

# CHAPTER: I

## INTRODUCTION

### 1.1 Background of the Study

A nation requires sufficient funds to carry out development plans, handle day-to-day administration, maintain peace and security and launch other public welfare activities. The funds required by the government are normally collected from two sources: debt and revenues. The debt can be collected either from internal sources or from external sources. The debt collected within the country is known as internal debt while the debt collected from outside the country is called external debt. The debt financing of the government is also known as deficit financing. The revenues of the government come basically from two sources: tax and non-tax. Non-tax sources include different revenues like gifts, grants, revenues from public enterprises, administrative revenues such as registration fees fines and penalties. Tax sources include customs, excise duty, VAT, income tax. In Nepal around eighty percent of the government revenues come from taxation. Hence, the tax is the major source of government revenue.

Tax is a compulsory levy, paid by individuals and organizations to local and central government, Tax can be defined as the contribution of individual's customs to the government to maintain peace security and development of the country. The economic strength depends upon the collection of tax.

First of all, income tax was imposed in Nepal in fiscal year 1959/60 under the "Business profit Remuneration Tax Act 1960". Then after, various studies were made concerning with various aspects of this act such as the structure, role,

productivity, legal and administrative framework etc. Either to pay regular expenditure or to do developmental works, The Government collects revenue. The sources of government revenue can be classified into external and internal. External sources of government revenue are foreign loans and grants, external sources etc. External sources are uncertain, inconvenient and not good for healthy development of nation because they are to be paid after a certain time. So, it is better to mobilize internal sources rather than external sources.

Another source of government revenue is internal which constitutes tax and non tax revenue. The examples of non tax revenue are fees, fines, royalty, administrative and business income. Administrative income denotes the amount charged by the government for providing administrative service. In Nepal, the contribution of non tax revenue on national revenue is 78.2% the fiscal year 2008/09. (Economic Survey, 2008/09.)

The income tax act is imposed on income or wealth created by a person in the course of an earning. There are basically three sources that generate income: labour, capital, and labour plus capital. Correspondingly, the act imposes tax on income from employment - which is labor, income from investment - which is capital, and income from business - which is labour plus capital.

## **Objective of tax**

Tax is a permanent instrument for collecting revenues. It is a major source of revenue in the developed world and has been appearing as an important source of revenue in the developing world as well. It has been an instrument of social and economic policy for the government. The main objectives of tax are:

 To raise more revenue.

- 📊 To prevent concentration of wealth in a few hands.
- 📊 To redistribute wealth for the common good.
- 📊 To boost up the economy.
- 📊 To reduce unemployment.
- 📊 To remove regional disparities.

## **Classifications of Taxes**

Basically, tax can be classified into two broad categories:

- Direct tax
- Indirect tax

## Historical Background of Taxation

Great Britain is the first country to introduce income tax in the world. The British Government introduced income tax in 1799 in order to generate revenues to finance the war against France. The United Kingdom imposed the income tax regularly from 1860. Income tax was introduced in Switzerland in 1840, Austria in 1849, India in 1860, USA in 1862 Italy in 1864 and Nepal 1959. Historical background of evolution of income tax in Nepal is not long. Tax has been one of the primary sources of government's revenue from the ancient time in Nepal. During this period taxes were levied on framers, merchants and travelers in the form of cash or kind. Labour and goods were a type of taxes. The fiscal administration during Lichchavi and Malla regime was of remarkable importance, In Lichchavi regime; direct taxes were introduced for the first time in Nepal .At that time Direct taxes were imposed on income from agriculture and business. These direct taxes on were copied from `Kautilya-The Arthashastra. Thus, taxes on income from agriculture were called Bhaga (Share of production). According to the quality of land owned by farmers, also called Bhaga was prescribed 1/6, 1/8 and 1/12 of their total production. It shows the meaning of taxes on income not on profit. Taxes on income from business were called Kara (tax). It was a tax in cash. It was also copied from `Kautilya-The Arthasthatra'. During the regime of King Anshubarma, irrigation and religious taxes were levied.

After the national unification (1968 A.D) and after the B.S regime (1846 A.D) Nepal experienced a variety of taxes to be levied on land, transit, market duties, forest product and mine. Taxes were both cash and kind, imposed and collected from; three levels such royal palace, government bodies and local

government bodies. They imposed and collected taxes without special acts and rules. Taxes were collected only for maximum government revenue by coercion in earlier years, during that time taxes were levied on customs and transit, jewelry, blankets, copper, iron, papers, textiles, yak-tails, drugs, herbs, cotton, cloths, sheep, goats etc. However, direct taxes on land business were prominent sources.

After democracy, the idea of introducing income taxation originated in Nepal. The first democratic government of Nepal submitted annual budget in 1952 A.D (2008 B.S) with a proposal to levy an income tax.

But, actual income tax was started through the Finance Act of 1959 A.D. (2016 B.S). In 1950, new regime began in Nepal. It started with multiparty democracy in February 18, 1951. This act made a provision of tax on remuneration and business profit at the rate of 5 to 25 percent rating taxes into 10 types. This Act also made a provision of concession to big and small scale industries. Big and small scale industries were given concession by 25 percent and 50 percent respectively on their tax liability.

In 1960 A.D. (2017 B.S), Business profits and Remuneration Tax Act, 1960 (BPRTA, 1960) a formal income tax Act was enacted in accordance to the provisions of Finance Act, 1959 (2016) for the first time in Nepal it had altogether 22 sections. The BPRTA, 1960 defined the terms business, profit, remuneration, company, firm, assessment, tax realization, tax exempt person, tax exempt area, taxable income, tax deduction at source, submission of income statement, rights of the tax officer method of assessment, payment of tax, fine and penalties, tax officials, secrecy etc.

The BPRTA, 1960 was considered as unclear and narrow and it was replaced by Nepal Income Tax Act, 1962(2019). This act had altogether 29 sections. It had defined nine headings of incomes. They were :(1) Business; (2) Remuneration;(3) Profession and Vocation; (4) House Land Rent; (5) Cash or kind investment; (6) Agriculture; (7) Insurance Business; (8) Agency Business; and (9) Other sources.

The ITA 1974 was replaced by Income Tax Act 2002(2058). It came into effect on April 1, 2002 (Chaitra 19, 2058). The Government of Nepal enacted income tax rules 2002 (2059) in 2002 in accordance to the authority given under the ITA 2002. It seeks its objectives in the its preamble- “ in order to enhance revenue mobilization through effective revenue collection process for the economic development of the nation, it was imperative to make the laws on income tax in order to update, amend and integrate them”. It is an integrated Income Tax Act of Nepal. Thus, the objectives of this tax law are (1) to tax all sources of income (2) to tax according to equity (Horizontal and vertical) (3) to make elastic and productive tax system (4) to develop to extensive clear, transparent, simple and efficient tax system (5) to make responsible to tax officials (6) to develop tax system as a neutral task and (7) to stress accounting process and self assessment.

## **1.2 Statement of the Problem**

The contribution of income tax to the nation budget must be increased to achieve the goal of nation development and equal economic distribution. The goal can be achieved only if the government of Nepal takes steps for making the increased by bringing the new tax payers into tax net and implementing the tax laws effectively so as to discourage the tax evasion practice. Loopholes must be traced by monitoring so as to monitor and implementing rules and






regulation to bridge the gap between total resources required and supply of the resources, income tax plays a vital role in government revenue. Economic development is the prime concern of every nation of the world.

Underdeveloped countries are facing serious problem in the process of economic development Nepal is also not an exception to this condition. The majority of people have been able to get even basic facilities. The government wants to fulfill the basic needs of the people and accelerate development activities one at a time thus; every nation of the world is accomplishing various activities to fulfill these objectives. It needs huge amount of capital. Despite the various measures adopted by the government to boost revenue collection there is still a subset entail resource gap between expenditure and revenue. The rate of government expenditure is exceeding the rate of growth revenue almost every year. In other words Nepal has been facing persistent budget deficit from the beginning of her development phase. External deficit, Currency depreciation, inflationary pressure, rising interest rates which may cause crowding out effect and reduction in economic growth are the consequences of the budget deficits. The mobilization of revenue has not increase to level in which level and speed at our expenditure is rising. Raising the government revenue helps to overcome from the serious bottleneck of resource gap in the process of economic development programs by mobilization additional resources from domestic sources. Income tax is one of the component of taxation and major sources of government revenue. Income tax in developing nations has been regarded as an instrument of growth and social justice. But Nepal Government is being unable to mobilize the expected income tax from personal as well as corporation. Most of the personal tax payers do not reveal the income sources even they earn significant amount. They hardly keep and show their proper accounts. Similarly, many research

reports have addressed that tax evasion has become a serious problem as a result the actual collection of income tax is being very low. So, the role of corporate income tax revenue is justifiable. Corporations are easily identifiable, keep their account and cannot escape tax liabilities but corporate sectors in initial state of development in Nepal. The performance of corporate sector, specially the industry is very poor. Their number, profitability investment in fixed assets share in market transaction is all in weak position. There is no agreement as regards to various issues in corporate tax area. The debate is going on as regards to base of tax, method of taxing corporation, method and rate of depreciation, use of appropriate type of tax incentive, treatment of tax inflation. Such problems are developing countries generate more direct tax and less indirect but in developing countries generates more indirect tax and less direct tax etc.

### **1.3 Objectives of the Study**

The main objective of this study is to know the contribution of income tax to Inland Revenue of Nepal. This study also includes the following special objectives.

-  To study and analyze the income tax, structure of Nepal.
-  To study and analyze the contribution of income tax in Inland Revenue.
-  To identify the problems while collecting the income tax.
-  To examine the targets and realizations of income tax.
-  To provide the suggestions for the effective collection of income tax.



## **1.4 Significance of the Study**

Nepal is least developed country of the world. The resources collected internally are sufficient to run day- to-day administration of the country but the revenue surplus is not adequate to undertake adequate developmental activities. So, the country is heavily dependent on the foreign aids and grants to undertake its developmental Activities.

Out of various incomes, income tax is an important source for Inland Revenue. It is a regular source of tax revenue too. Income Tax has been contributing to the tax revenue of Nepal. There is lots of this about Inland Revenue like as VAT, excise duty, but no one has studied in details on the contribution of Income Tax. So, the project work is directed acquiring information about income tax revenue collection from Income Tax to Inland Revenue. This study might be fruitful for all researchers, tax officers, tax experts, Inland Revenue department.

## **1.5 Limitations of the Study**

The main objective of this study is to fulfill the partial requirement of MBS course of T.U. So, the study cannot cover all the dimensions of the subject and cannot penetrate the extreme depth there for the limitations of this study are as follow:

Limitations of the study were based on the availability of reliable data and sufficient literature.

Due to the lack of time and other difficulties, the field study has limited to Kathmandu Valley for primary data purposes.

Primary data were collected from opinion survey.

The study confined to Nepalese Law, Acts, Ordinance, Regulations, and Circular to income tax.

## **1.6 Organization of the Study**

The study has been organized into five chapters, each devoted to some aspects of the study of the theory and practices of contribution of income tax to Inland Revenue of Nepal. The titles of each of these chapters are as follows:

- Chapter I** : Introduction.
- Chapter II** : Conceptual Framework and Review of Literature.
- Chapter III** : Research Methodology.
- Chapter IV** : Presentation and Analysis of Data.
- Chapter V** : Summary, Conclusion and Suggestions.

The rationale behind this kind of organization is to follow a simple research methodology approach. Content of each chapter has been mentioned briefly as follows:

**Chapter I:** This is about introduction that includes the general background, statement of the problem, objectives of the study, significance of study, organization of the study, limitations of the study.

**Chapter II:** This is about conceptual framework and review of literature that includes the theoretical review, meaning of tax, classification of tax, canon of taxation, historical background of evaluation of income tax in Nepal, heads of Income, final withholdings payment, tax exemption organization, review of books, review of thesis, articles, research gap and annual report of Inland Revenue Department.

**Chapter III:** This chapter is about research methodology that includes research design, population and sample, sources of data, data collection techniques, data analysis tools.

**Chapter IV:** This chapter is about presentation and analysis of data that presented in the second chapter. This is one of the most important chapters and includes the data related to the topic extracted from economic survey and annual reports published by ministry of finance and Annual Report of Inland Revenue department. The data have been presented in tables, figures and charts. Similarly, opinion survey has been placed under this chapter. The final chapter of the study is related to conclusions and possible recommendations regarding improvement of Income tax to Inland Revenue & related issue.

## CHAPTER: II

### CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

#### Review of Literature

Literature review is an essential part of all studies. It is a way to discover what other researchers have covered and left in the area. A critical review of the literatures helps the researcher to develop a thorough understanding and insight into previous research works related to the present study. It is also a way to avoid investigation problems that have already been definitely answered. Thus, literature review is the process of locating, obtaining, reading and evaluation the research literature. The purpose of literature review is to find out what research studies have been conducted in one's chosen field of study and what remains to do. The primary purpose of literature review is to learn not to accumulate. It enables the researcher to know.

