

Contribution of Income Tax to Inland Revenue in Nepal

By :

RAMESH KUMAR KARKI

Shanker Dev Campus

Campus Roll No. 88/2061

TU Regd. No. 37762-95

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

In Partial Fulfillment of the Requirements for the degree of
Master of Business Studies (M.B.S.)

Kathmandu, Nepal

June, 2010

DECLARATION

I here, declare that this thesis entitled "Contribution of Income Tax to Inland Revenue In Nepal" have submitted to the office of the Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirements for the Degree of Master Business Studies (MBS) under supervision and guidance of Prof. Dr. Kamal Deep Dhakal and Ramakanta Bhattarai of Shanker Dev Campus.

June, 2010.

.....
Ramesh Kumar Karki

(Researcher)

Shanker Dev Campus

T.U. Regd. No.: 37762-95

Exam Symbol No.:3698/065

Campus Roll No. 88/2061

ACKNOWLEDGEMENTS

This thesis is conducted for MBS programme under taken by Tribhuvan University. This study is an attempt to analysis the contribution of income tax to Inland Revenue of Nepal. This thesis has come in this shape not by the sole effort of me but the contribution of many individuals and institution. I like this opportunity to acknowledge those contribution hands.

I am very much grateful to Prof. Dr. Kamal Deep Dhakal for his encouragement, patience and expert advice. I am extremely indebted to my supervision Ramakanta Bhattraï of Shanker Dev Campus for his generous encouragement and undertaking the supervision of my entire research work.

I would like to express my special thanks to joint secretary Shishir Kumar Dhungana, for providing thesis, books and valuable information and suggestions to complete this thesis. I am very thankful to Dinesh Neupane for helping in thesis preparation in language and suitable correction. In the same way, I would like to express deep appreciation to my friends Krishna Prasad Pathak, Lata Katuwal and Sita Khanal who always inspired and help me, preparing this thesis. I would like to acknowledge to Suraj Gyawali for Computer typing. Finally, I am grateful to all the persons who provide valuable responses directly and indirectly.

Ramesh Kumar Karki

M.B.S. final year

TABLE OF CONTENTS

Page No.

RECOMMENDATION

VIVA-VOCE SHEET

DECLARATION

ACKNOWLEDGEMENTS

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

CHAPTER: I

INTRODUCTION

1.1	Background of the Study	1
1.2	Statement of the Problem	6
1.3	Objectives of the Study	8
1.4	Significance of the Study	9
1.5	Limitation of the Study	9
1.6	Organization of the Study	10

CHAPTER: II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1	Theoretical Review	12
2.1.1	Meaning of tax	13
2.1.2	Classification of tax	14
2.1.3	Canons of Taxation	18
2.1.4	Historical Background of Evolution of Income Tax in Nepal	19

2.1.5 Heads of Incomes	21
2.1.6 Final Withholdings Payments	22
2.1.7 Tax exempted organization	22
2.2 Review of Related Studies	23
2.2.1 Review of books	23
2.2.2 Review of Thesis	26
2.2.3 Review of Articles	30
2.2.4 Research Gap	32

CHAPTER: III

RESEARCH METHODOLOGY

3.1 Research Design	33
3.2 Population and Sample	34
3.3 Nature and Sources of Data	34
3.4 Selection of the Respondents	35
3.5 Data Collection Procedure	35
3.6 Data Analysis Tools	35
3.7 Profile of Respondents	36

CHAPTER: IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Analysis of secondary data	37
4.1.1 Revenue Collection of IRD	41
4.1.2 Comparative Study of Income Tax	46
4.1.3 Collection of Income Tax from Difference Sources	49

4.1.4 Major Findings of Secondary Sources of Data	50
4.2 Analysis of Primary Data	52
4.2.1 Attitude towards tax education	53
4.2.2 Specific Objective of income tax in Nepal	54
4.2.3 Problems of income tax system in Nepal	55
4.2.4 Appropriate method while assessing the income tax in Nepal	57
4.2.5 Income tax evasion in Nepal	58
4.2.6 Attitude toward provisions of fees, fines and penalties	61
4.2.7 Effectiveness of Income Tax Administration in Nepal	62
4.2.8 Essentiality to improve the current Income Tax Act 2058	64
4.2.9 Opinion towards Existence of corrupt practices Income tax administration	66
4.2.10 Major findings of primary sources of data	68

CHAPTER: V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary	71
5.2 Conclusion	73
5.3 Recommendations	75

BIBLIOGRAPHY

APPENDICES

LIST OF TABLES

Table No.	Statement	Page No
3.1	Group of Respondents and sample Size.	34
3.2	Group of Respondents and sample Size.	36
4.1	Inland Revenue collection and Gross Domestic Product	37
4.2	Condition of Aggregate Revenue Collection In Fiscal Year 2007/08	38
4.3	Revenue collection of Inland Revenue Department In fiscal year	39
4.4	Revenue Collection of Inland Revenue Department	41
4.5	Comparative study of structural condition of income tax	46
4.6	Comparative collection of Revenue in Fiscal year 2008/09	48
4.7	Collection of Income Tax from Different Sources	49
4.8	Group of respondent and code used	53
4.9	People's knowledge towards tax system	53
4.10	Opinion towards objective of Income Tax	54
4.11 (a)	Satisfaction towards Income Tax System	55
4.11 (b)	Major problem of Income Tax System	56

4.12	Appropriate method while assessing the income tax in Nepal	58
4.13 (a)	Income Tax Evasion in Nepal	59
4.13 (b)	Factors responsible for tax evasion	60
4.14 (a)	Attitude towards Responsibility of exiting provisions of fees, fines and Penalties	61

4.14 (b) Measures to make the provision of fees, fines and penalties responsible	62
4.15 (a) Effectiveness of Income Tax Administration	63
4.15 (b) Cause of Ineffectiveness of Nepalese Income Tax Administration	63
4.16 Essentiality for improvement of the current Income Tax Act 2058	64
4.17 Opinions Towards corrupt practice exists in Income Tax Administration	67

LIST OF FIGURES

Figure No.	Statement	Page No.
4.1	Structural condition of Inland Revenue Department	40
4.2	Tax Revenue Collection	42
4.3	VAT Collection	43
4.4	Income Tax Collection	44
4.5	Excise Duty	45
4.6	Structural Condition of Income Tax	47

ABBREVIATIONS

A.D.	Anno Domini
BBS	Bachelor of Business Studies
BS	Bikram Sambat
BPRTA	Business Profit and Regeneration Tax Act.
Co.	Company
e.g.	For Example
etc.	Etcetera
FY	Fiscal Year
GoN	Government of Nepal
GDP	Gross Domestic Product
i.e.	That is
IRD	Inland Revenue Department
IRO	Internal Revenue Office
ITA	Income Tax Act
ITR	Income Tax Rules
IY	Income Year
MBS	Master of Business Studies
MOF	Ministry of Finance
NRB	Nepal Rastra Bank
PAN	Permanent Account Number
Rs.	Rupees
SAARC	South Asia Association for Regional Co-operation
S.N.	Serial Number
TDS	Tax Deduction at Source
TU	Tribhuvan University
VAT	Value Added Tax
VDIS	Voluntary Discussion Disclosure of Income WWW
	World Wide Web