above table, 62 percent is the total respondents said that exemption limit for senior and disabled citizens should not be more than that of others while 38 percent of the total respondents agreed that exemptions limit for senior and disabled citizens should be more than that of others. Thus, from the above result, we can conclude that exemption limit for senior and disable citizens should not be more than that of others.

Test of Hypothesis:

Respondents	Yes	No	Row Total
Tax experts	15	15	30
Employees	<u>8</u>	<u>22</u>	<u>30</u>
Column Total	23	37	60

Null Hypothesis, Ho: There is no significant difference in tax experts and employees opinion about the exemption limit for Senior and disabled citizens.

Alternative Hypothesis, H1: There is significant difference in tax experts and employees opinion about the exemption limit for senior and disabled citizens.

Test statistic: Under Ho, the test statistic is

$$\chi^2 = \sum \frac{(fo - fe)^2}{fe}$$

Calculation of $(\chi)^2$

(Row, Column)	fo	fe	fo - fe	(fo - fe)	$\frac{(fo - fe)^2}{fe}$
(1, 1)	15	$\frac{30 \times 23}{60} = 11.5$	3.5	12.25	1.065
(1, 2)	15	$\frac{30 \times 37}{60} = 18.5$	-3.5	12.25	0.662
(2, 1)	8	$\frac{30 \times 23}{60} = 11.5$	-3.5	12.25	1.065
(2, 2)	22	$\frac{30 \times 37}{60} = 18.5$	3.5	12.25	0.662
					$\sum \frac{(fo - fe)^2}{fe} = 3.454$

Calculated $(\chi)^2 = \sum \frac{(fo - fe)^2}{fe} = 3.454$

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

Level of significance, $\alpha = 5\% = 0.05$

Tabulated $(\chi)^2_{0.05(1)} = 3.841$

Conclusion:

Since calculated $(\chi)^2 < \text{tabulated } (\chi)^2$, it is not significant and Ho is accepted which means that there is no significant difference in tax experts and employees opinion about the exemption limit for senior and disable citizens.

4.2.10. Opinion towards Additional Exemption Limit for Family:

In order to know whether the family exemptions limit is provided according to the number of dependent or not, a question was asked, "Do you agree that family exemption limit must be provided according to the number of dependent?" The question was intended to know the respondents opinions

towards the additional exemption limit for the family, which has not provided by Income Tax Act 2058. The responses received from respondents are tabulated below:

Table 4.23

Opinion towards the Additional Exemption Limit for Family

Respondents	Yes		No		Total	
	Nos	%	Nos	%	Nos	%
Tax experts	21	70	9	30	30	100
Employees	14	47	16	53	30	100
Total	35	58	25	42	60	100

Source: *Opinion Survey 2009*

From the above table, it has been clear that about 58 percent of the respondents agree that family exemption limit must be provided according to the number of dependent and 42 percent of the respondent's responses that family exemption limits should not be provided according to the number of dependent.

4.211 Opinion towards the Current Exemption Limit for Life Insurance Premium.

To know whether the current exemption limit for life insurance premium is satisfactory or not, the question asked was, "Is the current exemption for life insurance premium is satisfactory?" The responses received from the respondents are tabulated as below.

Table 4.2.4

Opinion towards the Current Exemption Limit for Life Insurance Premium.

Respondents	Yes		No		Total	
	Nos	%	Nos	%	Nos	%
Tax Experts	15	50	15	50	30	100
Employees	10	33	20	67	30	100
Total	25	42	35	58	60	100

Source: Opinion Survey 2009

From the above table, it has been clear that about 58 percent of the respondents responded that current exemption limits for life insurance premium provided to individuals and couples was unsatisfactory. About 42 percent of the respondents replied that current exemption limits for life insurance premium was satisfactory.

From the above responses, it can be concluded that current exemption limit for life insurance premium seems to be unsatisfactory.

Test of Hypothesis:

Respondents	Yes	No	Row Total
Tax experts	21	9	30
Employees	14	16	30
Column Total	35	25	60

Null Hypothesis H_0 : There is no significant difference in tax experts and employees opinion regarding the current exemption limit for life insurance premium.

