

**CONTRIBUTION OF INCOME TAX FROM PUBLIC ENTERPRISES
TO GOVERNMENT REVENUE OF NEPAL**

A Thesis

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RECOMMENDATION

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DECLARATION

I hereby proclaim that the thesis work entitled "Contribution of Income Tax From Public Enterprises to Government Revenue of Nepal" submitted to Balkumari College, Faculty of Management, Tribhuvan University is my original work for the partial fulfillment of the requirement for the Master's Degree of Business studies (M.B.S.) under the supervision of Mr. Bhim Narayan Adhikari lecturer of Balkumari College Narayangarh Chitwan.

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TABLE OF CONTENTS

Recommendation	i
Viva-voce Sheet	ii
Declaration	iii
Acknowledgement	iv
Table of Content	v-vii
List of Table	viii-ix
List of Figure	x
List of Appendix	xi
Abbreviation	x

Page No.

CHAPTER-I: INTRODUCTION **1-10**

1.1 Background of the Study	1
1.2 Statement of Problem	3
1.3 Objectives of the Study	7
1.4 Focus of the Study	8
1.5 Importance of the Study	8
1.6 Limitation of the Study	9
1.7 Organization of the Study	9

CHAPTER-II: REVIEW OF LITERATURE **11-35**

2.1 Theoretical Framework	11
2.1.1 Concept of Tax and Income Tax	11
2.1.2 Review of Historical Tax System in Nepal	13
2.1.3 Income Tax in Modern Nepal	14
2.1.3.1 Business Profit and Remuneration Tax Act 1960 (2017)	14
2.1.3.2 Income Tax Act 1962 (2019)	15
2.1.3.3 Income Tax Act 1974 (2031)	16
2.1.3.4 Income Tax Act 2002 (2058)	17
2.1.4 Income Tax in the International Context	20
2.2 Review of Related Studies	21
2.3 Research Gap	35

CHAPTER-III: RESEARCH METHODOLOGY	36-41
3.1 Research Design	36
3.2 Population and Sample	36
3.3 Nature and Source of Data	37
3.3.1 Primary Source of Data	37
3.3.2 Secondary Source of Data	37
3.4 Method of Data Collection	38
3.5 Method of Data Processing and Analyzing	38
3.5.1 Simple Average	38
3.5.2 Rank Correlation	39
3.5.3 Regression Analysis	39
3.5.4 Various Graph, Charts and Diagrams	40
3.5.5 Hypothesis Test	40
3.6 Weight of Choice	41
CHAPTER-IV: PRESENTATION AND ANALYSIS OF DATA	42-87
4.1 Income Tax Structure	42
4.1.1 Tax GDP Ratio of SAARC and Other Selected Countries	42
4.1.2 Tax-GDP and Revenue-GDP Ratio in Nepal	43
4.1.3 Structure of Government Revenue in Nepal	44
4.1.4 Contribution of Tax and Non-Tax Revenue in Total Revenue	49
4.1.5 Percentage of Tax Revenue in GDP	51
4.1.6 Composition of Direct and Indirect Revenue in Nepalese Tax Revenue	52
4.1.7 Contribution of Various Taxes as Percent to GDP	54
4.1.8 Composition of Direct Tax	56
4.1.9 Structure of Income Tax in Nepal	59
4.1.10 Contribution of Income Tax to GDP, Total Revenue, Total Tax Revenue and Direct Tax Revenue	62
4.1.11 Business Exemptions, Exempt Amount and other Concessions	65
4.2 Contribution of Income Tax from Public Enterprises to Government Revenue	67
4.2.1 Meaning of Public Enterprises	67

4.2.2	Role of Public Enterprises in Nepalese Economy	67
4.2.3	Contribution of Income Tax from PEs to GDP of Nepal	69
4.2.4	Contribution of Income Tax from Public Enterprises to Government Revenue of Nepal	70
4.2.5	Contribution of Income Tax from Public Enterprises to Tax Revenue of Nepal	71
4.2.6	Contribution of Income Tax from EPs to Direct Tax Revenue	72
4.2.7	Contribution of Income Tax from Public Enterprises to Total Income Tax	73
4.2.8	Contribution of Income Tax from Public Enterprises to Corporate Income Tax	74
4.2.9	Estimate and Collection of Income Tax in Nepal	75
4.3	Empirical Study	75
4.3.1	Attitude towards Income Tax System in Nepal	76
4.3.2	Attitude towards Poor Tax Paying Habit of Nepalese People	79
4.3.3	Attitude towards Income Tax Administration of Nepal	81
4.4	Major Findings	83

CHAPTER-V: SUMMARY, CONCLUSION AND RECOMMENDATIONS 88-99

5.1	Summary	88
5.2	Recommendations	90
5.3	Conclusion	96

Bibliography

Appendix

LIST OF TABLE

Table No.	Title	Page No.
1.1	Research Gap in Nepal	4
1.2	Contribution of Direct Tax and Indirect Tax on Total Tax Revenue	6
3.1	Groups of Respondents and Size of Sample from Each Group	36
4.1	Tax GDP Ratio of SAARC and Other Selected Countries	42
4.2	Tax GDP and Revenue GDP Ratio in Nepal	43
4.3	Structure of Government Revenue in Nepal	46
4.4	Structure of Government Revenue in Nepal (In Percent)	47
4.5	Contribution of Tax and Non-Tax Revenue in Total Revenue	49
4.6	Percentage of Tax Revenue in GDP	51
4.7	Composition of Direct and Indirect Tax Revenue in Nepalese Tax Revenue	52
4.8	Contribution of Various Taxes as Percent to GDP	54
4.9	Composition of Direct Tax	56
4.10	Composition of Indirect Tax	57
4.11	Structure of Income Tax in Nepal	59
4.12	Contribution of Income Tax to GDP, Total Revenue, Total Tax Revenue and Direct Tax Revenue	62
4.13	Contribution of Income Tax from Public Enterprises to GDP of Nepal	69
4.14	Contribution of Income Tax from Public Enterprises to Government Revenue of Nepal	70
4.15	Contribution of Income Tax from Public Enterprises to Tax Revenue of Nepal	71
4.16	Contribution of Income Tax from Public Enterprises to Direct Tax Revenue	72
4.17	Contribution of Income Tax from Public Enterprises to Total Income Tax	73

4.18	Contribution of Income Tax from Public Enterprises to Corporate Income Tax	74
4.19	Estimate and Collection of Income Tax in Nepal	75
4.20	Group of Respondents and Code Use	76
4.21	Attitude towards Income Tax System in Nepal	77
4.22	Major Problems of the Nepalese Income Tax System	78
4.23	Attitude towards Poor Tax Paying Habit of Nepalese People	79
4.24	Major Causes of Poor Tax Paying Habit of Nepalese People	80
4.25	Attitude towards Income Tax Administration of Nepal	81
4.26	Causes of Inefficient Income Tax Administration of Nepal	82

LIST OF FIGURE

Figure No.	Title	Page
No.		
4.1	Composition of Tax-GDP and Revenue GDP Ratio	44
4.2	Contribution of Tax and Non-Tax Revenue in Total Tax Revenue	50
4.3	Composition of Direct Tax and Indirect Tax Revenue in Nepalese Revenue	53
4.4	Composition of Total Direct Tax Revenue	57
4.5	Composition of Indirect Tax	58
4.6	Structure of Income Tax in Nepal	60
4.7	Income Tax as a Percentage of GDP	63
4.8	Income Tax as a Percentage of Total Revenue	64
4.9	Income Tax as a Percentage of Total Tax Revenue	64
4.10	Income Tax as a Percentage of Direct Tax Revenue	65

LIST OF APPENDICES

App. No.	Title of Appendixes	Page No.
I	Questionnaire	103
II	Major Problems in Nepalese Income Tax System	104
III	Details of Existing PEs	107
IV	List of Privatized/Liquidated PEs	113

ABBREVIATIONS

CEDA	:	Centre for Economic Development and Administration.
FY	:	Fiscal Year
G/N	:	Government of Nepal
GDP	:	Gross Domestic Product
GNP	:	Gross Net Product
HMG/N	:	His Majesty Government / of Nepal
i.e.	:	That is
IRD	:	Inland Revenue Department
ITA	:	Income Tax Act
MBS	:	Master of Business Studies
MOF	:	Ministry of Finance
NGO	:	Non-Government Organization
NTC	:	Nepal Tele Communication
PAN	:	Permanent Account Number
PEs	:	Public Enterprises
Rs.	:	Rupees
SAARC	:	South Asian Association for Regional Cooperation
TDS	:	Tax Deducted at Source
TU	:	Tribhuvan University
UK	:	United Kingdom
UN	:	United Nation
US	:	United States
VAT	:	Value Added Tax

CHAPTER-I

Introduction

1.1. Background of the Study:

Nepal is a small country but it is rich in natural resource and famous for its religion & culture. It is covered with natural heritage and biodiversity, they are in under utilization. Primitive and orthodox society with conservative norms, value and institution exists there in. The per capital GDP after adjusting the population growth is estimated to Rs. 20,527 (equivalent to US dollar 276).

Nepal economy is predominantly based on agriculture. The predominantly position occupied by the agriculture sector in the Nepalese economy is born out by the fact that more than 81% population of this country is dependent upon agriculture, which contributes about 39 percent to the total GDP.

Agriculture is the major supplier of raw material to industries. Most obstacles to economic development of Nepal is vicious circle. It explains the economic backwardness. The basic vicious circle stems from the fact that Nepal's total productivity is low due to deficiency of capital, Market imperfection, and economic backwardness and under development.

The constitution of Nepal has clearly directed Nepalese government for a self-reliant economic system, encouragement to national enterprises, Prevention of economic exploitation as well as upgrading the standard of the people. For self-reliant economic system and sound infrastructure for the development, the government should generate sufficient government revenue. Government revenue is the most important source of financing government expenditure. To achieve the national objectives, the government is required to make and implement various policies and planning, acts and procedures. Beside these function revenue mobilization is one of the most important functions of the government.

Government revenue has grown by an average of 18% during the nineties. Due to low level of revenue surplus, development financing of the government continues to be highly dependent on foreign aid. The share of foreign aid in development expenditure stood high, at approximately 55% in the nineties. The share of the loan in total foreign aid has been growing and external debt of the country has increased from 2% of GDP in 1975 to 56% in 1996. A part from government organizations injecting financial resources into the economy. The financial investment of the NGOs and INGOs stood as high as Rs. 11 billion in 1995, which is more than one tenth of the total government expenditure in the social sector. Tax revenue accounts for around four fifths of the total revenue. The most outstanding characteristics of Nepal's tax system are its heavy dependence on indirect taxes and rigidity in its structure. Indirect taxes contribute more than 80% of total tax revenue. (Pant:2004, P.39)

According to Adam Smith, the father of political economy, " A tax is contribution from citizens for the support of the state." The primary purpose of the taxation is to divert control of economic resources from taxpayers to the state for its own use or transfer to others. Bringing about economic growth, elasticity in the tax structure, control of inflationary pressure and reduction of inequality are the main objectives of tax policy.

This study has been designed to study the contribution of income tax from public enterprises to government revenue Nepal. PE's play catalytic role in social and economic development process of nation. In Nepal, after the dawn of democracy in 1950, there emerged an environment in which need and aspirations of the people were given primary. According, Nepal government has initiated a system of establishment and functioning of PE's with huge investment for economic development PE's highly contribute to national exchequer by various ways i.e. direct participation in production, distribution of goods and services and other income generation including income tax.

The economy of Nepal is basically mixed economy, where the public and private sector freely operate in the business environment except in the case of defense, which is not open to private sector. There is coexistence of both the public and private sectors in Nepal for the overall development of the country.

Nepal is developing country which is still in crawling stage of industrial development. So, in Nepal, PE's are not matter of choice rather, they are matter of necessity. In various sector of economy, where private sector has not come forward or has only in limited extent, the public sector has to come into existence. The area in which they operate, range from basic infrastructure, industrial estates, banking, trading and commercial sectors to big and small PE's to create industrial base in the country, to provide better goods/services to the people, to generate employment opportunities, to mobilize the domestic resources into best productive uses and to fulfill the government plans and objectives. PEs have helped to increase the standard of living to keep regional balance of development and they have contributed through import substitution, export promotion and strengthening the revenue generation of Nepal government and save foreign currency by reducing import as well as to provide the consumable goods/services at a fair price.

1.2. Statement of Problem:

Nepal has been facing serious resource gap problem from the beginning of it's development phase. The financial expenditure of the Nepal government has been increasing at a faster rate that due to slow increase in revenue. Every year the resource gap is increasing at faster rate due to slow increase in the rate of revenue to fulfill the expenditure requirement, owing to the inefficiency of tax administration and incomprehensive tax act. Resource gap is the difference between total expenditure and total revenue.

Table No. 1.1
Resource Gap in Nepal (1995/96 to 2004/05)

Fiscal Year	Total Exp.	Total Revenue	Resource Gap 1 (A-B)	Foreign Grants	Resource Gap 2 [A-(B+C)]	Foreign Loan	Resource Gap 3[A-(B+C+D)]
1995/96	46542.4	27893.1	18649.3	4825.1	13824.2	9463.9	4360.3
1996/97	50723.7	30373.5	20350.2	5988.3	14361.9	9043.6	5318.3
1997/98	56118.3	32937.9	23180.4	5402.6	17777.8	11054.5	6723.3
1998/99	59579	37251.3	22327.1	4336.6	17990.5	11852.4	6138.1
1999/00	66272.5	42893.7	23378.8	5711.7	17667.1	11812.2	5854.9
2000/01	79835.1	48893.9	30941.2	6753.4	2487.8	12044	12143.8
2001/02	80072.3	50445.6	29626.7	6686.1	22940.6	7698.7	1524.9
2002/03	84006.1	56229.8	27776.3	11339.1	16437.2	4546.4	11890.8
2003/04	89442.6	62331	27111.6	11283.4	15828.2	7629	8199.2
2004/05	102560.4	70122.7	32437.7	14391.2	18046.5	9266.1	8780.4

Source: Economy survey of various years

Table 1.1 shows the resource gap 1 i.e. total expenditure minus total revenue. It has been rapidly increasing from FY 1995/96 to FY2004/2005. The gap between revenue and expenditure rose from 18649.3 in 1995/96 to Rs. 32437.7 in 2004/05 which is about 1.7/4 times more than FY 1995/96. This figure shows the poor performance of domestic resource mobilization.

Resource Gap 2[A-(B+C)] : If it is considered that resource gap as the difference between total expenditure minus total revenue plus foreign grants, there was no resource gap in the first budget speech 1950/51. This type of gap started from the budget speech of 1956/57 in which year it was 0.7 million which stood at 13824.2 million in 1995/96. It further rose in subsequent years and reached to Rs 18046.5 in 2004/05, which was 1.3 times more than that of 1995/96.

Resource Gap 3 [A-(B+C+D)]: If resource gap is taken as the difference between total expenditure and total revenue plus foreign grants plus foreign loan. This type of resource gap started from 1964/65 when the gap was 5.9 million. In 1995/96 the gap was 4360.3 million. In 2004/05 it was 8780.4 which increase by 2.013.

If any government has a resource gap, it has to resort a deficit budget. There was a large portion of foreign grants to meet the budget deficit in the early years budget in Nepal. But in the recent years, the percentage of foreign loan rising and grants is decreasing. It is not desirable direction for our country⁶. Excess reliance upon foreign too loan creates extra burden to the economy because debt-servicing charge increases every year. The foreign loan should be taken as a complementary resource to the internal resource mobilization.

In fiscal year 1995/96, the foreign loan in Nepal was Rs. 9463.9 million. Then it started to fluctuated and reach to 9266.2 million in 2000/01. In most of developing countries, the government collect about 3/4 of the tax revenue from indirect taxes because of the several reasons such as administrative difficulty, lower level of public awareness about paying tax, but theoretically, direct taxes are more progressive and justifiable on the ground of equity. The indirect tax is a extra burden to the people, especially for poor people by raising prices of commodity. But Nepalese tax structure is severely dominated by the indirect taxes. However, its relative contribution is decreasing which is a positive development.

Table No.: 1.2

Contribution of Direct Tax and Indirect Tax on Total Tax Revenue

Fiscal Year	Direct tax	% share in total tax	Indirect tax	% share in total tax	Total tax
1995/96	4655.9	21.49	17012.1	78.51	21668
1996/97	5440	21.86	19084.3	78.14	24424.3
1997/98	6187.9	23.85	19751.9	76.15	25939.8
1998/99	7516.1	26.14	21236.8	73.86	28752.9
1999/00	8951.5	27.00	24200.6	73.00	33152.1
2000/01	10159.4	26.14	28705.7	73.86	38865.1
2001/02	10597.5	26.94	28733.1	73.06	39330.6
2002/03	10105.7	23.72	3248.12	76.27	42586.9
2003/04	11912.6	24.72	36260.4	75.27	48173.0
2004/05	13071.8	24.16	41032.9	75.84	54104.7

Source: Economy survey of various years

In 1995/96 the share of direct tax to total tax was 21.49 percent and that of indirect tax to total tax was 78.51%. In 2004/05 the share of direct tax to total tax was 24.16% and that of indirect tax to total tax was 75.84%. The contribution of indirect tax was about 3/4th of the total tax yet.

The main objectives of Nepalese tax system are to make funds available for economic development to maintain reasonable economic stability and to reduce inequality in distribution of income and wealth. But the objectives of Nepalese tax system are not fulfill. The problem shown in tax system are as below:-

- i) The main problem underlying is weak tax administration and tax management procedure. Nepalese tax administration is weak basically due to lack of trained and competent employee, complicated tax laws, lack of voluntary compliance by tax payer etc.
- ii) Nepalese people don't support the tax offices by giving their true information regarding tax evaders. They don't like to maintain the books

of accounts and get them audited. Tax officer also neglect and give no importance to maintain the account. Books of account don't get reasonable importance while assessing the income tax.

- iii) How to minimize the problem of tax evasion and frequent change in tax rates and policy?
- iv) How can government collect adequate revenue through income tax?

Nepalese people have lack of tax paying habit. They don't have the knowledge that how much does the tax is importance for the country? Due to this reason tax evasion and avoidance habit is increasing day by day. Where as in western and developed countries that tax evasion is considered as a social crime.

Because of tax evasion habit of Nepalese people, role of public enterprises towards income tax revenue is very justifiable. Income tax from public enterprises should be adopted as fiscal instrument is government revenue, which helps to achieve the goal of national development. But the majority of public enterprises have been unable to deliver their expected services productivity and returns are very poor. Financial position of public enterprises is unsatisfactory and public enterprises are likely to become an increasing burden on government. They cannot even maintain their books of accounts and most of them have not audited regularly. Even profit making PE's are escaping from income tax because of not maintaining the books of accounts, one-audited financial statement, intention to hide their inability, low level of moral and honesty etc.

1.3. Objective of the Study:

The objectives of this study are as follow:

- To analyze the structure of income tax in Nepal.
- To analyze the contribution of income tax from public enterprises to government revenue of Nepal.
- To examine the problems of revenue collection from income tax.

1.4. Focus of the Study:

The study is focused to analyze the structure of income tax and its contribution from public enterprises to government revenue. The main focuses of the study are on the following aspect of income tax in Nepal.

- Structure of income tax in Nepal
- Contribution of income tax from public enterprises to government revenue
- Problems of revenue collection from income tax.

1.5. Importance of the Study:

Various studies have been conducted regarding tax system in Nepal and different report about taxation system are also available. But very few studies have been done in income tax. In recent years, countable number of studies have been conducted about structure of income tax and its contribution from public enterprises to government revenue. So, this is the main reason to undertake this study.

For over all economic development income tax play a vital role in developing countries as well in developing countries as well in developed countries. Income tax occupies a very important role in overall tax structure share of income tax in the overall tax structure is increasing because of its importance for economic development.

Nepal is one of lowest taxed economics in the world. Her tax/GDP as well tax/GNP ratio is the lowest among SAARC countries and among the rest of the world as well. This indicates the poor performance of income tax management in Nepal. For economic development of the country, contribution of direct tax is more necessary rather than the indirect tax. But the whole tax structure of Nepal is dominated by indirect tax. Income tax may be a useful instrument to measure the economic standard of people.

1.6. Limitation of the Study:

There are some limitations in this study which are as follows:

- This study is based on the availability of reliable data and sufficient literature.
- The study covered on the last 10 years period i.e. from the fiscal year 1995/96 to 2004/05.
- Primary data have been collected from limited area.
- This study is confined to Nepalese laws, acts, rules and regulations to the income tax.

1.7. Organization of the Study:

This study has been divided into five chapters:

Chapter-1: Introduction

This chapter includes overview, focus of the study, statement of the problem, objectives of the study, limitation of the study and organization of the study.

Chapter-2: Review of Literature

The second chapter reviews the pertinent literature related to this study. It includes the review of published books, journals, Article, Thesis and dissertation.

Chapter-3: Research Methodology

This chapter consists of information, research design, sources and natures of data, population and sample, method of data collection and analysis of data.

Chapter-4: Presentation and Analysis of Data Finding

The fourth chapter deals with systematic presentation and analysis of data where various analytical tools and techniques are used to analyze and interpret

the data. This chapter also deals with the descriptive procedure where the analytical tools cannot be used. This chapter is a key chapter for the present study and finding from the analysis are mentioned.

Chapter-5: Summary, Conclusion and Recommendations

The final chapter to summarize the whole study. Recommendations based on findings are made for future improvement. In recommendation, statement suggestions and problem solving suggestions are included. And based on findings, summary and conclusion are drawn.

