

**CONTRIBUTION OF HOUSE AND LAND TAX (PROPERTY TAX)  
TO TOTAL REVENUE OF  
LALITPUR SUB-METROPOLITAN CITY**

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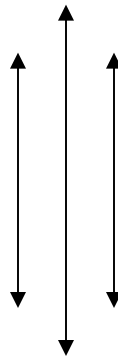
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Office of the Dean

Faculty of management

Tribhuvan University



In Partial fulfillment of the requirements for the degree of

**Master of Business Studies (MBS)**

Kathmandu, Nepal

November, 2010

## **RECOMMENDATION**

This is to certify that the thesis

**Submitted by:**

**RAJ KUMARI SHRESTHA**

**Entitled:**

**CONTRIBUTION OF HOUSE AND LAND TAX (PROPERTY TAX)  
TO TOTAL REVENUE OF  
LALITPUR SUB-METROPOLITAN CITY**

has been prepared as approved by this department in the prescribed format of  
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**VIVA-VOCE SHEET**

We have conducted the viva-voce of the thesis presented

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And found the thesis to be the original work of the student and written according to the prescribed format. We recommend this thesis to be accepted as partial fulfillment of the requirement for the degree of Master of Business studies (MBS)

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## **DECLARATION**

I hereby declare that the work reported in this thesis entitled **Contribution of House and Land Tax (Property Tax) To Total Revenue of Lalitpur Sub-Metropolitan City** submitted to office of Dean, Faculty of Management, Tribhuvan University, is my original work. It is done in the form of Partial fulfillment of the requirements for the degree of Master in Business Studies (MBS) under the supervision and guidance of Prof. Dr. Kamal Deep Dhakal of Shanker Dev Campus, T.U.

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Finally I wish this thesis will be useful and helpful to students of business studies who want do further study about property tax.

**RAJ KUMARI SHRESTHA**

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## **LIST OF ABBREVIATION**

BS	:	Bikram Sambat
CEDA	:	Center for Economic Development and Administration
DDC	:	District Development Committee
Depn	:	Depreciation
Etc.	:	Etcetera
FY	:	Fiscal Year
i.e.	:	That is
KMC	:	Kathmandu Metropolitan City
LSG	:	Local Self-Government
LSMC	:	Lalitpur Sub-Metropolitan City
MBS	:	Master of Business Studies
N.G.	:	Nepal Government
No.	:	Number
Rs.	:	Rupees
Sq. ft.	:	Square feet
Sec.	:	Section
S.N.	:	Serial Number
TR	:	Total Revenue
TU	:	Tribhuvan University
U.S.A.	:	United State of America
VAT	:	Value Added Tax
VDC	:	Village Development Committee
%	:	Percent
&	:	And

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 Background**

Nepal is a country having different nick names like country of Mt. Everest. Country of natural beauty etc. it is also called sandwiched between two large countries, India and China. Thus the economic development of the country largely depends upon the attitude of the neighboring countries. Nepal is located three sides by the territories of India with open boarder. So the development strategy of Nepal is always influenced by the attitudes and behavior of India. The primary goal of any nation including Nepal is to embark upon the path of economic development by economic growth rate and developing all sectors of economy.

The government of a country requires sufficient revenues to carry out development plans, to operate daily administration, to maintain peace and security and to launch other public welfare program, government collects revenue from various sources such as internal and external revenue from various sources like public enterprises, special assessment fees, fines, grants, assistance etc. Among them, tax is the main source of government revenue. The revenue which is collected by the government can be classified into two classes; one is revenue from the sources of non tax action and another is revenue from taxation. Among them in Nepal nearly 85% of revenue is collected from taxation and 15% non taxation. Again taxation area is making broad than before in this budget which is making more collection of revenue from tax.

In the process of long lasting reconstruction, the participation of the whole people is essential. Different countries' histories have proved that

decentralization is their major motto. It is obviously clear. The discussion on its reconstruction has been raised from rustic people as well as the city people. The solution on state's reconstruction has been raised on the high level from different levels. Right after the people's movement that happened in 2062/063, it has been more valuable. Political parties, civil coordinator groups as well as other groups concerned to it, have been advocating for his content also.

Nepal has declared peace before three years. Nepalese people are feeling loktantra Federal Republic in Nepal Since the unification of the country, Nepal has been centralized towards its unified form. Maoist has governed the country for nine months after having the election of parliament assembly. But has resigned due to few reasons the limited members of autocrats have reigned in the country. To make it independent reconstruction is most important.

To manage at the ground level in economic source, human resource, the decentralization is the most important. It was developed in France and in England in the year of 1950 and 1960 (20<sup>th</sup> century) by their capitalists to make it pragmatic.

After the restoration of democracy in 1990s the world restrictive policies of the government were replaced by more liberal, open and market oriented policies, based on the distinct feature of globalization, liberalization and privatization. Further, after the restoration of democracy in 1990. The government also embarked on development process based on decentralization and resource mobilization as the local level. If the development process successfully realized, the local bodies such as municipalities, DDC, and VDC must be made financially capable to encounter the problem of resource constraints.

Decentralization means the process of delegating authority to all bodies. It is opposite of centralization. If the power is centralized, the performance is not

effective. So, by the process of Decentralization local bodies should be made powerful. Decentralization is supposed to take decision of one's own life which affects in human beings. In modern political system the nation is divided into small political areas/units on the basis of geographical reasons. The small unit should get the authority to solve the problems of their reason/areas. That supposition is called decentralization.

Now the main source of revenue is in the hands of central government in Nepal. Customs, VAT, Income Tax and excise duty etc main taxes are all in the hand of central government LSG 2055. Some resources of revenue are given to the local bodies but they are not revenue productive.

Kathmandu is the capital of Nepal. It is only one metropolitan city among 57 other municipalities. Kathmandu metropolitan city has 35 wards. It is facing a great problem of managing waste products, drinking water, road lamps, electricity and maintenance of roads etc. It needs greater amount to fulfill its responsibilities. The main source of collecting revenue of local bodies like municipalities is only property tax. Since. Kathmandu is the capital city, and it has huge population density, there are building large buildings .from which government can collect huge amount of revenue as house and land tax.

Lalitpur Sub-Metropolitan City (LSMC), the beautiful medieval city of art and culture is situated in the southeast part of the magnificent Lalitpur valley. LSMC mentions, that is located between the latitudes 27° 32' 13" and 27° 49' 10" North and longitudes 85° 11' 31" and 85° 31' 38" East. The valley lies at a mean elevation of about 1350 m. above sea level. The city spread over an area of 15.43 sq. km. (keep citation) and is politically divided into 22 wards. Of the twenty-two wards, area wise ward no 15 is the largest with an area of 2.43 sq. km. and with an area of 0.09 sq. km. ward no. 21 is the smallest.

The city is located over a plateau like area with its outer edges fanning out with gentle slopes towards the rivers that form its boundaries. This is in consonance with the traditional settlement planning philosophy where the settlements were located on relatively higher ground preserving the relatively fertile agricultural land that surrounded it. This judicious planning effort assured the optimization of the use of urban space and the farmlands that carried economical as well as environmental significance to the urban residents.

Here we should focus more in Lalitpur sub metropolitan city because our thesis is on the topic of LSMC. Lalitpur is a city of newari culture. It means there are high population density of newari people who are very keen in cultural erieity. And also are innocent and really helpful and honest in the country. Even it is sub-metropolitan city there is also building large buildings. From which LSMC can collect huge amount of house and land tax.

There are two major types of taxes that are: Direct and Indirect tax. The examples of direct tax are Income tax, Property (house and land) tax, Vehicle tax, Contract tax etc. direct tax is one which is really paid by the person on whom it is legally imposed while an indirect tax is imposed on one person, but paid partly or wholly by another, owing to consequential change in terms of some contract. Among these taxes house and land tax is one of the important taxes about which we are going to prepare a thesis.

According to Oxford Advanced Learners Dictionary; Property refers to "a thing or things that are owned by some body. In other words any kind of assets such as building, land, vehicle, silver, gold, jewelry, furniture, plant and machinery equipment etc owned by someone are Property". The property tax is the compulsory payment to the public authority, which is based on the capital value of property. In law, the courts define property as the right of profession, enjoyment and disposition of all things themselves which are the subject of



ownership. The tax which is levied on some personal possession is known as a property tax. So the property tax has a great potentialities of source mobilization on the developing countries legally all property can be divided into two classes personal property and real property.

In Nepal property tax was performed in Fiscal Act 2017 B. S. At that time government had authority for collection of property tax. There were different rules for tax rate. But the property tax act revised in 2019 B.S. Since the period the property tax system has been implemented in urban houses and property. Property tax has become the most important single resource of revenues for nation and local governments. In Nepal government has started to implement of wealth tax in 16 urban areas of the kingdom from this fiscal year (Income act 2047). According to the tax office a list is being prepared for tax payers in the urban areas.

The person with less than 1 million (10 lakh) in assets are exempt from the wealth tax. Tax clearance papers from the tax office are required before properties in urban areas can be registered. Those on the wealth tax list have to get such clearance if they sell their land or house.

Property tax was introduced in European countries more than 100 years ago. Right now, property tax has been the major source of revenue in most of the countries of the world. In Nepalese context property taxes are named as house and land tax. In Nepal, the first elected government introduced this tax. Property tax was introduced by financed act 1959 as a central tax. Due to ineffectiveness in collection revenue from property tax it was replaced by urban house and property tax in 1962 for the purpose of collecting revenue from urban house and land property. Initially this tax was introduced in Kathmandu, Lalitpur, Bhaktapur, Biratnagar, Birgunj, Nepalgunj, Rajbiraj, Janakpur and Butwal. Later in 1963/64 it was extended to Bhadrapur and then to Dharan. In 1964/65 it was extend to Bhairawa, Pokhara, Palpa and Hetauda in 1973/74. The tax was

introduced in Bharatpur in 1988/89. The interim government of 2047 again introduced the property tax in 1990 by the Finance act. It was again replaced by urban house and land tax in 1995/96.

After the introduction of local self government act in 1999 property tax is given to local bodies right now. There are two variant of property taxes house and land tax and unified property tax. Local bodies i.e. VDCS and municipalities have the right to collect property tax where as the right of collecting unified property tax is given to municipalities.

House and land tax is one of the important internal sources of revenue collection. If the collection of property tax is effective huge portion of the revenue can be collected for the budgeting purpose of the government and also can be utilized them for the welfare of its people who pays tax without having any selfishness just for the little contribution of the nation by being the part of the nation.

It will be effective at that time only when we will have effective tax planning in our country. Tax planning is one of the most important before collecting tax from the people. Tax planning is project planning, strategy planning etc. tax planning is the way of formulating the long run objectives and deciding the resources for achieving the tax advantages. Tax planning can help to collect much more tax from the people and also reduce tax evasion.. In this way to collect maximum amount of the house and land tax first of all LSMC has to prepare certain strategies so that it can collect maximum house and land tax.

(Source: Ministry of local department 2049)

## **1.2 Statement of the Problem**

House and land tax is one of the important internal sources of revenue collection of the nation so as of LSMC too. It is very difficult to find the tax liability to the

government that how much tax can be collected from the certain topic. So it is really being problem for overall nation. Nepal is a developing country. it has been facing the most serious economic problem from the beginning of her developmental phase to present time. It needs huge amount of capital for economic development of Nepal. 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 almost every year. The budget deficit has been growing and this may have negative effect on the Economy. In this context, taxation can be taken as means for resolving this problem by mobilizing additional resource from the domestic sources, small part of total incomes under the preview of house and land tax or property tax.

Before local self government act 2055 all taxes were collected by the central government and only octroi duty was allowed to collect to local body. At present control duty is abolished and central government collects 1.5% of custom duty for local development fees but this is not stable in future because the country has been entering into globalization and which deduct tax rate, in this condition only property tax increased to develop local level so, it is one of the problems.

Nepal has been facing various problems for the implementation of property taxation. In the under developed country like Nepal, Firstly the Government inefficiency of its dependent on the political pressure is far from expectation. In this condition specific statement of problems are as:

1. What is the contribution of house and land tax on total revenue of Lalitpur sub metropolitan city?
2. What is the trend of house and land tax on Lalitpur sub - Metropolitan City?
3. Whether it can able to collect the budgeted amount of house and land tax effectively or not?
4. Whether it identify the real property holder or not?

5. Whether it can satisfy its people by utilizing the collected revenue or not?
6. It is difficult to find out the rate charged for the property as it collect according to land and rate classification?
7. It is difficult to identify the tax payer due to one tax payer has more than house.

### **1.3 Objective of the Study**

We know every task is done with certain objectives. Objectives are the destination point of the every plan and work. Every task start with the particular objective. So as we also have certain objectives of this study. As we are student of management. Especially of tax, we must have the knowledge about tax and its objective to collect and its utilization too. If we prepare a thesis about the contribution of house and land tax on total revenue collection of LSMC, every people who are concerned to this topic can be benefited as they can get knowledge about rate of tax, tax rebates, tax exemption, procedure of tax payment etc. not only this but also LSMC itself can have the record of its past activities and present achievements. thus objective of the study can be presented clearly from the following points.

The main objectives of the study are as follows:

1. To analyze contribution of house and land tax to total revenue of Lalitpur sub- Metropolitan City.
2. To analyze the trend of house and land tax of Lalitpur sub- Metropolitan City.
3. To find out the budgeted and actual collection of house and land tax of LSMC.
4. To find out the coverage percentage of house and land tax on total expenditure of LSMC.
5. To find out the contribution portion in total expenditure by property tax.

6. To offer suggestion for the improvement in the effective collection of property tax.

#### **1.4 Significance (important) of the Study:**

A country needs a lot of resources to implement plans or programs. Taxation is one of the means to mobilize domestic resources for economic development of a country. Taxation is not only the means for raising resources. But it may bring about remarkable change in the social and economic structure of the economy as well as change in social attitude of the people.

The property tax helps government to raise revenue of local bodies. It also helps government to achieve the goals of growth, equality and stabilization of the economy. Through the instrument of property taxation, the country can encourage the growth of certain industries, restricts the conspicuous consumption of certain commodities, increases the rate of saving and regulates the price of commodity.

Revenue mobilization is the challenging task of the developing countries like Nepal. The responsibility of the developing countries is higher than the developed countries because more money is needed for economic development of a nation so, it is necessary to inquire different resources of taxes to fulfill such purposes. Property tax may help government to raise revenue of local bodies.

Property tax has been very essential to empower the local bodies. It is most necessary to empower first local body to empower central government. Before local self government act 2055 all taxes were collected by the central government and only octroi duty was allowed to collect to local body. In fact, it was not sufficient to develop local body. At present octroi duty is abolished and central government collects 1.5% of customs duty for local development fees, but this is not certain in the future because the country has been entering into

globalization and which deducts tax rate. In this condition only property tax can be one of the major sources to raise revenue to make empowerment local body which has given great contribution to the overall revenue collection of the nation.

Now a day's population density of the nation is increasing rapidly as a result, there are building very large houses in the country. As there are increasing houses it is automatically increasing the amount collection of house and land tax collection. It means it can help more than before in the budgeting in the country.

This study can suggest measures to improve the revenue collection system in Kathmandu metropolitan city and Lalitpur sub-metropolitan city as well as other municipalities too helps to increase revenue mobilization from property tax.

