

# Chapter I INTRODUCTION

## 1.1 General Background

Nepal is developing country. Nepali people is very poor because it's per capital income is the least in south Asia Association for Regional Co-Operation (SAARC) countries and almost lower per capita income in income in the word. Nepali people almost involve in agriculture sector. Government responsibility of government security our health, education and other development activities. It needs huge amount of revenue. Government spends a lots of fund for protection of common people and for the creation of various socioeconomic infra-structures. It the nation has sufficient fund fulfillment of country's need government expenditure is increasing of time, increase in population, social progress, increase in price, security etc. To meet the growing expenditure, the government has managed its funds. It is received from different sources.

The government revenue comes from different sources like grants, administrative income business income and taxation. Grant means the amount given by one to other. The administrative income denotes the amount charged by the government for providing administrative services. Business income means the return received by the government providing carious goods and services to the people. All these revenue are non-tax revenues, the basic object of which is not to collect revenue but otherwise. The revenue comes automatically while performing are many other works. The examples of such types of revenue are grants of foreign governments or agencies, registration fees, times and penalties, change for postage, electricity, water etc. In Nepal 20% of revenue comes from these source. Another sources of government revenue is the taxation. Custom excise, vat, corporate and personal income tax are the examples of the sources of tax revenue. The government passes the acts for getting tax revenues and collects taxes as per the act. Nepal gets around 80% of government from this source.

Income tax is one of the most popular direct taxes. It is change on person's income. According to the income tax Act 2058, income includes all the incomes which are received form business, investment and employment.

The present study has been designed to study the contribution of income tax from income form employment income to income tax revenue of Nepal. Eleven years period I e form the fiscal year FY. 1997/98 into consideration for the study. The contribution form FY 1997/98 to FY 2007/08 has been analyzed and examined. Some recommendation have also been offered to increase employment income's contribution to income tax revenue of Nepal.

## **1.2 Statement of the Problem**

Nepal is least developed country having poor economic growth rate. It has been facing serious gap and fiscal gap problem. Now day's main economic and tax collection problem given below.

- i. Financial gap is the major constraint of the Nepalese economic.
- ii. Collection of advance tax in Nepal has faced various problem like the evasion, tax avoidance, poor tax administrative, unsound income tax, unscientific tax law, lack of conscious people etc.
- iii. More tax payers who are hiding their income.

## **1.3 Objectives of the Study**

The research study has the following objectives:

- i. To analyze the contribution of the income tax from employment income to government revenue in Nepal.
- ii. To show the effectiveness of income tax are revenue collection from employment income.
- iii. To know the tax payers knowledge, tax experts and tax officers view about employment income.
- iv. To suggest and recommend the basic of major finding.

## **1.4 Scope of study**

The main scopes of the study are given below

- i. Role of income tax in Nepal.
- ii. Revenue from income tax from employment income to income tax revenue of Nepal.
- iii. Role of income tax from employment income to total tax revenue.

## **1.5 Significance of the study**

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

Out of various income employment income is an important source. It is a regular source of tax revenue too. Employment income has been contributing to the tax revenue of Nepal. There is lots of thesis about income tax but no one has studied in detail on the contribution of employment's income. So, the project work is directed toward acquiring information about income tax revenue collection from employments income. This study might be fruitful for all researcher, tax expert, tax officers and tax employees.

## **1.6 Limitation of Study**

They are following limitation research study.

- i. This study was fundamentally based on secondary source of data. How ever some primary data were also collected form Kathmandu valley and analyzed.
- ii. Opinions of the respondents have been taken as sense of truth which may not be correct at all time due to the changing trends on people's thinking.
- iii. This study focused the data of limited recent years.
- iv. Only employees, tax experts and tax officers are considered as the total population of the study and only small size of sample from Kathmandu valley selected.

## **1.7 Plan of the study**

The study will be organized into three chapters. They are follows :

The first chapter is about introduction that includes the general background, statement of problem, objective of study scope of the study, significance of study, limitation of study, resource methodology and review of literature.

The second chapter presentation and analysis of data.

The Third chapter of study is related to conclusion and possible recommendation regarding improvement employment income tax and relates issues.

## **1.8 Research Methodology**

The following methodology will be used for study.

### **1.8.1 Research Design**

Research Design of the study will be descriptive as well as analytical to meet the stated objective of study.

### **1.8.2 Source of data**

Basic Source of data for the present research will be both primary and secondary data. The secondary information will be collected from economic survey, budget speech and related news papers. Primary data obtained through questionnaire method followed in most cases face to face interviews/discussion with the selected persons included in the purposive sample. Therefore structure structural questionnaire will be designed for primary for primary information. The primary data were the opinion of tax experts, tax officer's and employees regarding employment tax.

### **1.8.3 Population and Sample**

All the tax experts, tax officer and tax employees in Nepal were considered as total population. The following are the sample of study. The respondents have been present in table 1.1

**Table 1.1**  
**Group of respondents and sample size**

S.No.	Denomination of the respondent	Sample
1	Tax experts	15
2	Tax Officers	15
3	Employees	15
4	Total	45

Source : Opinion Survey 2008

#### **1.8.4 Selection of the Respondents**

After careful study of the subject matter, a set of questionnaire was developed and distributed to three respondent viz tax experts, tax officers and employees. Tax experts comprise of chartered accountant, lawyers, professors, auditor and policy maker of ministry. Employees comprise of employees of government organization, non-government organization and private organization.

#### **1.8.5 Data Collection Procedure**

A set of questionnaire was developed and distributed to the selected respondents in order to get actual and accurate information.

#### **1.8.6 Procedure of processing and analysis of data**

The information collected from primary and secondary data were first tabulated into separate format systematically in order to achieve the desired objectives. The research will be used sample analysis was done by using statistical tool such as percent, average, correlation, t-test, chi-square ( $\chi^2$ ) test for hypothesis etc. In primary data analysis, some hypothesis was tested to know whether there was significant difference between the opinion of tax experts, tax officers and employees.

#### **1.8.7 Weight of the choice**

The questionnaire asked for to give yes/no response or to give their opinions respondents were also given alternative to rank. In this case, the first preferred choice got the highest point and the last preferred choice got the lowest point. The total points got by each alternative were converted into percent of total points available to the all alternatives. The alternative with the highest percent ranked as most important and alternative with the lowest percent was ranked as the least important. For example, if there were four points alternative the most important ranked by the respondents got five points and the least important alternative ranked by the respondents got one point. The alternative which was not ranked does not get any points.

### 1.8.8 Profile of Respondents.

Questionnaire were distributed to forty five respondents tax experts, tax officers and employees. The following table reveals the different numbers and percent of the respondents.

**Table 1.2**  
**Profile Respondents**

S.No.	Respondents	Total Sample		Response Received	
		No	Percent	No	Percent
1	Tax experts	15	33.33	15	33.33
2	Tax officers	15	33.33	15	33.33
3	Employees	15	33.33	15	33.33
<b>Total</b>		<b>45</b>	<b>100</b>	<b>45</b>	<b>100</b>

Source : Primary Data 2008

### 1.9 Review of literature

Literature review is an essential part of all studies. It is a way to discover what other researches have covered and left in the area. A critical review of the literature helps the researchers to develop a through understanding and insight into previous research works that created to the present study. It is also a way to avoid investigation problems that have already been definitely answered. Thus a literature review is the process of location, obtaining, reading and evaluating the research literature in the area of the student's interest. The purpose of literature review is to find out what research studies have been conducted in one's chosen field of study and what remains to do. The primary purpose of literature review is to learn not to accumulate. It enables the researcher to know. (Wolf and Pamta 2005, page 70)

#### 1.9.1.1. Theoretical Review

This section deals about the historical background of evolution of income tax in Nepal, heads of income, meaning and classification of tax commons of taxation, Tax exempted income, final withholding payment, exempt organization, meaning of individual, special provision to individuals common deduction and special fee as addition tax.

#### 1.9.1.1 Historical Background of Evolution of income tax in Nepal.

The idea of introducing income tax ACT in Nepal originated along with the first "Budge" on Magh 21,2008 (1952). Then, Finance Minister of the first budget speech said 'a proposal to levy an income tax including tax on agriculture income is under consideration. Several attempts were made to introduce income tax in subsequent years. However, it couldn't be introduce until 2061 due to political instability. For the

first time Finance ACT 2016 had imposed tax on business profit and employment in Nepal (Amatya at all 2004 P:13)

In 2017 BS Business profit and remuneration act 2017 was enacted. This was flush income tax act in Nepal. This act was not good and detail. There were only 22 sections in the act and the provision of taxation of business income and employments incomes were only include. There was no provision of deduction for examples by taxpayers. Income tax was assessed in the basic of the officer's estimation. Government employer was the main income tax payers. This act was ineffective and was replaced by income tax act 2019. there were 29 section in the act for the effective implementation of income tax acts objective, HMG enforced income tax rules 2020 income tax act 2019 also encompassed profession, business, house and land, rent, investment insurance and other source of incomes in a addition to business profit and employment incomes. If also made the provision for rectifying arithmetic errors by tax payers and tax payments in installments, agriculture income was also made taxable in the act. Finance act 2023 made agriculture income tax exempted. Again finance act 2030 made agriculture income taxable, income tax act. 2031 so as to cope with the charging needs of the country.

Income tax act, 2031 had 65 section and classified the sources on needs of income into 5 categories namely (i) agriculture (ii) industry business, profession or vocation (iii) employment (iv) house and land gent (v) other sources. The act had identified the chargeable income and admissible expenses of each head of income. The other features of these acts were provision of registration provision of carry forward of loss provision of common expenses provision of self assessment, provision of small tax Bayer's tax assessment provision of fine penalty and appeal provision of tax deduction at source provision of tax refund, provision of tax exemption by different other acts and rules provision of avoidance of double taxation etc. This act was also called a modified form of the previous act. Most of the provision of pervious act was kept as it is and other was changed. This act lasted for about 28 years in 2058; ITA 2058 was enacted by the parliament by replacing the existing act. This act is broad as compassed to the previous act. This act has been made in accordance with the global standard. Income tax rule 2059 was framed by the government of Nepal to clearly some provision of the act. Finance ordinances have been making slight amendments in the act every year.

**The income tax act 2058 contains the following key features.**

- ) All income tax related matters are confirmed with in the act by abolishing all tax related concession, rebuts and exemption provided by different acts.
- ) The act has broadened the tax rates are spelled out in the act. The tax rates and concessions are harmonized on equity grounds.
- ) The act has introduced a pool system of changing depreciation intangible assets are also deprecated
- ) The act has first introduced taxation of capital gains.

- ) The act has provided liberal loss set-off and carry forward/ back ward provision. Inter n head adjustments of losses are clearly specified.
- ) The act has introduced a provision for administrative review to allow the tax administration to correct mistake made by tax administrators internally.
- ) The act has provided a stringent time and penalty for the defaulters.
- ) Global incomes of a resident are a made taxable. Non residents are also taxed on their incomes with source in Nepal
- ) The act has made provision of international taxation, foreign tax credit has been introduce for the first time.
- ) List of expresses are inclusive. All expresses relating to income have been made admissible
- ) The act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.

### **1.9.1.2. Head of incomes.**

Income tax act 2058 has classified income of a person into three main heads for the purpose of tax assessment. According to the tax heads, they are (i) employment income (ii) business income (iii) investment income.