Bibliography and other appendixes used and statistical results and tables have been attached at the end of the study.

CHAPTER-II

Review of Literature

2.1. Theoretical Framework

2.1.1 Concept of Tax and Income Tax

The government of a country requires sufficient revenues to carryout development plans, to handle day to day administration to maintain peace and security and to launch other public welfare activities. In order to carryout such activities, the government collect revenues from various source such as tax revenue from public enterprises, special assessment, fees, fines, grants, and assistance etc. among them tax is the main source of government revenue.(Bhattarai / Koirala, 2007, 1)

Taxes are the compulsory levies on individuals firms, companies and other units for general government purpose. Government with the authority assigned in different laws generates with compulsion some funds from individuals firms, companies and other units, which generally termed as taxes. So, taxes are compulsory payment to government to support the public services. According to economist Prof. E.R.A. Seligman “A tax is compulsory contribution from the person to the government to defray the expenses incurred in the common interest of all, without reference to special benefits conferred.’

According to economist Plehn "Tax are general contribution of wealth to levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the resident of the states.”

According to classical economist Adam Smith, “A tax is a contribution from citizens for the support of the state.”

According to P.E. Taylor, “A tax is a compulsory payment to government without expectation of direct expenses or direct return in benefit to the tax payer.”

According to Bastable, “A tax is compulsory contribution of a person or body of persons for the service of public powers.”

According to Frindlay Shirras, “Tax is an compulsory contribution to public authorities to meet the general expenses of government which have been incurred for the expenses of government which have been incurred for the public good and with out references to special benefits.”

In classical economics, tax was taken as an extra burden to the people and the economists were in the favour of small and order in the state. But now time has changed and the government has to broaden its revenue.

Concept of Income Tax

The huge amount of government revenue from tax is related to income tax. Actually the imposing system and concept of income tax in different countries is found different because of the diverse economics structure and nature of the government and status of people. income tax is a personal tax imposed on the net income of individuals and corporation. According to the income tax act 2002 of Nepal, income means a persons income from any employment business or investment and total of that income.

According to tax economists “An income tax is a levy imposed upon the income of individuals after the exemption limit. Income tax is direct tax based on the total income of the payer from all sources and is graduated on a special system of exemption and abatements” (Siwakoti, 1987; 21)

Income tax is levied according to the ability to pay as the principle of taxation, here the person, who is liable to pay tax or who may be deemed to be liable to pay tax on income called “assesses”. In this case, a person implies individual, firm, company, corporation etc. which have liability of paying income tax. The tax payer whom the tax is imposed must bear the burden of tax.

Income tax can be classified in to two types; personal/individual income tax and corporate income tax. Individual income tax is modern tax, which is a measure of ability to pay of any individual. It is based on the progressive rates. Corporate income tax is levied on business enterprises having a legal personality distinct from their owners. Taxes on corporate ultimately come from the income or wealth of individuals. Generally, flat rate is applied to corporate income tax.

2.1.2 Review of Historical Tax System in Nepal:

There was no reliable record available about taxation in ancient and medieval Nepal. However, taxation took, its earliest form in the action of petty rules, scattered in various parts of the country, who extracted levies from travelers and merchants.

Taxation had a broad sense in the unified Nepal. During this period, certain improvements were made in the taxation system. Revenue maximization was only the main objective of tax policies. Taxes were imposed primarily on occupations and economic activity not on property.

During the Rana rule of 104, these were no formal taxes levied, but were imposed by the prime ministers. These were no budgets prepared or any proper records kept. During the Rana regime, incomes were not taxed for raising regular revenues of the state treasure but for meeting specific expenditure of the royal household or extra ordinary expenditure necessitated by war or other emergencies.

2.1.3 Income Tax in Modern Nepal:-

After the independence of the country in 1951, the role of government has drastically changed. Government was enforced to perform development activities besides regular function. So, it was realized to impose tax on business profits and remuneration.

2.1.3.1 Business Profit and Remuneration Tax Act 1960 (2017)

In Nepal, Income tax was first introduced in the fiscal year 1959-60. It was then known as “Business profit and remuneration tax act 1960” According to this act, only business profit and remuneration income were subjected to tax. This act consisted 22 sections.

Main Features of Business Profits and Salaries Tax Act 1960:

Only remuneration and business profits were subject to tax. Deduction was not specified for the purpose of calculating the taxable income.

1. Tax on remuneration was to be deducted at source but the specified deduction was not provided.
2. The basis for calculating tax liability for remuneration was the income of the current year, and for business profits it was the profit of the preceding fiscal years.
3. There was a provision of tax exemption on salary of foreign citizen, dividend of shareholders, profits to be spent in religious or public welfare activity, crop from own land, allowances granted by HMG to ministers, assistant ministers, chairman, speaker and deputy speaker, amount drawn from provident or saving fund.
4. The tax offices were empowered to assess tax on a best judgement estimation where tax return was not filed or a false return was filed.
5. There was provision of fines ranged from Rs. 500 to Rs. 5000 in case of defaulters.
6. Profits from large industries were granted a rebate of 25 percent on profit from small industries were granted at a rebate of 50 percent.

2.1.3.2 Income Tax Act 1962 (2019)

This act was an extension of the Business Profit and Remuneration Tax Act 1960. The objectives of ITA 1962 were to reduce unequal distribution of wealth with social justice and establish tax paying habit on citizen. It had 29 sections. It was amended in 1972. The additional features of this act were as follows:-

1. Income was defined as all kinds of income including income derived from business, profession, remuneration and occupation, house and land rent, investment in cash or kind, agriculture, insurance business, agency and other source.
2. The basis was specified for assessing tax on the best judgement estimate of tax officers,
3. The procedures for assessment and collection of income tax were clarified. Specific provisions were made for allowable deduction methods were also specified calculation of net income.
4. The provision was made to constitute the net income assessment committee with five members.
5. Provision was made for re-assessment of tax as well as rectification of arithmetical errors.
6. Provision was made for exemption of income tax for new industries for a period not exceeding ten years.
7. The personnel as well as residential status of the tax payer for tax purpose were defined.
8. Carry forward of losses was allowed for a period of two years.
9. Tax payment could be installment as well as advance payment.
10. Agriculture income was brought under the scope of income tax for the first time.
11. In agricultural income, only $\frac{1}{4}$ of the total income was taken as net earning and remaining $\frac{3}{4}$ of the total income as expenditure while in case of net earning from rent of houses and land, from investments and from professions 90 percent total income was taken as net earning and 10 percent as expenditure.

12. There was additional provision of exemption for income of Nagarpanchayat, village Panchayat, public organization, income of Nepal Rastra Bank, deposits of employees in the employees saving from salaries.

There was special provision of newly opened industries in which the HMG might wholly exempt income tax for 10 years and 25 percent exemption after 10 years.

This act was also not far from weaknesses. In order to keep the law in tune with the changes in the socio-economic environment, the need was felt for consolidating and amending the existing income tax law. Hence, Income tax act 1974 was introduced.

2.1.3.3 Income Tax Act 1974 (2031B.S):

To cope with the changing socio-economic environment of Nepal Income Tax Act 1974 has been implemented in place of income tax act 1962. Its basic framework is based on income tax act 1962. It has 66 sections. This act was amended in 1977, 1979, 1980, 1984, 1985, 1986, 1989 and 1992 to make it more practical and to eliminate confusing terms.

Main features of this act are:

1. Five source of income had been specified. They were:-
 - i] Agriculture
 - ii] Industry, Trade, Profession or Occupation
 - iii] Remuneration
 - iv] House and Compound Rents
 - v] Others
2. It had been classified the certain terminology used in act eg. income tax, taxpayer, non resident, tax assessment, income year, gross income, net income, agriculture income, remuneration income, loss etc.
3. The method of computing net income from various sources had been specified.

4. Appointment right of tax officers had provided to HMG and rights of tax officers had mentioned clearly.
5. This act had made the provision of set of assessment of tax for the first time in Nepal.
6. The provision of carry forward of losses was made for three subsequent years.
7. The act had made it obligatory for taxpayers to register their industry, business, profession, vacation in the tax office before starting the work.
8. The expenses allowed for deduction while computing net income had clearly specified for all source of income.
9. Procedures of assessment, reassessment, jeopardy assessment, tax deduct at source, payment and refund of tax had specified.
10. These were additional provision of exception from income tax.
11. Rights, duties, firms and appeal was specified.
12. Provision of penalty up to Rs. 5000 in case of failure of maintain or preserve accounts.

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

Income tax Act 2002 has been implemented from 19/12/2058 BS. This acts related to income tax Act 1974(2031), and other acts related to income tax. His Majesty government enacted income tax rules 2059 B.S. in accordance with the authority given under section 138 of Income Tax Act 2002 B.S. has 143 sections. Finance ordinance 2059 and 2060 has amended income tax act 2002 first time. Amended Income Tax Act 2002 has dismissed the section 66. There is various additional provisions in this Act. Some of the salient features of Income Tax Act 2002 as amended are as follows:

1. Income Tax Act 2058 B.S has classified income into three headings:
 - I] Business
 - II] Employment
 - and III] Investment.
2. The governmental allowances to widows, elder citizens or disabled individuals; gift; bequest; inheritance; scholarship; income of foreign officials, government bodies and non profit organizations have been

exempted from the income tax net. Amount of person privileges under bilateral or multilateral treaty, an agricultural income, income of co-operative societies based on agricultural products and dividend of such society etc. also exempted from income tax.

3. This act has defined the income as “a persons income from any employment, business or in accordance with this act”. It includes all kind of income received for the provision of labour or capital or both in whatever from or nature in the taxable income.
4. When income Tax Act 1974 (2031) was in practice. There were several exemptions and deductions provided by the act and other related acts. But now, there are no more exemption and deductions except the ones provided by the act.
5. This act was given the option for husband and wife as a separate natural individual until they don't accept as a couple.
6. This act focuses on the self-assessment, and every assessment is treated as a self assessment. The tax officers can determine only the amended tax assessment within four years. The jeopardy assessment is essential when a person becomes bankrupt is wond up, or goes into liquidation; a person is about to leave Nepal for ever or to close down activity in any department or in Nepal.
7. Presumptive tax is limited to the small taxpayers whose annual net income is up to Rs 120000 or annual turnover is up to Rs 1200000 and are subjected to flat annual taxes.
8. The Inland Revenue Department is responsible for the implementation and administration of this act.
9. This act has introduced the concept of administrative review to correct the administrative mistakes. The Inland Revenue Department should give its decision within 90 days of the submission of objection and if the department does not give its decision within the given time limit, the taxpayers may appeal to the revenue tribunal.

10. This act has introduced the concept of medical tax credit under which resident individuals may claim a medical credit of 15 percent of the amount approved medical costs.
11. A resident person may claim a foreign tax credit for any income year for any foreign income tax paid by the person to the extent to which it is paid with respect to person's assessable income for that year.
12. There is a provision of functional division of work among tax officers. The division is to be made under the direction of HMG and Director General.
13. This act has guaranteed the rights and secrecy of taxpayers through the act and the strict punishments for not maintaining the secrecy are provided.
14. The penalties are divided into two parts. The tax officer can levy only fine and interest and the court can levy penalties and imprisonment.
15. This act has determined the rate of income tax itself for the first time, which used to be determined by the finance acts in the previous years.
16. For the purpose of calculation a person's income from any business or investment, there are provisions of deduction related to overhead costs.
17. The act has based on global income tax principle and has brought all sources of income into the tax net and has treated in an equal manner. This act has abandoned the itemized system as deduction and expenses are taken into account on a global manner not on a line by line basis.
18. A pooled system of depreciation has been adopted in this act, in which assets are broadly classified into five categories. The depreciation rates are 5 percent, 25 percent, 20 percent and 15 percent for class A, B, C, and D respectively which are base on diminishing balance method of depreciation. For class E. the rate is based on straight line method.
19. Capital gains are taxed explicitly under this act after four decades of the introduction of income tax. In case of business capital gains, gains on the disposition of business property are taxed as an ordinary income and incase of non-business capital gains; only the gains from the causal sales

of real property (land and building) and securities are subject to capital gains tax at a flat rate of 10 percent. There is also a clear provision for adjusting net loss during the fiscal year.

20. A person has been defined as a resident whose place of abode is in Nepal and who lives in Nepal at any time or who live in Nepal for 183 days or more within the income year or who is an employee of HMG posted abroad during the income year.
21. Resident individuals and domestic companies are taxed on their world wide income while non-resident individuals and foreign companies are taxed only on their income sourced in Nepal.
22. The income of an approved retirement fund is free from tax. But retirement payments in the hands of employees are taxable.
23. Company is liable to pay tax separately from its shareholders. The bonus share, loans and advances to directors and shareholders, distribution made on liquidation etc. are also brought under the tax net in order to plug loopholes for avoidance.
24. Investment insurance premium can be deducted as 7 percent insurance policy amount or Rs. 10000 whichever ever is less.
25. A person can deducted as a 5 percent of adjusted income or Rs 100000 which ever is less.
26. 7 percent of depreciation base amount of end of the year can be deducted as repair and maintenance expenses and unreduced amount can be capitalized or excess repair and maintenance expenses can be added to depreciation base amount of coming income year. (Income Tax Act, 2002)

2.1.4 Income Tax in the International Context:

Starting of income tax was from very ancient time. The supporting documents were not found about the presence of income tax before 1799. Income tax was first introduced in 1799 in Great Britain in order to finance war with France. It remained more or less a temporary tax until 1860 when it got accepted as a

permanent tax. In united state of American, first federal income tax was imposed in 1862 to finance civil was expenditure. It become permanent feature only in 1913 after 16th amendment to U.S constitution, Income tax was established in Italy in 1864,in India in 1860.Newzealand adapted income tax in 1891,Australia in 1915. Switzerland in 1840 and Canada in 1917 (Agrawal, 2003).

In the beginning of introducing time income tax was generally levied at flat rate. Income tax was reached to its developed stage during and after the world war. Only after 1909, the principle of progression was introduced from the UK and Newzealand.

2.2. Review of Related Studies:

1. Mr. Govinda Lal Shrestha

In Nepal, Business profit and Remuneration Tax Act 1960 was enacted in fiscal year 1959/60 was enacted in fiscal year 1959/60.After income tax was imposed in Nepal, different studies were made concerning with various aspect of income tax and the different act of taxation. Summary of the relevant studies are given as following:-

In 1967, Mr. Govinda Lal Shrestha had conducted a research in the topic “Income tax in Nepal”. Mr. Shrestha research was mainly centered with the current practices of income tax in Nepal Mr. Shrestha has discussed about income tax act and rules, historical background and administrative aspect of income tax some remarkable recommendation of researchers were as follows:

- i) Income from agriculture should be taxed.
 - ii) Income tax should be made more scientific systematic and the social economic justifiable.
 - iii) Expenses related to income from remuneration should be deducted.
- (Shrestha, 1967)

2. Mr. Narendra Lal Kayastha

Mr. Narendra Lal Kayastha prepared a dissertation entitled “Taxation in Nepal and property in Nepal”. He has tried to analyze the contribution of income tax and property to overall revenue general in Nepal. According to him before 1951, Nepal did not have scientific economic policy which could facilitate the economic development of the country. He has studied various legal and administrative aspects related to income taxation in Nepal are income tax evasion at high level and greater role of indirect tax in tax revenue. These problems have not solved yet effectively and the suggestions given by Mr. Kayastha are still considerable in the Nepalese context. (Kayastha, 1974)

3. Mr. Kedar Bilas Pandey

Mr. Kedar Bilas Pandey had conducted a research entitled “An Analysis of income tax in Nepal”. This research of Mr. Pandey was mainly centered with the objectives:

1. To examine the problem of resource mobilization and to show the role of income tax as a source of resource mobilization.
2. To Show the structure of income tax in Nepal.

Mr. Pandey in his study has discussed in tax policy and income tax structure. He has also shown the role of direct tax in total revenue of Nepal.

4. Miss Rojina Singh Suwal

In 1981, Miss Rojina Singh Suwal had conducted a research in the topic "Income tax system in Nepal". Miss Suwal a student of economics has examined the various problem and importance of Nepalese Income tax system in order to solve financial resource gap in Nepal Main objectives of this research is :

1. To Show the rate and per capita burden of income tax in Nepal.
2. To show the trend of income tax and economic effect of income tax on production in Nepal.

Her study is a description of income tax system. In her research, Miss Suwal has pointed out her as an instrument of equal distribution of income with a further improvement in tax administration in few years.

5. Miss Naina Nepal

Miss Naina Nepal had conducted a research in the topic “A study in the problem and prospects of income tax in Nepal.” Miss Nepal conducted this study with objectives of:

1. To examine the existing position of income tax system in Nepal.
2. To examine the role of income tax in the overall tax structure.
3. To analyze the problems and prospects of income tax in Nepal.

Miss Nepal emphasized on the clear provisions of income tax collection. The major problem existing in Nepalese income tax system identified by her were income tax evasion, inefficient tax administration, lack of education for tax payers etc. Miss Nepal had suggested that that if these problem can be solved, the government of Nepal can maximize its revenue through income tax.

6. Mr. Shambhu Nath Regmi

In 1986, Mr. Shambhu Nath Regmi had conducted a research entitled “The role of Income Tax in Nepal” Mr. Regmi conducted this research with objectives of:

1. To examine the trend of income tax in Nepal.
2. To ascertain the share of income tax in total tax revenue and in gross domestic product.

Mr. Regmi dealt with the trend of contribution of income tax in Nepalese development efforts. Mr. Regmi in his study, has pointed out various findings and recommendation. Some remarkable findings of the researcher were as follows:

1. Income tax can check the inflationary trend within the country as well as it directs the flow of resources of the economy into useful and

productive channels and increase the productive capacity of the economy.

2. In the comparison to other tax revenue such as land revenue has increasing trend.

7. Mr. Prem Prasad Timilsina

Mr. Prem Prasad Timilsina had conducted a research entitled “Income tax evasion in Nepal.” He has presented a serious problem of financial resources gap in Nepalese economy. The objectives of his study are:-

1. To examine income tax evasion tendency in Nepal.
2. To observe the general opinion about income tax evasion in Nepal.
3. To estimate the volume to income tax evasion in Nepal.
4. To draw suggestions for the elimination of income tax evasion in Nepal.

He has pointed out different causes of income tax evasion in Nepal namely wide spread illegal business, high corruption, poor tax paying habit, in efficient tax administration. The different methods of tax evasion according to Mr. Prem are:-none reporting of income from illegal business not maintaining accounts, failure to submit income statements, none reporting of income, re-registration of business and failure to make tax deduction at source. (Timilsina,1987)

8. Mr. Ram Bahadur Thapa

Mr. Ram Bahadur Thapa presented his dissertation entitled “Income Tax Assessment procedure in Nepal; An Analytical Study”. In his study, he has discussed income tax in its historical perspective, examined the contribution of income tax to the national exchequer and reviewed the legal provisions relating to income tax assessment procedure prevailing in SAARC countries. According to him, the assessment procedure is quite slow because of administrative and legal deficiencies. Tax authorities are inefficient and ineffective in terms of enforcement of laws. There are so many

loopholes in tax act by which it is easy for the tax payers to evade tax. Further more, Mr. R. B. Thapa stated the causes of increasing tax evasion in Nepal as the poor tax morality, lack of incentive to regular taxpayers etc.(Thapa 1993)

9. Mr. Hari Bahadur Bhandari

In 1994, Mr. Hari Bahadur Bhandari had conducted a research entitled “Contribution of Income tax to Economic Development of Nepal.” Mr. Bhandari conducted this study with objectives of:

1. To examine the Nepalese income tax structure
2. To examine the contribution of Income tax to the economic development of Nepal
3. To identify the factors to increase tax paying habit of income tax payers.

Mr. Bhandari, in his Study found that there is poor tax paying habit of Nepalese People. He also found that there is no close co-ordination and better communication system between tax payer and tax personal in Nepal. He suggested that there should be effective personnel Management and close co-ordination and better communication system between tax payer and tax personnel. (Bhandari, 1994)

10. Mr Sanjaya Acharya

Mr. Sanjaya Acharya wrote a dissertation entitled “Income Taxation in Nepal: A Study of its structure, Productivity and Problems”. In his study he has assessed the existing problems and future protects of income taxation in Nepal. He has analyzed the administrative and legal aspects of income tax. He mainly examined about the structure of Nepalese income tax and the productivity of income tax revenue in Nepal. He has identified the contribution of individual income tax is highest in comparison to other income tax paying groups such as public enterprises remuneration etc. He has recommended for the transfer of employees of tax offices in every two or three years of interval in order to check the unofficial linkages between them and the tax payers, social status of income tax payers should be higher than non-payers etc. (Acharya, 1994)

11. Mr. Shiva Narayan Shahu

In 1995, Shiva Narayan Shahu had conducted a research in the topic “Contribution of income tax in National Revenue of Nepal”. The Research of Mr. Shahu was mainly centered with the real situation and share of income tax in national revenue of Nepal.

Mr. Shahu in his study found that only 0.35 percent of total population come under the categories of tax payers during his study period. He also showed the contribution of income tax revenue and total revenue was 9.95 percent and 7.94 percent respectively. Income tax had been gradually increasing expect for 1990/91 and 1991/92 during the study period and income tax was in the fourth place in the tax structure. The individual tax payers had higher contribution than the wages earners. (Shahu, 1995)

12. Mr. Daya Raj Tripathee

In 1995, Daya Raj Tripathee had conducted a research in the topic “Income Tax System in Nepal and some potential areas for reform.” The main objectives of this study were:-

1. To show the income tax in tax structure.
2. To show the role of income tax in Nepalese economy
3. To study the income tax structure.
4. To show the role of best judgement assessment in income tax assessment.