### **1.5 Methodology Used in the Study**

The data used in the study are secondary. The secondary sources of data are books, journal, newspapers, reports, dissertations records of Revenue collection department of LSMC. The research design can be partly regarded as a historical research design. After collection of data the study tries to analyze its own procedure. Thus it follows analytical as well as descriptive research design.

### **1.6 Limitations of the Study**

In the field of the every study it has got some limitations. This study also is not free from limitations. The main limitations are as follows.

This study mainly based on secondary data so the reliability of the study depends largely upon the reliability and validity of the secondary data.

- i. Limited statistical tools and techniques have been used.
- ii. The study has been done for the partial fulfillment of MBS degree in management. This is not a comprehensive study.
- iii. There are time and resource constraints.

- iv. This study cannot provide overall year's information as it has taken five to seven fiscal years for the thesis writing.
- v. It is difficult to get actual data as there are people having two houses and can be found tax avoider, tax abusers too.
- vi. As there is not good political and business environment in the country, it is the major problem of getting reliable and valid published data within the specific time.

The above limitations, no doubt, have some direct and indirect impact on quality of the study; however such impact will not affect the usefulness of the study in a significant manner. Unquestionably this study has opened the door for further study in the area of house and land tax o the nation.

### **1.7 Organization of the Study**

The research has been carried for the partial fulfillment of the requirements for the degree of master of Business studies (MBS). The research report is organized under the prescribed format by central department of management, Tribhuvan University. The study has been organized into the following seven different chapters:

- a. Introduction
- b. Review of literature
- c. Research methodology
- d. Data presentation and analysis
- e. Summary, conclusion and suggestion
- f. Bibliography
- g. Appendix

### **1. Introduction**

The first Chapter is the introduction. It includes Background, Statement of the Problem, Objective of the study, Significance of the study, Methodology used in the study, Limitation of the study and Organization of the study. This chapter gives simple introduction of Nation and the subject matter of the study.

## **2. Review Of literature**

This chapter dealt with literature covering with tax revenue collected from direct and indirect tax and its contribution to total revenue collection and past investigation and current studies with the research gap.

## **3. Research methodology**

Third chapter is research methodology which will include research design, population, and sample source of data and collection procedure as well as data processing and presentation. It also talks about tools and method analysis and research variables.

## **4. Data presentation, analysis and finding**

This chapter made presentation and analysis of data collected from various sources by using various financial statistical tools. It also include major finding of the research. This is the major part of the study which include overall data, tables and diagrams or charts.

## **5. Summary, conclusion, recommendation and suggestion**

On the basis of result from data analysis, the researcher concludes about performance of the concerned organization in term of tax planning. It also gives important suggestion to the concerned organization for the better improvement

## **6. Bibliography**

It consists of list of published and unpublished books, articles, thesis etc which have been sources of the information and used as reference in the research time.

## **7. Appendix**

It consists of relevant materials which are, however not much worth meaning in the main body of the report. It includes balance sheet and income statement.



## **CHAPTER-II**

### **CONCEPTUAL FRAME WORK AND REVIEW OF LITERATURE**

This is the second chapter of thesis writing. It is mainly divided into the conceptual part and the other is the review of the earlier studies, review of legislation, review of journal and articles, research gap which are described as follows:

#### **2.1. Conceptual part**

Before going to the meaning of the property tax, we must have the knowledge about the meaning of the tax as a whole. Tax is the amount collected by the government to the its people, institutions or the companies as revenue which is utilized for the welfare of the people.

Tax is divided into different types according to the form, nature, essence, volume and method.

1. on the basis of the form:

I Direct tax

Ii Indirect tax

2. On the basis of nature:

I income tax

ii. Property tax

iii. Tax on production

iv. Tax on consumption

v. tax on consumption goods.

vi. tax on capital goods.

3. On the basis of essence:

i. Advelorem Tax

- ii. Specific Tax
- 4. On the basis of the volume:
  - i. Single Tax
  - ii. Multiple Tax
- 5. on the basis of Method:
  - i. progressive tax
  - ii. Proportional tax.
  - iii. Regressive tax.
  - iv. Depressive tax.

### **2.1.1. Meaning of Property**

In general sense property refers to car, farm, watch or anything else owned by the people. Property also refers to any types of capital goods that are owned. For example: Machinery, raw materials, and finished products are property. There are two ways to classify property-real property including land and things permanently attached to it, such as building etc. and personal property including all other kinds of property, such as furniture, stock, and harvested crops. It is much easier to transfer personal property than real property. Real property must be transferred in writing but personal property may be transferred orally, when a man dies he heirs usually in real property. But personal property generally passes in to the hands of the estate administrator who sells it and divides the process among the next of kin, unless one makes other provisions for dispensing it. In brief, real property consists of Immovable and personal property of movables.

#### **a) Real Property**

Real property consists mainly of land and buildings (or what are called improvements on the land). Land and improvements are very important in taxation. Land values and building values are subject to different conditions. Land may increase in value while the buildings on it are decreasing in value.

Different methods are used in evaluating the two kinds of property, for instance, depreciation must be considered in the case of buildings and but not for valuating land.

### **b) Personal property**

Personal property is classified into tangible and intangible. Tangible personal property includes a great variety of goods: merchant's and manufacture's stocks (inventories), business furniture, fixtures and machinery, tool and pattern: rolling stock of rail way: from machinery; harvested crops; logs; household furniture, clothing, jewelry and other personal effects.

The second category of personal property is intangible property. This class consists; stocks, mortgages, deposits, money and book credit, copyrights and patents goodwill, franchise value. Intangible property can easily escape taxation whether by migration or by hiding. Many estates classify intangible separately and apply a low flat rate tax to them as a substitute for the general property tax.

### **2.1.2. General Property Tax**

It is a tax on all wealth tangible and intangible which possesses exchange value. (Singh, 1991: 423).

**Table No.2.1**  
**General Property Tax**

General property			
1. Personal property		2. Real state	
Tangible	Intangible	Land	Improvements'
Furniture		Mercantile land	Business building
Auto mobile	Stocks	Farm land	Farm building
Jewelry	Bonds	Forest land	Resident building
Merchandise	Notes	Residential land	Vocation cottage
Livestock's	Mortgages		Fences
Grain	Money		

### **2.1.3. Property Tax**

Government on owners of property levy property tax. This property includes real estate, such as homes, buildings and vacant land. It also includes personal property such as home, furnishings, stock and bonds and automobiles (World book, 1973: 15).

Taxation is the compulsory payment to the government. The tax, which is imposed on personal possession, is known as property tax. Property taxation has a great potentiality of resources mobilization in the developing countries. In these countries the process of economic development tends to be accompanied by a boom in real estate and investment in housing in urban areas.

In the united state and Canada only provincial state and local government laid property taxes. The federal governments of the two countries do not use these types of tax. Since the early 1930's state have received less and lesion property

taxes. But the tax continues to be an important source of revenue for local government.

The property tax rate varies depending on the tax revenue, needs of the government. The rate is usually based on the property's assessed valuation. This is a certain percent of the property's total value as determined by the government. Property is rarely taxed at its full market value (World book, 1973:15)

It has come to notice that some persons have been trying to avoid personal wealth tax, liability by forming closely held companies, to which they transfer many items of their wealth, particularly jewelry, bullion of real estate (Prasad, 1999-2000, 36).

As companies are not chargeable to wealth tax and the valuation of the shares of such companies does not also reflect the real worth of the assets of the companies, those who hold such non-productive assets in closely held companies are able to successfully reduce their wealth tax liability to a substantial extent (Prasad, 1999-2000, 36). Tax may be levied on flows, such as income and expenditure or on stocks such as wealth. Wealth taxes may be imposed on the holding of wealth or on transfer of assets and transfer by gift.

Wealth taxes occupy a dominant position in the structure of local bodies. They are justified on two grounds: benefits and ability to pay since property receives certain special benefits from government. It should be taxed for these benefits. Wealth taxes based on benefit consideration are in rare type in property taxes while ability to pay consideration points to a personal tax on net wealth (Singh, 1991:210-220).

The property taxation is the compulsory payment to the public authority which is based on the capital value of the property. In law, the court defined property

tax as the right to possession, enjoyment and disposition of all things subject to ownership

#### **2.1.4. Historical Background of Property Tax**

Property tax has its origin in early American history. Initially it was assessed in selected items of property such as land and cattle with different rates imposed on various categories. Thus classified property tax was the main source of revenue to the colonies. During the 18<sup>th</sup> and 19<sup>th</sup> centuries a greater variety of property emerged making it difficult to maintain such differentiation. Thus the tax developed into a general and uniform tax rate. The uniform tax was applied to property independent of form with total property viewed as a general measure of taxable capacity. This approach gave way under the increasing complexity of property forms. The growing importance of intangible property tax had been supplanted by a much narrower approach. It became a selective tax on real estate and business personality and has remained so. Tangible property other than real estate held by persons now largely escapes tax and to attempt is made to reach intangible property. While the share of the property tax in total tax revenue has declined from over 50% at the beginning of the century to around 10% at present property tax revenue as 1% of privately held wealth or as 1% in G.N.P. has not changed greatly over the last century. It is estimated that the revenue wealth ratio remained at about 1%. The share was lower however for municipalities 61% which are increasingly, developing additional revenue sources.

Right Now, property tax has been the major source of revenue of most of the cities of the world. Property tax gained importance because of the population increase growing urbanization in 1990. By narrowing the tax base to those property, which could be easily discovered improving assessment providing better staff many countries, adopted, property tax in moderate form. At least in

sub-urban area it is a fairly adequate surrogate for a local income tax since a high relationship has been found between property values and income level.

Property taxation has been the major fiscal resource of American local government since 17<sup>th</sup> century. In 1960 the selected Asian Nations like: Indonesia, Republic of Korea, Laos and Thailand. Made only small use of urban property taxation, property taxes are most important in India where as in Malaysia, Pakistan and Philippines they yields less than 20% of local revenue.

Argentina local governments, levy earns in tax which applies to Urban and rural land and improvements on the official value. The general rate is 0.1% Buenos Aires however applies progressive rate with a maximum of property and local taxes on acquisition. A low 0.3% tax applied to land in Korea.

Brazil has power to impose a tax on rural land to ensure uniformity through the country since local government tax urban land at rates that can vary from 0.5% to 10% Colombia by municipalities. There is a national surcharge of 10% of the municipal tax.

In Guatemala, a municipal tax on urban property is based on actual or presumed income. There is also a national tax in real property levied on a personal basis on the total official value of the real property of each taxpayer. The rates range from 0.3% to 0.6% revenue from property tax in selected developing countries. Poland adopted an agricultural Property Tax in 1985 and real estate tax in 1986. Poland's property taxes are urban, agricultural and forest. Local government facing budget deficits are eager to increase property tax revenues and urban areas seeking more efficient land usage have supported conversion of the tax base to market value.

Estonia's land tax was introduced in 1993 as an integral part of both land and fiscal reforms. The tax on land levied on both public and private lands with few

exemptions, was intended to stimulate the efficient use of land. Estonia local governments select a market value tax base. Recently the government has explored the possibility of adding buildings to the property tax base to expand revenues without increasing tax rates.

In the Czech Republic's fiscal reform, property tax revenues are assigned to local governments. Land and buildings are assessed separately and taxed on the basis of land area or building floor space. It has area based system based on information, market pricing for location and types of uses. Its strong real estate market, stable economy and administrative experience give the Czech Republic the foundation for a modern property tax system.

The Slovak Republic's fiscal system reflects taxes on land and on buildings governed by national law, although the revenues and some administrative tasks are assigned to localities. Land and building taxes are set per square meter.

The Russian tax system includes value added, corporate and personnel income taxes. The 1998 enactment retains taxes on land and property. Real state tax is based on market value is used to replace the taxes on land, on property (buildings) owned by individuals, and on property (assets, including equipment, inventory and vehicles, as well as buildings) of enterprises. Property taxes are shared between regional and local governments.

In Armenia Local self-government, real property rights, and taxation were adopted in 1995. A tax on buildings was added to the excising tax on land. To encourage business activity, American officials are now considering methods of expanding local revenues from property based taxes.

Finally, the property tax is the most widely used municipal revenue source in the developing world. In large urban populations, some form of property tax is assigned to the support of local government. To increase expenditures on



municipal services, local governments frequently look to the property tax as a property tax as a promising source of additional revenue.

### **2.1.5. Property Tax in Nepal**

The history of property tax in Nepal is not so long. Finance act 2016 had empowered the government to levy property tax. Property tax act 2017 was enacted to collect tax from property. Urban house and land & foreign investment were taxed at the same rate under property tax act 2017. Under the provision of property tax act, NG/Nepal framed property tax act 2019 was enforced and subsequently, house and land tax rules 2020 was then enacted which repeated the existing property tax act, 2017. Earlier central government of local self-governance act, 2055 local bodies (i.e. VDCs and Municipalities) impose property taxes within their boundary. Currently house and land tax act 2019, property tax act 2047 and local self governance act 2055 have been implemented in the collection of property tax. Local bodies are levying property taxes under local self-governance act and rules

### **2.1.6. The Role of Property Tax**

Land and property tax is an important source of local government. But property taxes are not always local taxes. Property taxes may depend upon environment in which they are levied and effective for equitable and efficient way to raise revenue. There is complex structure of property taxes around the world. In Germany, two variants of land tax are imposed on four different “base rates” by locally determined ‘leverage factor’.

In most countries, taxes on land property are among the oldest forms of all taxes. Central and Eastern Europe, Asia, Africa and Latin America have the potential contributions of the property tax to the revenue of urban and rural governments and to more efficient land use. The effort of any property tax depends upon the tax base, tax rates and administration. Land taxes can contribute to local government revenues and to more efficiency land use. Land and property taxes

are among the tax base, the setting of tax rates and the ability to levy and collect the tax. In some countries one property tax covers all types of property. In others there are different taxes for different components of real property. Separate taxes on land and buildings; separate taxes on residential and non-residential property etc. are imposed in real life (Slack, 2002:160).

Property tax has been different roles. They are:

**A. As a source of revenue:**

The roles of the property tax as a revenue source are as follows:

- a. Taxes on land and property are at the best minor revenue sources in all countries.
- b. Property taxes are important sources of sub national revenue in many countries and more so in developing than in developed or transition countries.
- c. Property taxes are much more important in rich countries than in developing countries.

**B) As a Local Tax:**

The property tax has major part of local government's revenue source in many countries. The role of Property tax as local revenue sources are as follows:

- i. Taxes are residential real property as essentially taxes on having services that property. Taxes are inherently regressive, since as a rule, housing constitutes a relatively larger share of consumption for poorer people.
- ii. Property taxes are essentially a tax on capital that such taxes are inherently progressive, since as a rule, income from capital constitutes a relatively higher share of income for richer people.

- iii. The portion of the tax that falls on land as beings paid out of economic rent often consider it to be inherently equitable to tax such “Unearned increments” often from public action.

### **2.1.7. Characteristics of Property Tax**

Property tax is a tax upon all wealth, tangible and intangible, that processes exchange value. It is levied according to exchange value, at last in theory, and at a common rate for all property in the same district. It is levied upon property located and the tax is paid by the owner. Property tax is levied, and understanding of the nature of property is essential to understanding the tax

Characteristics of property tax are visibility and inelasticity. The property tax is the very visible tax. It is paid directly by taxpayers in periodic lump sum payments. The property tax finances service such as roads, garbage collection and neighborhood parks. Property taxes are considered to be a source of revenue for local government. Local property tax finances local services promoting public decisions, good schools, roads and transits etc. The other character of the property tax is:

- a) Local property taxes finance services which benefit property values.
- b) Tax rates and services levels are decided by local voters.
- c) Voters-impelled by their sensitivity to property values.
- d) Property taxes are based on market value.