*(Wolff and Panta 2000, P: 40)*

What research has been done in the subject?

What others have been done in the study?

What theories have been advanced?

What approaches are taken by the other researchers?

What are the areas of agreement or disagreement?

Whether there are gaps that can fill through the proposed research?

#### 2.1 Theoretical Review

This section deals about the historical background of evolution of income tax in Nepal, heads of incomes, tax exempted income, meaning and classification

of tax, canons of taxation, final withholdings payments, exempt organizations special provision to individuals and common deductions.

### **2.1.1 Meaning of Tax**

An income tax is a tax levied on the income of individuals or businesses (corporations or other legal entities). Various income tax systems exist, with varying degrees of tax incidence. Income taxation can be progressive, proportional, or regressive. When the tax is levied on the income of companies, it is often called a corporate tax, corporate income tax, or profit tax. Individual income taxes often tax the total income of the individual (with some deductions permitted), while corporate income taxes often tax net income (the difference between gross receipts, expenses, and additional write-offs). Various systems define income differently, and often allow national reductions of income (such as a reduction based on number of children supported).

(Source: From Wikipedia, the free encyclopedia)

The government of any country requires sufficient revenues to launch development programs, to handle the daily administration, to keep and peace and security and to lunch other public welfare programs. The government or public revenues are collected though various sources. These sources can be (a) taxes (b) revenues from government (c) fees (d) Special assessments (e) fines and penalties and (f) foreign grants. Among them tax is the main source of collection the public revenues because it occupies the most important part of the government treasure. In Nepal about 77% of total revenue comes from tax revenue and the rest 23% from Non- tax revenues. (Amatya at 2004,p: 03)

Tax is compulsory contribution imposed by public authority using the right given by law. Taxpayers don't expect any return for his taxpaying. The government mobilizes these taxes for public interest.

Seligman defines "A tax is compulsory contribution form a person to the government to defray expenses incurred in the common interest of all without reference so special benefit confused

Similarly, Bestabel defines "A tax is compulsory contribution of wealth of a person or body of person for the service of public powers"

From the above definition it is clear that tax is compulsory contribution to the state from a person. The natural person and artificial person having tax liabilities pay taxes to the government. Otherwise the laws punish him the government doesn't provide any corresponding benefit to the taxpayer for the amount of tax he pays. Tax is paid to the state to perform the functions of the government and the amount of tax is spent for common benefits and interest of the people.

### **2.1.2 Classification of Taxes**







Tax may be classified in to various types. Among them, direct tax and indirect taxes are most significant.

#### **Direct Tax**

The direct tax on whom it is legally imposed cannot be transferred to others i.e. in direct tax the person paying and bearing the tax is same.

According to Dr. Dalton "A direct tax is really paid by the person on whom it is legally imposed. (Amatya, 2060; P-20).

Some of the examples of direct taxes are as follows:

-  Income Tax
-  Property Taxes
-  Gift Tax
-  Interest Tax
-  Vehicle Tax
-  Death Tax etc

### **Advantage of Direct Tax:**

The advantages of direct tax are as follows

- ) In the direct tax, contribution in tax on the basis on his earning so it is certain
- ) Since the tax payers know his contribution in the tax his consciousness increases to the expenditure of the government.
- ) Tax rates are classic and can be adjusted as per the fiscal requirement of the country when there is need of more revenue government can impose high is low the tax rate can be minimized.

### **Disadvantage of Direct tax:**

- ) Mental pinch to the tax payers due to curtain down of their incomes and properties.
- ) Taxes should be pain in advance on the estimation of the future income.  
Tax rate is also higher than indirect tax so tax payers feel inconvenient
- ) The tendency of the tax envision increase in the direct tax system because no one want to cut down his or her incomes without the corresponding benefit

- ) The tax payers are limited in direct tax so the direct tax lacks mass participation.
- ) Most of the earning has to pay to government in the form of the direct tax. So, it discourages saving and investment.

## **Indirect Tax**

The indirect tax on which it is legally imposed can be transferred to other, which means in direct tax the person paying and bearing tax is same. According to Dr. Dalton "An indirect tax is imposed on one person but paid partly or wholly by another" (Amatya, 2065).

Some of the examples of indirect taxes are:

- ) Sales tax
- ) Entertainment tax
- ) Value added tax (VAT)
- ) Excise duty
- ) Hotel tax
- ) Export and import duties etc.

## **Advantages of Indirect Tax**

The advantages of indirect tax are as follows

- 👉 Indirect tax is convenient to pay. It is charged services consumed by the consumers taxes are included in the price of goods and services so the tax payers do not feel that they are paying taxes.
- 👉 Each and every consumer has to pay taxes while consuming the goods and services. So, there is mass participation of the tax payers in the indirect tax system.



- 🚩 Indirect tax is important tool for the checking of the consumption of the harmful goods and services by imposing the higher tax in the consumption of the harmful products like liquor, tobacco etc. can be reduced.
- 🚩 In the direct tax the change of the tax exaction is very much lower in compare to the direct tax because even the tax payer does not feel that he is paying tax.
- 🚩 Indirect tax is elastic in nature. In is an important tool of the government to apply its fiscal policy.

### **Disadvantage of the Indirect Tax**

The disadvantages of the indirect tax are as follows

- 🚩 There is uncertainly of government revenue from indirect tax variation of demand in goods and services differ the government revenue.
- 🚩 It is not equable to leave taxes on basic goods because the haves are not able to pay taxes in comparison to haves.
- 🚩 Indirect taxes have bad effect on consumption, production and employment because higher tax increases the cost of goods and services. As a result, consumption decreases and industries slowly begin to decline, employment decreases and ultimately the economy of country declines.
- 🚩 Consumers do not know that they are paying taxes. So, they lack consciousness regarding the use of the public revenue.
- 🚩 The agent may not to the government. Thus, there may be the hang of consumer exploitation.

### 2.1.3 Canons of Taxation

The government of a country adopts various principles while formulating suitable tax policy. These principles are referred to as the canons of taxation. The 'cannons of taxation' were first developed by Adam Smith as a set of criteria by which to judge taxes. They are still widely accepted as providing a good basis by which to judge taxes. Smith's four canons as outlined in his book entitled 'Wealth of Nation' are as follows:

Canon of Equity: High earners should be imposed higher taxes as compared to low earners. Tax policy should not discriminate the persons with same income level.

Canon of certainty: Taxpayers should feel certainty regarding time, place, tax amount and procedure for payments of taxes.

Canon of conveniences: Tax system should be simple so that ordinary people can easily understand follow it. Time, procedure and place of payment of tax should be convenient to the taxpayers.

Canon of Economy: The collection expenses of tax should be less than the amount of tax collected so that a surplus to public revenue is generated and the country will be benefited. The amount that goes from the taxpayers pocket should not differ greatly with the amount that actually goes to government's treasury. In addition to Adam Smith's principles of taxation, Bastabel has added two other principles which are canon of productivity and canon of Elasticity.

(Bhattarai and Koirala 2064, p: 09)

#### **2.1.4 Historical Background of Evolution of Income Tax in Nepal.**

Great Britain is the first country in the world to introduce the modern income tax. It introduced income tax in 1799 to finance the war fought with France. USA introduced income tax in 1862 to generate revenue to finance civil war. In India, while income tax in its modern form was adopted in 1860, several experiments were made from 1860 to 1866 and finally the systematic income tax legislation was enacted in 1886. (Bhattarai and Koirala 2064, p: 07)

Although the taxes were collected in various forms in ancient era, the history of modern income tax is not very old in Nepal. The idea of introducing income tax in Nepal originated in the early 1950s when a multi-party democratic political system was introduced. In 1951, the then finance Minister in his budget speech declared the intention of the government to levy an income tax.

Attempts were made to introduce income tax in subsequent years. In 1954, an income tax with Rs. 10,000 basic allowance and progressive taxes ranging from 5 to 25 percent was proposed. Due to political instability, it could not be introduced until 1958.

The elected government in 1959 finally introduced Business profits and salaries Tax Act, 1960 in Nepal. At that time, income tax was levied only on business profits and salaries. After about three years experience of income tax, the government replaced the prevailing tax Act by Income Tax Act, 1962. The coverage was extended in the Act. In 1974, Income Tax Act, 1974(2031) was enacted. The Act enumerated income sources into five groups (1) Agriculture, (2) Industry, Trade, profession or occupation (3) Employment (4) House and Land Rent and (5) others sources. However, agricultural income was kept outside the tax net except few years through the Finance Acts. The act had

identified the chargeable income and admissible expenses of each head of income. The other features of these Acts were provision of registration, provision of carry forward of loss, provision of common expenses, provision of self assessment provision of small tax payer's tax assessment, provision of fine penalty and appeal, provision of tax deduction at source, provision of tax refund, provision of tax exemption by different other Acts and rules, provision of avoidance of double taxation etc. This Act was also called a modified from of the previous Act. Most of the provisions of previous Act were kept as it is and others were changed. This Act lasted for about 28 years. In 2058, Income Tax Act, 2058 was enacted by the parliament by replacing the existing Act. This Act is broad as compared to the previous Act. This Act has been made in accordance with the global standard Income Tax Rule 2059 was framed by the Government of Nepal to clarify some provision of the Act. Income Tax Act 2058 contains the following key features:

- ) All income tax related matters are confined within the Act by abolishing all tax related concessions, rebates and exemption provided by different Acts. This Acts has been made super in regard to all income tax matters.
- ) The Acts has broadened the tax base. Unlike previous tax Acts, tax rate are spelled out in the Act. The tax rate and concessions have been harmonized on equity grounds.
- ) The Act has introduced a pool system of charging depreciation. A provision has also been made for depreciating intangible assets.
- ) The Act has first introduced taxation of capital gains.
- ) The Acts has provided liberal loss set-off and carries forward/backward provisions. Inter-head adjustments of losses have been clearly specified. Such provisions have been made from international perspective.

- ) The Act has first introduced a provisions for administrative review to allow the tax administration to correct mistakes made by tax administrators internally.
- ) The Act has made provision for a stringent fine and penalty for the defaulters. There have been made provisions for punishment in the fines up to Rs 3, 00,000 and imprisonment on conviction up to 3 years.
- ) Global income of a resident are made taxable. Non residents are also taxed on there income having source in Nepal.
- ) List of expenses are inclusive. All expenses relating to income have been made admissible.
- ) The Act has made provision for international taxation. Foreign tax credit has been introduced for the first time.
- ) The Act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.

(Bhattarai and Koirala 2064, p: 09)

### **2.1.5 Heads of Incomes**

Income Tax Act 2058 has classified income of a person into three main heads for purpose of tax assessment. According to the tax assessment the tax heads, they are: (1) Employment Income, (2) Business Income (3) Investment Income









Incase of Inland Revenue, The following heads are included:

- ) Income from employment.
- ) Income from business
- ) Income from investment.
- ) Value added tax (VAT).

- ) House Rent tax.
- ) Excise Duty.

### **2.1.6 Final Withholdings Payments**

As per section 92, the following payments will be taxed as final with holding payments.

-  Divided received from resident company.
-  Rent for the lease of land or a building and associated fittings and fixtures having a source in Nepal and an individual other than in Nepal and an individual other than in conducting a business receive that.
-  Interest received by a natural person from bank financial institute  
(But not related to business)
-  Gain from investment insurance received from resident entity.
-  Amount received form recognized retirement fund.
-  Meeting fees.
-  Amount received from accumulated home or sick leave.
-  Part time teaching salary

### **2.1.7 Tax exempted organizations**

The Inland Revenue Department (IRD) is responsible to decide where an organization is label to pay tax or not. For getting tax-exempt facility, the organization should apply to the IRD with necessary document that prove the organization.

Exempt organization means any entity that should not pay the tax. Social and religious organizations that are not operated for profit earning are provided with such facilities ITA 2058 are included the following entities with tax exempt organization.

- ❖ A religious educational or charitable organization of public character registered without having a profit motive.
- ❖ A political party registered with the election commission.
- ❖ An amateur sporting association formed for the purpose of promoting social or sporting amenities' not evolving the acquisition of gain.
- ❖ Village Development Committee, Municipality, or District Development Committee.
- ❖ Nepal Rastra Bank.
- ❖ The Government of Nepal
- ❖ An entity that has been declared as exempt organization issuing notice by the government.

## **2.2 Review of Related Studies**

In the courser of the study, various books articles, dissertations and other reference materials were reviewed some useful ones are mentioned below.