This study tries to cover the major constituents of income tax system in Nepal. It aims to find out the major problems or defects in income tax system. Mr. Tripathee, in his study has pointed out various findings and recommendations. He found that dependency on external sources in increasing trend, low growth rate of GDP are the major problems in Nepalese economy. The resource gap in 1974/75 was Rs505.3 million, which increased to Rs15749.3 million in 1992/93. He also found that the per capita income in 1978 was \$121 which increased to \$ 180 in 1993. The role of external sources in total expenditure of

the fifth, sixth and seven plan were 66.5 percent 67.2 percent and 70.6 percent respectively. According to his study, tax evasion had been widely evaded in Nepal during the study period especially in remuneration and house and land rent sectors. Business man also had evaded income tax by different ways such as submitting false accounts, re-registration their business, providing illegal incentive to the tax personnel etc.(tripathee,1995)

13. Mr. Parameshwor Pant

Mr. Parameshwor Pant presented his master's level dissertation entitled "A study on Income Tax Management in Nepal". He has assessed various problems of income tax management in Nepal and among them lack of managerial efficiency is the main problem. Other problem identified by him are of peer tax assessment procedure, weak tax information system etc. lack of effective personnel management, poor reward and punishment system etc. He has suggested keeping income tax outside from the political interference. (Pant, 1996)

14. Mr. Rajkumar Bhattarai

In 1997, Mr. Raj Kumar Bhattarai had conducted a research entitled "Effectiveness of corporate income tax in Nepal." This study of Mr. Bhattarai was mainly concerned with the analysis of effectiveness of corporate income tax.

Mr. Bhattarai found that planning percentage performance of government on corporate income tax was not effective where public debt and regular expenditure of the government were exceeding 44 percentages and 73 percentage of total revenue respectively in the F.Y 1996/97. Although, there was substantial contribution of corporate income tax in the revenue of Nepal since a long period. He also found that there was average 78 percent share of tax revenue in total revenue during the study period. Minimum required rate of return of the tax payers before corporate income tax was 22 percent on their capital employed. (Bhattarai, 1997)

15. Miss Bibha Pradhan

Miss Bibha Pradhan submitted a thesis entitled “Contribution of Income Tax from public enterprises to public Revenue of Nepal; with reference to Nepal Telecommunication Corporation”. In her study, she is in the boundary of role of income tax in Nepal and role of public enterprises in government revenue. She has basically presented the historical back ground contribution of income of Nepal Telecommunication Corporation to income tax, effectiveness of income tax collection etc. She has also recommended possible measures to increase the present status. She has found that the contribution of income tax from PE’s in Nepal is not satisfactory due to poor achievement, Weaknesses in government’s economic policy and deficiency in legislation. According to her, NTC’s contribution to Total corporate income tax is high. She has found that the average share of NTC on corporate income tax is high. She has found that the average share of NTC on Corporate tax was 35.75 percentages during ten years period upto 1998/99. And the average contribution of income tax from NTC to total tax revenue, total income tax revenue and total government revenue was 2037 percentages, 15.60 percentages and 1.93 percentage respectively in her study period. She has mentioned the clear-cut provision of income taxation, checking discretionary power of tax personnel; reward and punishment system to increase voluntary compliance and to control corruption, tax education to taxpayers and reduction of undue delay in tax assessment etc. can establish a better income tax system in Nepal. Specially her study has focused in the study on Nepal Telecommunication corporation. (Pradhan 2001)

16. Mr. Basanta Kumar Singh

In 2002, Mr. Basanta Kumar Singh had conducted a research entitled “A study on application of best judgment of income tax assessment with reference to Income Tax assessment with reference to Income tax act 1974”. Mr.Singh conducted this study with objectives:

1. To study the need of best judgment assessment.
2. To study the existing provisions of best judgment assessment in Income tax act 1974.
3. To show the role of best judgment in income tax assessment.

Mr. Singh, in this study found that in Nepal, income tax assessments are mainly performed by committee. The data shows that above 70 percent of the total income tax assessment are finalized by committee. In 1990/91, the committee had assessed 74.83 percent of total assessment, which reduced to 71.24 percent in 1999/2000. Mr. Singh also found that best judgment assessment has occupied second position in income tax assessment. In 1992/93, 15.58 percent of the total income tax assessment were finalized with the application of best judgment of tax officers which increased to 18.36 percent in 1997/98. He found that only 9.01 percent of the total income tax assessment were performed on the basis of account in 1990/91, which was 10.49 percent in 1991/92. In 1999/2000 its share remained only 3.98 percent of income tax assessment.

He also discussed on the income tax assessment of Nepal, basis of assessment, necessary conditions for best judgment assessment, natural justice and best judgment assessment, natural justice and best judgment its in this study. (Singh, 2002)

17. Mr. Thoman Sherchan:

Mr. Thoman Sherchan has conducted a dissertation trying to find out provisions in fine and penalty in law and efficiency of tax administration entitled "An analysis of fines and penalty regarding to income tax system of Nepal." He has found out about the provisions that regarding fine and penalty in the act 2002 are satisfactory and tax payers need orientation about the provision and procedures of the act. He also studied about the tax structure of Nepal, found out the share of income tax to government revenue, tried to know the tax payer's and tax officer's knowledge and views about fines and penalties and shown the role of fines and penalties to increase the tax paying habit of Nepalese people. He has suggested for timely revision in income tax policy and computerized system for payment of income tax. Mr. Sherchan has only focused on study of provision of fine and penalty. So this study is incomplete study. (Sherchan, 2003)

18. Mr. Keshav Raj Gautam

Mr. Keshav Raj Gautam wrote a thesis entitled “Contribution of Income Tax to National Revenue of Nepal”. In this dissertation Mr. Gautam has tried to analyze all related parts of income tax act 2002. He has also shown the different utilizations and the draw backs of previous act up to 1974. He has also shown the different utilizations and the draw backs of previous act up to 1974. He has identified some problems in the Nepalese scenario such as lack of resource gap, high dependency on foreign loan etc. To analyze the contribution of income tax to national revenue of Nepal; to analyze the volume to indirect tax and direct tax in total tax revenue; to know views of the tax payer, as administrator and tax experts about various aspects etc are the main objectives of this study stated by him. He has recommended “to increase tax ratio gradually, to formulate the income tax policy according to the economic policy of the country, the rate of fine and penalties should be increased, tax transferred on the basis of their work, to promote export and more deduction should be provided”. (Gautam, 2004)

19. Mr. Girija Prasad Koirala

Mr. Girija Prasad Koirala Presented a dissertation entitled ‘Contribution of employment Income to Income tax Revenue of Nepal.’ In this thesis, Mr. Koirala has tried to find out the contribution of employment income to income tax revenue. He has shown a unique presentation through his thesis. He has analyzed most of the related aspects very clearly and simply to analyze the contribution of income tax from employment income to public revenue of Nepal, to examine the effectiveness of income tax revenue collection from employment income and to recommend possible measures are some objectives of this study. He has presented some recommendations such as “Mobilization through direct taxation should be focused, TDS should make effective, peoples involvement in businesses and industries should be increased, people should be aware about tax planning, couple should be provided more exemption limit etc”. (Koirala 2004)

20. Mr. Dharma Raj Shakya

Mr. Dharma Raj Shakya presented a dissertation entitled “ A study on Income Tax Act 2002”. In his Thesis, he has analytically presented all aspects, policies and laws of income tax act 2002. His whole study is related to this new act. In this study, he has also conducted a comparison between the previous income tax act 1974 and the new income tax act 2002. The main objectives stated by him are to examine the simplification of income tax assessment procedure, to find out the effectiveness of delivered service by tax administration, to analyze the tax payer’s response regarding to their duties and rights, to review the provisions of minimizing the tax evasion and avoidance under the act etc. According to Mr. Shakya, the entire act should be understandable to the all tax payers as well as tax administrators. (Shakya, 2004)

21. Mr. Milan Ghimire

Ghimire, in his dissertation, he concludes that public revenue, main source to fulfill the need of public expenditure has not been able to pace with public expenditure. The public revenue is two types i.e. tax revenue and non tax revenue. Tax revenue contributes about 75% of the total revenue while the non-tax revenue represents about 25 % of the total revenue. To increase the revenue through non-tax revenue is very tough job due to its rigidity characteristics. So, it is necessary to make every effort to generate more revenue through taxes, which levied on commodities, incomes and properties. Since, non-tax revenue cannot be used as an effective instrument of revenue mobilization; attempts must be made to mobilize more tax revenue through the reform of the tax system. As a part of tax reform, VAT has been implemented. It replaced the sales tax, hotel tax, contract tax and entertainment tax. Income tax and VAT has been merged in order to avoid duplication and overlapping of functions. It is now being beneficial for parties, government & taxpayers. (Ghimire, 2005)

22. Mr. Shalik Ram Dhakal

Mr. Shalik Ram Dhakal conducted a dissertation entitled “Income Tax Contribution on Government Revenue in Nepal”. This Study is failed to

analyze the conceptual frame work and legal provision of income tax in Nepal, analyzing the structure design of revenue collection of income tax in Nepal, examining the ratio of income tax revenue to GDP, giving some reliable suggestions etc. are the main objectives of this study.(Dhakal,2006)

Besides these books, reports and dissertations of master's level, other different relevant books and articles that are published in news papers, Magazines and the publication of ministry of finance (MOF) such as budget speech and economic survey of different years were also reviewed in the study period. Reviewed books are mainly found based on the syllabus of particular level of T.U. Almost dissertations are written on different aspects of income taxation.

Review of Books:

1. Mr. Kedar Bahadur Amatya

Mr.Kedar Bahadur Amatya (1965) wrote a book entitled “Nepalma Ayakar Byabastha”. In his book,Mr Amatya gave a simple description of “Nepal Income tax act 1962”with some examples how taxable incomes are derived from different sources of incomes. In this book, Amatya has analyzed, basically the legal aspect of the income tax. This book is 38 years old and all things mentioned in it are suitable at present. It has become the historical document in the field of income tax.

2. MR. G.E Lent

Mr. G.E Lent has presented a report entitled “Survey of Nepalese Tax Structure”. Under IMF, Fiscal affairs Department. He ahs critically analyzed the scope of Income tax in Nepal. Mr. Lent has described the tax structure given at that time. He has suggested reforming both the income lows and administration government revenue through income tax.

3. Dr. Govinda Ram Agrawal

Professor Dr. Govinda Ram Agrawal had conducted a research entitled “Resource Mobilization for Development; the Reform of income tax in Nepal.

”The Major objectives of his study were to examine the problem of growing resource gap in Nepalese finance in the context of the role of income tax; to examine the ways and means for increasing tax consciousness in Nepalese people etc. According to Mr. Agrawal due to the reason of tax evasion the government revenue is decreasing. Major reasons of inefficiency of tax administration that he has stated in his report are : failure to locate new tax payers, failure to maintain proper account defective selection of personnel, lack of competent and creative tax personnel, undue delay in making assessment, lack of motivation in tax personnel, high existence of corruption, complicated and long procedure of tax laws and policy, in stability in government policy etc. This study is very useful to find out the reality about income tax in Nepal. Various mathematical calculations have been shown. he observes that tax authorities are in sufficient in enforcement of law. How ever it is a comprehensive study, all things mentioned in it are not fully relevant today.

4. Mr. Nagendra Bahadur Pradhananga

Nagendra Bahadur Pradhananga(1993) wrote a book entitled “Income tax law and accounting”. Mr Prashanaga has described the provisions made under income tax laws. This book is divided in 20 chapters. In his book Mr. Pradhananga has described about income tax and its development in Nepal, Finance Act, Industrial Enterprise Act, Agricultural income, Income from remuneration, income from house and land rent, income from industry, business, profession, and occupation, income from other sources, computation of total net income. He has also described about fine, penalties and appeal, contribution of income tax for the development of nation, income tax administration and official, collection and return of income and admissible and inadmissible expenses etc.

This book has been written to fulfill the course requirement of Tribhuvan University. It is based on the syllables of B.Com level. Mr. Pradhananga’s book

is informative rather than analytical. He has also included some numerical problems in regard to income tax, problems and defects in Nepalese Income tax system. This book is very useful for the students of B.Com level but it has not analyzed the role of income tax and the major aspects of income tax system.

5. Mr. Kamal Deep Dhakal

Mr. Kamal Deep Dhakal published a revised edition of book named “Income Tax and House and Compound Tax: Law and Practice.” This book is totally based on the syllabus of Bachelor’s level. This book was published before the new tax act 2002. So this book contains three things: income tax as per act 1974, house and compound tax and value added tax. This book has again published in revised form including the changes regarding the provisions in 2000 and 2001. Mr. Dhakal has presented this book in informative way rather than analytical way. He has not analyzed the role of income tax, structure of income tax and problems of income from house and land rent.

6. Mr. Bidhyadhar Mallik

Mr. Bidhyadhar Mallik (2003) wrote a book entitled “Nepal Ko Adhunik Kar Pranali.” Mr. Mallik has described the provisions made under income tax laws and the methods of income tax assessment have been described. Mallik’s book has been divided into twenty-five chapters. Mallik has described about development of income tax system in Nepal, base of tax, computation of income, exempt amounts, admissible amount, capital gain, special provisions regarding to natural person, special provisions for entities. Mallik has also described about international tax, tax administration, payment of tax, income statement and tax assessment, tax rates, assessment of depreciation etc.

Mallik’s book is informatics rather than analytical. He has not analyzed the role of income tax, income tax structure and defects of income tax system of Nepal. His book is more helpful to know about general information and provisions made under Income tax Act 2002.

7. Koirala and Bhattarai's Study

Mr. Girija Prasad Koirala and Mr. Ishwor Bhattarai published two books named "Taxation in Nepal" and "Tax Laws and Tax Planning". First book is designed according to the syllabus of Bachelor's Level(BBS 3rd year)and the second one is designed in conformity with the syllabus of MBS 2nd year. Both have the analytical as well as descriptive aspects. The procedure of computing the incomes from employment, business and investment is clearly shown and analyzed in both books.

2.3 Research Gap

There is the gap between this research and previous researchers. Most of the previous research studies were based on laws, Provisions, administrative aspect, and structure of tax. Most of them have indicated the inefficiency of tax administration. But majority were based on theoretical facts of tax administration. They have identified the problem of income tax evasion at high level and suggested for its control. The findings of the previous researches were mostly based on secondary data. The major problem of I income tax system of Nepal is the absence of efficient and effective tax administration.If there is efficient and effective tax administration, the problem of income tax evasion will be solved automatically.

Public enterprises are the backbone of the economy. Contribution of income tax from PEs plays vital role in the economy of poor country like Nepal. Most of the previous researcher did not study about contribution of income tax from PEs.

Thus, to fill the gap, this research has been conducted. It is based on primary as well as secondary sources of data. Income tax administration, being major component as income tax system, has been studied analytically in this study.

Besides these, contribution of income tax from PEs to government revenue has also been studied analytically. Like wise, Problems of revenue collection from income tax has also been studied analytically.

CHAPTER-III

Research Methodology

This chapter describes the methodology employed in this study. Previous chapters provided the concept and the bases of the entire study. This chapter is devoted to the plans and the methods of conducting the research work. This chapter describes, research design, population and sample, nature and sources of data, method of data collection, etc. are done. This chapters used for the plans of statistical analysis and hypothesis setting for whole research study.

3.1. Research Design:

Research design is a plan, structure and strategy of investigation so as to obtain answer to research questions. A research is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to research purpose with economy is procedure. This study follows less descriptive but more analytical research design. Under the descriptive research, the survey and fact finding inquiries of different kinds are included. The description of the affairs which are presently exists is the major purpose of descriptive research. Similarly, under the analytical research design, the fact of information is already available. So, the analysis and the critical evaluation are made of the materials. The responses received by opinion survey is described and analysis in order to fulfill the objective of the study.

3.2 Population and Sample:

Table 3.1

Groups of Respondents and Size of Sample from Each Group

S.N	Group of Respondents	Sample Size
1.	Income Tax administrators	20
2.	Income Tax experts policy makers	15
3.	Income Tax payers	25
	Total	60

Tax administrators tax experts\policy makers and tax payers were considered as the total population. Out of them 15 policy makers\tax experts,20 tax administrators and 25 tax payers were considered as the target population for the study. Here only 60 sample sizes are selected among the tax administrators, tax experts and tax payers. In order to fulfill the objectives of the study, the sample six is selected from Nawalparasi, Chitwan and Kathmandu districts. The above Table shows the group of respondents and the size of sample.

3.3 Nature and Source of Data:

This study is based on primary and secondary data. Basically the primary data has been collected from field survey of different distinct denominations and the secondary data has taken from different sources. In order to achieve the real and fact full result, all useful data have been collected personally as far as possible. The sources of data are as follows:

3.3.1. Primary Source of Data:

Primary data were collected from the responses of persons representing from various sector through structured questionnaire. The same questionnaire is distributed among tax administrators, tax experts and tax payers. The Administrators are selected from Inland Revenue Department and offices. The experts are chartered Accountants, lecturers, auditors and advocates and tax payers are those individual or organizations who regularly pay income tax to government. They are from the lecturer, insurance companies, banks, government offices, manufacturing organizations, other private organizations etc.

3.2.2. Secondary Source of Data:

The secondary sources of data are basically from books, journals, periodicals, reports, dissertations, websites etc. The major source of secondary data area as follows:

1. Economic survey of different fiscal years.
2. Budget speech of various years.
3. Books related to income tax and public finance.
4. National newspapers, journals, news magazines.
5. website of IRD www.ird.gov.np
6. Library of different campuses.
7. Dissertation related to income tax.
8. Website of Nepal government www.mof.gov.np

3.4 Method of Data Collection:

The data and the information used in this research study are collected primarily and from secondary sources. For the accuracy of the information, the questionnaire were distributed and collected personally through field visit. Additional information was also collected from interviews with the respondents. Out of the sixty-eight questionnaires distributed sixty were received.

3.5 Method of Data Processing and Analyzing

To analyze the collected data from primary and secondary sources, the information is firstly processed for tabulation. After processing the information which is received in different aspects of income tax, the general statistical tools have been used. In short the information received is firstly tabulated in to separate format systematically in order to achieve the desired objectives. The data are then tabulated into various tables according to the subject in order. Then simple analysis has been done by using statistical tools such as:

3.5.1 Simple Average:

Simple average or mean of the available data from fiscal year 1995/96 to 2004/05 has been calculated. It helps to analyze the income sources to the government. According to S.P. Gupta, average is a single value that represents a group of values. Such a value is of great significance because it depicts the

characteristics of the whole group (Gupta,1991,P-E-7.1)The formula used to calculate simple Average is:

$$\bar{X} = \frac{\Sigma X}{N}$$

Where

\bar{X} = Simple Average (Mean)

ΣX = Sum of all the value of the variables.

N = No. of Observation. (No. of Years)

3.5.2 Rank Correlation:

Rank correlation is calculated by making any assumptions about the population being studied by ranking the observations according to size and basing the calculations on the ranks rather than upon the original observations. Using ranks rather than actual observations gives the coefficient of rank correlation.

The formula used for rank correlation is:

$$r = \frac{1 - 6\Sigma d^2}{N(N^2 - 1)}$$

Where,

r = Rank correlation

D = Difference of rank between paired items in two series

N = The no. of Alternatives available.

3.5.3 Regression Analysis:

Regression analysis reveals average relationship between two variables and this makes possible estimation or prediction. "Regression is the measure of the average relationship between two or more variables in terms of the original units of the date." [Gupta, 1991, 11.2]

$$Y = a+bx$$

Where,

Y = Dependent Variable.

X = Independent Variable.

A & b = Numerical constants.

3.5.4 Various Graphs, Charts and Diagrams:

In this study, different graphs, charts and diagrams has been presented to analyze the available data. Pie –chart, Bar-diagram (Multiple, Percentage), Trend line etc. has been shown in chapter four (Presentation and analysis of data).

3.5.5 Hypothesis Test (chi-square):

Testing of hypothesis is carried out by using sample information. Hypothesis is merely an assumption relating to the population parameter and can be tested by using sample information. It gives the idea if the observed difference is within the range or not. “A Tentative theory or supposition provisionally adopted to explain certain facts and to guide in the investigation of other” (Sthapit, 2004, p-226) is the hypothesis. After setting the hypothesis, it is necessary to test the reliability of such statistical statements. For this purpose, an experiment is conducted by using sample information and the hypothesis is rejected. If the result obtain are improbable under this hypothesis. If the result are not improbable, the hypothesis is accepted. The Procedure of drawing such conclusion based on sample information is known as testing of hypothesis.

Chi-Square test is applied to such frequency of occurrence is against the expected once with out reference to population parameters, which were being done earlier in significance testing. It is one of the simplest and most widely used non parametric test in statistical work. It is used to make comparison between two or more nominal variable. Testing of hypothesis includes the process of setting null and Alternative hypothesis.

Null Hypothesis:-

In decision making procedure, first of all the null hypothesis is stated which is denoted by H_0 . Hypothesis of non-difference is null hypothesis. It is usually set for the express purpose of being rejected. According to this study, Null

hypothesis means there is no significance difference between the opinions of tax administrators, tax experts and tax-payers regarding the different aspects.