Property taxes are levied by local governments. However, not all taxes on property are levied by local government. Local government can do following:

- i. Decide to levy the tax.
- ii. Determine the precise nature of the tax.
- iii. Establish the base on individual taxpayers.
- iv. Determine the tax rate and
- v. Enforce the tax.

- vi. Grant remission
- vii. Impose fine and penalties
- viii. Finalize the revaluation within the time.
- ix. Send the bill.
- x. Assess the rate of valuation.

Finally, property tax is characterized by:

- 1. Gross property base,
- 2. Value measure,
- 3. Uniformity,
- 4. Universality,
- 5. Impersonality,
- 6. Local collection.

These characters are discussed below:

**1) The gross property collection base:-**

The property tax is based on gross wealth. Taxpayers can't as a rule offset debts against the value of his property.

**2) Value measurement:-**

There are many kinds of value, but the property tax is concerned with economists exchange value.

**3)Uniformity:-**

The uniformity characteristics of property tax was the erosions of time, generally they call for uniform treatment of taxable property. Uniformity of property taxation would ensure neutrality of treatment

#### **4)Universality:-**

Property tax has to include all wealth excluding only a few items that could qualify for specific exemption.

#### **5) Impersonality:-**

It is impersonally levied upon things, business and transaction. A person's property shows his ability to pay.

#### **6) Local collection:-**

Property tax is applicable to the local units of government. It means that local legislative bodies are frequently held responsible for a tax rate. This makes the property tax a much more strictly local concern and accounts in part for the generous grant of discretion to municipalities in selecting base improvements partly dated or fully taxed.

### **2.1.8. Criticism of Property Tax**

Criticism of property taxes fall into two classes- theory or conception and practical or administrative difficulties. It has been said that property tax has wrong in theory and does not work in practice. Theoretical and practical or administrative limitations or property tax are as follows:

#### **A. Theoretical Limitations:-**

Some theoretical limitations are given below:

##### **i. A poor measure of ability to pay: -**

Ability to pay is related to an individual's income. Property tax related to an individual's housing consumption is likely to related o ability to pay more closely than the tax levied on business.

**ii. A poor measure of benefits received:-**

Benefits received may not always be a proper gauge for taxation. Property taxation gives no clear accounting of benefits can be received. Property tax payment may not be the index of the benefit received. Plehn concluded from his observation of this system that the creditor regularly shifted his entire share of property taxes to the debtor through higher interest and that he added an extra Charge for good measure.

**iii. Property taxation of personal abilities:-**

Property tax failed one important kind of intangible assets that are personal in nature and not capable of exchange, except in person to levy every man according to his abilities what so ever.

**iv. Inconvenience of property tax:-**

Property may go for long period without bringing the owner an income. Property that retains value and prospects of future income may go for several years without any net return. Governments must continue even through some property taxpayers have no ready cash. Income tax waits upon the taxpayer's convenience.

**v. Regressively:-**

The property tax may be regressive in nature because the assessor may often assessor property of high value at a lower ratio of assessed to true value than properties of lesser value. Regressively may appear because the owner or mare valuable property is more influential in the community and with the assessor than poorer neighbors.

**B. Practical and administrative limitations of property tax:**

Some practical and administrative limitations of property tax are as follows:

a) Fractionalized assessments: -

Critics of the property tax are the statistics. The property tax base represents only a minor fraction of its total. Property is legally exempt from tax. The property tax base is narrow due to the deliberate practice of under assessing all taxable property. This practice is contrary to all taxable property. This practice is contrary to statute

b) Inequalities: -

Taxes to be paid by each village town and city with its boarders, great unfairness can arise from inequalities in district assessments.

c) Competitive undervaluation: -

Frequency distributions of assessment ratios in one study shows rural properties within a country assessed at levels ranging from 5% to 50% of sales value. Proportional tax which are 10 times higher in some cases than in others.

d) Evasion: -

The property tax universally have large amount of evasion. Intangible property, tangibles furniture and automobile etc avoid list.

e) Avoidance by migration: -

Tangible property is less migratory than other tax bases and can't leave high tax districts for those with lower rates. Intangible property is highly migration. The property tax on bank deposits are difficult, to in base and real estate can be moved any with great difficult.

f) Property tax is tolerated:-

According to professor Seligman: "Practically, the general property tax as actually administered is beyond all doubt on of the worst taxes known in the civilized world.

## **2.2. Collection, Realization and Refund of Tax**

### **A) Collection of Tax**

Local self-governance act 2055 has empowered VDC municipality and DDC to levy taxes. The VDC and municipality in the form of land revenue, land, tax house and land tax, integrated property tax and vehicle tax levy the property taxes. Since the integrated property tax and vehicle tax are not exclusively practiced in some municipalities, tax collection and realization with respect to the house and land tax and revenue or land tax are discussed hereunder.

#### **In the case of Village Development Committee (VDC)**

According to section 55 of Local Self Governance act 2005, the VDC may levy the property taxes as follows in its area at the rate approved by the village council, not exceeding the prescribed rate:

##### **1) House and land tax**

On the basis of size, type, design and structure of the house within the area of VDC, it may impose annual house and land tax on each house and compound.

##### **2) Land revenue (Malpot) or land tax:**

The VDC may levy land revenue or land tax on the land within its area. However 25% of revenue collected from land revenue or land tax has to be handed over to the District Development Committee (DDC).

The rate of taxes to be levied by a VDC within its area is prescribed in Annex-4 of Local self governance regulation, 2056.

#### **In the Case of Municipality**

According to section 136 and 140 of Local Self-Governance act 2055, the municipalities levy the following property taxes within its jurisdictions:



1) House and land tax:

On the basis of size, type, design and structure of the house, the municipality may levy annual house and land tax on each house and compound as approved by the municipal council.

2) Land revenue or land tax:

The municipality may impose land revenue and land tax as prescribed on the land within the municipal area.

3) Integrated property tax:

The municipality may levy an integrated property tax within its jurisdiction at the prescribed rate.

4. House Rent Tax

Municipalities are also empowered to levy a House Rent Tax on the amount of rent in case where any house, shop, garage, go down, stall, shed, factory, land or pond is rented wholly or partly within their area of jurisdiction. The House Rent Tax may be levied at a rate not exceeding 2% of rent. On the other hand, municipalities can also levy a Tenancy Tax on municipality- operated shops or permission given to operate temporary shops in public places, unregistered land or roadsides at the rate of Rs. 2 to Rs. 20 per square feet.

According to rule 140 of self local governance regulation 2056 the maximum and minimum limits of the rate of land revenue and of house and land tax that may be levied by a municipality within its area shall be as prescribed in annex-8 of the regulation. As per rule 144, the minimum and maximum rates of the integrated property tax that may be levied by a municipality within its area shall be as prescribed in annex-12 of the regulation.

## **B) Recovery of Tax**

Fine and penalties imposed by municipality or VDC are recovered as government dues or arrears. Those amounts are payable to local bodies.

According to section 71 and 166, the fine and punishment imposed by the village development committee or by municipality are recovered by section 260. According to this process, if any person does not pay any tax, duty or charge levied or contracted or any other amount due and payable to the local body, the district administration office recovers it as government dues.

## **C) Refund of Tax**

According to section 147 of LSG act 2055, the municipality is not entitled to collect any kinds of taxes contrary to the act or the rules. If the municipality collects such taxes, Nepal's government may order to stop such collection and to refund the amount of taxes so collected to the connected person.

### **2.2.1 Penalties, Actions and Appeals**

#### **A) Penalties and Actions**

Section 70 and 165 of Local self Governance act 2055 has made the provisions for find and penalties if anyone does not pay any taxes, fees, charges, duties, tariffs and any other amount due and payable under the act, the VDC and Municipality penalize the person.

#### **1) In the Case of VDC**

According to section 70.2 of local self governance act, if any person does not pay the taxes imposed or levied by the village development committee, it may punish such person with a fine of up a Rs.500 and may stop the service made available by the village development committee in regard to such person.

As per section 70.3 of the act, in case, any person commits any act in contravention of the act, of the rules, Bye-laws or Orders made under the act, such person shall be punished with punishment, if any prescribed elsewhere in

the act; and if punishment is not so prescribed the village development committee may punish such person with a fine up to Rs.500.

According to section 70.4 if any person who has already been punished under this section, commits the same offence again, the village development committee may punish such person with two-fold punishment for each instance.

## **2) In the Case of Municipality**

1. According to section 165.2 if any one does not pay the taxes imposed by the Municipality, it may take the following actions:

) If anyone does not pay the taxes, which may be collected under the act, the municipality may write to the concerned body to stop the transfer of ownership of the movable/immovable property of such person, may seal or lock up the trade, profession, and withhold the transactions including export and import.

) If the amount which the municipality is entitled to collect under the act, could not be covered up even from the stoppage of the house, land, transaction or assets of the concerned person, the municipality may recover it by auctioning the person house, land or other assets, if any.

2) According to section 165.5 if any one does not pay any taxes under the act, the municipality may stop the service provided by it, in regard to such person.

3) If any one commits any action in contravention of the act or the rule bye-laws or orders made under the act, such person is punished with punishment, if any prescribed elsewhere in the act, and if punishment is not so prescribed the municipality may punish such a person with fine of up to Rs. 1000 (section 165.5).

4) As per section 165.6 if any who has already been punished under this section commits the same offence again. The municipality may punish such person with two-fold punishment for each instance.

### **B) Appeals**

In case any property holder is not satisfied with a punishment imposed by VDC or municipality the local self-governance act 2055 has made provisions of appeal against such punishment.

As per section 70.5, any party who is not satisfied with the punishment imposed by the village development committee may appeal to the concerned district court within 35 days from the date of knowledge of such decision.

Similarly, according to section 165.7 any party who is not satisfied with the punishment imposed by the municipality may appeal to the concerned district court within 35 days of the knowledge of such a decision.

(Source: Bhattarai Ishwar and Koirala Girija Prasad 2004)

### **2.2.2. Property not included in valuation for tax purpose**

The following properties are not included in valuation for tax purpose:-

1. Growing crops: - Grass or standing trees on agricultural land, the growing crops grass or standing trees are excluded from the purview of the term of assets.
2. Animals: - Any domestic animals such as buffaloes cows, oxen and others but the act does not clear the types of animals.
  - a) Any agricultural animals such as bullocks, cows and buffaloes
  - b) Any performing animals in circus such as chimpanzees, bears, lions, tigers.
  - c) Any draught or transport: Animals as mules or horses.

3. Amount deposited for life insurance: - In Nepalese act, there is no certain information about insurance, according to Indian concept; it should be interested for an assessee in any policy of insurance in any policy.

4. Patent or copy right: - The patent or copyright is exempt from property tax. The patent or copyright is acquired by an assessee under a contract from the original author or the inventor or it is acquired by way or in heritage or otherwise no exemption is allowed in such cases.

5. Books and equipments for study.

6. Pots and equipments except valuable metals.

7. Wearing apparel provisions and other clothes for personal or household use of the assessee.

8. Furniture and equipments (excepts T.V., V.C,D, Deck, refrigerator, washing machines, camera etc.) They are exempted for developed countries like India. In the poor society, it is assumed highly luxury goods.

9. Tools, machinery and equipments used for professional works.

10. Simple equipments of decoration of house (except valuable metal equipments).

11. Singing and dance equipments for daily used.

12. Equipments for physical education.

13. Equipments and tools for first aid which are kept in houses.

14. Transportation equipments as cycle, riksa and other simple media.

15. Weapons and tools used for personal safety.

16. Equipments related to arts and photographs.

According to Local Self governance act 055/56, the assets exempt from taxes are:

1. Gold 10 totals with jewelries
2. Silver 200 totals with jewelry
3. Stock in trade

4. Industrial mills, machinery tools and equipments building and ware houses of industrial areas.

5. Invested shares and debentures

6. Loan issued by NG is declared exemption from these act,

7. Area for house of assessee 300 sq. ft. and ropani of land.

Similarly, according to local self governance act 055/56 section 146, following rebates are:

a. Goods and equipments for social welfare

b. Land owned by farmers.

c. The exemption limit for land are:

i. 10 Biga for terai area

ii. 20 ropanies for Kathmandu valley

iii. 60 ropanies for other hilly area.

d) Land covered by non- profit organization

e) The land related to Nepal government.

f) Land and building for hospital

g) Educational institutions.

h) Land related to non-profit making organization.

i) Foreign agencies organization.

j) Pound, Electricity House, Airport, Bus Park etc.

### **2.2.3. Types of Property Tax Exemptions:**

Property tax exemptions are exempt for social reasons such as homesteads, churches, lodges, private school some for developmental purposes such as new industries, some for fiscal or administrative reasons such as household furniture, some to avoid double taxation such as credits. The tax exempted intangibles and certain types of tangible property are as follows:

) Homestead exemption:

Homestead includes any dwelling occupied by the owner as a residence the site upon which the dwelling is located, and varying amounts of surrounding land. The exemption may include not only the land and improvements used as a place to live but also considerable property used to make a living. Homestead exemptions depend on a number of variables, such as the degree of home ownership, area and value of homesteads and the ration of residential property to total property.

) Exemption of property used for religious and philanthropic purpose:

Most of the governments exempt educational, charitable, benevolent and religious institutions from property taxation. In the case of religious

) Organizations exemptions are church and a non-profit making organizations etc.

) Exemption to encourage economic activity:

Exemption encourage economic activities are cash bonuses, loans, donations of site and building or their provision at nominal rentals, guarantees of favorable conditions and so on.

) Municipal exemption policies:

Municipality also provides exemption to individuals to attract the economic activity within the municipality. No land revenue, land tax, and house and land tax are levied on the property for which the integrated property tax has been levied under this rule.

#### **2.2.4. Rebates from Property Tax:**

From the property tax following incomes are rebated:

) Loan and debenture taken from registered institutions.

) Amount received from life insurance.

- ) Price received from social work.
  - ) Amount received from provident fund.
  - ) Amount received from citizen investment.
  - ) Amount received from personal annuity.
  - ) Profit or dividend received from kingdom's commercial institutions.
  - ) Amount of debenture received from NG/N.
  - ) Amount received from foreign government.
- (Source: Revenue department of KMC and LSMC).

### **2.2.5. Problems for Efficient Tax Administration:**

There exists problem because of the poor taxpayer and lack of tax education. So the local government would make sure them by teaching tax education. There are other factors like, delay in assessment and collection, unnecessary outside pressure and lack of proper incentives to tax personnel's. a good tax system must have certain administrative qualities including certain rules, compliance and collection cost enforceability and acceptability. Although there has been significant progress in the area of improving the elasticity and efficiency of tax system still the major source of revenue collection is land based.

