CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Nepal is an agriculture based under developed country. The economic status of Nepalese people is very poor. The per capita income is near about $470, which is lowest in the SAARC country and almost lowest per capita income of the world. One of the main objectives of each and every country is to raise the living standard of the people through economic development activities. To lunch these activities government needs various resources like money, man, machine, and materials. To obtain these resources a state receives income through external and internal resources. External resources can obtain as a loan and grants bilaterally or through international institutions. Internal resources include public borrowing, government bonds, surplus on public under taking and taxation. The dependency on external resources at higher extent might not be fruitful for long run, though the external resources have dominated the internal resources in most of the developing countries. To depend upon the external resources heavily is not so good. Hence, the mobilization of internal resources becomes comparatively for better than external resources.

Among internal resources taxation is a prime factor. It is the pillar of the fiscal policy. It is the backbone of the welfare state and government most impose taxation to finance various welfare and social services like education, health, electricity, transportation and communication etc.

Among various taxes, income tax plays an important role in tax revenue. Income tax is an imposed on those activities contributing towards the creation of wealth is created with the help of labour, capital and capital-labour activities that generate income from employment, Investment and business, being a developing nation. Nepal still has been

unable to maximize the collection of income tax. The importance of income tax has been increasing day by day and it has not only remained a source of revenue for emergency but has became regular source of income for government.

Income tax is collected from various sources of profit and incomes. It is collected from public enterprise, semi-public enterprise, private corporate bodies individual etc. In other words, income tax is collected either by individual or by entity; income tax has given a common name "person" to both parties. So far as the topic is concerned with the "special provision to individual." It is necessary to define the "individual. Income tax act 2058 define individual as follows. "individual means a natural person and proprietorship firm whether registered or unregistered owned by the person if any, and a couple making an election as single natural person" (section 50.)

The term "individual" is defined by sec 2 (act)as follows:

(a) A natural person

(b) A proprietorship from 100% owned by a single natural person and

(c) A couple elected as a single natural person under section 50.

1.1.1 Conditions to Be Treated as "Individual"

The act has no provision for an undivided family to be regards as a single tax payer. Each of the spouses is treated as a separate natural person for tax assessment. But section 50 of the act has the provision that a couple can choose to be treated as single individual for a particular income year. In case the couple elects to be a single individual the incomes of both the spouse shall be taxed in a single hands as that of one individual.

⟩ The option is applicable even if either of the spouses is an non earning resident.

⟩ The couple is permitted to be treated as a single individual tax payer irrespective of whether such an option was taken in any previous year.

) In case the couple has chosen to be treated as a single individual for tax purpose, either of the spouses will be either jointly or separately responsible for the payment of tax.

) The option is allowed only to a married couple, if each of the spouses is alive on the date of signing the tax return for the income year. Because the next couple has to sign on the tax return as a token of the acceptance of the election.

) Either of the spouses can be assesses and the next spouse may give the consent.

1.1.2 Related Person

The act has also defined the related person under section 2 (BD). The related person means a person or a group of person who may reasonable be expected to act in accordance with the intention of the other. The related person of an individual includes.

) Relatives of an individual the relations included in the list of relatives of an individual are wife, husband, son, daughter, adopted son, adopted daughter, father, mother, grand-father, grand-mother, brother ,sister-in-law, sister, father-in-law, mother-in-law, brother-in-law, uncle, aunt, niece, nephew, grandson, and granddaughter.

) Partner of an individual
but those person are not treated as related persons.

) Employees of the person.

) Person not prescribed by the department as related ones.

1.1.3 Residential Status For a Natural Person (Individual)

An income accrued to a person during an income year outside Nepal, whether it is taxable or not, depends upon the residential status of the person during the year. The residential status is determined each income year on the basis of given condition. A person may be a resident in one income year but may not be a resident in one income year the residential status is not determined by the citizenship of Nepal. A Nepali citizen may be a non

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resident in an income year and an American citizen may be a resident of Nepal for a year (Agrawal.j.2004)

A Natural Person (individual) is a Resident in Nepal for an Income Year if he Satisfies any of the Following Three Conditions.

a. Whose normal abode is in Nepal?

"Normal place of abode" is not defined anywhere in this act. An individual may have a normal place of abode in Nepal. If he owns a house property in Nepal irrespective of whether he is residing in the house property or not. IRD should clarify the phrase in order to avoid any complexity for an individual having a house property in Nepal but physically residing in USA for his earning for some years. It is not proper to state his status as a resident of Nepal.

An appropriate meaning may be given to the phrase if an individual is generally residing in Nepal for his earning but going aboard occasionally for his treatment or other reasons but never for earning (Agrawal.J.2004)

b. An individual who is present in Nepal for 183 days or more during a period of 365 consecutive days. In case an individual is present physically in Nepal for 183 days or more during a period of consecutive 365 days his status shall be of a resident during an income year in which the 183rd days of his physically presence during a period of consecutive 365 days falls. The consecutive 365 days may fall into two income years also. The presence in Nepal means being within the political boundry of Nepal but not necessarily at a single place in Nepal. He may be present in Kathmandu at one time and Dharan at another but for the purpose of residential status all the presences in Nepal shall be counted.

c. An employee of Government

In case an individual is an employee of government during the year his presence in Nepal or outside Nepal shall not be counted for determining his residential status. Even his

posting is outside Nepal during the whole year, he will be treated as resident of Nepal for tax purpose.

An individual may be engaged in different sources of income some may be engaged in business and other may be engaged in employment and some may be engaged in investment in some cases an individual may be engaged in whole sources of income there is the universal norm on income taxation that" income of an individual must be taxed ." but the important point to be noted is that all income of an individual must not be taxed. A minimum standard of living should be free of taxation for human reason and enhance people's capacity to work. The people with below a certain level do not possess the tax paying ability.

As ITA 2058 has provided many incentives and facilities to industries similarly it has also provided some special provisions to individuals; which has encouraged the individuals to promote self business employment and profession. Beside these the resent study has declared that the share of individuals is half of the total income tax revenue. Hence it is necessary to study about the special provision to individual provided by the act. It helps them to be conducting their own business, profession or to be employees. It helps them to certain about the liability of tax. No any researches have studied appropriateness of special provision to individuals. This study might be fruitful for both taxpayers and tax experts.

1.2 Statement of the Problem

Economic development is the prime factor of every nation of the world. To fulfill this objective, every nation is accomplishing various activities. Nevertheless, underdeveloped countries are facing serious problems in the process of economic development. Nepal is not an exception to his condition. The poverty line of the people (about 38%of the total population) and the per capita income $470 shows the poor economic condition. Despite various measures adopted by the government of Nepal to boost up the self-employment the growth rate of sole trading concerns and investment is still very poor.

Some special provisions that are granted to individuals to achieve certain objectives are

not effective. ITA 2058 and its related laws have mentioned various special provisions to individuals. A self employer can avail these provisions to save his tax liability. They are as follows:

- Exemption limit
- Progressive tax rate
- Medical tax credit
- Foreign tax credit
- Retirement contribution from approved retirement fund
- Additional exemption in remote area
- Life insurance premium
- Presumptive taxation
- Capital gain tax on non- business chargeable assets

There are other provisions which do not save the tax liability such as individual running special industry does not get 1/3 additional depreciation. Hence it need to review the special provisions to individuals provided by the income tax from time to time and should adjust as per the requirement so, this research has tried to study the following problems:

- Do special provisions to individuals play vital role in widening income tax coverage and increasing income tax revenue?
- Are the special provisions by ITA Sufficient?
- What kind of special provisions are necessary to Individuals?
- Are special provisions effective?
- What may be the major problems of special provisions to individuals by ITA to Individuals?

- What may be the prospective special provisions to individuals in ITA?

1.3 Focus of the Study

This research study makes focus on the followings:-

⟩ Special provisions to individuals and its role in income tax assessment in Nepalese income tax system.

⟩ Special provision made under income tax act, 2058 in relation of individuals.

⟩ Appropriateness of special provisions to individuals made under income tax act 2058

⟩ Implementation of these provisions in practice while assess income tax

⟩ Necessity of special provision to individuals.

1.4 Objective of the Study

This research study has the following objectives:

⟩ To examine and analyze the effectiveness of special provisions provided by ITA 2058 to individuals.

⟩ To identify the other provisions to be included in the special category.

⟩ To make aware about special provisions to individuals (tax payers and tax experts).

⟩ To recommend the possible measures regarding special provisions to individuals.

⟩ To provide necessary suggestions and recommendations.

1.5 Scope of the Study

This research study covers the special provisions to individuals provided by the income Tax Act, 2058. Basically it covers the following aspects:

⟩ Role of special provisions to individuals

⟩ Guide to tax exports about special provisions to individuals.

⟩ Guide to existing and perspective individuals about special provisions.

1.6 Plan of the Study

This study has been organized with seven chapters. They 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 Recommendations

Chapter I: Provides orientation, statement of the problem, objectives of the study, plan of the study and limitation of the study.

Chapter II: Is related to conceptual framework. It has dealt with the meaning of tax, classification of tax, merits and demerits of direct and indirect tax, objectives of taxation, special provisions for individuals and the review of the various available literatures like books, dissertations, reports and articles etc.

Chapter III: Is related to the research methodology used in this study. It includes research design, weight to choice, respondents profile etc.

Chapter IV: Is related to presentation and analysis of primary data with table chart. It also includes the presentation and analysis of empirical investigation.

Chapter V: Is concerned with the summary, conclusion, and recommendations.

1.7 Limitations of the Study

⟩ Limitation of the study has based on the availability of reliable data and sufficient literature.

⟩ Due to the lack of time and other difficulties, the field study has been limited to Kathmandu valley.

⟩ Primary data have been collected from the tax experts and tax payers

only.

) Few samples have been selected for opinion survey due to time constraint.

) The study is confined to Nepalese laws, acts, rules, ordinance, regulations and circular to income tax.

CHAPTER-II

CONCEPTUAL FRAME WORK AND
REVIEW OF LITERATURE

2.1 Conceptual Frame Work:

Introduction to sources of Revenue:

Each and every country wants to raise the living standard of the people through economic development activities. To lunch these activities, government needs various resources. To obtain these resources, a state receives income through external and internal sources. The incomes Collected by the government through various sources are termed as public revenue national revenue, public receipt. The major sources public revenue are as follows.

Tax: It is a compulsory contribution from people to government without getting corresponding benefit of services or goods from the government.

Revenue from Public Enterprises:-

The government owned public enterprises pay amount to the government for the monopoly right given to them.

Special Assessment:-

It is the amount collected form special sector for specific purpose.

Fees:-

It is the amount paid to government for the services rendered by government offices.

Grants and Assistances: - It is the amount received by the government from foreign countries, international organization etc. Among, various of government revenue. Tax contributes a significant portion of national revenue of every country. And it has become a

regular source on income for government.

2.2 Tax

Meaning of Tax: Tax is a compulsory contribution from people to government to undertake work of public good. Many tax experts have given the definition of tax in their own words. They have focused the different aspect of tax according to their own view.

According to Prof. Seligman: - "Tax is compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special conferred."(Dhakal, 2058)

According to Plehn "Taxes are general contribution of wealth to live upon persons. Natural or corporate to defray expenses incurred in cantering in common benefits upon the resident of the state." (Dhakal, 2058)

According to Tailor "A tax is a compulsory payment to the government without expectation of direct benefit in return to the payer."(Amatya, 2060)

From the above definition. It is clear that tax is imposed on the person by the government according to the law of the country .The person on whom tax is imposed must pay taxes. Otherwise, the laws punish him .The government doesn't provide any corresponding benefit to the tax payer for the amount of tax he pays, It is used for the common good for the country .This means the government for the amount of tax paid by tax payer provides no special benefits.

