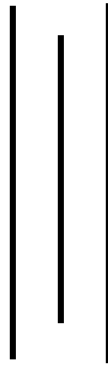


# **IMPLEMENTATION PROBLEM OF INCOME TAX ACT 2058**

**By  
Mahesh Kumar Dahal  
Shankar Dev Campus  
Roll No. 1097/061  
T.U. Regd. No. 7-1-350-142-98**

**A Thesis Submitted to:  
Office of the Dean  
Faculty of Management  
Tribhuvan University**



*In partial fulfillment of the requirement for the Degree of  
Master of Business Studies (M.B.S)*

**Kathmandu, Nepal  
November, 2008**

# **RECOMMENDATION**

This is to certify that the Thesis

Submitted by:

**Mahesh Kumar Dahal**

**Entitled:**

**IMPLEMENTATION PROBLEM OF INCOME TAX ACT 2058**

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

Supervisor

.....  
**Dr. Kamal Deep Dhakal**

.....  
**Dr. Kamal Deep Dhakal**  
**(Campus Chief)**

## VIVA-VOCE SHEET

We have conducted the viva –voce examination of the thesis presented

By

**Mahesh Kumar Dahal**

Entitled:

**IMPLEMENTATION PROBLEM OF INCOME TAX ACT 2058**

*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 partial fulfillment of the requirement for*

**Master Degree of Business Studies (M.B.S.)**

### Viva-Voce Committee

Head, Research Department .....

Member (Thesis Supervisor) .....

Member (External Expert) .....

## **DECLARATION**

I hereby declare that the work reported in this thesis entitled **“IMPLEMENTATION PROBLEM OF INCOME TAX ACT 2058”** submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Study (M.B.S.) under the supervision of **Dr. Kamal Deep Dhakal** of Shanker Dev Campus.

.....

**Mahesh Kumar Dahal**

**Researcher**

**Roll No. 1097/061**

**T.U. Regd. No. 7-1-350-142-98**

# TABLE OF CONTENTS

Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	

## Page No.

### **CHAPTER- I INTRODUCTION**

1.1 Background of the Study	1
1.2 Statement of the Problems	3
1.3 Objectives of the Study	5
1.4 Significance of the Study	6
1.5 Limitations of the Study	7
1.6 Scope of the Study	7
1.7 Organization of the Study	7

### **CHAPTER – II LITERATURE REVIEW**

2.1 Conceptual Framework	9
2.1.1 Concept of Tax	9
2.1.2 Concepts of Income Tax	10
2.1.3 Classification of Taxes	12
2.1.4 Objective of Tax	12
2.1.5 Evolution of Income Tax in Nepal	13
2.1.6 Income Tax as a System	14
2.1.7 Canons of Taxation	16
2.1.8 Relation of Income Tax Act with other Acts and Laws	16
2.1.9 Income Tax in Modern Nepal	18
2.1.10 Income Tax Act, 2002 (2058 BS)	24
2.1.11 Objectives of Income Tax Act, 2058	28

2.1.12 The Need of Income Tax Act, 2002 (2058 BS)	28
2.2 Review of Articles, Reports and Books	31
2.2.1 Review of Articles	31
2.2.2 Review of Reports	32
2.2.3 Review of Books	33
2.2.4 Review of the Thesis	37
2.3 Legal Provision of Income Tax Act, 2058	43
2.3.1 Meaning of Basic Terms use din Income Tax Act, 2058	44
2.3.2 Classification and Status of Assesses	50
2.3.2.1 Resident and Non-Resident	50
2.3.2.2 Entity and Individual	51
2.3.3 Capital and Revenue Items	52
2.3.3.1 Capital and Revenue Income	52
2.3.3.2 Capital and Revenue Expenditure	53
2.3.3.3 Capital and Revenue Loss	53
2.3.4 Income Exempted form Payment of Tax	54
2.3.4.1 Exempt Organization (Sec. 2 S)	54
2.3.4.2 Ordinary Exemption (Tax Exempt Amounts)	55
2.3.4.3 Personal Exemptions	56
2.3.4.4 Business Rebates, Exemptions, Holiday and Concession and Facilities (Sec. 11)	56
2.3.5 Applicable Tax Rates	57
2.3.5.1 Natural Resident Person	57
2.3.5.2 Entities	58
2.3.6 Tax Accounting and Timing	60
2.3.6.1 Method of Tax Accounting (Sec. 22)	60
2.3.6.2 Accounting on Cash Basis (Sec. 23)	60
2.3.6.3 Accounting on Accrual Basis (Sec. 24)	61
2.3.6.4 Reverse of Amounts Including Bad Debts (Sec, 25)	61