### **2.2.6. Current Provisions of House and Land Tax in Kathmandu**

#### **Metropolitan City and Lalitpur Sub -Metropolitan City**

The current provisions of house and land tax in Lalitpur sub-metropolitan City are as follows:-

#### **Necessary Documents and Duties for Submitting required document:**

Following documents are required to submit house and land tax return in Lalitpur Sub-Metropolitan City:



- a. If any person has various land and houses in the Metropolitan area, statement should be submitted to related ward office of each land and houses.
- b. If any couple has separate land and house ownership, statement should be submitted jointly.
- c. If there is more than one owner statement should be submitted in the name of any one owner.
- d. People having liability to pay house and land property tax should submit the return as per Act.
- e. If there is any increase\decrease in house and land property, it should be reported to the ward office.
- f. Calculated tax as per submitted statement should be deposited in bank account of within 35 days.

The necessary documents are:-

- i. Copy of land ownership certificate-1
- ii. Copy of approval of house map-1
- iii. Copy of approval of new flat map if any -1
- iv. Field inspection report by technician for house constructed without approval before provision of Metropolitan system-1
- v. Copy of tax receipt if any submitted to tax office-1
- g. Tax officer holds right for following action if required :
  - i. Necessary examinations and review of statements by tax payer by issuing notice for filling and taking interview.
  - ii. Field inspection.

(Source: Revenue department of KMC and LSMC).

### **2.2.7. Process of Tax Assessment**

Process of tax assessment covers the process as follows:

- 1) Necessary documents should be registered in house and land tax book,

- 2) House valuation is done on the basis of size of house, area of land and depreciation rate,
- 3) Different types of houses should be evaluated in different ways,
- 4) Tax assessment is done on the basis of house and land valuation,
- 5) After paying house and land tax, tax clearance certificate should be issued and keep the records,
- 6) If owners are multiple persons, tax assessment should be done in the name of multiple owners like flat owners.

#### **2.2.8. Things to be considered in Process of Tax Assessment:**

Things to be considered in process of tax assessment are as follows:

- b. Finding out actual valuation by total area of house,
- c. Find taxable value on the basis of depreciation, types of house, total valuation, year and rate,
- d. If approval is not taken during house construction, she/he should deposit Rs. 10 per sq. ft.
- e. Name and types of road should be defined in the map.
- f. Finding out the area of land in ropani /hector or bigha
- g. Actual valuations are done on the basis of types of road.

(Source: Ministry of local Devartment.)

#### **2.3. Mistake Corrections in the Process of Assessment (Corrective Measures)**

The processes for mistake corrections are as follows:

- a) If the tax payer complains about tax and valuation of house and land within two years, tax officer can again determine the tax and valuation
- b) The administration should provide chance of revision about house and land tax if necessary.

### **2.3.1 Rebate for Tax Payers in Lalitpur sub- Metropolitan City**

Rebate for tax payers are as follows:

1. 10% discount for paying tax before last of Shrawan.
2. No penalty for paying tax till Ashwin last.

### **2.3.2. Penalty System of House and Land Tax**

Penalties provisions are as follows:

- ) If any person submits false document invoices or wrong documents till Ashwin or every year, the penalty is Rs. 5000
- ) If a person does not follow directions of tax officer penalty is Rs. 500
- ) If any person does not follow rules and regulations regarding paying tax the penalty is Rs. 1000
- ) If tax is not deposited within 35 days 15% additional amount per annum shall be charged on assessed taxes.

### **2.3.3. Exemptions of House and Land Tax**

Exemptions of house and land tax in Kathmandu Metropolitan City and Lalitpur sub metropolitan city are as follows;

- 1) House and related to public enterprises.
- 2) House and Land owned by NG/Nepal.
- 3) House and Land owned by Municipalities and District Development Committee.
- 4) House and land related to Embassies Diplomatic Mission etc.,
- 5) Land related to crematorium, airport, stadium, garden, park etc.,
- 6) House and land related to not profit making educational institute.

### **2.3.4. Documents Required for Property Valuation in KMC and LSMC**

Documents required for property valuation in KMC and LSMC are as follows;

1. Application form-1
2. Copy of house and land tax clearance certificate-1
3. Bill of land tax clearance-1
4. Field inspection report of Ward office-1

(Source: Revenue department of KMC and LSMC)

### **2.3.5. Classification of house and land tax.**

Local self government act 2055 has empowered village development committee and municipality to levy house and land tax within their jurisdiction. House and land tax means house and land occupied by the house with its compound. House can also be classified on the basis of their size, type, design and structure. On the basis of structure, house is classified as follows:

1. Green bricks with mud mortar and houses made of timber.
2. Kiln brick with mud mortar of stone house with mud mortar.
3. Kiln brick with cement mortar.
4. R.C.C frame structure.

### **2.3.6. Methods of Valuation in Kathmandu Metropolitan City and Lalitpur Sub- Metropolitan City**

Table 2.1 shows the Methods of valuation of house and land in Kathmandu Metropolitan City and LSMC:

**Table No.2.1**  
**Procedures of Valuation of Building in Kathmandu Metropolitan City**  
**and LSMC**

Classification of houses	Average cost per Sq. Ft. (in Rs)	Depreciation rate per year in (%)	Total life in year
1. Green (Raw) bricks with mud-mortar	450	3	25
2. Kiln bricks (stones) with mud mortar	525	2	30
3. Kiln bricks (stones) with cement mortar.	575	1	70
4. R.C.C. frame structure	635	0.75	100

(Source: Working paper of Lalitpur sub- Metropolitan City.)

Notes:

- a. House and land of green (raw) brick with mud mortar and thatched roof or house made of bamboo or wood with thatched roof is not valued for the propose of house and land tax.
- b. The main auditorium of cinema hall is valued by applying a 25% discount in aforesaid rates that means 75% is applicable.
- c. Classifications of house are Green (Raw) bricks with mud-mortar Kiln bricks (Stones) with mud mortar Kiln bricks (Stones) with cement mortar, R.C.C. frame structure.
- d. in case of destroyed or demolished house, the values of destroyed or demolished portion is deducted for the purpose of valuation of physical structure.

- e. Kiln brick with mud mortar is valued at the average cost per sq. ft is of Rs. 525.
- f. Kiln with cement mortar is valued Rs. 575. as per sq. ft.
- g. R.C.C, frame structure is valued of Rs. 635 as per sq.

**2.3.7. Rate of House and Land Tax in Lalitpur Sub-Metropolitan City.**

**Table no-3**  
**Rate of House and Land Tax in LSMC**

Value of House and Land	Rate of Tax (in %)	A mount
First upto 10 Lakh	Nil	Nil
Next upto 10 Lakh		300
Next upto 30 Lakh	0.05%	1500
Next upto 50 Lakh	0.25%	12,500
Next upto 1 crore	0.5%	50,000
Remaining amount	1.5%	-

Source: Working Paper of Kathmandu Metropolitan City and LSMC

In table 3, rate of tax in Rs. and percentage and amount are shown in right side. Value of house and land is shown in the left side. If the value of house and land is up to 10 lakhs she/he should not have to pay tax. If one has value of house and land up to 20 lakhs she/he must pay Rs. 300. Similarly one who has value of house and land next up to 30 lakh he/she has to pay 0.05%. If increased next up to 50 lakh he/she has to pay 0.25%, if it increased upto 1 crore, he/she has to pay 0.5% and he/she has to pay 1.5% in remaining amount.

### **2.3.8. Property Tax Administration**

In this part, Steps in Property Tax Administration, Functions of Property Tax Administration, Assessments of Property Tax, and Method of Valuation of Buildings are included.

### **2.4. Steps in Property Tax Administration**

In property tax administration: discovery, valuation, billing and collection lies with municipal officials. Properties are recorded on tax maps for purposes of permanent identification. Values are calculated on the basis of objective physical characteristics and standard unit cost factors of complete and up-to-date set of all the documents required to administer the property tax. Some points are:

- a. An updated municipal tax code.
- b. An updated tax map.
- c. A new set of property records.
- d. New unit cost tables.
- e. Current market prices.
- f. A new assessment roll.
- g. Property and its current tax liability.
- h. A complete set of tax bills.
- i. A ledger for recording payments against outstanding liabilities (William Dillinger, 1988:43-48).

“Tax administration is tax policy” in developing and transitional countries, so property tax has not only impacts on their revenue but also effects their equity and efficiency. In many countries, poor tax administration is an impediment to implementing the property tax. Often local authority does not have the capacity to administer the tax. Many administrative functions are performed manually rather than being computerized. The result is that the revenue base does not

include all taxable properties, collection rates are low, and enforcement is almost not extent.

Good property tax administrations have following features:

### **1. Property Identification:**

The first step in levying a property tax is to identify the property, to determine the owner and the value of land and improvements. Cadastral maps are an essential element of property identification. Information needs to be collected for each property identification. Information needs to be collected for each property includes: assessment roll number of the property, the address the owner of the property the area in square meters and the age of the unit.

The process of property identification is more difficult in developing countries due to:

- a) Revenue base information is neither up to date nor complete.
- b) It is too expensive for the local government to keep a good record of property identification data. Taxes are not collected on all properties within each jurisdiction.
- c) In many countries, property records are not computerized.

### **2. Assessments and appeals: -**

Property taxes have to be based on assessment. The assessment function seems to be essentially local in about half the cases and the central, or regional the others. The detailed assessment methodology is established by the central government even when assessment is a local function. Property identification, the problems encountered with assessment and reassessment often stem from lack of resources and expertise. Assessment suffers from a lack of technically qualified staff and assessment tools. Problem with keeping assessment up to date in many countries, a building permit is issued again the recording office should send notification to the office responsible for maintaining the property tax roll, such process do not work well. Taxpayer has an opportunity to appeal their



assessment, if they think it is wrong, to correct factual errors and differences in views of the assessed value. In some countries taxpayers can appeal the decision of the valuation review board to a specialized tax court. Appeal system is desirable and necessary in practice, in many countries; there may be an appeal system in law.

### **3. Tax collection and arrears:-**

Tax collection is usually a local government function of the property tax. If it is not paid within a time period, then interest and a late fee are generally charged. In most countries, property transfers are not permitted unless property taxes are paid. Tax arrears for those countries for which the information is available, tax arrears, as a proportion of taxes collectible are low in most developed countries. Finally the main steps in administration are as follows:

- a) Selecting the levy
  - b) Original assessment of property
  - c) Review of the original assessment
  - d) Central assessment or equalization
  - e) Tax rates
  - f) Procedure of collection
  - g) Collection of delinquent taxes
  - h) Appeals to some judicial
- ) Selecting the levy: The levy consists of a legislative enactment to the effect that a certain specified amount shall be raised from the property tax.
- ) Original assessment of property: Evaluate the property by the local assessor.
- ) Review of original assessment: Every taxpayer is given the right to a hearing before the tax becomes final. This hearing may be before the original assessing agency. Few states have established administrative

agencies to hear protesting taxpayers and to check and double check the work of the local assessor.

- J Central assessment of equalization:- Adjustments made by central units to facilitate the equitable distribution of overhead taxes among districts is called equalization.
- J Tax rates collection: The town village or city clerk calculations the tax rate for the district.
- J Collection of delinquent taxes: Real property taxes are not paid before a certain time, the county treasurer must offer the taxes for sale; if he has obtained the required number of successive tax claims for any parcel of property.
- J • Appeals to some judicial: Court of first resort for the taxpayer who is dissatisfied with his assessment. The taxpayer is frequently given an additional appeal to the state tax department and a final appeal to the courts

#### **2.4.1. Functions of Property Tax Administration**

Government tax department is a very important element in efficient property tax administration. Its principal functions are as follows:

1. Supervision of local assessment
2. Central assessment of districts
3. Direct assessment and local assessment
4. An administrative “Court of appeals” for aggrieved property owners and districts.

The quality of property tax administration is corresponding quite regularly with the alertness and adequacy of the government tax department or that of some corresponding state agency. Good supervision and intelligent central assessment, it is possible to administer the general property tax with a high degree of efficiency and success, even with a locally elected assessor.

## **2.4.2. Method of Assessing Property Tax**

Some methods of valuation of property taxes are as follows:

### **1. Area based assessment**

A charge is levied per square meter of land area and per square meter of building. The assessment of property is the sum of an assessment rate per square meter multiplied by the size of the land parcel and an assessment rate per square meter multiplied by the size of the building. The assessment rates may be the same for land and buildings. With unit value assessment, the assessment rate per square foot is adjusted to reflect location and quality of the structure. Market value has an indirect influence on the assessment base. Properties in different zones will have different values.

The municipalities apply tax according to the availability of the services like garbage collection, street lighting covered road covered side walk, sanitary sewers and rain water sewers. The tax rate is set 8% to 14% according to quality of services. The value of agriculture land often seems, like other presumptive tax base.

### **2. Market value assessment**

Market value is defined as the price that would be struck between a willing buyer and a willing seller in an arm's length transaction. The following methods are used to estimate market value:

- a. The comparable sales approach is used when the market is active and similar properties are being sold.
- b. The depreciated cost approach is used when the property is relatively new, there are no comparable sales and the improvements are relatively unique and industrial properties.
- c. Under the income approach, income is converted to a capital value using a capitalization rate for properties with actual rental income.

- a. Market value assessment is used in all the OECD countries, Indonesia, Philipins, South Africa, Latvia, Argentina and Mexico.

### **3. Rental value assessment**

Under the rental value approach, property is assets approach according to estimated rental value or net rent. There should be no difference between a tax on market value and a tax on rental value.

### **4. Area based vs. Market based assessment**

Market value has the advantage of capturing the amenities of the neighborhood, amenities that have often being created by government expenditures and policies. Area based assessments are unlike to capture these amenities because they do not take into account of difference in neither the quality of buildings nor their location. Unit value assessment trained to e less volatile than under market value assessment. Unit value assessment is easier to understand and cheaper to administer than market value based assessment.

### **5. Self Assessment:-**

The current local tax system is based on principle of self assessment. Under this method, the responsibility lies on property holder itself. Properties are assessed at market value. Under self assessment in some countries, people have the right to buy the property at the assessed value. It do not required expert assessment staff and it is appears to be easy to implement. According to the case study in bird and slack 2002, self assessment appears to have significantly increased revenues (Richard, M Bird and Enid Slack, 2002).

#### **2.4.3. Methods of Valuation of Buildings**

There are some methods of valuation of buildings which are as follows:

- 1) Rental method
- 2) Direct comparison with the capitalized value

- 3) Valuation based on profit
- 4) Valuation based on cost
- 5) Development method of valuation
- 6) Depreciation method of valuation
- 7) Cost by detailed measurement.

### **1) Rental Method**

In this method, the net income from rent is found by deducting all outgoing money from the rent. A suitable rate of interest, as prevailing in the market is assumed and the year's purchase is calculated. The net income multiplied by the year's purchase, gives the capitalized value of the property. The method is useful in those properties which are rented and where the net rent is known. It is difficult to discover the actual net rent because the property owners seldom declare the true amount. There would be the problem of fixing a rental rate for each house (Dhugana, Pradhan and Shah, 1974).

### **2) Direct Comparison with the Capitalization Value**

The second method is adopted when the rental value is not available from the property concerned. In such cases the capitalized value of the property is fixed by direct comparison with the capitalized value of similar property in the locality. This method can be used only in conjunction with some other method where the basis of valuation is already known. It is difficult to find two or more similar properties in the locality.

### **3) Valuation Based on Profit**

This third method is suitable for building like hotels, cinema halls theaters etc for which the capitalized value depends on the profits.

#### **4) Valuation Based on Cost**

In the valuation based on cost method the actual cost incurred in constructing the building, is taken as the basis for determining the value of the property.