### **2.2.1 Review of books**

**Santosh Raj Poudyal and Prem Prasad Timisna (1990)** wrote a book 'Income Tax in Nepal'. This book has been written according to the Income Tax Act 2031. They have given a detailed computation of income from various sources. They have also described other theoretical aspect of income taxation. This book was mainly written for the course requirement of Bachelor's level in

management this book is not relevant today as the Act has been changed but some description and historical aspects can be drawn for the study.

**Kamal Deep Dhakal(2002)** wrote his revised edition of his book 'Anyakar Tatha Ghar-Jagga Kar Sambandhi Karra Lekha' This book was based on Income Tax Act 2031. This book is very much useful in getting knowledge about the history of taxation and the practice under the previous Act. He has presented complicated income tax act 2031 as simply way. The book has given the clear knowledge about house and Property tax.

**Bidhyadhar Mallik(2003)** published a book named 'Nepal ko Aadhunik Aayakar Pranali'. This book is very much useful to anyone who is interested in the subject of taxation. In his book Mr. Mallik has explained income tax Act 2058 with examples wherever necessary. He has presented the complex Act in simple and lucid manner so that it will be easy to understand the Act. He has shared his expertise in his book. His book is descriptive and analytical. All the provisions in the Act have been clarified in simple language. He has also clarified why some of the tax exempted amounts have been brought into tax net by the new Act. In some cases, he has also compared the provisions of the old Act and the new Act.

**Chandra Mani Adhikari (2003)** wrote a book entitled 'Modern Taxation in Nepal: Theory and Practice' this book also has been written according to the syllabus requirement of different faculties. Especially, the BBS third year syllabus of Tribhuvan University has been taken into consideration. Income Tax Act, 2058 as amended by finance ordinance, 2060 has also been included Theoretical as well as practical aspects have been put in the book.



**Ishwor Man Rai and Narayan Prasad Baskota (2003)** published a book entitled 'Taxation in Nepal'. This book has also been designed according to the syllabus of BBS 3rd year. Computation regarding different sources of income has been included in this book.

**Puspa Raj Kandel (2003)** wrote two books on taxation-one book entitled 'Tax Laws and Tax Planning and another 'Nepal ko bartaman kar byabastha' for BBS third year. He has presented practical as well as theoretical aspects on taxation in these books.

**K.P. Aryal and Surya prasand Paudel (2003)** wrote a book entitled 'Taxation in Nepal'. This book is also designed as per the syllabus of BBS third year. They have also included theoretical and practical aspects of taxation in their book.

**Surendra Keshar Amatya, Bihari Binod Pokharel and Rewan Kumar Dahal(2004)** published a book named 'Taxation in Nepal'. This book is also designed to meet the requirement of B.B.S. 3<sup>rd</sup> year syllabus theoretical as well as proactical aspects of taxation have been included in the book. This book is a description one, not analytical.

**Jagadish Agrawal (2004)** published a book named 'Income Tax: Theory & Practice'. This book is useful to anyone who is interested in the subject of taxation. In his book, Mr. Agrawal has explained Income Tax Act, 2058. He wants to serve all the concerned people like tax practitioner, Chartered Accountants, Registered Auditors, Accountants, and other Managerial Personnel in big organization. The book is also sources of information on the subject of income tax. He brief explain fixed assets & depreciation treatment on income tax purpose, Mr. Agrawal provides a schedule for depreciation.

**Jit Bahadur K.C (2007)** wrote a book entitled ' Tax Laws and Tax Planning" for MBS second year. He has presented practical as well as theoretical aspects on taxation in this book. This book is useful to any one who is interested in the subject of taxation. This book is also useful to research work.

### **2.2.2 Review of Thesis**

**Hari Bahadur Bhandari (1984)** wrote a dissertation entailed 'Contribution of Income Tax to Economic Development of Nepal'. In his dissertation, he has examined the collection of income tax and its contribution to the economic to the economic development of Nepal. He has stated that actual revenue collection in Nepal is lower than the targets set out. For this, he has pointed out some responsible factors like poor taxpaying habit of Nepalese taxpayers, poor tax administrative system, widespread income tax evasion, etc. He has also studied the income tax structure, trend of income tax collection, and the share of contribution of income tax to the development of Nepalese economy. He has put forward some suggestions to overcome those problems such as improving tax administration system, checking income tax evasion, etc.

**Prem Prasad Timsina (1987)** Wrote a thesis entitled Income tax Evasion in Nepal' The objectives of his study were to analyze the structure of income tax in Nepal, to study the role of income tax in mobilizing resources in Nepal, to examine income tax evasion tendency in Nepal to observe the general opinion about income tax evasion in Nepal to estimate the volume of income tax evasion in Nepal and to draw suggestions for the elimination of income tax evasion in Nepal. He has shown serious problem of financial resource gap in Nepalese economy. He has stated that income tax evasion tendency by employment taxpayers are increasing in Nepal. He has pointed our different causes of income tax evasion in Nepal namely widespread illegal Business, high

corruption, poor tax paying habit, inefficient tax administration, open border with India and political indiscipline in Nepal via-non reporting of income from illegal business, on maintain of accounts ,failure to submit income statements, on reporting of family member's incomes, underreporting of income from different at source .He has concluded that income tax evasion is in decreasing trend in Nepal. But due to lack of authentic data, he was unable to provide it statistically.

**Balanda Poudel (1995)** made a study on Nepalese tax structure in his dissertation entitled 'A Study of Nepalese Tax Structure'. He has made a review of revenue structure of HMG/N, analyzed revenue generation from individual taxes, analyzed the relationship of direct and indirect taxes with total revenue and GDP and assessed various weaknesses and problems of present tax system and put forward suitable recommendation to solve the. He has suggested that tax system will be successful and effective with the political support, administrative efficiency and people's confidence. Given these conditions, the measures to be taken and the policy to be adopted should be such that could generate more revenue for our economic development.

**Shiva Narayan Shahu (1995)** presented a master's level dissertation entitled 'Contribution of Income Tax in National Revenue of Nepal'. His study has focused on the role and contribution of income tax in the economic development of Nepal. He has found that very insignificant percent i.e. 0.35 percent of the population of Nepal fall in income tax bracket. He has shown that income tax occupies the fourth rank in the revenue composition of Nepal. Indirect taxes like customs, excise and sales tax occupy first, second and third rank respectively.

**Binita Shrestha (2001)** wrote a thesis on ' Revenue Collection from income tax in Nepal, problems and Prospects '. She has analyzed the effectiveness of income tax collection policy, examined the problems of revenue collection from income tax and recommended measures for improvement of income tax law and management in Nepal. She has found that level of income tax collection has been rising. Income tax system of Nepal is suffering from various problems such as narrow tax coverage, mass poverty of Nepalese people, lack of conscious taxpayers, inefficient tax administration, instability in government policy etc.

**Satyendra Timilsina(2002)** wrote a thesis entitled 'Personal income taxation in Nepal : A study of exemption and Deduction' he has analyzed the existing system of tax exemption and the deductions and given suggestions to improve the tax system so that government can collect more revenue and use it in the process of national development. He has measured the extent of exemption limit provided to the individual and the family and examined its appropriateness to its subsistence requirements and analyzed the existing nature of standard deductions. He has suggested the following:

- ✚ Standard deductions should be reintroduced.
- ✚ Exemption should be provided to the couple family considering the dependents.
- ✚ Income tax revenue and personal income tax revenue is increasing every year.
- ✚ A number of Rs 40000 exemptions should be provided in the assumption that employment income of a Section officer in a government institution should not be taxed.
- ✚ Morale of the tax officials should be increased.

**Girija Prasad Koirala (2007)** peered a master's level thesis entitled on 'contribution of income tax form employment income to public revenue of Nepal. Mr. Koirala has mentioned about tax and non tax revenue in Nepal composition of direct tax and indirect tax revenue in Nepalese tax structure, structure of direct tax in Nepal. Contribution of income tax in total revenue, tax revenue and direct tax revenue of Nepal tax GDP rations including SAARC countries and other countries for 1997 structure of income tax in Nepal and contribution of income tax form Employment in total revenue, total tax revenue direct tax revenue and income tax revenue of Nepal. Accordingly, he has done empirical investigation on the basis of primary data collected by survey method he has suggested various alternative and provisions that should be done regarding taxation of employment income after the detailed analysis of empirical study.

**Jay Bahadur Bhandari (2010):**

He has written a thesis entitled “organization structure to Inland Revenue Administration”. He has expressed contribution of total revenue on G.D.P. contribution of total tax Revenue in Inland, Target Revenue and Realization of previous year and strategy to collection Tax Revenue in Target point. This thesis is useful for administrator, Tax officer and students.

**Purushottam Lamichhane (2010):**

He has written a thesis entitled “Effectiveness of Tax auditing system in Nepal”. He has highly express about tax collection, Ratio on tax collection, tax revenue, total revenue, G.D.P., V.A.T. and Income Tax, Target and Realization statement of Tax auditing and skilled manpower on Tax auditing system in

Inland Revenue department. This thesis is suitable for tax auditors', Account's students and tax audit administration.

### **2.2.3 Review of Articles**

**Surendra Keshar Amatya (2006)** wrote an article entitled 'Taxation of Employment income in Nepal, Concept computation and Contribution" in PRAVAHA A journal of management vol. 16 July 2006. He has mentioned about Nepalese income Tax law income year and assessment year, heads and sources of income concept of employment, computation of income from employment non chargeable incomes under employment, common reductions, income tax exemption, and assessment of income tax liability on employment income, surcharge and contribution of employment income to tax revenue of Nepal. He has also shown about estimation and collection of employment income tax during the past decade. In this study, he has clearly pointed that actual collection of employment tax is satisfactory than estimated target.

In this way, various dissertations, books and articles have been reviewed while preparing this project work. Books are found mainly based on Tribhuvan University (T U) syllabus requirement of T.U Almost dissertations were written on different aspect of income taxation.

**Rajendra Prasad Dahal, (2007)** wrote a several articles on RAJASWA entitled, where and why customs Fraud occur? Development of customs valuation as a system, Trade security and Facilitation: Challenges For customs Administration, issues of counterfeiting and privacy of international Trade. He has presented about revenue collection from direct and indirect sources. Sources of direct tax are income tax, house rent tax and interest tax. On the

other hand value added tax, excise duty and customs are the sources of indirect tax. Fine and Penalty, demurrage can be categorized in the field of non tax areas. He focused that the contribution of customs revenue is the most important part of the total national revenue collection, All customs, excise and other related revenues that is law fully due is collected within a given frame work of time as stipulated in specific legislation.

### **Annual Report of Inland Revenue Department (2009)**

The Inland Revenue Department has to minimize the professional cost accepting friendly environment positive thinner best service for which it has focus on the use of previously introduced electric means of science and technology in one hand. On the other hand it has to focus on tax payer education programmer.

Contribution of Income Tax to Inland revenue Department of Nepal is dominated by employment, business and investment income. House rent tax, value added tax (VAT), interest tax, excise duty and vehicles tax are also the major sources of Inland Revenue Department. The tax collected from different sources is satisfactory level than previous income year. The Inland Revenue department also receives tax from education and health sector. The collection system is not in satisfactory level. There are a lot of problem in collection procedure. Annual report shows that the tax administration and tax system is still in the medium level. Therefore, it is essential to mobilize maximum revenue creating, neutral transparent and investment friendly environment. The IRD has to minimize professional cost accepting friendly environment, positive thinking, best services for which it has focus on the use of previously introduced electric means of science and technology in one hand. On the other hand, it has to focus on tax payer education program.

## 2.2.4 Research Gap

To achieve the target goals of taxation only tax policies and acts are not enough. To achieve target goals of taxation only, tax policies and acts must be implemented. Acts are made but it is not implemented so that is an important part of taxation system. It is necessary for the successful of the implementation of tax laws and policies to collect the revenue but lack of permanent government is not efficient so for.

All the researches mentioned in review of literature are concerned with the study of laws provision and structure of revenue of revenue. Most of them have indicated the inefficient of tax & administrative on, wide spread tax evasion and weak government laws and policies. No attention has been paid on the tax administration and its efficiency. The role of tax administration is crucial for the effective less of tax collection. Therefore the research has been conducted on the topic income tax administration and its effectiveness in Nepal. But the present government is very much successful in revenue through program. The government is implement law and policies strictly so that the tax collection is greater than expectation.



## CHAPTER-III

### RESEARCH METHODOLOGY

This chapter is devoted to the research methodology applied in the study to achieve the goals. Both primary and secondary sources of data have been used in the study. Opinion survey technique was adopted while collecting primary data. Questionnaires were distributed to income tax experts and professionals and tax payer know their opinion towards various aspects of income from resident person. Economic survey was used as the major source of secondary data. Different statistical tools were used as the major source of secondary data .Different statistical tools are used to analysis the data. In his study, correlation, simple average, percent and chi-square test for hypothesis have been used to analyze the collected data.

