

PROBLEMS AND PROSPECTS OF TAX ADMINISTRATION IN NEPAL

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CHAPTER – I

INTRODUCTION

1.1 General Background

The tendency of welfare state in the present day world of twenty- first century is increasing rapidly. A welfare state has many duties and responsibilities towards its sovereign principal. Modern government has many functions as: (1) to protect its people. (2) to implement overall development activities in the country and (3) to built various socio- economic infrastructures such as road, electricity, communication, schools and universities etc. Every government needs adequate resources for successful implementation of all these development activities in the country. Nepal is no exception to the category of welfare state. She has to perform all the duties of a welfare state. Moreover, there is serious Maoist insurgency in the country for several years. Therefore, the economic growth of Nepal in the fiscal year 2001/02 was negative, for the first time after the year 1989/90. On one hand the recurrent government expenditure is rapidly increasing, because government has to spend a lot of fund for security provision relief packages for Maoist victims etc. On the other hand, the development expenditure is decreasing day by day. In order to meet the growing need of public expenditure, government has to generate resources from various sources. The sources of government revenue are mainly of two types. They are: internal and external sources (Adhikari, 2005).

The government revenue is mainly divided into two types. They are; non-tax revenue and tax revenue. Non-tax revenue consists of service charges, fees, penalties, interest, dividend and royalties etc. Customs duty, excise duty, income tax; value added tax, vehicle tax and property tax are the major components of tax revenue. Tax revenue is broadly divided into two types. They are; indirect tax and direct tax. The distinction between direct and indirect tax is based on the impact and incidence of tax. Direct tax is the personal tax. If the impact and incidence is borne by the same person on whom it is legally imposed and there is no possibility of shifting. Then, it is called direct tax. Examples are income tax, profit tax, interest tax, dividend tax, property tax etc. On the other hand, indirect tax is commodity-based tax. If any tax is legally imposed on one person but the incidence of the tax is borne by another person through backward

and forward shifting process, then it is called indirect tax. Value Added Tax (VAT), customs duty and excise duty are some examples of indirect tax (Adhikari, 2005).

Through taxation, the government can increase revenue as well as affect consumption, production and distribution pattern of the economy. Taxation has been taken as the best effective instrument of fiscal policy for raising the ratio of saving to GDP (Adhikari, 2005).

Government revenue plays vital role in the rapid economic development program. Revenue for the country may be from external sources and internal sources. External sources of revenue are grants of foreign government or agencies and loans. Such external sources are uncertain and not good for healthy development of a country's economy. Internal sources of government revenue are own sources within the nation. Internal sources constitute tax and non-tax revenue. Tax revenue includes various type of taxes such as customs duty, excise duty, VAT, income tax etc (Dhakal, 2007).

Although the legal provision has been made and updated time to time, there are many problems in implementation of tax provisions which had made difficulty for collecting more revenue. There are many problems in tax practices in Nepal such as: leakage in tax, feeling of people about tax as a penalty, lack of consciousness of people, inability of tax administration to cover new tax payer, delays in computation and collection, lack of accuracy and unity in accounting system etc (Dhakal, 2007).

Since being major source of fund collection of tax should be more flexible to achieve maximum social and economic objectives. Collection of tax helps in redistribution of financial resources means by the transformation of wealth from person with higher economic level to lower economic level. Providing incentive and concessions in income tax for promoting industries in background areas may also reduce regional economical imbalances. It has become an effective instrument to ensure balanced socio-economic growth (Lamsal, 2002).

1.2 Significance of the Study

Income tax plays significant role in the overall economic development in developed as well developing countries. It occupies a very important role in overall tax structure. The

role of income tax is gradually increasing in the world because of economic betterment of countries.

Nepal is one of the lowest among SAARC countries and among the rest of the world as well. This shows poor performance of tax management in Nepal. The portion of indirect tax is greater than direct tax. However it should be just reverse for economic welfare. The role of income tax should not be minimized in Nepal due to various problems. It may also useful instrument to measure the living standard of people. But the income tax administration of Nepal is suffering from various problems. The main problems of tax administration of Nepal are inappropriate tax policies, administrative bottlenecks of indirect tax structure and existence of mass poverty. So, to identify the problem and to overcome them for improvement of existing level of tax administration, the study about tax is must.

Again, as being very much important role of income tax in economic development, to study about tax is needed. Because it gives helps to the policy maker as the research as supposed to become milestone for them. Though, a bit attention has been given towards the subject matter, those are not being sufficient to through the light upon our subject matter. All of these reasons have pushed to select the topic as tax administration in Nepal with special reference to income tax.

1.3 Focus of the Study

The study is focused to analyze the structure of income tax and its administrative aspects. The existing Nepalese tax system has many problems. Inefficient customs valuation system, feeling of the people towards tax as a punishment, leakage in tax, lack of taxpayer awareness, lack of tax culture, lack of accuracy and utility in accounting system, low tax base, high tax rate, weak tax administration, many loopholes in tax law are some of the problems. Nepalese income tax has low level of contribution to its total internal resource mobilization owing to those problems these problems should be adequately addressed to potentials the income tax (Lamsal, 2002).

Having all existing reasons mentioned in above, the problems and prospects of tax administration in Nepal must be reviewed. Tax administration is the driver of whole tax system. It moves the whole system of government and country to the right direction.

The main focuses of the study are; structure of income tax, role of tax administration in tax collection, contribution of income tax to total revenue, effectiveness of tax revenue collection, problems of tax administration in Nepal and prospects of tax administration in Nepal.

1.4 Statement of the Problem

In the context of present changing scenario, each rules and regulations become dull. At the phase of implementation of rules and regulations, some loopholes and drawbacks are seen. Due to some administrative problems tax laws have not been implemented effectively. Even government has formulated progressive tax laws, there are many more difficulties while determining and collecting tax revenue.

In Nepal, social and economic development is not progressively and sufficiently reached at target point as it has a small economy with limited resources and political instability. Policies and strategies have been largely ineffective. Dependency over foreign aid is dramatically increasing so the deficit of budget is at a pick level.

Nepal is facing the problem of rising tendency of government expenditure. Its gross domestic product (GDP) per capita is reached at \$ 320 (Economic Survey: 2007/08, MOF). It is the lowest in the South Asian Association for Regional Cooperation (SAARC) countries. The poverty line of the people is very high i.e.30.85 percent of the total population (second Nepal life standard survey: 062/063, CBS). The scenario shows the economic condition of Nepal. So Nepal needs a huge amount of capital for economic development. Despite the various measures adopted by the government to boost revenue collection, there is still a substantial resource gap between expenditure and revenue. The rate of government expenditure is exceeding the rate of growth revenue collection almost every year from the beginning of its development phase. The resource gap in 2007/08 was Rs. 3009.17 million. The sources of filling the resource gap are internal and external borrowing, as well as stock change. Now days the internal borrowing has been playing important role to fulfill the resource gap. In 2007/2008, the internal borrowing was 1789.23 million which 59.59% of the total deficit was. It is harmful for internal investment. Whereas the, external borrowing was (bilateral and multilateral) Rs. 1005.35 million.

There are various problems in tax administration in Nepal, which are explained above in brief. This study is specially directed to analyze such problems.

More specifically this study has been carried out to answer the following research questions:

- a) What is the Nepalese tax structure?
- b) What is the contribution of income tax in total revenue?
- c) Is the tax administration of Nepal effective?
- d) What are the weakness and problems of current income tax?

1.5 Objectives of the Study

The major objectives of this study are as follows:

- a) To explore the contribution of income tax in government revenue,
- b) To analyze tax administration system in Nepal and
- c) To examine the guidelines for the improvement of tax administration in Nepal.

1.6 Limitation of the Study

All the studies have their own limitations. No studies can be free from constraints. This study is done for the partial fulfillment for masters of business studies. This is not far from several limitations, which weaken the heart of the study, e. g. inadequate coverage of time periods taken, reliability of financial and statistical tools used and other variations. The study is conducted with the following limitations and constraints:

-) Major data used in this study will be secondary data, primary information will be gathered from tax office, tax experts, businessmen, tax payers and consumers.
-) It cannot represent the whole pattern of Kathmandu city as a whole because of use of limited sample data.
-) The study will be conducted under the limited time.
-) The study concern only a period of 9 years i.e. 2000/01 to 2008/09 and conclusions has been drawn based on the data of stated period only.

-) Availability of relevant data and other information have determined its scope only.
-) The views of respondents have been collected from Kathmandu valley only, so it can not cover to the responses of entire tax payers, experts and tax administrators.

1.7 Organization of the Study

The study has been divided into five chapters, which are as follows:

Chapter first chapter includes general background, focus of the study, statement of the problem, objective of the study, significance of the study, limitation of the study.

Chapter two contains two parts i. e. conceptual framework of the selected topic and review of literature. The conceptual framework contains theoretical aspects of tax and administration individually, tax from different perspective, concept, significance and essential functions of tax administration. It again contains review of literature of previous researchers on the relevant subject matter.

Chapter three explains the research methodology used for the purpose of the study, which include research design, sources of data, data collection procedure, population and sample size of the study, data processing procedure and financial as well as statistical tools will be used for the analysis of data as per the need, possible and implications.

Chapter four includes data presentation and analysis. This chapter includes structure of tax including direct and indirect taxes as secondary data. Primary has been also included regarding attitude towards performance of Nepalese tax system and attitude towards the problems of tax in Nepal.

Chapter five includes summary, conclusion and recommendations. Bibliography and appendices have been attached at the end of the study and list of tables, list of diagrams, abbreviations used have been included in separate page as well.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Review

2.1.1 Income Tax Management in Nepal

Income tax, in modern age, is recognized as most important instrument for resource mobilization. Internal resources must be mobilized properly to achieve the goal of national development. It is believed that minimum requirement of people can be fulfilled through economic, social and legal development. Every developmental activity requires capital. Income tax is one of the sources of government revenue, and it can play vital role in internal resource mobilization if it is managed properly. "Income tax is one of the instruments of fiscal policy of government to achieve twin objectives as; rising revenue for the developmental activities of the government and another is reducing inequality of income and wealth among her people" (Tiwari, 1981).

To fulfill these objectives, Nepalese government introduced income tax 45 years ago in the fiscal year 1959/60. From that period, government has been trying to manage properly income tax system through various activities so that the desired goal could be achieved. Though, the amount of income tax is increasing but not in desired rate. This may be due to the absence of any systematic managerial approach. The role of income tax can be increased by making the existing management more efficient which is essential for income tax system.

2.1.2 Objectives of Income Tax Management:

Imposing tax on person's income is very difficult task, because it is the process of picking money from the person's pocket. The purpose of imposing tax on person's income can be listed as follows:

- Collect maximum revenue for development
- Reduce inequality of income and wealth distribution among people
- Have a balance regional economic development
- Promote private sector investment.

The main objective of income tax management is to achieve the goal of income tax system. To impose tax on income of people for maximum revenue collection without making it burdensome to the taxpayer, to create a balanced regional economic development and to reduce inequality of income and wealth among people are some examples of management of income tax.

2.1.3 Components for Income Tax management

Each work needs proper management system for the fulfillment of desired goal. Each components of management should perform well to make sound income tax system.

Income tax management covers the whole income tax systems. It includes tax policy maker (GON), law maker (Parliament) and tax administration (Inland revenue Department) as its lower level of management.

The components for income tax management can be categorized as:

- A. Parliament (Law Maker)
- B. Finance Ministry (Policy Maker)
- C. Tax Administration
 - I) Inland Revenue Department
 - II) Inland Revenue Office

A. Parliament:

Nowadays, the government cannot impose any tax without sufficient legal support. Similarly, legal support is necessary to impose income tax which is provided by parliament. But parliament is not directly associated with the day to day affairs of income tax management.

B. Finance Ministry (Policy Maker)

The apex organization of income tax is the finance Minister of Nepal Government. It concerns with the revenue and expenditure of the government, internal and external debts, and grants, planning and formulating various macro economics policies of government. These all are shouldered by Ministry of Finance. Administration of income tax is one of the various tasks of the finance Ministry. All of the managerial works toward income tax cannot be furnished by finance ministry itself. That is why; the

government has established "Inland Revenue Department" in 2058 B.S. by amalgamating two separate departments as "Department of VAT" and "Department of Taxation", under the ministry of finance.

C. Tax Administration:

Tax administration implements the objectives of tax law and policy into practice. In this connection tax administration is most important element in tax system.

The study is focused to analyze the structure of income tax and its administrative aspects. The existing Nepalese tax system has many problems. Inefficient customs valuation system, feeling of the people towards tax as a punishment, leakage in tax, lack of taxpayer awareness, lack of tax culture, lack of accuracy and utility in accounting system, low tax base, high tax rate, weak tax administration, many loopholes in tax law are some of the problems. Nepalese income tax has low level of contribution to its total internal resource mobilization owing to those problems these problems should be adequately addressed to potentials the income tax (Lamsal, 2002).

Having all existing reasons mentioned in above, the problems and prospects of tax administration in Nepal must be reviewed. Tax administration is the driver of whole tax system. It moves the whole system of government and country to the right direction. The main focuses of the study are; structure of income tax, role of tax administration in The prolong discussion of tax administration is provided in the separate head because which covers the main objective of this dissertation.

2.1.4 Importance of Income Tax in the Process of Economic Development

Income tax plays a significant role in the tax structure of many developing countries. For the process of economic development, an increase in per-capita income is necessary but it is not only the means of economic development. Generally, it is agreed that as per-capita income increases, ratio of taxes to GDP increase and the taxes on foreign trade tend to decline relatively while direct taxes on personal and business income rise relatively. As we know that capital plays a pivot role in the process of economic development particularly in under-developed countries.

The central fact of economic development of any country is rapid capital accumulation because capital plays a crucial role in the overall process of economic development. There is cumulative process in economic development of any under-developed countries. The increase in the income is possible only if the rate of capital formation is high and increase in capital formation is possible if the rate of the growth of income is high. In Nepal, growth rate of population is higher than the growth rate of GDP. So, maximum capital formation is needed to raise the living standard and per capita income of the people within short period of time. If the rate of saving is higher than the rate of economic growth is possible (Pant, 1996:22).

In developed countries, income taxation has to occupy a position of dominance in the tax structure. But the role of income taxation is limited in developing countries. In developing countries, taxation plays a more positive role in the process of capital formation. Nepal's tax ratio to GDP is the lowest among the developing countries. For this several factors can be held responsible such as low percentage of export and import to GNP and lack of effective administration and information of tax laws.

An attractive offer to invest in private sector in developing countries is low due to low return as the initial stage of development. So, it is necessary to mobilize the resources by public sector mainly on the development of agriculture, education, economic, social and so on. To develop these essential sectors, government needs large volume of revenue and this can be obtained through taxation for these all purpose. Government can finance by other ways such as money creation, deficit financing and foreign aid, but these are fear of increasing inflation. So, in many developing countries, government is trying to increase the proportion of tax revenue. The government should bring re-promotion in this tax system and structure to make increase in proportion to tax revenue to national income. Due to administrative and economic factors, the government of most of developing countries is emphasizing heavily on indirect taxes because they can collect most part of the tax revenue by indirect taxes. There is no wide use of direct taxes like income tax. But after a certain stage of development, role and ratio of direct taxes over indirect taxes go on increasing undoubtedly in the long run. Income tax under direct taxes occupies a major and importance source of revenue for government expenditure. Income tax has particular attractions as an important and suitable weapon for mobilizing the increasing output of developing nations. This tax is based on the

principle of ability to pay. The lower groups can be completely exempted with the burden of income tax and it can be increased progressively upon the higher groups. This tax seems to fulfill the current national objective of equity and justice.

2.1.5 Income Tax in Modern Nepal

The role of government has been changed after the independence of the country in 1951. Government was enforced to perform development activities besides regular functions. So, it was realized to impose tax on business profits and remuneration. Consequently, Finance Act 1959 was passed. In 1960(2017), a formal Income Tax Act was enacted in accordance with the provision in finance Act, 1959 for the first time in Nepal. In three years experience, the Business profit and Remuneration Act, 1960 was found very narrow and vague, and it was replaced by the Nepal Income Tax Act, 1962(2019). The Income Tax Act 1962 remained till 1974 and Income Tax Act, 1974, also replaced it. Income Tax Act 2002 also replaced the Income Tax Act 1974.

"No tax shall be levied and collected except in accordance with law" (Interim Constitution of Nepal, 2063 Part-9, Sec. 89-1.) The income law at present enforce in Nepal is Income Tax Act, 2002(2058) and Income Tax Rule 2002(2059) made there under. Finance Act is passed every year to translate the economic policy contained in the budget speech into law. It generally prescribes the rates and exemption limit for tax purposes and may delete, add or modify the provisions contained in the income tax act. Decisions of Supreme Court in Nepal also act as precedents for income tax law purposes. The notification in Nepal Gazette or circular by Inland revenue Department classifies and complements the legal provisions.

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2.1.6 Business Profit and Remuneration Tax Act 1960 (2017 B.S.)

Income tax in Nepal was first introduced in the fiscal year 1959-60. It was then known as 'Business profit and remuneration tax.' The imposition of the tax was governed by the Business Profit and Remuneration tax Act 1960 and rules made there under. This act consisted 22 sections. The silent features of this act were as follows:

- i. The basis for calculating the tax liability for remuneration was income of the current year, and for business profit, it was the profit at the preceding fiscal year,
- ii. Deductions were not specified for the purposes of calculating the taxable income
- iii. Only remuneration and business profit were subjected to tax.
- iv. Tax on remuneration was to be deducted at source.
- v. The taxpayer was given the right to appeal against tax assessment to local "Bada Hakim, thereafter; appeal could be lodged at Revenue Court. Every appeal was to be accompanied by security deposit or guarantee for the amount of tax payable.
- vi. The tax officer was empowered to 'assess tax on the basis of best judgment estimate where tax return was not filed or a false return was filed.
- vii. In case of default, fines up to Rs. 5000 were prescribed. The experience of three years indicated that the Business profit and Remuneration Tax Act was rather narrow and vague. So, it was replaced by the Nepal Income Tax Act 1962 (2019 B. S.).

2.1.7 Income Tax Act 1962 (2019 B.S)

The main purpose of the imposition of this Act was not only to raise government revenue but also to reduce inequality of income and wealth distribution with social justice and to create tax-paying habit of the taxpayer. The Income Tax Act 1962 (2029) had 29 sections compared to 22 sections of the previous Act It was amended in 1972 (2029).

The main features of this Act were as follows:

- i. Income was defined as all kinds of income including income derived from business, remuneration, profession and occupation, house and land rent, investment in cash or kinds, agriculture, insurance business, agency and any other sources,
- ii. Provision was made for payment of tax in installment as well as for advance payment of tax.
- iii. Carry forward of losses was allowed for a period of two years,
- iv. There were nine sources of income for tax purpose.
- v. The personal as well- as residential status of the taxpayer for tax purposes was defined.

- vi. The income tax assessment and collection procedures were specified along with the method of computing net income.
- vii. The basis was specified for assessing tax on the best judgment estimate of the tax officer,
- viii. Provision was made for reassessment of tax as well as rectification of arithmetic errors,
- ix. Provision was made for the exemption of income tax for new industries for certain period,
- x. Agriculture income was brought under the scope of income tax for the first time. But the finance Act 2023 B.S. exempted this income fully from income tax. The finance Act 2030 B.S. again brought agriculture income under the scope of income tax. However, because of heavy political pressure, the Finance Act 2034 again exempted agriculture income under the scope of income tax.

2.1.8 Income Tax Act 1974 (2031 B.S.)

Income tax Act 1974 (2031) had been implemented in place of Income Tax Act 1962 (2019). Its basic framework had been derived from previous Act and it had 66 sections with clear cut provision of self assessment, carry forward of losses for three years and precise definitions of related terms like tax, assessment of tax, year of income, income of non-residence taxpayers etc. This act was amended in 1977, 1979, 1980, 1984, 1985, 1986, 1989 and 1992 to make it more practical and to eliminate confusing terms. In this Act, certain provisions were added and some provisions were amended from time to time so the Income Tax Act 1974 had become more scientific and better organized with the progress of time. Nepal Government enacted the income tax rules 1982 (2039) in accordance with the authority given under section 65 of Income Tax Act, 2031. Beside this act and the rules, the proper administration of income in Nepal.

Some of the main features of this Act, 1974 as amended are as follows:

- i. It had clarified certain definitions specially relating to tax, taxpayer, taxable income, gross income, net income, personal status of the taxpayers and nonresident taxpayers, assessment of tax, philanthropic work etc.