#### **Income from employment**

Employment income means employment fringe benefits and other prevaricates derived by an employer, present employer or prospective employer on receipt cash basic in on income year. Employment income includes salary, wage leave b\pay bonus, commission, employment specified allowance, retirement fund contribution, prize, gift, perquisite, compensation, furlong benefits and additional facilities received by an employee from an employer. From an employer. (Amatya 2006, Prabaha p:57, voll 16, voll) income tax act 2058 has definite “ employment” as past, present, or prospective employment all payments or benefits received from the employer or his associates in exchange of labor are termed as employment income. An employer is a person who gets service (ex. labor) from an employer. Similarly an employee is a person who provides services to the employer to get certain amount our benefits in order to include the amount in the employment income, the following condition must exist. The amount paid should be of regain nature, section, 22(2) of the act has specified that employment in come be assessed on cash basic. (Bhattari and Kolrala 2006 p:60). Amount included on employment income tax act 2058 has specified the income from employment. As per the act any type of remuneration form any employment is taxable income according to section (8) of the act the remuneration received by a person from the employment are the following payments made by the employer.

- ) Payment of wages, salary, leave pay, overtime bay, fees, commission prizes. Gifts, bonuses and other facilities.
- ) Payments of any personal allowance including any cost of living subsistence, rent, entertainment and transpiration allowance.

- ) Payments providing any discharge or reimbursement of costs incurred by individual or an associate of the individual.
  - ) Payments for agreement to any condition of the employment
  - ) Payments for the termination or loss of service or compulsory retirement those paid by the employer to a recognized retirement fund in respect of the employer and retirement payments.
  - ) Other payments made in respect of the employment and other quantified perquisites.
  
- A. Availability of motor vehicle wholly or partly for private use (i) half percent of salary in case of employees. (ii) one percent of market value vehicle, in case of then (i.e. Consultant)
  
- B. Provision of house of employee employers and 25% of actual rent (in case of leased building) or prevailing rate (in case of own building) in case of other (i.e. consultant ) should be included in the taxable income also quantified perquisites for accommodation facility.
  
- C. Payments consisting of the provision of following facilities the amount of expense incurred by the employer in making the provision as reduced by and contribution made by the employer towards the provision.
  - ) The service of the housekeeper, driver, gardener, or other domestic assistant.
  - ) Any meal, refreshment or entertainment.
  - ) Drinking water, electricity telephone and the like utilities in respect of the employees place of residence.
  
- D. In case where the interest paid by the employee during the year under their loan is lower than the interest to be paid as per the prevailing interest rate, the amount to the extent it is lower

### **1.9.1.3. Meaning of Tax**

Government of any country requires sufficient revenues to launch development programs, to handle the daily administration to keep and place and security and to launch other public welfare program. The government or public revenues are collected through various sources. These sources can be (a) taxes (b) revenues from government (c) fees (d) special assessment (e) fines and penalties and (f) foregone grants. Among them tax is the main source of collecting the public revenue because it occupies the most important part of the government treasury. In Nepal about 77% of total revenue comes from tax revenue and the rest 23% from non-tax revenues (Amatya et al 2004)

Tax is, in simple terminology liability to pay an amount to the government, it is a compulsory contribution to the national revenue from the tax payers according to law. Findlay's defines tax as "a compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefits." According to piece, "Tax are general



contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in common benefits upon the resident of the states” From the above definition it is clear that tax is a compulsory contribution to the state from a person. The natural person and artificial person having tax liabilities to pay the taxes to the government.

#### **1.9.1.4. Type of Taxes**

There are two types of taxes named direct tax and indirect tax.

##### **Direct tax**

If the person paying and bearing the tax is same, it is called direct tax. In the words of Dalton, “a direct tax is really paid by the same person on whom it is equally imposed”

##### **Indirect tax**

An indirect tax is that tax where the person paying the tax and person bearing the tax is different in the words of Dalton. “Indirect tax is imposed on one person but paid partly or wholly by another” Income tax is one of the most popular direct taxes. It is charged on person income according to the law of the nation income includes all the income which is received from business, investment and employment.

#### **1.9.1.5. Exempted Organization**

Social and religious organizations that are not operated for profit earning are provided with such facilities ITA 2058 section 2 (Dha) has included the following entities with tax exempt organization.

- A) Following entities registered with Inland Revenue department as tax-exempt entity.
  - i. A social religious educational or charitable organization of public character registered without having a profit motive.
  - ii. A amateur sporting amenities not involving the acquisition of gain.
- B) A political party registered with the election commission.
- C) Village development committee municipality, District development committee
- D) Nepal Rastra Bank

#### **1.9.1.6. Withholdings payments (section 87)**

Withholding by employers every resident employer is required to withhold tax at rate from a payment with a source in Nepal that is to be included in calculation income of an employee from the employment the obligation of an employer to withhold tax ( as mentioned above) will not be reduced or extinguished because of following.

- I. Right or an obligation of the employers to deducted and withhold any other amount from the payment, or

- II. Any other law that provides that an employee's income from employment will not be reduced.

#### **1.9.1.7. Final Withholdings Payment**

Final withholding payment income tax act 2058 the following payment will be treated as final withholding payments.

- a) Dividends paid by a resident company.
- b) Rent for the lease of land or a building and associated fitting and fixtures, having a source on Nepal, and that is received by an individual other than conducting a business
- c) Payment made by resident person for gains from increment insurance.
- d) Gain from unapproved retirement fund paid by a resident person.
- e) Meeting allowance
- f) Payment for teaching not on regular basis.
- g) Preparation of a question paper and checking of exemption paper.

#### **1.9.1.8. Canons of Taxation**

The canons that are given by Adam Smith are as follows

- (1) "The subject of every state ought to contribute towards the support of the government as near as possible in proportion to their respective abilities."
- (2) "The tax which individuals bound to pay ought to be certain, and not arbitrary. The time of payment the manner of payment, the quantity to be paid, ought all to be clear and plain to be contribution and to every other person."
- (3) "Every tax ought to be levied at the times, or in another in which it is most likely to be convenient for the contribution to pay."
- (4) "Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the treasury of the state." Besides the above state besides the above stated canon of productivity, canon of flexibility canon of diversity, canon of simplicity and canon of uniformity.

#### **1.9.2. Review of books, journal and thesis**

Some of the book, article dissertations, and other reference materials and in the course of study were reviewed. Some useful given below.

##### **1.9.2.1. Review of thesis**

**Baral Shanty** (1989) has studied "**Income Tax and Tax Structure of Nepal**" She has discussed about contribution of tax in total revenue. Nepalese people are based on agriculture which is exempted from income tax this is the reason's of maximize tax revenue. She explained that the main persons of income tax evasion are

comprehensive divination of income, lack of legal provision to penalize the tax evader, illiteracy of Nepalese people, inefficient tax personal lack of scientific methods of tax collection, labour lack of public in formation Mr. Kedar Bilas Pandey. (1978) Presented his dissertation on “an analysis of income tax in Nepal” om his study, he has shown the role of direct tax in total revenue and tax revenue, domination role of indirect tax in Nepalese tax system and the role of income tax to control the inflationary trend of the country. Also he has discussed the legal aspect role and problems of income tax, structure and economic effect of income tax in Nepal mode of mobilizing additional resources from income tax.

- ❖ **Panta Prameshor** (1996) had presented thesis entitled “**A Study On Income Tax Management Nepal**” his main objectives of research were to find out the share of income tax to government revenue, to review identify the problem of income tax management. HOS research was best upon secondary as well as primary data the primary data were collected within Kathmandu valley through interview questionnaire Etc he had concluded that income tax was major source of internal resource mobilization, the income tax system was not efficient and income tax assessment was not efficient. Evasion of income tax was major constraint for research mobilization, he also assed that corporate tax was found high ard exemption limit was not sufficient. Lastly he had recommended that income tax net should be widened assessment procedure must be from proved and income from agriculture and capital gain should be taxed.
- ❖ **Miss Roshani Shrestha** (1984) wrote a dissertation entitled “**Income Tax in Nepal**” She has explained the historical background of income tax in neap and the role of income tax in Nepalese tax structure. She has studied the problems of income tax in Nepal. He has fund that revenue from the income tax in small due to tax evasion which shows that income tax policy is not well operated and the collective revenue is low. To increase the revenue from taxation, per capita income should first be increased. Growing per capita, real income provides a handed to collect layer tax revenue. To increase income tax revenue, there most be efficient administration. She has suggested that proactive of tax evasion must be check if the taxes are to contribute to the economic to the economic growth in Nepal.
- ❖ **Thapa, Ram Bahadur** (1993) has studied “**Income Tax Assessment Procedure in Nepal.**” He analyzed income tax historical perspective legal provision relating to income tax assessment procedure. Tax authorities are ineffective and inefficient in term of enforcement of laws. Any programs are not integrated it taxpayer such as guidance counseling education assistance etc. harassment, corruption unfair tax act for evasion of tax. The evasion in Nepal is increasing because of inefficient tax administration in poor tax morality lack of incentive to regular taxpayer.
- ❖ **Mr. Shiva Narayan Shahu** (1995) presented master’s level dissertation entitled “**Contribution of Income Tax in National Revenue of Nepal.**” He

study has focused on the role and contribution tax in the economic development of Nepal he has found that very insignificant percent i.e 0.35% of the population of the Nepal fall in income tax bracket. He has shown that income tax occupies the fourth rank in the revenue composition of Nepal. Indirect taxes like custom, excise and rules tax occupy first second and third rank respectively.

- ❖ **Tripathe Daya Raj** (1995) had conducted his research using the 15 years data since 1974/75 to 1989/90. primary data were also used which were also used which were also used which were collected through opinion survey within Kathmandu valley. Simplest statistical tool such as mean and time series were used to analyze the data graphs, charts and diagrams were also used as necessary. From that research, he had concluded that income tax from individual sector had provided maximum contribution in income tax structure and about 80% of total revenue was collected through taxation. Tax evasion had increased due to poor tax administration and delay in tax assessment proves. Lastly, he had income, tax holiday should be given to the firm and administration should be sound and efficient.
- ❖ **Mr. Balada Poudel** (1995) made “**A study on Nepalese tax structure**” He has made a review of revenue structure of Nepal government, analyzed revenue generation from individual taxes analyzed the relationship of direct and indirect taxes with total revenue and G.DP and assessed various weaknesses and put forward suitable recommendations to solve them. He has suggested that tax system will be successful and effective with political support, administrative effectiveness and peoples’ confidence given these conditions the measures to be taken and the policy to be adopted should be such that could generate more revenue for economic development.
- ❖ **Miss Binita Shrestha** (2001) wrote thesis on (2001) “**Revenue collection from income tax in Nepal, problems and prospects**” She has analyzed the effectiveness of income tax collection policy, examined the problems of revenue collection from income tax and recommended measures for improvement of income tax law and management in Nepal. Income tax system of Nepal is suffering from various problems mass poverty of Nepalese people lack of conscious taxpayers, inefficient tax administration, tax hidden, tax payer, instability in government policy, etc.
- ❖ **Mr Hari Bahadur Bhandari** (1984) wrote dissertation entitled “**Contribution of Income Tax to Economic Development of Nepal**” he has studied that examined to collection of tax and its contribution to economic development in Nepal. We have also studied the income tax structure, trend of income tax collection, and the share of contribution of income tax to the development of Nepalese economy. He suggested to overcome those problems such as solving improving tax administration system, checking income tax evasion etc.