Alternative Hypothesis:

That hypothesis, which is accepted if null hypothesis is rejected is alternative hypothesis. It is denoted by H_1 or H_a . Alternative hypothesis is mutually exclusive and complementary statement of null hypothesis. Alternative hypothesis simply indicated there is a significant difference. In this research work, alternative hypothesis is used to define that the views of different respondents (tax administrators, tax experts and tax payers) regarding different aspects of income tax is significantly different.

A chi-Square (χ^2) value is obtained by using the following formula:

$$\chi^2 (\text{chi-square}) = \sum (f_o - f_e)^2$$

Where,

f_o = Observed Frequency

f_e = Expected Frequency

3.6. Weight of the Choice:

The questionnaire include two types of questions. First type of question is yes/no question and next is the alternative answers to rank. In this case, the first preferred choice of the respondent got the highest point and the last preferred choice got the lowest point. The total points got by each alternative were converted into percentage to total points available to the alternatives. The alternative with the highest percentage has been ranked as most important and the alternative with the lowest percentage has been ranked as the least important. For example, if there are five alternatives, the most important ranked by the respondents (1), gets five points and the least important alternative ranked by the respondents (5), gets one point the alternative, which is not ranked, does not any points.

CHAPTER-IV

Presentation and Analysis of Data

This is the fourth and most important part of the study. Previous chapters provided the basic inputs and the conceptual framework of the study. The collected data by primary and secondary sources are presented and analyzed here. For the proper fulfillment of the objective.

4.1 Income Tax Structure:

4.1.1 Tax GDP Ratio of SAARC and Other Selected Countries:

Table No. : 4.1

Tax –GDP Ratio of SAARC and Selected countries

Countries with Different Income Groups	Tax Revenue as % of GDP	
	FY 1998	FY 2005
<u>High income Economics</u>		
United Kingdom	36.3	39.8
United States	20.4	25.6
Switzerland	22.0	24.1
<u>Middle income Economies</u>		
Korea	17.3	25.3
Chile	18.4	22.4
Rep. Philippines	17.0	19.7
<u>Low Income Economies:</u>		
Pakistan	12.6	12.6
Nepal	8.8	10.64
India	8.6	11.2

Source:

- * *World Development Report 1999/00, World Bank, Oxford University Press*
- * *Report of organization for economic co-operation and development (OECD)[www.oecd.org]*
- * *Report from DAWN Group of newspapers,2005*

The ratio of tax revenue to GDP in different country is different. The country with high income economics country is forced to contribute in low level. In table 4.1, the ratio of tax revenue to GDP has been shown of different developed and developing countries including SAARC countries. The ratio of fiscal year 1998 and 2005 has been shown in order to find out the actual position of Nepal among other developing countries. The countries with high incomes are contributing highly in GDP. Selected countries like United Kingdom, United States and Switzerland's devotion to their country's development is highest according to the increment of tax-GDP ratio. Middle income economies countries are contributing in satisfying level of 17-18% of national revenue. The worst contribution of tax revenue to GDP is consisted of Nepal. Pakistan has in same condition of before 6years and India is improving in its share in GDP. Nepal is in increasing trend but it is too slow and this effect will harm Nepal unless the per capita income of people increases. As the economies of any country be higher, the revenue-GDP ratio automatically be increased.

4.1.2 Tax-GDP and Revenue-GDP Ratio in Nepal:

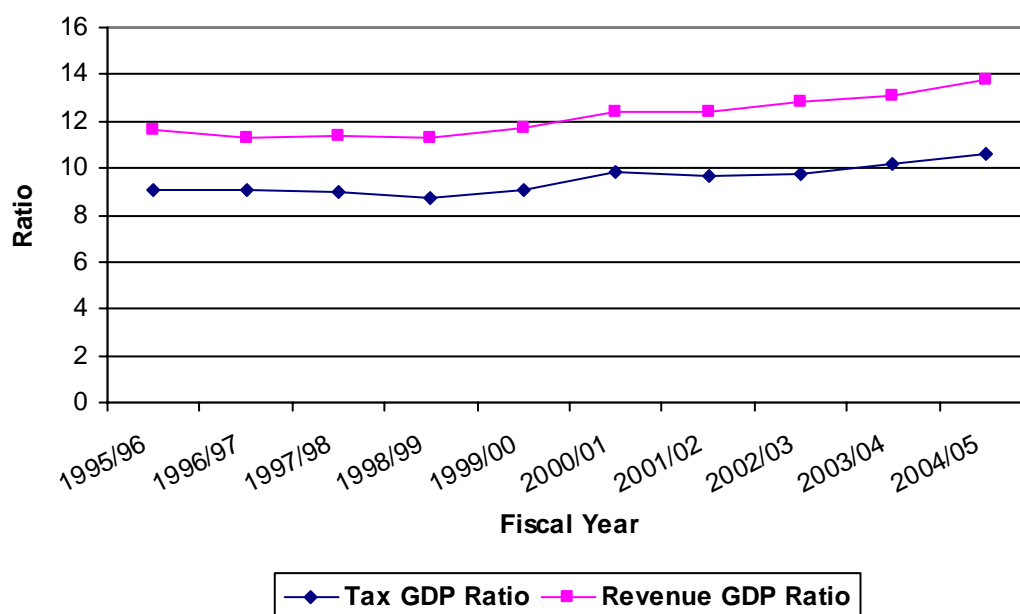
Table: 4.2
Tax-GDP and Revenue-GDP Ratio in Nepal
(Fiscal year 1995/96-2004/05)

Fiscal year	Tax –GDP Ratio	Revenue-GDP Ratio
1995/96	9.05	11.65
1996/97	9.06	11.27
1997/98	8.95	11.37
1998/99	8.71	11.29
1999/00	9.05	11.71
2000/01	9.86	12.41
2001/02	9.68	12.42
2002/03	9.73	12.85
2003/04	10.14	13.12
2004/05	10.64	13.79

Source: Economic survey 2005/06, MOF, G/N

The contribution of total tax revenue to GDP and the contribution of total revenue (Tax +non tax)to GDP are presented in table 4.2.It has shown in figure4.1 through trend line. GDP, total tax revenue and total revenue all are increasing per year over the study period. The share of total tax revenue on GDP was 9.05 percentages in Fiscal year 1995/96 and 10.64 percentage in fiscal 2004/05.The mean contribution of tax on GDP is 12.18 percentages. The maximum contribution of tax to GDP is 9.48 percentages of fiscal year 2004/05.Similarly, total revenue consist tax revenue plus non tax revenue. Contribution of total revenue to GDP is little bit higher than only tax revenue. The means contribution is 10.64 percentages over study period of fiscal year 1995/96 to 2004/05 the highest and lowest contribution of total revenue to GDP are 9.16 percentages and 13.79 percentages in fiscal year 1992/93 and 2004/05 respectively. Revenue –GDP ratio is fluctuating in different years. The ratio is in increasing trends from fiscal year 1996/97 (i.e. 11.27) to 2004/05(i.e13.79).

Figure 4.1
Composition of Tax-GDP and Revenue GDP Ratio



Source: Table No.4.2

4.1.3 Structure of Government Revenue in Nepal:

Government needs sources of revenue for developmental or other expenditure for the country. For this, Tax and non-Tax revenues are the main sources of revenue collection. The structure of government revenue in Nepal is composed of customs excise, sales tax (VAT), land revenue and registration, income tax, miscellaneous and non tax revenue. In addition to these internal sources of government revenue, foreign loans and grants have also contributed a lot. In fiscal year 2004/05, foreign loan and grants have also contributed 35.2% of capital expenditure and 44.2% of deficits that are made by different sources. Due to some marginal improvements in revenue surplus and foreign grants, there is slight decline by 2.5% points in the deficit financing. The structure of government revenue in Nepal has been Presented in Table 4.3 and 4.4 for 10 years period for 1995/96 to 2004/05.

Table No. 4.3
Structure of Government Revenue in Nepal
(Fiscal year 1995/96-2004/05)

Rs. In million

Fiscal year	Customs	Excise	Sales tax/ VAT	Income Tax	Land Revenue & Registration	Miscellaneous Tax	Non-Tax Revenue	Total
1995/96	7327.4	1944.3	7740.4	3431.4	1066.6	157.9	6225.1	27893.1
1996/97	8309.1	2298.1	8477.1	4123.4	1015.4	201.2	5949.2	30373.5
1997/98	8502.2	2885.8	8363.9	4898.1	1004.2	285.6	6998.1	32937.9
1998/99	9517.7	2953.2	8765.9	6170.2	1003.1	342.7	8498.4	37251.3
1999/00	10813.3	3127.6	10259.7	7420.6	1015.9	515.0	9741.6	42893.7
2000/01	12552.1	3771.2	12382.4	9114.0	6120.9	432.5	10028.8	48893.9
2001/02	12658.8	3807.0	12267.3	8903.7	1131.8	562.0	11115.0	50445.6
2002/03	14236.4	4785.1	13459.7	7966.2	1414.3	725.3	13642.7	56229.7
2003/04	15554.8	6226.7	14478.9	9245.9	1697.5	969.2	14158.0	62331.0
2004/05	15701.6	6445.9	18885.4	10159.4	1799.2	1113.2	16018.0	70112.7
means	11517.34	3824.49	11508.07	7143.29	1585.46	530.46	10237.49	45936.24

Source: Economic Survey 2005/06, Ministry of finance, Government of Nepal.

Note:

1. Customs includes Import+ Exports+ Indian Excise Refund+ others
2. VAT includes sales tax +entertainment tax + hotel tax + air flight tax + contract tax Income tax includes income tax from (public enterprises + semi enterprises + private corporate bodies + individuals + remuneration + interest).
3. Miscellaneous includes urban house and land tax + vehicle tax + others + road & bridge maintenance tax and others.

Table 4.4
Structure of Government Revenue in Nepal

(Fiscal year 1995/96-2004/05)

In Percentage

Fiscal Year	Customs	Excise	Sales Tax/VAT	Income tax	Land Revenue & registration	Miscellaneous Tax	Non-Tax Revenue	Total
1995/96	26.27	6.97	27.75	12.30	3.82	0.66	22.32	100
1996/97	27.36	7.57	27.91	13.58	3.34	0.87	19.58	100
1997/98	25.81	8.76	25.40	14.087	3.05	0.92	21.25	100
1998/99	25.55	7.93	23.53	16.56	2.69	1.20	22.82	100
1999/00	25.21	7.29	23.92	17.30	2.37	0.88	22.71	100
2000/01	25.67	7.71	25.32	18.64	1.25	1.11	20.52	100
2001/02	25.09	7.55	24.32	17.65	2.24	1.30	22.03	100
2002/03	25.32	8.51	23.94	14.20	2.52	1.30	24.26	100
2003/04	24.96	10.00	23.23	14.83	2.72	1.60	22.71	100
2004/05	22.04	9.20	26.93	14.50	2.56	1.60	22.84	100
Mean	25.33	8.15	25.22	15.44	2.66	1.15	22.1	

Source: Economic Survey

Here, in government's structure, custom includes import, export, Indian excise refund and others. Excise however, is related with liquor production contract

and industrial production. VAT includes sales tax, Entertainment tax, Hotel tax, air flight tax and contract tax. Incomes tax includes income from different public, private corporation and tax on interest. Urban house and land tax, vehicle tax, others, road and bridge maintenance tax and others are included in miscellaneous. The addition of all customs, excise, income tax, land revenue and registration, non-tax revenue, VAT and miscellaneous in the total revenue collection of government in Nepal. In 2004/05 the share of customs duty is 22.40 percentages. Excise holds 9.20 percentages of total government revenue. VAT, the largest sources of government revenue occupies approximately 27 percentages of total government revenue in FY 2004/05. Income tax, Land revenue and registration and miscellaneous holds 14.5, 2.56, and 1.60 percentages of total government revenue respectively in 2004/05. And the non tax revenue in 2004/05 is 22.84 percentages. In 1995/96, non tax revenue was 22.32 percentages. Here, we can conclude that the non tax revenue is fluctuating every year. Total revenue however is in increasing trend. In comparison of fiscal year 1995/96, total government revenue of 2004/05 is about 3.5 times greater. Finally, it can be pointed out that, among various taxes and in tax revenues, customs, sales tax (VAT) and non –tax revenue appeared and 1st, 2nd and 3rd important sources of revenue in total revenue structure in Nepal respectively. They have average contribution of 25.33 percentages, 25.22 percentages and 22.1 percentages respectively from FY 1995/96 to 2004/05. Fourth, fifth and sixth share in government revenue is of income tax, excise duty and land revenue and registration respectively. The lowest average contribution of 1.15 percentages in total revenue of Nepal is associated with miscellaneous tax. It has been increasing per year expect certain years. Its contribution in total Nepalese revenue is 1113.2 million in 2004/05.

4.1.4 Contribution of Tax and Non-Tax Revenue in Total Revenue:

Table No.: 4.5

Contribution of Tax and Non-Tax Revenue in Total Revenue

Fiscal year	Total Revenue	Tax revenue		Non –Tax Revenue	
		Amount	Percentages	Amount	Percentages
1995/96	27893.1	21668.0	77.68	6225.1	22.32
1996/97	30373.5	24424.3	80.41	5949.2	19.58
1997/98	32937.9	25939.8	78.75	6998.1	21.25
1998/99	37251.3	28752.9	77.19	8498.4	22.82
1999/00	42893.7	33152.1	77.29	9741.6	22.71
2000/01	48893.9	38865.1	79.49	10028.8	20.52
2001/02	50445.6	39330.6	77.97	11115.0	22.03
2002/03	56229.7	42587.0	75.74	13642.7	24.26
2003/04	62331.0	48173.0	77.28	14158.0	22.71
2004/05	70112.7	54104.7	77.16	16018.0	22.84
Mean	45936.24	35699.75	62.08	10237.49	22.1

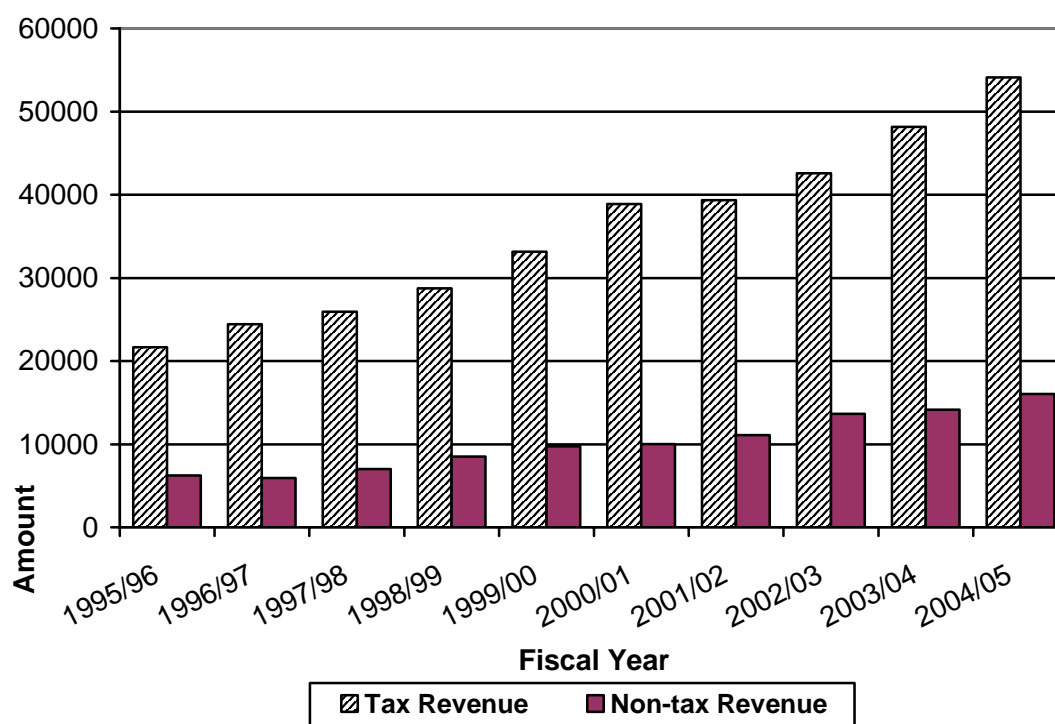
Source: Economic Survey 2005/06, Ministry of Finance, G/N

Total revenue of Nepal consists of tax revenue and non tax revenue. Tax revenue comprises of customs, excises, sales tax (VAT), income tax, land revenue and registration and miscellaneous taxes. Non-tax revenue comprises of charges, fees, fines and forfeiture; receipts from sales of commodities and services; dividend, royalty and sales of fixed assets, principal and interest payment and miscellaneous items. Table 4.5 shows the composition of tax and non-tax revenues in Nepalese revenue structure of the fifteen years i.e. from fiscal year 1995/96 to 2004/05. The tax revenue amount has always been increasing per year than the previous years. Its percentage contribution has always been fluctuating with in the lower limit of about 73 percentages to the upper limit of about 80.5 percentages. In 1995/96, tax revenue contributed 77.68 percentages i.e. Rs 21668.0 million and non tax revenue contributed Rs 6225.1 i.e. 22.32 percentages to total revenue respectively. Non tax revenue

after fiscal year 1997/98 has been increasing but before that period, it was fluctuating in nature. Among the total revenue of government that Rs 70122.7 million in 2004/05, the share of tax and non tax revenue are RS 54104.7 million and Rs. 16018.00 million respectively. The mean contribution of tax and non tax revenue are 62.08 percent and 22.1 percent from fiscal year 1995/96 to 2004/05. This indicates that the role of tax revenue is very important in revenue mobilization of Nepal to meet the government expenditure.

Figure No. 4.2

Contribution of Tax and Non-Tax Revenue in Total Tax Revenue



Source: Table No. 4.5

4.1.5 Percentages of Tax Revenue in GDP

Table 4.6
Percentages of Tax Revenue in GDP
(Fiscal year 1995/96-2004/05)

Fiscal Year	GDP	Tax Revenue	Tax Revenue as Percentage of GDP
1995/96	239388	21668.0	9.05
1996/97	269570	24424.3	9.06
1997/98	289798	25939.8	8.95
1998/99	330018	28752.9	8.71
1999/00	366251	33152.1	9.05
2000/01	394052	38865.1	9.86
2001/02	437546	39330.6	9.68
2002/03	474919	42587.0	9.73
2003/04	5808651	48173.0	10.14
2004/05		54104.7	10.64

Source : Economics Survey 2005/06 ministry of Finance, G/N

GDP is in increasing trend but tax to GDP ratio never reached ten percentages till 2002/03. It was 10.24 percentages in 2003/04 and consulting the revised estimates, 2004/05 has 10.64 of tax revenue as percentages of GDP. Tax –GDP ratio of Nepalese government structure is shown in Table 4.6 from fiscal year 1995/96 to 2004/05. While tax revenue is increasing gradually, tax –GDP ratio is not in increasing trend. It is fluctuation from 8.74 percentages to 10.64 percentages. If the share of tax revenue to GDP is considered, it is not found satisfactory. After 2000/01, the rate was in increasing trend and then in 2001/02 it was decreased. Then after, the ratio of tax revenue on GDP is in increasing trend up to now. By fitting the trend line by least square method, the GDP of fiscal year 2005/06 to 2009/10 would be estimated Rs. 526186, 554090, 581994, 6098898 and 637802 million respectively.

4.1.6 Composition of Direct and Indirect Tax Revenue in Nepalese Tax Revenue:

Table No. : 4.7

Composition of Direct and Indirect Tax Revenue in Nepalese Tax Revenue

Fiscal Year	Direct tax Revenue	% of Share Total Tax Revenue	Indirect Tax Revenue	% Share in Total Tax Revenue	Total Tax Revenue
1995/96	4655.9	21.49	17012.1	78.51	21668.0
1996/97	5940.0	21.86	19084.3	78.14	24424.3
1997/98	6187.9	23.85	19751.9	76.15	25939.8
1998/99	7516.1	26.14	21236.8	73.86	28752.9
1999/00	8951.5	27.00	24200.6	73.00	33152.1
2000/01	10159.4	26.14	28705.7	73.86	38865.1
2001/02	10597.5	26.94	28733.1	73.06	39330.6
2002/03	10105.8	23.73	32481.2	76.27	42587.0
2003/04	11912.6	24.73	36260.4	75.27	48173.0
2004/05	13071.8	24.16	41032.9	75.84	54104.7

Source: Economic survey 2005/06, MOF, G/N

Note:

1. Direct Tax includes Tax on property, profits & Income + land Revenue and Registration.
2. Indirect Tax includes customs +Tax on consumption and product of good and services.