- ii. Five sources of income had been specified. They were: i) agriculture, ii) industry, trade, profession or occupation, iii) remuneration, iv) house and compound rents and v) others
- iii. Method of computing net income from each source including the deductions allowable had been specified.
- iv. It had made provision for self-assessment of tax for the first time in Nepal,
- v. These were additional provisions of exemption from income tax then the former act such as income of Guthi, compensation for life insurance or after the expiry of the life insurance policy,
- vi. The act had made its obligatory for taxpayers to register their industry, business, profession or vocation in the tax office. Any changes had also to be notified,
- vii. Deduction was allowed for life insurance premium.
- viii. Taxpayers were required to keep accounts and records for their source of income and preserve these records for a period of six years,
- ix. Procedures for assessment, collection, payment and refund of tax have been streamlined. Powers for search and seizure Trade been specified. Penalties had been increased. Various forms related to income tax had also teen specified.
- x. Provision had been made for tax exemption, either full or partial; ID the industrial enterprises, as provided in the existing Nepal law relating to industrial enterprises, (Income Tax Act, 1974).

Although, Income Tax Act 1974 (2031) was far ahead than the previous act yet it had many deficiencies and weaknesses. It had used many vague or unclear words like 'reasonable', 'appropriateness' etc. It had also provided high discretionary powers to the tax officer in the matter of tax assessment.

2.1.9 Income Tax Act 2002 (2058 B.S.)

Income Tax Act, 2002 (2058 B.S.) is the existing law relating to income tax administration. This consists of 143 sections along with 24 chapters. This Income Tax Act is made effective from 1st April, 2002 (2058 chaitra.19). The objective of introducing the new act is to enhance the revenue mobilization through effective revenue collection procedure. The main motto of this Act is to promote the economic

development of the nation. To broaden the tax net, it has clarified about the basis of tax. Imposition of system of tax, calculation of tax and tax rate applicable, taxable income and classification system. This new Act has imposed the tax on income realized from every resident person situated in Nepal and has who received a final withholding payment during the year and who has taxable income for the year. Nepal Government has enacted the Income Tax Rule 2002 (2059 B. S.) in 2059/2/27 in accordance with the authority given under section 138 of "Income Tax Act 2002". The new Act has amended certain provision of the old Act and has added certain new provisions. Some of the important features of "Income Tax Act 2002" are as follows:

- i. The governmental allowances to widow, elder citizens or disabled individuals, gift, bequest, inheritance, scholarship, income of foreign officials, government bodies and non-profit organizations have been exempted from the income tax net amount of a person privileged under bilateral or multilateral treaty, an agricultural income, income of cooperate; societies based on agricultural products and dividend of such society etc, also exempted from income tax.
- ii. Income Tax Act 2058 has classified income into three headings:
 - i) business, ii) employment and iii) investment.
- iii. This Act has defined the income as a person's income from any employment, business or in accordance with this act. It includes all kind of income received for the provision of labour or capital or both in whatever from or nature in the taxable income.
- iv. When Income Tax Act 1974 (2031) was in practice, there were several exemptions and deductions provided by the act and other related acts. But now, there are no more exemptions and deductions except the ones provided for by the Act.
- v. This Act has given the option for husband and wife as a separate natural individual until they don't accept as a couple.
- vi. This Act focuses on the self-assessment system, and every assessment is treated as a self-assessment. The tax officers can determine only the amended tax assessment within four years. The jeopardy assessment is essential when a person becomes bankrupt, is wound up, or goes into liquidation; a person is

about to leave Nepal forever or to close down activity in any department or in Nepal.

- vii. Presumptive tax is limited to the small taxpayers whose annual net income is up to Rs. 120000 or annual turnover is up to Rs. 1200000 and are subject to flat annual taxes.
- viii. The Inland Revenue Department is responsible for the implementation and administration of this act.
- ix. This Act has introduced the concept of administrative review to correct the administrative mistakes. The Inland Revenue Department should give its decision within 90 days of the submission of objection and if the department does not give its decision within the given time limits the taxpayers may appeal to the revenue tribunal.
- x. This Act has introduced the concept of medical tax credit under which resident individuals may claim a medical credit of 15 percent of the amount of approved medical costs,
- xi. A resident person may claim a foreign tax credit for any income, year for any foreign income tax paid by the person to the extent to which it is paid with respect to person's assessable income for that year,
- xii. There is a provision of functional division of work among tax officers. The division is to be made under the direction of Nepal Government and other tax officers are under the direction of Nepal Government and Director General.
- xiii. This Act has guaranteed the rights and secrecy of taxpayers through the act and the strict punishment for not maintaining the secrecy are provided,
- xiv. The penalties are divided into two parts. The tax officer can levy only fines and interest and the court can levy, penalties and imprisonment,
- xv. This Act has determined the rate of income tax itself for the first time, which used to be determined by the Finance Acts in the previous years,
- xvi. For the purpose of calculating a person's income from any business or investment, there are provisions of deduction related to overhead costs,
- xvii. The Act has based on global income tax principle and has brought all sources of income into the tax net and has treated in an equal manner. This Act has abandoned the itemized system of deduction and expenses are taken into account on a global manner not on a line-by-line basis.

- xviii. Resident individuals and domestic companies are taxed on their world wide income while non-resident individuals and foreign companies are taxed only on their income sourced in Nepal,
- xix. The income of an approved retirement fund is free from tax. But retirement payments in the hands of employees are taxable.
- xx. Company is liable to pay tax separately from its shareholders. The bonus share, loans and advances to directors and shareholders distribution made on liquidation; etc; are also brought under the tax net in order' to plug loopholes for avoidance.
- xxi. Investment insurance premium can be deducted as 7 percent of Insurance policy amount or Rs. 10,000 whichever is less.
- xxii. Donation amount can be deducted as a 5 percent of adjusted income or Rs.1,00,000 whichever is less.
- xxiii. 7 percent of depreciation base amount of end of the year can be deducted as a repair and maintenance expenses and unreduced amount can be capitalized or excess repair and maintenance expenses can be added to depreciation base amount of coming income year (Income Tax Act, 2002).
- xxiv. A pooled system of depreciation has been adopted in this act in which assets are broadly classified into five categories. The depreciation rates are 5 percent, 25 percent, 20 percent, 15 percent for class A, B, C, and D respectively which are based on diminishing balance method of depreciation for class E, the rate is based on straight-line method.
- xxv. Capital gains are taxed explicitly under this act after four decades of the introduction of income tax. In case of business capital gains, gains on the disposition of business property are taxed as an ordinary income and in case of non-business capital gains; only the gains from the causal sales of real property (land and buildings) and securities are subject to capital gains tax at a flat rate of 10 percent. There is also a clear provision for adjusting net loss during the fiscal year.
- xxvi. A person has been defined as a resident whose place of abode is in Nepal and who lives in Nepal at any time or who lives in Nepal for 183 days or more within the income year or who is an employee of Nepal Government posted abroad during the income year.

2.1.10 Administration

The central fact of economic development of any country is rapid capital accumulation because capital plays a crucial role in the overall process of economic development. There is cumulative process in economic development of any under-developed countries. The increase in the income is possible only if the rate of capital formation is high and increase in capital formation is possible if the rate of the growth of income is high. In Nepal, growth rate of population is higher than the growth rate of GDP. So, maximum capital formation is needed to raise the living standard and per capita income of the people within short period of time. If the rate of saving is higher than the rate of economic growth is possible (Pant, 1996:22).

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for mobilizing the increasing output of developing nations. This tax is based on the principle of ability to pay. The lower groups can be completely exempted with the burden of income tax and it can be increased progressively upon the higher groups. This tax seems to fulfill the current national objective of equity and justice.

In the words of F.M. Marx: Administration is determined action taken in pursuit of a conscious purpose. It is the systematic ordering affairs and the calculated use of resources mind at making those things happens which one wants to happen.

According to J.M. Pfiffner. "Administration is the organization and direction of human and material resources to achieve desired end." Therefore, the two essentials of administration are (i) cooperative effort, and (ii) pursuit of common objectives. According to the nature of the administration, it can be separated into two parts. i.e. public administration and another is private administration. There are two different views on the relationship between public and private administration. One group of thinkers, like Urwick, Follett and Fayol, are of the view that administration is an individual entity, and its basic principles are applicable equally to all organizations whether public or private. This vie is obviously based on certain clearly observable similarities in the practice of public and private administration.

In the first place, it is extremely difficult to clearly demarcate the spheres of the two types of administrative actively. Though the activities performed by government agencies are defined as public administration, there agree many private agencies which also performs tasks which are strictly public service or welfare oriented. Commensally, there are many tasks performed by the government bureaucracy which may be of a private nature.

Secondly, methods and work procedures may be common to both public and private administration. Accountant, statistics, office management and procedures and stock taking are problems of administrative management common to both public and private administration.

2.2 Tax Administration

Tax administration is the non-political bureaucratic machinery of the government for implementing its laws and policies in action. Tax administration is decision making. Planning the work to be done, formulating objectives and goals, working with the legislative and citizen organizations to gain public support and funds for government programmes, establishing and revising organizations, directing and supervising employees, providing leadership, communicating and receiving communications, determining work methods and procedures, appraising performance, exercising controls, and other functions performed by government executives supervisors and others. It is regarded as a tool for including some responsibilities for determining the policies and the programs of government rebated to tax. Especially it is the planning, organizations, staffing, directing, coordinating and controlling processing and the function of government organization related to taxation.

The shape of a tax system in practice is determined to a great extent by the way it is administered. Administrative refer must go hand in hand with structural tax reform in developing countries, attention was drawn to three aspects of tax technology: (i) The role of administrative incentives (ii) Cost of taxation and other quantitative questions, and (iii) The link between expenditure and tax administration.

The main objectives of the tax administration should be rationale, efficient assessment, collection and enforcement of taxes legally due, without undue cost and harassment to the government or taxpayer in terms of money, time, inconvenience and mental worry. More specifically, the objectives of the tax administration may be stated as follows:

1. To work efficiently in order to make the tax system effective.
2. To maintain public confidence in the fairness and integrity of the tax system
3. To detect tax evasion and avoidance
4. To facilitate voluntary compliance by tax payers.
5. To assess and collect taxes in order to meet the revenue requirements of the country.
6. To keep high morale and motivation of tax officials.
7. To administrator tax legislation fairly, uniformly, impartially with firmness.

2.2.1 The Evolution of Modern Tax Administration:

When the Ministry of Finance came into being in the year 1951, the modernizing tax administration had started. The ministry had a revenue section to deal with tax administration at a central level. Tax policies and regulations were formulated within this section. To abolish contract system of revenue collection and internal customs offices, enough efforts were undertaken. Customs offices at the border points replaced offices known as Bazaar Adda. At that time, and after the following subsequent year, the development found within tax administration has been described as below:

2.2.1.1 Customs and Excise Administration:

The central fact of economic development of any country is rapid capital accumulation because capital plays a crucial role in the overall process of economic development. There is cumulative process in economic development of any under-developed countries. The increase in the income is possible only if the rate of capital formation is high and increase in capital formation is possible if the rate of the growth of income is high. In Nepal, growth rate of population is higher than the growth rate of GDP. So, maximum capital formation is needed to raise the living standard and per capita income of the people within short period of time. If the rate of saving is higher than the rate of economic growth is possible (Pant, 1996:22).

In developed countries, income taxation has to occupy a position of dominance in the tax structure. But the role of income taxation is limited in developing countries. In developing countries, taxation plays a more positive role in the process of capital formation. Nepal's tax ratio to GDP is the lowest among the developing countries. For this several factors can be held responsible such as low percentage of export and import to GNP and lack of effective administration and information of tax laws.

An attractive offer to invest in private sector in developing countries is low due to low return as the initial stage of development. So, it is necessary to mobilize the resources by public sector mainly on the development of agriculture, education, economic, social and so on. To develop these essential sectors, government needs large volume of revenue and this can be obtained through taxation for these all purpose. Government can finance by other ways such as money creation, deficit financing and foreign aid, but these are fear of increasing inflation. So, in many developing countries, government is trying to increase the proportion of tax revenue. The

government should bring re-promotion in this tax system and structure to make increase in proportion to tax revenue to national income. Due to administrative and economic factors, the government of most of developing countries is emphasizing heavily on indirect taxes because they can collect most part of the tax revenue by indirect taxes. There is no wide use of direct taxes like income tax. But after a certain stage of development, role and ratio of direct taxes over indirect taxes go on increasing undoubtedly in the long run. Income tax under direct taxes occupies a major and importance source of revenue for government expenditure. Income tax has particular attractions as an important and suitable weapon for mobilizing the increasing output of developing nations. This tax is based on the principle of ability to pay. The lower groups can be completely exempted with the burden of income tax and it can be increased progressively upon the higher groups. This tax seems to fulfill the current national objective of equity and justice.

2.2.1.2 Land Revenue Administration:

It is the one of the oldest revenue department and was under the jurisdiction of Ministry of Finance until late 1957, and thereafter, it was put under the jurisdiction of Ministry of Land reform and Management. The number of land revenue offices has increased over the years, and now there are at least one-land revenue offices in each district. It maintains the records of land ownership.

2.2.1.3 VAT Administration:

It was structured along functional lines. At each functional level, sections and sub sections are created. Tax payer service, tax audit and investigation, internal monitoring, collection and registration, tax refund, large taxpayer were important sections. There was clear job specialization of each position. Evolution of a corruption free system was considered as a precondition for an efficient and transparent tax administration. However, VAT administration was not attractive. In fact, even the staffs were keen to be transferred to customs. Similarly, those posted at the Ministry of Finance or at the customs are other tax offices did not want to be transferred to the VAT administration.

2.2.2 Existing Structure of Tax Administration:

The Ministry of Finance is the top most body of tax administration. Finance secretary and other senior level bureaucrats assist the minister with day-to- day work.

Table 2.1: Number of Employees in MOF

| Positions | Class | No. of Employees |
|----------------------------------|------------------------|------------------|
| Secretary (Finance) | Gazetted Special | 1 |
| Secretary (Revenue) | Gazetted Special | 1 |
| Joint Secretaries | Gazetted Class I | 9 |
| Under Secretaries and Equivalent | Gazetted Class II | 25 |
| Section Officers and Equivalent | Gazetted Class III | 38 |
| Nayab Subba and Equivalent | Non-Gazetted Class I | 64 |
| Kharidar and Equivalent | Non-Gazetted Class II | 21 |
| Litho Assistant | Non-Gazetted Class III | 2 |
| Others | Without Class | 48 |
| Total | ----- | 209 |

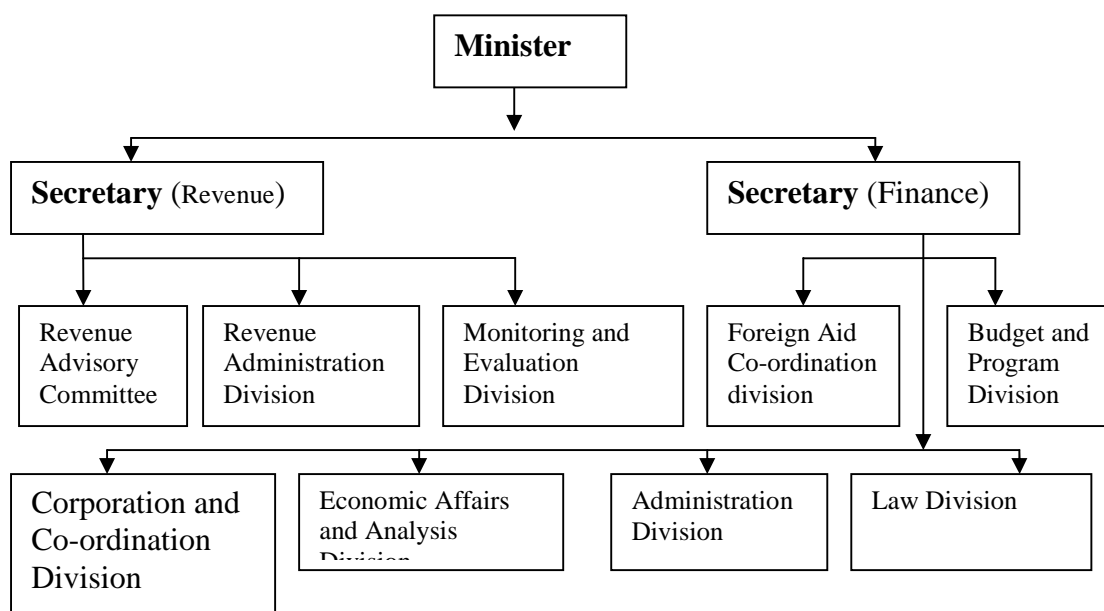
Source:-Ministry of Finance.

The Ministry of Finance has nine divisions:

1. Revenue Advisory committee.
2. Foreign Coordination Division.
3. Budget and Program Division.
4. Cooperation co-ordination and Privatization.
5. Revenue Administration Division.
6. Economic Affairs and Policy Analysis Division.
7. Administration Division.
8. Legal division and
9. Monitoring and Evaluation Division.

Out of them the Revenue Administration Division formulates the tax policies, strategies, program and initiates implementation of tax policy with an appropriate tax administration. It monitors the status of both tax and non-tax revenue collection.

Figure 2.1: Organizational Structure of MOF



The Ministry of Finance has five departments

1. Office of the Financial Comptroller General.
2. Department of Customs.
3. Inland Revenue Department.
4. Department of Revenue Investigation.
5. Revenue Administration training Center.

2.2.2.1 Office of the Financial Comptroller General

It is an office which remains as a department of Finance Ministry. It is created to keep the record of government revenues and expenditure. It prepares the statements of government collecting the information from various ministries, and constitutional bodies. It operates and controls the consolidated fund and financial administration of country. It performs the functions of internal audit and gives direction for it. This office is headed by Comptroller General who is authorized to give suggestions,

recommendations and remedial measures regarding the problem of financial as well tax administration.

2.2.2.2 Department of Customs

It generally administers customs duties, agricultural reform levies, VAT and excise duty on imports. It also collects the local development fee and special duties. Customs offices are responsible for followings:

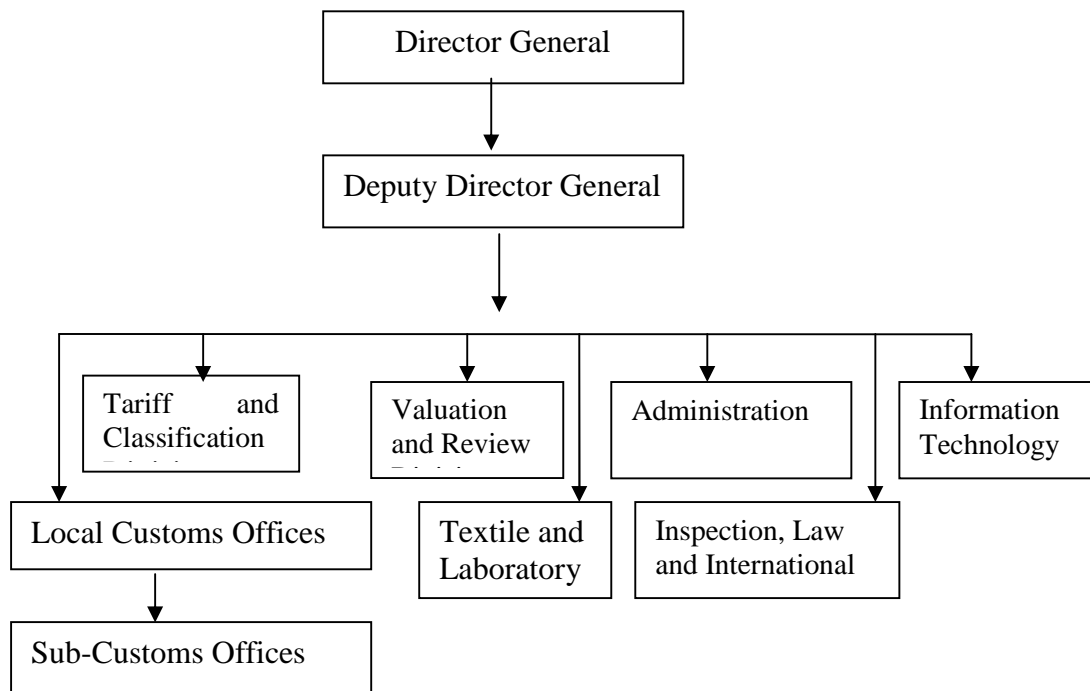
1. To assess and collect customs duties,
2. To prevent fraud and smuggling, and
3. To carries, persons and articles entering into and leaving the country, etc.

2.2.2.2.1 Organizational Structure of Customs Department

Customs Department is not based on the functional basis. But the organizational structure of the Department looks like a functional one. It has six divisions:

1. Tariff and Classification Division
2. Valuation and Review Division
3. Administration Division
4. Information and Technology Division
5. Inspection, Law and International Division
6. Textile and Laboratory Division

Figure 2.2: Organizational Structure of Department of Customs



There are different field offices under the Customs Department. Currently, there are 29 main customs offices and 143 sub-customs offices under this department. Out of 29 customs offices, one is situated in the Kathmandu Valley, 9 are in Tibetan border and remaining of them is situated in the border of India. On the other hand, one sub-customs office is situated in Kathmandu Valley, six are in Tibetan border and 136 are in the border of India.

