CLASSIFICATION OF INCOME TAX PAYERS AND CONTRIBUTION OF TAX TO GOVERNMENT REVENUE

By:

Ganesh Bista

Shanker Dev Campus Roll No: 862/059

T. U. Reg. No: 32766-94

Submitted to:

Office of Dean
Faculty of Management
Tribhuvan University

In Partial Fulfillment of the Requirements for the Degree of
Masters of Business Studies (M. B. S)

Kathmandu, Nepal

2009

RECOMMENDATION

This is certify that the thesis

Submitted by:

Ganesh Bista

Entitled:

CLASSIFICATION OF INCOME TAX PAYERS AND CONTRIBUTION OF TAX TO GOVERNMENT REVENUE

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

Supervisor	Campus Chief
Signature:	Signature:
Name: Dr. Kamal Deep Dhakal	Name: Dr. Kamal Deep Dhakal
Date:	Date:

VIVA-VOCE SHEET

We have conducted the viva-voice examination of the thesis

Submitted by:

Ganesh Bista Entitled:

CLASSIFICATION OF INCOME TAX PAYERS AND CONTRIBUTION OF TAX TO GOVERNMENT REVENUE

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

Master in Business studies (M.B.S)

viva-voce committee

Head of Research Department.	
Member (Thesis Supervisor)	
Member (External Export)	
Date:	

DECLARATION

I hereby declare that the work reported in this thesis entitled "Classification of Income Tax Payers and Contribution of Tax to Government Revenue" submitted to Shanker Dev Campus, Faculty of management, Tribhuvan University is my original work for the partial fulfillment of the requirement for the Master of Business Studies (M.B.S.) under the supervision of Dr. Kamal Deep Dhakal, Reader of Shanker Dev Campus, Putalisadak, Kathmandu.

1	D-4-	
	Date:	

.....

Ganesh Bista
Shanker Dev Campus
Campus Roll No. 862/059
T.U. Registration No. 32766-94

ACKNOWLEDGEMENT

I gratefully acknowledge the cooperation and assistance that I receive

from my worthy teachers. I am much indebted to my respected teacher

and thesis advisor Dr. Kamal Deep Dhakal, Reader of Shanker Dev

Campus, who guided me all the way throughout the study. I take this

opportunity to extend my sincere thanks to my teacher Mr. Puspa Raj

Joshi.

My heartiest thanks go to all the staff of IRD, Lazimpat, especially

Director (Tax Collection) Mr. Nara Sagar Shrestha who provided me the

necessary information and materials as well as suggestions needed for this

study.

I would also thank Mr. Himalaya Niraula for his help in computer typing

and Sanchar Griha, Old Baneshwor for the printing work. Lastly, my

thanks go to my family and friends who helped me to collect information

through questionnaire.

Date:

Ganesh Bista

TABLE OF CONTENT

	Page No.
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	
CHAPTER I	
INTRODUCTION	1-21
1.1 General Backgrounds	1
1.2 Statement of Problems	9
1.3 Focus of the study	14
1.4 Objective of the study	14
1.5 Importance of the study	15
1.6 Research Methodology	16
1.7 Hypothesis of the study	16
1.8 Limitation of the study	20
1.9 Plan of the study	21
CHAPTER II	
CONCEPTUAL FRAMEWORK AND	
REVIEW OF LITERATURE	22-98
A: CONCEPTUAL FRAMEWORK	22-83
2.1 Introduction to sources of government Revenue	22
2.1.1 Tax	22