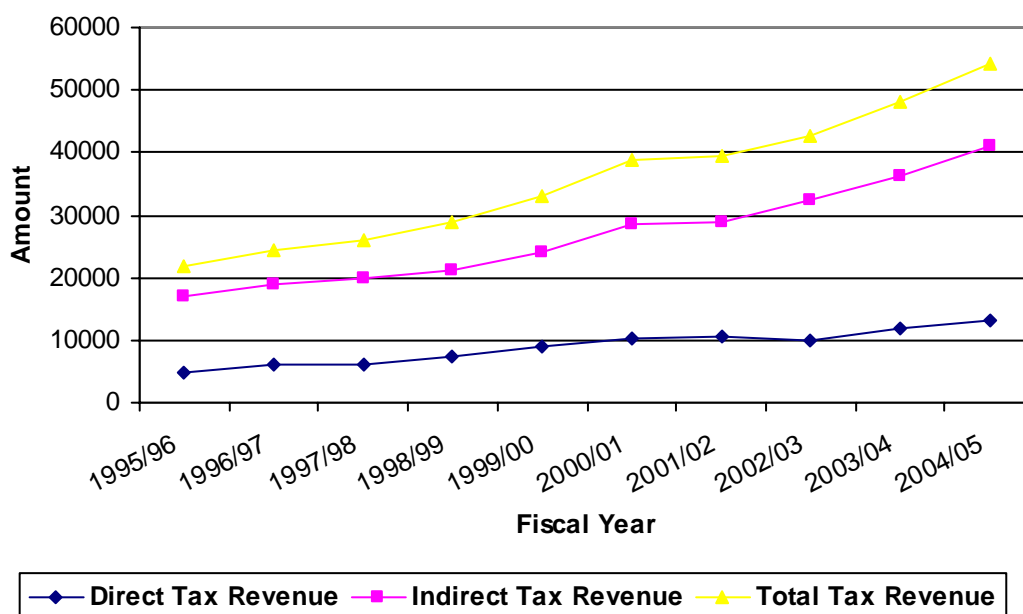
The structure of Nepalese tax revenue is presented in Table 4.7 in terms of direct tax revenue and indirect tax revenue from the fiscal year 1995/96 to 2004/05. From the table 4.7 it is clear that the whole Nepalese tax structure is dominated by indirect tax revenue. The average share of direct tax revenue in total tax revenue for the period 1995/96 to 2004/05 was 24.6 percent and the share of indirect tax revenue was 75.39 percent.

In 1995/96, out of total tax revenue of Rs. 21668.0 millions, 4655.9 millions and RS17012.1 million have been contributed by direct tax revenue and indirect tax respectively. It means about 21.49 percentages is in share of direct tax in total tax revenue and 78.51 percentage share occupied by indirect tax. Like wise in fiscal year 2004/05, out of Rs. 54104.7 millions total tax revenue, Rs. 13071.8 millions and Rs. 41032.9 millions have been contributed as direct and indirect tax respectively. That is 24.16 percentages and 75.84 percentages share of direct and indirect tax revenue respectively in total structure of government in Nepal.

Comparison of direct and indirect tax reveals the heavy reliance of economy on indirect taxation. To divert the economy in the channel of development, it is necessary to increase the share of direct tax, ultimately, decreasing the share if indirect tax. Therefore, the attention should but focused on the sufficient resource mobilization through direct taxation.

Figure No. 4.3

Composition of Direct Tax and Indirect Tax Revenue in Nepalese Revenue



Source: Table No. 4.7

4.1.7 Contribution of Various Taxes as Percent to GDP:-

Table 4.8

Contribution of Various Taxes as Percent to GDP from the Fiscal Year 1995/96 to 2004/05

Fiscal Year	Tax Revenue as % GDP	Direct Tax	Indirect Tax	Custom	Excise	Sales tax/ VAT	Land Revenue and Registration	Income tax	Miscellaneous
1995/96	9.05	1.94	7.11	3.06	0.81	2.69	0.45	1.43	0.61
1996/97	9.06	1.98	7.08	3.08	0.85	2.64	0.38	1.53	0.58
1997/98	8.95	2.14	6.81	2.93	1.0	2.46	0.35	1.69	0.53
1998/99	8.71	2.28	6.43	2.88	0.89	2.39	0.30	1.87	0.37
1999/00	9.05	2.44	6.61	2.95	0.85	2.69	0.28	2.03	0.25
2000/01	9.88	2.58	7.30	3.19	0.96	3.06	0.16	2.32	0.19
2001/02	9.72	2.62	7.10	3.13	0.94	2.96	0.28	2.20	0.21
2002/03	9.73	2.30	7.42	3.25	1.09	3.07	0.32	1.85	0.19
2003/04	10.14	2.5	7.6	3.27	1.3	3.04	0.36	2	0.17
2004/05	10.63	2.56	8.06	3.08	1.27	3.7	0.35	2	0.19

Source : Economic Survey of Various years, MOF G/N

Note:

1. Custom Includes Imports +Export + Indian Excise Refund + others.
2. Excise includes industrial production +liquor contract.
3. Income Tax includes income tax from (Public Enterprises + Semi Public Enterprises + Private Corporate Bodies + Individuals + Remuneration + Tax on Interest).
4. Miscellaneous includes Entertainment Tax+ Hotel Tax +Air Flight Tax + Contract Tax + Road and Bridges Maintenance Tax and Other + Urban House ad Land Tax + Vehicle Tax + Others Taxes.

Table 4.8 shows the contribution of various taxes as percent to GDP. During the study period, the contribution of tax revenue increased from 9.05 percent in 1995/96 to 10.63 percent in 2004/05, which was increasing at a slower rate. The contribution of indirect tax was about 3 folds more than the direct tax during the study period. In 1995/96, the contribution of indirect tax and direct tax was 1.94 percent and 7.11 percent respectively.

Contribution of custom has occupied the highest position among the tax revenue. The contribution from custom to GDP varied from 2.88 percent to 3.27 percent for 1995/96 to 2004/05. Sales tax has occupied second position among the tax revenue. Contribution of sales tax to GDP increased from 2.69 percent to 3.7 percent during the study period. Percentage contribution of excise to GDP is increased from 0.81 percent to 1.27 percent during study period. The percentage contribution of income tax to GDP is increased from 1.43 percent to 2 percent from 1995/96 to 2004/05. The percentage contribution of land revenue and registration also decreased from 0.45 percent to 0.35 percent during study period.

4.1.8 Composition of Direct Tax

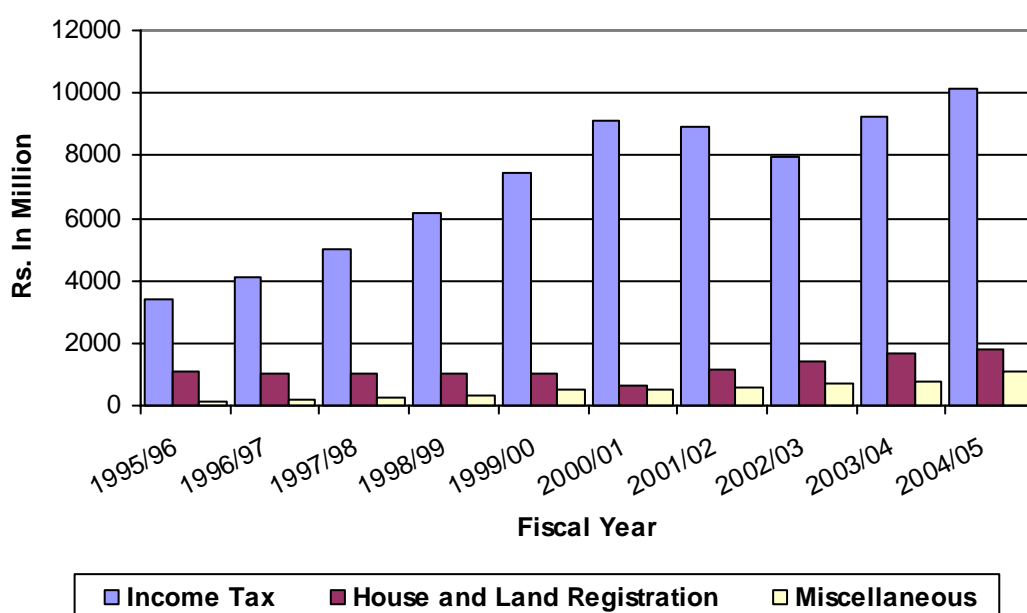
Table No. 4.9

**Composition of Direct tax
(Fiscal year 1995/96 to 2004/05)**

Fiscal Year	Total Direct Tax	Income Tax		House and Land Registration		Miscellaneous	
		Amount	% in Total	Amount	% in Total	Amount	% in Total
			Direct tax		Direct tax		Direct tax
1995/96	4655.9	3431.4	73.70	1066.6	22.91	157.9	3.40
1996/97	5340.0	4123.4	77.22	1015.4	19.01	201.2	3.77
1997/98	6187.9	4998.1	79.20	1004.2	16.23	285.6	4.62
1998/99	7516.1	6170.2	82.09	1003.2	13.35	342.7	4.56
1999/00	8951.5	7420.6	82.90	1015.9	11.35	515.0	5.75
2000/01	10159.4	9114.0	89.71	612.9	6.03	432.5	4.26
2001/02	10597.5	8903.7	84.02	1131.8	10.68	562.0	5.30
2002/03	10105.8	7966.2	78.83	1414.3	13.99	725.3	7.18
2003/04	11912.6	9245.9	77.61	1697.5	14.25	769.2	8.13
2004/05	13071.8	10159.4	77.72	1799.2	13.76	1113.2	8.52

Source: Economic Survey 2005/06, MOF, G/N

Figure 4.4
Composition of Total Direct Tax



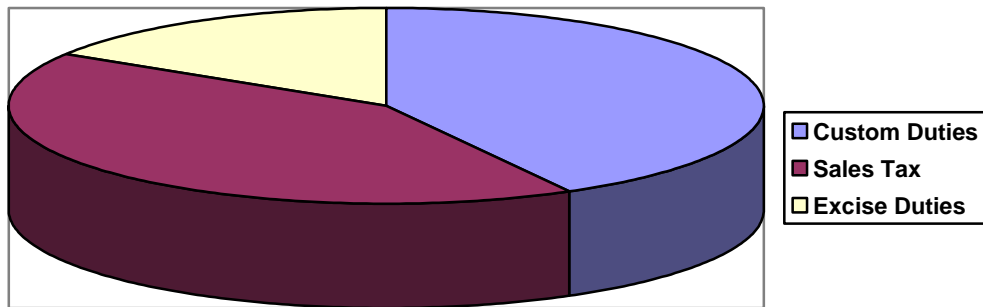
Source: Table No. 4.9

Table No. 4.10
Composition of Indirect Tax
(Fiscal year 1995/96-2004/05) **Rs. In Million**

Fiscal year	Total Indirect tax	Customs Duties		Sales Tax (VAT)		Excise Duties	
		Amount	%	Amount	%	Amount	%
1995/96	17012.1	7327.4	43.07	7740.4	45.50	1944.3	11.43
1996/97	19084.3	8309.1	43.54	8477.1	44.42	2298.1	12.04
1997/98	19751.9	8502.2	43.05	8363.9	42.34	2885.8	14.61
1998/99	21236.8	9517.7	44.82	8765.9	41.30	2953.2	13.91
1999/00	24200.6	10813.3	44.68	10259.7	42.40	3127.6	12.92
2000/01	28705.7	12552.1	43.73	12382.4	43.14	3771.2	13.14
2001/02	28733.1	12658.8	44.06	12267.3	42.70	3807.0	13.25
2002/03	32481.2	14236.4	43.83	13459.7	41.44	4785.1	14.73
2003/04	36260.4	15554.8	42.90	14478.9	39.93	6226.7	17.20
2004/05	41032.9	15701.6	38.30	18885.4	46.02	6445.9	15.71
Mean		11517.34		11508.07		3824.49	

Source: Economic Survey 2005/06, MOF, G/N

Figure No. 4.5
Composition of Indirect Tax



Source: Table No. 4.10

The composition of indirect tax in Nepal has characterized in three parts. They are: Custom duty, Sales tax (VAT) and Excise duty. Here, average or mean of custom duty over the study period is RS 11517.34 million. The average of sales tax (VAT) is 11508.07 million and average of excise duty is Rs.3824.49 million from fiscal year 1995/96 to 2004/05. These three variables are shown in pie chart in the basis of mean.

4.1.9 Structure of Income Tax in Nepal:

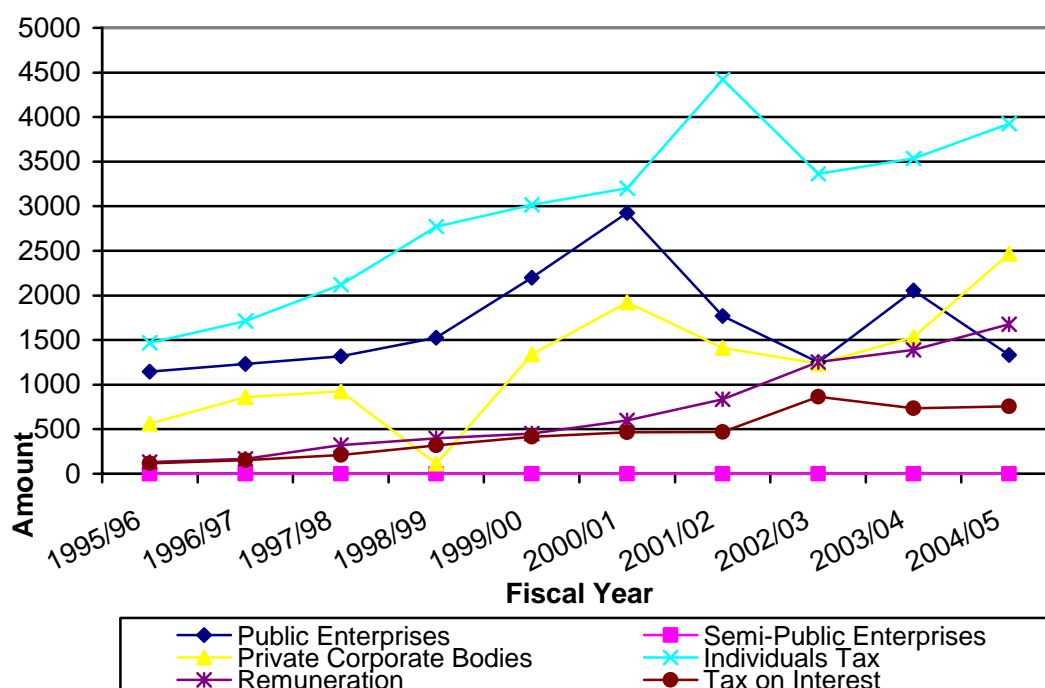
Table 4.11

Structure of Income Tax in Nepal (Fiscal Year 1995/96-2004/05)

Fiscal Year	Total Income Tax	Percent	Public enterprises	As % of income tax	Semi public Enterprises	As % of income tax	Private corporate bodies	As % of income tax	Individuals tax	As % of income tax	Remuneration	As % of income tax	Tax on interest	As % of income tax
1995/96	3431.4	100	1144.5	33.35	0	0	563.9	16.43	1470.1	42.84	133.1	3.88	119.8	3.49
1996/97	4123.4	100	1231.1	29.86	0	0	858.4	20.82	1711.4	41.50	168.1	4.08	154.4	3.74
1997/98	4998.1	100	1317.8	26.90	0	0	925.1	18.89	2120.8	43.30	322.2	6.58	212.2	4.33
1998/99	6170.2	100	1526.5	24.74	0	0	115.0	18.72	2772.7	44.94	396.5	6.43	319.5	5.18
1999/00	7420.6	100	2198.8	29.63	0	0	1339.5	18.05	3016.4	40.65	451.5	6.08	414.4	5.58
2000/01	9114.0	100	2928.0	32.13	0	0	1924.3	21.11	3200.5	35.12	597.3	6.55	463.9	5.09
2001/02	8903.7	100	1769.3	19.87	0	0	1412.0	15.86	4419.1	49.63	835.6	9.38	467.7	5.25
2002/03	7966.2	100	1251.0	15.70	0	0	1236.3	15.52	3362.3	42.21	1252.6	15.72	864.0	10.84
2003/04	9245.9	100	2056.6	22.24	0	0	1531.3	16.56	3533.4	38.22	1391.2	15.05	733.4	7.93
2004/05	10159.4	100	1332.4	13.11	0	0	2467.8	24.29	3926.3	38.65	1675.9	16.50	757.0	7.45

Source: Economic Survey 2004/05, MOF, G/N

Figure No. 4.6
Structure of Income Tax in Nepal



Source: Table No. 4.11

The income tax structure of Nepal is the composition of tax from public enterprises, Semi-public enterprises, private corporate bodies, individuals, remuneration and tax on interest. Here, public enterprises consists of 100 percent government ownership, semi-public enterprises include 51 percent government ownership, private corporate bodies mean public limited companies. Individuals denote sole traders, partnership, private limited companies. Remuneration refers to salaries earned from government and non government sectors. Income Tax is an important source of direct tax revenue. It has highest contribution in direct tax revenue.

Table 4.11 presents the structure of income tax in Nepal, which shows that the total income tax increased in every fiscal year except 2001/02 and 2002/03. In year 2001/02, it was decreased to RS 8903.7 million, from RS9114.0 in year 2000/01. In 2002/03 income tax decreased to Rs 7966.2 million then after that year income tax started to increase.

Income taxes from individuals have the highest contribution in total income tax revenue collected. It was 42.84 percent in 1995/96 and 38.65 percent in 2004/05. The lowest contribution have making by semi public enterprises. The contribution of income tax to public from public enterprises is not satisfactory. The main reasons for unsatisfactory contribution of income tax are poor performance of public enterprises, weakness in government's economy policy, defective income tax act etc. Because of the lowest contribution of semi – public enterprises, share of semi-public enterprises are not calculated by separately after restructuring the sources of income. The share of remuneration tax and interest tax has been seen increasing in some current years. Private corporate body's contribution is fluctuating from 15.52 percent to 24.29 percent. Figure 4.7 presents the income tax as a percentage of GDP with the help of trend line.

Income Tax in the GDP (Gross Domestic Product)

Table 4.12 shows the contribution of income tax to GDP in detail. GDP and income tax revenue both are in increasing trend from 1995/96 to 2004/05 every year. Share of income tax revenue to GDP was increasing until 2000/01 from 1995/96. It has decreased in year 2001/02, 2002/03 and 2003/04. Contribution of income tax to GDP was 1.43 percent in 1995/96. Maximum contribution of income tax revenue as percentage of GDP is 2.31 in fiscal year 200/01.

Income Tax in Total Revenue:

The percentage contribution of income tax in total revenue is presented in Table no.4.12. The share of income tax in the total tax revenue is fluctuating. Tax is dominant in the total tax revenue of Nepalese government structure. It has occupied the most part of public revenue i.e. about two third part in total revenue. Share of income tax as the percentage of total revenue is presented in table 4.12. It was 12.30 percentage in 1995/96 and 14.50 percent in fiscal year 2004/05.

4.1.10. Contribution of Income Tax to GDP, Total Revenue, Total Tax Revenue and Direct Tax Revenue

Table 4.12

Contribution of Income Tax to GDP, Total Revenue, Total Tax Revenue and Direct Tax Revenue

(Fiscal year 1995/96 to 2004/05)

Fiscal year	GDP	Total Revenue	Total tax revenue	Direct tax revenue	Income tax revenue	% of Income Tax on GDP	% of income tax on total revenue	% of income tax on total revenue	% of income tax on direct tax revenue
1995/96	239388	27893.1	21668.0	4655.9	3431.4	1.43	12.30	15.84	73.70
1996/97	269570	30373.5	24424.3	5340.0	4123.4	1.53	12.58	16.88	77.22
1997/98	289798	32937.9	25939.8	6187.9	4998.1	1.69	14.87	18.88	79.16
1998/99	330018	37251.0	28752.1	7516.1	6170.2	1.87	16.56	21.46	82.09
1999/00	366251	42893.7	33152.1	8951.5	7420.6	2.03	17.30	22.38	82.90
2000/01	394052	48893.9	38865.1	10159.4	9114.0	2.31	18.64	23.45	89.71
2001/02	406138	50445.6	39330.6	10597.5	8903.7	2.20	17.65	22.64	84.02
2002/03	437546	56229.7	42587.0	10105.8	7966.2	1.82	14.17	18.71	78.83
2003/04	474919	62331.0	48173.0	11912.6	9245.9	1.95	14.83	19.20	77.61
2004/05	508651	70122.7	54104.7	13071.8	10159.4	2.00	14.50	18.78	77.72

Source :Economic Survey 2005/06,MOF,G/N

Income Tax in Total Tax Revenue

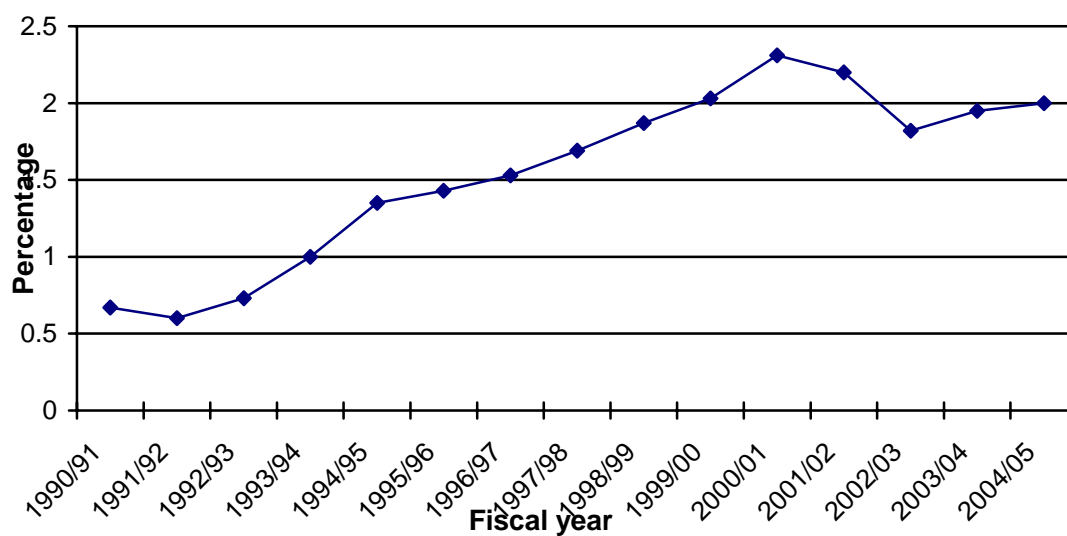
Table 4.12 shows that the contribution of income tax to total tax revenue is increasing trend from fiscal year 1995/96 to 2001/02. Since then it started to decrease till study period. It was 15.84 percent in 1995/96 and 22.64 percent in 2001/02. Then it started to decrease and it decrease to 18.78 percent in 2004/05.