### 1.9.2.2 Review of Book

- ❖ **Mr. Kamal Deep Dhakal** (2002) Wrote his revised edition of his book (Aayakar Ththa Ghar-Jaggakar Sambandhi Kar are Lekha. This book is based on tax act 2031. This book is very useful for interested any person taxation this book getting knowledge about history of taxation.
- ❖ **Dr. Puspa Raj Kandel** (2003) Wrote a book (tax law and tax planning and other book wrote 'Nepal Ko Bartman Kar Byabastha' for M.B.S. second year and for BBS third year. It presented this book practical and theoretical aspects on taxation.
- ❖ **Poudel, Santosh Raj and Timilsina Prem Prasad** (1990) published a book "income tax in Nepal. This book they describe detailed computation of incomes from various source and described other theoretical aspect too.
- ❖ **Adhikari R.B.** (2003) discussed the legal provision of new income tax act, 2002. His book is analytical rather than information 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 taxes on income between different countries had also in his book.
- ❖ **K.C. Jit Bahadur** (2007) Wrote books 'tax laws and tax planning' Theory and practice. It includes calculation of tax liability of both individual entities. It explicitly explains inclusion and exclusion from a business and investment income, basic timing and accounting issues and characterization of income. This book explains proper tax payers' responsible for reporting methods of taxation of income and need of compliance.
- ❖ **Mr. K.P Aryal and Mr Surya Prasad Poudel** (2003) wrote a book entitled "Taxation in Nepal". This book is also designed as per the syllabus of B.B.S Third Year. They have also theoretical and practical aspects of taxation in their books.
- ❖ **Mr. Surendra Kshav Amatya, Dr. Bihari Binod Pokharel and Rewam Dahal** (2003) write a book entitled "Taxation in Nepal; This book is also designed to meet the requirements of B.B.S third year syllabus. Theoretical as well as practical aspects of taxation have been included in the book. This book is descriptive one, not analytical
- ❖ **Mr. Ishowar Man Rai and Mr. Narayan Prasad Baskota** (2003) published a book entitled "Taxation in Nepal". This book has also been designed according to the syllabus of B.B.S third year. Computation regarding different source of incomes have been included in this book.

### **1.9.2.3 Journal Review**

Surendara Keshav Amatya (2006) wrote an article entitled “Taxation of Employment income in Nepal, concept computation and Contribution” in PRAVAHA A Journal of management vol 16, July 2006. He has mentioned about Nepalese income tax law, income year and assessment year, heads and source of income, concept of employment computation of income from employment, not chargeable incomes under employment, common reductions, income tax exemption, and assessment of income tax liability on employment income, Surcharge and contribution of employment income to tax revenue of Nepal. He has also shown about estimation and collection of employment income tax during the pas decade. In this study he has clearly pointed that actual collection of employment tax is satisfactory then estimated target.

## Chapter II

### PRESENTATION AND ANALYSIS OF DATA

This chapter deals with the permission, analysis and interpretation of relevant data of taxation in order to fulfill the objective of this study. They obtain best result the data has been analyzed according to the research methodology as mentioned in third chapter. A report can be worth less if interpretation is faulty, even if valid and reliable data have been collected. “The data after collection help to be proceeding and analyzed in accordance with the outline lay down for the purpose at the time of developing the research plan. The purpose of this chapter is to introduce the mechanics of data analysis and interpretation. Data analysis is the relationships of new hypothesis o differences supporting or conflicting with original or new hypothesis should be subjected to statistical test of significance to determine with what validity data can be secured to indicate and conclusion” (Kothari, 2004,11).

#### 2.1. Empirical Analysis

An empirical analysis has been conducted in order to find out various aspect of employment income. For this questionnaires was development and responses were collected from the respondents. A set of 45 questionnaires was received from the respondents. Respondents were classified into employees. The responses \received from various respondents has been arranged tabulated and analysis in orde5rf to facilitated the descriptive analysis for the study.

The questionnaires was asked either for a yes/ no responses or asked ranking of the choices according the number of alternatives where the first choice was the most important. For analysis purpose, choices were assigned weight according to the number of alternatives, if the number of alternatives were five, the first prepared choice would get one point. Any alternatives, which were not ranked, did not get any point. The total points available to each choice were converted into percent with reference to the total points available for all choices. The choice with the percent source as ranked as the most important choice and the one with the percent score was ranked as the last choice. The following table shows the group of respondent.

**Table: 2.1.**

S.No.	Group of respondents	Sample size
1	Tax experts	15
2	Tax Officers	15
3	Employees	15
4	Total	45

Source: Economic Survey 2008

### 2.1.1. Employment income is a suitable means of collecting Government Revenue.

The respondents were asked the questions “Do you think that employment income is suitable means of collecting government revenue?” The responses received from the respondents are tabulated as follows:

**Table 2.2**  
**Employment income is a suitable means of collecting Government Revenue**

Response Respondents	Yes		No		Total	
	NOS	%	NOS	%	NOS	%
Tax experts	6	40	9	60	15	100
Tax officer	7	46.67	8	53.33	15	100
Employees	10	66.67	5	33.33	15	100
<b>Total</b>	<b>23</b>	<b>51.11</b>	<b>22</b>	<b>48.89</b>	<b>45</b>	<b>100</b>

Source: Opinion Survey 2008

The above table 2.2 show that 51.11% of the respondents satisfaction (approved that employment income is a suitable means of collecting government revenue and 48.89% disappeared same questions.

#### Test of Hypothesis

Respondents	Yes	No	Row Total
Tax experts	6	9	15
Tax officer	7	8	15
Employees	10	5	15
Column total	23	22	45

Null Hypothesis, Ho: There is no significant difference in tax experts, tax officer and employees views regarding the employment income is a suitable means of collecting government revenue.

Alternative Hypothesis, H<sub>i</sub>: There is a significant difference in tax experts, tax officer and employees views regarding the employment income is suitable means collecting government revenue.

Test Statistic: Under Ho, the test statistic is; 
$$\chi^2 = \frac{(fo - fe)^2}{fe}$$

Where, Fo = observed Frequency

Fe = Expected Frequency

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



### Calculation of $\chi^2$

(Row, column)	fo	fe	fo – fe	(fo – fe) <sup>2</sup>	$\frac{(fo - fe)^2}{fe}$
(1,1)	6	$\frac{15 \mid 23}{45} \times 7.67$	-1.67	2.79	0.36
(1,2)	9	$\frac{15 \mid 22}{45} \times 7.33$	1.67	2.79	0.23
(2,1)	7	$\frac{15 \mid 23}{45} \times 7.67$	-0.67	0.45	0.06
(2,2)	8	$\frac{15 \mid 22}{45} \times 7.33$	0.67	0.45	0.06
(3,1)	10	$\frac{15 \mid 23}{45} \times 7.67$	2.33	5.43	0.71
(3,2)	5	$\frac{15 \mid 22}{45} \times 7.33$	-2.33	5.43	0.74
					$\frac{(fo - fe)^2}{fe} \times 2.16$

$$\text{Calculated } \chi^2 = \frac{(fo - fe)^2}{fe}$$

$$\begin{aligned} \text{Degree of freedom} &= (r-1)(c-1) \\ &= (3-1)(2-1) \\ &= 2 \times 1 = 2 \end{aligned}$$

Level of Significance

$$\text{Tabulated } \chi^2_{0.05(2)} = 5.991$$

Since the calculated  $\chi^2 <$  tabulated value  $\chi^2$ . It is not significant and  $H_0$  is accepted which means there is no significant difference in tax experts, tax officer and employees views regarding the employment income ix suitable means of collecting government.

#### **2.1.2 Employment tax contributing significantly to the income tax revenue of Nepal**

The respondents was asked questions “**Do you think that employment tax contribution significantly to the income tax revenue of Nepal**” from the respondents received from the respondents are tabulated below.

**Table 2.3**  
**contribution of Employment income to income tax revenue of Nepal**

Response Respondents	Yes		No		Total	
	NOS	%	NOS	%	NOS	%
Tax experts	9	60	6	40	15	100
Tax officers	12	80	3	20	15	100
Employees	12	80	3	20	15	100
	33	73.33	12	26.67	45	100

Source opinion Survey – 2008

The above table shows that 73.33 percent of the respondents show their satisfaction the contribution of employment income to income tax revenue of Nepal and about 26.67 percent of the respondents replied to dissatisfaction employment income's contribution in the income tax revenue Nepal.

Hence, it can be concluded that contribution of Employment income to the income tax revenue is significant.

**Test of Hypothesis:**

Respondents	Yes	No	Row Total
Tax experts	9	6	15
Tax officers	12	3	15
Employees	12	3	15
Column total	33	12	45

Null Hypothesis  $H_0$ : There is no significant difference in tax experts, tax officers and employees views regarding the contribution of employment income to income tax revenue.

Alternative Hypothesis  $H_1$ : There is significant difference in tax experts, tax officers and employees views regarding the contribution of employment income to tax revenue of Nepal.

Test statistic, under  $H_0$ , the test statistic is,

$$x^2 = \frac{(fo - fe)^2}{fe}$$

### Calculation of $x^2$

(Row, column)	fo	fe	fo - fe	(fo - fe) <sup>2</sup>	(fo - fe) <sup>2</sup> fe
(1,1)	9	$\frac{15   33}{45} X_{11}$	-2	4	0.36
(1,2)	6	$\frac{15   12}{45} X_{4}$	2	4	1
(2,1)	12	$\frac{15   33}{45} X_{11}$	1	1	0.09
(2,2)	3	$\frac{15   12}{45} X_{4}$	-1	1	0.25
(3,1)	12	$\frac{15   33}{45} X_{11}$	1	1	0.09
(3,2)	3	$\frac{15   12}{45} X_{4}$	-1	1	0.25
					$\frac{(fo \sum fe)^2}{fe} X_{2.04}$

$$\text{Calculated } x^2 = \frac{(fo - fe)^2}{Fe} = 2.04$$

$$\begin{aligned} \text{Degree of freedom} &= (r-1)(c-1) = (3-1)(2-1) \\ &= 2 \times 1 = 2 \end{aligned}$$

Level of significant  $\alpha = 5\% = 0.05$

Tabulated  $x^2_{0.05}(2) = 5.991$

Conclusion, since calculated  $x^2 <$  tabulated  $x^2$ , it is not significant and  $H_0$  is accepted which means that there is no significant difference in tax experts, tax officer and employees views regarding the contribution of employment income to income tax revenue.

### 2.1.3 Opinions about Exemption Limit of Couple as Compare to individual

To know whether the current exemption limit of couple should be satisfactory as compare to individuals or not, the question asked was “**Is the current exemption limit of couple is satisfactory as compare to individual?**” The response received from the respondents are tabulated below:

**Table 2.4**  
**Opinions about Exemption Limit of Couple as Compare to Individuals**

Response Respondents	Yes		No		Total	
	NOS	%	NOS	%	NOS	%
Tax experts	11	73.33	4	26.67	15	100
Tax officers	5	33.33	10	66.67	15	100
Employees	6	40	9	60	15	100
	22	48.89	23	51.11	45	100

Source – Opinion Survey 2008

The above table shows about 51.11 percent of total respondents suggested that exemption limit of couple is not satisfactory as compare to individuals. While 48.89 percent of respondents viewed that exemption limit of couple is satisfactory as compare to individuals. Thus, from above result, we conclude that current exemption limit of couple is not satisfactory as compare to individuals.

#### Test of Hypothesis

Respondents	Yes	No	Row Total
Tax experts	11	4	15
Tax officers	5	10	15
Employees	6	9	15
Column total	22	23	45

Null Hypothesis, HO: There is no significant difference in tax experts, tax officers and employee's views regarding the current exemption limit of couple as compare to individuals.

Alternative Hypothesis, HI: There is significant differences in tax experts, tax officers and employees views regarding the current exemption limit of couple, as compare to individuals.