2.1.2 Revenue from public enterprises	22
2.1.3 Special Assessment	23
2.1.4 Fees	23
2.1.5 Fines	23
2.1.6 Grants and Assistances	23
2.2 Concept of tax	23
2.3 Classification of taxes	26
2.3.1 Direct Tax	26
2.3.2 Indirect Tax	28
2.4.1 Objective of tax	30
2.4.2 Principles/ canons of taxation	31
2.5.1 Concept of Income Tax	32
2.5.2 Historical perspective of Income Tax on	
International Context	34
2.5.3 Taxation in Ancient Nepal	35
2.5.4 Taxation in Unified Nepal (1776-1846)	36
2.5.5 Taxation in Rana Regime (1846-1950)	37
2.5.6 Politics, government, and taxation	39
2.6.1 Income Tax in Modern Nepal	43
2.6.2 Business Profit and Remuneration Tax Act 1960	
(2017)	44
2.6.3 Income Tax Act 1962 (2019)	45
2.6.4 Income Tax Act 1974 (2031 B.S.)	47
2.6.5 Income Tax Act 2002 (2058 B.S.)	49
2.6.6 The Special features of the Act 2002	53
2.7 Income Heads	54
2.7.1 Income from Employment	54
2.7.2 Income from Business	57
2.7.3 Income from Investment	58

2.8 Taxing Subjects	60
2.9 Income Year	61
2.10 Assessable Income	61
2.11 Taxable Income	62
2.12 Tax Rates	62
2.13.1 Tax Exempt Amounts	65
2.13.2 Business Exemption and Concessions	66
2.14 Allowable Deductions	67
2.14.1 General Deductions	67
2.14.2 Interest	68
2.14.3 Cost of trading Stock	69
2.14.4 Repair & Improvement cost	70
2.14.5 Pollution control cost	70
2.14.6 Research & Development cost	71
2.14.7 Depreciation cost	71
2.14.8 Bad debts	72
2.14.9 Allowable Reductions	72
2.14.9.1 Donation to exempt organization	72
2.14.9.2 Retirement contributions	72
2.15 Setoff, Carry forward and Carry back of Losses	73
2.16 Tax Accounting and Timing	74
2.17 Quantification, Allocation and Characterization	
of Amounts	74
2.18 Capital Gain Tax	75
2.19 Special provisions for Individuals	76
2.20 Special provisions for Entity	77
2.21 Special Provisions for Retirement Savings	78
2.22 International Taxation	78
2.23 Administration and Documentation	79

2.24 Record Keeping and Information Collection	79
2.25 Installment Payment	80
2.26 Annual Statement of Estimated Tax Payable	81
2.27 Returns of Income and Assessments	81
2.28 Administrative Review and Appeal	82
2.29 Offences	82
2.30 The Super Act	83
B: REVIEW OF LITERATURE	84-98
2.31.1 Review of Related Books	84
2.31.2 Review of Related Thesis	89
2.31.3 Review of Related Studies and Reports	95
CHAPTER III	
RESEARCH METHODOLOGY	99-104
3.1 Research Design	99
3.2 Population and Sample	99
3.3 Sampling Procedure	100
3.4 Nature and Sources of Data	100
3.5 Data Collection procedure	101
3.6 Data processing Procedure and Analysis of Tools used	102
3.7 Weight of Choice	104
CHAPTER IV	
PRESENTATION AND ANALYSIS OF DATA	105-193
A: ANALYSIS OF TAXPAYERS	105-121
4.1 A brief introduction of IRD	105
4.2 Functions carried out by IRD	105
4.3 Taxpayer's Rights and Assurances	106

4.4 Organizational Structure of the Inland Revenue Department	108
4.5.1 Meaning of Taxpayer	109
4.5.2 Classification of Taxpayers based on ITA 2058	110
4.5.2.1 Classification on the basis of legal status	110
4.5.2.2 Classification on the basis of marital status	110
4.5.2.3 Classification on the basis of residential status	111
4.5.2.4 Classification on the basis of submission of income	
return	112
4.6 Taxpayers and structure status of income tax	113
4.7.1 Status based on number of Tax payers registered	113
4.7.2 Status of taxpayers based on contribution on income tax	115
4.7.3 Status of taxpayers based on the submission of return of	
income	116
4.7.4 Status of Tax payers based on the assessment of tax	118
4.7.5 Status of Tax payers based on payment of tax by	
installment	119
B: ANALYSIS OF SECONDARY DATA	122-152
4.8 Structure of Government revenue of Nepal	122-132
4.9 Contribution of Tax and non-tax Revenue in total Revenue	
4.10 Contribution of Direct Tax and indirect Tax in total tax	120
	129
revenue 4.11 Structure of Direct Tax Revenue	130
4.12 Contribution of Income Tax in Total Revenue,	130
	122
Tax Revenue and Direct Tax Revenue	132
4.12.1 Income Tax in Total Revenue	133
4.12.2 Income Tax in tax Revenue	133
4.12.3 Income tax in Direct Tax Revenue	133
4.13 Contribution of tax revenue, Non-Tax revenue and	