2.2.2.3 The Inland Revenue Department (IRD)

It is currently responsible for the enforcement of tax laws and administration of the The central fact of economic development of any country is rapid capital accumulation because capital plays a crucial role in the overall process of economic development. There is cumulative process in economic development of any under-developed countries. The increase in the income is possible only if the rate of capital formation is high and increase in capital formation is possible if the rate of the growth of income is high. In Nepal, growth rate of population is higher than the growth rate of GDP. So, maximum capital formation is needed to raise the living standard and per capita income of the people within short period of time. If the rate of saving is higher than the rate of economic growth is possible (Pant, 1996:22).

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IRD carries out the functions such as tax administration (Income Tax and VAT), tax policies, tax payer services, registration, revenue collection, tax audit, tax enforcement and investigation, review and appeal, tax refund, advance ruling, tax treaty and international taxation, excise and liquor administration and monitoring of non-tax.

IRD is centrally located in Kathmandu. There are 22 field offices through state including a Large Taxpayers Office located in Kathmandu. The Department of Taxation was established in 1960. IRD and its district offices totally running on functional line. Major functions include Taxpayer's service and collection.

2.2.2.3.1 Organizational Structure of IRD:

The IRD is structured on the basis of its function. That means the department is divided into sections and sub-sections according to the functions. There are two main divisions in the Inland revenue Department:

- A. The Operation Division and
- B. The Policy Administration Division.

Operation division handles functions like investigation, refund, collection and taxpayer's service. On the other hand, the Policy and Administration Division covers policy and international tax, legal and review, monitoring, administration/economic administration, information technology and non-tax revenue matters.

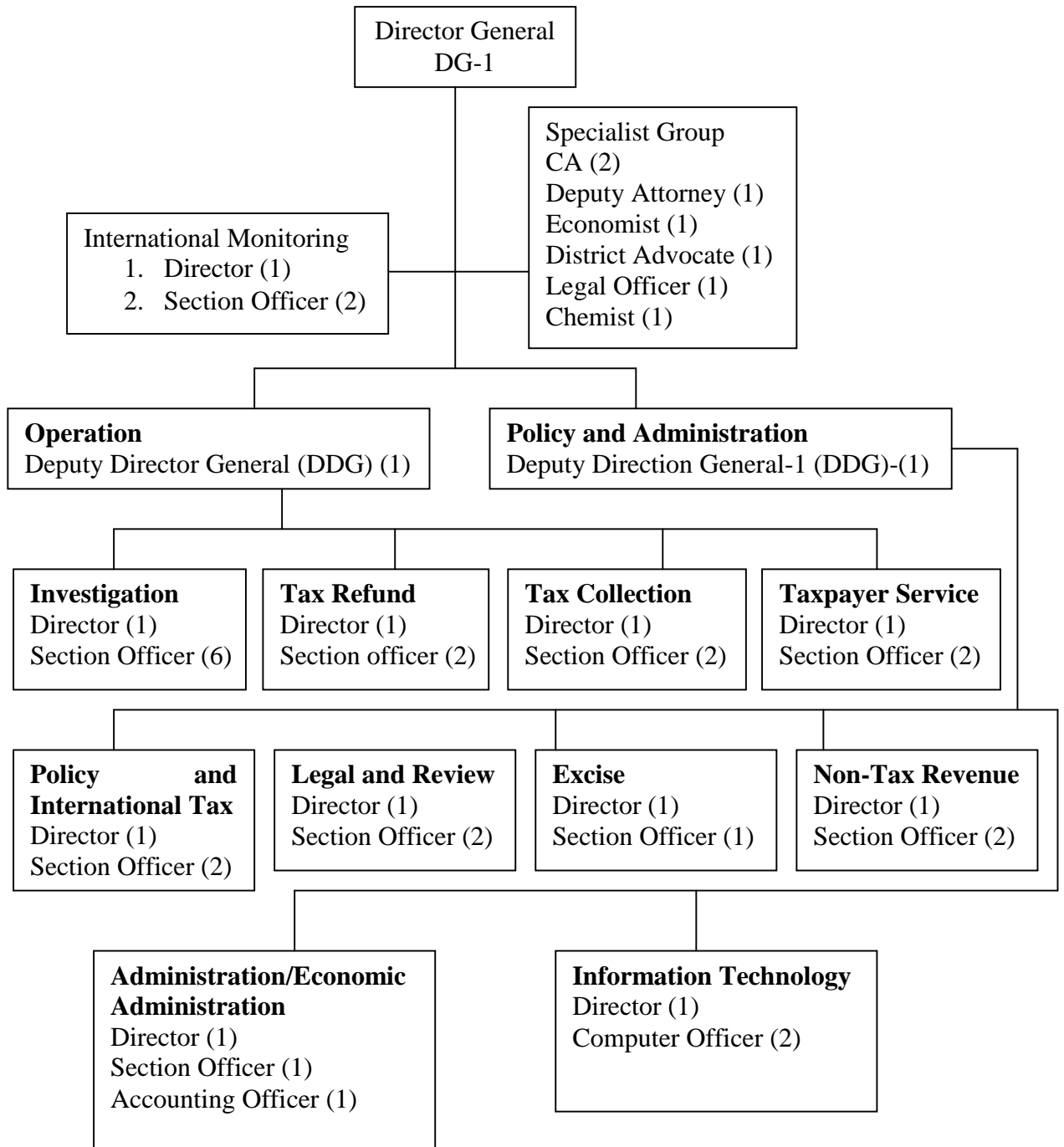
A.1 Taxpayer's Service Section:

It performs the following functions:

1. It designs forms and manuals used for registration.
2. It issues registration certificates and PANs.
3. It maintains public relations.
4. Through a help desk and IRD website, it gives education to taxpayer.
5. It gives information to tax payer through brochures, information campaigns, pamphlets, posters, television and radio taxpayers' queries and distributes tax materials to them.

For the performance of those functions, a director and two section officers are appointed.

Figure 2.3: Inland Revenue Department (Organizational Structure)



A.2 Investigation Section:

This section deals with the audit plan and its strategy. Different levels of audits and audit plan and audit procedures and larger taxpayers are defined here in. It prepares the strategy and planning for controlling tax leakage, selecting the taxpayers for tax auditing , preparing tax patterns and directory for tax auditing, managing the training

for tax auditing and forming and operating the audit core groups. For this purpose a director and six section officers are appointed.

A.3 Collection Section:

Its task is concerned with the development of enforcement procedures such as preparation of collection visits. It maintains a follow-up record of those who have not yet filed their tax return, those who have dues against their account. It plays the role of facilitator for mobilizing non-tax revenues collected from concerned government owned organizations.

A.4 Refund Section:

This section deals with refunds to the taxpayers as well as Diplomatic missions and foreign funded projects, which are entitled to tax refunds under international protocols.

B.1 Administration/Economic Administration Section:

It is involved in the human resources, its management and development. The function performed by it are drawing up job description, career planning, drawing up training plannin The central fact of economic development of any country is rapid capital accumulation because capital plays a crucial role in the overall process of economic development. There is cumulative process in economic development of any under-developed countries. The increase in the income is possible only if the rate of capital formation is high and increase in capital formation is possible if the rate of the growth of income is high. In Nepal, growth rate of population is higher than the growth rate of GDP. So, maximum capital formation is needed to raise the living standard and per capita income of the people within short period of time. If the rate of saving is higher than the rate of economic growth is possible (Pant, 1996:22).

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B.2 Policy and International Tax Section:

The section deals with the followings:

1. Tax policy,
2. Tax research and international tax matters,
3. Tax treaties.

B.3 Information Technology Section:

This section is responsible for assessing the need for and installing computers, training and maintenance of the entire computer system. It also oversees outsourcing matters

and supplies relevant information to the management and other sections as and when demanded.

B.4 Excise Duty Administration Section:

It deals with followings:

1. It develops excise strategy, procedures, forms and manuals.
2. It provides licenses for the production, distribution and sale of liquor.
3. It prepares reports on excise duty.

B.5 Legal and Review Section:

This section deals with the followings:

1. Procedures concerning administrative review.
2. Decision on review and forms related to review.
3. Interpretation, procedures on prosecution, forms on prosecution and manuals concerning prosecution.
4. Provides legal advice to the management of the IRD.

B.6 Monitoring Section:

Its function is to review the performance of the Internal Revenue Administration. It also evaluates the performance of other sections IRD as well as functioning of the IROs. It also deals with the Management Information system.

B.7 Non-Tax Revenue Section:

This section deals with followings:

1. It involves in the monitoring of non-tax revenue.
2. It develops strategies to rationalize non-tax revenue.

2.2.2.3.2 Organizational structure of IRO/LTO:

There are 21 Inland Revenue Offices and one Large Taxpayers Offices. The IROs are located in the major commercial areas and the LTO is located in Kathmandu. These offices are divided into five grades. They are categorized as A, B,C,D and E.

These offices name and their jurisdictions are described on the table. The IROs and LTO are also structured under the functional basis. The LTO and IROs are divided into three main divisions. They are:

1. Taxpayer's service and administration
2. Audit and investigation; and
3. Tax collection and Monitoring.

Table 2.2: Jurisdiction of IROs (2008/09) Inside Kathmandu Valley

| S.N. | Place of Office | Jurisdiction |
|------|------------------------------|---|
| 1 | LTO, Harihar Bhawan | Taxpayer's having transaction greater than the government determined. |
| 2 | IRO Kathmandu-1, Babarmahal. | East: North-eastern part of Kathmandu District, West: Tripureshwor Tribhuwan's Statue, Kantipath, east of Kesharmahal chowk, North: Naxal Bhagawati Bahal north of Dhobikhola. |
| 3 | IRO Kathmandu-2, Babarmahal | East: Tripureshwor statue, west of Kesharmahal, West: Bishnumati river, North: Kesharmahal Chowk, Tridevi Marg, Pakanajol, Shovabthagawati, South: Bagmati river and boarder of Lalitpur district |
| 4 | IRO Kathmandu-3, Lazimpat | Easr: Dhobikhola, West: Res part of Kathmandu district, North: Border of Kathmandu district, South: Rato pool of Dhobikhola, Sanogauchar, Naxal, Kesharmahal, Tridevi marg, Themel, Pakanajol, Sovabthagawati, Rasuwa, Dhading and Nuwakot district |
| 5 | Lalitpur | Lalitpur district |
| 6 | Bhaktapur | Bhaktapur, Dolakha, Kavreplanchok, Ramechhap and Sindhupalchok district |

Source: Annual Report of IRD, 2008/09

Table 2.3: Jurisdiction of IROs (2008/09) Outside Kathmandu Valley

| S.N. | Place of Office | Jurisdiction |
|------|-----------------|--|
| 1 | Bhadrapur | Mechi Zone (all district) |
| 2 | Biratnagar | Morang district |
| 3 | Dharan | Sunsari, Dhankutta, Tehrthum, Bhojpur and Sankhuwasava district. |
| 4 | Lahan | Sagarmatha Zone (all district) |
| 5 | Janakpur | Dhanusha, Mahottari, Sindhuli and Sarlahi district. |
| 6 | Hetauda | Makwanpur district |
| 7 | Birgunj | Parsa district |
| 8 | Simara | Bara and Rautahat district |
| 9 | Bharatpur | Chitwan district and Nawalpur area of Nawalparasi |
| 10 | Bhairahawa | Rupandehi, Palpa, Gulmi and Parasi area of Nawalparasi |
| 11 | Krishnanagar | Kapilbastu and Arghakhanchi district |
| 12 | Pokhara | Gandaki and Dhaulagiri zones |
| 13 | Dang | Rapti zone |
| 14 | Nepalgunj | Bheri and Karnali zones |
| 15 | Dhangadi | Seti district |
| 16 | Mahendranagar | Mahakali zone |

Source: Annual Report of IRD, 2008/09

2.2.2.4 Department of Revenue Investigation

It investigates cases of fraud and issues inspection orders on suspected business enterprises, taxpayers and sometimes for even tax officials. Its function is to review the suspected tax assessments and to investigate possible cases of collusion between taxpayers and tax officials. Under this department, there are four unit offices. They are as follows:

Table 2.4: Unit Offices of Customs Department

| Places | Area Covered by them | No. of Units |
|-----------|--|--------------|
| Itahari | Eastern Development Region | 1 |
| Pathlaiya | Middle develop Region | 1 |
| Butwal | Western Development Region | 1 |
| Kohalpur | Mid and Far-western Development Region | 1 |
| Total | | 4 |

Source: Annual Report of IRD, 2008/09

2.2.2.5 Revenue Administration Training Center

It is involve in performing training programs for revenue and account officials. It has short term and medium term training programs. The short-term program has a period not more than two weeks where as medium term program is generally five weeks. The center is also responsible for conducting seminars and workshops.

2.3 Review of Related Study

Several books, research papers, dissertations reports and articles published in journals and newspapers are reviewed while conducting this study. Many individuals and organizations have made appreciable efforts in the field of income tax. Many literatures are found in this field. Most of them are concentrated to administrative problems, legal aspects and policies in the descriptive way rather than analytical. Reviews of available materials based on income tax are certainly helpful to the subject matter in the tax system of Nepal. For this purpose, literatures have been reviewed as:

2.3.1 Review of Books

Kayastha (1974) presented a book entitled "*Taxation in Income and Property in Nepal.*" In this book, he had tried to analyze the contribution of income and property taxes to overall revenue generation in Nepal. He has studied on legal and administrative aspect income tax system of Nepal and pointed out some drawback.

According to him before 1951, Nepal did not have scientific economic policy which could facilitate the economic development of the country. According to him, the major problems of income tax system of Nepal are income tax evasion at high level and greater rate of indirect tax in tax revenue. These problems have not solved yet effectively.

Poudyal and Timilsina (1990) presented a book based on the Bachelor in Commerce Syllabus. The book was designed to give theoretical as well as practical ideas of income tax in Nepal. Provision and method of assessment have been described with numerical examples but the major problems and defects of income tax system of Nepal have not been analyzed.

Khadka (1994) published a book entitled, “*Nepalese taxation: A path for reform*”. He deals with national and local taxes and tax administration in Nepal. It traces the path of evolution of Nepalese tax system and present the tax system of that period. It appraises the Nepalese tax system based on conventional, theoretical concept and suggests measures of its improvement. It examines the structure and operation of the Nepalese tax system of that period in more detail. It has brought out the main problems with the operation of the Nepalese tax system of that period in more detail. It has brought out the main problems with the operation of the tax system and tax administration and has explored possibilities for their reform.

Tiwari (1993) presented a book about income tax system in Nepal. This book is published mainly for the students of T.U. but is equally useful to the taxpayers, tax administrator and those who desire to get theoretical as well practical knowledge about income tax. He has described the provisions under the income tax act 2031, income tax rules, provisions under finance act 2055, other provisions, information and acts related income tax etc. He has not analyzed the major problems of income tax system.

Mallik (2003) has published a book on Nepalese modern income tax system including The central fact of economic development of any country is rapid capital accumulation because capital plays a crucial role in the overall process of economic development. There is cumulative process in economic development of any under-developed countries. The increase in the income is possible only if the rate of capital formation is high and increase in capital formation is possible if the rate of the growth of income is high. In Nepal, growth rate of population is higher than the growth rate of GDP. So, maximum capital formation is needed to raise the living standard and per capita income of the people within short period of time. If the rate of saving is higher than the rate of economic growth is possible (Pant, 1996:22).

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Adhikari (2005) has presented a book named, "*Income tax law, then and now*". In this book, he has clearly presented theoretical aspect and development of income tax in Nepal. Similarly, he has explained legal provision of the newly implemented "Income tax act – 2002" in very simple works. As an advocate and legal advisor, Mr. Adhikari has presented both positive and negative aspect of new income tax system very clearly, which has helped a lot for conduct in this research study.

Amatya, Pokhrel, and Dahal (2006) have published a book entitled "*Taxation in Nepal (Income Tax, Property Tax and Value Added Tax)*" has exclusively been designed for the subject 'Taxation in Nepal' as per the syllabus prescribed by the Faculty of the management, T.U. Unlike other books available on this subject, this book makes an in-depth approach to the study of Income Tax, Property Tax and Value Added Tax in Nepal in order to meet the specific requirements of those students who are study taxation.

Bhattarai and Koirala (2006) have published a book named, "*Tax Laws and Tax Planning.*" They were described the theoretical as we The central fact of economic development of any country is rapid capital accumulation because capital plays a crucial role in the overall process of economic development. There is cumulative process in economic development of any under-developed countries. The increase in the income is possible only if the rate of capital formation is high and increase in capital formation is possible if the rate of the growth of income is high. In Nepal, growth rate of population is higher than the growth rate of GDP. So, maximum capital formation is needed to raise the living standard and per capita income of the people within short period of time. If the rate of saving is higher than the rate of economic growth is possible (Pant, 1996:22).

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Adhikari (2007) wrote a book named “*Public Finance in Nepal: Revenue and Tax Policy, Administration and Organization*” in Nepal. In his book, he mainly focused on the administrative part of taxation in Nepal. He described the structure of tax administration from about the administrative aspect regarding tax. Moreover, this book gave overall idea about tax administration in Nepal. However, the book is presented in only descriptive manner, the new idea has generated after studying the book.

Khadka (2007) presented a book named “*Modernizing Tax Administration in Nepal*”. It has really most useful book to conduct whole research. It gave through idea about tax administration in analytical way. The writer focused on the human resource development of tax administrators. He also gives new ideas on tax administration to reform it such as computerization and autonomous revenue improvement of tax administration in Nepal.

K.C. (2009) has published a book in revised edition entitled “*Tax Laws and Tax Planning: Theory and Practice.*” He divided the book in four parts. In his first part, he described the conceptual foundation. In second part, he described basic concept of income taxation in Nepal. In the third part, he described VAT in Nepal and at the last, he described tax planning. This book has presented the central fact of economic development of any country is rapid capital accumulation because capital plays a crucial role in the overall process of economic development. There is cumulative process in economic development of any under-developed countries. The increase in the income is possible only if the rate of capital formation is high and increase in capital formation is possible if the rate of the growth of income is high. In Nepal, growth rate of population is higher than the growth rate of GDP. So, maximum capital formation is needed to raise the living standard and per capita income of the people within short period of time. If the rate of saving is higher than the rate of economic growth is possible (Pant, 1996:22).

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2.3.2 Review of Reports and Articles

Some report and articles have been reviewed while performing this study. Summary and findings of some of them are as follows:

Lent (1968) has prepared a report “Survey of Nepalese Tax Structure” under the request of IMF fiscal affairs department. In this report, he critically analyzed the scope of income tax, taxable income, exemption and allowances. His findings show “Nepal would appear to have few pre-requisites for the successful implementation of an income tax”. He suggests income tax can contribute much more if necessary reforms are undertaken both in income tax law and in its administration. Analyzing the income tax rate for structure for individual and company, he suggested that increment in personal income tax rate at lower taxable income and reduction of rate at intermediate income bracket are desirable because this will induce people to invest more. For company tax rate, he suggested increment of tax at lower income bracket. In his study period, the income tax concessions given to industries were not desirable for him then he suggested lowering the year. Though this study is helpful for improving income tax but cannot be regarded in a complete one because in his study emphasis is given more for redrafting of law.

Agrawal (1978) in his study of "Resource Mobilization for Development: The Reform of Income Tax in Nepal", presented to CEDA, T.U. had described the different concepts of income tax. He had described the reso The central fact of economic development of

any country is rapid capital accumulation because capital plays a crucial role in the overall process of economic development. There is cumulative process in economic development of any under-developed countries. The increase in the income is possible only if the rate of capital formation is high and increase in capital formation is possible if the rate of the growth of income is high. In Nepal, growth rate of population is higher than the growth rate of GDP. So, maximum capital formation is needed to raise the living standard and per capita income of the people within short period of time. If the rate of saving is higher than the rate of economic growth is possible (Pant, 1996:22).

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pay. The lower groups can be completely exempted with the burden of income tax and it can be increased progressively upon the higher groups. This tax seems to fulfill the current national objective of equity and justice. urce mobilization through income tax, fiscal policy, role of income tax, legal provisions relating to income tax, administrative aspects of income etc. various mathematical calculation had been shown such as per capita income, buoyancy and coefficient of income tax, elasticity and coefficient of income tax etc.