2.2.1 Classification of Taxes

Economics have classified taxes into several categories.

The major categories of may be:-

  〕 Direct taxes and indirect taxes
  〕 Progressive taxes and proportionate taxes

) Regressive taxes and Digressive taxes

) Single taxes and multiple taxes

However, taxes are broadly classified into direct taxes and indirect taxes.

2.2.2 Direct Taxes:

The direct taxes on whom it is legally imposed cannot be transferred to others i.e. indirect 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 ".

Some of example of direct taxes is as follows.

) Income tax
) Property tax
) Gift tax
) Interest tax
) Vehicle tax
) Death tax etc

Advantages of Direct Tax

The advantages of direct tax are as follows:-

) In the direct tax, contribution of both the rich and poor people will be in the proportionate basis of their earnings, so direct tax is equitable.
) A person can easily find his contribution in tax on the basis of his earnings .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 elastic and can be adjusted as per the fiscal requirement of

the country .When there is need of more revenue .Government can be imposed high tax rate and when one need in low, the tax rate can be minimized.

Disadvantages of Direct Tax

The Disadvantages of Direct tax are as follows:

-) Mental pinch to the taxpayers due to curtail down of their incomes and properties.
-) Taxes should be paid in advance on the estimation of the future income. Tax rate is also higher in direct tax, so taxpayers feel inconvenient.
-) The tendency of the tax evasion increase. In the direct tax system because no one wants to cut down his or her income without the corresponding benefit.
-) The taxpayers are limited in the direct tax, so the direct tax lacks mass participation.
-) Most of the earning has to pay to the government in the firm of the direct tax. So, it discourages saving and investment.

2.2.3 Indirect Tax

Indirect tax on which it is legally imposed can be transferred to others. Which mean in indirect 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".

Some of the examples of indirect tax 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 on the basis of goods and services consumed by the consumer's 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 Indirect tax the change of the tax evasion 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. It is an important tool of the government to apply its fiscal policy.

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 levy taxes on basic goods because the "haves-not" 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

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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 pay all the collected taxes to the government. Thus, there may be the chance of consumer exploitation.

2.3 Objective of Taxation:

Same major objectives of taxation are explained below:

⟩ **To Raise More Revenue:-** The government needs revenues to person development and welfare programs of the ration. Hence, the main objectives of taxation are to raise more revenue.

⟩ **To Reduce Economic Inequalities:** The government must perform different welfare programs such as education, health, etc and should maintain economic stability in the country. The government imposes tax to conduct such programs properly.

⟩ **To Encourage Production of Essential Goods:-** Tax policy provides different special provisions and incentives and facilities to the entity and the natural person producing the essential goods so as to encourage their production.

⟩ **To Reduce The Consumption of Harmful Goods:-** Higher tax rate will be levied to the industries producing luxuries and harmful goods which increase the price of the product and consumption will be reduced. As a result saving and investment increase.

⟩ **To Remove Regional Economic Groupings:-** The government provides tax exemptions, rebates and concessions to those industries which are operated in the backward and remote areas. As a result, the person (Entity and Individual) attracts to perform economic activities in these areas. The infrastructures which are needed

to perform business activities, gradually arises. Regional residences become employment. Thus, regional imbalance will be removed.

2.4 Right of Assesses / Tax Payer

A taxpayer means a personal (an individual or an entity) whom the tax is imposed on and realized from as per income tax act, 2008. As per section 74 of the act, the tax payer with respect of paying tax is entitled to enjoy the following rights.

- 〕 Right to get respectful behaviors.
- 〕 Right to receive tax related information as per prevailing laws.
- 〕 Right to get the opportunity of submitting proof in own favors in respect of tax matters.
- 〕 Right to appoint lawyers or auditors for defense.
- 〕 Right to secrecy in respect of tax matters and keep it inviolable. Besides these, the taxpayer can enjoy the following rights.
- 〕 Right to obtain clarification on personal (advance) ruling.
- 〕 Right to get refund of excess tax paid.
- 〕 Right to appeal to review the decision.
- 〕 Right to receive public circulars
- 〕 Right to extend time to file return.

2.5 Duties of Assesses/ Tax Payer

The act has not categorically specified the duties of taxpayer, however, to enjoy the right as per the act; the tax payer is required to fulfill the following duties in accordance with the act.

- 〕 To register and get permanent account number (PAN)
- 〕 To follow / adopt accounting method prescribed by the government.
- 〕 To maintain books of account and other documents properly.
- 〕 To pray tax within stipulated time and place.

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-) To pay tax in installments or deduct tax at source.
-) To file returns within stimulated time.
-) To provide information to tax office.
-) To accept evidence used by tax office as notification of tax payable.
-) Not to oppose tax officials in performing their duties.
-) To attend tax office if he is ordered to do so.

As far as the topic is concerned with the individual, the above mentioned right and duties are for the individuals. Special provisions to individual's in different sources of income.

Sources of income:-

Income tax act 2058 has classified income into three heads. The heads are:-

1. Income from business (sec. 7).
2. Income from employment(sec. 8).
3. Income from investment (sec. 9).

Income from Business (Sec.7)

Business includes a trade, an industry, a profession, a vocation and other business transaction. A trading, A production, a commission agency, an audit firm, a legal advisory work and a repair shop etc.

Income from Employment (sec. 8)

Any income derived from an employer in return for some service is called an income from employment. Such income may be received in the form of salary, wages, allowance, commission, reimbursement of personal expenses, awards, perquisites retirement benefits, leave encashment, etc. The fundamental feature of an income from employment is that there is a relation of employer and employee between the payer and payee. Income received in connection with a service though the service has been terminated is also classified as income from employment.

Income from Investment (sec. 9)

If a person hands over its property to another person for the latter's use and in return, receives a certain consideration, Is said to be an income from investment rent for a house property, rent for a vehicles, lease rental for a land and building, interest for loans and advances, Interest for debentures or bonds, dividing for equality investment, net gain from the disposal of non-business chargeable assets etc. are some examples of income from investment.

2.6 Exemption Limit for a Natural Person

Tax exemption limit means a taxable income of natural person up to a certain limit as prescribed in the act which the tax is charged at Zero percent.

The limits are as follows:-

For an Individual:-

For a resident natural person the limit is Rs 100,000 for the income year 2063/64 and Rs 125,000 for the income year 2064/65.

For a Couple:

In case a natural person is married and selects the income of the couple to be clubbed for the purpose of tax, the limit prescribed is Rs 125,000 and Rs 140,000 for the income year 2063/064 and 2064/065 respectively.

For a natural person whose sources of income is situated in a remote areas:

Rules have classified the remote areas of Nepal into five parts and prescribed the additional exemption limit as follows:-

Table No: 2.1

Classification	Limit in Rs
A	30,000
B	24,000
C	18,000
D	12,000
E	6,000

But it is not clear that an individual has an employment or other source of income in the remote area for a period less than one income year will get the additional exemption in full or in proportionate.

For Pension Holders:-

∫ Any natural person who has also an income from pension, the tax exempted limit increases by 25% of the basic limit. If he is a single individual or selects to be assessed as a single individual the tax exempted limit is Rs 125.000 and Rs 156,250 for the income year 2063/064 and 2064/065 respectively. For a couple the limit is Rs 156,250 and Rs 175,000 for the income year 2063/ 064 and 2064/065 respectively.

For Life Insurance Premium

∫ In case a resident natural person has taken life insurance on his/her life or on the life of his related person, Rs 10,000 or the actual premium paid during the year or 7% of the sum insured, whichever is lower, is available for deduction from the taxable income of the individual.

For Contribution to an Approved Retirement Fund:-

⟩ An individual who has made a contribution to an approved retirement fund during an income year. S/ he is entitled to get an exemption of the amount deposited to the fund subject to a maximum limit of 1\3rd of assessable income of her/ him during the year or Rs 300.000 whichever is lower. This exemption limit is available to each individual either S/ he is an employed individual or a self employed one.

⟩ **Exemption To a Diplomat of Government Posted in a foreign country:-** An individual who is working as a diplomat is in a foreign country appointed by government, seventy five percent of his foreign allowance has exempted from tax and the rest of the allowance is included in the taxable salary of the diplomat (Agrawal. J: 2004 p -155-157).

2.7 Progressive Tax Rate

⟩ **Under General Conditions:-** The Rate of tax applicable on the first 75.000 is 15% and on the remaining amount 25% for the income years from 2057/58 to 2063/64.

⟩ **For an individual having a gain from a discount of Non-Business chargeable Assets:-**

⟩ Gain from non-business chargeable an asset is taxed at the rate of 10% in the case of an individual. If an individual has also other taxable income, the exemption limit or other taxable income whichever is higher is taxed at the rates applicable to an individual and the balance is taxed at the rate of 10%.

⟩ **Tax at Fixed amount of Retailers:-**

A resident individual has to pay income tax at a fixed amount for an income year under these circumstances.

      a. S/he has only income for a business in Nepal during the year.

b. S/he is not claiming the deduction form medical tax credit under section 51 and adjustment of advance tax paid as per section 93:

c. His/her total turnover and the net income, during the year, does not exceed Rs Twelve lakhs, Rs one lakh Twenty thousand, respectively.

d. S/he selects this provision to be applied on him/her for the tax purpose for the year.

The Amount of Tax Payable is as Follows:-

⌡ In case the business is being conducted at metropolitan or sub-metropolitan cities Rs 2000.

⌡ In case the business is being conducted at municipality area Rs 1500.

⌡ In case the business is being conducted at any other area Rs 1000.

Tax on the Income of a Non-Resident Natural Person:-

In case the person is a non resident natural person. She/he is a charged with a flat rate of tax at 25% on his/her taxable income. The tax exemption limit is not available to him/ her.

Tax on Resident Natural having Income from Hiring of Vehicle:

⌡ In case a resident Natural person is engaged in hiring vehicles, he has to pay a fixed amount of tax per tear according to per number of different vehicle. The amount of taxes for different vehicles are as follows:-

Per minibus, mini-truck, truck and bus	Rs 1500
Per car, jeep, van, and microbus	Rs 1200
Per three wheelers, auto rickshaw and tempo	Rs 850
Per tractor and power, tiller	Rs 750

⌡ **Tax Concession on Certain Incomes of a Natural Person:-**

In case a Natural person is engaged throughout the year in conducting a special industry, the 25% of the tax chargeable income is given a concession by charging only 20% of tax.

) **Tax on the Estate of Deceased Natural Person:-**

In case a trust receives an estate of a deceased resident natural person or receives the property of an incapacitated resident natural person, the income from the estate to the trust has charged treating the trust as a single individual and the income as a gain from the disposal of non-business chargeable assets (Agrawal, J: 2004 p-150-163).

) **Tax Credits for Medical Expenses:-**

A resident natural person can claim a tax credit for approved medical expenses incurred for his/her treatment. The expenses may be paid by the individual himself or by any other person. (sec. 51).

) **The Following Medical Expenses are Treated as Approved:-**

a. Insurance premium paid for medical insurance taken and
b. Medical expenses incurred for the treatment of an individual in an approved hospital, nursing home, health center, by a doctor on the basis of the bill produced (rule 17).
c. But the expenses incurred on cosmetic surgery are not treated as approved expenses. In case an insurance company in lieu of an insurance policy reimburses medical expenses, such expenses are not allowed for such a tax credit.