Income tax on GDP	134
4.14 Structural status of tax revenue for F/Y 2005/06	136
4.15 Annual Growth in Inland Revenue Collections	139
4.16 Structural Status of Income Tax	144
4.17 Group Structure and growth rate of income tax	147
4.18 Progress in the income tax collection	149
C: AN EMPIRICAL INVESTIGATION	153-193
4.19 Introduction	153
4.20 Attitude towards Income Tax System	154
4.21 Tax as an important and major source of government	
revenue	158
4.22 Attitude towards the role of income tax in economic	
development and poverty alleviation	160
4.23 Attitude towards low Tax/ GDP ratio	164
4.24 Attitude towards tax avoidance and tax evasion	168
4.25 Attitude towards increasing resource gap problems in	
Nepal	171
4.26 Attitude towards bringing the agricultural income within	
the boundary of tax to increase the contribution of income	;
tax	175
4.27 Attitude towards Exemption limit provided to Individual	
and couple	178
4.28 Attitude towards the number of Tax payer registered	
during the F/Y 2005/06	183
4.29 Attitude towards the bases of classification of	
income tax payers	187
4.30 Findings of the study	190

CHAPTER V

SUMMARY, CONCLUSION AND

RECOMMENDATIONS	194-203
5.1 Summary	194
5.2 conclusions	197
5.3 Recommendations	200

Bibliography

Appendixes

LIST OF TABLES

	Page No
Table 1.1 Per capita GDP in US \$ of SAARC countries	2
Table 1.2 Annual percentage change in price of SAARC	
countries	2
Table 1.3 Resource Gap in Nepal (1998/99 to 2005/06)	11
Table 1.4 Contribution of Direct Tax and Indirect tax to	
Total Tax Revenue	12
Table 3.1 Groups of Respondents and Size of Sample	
included from Each group	100
Table 4.1 Personnel List of Inland Revenue Department as	
of 2064 Jestha	109
Table 4.2 No. of Tax payers registered	114
Table 4.3 Collection of income tax from different types of	
tax payers in F/Y 2062/63	115
Table 4.4 Statement of income return	117
Table 4.5 Statement of Tax assessment	118
Table 4.6 Statement of payment of tax by installment	119
Table 4.7 Structure of Government Revenue in Nepal	
from F/Y 1998/99 to 2006/07	126
Table 4.8 Structure of Government Revenue in Nepal from	
F/Y 1998/99 to 2006/07	127
Table 4.9 Contribution of Tax and Non-Tax revenue in	
total revenue	129
Table 4.10 Contribution of Direct Tax and Indirect tax in	
total tax revenue	130
Table 4.11 Contribution of various taxes in Direct Tax	
Revenue	132
Table 4.12 Contribution of Income tax in Total Revenue.	

Tax Revenue and Direct Tax Revenue	134
Table 4.13 Contribution of Tax Revenue, Non-Tax Revenue	
and Income tax on GDP	136
Table 4.14 Structural Status of Tax Revenue of F/Y 2005/06	137
Table 4.15 Annual Growth in Inland Revenue Collection	140
Table 4.16 Structural Status of Income Tax	146
Table 4.17 Group Structure and growth rate of income tax	148
Table 4.18 Progress in the Income Tax collection	150
Table 4.19 Group of Respondents and Code used	153
Table 4.20 Attitude towards Problems in Income	
Tax System	154
Table 4.21 Major problems of Income Tax system	155
Table 4.22 Calculation of Rank Correlation Coefficient	157
Table 4.23 Tax as an important and major source of	
government revenue	158
Table 4.24 Tax as an important source of government	
revenue	159
Table 4.25 Attitude towards the important role of	
Income Tax	160
Table 4.26 Income Tax is not sufficient for economic	
development and poverty alleviation	161
Table 4.27 Calculation of Rank Correlation Coefficient	163
Table 4.28 Satisfaction towards Tax/GDP ratio	164
Table 4.29 Causes of unsatisfactory Tax/GDP ratio	165
Table 4.30 Calculation of Rank Correlation Coefficient	167
Table 4.31 Attitude towards tax avoidance and evasion	
as major problems	168
Table 4.32 Major causes of Tax avoidance and Tax evasion	169