#### **5) Development Method of Valuation**

This method is used for those properties in either an undeveloped stage. It is used only in specific cases, e.g. half completed houses.

#### **6) Depreciation Method of Valuation**

This method is the depreciation method of valuation. According to this method, one needs to have information on i) Walls ii) Roofs iii) Floors iv) Doors v) Windows etc. This method is the best as far as accuracy is concerned. But general public is not having a consciousness or understanding of the implication of such taxation, so it is not applicable (Dhugana, Pradhan and Shah, 1974).

#### **2.4.4. House and Land Tax Calculation Related to KMC and LSMC**

In Nepal local self-government act 2055 has been applicable in calculating property tax the example of calculation are shown in appendix-I.

#### **2.4.5. Rights and duties of the property holder.**

Local self governance act 2055 and local self governance rules, 2056 have the following provisions regarding the rights and duties of a property holder.

Rights of the property holder

##### **) Right to appeal:**

A property holder aggrieved by the punishment imposed by the municipality or VDC may appeal to the concerned district court within 35 days from the date of the knowledge of the punishment decision.

)] **Right to get information:**

The property holder has the right to get information of valuation and tax rates fixed by the municipal council with respect to the integrated property.

)] **Right to appeal for review:**

The property holder who is not satisfied with the decision of valuation of integrated property may submit an application for the review within 35 days from the date of publication of the valuation notice to the mayor for revaluation.

)] **Right to remission**

The property holder has the right to get full or partial remission as per the condition or the types of the physical structure or house and land property as specified in local self governance act and rule.

**Duties of the property holder**

)] **To pay tax:**

The property holder has the duty to pay the property tax within the stipulated times. The municipality sends bills for the payment of the tax on integrated property along with the valuation of taxable integrated property within mangsir the taxpayer has to pay tax within same fiscal year.

)] **To comply with law:**

If the property holder does not comply with the rules and regulation established by the act and rules, the municipality may punish such a person with a fine up to Rs. 1000 or the VDC may punish with a fine up to Rs. 500 within its territory.

**2.5. Review of Earlier Studies**

Property tax plays a vital role in many countries. Nowadays, it is more important all over the world. The purpose of this review is to bring in light in brief the important work done on property taxation in Nepal. So some of the literature

related to property tax has been reviewed in the following paragraph according to the previous date.

Dhungana and Pradhan (1973) of an institution center for economic development and administration (CEDA) surveyed the property taxes for the first time and performed a general account on the revenue potentiality, assessment administrative mechanism of law, Administrative loopholes, problems and suggestions have made for the prospects and future score for the development and had proposed for improvement and implementation procedure of property taxation. The report published as the title of "Evaluation of urban property (1<sup>st</sup> phase Kathmandu)". The report consists of various aspects of urban property tax in Nepal.

Dhungana, Pradhan and Shah (1974) have studied various forms of property taxes levied in Nepal. They suggest that urban property tax is one of the most negligent taxes in Nepal both from the view point of government administration and the tax payer. Property tax is problematic tax because it is based on valuation.

Shah, Kayastha and Rai (1974) have analyzed the property tax of five districts in the report entitled "Evaluation of urban property". The five districts are Biratnagar, Birgunj, Nepalgunj, Bhairawa and Janakpur. In this report they have analyzed the revenue generation from these district they have also deal with housing trend revenue potentiality valuation procedure of land, per area rate and building categorization etc.

Bhandari (1978) has attempted to focus on those problem areas issue of policy making that are remaining on central concern. He also points out problem regarding property tax and has suggested overcoming and uplifting it share on the revenue side along social betterment as it being a tax on the social sector.



Thakur (1979) studied the urban property taxation in Nepal and tried to show its role in bringing about development with social justice in the economy.

Devkota (1980) has analyzed urban house and land tax entitled "Nepalma sahari ghar jagga kar eak bisleshan". He analyzed property tax legal aspect, evaluation procedure house and land, collection of house and land tax, tax base, structure of tax rate, revenue potentiality, historical aspect, and property tax in different nations along with international aspect.

In this report he finds out that the revenue from property tax has not been mobilized that much, it has low revenue productivity and contribution from this tax to total revenue is insignificant he finds assessment ratio is also very poor. And at last he has forwarded some suggestions for the improvement of the property tax he also suggests for the more elastic property tax.

Pyakurel (1981) shows the insignificant revenue generation from urban house and land tax and shows serious weaknesses regarding the administration method of assessment and evaluation procedure of this tax for the effective implementation and improvement of the property tax. He has forwarded some suggestions.

Adhikari (2001/2058) has analyzed house and compound tax has been considered as the suitable source for the mobilizing internal resources. It can be used as a positive instrument to boost government revenue collection, to develop the economic condition of Nepalese people and promote distributive justice and to cure resource gap problem

Chhetri (2006) has analyzed the successful property tax must adopt good policies and administrative procedure. Countries face a number of operational difficulties in the administration of property tax. In addition he expresses about

the property tax, Nepalese property taxes are based on market value, so he suggest to reform property tax

Basnet (2006) has analyzed property tax must adopt good policies. Centra level has assist to the local level to make empowerment, act and rule must be improved and consider time value of money, new valuation of house and land and tax rate.

Local self government act 2055, local self governance regulation rule 2056 focused on fiscal power granted to the local bodies. As per these legal Provisions, municipalities can collect service charge and fee related to approval of building design. As per the regulation the main source of revenue given to municipality is the property tax like house and land tax and unified property tax.

Lamsal Nava Raj (2007) has analyzed about contribution of house and land tax on total revenue of KMC and LSMC. Where he has concluded that revenue collection of KMC and LSMC is relatively low due to various problems related to property tax and it can be solved by utilizing the resources effectively.

Kathmandu metropolitan city has prepared a working paper relating to the implementation of property tax. The paper says that valuation of house and land is based on actual market price and actual blue print map. The paper has suggested punishing person or tax payer who gives wrong information and who does not follow metropolitan city regulation. But Lalitpur sub metropolitan city not being able prepare the same report.

## **2.6. Research gap**

As tax revenue is the most important source of public finance, everybody is being really serious about property tax collection and its effective utilization since earlier so all the research works mentioned above are concerned with study of laws, provisions, administrative aspects and structure of tax. So people

are trying to get more ideas through the research works so that they can find the new areas of collecting tax revenue and contribute more in the public finance so the researcher chooses the same topic for the study. Here we are talking about property tax or House and land tax. It is not only the important internal source of government revenue but also regular source which has covered near about 18% contribution on total expenditure of LSMC in fiscal year 2065/66. so it can be said only property tax has covered so much percentage if we take whole tax then it will have huge contribution so we should take different measures to strengthened the tax policy and decrease between gap between actual and budgeted property tax. For this government should have more detail and effective research on the same topic to find out advantages and disadvantages of the property tax as a whole.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

#### **3.1. Introduction**

Before going to the research, we must put some views about the research. First of all what does mean by research and what does it help to have good findings in the thesis writing? Research is the scientific investigation of the certain topic which helps to find out certain fact and conclusion about the investigated topic.

Research methodology includes various steps in the report writing. Like review of literature, research design, data collection and analysis, tools used in data collection and analysis etc.

For the proper evaluation of research work research methodology is very essential as it generalize research problems and its solution too. All data are collected from secondary sources; secondary sources of data are collected in order to fulfill the objective of study. To achieve objectives of the studies analysis of contribution of house and land tax in KMC and LSMC is done in this chapter. The methodology, which has been followed in the study of research design, nature and sources of data, method of data analysis tools used for analysis of data etc, which are as follows:

#### **3.2. Research Design:**

Research design is an overall plan or frame work for the collection and analysis of data. It provides the frame work for the study, guidelines for the collection and analysis of data.

In conclusion we can define that research design is a overall framework relating to problem identification to collection and presentation of the data about the findings.

The main objective of the research design is to provide answer to the research question and to control the variance.

For getting the excellent research there are created two types of research design. One is historical research design and another is descriptive research design.

Most of the data and information of the study were concerned with past phenomenon of the performance either they were numerical or opinions so it can be regarded as historical research design too. After the collection of past data and experiences, this study analyzed and described its own procedure. Thus, this study also followed an analytical as well as descriptive research design.

### **3.3. Nature and Sources of Data:**

Specially all the data in this study is based on secondary data. Which are collected from published as well as unpublished reports, circular and records of propertytax, revenue collection department of Kathmandu Metropolitan City, Bagdarbar and Lalitpur sub-metropolitan city, Pulchowk. Some of these datas are published documents of National Planning Commission, Ministry of Finance income and expenditure budget and working paper of Kathmandu Metropolitan City and Lalitpur sub-metropolitan city. Similarly 58 Municipalities survey program, a cooperation programmed of Ministry of local development NG and website of ministry of finance and LSMC. Next some information's are collected from the primary source of data collection.

### **3.4. Method of Data Analysis:**

Every information collected in starting becomes raw and they should be properly arranged and then analyzed as well as presented so that research work can give the clear picture of its finding to the readers. Data, valuable information and other things collected from different sources in raw form and in the initial stage is judging independently do not help for decision but proper arrangement of them is essential. Thus the collected information and facts have been properly processed, tabulated, for the purpose of analysis and analyzed using relevant financial and statistical tools to achieve the objective.

If we can analyses the data in the in the systematic way, it becomes very easy to find out the solution to the research problem. So method of the data analysis is very crucial task to the researcher.

### **3.5. Tools Used for Analysis of Data:**

As data analysis is very important task to the researcher, researcher must be very careful to use the tools to analyze the data. While choosing the tools, researcher must choose the best one as it can show the clear picture of the data and its finding.

In order to analyze and interpret the collective data after necessary adjustments various financial as well as statistical tools have been used. Brief explanations of such tools have been presented below:

#### **Statistical tools:**

- i. Simple percentage
- ii. Simple average
- iii. Graphs, charts, and diagrams
- iv. Regression Methods

**i. Simple percentage:**

It is the most popular tool to analyze the data in research work. As it is easy to understand the data in the percentage form most of the data in the research work are used in the percentage form.

**ii. Simple average:**

it also next popular tool in data analysis work. which gives the information about the data in average.

**iii. Graphs, Charts and diagram:**

Yes it very simple and easy to give clear picture about the data by the help of the graph, charts and diagram. It helps to understand about the data easily to everyone even to the uneducated people.

**iv. Regression:**

Regression is one of the common statically tool to analyze the data in every research work.

## **CHAPTER-IV**

### **PRESENTATION AND ANALYSIS OF DATA**

This is the fourth chapter which is the most important in the thesis writing. The main body of the thesis is presentation of the collected data and also its analysis. Here we are showing the data presentation and Analysis of House and Land or property tax of Lalitpur sub-metropolitan city. This is the major part of the study. It aims to make clear understanding about contribution of property tax in total revenue collection of the LSMC.

This chapter makes clear the real collection of the house and land tax and its contribution to total revenue collection of LSMC.

Most of the data is collected from secondary sources. Especially data are used by the help of annual budget sheet of LSMC. Some data are taken from internet and articles too.

#### **4.1. Property Tax in LSMC**

Lalitpur Su-metropolitan City is collecting house and land tax since 2055/056. This tax is playing major role in LSMC. Most of the people who live in LSMC are paying house and land tax.

Katmandu Metropolitan city has been collecting property tax since 2057 and KMC has estimated that around 1 lakh 50 thousand property tax payers in Metropolitan city but due the lack of filing and recording system does not show any sound data for regular tax payers. And absent of proper recording system only 50 percentage tax payer pay regularly. Among them most of the tax payers are corporate office like Nepal electricity Authority, Nepal Telecom Corporation etc. Which pay 40 to 42 lakhs annually, where least paying tax is individual. Most of people own property less than 10 lakhs which are not in the tax



brackets. They pay only house and land tax in the name of "Service Charge" Rs. 200 annually. In 2019 there was provision of sending bill to the individuals for the payment of house and land tax but it could not come to practice. Since it was only limited in the provision there is not any measures taken by KMC for taking any action like fine and penalty for not paying tax.

Tax planning and tax evasion is another factor which hindrance in collection for house and land tax. People reduce their responsibilities of paying tax by splitting the whole property to small valuation property to pay tax little or none.

Some people have more than one house in same name which also lead to evasion simply pay for only one house. For all this reason contribution of house and land tax seems less than in the comparison to other taxes.

As for as concerned of completion of tax payers the Government's rules and regulations on them is major focused. Nevertheless, the people of KMC and LSMC could pay the whole tax when they need recommendation or permission from municipality to use of the property as collateral, bonds etc. from the financial institute and other similar firms. Therefore it is clear that the tax payer pay the whole tax to clear the transaction. But this would be continued one after another until the Government prepares the rule concerning this aspect on each fiscal year.

#### **4.2. Total income, property tax and other incomes**

Income is must for the operation of the government as well as whole nation. Without revenue, development of the nation is impossible. So every government try to collect revenue from different sources so that it can be utilized for the welfare of the nation and its people. Among them house and land tax is most important source and others too. So we are showing the percentage of contribution of property tax (house and land) and other taxes to total revenue.

**Table No. 4.1**  
**Total income, property tax and other incomes (in 000,)**

Particular	FY 059/060	FY 060/61	FY 061/062	FY 062/063	FY 063/64	FY 064/65	FY 065/66
Total tax income (in Rs.)	102337	115895	119901	140732	233422	179818	296899
Property tax (house and land) (in Rs.)	8965	10248	11779	14539	26325	18984	36923
%of property tax	8.76	8.84	9.82	10.33	11.28	10.55	12.43
Others incomes (in Rs.)	93372	105647	108122	126193	207092	160829	259965
% of Others incomes	91.24	91.16	90.18	89.67	88.72	89.44	87.56

(Source: Income and expenditure budget of LSMC)

Table showed total tax income from property and other incomes and total income of LSMC for the last seven fiscal years of 059/60, 060/61,061/62, 062/63, 063/64, 064/65, 065/66. it also shows Total tax income from house and land tax, percentage of property tax and percentage of other taxes and figures are shown in thousand.

Total income was Rs102338 in 2059/60, which consisted 8.76% from property tax and 91.24% from other tax.. Total tax income was Rs.115895, which consisted 8.84% from property tax and 91.16% from other incomes in fiscal year 060/061. Total income was Rs.119902, which consisted 9.82% from property tax and 90.18% from other taxes and income in fiscal year 061/062. Total tax income was Rs.140732, which consisted 10.33% from property tax and 89.67%

from other taxes and income in fiscal year 062/063 of LSMC. In fiscal year 063/64, total income was 233422 which consist of 11.28% of property tax and remaining 88.72 is from other source. In 064/65, the total income is 179818 which consist of 10.55% of property tax and remaining 89.44% is other source. Now fiscal year 065/66 total income is 296899 which consists of 12.43% of property tax and 87.56% is of other source.

By studying above table it can be concluded that from fiscal year 059/60 to 062/63 property tax is in increasing trend but in o64/65 it is decreased again in 065/66 it is increased near about 2% which is great portion in comparison to earlier decrease. It means, highest collection from the property tax is 12.43% collected in fiscal year 2065/66.

#### **4.3 Estimated and Actual House and Land Tax of LSMC**

Success of every organization is depended upon the effective budgeting and its correct implementation. If we have well budgeting capacity and also it's implementing power, development of the nation is not so difficult. Here we are presenting that how much amount is budgeted for different fiscal years and how much is collected actually in this table no 4.2.