#### **3.1 Research Design**

This study is based on primary as well as secondary data. Primary data were collected from interviews with experts, professionals, and income tax payer. This study has given the priority to both analytical presentation as well as descriptive presentation.

In descriptive design results or facts were described in the simple and systematic manner so that the reader and concerned persons can understand easily. Most of the materials of this study were concerned with past phenomena of the performance in numerical or theoretical term.

### 3.2 Population and Sample

All the tax administrator, experts and taxpayers were considered as total population. Out of them, the experts and taxpayers in Kathmandu Valley were considered as target samples. The numbers of respondents have been presented in the following table:

**Table: 3.1**

**Group of Respondents and sample Size**

S.N	Group of respondent	Sample size	Code used
1.	Tax administrators	25	A
2.	Tax experts	25	B
3.	Tax payers businessman	25	C
	Total	75	

*Source: - Opinion Survey, 2010*

### 3.3 Nature and Sources of Data

Both primary and secondary data were used in the study. The primary data were the opinion of experts and income tax, house rent, VAT, excise duty, interest income regarding income tax to Inland Revenue. Primary data were obtained through questionnaire method (see appendix in the last) followed in most cases face to face interviews/discussions with the sampled persons included in the purposive sample. The secondary sources of data were collected from various published and unpublished source.

### **3.4 Selection of the Respondents**

After careful study of the subject matter, a set of questionnaire was developed and distributed to two respondent groups Viz. tax experts and employees. Tax experts comprise of chartered accountants lawyers, professors and policymakers.

### **3.5 Data Collection Procedure**

A set of questionnaire was developed and distributed to the selected respondents in order to get Actual and accurate information. Distribution work was done personally rather than sending by any other means. Additional information was collected from interviews with the respondents.

### **3.6 Data Analysis Tools**

The data collected from primary and secondary sources were first tabulated in separate format systematically in order to achieve the desire objectives. The data were then tabulated into various tables according to the subject in order. Then simple analysis was done by using statistical tools such as percent, average, correlation, chi-square ( $\chi^2$ ) test for hypothesis etc. Available data were presented and analyzed in description way. In primary data analysis, some hypothesis was tested to know whether there was significant difference between the opinion of tax experts, professionals and income tax payers.

### 3.7 Profile of Respondents

Questionnaires were distributed to seventy-five respondents' tax experts and administrator and taxpayer. All of them, questionnaires were received from different groups. The following table reveals the different numbers and percent of the respondents.

**Table: 3.2**

**Table: 3.2: Group of Respondents and sample Size.**

S.N	Group of respondent	Sample size	Code used
1.	Tax administrators	25	A
2.	Tax experts	25	B
3.	Tax payers businessman	25	C
	Total	75	

*Source: - Opinion Survey, 2010*

## CHAPTER: IV

### PRESENTATION AND ANALYSIS OF DATA

This is the major chapter of the study. In this chapter, the data related to the study have been tabulated, presented, analyzed and interpreted. The reliability of the study depends upon the data available and sources of data.

#### 4.1 Analysis of secondary data

The secondary data are not originally collected but obtained from various published and unpublished source. The analysis of secondary data in various matters can be done in the following ways. The revenue mobilization can be explained from following table.

**Table: 4.1**

**Inland Revenue collection and Gross Domestic Product. (Rs. In Billion)**

Year	Targeted Revenue collection	Contribution in GDP	Contribution of IRD in GDP	Contribution of IRD in Tax Revenue
2003/04	98.4	11.4	5.73	63.18
2004/05	100.2	11.6	6.55	64.18
2005/06	99.7	11.9	7.25	67.98
2006/07	88.3	11.2	6.75	54.86
2007/08	101.5	12.0	8.57	60.42

*Source: Annual Report of Inland Revenue Department 2008/09 (Page-24)*

Taking the data of targeted revenue collection, we see almost equal amount in Fiscal Year 2003/04 Rs. 98.4 billion and F.Y 2005/06, Rs. 99.7 billion on similarly in 2004/05, Rs. 100.20 billion. There is Rs. 88.3 billion in targeted revenue collection in Fiscal Year 2006/07 and Rs. 101.5 billion in 2007/08. It has

unequal (up and down) amount in targeted revenue collection in every fiscal year although it is seen higher by 3.1 billions at the last fiscal year.

Contribution of IRD in GDP in 2003/04 is Rs. 5.73 billions the least amount comparing to other years. In Fiscal Year 2004/05 and 2006/07 almost the equal Rs. 6.55 billions and Rs. 6.75 billions amounts was collected through Rs. 7.25 billions amounts collected between that fiscal year. At the last fiscal year Rs. 8.57 billions amounts was collected. As a whole it has a slight rising trend although it has irregular trends before last fiscal year.

Contributions of IRD in total tax revenue in 2003/04 Rs. 63.18 billions the least amount comparing to other Fiscal Year 2004/05, 2005/06 and 2007/08 almost equal Rs. 64.18 billions, Rs. 67.98 billions and Rs. 60.42 billions amount. At the Fiscal Year 2006/07 Rs. 54.86 billions is contribution of IRD in total tax revenue.

**Table: 4.2**  
**Condition of Aggregate Revenue Collection in Fiscal Year 2007/08 (Rs. In Thousands)**

Types of Revenue	Targeted	Actual Realization	Realization (%)
Total Revenue	103,667,256.00	107,622,480.00	103.82
Non-Tax Revenue	21,349,600.00	19,783,843.00	92.67
Tax Revenue	80,962,200.00	85,155,457.00	105.18
Indirect Tax	59,664,400.00	62,067,698.00	104.03
Direct Tax	21,297,800.00	2,3087,759.00	108.40

*Source: Financial Comptroller General Office*

In Fiscal Year 2007/08, there is a target revenue collection of Rs. 1036.6 billion and actual revenue collection is Rs. 1076.2 billion. It is greater than the targeted amount of Rs.395 billion.

In total revenue contribution of tax revenue is 79.12 % and 20.88% of no tax revenue. Similarly, contribution of indirect tax is 73% and direct tax is 27% in total revenue.

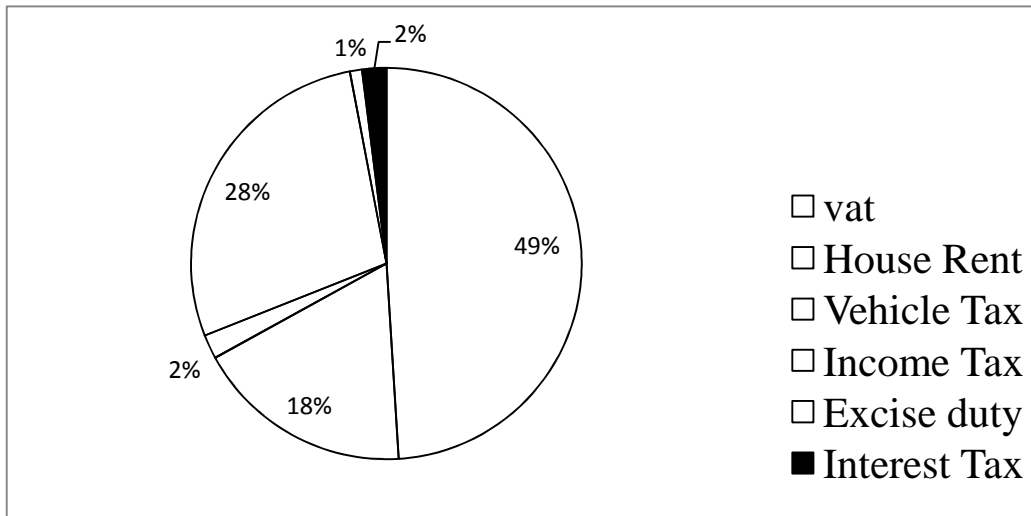
**Table: 4.3**  
**Revenue collection of Inland Revenue Department**  
**In fiscal year 2007/08 (Rs. In Thousand)**

Description	Targeted Revenue	Realization Revenue	Percentage
Tax revenue	60,984,613.00	62,979,367.00	103.0%
Direct tax	19,387,509.00	19,094,239.00	98%
Income tax	17,202,122.00	17,327,915.00	101%
House rent tax	734,124.00	7,060,263.00	96%
Interest tax	1,451,263.00	1,060,261.00	73%
Indirect tax	41,597,104.00	43,885,128.00	105%
VAT	2,953,290.00	31,154,633.00	105%
Excise duty	10,473,201.00	11,216,555.00	107%
Vehicles tax	1,591,003.00	1,513,940.00	95%

*Source: Financial Comptroller General Office*

In fiscal year 2007/08 there is increase in VAT collection by 17% than fiscal year 2006/07. Similarly there is 20% increase in house rent tax and interest tax, 21% increase in excise duty. Vehicle tax collection also increases by 122%. The above table can be shown in pie chart as follows.

**Figure: 4.1**  
**Structural condition of Inland Revenue Department**



The structural condition of Inland Revenue is 49% in VAT collection, 28% income tax. 18% house rent, 2% vehicle tax and interest tax and 1% is excise duty.



#### 4.1.1 Revenue collection of IRD

**Table: 4.4**  
**Revenue Collection of Inland Revenue Department (Rs. In Thousand)**

Fiscal year	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
<b>Targeted</b>						
Tax Revenue	29,067,550	31,011,200	35,200,000	44,300,000	48,817,000	60,984,613
VAT	13,730,050	15,503,500	16,950,000	23,650,000	26,463,000	29,532,900
Income tax	9,862,500	8,697,500	10,500,000	11,800,000	12,710,500	19,387,509
Excise duty	4,725,000	6,099,800	7,000,000	7,950,000	8,637,500	10,473,201
Vehicle tax	750,000	710,400	750,000	900,000	1,006,000	1,591,003
<b>Actual Realization</b>						
Tax revenue	26,853,422	30,920,989	36,552,762	40,202,336	5,154,450	62,979,367
VAT	13,449,123	14,478,896	18,894,627	21,946,014	26,704,180	31,154,633
Income tax	8,059,575	9,514,782	10,452,637	10,896,449	15,621,430	17,327,915
Excise duty	4,785,244	6,226,724	6,446,503	6,512,225	8,533,844	1,047,320
Vehicle tax	559,480	700,587	758,995	847,648	681,996	1,513,940
Annual growth rate	5.15	15.15	18.2	9.16	28.20	22.19

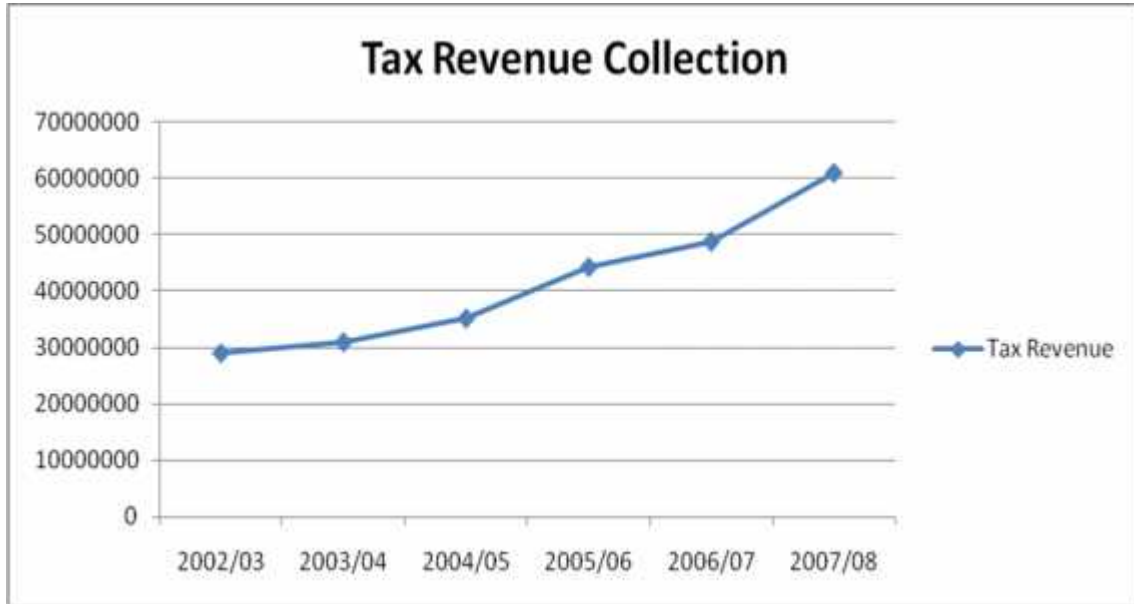
*Source: Financial Comptroller General Office*

From the above table there is target tax revenue and actual tax realization from different sources are as VAT income tax, excise duty, vehicle tax which is

increasing trend in annual increasing percentage is 5.15%, 15.15%, 18.2%, 9.16%, 28.20% and 22.19% in Fiscal Year 2003/04 to 2007/08 respectively.