Income Tax to Direct Tax Revenue

Table 4.12 shows that there is substantial contribution of income tax in indirect tax revenue in Nepal. The major sources of indirect tax are income tax revenue. Percentage share of income tax to direct tax is in fluctuating during the study period. In the fiscal year 1995/96 it has contributed 73.70 percent on direct tax revenue and in the fiscal year 2004/05 the share of income tax is total direct tax revenue is 77.72 percent. The highest contribution of income tax is 89.71 in 2000/01.

Figure No. : 4.7

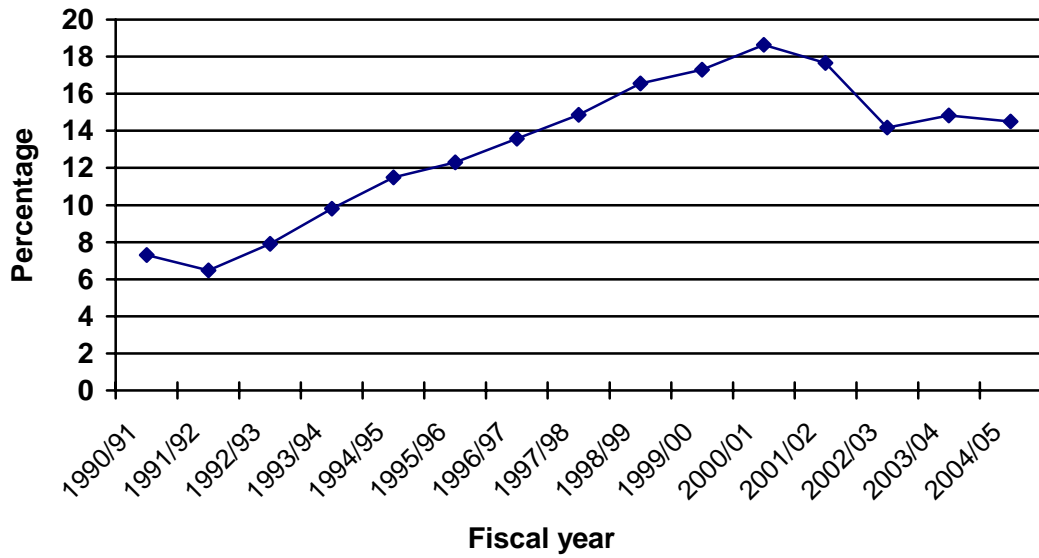
Income Tax as a Percentage of GDP



Source: Table No. 4.12

Figure: 4.8

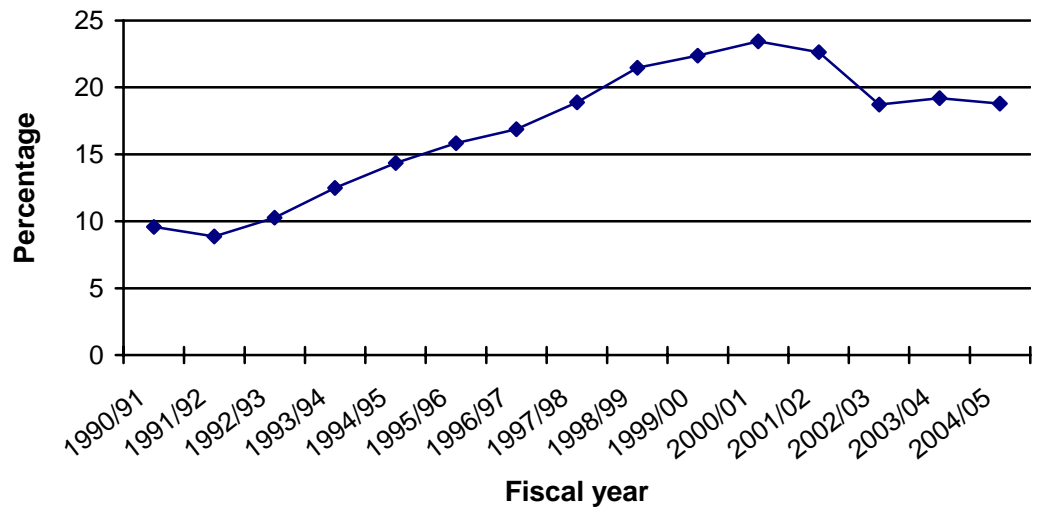
Income Tax as a Percentage of Total Revenue



Source: Table No. 4.12

Figure: 4.9

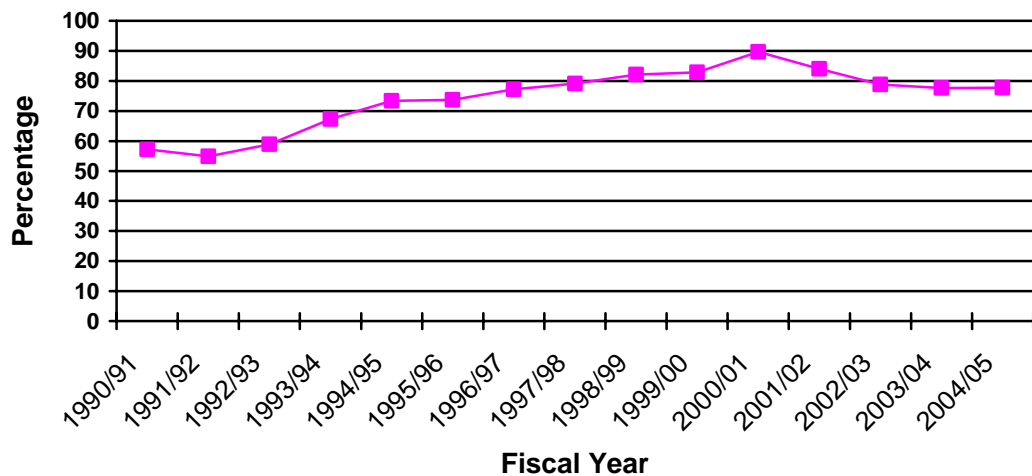
Income Tax as a Percentage of Total Tax Revenue



Source: Table No. 4.12

Figure: 4.10

Income Tax as a Percentage of Direct Tax Revenue



Source: Table No. 4.12

4.1.11 Business Exemptions, Exempt Amounts and Other Concessions

The following amounts are exempt from tax:

- A. Amounts derived by a person entitled to privileges under a bilateral or a multilateral treaty concluded between Government and a foreign country or an international organization;
- B. Amounts derived by an individual from employment in the public service of the government of a foreign country, provided that, the individual is a resident person solely by reason of performing the employment or is a non-resident person; and the amounts are payable from the public funds of the country;
- C. Amounts derived from public fund of the foreign country by an individual who is not a citizen of Nepal or by a member of the immediate family of the individual.
- D. Amounts derived by an individual who is not a citizen of Nepal from employment by Government on terms of a tax exemption;
- E. Allowances paid by Government to widows, elder citizens, or disabled individuals;

- F. Amounts derived by way of gift, bequest, inheritance, or scholarship, except as required to be included in calculating income under this Act;
- G. Amounts derived by an exempt organization by way of gift; or other contributions that directly relate to the organization's function, whether or not the contribution is made in return for consideration provided by the organization, and
- H. Pension received by a Nepali citizen retired from the army or police service of a foreign country provided the amounts are payable from the public fund of that country.

An agricultural income derived from sources in Nepal during an income-year by a person, other than the income from an agriculture business derived by a registered firm, or company, or partnership, or a corporate body, or through the land above the land holding ceiling as prescribed in the Land Act, 2021, is exempt from income tax.

Incomes derived by cooperative societies, registered under Cooperative Act, 2048 (1991), from business mainly based on agriculture and forest products such as sericulture and silk production, horticulture and fruit processing, animal husbandry, diary industries, poultry farming, fishery, tea gardening and processing, coffee farming and processing, herbiculture and herb processing, vegetable seeds farming, bee-keeping, honey production, rubber farming, floriculture and production and forestry related business such as lease-hold forestry, agro-forestry, cold storage established for the storage of vegetables and business of agricultural seeds, insecticide, fertilizer and agricultural tools (other than machine operated) and rural community based saving & credit cooperatives are exempt from tax. Dividends distributed by such societies are also exempt from tax.

4.2 Contribution of Income Tax from Public Enterprises to Government Revenue:

4.2.1 Meaning of Public Enterprises:

Public Enterprises are autonomous bodies which are owned and managed by the government and which provide goods or services for a price. The ownership with the government should be 51 percent or more to make an entity a public enterprise. UN has defined public enterprises as “the organization namely government enterprises and public corporation which are entirely or mainly owned and /or controlled by the public authorities consisting of establishments which by virtue of their kind of activities, technology and mode of operation are classified as industries.”

Public enterprises play a vital role in most of developing countries. The role of public enterprises differs from country to country, basically due to political philosophy of existing governments. Public enterprises came into being either by the way of deliberate policy of the government to bring certain activities under strict governmental control by creating new institutions or by nationalizing them from the private sector. Thus in public enterprises a public authority holds more than 50 percent of outstanding equity either directly or indirectly. Government has power to intervene in the management of the enterprises through the appointment of top management of the enterprises through the appointment of top management members of the board of directors and the chief executive.

4.2.2 Role of Public Enterprises in Nepalese Economy

In Nepal, the public enterprises were established in public services, industry, trade, finance and other sectors to create the infrastructure for basic services; and also because the private sector was seen as inefficient in important areas; the capital investment capability was low, and because technical know-how development was still in a very primary stage. After Nepal Bank Limited was established in 1954 as a public enterprise, other such enterprises like Nepal Industrial Development Corporation and Royal Nepal Airlines Corporation also

came into being. In the industrial sector also, industries like the Janakpur Cigarette Factory, Birgunj Sugar Mill, and Bansbari Leather Shoe Factory were established in 1961. Subsequently, banks, business sector, telecommunication, electricity and water supply in the services sector; cement, bricks, medicines and textiles in the industrial sectors came into existence. In this way, at present sixty two different public enterprises are established in Nepal. Although the development of public enterprises has achieved the above mentioned aims by creating employment opportunities, increasing production in the country and providing the important basic services; the enterprises have not been functioning in an efficient manner. Despite the long term protection given to these public enterprises they have not been able to achieve financial capability and work efficiency and are still dependent upon government grants. So in order to enhance their efficiency, it has become necessary to think seriously about them.

Upto the fiscal year 1990/91, His Majesty's Government had invested a capital of Rs. 6,303.2 million and loan investment worth Rs. 15,584.2 million on the existing public enterprises. The enterprises which were audited in the fiscal year 1989/90 showed a loss of Rs. 240 million, which increased upto Rs. 1,870 million in the fiscal year 1990/91. From this, it has been evident that public enterprises have become a perpetual financial burden. As the average capacity utilization of these enterprises was only 52 percent and had mostly gone into loss, the capital grants to be given by HMG for functional and transportation expenses gradually increased to Rs. 76,720 million in the fiscal year 1990/91. Since, it has become necessary to enhance the working efficiency, to effect managerial reforms and to run these enterprises from the commercial point of view, it is necessary to analyze the nature of these enterprises and to privatize them. Where privatization is not possible, efficiency enhancement programmes must be introduced immediately.

Public Enterprises play a crucial role in Nepal. One can feel the presence of public enterprises in almost all the key sectors, particularly in manufacturing sectors of the economy as well.

4.2.3 Contribution of Income Tax from Public Enterprises to GDP of Nepal

Table No. : 4.13

Contribution of Income Tax from Public Enterprises to GDP of Nepal From FY 1995/96 to 2004/05

Fiscal year	GDP	Income Tax From PE's	Income Tax from PE's as % of GDP
1995/96	239388	1144.5	0.48
1996/97	269570	1231.1	0.46
1997/98	289798	1317.8	0.45
1998/99	330018	1526.5	0.46
1999/00	366251	2198.8	0.60
2000/01	394052	2928.0	0.74
2001/02	406138	1769.3	0.44
2002/03	437546	1251	0.29
2003/04	474919	2056.6	0.43
2004/05	508651	1332.4	0.26
Total	3716331	16756	4.61
Average	371633.1	1675.6	.461

Source: Economic Survey of Various Year, Ministry of Finance, G/N

The contribution of Income Tax from PEs in GDP is Presented in Table 4.15. The share of Nepal is very low /The share of income tax from PEs in GDP lies between 0.26 percent to 0.74 percent. During the study period. Its share was 0.48 percent in 1995/96 and it declined to 0.26 percent in fiscal year 2004/05. The contribution of income tax from PEs in GDP is Fluctuating trend. The highest GDP was 0.74 percent in fiscal year 200/01. and the lowest contribution was 0.26 in fiscal year 2004/05.

4.2.4 Contribution of Income Tax from Public Enterprises to Government Revenue of Nepal.

Table No. 4.14

Contribution of Income Tax from Public Enterprises to Government Revenue of Nepal

Fiscal Year	Government Revenue	Income Tax from PEs	Income tax from PEs as % of Government revenue
1995/96	27893.1	1144.5	4.10
1996/97	30373.5	1231.1	4.05
1997/98	32937.9	1317.8	4.00
1998/99	37247.3	1526.5	4.10
1999/00	42893.7	2198.8	5.13
2000/01	48893.9	2928.0	5.99
2001/02	50445.6	1769.3	3.51
2002/03	56226.8	1251	2.22
2003/04	62331.1	2056.6	3.3
2004/05	70122.7	1332.4	1.9
Total	459365.6	16756	38.3
Average	45996.56	1675.6	3.83

Source : Economic Survey of various years, Ministry of Finance, G/N

The contribution of income tax from PEs in government revenue is presented in Table no.4.16. The share of income tax from PEs in government revenue of Nepal is very low. The share of income tax from PEs to government revenue lies between 1.9 percent to 5.99 percent during the study period, its share was 4.10 percent in 1995/96 and it reached to 5.99 percent in 2000/01. Then, the contribution started to decrease and it declined to 1.9 percent in 2004/05. The percentage contribute are fluctuating during study period. Its average contribution was 3.83 during study period of 10 years.

4.2.5 Contribution of Income Tax From PEs to Tax Revenue of Nepal:

Table No.: 4.15

Contribution of Income Tax From PEs to Tax Revenue of Nepal:

Fiscal year	Tax Revenue	Income Tax from PEs	Income tax from PEs as % of tax revenue
1995/96	21668.0	1144.5	5.28
1996/97	24424.3	1231.1	5.04
1997/98	25939.8	1317.8	5.08
1998/99	28752.1	1526.5	5.31
1999/00	33152.1	2198.8	7.06
2000/01	38865.1	2928.0	7.53
2001/02	39330.6	1769.3	4.50
2002/03	42587.0	1251	2.94
2003/04	48173.0	2056.6	4.25
2004/05	54104.7	1332.4	2.5
Total	356996.6	16756	49.49
Average	35699.66	1675.6	4.949

Source Economic Survey of Various year, MOF, G/N

The contribution of income tax from PEs in tax revenue of Nepal is presented in Table 4.15. The percentage share of income tax from the PEs in tax revenue of Nepal is slightly higher than the percentage contribution to GDP and total tax revenue. It lies between 2.5 percent to 7.53 percent during study period. Its share was 5.28 percent in 1995/96 and 2.5 percent in 2004/05. The percentage contribution of income tax from PEs in tax revenue is in fluctuating trend.

4.2.6 Contribution of Income Tax from PEs to Direct Tax Revenue:

Table 4.16

Contribution of Income Tax from PEs to Direct Tax Revenue

Fiscal year	Direct Tax Revenue	Income tax from PE's	Income tax from PEs as % of Direct Tax Revenue
1995/96	4655.9	1144.5	24.58
1996/97	5340.0	1231.1	23.05
1997/98	6187.9	1317.8	21.30
1998/99	7516.1	1526.5	20.31
1999/00	8951.5	2198.8	24.56
2000/01	10159.4	2928.0	28.82
2001/02	10597.5	1769.3	16.70
2002/03	10105.8	1251	12.38
2003/04	11912.6	2056.6	17.26
2004/05	13071.8	1332.4	10.19
Total	88498.5	16756	199.15
Average	8849.85	1675.6	19.915

Source: Economic Survey 2004/05, MOF, G/N

Contribution of income tax from PEs in direct tax revenue of Nepal is presented in Table 4.16. The Percentage contribution of income tax from PEs in direct tax revenue is higher than the percentage contribution in GDP, Government revenue and tax revenue. It lies between 10.16 percent to 28.82 percent during the study period. Its share was 24.58 percent in 1995/96 and it was 10.19 percent in 2004/05. The percentage contribution of income tax from PEs is also fluctuating trend. It was 28.82 percent in 2000/01 and 10.19 percent in 2004/05. It is decreasing from 2001/02 and it reached to 10.19 in 2004/05.

4.2.7. Contribution of Income Tax from Public Enterprises to Total Income Tax:

Table No. 4.17

Contribution of Income Tax from Public Enterprises to Total Income Tax

Fiscal Year	Income Tax	Income Tax from PEs	Income tax from PEs as % of income tax
1995/96	3431.4	1144.5	33.35
1996/97	4123.4	1231.1	29.86
1997/98	4998.1	1317.8	26.90
1998/99	6170.2	1526.5	24.74
1999/00	7420.6	2198.8	29.63
2000/01	9114.0	2928.0	32.13
2001/02	8903.7	1769.3	19.87
2002/03	7966.2	1251	15.70
2003/04	9245.9	2056.6	22.24
2004/05	10159.4	1332.4	13.15
Total	71532.9	16756	247.57
Average	7153.29	1675.6	24.57

Source: Economic Survey 2004/05 MOF G/N

The contribution of income tax from PEs in income tax revenue of Nepal is presented in Table 4.17. The percent share of income tax from PEs in income tax revenue is higher than the percentage share in GDP, government revenue, tax revenue and direct tax revenue. It lies between 13.15 to 33.35 percent during the study period. Its share was 33.35 percent in 1995/96 and reached to 13.15 percent in 2004/05. The percentage share of income tax from PEs in income tax revenue is in fluctuating trend. It was 33.35 percent and it started to fluctuate and it reached to 13.15 percent in 2004/05.

4.2.8 Contribution of Income Tax from Public Enterprises to Corporate Income Tax:

Table 4.18

Contribution of Income Tax from Public Enterprises to Corporate Income Tax

Fiscal Year	Corporate Income Tax	Income Tax from PEs	Income Tax from PEs as % of Corporate income tax
1995/96	1708.4	1144.5	66.99
1996/97	2089.5	1231.1	58.92
1997/98	2242.9	1317.8	58.75
1998/99	2681.5	1526.5	56.92
1999/00	3538.3	2198.8	62.14
2000/01	4852.3	2928.0	60.34
2001/02	3181.3	1769.3	55.62
2002/03	2487.3	1251	50.29
2003/04	3587.9	2056.6	57.32
2004/05	3800.2	1332.4	35.06
Total	30169.6	16756	562.35
Average	3016.9	1675.6	56.23

Source: Economy Survey of Various Year Ministry of Finance, G/N

The contribution of income tax from PEs in corporate income tax revenue is higher than the percentage share of income tax from PEs in corporate income tax is higher than the percentage share in GDP, government revenue, tax revenue, direct tax revenue and income tax revenue. It lies between 35.06 percent to 66.99 percent during the study period. Its share was 66.99 percent in 1995/96 and 35.06 percent in 2004/05. The percentage contribution of income tax from PEs in corporate tax is in fluctuating trend. The average contribution of income tax from PEs in corporate income tax was 56.23 percent during study period.

4.2.9 Estimate and collection of Income tax in Nepal

Table No. 4.19

Estimate and Collection of Income Tax in Nepal

Fiscal Year	Estimate	Collection	Percentage
1995/96	4000.0	3431.4	85.79
1996/97	4595.0	4123.4	89.74
1997/98	4750.0	4898.1	103.12
1998/99	5780.0	6170.2	106.75
1999/00	7380.0	7420.6	100.55
2000/01	9980.0	9114.0	91.32
2001/02	11140.0	8903.7	79.93
2002/03	8706.7	7935.67	91.14
2003/04	8428.9	9246.182	109.7

Source: Economy Survey of Various Year Ministry of Finance, G/N

Now a day, the collection of income tax in Nepal is satisfactory. It is increasing every year. It was collected Rs3431.4 million in the year 1995/96 which was 85.79 percent of estimation. and year 2003/04 the collection was maximum which was 109.7 percent of estimation. The lowest contribution was in 79.93 percent in the fiscal year 2001/02.

4.3. Empirical Study:

An empirical investigation has been conducted in order to find out various aspects of income tax from the experience of real life situations. The major tool used for this purpose is an opinion questionnaire. Questionnaires were distributed to the tax administrators, tax expert/policy makers and tax payers. The responses received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study.