**Table No. 4.2**

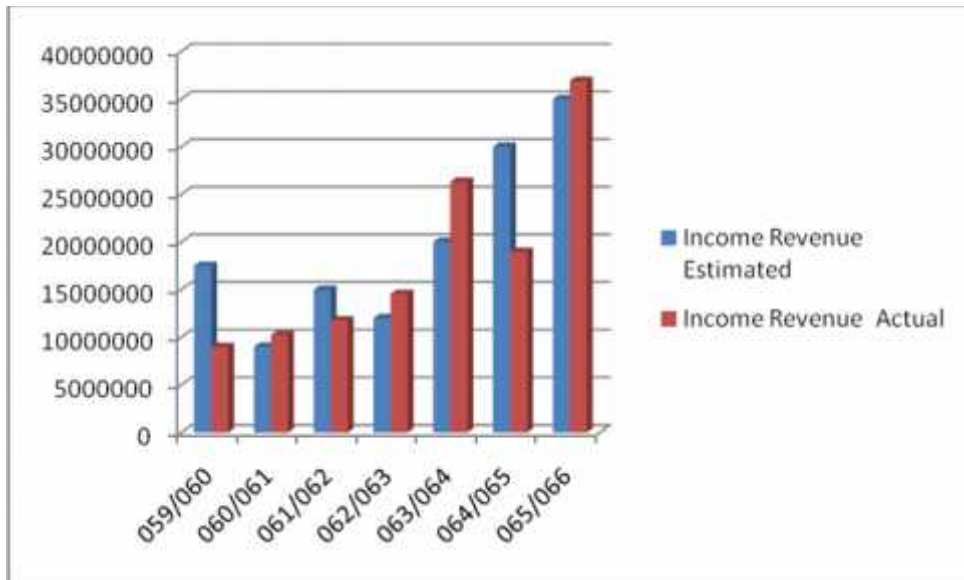
**Estimated & Actual house & land tax of LSMC**

F/Y	Income Revenue		Collection Efficiency in (%)
	Estimated	Actual	
059/060	17500000	8965758.09	51.23
060/061	9000000	10248903.97	113.87
061/062	15000000	11779393.87	78.53
062/063	12000000	14539856.07	121.16
063/064	20000000	26325147.89	131.62
064/065	30000000	18984330.65	63.28
065/066	35000000	36923983.67	105.49

(Source: Income and expenditure budget of LSMC)

**Figure No.4.1**

**Estimated & Actual house & land tax of LSMC**



Estimated and actual house and land tax of LSMC

From the above table 4.1 showed that the revenue from house and land tax was fluctuating over the last 8 years. Collection efficiency of house and land tax was around 45.72% in the first fiscal year. It had been increased in the fiscal year 056/057. This was not because of better performance of LSMC because of the decreased in budgeted amount. Collection efficiency of fiscal year 059/060 Decreased due to change in budgeted revenue. From the above data it can be said the poor calculation of budgeted and recovery of tax was not satisfied.

#### **4.4. Study about Contributions of House and Land Tax to Total Revenue of LSMC**

LSMC has internal and external source of collecting revenue among them the most important internal source is house & land tax. It is also regular source to collect internal revenue. so we can say it is playing vital role in LSMC. It contributes a lot in total revenue collection of LSMC. It can be shown in table.

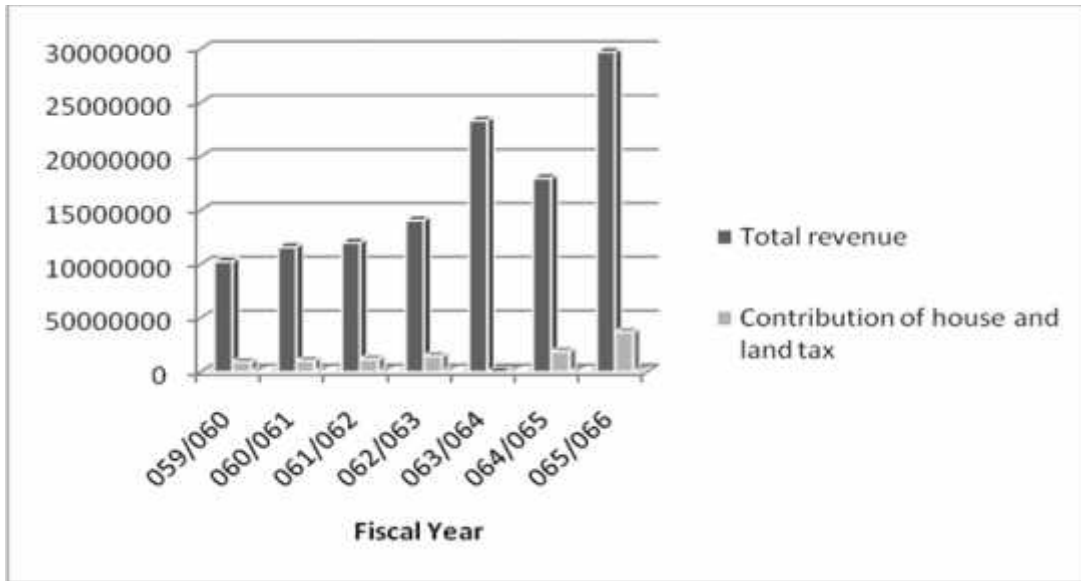
**Table No 4.3**  
**Contribution of House and Land Tax of L**

Fiscal Year	Total revenue	Contribution of house and land tax	Percent
059/060	102337615.98	8965758.09	8.76
060/061	115895824.42	10248903.97	8.84
061/062	119901836.02	11779393.87	9.82
062/063	140732264.14	14539856.07	10.33
063/064	233422005.46	26325147.89	11.28
064/065	179818529.75	18984330.65	10.55
065/066	296899289.02	36923983.67	12.43

(Source:- income and expenditure of LSMC)

**Figure No. 4.2**

**Contribution of House and Land Tax of L**



From the table and bar diagram shows that the overall revenue as well as contribution of house and land tax is increasing order from 2059/60 to 2063/64 and then it was decreased in 2064/65 again it was increased in 2065/66. we can say that the collection from the house and land tax is satisfactory in these seven fiscal year.

**4.5. Contribution of house and land tax to total local tax revenue**

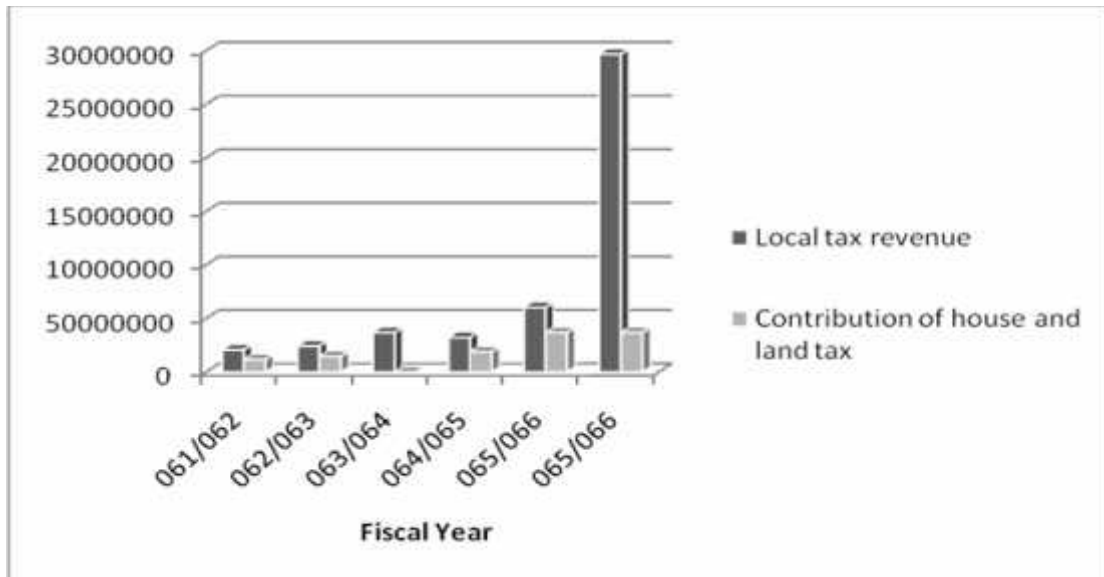
LSMC has various source of collecting revenue among them it has local revenue too. It has major role on total revenue collection. And also house and land tax is a part of local tax revenue. Here I am showing the contribution of hose and land tax on total local tax revenue of LSMC.

**Table No.4.4**  
**Contribution of House and Land Tax on local tax revenue of LSMC**

Fiscal Year	Local tax revenue	Contribution of house and land tax	Percent %
061/062	20625619.19	11779393.87	58
062/063	24422768.44	14539856.07	60
063/064	36954303.77	26325147. 89	71
064/065	32329210.93	18984330.65	59
065/066	60204051.78	36923983.67	61

(Source- budget sheet of LSMC)

**Figure No.4.3**  
**Contribution of House and Land Tax on local tax revenue of LSMC**



By studying above table and bar diagram it can be concluded that in fiscal year 2061/062 its contribution is 58% on total local revenue. In 2062/063 its

contribution is 60%. In 2063/64 its contribution is 71%. In 2064/65 its contribution is 59% and in 2065/66 its contribution is 61%. In this way in the fiscal year 2063/64 its contribution is more than 70% which is highest contribution on local revenue in these five fiscal years.

#### **4.6. Coverage of house and land tax on total expenditure of LSMC.**

As we have to expense a lot of amount for various expenditure heads, we must collect revenue from different title among them one of the important sources of revenue to cover the total expenditure is house and land tax. to show percentage covered by it we have the following table and bar diagram.

**Table No. 4.5**

#### **Coverage of house and land tax on total expenditure of LSMC**

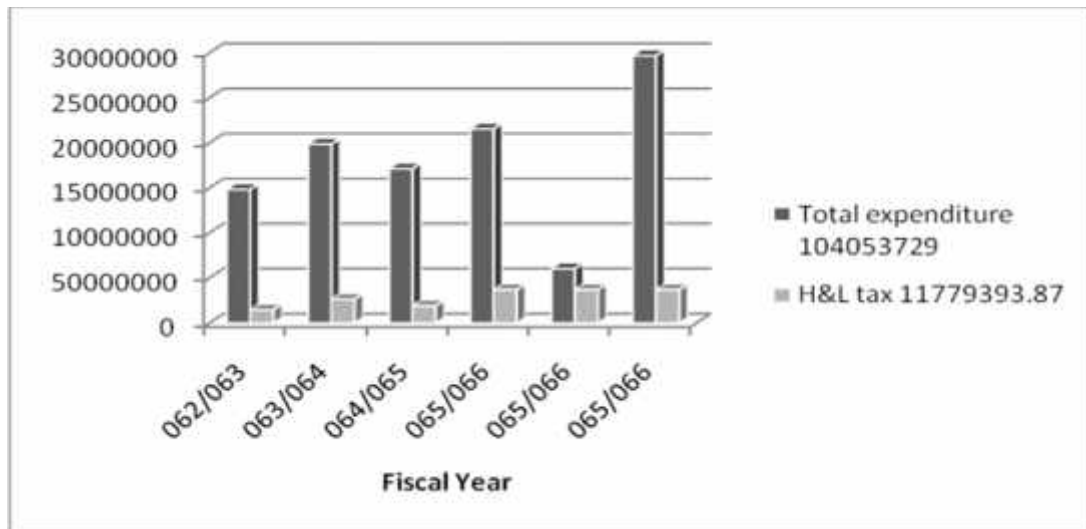
Fiscal year	Total expenditure	H&L tax	Coverage %
061/062	104053729	11779393.87	11.32
062/063	148265227.1	14539856.07	9.8
063/064	198570368.7	26325148	13.25
064/065	171166821.6	18984330.65	11.09
065/066	215441489.6	36923983.67	17.13

(Source budget sheet of LSMC)



**Figure No.4.4**

**Coverage of house and land tax on total expenditure of LSMC**



By studying above table it can be concluded that in fiscal year 2061/62 house and land tax has covered 11.32%. in 062/63 its coverage is reduced upto 9.8% but in year 063/64 its coverage is again risen upto 13.25% in fiscal year 64/65 its coverage is again decreased upto 11.09%. in fiscal year 65/66 its coverage is increased suddenly upto 17%. It shows that collection of house and land tax is fluctuating in these five fiscal years.

**4.7. Comparison of Land valuation rate in Lalitpur sub metropolitan city for the purpose of house and land tax rate in fiscal year 2063/64 & 2064/65 with fiscal year 2065/66. According to the land measurement 2038.**

Land is graded according to the land touched to the main road. Pitched road, grabbed etc. land touched with main or ring road is valued high and raw road is valued less.

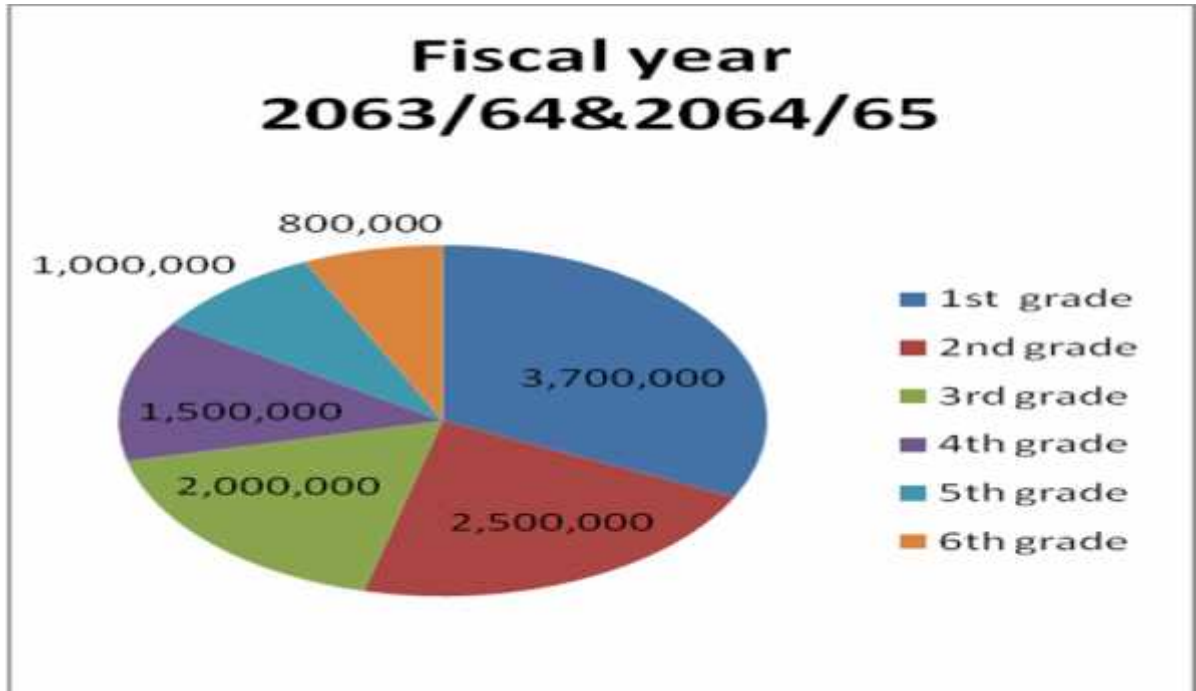
**Table No 4.6**

**Comparison of Land valuation rate in Lalitpur sub metropolitan city for the purpose of house and land tax rate**

According to land measurement of 2038	Fiscal year 2063/64&2064/65	Fiscal year 2065/66
1 <sup>st</sup> grade per sq ft	3,700,000	5,060,000
2 <sup>nd</sup> grade per sq ft	2,500,000	3,140,000
3 <sup>rd</sup> grade per sq ft	2,000,000	2,530,000
4 <sup>th</sup> grade per sq ft	1,500,000	1,870,000
5 <sup>th</sup> grade per sq ft	1,000,000	1,240,000
6 <sup>th</sup> grade per sq ft	800,000	980,000