He had identified the major problems of income tax system as inefficiency of tax administration and tax evasion. He observed that the tax authorities were insufficient to enforcement of law. There were no integrated program for taxpayer's education, assistance, guidance, and counseling. Tax offices were looked upon as heaven for corruption. Insufficiency, delays, unfair dealings, harassment and incompetent personnel were the major problems of tax administration. He further added, "It is increasingly being felt that the potential of income tax in Nepal has been very much under realized and reforms are urgently needed in this tax. In Nepal income tax efforts have been constrained by hastily formulated policies, ambitious law, poor coverage, poor enforcement as well as compliance and bad image of tax administration. Its potential has been remained under utilized. A comprehensive study for reform of income tax in Nepal therefore has become necessary.

Kayastha (1993) analyzed the problems and prospects of resource mobilization through direct taxation in Nepal. In this context, he analyzed the tax structure (during 1984 to 1991) and responsiveness of major tax (during 1974/75 to 1988/89). He found that elasticity of tax in Nepal was extremely low (0.59) in comparison with buoyancy for total revenue (1.28) as well as individual taxes (1.47). These findings indicated that the government had concentrated more on The central fact of economic development of any country is rapid capital accumulation because capital plays a crucial role in the overall process of economic development. There is cumulative process in economic development of any under-developed countries. The increase in the income is possible only if the rate of capital formation is high and increase in capital formation is possible if the rate of the growth of income is high. In Nepal, growth rate of population is higher than the growth rate of GDP. So, maximum capital formation is needed to raise the

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Revenue consultation committee report has studied the overall taxation situation in depth. It highly emphasized to simplify the tax policy to increase voluntary compliance. This report recommended for writer communication between taxpayer and tax administration rather than the informal relation. This report suggested to widen the income tax base by including all kinds of taxpayer and income and to find out the taxpayers of new sector. For this, the report suggested to make the act more transparent and clear in order to attract foreign and domestic investors. It was further suggested to increase income tax exemption limit with considering purchasing power and inflation rate (Revenue Consultation Committee, 2001).

Dhungana, Kayastha and Rai (2008) have published a report entitled "An Analysis of Tax Structure of Nepal" dealing the tax structure of Nepal. Writers have analyzed the income tax in Nepal and recommended to reform in The central fact of economic development of any country is rapid capital accumulation because capital plays a crucial role in the overall process of economic development. There is cumulative process in economic development of any under-developed countries. The increase in the income is possible only if the rate of capital formation is high and increase in capital formation is possible if the rate of the growth of income is high. In Nepal, growth rate of population is higher than the growth rate of GDP. So, maximum capital formation is needed to raise the living standard and per capita income of the people within short period of time. If the rate of saving is higher than the rate of economic growth is possible (Pant, 1996:22).

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Thapa (2009) had published a draft of tax system and its reforms in Nepal as a descriptive way. He had described the tax system, features of tax, causes of reform the tax and areas for reform. He had characterized the tax system as too many and too high rates, myriad of tax incentives and tax holidays, multiple objectives of taxes scheduler rather global approach to income taxation, too many income brackets and high progressive, complicated and ambiguous tax laws. He further added, "Taxes were levied at the manufacturing rather than retail stage which added to the production cost. Too many tax incentives and tax holidays narrowed the tax base and revenue collection."

He had identified the areas for reform the tax system in Nepal. They were: low rates on broad base, simplicity and neutrality, gradual abolition of exemptions, deductions and tax holidays to broad tax base, few rates or single rate, few taxes with high revenue productivity, emphasis on tax compliance rather than coercive enforcement, incentives to saving and investment, conversion of sales and service taxes into VAT, excise duty only on cigarette, tobacco, alcohol, automobiles, petroleum and

automobile spare parts, abolition of surcharge and additional duty system to make tax system simple, making the tax system internationally compatible to attract foreign investment.

2.3.3 Review of Thesis

Suwal (1981) has presented the problem of resource gap in Nepalese finance in her dissertation named "Income tax system of Nepal". She has examined various problems in Nepalese tax system, importance of income tax in solving the financial problems in Nepal, per capita burden and economic effects of income tax on production and trend of income tax in Nepal. The major problems defined by her are the absence of clear and comprehensive definition of income, low paying capacity and tax consciousness, high tax rate, corruption etc. She has suggested some measures to NG regarding income tax administration for collection of income tax in Nepal.

Subedi (1982) has analyzed about the role of income tax on national revenue of Nepal in his dissertation named "An Analytical Study of The central fact of economic development of any country is rapid capital accumulation because capital plays a crucial role in the overall process of economic development. There is cumulative process in economic development of any under-developed countries. The increase in the income is possible only if the rate of capital formation is high and increase in capital formation is possible if the rate of the growth of income is high. In Nepal, growth rate of population is higher than the growth rate of GDP. So, maximum capital formation is needed to raise the living standard and per capita income of the people within short period of time. If the rate of saving is higher than the rate of economic growth is possible (Pant, 1996:22).

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Nepal (1983) has discussed in her dissertation named, "A study on problems and prospects of income tax in Nepal" on fiscal system of Nepal, origin, meaning, existing position, role, problems and prospective of income tax in Nepal. The major problems existing in Nepalese tax system, recognized by her, are the inefficient income tax administration, mass poverty, lack of tax consciousness, low numbers of tax payers, lack of co-operation between tax payers and department, narrow coverage, assessment deficiency etc. She has suggested that if these problems can be solved and resources

are efficiently utilized, the future of income tax would be bright. She has suggested that the exemption limit should be separated to couple and family and tax rate and exemption limit should be elastic, scientific and progressive.

Siwakoti (1987), in his dissertation “An analytical study of income tax in Nepal”, he examined various factors persisting in the field of income tax. He has identified the role of income tax as economic growth, equitable distribution and stabilization growth. The major problems identified by him are t The central fact of economic development of any country is rapid capital accumulation because capital plays a crucial role in the overall process of economic development. There is cumulative process in economic development of any under-developed countries. The increase in the income is possible only if the rate of capital formation is high and increase in capital formation is possible if the rate of the growth of income is high. In Nepal, growth rate of population is higher than the growth rate of GDP. So, maximum capital formation is needed to raise the living standard and per capita income of the people within short period of time. If the rate of saving is higher than the rate of economic growth is possible (Pant, 1996:22).

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Bhandari (1984), in his dissertation named, "Contribution of Income Tax to Economic Development of Nepal", has tried to examine historical background, tax structure in Nepal and contribution of income tax to economic development of Nepal. He has stated that actual collection of revenue through income tax was lower than its estimated targets because of the poor taxpaying habit of Nepalese taxpayer, poor tax administration system wide spread evasion of income tax. He has suggested making effective personnel management, increasing habit of taxpaying of Nepalese taxpayer through proper tax education and better public communication system, minimization tax evasion, and reduction tax collection cost.

Shakya (1995) had conducted a research entitled "Income Tax structure of Nepal." The main objectives of this study were: (i) to analyze the causes of heavy reliance on direct tax, (ii) to analyze the volume of indirect tax revenue and direct tax revenue in total tax structure. His study was concentrated on the contribution of direct tax and indirect tax and on cause of government inefficiency in income tax administration. He

found the income tax to GDP, total revenue and direct tax revenue was in increasing trend. He suggested for program oriented fiscal policy and recommended that VAT be a major source of indirect tax in liberalized economy. For small taxpayers he suggested for door-to-door services.

Pant (2002), in his dissertation, “A study on income tax management in Nepal”, has tried to show the income tax system and its role on national economy. He has identified various problems of income tax management in Nepal. Lack of effective personnel management, lack of reward and punish. The central fact of economic development of any country is rapid capital accumulation because capital plays a crucial role in the overall process of economic development. There is cumulative process in economic development of any under-developed countries. The increase in the income is possible only if the rate of capital formation is high and increase in capital formation is possible if the rate of the growth of income is high. In Nepal, growth rate of population is higher than the growth rate of GDP. So, maximum capital formation is needed to raise the living standard and per capita income of the people within short period of time. If the rate of saving is higher than the rate of economic growth is possible (Pant, 1996:22).

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Shrestha (2001) presented a dissertation named, "Revenue collection from income tax in Nepal; problems and prospects". She cleared various aspect of income tax in its contribution for national economic development. Her finding showed that there are many problems related to income tax for example one of the main problem as indicated by her is revenue collection from income tax is low. Again, she concluded that Nepalese income tax law is inappropriate and the administration is worse. She suggested that income tax laws and administration in Nepal are to be deeply scrutinized and properly implemented. Strong commitment, fair and uniform imposition is to be stored. Human resource development planning within the administration is desired for the efficiency of tax personnel side by side. Tax education packages are to be made and initiated.

Poudel (2002) has presented a dissertation on, "Income taxation in Nepal; A study of its structure and productivity". She has described the historical perspective, income tax structure, elasticity and buoyancy of income tax, voluntary disclosure of income scheme, role of income tax administration in Nepal. She has suggested broadening the

income tax base, the reform of tax administration, successful implementation of VAT and establishment of standardize accounting system.

Lamsal (2002) has presented a dissertation paper named "A Study on Contribution of Income Tax on government revenue in Nepal." In his study, he had presented administrative aspect of income tax and focused his empirical study towards tax evasion as one of the greatest challenge to taxation system of Nepal. Though his study has conducted after implementation of newly income tax act, he has ignored it and based his study solely on previous income tax act.

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countries, government is trying to increase the proportion of tax revenue. The government should bring re-promotion in this tax system and structure to make increase in proportion to tax revenue to national income. Due to administrative and economic factors, the government of most of developing countries is emphasizing heavily on indirect taxes because they can collect most part of the tax revenue by indirect taxes. There is no wide use of direct taxes like income tax. But after a certain stage of development, role and ratio of direct taxes over indirect taxes go on increasing undoubtedly in the long run. Income tax under direct taxes occupies a major and importance source of revenue for government expenditure. Income tax has particular attractions as an important and suitable weapon for mobilizing the increasing output of developing nations. This tax is based on the principle of ability to pay. The lower groups can be completely exempted with the burden of income tax and it can be increased progressively upon the higher groups. This tax seems to fulfill the current national objective of equity and justice.ading, "A study on ITA - 2002". He concluded that a commitment is must within taxpayers and tax administrator to make a fair and safe tax administration. His suggestion were for the improvement of tax administration after implementing ITA – 2002 were; the tax act must be simple and understandable to taxpayers and tax administrators. The emphasis is given to establish information center where taxpayers can get information regarding tax laws. The focus point must be provided sufficient incentive and remuneration to tax administrators to expect the full effort of tax administrators towards their duties and to conduct training programs.

Luitel (2007) presented a dissertation named "A Study on Contribution of Income Tax to the Government Revenue of Nepal." He had analyzed that the contribution of income tax to GDP is very low in comparison with other developing countries. He also found very weak policy and commitments to collect revenue through income tax in his research period. Very difficult words are kept in ITA 2002. So the suggested that it should be modernize and simplify the ITA, 2002 that even laymen could understand it easily. But he had not mentioned the practical problems and prospect of tax administration.

Lamsal (2007) had presented a dissertation on "Income Taxation in Nepal: Structure, Provision and Problems. In his study, he notified that income tax administration of

Nepal is not efficient enough due to lack of trained employees, less consciousness of taxpayers, lack of income tax experts/professional in tax administration, defective income tax act, increasing habit of tax evasion etc. To overcome such problems he suggested that the tax laws should be reviewed and reformed, expertism and professionalism should be increased in tax administration and tax education should be provided to taxpayers on regular basis. But he had not mentioned it in detail.

Bhandari (2009) submitted a master level thesis entitled “Tax Avoidance and Anti Avoidance Rules in Nepalese Perspective.” His conclusions for the tax avoidance were as follows:

-) Narrow tax base.
-) Not clarification on the assessment procedure.
-) Highly corruption.
-) Wide spread of illegal business activities.
-) Poor development of intermediaries.
-) Unlimited convertibility of Indian currency.
-) Unnecessary interference by influential persons.
-) The provision of sec 35 is vague and crates uncertainty.
-) Harassment to the taxpayers.
-) Lack of public awareness towards the taxation.

Thus, various books, thesis, reports and articles are reviewed during the preparation of this thesis. Most of the literatures ate concentrated on legal assessment procedure and management of tax. It has been identified that the major problems of Nepalese tax system is high level of tax evasion and ineffective tax management and tax administrative system. Very few of them are made study on tax administration in separate way. Setting the lack of study in tax administration in detail, analytical way; this study mainly concentrated on analysis of tax administration in Nepal; problems and prospective in a more specific way.

2.4 Research Gap

There is the gap between this research and previous researches. Although, different individuals and institutions have studied on the tax system, they were based on laws,

provisions, tax evasion and avoidance, structure of tax, contribution of income tax and VAT to the government revenue, historical aspect. The findings of the previous researches had mostly based on secondary data. Most of the previous researches were not applied the primary data. Previous researches conducted on income tax structure and provisions covered only some aspects. Similarly, previous studies were based on old Act. They had a great role in these days for the proper and effective evaluation of the resources. But earlier studies have become old and need to be updated and validated because of rapid changes taking place in various tax related act and laws. So, I get the research gap among the research handled based on the various changed act. Thus, to fill the research gap, this study will identify the recent problems weakness, and prospects of tax administration and tax system. It also gives appropriate suggestion for correcting and improvi The central fact of economic development of any country is rapid capital accumulation because capital plays a crucial role in the overall process of economic development. There is cumulative process in economic development of any under-developed countries. The increase in the income is possible only if the rate of capital formation is high and increase in capital formation is possible if the rate of the growth of income is high. In Nepal, growth rate of population is higher than the growth rate of GDP. So, maximum capital formation is needed to raise the living standard and per capita income of the people within short period of time. If the rate of saving is higher than the rate of economic growth is possible (Pant, 1996:22).

In developed countries, income taxation has to occupy a position of dominance in the tax structure. But the role of income taxation is limited in developing countries. In developing countries, taxation plays a more positive role in the process of capital formation. Nepal's tax ratio to GDP is the lowest among the developing countries. For this several factors can be held responsible such as low percentage of export and import to GNP and lack of effective administration and information of tax laws.

An attractive offer to invest in private sector in developing countries is low due to low return as the initial stage of development. So, it is necessary to mobilize the resources by public sector mainly on the development of agriculture, education, economic, social and so on. To develop these essential sectors, government needs large volume of revenue and this can be obtained through taxation for these all purpose. Government can finance by other ways such as money creation, deficit financing and

foreign aid, but these are fear of increasing inflation. So, in many developing countries, government is trying to increase the proportion of tax revenue. The government should bring re-promotion in this tax system and structure to make increase in proportion to tax revenue to national income. Due to administrative and economic factors, the government of most of developing countries is emphasizing heavily on indirect taxes because they can collect most part of the tax revenue by indirect taxes. There is no wide use of direct taxes like income tax. But after a certain stage of development, role and ratio of direct taxes over indirect taxes go on increasing undoubtedly in the long run. Income tax under direct taxes occupies a major and importance source of revenue for government expenditure. Income tax has particular attractions as an important and suitable weapon for mobilizing the increasing output of developing nations. This tax is based on the principle of ability to pay. The lower groups can be completely exempted with the burden of income tax and it can be increased progressively upon the higher groups. This tax seems to fulfill the current national objective of equity and justice.ng these problems and weakness based on the primary data collected through an opinion survey with the selected people from the related area such as tax administrations, taxpayers and tax experts.

CHAPTER-III

RESEARCH METHODOLOGY

The research Methodology has been designed to achieve the objectives of this study. Secondary as well as primary data are used in this study. Opinion survey technique is adopted while collecting the primary data to find out the opinion of respondents representing different groups related to tax system. This is adopted to find out the practical aspect of in tax administration in Nepal from different prospective. This research methodology contains research design, population and sample, nature and sources of data, procedure of data collection, processing and analysis.

3.1. Research Design

An opinion survey has been conducted for an empirical research. Opinion of the respondents associated with tax administrators, tax experts and taxpayers are collected through questionnaire. The questionnaire included; effectiveness of tax administration, problems of tax management and tax system, administrative review, administration, problems of taxpayers, methods of income tax assessment and its problems, taxpaying habit of Nepalese people, prospects of tax administration and other aspects of tax system in Nepal with necessary suggestions to improve the system of tax administration. Thus, the research methodology followed in the study can be termed as analytical as well as descriptive research design.

3.2 Population and Sample

The population refers to any collection of specified group of human beings or non human entities such as objects, educational institutions, geographical areas, prices of wheat, etc. Population refers to not only people but all items that have been chosen for study. The people who involved in this research are population of this research. In order to fulfill the objectives of this study, 85 sample sizes from Kathmandu valley IRO, area No.1 and area No.2 Babarmahal IRD and area No.3 Lazimpat, ICAN Babarmahal and other personal sources has been taken. Persons included in the sample are carefully selected by consultation with the tax experts, professors and lecturers of Tribhuvan University.

Persons included in the responding of questionnaires are from tax experts, tax administrators and tax payers of different business. The respondents have been divided into three groups. The following table shows the groups of respondents and size of samples.

Table 3.1: Groups of Respondents and Size of Samples from Each Group

| S.N. | Groups of Respondents | Sample Size |
|-------|-----------------------|-------------|
| 1 | Tax Administrators | 40 |
| 2 | Tax Experts | 25 |
| 3 | Tax Payers | 20 |
| Total | | 85 |

3.3 Nature and Sources of Data

To achieve the main objectives of this study both primary as well as secondary sources of data and information have been collected. The collection has been done in accordance with the availability and usefulness of this study. The sources of data used in this study are as follows:

A. Primary Sources of Data:

The primary data have been collected from those respondents who are representing themselves as tax experts, taxpayer and administrators of different sectors within the Katmandu valley. To know the opinion of the respondents, structured questionnaires were distributed. The entire questionnaire has covered the main theme of this research and necessary suggestions for achieving effectiveness of tax administration in Nepal. Tax administrators have been selected from IRO area no.1 and 2 Babarmahal, area no. 3 Lazimpat and IRD Lazimpat, Tax experts have been selected from ICAN Babaarmahal and Taxpayers have been selected from various business houses in Putalisadak and World Trade Center, Tripureshor.

B. Secondary Sources of Data :

The secondary sources of data are the information received from books, dissertations, journals, newspaper, reports, related websites etc. Th The central fact of economic development of any country is rapid capital accumulation because capital plays a crucial role in the overall process of economic development. There is cumulative

process in economic development of any under-developed countries. The increase in the income is possible only if the rate of capital formation is high and increase in capital formation is possible if the rate of the growth of income is high. In Nepal, growth rate of population is higher than the growth rate of GDP. So, maximum capital formation is needed to raise the living standard and per capita income of the people within short period of time. If the rate of saving is higher than the rate of economic growth is possible (Pant, 1996:22).

In developed countries, income taxation has to occupy a position of dominance in the tax structure. But the role of income taxation is limited in developing countries. In developing countries, taxation plays a more positive role in the process of capital formation. Nepal's tax ratio to GDP is the lowest among the developing countries. For this several factors can be held responsible such as low percentage of export and import to GNP and lack of effective administration and information of tax laws.

An attractive offer to invest in private sector in developing countries is low due to low return as the initial stage of development. So, it is necessary to mobilize the resources by public sector mainly on the development of agriculture, education, economic, social and so on. To develop these essential sectors, government needs large volume of revenue and this can be obtained through taxation for these all purpose. Government can finance by other ways such as money creation, deficit financing and foreign aid, but these are fear of increasing inflation. So, in many developing countries, government is trying to increase the proportion of tax revenue. The government should bring re-promotion in this tax system and structure to make increase in proportion to tax revenue to national income. Due to administrative and economic factors, the government of most of developing countries is emphasizing heavily on indirect taxes because they can collect most part of the tax revenue by indirect taxes. There is no wide use of direct taxes like income tax. But after a certain stage of development, role and ratio of direct taxes over indirect taxes go on increasing undoubtedly in the long run. Income tax under direct taxes occupies a major and importance source of revenue for government expenditure. Income tax has particular attractions as an important and suitable weapon for mobilizing the increasing output of developing nations. This tax is based on the principle of ability to pay. The lower groups can be completely exempted with the burden of income tax and it can be increased progressively upon the higher groups. This

tax seems to fulfill the current national objective of equity and justice.e major sources of secondary data are as follows:

- I. Annual reports of Income Revenue Department, Ministry of Finance, Government of Nepal.
- II. Published Documents of National Planning Commission and Nepal Rastra Bank.
- III. Economic surveys and Budget Speeches, Ministry of Finance.
- IV. Books, dissertations relating to tax administration available at the central library of T.U.
- V. National Newspaper, Journals, Magazines and Souvenirs.
- VI. Revenue Administration, Training Centre, Kathmandu.
- VII. CEDA publications, T. U.
- VIII. Different publications of Central Bureau of Statistics.
- IX. Reports of Auditor General's Office, Kathmandu.
- X. Other published and unpublished relevant records and data available.