The questionnaire either asked for a yes/no response or asked for ranking of choice according to number of alternatives where first choice was most important and last choice least important. For analysis purpose choice were

assigned weight according to number of alternatives. If the number of alternative were 10 then the first preferred choice got ten points and the last preferred choice got one point. Any alternative which was not ranked did not get any point. The total points available to each choice were converted into percentages in reference to the total points available for all choices. The choice with the highest score of percentage was ranked as the most important choice and one with the lowest percentage being ranked as last choice.

Table 4.20
Group of Respondents and Code Used

S. No	Group of Respondent	Sample Size	Code Used
1.	Income Tax administrators	20	A
2.	Income Tax experts policy makers	15	B
3.	Income Tax payers	25	C
Total		60	

4.3.1 Attitude towards Income Tax System in Nepal:

1. Income Tax system of Nepal has been blamed that it has many problems. To know whether the income tax system of Nepal has problems or not, a question asked **“Do you think that there are problems in income tax system of Nepal?”** The responses received from the respondents are tabulated as follows:

Table 4.21**Attitude toward Income Tax System in Nepal**

Respondents	Yes		NO		Total	
	No.	%	No.	%	No.	%
A (Tax Administrator)	12	60	8	40	20	100
B (Tax Expert)	11	73.33	4	26.67	15	100
C (Tax Payers)	25	100	0	0	25	100
Total	48	80	12	20	60	100

Source: Opinion Survey

From the above table it has become clear that Nepalese income tax system has problems. Most of the respondents thought that there were problems in Nepalese income tax system.

In order to know the problems of income tax system of Nepal, the next question asked, "if yes, that are the major problems of the income tax system of Nepal?" The respondents are requested to rank their answer from 1 to 5 scales. Table 4.23 gives break down of responses.

Table 4.22

Major Problems of the Nepalese Income Tax System

S. No.	Major Reasons	Groups			Total point	Percent	Rank
		A	B	C			
1	Lack of training facility and sufficient incentive to the employees	43	52	50	145	16.44	4
2	Lack of consciousness of tax payer	67	70	62	199	22.56	2
3	Increasing habit of tax evasion	90	78	69	237	22.87	1
4	complexity in income tax act, rules and regulations	25	60	43	128	14.51	5
5	Inefficient income tax administration	4	38	71	173	19.61	3
		Total			882		

From the above table, the major problems of the income tax system of Nepal were ranked in order of the preference of the respondents as follows:

1. Increasing habit of tax evasion.
2. Lack of consciousness of tax payer.
3. Inefficient income tax administration.
4. Lack of training facility and sufficient incentive to the employees.
5. Complexity in income tax act, rules and regulations.

To know whether the opinion of tax administrator and tax payer are related or not, we can test rank correlation. But the views of tax expert are kept in constant.

Test Hypothesis

Note: "X" refers to the view of tax administrators and
"Y" refers to the view of Tax Payers

We Have a Formula,

$$R=1-6\sum d^2/N(N^2-1)$$

By using the above formula the rank correlation is calculated.($r=0.7$)The correlation indicates that, there is high degree of positive correlation between tax administrators and tax payers views regarding the reasons of ineffectiveness of income tax collection system in Nepal.

4.3.2 Attitude Towards Poor Tax paying Habit of Nepalese People

It is said that tax paying habit of Nepalese people is poor. To know whether the tax paying habit of Nepalese people is poor or into a question was asked, **“Do you think that there is poor tax paying habit of Nepalese People?”** The responses received from the various respondents are tabulated as follows:

Table 4.23

Attitude towards Poor Tax paying Habit of Nepalese People

Respondents	Yes		No		Total	
	No.	%	No	%	No	%
A(Tax Administrator)	19	95	1	5	20	100
B(Tax Expert)	15	100	-	-	15	100
C(Tax Payers)	23	96	2	4	25	100

Source: Opinion Survey, 2006

From the above table it has been clear that there is poor tax paying habit of Nepalese people. Most of the respondents thought that there was poor tax paying habit of Nepalese people.

In order to know the causes of poor tax paying habit of Nepalese people another question was asked, “If yes, what are the major causes of poor tax

paying habit of Nepalese People?” The respondents were requested to rank their answer from 1 to 5 scales. Table 4.3.5 gives a breakdown of responses.

Table 4.24

Major Causes of Poor Tax Paying Habit of Nepalese People:

S. No.	Major Reasons	Groups			Total point	Percent	Rank
		A	B	C			
1	Complexity of tax laws and policies	39	52	44	135	15.54	4
2	Little knowledge of Tax and its importance	98	85	89	272	31.30	1
3	Povertyness of tax payer	41	36	50	127	14.61	5
4	Wide Spread practices of illegal business	68	63	48	179	20.60	2
5	Defective tax administrative system	44	60	50	156	17.95	3
		Total			869		

Source: Opinion Survey

The major causes of poor tax paying habit of Nepalese people were ranked in order of the preference of the respondents as follows

1. Little knowledge of tax and its importance.
2. Wide spread practices of illegal business.
3. Defective tax administrative system.
4. Complexity of tax laws and policies.
5. Povertyness of taxpayers.

To know whether the opinion of tax administrator and tax payer are related or not, we can test rank correlation. Not the views of tax Expert are kept in constant.

Test of Hypothesis:

Note: “X” refers to the view of tax Administrators and “Y” Refers to the view of tax Payers.

R1=Rank of “X”

R2=Rank of “Y”

We have formula,

$$R=1-6\sum d^2/N(N^2-1)$$

By using the above formula the rank correlation is calculated. (i.e, $r = 0.7$) The correlation indicates that, there is high degree of positive correlation between tax administrators and tax payers views regarding the reasons of low contribution of income tax to national revenue.

4.3.3 Attitude towards Income Tax Administration of Nepal:

Income tax administration of Nepal has been blamed that it is not efficient enough. To know whether the income tax administration of Nepal is efficient or not, a question was asked, “**Do you think that income tax administration of Nepal is efficient?**” the response received from the various respondents are tabulated as follows.

Table 4.25

Attitude towards Income Tax Administration of Nepal

Respondents	Yes		No		Total	
	No.	%	No	%	No	%
A(Tax Administrator)	5	25	15	75	20	100
B(Tax Expert)	3	20	12	80	15	100
C(Tax Payers)	5	20	20	80	25	100

Source: Opinion Survey

From the above table it has been clear that income tax administration of Nepal is not efficient. Most of the respondents through that it were inefficient.

In order to know the causes of inefficient income tax administration of Nepal the next question was asked, “What are the causes for inefficient income tax administration of Nepal?” The respondents were requested to rank their answer from 1 to 9 scales. Table 4.3.7 gives the break down of responses.

Table 4.26
Causes of Inefficient Income tax administration of Nepal

S.N	Major problems	Group			Total Points	Percent	Rank
		A	B	C			
1	Lack of voluntary compliance.	54	46	50	150	21.74	3
2	Complicated tax laws.	58	76	38	172	24.93	2
3	Lack of proper Communication	41	38	28	107	15.51	4
4	Lack of Rained and competent employee	56	86	32	174	25.22	1
5	Undue delay in making assessment	31	39	17	87	12.67	5
		Total			690		

Source: Opinion Survey

The major causes of inefficient income tax administration of Nepal were ranked in order of the preference of the respondents were as follows.

1. Lack of trained and competent employee.
2. Complicated tax laws.
3. Lack of voluntary compliance by taxpayers.
4. Lack of proper communication.
5. Undue delay in making assessment.

To know whether the opinion of tax administrator and tax payer are related or not, we can test rank correlation. But the views of tax expert are kept in constant.

Test of Hypothesis

Note :

“X” refers to the view of tax administrators and

“Y” refers to the view of tax payers

R1=rank of “X”

R2=Rank of “Y”

We have formula,

$$R=1-6\sum d^2/N(N^2-1)$$

The correlation (i.e $r=0.7$) indicates that, there is high degree of positive correlation between tax administrators and tax payers views regarding the reasons of effectiveness of new income tax act 2002 in comparison with the previous act 1974.

4.4 Major Findings:

Nepal has been heavily relying on the external and internal debt to meet the budget deficit because of the low revenue collection compared to the total expenditure. The dependency is increasing which is not desirable for any economy. Thus it is more essential to mobilize the internal revenue to the optimum level. The study shows the contribution of tax revenue is about 77.16 percent and that of non-tax revenue was about 22.84 percent in 2004/05. In this way, tax has been major sources of revenue mobilization.

Among various taxes, customs and VAT are two major source of indirect tax and income tax is one of the major sources of direct tax. The major findings of this study are given below.

In Nepal, the contribution of tax revenue to GDP was 10.64 percent and per capita income was only \$230, which was lowest among the SAARC countries.

In Switzerland, contribution of tax to GDP was 24.1 percent. The tax GDP ratio of Switzerland was 2.1 times more than that of Nepal.

The Nepalese government revenue is the composition of external and internal revenue. Internal revenue includes both tax and non-tax revenue. Among tax and non-tax revenue, there is a dominant share of tax revenue in Nepalese government revenue. Its contribution to total revenue was 77.68 percent in 1995/96 but it fluctuates during the study period and it became 77.16 percent.

Tax revenues are the composition of direct and indirect tax in the Nepalese tax revenue. The contribution of indirect tax revenue in 1995/96 and 2004/05 was 78.51 percent and 75.84 percent and contribution of direct tax was 21.49 percent and 24.16 percent respectively.

Indirect tax revenue is the composition of custom duty, excise duty, sales tax/VAT, entertainment tax, hotel tax, contract tax and other tax. The contribution of custom duty, excise duty, and sales tax /VAT. On indirect tax were 43.07 percent, 11.43 percent and 45.50 percent in 1995/96 and the contribution of each were 38.30 percent, 15.71 percent and 46.02 percent in fiscal year 2004/05.

Direct tax revenue is the composition of income tax, house and land registration tax and other tax. The contribution of income tax, house and land registration and other tax were 73.70 percent, 22.91 percent, 3.40 percent of direct tax revenue in 1995/96 and the contribution of each were 77.72 percent, 13.76 percent and 8.52 percent in 2004/05.

In 1995/96, the tax/GDP ratio was 1.94 percent in 1995/96 and it was 2.56 percent in 2004/05. The indirect tax/GDP ratio was 7.11 percent in 1995/96 and it was 8.06 percent in 2004/05.

The contribution of custom duty, excise duty, sales tax/VAT, land revenue and registration, income tax, miscellaneous tax(entertainment + hotel+ air flight + contract + road and bridges maintenance + urban house and land tax + vehicle +other taxes) to GDP were 3.06 percent, 0.81 percent, 2069 percent, 0.45 percent, 1.43 percent, 0.61 percent in 1995/96 and each were 3.08 percent, 1.27 percent, 3.7 percent, 0.35 percent 2 percent, 0.19 percent in 2004/05 respectively.

The income tax/GDP, income tax/total revenue, income tax/tax revenue, income tax/direct tax revenue ratios were 1.43 percent, 12.30 percent, 15.84 percent and 73.70 percent respectively in 1995/96 and each ratios were 2 percent, 14.50 percent, 18.78 percent and 77.72 percent in 2004/05 respectively.

The contribution of income tax from PEs, Private corporate bodies, individuals tax, remuneration tax, interest to total income tax were 3.35 percent,16.43 percent,42.84 percent,3.88 percent and 3.49 percent of income tax in 1995/96 and each were 13.11 percent,24.29 percent,38.65 percent,16.50 percent and 7.45 percent in 2004/05 respectively.

The income tax from PEs/GDP, Income tax from PEs/Government revenue, income tax from PEs/tax revenue, Income tax from PEs/Direct tax revenue, Income from PEs/Total income tax, Income tax from PEs/corporate income tax revenue were 0.48 percent, 4.10 percent, 5.28 percent,24.58 percent,33.35 percent, and 66.99 percent respectively in 1995/96 and each were 0.26 percent,1.9 percent, 2.5 percent, 10.19 percent, 13.15 percent and 35.06 percent respectively in 2004/05.

There are problems in income tax system in Nepal basically due to the increasing habit of tax evasion, lack of consciousness of taxpayer, inefficient

income tax administration, lack of training facility and sufficient incentive to the employees and complexity in income tax act, rules and regulations.

There is poor taxpaying habit of Nepalese people basically due to the little knowledge of tax and its importance, wide spread practices of illegal business, defective tax administrative system and complexity of tax administrative system and complexity of tax laws and policies.

Income tax is not effective tool to reduce the gap between rich and poor. Wide spread evasion of tax, small number of taxpayers, defective government expenditure programs, poor tax paying capacity, lack of tax consciousness are the main causes of ineffectiveness of income tax in reducing the gap between rich and poor.

Income tax administration of Nepal is not efficient. Lack of trained and competent employee, complicated tax laws, lack of voluntary compliance by taxpayers, lack of proper communication, undue delay in making assessment are the most important causes of inefficient ineffectiveness of Nepalese income tax administration.

The most important objective of income tax imposition of PEs are to meet revenue requirement of government, to promote regional development, and to redistribute the national income, to narrow the income between rich and poor.

Contribution of income tax from PEs to government revenue is not satisfactory basically, due to the causes of poor performance of PEs, weakness is government economic policy and high corruption in PEs, political pressure, over staffing in PEs.

The major problems and difficulties faced by tax administration in collection of income tax from PEs are as follows:

- PEs are slow to get audited.
- PEs are not aware in timely submission of the income statement.
- PEs tend to delay the payment of tax dues due to their unfavorable cash flow position.
- PEs are not fully cooperative with tax administration.
- The income of PEs is not transparent.

The Nepalese tax administration has been attempting to modify itself to meet the pressing challenges brought about by change in technology and economic policies. However, still its working procedures are traditional and the cost of administration has not been brought to the satisfactory level.

CHAPTER-IV

Summary, Recommendation and Conclusion

5.1 Summary:

In developing country, lack of sufficient financial resources is the main constraint for the economic development. Nepalese economy is facing serious resource gap problems due to the peer economic condition and least developed infrastructure. Day to day administration of the country is handling by the revenue collected internally but it is not sufficient to meet the cost of developmental activities. As a result Nepal has been depending on foreign loans and grants which is not supportive for the long run interest of the country.

Nepal has been unable for proper mobilization of internal resources, therefore, fiscal deficit of Nepal has been increasing. Among the internal resources, income tax is pivotal one. Income tax should play important role to solve the problem of fiscal deficit. But, in Nepal, actual collection of revenue through income tax is lower than its estimated targets. It is so because the poor tax paying habit of Nepalese taxpayer, poor tax administrative system, wide spread evasion of income tax.

This study entitled to “contribution of income tax from public enterprises to government revenue of Nepal.” Is purely unique and original. This study is related to the public enterprises contribution to income tax. In this study, the examination and analysis of public enterprises contribution to income tax in Nepal. This study includes the role, objectives, significance of public enterprises contribution on income tax in Nepal, comparative study of various factor of tax(direct tax, indirect tax) and composition of various factor on tax(composition of direct tax and indirect tax).Share of tax revenue to total revenue was 77.16 percentage in 2004/05 and non tax revenue was 22.84

percentages in the same period. This shows that tax has been a major source of revenue.

In Nepal, income tax appeared only in 1959/60 in the form of business profit and remuneration tax. The income tax act introduced a comprehensive income tax, 1968, which was replaced by income tax act, 1974. Income Tax Act, 2002, also replaced this act. The income tax Act 2002 and Income Tax Rules 2002 (2059) are the existing law relating to income tax administration currently.

Nepal is one of the underdeveloped countries, which is still in its crawling stage of industrial development. So, in Nepal, PEs are not matter of choice, rather, they are a matter of necessity. In various sector of economy, where private sector has not come forward or has only in limited extent, the public sector has to come into existence. The contribution of income tax from PEs plays the vital role for the development of national economy like poor country Nepal. Besides income tax, PEs have contributed through import substitution, export promotion and strengthening the revenue generation of G/N and save foreign currency by reducing import as well as to provide the consumable goods/services at a fair price.

In Fiscal year 1995/96, contribution of income tax from PEs 4.10 percent In the year 2004/05, it was 1.9 percent. Similarly, in corporate tax, PEs share has covered more than 50 percent, in the earlier stages it contributed more but now days its contribution is decreasing in the year 2004/05 it contributed only 35 percent.

The objective of the present study was to study the structure of income tax and its contribution from PEs to government revenue of Nepal. As per the nature of the study, secondary as well as primary information were collected, tabulated and analyzed. Descriptive and analytical research designs have been followed in this study. The sources of primary data were from the analysis of

respondents responses, with selected 60 respondents representing tax officers, tax experts policy makers and tax payers. Questionnaires were distributed and collected and information obtained from questionnaires was also been tabulated as per the requirement or the study.

5.2 Recommendation:

In the basis of the findings mentioned above, the major areas of recommendations are as follows:

1. The government should levy tax on agricultural income after providing certain exemption limit. It helps to broaden the Nepalese income tax base and to increase the income tax revenue.
2. Efficiency of Nepalese income tax system mainly depends upon its three major subsystems i.e. Income tax policies, income tax laws and income tax administration. So, for the success of Nepalese income tax system, emphasis should be given highly to these three subsystems.
3. The income tax policy should be made such that the main objectives of imposing income tax can be achieved. For this, it should be formulated according to the economic policy of the country.
4. For the convenience of taxpayers the existing exemption limit should be adjusted according to inflationary situation of the country. The exemption limit for the family should be made more than for couple.
5. To solve the problems existed in Nepalese income tax system, following recommendation are made:
 - Income tax act, rules and regulation should be clear and simple for all the taxpayers as well as for tax officers and tax inspectors. It should be made more effective.
 - There should be appropriate rate and exemption limit.
 - There should be adequate economic policy, efficient income tax administration.
 - There should be consciousness of taxpayer about income tax.
 - Training a sufficient incentive should be given to the employees.

- Assessment procedure should be appropriate and there should be adequate experts in income tax management.
 - Tax evasion should be minimized and government should reduce the poverty.
6. The Following recommendations are made to increase the tax paying habit of Nepalese people:
- Proper tax education to tax payers should be provided.
 - Government should control the wide spread practices of illegal business by implementing the acts, rules and regulations effectively.
 - There should be effective tax administrative system and clear tax laws and policies.
 - Government should reduce the poverties of tax payers.
 - There should be better public communication system between tax office and people.
 - There should be the provision of better incentives for regular tax payers and heavy penalties and fines to irregular tax payers.
7. The following recommendations are made to increase the effectiveness of income tax in reducing the gap between rich and poor:
- Tax evasion should be minimized.
 - Tax base must be widening by broadening its coverage to increase the number of tax payer.
 - Weaknesses of income tax Act, rules and regulation should be amended and those tax personnel should be punished who encourage the avoidance of tax liability.
 - Governmental expenditure programs should be effective.
 - Tax paying capacity of people should be increased.
 - Rising inflation should be controlled and income tax rates should be effective.
8. The following recommendations are made for the improvement of income tax administration:

- Personnel management system should be made more effective.
 - Proper direction should be provided to tax officers and tax payers.
 - There should be proper communication system within the revenue department, between Inland Revenue Department and Revenue Offices, between revenue offices and taxpayers.
 - There should not be delay in making assessment.
 - Corruption should be minimized.
 - There should be proper coordination within the tax department.
 - Tax department should be free from political pressure.
9. The following suggestions are made to minimize the corruption:
- There should be severe action to corruptors.
 - Check and balance system should be developed.
 - Tax officers discretionary power should be reduced.
 - Additional incentives to tax personnel should be provided.
 - Consciousness should be developed to hate the corruptors.
 - There should be regular supervision to tax personnel.
 - Moral education should be provided to tax personnel.
 - Tax department should be free from political pressure.
10. The following recommendations are made to make satisfactory contribution of income from PEs:
- There should be better performance of PEs.
 - Weakness in government economic policy should be avoided. The system of changing economic policy with the change of government should better be avoided.
 - Corruption should be minimized in PEs.
 - There should not be political pressure in PEs in income tax act rules and regulations.
 - Over staffing should be reduced to proper size.
 - Cash flow position of PEs should be made favorable.

11. The following recommendations are made to solve the problems faced by PEs regarding to income tax system:

- Income tax administration should be efficient.
- Income tax act, rules and regulation should be clear and simple.
- PEs should be charged minimum penalty.
- High discretionary power of income tax officer should be reduced.
- Income Tax assessment process should be made fast.
- Income tax imposition on PEs should be reduced.
- Corrupted tax officers should be punished.

12. The following suggestions are made to solve the problems and difficulties faced by tax administration in collection of income tax from PEs:

- PEs should audit their financial statements regularly.
- PEs should always be aware in timely submission of the income statements.
- PEs should pay tax dues regularly.
- PEs should try to make their cash flow position favorable. PEs should be fully cooperative with tax administration.
- The income of PEs should be transparent.
- PEs should declare clear figures of transaction.

13. There is important role of tax administration in developing countries like Nepal therefore, the administrative reform is critical to the success of tax policy. In view of the administration problem stated else where. The following measures are suggested:

- As the role of information is central to the success of tax administration, information collection should be consolidated. Intra departmental as well as inter-departmental networking at least among the departments within the MOF should be established at the earliest. The scope of PAN should be expanded to cover such things as purchases and sale of land, vehicle etc. it should be provided to as many tax payers as possible. Tax payers who hesitate to come to

IROs or are either unaware about it, should be provided the PAN in their doorsteps.