Tax Credit will be Available at 15% of The Total Approved

Medical expenses incurred during the year plus any unabsorbed tax credit carried over from previous year. The maximum limit available for tax credit during a year is Rs 750 only. The balance of tax credit, if any can be carried forward for subsequent years.(Agrawal, J: 2004. p. 164).

」 Tax Credit for Income Tax Paid in a Foreign Country

A tax credit may be available to a resident person whose income that has a source in a foreign country is included in taxable income of the person in Nepal to the extent of the amount of income tax paid in that country on that income (Sec.71)

Though the act and the rules do not require a person to produce a proof of tax paid in a foreign country, practically a tax credit is not allowed without the proof of tax paid being produced. In case a person has a source of income in more than one foreign country; the amount of assessable foreign income situated in each country should be calculated separately.

The maximum amount of tax credit allowed for the year shall not exceed the average rate of Nepal income tax for the person for the year applied to the person's assessable income from each foreign country.

The average rate of tax applicable in Nepal for the person during the year is calculated on the basis of the following formula.

Total tax calculated before tax credit for foreign income tax paid/ taxable income of the person including assessable foreign income *100.

The remaining amount of tax credit not absorbed during the year can be carried forward for set off from the income during subsequent years from the same country (Agrawal.J.p-165, 2004).

2.8 Review of Articles

Dr. Agrawal (1980), has presented another research report concerning about the income tax administration. He states, tax administration is an important sub-system in the total system that can either carefully trend or mercilessly kill the goose that lays golden eggs. It is the essence of implementing tax policy and tax laws. Too much preoccupation with to do in terms of tax policy and tax alone is not good unless attention is given to how to do it

in terms of tax administration. He has found that, there are no integrated programs for taxpayers' education, assistance, guidance and counseling. About the major problems of tax administration he found are corruption, unfair dealings, harassment and incompetent personal etc.(Agrawal, 1980).

Poudel and **Timilsina**(1990) had described the provision and laws related to income taxation of Nepal in a book named "Income Tax in Nepal" this book is extremely based on the syllabus of B.Com. They were described the theoretical as well as practical aspects of income tax. He has not analyzed the role of income tax, income tax structure and defects of income tax in Nepal. The book was descriptive rather than analytical,(Poudel, Timilsina,1990).

Dr. Khadka(1994) Published a book "Nepalese Taxation: Ad path for Reform". The book is divided into seven chapters. The general economic conation of Nepal, commodity taxes, income taxes, property taxes, local taxation, tax administration and the strategy for tax reform respectively. He had analytically described about development, existing structure, main problem and possible direction of reform of income tax. He had identified the major problems of income tax as narrow coverage, unscientific tax assessment and collection, defective system from the prospective of international taxation. He has also pointed out weak tax administration, imbalance and inadequate organizational pattern, inadequate physical and other facilities, inadequate tax training, predominance of 190w level non technical posts, debatable scope of revenue investigation department, lack of information system. He has suggested for extension of tax coverage, scientific method of tax assessment, extension of withholding tax, inflation adjustment etc. He has also suggested to administration for recognize and expansion, integrated information system research unit, strengthening the revenue service etc. this book was analytical and useful to know different aspects of income tax. (Khadka, 1994).

Dhakal(1998) Published a modified edition of book named "Income Tax and house and compound Tax law and practice with VAT". He has described historical aspects and legel provisions related to income tax and presented methods of income tax assessment with

numerical examples. This book was fully based on the syllabus of BBS third year and MBS second year and was published before coming new Income Tax Act 2002. This book is very useful to know the general information and legal provision of Income Tax Act 1974. His book is informative rather than analytical. (Dhakal,1998).

Tiwari (1999) conducted a study through book named "Income Tax system in Nepal." The book is also knowledgeable for theoretical as well as practical knowledge about income Tax act 1974.(Tiwari,1999).

Dr. Khadka, Rup (2001), has published a book named "Income Taxation in Nepal. Retrospect and prospect". This book has complete information of Nepalese income taxation. From the income tax around world to the draft Income Tax Act 2001(Later it became Income Tax Act 2002), all the information and major provisions regarding the matter are mentioned in the book. Besides these, Income Tax Act 1960, 1962 and 1974 in detail are also presented in the book. He has described what is the practice in the world, what was the practice in Nepal and at present, the all terms relating to the tax. The book is a knowledgeable for all of them those who are concerned about income tax such as CA, Auditor, Administrator, Policy-Maker, Teachers, Students etc.(Khadka,2001).

Dr. Adhikari (2001) has published an article from Rajaswa vol.2. In his article he has explained the need of tax policy that can play significant role in the Nepalese economy. According to him, a little attention on tax administration can minimize the role of tax policy. Nepalese income tax is waiting for comprehensive and integrated taxation plan and scientific implementation of the same by the way of reform. Further he has stated Nepalese tax system has three types of gaps. They are investigation and identification gap, return filling gap, assessment and collection gap. He has suggested that the tax administration should consider as an important component of tax policy to achieve the goal of revenue maximization through taxation (Adhikari, 2001).

Dr. Thapa (2002) had described the tax system, features of tax, and causes of reform the tax. He had characterized the tax system as too many and too high rates, multiple objectives of taxes scheduler rather global approach to income taxation, too many income brackets and high progressively, complicated and ambiguous tax law. He had identified the areas for reform the tax system in Nepal. They were, low rates on broad base, simplicity and neutrality, gradual abolition of exemptions, deduction and tax holidays to broad tax base, few rates or single rate, few taxes with high revenue productivity, emphasis on tax compliance rather than coercive enforcement, incentives to sewing and investment, conversion of sales and service taxes into VAT, excise duty only on cigarettes, tobacco, alcohol, automobiles, petroleum and automobile spare parts, abolition of surcharge and additional duty system to make the tax system simple, making the tax system internationally compatible to attract foreign investment.(Thapa,2002).

Adhikari (2003) has discussed the legal provision of new Income Tax Act, 2002. His book is analytical rather than informative writer has not included administrative aspect, role and structure of income tax in his book. The book has only focused on the legal aspect of income tax. Agreement and protocol relating to avoidance of double taxation and the prevention of fiscal evasions with respect to taxes on income between different countries has also incused in his book. (Adhikari,2003).

Lamsal, R.K. (2003) has published a technical not as per requirement of course of BBS and MBS giving the name "Tax Law and Tax Planning". The book is consulted within seven chapters. Each chapter of this book contains practical problems and solution regarding the provisions of Act 2002. (Lamsal, 2003).

Kandel, P. R. (2003) has published a book named "Tax Laws and Tax Planning in Nepal". The book is about Income Tax Act 2002 and Value Added Tax. This book is also prepared as per syllables of MBS, T.U. for the practical problems and provisions relating to the act, this book could be a useful source. And, the practical problems and provision relating to VAT is also given equally important in the book. (Kandel,2003).

Mallik(2003) has published book name "Nepalese Modern income Tax system". He had described historical aspects of income tax and legal provisions relating to income tax with numerical examples. This book is very useful to know the general information and legal provision of Income Tax Act 2002. His book was informative rather than analytical. He had not analyzed the role of income tax, structure of income tax in Nepal.(Mallik,2003).

Sherchan, (2003) has studied about fines and penalties under income tax act, 2058. In his thesis entitled, an analysis of fines and penalties regarding to income tax system of Nepal. In which he has analysis the provisions of fine and penalties under income tax law found out the tax payers and tax officers' knowledge about fines and penalties, shown the role of fines and penalties to increase the tax paying habit. He also suggested that making provision of fines and penalties effective. He has found that fines and penalties are not only effective methods of reducing tax evasion. (Serchan,2003).

Dhungel, (2006) has studied about provision to individual under income tax act 2058. In this thesis, she had shown special provision to individual play vital role in widening income tax coverage and raising tax revenue and these special provision have encouraged the individual to promote their self- business, employment and profession. The share of individual is half of the total income tax revenue. It is appropriate in the present context but it should be revised from time to time. (Dhungel,2006)

Bhattariai and **Koirala,**(2007) published a book named Tax laws and tax planning." This book is for the MBS 2nd year the book has shown how taxable incomes have computed under employment, business and investments sources. (Bhattrai, Koirala,2007).

Kandel, (2007) published a book named "Tax laws and Tax Planning" which book is based on Government regulation and therefore. It is very timely work extremely helpful for the students of master degree. (Kandel, 2007).

IMF Working Paper Fiscal Affairs Department Published an Article Tax Policy Percent Trends and Coming Challenges in 2007. This paper provides an overview of the key

economic factors that shape tax policy reform in many high-income countries, developing countries and/or transition economies. The paper describes and evaluates global and regional development with respect to tax rates and revenue ratios over the last 20 years and discusses selected structural reform initiatives that have been high on the policy agenda over this period. In particular, it focuses on developments relating to experiments with the restructuring of corporate tax, the impact of corporate taxes on FDI, key return initiatives including dual income taxes and flat taxes as well as the world wide spread of the VAT and policy developments associated with climate change and natural resource taxation. (IMF Working Paper Fiscal Affairs Department, 2007).

Dr. Dhakal,(2008) has written an article entitled "Historical perspective on income tax in Nepal" This article has described previous income tax act and shown main features of income tax act 2008. Some main features of income tax act 2058 are as follows:-

-Provision of set and carry forward of loses.

-Classification and pooling of depreciable assets.

-Tax on capital gain

-International taxation

-Medical tax credit.

-With holding payments and quantification.

-Allocation and characterization of the amounts.(Dhakal,2008)

2.9 Research Gap

There is a gap between this research and previous research. Most of the previous researchers have focused the contribution of various incomes in the government revenue, structure of the government revenue and the income from various sources tax structure. Almost all of them have indicated that the tax administration is inefficient and there is high level of tax evasion. Most of the researchers have suggested improving the tax administration, increasing the contribution of income tax in resource mobilization and widening the tax coverage. But the study about individual provision is rare.

CHAPTER- III

RESEARCH METHODOLOGY

Types of Research

This study includes three types of Research as descriptive, analysis and empirical.

3.1 Research Design

The research study is focused on role of special provisions to individual, appropriateness and effectiveness of special provisions to individuals. To identity, examine and analyze the stated objective of the study, the opinion of the various 80 respondents associated with district denomination. I.e. tax experts and taxpayers were collected through structured questionnaire. The questionnaire included the role of special provisions to individual in widening income tax coverage and income tax revenue. Sufficiency, appropriateness, necessity and effectiveness of special provisions have provided" by the act. In this way, the research design is descriptive, analytical and empirical.

3.2 Population and Sample

In order to fulfill the objectives of the study, 80 sample size from Kathmandu valley. Persons included in the samples are carefully selected by consultation with lectures and best judgment of the researcher. The respondents have divided into two groups. The following table shows the groups of respondent and the size of sample.

Table No: 3.1

Group of Respondents and size of Sample

S. No	Group of Respondents	Sample size
1.	Income tax experts	40
2.	Income tax payers	40
Total		**80**

3.3 Nature and Sources of Data

Necessary data and information to describe this study has been collected from primary as well as secondary sources the major sources of data are as follows:-

A. Primary Data:-

Primary data and information have been collected through administrating structured questionnaire from sample of population. The same questionnaire was distributed to all respondents. Tax administrators are selected from tax department and various sectors of tax offices. Tax experts are the lectures, auditors, chartered accountants. Etc. Tax payers are selected representing various sectors i.e sole traders, proprietor of manufacturing firm, government employees and individuals engaged in profession and investors etc.