Alternative Hypothesis, H_1 : There is significant difference in tax experts and employees opinion regarding the current exemption limit for life insurance premium,

Test statistic: under H_0 , the test statistic is $(\chi)^2 = \sum \frac{(f_o - f_e)^2}{f_e}$

Calculation of $(\chi)^2$

(Row, Column)	f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$\frac{(f_o - f_e)^2}{f_e}$
(1,1)	21	$\frac{30 \times 35}{60} = 17.5$	3.5	12.25	0.7

(1,2)	9	30×25= 12.5 60	-3.5	12.25	0.98
(2,2)	14	30×35= 17.5 60	-3.5	12.25	0.7
(2,2)	16	30×25= 12.5 60	3.5	12.25	0.98
					$\sum \frac{(f_o - f_e)^2}{f_e} = 3.36$

Calculated $\chi^2 = \sum \frac{(f_o - f_e)^2}{f_e} = 3.36$

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

Level of significance, $\alpha = 5\% = 0.05$

Tabulated $\chi^2_{0.05(1)} = 3.841$

Conclusion:

Since calculated $\chi^2 <$ tabulated χ^2 , it is not significant and H_0 is accepted which means that there is no significant difference in tax experts and employees opinion regarding the exemption limit for life insurance premium.

4.2.12 Opinion towards the Income Tax Evasion in Employment Income:

To know the views of respondents about the opinion towards the income tax evasion in employment income a question was asked "Do you believe that income tax evasion is being practiced in employment income?" The responses received from the respondents are tabulated below.

Table: 4.25

Opinions towards the Income Tax Evasion in Employment Income

Respondents	Yes	No	Total
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	Nos	%	Nos	%	Nos	%
Tax Experts	12	40	18	60	30	
Employees	8	27	22	73	30	
Total	20	33	40	67	60	100

Source: Opinion Survey 2009.

From the above, it is clear that about 67 percent of the respondent accepted the income tax evasion in employment income is not being practiced. 33 percent of the respondents responded that there is being practice of income tax evasion in employment income.

Thus we can conclude that income tax evasion is not being practiced in employment income.

Test of Hypothesis:

Respondents	Yes	No	Row Total
Tax Experts	12	18	30
Employees	8	22	30
Column Total	20	40	60

Null Hypothesis, Ho: There is no significant difference in tax experts' and employees' opinion in income tax evasion in employment income

Alternative Hypothesis, H1: There is significant difference in tax experts' and employees' opinion in income tax evasion in employment income.

Test statistic: under Ho, the test statistic is

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

Calculation of χ^2

(Row, Column)	fo	fe	fo-fe	(fo-fe) 2	(fo-fe) 2 fe
(1,1)	12	$\frac{30 \times 20}{60} = 10$	2	4	0.4

(1,2)	18	$\frac{30 \times 40 = 20}{60}$	-2	4	0.2
(2,1)	8	$\frac{30 \times 20 = 10}{60}$	-2	4	0.4
(2,2)	22	$\frac{30 \times 40 = 20}{60}$	2	4	0.2
					$\sum \frac{(f_o - f_e)^2}{f_e} = 1.2$

Calculated $\chi^2 = \sum \frac{(f_o - f_e)^2}{f_e} = 1.2$

fe

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

Level of significance, $\alpha = 5\% = 0.05$

Calculated value $\chi^2_{0.05}(1) = 3.841$

Conclusion:

Since calculated $\chi^2 < \text{tabulated } \chi^2$, it is not significant and H_0 is accepted which means that there is no significant difference in tax experts' and employees' opinion regarding the practice of tax evasion in employment income

4.2.13 Opinion towards the Exemption Limit for Medical Tax Credit:

To know the respondents about the exemption limit for medical tax credit, the question, "Is the exemption for medical tax credit provided by income tax Act 2058 adequate?" was asked. The responses received from the respondents are tabulated as follows.

Table 4.26

Opinion towards Exemption for Medical Tax Credit Provided by ITA 2058.

Respondents	Yes		No		Total	
	Nos	%	Nos	%	Nos	%
Tax Experts	9	30	21	70	30	100
Employees	10	33	20	67	30	100

Total	19	32	41	68	60	100
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Source: Opinion Survey 2009

From the above table, it is cleared that about 68 percent of the respondents responded that exemption for medical tax credit provided by ITA 2058 was unsatisfactory. About 32 percent of the respondents reputed that current exemption limits for medical tax credit was satisfactory.

From the above responses it can be concluded that current exemption limit of medical tax credit seems to be unsatisfactory.

Test of Hypothesis:

Respondents	Yes	No	Row Total
Tax Experts	9	21	30
Employees	10	20	30
Column Total	19	41	60

Null Hypothesis, Ho: there is no significant difference in tax experts' and employees' views regarding the exemption limit for medical tax credit.