The above table can be presented as figure below.

**Figure: 4.2**  
**Tax Revenue Collection (Rs. In Thousand)**

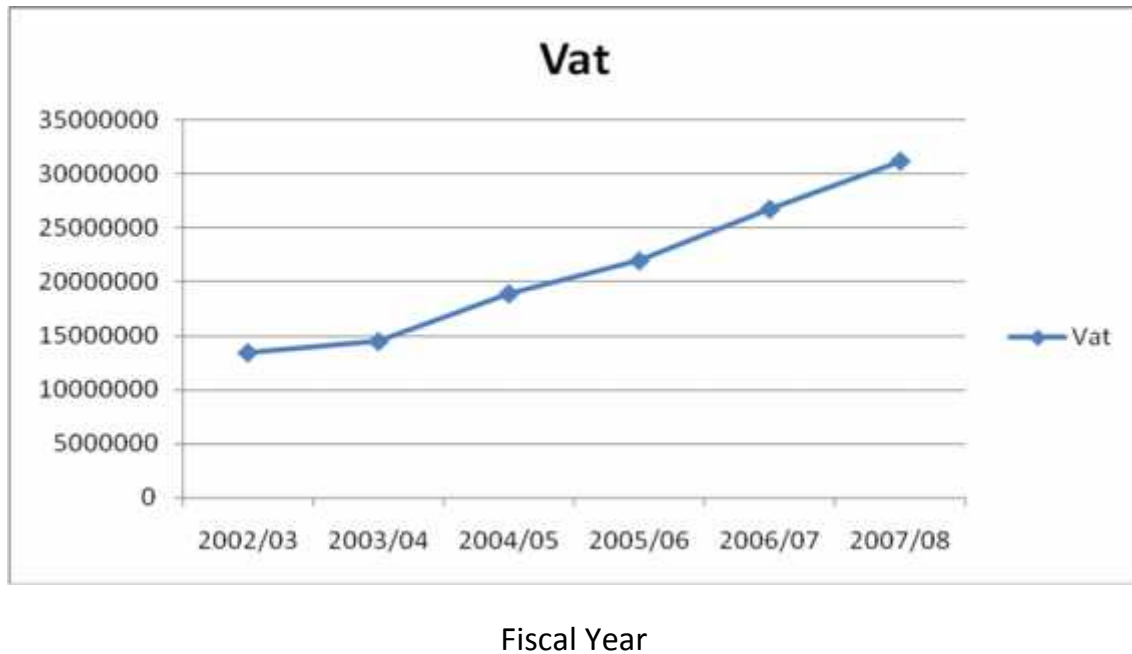


In the given figure, below Rs. 3 billion tax was collected in Fiscal Year 2003/04 and rose very slightly to little above Rs. 3 billion in F.Y 2003/04. After it took same quick rise from Fiscal Year 2005/06 as up Fiscal Year 2003/04 and more than 6 billion tax was collected in the last Fiscal Year 2007/08.

From the above table, it is clear that the revenue collection of fiscal year 2007/08 is greater than the Fiscal Year 2006/07 as 22%. Similarly, income tax and VAT collection also increases by 11% and 17% from previous income year. Inland Revenue collection of last year was 57.11% where as 2.25 has been increased by this year.

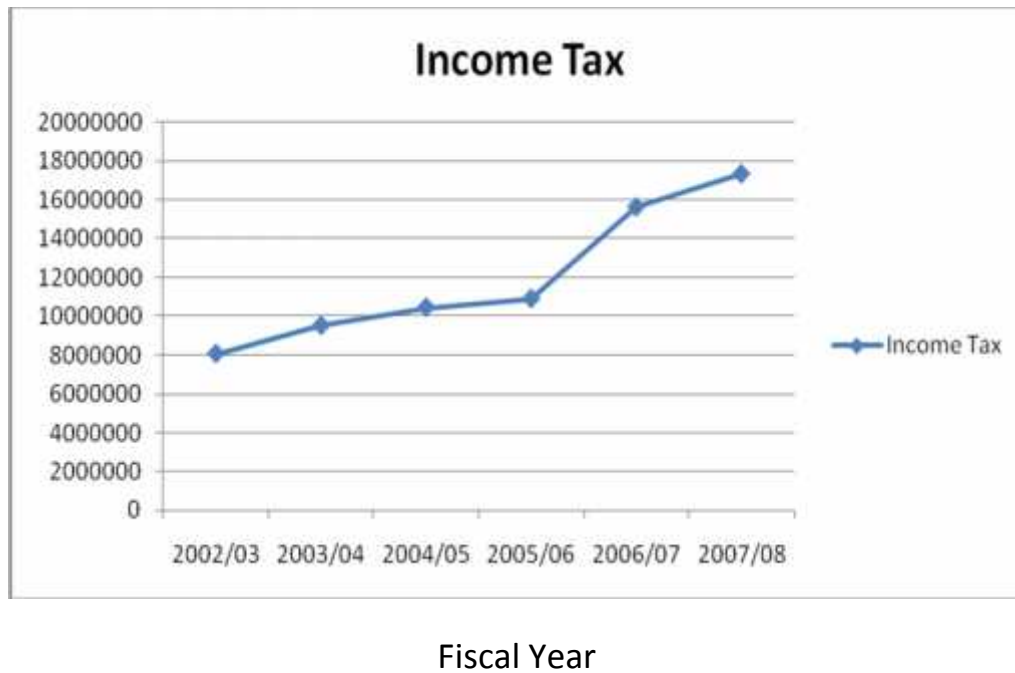
Contribution of VAT, excise duty and income tax are 49.46%, 17.\*0 and 30.31 respectively for collection of Inland Revenue department, remaining 2.40% contribution is related with vehicle tax...

**Figure: 4.3**  
**VAT Collection**



Contribution of VAT collection to the Inland Revenue in Fiscal Year 2003/04 was Rs. 14 million than after increasing trend to the Fiscal Year 2007/08 by Rs. 15 million, Rs. 19 million, Rs. 22 million, Rs. 27 million, Rs. 31 million respectively.

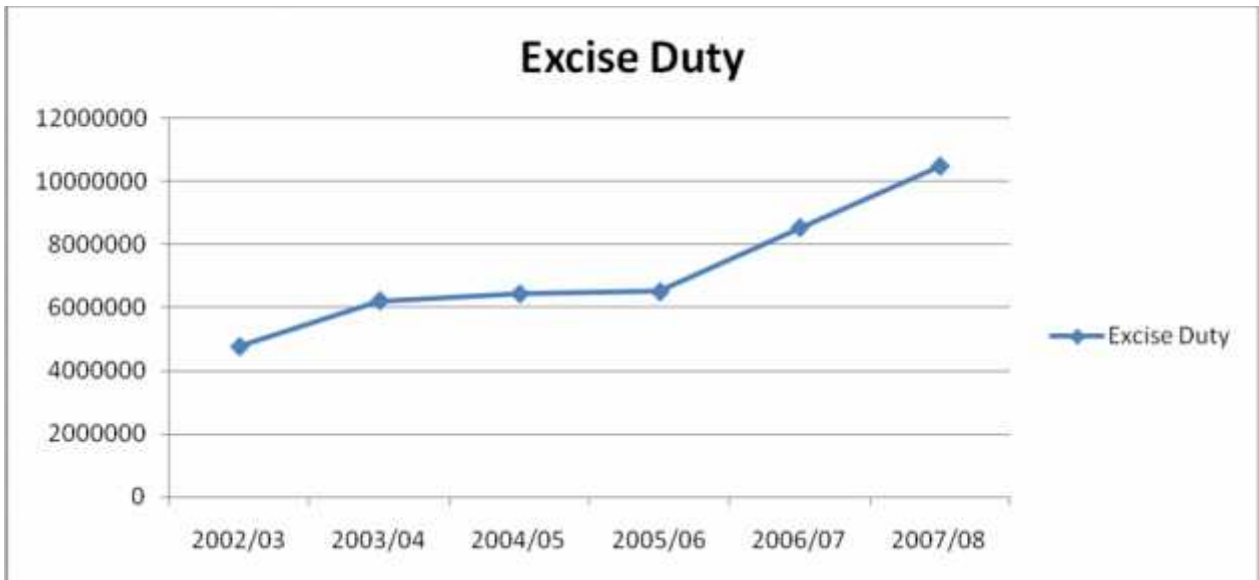
**Figure: 4.4**  
**Income Tax Collection**



In the given figure, in the starting fiscal year Rs. 8 million was collected as an income tax and continued with very slow pace and Rs. 1.1 billion income tax was collected in fiscal year 2005/06. Then it took the fastest growth among these years between 2005/06 and 2006/07 and nearly 1.6 billion rupees was collected as an income tax but last it took the pace as it was in Fiscal Year 2002/03 and just more than Rs. 1.7 billion rupees was collected in the last fiscal year.

Figure: 4.5

Excise Duty Collection



Fiscal Year

In the given figure, almost Rs. 5 billion excise duty was collected in Fiscal Year 2003/04, and rose quickly to Rs. 6 billion in next Fiscal Year but it remain same to F.Y 2005/06 at last in 2007/08 more than Rs. 10 billion excise duty was collected hitting the highest pick from Fiscal Year 2005/06.

From the above graph, it is clear that the revenue collection of Fiscal Year 2007/08 is greater than the Fiscal Year 2006/07 as 22%. Similarly, income tax and VAT collection also increases by 11% and 17% from previous income year. Inland Revenue collection of last year was 57.11% where as 2.25 has been increased by this year. Contribution of VAT, excise duty and income tax are 49.46%, 17.80 and 30.31 respectively for collection of Inland Revenue department, remaining 2.40% contribution is related with vehicle tax.

## 4.1.2 Comparative Study of Income Tax

**Table: 4.5**

### Comparative study of structural condition of income tax

Description	Fiscal year (In thousand)				
	2003/04	2004/05	2005/06	2006/07	2007/08
Corporate income tax	4,838,689	5,327,323	5,395,701	11,515,835	9,767,745
Government Organization	2,056,635	1,331,561	185,888	1,018,318	183,928
Public limited company	1,531,274	2,467,622	3,537,448	5,711,298	7,110,481
Private limited company	150,780	1,528,140	1,687,048	4,786,219	2,473,336
Individual Income tax	3,539,416	3,871,676	4,234,653	2,028,857	5,971,199
Employment tax	1,391,522	1,676,982	1,751,505	2,028,857	2,294,553
Industry, business, trade, occupation and other	2,147,894	2,194,694	2,483,148	481,221	3,676,646
House rent tax	403,282	496,306	509,062	599,369	627,270
Interest tax	733,395	757,332	757,032	996,148	961,699
Total	9,514,782	10,452,637	10,896,448	15,621,430	17,327,915
Increase in collection %	18.06%	9.9%	9.16%	43.36%	10.92

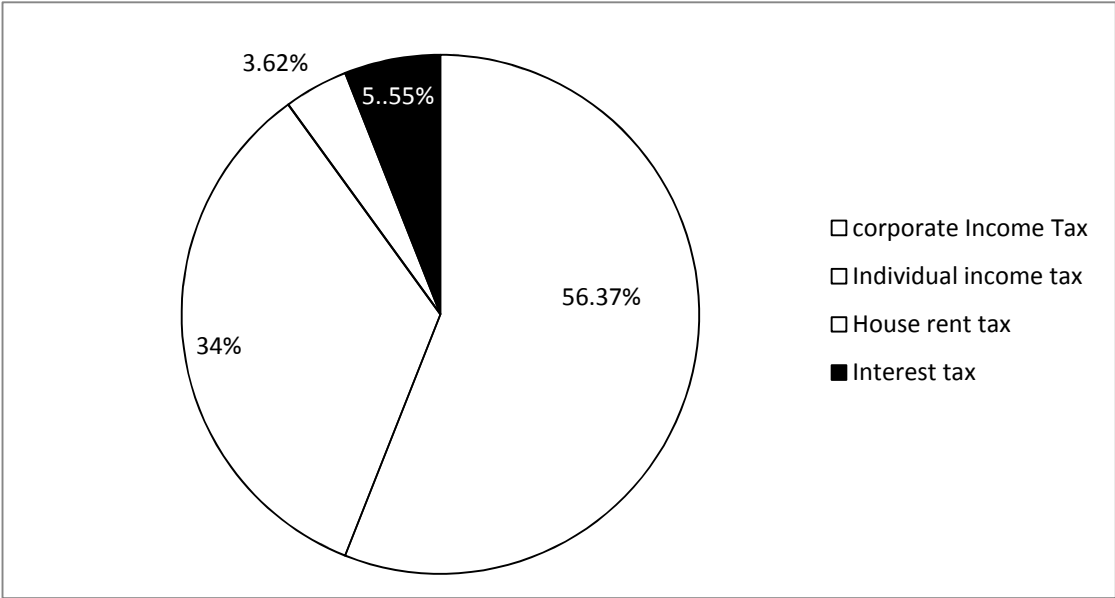
*Source: Annual Report of Inland Revenue Department fiscal year 2008/09*

This table can be depicted as a comparative structural condition of income tax. In the Fiscal Year 2003/04, Rs. 9514782 thousands rupees was collected and it had increased with 18.06% in collection but in Fiscal Year 2004/05 and Fiscal Year 2005/06 total collected income tax was more than Rs. 1 billion though it had 9.9 and 9.16 increased in collection percentage comparing to Fiscal Year 2003/04. In fiscal year 2006/07 more than 1.5 billion income tax was collected almost same to 2007/08 (Rs. 1.73 billion) but 43.36% increased in collection in Fiscal Year 2006/07 and just 10.92% increased in collection Fiscal Year 2007/08.