B. Secondary Data:-

Primary data and information have been obtained from various sources specified as below:-

- Budget speech and economic survey of various years, ministry of finance, Gov/ Nepal.
- Reports and records of department of taxation ministry of finance, Gov/ Nepal.
- Dissertation related to income tax.
- Books related to income tax and public finance.
- National and international newspaper, journals, souvenir and news magazines.
- Other relevant records and data.

3.4 Data collection Procedure

Data and information used in this study is collected from primary and secondary sources to get accurate and actual information in time, all questionnaires were distributed and collected personally through field visits.

3.5 Data Processing and Analysis Procedure

For the analysis all collected data and information of various aspects of income tax was arranged in order and processed. Then, the descriptive tools and statistical tools such as simple average, Correlation, testing of hypothesis, etc have been applied in the way of analysis so that, the findings could be presented and interpreted properly in order and clear.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Exemption Limit under Income Tax System of Nepal

There is a universal Norm on income taxation that "all income of an individual must not be taxed." A minimum standard of living should be free of taxation for human reason and to enhance people's capacity to work. The people with income below certain do not possess the tax paying ability. Thus, the slice of income generally required for the minimum subsistence has always been exempt from income tax. As pitchman states. "The personal exemption also serves as an administrative device to remove from the tax rolls people with very low incomes." The exemption limit serves the purpose of keeping the task of administration within a manageable proportion. Exemption is granted to the taxpayers on the basis of the taxpaying unit as specified in the tax laws. In Nepal, the family is taxpaying unit and so the exemption is being provided on the basis of the marital status of the taxpayers except for salary income. For salary income, in some cases the individual has specified as a taxpaying unit.

Thus, exemption limit is an important variable while managing the income tax. The purpose of keeping exemption limit is to exclude the poor from income taxation, to reduce administrative problem etc. For every year, finance act prescribes the exemption limit for individual family, couples and corporations. The exemption limits in different years are shown in the table.

Table No:4.1

Exemption limit in Nepal from 1959/60 to 2007/08

Fiscal Years	Individual	Couple	Family	All Tax payers
1959/60 to 1962/63	-	-	-	7000
63/64 to 64/65	-	-	-	6000
65/66 to 66/67	-	-	-	5000
67/68 to 73/74	3000	4500	6000	-
1974/75	4500	6000	6000	-
1975/76	5500	6500	7500	-
1976/77 to 78/79	6500	7500	8500	-
79/80 to 80/81	7500	10,000	10,000	-
81/82 to 82/83	10,000	15000	15,000	-
83/84 to 90/91	15,000	20,000	20,000	-
1991/92	20,000	30,000	30,000	-
92/93 to 96/97	25,000	35,000	35,000	-
1997/98	30,000	40,000	40,000	-
98/99	40,000	50,000	50,000	-
99/00	50,000	60,000	60,000	-
2000/01	55,000	75,000	75,000	-
2001/02	55,000	75,000	75,000	-
2002/03	65,000	85,000	85,000	-
2003/04	80,000	100,000	100,000	-
2004/05	80,000	100,000	100,000	-
2005/2006	80,000	100,000	100,000	-
2006/2007	100,000	125,000	125,000	-
2007/2008	125,000	140,000	140,000	-

Source- Finance Acts of Various Fiscal Years.

From the above table, it clearly shows that Nepal has been providing exemption limit for taxpayers since the inception of income tax in 1959/60. The exempting limit is available to all kinds of taxpayers including temporary residents from 1959/60 to 1964/65. It has not been granted to temporary resident taxpayers since 1968/69. Exemption limit was not allowed to corporate tax payers from 1965/66 non-resident taxpayers from 1974/75 and partnership from 1975/76. For the purpose of exemption limit, business firms were treated as individual from 1967/68 to 1974/75 but since 1975/76 the basic allowance to business firm has been provided according to the marital status of the owners of such firms. Thus the exemption limit has been changing on the basis of time and income condition of the Nepalese people. The same level of exemption limit was fixed for all types of taxpayers between 1959/60 and 1966/67. This system however was changed in 1967/68, when separate levels of exemption were fixed for individual, married couples and families. The same level of exemption limit was fixed for both married couples and families in 1974/75. Again 1978/79, the same level of exemption limit was fixed for married couples and families and this practice continues to date. The starting level o exemption limit was Rs 7000 from the year 1959/60 to 1962/63. In the eight of rising prices, upward revisions were made from time to time in the level of the exemption and the current level i.e. of the fiscal year 2007/08 is Rs 125000 for individual and 140,000 for married couples and families.

4.2 Income Tax Rate in Nepal:

The collection of income tax is influenced by the income tax rate. The rate is responsible for the suitable of wealth in the society. The social justice can be achieved through progressive income tax rate. The tax payers can't bear the burden of higher tax rate and the lower rate cannot fulfill the objective of the income taxation. So, there is frequent change in income tax on the basis of time and economic condition of the people. Nepal has adopted the progressive tax rate varies from to eight slabs from the year 1984/85 to 2007/08.

Rates of Personal Income Tax in Nepal

(Slabs over Exemption Limit)

Table No: 4.2

From the Fiscal Year 1984/85 to 2007/08

Slabs / Fiscal Year	1	2	3	4	5	6	7	8
1984/85	5000@5%	5000@10%	10,000@15%	20,000@20%	20,000@30%	30,000@40%	Balance@50%	-
1985/86	5000@10%	5000@15%	10,000@20%	15000@25%	15,000@30%	30,000@40%	20,000@50%	Balance@55%
1990/91	10,000@15%	15,000@20%	20,000@35%	25000@40%	30,000@15%	Balance@50%	-	-
1995/96	40,000@15%	25,000@20%	Balance@25%(i) 33%(ii)	-	-	-	-	-
2000/01	75,000@15%	Bal@25%	-	-	-	-	-	-
2001/02	75,000@15%	Bal@25%	-	-	-	-	-	-
2002/03	75,000@15%	Bal@25%	-	-	-	-	-	-
2003/04	75,000@15%	Bal@25%	-	-	-	-	-	-
2004/05	75,000@15%	Bal@25%	-	-	-	-	-	-
2005/06	75,000@15%	Bal@25%	-	-	-	-	-	-
2006/07	75,000@15%	Bal@25%	-	-	-	-	-	-
2007/08	75,000@15%	Bal@25%	-	-	-	-		

Source: Finance Acts of Various Fiscal Years.

Nepal has adopted the progressive tax rate in personal income tax. The personal income tax rates various from two to eight slabs from the year 1984/85 to 2007/08 currently the income tax has divided into two slabs. The current rate on personal taxable income is 15% on income up to 75000 beyond the exemption amount and 25% on all further incomes beyond tax payable income of Rs 75000.

4.3 Empirical Investigation

Introduction:

An empirical investigation has conducted in order to find out various aspects of special provisions to individuals for which questionnaire has been developed and responds collected from the respondents. A set of 80 questionnaires has received from one respondent out of the 100 questionnaires distributed to various respondents. Respondents have classified into two groups. Tax experts and tax payers. The responses tabulated and analyzed in order to facilitate the descriptive analysis of this study. (See the format of questionnaire and the list of respondents in appendix A and B respectively.)

The questionnaire has been asked for a Yes/ No response or choice alternative or ranking of the alternatives. In the alternatives the first choice has the most important and the last choice has the last important the choices among the ranking alternatives have assigned weights according to the number of alternatives. If the number of alternatives has five the first choice has one point. Any alternatives, which has no ranked go no points. The total points available to each choice have converted into percentages with reference to the total points available for all choices. The choice with the highest percentage source has ranked as the most important choice and the one with the lowest percentage score has ranked as the last choice.

The following tables shows the group of respondents.

Table: 4.3

S. No	Group of Respondents	Sample Size
1	Tax Experts	40
2.	Tax Payers	40
Total		**80**

Q. No.1. Is the Special Provision to Individual in the ITA 2058 Play Vital Role in widening Income Tax Coverage and increasing income Tax Revenue?

-To know the respondents opinion about the role of special provision on raising income tax revenue, the first question "is the special provisions to individual in the ITA 2058 play vital role in widening income tax coverage and income tax revenue ? Was asked. The responses received from the respondents has tabulated as follows.

Table No: 4.4

Special Provisions to Individual Play Vital Role in Raising Income Tax Revenue

Respondents	Yes		No		Total	
	No	%	No	%	No	%
Tax experts	34	85%	6	15%	40	100%
Tax payers	36	90%	4	10%	40	100%
Total	**70**	**87.5%**	**10**	**12.5**	**80**	**100%**

Source: Opinion Survey

From the above table, it is clear that in total 87.5 percentage of the respondents agreed that special provisions to individuals play vital role in widening income tax coverage and raising tax revenue and only 12.5 percentage of the respondents doesn't agree special provisions to individual play vital role in widening income tax coverage and raising income tax revenue.

Thus, the conclusion can draw out that special provision to individual play vital role in widening income tax coverage and raising tax revenue.

Q. No.2. Are the Special Provisions to Individuals Provided by ITA Sufficient?

-To know the opinion towards the sufficiency of special provisions to individuals under ITA 2058, the second question "Are the special provision to individual provided by ITA sufficient? Was asked, the responses received from the respondents have tabulated as follows.

Table No: 4.5

Sufficiency of Special Provisions to Individual under ITA 2058

Respondents	Yes		No		Total	
	NO	%	No	%	No	%
Tax experts	20	50%	20	50%	40	100%
Tax payers	17	42.5%	23	57.5%	40	100%
Total	**37**	**46.25%**	**43**	**53.75%**	**80**	**100%**

Source: Opinion Survey

From the above table, it is show that about 46.25% of the respondents in total have accepted that the special provisions given by ITA 2058 are sufficient. It means that special provisions provided by ITA 2058 are not sufficient. 53.75 percentage of respondent does not agree that the special provisions are sufficient to individuals.

Table No: 4.6

Testing of hypothesis Chi- Square test.(t^2)

Respondents	Yes	No	Total row
Tax experts	20	20	40
Tax payers	17	23	40
Total column	**37**	**43**	**80**

Null hypothesis (H0):- There is no significant different of the view between tax experts and tax payers regarding the sufficiency of special provisions to individual under ITA 2058

Alternative hypothesis (H1):- There is significance difference of the view between tax experts and tax payers regarding the sufficiency of special provisions to individual under ITA2058.

Test Statistic:- Under H0 The test statistic is

$$tC \ X \quad \frac{(fo \ Z \ fe)^2}{fe}$$

Where: fo = Observe Frequency

fe= expected frequency = $\dfrac{Rowtotal \mid columtotal}{Grandtotal}$

Row/ Column	fo	fe	$ffo \ Z \ feA$	$ffo \ Z \ feÅ$	$\dfrac{(fo \ Z \ fe)^2}{fe}$
(I, 1)	20	$\frac{40 \mid 37}{80}$ =18.5	(20-18.5)=1.5	2.25	0.121622
(I,2)	20	$\frac{40 \mid 43}{80}$ =21.5	(20-21.5)=1.5	2.25	0. 104651
(2, I)	17	$\frac{40 \mid 37}{80}$ =18.5	=1.5	2.25	0.121622
(2,2)	23	$\frac{40 \mid 43}{80}$ =21.5	1.5	2.25	0. 104651
				$\dfrac{(fo \ Z \ fe)^2}{fe}$ =00.452446	

= Calculated $\quad t^2 = \quad \dfrac{(fo \ Z \ fe)^2}{fe} = 0.453$

Degree of Freedom = (r-1)(c-1)=(2-1)(2-1)=1

Level of Significance ( ) =5%=0.05

Tabulated value of t^2 at 5% d .f. 1 is =3.841

Hence:- Calculated value is < then tabulated value so Null hypothesis is accepted. It means special provisions provided by new ITA 2058 are sufficient to the individuals.