Alternative Hypothesis Ho: There is no significant difference in tax experts' and employees' views regarding the exemption limit for medical tax credit.

Test statistic: under Ho, the test statistic is,

$$\chi^2 = \sum \frac{(fo-fe)^2}{fe}$$

Calculation of χ^2 :

(Row Column)	fo	fe	fo-fe	(fo-fe) 2	$\frac{(fo-fe)^2}{fe}$
(1,1)	9	$30 \times \frac{19}{60} = 9.5$	-0.5	0.25	0.0263

		60			
(1,2)	21	$30 \times 41 = 20.5$ 60	0.5	0.25	0.0122
(2,1)	10	$30 \times 19 = 9.5$ 60	0.5	0.25	0.0263
(2,2)	20	$30 \times 41 = 20.5$ 60	-0.5	0.25	0.0122
					$\sum (fo-fe)^2 = 0.077$ fe

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

Level of significance, $\alpha = 5\% = 0.05$

Tabulated $\chi^2_{0.05 (1)} = 3.841$

Conclusion:

Since calculated $\chi^2 <$ tabulated χ^2 , it is not significant and H_0 is accepted which means that there is no significant difference in tax experts' and employees' views regarding exemption limit for medical tax credit.

4.2.14 Major Findings

Following conclusions have been drawn out from the opinion survey with the tax experts and employees.

1. Employment income is an important source of collecting government revenue.
2. Contribution of employment income to income tax revenue has not been found satisfactory due to various reasons like low pay scale of the employees, Ineffectiveness in implementation of the Act, tax evasion etc.
3. Medical expenses, Life insurance Premium paid by employer, Dashain and transportation allowances should be made tax - exempted incomes.
4. Current exemption limit is not satisfactory. Family should be provided higher

Exemption limit in comparison to individuals.

5. Current exemption limit of medical tax credit has not been found Satisfactory.
6. The exempted and deducted items of income from employment are not sufficient.
7. The contribution of income tax from employment income to tax revenue can be increased mainly by making tax deduction at source more effective and change in income tax policy, rules and regulation.
8. Major problem that employees faced while paying income tax is procedural Complications
9. The exemption limit for senior and disabled citizens should not be more than that of others.
10. The current exemption limit of life insurance premium has not been found satisfactory.
11. Family exemption limit should not be provided according to number of dependents.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Nepal is agriculture based least developed country. The economic status of Nepalese people is very poor. The per-capita income is near about 320 dollars, which is lowest among SAARC countries and almost lowest per capita income of the world. One of the main objectives of each and every country is to raise the living standard of the people through economic development activities. To launch these activities government needs various resources: money, man machine and materials. Nepalese economic is facing serious problems of resource gap. Revenue collection by the government is internally sufficient to meet the cost of day-to-day administration of the country but the revenue surplus is not adequate to undertake developmental activities sufficiently in the country. So, Nepal has been dependent on foreign aids and loans to fulfill the need for developmental activities, which is not beneficial in the long run interest of the country.

The present study entitled special provisions and contribution of employment income to tax revenue of Nepal is related to the employment aspect of income taxation. In this study special provision and contribution of employment income to the government revenue has been analyzed. Similarly, analysis of effectiveness of income tax revenue and contribution of employment income to total tax revenue of Nepal has been shown. This study covers the role of income tax in Nepal, role of income tax from employment income in government revenue of Nepal, comparative study on the role of income tax from employment income to total tax revenue and income tax revenue of Nepal.

In second chapter, the literature review has been made through the study of various books, articles, dissertations and other reference materials. Various concepts of taxation have been discussed in this study. Sources of government revenue, meaning of tax, classification of taxes, objective of taxation, historical background of income tax, heads of income and concept of employment tax, method of computing employment special provision to individuals have been discussed in conceptual framework of this study.

In chapter three, the researcher has discussed about various aspects of research methodology as: research design used for this study, data collection procedure,

population and sample, nature and sources of data, selection of the respondents, procedures of processing and analysis of data.

Chapter four has presented the primary as well as secondary data and analyzed them to get the meaningful result. Economic surveys were the major sources of secondary data. To collect primary data on special provision and employment aspect of income taxation, opinion survey technique was used in this study. Primary data were collected from two respondent groups-tax experts and employees. Tax experts consisted of chartered Accountants, Lawyers, and Professors. Employees consisted of employees working in banks, manufacturing enterprises, government offices and other private organizations. A set of questionnaire was developed and 60 questionnaires were distributed to the respondents.