3.4 Procedures of Data Collection

A set of 85 structured questionnaires were developed and distributed to the selected three different groups of respondents individually. Out of which 70 questionnaires were returned back. This is the sample population of the study. Distribution was done personally by the researcher through field visits rather than sending by any means to get accurate and actual information in time. The questionnaires were administered by the dissertation guide in personal meeting and additional information wa The central fact of economic development of any country is rapid capital accumulation because capital plays a crucial role in the overall process of economic development. There is cumulative process in economic development of any under-developed countries. The increase in the income is possible only if the rate of capital formation is high and increase in capital formation is possible if the rate of the growth of income is high. In Nepal, growth rate of population is higher than the growth rate of GDP. So, maximum capital formation is needed to raise the living standard and per capita income of the people within short period of time. If the rate of saving is higher than the rate of economic growth is possible (Pant, 1996:22).

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3.5 Processing and Analyzing of Collected Data

The collected data and information from primary as well as secondary sources of tax administration have been processed for tabulation and analysis. According to the

subject matter and requirements, the data were tabulated into separate tables and format. Then the simple statistical analysis such as average, percentage etc are used and calculated where necessary. They have been presented and analyzed in the descriptive way. Graphs, charts and diagrams are also presented to interpret visually the findings of the research.

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

Presentation and analysis of data is the most important stage of the study. In this chapter, all data or information collected from primary sources (i.e. through questionnaire and interview) as well as secondary sources (i.e. annual reports, economic survey etc) are arranged, tabulated, presented in figure and analyzed. For the convenience, this chapter has been divided into three sections. They are:

-) Analysis of secondary data
-) Analysis of primary data
-) Major findings of the study

For primary data collection purpose, the whole population was classified into three strata:

-) Tax administrators
-) Tax experts
-) Tax payers

4.1 Analysis of Secondary Data

In this chapter, full attention has been given to find out the effectiveness of tax administration with the help of trend and contribution of income tax in the government revenue structure of Nepal. An empirical investigation based on opinion survey has been presented with relevant sub topics. Specially this chapter deals with the analysis and presentation of secondary data and information in connection with the taxation in Nepal.

4.1.1 Tax and Non-Tax Revenue in Nepal

Total Revenue is the sum of tax and non-tax revenue. The structure of total revenue for the fiscal year 2000/01 to 2008/09 is shown in the table 4.1. The share of tax revenue has always been more than 75 percent i.e. greater than the share of non-tax revenue. The average share of tax revenue for the 8 years' time period was 78.00 percent. Tax revenue is placed as a major source of government revenue in Nepal. The trend of tax and non-tax revenue is shown in figure 4.1

Table 4.1: Composition of Tax and Non-Tax Revenue in Nepal

Rs. In million

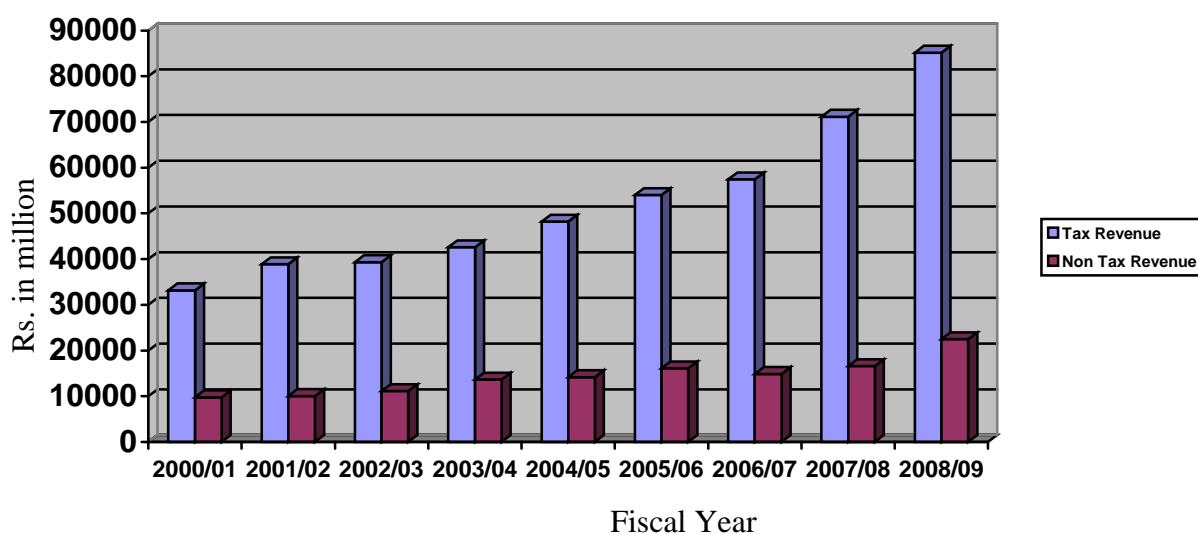
| Fiscal year | Total Revenue (Rs.) | Tax Revenue | | Non-tax Revenue | |
|-------------|------------------------|-------------|-------|-----------------|-------|
| | | Rs. | % | Rs. | % |
| 2000/01 | 41893.7 | 33152.1 | 77.29 | 9741.6 | 22.71 |
| 2001/02 | 48839.9 | 38865.1 | 79.49 | 10028.8 | 20.51 |
| 2002/03 | 50445.6 | 39330.6 | 77.88 | 11115.0 | 22.12 |
| 2003/04 | 56229.7 | 42587.0 | 77 | 13642.7 | 23.00 |
| 2004/05 | 62331.0 | 48173.0 | 77.29 | 14158.0 | 22.71 |
| 2005/06 | 70122.7 | 54014.7 | 77.2 | 16108.0 | 22.80 |
| 2006/07 | 72282.1 | 57430.5 | 79.45 | 14851.6 | 20.55 |
| 2007/08 | 87712.1 | 71127.0 | 81.09 | 16585.1 | 18.91 |
| 2008/09 | 107622.50 | 85155.55 | 79.12 | 22466.95 | 20.88 |
| Average % | - | - | 78.00 | - | 22.00 |

Source: Economic Survey 2008/09, MOF.

It is observed that the amount of tax revenue showed an increasing trend over the years. It is Rs. 33152.1 million in the fiscal year 2000/01, whereas it has reached to Rs. 85155.55 million in 2008/09. The maximum contribution of tax revenue to total revenue is 81.09 percent in the fiscal year 2007/08 and the least contribution of tax revenue to total revenue is 77.0 percent in the fiscal year 2003/04. The average contribution is 78.0 percent over the years, which is slightly less or more than actual contribution.

The trend of non-tax revenue collection has shown a fluctuating trend during the study period from 2000/01 to 2008/09. The contribution of non-tax revenue is 23 percent, the maximum during fiscal year 2003/04 and it is 18.91 percent a minimum in the year 2007/08. However, there is fluctuation in the revenue receipts from tax revenue and non-tax revenue, they have been increased due to increase in tax base and increase in industry. Fluctuation in tax on production and consumption of goods and services, VAT revenues, excise revenue, fluctuation in tax on income, profit and property land and house registration tax, increase or decrease in import or export tax revenue and increase/decrease in firm registration fees, administrative fees, fines and forfeitures, dividend from service oriented organization, interest and principal from companies and enterprises and tax from the income of other government organization are the main causes which deviate the share of tax revenue and non-tax revenue to the total government revenue. It is clearly shown in the figure 4.1.

Figure 4.1: Trend of Tax and Non-Tax Revenue



4.1.2 Structure of Tax Revenue in Nepal:

The structure of government revenue in Nepal has been represented in table 4.2 and tab Total Revenue is the sum of tax and non-tax revenue. The structure of total revenue for the fiscal year 2000/01 to 2008/09 is shown in the table 4.1. The share of tax revenue has always been more than 75 percent i.e. greater than the share of non-tax revenue. The average share of tax revenue for the 8 years' time period was 78.00 percent. Tax revenue is placed as a major source of government revenue in Nepal. The trend of tax

and non-tax revenue is shown in figure 4.1le 4.3 in Rs. and percentage respectively from the fiscal year 2000/01 to 2008/09. The structure of government revenue of Nepal is formulated by customs, excise, VAT, income tax, land revenue and registration, miscellaneous tax revenue and non-tax revenue.

Out of these, customs duty is at the top position. The revenue from customs varies from Rs.10813.3 million to Rs.21062.80 million from 2000/01 to 2008/09. The trend shows that the customs gradually increased up to 2005/06, decreased in 2006/07 and again increased in the fiscal year 2007/08 and the fiscal year 2008/09. The average percentage of customs to total revenue for the last 9 fiscal years is 24.70 percent.

VAT occupies the second top position in tax revenue structure. Revenue from VAT is increased from Rs. 9854.9 million to Rs. 29815.7 million from the fiscal year 2000/01 to 2008/09. The average contribution of VAT to the total revenue for the last 8 years is 23.73 percent. Similarly, excise duty has occupied the third rank among various tax revenues till fiscal year 2003/04. However, since 2003/04 onwards income tax has occupied the third rank. Contentage contribution of income tax to total tax revenue increased from 17.3 percentages in 2000/01 to 18.64 percentages in the fiscal year 2001/02 and 16.08 percentage in the fiscal y Total Revenue is the sum of tax and non-tax revenue. The structure of total revenue for the fiscal year 2000/01 to 2008/09 is shown in the table 4.1. The share of tax revenue has always been more than 75 percent i.e. greater than the share of non-tax revenue. The average share of tax revenue for the 8 years' time period was 78.00 percent. Tax revenue is placed as a major source of government revenue in Nepal. The trend of tax and non-tax revenue is shown in figure 4.1ear 2008/09. The average contribution of income tax to total tax revenue for the past 9 years is 13.72 percent.

Similarly, revenue from excise duty is in increasing trend over the study period. It has increased from Rs.3127.6 million in year 2000/01 to Rs. 11189.4 million in the year 2008/09. But the percentage contribution of excise to total revenue has increased from 7.29 percent in year 2000/01 to 10.40 percent in year 2008/09. The average contribution of excise duty to total revenue for the past 9 years is 9.02 percent. This is due to the increase in excise rate and the narrowing tax base on which excise duty is imposed.

Table 4.2: Structure of Government Revenue in Nepal

Rs. In millions

| Fiscal Year | Customs | Excise | VAT | Income Tax | Land Revenue and Registration | Miscellaneous | Non-Tax Revenue | Total |
|-------------|---------|---------|---------|------------|-------------------------------|---------------|-----------------|-----------|
| 2000/01 | 10813.3 | 3127.6 | 9854.9 | 7420.6 | 1015.9 | 919.8 | 9741.6 | 42893.7 |
| 2001/02 | 12552.1 | 3771.2 | 517993 | 48173 | 9.30 | 517993 | 48173 | 9.30 |
| 2002/03 | 12658.8 | 3807 | 566579 | 54014.7 | 9.53 | 566579 | 54014.7 | 9.53 |
| 2003/04 | 14236.4 | 4785.1 | 630301 | 57430.5 | 9.11 | 630301 | 57430.5 | 9.11 |
| 2004/05 | 15554.8 | 6226.7 | 517993 | 48173 | 9.30 | 517993 | 48173 | 9.30 |
| 2005/06 | 15701.6 | 6445.9 | 18885.4 | 10159.4 | 1799.2 | 1113.2 | 16018.0 | 70122.7 |
| 2006/07 | 15344.0 | 6507.6 | 21610.7 | 10373.7 | 2181.1 | 1413.3 | 14851.7 | 72282.1 |
| 2007/08 | 16708.0 | 9343.2 | 26095.6 | 15034.0 | 2253.5 | 1692.8 | 16585.1 | 87712.2 |
| 2008/09 | 21062.5 | 11189.4 | 29815.7 | 17311.1 | 2940.74 | 2835.9 | 22466.95 | 107622.29 |

Source: Economic Survey 2008/09, MOF

Note:

- Customs includes: Imports +Exports + Indian excise Refund + Others.
- Excise includes; Industrial products+ Liquor contracts.
- Income Tax includes; Tax from- PES +Semi PES + Private corporate bodies + Individuals + Remunerations +Tax on Interest.
- Miscellaneous includes; Entertainment Tax +Hotel Tax +Air Flight Tax + Contracts Tax +Road and Bridge Maintenance Tax +Urban House and Tax + vehicle Tax +Other Taxes.
- PES =Public Enterprises

Land Revenue and registration has also increased from Rs. 1015.9 in year 2000/01 to Rs. 2940.74 in year 2008/09. But the percentage of contribution of land revenue and registration has declined from 2.37 percent in 2000/01 to 1.25 percent in year 2001/02 and it is has increas 2000/01 to 2008/09 is shown in the table 4.1. The share of tax revenue has always been more than 75 percent i.e. greater than the share of non-tax revenue. The average share of tax revenue for the 8 years' time period was 78.00 percent. Tax revenue is placed as a major source of government revenue in Nepal. The trend of tax and non-tax revenue is shown in figure 4.1. Revenue and registration to the total revenue for the 9 years' is 3.30 percent.

Revenue from miscellaneous tax has decreased from the fiscal year 2000/01 to 2005/06 but this tax has increased after 2005/06 up to fiscal year 2008/09 and has increased thereafter i.e. Rs.2835.9 in year 2008/09.

On the other hand, non-tax revenue is another portion in contributing revenue structure of the government. Non-tax revenue has also increased from fiscal year 2000/01 to 2008/09 i.e. it has increased from Rs.9741.6 million to Rs. 22466.95 million. The

average contribution of non-tax revenue to the total revenue for past 8 years is 22.00 percent.

**Table 4.3: Structure of Government Revenue in Nepal
(In percentage)**

| Fiscal year | Customs | Excise | VAT | Income Tax | Land revenue and Registration | Miscellaneous Tax | Non-Tax Revenue | Total |
|-------------|---------|------------|-------------|------------|-------------------------------|-------------------|-----------------|------------|
| 2000/01 | 25.21 | 7.29 | 22.98 | 17.3 | 2.37 | 2.14 | 22.17 | 100 |
| 2001/02 | 25.67 | 5179 93 | 48173 | 9.30 | 517993 | 48173 | 9.30 | 517 993 |
| 2002/03 | 25.19 | 5665 79 | 54014 .7 | 9.53 | 566579 | 54014.7 | 9.53 | 566 579 |
| 2003/04 | 25.27 | 6303 01 | 57430 .5 | 9.11 | 630301 | 57430.5 | 9.11 | 630 301 |
| 2004/05 | 24.95 | 5179 93 | 48173 | 9.30 | 517993 | 48173 | 9.30 | 517 993 |
| 2005/06 | 22.39 | 8.2 | 26.93 | 14.48 | 2.57 | 1.59 | 22.84 | 100 |
| 2006/07 | 21.22 | 9.00 | 29.90 | 14.35 | 3.02 | 1.96 | 20.55 | 100 |
| 2007/08 | 19.05 | 10.65 | 29.75 | 17.14 | 2.57 | 1.93 | 18.91 | 100 |
| 2008/09 | 19.57 | 10.40 | 27.70 | 16.08 | 2.73 | 2.64 | 20.88 | 100 |
| Average % | 24.70 | 9.02 | 23.73 | 13.72 | 3.30 | 3.53 | 22.00 | 100 |

Source: - Table 4.2

Due to lack of proper attention towards the land revenue and registration, miscellaneous tax and non-tax revenue in comparison with the customs, excise, VAT and income tax, the share of tax from the land revenue and registration, miscellaneous tax and non-tax revenue has become lower.

4.1.3 Tax/GDP Ratio in Nepal

Nepal is one of the lowest taxed economies in the world. In Nepal, Tax/GDP ratio has never exceeded 10 percent except in the fiscal year 2007/08 and it has to be increased to 11.25 percent in fiscal year 2008/09. The average percentage of Tax/GDP in 9 fiscal years is 8.79 percent.

Table 4.4: Contribution of Tax Revenue in GDP

Rs. In Million

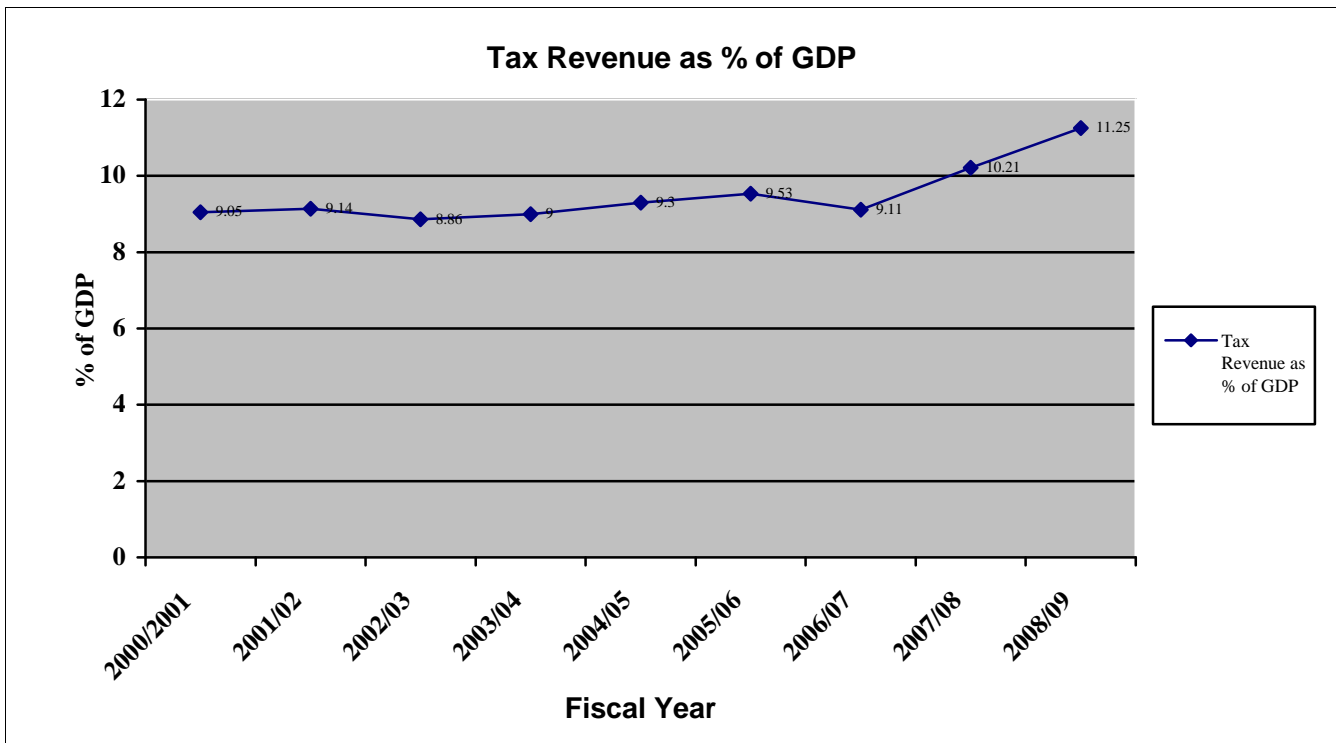
| Fiscal year | GDP | Tax Revenue | Tax Revenue as % |
|-------------|-----|-------------|------------------|
|-------------|-----|-------------|------------------|

| | | | of GDP |
|---------|--------|----------|--------|
| 2000/01 | 366251 | 33152.1 | 9.05 |
| 2001/02 | 425454 | 38865.1 | 9.14 |
| 2002/03 | 444052 | 39330.6 | 8.86 |
| 2003/04 | 517993 | 48173 | 9.30 |
| 2004/05 | 566579 | 54014.7 | 9.53 |
| 2005/06 | 630301 | 57430.5 | 9.11 |
| 2006/07 | 517993 | 48173 | 9.30 |
| 2007/08 | 696989 | 71127.0 | 10.21 |
| 2008/09 | 756756 | 85155.55 | 11.25 |

Source: Economic Survey, 2008/09, MOF.

From the figure 4.2 it is clear that the growth rate of contribution of tax revenue to GDP showed a positive direction with slow rate. If the share of tax revenue on GDP is considered, it is not found satisfactory from the Total Revenue is the sum of tax and non-tax revenue. The structure of total revenue for the fiscal year 2000/01 to 2008/09 is shown in the table 4.1. The share of tax revenue has always been more than 75 percent i.e. greater than the share of non-tax revenue. The average share of tax revenue for the 8 yearear 2000/01 to 2008/09. The tax/GDP ratio has increased from 9.05 percent to 11.25 percent, but tends to decrease from 2001/02 up to 2003/04. It is observed that contribution showed a fluctuating trend over the study period. Customs revenue mobilization affected by the illegal trade, that has adversely hit the formal trade, under-invoicing and revenue leakages through the rampant and illegal use of the duty-free goods, are the major causes playing vital role in reducing the share of tax to GDP. Again, since agriculture, which has a higher contribution to GDP, is exempted from both VAT and income tax, the tax base has become narrower as a result of which total tax is not increasing as per the rules of economic expansion.