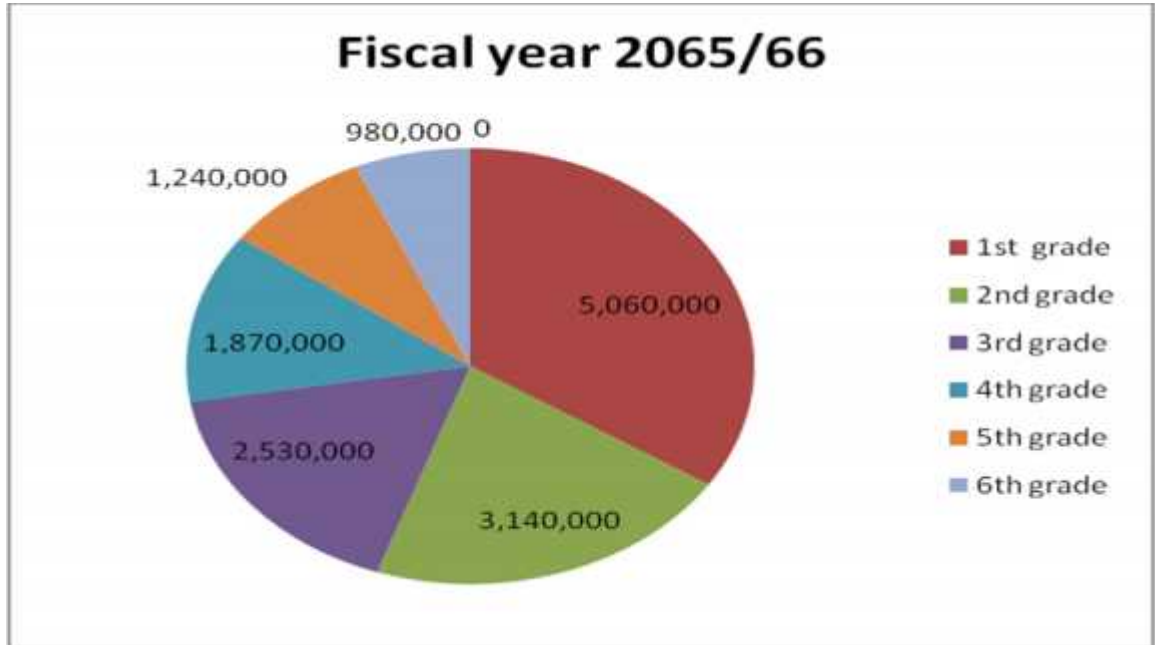
**Figure No. 4.5**

**Comparison of Land valuation rate in Lalitpur sub metropolitan city for the purpose of house and land tax rate in 2063/064 and 2064/065**



**Figure No. 4.6**

**Comparison of Land valuation rate in Lalitpur sub metropolitan city for the purpose of house and land tax rate 2065/066**



By comparing the data label of fiscal year 2063/64 & 2064/65 and fiscal year 2065/66 we can conclude that in fiscal year 2063/64&2064/65 first grade land has the value of Rs. 3,7000,000 and in 2065/66 it is increased unto 5,060,000 same as 2<sup>nd</sup> grade is 2,500,000 and 3,140,000, 3<sup>rd</sup> grade is 2,000,000 and 2,530,000, 4<sup>th</sup> grade is 1,500,000 and 1,1870,000, 5<sup>th</sup> grade is 1,000,000 and 1,240,000 and 6<sup>th</sup> grade is 800,000 and 980,000 respectively. In this way we can say that the valuation rate of land is increased in fiscal year 2065/66 than fiscal year 2063/64 and 2064/65.

**Empirical Investigation**

An empirical investigation has been conducted in order to find out various aspects of tax imposition in LSMC. This chapter analyzes information collected from primary sources, i.e. through questionnaire. The questionnaires were distributed to tax related employees and taxpayers of LSMC. The response

received from various respondents has been arranged tabulated and analyzed in order to facilitate the descriptive analysis of the study. The respondents were requested to response on questionnaire by two ways:

They could response simply by yes or no response

They could response by ranking the choices starting from 1-5

#### Denominations of Respondents Sample Size Code Used

1 Tax administrators (A)

2 Tax payers (B)

3 Distributed Questionnaires 75

4 Total numbers of respondents are 50

### **4.7.1 House and land tax a Suitable Means of Raising Revenue of Local Body**

In order to know whether house and land tax as a suitable means of rising revenue of local body, a question was asked; “Do you consider that the house and land tax is a suitable means of raising revenue of local body”? The responses are as presented in the table.

**Table No.4.7**

#### **Tax as a Suitable Means of Raising Revenue of Local Body**

Respondents	No for Yes	% for yes	No for no	% for no	Total	%
A	20	80	5	20	25	100
B	18	72	7	28	25	100
Total	38	76	12	24	50	100

From the above table clear that 76% of the respondents are in favors’ of house and land tax as a suitable means of raising the revenue. And 24% are against.

Hence house and land tax is a suitable means of revenue and it should be increased.

#### 4.7.2 Tax Evasion Practices

In order to find out whether tax evasion is practiced or not, one question was asked, “Is a tax evasion major constraint for tax collection” Do you agree with this statement? The response of respondents is tabulated as below.

**Table No. 4.8 (A)**  
**Tax evasion is major constraint for tax collection**

Respondent	No for Yes	% for yes	No for no	% for no	Total	%
A	22	88	3	12	25	100
B	15	60	10	40	25	100
Total	37	74	13	26	50	100

The above table reveals that 74% respondents supported tax evasion as a major problem of tax collection system of LSMC and only 26% were against to the above view. There may be various reasons for wide spread tax evasion. In order to know the main reasons for tax evasion, the respondents were provided five reasons and requested to rank them. The responses received are tabulated as below

**Table No. 4.8(B)**

**Tax evasion major constraint and Reason for tax evasion**

S. N	Reason for tax evasion	Group A	Group B	Total points	Percent	Rank
1	Inappropriate Tax Rate	5	3	8	16	4
2	Limited no of Tax Payer	2	4	6	12	5
3	Poor Enforcement of Fine and Penalties	7	5	12	24	2
4	Corruption in Tax Authority	4	5	9	18	3
5	Defective Tax Laws	7	8	15	30	1
	Total	25	25	50	100	

There was good response from the respondents. 30% of the respondents thought that defective tax law is main reason of tax evasion of Nepal. 24% of the respondents thought that it is due to poor enforcement of fine and penalty system of Nepal. 18% of the respondent said it is due to corruption in tax authority. 16% respondent said that it is due to inappropriate tax rate and 12% respondent said that tax evasion of Nepal is due to limited no of tax payers.

From the above result, the reason for tax evasion can be ranked like this:

- a. Defective tax law.
- b. Poor enforcement of fine and penalty system
- c. Corruption in tax authority
- d. Inappropriate tax rate.
- e. Limited no of tax payers.

### 4.7.3. Attitude towards Provision of Fees, Fines and Penalties

Self-Governance Act, 2055 and Self-Governance Regulation, 2056 have the provision of fees, fine and penalties for the regulation of law. To find out the reasonability of these provisions, a question was asked “Are the provisions of fine and penalties under tax system are reasonable?” the responses are presented as below.

**Table No.4.9**  
**Attitude towards Reasonability of Existing Provisions of Fees, Fines and Penalties**

Respondents	No for Yes	% for yes	No for no	% for no	Total	%
A	16	64	9	36	25	100
B	14	56	11	44	25	100
Total	30	60	40	26	50	100

*Source: Option Survey*

Above table shows that 60% of respondents expressed that provisions of fees and penalties are reasonable and 40% respondents have not taken the provision of fees and penalties as reasonable.

The respondents who were against provision of fine and penalties a question was asked, “How should be make reasonable”? The responses are as follows

**Table No.4.10**

**Measures for making the provision of fine and penalties reasonable.**

Respondents	By increasing	%	By decreasing	%	Total	%
A	6	67	3	33	9	100
B	5	46	6	54	11	100
Total	11	55	9	45	20	100

It is clear from above table that 55% of respondents who do not agree the Provision of fine and penalties as reasonable felt that it should be increase and 45% felt it should be decreased.

**4.7.4. Necessity of Tax Awareness Programs to Public**

To know the necessity of tax awareness programs to public, a question was asked;“Do you think tax awareness programs to public are necessary for raising tax revenue of LSMC?” The responses have been tabulated as below.

**Table No.4.11**

**Necessity of tax awareness program**

Respondents	No of yes	%	No of no	%	Total	%
A	22	88	3	12	25	100
B	25	100	0	0	25	100
Total	47	94	3	6	50	100

*Source: Option Survey*



From the above table it has been cleared that 94% of respondents are in support of questions “Do you think tax awareness programs to public is necessary for raising tax revenue of LSMC?” and 6% of respondents were in against the questions.

Hence it can be concluded that tax awareness is necessary to public to increase consciousness of the taxpayer and easy collection of the tax by making feel the tax payer that they are fulfilling the duty of the good citizen

For making the public welfare program effective, tax authority should provide tax education to the public so that taxpayers can understand the importance and use of tax. And also need to do advertisement about the tax though the media like T.V, Radio etc as a result public encourage to pay tax and can collect the revenue.

**4.7.5. Property tax collection is sufficient or not**

Do you think that the contribution of house and land tax to total revenue of LSMC is sufficient?

If it house and land tax is not sufficient, how can it be increased? Rank it.

**Table No.4.12**  
**Property tax collection is sufficient or not**

Respondents	No of yes	%	No of no	%	Total	%
A	7	28	18	72	25	100
B	10	40	15	60	25	100
Total	17	34	33	66	50	100

From the above table it is clear that 66% of the respondent said it is not sufficient collection of the revenue in LSMC and 34% of the respondent said it is sufficient. For the second question, the respondents were provided four ways of increasing the tax revenue and requested to rank them. The responses received are tabulated as below.

**Table No.4.13**  
**Ways of increasing H&L tax.**

S.N	Ways of increasing H&L tax.	Group A	Group B	Total points	Percent	Rank
1	By increasing tax rate	5	3	8	16	4
2	By identifying new tax area	6	6	12	24	3
3	By regular evaluation and monitoring	5	8	13	26	2
4	By awareness programs	9	8	17	34	1
	Total	25	25	50	100	

By the help of the points we can rank the important facts that Respondents had given more points to the by awareness program. That means tax revenue can be increased by increasing the public awareness program which got 34%. 26% of the respondent said that revenue can be increased by regular evaluation and monitoring. 24% of the respondent said that it can be increased by finding new tax area and 16% of the respondent thought that it can be increased by increasing the tax rate.

The ways of increasing property tax in rank wise

1. By awareness program
2. By regular evaluation and monitoring
3. By identifying the new tax area.
4. By increasing the tax rate.

**4.7.6. House and land tax is major source of revenue or not**

To get answer, one question is asked,” Do you think that house and land tax is major source of revenue collection of local tax revenue?”

**Table No.4.14**

**House and land tax is major source of revenue or not**

Respondents	No of yes	%	No of no	%	Total	%
A	9	36	16	64	25	100
B	7	28	18	72	25	100
Total	16	32	34	68	50	100

From the above table it is found that 68% of the respondent thought that house and land tax is not a major source of revenue of LSMC and 32% had said it is major source of revenue.

**4.2.7. Decreasing the gap between actual and budgeted house and land tax**

To get answer for above, one question is asked,” How can LSMC decrease gap between the actual and budgeted house and land tax?”

The answer is tabulated like this.

**Table No.4.15**

**Decreasing the gap between actual and budgeted house and land tax**

S	Ways of decreasing gap	Group A	Group B	Total points	Percent	Rank
1	By making tax administration system effective.	7	10	17	34	2
2	By decreasing tax evasion	10	8	18	36	1
3	By applying the strict punishment system to tax payer who does tax evasions.	8	7	15	30	3
	Total	25	25	50	100	

From the above table it is clear that the gap between actual and budgeted tax can be decreased by decreasing tax evasion, by applying tax administration system effective and by applying the strict punishment system to tax payers who does tax evasion. It can be taken action rank wise:

- i. By decreasing tax evasion
- ii. By applying the strict punishment system to tax payer who does tax evasions.
- iii. By making tax administration system effective

**4.2.8. Suggestion for achieving the effective house and land tax collection**

To know the other important factors for effectiveness of tax system, a question was asked, "Do you have any suggestion for achieving the effective house and land tax collection?"

The responses are as follows.

1. Development of check and balance system
2. Changing tax administration
3. Use of information technology
4. Provide tax education
5. Apply reward and discount system effectively to encourage tax payer to pay tax.

It makes clear that if we want to collect house and land tax revenue effectively, we can use above idea.

### **4.3. Major findings**

The study has shown the role of the property tax revenue structure, total revenue, contribution trend, collection efficiency, composition of property tax of LSMC. There are 22 wards in LSMC. And LSMC has started to collect property tax since 2057. According to the secondary data presentation the major findings are as follows:

- i. While studying the total income, property tax and other income, the highest contribution of property tax on total income was in fiscal year 2065/66 that is 12.43% and lowest was 8.76% in 2059/60 and the property tax revenue was in increasing trend up to fiscal year 2063/64 then decreased in F/Y 064/65 and again increased.
- ii. In the fiscal year 2065/66 there is highest contribution of house and land tax is 12.43% and in fiscal year 2059/60 that is of 8.76% which is lowest.
- iii. While studying the budgeted and actual collection of property tax, the highest collection efficiency was in fiscal year 63/64 i.e 131.62% and lowest is in 059/60 i.e 51.33%.
- iv. In the fiscal year 062/63, total expenditure was 148265227.1 and total house and land tax was collected 14539856.07 where house and land tax has covered 9.8% in total expenditure which is lowest and in fiscal year 065/66

there was 171166821.6 total expenditure and house and land tax collected was 36923983.67 which has covered 17.13% that was highest coverage.

- v. In fiscal year 061/62 there was local tax collected by 20625619.19 and house and land tax collected by 11779393.87. The percentage coverage was 58 which was lowest and in fiscal year 63/64 local tax was 36954303.77 and house and land tax was 26325147.83 the coverage was 71% which was highest.
- vi. As it is compared with the local tax revenue, the highest contribution was 71% in the fiscal year 2063/64 and the contribution was in fluctuating trend during the five fiscal years.
- vii. While study of the valuation rate of the land it is concluded that the valuation rate was increased in fiscal year 2065/66 that fiscal year 2063/64 and 2064/65.