Table 4.33	Calculation of Rank Correlation Coefficient	170
Table 4.34	Attitude towards increasing resource gap	
	problems in Nepal	171
Table 4.35	Major causes of resource gap problems	172
Table 4.36	Calculation of Rank Correlation Coefficient	174
Table 4.37	Attitude towards bringing the agricultural	
	income within the boundary of tax to increase	
	the contribution of Income Tax	175
Table 4.38	Causes of not imposing tax on agricultural income	176
Table 4.39	Calculation of Rank Correlation Coefficient	177
Table 4.40	Satisfaction towards exemption limit and Tax Rate	
	provided to individual and couple	179
Table 4.41	Causes of the exemption limit and Tax rate	
	provided to individual and couple not being rational	180
Table 4.42	Calculation of Rank Correlation Coefficient	182
Table 4.43	Satisfaction towards the number of new	
	Tax payers registered	183
Table 4.44	Causes of the low number of new tax payers	
	registered in the F/Y 2005/06	184
Table 4.45	Calculation of Rank Correlation Coefficient	186
Table 4.46	Opinion towards the classification of	
	income tax payers	187
Table 4.47	Views towards the classification of	
	income tax payers	188

LIST OF FIGURES

	Page No.	
Figure 4.1 Total Registered Tax payers in 2062/63	114	
Figure 4.2 Structural Status of Income Tax in F/Y 2062/63	116	
Figure 4.3 Structural Status of Taxpayers based on income		
returns	117	
Figure 4.4 Structural Status based on No. of Taxpayers in		
3 installment	120	
Figure 4.5 Tax amount collected in each installments in		
F/Y 2062/63	120	
Figure 4.6 Structural Status of Tax Revenue of F/Y 2005/06	139	
Figure 4.7 Total Tax Collection in Different Fiscal Years	141	
Figure 4.8 Annual Growth percentage of Total Tax Revenue	141	
Figure 4.9 Collection of VAT for F/Y 056/57 to 062/63	142	
Figure 4.10 Income Tax collection in different Fiscal years	142	
Figure 4.11 Excise Collection in different Fiscal years	143	
Figure 4.12 Vehicle Tax Collection in different Fiscal years	143	
Figure 4.13 Structural Status of Income Tax of F/Y 2004/05	146	
Figure 4.14 Structural Status of Income Tax of F/Y 2005/06	147	
Figure 4.15 Group Structure of Corporate income tax for the		
F/Y 2005/06	148	
Figure 4.16 Target and Collection of Corporate Income Tax		
for F/Y 062/63	150	
Figure 4.17 Target and Collection of Individual income Tax		
for F/Y 062/63	151	
Figure 4.18 Target and Collection of Rent Tax for F/Y 062/63	151	
Figure 4.19 Target and Collection of Interest Tax for		
F/Y 062/63	152	

List of Abbreviation

B.S. - Bikram Sambat

F/Y - Fiscal Year

GDP - Gross Domestic Product

GN - Government of Nepal

GNP - Gross National Product

IDT - Indirect Tax

i.e. - That is

IRD - Inland Revenue Department

IRO_s - Inland Revenue Offices

MOF - Ministry of Finance

No. - Number

PE_s - Public Enterprises

Rs. - Rupees

SAARC - South Asian Association for

Regional Cooperation

T.U. - Tribhuvan University

VAT - Value Added Tax

\$ - US Dollar