Secondary analysis was done by presenting the relevant data into tables and figures consisting eleven-year period i.e. from the FY 1994/95 to 2006/07. The comparative analysis for different years was done in the analysis part of the study. Major findings of the secondary data analysis have been put at the end of the chapter. Data obtained from opinion survey with the respondents were tabulated and analyzed to achieve desired end result. Major findings of the primary data analysis have been put in the end of the chapter.

Conclusions of the study are given in the last chapter. Some recommendations are also given on the end of the study to increase the contribution of employment income to tax revenue and some special provisions to individuals. In this way, this study was completed with the achievement of the stated objectives.

5.2 Conclusion

The conclusions of this study are mentioned below.

1. Revenue structure of Nepal is composed of tax and non-tax revenues.

Tax revenue has the largest share of contribution in total revenue i.e. in average, 78.20 percent of total revenue has been found to be contributed by tax revenue in total revenue from the FY 1994/95 to 2006/07 taxes on consumption and product of goods and services has occupied first position regarding its contribution in total revenue.

2. Tax revenue consist direct and indirect tax revenues. Tax revenue has been heavily dominated by indirect tax revenue. From FY 1994/95 to 2006/07 average contribution of indirect tax revenue has been found 73.32 percentages in tax revenue. Among direct taxes, income tax has highest contribution.

3. Income tax has average contribution of 11.47 percent of total revenue 14.36 percent in tax revenue and 82.88 percent in direct tax revenue from the F.Y.1994/95 to 2006/07. Contribution of individual sectors in income tax revenue has been highest in the study period.

4. Income tax from remuneration has very much insignificant contribution in total revenue, total tax revenue and direct tax revenue of Nepal. It was about 1.87 percent in total revenue, 2.10 percent in total tax revenue and 8.51 percent in direct tax revenue of Nepal from the F.Y.1994/95 to 2006/07. The average contribution of income tax from remuneration in income tax revenue has been 9.75 percent.

5. Employment income is an important source of collecting government revenue. Contribution of remuneration income to tax revenue has not been found satisfactory due to various reasons like low pay sale of the employees, Ineffectiveness in implementation of the Act, tax evasion etc

6. Medical expenses, life insurance premium paid by employer, Dashain and transportation allowances should be made tax - exempted incomes.

7. Current exemption limit is not satisfactory. Family should be provided higher, Exemption limit in comparison to the individual,

8. Current exemption limit of medical tax credit has not been found Satisfactory. The exempted and deducted items of income from employment are not sufficient.

9. The contribution of income tax from employment income to tax revenue can be increased mainly by making tax deduction at source more effective and change in income tax policy, rules and regulation. Major problem that employees faced while paying income tax is procedural Complications

10. The exemption limit for senior and disabled citizens should not be more than that of others. The current exemption limit of life insurance premium has not been found satisfactory. Family exemption limit should not be provided according to number of dependents.

5.3 Recommendations

On the basis of above analysis, the following recommendations and suggestions are offered regarding taxation of employment income.

1. Nepalese tax revenue is heavily dominated by indirect tax revenue. Only one fourth of tax revenue has been contributed by direct tax revenue. It is necessary to increase the share of direct tax revenue so as to direct the economy in the channel of development. Resource mobilization through direct taxation should be focused.
2. The contribution of income tax revenue to total tax revenue and direct tax revenue to total tax revenue should be increased by making withholding effective change in income tax policy, rules and regulation. Bringing new taxpayers into tax net help increase income tax's share in tax and direct tax revenue.
3. The contribution of employment income in income tax revenue has been increasing in the recent years as compared to previous years. In such a way that high earner should be made to pay higher income taxes. Filing of income returns by employees should be enhanced for collecting more income tax revenue.
4. The collection and tax assessment provision should be made clear and simple so those taxpayers would be encouraged to pay income tax.
5. Dashain allowance, medical expenses, life insurance premium, transportation allowance and house rent allowance paid by employer should be made tax exempted so that employees will be relieved from heavy income tax burden imposed on them.
6. The provision of fines, penalties and punishment should be implemented effectively for income tax evaders.
7. Coordination between tax policy maker, tax personnel and other department should be established.

8. Making tax deduction at source is the most important factor to increase the share of employment income in tax revenue of Nepal.
9. Current exemption limit of medical tax credit and life insurance premium provided by the ITA 2058 is not adequate, so it should be increased.

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