Test Statistics: Under Ho, the tests statistics.

$$X^2 = \frac{(f_0 - f_e)^2}{f_e}$$

### Calculation of ( $x^2$ )

Row column	$f_0$	$\underline{f_e}$	$f_0 - f_e$	$(f_0 - f_e)^2$	$\frac{(f_0 - f_e)^2}{f_e}$
(1.1)	11	$\frac{15 \times 22}{45} = 7.33$	3.67	13.47	1.22
(1.2)	4	$\frac{15 \times 23}{45} = 7.67$	-3.67	13.47	3.37
(2.1)	5	$\frac{15 \times 22}{45} = 7.33$	-2.33	5.43	1.08
(2.2)	10	$\frac{15 \times 23}{45} = 7.67$	2.33	5.43	0.54
(3.1)	6	$\frac{15 \times 22}{45} = 7.33$	-1.67	2.79	0.47
(3.2)	9	$\frac{15 \times 23}{45} = 7.67$	1.33	1.77	0.27
					$\frac{(f_0 - f_e)^2}{f_e} =$ $\frac{6.88}{f_e}$

$$\text{Calculated } x^2 = \frac{(f_0 - f_e)^2}{f_e} = 6.88$$

$$\begin{aligned} \text{Degree of freedom} &= (r - 1) (c - 1) \\ &= (3 - 1) (2 - 1) \\ &= 2 \times 1 \\ &= 2 \end{aligned}$$

Level of significance  $\alpha = 5\% = 0.05$

Tabulated  $x^2_{0.05(2)} = 5.991$

Conclusion since calculated ( $x^2$ ) > tabulated, it is significant and it is significant and it, is accepted which means that there is significant differences in tax experts, tax officers and employees views regarding the current exemption limit of couple as compare to individuals.

#### 2.1.4. Suggestion for the Exemption Limits

A supplementary question was asked “**If not, how much amount would you suggested for the exemption limit?**” The opinions about for individuals and copies are shown below separately. The opinions of respondents about individuals are presented in the following table.

**Table 2.5**  
**Suggestion for the Exemption Limit**

Respondents	Range of exemption limit (Rs)								
	Total	130000-150000		150000-170000		170000-190000		More than 190000	
		Nos	%	Nos	%	Nos	%	Nos	%
Tax experts	8	3	37.5	2	25	2	25	1	12.5
Tax officers	9	2	22.22	4	44.44	2	22.22	1	11.11
Employees	10	3	30	5	50	1	10	1	10
Total	27	8	28.57	11	40.74	5	17.86	3	11.11

Source -Opinion Survey 2008

From above table, about 37.5 percent of the tax experts suggested that exemption limit should be in the range between Rs 130000 – 150000, 25 percent suggested between Rs 150000 – 170000, 25 percent suggested between 170000 – 190000 , 12.5 percent more than 190000. Similarly 22.22 percent of tax officers suggested that exemption limit should be in the range between Rs 130000 – 150000m, 44.44 percent suggested Rs 150000 – 170000, 22.22 present suggested Rs. 170000-190000, and 11.11 percent suggested more than 190000. Similarly , 30 [percent of employees suggested that exemption limit should be in the range between Rs 130000 – 150000, 50 percent suggested Rs 150000 – 170000, 10 percent suggested Rs 170000 – 190000, 10 percent suggested more than 190000. So that current exemption limit of individuals should be in the range between 150000 – 170000. Similarly the opinions of respondents about couples are presented in the following table.

**Table 2.6**  
**Suggestion for the exemption**

Respondents	Range of exemption limit (Rs)								
	Total	160000-180000		180000 - 200000		200000 - 220000		More than 220000	
		Nos	%	Nos	%	Nos	%	Nos	%
Tax experts	8	3	25	3	37.5	2	25	1	12.5
Tax officers	9	2	33.33	3	33.33	2	22.22	1	11.11
Employees	10	3	30	4	40	1	10	2	20
Total	27	8	28.57	10	37.04	5	18.51	4	14.81

Source -Opinion Survey 2008

From the above table about 33.33 percent of tax experts suggested that exemption limit should be in the range between Rs. 160000 – 180000, 37.5 percent suggested between Rs 180000 – 200000, 25 percent suggested between Rs 200000 – 220000, 12.5 percent suggested between more than Rs 220000 Similarly 33.33 percent of tax officers suggested that exemption limit should be in the range between Rs 160000 - 180000, 33.33 percent suggested between Rs 180000 – 200000, 22.22 percent suggested Rs 200000 – 220000, 12.5 percent suggested between more than 220000. Similarly, 30 percent suggested employees between Rs 160000 – 180000, 40 percent suggested between 180000 – 200000, 10 percent suggested between Rs 200000 –

220000, 20 percent suggested between more than 220000. So we concluded that current exemption limit of couple should be in the range Rs 180000 – 200000.

### **2.1.5 Opinion to towards factor for increasing the contribution of Employment income to income Tax Revenue of Nepal.**

The respondents asked the question, “**How can the contribution of income from employment to income tax revenue be increase?**” The following table shows the rank wise responses received from the respondents.

**Table 2.7**  
**Factor for increasing the contribution of Employment income to income tax revenue of Nepal**

<b>S.No.</b>	<b>Alternative</b>	<b>Total points</b>	<b>Percent</b>	<b>Remarks</b>
a.	Reduction in exemption limit	50	11	4
b.	Increasing tax rates	200	43	1
c.	Making tax deduction at source effective	80	17	3
d.	Change in income tax policy, rule and regulation	100	21	2
e.	Others	40	8	5
	<b>Total</b>	<b>470</b>	<b>100</b>	<b>15</b>

Source – opinion survey

2008

The above table, we find that most important income tax revenue be increase; increase tax rates. While ranking together the opinions of both the groups the corresponding prioritized tax revenue be increase are as follows:

1. Increasing tax rate.
2. Change in income tax policy rule and regulation
3. making tax deduction at source effective
4. Reduction in exemption limit
5. Others

### **2.1.6 Exemption and Deduction items of income from employment:**

Respondents was a asked question; “**Do you think that exempted and deducted items of income from employment are sufficient?**” The responses received from the respondents are tabulated below.

**Table 2.8**  
**Exempted and deducted items from employment income.**

Response Respondents	Yes		No		Total	
	NOS	%	NOS	%	NOS	%
Tax experts	10	66.67	5	33.33	15	100
Tax officers	9	60	6	40	15	100
Employees	13	86.67	2	13.33	15	100
	32	71.11	13	28.89	45	100

Source : Opinion Survey 2008

From above table it is clear that 71.11 percent of the respondents responded that exempted and deducted items of income from employment are sufficient and just 28.89 percent of the respondents that exempted and deducted items of income from employment are not sufficient.

#### Text of Hypothesis

Respondents	Yes	No	Row Total
Tax experts	10	5	15
Tax officers	9	6	15
Employees	13	2	15
Column total	32	13	45

Null Hypothesis  $H_0$ : There is no significant difference in tax experts, tax officers and employees views regarding exempted and deducted items of income from employment are sufficient.

Alternative Hypothesis  $H_1$ : There is significant difference in tax experts, tax officers and employees views regarding exempted and deducted items of income from employment are sufficient.



Text statistic, under, Ho the test statistic is

$$x^2 = \frac{(fo - fe)^2}{fe}$$

### Calculation of $x^2$

(Row, column)	fo	fe	fo - fe	(fo - fe) <sup>2</sup>	$\frac{(fo - fe)^2}{fe}$
(1,1)	10	$\frac{15 \times 32}{45} \times 10.67$	-0.67	0.45	0.04
(1,2)	5	$\frac{15 \times 13}{45} \times 4.33$	0.67	0.45	0.10
(2,1)	9	$\frac{15 \times 32}{45} \times 10.67$	-1.67	2.79	0.26
(2,2)	6	$\frac{15 \times 13}{45} \times 4.33$	1.67	2.79	0.64
(3,1)	13	$\frac{15 \times 32}{45} \times 10.67$	3.67	13.47	1.26
(3,2)	2	$\frac{15 \times 13}{45} \times 4.33$	2.33	5.43	1.25
					$\frac{(fo - fe)^2}{fe} \times 3.55$

$$\text{Calculated } x^2 = \frac{(fo - fe)^2}{fe} = 3.55$$

Degree freedom = (r-1) (c-1)

$$= (3-1) (2-1)$$

$$= 2 \times 1$$

$$= 2$$

Level of Significance  $\alpha = 5\% = 0.05$

Tabulated  $x^2_{0.05(2)} = 5.991$

Since calculated  $x^2 <$  tabulated  $x^2$  it is not significant and Ho, is accepted which means that there is no significant difference in tax experts , tax officers and employees views regarding exempted and deducted items of income from employment are sufficient.

### 2.1.7 Problem Faced Employees while paying Employment tax

The respondents was asked question “**What types of problem that employees faced while paying employment tax?**” The responses received from the respondents are tabulated below:

**Table 2.9**  
**Opinion towards problem faced by employees while paying employment tax**

S.No.	Alternative	Total points	Percent	Remarks
a.	Due to lack of taxation knowledge, employees do not know on how to file return	220	24	2
b.	Procedure Complication	240	26	1
c.	Weak and immature treatment by tax administration	150	17	4
d.	Hesitation to pay income tax due to income	170	19	3
e.	Other	130	14	5
		190	100	15

Source opinion survey 2008

From above table we found that most important problem faced by employees while paying employment tax is procedural complication. While ranking together the opinions of both the group the corresponding prioritized problems are as follows:

1. Procedure Complication.
2. Due to lack of taxation knowledge, employees do not know to file return.
3. Hesitation to pay income tax due to income.
4. Weak and immature treatment by tax administration.
5. Others.

### 2.1.8 Opinion towards some taxable incomes to be made Tax Exempted

The respondents was asked a questions “What incomes (currently be taxed) would you expect to be made tax exempted?” The respondents received from the respondents are tabulated below.

**Table 2.10**  
**opinion towards some taxable income to be made Tax Exempted.**

S.No.	Income	Total points	Percent	Remarks
a.	Medical expense, life insurance premium paid by employer	110	15	4
b.	Dashin allowance	160	23	2
c.	Transportation allowances	120	17	3
d.	House rent allowances	240	34	1
e.	Other allowances	80	11	5
	<b>Total</b>	<b>710</b>	<b>100</b>	<b>15</b>

Source – opinion survey 2008

From above table, we found that most important head of income to be made tax exempted is house – Rent allowances. While ranking together the opinions of both the

groups, the corresponding prioritized reasons for making some taxable income tax – exempted are as follows.

1. House – Rent allowance.
2. Dashin allowance.
3. Medical expense, life insurance premium paid by employer.
4. Transportation allowances.
5. Others.

### 2.1.9. Opinion towards employment insurance exempted facility

The respondents asked to questions “Your opinion current income tax rule facility employment deducting the premium consisting 7% of insured amount or Rs 10000 or actual amount paid whichever is less is appropriated.” The response received from the respondents is tabulated as below.

**Table 2.11**  
**Opinion towards Employment insurance exempted facility.**

Respondents	Yes		No		Total	
	Nos	%	Nos	%	Nos	%
Tax experts	5	33.33	10	66.67	15	100
Tax officers	9	60	6	40	15	100
Employees	3	20	12	80	15	
Total	17	37.78	28	62.22	45	100

Source : Opinion Survey 2008

From above table, it has been clear that about 37.78 percent of the respondents that current employment insurance exempted facility satisfactory above 62.22 percent of the respondents replied that current insurance exemption facility was satisfactory.