This chart shows irregular amount of income tax can be collected with irregular percentage rate of collecting increased.

**Figure 4.6**

**Structural Condition of Income Tax**



In total income tax collection, contribution of corporate income tax, individual income tax, house rent tax, interest tax are 56.37%, 34.46%, 3.62% and 5.55% respectively.

Collection of income tax, house rent tax and interest tax are 100.73, 96.18 and 73.06 respectively. Similarly house rent tax and interest tax increased by 20% and 2% than previous year.

**Table: 4.6**

**Comparative collection of Revenue in Fiscal year 2008/09**

Description	Amount		Increasing percent
	2008	2009	
Income Tax	17,327,915.00	24,597,042.00	142
House Rent Tax	706,063.00	952,253.00	135
Interest Tax	106,0261.00	166,5308.00	157
VAT	11,109,740.00	14,024,807.00	126
Excise duty	8,410,095.00	11,183,687.00	133
Total	38,212,203.00	52,423,097.00	137

*Source: Annual Report of Inland Revenue Department fiscal year 2008/09*

From the above table, it is clear that the targeted revenue collection is lower than actual revenue collection. There is better improvement in actual revenue interest tax, VAT, Excise duty are 42%, 35%, 57%, 26%, 33%, and 37% respectively than targeted collection amount.



### 4.1.3 Collection of Income Tax from Difference Sources.

The income tax collected form the difference source which is shown in the following table. The sources of income taxes are three heads of income.

**Table 4.7**

#### **Collection of Income Tax from Different Sources (Rs. In thousand)**

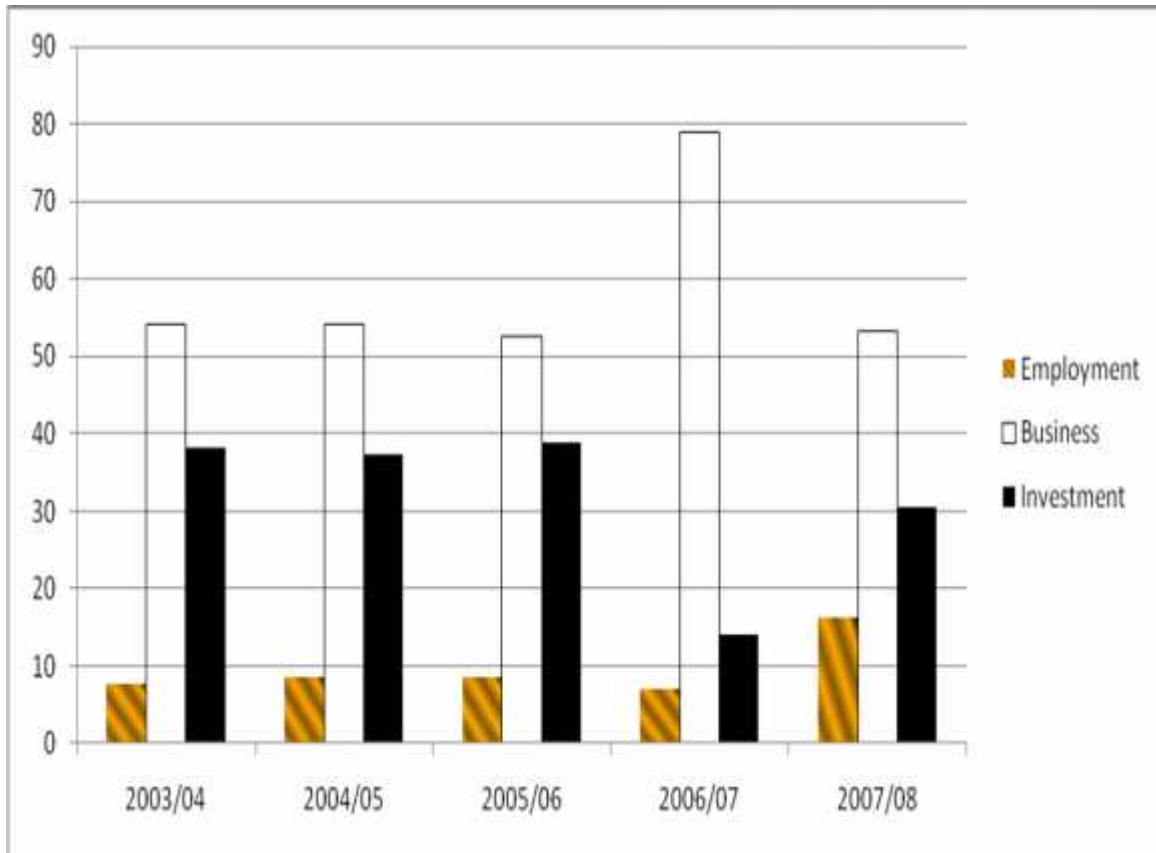
Fiscal year	Total income tax	Employment income	Business income	Investment income
2003/04	17,892,887.00	1,391,522.00	9,677,378.00	6,823,987.00
2004/05	19,651,636.00	1,676,982.00	10,654,646.00	7,323,987.00
2005/06	20,541,485.00	1,751,505.00	10,806,085.00	7,983,895.00
2006/07	29,166,122.00	2,028,857.00	23,031,670.00	4,105,595.00
2007/08	36,744,303.00	5,971,999.00	19,535,490.00	11,236,814.00
Fiscal year	Total %	Employment %	Business %	Investment %
2003/04	100	7.78	54.08	38.14
2004/05	100	8.53	54.21	37.25
2005/06	100	8.52	52.6	38.87
2006/07	100	6.95	78.96	14.09
2007/08	100	16.25	53.16	30.59

Source: IRD Report 2008/09

From the above table, it is clear that the contribution of business is higher than Employment and investment income. The Inland Revenue Department collects Revenue at high amount from business, investment and employment respectively. The tax collection from employment income is very small quantity. In Fiscal Year 2007/08 the tax contribution from employment is 16.25% which was 7.78% in Fiscal Year 2003/04. Similarly the tax collection from investment income is 30.59% in Fiscal Year 2007/08 which was 38.14% in Fiscal Year 2003/04. The tax collection from business income is 53.16% in Fiscal Year 2007/08 which was 54.08% in Fiscal Year 2003/04. It is clear that

there is uniformity in tax contribution from business than other investment and employment income.

The above table can be shown as figure below.



#### 4.1.4 Major Findings from secondary sources of Data

1. There was clear indication of the time serious and growing financial resources problem in Nepal. The increasing magnitude of resource gap clearly indicator that there is an urgent need of mobilizing additional resources. Income tax as appeared one of the most effective fiscal policy instruments to mobilize additional resources and achieving the desired development objective of Nepal.

2. The IRC is able to collect income tax revenue effectively than targeted amount. In Fiscal Year 2007/08 the target was Rs. 1036.6 billion and actual revenue collection is Rs. 1072.2 billion.
3. Revenue collection of IRC is dominated by VAT which is 49% in Fiscal Year 2007/08. Similarly contribution of revenue from Income tax and house rent tax 28% and 18% respectively.
4. Income tax collection of Fiscal Year 2007/08 is Rs. 173.2 billion. It is the excess collection of 10.92% than previous Fiscal Year. So collection of income tax is increasing every year.
5. Collection of income tax, house rent tax and interest tax are 100.73, 96.18 and 73.06 respectively
6. Contribution of income tax from business is highest percentage which is 53.16% in Fiscal Year 2007/08 whereas contribution of investment and employment are 30.59% and 16.25% respectively.
7. There is overall improvement in tax collection is 37% than targeted revenue collection in fiscal year 2008/09.
8. Income tax is an important source of direct tax. Its structure of Nepal is composition of income tax from public enterprise, income tax from semi public enterprise, income tax from private corporate enterprise bodies, income tax from individuals, income tax from remuneration and tax on interest
10. Nepalese revenue structure consists of tax and non tax revenue. Tax revenue consists of customs tax of consumption and product of goods and services, land revenue and registration and tax on property, Profit and income. Non tax revenue consists of charge, fees, fine and penalty, divided interest payment and other income.

## 4.2 Analysis of Primary Data

Data collected by the researcher or through agent for the first time. From related field and possessing original character are known as primary source of data. On the other hand, data collected by some one else, used already and tare made available to other in the form of published statistics are known as secondary data. Once primary data have been used, it loses its primary characteristics and become secondary. In this study, this part is related with primary sources of data.

An empirical investigation has been conducted in order to find out the contribution of in come tax to Inland Revenue of Nepal. From these questionnaires were developed and responses were collected from the respondents. A set of 75 questionnaires were received from the respondents out 90 questionnaires distributed.

Respondents were classified into three groups i.e. tax administrators, tax experts and tax payer businessman. The responses received from various respondents have been arranged tabulated and analyzed in order to facilitate the descriptive analysis of the study. The questionnaire was asked either for a yes/no response of asked for ranking of the choice according to the number of alternatives where the first choice was the most important and last was the least important. The following table shows the group of respondents.

**Table 4.8**

**Group of respondent and code used**

S.N	Group of respondents	Sample size	Code used
1.	Tax administrators	25	A
2.	Tax experts	25	B
3.	Tax payers businessman	25	C
	Total	75	

*Source: Opinion Survey, 2010*

**4.2.1 Attitude towards tax education**

To know the responses attitude towards tax education a question was asked **“Do you think that people are well informing about the tax system in Nepal?”** The responses have been tabulated below:

**Table 4.9**

**People’s knowledge towards tax system**

Responses	Yes		No		Total	
	No	%	No	%	No	%
A	-	-	25	33.33	25	100
B	-	-	25	33.33	25	100
C	1	4	24	96	25	100
Total	1	1.33	74	98.67	75	100

*Source: Opinion Survey, 2010*

From the above table, it has been clear that 98.67 % of the respondents were against the question and 1.33% respondent. It can be concluded that tax

education is most necessary in Nepal to increase the tax consciousness of tax payer.

#### 4.2.2 Specific Objective of Income Tax in Nepal

In order to know the specific objectives of income tax in Nepal, respondents were requested to rank their responsible. The question was asked “**what should be the specific objective of income tax in Nepal?**” The responses have been tabulated below.

**Table 4.10**

**Opinion towards objective of income tax**

S.N.	Objective income tax	Group			Total points	Percent	Rank
		A	B	C			
1.	To enhance the revenue of government	72	70	80	222	24.67	1
2.	To meet the government expenditure	65	58	60	183	20.33	4
3.	To narrow the income gap between rich and poor	67	67	62	196	21.78	3
4.	To achieve the goals of national development and equal economic distribution	72	70	69	211	23.44	2
5.	To check inflation	30	27	31	88	9.78	5
Total					900	100	

Source: *Opinion Survey, 2010*

There was 100% response received from respondents. Most of the respondents are supporting the objective of the entrance the revenue of the government 24.67 is in favor of the objective of to enhance the revenue of the

government 23.44% of them choose the objective of natural development and equal economic distribution and another 21.87% choose the objective of to narrow the income gap between rich and poor 20.33%are of them choose to meet the government expenditure and 9.78% of them gave to check inflation.

Specific objective of income tax are ranked below on order of preference.

- 1) To enhance the revenue of the government
- 2) To achieve the goals of nation development and equal economic distribution.
- 3) To narrow the income gap between rich and poor
- 4) To meet the government expenditure
- 5) To check the inflation

#### 4.2.3 Problems of Income Tax System in Nepal

To know the effectiveness of income tax system in Nepal, a question asked. **“Do you think that there are major problems in the current tax system of Nepal?”** The responses received from various respondents are tabulated as follows:

**Table 4.11(a)**

**Problems towards income tax system**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	23	92	2	8	25	100
B	25	100	-	-	25	100
C	23	92	2	8	25	100
Total	71	94.67	4	5.33	75	100

*Source: Opinion Survey, 2010*

From the above table, it has been clear that most of the respondents i.e. 94.67% of respondents are realize that there are major problems in the current tax system of Nepal. In order to know the cause of problems of existing income tax system of Nepal, the nest question was asked **“If yes, what are the major problems in the current tax system of Nepal, please rank the problems.”** The respondents were requested to rank their answer from various alternatives.