Thus, it can conclude that the special provisions to individual provided by the ITA 2058, Is sufficient.

Q. No.3: Is the remote area allowance as an additional exemption limit of Rs 30,000, Rs 24,000 Rs 18,000, Rs 12,000 and Rs 6000 given to individual in area A,B,C,D and E are appropriate?

-To know the opinion from the respondents about the remote area allowance provided by ITA 2058 to individuals the third question "Is the remote area allowance as an additional exemption limit of Rs 30,000 Rs 24,000 Rs 18000 Rs 12000 and Rs 6000 given to individual in area A, B, C,D and E are appropriate? Was asked "The responses received from the respondents has tabulated as follows.

Table No: 4.7

Appropriateness of remote area allowance to Individual

Respondents	Yes		No		Total	
	N0	%	No	%	No	%
Tax experts	23	57.5%	17	42.5%	40	100%
Tax payers	21	52.5%	19	47.5%	40	100%
Total	**44**	**55%**	**36**	**45**	**80**	**100%**

Source: Opinion Survey

From the above table, it shows that in total 55% percentage of the respondents agreed that remote area allowance to individual provided by ITA 2058 is appropriate but 45% of the respondents did not agree that remote area allowance to individual provided by ITA 2058 is appropriate.

Table No:4.8

Text of hypothesis- chi-square (t^2) test.

Respondents	Yes	No	Row Total
Tax experts	23	17	40
Tax payers	21	19	40
Total column	**44**	**36**	**80**

Null hypothesis (H_0):- there is no significance difference of the view between tax experts and tax payers; regarding remote area allowance to individual provided by ITA 2058 is appropriate.

Alternative hypothesis (H_1): There is significance difference of the view between tax exports and taxpayers, regarding remote are allowance to individual provided by ITA 2058 is not appropriate.

Text Statistic: UnderH_0: The test statistic is:-

$$t^2 = \frac{(fo \, Z \, fe)^2}{fe}$$

Where:- fo= Observe Frequency

fe = Expected frequency= $\dfrac{Rowtable \mid Columntotal}{GrandTotal}$

Row/Column	fo	fe	(fo-fe)	$f_{fo} - f_e$	$\dfrac{(fo - fe)^2}{fe}$
(I, 1)	23	$\dfrac{40 \times 44}{80} = 22$	23-22=1	1	0.045455
(I,2)	17	$\dfrac{36 \times 40}{80} = 18$	17-18=-1	1	0.05556
(2, I)	21	$\dfrac{40 \times 44}{80} = 22$	-1	1	0.045455
(2,2)	19	$\dfrac{40 \times 36}{80} = 18$	1	1	0.055556
				$\dfrac{(fo - fe)^2}{fe} = 0.2020$	

Calculated (t^2) = $\dfrac{(fo - fe)^2}{fe}$ = 0.2020

Degree of Freedom =(r-1) (c-1)=(2-1)(2-1)=1

Level of significance ( ) = 5% = 0.05

Tabulated value of t^2 at 5% d.f.1is = 3.841

Since, calculated value of t^2 < tabulated value, therefore null hypothesis is accepted. It means there is no significant difference between opinions of taxpayers and tax experts about the appropriateness of remote area allowance to individual provided by ITA 2058 is appropriate.

 Q. No.4 is the Current Exemption Limit provided to Individual Satisfactory?

To know the respondent opinion about current exemption limit, the fourth question "As the current exemption limit provided to individual satisfactory? was asked. The responses received from the respondents has tabulated as follows:

Table No: 4.9

Satisfaction towards current exemption limit

Respondents	Yes		No		Total	
	N0	%	No	%	No	%
Tax experts	7	17.5%	33	82.5%	40	100%
Tax payers	8	20%	32	80%	40	100%
Total	**15**	**18.75%**	**65**	**81.25%**	**80**	**100%**

Source: Opinion Survey

From the above table it shows that only 17.5 percentage of tax experts are favors of this provision but 82.5 percentages of tax experts denied it similarly almost 20 percentages of tax payers are thought that current exemption limit is not satisfactory most of the respondents did not agree with this question. It means current exemptions provided to individuals are not satisfactory, some more exemption limit should be provided to individual.

Hence, it concludes that individual wants to exercise extra more exemption limits.

Q. No.5: Do You Think That an Individual Running Special Industry should get to charge additional 1/3 depreciation?

To know the respondent's opinion about the additional depreciation for special industry run by individual, the fifth question "Do you think that an individual running special industry should get to charge additional 1/3 deprecation? Was asked. The contradictory responds have been received which are tabulated as follows:

Table No: 4.10

Need of additional depreciation

	Yes		No		Total	
	N0	%	No	%	No	%
Tax experts	24	60%	16	40%	40	100%
Tax payers	28	70%	12	30%	40	100%
Total	**52**	**65%**	**28**	**35%**	**80**	**100%**

Source: Opinion Survey

From the above table it clearly shows that in total 65 percentages of respondents agreed that if an individual run a special industry should get additional depreciation but 35percentage of respondents denied it.

Table No:4.11

Text of hypothesis- chi-Square (t^2) test.

Respondents	**Yes**	**No**	**Row Total**
Tax experts	24	16	40
Tax payers	28	12	40
Total column	**52**	**28**	**80**

Null hypothesis (H_0):- There is no significance difference of the view between tax experts and tax payers, regarding special industry run by and individual should get additional deprecation.

Alternative hypothesis (H_1):- there is significance difference of the view between tax experts and tax payers, regarding special industry run by and individual should not get additional depreciation.

Text statistic- Under H0, test statistic is:-

$$t^2 = \frac{(fo \, Z \, fe)^2}{fe}$$

Where, fo= Observe Frequency

        fe= expected Frequency=$\frac{\text{Row total} \times \text{column total}}{\text{Grand total}}$

Row/ Column	fo	fe	(fo-fe)	(fo-fe)^2	$\frac{(fo \, Z \, fe)^2}{fe}$
(I, 1)	24	$\frac{40 \mid 52}{80}$ =26	-2	4	0.153846
(I,2)	16	$\frac{40 \mid 28}{80}$ =14	2	4	0.285714
(2, I)	28	$\frac{40 \mid 52}{80}$ =26	2	4	0.153846
(2,2)	12	$\frac{40 \mid 28}{80}$ =14	-2	4	0.285714
				$\frac{(fo \, Z \, fe)^2}{fe}$ =0.87912	

$\because$ Calculated $t^2 = \frac{(fo \, Z \, fe)^2}{fe}$ =0.879

$\because$ Degree of freedom (d.f.)=(r-1) (c-1)=(2-1)(2-1)=1

Level of significance (Γ) = 5% = 0.05

Tabulated value at I d-f for 0.05 = 3.84

Since, calculated value t^2 < than tabulated value so, null hypothesis is accepted. It means that there is no significance difference of the view regarding special industry run by an individual should get additional depreciation.

Hence, it concludes that if any special industry run by an individual should get additional depreciation.

Q.No.6 Should there be any Exemption Limit to Non-Resident Individual?

To know the respondents opinion about exemption limit to the non-resident individual, the sixth question "should there be any exemption limit to non-resident individual"? Was asked the responses received from respondents has tabulated as follows.

Table No: 4.12

Need of exemption limit to non-resident individual

Respondents	Yes		No		Total	
	N0	%	No	%	No	%
Tax experts	18	45%	22	55%	40	100%
Tax payers	21	52.5%	19	47.5%	40	100%
Total	**39**	**48.75**	**41**	**51.25**	**80**	**100%**

Source: Opinion Survey

From the above table. It is clear that 45% tax experts and 52.5% of the tax payers said "Yes" where as 55% of the tax experts and 47.5% of the tax payers said "No" so mixed responses is obtained.

Table No:4.13

Text of hypothesis- chi-Square (t^2) test.

Respondents	Yes	No	Row Total
Tax experts	18	22	40
Tax payers	21	19	40
Total Column	**39**	**41**	**80**

Null hypothesis (H_0):- There is no significance difference of the view between tax experts and tax payers, regarding exemption limit to the non-resident individual.

Alternative hypothesis (H_1):- There is significance difference of the view between tax experts and tax payers, regarding exemption limit to the non-resident individual.

Test statistic under H0, test statistic is :-

$$t^2 = \frac{(fo\ Z\ fe)^2}{fe}$$

Where fo = Observe Frequency

fe= expected Frequency=Row total × column total

Grand total

Row/ Column	fo	fe	(fo-fe)	(fo-fe)^2	$\frac{(fo\ Z\ fe)^2}{fe}$
(I, 1)	18	$\frac{40 \mid 39}{80}$ =19.5	-1.5	2.25	0.115385
(I,2)	22	$\frac{40 \mid 41}{80}$ =20.5	1.5	2.25	0.109756
(2, I)	21	$\frac{40 \mid 39}{80}$ =19.5	1.5	2.25	0.115385
(2,2)	19	$\frac{40 \mid 41}{80}$ =20.5	-1.5	2.25	0.109756
				$\frac{(fo\ Z\ fe)^2}{fe}$ =0.450282	

Calculated R^2 = 0.450282

Degree of freedom (d.f.) = (c-1) (r-1) = (2-1)(2-1) =1

Level of significance ( ) = 5% =0.05

Tabulated value at 1.d.f. for 0.05=3.841

Since, calculated value $\Re^2$ (0.450282) < than tabulated value (3.841), so Null hypothesis is accepted. It means there is no difference of the view regarding exemption limit to the non-resident individual between tax experts and taxpayers.

Hence, it concludes that there should be exemption limit to the non-resident individual.

Q. No.7. Is 25% Flat Tax Rate to non-Resident Individual Appropriate?

To know the respondents opinion about appropriateness of flat tax rate, the seventh question "Is 25% flat tax rate to non-resident individuals appropriate? Was asked. The responses received from respondents has tabulated as follows.

Table No: 4.14

Appropriateness flat tax rate to non-resident individual

Respondents	Yes		No		Total	
	N0	%	No	%	No	%
Tax experts	28	70%	12	30%	40	100%
Tax payers	27	65.5%	13	34.5%	40	100%
Total	**55**	**68.75%**	**25**	**31.25%**	**80**	**100%**

Source: Opinion Survey

From the above table. It shows that in total 68.75% of the respondents think that flat tax rate is appropriate but on the other hand 31.25 percentages of the respondents thinks that flat tax rate is not appropriate, contradictory result is obtained.

Table No:4.15

Test statistic:-Chi- square t^2 test

Respondent	Yes	No	Row Total
Tax expert	28	12	40
Tax payer	27	13	40
Column Total	**55**	**25**	**80**

Null hypothesis (H_o): There is no significant different of the view between tax experts and tax payers, regarding appropriateness of flat tax rate to nonresident individuals.

Alternative hypothesis (H_1): There is significant different of the view between

Tax experts and tax payers regarding appropriateness of flat tax rate to nonresident individuals.

Test statistics: under Ho, test statistics is,

$$\Re^2 = \frac{(fo \ Z \ fe)^2}{fe}$$

Where, fo = Observe Frequency

fe= expected Frequency=$\frac{\text{Row total} \times \text{column total}}{\text{Grand total}}$

Row, Column	fo	fe	fo-fe	$(fo\text{-}fe)^2$	$\frac{(fo \ Z \ fe)^2}{fe}$
(1,1)	28	40x55/80=27.5	0.5	0.25	0.00909
(1.2)	12	40x25/80=12.5	-0.5	0.25	0.02
(2.2)	27	40x55/80=27.5	-.0.5	0.25	0.00909
(2.2)	13	40x25/80=12.5	0.5	0.25	0.02
					$\frac{(fo \ Z \ fe)^2}{fe}$ =0.05818

Calculated $\Re^2 = 0.05818$

Degree of freedom (d.f.) = (c-1)(r-1) = (2-1)(2-1) =1

Level of significance ( ) = 5% =0.05

Tabulated value at 1.d.f. for 0.05=3.841

Since calculated value 0.05818 Φ than tabulated value 3.841, so Null hypotheses is

accepted. It means there is no significance difference of the view, regarding appropriateness of flat or tax rate to non - resident individuals.

Since it concludes that flat tax rate to non- resident individual is appropriate.

Q.No.8) Do you agree with the Provision of Foreign Tax Credit?

To know the respondents opinion, about provision of foreign tax credit, the eighth question "Do you agree with the provision of foreign tax credit? was asked .the responses obtained from respondents has tabulated as follows:

Table No:4.16

Satisfaction about the provision of foreign tax credit

Respondents	Yes		No		Total	
	NO	%	NO	%	NO	%
Tax Experts	32	80%	8	20%	40	100%
Tax Payers	29	72.5%	11	27.5%	40	100%
Total	**61**	**76.25%**	**19**	**23.75%**	**80**	**100%**

Source: Opinion Survey

From the above table, it clearly shows that 80% of the tax experts and 72.5% of the tax payers agreed with the provision of foreign tax credit but 20% of the tax experts and 27.5% of the tax payers did not agree with the provision of foreign tax credit, mixed opinion is obtained.

Table No:4.17

Test of hypothesis:- Chi - Square (t^2) test.

Respondents	YES	NO	Row Total
Tax Experts	32	8	40
Tax Payers	29	11	40
Column Total	**61**	**19**	**80**

Null hypothesis (HO):- There is no significance difference of the view between tax experts and tax payers, regarding provision of foreign tax credit

Alternative hypothesis (H1):- There is significance difference of the view between tax experts and tax payers, regarding provision of foreign tax credit.

Test statistic under HO, test statistics is :-

$$\aleph^2 = \frac{(fo \, Z \, fe)^2}{fe}$$

Where, fo = Observe Frequency

fe= expected Frequency= Row total × column total

Grand total

Row, Column	fo	fe	fo-fe	(fo-fe)2	$\frac{(fo \, Z \, fe)^2}{fe}$
(1,1)	32	40x61/80=30.5	1.5	2.25	0.0738
(1.2)	8	40x19/80=09.5	- 1.5	2.25	0.2368
(2.2)	29	40x61/80=30.5	- 1.5	2.25	0.0738
(2.2)	11	40x19/80=09.5	1.5	2.25	0.2368
				$\phi \, \frac{(fo \, Z \, fe)^2}{fe} = 0.6212$	

Calculated $\Re^2 = 0.6212$

Degree of freedom (d.f.) = (c-1)(r-1) = (2-1)(2-1) =1

Level of significance ( ) = 5% =0.05

Tabulated value at 1.d.f. for 0.05=3.841

Since, calculate value $\Re^2 \Phi$ than tabulated value, so Null hypothesis is accepted. It means there is no significance difference of the view, regarding provision of foreign tax credit.

Hence, it concludes that foreign tax credit is the one of the important provision to the nonresident individuals.

Q.No.9) Do you Think Presumptive Tax Rates for Individual Conducting Business in Different Areas as Sufficient (i.e. metropolis Rs 2000, sub metropolitan Rs 2500, municipality Rs 1,000)

To know the respondents opinion about sufficiency of presumptive tax rates, the ninth question " Do you think presumptive tax rates for individual conducting business in different areas as sufficient (i.e. metropolis Rs 2000, sub metropolitan Rs 1500, municipality Rs 1,000) was asked. The responses received from respondents has tabulated as follows:-

Table No: 4.18

Sufficiency of Presumptive Tax Rates

Respondents	Yes		No		Total	
	No	%	No	%	No	%
Tax Experts	14	35%	26	65%	40	100%
Tax Payers	15	37.5%	25	62.5%	40	100%
Total	**29**	**36.25%**	**51**	**63.75%**	**80**	**100%**

Source: Opinion Survey

From the above table, it is clear that in total only 36.25 percentages of respondents agreed that presumptive tax rate is sufficient but 63.75 percentages of respondents did not agree

that presumptive tax rate is sufficient.

Table No:4.19

Test of hypothesis:- Chi - Square (t^2) test.

Respondents	Yes	No	Row Total
Tax Experts	14	26	40
Tax Payers	15	25	40
Column Total	**29**	**51**	

Null hypothesis (H$_O$):- There is no significance difference of the view between tax experts and tax payers, regarding presumptive tax rates.

Alternative hypothesis (H$_1$):- There is significance difference of the view between tax experts and tax payers, regarding presumptive tax rates.

Test statistic under HO, tests statistics is :-

$$\aleph^2 = \frac{(fo \, Z \, fe)^2}{fe}$$

Where, fo = Observe Frequency

fe= expected Frequency=Row total $\times$ column total

Grand total

Row, Column	fo	fe	fo-fe	(fo-fe)2	$\frac{(fo \, Z \, fe)^2}{fe}$
(1,1)	14	40x29/80=14.5	- 0.5	0.25	0.017241
(1.2)	26	40x51/80=25.5	0.5	0.25	0.009804
(2.1)	15	40x29/80=14.5	0.5	0.25	0.017241
(2.2)	25	40x51/80=25.5	-0.5	0.25	0.009804
				$\phi \, \frac{(fo \, Z \, fe)^2}{fe}$ = 0.05409	

Calculated $\Re^2 = 0.05409$

Degree of freedom (d.f.) = (c-1)(r-1) = (2-1)(2-1) =1

Level of significance ( ) = 5% =0.05

Tabulated value at 1.d.f. for 0.05=3.841

Since, calculate value $\Re^2$ Φthan tabulated value, so Null hypothesis is accepted. It means there is no significance difference of the view, regarding provision of foreign tax credit.

Hence, it concludes that presumptive tax rates to individual conducting business in different areas, is sufficient.

Q.No.10) The Maximum Limit as Available for Medical Tax Credit During a Year is Rs 750. "Is it Suitable"?

To know the respondents opinion, about medical tax credit, the tenth question "The Maximum limit as available for medical tax credit during a year is Rs 750. "Is it suitable"? was asked. The responses received from respondents has tabulated as follows:-

Table No:4.20

Appropriateness of medical tax credit available to individual

Respondents	YES		No		TOTAL	
	No	%	No	%	No	%
Tax Experts	5	12.5%	35	87.5%	40	100%
Tax Payers	5	12.5%	35	87.5%	40	100%
Total	**10**	**12.5%**	**70**	**87.5%**	**80**	**100%**

Source: Opinion Survey

From the above table, it clearly shows that 12.5 percentages of the respondents agreed with is provision but 87.5 percentages of the respondents did not agree with this provision. It means that maximum amount of Rs 750 during a year as medical tax credit available to individual is not justifiable.

It concludes that present limit of medical tax credit is not enough to any individual. This limit should be increase.

Q.No.11) is the limit of Rs 10,000 or actual life insurance premium paid during the year or 7% of the sum of insured whichever is lower is available for deducting from taxable income is appropriate?

To know the respondents opinion about life insurance premium, the eleventh question" Is the limit of Rs 10,000 or actual life insurance premium paid during the year or 7% of the sum of insured whichever is lower is available for deducting from taxable income, is appropriate? was asked. The responses received from respondents has tabulated as follows:-

Table No: 4.21

Appropriateness of available LIP limit

Respondents	Yes		No		Total	
	No	%	No	%	No	%
Tax Experts	29	72.5%	11	27.5%	40	100%
Tax Payers	24	60%	16	40%	40	100%
Total	53	66.25%	27	33.75%	80	100%

Source: Opinion Survey

From the above table, it shows that 72.5 percentages of tax experts and 60 percentage of one tax payers agreed with this provision, but 27.5 percentage of the tax experts and 40%

55

of the tax payers did not agree with this provision, mixed result is obtained.

Table No:4.22

Test of hypothesis:- Chi - Square (t^2) test.

Respondents	Yes	No	Row Total
Tax Experts	29	11	40
Tax Payers	24	16	40
Column Total	**53**	**27**	**80**

Null hypothesis (Ho):- There is no significance difference of the view between tax experts and tax payers, regarding LIP. limit provided by new ITA 2058 to individuals.

Alternative hypothesis (H1):- There is significance difference of the view between tax experts and tax payers, regarding LIP limit provided to individual by ITA 2058.

Test statistic under HO, tests statistics is :-

$$\Re^2 = \frac{(fo\ Z\ fe)^2}{fe}$$

Where, fo = Observe Frequency

   fe= expected Frequency=<u>Row total $\times$ column total</u>

                                              Grand total

Row, Column	fo	fe	fo-fe	(fo-fe)2	$\frac{(fo\,Z\,fe)^2}{fe}$
(1,1)	29	40x53/80=26.5	2.5	6.25	0.235849
(1.2)	11	40x27/80=13.5	-2.5	6.25	0.462963
(2.1)	24	40x53/80=26.5	-2.5	6.25	0.235849
(2.2)	16	40x27/80=13.5	2.5	6.25	0.462963
					$\phi\,\dfrac{(fo\,Z\,fe)^2}{fe}$ = 1.397624

Calculated $\mathfrak{R}^2$ = 1.397624

Degree of freedom (d.f.) = (c-1) (r-1) = (2-1)(2-1) =1

Level of significance ( ) = 5% =0.05

Tabulated value at 1.d.f. for 0.05=3.841

Since, calculate value $\mathfrak{R}^2$ Φthan tabulated value, so Null hypothesis is accepted. It means there is no significance difference of the view, regarding LIP. limit provided by new ITA 2058 to individuals.

Hence, it concludes that present LIP. limit provided to individuals is appropriate.

Q.No.12 Do you know that any assets which are excluded from the non-business chargeable assets in case of natural person?

To know the respondents opinion about non-business chargeable assets, the twelfth question" Do you know that any assets which are excluded from the non-business chargeable assets in case of natural person was asked. The responses received from respondents has tabulated as follows.

Table No:4.23

Knowledge about Non-business chargeable assets.

Respondents	Yes		No		Total	
	NO	%	NO	%	NO	%
Tax Experts	5	12.5%	35	87.5%	40	100%
Tax Payers	3	7.5%	37	92.5%	40	100%
Total	**8**	**10%**	**72**	**90**%	**80**	**100**%

Source: Opinion Survey

From the above table, it shows that only 12.5 percentages of the experts and 7.5 % of the taxpayers know about Non-business chargeable assets but 87.5 percentages of the tax experts and 92.5 percentages of the tax payers don't know about Non-business chargeable assets. It means the word "non-business changeable assets" needs to redefine.

Hence, it concludes that the language about non-business chargeable assets is too complex and it is necessary to make simple to understand.