### Test of Hypothesis

Respondents	Yes	No	Total
Tax experts	5	10	15
Tax officers	9	6	15
Employees	3	12	15
Column Total	17	28	45

Null hypothesis Ho: There is no significant differences in tax experts, tax officers and employees views regarding current insurance facility.

**Alternative Hypothesis:** HI: There is significant differences in tax experts, tax officers and employees views regarding current insurance facility. Test Statistics, under Ho

$$X^2 = \frac{(f_0 - f_e)^2}{f_e}$$

**Calculation of ( $x^2$ )**

Row column	$f_0$	$f_e$	$f_0 - f_e$	$(f_0 - f_e)^2$	$\frac{(f_0 - f_e)^2}{f_e}$
(1,1)	5	$\frac{15 \times 17}{45} = 5.67$	-0.67	0.45	0.09
(1,2)	10	$\frac{15 \times 28}{45} = 9.33$	0.67	0.45	0.04
(2,1)	9	$\frac{15 \times 17}{45} = 5.67$	3.33	11.09	1.23
(2,2)	6	$\frac{15 \times 28}{45} = 9.33$	-3.33	11.09	1.85
(3,1)	3	$\frac{15 \times 17}{45} = 5.67$	-2.67	7.13	2.38
(3,2)	12	$\frac{15 \times 28}{45} = 9.33$	2.67	7.13	0.59
					$\frac{(f_0 - f_e)^2}{f_e} = 6.18$

Degree of freedom = (r - 1) (c - 1)  
 = (3 - 1) (2 - 1)  
 = 2 x 1  
 = 2

Level of significance  $\alpha = 5\% = 0.05$

Tabulated  $x^2_{0.05(2)} = 5.991$

**CONCLUSION**

Since calculated  $x^2 >$  tabulated  $x^2$ , it is a significant and HI is accepted which means that there is significant differences in tax experts, tax officer and employees opinion regarding current insurance facility.

**2.1.10. Major Finding**

- a) Major source of government revenue is employment income.
- b) Contribution of employment income to income tax revenue has not been found satisfactory due to various reasons like tow pay sale of employees, ineffectiveness in implementation of the act, tax evasion etc.

- c) Medical expense, life insurance paid by employer, Dashain and transportation allowances should be made tax exempted incomes.
- d) Current exemption limit is not satisfactory family should be provided higher exemption limit in comparison to individuals.
- e) The exempted and deducted items of income from employment are not sufficient.
- f) Major problem that employees faced while paying income tax is procedural complication.
- g) Income tax insurance exempted facility is not appropriate.

## **2.2. Analysis of Secondary Data**

This chapter focuses on the presentation and analysis of secondary data. The secondary data have been obtained from economic survey, budget speech and other related newspapers. The available data were analyzed and interpreted to reach some findings.

The data collected from economic survey and other related newspaper have been analyzed by dividing into sub-headings. They are following:

1. Structure of government revenue in Nepal.
2. Tax and non-tax revenue in Nepal.
3. Structure of direct tax in Nepal.
4. Contribution of income tax in total revenue total tax revenue and direct tax revenue of Nepal.
5. Structure of income tax in Nepal.
6. Contribution of employment tax to total tax, direct tax and income tax revenue of Nepal.
7. Structure composition of income tax collection in Nepal
8. Fiscal gap in Nepal
9. Direct tax and indirect tax revenue in total tax revenue of Nepal.
10. Resource gap in Nepal.

They are eleven years period i.e. From the F.Y. 1997/98 to F.Y. 2007/08

### **2.2.1. Structure of government revenue in Nepal**

Government revenue of Nepal is comprised of tax revenue and non-tax revenues. Tax revenues consist of custom, tax on consumption and product of good and service, land revenue and registration and tax on property, profit and income, similarly non-tax revenue include changes, fees, fines and forfeiture, receipts from sale of fixed assets, principal and interest payment, and miscellaneous in Nepal has been presented in table 2.12 and 2.13 for eleven years period from F.Y. 1997/98 to F.Y. 2007/08.

**Table 2.12**  
**Structure of Government Revenue in Nepal from FY 1997/98 to FY 2007/08**

Rs. In Millions

<b>F.Y.</b>	<b>Customs</b>	<b>Tax on consumption and product of goods and service</b>	<b>Land revenue and registration</b>	<b>Tax property profit and income</b>	<b>Total tax revenue</b>	<b>Non tax revenue</b>	<b>Total revenue</b>
1997/98	8502.2	11249.7	1004.2	51837	25939.8	6997.1	32937.9
1998/99	9517.7	11719.1	1003.2	6512.9	28752.2	8498.4	37251.3
1999/00	10813.3	13387.3	1015.9	7935.6	33152.2	9741.6	42893.7
2000/01	12552.1	16153.6	612.9	9546.5	38865.1	10028.6	48893.7
2001/02	12658.8	16074.3	1131.8	9465.7	39330.6	11114.9	50445.5
2002/03	14236.4	18244.8	1414.3	8691.9	42586.9	13642.9	56229.8
2003/04	15554.8	20705.6	16975	10215.1	48173.0	14158.0	62331.0
2004/05	15701.6	25331.3	1799.2	11272.6	54104.7	16018.0	70122.7
2005/06	15344.0	28118.3	2181.1	11787.0	57430.4	14851.7	72282.1
2006/07	16707.6	35438.8	2253.5	16726.8	71126.7	16585.5	87712.2
2007/08	14033.9	24182.3	1348.1	11334.5	50898.8	9993.5	60892.3

Source – Economic Survey: 2007/08 Ministry of Finance GON.

**Table 2.13**  
**Structure of government revenue in Nepal from F.Y. 1997/98 to 2007/08**

<b>F.Y.</b>	<b>Customs</b>	<b>Tax on consumption and product of goods and service</b>	<b>Land revenue and registration</b>	<b>Tax property profit and income</b>	<b>Non tax revenue</b>	<b>Total revenue</b>
1997/98	25.81	34.15	3.05	15.74	21.25	100
1998/99	25.55	31.15	2.69	17.48	22.82	100
1999/00	25.21	31.21	2.37	18.5	22.71	100
2000/01	25.67	33.03	1.25	19.53	20.52	100
2001/02	25.09	31.86	2.24	18.76	22.03	100

2002/03	25.32	32.44	2.52	15.46	24.26	100
2003/04	24.96	33.22	2.72	16.39	22.71	100
2004/05	22.39	36.90	2.57	16.08	22.84	100
2005/06	21.33	38.90	3.02	16.31	20.55	100
2006/07	19.05	40.40	2.57	19.07	18.91	100
2007/08	23.05	39.71	2.21	18.61	16.41	100

Source – Economic Survey: 2007/08 Ministry of Finance GON

Above table 2.21 and 2.13 by the various tax and non-tax revenue, tax on consumption and product of goods services has the highest percent of contribution, towards total revenue of Nepal. Its contribution in millions of Rupees has been increasing each year but because FY. 2007/08. in F.Y. 1997/98 total revenue was 32937.9 millions and tax on consumption and product of good and services was Rs.11249.7 million, which indicated 34.15% tax on consumption and product of good and services to total revenue Rs.608928, million, tax and consumption and product of good and services has the share 24182.3 millions, which means 39.71% contribution the mean contribution of tax on consumption and product goods and services over the eleven years is 35.47% of the total revenue of Nepal.

The custom is second position the total revenue. The contribution of customs has been showing increasing trend in the F.Y. 1997/98 out of total revenue of Rs.32937.9 million, Rs.8502.2 millions was raised from customs. It means 25.81% contribution to the total revenue by custom. In F.Y. 2007/08 Rs.14038.9 has been some decrease customs out of total revenue of Rs.60892.3 but percent is increase total revenue. This means contribution of customs over the eleven years period. 23.42% is the highest revenues sources in total revenue of Nepal.

Non-tax revenue occupies the third place regarding its contribution to total revenue of Nepal. Its contribution was Rs.6998.1 million in F.Y. 1997/98 and Rs.9993.50 millions in F.Y. 2007/08. It has been increasing fiscal 10 years but F.Y. 2007/08 decreasing non-tax revenue. This means contribution of non-tax revenue over the 11 years came to be 19.55 percent.

Tax on property, profit and income occupied the forth place regarding its contribution to the total revenue of Nepal. Tax on property, profit and income consists of income tax, semi public enterprise, income tax from employments, urban house and land tax, vehicle tax, tax from individuals, tax on interest and other taxes. It has been contribution of Rs.5183.7 millions and 1133.45 million of the totals per year. This means contribution of tax on property, profit and income in total revenue of Nepal 15.66 percent.

Land revenue registration occupied the fifth place regarding its contribution to the total revenue of Nepal. It contribution in F.Y. 1997/98 was Rs.1004.2 millions i.e. 3.05% and 1m F.Y. 2007/08 was 1348.1 millions i.e.2.21% in total revenue of Nepal. Land revenue and registration has been lowest average contribution of 2.49 percent in total revenue of Nepal. The percent contribution in total revenue has been increasing per year except for certain years.

## 2.2.2 Tax and Non-Tax Revenue in Nepal.

### Total revenue of Nepal consists of tax revenue and Non-tax revenue

Tax revenue consists of tax revenue and Non-tax revenue tax revenue consists of custom, excise, sales tax, income tax, land revenue and registration and miscellaneous taxes. Similarly, non-tax revenue comprise of charges, fees, fines, and forfeiture, receipts from sales of commodities and service dividend, royalty and sale of fixed assets, principal and interest payments and then.

**Table 2.14**  
**Composition of Tax and Non-Tax Revenue in Nepal from F.Y.1997/98 to F.Y.2007/08 Table is given below:**

F.Y.	Total Revenue	Tax Revenue	In Percent (%)	Rs. In Million	
				Non-tax Revenue	In percent (%)
1997/98	32937.9	25939.8	78.75	6998.1	21.25
1998/99	37251.3	28752.9	77.19	8498.1	22.81
1999/00	42893.7	33152.2	77.29	9741.6	22.71
2000/01	48893.7	38865.0	79.49	10028.6	20.51
2001/02	50445.5	39330.6	77.97	11114.9	22.03
2002/03	56229.8	42568.9	75.74	13642.9	24.26
2003/04	62331.0	48173.0	77.28	14158.0	22.72
2004/05	70122.7	54104.7	77.16	16018.0	22.84
2005/06	72282.1	57430.4	79.45	14851.7	20.55
2006/07	87712.2	71126.7	81.09	16585.5	18.91
2007/08	60892.3	50898.8	83.59	9993.5	16.41

Source: Economic Survey 2007/08, Ministry of Finance, GON

Table 2.14 showed the composition of tax and non-tax revenues in Nepalese revenue structure for the eleven years i.e. F.Y. 1997/98 to F.Y. 2007/08. In Nepalese revenue structure, tax revenue has always been nearly five times of non-tax revenue. This means contribution of tax revenue in total revenue of Nepal. The amount of tax revenue has been increasing per year. In F.Y. 1997/98, out of total revenue of Rs.32937.9 millions 78.75 percent i.e. Rs.25939.8 millions has been contributed by tax revenue. Its contribution in F.Y. 2007/08 out of total revenue of Rs.60892.3 millions, 83.69 percent i.e. Rs.50898.8 millions has been collected from tax revenue. This means contribution of tax revenue over the eleven years period is 78.84 percent. Non-tax revenue was the lowest contribution as compared to tax revenue. Its contribution to



total revenue has been increasing trend but F.Y. 2005/06 to 2007/08 decreasing trend. In R.Y. 1997/98, Rs.6998.1 millions has been collected as non-tax revenue out of total revenue Rs.32937.9 millions which is about 21.25 percent of total revenue. In F.Y. 2007/08 out of total revenue of Rs.60892.3millions, Rs.9993.5 millions has been contributed from non-tax revenue. This means contribution of non-tax revenue in the 11 years period is 21.16 percent.