Figure 4.2: Tax Revenue as Percentage of GDP



4.1.4 Income Tax/GDP Ratio

Table: 4.5: Contribution of Income Tax in GDP
Rs. In Million

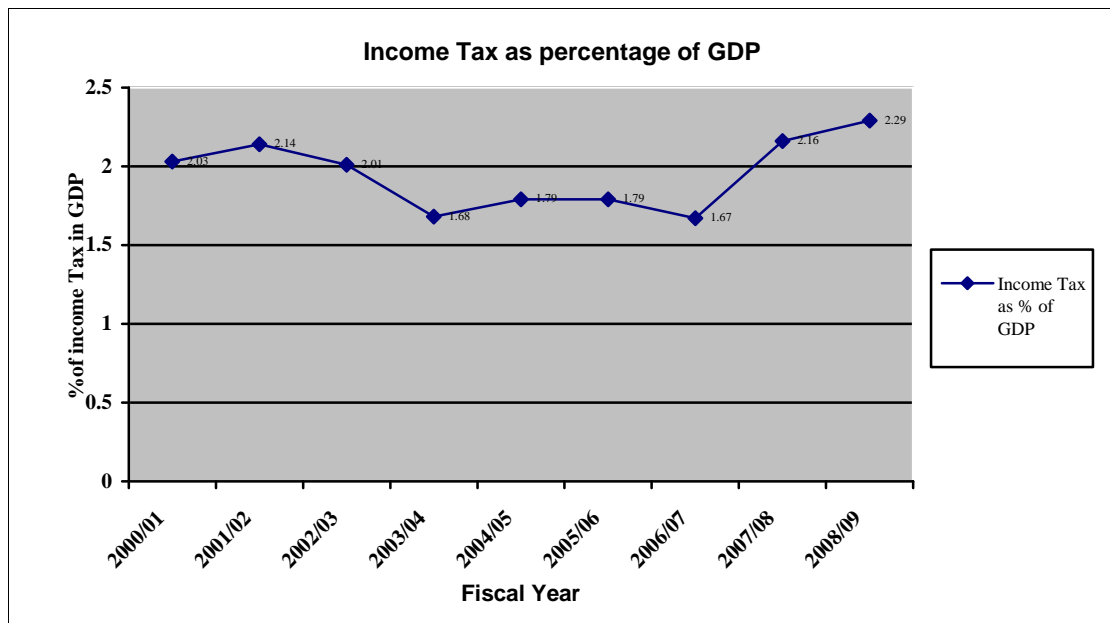
| Fiscal year | GDP | Income | Income Tax as Percentage of GDP |
|-------------|--------|---------|---------------------------------|
| 2000/01 | 366251 | 7420.6 | 2.03 |
| 2001/02 | 425454 | 9114 | 2.14 |
| 2002/03 | 444052 | 8903.7 | 2.01 |
| 2003/04 | 473546 | 7966.2 | 1.68 |
| 2004/05 | 517993 | 48173 | 9.30 |
| 2005/06 | 566579 | 54014.7 | 9.53 |
| 2006/07 | 630301 | 57430.5 | 9.11 |
| 2007/08 | 696989 | 15034 | 2.16 |
| 2008/09 | 756756 | 17311.1 | 2.29 |

Source: Economic Survey, 2008/09, MOF

While evaluating income tax with connection to Gross Domestic product of eight years, it is found that the income tax/GDP ratio is fluctuating in various fiscal years i.e. in 2000/2001, it is 2.03 per cent and it also decreases in the fiscal year 2006/07 with ratio 1.67 percent and it increases in year 2007/08 to 2.16 ratios and lastly it increases in 2008/09 to 2.29 ratios. The reasons behind such fluctuations are as follows;

- Revenue policy, revenue administration and laws related to revenue change from time to time as per the interest of different governments.
- The firms registered in income tax are showing artificial losses to evade income tax and some persons are evading tax through transfer pricing in the same business group on the basis of involvement in various activities that attract tax rates.

Figure 4.3: Income Tax as Percentage of GDP



4.1.5 Revenue Collection of IRD - A Comparative Study

In most years, the collection of VAT is at the top position whereas the income tax has seen the second position. If the net contribution of the fiscal year 2007/08 is evaluated, it is found that the VAT is in top position with 51.81 percent but the income tax is in second position with 30.31 percent.

Table 4.6: Inland Revenue Collection**Rs. In '000'**

| Fiscal year | 2000/2001 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | Net contribution in F.Y. 2008/09 |
|-------------|-----------|----------|----------|----------|----------|----------|----------|----------|----------------------------------|
| Tax Revenue | 20810000 | 25260000 | 25537690 | 26853422 | 30920989 | 36552762 | 40202335 | 51541450 | |
| VAT | 9860000 | 12050000 | 11947955 | 13449123 | 14478896 | 18894627 | 21946014 | 26704180 | 51.81 |
| Income Tax | 7420000 | 9110000 | 8919680 | 8059575 | 9514782 | 10452637 | 10896448 | 15621430 | 30.31 |
| Excise Duty | 3130000 | 3770000 | 3807730 | 4785244 | 6226714 | 6446503 | 6512225 | 8533844 | 16.56 |
| Other Tax | 400000 | 330000 | 862325 | 559480 | 700587 | 758995 | 847648 | 681996 | 1.32 |

Source: www.ird.gov.np (Annual Report of IRD 2008/09)

4.1.6 Structural Condition of Income Tax

A comparison of total target of revenue with actual collection for the eight fiscal years, since 2001/2002 to 2008/09, collection of income tax has met the target in the fiscal years 2001/2002, 2005/06 and 2008/09. In other fiscal years, actual collections are below the target level. Out of sub categories of income tax, corporate tax is in top position in all year. Whereas Individual income tax is placed in second position. The contribution of other sub tax and non-tax revenue. The structure of total revenue for the fiscal year 2000/01 to 2008/09 is shown in the table 4.1. The share of tax revenue has always been more than 75 percent i.e. greater than the share of non-tax revenue. The average share of tax revenue for the 8 years' time period was 78.00 percent. Tax revenue is placed as a major source of government revenue in Nepal. The trend of tax and non-tax revenue is shown in figure 4.1 major contributors among the direct tax contributions. Lack of support and co-operation of the political parties to the government, presence of emergency in the country, the determined target became more ambitious, inability of government to mobilize the revenue officer according to plan, and frequent strikes and Bandh called by different parties are the main reasons for not collecting targeted income tax.

Table 4.7: Structural Condition of Income Tax with Target Revenue

Rs. In '000'

| Particular | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 |
|--|---------|----------|----------|---------|----------|----------|----------|----------|
| Target | | | | | | | | |
| Corporate income tax | 4570000 | 6540000 | 7260000 | 5430000 | 4000000 | 5080600 | 5906900 | 8964900 |
| Public enterprises | 1770000 | 2520000 | 3600000 | 2020000 | 1250000 | 1254200 | 1471900 | 1582500 |
| Public Limited company | 738000 | 742000 | 100.54 | 738000 | 742000 | 100.54 | 738000 | 742000 |
| Private Limited Company | 998000 | 911000 | 91.28 | 998000 | 911000 | 91.28 | 998000 | 911000 |
| Individual Income tax | 1114000 | 8919680 | 80.07 | 1114000 | 8919680 | 80.07 | 1114000 | 8919680 |
| Remuneration | 9862500 | 8059575 | 81.72 | 9862500 | 8059575 | 81.72 | 9862500 | 8059575 |
| Sole corporate, business profession and others | 8697500 | 9514782 | 109.4 | 8697500 | 9514782 | 109.4 | 8697500 | 9514782 |
| House rent tax | 1050000 | 10452637 | 99.55 | 1050000 | 10452637 | 99.55 | 1050000 | 10452637 |
| Interest | 1180000 | 1089648 | 92.34 | 1180000 | 1089648 | 92.34 | 1180000 | 1089648 |
| Total | 7380000 | 9980000 | 11140000 | 9862500 | 8697500 | 10500000 | 11800000 | 12681993 |

Source: Annual report of IRD 2008/09

Table 4.8: Structural Condition of Income Tax with Actual Collection

Rs. In '000'

| Particular | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 |
|--|---------|---------|---------|---------|---------|---------|---------|----------|
| Achievement | | | | | | | | |
| Corporate income tax | 4440000 | 5990000 | 4371208 | 3655556 | 4838689 | 5327323 | 5395701 | 11515835 |
| Public enterprises | 2200000 | 2930000 | 1770651 | 1251615 | 2056635 | 1331561 | 185888 | 1018318 |
| Public limited company | 1340000 | 1930000 | 1429904 | 1236268 | 1531274 | 2467622 | 3522765 | 5711298 |
| Private limited company | 738000 | 742000 | 100.54 | 738000 | 742000 | 100.54 | 738000 | 7420000 |
| Individual income tax | 998000 | 911000 | 91.28 | 998000 | 911000 | 91.28 | 998000 | 9110000 |
| Remuneration | 450000 | 600000 | 834849 | 1240291 | 1391522 | 1676982 | 1751505 | 2028857 |
| Sole corporate, business profession and others | 1870000 | 1800000 | 2896803 | 1936813 | 2147894 | 2194694 | 2483148 | 481221 |

| | | | | | | | | |
|----------------|---------|---------|---------|---------|---------|----------|----------|----------|
| House rent tax | 250000 | 260000 | 348524 | 381715 | 403282 | 496306 | 509062 | 599369 |
| Interest | 410000 | 460000 | 468294 | 845200 | 733395 | 757332 | 757032 | 996148 |
| Total | 7420000 | 9110000 | 8919680 | 8059575 | 9514782 | 10452637 | 10896448 | 15621430 |

Source: www. ird. gov.np (Annual report of IRD 2008/09)

Table 4.9: A Comparative Study of Target and Achievement of Income Tax

| Rs. In '000' | | | |
|--------------|----------|-------------|--------|
| Fiscal year | Target | Achievement | Ratio |
| 2001/2002 | 7380000 | 7420000 | 100.54 |
| 2002/03 | 9980000 | 9110000 | 91.28 |
| 2003/04 | 11140000 | 8919680 | 80.07 |
| 2004/05 | 9862500 | 8059575 | 81.72 |
| 2005/06 | 8697500 | 9514782 | 109.4 |
| 2006/07 | 10500000 | 10452637 | 99.55 |
| 2007/08 | 11800000 | 10896448 | 92.34 |
| 2008/09 | 12681993 | 15621430 | 123.18 |
| Average % | - | - | 97.26 |

Source: Annual report of IRD 2008/09

After evaluating the income tax of eight fiscal years from 2001/02 to 2008/09, it is found that the achievements are optimistic in earlier years however it shows some pessimistic situation in 2002/03, 2003/04 and 2004/05 where it is slightly decreased to 81.72. However some improvement has been observed in the recent years. Total Revenue is the sum of tax and non-tax revenue. The structure of total revenue for the fiscal year 2000/01 to 2008/09 is shown in the table 4.1. The share of tax revenue has always been more than 75 percent i.e. greater than the share of non-tax revenue. The average share of tax revenue for the 8 years' time period was 78.00 percent. Tax revenue is placed as a major source of government revenue in Nepal. The trend of tax and non-tax revenue is shown in figure 4.1. The average ratio of achievement and target is 97.26.

4.2 Analysis of Primary Data

A study had been conducted to examine effectiveness of tax administration in Nepal. The major tool used for this purpose is an opinion questionnaire. While conducting this study 85 sets of questionnaire were distributed to the tax administrators, tax payers and tax experts but only 70 sets of questionnaire were received. The responses received from various respondents have been arranged, tabulated and analyzed.

The questionnaire is arranged in responses of yes/no and ranking of choices according to number of alternatives where first choice was most important and the last choice as the least importance. If the number of alternatives were ten, then the first preferred choice would get ten points and the least preferred alternative would get one point. The total points available to each alternative were converted into percentage in reference to the total points available for all choice. The choice with the highest score of percentage was ranked as the most important choice and one with the lowest percentage being ranked as last choice. The Table 4.10 shows the groups of respondents and code used to represent them.

Table 4.10: Groups of Respondents and Code Used

| S.N. | Groups of Respondents | Sample Distributed | Sample Received | Code used |
|------|-----------------------|--------------------|-----------------|-----------|
| 1. | Tax Administrators | 40 | 35 | A |
| 2. | Tax experts | 25 | 20 | B |
| 3. | Tax payers | 20 | 15 | C |

Source: Opinion Survey, 2010

4.2.1 Attitude Towards Performance of Nepalese Tax System

Although there are so many problems in Nepalese tax system a question was asked to know whether there is any problem in the tax system of Nepal or not. The question was “Do you think that Nepalese tax system Total Revenue is the sum of tax and non-tax revenue. The structure of total revenue for the fiscal year 2000/01 to 2008/09 is shown in the table 4.1. The share of tax revenue has always been more than 75 percent i.e. greater than the share of non-tax revenue. The average share of tax revenue for the 8 years' time period was 78.00 percent. Tax revenue is placed as a major source of government revenue in Nepal. The trend of tax and non-tax revenue is shown in figure 4.1 has poor performance? The responses received from the respondents are tabulated as follows:

Table 4.11: Attributed towards performance of Nepalese Tax system

| Respondents | Yes | | No | | Total | |
|-------------|-----|---|-----|---|-------|---|
| | No. | % | No. | % | No. | % |

| | | | | | | |
|-------|----|-------|----|-------|----|-------|
| A | 20 | 27 | 6 | - | 33 | 71.74 |
| B | 15 | 2 | 4 | - | 6 | 13.04 |
| C | 11 | 4 | 1 | - | 5 | 10.87 |
| Total | 46 | 65.71 | 24 | 34.29 | 70 | 100 |

Source: Opinion Survey, 2010

From the above Table 4.11, it observed that Nepalese tax system, has some problems. Majority of the respondents (i.e. 65.71%) think that there are problems in Nepalese tax system with regard to its performance. To know the causes of being poor performance, another question was asked with this, "If yes, what are the major causes of being poor performance in Nepalese tax system?" The respondents are requested to rank their answer as per priority. The breakdown of the responses is shown below:

Table 4.12: Major Reasons towards Poor Performance of Nepalese Tax System

| S.N. | Major reasons | Group | | | Total point | Percent | Rank |
|------|---|-------|-----|----|-------------|---------|------|
| | | A | B | C | | | |
| 1. | Lack of incentives for maintenance of Accounts | 142 | 81 | 65 | 288 | 11.54 | 4 |
| 2. | Lack of meaningful tax payer information | 116 | 112 | 84 | 312 | 12.49 | 2 |
| 3. | Defective assessment procedure | 82 | 90 | 59 | 231 | 9.25 | 8 |
| 4. | complicated collection procedures | 157 | 88 | 64 | 309 | 12.38 | 3 |
| 5. | Failure of public sector enterprises to pay the tax | 146 | 97 | 71 | 314 | 12.58 | 1 |
| 6. | Tax concession granted to industries located at remote area | 27 | 6 | - | 33 | 71.74 | 1 |
| 7. | Lack of taxpayer education | 2 | 4 | - | 6 | 13.04 | 2 |
| 8. | Lack of research in tax matters | 4 | 1 | - | 5 | 10.87 | 3 |
| 9. | Problem of evasion and avoidance | 1 | 1 | - | 2 | 4.35 | 4 |
| 10 | Others | 34 | 12 | - | 46 | 100 | |
| | Total | | | | 2497 | 100 | |

Source: Opinion survey, 2010

The major reasons for the poor performance of tax system in Nepal, according to the preference of the respondents are failure by public sector enterprises to pay the tax followed by lack of meaningful taxpayers information, complicated collection procedures, lack of incentives for maintenance of Accounts, lack of tax payer education, lack of research in tax matters. Total Revenue is the sum of tax and non-tax revenue. The structure of total revenue for the fiscal year 2000/01 to 2008/09 is shown in the table 4.1. The share of tax revenue has always been more than 75 percent i.e. greater than the share of non-tax revenue. The average share of tax revenue for the 8 years' time period was 78.00 percent. Tax revenue is placed as a major source of government revenue in Nepal. The trend of tax and non-tax revenue is shown in figure 4.1 in tax matters, tax concession granted to industries located at remote area, defective assessment procedures and problem of evasion and avoidance. Except these problems some others problems are also mentioned by respondent which are

-) Lack of public awareness, irresponsible manpower of tax office, less facilities provided by the state to taxpayer and lack of uncorrupted personnel.

It is concluded that there are problems in the tax system of Nepal, especially because of failure of to pay the tax on the part of public sector enterprises, lack of meaningful taxpayer information and complicated collection procedures.

4.2.2 Attitude towards the income tax making discouragement for earning higher income:

To know the attitude towards effectiveness of income tax on higher income level, a question was asked, “Do you think that income tax is making discouragement for earning higher income?” The responses received from the various respondents are tabulated as below:

Table 4.13: Attitude towards the income tax is acting discouragement for earning higher income

| Respondents | Yes | | Not | | Total | |
|-------------|-----|-------|-----|-------|-------|-------|
| | No. | % | No. | % | No. | % |
| A | 4 | 27 | 6 | - | 33 | 71.74 |
| B | 3 | 2 | 4 | - | 6 | 13.04 |
| C | 12 | 4 | 1 | - | 5 | 10.87 |
| Total | 19 | 27.14 | 51 | 72.86 | 70 | 100 |

Source: Opinion Survey, 2010

From the above Table 4.13, it is clear that 72.86 percent respondents are opined with the statement that the income tax is making discouragement for earning higher income. A minority of respondents i.e. 27.14 percent respondents have given their opinion in favour of statement.

To know causes of discouragement for earning higher income, another question was asked with this. “If yes, please give reasons how it is discouraging?” The respondents were requested to choice their answer of most important alternatives. The breakdown of the responses is shown below:

Table 4.14: Major reasons discouraging for earning higher income

| S.N | Respondents Alternatives Reasons | A | B | C | Total no. | % | Rank |
|-----|---|---|---|---|-----------|-------|------|
| 1. | By reducing net profit | - | 1 | 1 | 2 | 10.53 | 3 |
| 2. | Taxpayer doesn't get direct Benefit by paying | 2 | 1 | 4 | 7 | 36.84 | 2 |

| | | | | | | | |
|----|---|---|---|----|----|-------|---|
| | tax | | | | | | |
| 3. | It reduces amount of cash which is needed in daily activities | 2 | 1 | 7 | 10 | 52.63 | 1 |
| 4. | Others | - | - | - | - | - | - |
| | Total | 4 | 3 | 12 | 19 | 100 | |

Source: Opinion survey, 2010

It is observed in Table 4.14, that there are several reasons for discouraging the earning higher income, they opinioned that payment of tax reduces amount of cash which is needed in daily activities. The other important reasons are taxpayer doesn't get direct benefit by paying tax third followed it by reduces the net profit.

4.2.3 Attitude towards the role of income tax to reduce the gap between rich and poor

To know the attitude towards effectiveness of income tax to reduce the gap between rich and poor, a question was asked, "Do you think that income tax has played an effective role in reducing the gap between rich and poor?" the responses received from the various respondents are presented as below;

Table 4.15: Attitude towards the role of income tax to reduce the gap between rich and poor

| Respondents | Highly effective | | Fairly effective | | Not effective | | Total | |
|-------------|------------------|-------|------------------|-------|---------------|----|-------|-----|
| | No. | % | No. | % | No. | % | No. | % |
| A | - | - | 27 | 6 | - | 33 | 71.74 | 100 |
| B | 3 | 15 | 2 | 4 | - | 6 | 13.04 | 100 |
| C | 6 | 40 | 4 | 1 | - | 5 | 10.87 | 100 |
| Total | 9 | 12.86 | 26 | 37.14 | 35 | 50 | 70 | 10 |

Source: Opinion survey, 2010

From Table 4.15, it is clear that the most of respondents (50 %) opinioned that the role of income tax is not effective to reduce the gap between rich and poor at all. whereas 37.14 percent of respondents believed that the role of income tax Total Revenue is the sum of tax and non-tax revenue. The structure of total revenue for the fiscal year 2000/01 to 2008/09 is shown in the table 4.1. The share of tax revenue has

always been more than 75 percent i.e. greater than the share of non-tax revenue. The average share of tax revenue for the 8 years' time period was 78.00 percent. Tax revenue is placed as a major source of government revenue in Nepal. The trend of tax and non-tax revenue is shown in figure 4.1 is fairly effective to reduce the gap between rich and poor. However, very few (12.86%) respondents replied that the role of income tax is highly effective to reduce the gap between rich and poor. Again to know causes which are responsible for the role of Income tax being not effective to the reduce gap between rich and poor, a question was asked, "If it is not effective, what may be the probable reasons not supporting to reduce the gap between rich and poor?" The respondents are asked to rank their answer according to their priority. The breakdown of the responses is shown below.

Table 4.16: Major causes which are responsible not to reduce the gap between rich and poor by income tax.

| S.N. | Major Reasons | Groups | | | Total point | Percent | Rank |
|------|---|--------|----|----|-------------|---------|------|
| | | A | B | C | | | |
| 1. | Wide spread evasion of taxes | 117 | 66 | 38 | 221 | 11.17 | 4 |
| 2. | Small number of taxpayers | 99 | 91 | 47 | 237 | 12.55 | 2 |
| 3. | Inefficient instrument for reducing the gap by income tax | 68 | 74 | 38 | 180 | 9.53 | 8 |
| 4. | Poor taxpaying capacity | 27 | 6 | - | 33 | 71.74 | 1 |
| 5. | Lack of tax consciousness | 2 | 4 | - | 6 | 13.04 | 2 |
| 6. | Defective government expenditure programs | 4 | 1 | - | 5 | 10.87 | 3 |
| 7. | Defective tax rates | 1 | 1 | - | 2 | 4.35 | 4 |
| 8. | Poor administration | 34 | 12 | - | 46 | 100 | |
| 9. | Decreasing purchasing power of people | 27 | 6 | - | 33 | 71.74 | 1 |
| 10 | Other | 30 | - | - | 30 | 1.58 | |
| | Total | | | | 1888 | 100 | |

Source: Opinion survey, 2010

The causes of being not effective as income tax to reduce the gap between rich and poor which were ranked in order of the preference of the respondents are as follows;

1. Lack of tax consciousness
2. Small number of taxpayers.
3. Poor taxpaying capacity.
4. Wide spread evasion of taxes.
5. Defective tax rates.
6. Poor administration

7. Defective government expenditure programs.
8. Inefficient instrument for reducing the gap by income tax.
9. Decreasing purchasing power of people.

It can be concluded from the above Table 4.16 that lack of tax consciousness, small number of taxpayers and poor taxpaying capacity are the main reasons which are responsible not to reduce the gap between rich and poor.

4.2.4 Attitude towards the current income tax rate:

To know the attitude towards the current income tax rate, a question was asked, "what is your opinion about the current income tax rate?" The responses received from the various respondents are tabulated as below:

Table 4.17: Attitude towards the current income tax rate

| Respondent | High | | Medium | | Low | | Total | |
|------------|------|-------|--------|-------|-----|------|-------|-----|
| | No. | % | No. | % | No. | % | No. | % |
| A | - | - | 27 | 6 | - | 33 | 71.74 | 1 |
| B | 10 | 50 | 2 | 4 | - | 6 | 13.04 | 2 |
| C | 8 | 53.33 | 4 | 1 | - | 5 | 10.87 | 3 |
| Total | 18 | 25.71 | 50 | 71.43 | 2 | 2.86 | 70 | 100 |

Source: Opinion Survey, 2010

From above Table 4.17, it is observed that 2.86 percent of respondents opinioned that

To know the causes of being high income tax rate, a question was asked, "If it is high, please rank following causes scaling those from 1 to 5." The breakdown of responses is shown below.

Table 4.18: Attitude towards the current income tax rate is high

| S.N. | Alternatives | Respondents | | | Total point | % | Rank |
|------|--------------------------------------|-------------|----|----|-------------|-------|------|
| | | A | B | C | | | |
| 1. | Having low income level of taxpayers | - | 34 | 26 | 60 | 37.04 | 1 |
| 2. | It helps to increase inflation rate | - | 33 | 22 | 55 | 33.95 | 2 |
| 3. | Exemption limit is very low | - | 23 | 24 | 47 | 29.01 | 3 |
| 4. | Others | - | - | - | - | - | |
| | Total | | - | - | 162 | 100 | |

Source: Opinion survey, 2010

The result presented in above Table 4.18, shows that the respondents of group 'A' did not replied whereas 'B' and 'C' groups' respondents have given the answer. It is also observed that both groups replied that the tax rate is high. Again, to know causes why the income tax rate is low, a question was asked, "If it is low, please rank given causes scaling from 1 to 5." Only two persons responded towards the low income tax rate. The breakdown of responses has been presented as below:

Table 4.19: Attitude towards the current income tax rate is low

| S.N. | Alternatives | Respondents | | | Total point | % | Rank |
|------|---|-------------|----|---|-------------|----|-----------------|
| | | A | B | C | | | |
| 1. | Income level is not so low | - | 27 | 6 | - | 33 | first |
| 2. | Exemption limit is considerable | - | 2 | 4 | - | 6 | 2 nd |
| 3. | Lots of deductive items are produced by act | - | 4 | 1 | - | 5 | first |
| | Total | - | | - | 18 | | |

Source: Opinion survey, 2010

From the above Table 4.19, it can be said that the current income tax rate is low because of "Income level is not so low and lots of deductive items are provided to taxpayer by act."

4.2.5 Attitude towards the income tax rate prevailing at present:

To receive suggestions from respondents about the current Income tax rate a question was asked, "What is your suggestion about income tax rate prevailing at present?" The respondents were requested to choice their suggestion on the most important one. The breakdowns of the responses have been presented as below:

Table 4.20: Attitude towards the income tax rate prevailing at present

| S.N. | Alternatives | Respondents | | | No. | % | Rank |
|------|--------------|-------------|---|---|-----|---|------|
| | | A | B | C | | | |

| | | | | | | | |
|----|---|----|----|----|----|-------|---|
| 1. | Different tax rates for resident and nonresident company. | 2 | - | - | 2 | 3.56 | 4 |
| 2. | Income tax rate for co-operatives should be lowered | 4 | 3 | 2 | 9 | 16.04 | 3 |
| 3. | Different tax rate for high income and low income earners | 12 | 8 | 7 | 27 | 48.20 | 1 |
| 4. | Progressive rate slab should be increased | 7 | 6 | 5 | 18 | 32.20 | 2 |
| | Total | 25 | 17 | 14 | 56 | 100 | |

Source: Opinion survey, 2010

From above Table 4.20, it is observed that 48.20 percent of respondents suggested progressive rate slab should be increased. Similarly 16.04 percent Total Revenue is the sum of tax and non-tax revenue. The structure of total revenue for the fiscal year 2000/01 to 2008/09 is shown in the table 4.1. The share of tax revenue has always been more than 75 percent i.e. greater than the share of non-tax revenue. The average share of tax revenue for the 8 years' time period was 78.00 percent. Tax revenue is placed as a major source of government revenue in Nepal. The trend of tax and non-tax revenue is shown in figure 4.1 of respondents had been given their suggestion that income tax rate for cooperatives should be lowered and only 3.56 percent of respondents believed that there should be different tax rates for resident and non-resident company.

4.2.6 Attitude towards the taxpaying habit of tax payers

To know the attitude towards the taxpaying habit of taxpayers a question was asked, "What should be done to increase the tax paying habit of taxpayers?" The respondents were requested to choose their suggestion of most important as mentioned in alternatives. The breakdown of the responses is shown below:

Table 4.21: Attitude towards the taxpaying habit of taxpayer

| S.N. | Alternatives | Respondents | | | No. | % | Rank |
|------|----------------------------|-------------|---|---|-----|-------|------|
| | | A | B | C | | | |
| 1. | Education tax payers | 10 | 9 | 2 | 21 | 40.39 | 1 |
| 2. | Simplifying tax laws | 4 | 5 | 1 | 10 | 19.23 | 3 |
| 3. | Timely assessment of taxes | 1 | - | - | 1 | 1.92 | 5 |

| | | | | | | | |
|----|----------------------------------|----|----|----|----|-------|---|
| 4. | Incentives to regular tax payers | 6 | 1 | 7 | 14 | 26.92 | 2 |
| 5. | Penalties and fines | 1 | 4 | 1 | 6 | 11.54 | 4 |
| | Total | 22 | 19 | 11 | 52 | 100 | |

Source: Opinion survey, 2010

From the above Table 4.21, it is concluded that educating the taxpayers is the most preferable suggestion to increase taxpaying habit of taxpayers, followed by incentives to regular tax payers, simplifying tax laws, charges fine and penalties and timely assessment of tax is the least one.

4.2.7 Attitude towards efficiency of tax administration:

To know the attitude of respondents towards efficiency of tax administration, a question was asked, “Do you think that tax administration in Nepal is efficient?” The responses received from the various respondents are tabulated as below:

Table 4.22: Attitude towards efficiency of tax administration

| Respondents | Yes | | Not | | Total | |
|-------------|-----|-------|-----|-------|-------|-----|
| | No. | % | No. | % | No. | % |
| A | 18 | 51.43 | 17 | 48.57 | 35 | 100 |
| B | 8 | 40 | 12 | 60 | 20 | 100 |
| C | 2 | 13.33 | 13 | 86.67 | 15 | 100 |
| Total | 28 | 40 | 42 | 60 | 70 | 100 |

Source: Opinion survey, 2010

It is observed that 60 percent of the respondents replied that there is less efficiency so they are dissatisfied with tax administration. On the other hand, only 40% are in favour i.e. they are satisfied and have replied that the tax administration in Nepal is efficient.

To know the causes of inefficient tax administration of Nepal, respondents were asked to rank the given causes according to their priority. The breakdown of the responses has been shown below:

Table 4.23: Major causes responsible for inefficient tax administration in Nepal

| S.N. | Alternatives | Respondents | | | Total point | % | Rank |
|------|-------------------------------------|-------------|-----|----|-------------|-------|-----------------|
| | | A | B | C | | | |
| 1. | Lack of trained and competent staff | 119 | 101 | 85 | 305 | 13.54 | first |
| 2. | Complicated tax laws | 102 | 76 | 70 | 248 | 11.01 | 3 rd |

| | | | | | | | |
|-----|---|-----|----|----|------|-------|-----------------|
| 3. | Lack of information | 111 | 89 | 68 | 268 | 11.89 | 2 nd |
| 4. | Unnecessary outside pressures | 104 | 62 | 80 | 246 | 10.92 | 4 th |
| 5. | Undue delay is making assessments | 100 | 69 | 75 | 244 | 10.83 | 5 th |
| 6. | Lack of coordination within the tax personnel | 106 | 78 | 84 | 268 | 11.89 | 2 nd |
| 7. | Lack of motivation in tax personnel | 103 | 62 | 69 | 234 | 10.39 | 6 th |
| 8. | Defective procedures | 89 | 53 | 76 | 218 | 9.69 | 7 th |
| 9. | Defective organizational arrangements | 68 | 51 | 72 | 191 | 8.48 | 8 th |
| 10. | Other | 10 | 9 | 12 | 31 | 1.37 | 9 th |
| | Total | | | | 2253 | | |

Source: Opinion survey, 2010

The major causes for inefficient tax administration in Nepal, ranked in order of preference of the respondents are lack of trained and competent staff followed by lack of information, lack of coordination within the tax department, complication tax laws, unnecessary outside pressures, undue delay is making assessments, lack of motivation in tax personnel, defective procedures, and defective organizational arrangements

Beside these causes some other reasons mentioned by respondents are lack of morality in the part of tax officials, corruption, political instability and visionless situation.

From the analysis it is concluded table that lack of trained and competent personnel, lack of information, lack of coordination within the tax department are the main reasons which are responsible for inefficient tax administration in Nepal.

4.2.8 Attitude towards the wide spread boundless power of tax officer in Nepal:

To know the respondents view towards the rights of tax officer, a question was asked, “Do you think that tax officer has widespread boundless powers are given in Nepal?” Intention behind to placing this question was to compare the right of tax authority as given in the IT Acts 2031 and 2058. The responses received from the various respondents are tabulated as below:

Table 4.24: Attitude towards the widespread boundless power of tax officer in Nepal

| Respondents | Yes | | No | | Total | |
|-------------|-----|---|-----|---|-------|---|
| | No. | % | No. | % | No. | % |

| | | | | | | |
|-------|---|-------|----|---|---|----|
| A | - | - | 27 | 6 | - | 33 |
| B | 5 | 25 | 2 | 4 | - | 6 |
| C | 3 | 20 | 4 | 1 | - | 5 |
| Total | 8 | 11.43 | 1 | 1 | - | 2 |

Source: Opinion survey, 2010

From above Table 4.24, it is observed that 88.57 percent of respondents are against the statement that tax officers have widespread boundless power in Nepal. Thus, it is concluded that there is no discretionary power as such with tax officers. IT Act 2058 has assigned less power to tax officials are compared to IT Act 2031.

4.2.9 Attitude towards legal opportunities for redressing taxpayer's grievances:

To know the attitude of respondents towards the redressing tax payer's grievances, a question was asked, "Do you think that taxpayers have adequate administrative and legal opportunities fo Total Revenue is the sum of tax and non-tax revenue. The structure of total revenue for the fiscal year 2000/01 to 2008/09 is shown in the table 4.1. The share of tax revenue has always been more than 75 percent i.e. greater than the share of non-tax revenue. The average share of tax revenue for the 8 years' time period was 78.00 percent. Tax revenue is placed as a major source of government revenue in Nepal. The trend of tax and non-tax revenue is shown in figure 4.1r redressing their grievances?" The responses received from the various respondents are tabulated as below:

Table 4.25: Attitude towards Legal opportunities for redressing taxpayer's Grievances

| Respondents | Yes | | Not | | Total | |
|-------------|-----|-------|-----|-------|-------|-----|
| | No. | % | No. | % | No. | % |
| A | 31 | 88.57 | 4 | 11.43 | 35 | 100 |
| B | 13 | 65 | 7 | 35 | 20 | 100 |
| C | 6 | 40 | 9 | 60 | 15 | 100 |
| Total | 50 | 71.43 | 20 | 28.57 | 70 | 100 |

Source: Opinion survey, 2010

It is observed from above Table 4.25, that most of the respondents (71.43 percent) have accepted that there is adequate administration and legal opportunities to handle taxpayer's grievances. On the other hand, minorities of respondents (28.57 percent) showed their disagreement with the statement. It shows that, though there are some legal provisions to handle taxpayer's grievance, it does not effective for proper management of taxpayer grievance.

4.2.10 Attitude towards the improvement of tax administration in Nepal

To find out the views of respondents towards the improvement of tax administration in Nepal, they were asked to scale given guidelines according to their preference. The responses as given by them are breakdown in the following Table 4.26.

Table 4.26: Guidelines for the improvement of tax administration in Nepal

| S.N | Guidelines | Respondents | | | Total point | % | Rank |
|-----|---|-------------|-----|-----|-------------|-------|------|
| | | A | B | C | | | |
| 1. | Proper training to tax officers | 250 | 139 | 107 | 496 | 13.12 | 1 |
| 2. | Better coordination with customs office, banks registration office and others | 27 | 6 | - | 33 | 71.74 | 1 |
| 3. | Better tax information system. | 2 | 4 | - | 6 | 13.04 | 2 |
| 4. | Better public relation by tax office | 4 | 1 | - | 5 | 10.87 | 3 |
| 5. | Simple tax polices | 1 | 1 | - | 2 | 4.35 | 4 |
| 6. | Realistic tax polices | 34 | 12 | - | 46 | 100 | |
| 7. | Simple tax procedures | 194 | 111 | 87 | 392 | 10.37 | 6 |
| 8. | Educating taxpayers | 200 | 148 | 71 | 419 | 11.08 | 4 |
| 9. | Motivating tax personnel | 169 | 94 | 84 | 347 | 9.18 | 9 |
| 10. | Other | - | - | 13 | 13 | 0.32 | 10 |
| | Total | | | | 1782 | 100 | |

Source: Opinion survey, 2010

The suggestion noted for the improvement of tax administration in Nepal, ranked in order of preference of the respondents are proper training to tax officers, tax policies should be simple, better tax information system educating taxpayers, better public by tax office, simple tax procedures, better coordination with customs office, banks registration office and other, realistic tax policies and motivating tax personnel.

Beside these suggestions some other notable suggestions were effective implementation of provisions and control the leakage and corruption by the tax officials.

From above result, it is concluded that proper training should be provided to tax officers, tax policies should be made simple and installation of better tax information technology are the main considerable points for the improvement of existing level of tax administration in Nepal.

4.2.11 View towards changes of collection pattern by efficient tax administration after the restoration of democracy:

It has been said that the tax administration in Nepal after restoration of democracy, has been improved. To know whether this statement is true or not a question was asked, “In your opinion is there any difference between the system of tax administration with its special reference to its collection before and after the restoration of democracy at 2046.” The responses received from the various respondents are tabulated as below:

Table 4.27: Attitude towards changes of collection pattern by efficient tax administration after restoration of democracy

| Respondents | Yes | | Not | | Total | |
|-------------|-----|-------|-----|---|-------|----|
| | No. | % | No. | % | No. | % |
| A | 24 | 68.57 | 27 | 6 | - | 33 |
| B | 13 | 65 | 2 | 4 | - | 6 |
| C | 13 | 86.67 | 4 | 1 | - | 5 |
| Total | 50 | 71.43 | 1 | 1 | - | 2 |

Source: Opinion survey, 2010

From the above Table 4.27, it is clear that there is significant change in tax administration with special reference to its collection procedure. In this regard majority of respondents (71.43%) have felt change and only 28.57% have not felt change.

To know the view of respondents towards the changes of collection pattern after the restoration of democracy a question was asked with request, to rank the changes brought by it to their priority. The breakdown of the responses has presented below:

Table 4.28: Major changes in collection pattern by efficient tax administration after restoration of democracy

| S.N. | Guidelines | Respondents | | | Total point | % | Rank |
|------|--|-------------|----|----|-------------|-------|------|
| | | A | B | C | | | |
| 1. | ASYCUDA system is used after restoration of democracy | 64 | 37 | 37 | 138 | 19.58 | 3 |
| 2. | VAT is imposed instead of sales tax, which is progressive and modern | 105 | 61 | 55 | 221 | 31.35 | 1 |

| | | | | | | | |
|----|---|----|----|----|-----|-------|---|
| 3. | Self tax a assessment system is implemented in very effective manner | 92 | 51 | 50 | 193 | 27.38 | 2 |
| 4. | Tax collection authority is delegated to local entity by making local self-Governance Act 2055 and Rules 2056 instead of local self-Development Tax | 58 | 33 | 40 | 131 | 18.58 | 4 |
| 5. | Others | 22 | - | - | 22 | 3.11 | 5 |
| | Total | | | | 705 | 100 | |

Source: Opinion survey, 2010

From the above Table 4.28, it concluded that 31.35 percent of respondents have given first priority to VAT too easiness to collect tax followed by self tax assessment is the second and ASYCUDA system used is the third one to make collection pattern effective. Similarly other factors that affect the collection pattern after restoration of democracy have been attributed to introduction of new IT Act 2058.

Next subjective question was also asked to seek the answer/the respondent's suggestions, "If not, what would be your suggestions?" Only few respondents have given their responses. They have suggested that effective application of tax laws and would be effective to collect the tax.

4.2.12 Attitude towards the problems of income tax system

To understand the view of respondents towards the problems of income tax system, they were asked to rank given problems according to their priority. The responses as given by them are as follows:

Table 4.29: Views towards the major problems of income tax system

| S.N | Problems | Respondents | | | Total point | % | Rank |
|-----|---------------|-------------|-----|-----|-------------|-------|------|
| | | A | B | C | | | |
| 1. | High tax rate | 152 | 113 | 105 | 370 | 12.00 | 5 |

| | | | | | | | |
|----|-------------------------------|-----|-----|-----|------|-------|---|
| 2. | Limited tax base | 196 | 139 | 78 | 413 | 13.39 | 3 |
| 3. | Difficult to maintain account | 187 | 83 | 91 | 361 | 11.71 | 6 |
| 4. | Corruption | 204 | 163 | 126 | 493 | 15.99 | 1 |
| 5. | Tax evasion | 27 | 6 | - | 33 | 71.74 | 2 |
| 6. | Undue delay in tax assessment | 2 | 4 | - | 6 | 13.04 | 7 |
| 7. | Complexity in tax laws | 4 | 1 | - | 5 | 10.87 | 4 |
| 8. | Voluntary compliance | 1 | 1 | - | 2 | 4.35 | 8 |
| 9. | Other | 34 | 12 | - | 46 | 100 | 9 |
| | Total | | | | 3083 | 100 | |

Source: Opinion survey, 2010

From above Table 4.29, it is concluded that corruption (15.99%) is the major problem followed by tax evasion, limited tax base, complexity in tax laws, high tax rate, difficult to maintain account, undue delay in tax, assessment and voluntary compliance is the least problems of income tax system in Nepal.