Q.No.13). Are you satisfy with the existing income tax system of Nepal?

To know the respondents opinion about existing income tax system of Nepal, the thirteenth question "Are you satisfy with the existing income tax system of Nepal ? Was asked. The responses received from respondents has tabulated as follows:

Table No:4.24

Satisfaction with the existing income tax system of Nepal

Respondents	Yes		No		Total	
	NO	%	NO	%	NO	%
Tax Experts	18	45%	22	55%	40	100%
Tax Payers	14	35%	26	65%	40	100%
Total	32	40%	48	60%	80	100%

Source: Opinion Survey

From the above table, it shows that contradictory result is obtained, in total 40% of the respondent agreed that they are satisfy with the existing income tax system of Nepal and 60% of the respondents did not agree that they are not satisfy with the existing income tax system of Nepal.

Table No:4.25

Test of hypothesis:- Chi - Square (t^2) test.

Respondents	Yes	No	Row Total
Tax Experts	18	22	40
Tax Payers	14	26	40
Column Total	**32**	**48**	**80**

Null hypothesis (H_O):- There is no significance difference of the view between tax experts and tax payers, regarding existing income tax system of Nepal.

Alternative hypothesis (H_1):- There is significance difference of the view between tax experts and tax payers, regarding existing income tax system of Nepal.

Test statistic under HO, tests statistics is :-

$$\mathfrak{R}^2 = \frac{(fo \, Z \, fe)^2}{fe}$$

Where, fo = Observe Frequency

fe= expected Frequency= Row total × column total

Grand total

Row, Column	fo	fe	fo-fe	$(fo-fe)^2$	$\dfrac{(fo-fe)^2}{fe}$
(1,1)	18	40x32/80=16	2	4	0.25
(1.2)	22	40x48/80=24	-2	4	0.17
(2.2)	14	40x32/80=16	-2	4	0.25
(2.2)	26	40x48/80=24	2	4	0.17
					$\sum \dfrac{(fo-fe)^2}{fe}$ = 0.84

Calculated $\chi^2 = 0.84$

Degree of freedom (d. f.) = (c-1) (r-1) = (2-1)(2-1) =1

Level of significance ( ) = 5% =0.05

Tabulated value at 1.d.f. for 0.05=3.841

Since, calculate value χ^2 than tabulated value, so Null hypothesis is accepted. It means there is no significance difference of the view, regarding existing tax system of Nepal.

Hence, it concludes that existing tax system of Nepal is satisfactory

Q.No.14) What do you feel about the current income tax administration of Nepal?

To know the respondents opinion about current income tax administration, the fourteenth question "What do you feel about the current income tax administration of Nepal? Was asked. The responses received from respondents has tabulated as follows:-

Responses about the current income Tax Administration

Respondents	Efficient		Inefficient		Satisfactory		Total	
	No	%	No	%	No	%	No	%
Tax Experts	1	2.5%	21	52.5%	18	45%	40	100%
Tax Payers	3	7.5%	22	55%	15	37.5	40	100%
Total	**4**	**5%**	**43**	**53.75 %**	**33**	**41.25**	**80**	**100%**

Source: Opinion Survey

From the above table, it shows that in total only 5 % of the respondents feel that current income tax administration is efficient and 53.75 percentages of the respondents feel that current income tax administration is inefficient but on the other hand 41.25 percentages of the respondents feel that current income tax administration is satisfactory. It means, majority of respondents think that current income tax administration is inefficient.

It concludes that current income tax administration of Nepal is inefficient. It needs to improve more.

Q.No.15. What additional provisions should be provided to an individual's (please ranks)

Most of the respondents have responded that the existing special provisions to individuals are sufficient. For the respondents who have satisfied with the question number two, a supplementary ranking question has asked with same possible additional incentives including an open option. The question what additional provisions should be provided to an individual's (please ranks)? Respondents have been requested to rank their responses from most important to next most important and respectively to last important. The responses received from the various respondents has tabulated as follows:-

Table No:4.27

Calculation of Rank Correlation Coefficient.

S.N.	Alternatives	T.E.(x)	T.P.(y)	Rank for x (R1)	Rank for y (R2)	D = R1-R2	D^2
1	Tax rate should be minimized	40	53	4	2	-2	4
2	Medical tax credit should be exempted.	85	49	2	3	-1	1
3	Retirement contribution should be wholly exempted.	106	75	1	1	0	0
4	Expenses incurred in relation to education should be allowed for education to some extent.	68	37	3	4	-1	1
5	If others …………….	10	19	5	5	0	0

Note: x refers to tax experts and y refers to tax payers

We have formula,

$$R = 1 - 6\phi d^2 / n(n^2-1)$$

$$= 1 - 6 \times 6 / 5(5^2-1)$$

$$= 1 - 36/5(24)$$

$$= 1 - 36/120$$

$$= 1 - 0.3$$

$$= 0.70$$

Since, the rank correlation coefficient is positive i.e. 0.7. There is higher correlation between the views of experts and tax payers regarding additional special provisions provided by TIA to individuals. So, it can be concluded that retirement contribution should be wholly exempted.

Q.No.16) What factor Should be taken in consideration to adjust the exemption limit so that the taxpayers are relieved? (Please rank)

Most of the respondents have responded that the existing exemption limits to individuals are not sufficient. For the respondents who have not satisfied with the question number four, a supplementary ranking question has asked with same possible additional incentives including an open option. The question what factor should be taken in consideration to adjust the exemption limit so that the tax payers are relieved? (Please rank) Respondents have been requested to rank their responses from most important to next most important and respectively to last important. The responses received from the various respondents has tabulated as follows:-

Table No:4.28
Calculation of rank correlation coefficient

S.N.	Alternatives	T.P.(x)	T.P.(y)	Rank for x (R1)	Rank for y (R2)	D= R1-R2	D^2
1	No. of dependents	39	43	4	4	0	0
2	Education expenses of at least two children.	76	68	2	3	-1	1
3	Average cost of living	98	110	1	1	0	0
4	Inflationary condition of the country	57	85	3	2	1	1
5	If others ……………	6	7	5	5	0	0

|

Note: x refers to tax experts and y refers to tax payers

We have formula,

$$R = 1 - 6\phi d^{2} / n(n^2-1)$$

$$= 1- 6x2/5(5^2-1)$$

$$= 1-12/5(24)$$

$$= 1-12/120$$

$$= 1-0.1$$

$$= 0.90$$

Since, the rank correlation coefficient is positive i.e. 0.90. There is higher correlation between the views of experts and tax payers regarding additional exemption limit provided by ITA to individuals. So, it can be concluded that Average cost of living should be considered to determine exemption limit.

Q.No.17 Is it justifiable to levy income tax on pension income?

To know the respondent opinion about to levy income tax on pension income, the seventeenth question "Is it justifiable to levy income tax on pension income? was asked. The responses received from respondent has tabulated as follows:

Table No: 4.29

Justification about to levy income tax on pension income

Respondents	Yes		No		Total	
	No	%	No	%	No	%
Tax Experts	9	22.5%	31	77.5%	40	100%
Tax Payers	11	27.5%	29	72.5%	40	100%
Total	**20**	**25%**	**60**	**75%**	**80**	**100%**

Source: Opinion Survey

From the above table it clearly shows that only 25% of the respondents think that to levy income tax on pension income is justifiable but 75% of the respondents think that to levy income tax on pension income is not justifiable. It concludes that pension is not taxable income.

4.4 Major Findings

Following are the major finding of the opinion survey conducted with the tax experts and tax payers.

a. Special Provision to individual play vital role in widening income tax coverage and raising tax revenue.

b. The special provision to individual provided by the ITA is sufficient.

c. Remote area allowance to individual provided by new ITA 2058 is appropriate.

d. Current exemption limit is not satisfactory, individual needs more exemption limits.

e. If any special industry run by an individual should get additional 1/3 depreciation to deduct from their respective income.

f. Some exemption limit should be provided to the non-resident individual.

g. Flat tax rate to non-resident individual is appropriate.

h. Foreign tax credit is the one of the important provision to the non-resident individuals.

i. Presumptive tax rates to individual are sufficient.

j. Present medical tax credit limit is not sufficient so, it should be increase up to Rs 5000 in a year.

k. LIP Limit available to individual is appropriate.

l. The language about non-business chargeable assets is too complex and it is necessary to make simple to understand.

m. Existing income tax system of Nepal is satisfactory.

n. Current income tax administration of Nepal is inefficient, it needs to improve more.

o. Retirement contribution should be wholly exempted.

p. Average cost of living should be considered while determining exemption limit to individuals.

q. Pension income is not taxable income. It is tax free income.

CHAPTER V

SUMMARY, CONCLUSIOS AND RECOMMENDATION

5.1 Summary

Nepal is least development country in South Asia with two fifth of the population in absolute poverty. The Nepalese economy is dependent in agriculture. Agricultural sector contributes about 32% to gross domestic product (GDP) and provides employment to about 68% of the country labour force. The economic growth rate is of less than 5% on an average for the last decade. However, it was due to internal problem of conflict and security that blocked-down almost all economic activities.

Nepal's fiscal position is historically imbalanced with spending much more than revenue. Government's budget deficit stands at 5% of GDP. The deficit is financed by foreign and domestic borrowing. Consequently, public debt has increased to 70% of the GDP.

Tax is one of the most important sources of any country, which directly affects the economic system of the society. With tax, the government not only collects money but also reduce the poverty of country. UP to now. Nepal is following traditional agriculture based industry and other disciplines have very low contribution to GDP. Tax system should be initiative to encourage individual to engage in business, employment, investment, profession and vocation. Tax should not be as a financial burden to the people imposed by the state. It should feel as a moral responsibility and prestigious task.

The hardest thing to understand in the world is the income tax. Therefore, tax is not easy to understand, to compute, to pay and even to collect too.

A tax is a compulsory contribution by a person to the government without having any direct benefit for the payment. Especially direct tax is a burden to the taxpayers because it is not shift able. Since it is painful, everyone wants to reduce the tax payers because it is not shift able. Since it is painful, everyone wants to reduce the tax liabilities as far as possible. The focus is taking full advantages of all the exemptions, rebates, deductions

and allowances to minimize the tax liability.

As ITA 2058 has provided many incentives and facilities to industries, similarly it has also provided some special provision to individuals, which has encourage the individuals to promote self-business, employment and profession. Beside these, the recent study has declared that the share of individuals is half of the total income tax revenue. Hence, it is necessary to study about the special provisions to individuals provided by the act. It helps them to conduct their own business, profession, or to be employees. It helps them to be certain about the liability of tax. This research study has tried to study the appropriateness of special provisions to individuals given by ITA 2058. It has analyzed the special provisions provided by ITA 2058, its sufficiency and other requirements.

Various books, articles, dissertations and other reference materials have reviewed in the course of the study. Almost all of the books are of descriptive in nature and fully based on the course of various level of syllabus. No one has studied in the special provisions of the new ITA 2058 to industries. Therefore, the researchers have selected the unique topic to study.

Various special provisions have studied to find out their sufficiency. Effectiveness and other requirements. Meaning of tax, classification of taxes, merits and demerits of both direct and indirect taxes, head of incomes, concept of employment, business, trade and commerce, profession and vocation, concept of special provisions have been studied in Conceptual Framework of this study.

Mostly this research study is based on primary data and very few of secondary data has been used in this study. Minimum use of secondary data is due to the unavailability of related materials in secondary sources. The primary data on based on opinion survey of various group viz. tax experts and taxpayers. Tax experts consist of Chartered Accountants, lawyers, policy makers at ministry of Finance and Professors, Readers and recent researchers of university. Taxpayers include employees of HMG, accountant managers, sole traders and part time lectures. A set of questionnaire has developed and

100 questionnaires have distributed to various respondents. Among them, 40 from the group experts and 40 from taxpayers has been collected. Statistical tools like simple average; percentage, correlation and chi-square test of hypothesis have used in this study to analyze and interpreted the various data collected.

Summary and conclusions regarding this study have presented in this chapter. Some useful recommendations have given in the last chapter, which are very much useful to the tax policy makers and public.

Finally, this study has completed with the achievement of the various objectives stated.

5.2 Conclusion

Some conclusion has drawn on the basis of opinion survey, personal interview at the time of opinion survey and other studies. These have presented below.

- Special provisions to individual play vital role in widening income tax coverage and raising tax revenue.

- The special provision to individual provided by the New ITA 2058 is sufficient.

- Remote area allowance to individual provided by new ITA 2058 is appropriate.

- Current exemption limit is not satisfactory.

- Any special industry run by an individual should get additional one-third depreciation.

- Non-resident individual also needs some exemption limit.

- Flat tax rate to non-resident individual is appropriate.

- Presumptive tax rates to individual is sufficient.

- Present medical tax credit limit is not sufficient.

- Provision about LIP limit is suitable

- Language about non-business chargeable assets is too complex.

- Present income tax system of Nepal is satisfactory.

- Income tax administration of Nepal is inefficient.

- Foreign tax credit is the important provision to the non-resident individuals.

- Retirement contribution should be wholly exempted.

- Average cost of living is the most important factor to be considered to adjust the exemption limit.

- Pension income is not taxable income.

5.3 Recommendations

- Social activities if done by the people, he/she should get additional exemption limit.

- For the additional provisions, government should manage the revenue for the citizens.

- The government should have the perfect management in the different social and economic sectors and should have the provision on encouragement in different ways.

- confusion versions are to be minimized in income tax act.

- for additional provision, decrease of tax rate and increase of tax payers (i.e less tax rate and high number of tax payer)

- Tax limit should be exceed up to average cost of living standard for individual/ couple.
- Medical tax credit should increase up to Rs 5000 per year.
- There is no discrimination on tax rate between resident individual and non-resident individual.
- There is no discrimination on facilities provided to individuals between resident and non-resident individuals.
- All personal affairs should be taxed.
- Discrimination on retirement of government and other staff to be eliminated.
- Special industry tax limit to restate up to 25% (From amended 20%).
- Dependents widow(er) is not conceptual.
- Ambiguities on remote area allowances, insurance premium and export should be clarified.
- The tax policy should be scientific and capacity of individual, according to income level.
- The tax deduction items should be clear and justifiable.
- Any expenses to physically and mentally handicap person should be deductible.
- Individual and family/ couple exemption limit should be increased up to 2 lakh to 2.5 lakhs.
- More exemption limit should be provided to individuals.
- The language of the income tax act should be clear.
- Tax administration of Nepal should be strengthened.
- Expenses incurred in relation to degree or diploma should be exempted to some extent.
- Tax awareness programs should be conducted from time to time to make aware about the special provisions to current potential taxpayers.

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Appendix-'A'

Questionnaire

Name of respondents:-

Position:-

Department:-

Office/organization:-

Please tick(√) the answer of your choice or wherever appropriate put in order of preference from I to last number on the basis of alternatives. Number I stand for the most important and vice versa.

1. **Is the special provision to individual in the ITA 2058 play vital role in widening income tax coverage and increasing income tax revenue?**

    Yes [   ]   No [   ]

2. **Are the special provisions to individuals provided by ITA sufficient?**

    Yes [   ]   No [   ]

3. **Is the remote area allowance as an additional exemption limit of Rs. 30,000 Rs. 18000 Rs. 12000 and Rs. 6000 given to individual in area A,B,C,D and E are appropriate ?**

    Yes [   ]   No [   ]

4. **Is the current exemption limit provided to individual satisfactory?**
    Yes [   ]   No [   ]

5. **Do you think that an individual running special industry should get to charge additional depreciation?**

    Yes [   ]   No [   ]

6. **Should there be any exemption limit to the non- resident individual?**
    Yes [   ]   No [   ]

7. **Is 25% flat tax rate to non- resident individual appropriate?**

    Yes [   ]   No [   ]

8. **Do you agree with the provisions of foreign tax credit?**

    Yes [   ]   No [   ]

9. **Do you think presumptive tax rates for individual conducting business in   different area as sufficient?(i.e. metropolis Rs 2000, Sub-metropolis Rs. 1500, municipality Rs. 1000).**

    Yes [   ]   No [   ]

10. **The maximum limit as available for medical tax credit during a year is Rs 750 " is it justifiable"**

    Yes [   ]   No [   ]

11. Is the limit of Rs. 10.000 or the actual life insurance premium paid during the year or 7% of the sum insured which ever is lower is available for deduction from taxable income, is appropriate ?

Yes [   ]   No [   ]

12. Do you know that any assets which are excluded from the non- business chargeable assets incase of a natural person?

Yes [   ]   No [   ]

13. Are you satiety with the existing income tax system of Nepal?

Yes [   ]   No [   ]

14. What do you feel about the current income tax administration of Nepal?

Efficient [   ]   Inefficient [   ] Satisfactory   [   ]

15. What additional provisions should be provided to an individual (please ranks).

(a) Tax rate should be minimized.

(b) Medical tax credit should be maximized.

(c) Retirement contributing should be wholly exempted.

(d) Expenses incurred in relation to degree or diploma should be allowed for deduction to some extent.

(e) If any other…………………………

16. What factors should be taken in consideration to adjust the exemption limit so that the tax payers are relieved (Please rank).

(a) No of dependents.

(b) Education expenses of at lest two children.

(c) Average cost of living.

(d) Inflationary condition of the country.

(e) If other, please specify……………………

17. Is it justifiable to levy income tax on pension income?

Yes   [   ] No   [   ]

18. Do you have any suggestions regarding special provisions to individual? If have please specify in the following.

……

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………………………………………………………………………………………………………

Appendix-'B'

List of the respondents

Tax Experts

1. Ashok Kumar Karki, Audit officer IRD. Dept.
2. B.R. Basaula(C.A),Audit officer. Financial corporation Audit Directorate Dept.
3. Bhogentra Dhakal, Advocate, Green Law Firm Putalisadak.
4. C.A. Office of The General Auditing.
5. C.k. Bhandi(C.A.), Audit officer, Financial Corporation Audit Directorate. Dept.
6. D.R. Singh, Audit officer, OAG.
7. Devkota R.P, Audit officers OAG
8. Dhuniraj Shastri, Tax officer, IRD Babarmahal.
9. Dibya Darshan Adhikari, Audit officer, Constitutional section of
10. Dr. Gita pradhan, Chief Research Dept Shanker Dev Campus.
11. Govinda Bahadur Bhandari, Audit Superitendent Inland revenue Dept Keshav……………..Audit Officer,
12. Khem Prasad Sharma, Director, water supply Department.
13. Krishna Prasad Dhungel, Audit officer IRD Dept.
14. Krishna Prasad Poudel, Audit Superitendent Inland Revenue Dept.
15. Laxman Acharaya, Audit officer, Forestry Directoricate.
16. Laxmi Khatiwada, Law Practioner.
17. Lila Raj Dhakal(L.A) Audit officer, Custom and central treasury Dept.
18. Madan Dahal, tax officer, IRD Babarmahal.
19. Mana Harka Bangale, Audit Officers, W.S. Dept.
20. Mohan Lamichhane, Audit officer
21. Nandahari Sharma M.D.,CIT
22. Nar Bahadur Yogi, Advocate, Green Law Firm, Putalisadak.
23. Narayan Marasini, Audit Officer, OAG

24. Narayan Prasad Parajuli, Audit officer, Forest Dept of OAG.

25. Netra Khatri, Audit Officer, OAG.

26. Padma Prasad Acharya, Audit officer OAG

27. Parsuram Neupane, Audit officer, Defence Dept of OAG.

28. Pashupati Kumar Kafle, Audit officer, Irrigation Dept. OAG.

29. Prakash Kumar Khatri, Audit officers. OAG

30. R.P Upadhyaya, Audit officer, Land Reform Dept of OAG.

31. Ram Krishna Adhikari, Audit officer University Dept of OAG.

32. Ram Kumar K.C. Tax officer, IRD Babarmahal.

33. Ruchila Pandey, Lectur, Eco Dept Shanker Dev Campus.

34. Shushil Aaryal, Deputy Gm.CIT

35. Subash K Jhunjhunwala C.A. ICAN

36. Suvod Kumar Karn C.A. Suvod Association

37. T.N. Thapaliya, Audit officer, OAG.

38. Teeka Nath Aryal, Audit Superitendent, Inland Revenue Audit Directorte.

39. Yougendra bahadur, Ashikari advocate. Green law firm putalisadak

Tax Payers:-

1. Ajaya Kumar Sapkota, Officer

2. Arjun Katwal, Best manufacturing, Dillibazar.

3. Balram Chaoudhary: Teacher college.

4. Bandip Tamang, Account MS/INGO.

5. Bhuvan Sapkota, Bagbazar

6. Bidya Bhusan Karki, Officer NRB.

7. Durga Basnet, WSC, Kathmandu

8. Ganesh Katwal, Kirana Store, Ratopool

9. Ganga Parajuli, Program Officer MS/INGO.

10. Harichandra shrestha, Ramanuj Business Pvt. Ltd. Mahaboudha

11. I.P Acharya, Officer

12. Jiita Bishwokarma, Receptionist, MS/INGO.

13. Jiwan Acharya: Acharya Store, Nagpokhari

14. Kishor Pokhrel, Officer

15. Krishna Katwal New Baneshwor.

16. Krishna Prasad Regmi Officer

17. Krishna Timilsina, Kriti Books and Stationery SDL.

18. Lala Charan Subedi, Officer.

19. Laxaman Giri, Friendship trade concern, New road.

20. M.P. Panta, Officer.

21. Madhu Pokhrel, Program officer, MS/INGO.

22. Man bahadur Poudel, Collage Teacher.

23. Pradip Adhikari, Thames international sukedhara.

24. R.L. Shrestha, Finance officer, MS/INGO.

25. Ramananda Yadav, Our nursing home , Chabile

26. Renuka Gurung, Program officer, MS/INGO.

27. Sabitri Agarbatti Udyog, Ram K. Katwal Sukedhara

28. Sanjya Karki, Karki wholesale pasal Nag Pokhari,

29. Saroj Siwokoti, Swostik Stationery Supplier, Maitidevi.

30. Sat Narayan Chaudhary, Run Nepal Travels and Tours , Kantipath

31. Shishil Khanal M.D. Furgen

32. Shisir Dhungana, Associate Secretary, Finance Ministry.

33. Shulia Lal, Senior officer Taksar Bibhag.

34. Sudha Dhakal, Language co-ordinater, MS/INGO.

35. Sundar babu adhikari, shrey trade concern. Newroad

36. Toya Gautam Information officer, MS/ INGO

37. Umesh Dangal, SBI Bank, Hattisar, Kathmandu

38. Umesh Regmi, Training Officer/ MS/INGO.

39. Uttam Aryal, Financial Assistant, MS.INGO.

40. Yadav Katwal, Account, RRN/INGO.

Thank You