### 2.2.3. Direct tax and indirect tax revenue in total tax revenue of Nepal

Total revenue consists of tax revenue and non-tax revenue. Total revenue consists of direct tax revenue the composition of direct tax and indirect tax revenue in total tax revenue of the country from the F.Y. 1997/98 to F.Y. 2007/08. Direct tax includes income tax land revenue and registration, urban house and land tax, property tax, vehicle tax etc. Indirect tax include customs, excise, vat entertainment tax hotel tax, air flight tax, contact tax, road and bridge maintenance tax.

**Table 2.15**  
**contribution of direct and indirect tax in total tax revenue of Nepal form F.Y.**  
**1997/98 – F.Y. 2007/08.**

Rs. In Million					
F.Y.	Total tax revenue	Direct tax revenue	Percent (%)	Indirect tax revenue	Percent (%)
1997/98	25939.8	6187.9	23.85	19751.9	76.15
1998/99	28752.9	7516.1	26.14	21236.8	73.86
1999/00	33152.5	8951.5	27.00	24200.6	73.00
2000/01	33886.5	10159.4	26.14	28705.7	73.86
2001/02	39330.6	10597.5	26.94	28733.1	73.06
2002/03	42586.9	10105.7	23.73	3248.2	76.27
2003/04	48173.0	11912.5	24.73	36260.5	75.27
2004/05	54104.7	13071.9	24.16	41032.8	75.84
2005/06	57430.4	13968.1	24.32	43462.3	75.68
2006/07	71126.7	18980.3	26.69	52146.4	73.31
2007/08	50989.8	12682.6	24.92	38216.2	75.08

Source – Economics survey 2007/08, Ministry of Finance, GON

In F.Y. 1997/98 out of total tax revenue of Rs.259398 millions, Rs. 61879 millions and Rs. 197519 millions have been contributed by direct tax revenue and indirect tax revenue respectively it means about 32.85% and 67.15% of total tax revenue have

been contributed by direct tax and indirect tax revenues respectively. In F.Y. 2007/08 of total tax revenue of Rs.12682.6 millions and Rs. 38216.2 millions have been collected as direct tax and indirect tax respectively i.e. 24.92 percent and 75.08 percent of total tax revenue have been collected from direct tax and indirect tax revenue respectively. By the comparison of direct tax and indirect tax revenue, indirect tax has significant contribution in the total tax revenue of Nepal.

The mean contribution of direct tax revenue, Rs. 23.28 percent in total tax revenue where as indirect tax revenue has mean contribution of 76.72 percent in total tax revenue from the F.Y. 1997/98 to F.Y. 2007/08.

#### 2.2.4. Structure of direct tax in Nepal

The structure of direct tax revenue is the composition of income tax revenue, land revenue registration and miscellaneous taxes and the for composition is show in table 2.16

**Table No. 2.16**

F.Y.	Rs. In Million							
	Direct tax revenue	%	Income tax	%	Land revenue and registration	%	Mis. cellaneous taxes	%
1997/98	6187.9	100	4898.1	79.16	1004.2	16.23	285.6	4.61
1998/99	7516.1	100	2170.2	82.09	1003.2	13.35	342.7	4.56
1999/00	8951.5	100	7420.6	82.90	1015.9	11.35	515.0	5.75
2000/01	10159.4	100	91140.0	89.71	612.9	6.03	432.5	4.26
2001/02	10597.5	100	8903.7	840.2	1131.8	10.68	562.0	5.3
2002/03	10105.7	100	8131.9	80.47	1414.3	14.0	559.5	5.53
2003/04	11912.5	100	9514.4	79.87	16975	14.25	700.6	5.88
2004/05	13071.9	100	10466.2	80.07	1799.2	19.76	806.5	6.17
2005/06	13968.1	100	10939.4	78.32	2181.1	15.61	847.6	6.06
2006/07	18980.3	100	15731.8	82.88	22583.5	11.87	995.0	5.24
2007/08	12682.6	100	10457.3	82.45	1348.1	10.63	877.2	6.92

Source : Economic Survey 2007/08 Ministry of Finance GON

Income tax occupied highest contribution various taxes in direct tax revenue. Income tax revenue consists of income tax from public enterprise, semi public enterprise, private co-interest and other taxes. The contribution of income tax revenue has been showing and increasing trend but F.Y. 1997/98 out of direct tax revenue of 6187.9 millions Rs.4898.1 millions has been contributed by income tax revenue. This is about 79.16% of the total direct tax revenue in F.Y. 2007/08 out of total direct tax revenue of 12682.6 millions, Rs 10457.3 millions has been contributed by income tax revenue.

It is about 82.45% of the total direct tax revenue. The mean contribution of income tax over the 11 years period comes to be 81.97 percent of the direct tax revenue of Nepal.

Land revenue and registration occupied second position direct tax revenue. The trend of land revenue and registration is fluctuating. F.Y. 1997/98, out of total direct tax revenue Rs 6187.9 millions, Rs 1004.2 millions was contribution by land revenue and registration. It is 16.23 % of total direct tax revenue. In F.Y. 2007/08 total direct tax revenue was 1282.6 millions and land revenue and registration amounted to Rs.1348.1 millions, which is 10.63% of direct tax revenue. The mean contribution of land revenue and registration over that 11 years period comes to be at 12.46% of the direct tax revenue of Nepal.

Miscellaneous taxes occupied last position many taxes. The trend of miscellaneous taxes has been fluctuating. In F.Y.2007/08 Rs. 877.2 millions has been collected as miscellaneous taxes out of Rs. 12682.6 millions of direct tax it was 6.92 percent of total direct taxes. The mean contribution of miscellaneous taxes over the 11 years period come to be at 5.57% of the direct taxes revenue of Nepal.

### 2.2.5. structure of income tax in Nepal

Nepalese income tax structure is formed by. Contribution of income tax from public enterprise, semi-public enterprise, private corporate bodies, individuals, employment, tax on interest other. This has been presented in table 2.16 and 2.17 Here, public enterprise consists of 100 percent government ownership and semi-public enterprise include 51% government ownership. Private corporate bodies mean public limited companies individuals dente sole traders, partnership and private companies. Employment refer to salaries earned by government and non-government sectors employers.

**Table 2.17**  
**Composition of income tax in Nepal from F.Y. 1997/98 to 2007/08**

Rs In Millions

F.Y.	Total income tax revenue	Public enterprise	Semipublic enterprise	Private corporate bodies	Individuals	Employment remuneration	Tax on interest	Other taxes
1997/98	4898.1	1317.8	-	925.1	2120.8	322.2	212.5	-
1998/99	6170.2	1526.5	-	1155.0	2772.7	396.5	319.5	-
1999/00	7420.6	2198.8	-	1339.5	3016.4	451.5	414.4	-
2000/01	9114.0	2928.0	0.0.0.	1924.3	3200.5	597.3	463.9	-
2001/02	8903.7	1769.3	0.0.0.	1412.0	4419.1	835.6	467.7	-
2002/03	8131.9	1251.0	0.0.0.	1236.3	3362.2	1252.6	864.0	165.8
2003/04	9514.5	2,056.6	0.0.0.	1531.3	3533.4	1331.2	733.4	268.6
2004/05	10466.1	1,33.2.4	0.0.0.	2467.8	3926.3	1675.9	757.0	306.7
2005/06	10939.4	195.7	0.0.0.	3404.3	4234.7	1764.1	774.9	565.7
2006/07	15731.8	1019.7	0.0.0.	5717.1	5234.4	2007.9	1054.9	697.8
2007/08	10457.3	137.3	0.0.0.	3645.6	3393.1	1428.4	751.5	1101.4

Source- Economic Survey 2007/08, Ministry of Finance, GOV

From the above table total income tax revenue seemed to have an increasing trend up to F.Y. 2000/01. Then in 2001/02 and 2002/03, it is decreasing trend but F.Y. 2003/04 increasing trend but except F.Y. 2007/08 in F.Y. (1997/98 Rs 4898.1 millions was raised from income tax revenue in F.Y. 2007/08 rs10457.3 millions was raised as income tax revenue.

The income tax contribution of individuals has occupied first position in total income tax revenue of Nepal in F.Y. 1997/98, Rs 2120.8 millions was raised from individuals as income tax. From then it has been increasing trend up to F.Y. 2006/07 but except F.Y. 2007/08 in the F.Y. 2007/08 out of total income tax revenue of 10457.3 millions Rs.3393.1 millions has been raised, from individuals it is about 38.54% contribution by individuals in the total income tax revenue. The mean contribution of income tax from individuals in total income tax revenue from F.Y. 1997/98 to F.Y. 2007/08 has been computed to be 38.54 percent.

Income tax from public enterprise has occupied third position regarding its contribution in total income tax revenue of Nepal in F.Y. 1997/98 out of total income tax revenue of Rs. 4898.1 millions, Rs 1317.8 millions has been contributed by public interplay. From then, it has been increasing trend up to 2000/01, Then it is significantly decreasing each fiscal year, but more decreasing trend 2007/08 in F.Y. 2007/08 out of total income tax revenue of Rs10457.3 millions, Rs. 137.3 million has been contributed by public enterprise. The mean contribution of income tax from public enterprise in total income tax revenue has been computed to be 15.46 percent at an average.

Private corporate bodies occupied second position out of total income tax revenue in F.Y. 1997/98, private corporate bodies paid Rs. 925.1 millions, out of Rs. 4898.1 millions total income tax revenue ie private corporate bodies contribution 18.89% of total income tax revenue in F.Y.1997/98 its contribution has been increasing trend up to 2000/01 and then its is decreasing 2001/02 and 2002/03. Again it has been increasing trend but F.Y. 2007/08 is decreasing. In F.Y. 2007/08 out of total income tax revenue of Rs. 10487.3 millions, private corporate bodies have contributed of private corporate bodies form F.Y. 1997/98 to F.Y.2007/08 comes to be 24.33 percent

Income tax from emplacement (remuneration) has occupied fourth position I total income tax revenue of Nepal. In the F.Y. 1997/98, total income tax revenue was Rs.4898.1 millions and Rs. 322.2 millions was contributed by employment income tax. Income tax from employment has been increasing in all the fiscal years and come tax revenue was Rs. 10457.3 millions, Rs. 1428.4 millions as income tax from employment. The mean contribution of tax from employment on total income tax revenue came to be about 11.91 percent.

Tax on interest has occupied fifth position in total income tax revenue in F.Y. 1997/98 Rs. 212.2 millions was collected us tax on interest out of Rs. 48898.1 millions of total income tax revenue. It has been increasing trend in all all years except, 2003/04,

2004/05, 2006/07 and 2007/08, out of total income tax revenue 10547.3 millions 751.5 millions has been collected as interest tax F.Y. 2007/08. the mean contribution of tax on interest came to be 6.10 percent of total income tax revenue other taxes has occupied sixth position in total income tax revenue. In F.Y. 1997/98 to 2001/02 not collected other taxes. It has been collected start from 2002/03 In F.Y.2002/03 Rs. 165.8 millions was collected as other taxes out of 8131.9 millions of total income tax revenue other taxes has been increasing trend in all fiscal years, out of total income tax revenue Rs. 10457.3 millions, Rs. 1104.4 millions has been collected other taxes. The mean contribution of other taxes came to be 3.05 percent of total income tax revenue.

