

A STUDY ON EMPLOYMENT TAX IN NEPAL

Project Work

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Declaration

I hereby that the work reported in this term paper entitled to "**A Study on Employment Tax in Nepal**" submitted to the Dean. Faculty of Management, Tribhuwan University, is my original work done in the form of partial fulfillment of the requirements for the degree of Master of Business studies (MBS) under the supervision of Associate professor Dr. Bihari Binod Pokharel of Nepal Commerce Campus, Kathmandu.

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ABBREVIATIONS

F.Y.	Fiscal year
GON	Government Of Nepal
IRD	Inland Revenue Department
ITA	Income Tax Act
ITR	Income Tax Rules
I.Y	Income Year
N.D	Note Date
Rs.	Rupees
SAARC	South Asia Association for Regional Co-operation
TU	Tribhuwan University
VAT	Value Added Tax
NOS	Numbers

Executive Summary

Nepal is agriculture based least developed country. The economic status of Nepalese people is very poor. The per capita income is near about 250 dollars, which is lowest among SAARC countries 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 launch these activities government needs various resources. Revenue collection by the government is internally sufficient to meet the cost of day to day administration of the country but the revenue surplus is not adequate to undertake development activities sufficiently in the country. So, Nepal has been dependent on foreign aids and loans to fulfill the need for developmental activities, which is not beneficial in the long run interest of the country.

The present study entitled "**A Study on Employment Tax in Nepal**". This topic is related to the employment aspect of income Taxation. In this study contribution of employment income to the government revenue has been analyzed. Similarly, analysis of effectiveness of income Tax revenue and contribution of employment income to total Tax revenue of Nepal has been shown. This study covers the role of income Tax in Nepal, role of income Tax from employment income in government revenue of Nepal, comparative study on the role of income Tax from employment income to total Tax revenue and income Tax revenue of Nepal.

In first chapter, the literature review has been made through the study of various books, articles, dissertations and other reference materials. Various concepts of Taxation have been discussed in this study. Source of government revenue, meaning of Tax, classification of Taxes, objective of Taxation, historical background of income Tax, heads of income and concept of employment Tax. In this chapter the researcher has discussed about various aspects of research methodology as research design used for this study, data collection procedure, population and sample, sources of data, selection of the respondents, procedures of processing and analysis of data.

Chapter second has presented the primary as well as secondary data and analyzed them to get the meaningful result. Economic surveys were the major sources of secondary data. To collect primary data on employment aspect of income Taxation, opinion survey technique was used in this study. Primary data were collected from three respondent groups: Tax experts, Tax officers and employees. Tax experts consisted of Chartered Accountants, Lawyers and Professors. Employees consisted of employees working in banks, manufacturing enterprises, government offices and other private organizations. A set of questionnaire was developed and 45 questionnaires were distributed to the respondents.

Secondary analysis was done by presenting the relevant data into tables and figures consisting of an eleven year period i.e. from the FY 1997/98 to 2007/08. The comparative analysis for different years was done in the analysis part of the study. Major findings of the secondary data analysis have been put at the end of the chapter. Data obtained from opinion survey with the respondents were tabulated and analyzed to achieve desired end result. Major findings of the primary data analysis have been put at the end of the chapter.

The major finding of the study is that employment income is an important source of government revenue. Contribution of employment income to income Tax revenue has not been found satisfactory due to various reasons like low pay scale of the employees,

Ineffectiveness in implementation of the Act, Tax evasion etc. Medical expenses, Life insurance Premium paid by employer, Dashain and transportation allowances should be made Tax -exemption limit in comparison to individuals. The exempted and deducted items of income from employment are not sufficient. The contribution of income Tax from employment income to Tax revenue can be increased mainly by making Tax deduction as source more effective and change in income Tax policy, rules and regulation. Major problem that employees faced while paying income Tax is procedural Complications. Nepalese revenue structures consist of Tax and non Tax revenues. Tax on consumption and product of goods and services has occupied first place regarding its contribution to total revenue of Nepal. Total revenue of Nepal consisted of Tax revenue and non Tax revenue. Tax revenue has largest contribution in total Tax revenue on Nepal. In Nepalese revenue structure Tax revenue has always been nearly three and halftimes of non-Tax revenue. Nepalese Tax revenue is the composition of direct and indirect Tax revenue. Average contribution of direct and indirect Tax revenue to total Tax revenue in 32.85% and 67.15% during the F.Y. 1997/98 to F.Y. 2007/08 respectively. The structure of direct Tax revenue is the composition of income Tax revenue land, revenue and registration and miscellaneous Taxes. Nepalese income Tax structure in formed by contribution of income Tax from public enterprises, semi – public enterprises, private corporate Bodies, Individuals, Taxes on employment Tax on interest and other Taxes. Contribution of individual has occupied, bodies Employment, interest other Taxes and semi public enterprise have occupied second, third, forth, fifth, sixth and seven position in total income Tax revenue of Nepal. Contribution of income Tax has been increasing trend. Income Tax from Employment has been increasing trend average contribution on of Employment in total revenue, total Tax revenue direct Tax revenue and income Tax revenue have been 1.95%, 2.47%, 9.97% and 11.91% respectively. It show that income Tax from employment has very much insignificant contribution in total revenue and total Tax revenue of Nepal. The employment income Tax collection was in increasing trend during the Tax review year.

Conclusions of the study are given in the last chapter. Some recommendations are also given on the end of the study to increase the contribution of employment income to Tax revenue and some special provision to individual. In this way, this study was completed with the achievement of the stated objectives.