**Table: 4.11 (b)**

**Major problem of income tax system**

S.N	Major Problems	Group			Total points	Percent	Rank
		A	B	C			
1.	Inefficient income tax administration	129	191	172	492	18.31	1
2.	Complicated income tax act, rules and regulation	102	109	174	325	12.09	4
3.	Inappropriate rates exemption	41	52	47	140	5.21	9
4.	Difficult in maintain account for tax purpose	17	58	73	148	5.51	8
5.	Lack of awareness to tax payers	147	109	71	327	12.17	3
6.	Lack of training and sufficient incentives to employees	99	94	106	299	11.13	5
7.	Lack of experts in tax mgmt.	58	121	116	295	10.98	6
8.	Practice of tax evasion	157	97	121	375	13.96	2
9.	Illegal business activities	94	68	102	264	9.83	7
10	Others problems	2	9	11	22	0.81	10
Total					2687	100	

*Source: Opinion survey, 2010*



The major problems of income tax system of Nepal were ranked in order of the preference of the respondents as follows.

1. The inefficient income tax administrator.
2. Practice of tax evasion
3. Lack of awareness of tax payers.
4. Complicated income tax act, rules and regulation.
5. Lack of training and sufficient incentives to employees.
6. Lack of expert in tax management.
7. Illegal business activities.
8. Difficulty in maintaining account for tax purpose.
9. Inappropriate rate and exemption.
10. Others problems such as tax education, corruption etc.

It can be concluded that the income tax system of Nepal is not sound and efficient, basically due to inefficient income tax administration, practice of tax evasion and lack of awareness to tax payers.

#### **4.2.4 Appropriate method while assessing the Income Tax in Nepal.**

Method of income tax assessment is very important in the assessment of income tax. Appropriate assessment procedure is essential for collection of the large amount in the form of income tax. It is very important in managing the income tax because the amount of income tax is realized through the assessment find out an appropriate method of income tax assessment a question put towards the respondents asking "**which method is appropriate in Nepal while assessing the Income Tax ?**" The responses received are tabulated below.

**Table: 4.12**

**Appropriate method while assessing the income tax in Nepal**

S.N.	Methods	Group			Total	
		A	B	C	No.	%
1.	Assessment on the basis of account submitted	4	6	4	14	18.67
2.	Self assessment	18	123	15	45	60
3.	Assessment on the best judgment	2	4	5	11	14.67
4.	Assessment by the committee	2	3	-	5	6.66
Total					75	100

*Source: Opinion Survey, 2010*

From the above table, it has been clear that self assessment method is more appropriate for Nepal while assessing income tax 60% respondents have positive opinion about self assessment followed by 18.67% of respondents about account basis assessment.

#### **4.2.5 Income tax evasion in Nepal**

In order to find out whether the income tax evasion is practiced in Nepal or not the question was asked **“In your opinion, is there major problem of tax evasion in Nepal?”** The responses of respondents were tabulated below.

**Table: 4.13(a)**

**Income tax evasion in Nepal**

S.N.	Response	Group			Total	Percent
		A	B	C		
1.	Yes	20	23	21	64	85.33
2.	No	5	2	4	11	14.67
Total		25	25	25	75	100

*Source: Opinion Survey, 2010*

The above table shows that 85.33 respondents supported tax evasion as a major problem of income tax evasion in Nepal. Rest 14.67% was again above view. It can be noted that almost all the person with high denominates were in favor of the question.

There may be much response for widespread tax evasion. In order to know the main reason for tax evasion, the respondents were provide eight reasons and requested to rank them- The responses received are tabulated as below:

**Table 4.13 (b)****Factors responsible for tax evasion**

S.N.	Response	Group			Total points	Percent	Rank
		A	B	C			
1	Defective tax administration	95	106	93	294	21.44	1
2.	Inefficient income tax policy	60	59	68	187	13.64	4
3.	Inappropriate Income tax rate	33	42	46	121	8.83	7
4.	Loopholes in income tax act	37	45	53	135	9.85	6
5.	Unwillingness of tax payers to pay tax	87	104	79	270	19.69	2
6.	Lack of unconscious in tax authority	65	65	63	193	14.08	3
7	Lack of political commitment.	47	67	57	171	12.47	5
	Total				1371	100	

*Source: Opinion Survey, 2010*

The major reasons for tax evasion of income tax from the above table according to the respondent's performance are as follows:

1. Defective tax administration
2. Unwillingness of tax authority.
3. Lack of unconscious in tax authority.
4. Inefficient income tax policy.
5. Lack of political commitment.
6. Loopholes in income tax act.
7. Inappropriate income tax act.

Thus, it can be concluding that the main reasons for tax evasion are due to defective tax administration and other after that. The other factors started by respondents are wide spread practice of illegal business inadequate auditing and investigation and poor develop of cooperate system.

#### 4.2.6 Attitude toward provisions of fees, fines and penalties

Income tax system of Nepal has the provisions of fees, fines and penalties for the regulation of low to fig out the reasonability of these provisions, a question was asked, “ **Are penalties under income tax system is reasonable?**” the response are tabulated below.

**Table 4.14 (a)**

**Attitude towards Responsibility of exiting provisions of fees fines and penalties**

Respondents	Response				Total	
	Yes		No		No.	%
	No.	%	No.	%		
A	19	76	6	24	25	100
B	20	80	5	20	25	100
C	14	56	11	44	25	100
Total	53	70.67	22	29.33	75	100

*Source: Opium Survey, 2010*

Above table shows that 70.67% of respondents have expressed the provisions of fines and penalties are responsible and 29.33% respondents have not taken the provision of fees, fines and penalties as reasonable. The respondents who were against provision of fees, fines and penalties of question were asked

“How can it be made reasonable?” The responses of respondents are as follows.

**Table 4.14 (b)**

**Measures to make the provision of fees, fines and penalties responsible**

S.N.	Measures	Tax Administrators	Tax Expert	Tax payer businessmen	Total	Percent
1.	By increasing	5	10	2	17	36.17
2.	By decreasing	-	10	20	30	63.83
Total					47	100

*Source: Opinion Survey, 2010*

From above table it is clear that 36.17% of respondents who do not agree the provisions of fees, fines and penalties as reasonable felt that it should be increased and 63.83% have felt it should be decreased.

#### **4.2.7 Effectiveness of Income Tax Administration in Nepal**

In order to find out the effectiveness of income tax administration, a question was asked “**what do you feel about the current income tax administration of Nepal?**” The respondents who agree on the effectiveness, they have got alternative to choose about the position of income tax administration. The responses received from respondents are as follows:

**Table 4.15 (a)****Effectiveness of Income Tax Administration**

S.N.	Responses	Respondents			Total points	Percent
		A	B	C		
1.	Efficient	15	3	5	23	30.67
2.	Inefficient	1	15	16	32	42.67
3.	Satisfactory	9	7	4	20	26.66
Total		25	25	25	75	100

*Source: Opinion Survey, 2010*

From above table, it is clear that income tax administration is not efficient to collect tax and has got majority percentage. From the respondents i.e. 42.67% and they ranked some causes given in the questionnaire as tabulated below.

**Table 4.15(b)****Cause of Ineffectiveness of Nepalese income tax administration**

S.N.	Response	Group			Total points	Percent	Rank
		A	B	C			
1.	Lack of trained and competent tax personnel	7	76	86	169	21.26	1
2.	Complicated tax laws	8	77	76	161	20.25	2
3.	Lack of proper communication	10	42	63	115	14.47	5
4.	Lack of voluntary compliance by tax payer	9	67	55	131	16.48	4
5.	Unnecessary outside pressure	4	40	41	85	10.68	6
6.	Undue delay enmity assessment	6	63	64	134	16.86	3
	Total				795	100	

*Source: Opinion Survey, 2010*

The causes of ineffectiveness of Nepalese income tax administration ranked in order of responsible are as follows:

1. Lack of trained & competent tax personnel
2. Complicated tax laws
3. Undue delay in making assessments
4. Lack of voluntary compliance by tax payer
5. Lack of proper communication
6. Unnecessary outside pressure.

It can be conclude that the lack of trained and competent tax personnel, complicated tax laws, undue delay in making assessments are the most important causes of ineffectiveness of Nepalese tax administration.

#### 4.2.8 Essentiality to improve the current Income Tax Act, 2058

To know the view of respondents towards essentiality for the improvement of current Income Tax Act 2058, a question was “**Do you think that is it essential to improve the current Income Tax Act 2058?**” The responses received from the respondents have been tabulated as follows:

**Table 4.16**  
**Essentiality for improvement of the current income tax act 2058**

Group of respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A (Tax administrators)	15	60	10	40	25	100
B (Tax experts)	10	40	15	60	25	100
C (Tax payer Businessman)	20	80	5	20	25	100
Total	45	60	30	40	75	100

*Source: Opinion Survey, 2010*



The above table shows that out of 25 tax administrators 15 i.e. 60% said that there is essential for the improvement of current income tax act whereas 10 tax administrators i.e. 40% of them said that it is not essential to improve the current income tax act. Similarly out of 25 tax experts 10 experts i.e. 40% were said that it is essential to improve the current Income Tax Act 2058. On the other hand out of 25 tax payers businessman 20 or 80% businessman want to improve the tax act and 20% doesn't want to improve the tax act. Out of all 75, respondents 45 i.e. 60% were said that it is essential to improve the current income tax act whereas 30 of them i.e. 40% were said that it is not essential to improve the current income tax act. Hence it can be concluded from the above table is that the current income tax act is essential to improve.

### **Comments and suggestions for improvement of current income tax act**

In order to know the comments and suggestions for the improvement of the current Income Tax Act, 2058, the question asked to the respondents who voted for the essential of improvement of current Income Tax Act, 2058 was **“If yes specify your comments and suggestions”**. The comments and suggestions received from the respondents were as follows.

### **Comments**

1. ITA, 2058 has lack of clear definition and language accuracy
2. Procedure are difficult to understand
3. Administration is poor and practices of income tax are not effective
4. Tax evasion and deduction exists
5. Complicated language

6. Lack of effective training and motivation to tax officials, tax payers education and morality to both tax payers and tax personnel
7. Lack of required and punishment to both tax payers and tax personnel
8. proper implementation is affected by political instability
9. Existence of corruption and no effective enforcement of fine and penalty who is involved in corruption.

### **Suggestions:**

1. The act should be strict, clearly defined language.
2. Tax payer should educate about the provisions of tax act.
3. Sound tax policy and simplification of procedure is necessary
4. Revenue Administration should be flexible.
5. Proper monitoring by tax authorities is needed
6. There is an urgent need to provide training and motivation to tax personnel.
7. Tax policy must be consistent.
8. The tax act should be country specific not to be copied from neighboring countries.
9. TDS system should be effectively implemented in private and government sector both.

#### **4.2.9 Opinion towards Existence of corrupt practices Income tax administration**

Administration is the design of implementation of government policies. Tax administration is regarded as having the responsibility for determining the policies and programs of given government related to tax. Specially, it is the planning, organizing, directing, coordination and controlling of government

organizations related to taxation. Income tax act 2058 as made a provision regarding the design of tax administration also.

However, income tax administration of Nepal uses to blame as a corruption centre and administration as the member of the centre. In order to find out, whether the corruption is existed in Nepalese income tax administration or not, a question **“Do you think corrupt practice exist in income tax administration of Nepal?”** was asked. The responses receive from the respondents were tabulated as follows.

**Table 4.17**

**Opinion Towards corrupt practice exists in Income Tax Administration**

Group of respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A (Tax administrator)	15	60	10	40	25	100
B (Tax expert)	14	56	11	44	25	100
C (Tax payer Businessman)	22	88	3	12	25	100
Total	51	68	24	32	75	100

*Source: Opinion Survey, 2010*

From the above table, in the view of the tax administrators, out of 25, 60% of them voted for the corrupt practice existence in income tax administration of Nepal where 40% voted against the corrupt practice existence in the income tax administration of Nepal. On the other hand, in the view of tax expert out of 25, 56% said that there is corruption practice exists in income tax

administration whereas 44% viewed against the existence of corrupt practice out of 25 businessman 88% said that there is corrupt practice exists in income tax administration. Similarly out of 75, 68% agree about the existence of corrupt practice in Nepal whereas 32% against the existence of corrupt practice in income tax administration of Nepal.