Semi-public enterprise has very insignificant contribution in income tax revenue contribution of semi-public enterprise to income tax revenue has been mil.

Contribution of public enterprise, semi-public enterprise, private corporate bodies, individuals, employment, tax on interest and other taxes to total income tax revenue in shown as table2.18.

**Table 2.18**  
**Composition of Income Tax in Nepal from F.Y. 1997/98-F.Y. 2007/08**

F.Y.	Total Income Tax Reven ue	Public Enterpri se	Semi- Public Enterpri se	Private Corpora te Bodies	Individua ls	Employme nt	In Percent.	
							Tax on Intere st	Othe r Taxe s
1997/98	100	26.90	-	18.89	43.30	6.58	4.33	0
1998/99	100	24.74	-	18.72	44.94	6.43	5.18	0
1999/00	100	29.63	-	18.05	40.65	6.08	5.58	0
2000/01	100	32.13	0	21.11	35.12	6.55	5.09	0
2001/02	100	19.87	0	15.86	49.63	9.38	5.25	0
2002/03	100	15.38	0	15.20	41.34	15.40	10.62	2.04
2003/04	100	21.61	0	16.09	37.14	14.62	7.71	2.82
2004/05	100	12.73	0	32.58	37.51	16.01	7.23	2.93
2005/06	100	17.79	0	31.11	38.72	16.13	7.08	5.17
2006/07	100	6.48	0	36.34	33.27	12.76	6.71	4.44
2007/08	100	1.31	0	34.86	32.45	13.66	7.19	10.53

Total income tax revenue is the combination of income from public enterprise semi-public enterprise, private corporate bodies, individuals, employments, tax on interest and other taxes total income tax revenue is 100 percent income tax contribution of individual has occupied first position in income tax revenue of Nepal in F.Y. 1997/98 43.30 percent of income tax revenue was raised form individuals in F.Y. 2007/8 it contributed only 32.45 percent. The mean contribution of income tax from individuals in total income tax revenue form F.Y. 1997/98 to F.Y. 2007/08 has computed to be 38.54 percent

The percent contribution of public enterprise occupied third position on total income tax revenue of Nepal. Its percent contribution has been also fluctuating trend. In F.Y. 1997/98 the percent contribution of public enterprise to total income tax revenue was 26.90 percent, But in F.Y. 2007/08 this is about just 1.13 percent. The mean contribution of income tax from public enterprise in total income tax revenue has been computed to be 15.46 percent.

Private corporate bodies occupied second position out of total income tax revenue. In F.Y. 1997/98 private corporate bodies contributed 18.89 percent of total income tax revenue. Its percent contribution has been fluctuating trends in F.Y. 2007/08 it is about highest contribution 34.86 percent in total income tax revenue form F.Y. 1997/98 comes to be 24.33 percent.

The percent contribution of income tax from employment has occupied forth position in total income tax revenue of Nepal. In F.Y. 1997/98 6.58 percent was contributed by employment. Its percent contribution has been increasing trend except in 2006/07 and 2007/08. In F.Y.2007/08 its contribution is 13.66 percent. The mean contribution of tax from employment on total income tax revenue and to be about 11.91 percent.

Contribution of tax on interest has occupied fifth position in total income tax revenue. In F.Y. 1997/98, 4.33 percent of total income tax revenue was collected from tax on interest. In F.Y.2007/08 it is 7.19 percent of total income tax revenue. The mean contribution of tax on interest comes to be 6.10 percent of total income tax revenue contribution of other tax has occupied sixth position in total income tax revenue. Other tax has been not collected F.Y.1997/98 to 2001/02 in F.Y. 2007/08 it is 10.53 percent collected of total income tax revenue, the mean contribution of other taxes comes to be 3.05 percent of total income tax revenue.

Semi-public enterprises have been very insignificant percent contribution on in income tax revenue. The percent contribution of semi-public enterprises to income tax revenue has been mil.

### **2.2.6. Contribution of income tax in total revenue total tax revenue and direct tax revenue of Nepal.**

Nepal is facing a serious and growing fiscal resource gap and here need for mobilizing additional financial resources from domestic sources through taxation has been has been urgent the base for levying taxes on income and capital are known as direct taxes whereas taxes on consumption are known as indirect taxes. Tax structure of Nepal is composed of both direct and indirect taxes. Income tax has been playing a vital role to generate government revenue for the economic development of the nation.

**Table 2.19**  
**contribution of in come tax in total revenue, total tax revenue and direct tax revenue of Nepal form F.Y.1997/98 F.Y. 2007/08**

F.Y.	In Percent						
	income tax revenue	Total tax revenue	%	Total tax revenue	%	Direct tax revenue	%
1997/98	4898.1	32937.9	14.87	25939.8	18.88	6187.9	79.16
1998/99	6120.2	37251.3	16.56	28752.9	21.46	7516.1	82.09
1999/00	1420.6	42893.7	17.30	33152.2	22.38	8951.5	82.90
2000/01	9114.0	48893.7	18.64	38865.1	32.45	10159.4	89.71
2001/02	8903.7	50445.5	17.65	39330.6	22.64	10597.5	84.02
2002/03	8131.9	56229.8	14.46	42586.9	19.09	10105.7	80.47
2003/04	9514.5	62331.0	15.26	48173.0	19.75	11912.5	79.87
2004/05	10466.1	70122.7	14.92	54104.7	19.34	13071.9	80.06
2005/06	10939.4	72282.1	15.13	57430.4	19.04	13968.1	78.32

2006/07	15731.8	87712.2	17.94	71126.7	22.11	18980.3	82.88
2007/08	10457.3	60892.3	17.17	50898.8	20.54	12682.6	82.45

Source : Economic Survey 2006/07 Ministry of Finance GON

Income tax in total revenue of Nepal the percent contribution of income tax in total revenue of Nepal has been presented in table 2.19. Its contribution on total revenue has fluctuating trend in the F.Y. 1997/98, total revenue was Rs. 329397 millions and income tax revenue was Rs 4898.1 millions, it was about 14.87 total percent total revenue of Nepal . F.Y.2007/08 total revenue was 60892.3 millions and income tax revenue was 10457.3 millions. It was about 17.17 percent of total revenue.

Income tax in tax revenue of Nepal, the percent contribution of income tax revenue in total tax revenue is presented in Table 2.19 in F.Y.1997/98, out of total tax revenue of Rs. 25939.8 millions, Rs. 4898.1 millions. It was about 14.87 percent total revenue of Nepal. F.Y.2007/08 total revenue was 50892.3 millions and income tax revenue was 10457.3 millions has been contributed by income tax revenue. It is 2054 % contribution by income tax revenue in tax revenue of Nepal.

Income tax in Direct Tax Revenue of Nepal. The percent contribution of income tax revenue in direct tax revenue is presented in table 2.19 in FY 1997/98 out of direct tax revenue of Rs. 6187.9 millions has been contributed by income tax revenue it is 79.61% of direct tax revenue was collected as income tax revenue. In FY 2007/08 out of total direct tax revenue of Rs. 2682.6 millions Rs. 10457.3 millions contribution by income tax revenue it is 82.45% of total direct tax revenue.

### 2.2.7. Contribution of income tax

From Employment in total revenues total tax revenues, direct tax revenue and income tax revenue of Nepal. Income tax from employment in total tax revenue of Nepal.

**Table 2.20**

**Contribution of income tax form employment in total revenue, total tax revenue, direct tax revenue and income tax revenue of Nepal form F.Y. 1997/98-2007/08.**

F.Y.	income tax from employment	Total revenue	%	Total tax revenue	%	Direct tax revenue	%	In percent	
								Income tax revenue	%
1997/98	322.2	32937.9	0.98	25939.8	1.24	6187.9	5.21	4898.1	6.58
1998/9	396.5	37251.	1.0	28752.	13.	7516.1	5.28	6170.2	6.43



9		3	6	9	8				
1999/00	451.5	42893.7	1.05	33152.2	1.36	8951.5	5.04	7420.6	6.08
2000/01	597.3	48893.7	1.22	38865.1	1.54	10159.4	5.88	9114.0	6.55
2001/02	835.6	50445.5	1.66	39330.6	2.12	10597.9	7.88	8903.7	9.38
2002/03	1252.6	56229.8	2.23	42586.9	2.94	10105.7	12.39	8131.9	15.40
2003/04	1391.2	62331.0	2.23	48173.0	2.89	110312.5	11.68	9514.5	14.62
2004/05	1675.9	70122.7	2.39	54104.7	3.10	1371.9	12.82	10466.1	16.01
2005/06	1764.9	72282.1	2.44	57430.4	3.07	13968.1	12.63	10939.4	16.13
2006/07	2007.9	87712.2	2.92	71126.7	2.82	18980.3	10.58	15731.8	12.76
2007/08	1428.4	60892.3	2.35	50898.8	2.81	112680.3	11.26	10457.3	13.66

Source : Economic survey 2007/08, Ministry of Finance GON

### **Income tax from employment in total revenue of Nepal**

Income tax from employment has very much insignificant contribution in total revenue of Nepal. In F.Y. 1997/98 total revenue was Rs. 329379 millions and income tax from employment was Rs. 322.2 millions it was about 0.98% contribution. The contribution has been increasing in the trend. In F.Y. 2007/08 total revenue was 6089.3 millions and income tax from employment was Rs. 1428.4 millions it was about 2.35% of total revenue the average contribution of income tax from employment was rs 1428.4 millions it was average contribution of income tax from employment was about 1.95 percent in total revenue of Nepal.

### **Income tax from employment in total tax revenue of Nepal**

Income tax from employment in Nepal has also very insignificant contribution in total tax revenue of Nepal. In F.Y. 1997/98 total tax revenue was Rs. 25939.8 millions and income tax from employment was only Rs. 322.2 millions it was about 1.24 % contribution. In F.Y. 2007/08 total tax revenue was Rs. 50898.8 millions and income tax from employment was 1428.4 millions. It was about 2.81% contribution. The mean contribution of income. Tax from employment in total tax revenue of Nepal came to i.e. 2.47 percent from the 11 fiscal years.

### **Income tax from employment direct tax revenue of Nepal**

Income tax from employment was Rs.322.2 millions in F.Y. 1997/98 out of total direct tax revenue Rs. 6187.9 millions. It was about 5.21% of direct tax revenue; the contribution has been increasing trend. In F.Y. 2007/08 total direct tax revenue of Rs 12682.6 millions, Rs.1428.4 millions as income tax from employment it was about 11.26% contribution. The mean contribution of income tax form employment in direct tax revenue of Nepal was about 9.97 percent.

### **Income tax from employment in income tax revenue of Nepal**

In F.Y. 1997/98 total income tax revenue Rs.4898.1 millions, Rs 322.2 millions as income tax from Employment. It was about 6.58% of total income tax revenue. The percent contribution has been increasing trend each fiscal year. In the F.Y. 2007/08 total income tax revenue was 10457.3 millions out of this Rs.1428.4 millions was contribution by income tax from employment. This was about 13.66% of total income tax revenue of Nepal. The mean contribution of income tax revenue came to be 11.91 percent.