**On the basis of the empirical analytical analysis some of the major findings are summarized below:**

- i. House and land tax is a suitable means of raising revenue on local body and it should be increased to increase the revenue of LSMC.
- ii. Near about 60% of respondents expressed that provisions of fees and penalties are reasonable and 40% respondents have not taken the provision of fees and penalties as reasonable.
- iii. Tax evasion is a major problem of tax collection system of LSMC and There are various reasons for wide spread tax evasion. they are:
  - a. Defective tax law.
  - b. Poor enforcement of fine and penalty system
  - c. Corruption in tax authority
  - d. Inappropriate tax rate.
  - e. Limited no of tax payers.

- iv. Tax awareness program is necessary to public to increase consciousness of the taxpayer and easy collection of the tax by making feel the tax payer that they are fulfilling the duty of the good citizen. For making the public welfare program effective, tax authority should provide tax education to the public so that taxpayers can understand the importance and use of tax. And also need to do advertisement about the tax through the media like T.V, Radio etc as a result public encourage to pay tax and can collect the revenue.
- v. As property tax collecting by LSMC is not sufficient, it can be increased by the following ways: By awareness program, by regular evaluation and monitoring, by identifying the new tax area, by increasing the tax rate.
- vi. The gap between actual and budgeted tax can be decreased by decreasing tax evasion, by applying tax administration system effective and by applying the strict punishment system to tax payers who does tax evasion.
- vii. LSMC management must do the development of check and balance system, use the good information technology, provide good tax education from the junior level, change in tax administration and apply reward and punishment system effectively to get high revenue collection from the house and land tax and as a whole tax.

## **CHAPTER - V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1. Summary**

There are various developing countries in the world among them Nepal is one It is suffering from economic disaster. To increase the government revenue Nepalese government is trying to extract money or valuable contribution from people through taxation. Government is increasing the area of the tax revenue in these days, like malpot kar, excise duty, octroi duty, vat, entertainment tax, vehicle tax, property tax, house rent tax, etc among them Urban house and land (property) tax is the important resource of government revenue.

Nowadays the Nepal Government is heading towards the federal republic country. Economic freedom is the most important condition to get success for this purpose. Especially local government should be independent economically, technically and politically. In this connection the internal source of revenue is more reliable source for the successful operation of any government body.

For this purpose the government has to formulate effective and result oriented rules and regulation to collect tax. Not only effective rules and regulation are important to collect revenue but also effective implementation of rules and regulations is equally important. In Nepal, property tax was introduced by finance act, 1959 A.D. It was implemented under property tax Act in 1960 A.D. Due to ineffectiveness in collecting revenue. It was replaced by urban house and property tax later. Urban house and land tax was introduced in 1962 A.D. for the purpose of collecting revenue from urban house and land property. Initially, this tax was introduced in Kathmandu, Lalitpur, Bhaktapur Biratnagar, Birgunj, Nepalgunj, Rajbiraj Janakpur and Butwal. Later in 1963/64 it was introduced to Bhadrapur and Dharan in 1964/65 and Bhairwa, pokhara, Palpa and Hetauda in



1973/74 A.D. The interim government of 2047 B.S. Again introduced property tax in 1990 A.D. by the finance act in beginning and by property tax act 1990. After the introduction of local self-government act in 1999, property tax is given to local bodies.

Property taxes are generally mobilized for the benefits of public in the local community. There are basically two types of property taxes given to VDC's and municipalities. House and land tax and unified property tax. Property taxes are based on market value. Different countries has a used a reformed property tax. Some property tax assets are rebated. The study has focused the role of property tax revenue structure, contribution, trend and composition of house and land tax of Lalitpur sub-metropolitan city. And following points can be summarized from the whole study.

While property tax is applied it has fix rule to charge property tax. i.e

A person should not have to pay upto the property having value of 10 lakhs. Then in next 10 lakhs he has to pay 300, and in next 30 lakhs he has to pay 0.05% then he has to pay 0.25% in next 50 lakhs and then he has to pay 0.5% on next 1 crore and 1.5% in remaining property. In this way house and land tax rate has been fixed by self government of Nepal to make easy tax collection so that tax can be collected more from the rich and utilized for the welfare of poor. Similarly the house is classified according to nature of its construction and also raw material used for building and also given life and depreciation percentage so that house can be valued properly for charging the tax.

If house is made up of green brick, its life is 25 years, depreciation is 3% and cost is 450 per square ft. If house is of klin bricks with mud mortar, its life is 30 years, depreciation is 2% and cost is 525 per square ft.

If house is of klin brick with cement mortar, its life is 70 years, depreciation is 1% and cost is 575 and if house is of R.c.c frame structure, its life is 100 years,

depreciation is 75% and cost is 635 per square ft. In the fiscal year 2065/66 there is highest contribution of house and land tax is 12.43% and in fiscal year 2059/60 that is of 8.76 which is lowest. While studying The budgeted and actual collection of property tax, the highest collection efficiency was in fiscal year 63/64 i.e 131.62% and lowest is in 059/60 i.e 51.33%.

In the fiscal year 062/63, total expenditure was 148265227.1 and total house and land tax was collected 14539856.07 where house and land tax has covered 9.8% in total expenditure which is lowest and in fiscal year 065/66 there was 171166821.6 total expenditure and house and land tax collected was 36923983.67 which has covered 17.13% that was highest coverage.

In fiscal year 061/62 there was local tax collected by 20625619.19 and house and land tax collected by 11779393.87. The percentage coverage was 58 which was lowest and in fiscal year 63/64 local tax was 36954303.77 and house and land tax was 26325147.83 the coverage was 71% which was highest.

## **5.2. Conclusion**

Nepal is one of the lowest taxed economies in the world. It has been suffering from social and economic problems. The government of Nepal is not being able to collect necessary government revenue to cure such problems. Due to poor performance on internal revenue collection and mobilization, the Government of Nepal has still depended on foreign grants and loans. The dependency is increasing which is not desirable for any economy. Thus remedy should be made in due time by the country to run in the path or economic development.

Its contribution to government revenue is not regarded satisfactory comparison to other taxes of Nepal government. Its contribution to the revenue structure of the country is negligible due to various reasons as mention below.

Most of the Nepalese people are not aware of property tax. Due to lack of tax education property holder are deprived from right of paying tax. If they are informed effectively about the property tax can expect the increase in tax volume as well as paying house and land tax time.

In the administrative aspect there are a lot of weakness for efficient administration, and collection of this tax. There must be high degree of honesty and morality.

This available resources in the country, which are collected through the foreign and domestic sources and large profit margins in the urban areas is diverted and invested towards real state and luxury housing in Nepal. As stated above the investment in such sector creates a boom in the economy. Consumption of luxury goods may increase because of which the economy is pushed into high inflation. Therefore, in this respect proportional tax on property (house and land tax) in an equitable and justifiable manner will help, discourage the investment in real estate and reduce the consumption of luxury goods as well. Such reduction of investment an unproductive sector of the available resources will tend to diversify into productive sector of an economy. The revenue administration in Nepal is weak because of lack of the tax policies with a clear direction and consistency in a long run perspective lack of information and records, lack of trained staff and heavy dependence on non-technical staff, lack of proper accounting and auditing system in general for business firms. However, house and land tax laws and administration in Nepal are to be deeply scrutinized but not properly implemented. Manpower development planning within the administration is desired for the efficiency of tax personnel side by side. Tax educations packages are to be made and initiated hence tax administration and tax compliance could be improved.

Due to various problems related to property tax, revenue collection from property tax is relatively low in LSMC. For economic development of Nepal, the problems relating to property tax system in Nepal should be solved and resources should be effectively utilized.

### **5.3. Recommendation**

Tax is one of the most important internal sources of government revenue. As there are certain types of source of government which have the vital role in the coverage of the expenditure in the budget. There are direct and indirect tax among them property tax is one important direct tax.

Property tax has been accepted as an important source of government revenue of Nepal. The growing need of resource for the development of Nepalese economy can be met through effective large volume of property tax. Though there are number of problems, the contribution of property tax is likely to be significant in the future. In the light of findings of the present study, the following specific suggestions have been recommended for the sound and effective property tax system.

- 1) House and land tax rate, discount rate, prize and other motivating factor should be advertised by newspaper, TV, Radio etc. to attract and motivate tax payers.
- 2) LSMC should organize seminar and meeting of house and land tax for improvement.
- 3) Municipality should mobilize its resources properly for the welfare of the local people.
- 4) Local people of LSMC, some of them are not educated and doesn't have the understanding about the house and land tax. So LSMC should provide informative knowledge to the local people regarding house and land tax.

- 5) Appeal and penalty system of house and land tax should be used in practice not only in legal provision.
- 6) LSMC should give detail information about current house and land tax to tax collector and tax payer.
- 7) LSMC should motivate to house and land tax payers by offering discount, prizes etc.
- 8) In the absence of proper record keeping system of tax the government do not look and determined about the status of revenue so, it is necessary attention should be focus on proper accounting system (i.e. computerized billing system)
- 9) In local tax authorities should made the provision of tax policy as to provide incentive, reward and prize who pay tax as regularly barriers and whose contribution has highest in the composition of portfolio of taxpayers
- 10) Local property tax should be guided as per market based as well as the use basis by taxpayer.
- 11) Local people are not satisfied with the administration, so they should provide door service.
- 12) There should be the record and inquiry of suspected house and land tax payers
- 13) Field visit should be done to collect actual information of house and land tax.
14. Tax officer should be motivated to collect the tax fairly.
15. Tax administration should be very sensitive while doing the valuation of the land and also the charging the tax on house and land.
16. Tax Education should be started from the school level.
17. It will be effective if tax payer can be benefited directly too.
18. Municipality should be able to make sure taxpayer that they are paying the tax for the sake of nation and also convince that they are doing their duty.

By the points given, we can conclude that to have the efficient tax collection and effective tax administration, government should launch various programs so that tax payer can feel that paying the tax is their duty they are paying the tax for the development of the country. They are obeying the duty of the good citizen. Until and unless, we can make feel the people themselves their responsibilities, government cannot collect the tax effectively. So the different program relating to the tax should be organized.

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## APPENDIX – I (A)

Example:-

Mrs. Shiva Shrestha has the following details of his house located Lalitpur Sub-Metropolitan City.

Mode of construction Kiln bricks with mud and mortar

Total area of house 6000 sq. feet

Land and compound 3 ropani

Year of construction 2048 B.S.

Government valuation of land Rs. 3, 00,000 per ropani

Solutions:

Valuations of house and land

Area of house = 6000 sq. feet

Type of house = kiln bricks with mud mortar

Valuation rate per sq. feet = 525

Total valuation of house =  $525 \times 6000 = 3150000$

Year of construction = 2048 Ashad = 2049 Counted

Year for Dep<sup>n</sup> 2066-48 = 18 years

Dep<sup>n</sup> rate = 1% year to taken = 18

Dep<sup>n</sup> amount =  $1\% \times 3150000 \times 18 = 567000$

Valuation of house after dep<sup>n</sup> =  $3150000 - 567000 = 2583000$

Area of land = 3 ropani

Valuation of land = 300000

Total value of land =  $3 \times 300000 = 900000$

Total value of land and house =  $900000 + 2583000 = 3483000$

Tax liability

Slab	Tax rate	Tax amount
First 1000000	0	0
Next 1000000	-	Rs. 300
Next 300000	0.05%	Rs. 1500
Next 1513000	0.25%	Rs. 3782.5
Total tax liability		5582 5.5

Here, Total Valuation of House and Land = Rs. 6513000

Total Tax Liability = Rs. 5582.5

## Appendix 1. (B)

Example

Mrs. Urmila has owned following house and land in Lalitpur sub- municipality.

Particular	House 1	House 2
Mode of construction	Klin bricks with cement mortar	Green bricks with mud mortar
Total area of house	1500sq ft.	1000 sq ft.
Land area	3 kattha	4 kattha
Year of construction	2047/48 B.S	2059/60 B.S
Government valuation per kattha	3,00,000	8,00,000

## Solution

### a. Computation of value of house and land

Particular	<u>Rs.</u>
House 1.: valuation of house Klin brick with cement mortar 1500sq.ft *575 per sq. ft	8,62,500
Less: Depreciation( 1%*19 years* 862,500)	<u>1,63,625</u>
Net value of house	6,98,625
Add: value of land( 3,00,000per kathha* 3 kattha)	<u>9,00,000</u>
Value of house 1 and land	15,98,625
House 2: Valuation of house Green brick with mud mortar ( 1000sq.ft *450 per sq.ft)	4,50,000
Less: Depreciation(3%*7 years * 450000)	<u>94,500</u>
Net value of house	355500
Add: value of land ( Rs. 800000 per kattha*4 kattha)	<u>32,00,000</u>
Value of house 2 and land	35,55,500
Total value of house and land( house1&house2)	51,54,125

### b. Computation of tax liability

First Rs. 10,00,000	Nil
Next Rs. 10,00,000	Rs. 300
Next Rs. 30,00,000@0.05%	Rs. 1500
Next Rs 1,54,125@.0.25%	Rs. <u>385.31</u>
Total tax liability	2,185.31

**Working notes:** House1, 2066/67-2047/48=19 years.2066/67-2059/60= 7 years

Dear sir/madam,

I would like to introduce myself as a student of Shanker Dev campus, Master of Business Studies,(MBS) final year. I am going to prepare a thesis Entitled “Contribution of house and land tax (property tax) to total revenue of LSMC” to fulfill the partial requirement of Tribhuvan University (TU)

This questionnaire has been developed and presented to you in order to get some of your valuable time for your important suggestion concerning with tax system of LSMC and as a whole Nepal which will be very useful to complete my research work.

I assure that the information you provide will be confidential.

I am looking for your cooperation and support as soon as possible.

Thanks for your cooperation!

Sincerely yours  
RajKumari Shrestha

## QUIONNAIRE-2(A)

The format sent for the questionnaire purpose is:

**Name:**

**Designation:**

**Office/organization:**

**Occupation:**

Please tick ( ) the answer of your choice or wherever appropriate put in order of preference from one to last number where 1 is the most important and last will be least one.

1. Do you think that the tax is a suitable means of raising revenue of local body?

a. Yes [ ]

b. No [ ]

2. Is a tax evasion major constraint for tax collection system of LSMC?

a. yes [ ]

b. No [ ]

If so what are the reason for tax evasion? Please rank.

1. Corruption in tax authority
2. Limited number of tax payers
3. Poor fine and penalty system
4. Defective tax law
5. Inappropriate tax rate

3. Are the provision of fine and penalties under tax system reasonable?

a. yes [ ]

b. No [ ]

If not, how should it be made reasonable?

a. by increasing [ ]

b. by lowering [ ]

4. “Do you think tax awareness programs to public are necessary for raising tax revenue of LSMC?

- a. Yes ( )
- b. No ( )

If yes how can be made effective program to encourage the taxpayers to pay tax?

.....  
.....  
.....

5. Do you think that the contribution of house and land tax to total revenue of LSMC is sufficient?

- a. Yes [ ]
- b. No [ ]

If no, how LSMC could increase tax revenue? (Please rank according to priority)

- a. By increasing tax rate [ ]
- b. By identifying new tax area [ ]
- c. By regular evaluation and monitoring [ ]
- d. By awareness programs [ ]

6. Do you think that house and land tax is major source of revenue collection of local tax revenue?

- i. yes ( )
- ii. No ( )



7. How can LSMC decrease gap between the actual and budgeted house and land tax?

i. By making tax administration system effective.

ii. By decreasing tax evasion

iii. By applying the strict punishment system to tax payer who do tax evasions.

8. Do you have any suggestion for achieving effectiveness in house and land tax collection system?

.....  
.....