### **Causes behind the existence of corrupt practice in income tax administration of Nepal**

In order to know, the causes of corrupt practice existence in income tax administration of Nepal, the question asked to the respondents who are agreed with existence of corrupt practice in income tax administration of Nepal, was “ **If yes, please rank the responsible persons for corruption.**” The respondents were requested to rank their answer from 1 to 4 scales. The first rank i.e. 1 is considered as most important cause of corruption existence in Nepalese tax administration. The major causes of the corrupt practice exists in income tax administration of Nepal were ranked according to their first priority is as follows.

- a) Lower remuneration to tax personnel
- b) Political interference
- c) Dishonest tax Officers
- d) Dishonest tax payers

#### **4.2.10 Major findings of Primary Sources of Data**

On the basis of empirical analysis some major finding can be drawn which summarized as given below:

1. Tax education is most necessary in Nepal to increase the tax consciousness of Tax payers.
2. The major objectives of the income tax in Nepal are to enhance the revenue of the government to achieve the goals of National development and equal economic distribution and narrow the gap between rich and poor. Income tax system of Nepal is not sound and efficient basically due to inefficient tax evasion and lack of awareness of tax payers.
3. Self assessment method is more appropriate for Nepal while assessing income tax.
4. Income tax evasion is the major problem o Nepal for income tax generation.
5. Main reason for tax evasion is due to defective tax administration, unwillingness of tax payers to pay tax and corruption in tax authority.
6. Income tax administration is not efficient to collect tax.
7. Out of the total respondent 68% of them are agreed with the existence of corrupt practice in income tax administration. According to their view major causes existence of corrupt practice are low

- remuneration to tax personnel, political interference, dishonest tax Officers and dishonest tax payers in order of preference.
8. Most of the respondents are disagree with the effectiveness of income tax system of Nepal. The major problem of existing tax system of Nepal are the act itself is not effective, inappropriate tax rate and exemption limit, lack of education and awareness to tax payers, practice of tax evasion, ineffective tax administration, illegal business practice, corruption etc.
  9. According to the view of respondents the most important factors for the effectiveness of tax system in order to preference are clear and strict rule and regulation, effective tax administration, political non interference conscious and honest tax payers, moral and honest tax official and adequate economic and other policies.
  10. In aggregate 60% of the respondents are agreed for the essentiality of improvement of income tax act and rest 40% of the respondents are disagreed for the improvement of income tax act.

## **CHAPTER: V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

Tax means compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred. A tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. The tax payer doesn't have any right to receive direct benefit from the tax paid. All the tax is divided into two groups i.e. direct tax and indirect tax. Income tax is payable from any income is example of direct tax.

A tax imposed on income base is called income tax. The basic objectives of income tax are two fold- revenue collection and redistribution. Income tax is divided into two parts individual income tax and corporate income tax. Income tax to be paid by individual or couple or sole proprietorship firm is individual income tax whereas income tax to be paid by entities is called corporate income tax.

This study focuses on contribution of income tax to Inland Revenue of Nepal. It also focuses the view of tax administrator, Tax expert and tax payer businessman about the collection of tax, effectiveness of tax system, contribution of income tax to Inland Revenue of Nepal. This study brings out the comments and suggestions of tax paying different mean. It also shows the revenue structure, income tax revenue structure, direct tax revenue structure,

and contribution of income tax to Inland Revenue. Total tax revenue, employment income, business income and investment income.

The share of tax revenue in the total revenue has been always greater than the share of non tax revenue. In Fiscal Year 2002/03 total revenue has dominated by tax revenue which is 78.2% and non tax revenue is only 21.9%. Similarly the tax revenue is increasing in recent days and non tax revenue is decreasing trend. This represents that tax revenue contributes about  $\frac{3}{4}$ <sup>th</sup> of total revenue.

Contribution of income tax from business is highest percentage which is 53.16% in fiscal year 2007/08 whereas contribution of investment and employment income are 30.59% and 16.25% respectively. There is overall improvement in tax collection is 37% than targeted revenue collection in fiscal year 2008/09 income tax is important source of IRD Its structure of Nepal is composition of income tax from public enterprise, from semi public enterprise, from private corporate bodies, from individual, from remuneration and tax on interest.

Income tax act is a great result of long time. The act has divided income under three heads, income from business, investment and employment. The Inland Revenue department has the overall responsibility for the implementation and administration of income tax.

However, the above primary data shows that there are so many problems in the implementation of tax administration 68% of the respondents are agreed with the existence of corrupt practice in the income tax administration of Nepal. Most of the respondents were agreed with the act itself is not effective among the various problems of current Income Tax Act, 2058. 60% of the respondents are agreed to improve the current Income Tax Act 2058. Most of



them said that lower remuneration to tax personnel is major causes of corruption. According to the view of respondent's in appropriate tax rate and exemptions, lack of awareness and education to tax payers, ineffective tax administration, practice of tax evasion, illegal business practice, corruptions inadequate economic and other policies and etc. are major problems of current tax system, clear and strict act, rule and regulation, effective tax administration, political non interference, conscious and honest taxpayers, moral and honest tax officials, adequate economic and other essential factors for the improvement of current income tax act.

## **5.2 Conclusion**

Nepal is least developed country in the world and its economic growth rate is very low. Its economy is suffering very heavily due to ongoing unrest and state uncertainty. Total expenditure is exceeded than total revenue collection in each fiscal year. The government expenditure is continuously rising due to weakness and large investment in selection development projects. There is growing difference between expenditure and resources. In other word financial resource gap is the major constraint of the Nepalese economy. The increase the government revenue it is necessary to raise the sources of revenue, which helps to relieve from resources gap in the proceeds of economic development Income tax, is a major instrument to fulfill the gap between total resources.

Collection of income tax has various problems like tax evasion, poor tax administration, unsound income tax policy lack of consciousness of people etc. First of all Income Tax Act should be good and it has to be included all the realities and possibilities in the field of taxation. The success and effectiveness of income tax system entirely depends upon provision of income tax system,

sound and effective tax administration, trained employees as well as positive responsive and willingness of tax payers to improve the provisions. Income tax collection is satisfactory in recent years. It is in increasing trend. In recent years, the government has taken several majors to reduce tax induce, distortion, strengthening tax administration simplifying tax laws and procedures to make them more transparent.

Inland Revenue Department collects income tax through three sectors, which is corporate income tax, individual income tax and tax on interest. Among them, share of individual income tax is highest. Exemption limit and tax rate of the income tax is determined according to the income level and sector wise. There is exemption limit for corporate bodies.

Tax education is most necessary to increase the contribution of income tax. Self assessment method is more appropriable while assessing the income tax. The main reason for tax evasion in Nepal is due to the defective tax administration, unwillingness of tax payers and corruption in tax administration are low remuneration to tax personal political interference, dishonest tax person and dishonest tax payers.

Nepalese tax system unsound and ineffective. The major problems of current tax act are the act itself is not effective, inefficient income tax administrator, practice of tax evasion, lack of awareness of tax payers, complicated income tax act, lack of expert in tax management, inappropriate rate and exemption. The important factors for the effectiveness of tax system are cleared and strict rules, act and regulations, effective tax administration, political non interference, conscious and honest, tax officials and adequate economic and other policies. So, it is better to improve the current Income Tax Act 2058 B.S.

to increase the contribution of income tax to Inland Revenue of Nepal by avoiding the various and weakness existing in the current act.

### **5.3 Recommendations**

On the basis of the study, it is necessary to give various recommendations to the concerned Inland Revenue Department. The following recommendation for income tax administration and its effectiveness in Nepal.

1. Nepalese tax revenue for IRD is dominated by indirect tax revenue. It is necessary to increase the share of direct tax revenue so as to direct the economy in the channel of development.
2. Income tax policy should be formulated according to the economic policy and condition of the country not copied from neighboring country. Tax act must be own country oriented and it should be revised according to the demand.
3. Income tax act should be made effective in the implementation aspect. Employees should be provided with taxation knowledge so that they will be aware of existing provisions in force of the income tax act of employment income.
4. Corruption is major problem of income tax system. The corruption can be reduced by remove the poverty, by increasing the pay scale of tax personnel, by punishing dishonest tax personnel and tax payers, by developing check and balance system in tax offices, by reducing political interference etc.
5. The numbers of tax payers are growing day by day, so it is not easy to check the return file for every assessment. The self assessment system should be promoted and random checking of assessment should be done. There should be described effective auditing and accounting system in the

- act to make the self assessment system effective in the act.
6. There should be provision of rewards, prize and incentives in the act to encourage tax payers.
  7. Tax administration should be free from political pressure. There should be strict fine, penalty and demurrage or them who are involved in unethical work.
  8. The member involved in formulating income tax act and policy must have deep knowledge about the economic condition of the country and income tax.
  9. Revenue administrative and revenue tribunal should be from practical effect and there must be appropriate working environment system.
  10. Training and career development should be provided to the tax personnel time to time. There should be effective performance evaluation system. The provision of prize, incentive and punishment should be maintained.
  11. There should be respected behavior for tax payer and quality service should be maintained to increase the contribution of income tax to Inland Revenue of Nepal.

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Appendix A

COVER LETTER

To,

Dear sir/Madam,

First of all, I would like to introduce myself as a student of Shankerdev Campus, MBS final year. In order to fulfill my practical requirement of master's degree in faculty of management. I am preparing a thesis entitled "**Contribution of Income Tax to Inland Revenue in Nepal**".

I would gladly appreciate if you could kindly spare a few minute of your valuable time infilling the questioner enclosing with your valuable suggestion.

I assure you that the information provided to me will be kept strictly confidential.

Looking forward to your co-operative and support with many thanks.

Your sincerely,

Ramesh Kumar Karki

Shankerdev Campus



# Contribution of Income Tax to Inland Revenue in Nepal

## QUESTIONNAIRE

A study of contribution of Income Tax to Inland Revenue of Nepal.

Name:

Designation:

Office:

Please put tick ( ) against the answer of your choice when ranking the alternative, please rank from 1 (most important alternatives to last number) in order of preferences.

(1) "Do you think that people are well informed about the Tax System in Nepal "?

Ans: - .....

(2) "What should be the specific objective of Income Tax in Nepal "?

Rank

- To enhance the revenue of government .....
  - To meet the government expenditure .....
  - To narrow the income gap between poor & rich .....
  - To achieve the goals of national development & equal economic distribution .....
  - To check inflation .....
  - Others .....
- (If any please specify)

(3) Do you think that there are major problems in the current Tax System of Nepal?

Yes ( )

No ( )

If yes, what are the major problem in the current Tax System of Nepal, please rank the problems.

Problems

Rank

- Inefficient Income Tax Administration
- Complicated Income Tax Act, Rules & Regulations

- Inappropriate Rates Exemption
  - Difficult in maintain account for tax purpose
  - Lack of education to Tax Payers
  - Lack of awareness to Tax Payers
  - Lack of training & sufficient incentives to employees
  - Lack of experts in Tax Management
  - Practice of Tax Evasion
  - Illegal Business Activities
  - Others .....
- (If any please specify)

(4) Which method is appropriate in Nepal while assessing the Income Tax?

Rank

- Assessment on the basis of account submitted
  - Self assessment
  - Assessment on the best judgment
  - Assessment by the committee
  - Others .....
- (If any please specify)

(5) In your opinion, is there major problem of tax evasion in Nepal?

Yes { }

No { }

If yes, please rank the possible causes of tax erosion

Causes

Defective tax administration

- | Inefficient Income Tax Policy
  - | Inappropriate income Tax Rate
  - | Loopholes in income Tax Act
  - | Unwillingness of tax payers to pay Tax
  - | Lack of unconscious in Tax Authority
  - | Lack of political commitment
  - | Others .....
- (If any please specify)

(6) Are penalties under income Tax System are reasonable?

Yes { }

No { }

If no, please rank the possible advice behind it.

Advice

- I. By Increasing
  - II. By Decreasing
  - III. By other method .....
- (If any, please specify

(7) What do you think about the current income Tax Administration of Nepal?

Efficient { }

Inefficient { }

If any inefficient please rank the possible causes

Causes

Rank

- ) Lack of trained and competent tax personnel
  - ) Complicated tax laws
  - ) Lack of proper communication
  - ) Lack of voluntary compliance by Tax Payers
  - ) Unnecessary outside pressure
  - ) Undue delay in Tax Assessment
  - ) Others .....
- (If any, please specify)

(8) Do you think that is it essential to improve the current Income Tax Act 2058?

Yes { }

No { }

Comments

- a) .....
- b) .....
- c) .....
- d) .....

Suggestions

- a. ....
- b. ....
- c. ....
- d. ....
- e. ....

(9) Do you think corrupt practice exist in income Tax Administration of Nepal?

Yes { ]

No { }

If yes, please rank the responsible persons for corruption.

Rank

- Dishonest Tax Payers
  - Dishonest Tax Officers
  - Political interference
  - Lower remuneration of Tax Personnel
  - Other .....
- (If any, please specify)

**Thank You**