### **2.2.8. Estimation and collection of employment income tax in Nepal.**

**Table 2.21**

#### **Estimation and Collection of Employment Income Tax During F.Y.1997/98 to 2007/08**

Rs. Millions

<b>FY</b>	<b>Estimated target</b>	<b>Actual collection</b>	<b>Collections as % Target</b>
1997/98	180.00	322.22	179.01
1998/99	350.00	396.52	113.01
1999/00	432.41	451.46	104.64
2000/01	552.24	597.30	108.16
2001/02	675.00	835.56	123.79
2002/03	123.60	1252.60	104.84
2003/04	1300.00	1391.19	107.01
2004/05	1800.00	1675.86	93.10
2005/06	1677.00	1764.1	105.19
2006/07	1934.00	2007.9	103.82
2007/08	3270.6	1428.4	43.67

Source 1 Government of Nepal, Ministry of Finance "Budget Speech FY 1997/98 to 2007/08

2 Economic Survey 2007/08 Ministry of Finance, GON.

Above table 2.21, FY 1997/98 to 2007/08 the Actual collection was more than estimated target of employment income tax during the last decade in Nepal.

The employment income tax collection was increasing trend during the review years in FY 2007/08. Actual collection 1428.4 millions just eight months this fiscal year. Estimated target collection 3270.6 millions.

### **2.2.9 Resource Gap in Nepal**

Nepal is developing country. This country has been suffering from resource constraint, poverty, dependence more people on agriculture, bad living standard. This problem is all developing country.

**Table 2.22**  
**Resource Gap in Nepal.**

FY	Total Expenditure (A)	Total Revenue (B)	Resource Gap (A-B)	Foreign Grant (C)	Rs. In Millions		
					Resource Gap {A-(B+C)}	Foreign Loan (D)	Resource Gap {A(B+C+D)}
1997/98	56118.3	32937.9	23180.4	5402.6	17777.8	11045.5	6723.3
1998/99	59579	37251	22328	4336.6	17991.4	11852.4	6139
1999/00	66272.5	42893.8	23378.7	5711.7	17667	11812.2	5854.8
2002/01	79835.1	48893.6	30991.5	6753.4	24188.1	12044.0	12144.1
2001/02	80072.3	50445.5	29626.8	6686.1	22990.7	7698.7	15242
2002/03	84006.1	56229.8	27776.3	11339.1	16437.2	4546.4	11890.8
2003/04	89442.6	62331	27111.6	11283.4	15828.2	7629	8199.2
2004/05	102560.4	70122.7	32437.7	14391.2	18046.5	9266.1	8780.4
2005/06	110889.2	72282.1	38607.1	13827.5	24779.6	8214.3	16565.3
2006/07	133604.60	87712.2	45892.4	15800.8	30091.6	10053.5	20038.1

Source - Economic Survey 2007/08, Ministry of Finance, GON  
In Nepal, the source not cover the growing expenditure. Fiscal deficit is due to the continuously of the low revenue performance in Nepal. The country is dependent budget foreign loan, As showed above table resource gap of Rs. 23180.4 millions in fiscal year 1997/98 required to Rs. 45892.4 millions in the fiscal year. Resource gap (after considering foreign grants) was Rs. 17777.8 millions starting year and further widen up to Rs. 24188.1 millions in the fiscal year 2000/01. It is decreased in the fiscal year 1999/00 and 2001/02, 2002/03 and 2002/03 and 2008/04 but increasing fiscal year 2005/06 and 2066/07.

The government takes internal and external loans to meet deficit finance. Foreign loan reached Rs. 11054.5 millions in fiscal year 1997/98 and Rs. 10053.5 millions in FY 2006/07. After foreign loan financing resource gap was Rs. 6723.2 millions in the fiscal year 1997/98 and increasing to Rs. 15242 millions in fiscal year. 2001/02, 02/03 and the government takes internal and external loans to meet deficit finance. Foreign

loan rached Rs. 7698.7 million in the fiscal year 1998/99, 99/00, 02/03 and 03/04 then previous year. In FY 2006/07 the resource gap was Rs. 200038.1 million.

The above analysis showed a clear indication of the serious, had condition and grouping financing resource gap in Nepal. The increasing magnitude of resource gap clearly indicates that there is an urgent need for mobilization additional resource increasing resource gap indicated that it is necessary to mobilize additional domestic resource.

### **2.3 Major Finding**

1. Nepalese revenue structure consists of tax and non tax revenue. Tax on consumption and product of goods and service has occupied first position regarding its contribution to total revenue of Nepal. The average contribution on tax on consumption and product of goods and services over the eleven years period 35.47% of the total revenue of Nepal. Non-tax revenue and income has averages of 19.55%, 15.66% and 2.49% respectively. Land revenue and registration has lowest average contribution percent in total revenue of Nepal.
2. Total revenue of Nepal consisted of tax revenue and non-tax revenue in FY 1997/98 amount of total revenue of Rs. 32937.9 millions 78.75% was contributed by tax revenue and 21.25% was contributed by non tax revenue in FY 2007/08, Rs. 60892.3 millions, 83.59 millions contributed by tax revenue and 16.41 contributed non tax revenue. The mean contribution of tax and non revenue during the eleven years period was 78.84% and 21.16% respectively. Tax revenue has largest contribution in total tax revenue of Nepal.
3. Nepalese tax revenue is the composition of direct tax and indirect tax revenue. Average contribution of direct tax and indirect tax revenue to total tax revenue 23.28 percent and 76.72% during eleven fiscal years period.
4. The structure of direct tax revenue is the composition of income tax revenue land, revenue and registration and miscellaneous taxes. Anon direct tax revenue income tax revenue has occupied the highest shave the mean contribution of income tax over the 11 years period was 81.97% of the direct tax revenue of Nepal. Average contribution of land revenue and registration and miscellaneous taxes was 5.57% and 12.46% of total direct tax revenue respectively.
5. Nepalese income tax structure is formed by contribution of income tax from public enterprises, semi public enterprise, private corporate bodies, individuals, Taxes on employment, tax on interest and other taxes. Contribution of individual has occupied first position in total income tax revenue of Nepal. The mean contribution of income tax from individuals in total income tax revenue form FY 1997/98 of FY 2007/08 has been computed to be 38.54% public enterprise, private corporate bodies, employment, interest, other taxes and same public enterprise have occupied second, third, fourth, fifth, sixth and seven position in total income tax revenue of Nepal.

6. Contribution of income tax has been increasing trend . Its contribution in the eleven years average 17.17%, 20.54% and 82.45% in total revenue, tax revenue and direct tax revenue in Nepal respectively.
7. Income tax from employment has been increasing trend average contribution on 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 shows that income tax from employment has very much in significant contribution in total revenue and total tax revenue of Nepal.
8. The employment income tax collection was in increasing trend during the review year in fiscal year 2006/07 the actual realization of employment income tax arched about Rs. 1.80 billion.
9. Nepalese Government expenditure is increasing at faster rate than the increase in revenue. Therefore resource gap has increasing trend resource help in FY 2006/07 Rs. 20038.1 millions has extended from 6723.3 millions FY 1997.98.

## **CHAPTER III CONCLUSION AND RECOMMENDATION**

### **3.1 Conclusion**

**The conclusion of this study are mentioned below.**

1. Revenue Structure of Nepal is composed of tax and non-tax revenue. Tax revenue has highest share of contribution in total revenue i.e. in average 78.84% of total revenue has been found to be contributed by tax revenue in total revenue from the FY 1997/98 to 2007/08 taxes on consumption and product of goods and services has occupied first position regarding its contribution in total revenue.
2. Tax revenue Consists direct tax and indirect tax revenue. Tax revenue has been heavily dominated by indirect tax revenue. From FY 1997/98 to 2007/08 average contribution of indirect tax revenue has been found 76.72% in tax revenue. Among direct taxes, income tax has highest contribution.
3. Income tax has average contribution of 17.17% of total revenue 20.54% in tax revenue and 82.45% in direct tax revenue from the FY 1997/98 to 2007/08. Contribution of individuals sectors in income tax revenue has been largest in study period.
4. Income tax from employment has very much insignificant contribution in total revenue, total tax revenue and direct tax revenue of Nepal, it was about 1.95% in total revenue, 2.47% in total tax revenue and 9.97% in direct revenue of Nepal from the FY 1997/98 to 2007/08. The average contribution of income tax from employment in income tax revenue has been 11.91%.
5. Employment income is an important source of collecting government revenue. Contribution of remuneration income to tax revenue has not been found satisfactory due to various reasons like low pay scale of the employees, ineffectiveness in implementation of Act, tax avoidance tax evasion etc.
6. Medical expense, life insurance premium paid by employer, Dearness and transportation allowance should be made tax exempted incomes.
7. Current exemption limit is not satisfactory. Family and individual tax exempted amount is not satisfactory.
8. The contribution of income tax from employment income to tax revenue can be increase mainly by making tax deduction at source more effective and change in income tax policy, rule and regulation. Major problem that employees faced while paying income tax is procedural complication.

### **3.2 Recommendation**

1. Nepalese tax revenue is heavily dominated by indirect tax revenue. Only one fourth of tax revenue has been contributed by direct tax revenue. It is necessary to

increase the share of direct tax revenue so as to direct the economy in the channel of development 'Resource mobilization through direct taxation should be focused.

2. The contribution of employment income in income tax revenue has been increasing in the recent years as compared to previous years. In such a way that higher earner should be made to pay higher income taxes. Filing of income return by employees should be enhanced for collection more income tax revenue.
3. Tax collection and tax assessment provision should be made clear and simple so those tax payers be encourage to pay income tax.
4. The provision of times, penalties and punishment should be implemented effectively for income tax payers.
5. Co-ordination between tax policy maker, tax personal and other department should be established.
6. Making tax education at source is the most important factor to increase the share of employment income in tax revenue of Nepal.
7. Dashain allowance, medical expense, life insurance premium, transportation allowance and house rent allowance paid by employer should be made tax exempted so that employees well be relieved from heavy income tax burden imposed on them.

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## APPENDIX A

### QUESTIONNAIRE

Name : .....

Occupation : - .....

Office/Organization :- .....

Please put tick mark ( ) against the answer of your choice where ranking of alternative are provide, please rank from 1 (Most important alternative) to last number in order of reference.

1. Do you think that employment income as a suitable means of collecting government revenue?

Yes

No

2. Do you think that employment tax contributing significantly to the income tax revenue of Nepal?

Yes

No

3. Is the current exemption limit of couple is satisfactory as compare to individual?

Yes

No

4. Do you think that current income tax exemption limit is appropriate?

Yes

No

If No. How much the exemption limit should be for an individual omit?

a) Rs.130000 - 150000

b) Rs.150000 - 170000

c) Rs.170000 - 190000

d) More than 190000

Similarly how much exemption limit should be for a family?

a) Rs.160000 - 180000

d) Rs.180000 - 200000

c) Rs.200000 - 220000

d) More than 220000

5. How can the contribution of income from employment to income tax revenue be increased?

a) Reduction in exemption limit.

b) Increasing Tax rate

c) Making tax deduction at source of effective.

d) Change in income tax policy, rule and regulation.

e) Others.

6. Do you think that exempted and deducted items of income from employment are sufficient?

Yes

No

7. What type of problem that the employees face while paying employment tax?
- a) Due to lack of taxation knowledge employers do not know how to file are turn?
  - b) Procedural Complications.
  - c) Weak and immature patent by tax administration.
  - d) Limitation to pay income tax due to income.
  - e) Other.
8. What incomes (Currently to taxed) What you expect to be made tax exempted?
- a) Medical expenses life insurance premium paid by employers.
  - b) Dashain allowances
  - c) Transportation allowances.
  - d) House rent allowances.
  - e) Other allowances.
9. In your opinion current income tax rule facility employment deducting the premium consisting 7 percent or insured amount Rs. 10000 or actual amount paid which ever is less appropriate?
- Yes  No