2.3.6.5. Average Inclusions and Deductions under Long Term Contracts (Sec. 26)	62
2.3.7 Head of Income	62
2.3.7.1 Income from Business	62
2.3.7.2 Income from Investment	69
2.3.7.3 Income from Employment	71
2.3.8 Provision for Depreciation	75
2.3.9 Provision for Set off/ Carry Forwards / Carry Back Of Losses	78
2.3.10 Capital Gain Taxation	80
2.3.11 Tax Evasion and Avoidance	82
2.3.12 Tax Planning	84
2.3.13 Tax Administration	86
2.3.14 Penal Provision	87
2.3.15 Administrative Review and Appeal	87
2.4. Research Gap	87

### **CHAPTER- III     RESEARCH METHODOLOGY**

3.1 Research Design	89
3.2 Types of Research	89
3.2.1 Descriptive Research	90
3.2.2 Analytical Research	90
3.2.3 Empirical Research	90
3.3 Nature and Sources of Data	90
3.3.1 Primary Sources	90
3.3.2 Secondary Sources	91
3.4 Data Collection Procedure	91
3.5 Data Processing Procedure	91
3.6 Data Analysis Tools	92

## **CHAPTER – IV DATA PRESENTATION AND ANALYSIS**

4.1 Secondary Sources of Data	93
4.1.1 Structure of Government Revenue in Nepal	93
4.1.2 Structure of Tax Revenue in Nepal	95
4.1.3. Composition of Direct Tax Revenue	98
4.1.4 Composition of Indirect Tax Revenue	101
4.1.5 Income Tax Revenue and Its Composition in Nepal	104
4.1.6 Contribution of Income Tax to Direct Tax Revenue, Total Tax Revenue, Total Revenue and GDP	109
4.2 Empirical Investigation	112
4.2.1 Introduction	112
4.2.2 Opinion towards problem in Implementation of Income Tax Act, 2058 in Nepal	113
4.2.2.1 Test of Hypothesis	115
4.2.2.2. Reasons behind the Major Problems in the Implementation of Income Tax Act, 2058 in Nepal	116
4.2.3 Opinion towards Modernness & Effectiveness of Income Tax Act, 2058	120
4.2.3.1 Test of Hypothesis	121
4.2.4 Opinion towards Contribution of Income Tax on National Revenue	122
4.2.4.1 Test of Hypothesis	123
4.2.5 Opinion towards Rebates & Facilities Provided by ITA, 2058 to Special Industries	124
4.2.5.1 Test of Hypothesis	126
4.2.6 Opinion towards Effectiveness of Tax Assessment Methods under Income Tax Act, 2058	128
4.2.6.1 Test of Hypothesis	129



4.2.7 Opinion towards Effectiveness of Revenue Administrative and Revenue Tribunal	131
4.2.7.1 Test of Hypothesis	133
4.2.8 Opinion towards Effectiveness Service of Tax Administration after Introducing New Act, 2058	134
4.2.8.1 Test of Hypothesis	136
4.2.8.2 Reasons behind the ineffectiveness service of Tax Administration	137
4.2.9 Opinion towards Effectiveness Service of Income Tax Act, 2058 in the following years	141
4.2.9.1 Test of Hypothesis	142
4.2.9.2 Reasons behind the ineffectiveness of Income Tax Act, 2058 in the following years	143
4.2.10 Opinion towards Existence of Corrupt Practices in Income Tax Administration	146
4.2.10.1 Test of Hypothesis	148
4.2.10.2 Causes behind the existence of Corrupt Practice exist in Income Tax Administration of Nepal	149
4.2.11 Comments and Suggestion from the respondents	151
4.3 Major Findings	154
4.3.1 Major Findings from Secondary Source of Data	154
4.3.2 Major Findings from Empirical Investigation	156

## **CHAPTER – V SUMMARY, CONCLUSION AND RECOMMENDATIONS**

5.1 Summary	159
5.2 Conclusion	163
5.3 Recommendations	166

### **Bibliography**

### **Appendix**

## **LIST OF TABLES**

<b>Table No.</b>	<b>Title</b>	<b>Page No.</b>
2.1	Provision for Depreciation	76
2.2	Computation of Depreciation Basis	77
2.3	Time and Absorbed and unabsorbed portion of Assets	77
2.4	Incomes and provisions for set off/ carry forward /carry back of losses	79
2.4	Conditions and provisions for set off/ carry forward /carry back of losses	80
4.1	Contribution of Tax and Non Tax Revenue in Total Tax Revenue From the FY 1986/87 to 2006/07	95
4.2	Contribution of Direct and Indirect Tax to total Tax Revenue From FY 1986/87 to 2006/07	97
4.3	Components of Direct Tax and their Percentage share From the FY 1986/87 to 2006/07	100
4.4	Components of Indirect Tax and their Percentage Share From the FY 1986/87 to 2006/07	103
4.5	Structure of Income Tax Revenue From the FY 1986/87 to 2006/07	107
4.6	Structure of Income Tax Revenue From the FY 1986/87 to 2006/07	107
4.7	Contribution of Income Tax to Direct Tax Revenue Total Tax Revenue Total Revenue and GDP from FY 1986/87 to 2006/07	111
4.8	Group of Respondents and Code Used	113
4.9	Opinion towards problems in implementation of Income Tax Act, 2058 in Nepal	114
4.10	Major Problems in the Implementation of Income Tax Act, 2058 in Nepal	117

4.11	Calculation of Spearman's Rank Correlation Coefficient	119
4.12	Modernness & Effectiveness of Income Tax Act, 2058	120
4.13	Attitude towards Satisfactory Contribution of Income Tax on National Revenue	122
4.14	Opinion towards rebates & facilities provided by ITA, 2058 to Special Industries	125
4.15	Opinion towards Effectiveness of Tax Assessment Methods under Income Tax Act, 2058	128
4.16	Opinion towards Effectiveness of Revenue Administrative and Revenue Tribunal	132
4.17	Opinion towards Effectiveness Service of Tax Administration after Introducing New Act, 2058	135
4.18	Reasons of Ineffectiveness Service of Tax Administration	138
4.19	Calculation of Spearman's Rank Correlation Coefficient	140
4.20	Opinion towards Effectiveness Service of Tax Administration after Introducing New Act, 2058 in the following year	141
4.21	Reasons behind the ineffectiveness of ITA, 2058 in the following years	143
4.22	Calculation of Spearman's Rank Correlation Coefficient	145
4.23	Opinion towards Existence of Corrupt Practices in Income Tax Administration	146
4.24	Causes of corrupt practice exist in Income Tax Administration of Nepal	149
4.25	Calculation of Spearman's Rank Correlation Coefficient	151

## **LIST OF FIGURES**

<b>Figure No.</b>	<b>Title</b>	<b>Page No.</b>
4.1	Contribution of Tax and Non Tax Revenue in Total Tax Revenue from the FY 1986/87 to 2006/07	98
4.2	Composition of Direct Tax Revenue form the FY 1986/87 to 2006/07	101
4.3	Composition of Indirect Tax and their percentage Share from the FY 1986/87 to 2006/07	104
4.4	Composition of Income Tax Revenue from FY 1986/87 to 2006/07	109
4.5	Group of Respondents and Code Used	113
4.6	Opinion towards problems in implementation of Income Tax Act, 2058 in Nepal	114
4.7	Opinion towards Modernness & Effectiveness of Income Tax Act, 2058	120
4.8	Attitude towards Satisfactory Contribution of Income Tax on National Revenue	123
4.9	Opinion towards rebates & facilities provided by ITA, 2058 to Special Industries	125
4.10	Opinion towards Effectiveness of Tax Assessment Methods under Income Tax Act, 2058	129
4.11	Opinion towards Effectiveness of Revenue Administration and Revenue Tribunal	132
4.12	Opinion towards Effectiveness Service of Tax Administration after Introducing New Act, 2058	135
4.13	Opinion towards Effectiveness of Income Tax Act, 2058 in the following years	141
4.14	Opinion towards Existence of Corrupt Practices in Income Tax Administration	147