- The tax authorities also need to be reoriented to implement the new act smoothly. They should be familiarized with recent innovations in the field of public administration particularly in the tax administration where by tax payers are treated as clients. And hence, client orientation should be the thrust of the administrative reforms.

14. For making a striking impression to the personnel management the following recommendation have been made:

- The salaries and incentives should be increased in accordance with the inflation. So, the personnel will motivate towards their work.
- Impartial appointment of the personnel is essential, they should be recruited on the basis of their academic merit system.
- System of reward and punishment should be effectively established and implemented to the better performers and poor performers respectively.
- In order to motivate the tax personnel in work, their performance should be appraised and the appraisal should be based on the more scientific technique i.e. Management by objectives.
- Training should be given to all personnel before they are posted at their job and further development programmes should be arranged from time to time.

15. The following suggestions are given to minimize the wide spread evasion of income tax:

- Enforce tax laws effectively and plug loopholes.
- Strict actions should be taken against tax personnel who encourage tax evasion. Honest and efficient tax personnel should be rewarded.
- Control illegal business activities especially at open border with India.
- Give attractive rewards to those persons who supply information about tax evasion.

- Establish effective co-ordination with customs, excise, banks, public enterprises and semi public enterprises, local bodies and voluntary organizations.
16. The mismanagement in PEs proved increasingly burdensome to the treasury's a large portion of the tax payers money required to be siphoned off to give to give new lease of life to such badly managed and overly politicized enterprises. So, PEs should be managed properly. PEs which have dismal performance and near bankruptcy situation should be restructured or privatized. It helps to run it with business principle and generate income.
 17. The tax assessment system should be scientific, the tax is largely assessed under the presumptive and the income of many tax payers is not associated on a regular basis. Tax officers on the previous years' income make tax assessment. The result is that the income tax system is less revenue productive, inefficient and has become less effective. Thus, it should be replaced by the current year's basis and self-assessment system should be developed gradually in place of the official assessment system.
 18. The following suggestions are given for reducing the tax collection cost:
 - Improve the self-tax assessment procedure.
 - Reduce the cost of staffs those engaged in tax collection in some extent.
 - Reduce the delay in submitting income statement.
 - Simplify collection procedure.
 19. The tax base must be widened by broadening its coverage and institutions, which are philanthropic and non-profit, oriented by name but profit earner and without wide social service motive must not be exempted from income tax.
 20. Continuous efforts should be done by tax authority in order to develop the tax payers positive attitude towards taxation.

The income tax system of Nepal is facing a lot of problems. If the above mentioned suggestions and recommendations are managed timely and implemented properly, the problems can be solved in some extent and the income tax will lead to substantial increase revenue. Then income tax can help bridge the resource gap that exists in the planned economic development of the nation.

5.3 Conclusion:

Nepal is one of the least developed and poor country in the world. Nepal cannot successfully and properly overcome from different constraints like: massive poverty, hunger, diseases, unemployment, heavy dependence on agriculture, lack of adequate industries, low income level etc. Nepalese economy is suffering from ineffective and effortless plans, programs and policy of development. To achieve the maximum objectives of the country, government need huge amount. That amount can be collected internally through tax revenue. Only tax revenue can not fulfill the government's expenditure in present condition. It is too low than the developmental expenditure in present condition. It is too low than the developmental expenditure of Nation. Nepal has facing serious problem of resource gap and high dependency on foreign loan and grants (i.e. Rs 14384.8 million in year 2001/02). To remove these problems, income tax should play an important role. But in Nepal resource mobilization is still in poor condition. Nepalese revenue structure is composed of tax and non-tax revenue. Tax revenue has the largest share of contribution in total revenue, i.e. 77.06 percent in 2004/05. Non tax revenue share is total revenue is 22.1 percent in average of fiscal year 1995/96 to 2004/05.

Tax revenue consists of direct tax revenue and indirect tax revenue. Indirect tax revenue is dominant in total tax revenue. The main contribution of indirect tax and direct tax revenue is 75.39 percentages and 22.45 percent respectively in

total tax revenue from fiscal year 1995/96 to 2004/05. Among direct tax revenue, income tax revenue is dominant.

Income tax is the major equipment of raising government revenue. It has the contribution of 14.50 percentages in total tax revenue in 2004/05. where as income tax is contributing 77.72 percentage in direct tax revenue of Nepal in fiscal year 2004/05. Contribution of individual sectors in income tax revenue has been found highest in study period. Income tax through public enterprises, semi public enterprises, private corporate bodies, remuneration and tax on interest also have been contributing remarkably.

Tax–GDP ratio of Nepal has not been found satisfactory as compared to other developing countries. It is highest in 2004/05 i.e. 10.64 percentage. Tax to GDP ratio of Nepal has 9.49 in average fiscal year 1995/96 to 2004/05.

The contribution of Income Tax from PEs in GDP is share of s very low. The share of income tax from PEs in GDP lies between 0.26 percent to 0.74 percent.. The contribution of income tax from PEs in GDP is Fluctuating trend. The highest GDP was 0.74 percent in fiscal year 200/01. And the lowest contribution was 0.26 in fiscal year 2004/05.

The share of income tax from PEs in government revenue of Nepal is very low. The share of income tax from PES to government revenue lies between 1.9 percent to 5.99 percent during the study period, its share was 4.10 percent in 1995/96 and it reached to 5.99 percent in 2000/01. Then the contribution started to decrease and it declined to 1.9 percent in 2004/05. The percentage contribute are fluctuating during study period. its average contribution was 3.83 during study period.

The percentage share of income tax from the PEs in tax revenue of Nepal is slightly higher than the percentage contribution to GDP and total tax revenue.

Its share was 5.28 percent in 1995/96 and 2.5 percent in 2004/05. The percentage contribution of income tax from PEs in tax revenue is in fluctuating trend.

Contribution of income tax from PEs in direct tax revenue is higher than the percentage contribution in GDP, Government revenue and tax revenue between its share was 24.58 percent in 1995/96 and it was 10.19 percent in 2004/05. The percentage contribution of income tax from PEs is also fluctuating trend. It was 28.82 percent in 2000/01 and 10.19 percent in 2004/05. Its share is decreasing from 2001/02 and it reached to 10.19 in 2004/05.

The contribution of income tax from PEs in income tax revenue of Nepal is higher than the percentage share in GDP, government revenue, tax revenue and direct tax revenue. Its share was 33.35 percent in 1995/96 and reached to 13.15 percent in 2004/05. The percentage share of income tax from PEs in income tax revenue is in fluctuating trend. It was 33.35 percent and it started to fluctuate and it reached to 13.15 percent in 2004/05.

The contribution of income tax from PEs in corporate income tax revenue is higher than the percentage share of income tax from PEs in corporate income tax is higher than the percentage share in GDP, government revenue, tax revenue, direct tax revenue and income tax revenue. It lies between 35.06 percent to 66.99 percent during the study period. Its share was 66.99 percent in 1995/96 and 35.06 percent in 2004/05. The percentage contribution of income tax from PEs in corporate tax is in fluctuating trend. The average contribution of income tax from PEs in corporate income tax was 56.23 percent during study period.

Nepalese economy is suffering from serious resource gap problems. Although tax revenue is increasing per year, resource gap (i.e. Rs 29626.7 million in

2001/02) and the dependency in foreign loan (i.e. Rs. 7698.7 million in 2001/02) is also in increasing trend.

Tax administrators, tax experts and taxpayers have found income tax as an efficient source of collecting government revenue.

To increase the contribution of income tax in national revenue of Nepal, new taxpayers should be brought into tax bracket and tax deduction source should be made more effective by awaring people and widening the self assessment system.

When TDS is highly implemented, the trend of tax evasion would be less. Exemption limit and tax rate of the income is determined according to the income level and sector wise respectively but exemption limit should be adjusted according to the number of dependents. Exemption limit is not provided to corporate bodies.

To remove whole problems associated to income tax and its collection procedure, its rules and regulation should be made simple and clear. Tax payers have faced problems while paying income tax such as: poor response from tax administrators, unnecessary delay etc. People who are directly affected by income tax laws and policies need a clear and advance knowledge. Behavior of tax administrators should be improved, all aspects of income tax needs a clear and adequate auditing and investigation. Some reforms in income tax administration is needed to increase the income tax revenue of Nepal.

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Appendix-I

Questionnaire:

Name :.....

Office /Organization:.....

Please you are requested to tick (√) the answer of your choice or wherever appropriate rank the options as your preference. Here, the first number stands for the most important and the last number for the least.

1. Do you think that there are problems in income tax system of Nepal?
Yes () No ()
2. If yes what are the major reasons: (Please rank your answer in order of priority)
 - a) Lack of training facility and sufficient incentive to the employees ()
 - b) Lack of consciousness of tax payer ()
 - c) Increasing habit of tax evasion ()
 - d) complexity in income tax act, rules and regulations ()
 - e) Inefficient income tax administration ()
3. Do you think that there is poor tax paying habit of Nepalese People?
Yes () No ()
4. If yes what are the major reasons: (Please rank your answer in order of priority)
 - a) Complexity of tax laws and policies. ()
 - b) Little knowledge of Tax and its importance ()
 - c) Poverty ness of tax payer ()
 - d) Wide Spread practices of illegal business ()
 - e) Defective tax administrative system ()
5. Do you think that income tax administration of Nepal is efficient?
Yes () No ()
6. If yes what are the major reasons: (Please rank your answer in order of priority)
 - a) Lack of voluntary compliance. ()
 - b) Complicated tax laws. ()
 - c) Lack of proper Communication. ()
 - d) Lack of Rained and competent employee. ()
 - e) Undue delay in making assessment. ()

Appendix II

Major Problems in Nepalese Income Tax System

S.N.	Alternatives	Total Points		Rank		Difference of rank d= (R1- R2)	Square of difference d ² =(R1- R2) ²
		X	Y	R1	R2		
1	Lack of training facility	43	50	4	4	0	0
2	Lack of consciousness of tax payer	67	62	2	3	-1	1
3	Increasing habit of tax evasion	90	69	1	2	-1	1
4	Complexity in the Income Tax Act, Rules and Regulation	25	43	5	5	0	0
5	Inefficient Income Tax Administration	64	71	3	1	2	4
∑ d² = 6							

We have Formula,

$$r = 1 - \frac{6 \sum d^2}{n(n^2 - 1)}$$

Here, Calculated $\sum d^2 = 6$

$$\text{Now, } r = 1 - \frac{6 \sum d^2}{n(n^2 - 1)}$$

$$r = 1 - \frac{6 \times 6}{5(5^2 - 1)}$$

$$r = 1 - \frac{36}{120}$$

$$r = 0.7$$

II) Major Causes of Poor Tax Paying Habit of Nepalese People:

S.N.	Alternatives	Total Points		Rank		Difference of rank d= (R ₁ -R ₂)	Square of difference d ² =(R ₁ -R ₂) ²
		X	Y	R ₁	R ₂		
1	Complexity of Tax laws and Policies	39	44	5	5	0	0
2	Little knowledge of Tax and its Importance	98	89	1	1	0	0
3	Poverty ness of tax payers	41	50	4	3	1	1
4	Wide spread practices of illegal business	68	48	2	4	-2	4
5	Defective tax administrative system	44	52	3	2	1	1
							$\sum d^2 = 6$

We have Formula,

$$r = 1 - \frac{6\sum d^2}{n(n^2 - 1)}$$

Here, Calculated $\sum d^2 = 6$

$$\text{Now, } r = 1 - \frac{6\sum d^2}{n(n^2 - 1)}$$

$$r = 1 - \frac{6 \times 6}{5(5^2 - 1)}$$

$$r = 1 - \frac{36}{120}$$

$$r = 0.7$$

III) Effectiveness of New Income Tax Act 2002

S.N.	Alternatives	Total Points		Rank		Difference of rank d= (R1- R2)	Square of difference d ² =(R1- R2) ²
		X	Y	R1	R2		
1	Lack of voluntary compliance	54	50	3	1	2	4
2	Elimination Complicated tax laws	58	38	1	2	-1	1
3	Lack of proper communication	41	28	4	4	0	0
4	Lack of trained and competent employee	56	32	2	3	-1	1
5	Undue delay in marking assessment	31	17	5	5	0	0
							$\sum d^2 = 6$

We have Formula,

$$r = 1 - \frac{6\sum d^2}{n(n^2 - 1)}$$

Here, Calculated $\sum d^2 = 6$

$$\text{Now, } r = 1 - \frac{6\sum d^2}{n(n^2 - 1)}$$

$$r = 1 - \frac{6 \times 6}{5(5^2 - 1)}$$

$$r = 1 - \frac{36}{120}$$

$$r = 0.7$$

Appendix-III
Detail of Existing PEs

S.N	Corporate Name	Address of Central office	Date of establishment	Act under which PE was incorporated	Present governing Act	Capital at the time of corporation (Rs in million)	Line ministry
1	Agro Lime Industry Ltd	Chovhar, Kathmandu	2030-10-02	Corporation Act 1964	Corporation Act 1996	14 Million	Agriculture and cooperative
2	Dairy Development Corporation	Lainchaur, Kathmandu	2026	Co.Act 1964	Corporation Act 1964	1.9 million	“
3	Herbs Production and processing company Ltd.1	Koteshwor, Kathmandu	2038-9-12	Co. Act 1964	Corporation Act 1996	25 million	Forest & soil conservation
4	Hetauda Cement Industry Ltd.	Hetauda, Ward No.7	2033-6-13	Co. Act 1964	Co.Act 1996	250 million	Industry, commerce & supply
5	Janakpur Cigarette Factory Ltd.	Janakpur Dham	2021-8-3	Co.Act1964	Co.Act 1996	20.4 million	“
6	Lumbini Sugar Factory Ltd.	Sunwal-1, Nawal Parasi	2039-3-17	Co.Act 1964	Co.Act 1996	100 million	“
7	Nepal Rosin and Turpentine Ltd.	Attaria, Kailli	2043-10-19	Co.Act 1964	Co.Act 1996	200 million	Forest soil and conservation

8	Royal Drugs Ltd.	Babarmahal, Kathmandu	2029-6-1	Co.Act 1964	Co.Act 1996	15 million	Industry, commerce & supply
9	Udayapur Cement Industry Ltd.	Jaljale,Udayap ur	2044-31-2	Co.Act 1964	Co.Act 1996	4000 million	“
10	Nepal Orind Magnesite Pvt.Ltd.Trading sector	Lamosangu	2035-12-25	Co.Act 1964	Co.Act 1996	75 million	“
11	Agricultural input Company	Kuleshor,Kath mandu	2022-10-20	Co.Act 1964	Co.Act 1996	10 million	Agriculture& cooperatives
12	National Seed Company	Kuleshor, Kathmandu	8 may 2002	Co,Act 1964	Co.Act 1996	-	“
13	National Trading Corporation ltd.	Teku, Kathmandu	2018	Co.Act 1964	Co.Act 1996	0.5 million	Industry, commerce & supply
14	Nepal Food Corporation	Bhadrakali. Kathmandu	3031-8-17	Corporation Act 1964	Corporatio n Act 1964	3.475 million	“
15	Nepal Oil Corporation Ltd.	Babarmahal, Kathmandu	2027-9-26	Co.Act 1964	Co.Act 1996	10 million	“

16	The Tiber Corporation of Nepal Ltd. Service sector	Babarmahal, Kathmandu	2017	Co.Act 1964	Co.Act 1996	100 million	Forest Soil and Conservation
17	Industrial District Management Ltd.	Balaju, Kathmandu	2054-2-20	Co.Act 1964	Co.Act 1996	150 million	Industry Commerce & supply
18	National Construction Company Nepal Ltd.	Halchok, Kathmandu	2018-5-5	Co.Act 1964	Co.Act 1996	3 million	Physical Planning and Works
19	Nepal Transit and Warehouse Ltd.	Bagbajar, Kathmandu	2028-5-30	Co.Act 1964	Co.Act 1996	10 million	Culture, Tourism & Civil Aviation
20	Nepal Engineering Consultancy Service Centre Ltd.	Anamnagar, Kathmandu	2043-9-10	Co.Act 1964	Co.Act 1996	4.1 million	Industry Commerce & supply
21	Royal Nepal Airline Corporation	Kantipath, Kathmandu	2014	RNAC Act 1957	RNAC Act 1962	10 million	Cultural, Tourism and Civil Aviation
22	National Productivity and Economic Development	Balaju, Kathmandu	2043-12-27	Co. Act 1964	Co. Act 1996	15 million	Information & Communicatio

	Centre Ltd.						n
23	Cultural Corporation	Ranipokhari, Kathmandu	2029-3-5	Communication corporation act 1971	Communication corporation act 1971	17.5 million	Culture, tourism & civil aviation
24	Gorkhapatra sansthan	Dharmpath, Kathmandu	2019-12-30	Gorkhapatra sansthan act, 1962	Gorkhapatra sansthan act, 1962	Rs. 100000	Information & communication
25	Janak education material centre	Sanothimi, Bhaktpur	2035-6-8	Co.act 1964	Co. act 1996	500 million	Education & sports
26	Nepal televison	Singhadurbar, Kathmandu	2042-9-12	Communication corporation act, 1971	Communication corporation act, 1971	2 million	Information & communication
27	Rural housing company ltd.	Pulchok, Lalitpur	2046-11-2	Co. act 1964	Co. act 1996	200 million	Physical planning & works
28	Nepal drinking water corporation	Tripureshwor, Kathmandu	2030	Corporation Act 1964	Corporatio n Act 1974	-	-

29	Nepal Electricity Authority	Durbar Marga, Kathmandu	2042-5-1	Electricity Authority Act 1984	Electricity Authority Act 1984	1000million	Water Resource
30	Nepal Telecommunication corporation	Bhadrakali, Kathmandu	2032-3-1	Communicat ion Corporation act 1971	Communic ation Corporatio n act 1971	-	Information & Communication
31	Agricultural Development Bank	Ramshahpath, Kathmandu	2024-5-1	ADB Act,1967	ADB Act,1967	50million	Finance
32	Rastriya Banijya Bank	Ram Shah Path Kathmandu	2024-9-1	National Insurance Corporation Act 1968	National Insurance Corporatio n Act 1968	2.4million	"
33	Nepal Industrial Development corporation	Durbarmarga, Kathmandu	2016-3-1	NIDC Act 1959	NIDC Act 1959	15million	Industry Commerce and Supply
34	Rastriya Banijya Bank	Bhandrakali, Kathmandu	2022-10-10	RB Bank Act 1964	RB Bank Act 1964	10 million	"

35	Deposit Insurance and Credit Guarantee corporation	Tangal, Kathmandu	2031-6-4	Co. Act 1964	Co. Act 1964	3 million	"
36	Nepal Housing Development Financing Company	NayaBaneshwor, Kathmandu	2046	Co. Act 1964	Co. Act 1964	100 million	Physical Planning & works
37	Nepal Stock Exchange Ltd.	Singhadhurbar Plaza, Kathmandu	2050-2-11	Co. Act 1964	Co. Act 1964	50 million	Finance
38	Citizen Investment Trust	Putalisadak, Kathmandu	2047-12-4	Citizen Investment Trust Act 1990	Citizen Investment Trust Act 1990	14.4 million	"

Appendix-IV

List of Privatized /Liquidated PE's

S.N	Name of Company	Year Privatized	Privatization mode	Lump sum Equity sold(%)	Selling Price (Rs in Million)
1	Bhrikuti paper mills(BPM)	1992	Assets and Business Sale	-	229.8
2	Harisiddhi Brick and Tile Factory(HBTF)	1992	Assets and Business Sale	-	214.830
3	Bansbari Leather and shoe Factory	1992	Assets and Business Sale	-	29.854
4	Nepal Film Development company(NEDC)	1993	Equity sale	51.0	64.662
5	Balaju Textile Industry Ltd(BIT)	1993	Equity sale	70.0	17.716
6	Raw Hide Collection and Processing Co. Ltd	1993	Equity sale	100.0	3.990
7	Nepal Bitumen and Barrel industry Ltd.	1994	Equity sale	65.0	13.127
8	Nepal Lube oil Ltd.(NLO)	1994	Equity sale	40.0	31.057
9	Nepal Jute Trade and Development Company	1993	Liquidation	-	Liquidation
10	Tobacco Development Company	1994	Liquidation	-	Liquidation
11	Nepal Foundry Industry(NFI)	1996	Equity sale	51	14.473
12	Raghupati Jute Mills Co. Ltd	1996	Equity sale	65	82.204
13	Biratnagar Jute Mills Co. Ltd	2002	Management contract	-	-
14	Nepal Bank Ltd	1997	Equity sale	10	125.140

15	Nepal Tea Development Corporation(NDTC)	2000	Equity sale and lease	65	267.105
16	Agriculture Project Service Ltd.	2001	Liquidation	-	-
17	Cottage and Handicraft Emporium Ltd.	2002	Liquidation	-	-
18	Nepal Coal Limited	2002	Liquidation	-	-
19	Heutauda Textile Industry Ltd	2002	Liquidation	-	-
20	Nepal Transport Corporation	2002	Dissolved	-	-
21	Butwal Power Company	2003	Equity Sale	75	874.2+1 million US\$
22	Birgunj Sugar Factory Ltd	2003	Liquidation	-	-
23	Agriculture Tools Factory Ltd	2003	Liquidation	-	-
24	Bhaktapur Brick Factory	2004	Assets and Business Sale	-	14.5(Assets Sale)+31.9(ren t/10 Years

Contribution Of Income Tax from Public Enterprises to GDP of Nepal: