

**A COMPARATIVE STUDY ON CONTRIBUTION OF
DIRECT TAX AND INDIRECT TAX TO
NATIONAL REVENUE OF NEPAL**

Submitted By:

**RAGINI LAMICHHANE
Campus Roll No: 1486/63
T.U. Regd: 7-2-422-66-2003
Shanker Dev Campus
Exam Roll No: 2493**

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, 2010**

RECOMMENDATION

This is to certify that the thesis

Submitted by:

Ragini Lamichhane

Entitled:

**A Comparative Study on Contribution of Direct Tax and Indirect
Tax to National Revenue of Nepal**

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

Prof. Dr. Kamal Deep Dhakal
Supervisor

Prof. Bishesor Man Shrestha
Head, Research Department

Prof. Dr. Kamal Deep Dhakal
Campus Chief

Date:

VIVA – VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by:

Ragini Lamichhane

Entitled:

**A Comparative Study on Contribution of Direct Tax and Indirect
Tax to National Revenue of Nepal**

and found the thesis to be original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for the degree of

Master of Business Studies (MBS)

Viva-Voce Committee

Head of the research department

Member (Thesis Supervisor)

Member (External Expert)

Date:

DECLARATION

I hereby declare that the work reported in this thesis entitled “*A Comparative Study on Contribution of Direct Tax and Indirect Tax to National Revenue of Nepal*” submitted to Shanker Dev Campus Tribhuvan University is my original work. It is done in the form of partial fulfillment of the requirements for the Master of Business Studies (M.B.S) under the supervision and guidance of **Dr. Kamal Deep Dhakal**.

Ragini Lamichhane

Researcher

Roll No: 1486/063

Shanker Dev Campus

Date:.....

ACKNOWLEDGEMENT

My indebtedness and gratitude goes to the many individuals, who have assisted to shape this thesis in the present form, cannot be adequately conveyed in a few sentences.

Initially, I would like to express my sincere gratitude and indebtedness to my respected supervisor **Dr. Kamal Deep Dhakal** for his invaluable supervision, constructive comments and suggestions, which gave the final shape of this thesis and he has always believed in me and encouraged me to go further.

I would like to offer my sincere gratitude to Tribhuvan University, Faculty of Management, for providing me the opportunity to carry out this research study as a partial fulfillment of Master's Degree Program. My gratitude goes to all the Teachers and Staffs of the Shanker Dev Campus, T.U., whose sound theoretical knowledge provided me the basis for the preparation of the thesis. Special thanks to all staffs of Inland Revenue Department and Security Board of Nepal for providing necessary data, information and congenial environment for preparing this thesis. I am thankful to my Family and office staff, also my friends for their effort and support in this research work.

I am grateful and proud to have respected my Father **Mr. Shankar Prasad Lamichhane**, lovely Mother **Mrs. Laxmi Lamichhane** and my supportive and dear husband **Ananda Shah**, whose inspiration and financial support helped me to achieve this success.

Last but not the least I would like to extend my gratitude to **Mr. Pratap Dev Sapkota** who helped me, typing and designing of this thesis neat and clean.

Ragini Lamichhane

TABLE OF CONTENTS

<i>Recommendation</i>	
<i>Viva-Voce Sheet</i>	
<i>Declaration</i>	
<i>Acknowledgement</i>	
<i>Table of Contents</i>	
<i>List of Tables</i>	
<i>List of Figures</i>	
<i>Abbreviations</i>	Page
CHAPTER- I: INTRODUCTION	1-8
1.1 Background of the Study	1
1.2 Statement of the Problem	4
1.3 Objectives of the Study	6
1.4 Significance of the Study	6
1.5 Limitations of the Study	7
1.6 Organization of the Study	7
CHAPTER-II: CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE	9-26
2.1 Conceptual Framework	9
2.2 Tax	11
2.2.1 Meaning of tax	11
2.2.2 Classification of Taxes	12
2.3 Review of Related Materials	17
2.3.1 Review of Books and Articles	17
2.3.2 Brief Review of previous Research Work	20
2.4 Research Gap	26

CHAPTER-III: RESEARCH METHODOLOGY	27-31
3.1 Research Design	27
3.2 Population and Sampling	27
3.3 Sources of Data	28
3.3.1 Primary Data	28
3.3.2 Secondary Data	28
3.4 Data and Information Collection Procedure	29
3.5 Data Analysis Procedure	29
3.6 Presentation and Analytical Tools	29

CHAPTER - IV: PRESENTATION AND ANALYSIS OF DATA	32-96
4.1 Tax Structure of Nepal	32
4.1.1 Composition of Total Revenue	32
4.1.2 Composition of Direct and Indirect Tax on Total Tax Revenue in Nepal	35
4.1.3 Composition of Direct Tax Revenue in Nepal	38
4.1.4 Composition of Indirect Tax	42
4.1.5 Contribution of Direct Tax in GDP, Total Revenue and Total Tax Revenue	46
4.1.6 Contribution of Indirect Tax in GDP, Total Revenue and Total Tax Revenue	48
4.1.7 Structure of Income Tax in Nepal	50
4.1.8 Collection of Total Revenue in Nepal of the Fiscal Year 2008/09	54
4.1.9 Structural Composition of Corporate Income Tax	55
4.1.10 Contribution of Corporate Income Tax Revenue on Income Tax Revenue	58
4.1.11 Structure of Customs in Nepal from 1998/99to 2008/09	61

4.1.12 Overall revenue Structure in Nepal	65
4.2 Problems of Resources Gap in Nepal	67
4.2.1 Revenue Expenditure	71
4.2.2 Problems in Public Expenditure	73
4.3 Empirical Investigation	76
4.3.1 Attitude towards Tax Education	78
4.3.2 Attitude towards Direct and Indirect tax System in Nepal	78
4.3.3 Specific Objective of Income Tax in Nepal	79
4.3.4 Attitude towards Income tax system in Nepal	81
4.3.5 Appropriate Method while Assessing the Income tax in Nepal.	83
4.3.6 Income tax Evasion in Nepal	84
4.3.7 Efficiency of VAT in Nepal	87
4.3.8 Self-Assessment System in Nepal	88
4.3.9 Attitude toward provisions of fees, fines and penalties	89
4.3.10 Most Important factors for effectiveness of Income Tax in Nepal	90
4.3.11 Effectiveness of Income Tax Administration in Nepal	91
4.3.12 Suggestions for Achieving Effectiveness of Income Tax in Nepal	93
4.4 Major Findings of the Study	93

CHAPTER-V: SUMMARY, CONCLUSION AND RECOMMENDATIONS

97-106

5.1 Summary	97
5.2 Conclusion	100
5.3 Recommendations	103

BIBLIOGRAPHY

APPENDIX

LIST OF TABLES

	Page
Table 4.1: Contribution of tax and non-tax revenue on total Revenue of Nepal from FY 1998/99 to 2008/09	33
Table 4.2: Composition of Direct and Indirect tax on Total Tax Revenue	37
Table 4.3: Major Sources of Direct Tax and Their Relative Percentage to Direct Tax from FY 1998/99 to 2008/09	39
Table 4.4: Major Sources of Indirect Tax and Their Relative Percentage to Indirect Tax from the FY 1998/99 to 2007/08	43
Table 4.5: Contribution of Direct Tax in GDP, Total Revenue and Total Tax Revenue	47
Table 4.6: Contribution of Indirect Tax in GDP, Total Revenue and Total Tax Revenue	49
Table 4.7: Collection from Major Sources of Income tax in Nepal	51
Table 4.8: Target and Collection of Total Revenue in FY 2007/08	54
Table 4.9: Structural Composition of Corporate Income Tax	56
Table 4.10: Contribution of Corporate Income Tax Revenue on Income Tax Revenue	59
Table 4.11: Major source of Custom duties and their relative percentage to Custom duties from 1998/99 to 2007/08	62
Table 4.12: Summary of National Revenue in Nepal	65
Table 4.13: Domestic Resource Gap Pattern of Nepal	69
Table 4.14: Overall Resource Gap Pattern of Nepal	72
Table 4.15: Share of Government Revenue and Foreign Aid	75
Table 4.16: Determinations of Respondents Code Used	77
Table 4.17: People's Knowledge towards Tax System	78
Table 4.18: Opinion towards Classification of the Direct and Indirect tax of Nepal	79

Table 4.19:	Opinion towards Objectives of Income Tax	80
Table 4.20:	Satisfaction towards Existing Income Tax System.	81
Table 4.21:	Major Problems of Income Tax System	82
Table 4.22:	Appropriate Method while Assessing the Income Tax in Nepal	84
Table 4.23:	Income Tax Evasion in Nepal	85
Table 4.24:	Factors Responsible for Tax Evasion	86
Table 4.25:	Option of Economic Efficiency of VAT in Nepal	87
Table 4.26:	Options towards self-Assessment System are its Effectives in Nepal	88
Table 4.27:	Attitude towards Reasonability of Existing Provisions of Fees, Fines and Penalties	89
Table 4.28:	Measures to make the Provision of Fines, Fees and Penalties Responsible	90
Table 4.29:	Important factors for effectiveness of Tax in Nepal	90
Table 4.30:	Effectiveness of Income Tax Administration	91
Table 4.31:	Causes of Inefficient of Nepalese income Tax Administration	92

LIST OF FIGURES

	Page
Figure 4.1: Trend Line Showing Total Revenue, Tax and Non-Tax Revenue	35
Figure 4.2: Bar Diagram Showing Direct and Indirect Tax on Total Tax Revenue	38
Figure 4.3: Bar Diagram Showing Composition of Direct Tax	40
Figure 4.4: Average Combination of Direct Tax Revenue	42
Figure 4.5: Bar Diagram Showing Custom Duties, Excise Duties and VAT on IDT	44
Figure 4.6: Average Combination of Indirect Tax Revenue	46
Figure 4.7: Bar Graph Showing CITR its Composition	57
Figure 4.8: Trend Line Showing Components of CITR	58
Figure 4.9: Bar Graph of CITR and Income Tax Revenue	60
Figure 4.10: Trend Line Showing Income Tax Revenue and CITR	61
Figure 4.11: Pie Chart of Composition of Customs	64
Figure 4.12: Bar Diagram Showing Resource Gap	70
Figure 4.13: Trend Line Showing Resource Gap in Nepal	71

ABBREVIATIONS

BBS	:	Bachelor of Business Studies
CEDA	:	Central for Economic Development Administration
CITR	:	Corporate Income Tax Revenue
DT	:	Direct Tax
DTR	:	Direct Tax Revenue
Exp.	:	Expenditure
F.Y.	:	Fiscal Year
FDI	:	Foreign Direct Investment
Fig.	:	Figure
GDP	:	Gross Domestic Product
GST	:	Good and Services Tax
Govt.	:	Government
IDT	:	Indirect Tax
IRD/N	:	Inland Revenue Department Nepal
IT	:	Income Tax
ITA	:	Income Tax Act.
Ltd.	:	Limited
MOF	:	Ministry of Finance
No.	:	Number
NRB	:	Nepal Rastra Bank
PAN	:	Permanent Account Number
Pvt.	:	Private
R&D	:	Research and Department
Rs.	:	Rupees
S.N.	:	Serial Number
T.U.	:	Tribhuvan University
VAT	:	Value Added Tax
VOL	:	Volume
WTO	:	World Trade Organization
SAFTA	:	South Asian Free Trade Association.