4.2.13 Attitude towards difficulties and complexities after implementing ITA, 2058

To know the view of respondents towards the difficulties and complexities faced by respondent after its implementation, a question was asked” Do you think that implementing ITA, 2058 has created difficulties and complexities in tax administration?” The responses received from the various respondents are tabulated as below:

Table 4.30: Attitude towards difficulties and complexities after implementing ITA, 2058

| Respondents | Yes | | No | | Total | |
|-------------|-----|-------|-----|-------|-------|-----|
| | No. | % | No. | % | No. | % |
| A | 25 | 71.43 | 10 | 28.57 | 35 | 100 |
| B | 8 | 40 | 12 | 60 | 20 | 100 |
| C | 4 | 26.67 | 11 | 73.33 | 15 | 100 |
| Total | 37 | 52.86 | 33 | 47.14 | 70 | 100 |

Source: Opinion survey, 2010

From the above Table 4.30, it is observed that the majority of respondents (52.86%) felt that introduction of ITA, 2058 has really created difficulties and complexities whereas 47.14 percent of the respondent have said that there is no complexities and

difficulties brought by the current Income Tax Act 2058. It is concluded that majority of respondents have facing difficulties after implementation of ITA, 2058, there is difficulties in IT Act 2058. To know the views of respondent towards causes of being difficulties faced by tax administration after implementation of ITA, 2058, they were asked to scale the given reasons according to their preference. The respondents who felt that introduction of new Act 2058 has created difficulties in tax administration has been presented as follows:

Table 4.31: Major causes towards difficulties and complexities after implementing ITA, 2058

| S.N | Major causes | Respondents | | | Total point | % | Rank |
|-----|--|-------------|----|---|-------------|-------|------|
| | | A | B | C | | | |
| 1. | Taxpayers and tax administrators have not got orientation before application of Act. | 27 | 6 | - | 33 | 71.74 | 1 |
| 2. | Many confusion regarding new provisions and procedures | 2 | 4 | - | 6 | 13.04 | 2 |
| 3. | Difficult to understand the Act | 4 | 1 | - | 5 | 10.87 | 3 |
| 4. | Inclusion of more theoretical aspect than practical aspect | 1 | 1 | - | 2 | 4.35 | 4 |
| | Total | 34 | 12 | - | 46 | 100 | |

Source: Opinion survey, 2010

The major causes of the difficulties faced by tax administration after implementation of ITA, 2058 are ranked in order of preference. These are difficult to understand the Act, many confusion regarding new provisions and procedures, inclusion of more theoretical aspect than practical aspect and taxpayers and tax administrators have not got orientation before application of Act.

4.2.14 Attitude about how to improve taxpaying habit of Nepalese taxpayers

To seek the views of respondents to improve the taxpaying habit of taxpayer, a question was asked, "How to improve the taxpaying habit of Nepalese taxpayers?" The responses given by them are presented as below;

Table 4.32: Ways to improve taxpaying habit of taxpayers

| S.N. | Suggestions | Respondents | | | Total point | % | Rank |
|------|-------------|-------------|---|---|-------------|---|------|
| | | A | B | C | | | |

| | | | | | | | |
|----|--|----|----|---|----|-------|---|
| 1. | Providing more information to the tax payers | 27 | 6 | - | 33 | 71.74 | 1 |
| 2. | Simplifying in tax laws | 2 | 4 | - | 6 | 13.04 | 2 |
| 3. | Incentives to regular tax payers | 4 | 1 | - | 5 | 10.87 | 3 |
| 4. | Timely assessment of taxes | 1 | 1 | - | 2 | 4.35 | 4 |
| 5. | Others | 34 | 12 | - | 46 | 100 | |
| | Total | 27 | 6 | - | 33 | 71.74 | 1 |

Source: Opinion survey, 2010

From above Table 4.32, it is observed that the respondents showed their top priorities were incentives to regular tax payers followed by providing more information to the tax payers, simplifying in tax laws and timely assessment of taxes are the main suggestions to improve taxpaying habit of taxpayers. Beside these reducing the tax rate is another notable suggestion that may be considered.

4.2.15 Opinion towards the provision of administrative review is in practice

To know an opinion of respondents whether the provision of administrative review is in practice or not, a question was asked to them, “Do you believe that the provision of administrative review in practice?” The responses from the various respondents are tabulated as below;

Table 4.33: Opinion towards the provision of administrative review is in practice

| Respondents | Yes | | Not | | I don't know | | Total | |
|-------------|-----|---|-----|----|--------------|---|-------|---|
| | No. | % | No. | % | NO. | % | No. | % |
| A | 27 | 6 | - | 33 | 71.74 | 1 | 27 | 6 |
| B | 2 | 4 | - | 6 | 13.04 | 2 | 2 | 4 |
| C | 4 | 1 | - | 5 | 10.87 | 3 | 4 | 1 |
| Total | 1 | 1 | - | 2 | 4.35 | 4 | 1 | 1 |

Source: Opinion survey, 2010

It is clear from above Table 4.33, that majority of respondents (65.71 percent) have given their favorable responses indicating that the provision of administrative review is in practice. And very few of respondents (7.14 percent) have believed that provision of administrative review is not in practice, whereas 27.15 percent of respondents showed their ignorance about this provision.

To know the circumstance on which a tax payer uses this provision, another question was asked with them, “If yes, on which circumstance tax payers use this provision?” The respondents were requested to choice their answer on the basis of their preferences. The breakdown of the responses has been presented as below:

Table 4.34: Major circumstances on which a tax payer use this provision

| S.N | Circumstances | Respondents | | | Total point | % | Rank |
|-----|---|-------------|----|---|-------------|-------|------|
| | | A | B | C | | | |
| 1. | A taxpayer who is not satisfied with the tax assessment of a tax officer. | 27 | 6 | - | 33 | 71.74 | 1 |
| 2. | When a taxpayer has to pay maximum tax liability | 2 | 4 | - | 6 | 13.04 | 2 |
| 3. | When a taxpayer feels that the officer is always against to taxpayer | 4 | 1 | - | 5 | 10.87 | 3 |
| 4. | Anytime a taxpayer wants to appeal for administrative review | 1 | 1 | - | 2 | 4.35 | 4 |
| | Total | 34 | 12 | - | 46 | 100 | |

Source: Opinion survey, 2010

From the above Table 4.34, there are circumstances on which the provision of administrative review could be used in practice. It is observed that taxpayer who is not satisfied with the tax assessment order of the tax officer, they may asked the administrative review (71.74%) followed by when a tax payer has to pay maximum tax liability (13.04%), when a tax payer feels that the tax officer is always against to tax payers (10.87%) and anytime a taxpayer wants to appeal for such administrative review (4.35%).

4.2.16 Opinion about Future prospect of tax administration in Nepal

To know the future prospects of tax administration in Nepal, a question was asked, “What is your opinion about future prospects of tax administration in Nepal?” The responses received from the various respondents are tabulated as below:

Table 4.35: Attitude towards the future prospects of tax administration in Nepal

| S.N | Alternatives | Respondents | Total point | % | Rank |
|-----|--------------|-------------|-------------|---|------|
|-----|--------------|-------------|-------------|---|------|

| | | A | B | C | | | |
|----|----------|----|----|----|----|-------|-----------------|
| 1. | Medium | 24 | 10 | 2 | 36 | 51.43 | first |
| 2. | Un sound | 1 | - | - | 1 | 1.43 | 4 th |
| 3. | Natural | 2 | 7 | 6 | 15 | 21.43 | 3 rd |
| 4. | Sound | 8 | 3 | 7 | 18 | 25.71 | 2 nd |
| | Total | 35 | 20 | 15 | 70 | 100 | |

Source: Opinion survey, 2010

From above Table 4.35, it is observed that the prospect of taxation in Nepal is medium (51.43%) followed by sound (25.71%) and natural (21.43%) are being ranked as first, second and third respectively. Thus it is concluded that future prospects of total Revenue is the sum of tax and non-tax revenue. The structure of total revenue for the fiscal year 2000/01 to 2008/09 is shown in the table 4.1. The share of tax revenue has always been more than 75 percent i.e. greater than the share of non-tax revenue. The average share of tax revenue for the 8 years' time period was 78.00 percent. Tax revenue is placed as a major source of government revenue in Nepal. The trend of tax and non-tax revenue is shown in figure 4.1x administration in Nepal is medium. There is very nominal view of 1.43 percent for unsound tax administration.

4.2.17 Attitude about the effect of tax in the nation's economic growth

To know the views of respondents towards the effect of tax in the nation's economic growth, a question was asked, "What effect will have tax in the nation's economic growth?" The responses received from the various respondents are tabulated as follows:

Table 4.36: Attitude about the effect of tax in the nation's economic growth

| S.N | Alternatives | Respondents | | | Total point | % | Rank |
|-----|--------------|-------------|----|----|-------------|-------|-----------------|
| | | A | B | C | | | |
| 1. | Positive | 30 | 20 | 12 | 62 | 88.57 | first |
| 2. | Negative | - | - | - | - | - | - |
| 3. | No effect | 5 | - | 3 | 8 | 11.43 | 2 nd |
| | Total | 35 | 20 | 15 | 70 | 100 | |

Source: Opinion survey, 2010

From above Table 4.36, it is observed that about 88.57 percent of respondents have shown their positive attitude and 11.43 percent view that there is no effect. It is a kind of dissatisfaction towards the work of tax administration of the government. None had given their negative view. Thus it is concluded that tax has a positive effect in the nation's economic growth.

4.2.18 Attitude towards the problems of tax in Nepal

To know the views of respondents towards the problems of tax in Nepal, they were asked to rank given alternatives according to their priority. The responses given by them are as follows;

Table 4.37: Attitude towards the problems of tax in Nepal

| S.N | Problems | Respondents | | | Total point | % | Rank |
|-----|---|-------------|-----|----|-------------|-------|------|
| | | A | B | C | | | |
| 1. | Inadequate manpower with sufficient knowledge about tax | 116 | 73 | 53 | 242 | 12.74 | 6 |
| 2. | Geographical issues | 92 | 55 | 32 | 179 | 9.43 | 7 |
| 3. | Political issue | 199 | 112 | 73 | 384 | 20.22 | 1 |
| 4. | Inefficient tax administration | 132 | 87 | 75 | 294 | 15.48 | 2 |
| 5. | Tax unconsciousness of the people | 158 | 62 | 62 | 282 | 14.85 | 3 |
| 6. | Open border and unauthorized trade | 143 | 68 | 43 | 254 | 13.38 | 5 |
| 7. | Widely expanded corruption | 109 | 71 | 84 | 264 | 13.90 | 4 |
| | Total | | | | 1899 | 100 | |

Source: Opinion survey, 2010

From above Table 4.37, it is observed that the major problems of tax in Nepal are political issues followed by inefficient tax administration, tax unconsciousness of the

people and widely expanded corruption. Similarly open border with wide unauthorized trade, inadequate manpower and geographical topography are other notable issues against the sound tax administration in Nepal.

4.3 Major Findings of the Study

After deep analysis of the above chapter Data Presentation and analysis, various valuable findings were obtained. The major findings of this dissertation are summarized as follows:

- The structure of government revenue of Nepal mainly consists of customs, Excise, VAT, income tax and land revenue and registration. The average contribution of customs, excise, VAT, income tax and Land Revenue and registration tax are 19.05, 10.65, 29.75, 17.14 and 2.57 respectively for the fiscal year 2008/09. The contribution of income tax in national revenue in the last five years was found to be 14.14% in 2004/05, 17.83% in 2005/06, 14.48% in 2006/07, 14.35% in 2007/08 and 17.14% in 2008/09. And average contribution of income tax to total revenue was found to be 13.23 percent throughout the study period of eighteen years. Thus, the trend of contribution of income tax to total revenue was in fluctuating order for several years. While evaluating income tax with connection to Gross Domestic product of eight years, it was found that the income tax/GDP ratio is decreasing gradually in various fiscal years but it was found to be increased with 2.16 percent in the fiscal year 2008/09. It shows that the trend of income tax is in positive in last year. While doing a comparative study of target and achievement of income tax of eight Total Revenue is the sum of tax and non-tax revenue. The structure of total revenue for the fiscal year 2000/01 to 2008/09 is shown in the table 4.1. The share of tax revenue has always been more than 75 percent i.e. greater than the share of non-tax revenue. The average share of tax revenue for the 8 years' time period was 78.00 percent. Tax revenue is placed as a major source of government revenue in Nepal. The trend of tax and non-tax revenue is shown in figure 4.1. In 8 years, it found that the average ratio of Achievement/Target was 97.26 which is slightly less than its target. It means there is no satisfaction in achievement of income tax with compare to its target. However the achievement/Target ratio was found to be 123.18 in 2008/09, which shows satisfactory result in collecting income tax revenue.

- By studying the tax/GDP ratio of Nepal it is found in not satisfactory level. The trend of contribution of tax revenue to GDP is fluctuating alternately from 7.30 to 10.21 percent in fiscal year 1991/92 to the fiscal year 2008/09. However the contribution of tax revenue to GDP is fluctuating in recent years, it is in positive trend. Again we can see the trends of contribution of non-tax revenue to the total government revenue fluctuated for several years. The overall contribution of non-tax revenue to the total revenue of government was less than 25 percent.

From the opinion survey, the following results were obtained.

- This study reveals the fact that opinions divide as of the rate of income tax: some who pay the taxes find it too high to be a barrier, while others who oversee or implement the law regard it medium. Low rate of tax system directly affects the concept of equal distribution of wealth while high rate reduces saving so much required for investment. And also there is no positive impact of income tax to reduce the gap between rich poor because of lack of tax consciousness, small no of tax payers, wide spread evasion of taxes and defective tax rates.
- According to the respondents, due to failure of public sector enterprise to pay the tax, lack of meaningful taxpayers information , complicated collection procedures, lack of incentives for maintenance of accounts, political issues and pressures, inefficient tax admity in tax laws, the prevailing tax system of Nepal has poor performance. In order to overcome these obstacles of good tax system, the respondents opined that government should educate tax payers, give Incentives to regular tax payers, provide proper training to tax officers, formulate simple tax policies and laws, establish better tax information system.
- Nevertheless, the tax system has undergone changes over time. The respondents have noticed that after restoration of democracy, our tax system adopts implementation of VAT instead of sales tax etc. confers on the authorities legal opportunities to handle taxpayers grievances, takes away discretion power, implements self-tax assessment system, provides provisions of administrative review against the unsatisfactory tax assessment of tax officer. By insuring such improvements and ministrators the future prospects of tax administration in Nepal will be medium and it will be sound and the effect of the tax in the nation's economic growth will have positive impact?

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Taxation and economic development are two closely interrelated concepts since taxation has an important role in country for economic development. It is also an effective instrument to bridge up the gap between required revenue and expenditure, in turn, enables to reduce the external dependence. However, the finding of the study reveals that level of taxation is very low in Nepal. Further increasing fiscal deficit, insufficient revenue generation, substantial distortion in the economic incentive, inequality, and weak tax administration is the major problems of Nepalese tax system which are the result of poorly designed or improperly functioning tax system.

The review of Nepalese tax reform and policy reveals that Nepal government focused on more restrictive and protective policies to meet the basic needs of the people including other various goals viz. revenue generation, maintaining equity, growth and stabilization of the economy before the restoration of democracy in 1990. However these policies have been replaced by a more liberal, open and market oriented policies based on the distinct feature of globalization, liberalization and privatization after the restoration of democracy in 1990. Now, the emphasis is given on broadening the tax base, rationalizing the rate structure, and improving the tax administration.

The Nepalese tax administration has been attempting to modify itself to meet the pressing challenges brought about by change in technology and economy policies. . However, still its working procedures are traditional and the cost of administration has not been brought to the to enhance resource mobilization through effective revenue collection procedures. Much new provisions are added in ITA, 2058. This act is very complicated for both taxpayers and tax officials. The complicated terms and the procedures under the act should be simplified so that even laymen could understand it easily. To make the effective income tax and whole tax administration system, it is needed to be reoriented tax administration towards effective implementation of new act.

The study also reveals that the income tax revenue had a fluctuating trend during study period. However income tax/GDP ratio increased in last year. The average contribution of income tax to total tax revenue was 13.23% which indicates insufficient revenue generation for accelerating development activities.

In the empirical study, the analysis has been done about impact of income tax and its rates and problems and prospects of tax administration on the basis of information collection from experts, tax officers and taxpayers. The tool that is basically used is the questionnaire. The questions were asked to 70 different individuals relating to the different field. Out of the total respondents, 35 were tax administrators, 20 were tax experts and 15 were taxpayers. Their responses in various questions are tabulated in chapter four.

5.2 Conclusion

Developing countries like Nepal has been suffering from the socio- political and economic problems. A lot of funds are required to meet the objective of economic development. But Neppalese government is increasing year by year due to expansion of routine as well as development activities and programs. Because of poor performance of internal resource collection and mobilization, the dependency in foreign loans and grants is always there. The dependency is increasing, which is not desirable for any economy.

After restoration of democracy, particularly from point of conflict there has been a dramatic change in the composition of public expenditure. The public expenditure pattern has been showed in early 1990s in which regular expenditure accounts for about one third of expenditure and the development expenditure was about two thirds of the total public expenditure, but the regular expenditure increased rapidly and exceeded the development expenditure during 1998/99. In recent years the volume of development expenditure has also been decreased in real terms.

On the other hand, the development expenditure is increasing at a slow rate which is not desirable condition for country like Nepal. Because only development expenditures are responsible to create the infrastructure required for economic

development and the execution of many projects to improve social condition such as health and education.

Income tax is one of the most important resources of the government revenue and it is considered as a good remedy to cure growing and serious resources gap problems of Nepal. Contribution of income tax for the economic development of Nepal significantly in recent years as compared to past eighteen years but does not mean that it has the share in satisfactory level.

Since, a large part of revenue is spent on regular expenditure there has been very little revenue surplus, i.e. revenues minus regular expenditure. Revenue surplus provides a small part of total development expenditure. The situation has become even more critical in recent years.

Since, non-tax revenue To remove such serious problems, government of Nepal has done through implementing ITA, 2058, in which, the Nepalese tax administration has been attempting to modify itself to meet the pressing challenges brought out by change in technology and economic policies. However, still its working procedures are traditional and the cost of administration hasn't been brought to the satisfactory level. ITA 2058 is blamed that the law is complicated and vague. Their needs the effort for simplification of the law that can be used in practical easily. If the tax law fails to be par with the international tax norms also, it will not be able to attract the foreign investment. The tax law should be coherence with the economic situation of the country.

The effectiveness of tax system depends on the existing management and leadership. A vigilant and transparent tax administration and capability of timely reviews in policy backsliding would be a pre-requisite for sustaining the gains in the revenue front. The realization of sincere and active support of officials involved and taxpayers affected should remain always in high priority in the tax administration.

Frequent changes in fiscal policies and programs show a never ending phenomenon of transitional period. It is difficult but not impossible to think over very seriously by concerned high authority and general people to bring tax administration system in the right direction and right shape in order to enhance the economic development of

Nepal. The reform the policy needs a far sight clear cut and long term vision. If the problems relating to ta then only the prospects of tax administration will be bright and the economic development of Nepal will be achieved.

5.2 Recommendations

The major problems observed in present days is the problem of efficient tax administration, tax policy does not work. The major problems of Nepalese tax system consists problems relating to tax policy, tax laws and tax administration. So, time to time evaluation and monitoring of tax administration and its reform is must. To increase the efficiency of tax administration there should be needed reform in all fronts and amendment on certain laws and rules. In the opinion survey it was noticed that most of the respondents were dissatisfied with the tax administration. The researcher of this study has made the following recommendations.

- 1) Areas such as the expansion of tax base, laws relating to tax and change in tax rates should bograms related to tax education and tax awareness so as to increase revenue mobilization.
- 2) Similarly, the services delivery by the tax administration to the taxpayers needs to be improved as per the need of the time. Revenue leakages through the illegal use of the duty-free goods need to be controlled.
- 3) Efforts should be made towards full atomization of tax administration, simplifying income tax procedures and reducing tax exemption limit.
- 4) As the revenue mobilization is based on the efficiency of tax administration, effectiveness and professionalism, imparting the training for the human resources to effect structural changes in the tax administration seems inevitable, and the tax system should be kept a loop from politics.
- 5) Long-term revenue policy needs to be formulated to tie up revenue with the economic growth, making revenue growth perfectly elastic to economic growth. This policy must help in fuller utilization of domestic resources, attracting foreign resources, adjusting the tax rates as per the commitment expressed in true growth suitable for a longer period, and ensuring effective implementation under the specified timeframe.
- 6) It has been seen that the firm registered in income tax are showing artificial losses to evade income tax and some persons are evading tax through transfer pricing in the same business group on the basis of involvement in various

activities that attract different tax rates. Controlling such tax leakages has also to be needed.

- 7) A system has to be built to discovery illegal trade and under-invoicing as well as making customs valuation system more objective and initiating systematic changes and administrative improvements.
- 8) Computerization and effective exchange of information is necessary to keep up-to-date recot on any specified government owned bank only.
- 9) So, time to time evaluation and monitoring of tax administration and its reform is must.
- 10) To increase the efficiency of tax administration there should be needed reform in all fronts and amendment on certain laws and rules.

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