

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Nepal is a small and landlocked country. It lies between two larger countries china and India. These both have largest population in the world. Their economy is growing rapidly. Nepal is one of the least developed country. Economic growth of the nation is not improving well. Annual per capita income is only \$394 (Budget speech 2065/066), which is lowest among south Asian countries and almost lower in the world. The economic status of the Nepalese people is very poor. Majority of population are dependent on agriculture. Agriculture system is traditional in Nepal, which creates semi-unemployment problem. Nowadays, the economy of the nation is sustaining with the help of foreign remittance. The balance of payment is not favorable in every year. Import of goods is increasing every year, but the export is not being increased substantially. It has also commonly known that the resource gap is increasing trend in each year, which is a serious problem in the process of economic development of developing countries like Nepal to raise government revenue. It requires huge amount of revenue to make the economic condition sound and shift the agriculture based economy in business based economy.

A government of country requires sufficient revenue to carry out the development programs, to handle day to day administration, to maintain peace & security, and to launch other public welfare activities. Government collects revenues from various sources such as, tax, fines, fees, price and other sources, grants and gifts, special assistance etc. Among them, tax is the main source of government revenue. It occupies the most important part (about 80%) of the government treasury (Economic Survey, 2007).

In case of state revenue, tax is a compulsory charge imposed by the government without any reference to service rendered to taxpayer. Various economists had defined the concept of tax in their own way. Some of them have created confusion in conception. Thus, some valued definitions given by well-known scholars have acknowledged.

"A compulsory contribution from a person to the government to defray the expenses incurred in common interest of all without reference to special benefit conferred." (Seligman, as cited in Bhattarai & Koirala, 2061; p. 2)

Similarly, another scholar Bastable has optioned that, "a tax is a compulsory contribution of wealth of a person or body of persons for the service of public power." (Bastebal, as cited in K.C. 2007, p.5)

From the above definitions, it can be conclude that, tax is a compulsory contribution of wealth to the state from a person or body of person or an artificial person (entity or corporate body). The taxpayer doesn't receive the equivalent benefit from the government. Amount of tax is spent for common benefit and interest of all people. Taxation creates the public power through revenue.

In this modern age, a government needs a lot of revenue in order to influence the macro-economic performance of economy or fiscal policy, to carryout the functions of the government, national defense and to re-distribute the resources among individuals or classes in the population. In this context, tax is a significant and inseparable source of state revenue of the government. According to its nature, it is the most reliable, certain, flexible and convenient source to obtain the required amount. Therefore, the government of any country upholds main priority in tax revenue. Kandel (2003) had stated that, the government collects revenue from different sources such as; tax revenue, and non-tax revenue. Non-tax revenues are grants, administrative incomes, business incomes, loans etcetera (etc). The administrative income denotes

the amount charged by the government for providing administrative services, business income means return received by government for providing various goods and services to the people. The basic objective of which is not to collect revenue but otherwise. The revenue comes from automatically while performing many other works. The example of such types of revenues are; grants of foreign government agencies, registration fees, fines, and penalties, charge for postage, electricity, water etc. In Nepal, around 20 percent of the revenue comes from these sources. Another sources of government is the taxation or revenue such as; income tax, inters tax, fees, Value Added Tax (VAT), custom duty, excise duties, land tax, property tax, vehicle tax etc. The main objective of taxation is to collect revenue. The government passes the act for getting tax revenue and collects the taxes as per the act. Nepal gets around 80 percent of the revenue from this source.

Government expenditure is increasing because of demand of time, increase in price of goods and services, increase in people's expectations towards the government, increase in population, social progress, security etc. To meet these growing public expenditure, government has to manage its fund which is received from external and internal sources.

An external source of fund is foreign grants and loans. Such external sources are uncertain, inconvenient and not good for healthy economic development, because government has to do as donor's interest, who gives such grants. Normally such external source is used for economic development, reconstruction, to recover crises condition, for productive use etc. Internal sources of fund is own source within the nation, which is collected from tax revenue and non-tax revenue from the people, between them, tax revenue is the main source of government. And non-tax sources are uncertain and inconvenient, because the government as per necessary imposes them. It shows that, tax revenue is the best source of public revenue. In every country, the largest part of the government revenue is raised through tax. Tax may be imposed on person's income. Public authority using the right given by law imposes it. Taxpayers do not expect any return for his tax paying.

Tax is mainly classified in to two types; one is direct tax, and other is indirect tax. Direct tax is actually paid by the person on whom it is imposed. For example; income tax, property tax, interest tax, death tax, vehicle tax, gifts tax etc. While indirect tax is imposed on one person but paid partly or wholly by another person. Such as sales tax, entertainment tax, hotel tax, passenger tax, export duty, import duty, excise duties, VAT etc. are the examples of indirect tax. Among them Income Tax is one of the most important and popular direct tax. It is charged on person's income. According to Income Tax Act 2058 (ITA 2058), income includes all the incomes, which are derived from business, investment, and employment. Income Tax is superior to other indirect tax, because it is imposed on the basis of ability to paying capacity of the taxpayer. People whose income is below the taxable income are freed from the obligation of income tax. The main objective of tax is to distribute the wealth in equitable manner. It makes possible to reduce the gap in the economy by imposing higher tax rate on those, who are having higher income. Hence, it will help to make equitable economic distribution in the society, and balanced regional economic development is also possible through the provision of income tax. The government can charge higher Income Tax from urban area and less on the income from remote area. Income Tax holiday and incentives would help to develop the priority sector of a national economy. These types of provisions make the business, industries to shift in urban area, which produce employment in urban area. So Income Tax is an effective instrument to ensure balanced socio-economic growth. Income Tax levied by the government on the source of income of individuals and organization.

In Nepal, Income Tax is one of the most important sources of public revenue. It is a tool of achieving maximum social and economic objectives set by the government. It also helps to increase the consciousness of people, because the people who paid tax are interested to know about the public expenditure. Although, they can't get any direct benefit from their paying, they can observe the use of collected fund. Nepal still has been unable to maximize the collection of income tax. There are various problems have been made and updated timely. There are various problems in

Income Tax practice in Nepal such as; narrow coverage, unscientific tax assessment, deviation from the basic principles of income taxation, long time lag, no adjustment of inflation, and defective system from the perspective of international taxation. Some other feelings of people about tax as a penalty, leakage in tax, illegal business, corruption, lack of tax consciousness of people inability of the tax administration to cover new tax payer, delay in tax collection system etc.

Tax system is the subsystem of total economy. Tax policy is changed with the change in economic policy of a country. Change in world economic policy and advancement in information technology has a vast impact on Nepalese economy too. Small economic countries like Nepal have to adopt the economic policy followed by international institutions like, World Bank, International Monetary Fund (IMF), Asian Development Bank (ADB), and other regional and international organizations like World Trade Organization (WTO), South Asian Free Trade Agreement (SAFTA), European Union (EU) etc. Specially, after 1990s, there is emergence of the liberation, globalization and privatization system that focus on the minimum intervention of state on private economic matters. The 1950s concept of "high incentive, high tax rate" is changed to the concept of " low rate, wide net". This concept is followed by most of the countries of the world. Nepal is also not an exception of it. Income Tax Act 2058 is the result of this. Since Chaitra 19, 2058, ITA 2058 has been introduced in Nepal. This act was brought in Nepal to avoid the defects of Income Tax Act 2031(ITA 2031) as; narrow tax base, taxing only the income originated in Nepal, dispersion related acts, such as; low penalty to tax evaders, other provisions regarding to offences of tax rules etc. In spite of the enactment of improved ITA 2058, it is not enough to solve all the problems regarding Income Tax Act and its fines and penal provisions. So, it was necessary to review and comparatively study different tax Acts and should take good points of these Acts and avoid the weak points, with the help of this, By do so; we can introduce a new scientific, practical and improved Act which helps government to flourish socio- economic development of the nation.

Within the Income Tax system, penal provision is the most important tool for the collection of government revenue. If penal provision is scientific and effective, the government can collect more revenue as possible. Raising more revenue is the main objective of penal provision. So, the penal provision of different acts should be analyzed comparatively, because with the help of this, we can find the strength and weakness aspect of those provisions. Public expectation is increasing, for fulfillment of those expectations; penal provision can play an important role. By proper implementation of this provision, government can maintain the public economic discipline.

Because of all of these reasons, penal provision of Income Tax Act must be reviewed comparatively and immediate correction should be made if necessary. This study was based on Acts, rules, and ordinances related to interest, fees, fines, and penalty provisions of ITA 2031 and ITA 2058.

1.2 Statement of Problem

K.C (2007) has stated that law never excuses ignorance, unknown state, and lack of knowledge of person. Law itself never discriminates status of a person. It is equally enforceable to known to unknown and lower level to higher level person. Income Tax Act is also not exception of it. All taxpayers have to comply with the Act voluntarily, but some tax-payers may not comply with the rules and regulations established by the tax law. For the remedy for non-compliance, and defaults, it is necessary to take action against those who do not comply with the tax law. The legal provisions for such actions are known as penal provision.

The main objective of every nation is economic development. But the least developed countries like Nepal are suffering from various problems in the process of economic development. Government expenditure is increasing on comparison to government revenue. So, sources of government revenue must be increased. The main constraint for economic development in Nepal is resources. In present context, massive poverty, price hike, political instability, unemployment, corruption etc. are

the main problem in Nepalese economy. The development expenditure is set diminishing trend in comparison to regular expenditure. Now, the government revenue is only 13 percent of total Gross Domestic Product (GDP) (budget speech 2007/08) of the nation, while other developed countries have 20 percent of the total GDP (Himal Khabar Patrika, 14-28 May 2008, Page-20) of the nation. People about 31 percent of the population are below the poverty line (World Bank Report 2007). The taxable capacity of Nepalese people is very low. Only 0.5 percent of total population pays Income Tax Act (economic survey 2007). Person who comes in tax bracket have poor tax paying habit. So, government should take stringent action against those who don't comply with the Act.

In Nepal, different tax Acts have been managed the penal provision differently and being amended in time & time as necessary. For example penal provision of ITA 2058 is different from the penal provision of ITA 2031. It is more effective and scientific than penal provision of ITA 2031. But, it is not free from any defects. Some of its provisions are good and some are not suitable for present Nepalese economic condition. And all penal provisions of ITA 2031 were not unsuitable and defective. Some provisions were very good and reasonable and some were defective. So this study was tried to investigate comparatively on these provisions. There are various problems on Income Tax administration like, proper record of Income Tax payers, defective selection of personal, lack of training and education of tax payers & officer, lack of responsibilities of officials on their work, experience of corruption, lack of motivation on tax personal etc. Because of the inefficiency of the administration and increasing corruption, people have no faith on the work of government and its organizations. People think that, government and its employees are fully plunged in corruption. So, they think, there is no significance of paying tax. Penal provision plays an important role to collect tax revenue. If there is no provision of that, the tax paying habit of people will be decreased. In absence of this provision, people will delay in paying tax, do not submit account, submit false or misleading statement and will do other offences regarding taxation. Nowadays, tax administration of Nepal is not

effective to impose penal provisions as per necessary, because of widespread corruption, illegal political pressure, lack of information etc.

Income Tax Act 2031 had managed penal provision as; fees, fines and penalty. But, Income Tax Act 2058 has managed penal provision as; interest & fees and offence and penalty. So, to make easier to understand, a common terminology "Penal Provision" had used in this research report ITA 2058 has managed an extra provision, 'Interest' which may compensate the provision of additional fee of ITA 2031.

Previous researchers were also investigated on the penal provisions, but they were not about provision on ITA 2031, they analyzed only on the provision of interest, fees, fines, and penalties of ITA 2058. They often found only provision of interest, fees, fines, and penalties of ITA 2058. for example; the major goal of Income Tax in Nepal is to increase revenue of the government, tax paying habit of the Nepalese people is poor, penalty for aiding and abetting reduce offence, the main problem in tax administration are lack of competent staff, corruption, complicated tax law etc. which all were based on ITA 2058. So, in this research, the researcher had tried to get the answers of the following questions:

-) Is the provision of interest, fee, fine, and penalty of ITA 2058 is better than Penal Provision ITA 2031?
-) Which provision of fee, fine, and penalty of ITA 2058 is better than ITA 2031? & why?
-) Which provision of fee, fine, and penalty of ITA 2058 is not appropriate than provision of ITA 2031 & why?
-) What amendment should be done in the provision of interest, fee, fine, and penalty in ITA 2058?
-) Is the provision of interest fees, fines, and penalty of ITA 2058 is effectively implemented than provision of ITA 2031? If not, why is it?
-) What are the drawbacks and strength aspects of ITA 2031 and ITA 2058 in the provision of interest fees, fines, and offence & penalties?

-) Do the tax paying habit of Nepalese tax payers is improved after the enactment of ITA 2058? etc.

1.3 Objectives of the Study

The main objective of this study was to analyses comparatively about the penal provisions of ITA 2031 and ITA 2058. However, the following specific objectives had also been set for the study.

-) To know about tax paying habit of the Nepalese taxpayers is improved or not after enactment of ITA 2058.
-) To find out provisions of fees & interest, and offence & penalties of ITA 2058 is effective than provisions of fees, fines and penalties of ITA 2031 or not.
-) To provide the necessary suggestions regarding penal provisions of Income Tax system in Nepal.

1.4 Significance of the Study

This study was attempted to cover the major constituents regarding penal provision of ITA 2031 and ITA 2058. It aimed to find out the strength and weakness aspect on the penal provision of ITA 2031 and ITA 2058 comparatively.

Income Tax plays the significant role in the overall economic development of developing as well as developed countries. For the economic development of the country, contribution of direct tax is more important than indirect tax. But, the whole tax structure of Nepal is dominated by indirect tax. Among the direct tax, Income Tax plays a significant role. So, to increase the portion of Income Tax in national revenue, comparative research and analysis of different Acts should be done on the penal provision. With the help of this, researcher could find out the defects of these provisions and can give the necessary suggestion regarding penal provision for stakeholders.

In addition to above, this study was significant for the following groups and individuals:

-) It provided the literature for the researcher who wants to carry on future research in this field.
-) It was useful to those, who want to get more knowledge in this field.
-) It was helpful for tax and economic policy makers.
-) It had explored the problems and prospects in the provisions of fees, fines, and penalties.

1.5 Limitations of the Study

Every research study has bordered by the various reasons. This study was also not freed from the limitations. This study was suffering from the following limitations.

-) Only few samples were selected for opinion survey.
-) It analyzed comparatively on the provisions of interest fees, fines, and penalties of ITA 2031 and ITA 2058 only.
-) It analyzed the provisions of fees, fines, and penalties as per Income Tax Act, but not a whole system of Income Tax Act.
-) The samples were selected from Katmandu valley only.

1.6 Organization of the Study

This thesis out look was divided in to the following five chapters.

Chapter – I INTRODUCTION This chapter includes: background of the study, statement of problem, objectives of the study, significance of the study, limitations of the study, and organization of the study.

Chapter -II REVIEW OF LITERATURE, which includes: reading materials of this research books review; journals review, previous researcher's research reports review etc.

Chapter -III RESEARCH METHODOLOGY, it includes: research design, population and sample nature and sources of data, data collection procedure, and data processing and analysis.

Chapter- IV PRESENTATION AND ANALYSIS OF DATA, it includes; presenting charts, figures, tables, and other statistical tools.

Chapter-V SUMMARY, CONCLUSION AND RECOMMENDATION, this chapter includes: Summary of this study, conclusions of this study and some recommendations for betterment of penal provision on Income Tax Act.

CHAPTER – II

REVIEW OF LITERATUE

Review of literature is an essential part of the research study. It is a stock of available literature in the field of research. With the help of this, researcher can grasp the knowledge and information concerning his research subject matters. That is available from libraries, document collection centers, magazines, concerned office etc. It is a way to discover what previous researcher had done and what is still need to be done. While conducting the research study, previous studies can not be ignored. With the help of this, researcher can check up the chances of duplication in the present study. Thus, the review of literature is an important part in the field of research study.

2.1 Conceptual Frame Work

The main objective of taxation is to collect more revenue to the government. The government collects revenue from different types of person's income. ITA 2058 has specified mainly three income heads such as; (i) business income (ii) employment income (iii) investment income. Government imposes tax on those incomes. But all tax-payers may not pay tax properly or honestly. Some tax payers may try to remain out of tax net, some may not maintain proper account, some may not submit tax returns, and some may not pay tax and so on. So it is necessary to take action against those who do such offences. Penal provision is one of the most important provision to curb such activities. Effective and scientific penal provision is needed to succeed in this action. For making the penal provision effective, practical and scientific; panel provision of different Acts should be studied comparatively. With the help of this, we can adopt the strong and positive provisions from those Acts and avoid those provisions which are defective and ineffective. Penal provision can play an important role to collect the government revenue. But there was no any research study about it.

Seeing lack of the study in this field, this study was mainly concentrated in this subject matter.

2.1.1 Origin and Development of Taxation

The history of taxation started with the human civilization. In early days taxes were collected by tribal rules, community heads etc. for communal services and at time of emergencies. A central administration used to collect portion of peoples productive out- put to use as a reserve in hard time in order to provide for the ready and to increase the wealth and power of rules. Until the modern era, rules and their administration would commonly take portion of people's crops with no consideration of cost of farm work. The resources that rules obtained through taxation allowed then to under take such activities as building monuments and waging battlesl.¹

K.C. (2007) mentioned that, in ancient Great India, Indian council for historical research concluded that the Arthashastra was compilation made by scholar Kautilya, in 150 After Death of Christ (A.D.). The Arthashastra includes different types of cash and kind taxes as; custom duty (sulka), which consist: (a)Import duty (pravesya),(b) exportduty (niskramya), and (c) octry and other gate tolls (dwarabahirikadeya), transaction tax (vyaji) including manavyaji (transaction tax for crown goods), share of production (bhaga) including 1/6th share (Shadbhaya) tax (Kara) in cash, tax in kind (pratikara), countervailing duties or taxes (vaidharana), roadcess (vartani), monopoly tax (parigha), royalty (prakriya), a many maintaince tax (sevabaktham), tax paid in kind by villagers (pindakara), and surcharges (parsvam).

In early Roman society, the citizen had to pay taxation even for the polling right. "Ancient Athens used to derive its revenue from taxes like customs, sales and pole tax on alien and slaves. One who was taxed and fails to pay was guilty of capital

¹ K.C Jit Bahadur (2007), *Tax Laws and Tax Planning: Theory & Practice*. Kathamandu: Khanal Books Prakashan.

offences" after the end of public war in 146 Before Christ (BC), they were revealed from the poll tax.²

In ancient Greece, Adams stresses that in time of war, the Athenians imposed a tax. Referred from tax which eisphora. No one was exempt from tax, which was used to pay for special wartime expenditure. Athenians imposed a monthly poll tax on foreigners, people who did not have both an Athenian mother and father of once drachma for man and a half drachma for women. The tax was referred to as Metroikion. (K.C 2007, p. 27)

In ancient Egypt, the tax collectors were known as scribes, to collect the adequate revenue from citizens they taxed on cooking oil. Charles Adams a great writer wrote a popular book "fight, flight & fraud" the story of taxation, concludes that the continual tyranny of Egyptian tax collectors created a nationwide decline in incentive because of this workers and farmers lost their desire to work. (K.C 2007,p 27)

2.1.2 Income Tax in International Context

Great Britain is the first country in the world to introduce the modern income tax. It introduced Income Tax in 1799 to finance war fought with France. U.S.A introduced Income Tax Act in 1862 to generate revenue to finance civil war. In India, while Income Tax in its modern form was adopted in 1860, several experiments were made from in 1860 to 1866 and finally the systematic Income Tax legislation was enacted in 1866.³ The history of modern Income Tax is not very old in Nepal. The first elected government introduced taxation in 1959.

2.1.3 Evolution and Development of Income Tax in Nepal.

The historical background of an economic activity of Nepal is not long. The history of revenue activities of ancient Nepal is not systematic proof and evidence of

² Garlic INS – (1975) New York: *Encyclopedia International*.

³ Battarai Ishwor and Koirala, Girija Prasad (2061). *Income Taxation in Nepal: with Tax Planning & VAT*. Kathmandu: Asmita Books Publishers.

tax system depends upon different public statement made by different dynasties who ruled over Nepal. Thus, the history of tax system started since Lichchhavis dynasty. Considering its evolution, the whole history of taxation of Nepal can be divided in to four major phases as; ancient Nepal, taxation in unified Nepal (1769-1846), Rana regime and past referendum.

2.1.3.1 Ancient Nepal

Tax has been one of the major sources of government's revenue from the ancient time in Nepal. Taxes were then levied on the merchants, traveler, and farmers in the forms of cash, kind, or labour on some occasion gold and agricultural products were also paid as taxes, but the nature of these taxes was temporary. In the Lichchhavi regime, income taxes from agriculture and business were introduced as a direct tax for the first time in Nepal. Agriculture Income Tax Act was called "bhaga ".the farmers were supposed to pay agriculture Income Tax Act to the government in 1/6th, 1/8th, and share of their total production, depending on the quality of the land that they owned. Income Tax, which was levied on business income was called "kara" they did also exist irrigation and religious taxes during the regime of king Amsubarma of Nepal.⁴

2.1.3.2 Taxation in Unified Nepal (1769-1846)

Poudel & Timsina (1990) had described Taxation had a broad sense in the unified Nepal (1768-1848). Different types of taxes like land tax, transit tax, market duties, forest product tax, and mine tax were levied. The main objectives of these taxes were to generate maximum revenue for the government. Taxes were collected from three levels; royal palace, government, and local authorities. There were contract provisions for the collection of customers and transit, market and excise duties. jewellery, textiles, falcones, horses, elephants, home spum- clothes, yarns, blankets, barax, copper, iron, papers, tobacco, herbs, drugs, cottons, salt, yak's tails, musk,

⁴ Paudel, Santosh Raj, and Timsina, Prem Prasad (1990). *Income Taxation in Nepal*. Kathmandu: Atharai Enterprises.

sheep ,and goat were taxed at specific rates in some part of the Terai. Land and business taxes were the main sources of direct taxes during that period.

Regmi, M.C. (1971) had described the main five forms of revenue; Raikar, Birta, Guthi, Sera and Kipat. The major sources of revenue were; Birta and kipat tax on land. Royal palace levied like walk, Gadimubarak, Chumwan, Godan etc. government levied like Darsanbheti, Salami etc. Local levied on forest and water sources. Commercial taxes like customer transits, and market duties, mines and mints exports of forest products like wild life, herbs, drugs, wax , birds, elephants , and judicial fines. Maximization of revenue was the prime objectives of the fiscal policy during the period.

'Godimubark' was collected to finance for coronation ceremony of a new King. 'Godan' was levied to finance funeral expenses when a reigning king died. 'Darsan bhet' was collecting at the time of their appointment and confirmation. 'Walak' was collected from each family on a regular basis on the occasion of national celebration or festivals. 'Salami' was colleted from local revenue collection bodies in Terai region as annual payment.

Taxes were imposed primarily on occupations and economic activities but not on property. Taxes base were very narrow. The 'Birta' owner class had much influential role in political and administration. However, 'Pota' tax introduced by Prithivi Narayan Shah in 1772 was regarded as revolutionary measure in Nepal's fiscal system. It was not based on progressive tax principle.

2.1.3.3 Taxation in Rana Regime (1846-1950)

In 1846, Janga Bahadur Rana became prime minister of Nepal through Bhandarkhal massacre, then he and his family ruled over Nepal for 104 years. This period (1846-1950 A.D) is known as Rana Regime. In their regime, taxes were levied and collected according to prime-minister's will, and order. There was not any law.

They never prepared the government budget.*⁵ Poudel & Timsina (1990) stated that, There was no development activities in the country; the surplus of revenue over expenditure was considered the personal income of Rana prime-minister. Land revenue was the main sources of direct tax during the period, other revenue of the country were, customs, and excise duties in the form of lump-sum contracts and royalties on forest. As remuneration Income Tax 'salami' was collected from the government employees.

There were four main categories of agencies, which collected revenue, Rajya, Birta, Guthi, and Kipat, the royal family traditionally acquired income from special levies such as Darsanbhet, Tikabhet, Fattemubark. 'Tikabhet' was collected on the occasion of the Vijaya Dashami festival. 'Fattemubarak' was collected at the time of Indra Jatra' festival. Other three Levis known as Chumawan, Godimubarak, and Godwala were collected on a country basis on special royal occasions. Soune and Fagu were the most important levies that were collected for meeting festive, ceremonial or extra ordinary expenses at the royal palace. The main sources of state revenue were:

Taxes: during the Rana regime, income were not taxed for raising regular revenue of the state treasury but for meeting specific expenditure of the royal household or extraordinary expenditure necessitated by war or other emergencies. During 1855-56 Nepal- Tibet war, Jung Bahadur had imposed a tax on the incomes of selected groups. In 1891, Bir Shamsher imposed a levy of 1% on the official value of Jagir assignment of government employee to. Finance transportation of water pipes supply in the capital in 1882, Rnodipsingh imposed 50% tax on the income made by fisherman in Deukhuri in the western inner Terai from the sale of fish.

Receipt from the sector, the government got revenue from the state ownership of natural resources mainly agriculture land mines and forests.

⁵ K.C, Jit Bahadur (2007). *Tax law and Tax Planning: Theory & Practice*. Kathmandu: Khanal Books Prakashan.

State intervention in trade there were two main forms of state intervention in trade namely monopoly and state trading. The government conducted the activities of buying and selling of specific commodities for raising revenue and supplied scarce commodities itself.

In Rana regime, Jung Bahadur created new development treasury known as Sadarmulukikhana to received and account for the government revenue.

There was no direct tax in the country except land tax collected on a contractual basis and "Salami" which the government employee used to pay out of their salaries at very small percentage. The "Salami" was abolished in 1951.

2.1.3.4 Post Referendum

After the independence of the country in 1951, the role of the government has changed. Then, government was enforced to implement development activities besides performing the regular functions. So it was felt necessarily to impose tax in 1959 [2016 Bikram Sambat (B.S.)] and consequently finance act 2016 was passed in 1960 the "Business Profits and Remuneration Tax Act (BPRTA) 1960 (2017 B.S.) a formal Income Tax Act was enacted in accordance with the provision in finance act 1959 for the first time in Nepal. It had altogether 22 sections. It had defined the terms: business, profit, remuneration, company, firm assessment, tax realization, tax exempt person tax exempt area, taxable income, tax deduction at source, submission of income statement, right of the tax officer, method of assessment, payment of tax, fine, penalties, tax officials, secrecy etc. this act was exempted to income of palace and the king. (Poudel S.R. and Timsina, P.P. (1990)

In three years experience, the existing tax law was criticized as: narrow, unclear and vague and it was replaced by the Nepal Income Tax Act 1962 (NITA 2019 B.S) It had altogether 29 sections and nine income heads.

) Business

-) Remuneration
-) Profession and vocation
-) House and land rent
-) Cash and kind investment
-) Agriculture
-) Insurance business
-) Agency business and
-) Other sources

It had defined the terms: tax payer, tax officer, company, firm, business, profit, remuneration, profession or vocation, house and land rent, cash and kind investment, agriculture, assessment, person, couple, family, partnership firm, non-resident person, temporary resident, tax exempt person tax exempt area, tax deduction at source (only on remuneration), submission of income statement, constitution of assessment committee, method of payment of income tax, computation of net income, appeal, secrecy, agreement with foreign country, set off and carry forward of losses, tax base etc. the section 26 of this act had clearly expressed that it would not apply to the "privy purse" of His majesty's the king. In order to implement the Income Tax Act 1962 (2019 B.S) more effective the government passed the Income Tax rules 1963 (2020 B.S) the prominent objectives of NITA 1962 were: to reduce unequal distribution of wealth, to make impartial, to guide by fairness, and to establish behaviors of payment of tax. It amended in 1972 (2029 B.S) and continued till 1974 (2031). (K.C., 2007, p.36)

K.C. (2007) stated that Income Tax Act 1962 (2019 B.S.) was replaced by Income Tax Act 1974 (ITA 2031 B.S). It was enacted by king Birendra. In starting it was claimed to be specific and scientific. It had altogether 66 sections and sub-sections, and contained five income heads as:

- (i) Agriculture
- (ii) Remuneration
- (iii) Industry, Business, Profession or Vocation

(iv) House and Land Rent Tax

(v) Other Sources.

It was amended altogether eight times in 1977, 1979, 1980, 1984, 1985, 1986, 1989 and 1962 to make effective practical and to avoid confusions. It added two new provisions of self-assessment and carry forward of loss for three years. It clearly defined the terms: tax taxpayer, assessment, tax officer, income year, assessment year, firm, company, net income, gross income, preliminary expenses, person, couple, family, director general, philanthropic work, temporary resistant etc.

However, this act had some shortcomings such as: limited tax base, lack of integration, unclear and vague, willful power of tax officer and government, inequitable among tax payers, unscientific presentation, lack of control in tax evasion and dual appeal system etc.

Income Tax Act 1974 (2031 B.S.) has replaced by Income Tax Act 2002 (2058 B.S.) in 2002. It came in to effect on April 1, 2002 (Chaitra 19, 2058). It is a second Income Tax Act passed by the elected members of the parliament in the history of Nepal. His majesty's the government formed Income Tax rules 2002 (2059 B.S) in 2002 to help clarifying the act. To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation and to amend and integrate the laws relating to income tax, the parliament of Nepal enacted Income Tax Act 2002 (ITA 2058 B.S.). The main objectives of ITA 2058 are: to bring all incomes generating activities in to tax net, to widen the tax base to make Income Tax Act elastic and revenue productive, to minimize tax avoidance and tax evasion, to make taxpayers more responsible by enforcing the self- assessment system etc. It has defined the terms: income, income year, tax officer, company, entity, tax, transaction, non-resident person, individual, couple, self-assessment, payment, royalty, employment, unit trust. Dividend, resident person, partnership firms, business, investment, trading stock, interest, business assets, taxable income, adjusted taxable income, investment, fund etc.

2.1.4 Legal Provisions of Fees, Fines, and Penalties According to Income Tax Act 2031 (ITA 2031)

For making law effective, there should be provision of penalties against those who do not comply with the tax law. Every law has managed the provision of penalty against different types of offences. ITA 2031 was not also exception of it. Under this act, certain provisions were provided to minimize such offenses. In ITA 2031, there were two forms of penal provisions as; (a) fees and (b) fines, & penalties.

Income Tax Act 2031 had provided the following provisions as extra fees in addition to regular payment of tax.

A. Additional Fee on Correction of Statement [section 29(2)]:

If a person wants to correct his income statement before receiving the notice of departmental action is liable to pay 10% additional fee of tax liability.

B. Fee for Paying Tax within the Extended Due Date [section 27 (b)]:

If a person is not able to pay tax within 35 days after tax assessment he can apply for extend the date. According to this application, tax office can extend the date up to additional 9 months. In this condition he will liable to pay the following amount additional fee of remaining amount of tax liability.

- i) 3 month – 3%
- ii) 6 month – 5%
- iii) 9 month – 7%

C. Fee for Failure to Pay Tax within the Extended Due Date [section 37 (c)]:

If a person failure to pay tax within 35 days or within the extended due date, he will liable to pay 25% per annum (p.a.) as an additional fees.

D. Additional fee for stopping the action [sec 37(d)]:

His Majesty's the Government (HMG) of Nepal can auction the property of a tax payer who fails to pay any tax and fee. In this situation, if such payer wants to stop

such auction before the process is finished, he will liable to pay 5% additional fee of total of such tax, fees, and penalty.

Income Tax Act 2031 had provided the following fine and penalty provision, who defy or fails to obey the provisions of ITA 2031 is punishable as follows:

1. Penalty for Failure to Submit Statement of Income (section 59)

- (i) Any taxpayer who fails to submit his statement of income within 3 month after the expiry of income year shall be liable to fine 10% per annum (p.a.) of the tax payable amount.
- (ii) Anybody who fails to submit his statement of income within the time allowed by an order made by tax officer (under sec 28) shall be liable to fine equal to and amount of 15% of the tax payable annually by him.
- (iii) For any taxpayer who fails to submit statement of income within the time allowed the tax officer may take any of the following proceeding or all penalties the submission of the statement of income.
 - a. To impound or size the moveable property of the taxpayer.
 - b. To impound any deposit of the taxpayer with any government office of corporation owned by HMG or any amount payable to him by such office or corporation.
 - c. To restrain the business of the tax payer including that of import and export trade in order to take these action it shall be necessary for the tax officer to obtain previous approval of the director.
- (iv) Any taxpayer who fails to submit the statement within the time prescribed under sec 27& 28 or who's tax has been assessed by tax office using his best judgment under sec 33 (7) and who has given order by the has officer sub section 4 of the same section, who fails such opportunities, provided by the tax officer of being heard or providing an evidence in support his statement of income shall be liable to a fine equal to an amount of 15% of the tax payable.

2. Penalty for Submitting False Statement (sec 60)

Any person who submits or cause of submit a false statement shall be required to pay such amount of tax which had fallen short due to the submission of such false statement and shall also be liable to fine equivalent to the amount of tax so payable or to imprisonment not exceeding two years or both.

3. Penalty for Failure to Maintain or Preserve Account (sec 61)

Any person earning or acquiring income from industry business, profession or vacation or any other sources as many be specified by HMG in a notification published in the Nepal Gazette shall maintain proper accounts of his income and expenses. The method of maintaining such accounts and language to be used shall be as specified by HMG in Nepal gazette. Every taxpayer shall preserve the accounts and relevant documents of his industry, business, profession or vocation for six year from the date on which his income has been assessed. Any taxpayer, who fails to maintain proper accounts and supporting document shall be liable to a fine not exceeding five thousand rupees.

4. Penalty for Obstructing Search (sec 62)

Any person who obstruct any search operation to be made under sec 46 shall be liable to a fine not exceeding five hundred rupees or to imprisonment not exceeding one month or both by an order of the local zonal commissioner.

5. Penalty for Failure to Deposit Tax Deducted at Source (TDS) (sec 63)

There is a provision under sec 63, any person paying any remuneration, share of profit or interest to any person shall at the time of payment, deduct tax there from and the tax so deducted shall be deposited to HMG within 15 days, where any person fails to deposit to HMG the amount of Income Tax deducted within the specified period shall be liable to fine not exceeding five hundred rupees.

6. Penalty for Failure to Produce Receipt of Payment of Tax or a Certificate of Tax Exemption /Tax Clearance [sec 63(a)]

Any person who wants to sell or transfer his assets to another person, before such transfer he has to pay tax from income derived from such assets or take a certificate of tax examination .If he fails to do so, HMG Nepal can order for prevent to such transfer until payment of tax or produce tax examination certificate.

7. Prohibit the Issuance of Passport [sec 63(c)]

Without prejudices to the liability for punishment under the section of this Act, the tax officer may by an order prohibit the issuance of passport to such taxpayer, who is bound to comply with obligations imposed by this act until fulfillment there of by taxpayer.

8. Punishment for Breach of the Provision of the Act or the Rules [sec 63(b)]

Except for any act punishable under sections 59, 60, 61, 62, and 63 of this Act, any person, firm, company, bank, finance, or other institutions responsible for any breach of the provision of this Act or rule made there under shall be an order of the tax officer with a fine up to one thousand rupees.

9. Penalty for Carrying Business without Registration [sec 63(c) 2]

Any person carrying on any industry, trade, profession, or vocation without registration shall be punishable by an order of the tax officer with a fine up to five hundred rupees. The tax officer may with hold carrying out the business of such person until registration or impound any or all of the commodities pertaining to that business, but the tax officer has to obtain approval to the director to impose such penalty.

10. Power to Imprison for Default in Payment of Tax [sec 37(a)]

In case of any taxpayer, with the intention of avoiding payment of tax transfer his property of business to another person, after or before the assessment of tax payable by him and does not pay the amount of tax within the time specified in

subsection (1) or (2) of section 37, such taxpayer, not with standing any thing mentioned in the said. Section 37, may be kept in person by order of HMG, until he makes payment of tax, but HMG may not order the detention of such person for more than six month.

11. Departmental Action in Case of Negligence [sec 58 (b)]

If it is found that a tax officer has with regard to any tax payer made dishonest or negligent tax assessment and as a result of which the tax liability of such person has become excessive or reduce the director shall initiate proceeding for departmental punishment in accordance with the provisions made in the conditions of service of such tax officer.

2.1.5 Legal Provisions Relating to Interest, Fees, Fines, and Penalties of Income Tax Act (ITA 2058)

Income Tax Act 2058 has also provided the legal provisions relating to fines, and penalties against those who violate the rules of ITA 2058. Fees and interest are charged on delay payment of tax and control the negligence of taxpayers. It is imposed by tax office. Fines and penalties are imposed to those who fail to meet the obligation as provided in the act. It is a legal punishment for committing Crime. It is imposed by court of resemble. ITA 2058 has divided penal provision in two parts as; (a) fees and interest (b) offence and penalties

2.1.5.1 Fees and Interest

Following provisions are provided under this chapter -22

I. Failure to Maintain Documentation or File Statement of Tax Return. [See 117 (1)].

Tax payer who fails to proper documentation for an income year for account inspection certification and other required certification and documentation of proof in the type and form as prescribed by the Inland Revenue Department (IRD) are liable to pay a penalty at the rate which ever is higher amount between 0.1 percent per annum of the person's assessable income with out any entitled deductions and including all amounts required to be included in calculating a person's income for the year or Rs.1000 per year. Similarly, some rules apply to them who fails to file statement of tax return that is (i.e.) within three month after the end of income year.

II. Failure to File a Statement of Return by Withholding Agent [sec 117(3)]

A withholding agent who fails to file a statement within 15 days after the end of each month is liable to pay fee for each month and part of a month during which the failure continues at 1.5% per annum of the amount of tax required to be withheld from payments.

III. Failure to Comply with the ITA 2002 and Its Rules [sec 119(a)]

A person who does not comply with this Act is liable to pay fee Rs. 5,000 to Rs. 30,000.

IV. Making False or Misleading Statement Unknowing or Due to Carelessness [sec 120(a)]

A person who makes a statement of the department that is false or misleading or omits from a statement any matter of a things without which the statement is misleading, is liable for a penalty. The rate of fee would be 50 per cent of the under payment of tax where the statement of omission is made with reasonable excuse.

V. Making False or Misleading Statement Knowingly or Recklessly [sec.120 (b)]

A person who makes a statement to the department is false or misleading or omits by knowingly or recklessly. 100 percent of the underpayment of tax is to be imposed as fees.

VI. Aiding or Abetting [sec 121]

A person who knowingly or recklessly aids or abets another person to commit an offence to pay tax make false or misleading statement, obstructing, be unauthorized person, an accomplice, and comply with the Act or counsels or includes another person to commit such offence is liable to pay for fees. The rate of fee is 100 percent of underpayment of tax.

VII. Interest for Understating Estimated Tax Payable by Installment [sec 118(1)]

When an installment payer's estimate of tax payable in each installment is less than 80% of the correct amount, 10%p.a. for each month and part of month from the date of tax payable on assessment.

VIII. Interest for Failure to Pay Tax [sec 119(1)]

If a taxpayer fails to pay tax within stipulated time, he is liable to pay interest for each month and part of a month for which any of the tax is outstanding the rate of calculation would be as the standard interest rate, i.e. 10% applied to the amount outstanding for the purpose of calculating the interest the interest payable, any extension granted is ignored.

2.1.5.2. Offence and Penalty

ITA 2058 has managed the provision of offence and penalty in separate chapter it is presented in chapter-23.

I. Offence of Failure to Pay Tax (sec 123)

Any person who without reasonable excuse fails to pay any tax on or before the date on which the tax is payable is to be liable on conviction to a fine of between Rs 5,000 to Rs30,000 or an imprisonment for a term of not less than one month and not more than three month or both.

II. Offence of Making False or Misleading Statement (sec 124)

Any person who makes a statement to the IRD that is false or misleading in a particular material or omits from a statement made to the IRD any matter or thing without which the statement is misleading in a particular material has to be liable to a fine of between Rs.40,000 to Rs.1,60,000 or an imprisonment for a term not less than six month and not more than two years or both.

III. Offence for Obstructing or Coercing or Influencing Tax Administration (sec 125)

A person committing the following offence is liable to fine of not less than Rs. 5,000 and not more than Rs.20,000 or an imprisonment for a terms of not less than one month and not more than three month or both.

- (a) If obstruct an officer of the IRD on duty under the Act.
- (b) If fails to comply with a notice for obtaining information.
- (c) If obstruct the enforcement of the Act in any other ways.

Moreover, any person if attempts to commit the offences as explained above is liable to half of the penalty as mentioned.

IV. Offences by Unauthorized and Authorized Person (sec 126)

If an authorized person violets official secrecy is liable to a fine of up to Rs.80, 000 or an imprisonment for a term of up to one year or both. Similarly if any person who is not authorized by the Act collects or attempt to collect tax or any other amounts in the name of tax is liable to a fine of between Rs.80, 000 to Rs. 240, 000 or

an imprisonment for a term of not less than one year or not more than three years or both.

V. Offence of Aiding or Abetting (sec 127)

If any person who knowingly or recklessly aids or abets another person to commits an offence under this Act or counsels or induces to commit such an offence is liable to a fine equivalent to the half of the penalty to be imposed on the main offender. However, if a person inducing to aid or abet is a government employee, he will commit the offence and is liable to a fine equivalent to the penalty imposed on the person who commits the offence.

VI. Offence of Failure to Comply with Act (sec 128)

A person failing to comply with any provision of this Act its rules is liable to a fine of not less than Rs.5, 000 and not more than Rs.30, 000.

K.C. (2007) comments the penal provision as there are two limits except sec 128 for fine and imprisonment and both of them may be applied. According to principals of equity they are quite unjustifiable according to their flexibility. Two judges of two different places may apply different fine or imprisonment or both for the similar offence and amount of case with a lower limit of fine only with lower limit imprison only, with lower limit of both or with higher limit of one and with higher limit of both. It encourages corruption or nepotism or favoritism in the society.

2.2 Review of Books, Journals and Unpublished Dissertations

For the preparation of this research study, various books, journals, articles, previous researcher's reports had been reviewed. They are as follows:

2.2.1 Review of Books

First of all Adhikari (2060)^{*6} in his book named "Modern Income Taxation in Nepal, Theory and Practice" had been reviewed he had described the legal provisions

⁶ Adhikari, Chandra Mani (2060). *Modern Income Taxation in Nepal: Theory and Practice*. Kathmandu: Pairabi Prakashan.

relating to income taxation and other fundamental points such as "Introduction of Taxation, Objectives of Taxations, Principles of Taxation etc. he had presented the provisions of fees & interest and offence and penalties separately according to ITA 2058. But he had not described about the defects and weakness of the various provisions of ITA 2058. That book was fully based on Tribhuvan University (T.U.) syllabus.

Agrawal (2004)*⁷ in his book named "Income Tax, Theory and Practice", had not included introduction, background, historical perspective and other information's. He had described only numerical problems with suitable examples but not described the legal provisions of ITA 2058. That book was not able to critically analysed and describe the legal provisions of ITA 2058. That book was useful only for T.U. examinees.

Amatya, Pokharel and Dahal (2004)*⁸ in their book named "Taxation in Nepal, Income Tax, Property Tax and Value Added Tax" had explained introduction, objective principal of taxation etc. They described the legal provision of income tax with numerical example and practical problems. That book was mainly focused on the T.U. syllabus. That was mostly informative but not analytical. They presented the penalty provision of ITA 2058 but not critically analyzed on it.

Adhikari (2064)*⁹ in his book "Taxation in Nepal" had shown the various provisions relating to income tax Act. Apart from this he had mentioned the introduction, background, objective of taxation etc. But he had not critically analyzed about the provisions of income tax Act this book was not only informative but not analytical. So that was based on T.U syllabus.

⁷Agrawal, Gangadish (2004). *Income Tax Theory & Practice*. Kathmandu: Bhuddha Academic Publishers and Distributors Pvt. Ltd..

⁸Amatya, Surendra Keshar, Pokharel, Dr. Bihari Binod, & Dahal, Rewanta Kumar (2004). *Taxation in Nepal: Income Tax Property Tax & Value Added Tax*. Kathmandu: M.K.Publishers & Distributions.

⁹ Adhikari, Prapanna (2064). *Taxation in Nepal*. Kathmandu: *Dhaulagiri Books*.

Bhattarai & Koirala (2061)*¹⁰ in their book named "Income Taxation in Nepal, with Tax Planning and VAT" had described the theoretical and practical aspects of Income Tax Act with related provisions. They had described the defects of ITA 2031. They presented the 'point to remember' for easy to remember for the students. And also mentioned about an overview of Income Tax Act 2058, but that was not able to describe the role of income tax act 2058.

Dhakal(2058)*¹¹ had presented his enlarged and modified edition. That book was based on T.U syllabus of Bachelors of Business Studies (B.B.S.) and Masters of Business Studies (M.B.S.). He had described the legal provisions relating to Income Tax Act 2031, with numerical examples. That book was informative rather than analytical. He had not analyzed the role of income tax. Tax structure and problems or weakness of Income Tax Act 2031.

Kandel (2003)*¹² his book "Tax Law and Tax Planning in Nepal" was based on T.U. syllabus. That was helpful for the students of MBS. This edition had attached unofficial translation of the tax laws both act and related to Value Added Tax and Income Tax as appendices. But he had not analyzed the role of income tax, tax structure and problems of income tax.

Khadka (1994)*¹³ had shown the economic policy of Nepal, income tax and composition of tax revenue from 1950/51/ to1991/92 in his book named "Nepalese Taxation; Path for Reform". He had described the introduction, development, existing structure, main problems and possible direction of reform. He had identified the major problems were, lack of tax administration, imbalance and inadequate organizational pattern, lack of adequate information system, lack of coherent tax policy an

¹⁰Bhattraai, Ishwor & Koirala, Girija Prasad (2061). *Income Taxation in Nepal with Tax Planning and VAT*. Kathmandu: Asmita Books Publishers & Distributors.

¹¹Dhakal, Kamal Deep (2058). *Income Tax and House & Compound Tax Law and Practice*. Kathmandu: Khanal Prakashan.

¹²Kandel, Puspa Raj (2003). *Tax Law & Tax Planning in Nepal*. Kathmandu: Buddha Academic Publishers Pvt. Ltd.

¹³ Khadka, Rup Bahadur (1994). *Nepalese Taxation: A Path for Reform*. Kathmandu: Marburg, Murburg Consult for Self Help Promotion.

inadequate physical and other facilities. That book was very useful in various aspects of income tax.

K.C. (2007)¹⁴ his book named "Tax Law and Tax Planning; Theory and Practice" was mainly related with T.U. syllabus. He had presented the legal provisions relating to Income Tax Act. With numerical examples and also presented the introduction, background, objectives and historical perspectives of taxation. That book was fully informative and also able to analyzed and criticize the various provisions of ITA 2058. That book was helpful to MBS students. It specially had criticized the penal provisions of ITA 2058.

Mallik (2003)¹⁵ had described the legal provisions relating to income tax by modifying the illusive terms in to simple way with suitable examples. He had also described the historical prospects, weakness of ITA 2031, some practical problems and different sections of Income Tax Act 2058. Although he had presented the new Income Tax Act 2058 with some numerical examples, he did not mention the role of income tax, tax structure and he had not taken any empirical investigation.

Poudyal & Timsina (1990)¹⁶ had explained the legal provisions relating to income tax system in Nepal. They described the historical background, introduction of taxation and other legal provisions of Income Tax Act 2031 with practical problems. That book was only informative but not analytical. That was mainly concentrated in campus syllabus. They had not analyzed the role of income tax, tax structure, problems and weakness of Income Tax Act 2031.

¹⁴ K.C. Jit Bahadur (2007). *Tax Laws and Tax Planning: Theory & Practice*. Kathmandu:Khanl Books Prakashan

¹⁵ Mallik, Vishyashar (2000). *Nepalko Aadhunik Aayakar Pranali*. Kathmandu: Anita Mallik

¹⁶ Paudel, Santosh Raj and Timsina, Prem Prasad (1990). *Income Tax in Nepal* .Kathmandu:Aatharai Enterprises.

2.2.2 Review of Unpublished Dissertations

Pandey(2004)¹⁷ described the conceptual frame work of income tax, tax structure of Nepal, role of income tax etc. But he mainly emphasized on tax planning. He described the planning as the systematic, legal and ethical way of reducing tax liabilities by optimum utilization of facilities rebates and concessions given by law. He found that the Nepalese business organizations practiced on tax evidence rather than tax planning for reducing tax liability. They feel tax liability as a burden rather their duty to pay. Most of the Nepalese business organizations do not have good knowledge about tax planning. They don't have tax expert; financial manager is responsible for tax planning. Nepalese government's effort to promote industrial and commercial activities is not sufficient because of security, corruption etc. Most of the Nepalese business organizations are more careful in the capital stricture, forms of organization and location while practicing tax planning.

Baral (2005)¹⁸ had described the introduction, background, role of taxation etc. She had mainly focused on the contribution of public enterprises in government revenue. She described the concept of public enterprises and mainly national trading limited, she had found structure of various types of taxes ratio of taxes. Within the income tax there is the dominant role of corporate income taxes. She also found that the target and achievement of income tax from Public Enterprises (PEs) were not effective, but poor contribution to total income tax revenue from National Trading Limited (NTL) in total tax revenue was 0.006% in F.Y. 2003/04 & she had also presented the contribution of income revenue from NTL to direct contribution of income tax from NTL in total revenue etc.

Bhandari (2005)¹⁹ had described the conceptual framework, objectives of taxation, role of income tax to government revenue, major problems of income tax etc.

¹⁷ Pandey, Yuva Raj (2004). *Corporate Tax Planning in Nepal*. Kathmandu: submitted to Faculty of Management T.U. (unpublished dissertation).

¹⁸ Baral, Samjhana (2005). *Contribution of Income Tax from Public Enterprises to Government Revenue in Nepal with Special Reference to National Trading Limited*. Kathmandu: Submitted to Faculty of Management, T.U. (Unpublished Dissertation)

¹⁹ Bhandari, Kul Chandra (2005). *Tax Avoidance and Anti-avoidance Rules in Nepalese Perspective*. Kathmandu: Submitted to Faculty of Management T.U. (Unpublished Dissertation)

He mainly concentrated on tax avoidance and anti-avoidance rules in Nepalese perspective. He had described the meaning of avoidance, present situation of tax avoidance in Nepalese taxation. He had conducted the empirical investigation. From the investigation, he found the various facts such as; income tax avoidance is prevailing in Nepal, individual sources of income tax avoidance is very high than other sources in Nepal, widespread illegal business is the main cause of income tax avoidance in Nepal, expenses camouflage is the main ways of tax avoidance in Nepal. Anti-avoidance rule in Nepal is effective, existence of income tax avoidance in Nepal is possible effort of judies is the most appropriate method or function of anti-avoidance scheme prevailing in Nepal.

He described about various cause of tax avoidance and ineffectiveness of anti-avoidance rules, but he had not mentioned the role of fine and penalty to curb such tax avoidance.

Bhattarai(2005)²⁰ had emphasized mainly on contribution of public enterprises to government revenue. He had described about the public enterprises and problems facing PEs regarding to income tax system as; due to lack of clear-cut rules and regulations, efficient tax administration and heavy fine and penalty. He also described the most important objectives of income tax imposition of PEs and causes of unsatisfactory contribution of income tax from PEs to government revenue as; poor performance of PEs, over staffing and political pressure and high corruption.

He had not described only about the public enterprises, he also described about the problems in income tax system in Nepal as; due to the complexity in income tax act, rules and regulations, lack of consciousness of taxpayers, inefficient tax administration, increasing habit of tax evasion and inadequate economic policy etc, and he had recommended some points for improvement.

²⁰ Bhattarai, Toya Nath (2005). *Contribution of Income Tax from Public Enterprises to Government Revenue in Nepal*. Kathmandu: Submitted to Faculty of Management T.U. (Unpublished Dissertation)

Gautam (2005)²¹ had described in his dissertation about the composition of tax, and proportionate contribution of various types of taxes. He had explained the summarized provisions of Income Tax Act 2058. But he mainly concentrated on the provisions of deductions and exceptions. He also presented the problems of income tax system of Nepal. He had conducted an opinion survey in order to find out the various aspects of income tax administration, exempt items of incomes are sufficient, exemption limit must be of an individual and family are not sufficient and appropriate, all expenses which are related to earn income must be prioritized for deduction.

Poudel (2005)²² had shown that the role of excise duty in government revenue in Nepal. The overall contribution of excise duties to total revenue was about 7 percent. He also mentioned the contribution of different types of tax and non-tax revenue and the government revenue.

He had explained the problems in excise duty in Nepal as due to the complexity in excise duty act, rules, and provisions, difficulties in excise duty administration and habit of tax evasion, there is inefficiency of excise duty administration in Nepal due to corruption in excise duty administration, lack of proper communication and direction, lack of trained and competent personal etc. There was unsatisfactory contribution of excise duty to government revenue due to smuggling and illicit production, weakness of government financial policies and discrimination in practice. And he had suggested for improvement, but he had not mentioned the role of fines & penalties.

Adhikari(2006)²³ had described the conceptual framework of income tax, structure of income tax, problems of income tax etc. He mainly focused on the provisions of tax planning practice among the listed companies of Nepal. From the

²¹ Gauhtam, Uttam (2005). *Income Tax in Nepal: A Study of Deduction & Exemption*. Kathmandu: Submitted to Faculty of Management T.U. (Unpublished Dissertation)

²² Poudel, Sabin (2005). *An Analytical Study of Excise Duty in Nepal*. Kathmandu: Submitted to Faculty of Management T.U. (Unpublished Dissertation)

²³ Adhikari, Thaba Raj (2006). *A Comparative Study of Tax Planning Practice Among Listed Companies of Nepal*. Kathmandu: Submitted to Faculty of Management T.U. (Unpublished Dissertation)

study, he had found some facts such as; composition of tax revenue, most of the companies practicing tax planning facilities to reduce income tax liability only. It was found that capital structure, acquisition of fixed assets, and donations are widely practiced as tax planning tools. He also found separately the percentage of tax planning tools practiced by the companies and also found that Nepalese listed companies are independent in practicing the tax planning tools.

Dahal (2006)²⁴ had explained the introduction of taxation, general background, historical background, objectives of taxation, role of taxation in economic development of nation, general tax structure etc. but study was mainly focused on the provisions of fees, interest, fines, and penalties of ITA 2058. He had described the various provisions of fees, interest, fines, and penalties of ITA 2058 and role of penalties in collection of tax. Not only this, he also presented the composition of tax in Nepal, contribution of various types of taxes in government revenue.

He had investigated empirically on the penal provision of ITA 2058. From the investigation he had found some information's such as; the major goal of income taxation in Nepal is to collect government revenue, tax paying habit of Nepalese people is poor, tax paying habit of Nepalese people can increased by effective fine and penalty system, most of the tax payer were against the interest for under estimation of tax payable by installment, penalty for aiding or abetting reduces offence, income tax administration of Nepal is considered as ineffective to impose fine's & penalties as per necessary because corruption, lack of competent staff, complicated tax law etc.

He had recommended some points for betterment of Act and rules. His recommendations were mainly based on ITA 2058, but not according to other Acts and rules.

²⁴ Dahal, Tirtha Raj (2006). *Fees, Interest, Fines & Penalties Regarding to Income Taxation in Nepal*. Kathmandu: Submitted to Faculty of Management T.U. (Unpublished Dissertation)

Adhikari(2007)²⁵ had studied on municipal tax in Nepal. He had described the contribution of municipal tax to the government revenue, collection procedure of municipal tax, mobilization and utilization of municipal tax, problems in collection of municipal tax and suggested for improvement. He had also conducted an opinion survey to find out the opinion of taxpayer regarding municipal tax. Such as; the taxpayers are not ready to pay tax without compulsion, tax collection groups are not being mobilized effectively, the reasons of non-registration of the enterprise are unawareness about the tax liability, fear of tax burden and unnecessary official municipal tax hassles etc. The enterprises are against the present tax assessment system. Then, he had suggested for betterment, but he had not mentioned the role of Penal provision to collect the tax revenue.

Bhusal(2007)²⁶ had explained various problems and prospects regarding custom duty in Nepal. He mainly focused on the custom duty policy of government problems on custom duty, contribution of custom duty and suggestions regarding custom duty.

He had described as custom duty, Excise duty, VAT are major sources of indirect tax. Among them, custom duty is backbone of the Nepalese economy. He also presented the contribution of custom duty as 22.39% of total revenue of the government. He had mentioned the two main objectives of custom duty, the first one is to collect revenue for the government and another one is to regulate the foreign (international) trade. He described the various problems and constraints of custom duty and recommended accordingly. But he had not described the role of penal provision to collection of custom duty.

Gaire (2007)²⁷ had presented conceptual framework, historical perspective of taxation and structure of various income tax act of Nepal. Gaire mainly concentrated

²⁵ Adhikari, Rishi Ram (2007). *Municipal Tax in Nepal*. Kathmandu: Submitted to Faculty of Management T.U. (Unpublished Dissertation)

²⁶ Bhusal, Ram Kumar (2007). *Contribution of Custom Duty to Government Revenue in Nepal*. Kathmandu: Submitted to Faculty of Management, T.U. (unpublished dissertation).

²⁷ Gaire, Bisnu Prasad (2007). *Analysis of Fines and Penalties Regarding to Income Tax System of Nepal*. Kathmandu: Submitted to Faculty of Management, T.U. (unpublished dissertation).

in analytical study of fine and penalty provision of ITA 2058. He presented contribution of various types of taxes and composition of taxes in Nepal he also conducted an empirical investigation regarding fine and penalty provision of Income Tax Act 2058. From the investigation, he had found some facts such as; taxpaying habit of Nepalese people was poor, most of the taxpayer. As well as administrators were aware about ITA 2058 and its provisions regarding fines and penalties for adding or abiding reduce offence, there should be provision of penalty that fails to register, tax administration was not effective to impose fine and penalties as per necessary. He recommended for improvements of tax system and tax administration. He had analyzed only penal provisions of ITA 2058. But not penal provision of other Acts.

Gautam (2007)²⁸ explained the historical prospects, tax structure, role of income tax administration, general penal provision of ITA 2031 and 2058. He had more emphasized on penal provision of ITA 2058. He also presented the classification of tax composition of tax and contribution of various taxes on government revenue etc.

He also conducted an empirical investigation. From the investigation, he had found some facts such as; the main goals of income taxation in Nepal is to increase revenue of the government, tax paying habit of Nepalese tax payer is poor be cause of lack of knowledge, unwillingness, due to complexities on tax law etc. Most of the taxpayers though that the new ITA 2058 is effective than the ITA 2031 on the provisions regarding fine and penalties. The majority of the people were against interest for under estimation tax payable by installment.

In that study he had only analyses on the penal provision of ITA 2058. But he had not comparatively analyzed with penal provision of ITA 2031 and other Acts.

²⁸ Gautam Ranjan (2007). *An Analysis of Interest, Offence and Penalties with Reference to Income Tax Act 2058*. Kathmandu: submitted to Faculty of Management, T.U. (unpublished dissertation).

Prasai (2007)²⁹ had described the historical prospects, tax structure and other provisions of ITA 2058. He emphasized mainly on problem and prospect of revenue collection from income tax in Nepal. He had described about the present socio-economic condition of Nepal. He found the major problems of domestic resources mobilization as poor utilization of the natural resources, small and stagnant industrial sector, poor performance of public sector enterprises, poor economic growth, & inadequate tax efforts etc.

He had explained the percentage share of income tax to government revenue is in increasing trend at present but it is not regarded satisfactory in comparison of other developing countries. He criticized that, Nepalese income tax law is inappropriate and the administration is worse and suggested as strong commitment, fair and uniform ally imposition are to be stored and revitalized. At last, he concluded that if the problems relating to income tax system in Nepal can be solved and resources are effectively utilized the prospect of revenue collection from income tax will be bright.

Although he had suggested about the income tax system, minimizing the problems regarding taxation, he had not taken any investigation on the penal provision.

Shresha (2007)³⁰ had described the introduction of taxation, historical bank ground of taxation, classification of taxation etc. but he mainly focused on insurance business and its contribution to tax revenue in Nepal. He had explained about the insurance business in Nepal, historical perspective of insurance business in Nepal.

He criticized on the tax rate imposed differently between life insurance business and non life insurance business. He suggested that both types of insurance companies should be taxed at the same tax rate. He also found that, most of the people

²⁹ Prasai, Bhisma (2007). *Revenue Collection from Income Tax in Nepal Problem & Prospect*. Kathmandu: submitted of Faculty Management of T.U (unpublished dissertation).

³⁰ Shrestha, Ram Prasad (2007). *A Study of Insurance Business and its Contribution to Tax Revenue in Nepal*. Kathmandu: submitted to Faculty of Management, T.U (unpublished dissertation).

are ignorant about the knowledge of insurance. He also pointed out as all the provisions of ITA 2058 and regulation 2059 for income tax of insurance business in Nepal are not appropriate. The new Act has certainly some vague provisions. Although he had pointed out the draw banks of ITA 2058 & regulation 2059, he had not recommended for betterment.

Timalsina (2007)³¹ had described the conceptual framework of taxation, historical background of taxation, role of income tax, problem in taxations etc. but in his dissertation he primarily focused on the land revenue and land registration tax. He described the introduction, historical background, significance of land tax etc. he also presented the contribution of land revenue and land registration tax and other taxes in government revenue according to published data of IRD and other sources.

He had investigated about land revenue and land registration tax. From the investigation he had found some facts such as; land revenue collection to total revenue is zero. Because there is no systematic collection pattern in the field of land, contribution of land revenue to GDP is zero percent. But its contribution in beginning of that study was more than 17%, because there was no collection land revenue through central government. Contribution of land revenue to total Nepalese economy is nominal of zero but contribution of land to humanity is not measurable.

He also presented the classified categories of land as; Able, Doyam, Seem, and Chahar. He had pointed out some problems of this sector and suggested some points to betterment of it.

Acharya (2008)³² had described about the provisions of income from employment, composition of government revenue & the share of tax revenue, non tax

³¹ Timalsina, Prajit Kumar (2007). *Taxation in Nepal: Social Reference to Land Revenue and Land Registration Tax*. Kathmandu: Submitted to Faculty of Management, T.U (unpublished dissertation).

³² Acharya, Kamal (2008). *Contribution of Income Tax to Nepalese Government with Special Consideration to Income from Employment*. Kathmandu: submitted to Faculty of Management, T.U (unpublished dissertation).

revenue, direct tax revenue and indirect tax revenue in the government treasury and also presented the condition of income tax to other kinds of taxes.

He had described the position of income tax from employment with comparison to other government revenue. He also found the contribution of remuneration income to tax revenue has not been satisfactory due to various reasons like low pay scale of employee, ineffectiveness in implementation of the Act, tax evasion etc.

He had suggested as medical express, life insurance premium paid by employer, Dashain & transportation allowance should be made tax exemption incomes current exemption limit is not satisfactory, family should be provided higher exemption unit in comparison to the individual. He also suggested that the contribution of income tax from employment income to tax revenue can be increased by making TDS effective and change in income tax policy, rules and registrations. He found the major problems that employees face while paying income tax is procedural complications.

Adhikari (2008)³³ had explained conceptual framework, legal provisions, structure of income tax in Nepal. He had conducted a research study on revenue. So he had mainly concerned on Nepal telecom. He had described about the background of Nepal Telecom (NTC), historical background etc. He presented the structure of different taxes, the share of income tax from NTC to GDP, income tax from NTC to total tax revenue is increasing trend, Income Tax from NTC significantly affects the total tax revenue. The contribution of percentage of income tax from NTC to total income tax has been increasing each year, there is poor tax paying habit of Nepalese people, basically due to lack of incentives for regular taxpayers, defective tax administration system. There was no satisfactory contribution of income tax from EPs to government revenue due to poor performance of public enterprises, over stuffing

³³ Adhikari, Arihar (2008). *Contribution of Income Tax to Nepalese Government with Special Reference to Nepal Telecom*. Kathmandu: Submitted of Faculty of Management, T.U (Unpublished Dissertation).

and political pressure and high contribution in public enterprises. He pointed out the various problems, but he had not mentioned the role of penalty to improvement.

Shaha (2008)³⁴ described the concept of income tax, objective of income tax, importance of income tax, structure of income tax, role of income tax for the economic development problems of income tax etc. The findings of his dissertation regarding taxpayers awareness toward business taxation mainly were most of the tax payer had knowledge about income tax, custom duty and VAT, most of the business man was not satisfied about tax, provisions of concession, rebates and facilities they feel tax and VAT rate is high, tax payer education program in Nepal are ineffective, they agreed that, tax related education is needed. They were agreed that, VAT is superior to sales tax etc. He had focused mainly on other provisions of Income Tax Act. He had not focused on taxpayer's awareness on panel provisions.

2.2.3 Review of Articles

Some reports and articles have been reviewed for performing this study some of them are as follows:

Ghimire (1993)³⁵ had described the classification of tax, base of income tax or expenditure tax, base of tax in Nepal, procedures of computing net income, weakness of traditional accounting system, classification of tax rate, index of income tax in Nepal, contribution of income tax to national revenue, some steps of administrative improvement etc. He found that the tax covered vary low portion of total revenue because of taxation in agricultural income, narrow base of income of retail business, etc. He had also noticed that about some errors of provisions relating to income tax. They were; progressive tax had not played and effective role for equal distribution of income, unproductive tax concession, holiday and rebate, provision of low additional fee compare to market interest rate etc. He also suggested some steps of administrative

³⁴ Shah, Rabindra Bikram (2008). *Tax Payers Awareness Towards Business Taxation: A Case Study in Kathmadu Valley*. Submitted to Faculty of Management, T.U. (Unpublished Dissertation).

³⁵ Ghimire, Bamshidhar (1993). *Principle of Direct Tax and Provision of Direct Tax Rajaswa*. Kathmandu: vol-2

improvement such as, provisions of income assessment committee, flat rate of tax to small taxpayers, establishment of tax office etc.

Nepal Government (2001)³⁶ revenue consultation committees of Ministry of Finance (MoF) had published a report in the FY 2001. The committee had studied the overall taxation situation of Nepal. This report had suggested widening the income tax base by including all kinds of taxpayers and incomes. This report suggested for finding out the tax payers of new sector. For this the reports had suggested to make the act more transparent and clear in order to attract foreign and domestic investors. The reports suggested increasing exemption limit and adjustment for exemption limit according to the purchasing power and inflation. This report had suggested to implement account based VAT more effectively. This report had also suggested that fines and penalties imposed strongly to rule breaker so that income tax collection will be raised.

Thapa (2002)³⁷ had described the tax system future of tax and course of reform the tax. He had characterized the tax system as too many and to high rates, multiple objectives of taxes, scheduler rather global, approach to income taxation too many income brackets and high progressively, complicated and ambiguous tax law.

He had identified the areas for the reform of tax system in Nepal, they were, law rates on broad base, simplicity and neutrality gradual abolition of exemption deduction and tax holidays to broad tax base few rates or single rate, few taxes with revenue productivity emphasis on tax compliance rather than coercive enforcement incentives to drawing and investment, conversion of sales and service taxes in to VAT excise duty only on cigarette, tobacco, alcohol, automobiles, petroleum and automobiles spare parts, abolition of surcharge and additional duty system to make the tax system. Making the tax system internationally compatible to attract foreign investment.

³⁶ Nepal Government (2001). *Revenue Consultation Committee Report*. Ministry of Finance.

³⁷ Thapa, Govinda Bahadur (2002), *Business Age*. Vol.4, Kathmandu.

CHAPTER – III

RESEARCH METHODOLOGY

Research methodology describes the methods and processes applied in the study. This chapter was devoted to research methodology applied in study for the achievement of designed objective.

3.1 Research Design

Research design is systematic framework under which the research is conducted. It is a planned structure and is the strategy for investigation. Research design involved selecting the most appropriate method or technique to solve the particular problem under investigation the research entitled *A Comparative Study on Penal Provision of Income Tax Act 2031 and 2058* was concerned with past phenomena therefore this research was a type of historical research design. After the collection of data and expenses, the study was analyzed and described its own procedure. Thus, this study was follow analytical as well as descriptive research design.

Descriptive research: in this research, researcher had used different kinds of survey, facts findings, and enquires

Analytical research: in this research, researcher had used facts or information's already available and analyzed those to make a critical evaluation of the material.

3.2 Population and Sample

All taxpayer, tax administrator, and tax expert were the population of this study. But due to time constraint and lack of other sources, only 100 samples were

selected for investigation. Among them, the respondents were divided in to three groups such as; income tax payers' Income Tax Administrators and income tax experts. Among 100 samples, 60 persons from income tax payers, 20 persons form income tax administrators and 20 persons from Income tax experts were selected from the group. The following table can be clear the groups of respondent and size of samples.

Table No. 3.1: Size and Groups of Respondents

S.N.	Group of respondents	Sample size
1.	Income Tax Payers	60
2.	Income Tax Administrators	20
3.	Income Tax Experts	20

3.3 Nature and Sources of Data

This research study was based on both primary and secondary data. Primary data was collected from above three groups of respondent thorough structured questionnaire. Secondary data was collected from reports of economic survey, books related to income tax, news, journals, annual reports of various departments of taxation and bodies of Nepal government etc.

3.4 Data Collection Procedure

The primary data were collected by using structured questionnaire method. A structured questionnaire was developed and distributed to the related respondents in order to get accurate information. Secondary data was collected from published reports of different organizations.

3.5 Data Processing and Analysis

To accomplish the needs and objectives of the study, the collected data and information were firstly edited, and than classified them in different groups according to their quality and quantity. After then the classified data were tabulated into separate format systematically. The data were tabulated in to various tables according to their subject matters. After the processing and tabulating, the data was analyzed to draw the

conclusion by using various statistical tools, such as; simple average, percentage, ratio and proportion, various diagrams and graphs and by using various statistical test necessarily.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

This chapter is concerned with the presentation and analysis of data of this research study. It is the main part of this study. This chapter was focused on the presentation and analysis of the Income Tax Act opinions of respondents regarding penal provision of ITA 2031 and ITA 2058. Various statistical tools had been used to get result of this study. To achieve the stated objective of the study and to make easier to understand the findings, qualitative as well as quantitative data and information had been analyzed.

4.1 Tax Structure of Nepal

Taxes play vital role to economic development of the country. It is the major source of internal revenue of government resource mobilization of the country. It is used for the achievement of national economic goals as well as to operate day to day work of government. Government collects taxes from different kinds of taxes. To know about such taxes, tax structure should be known. Tax structure refers to structure and composition of different kinds of taxes. Such as composition of direct tax, Composition of indirect tax, contribution of direct tax to national revenue, contribution of indirect tax to total GDP, Portions of various direct taxes, portion of various indirect taxes etc. Total tax structure of Nepal from fiscal year (F.Y.) 1985/86 to 2006/07 are presented in this chapter.

4.1.1 Composition of Total Revenue

Total revenue is the combination of tax revenue and non-tax revenue. Government collects revenue from person's income or expenditure or from property. Tax sources include the amount, which are compulsory contributed by taxpayer to the government. It is a certain sources of government revenue. Non-tax sources are uncertain and inconvenient because they are imposed as per necessary by the government. The government of Nepal presented its first national budget in 2008 B.S. At that time 73% of government revenue was came from non-tax sources and land tax. Out of which the share of non-tax revenue was 43%. After 1960s the share of non-tax revenue was declined drastically because of increasing contribution of indirect tax in foreign trade. The composition of total revenue of last 22 years is presented in the following table.

Table 4.1: Composition of Total Revenue

(Rs. in million)

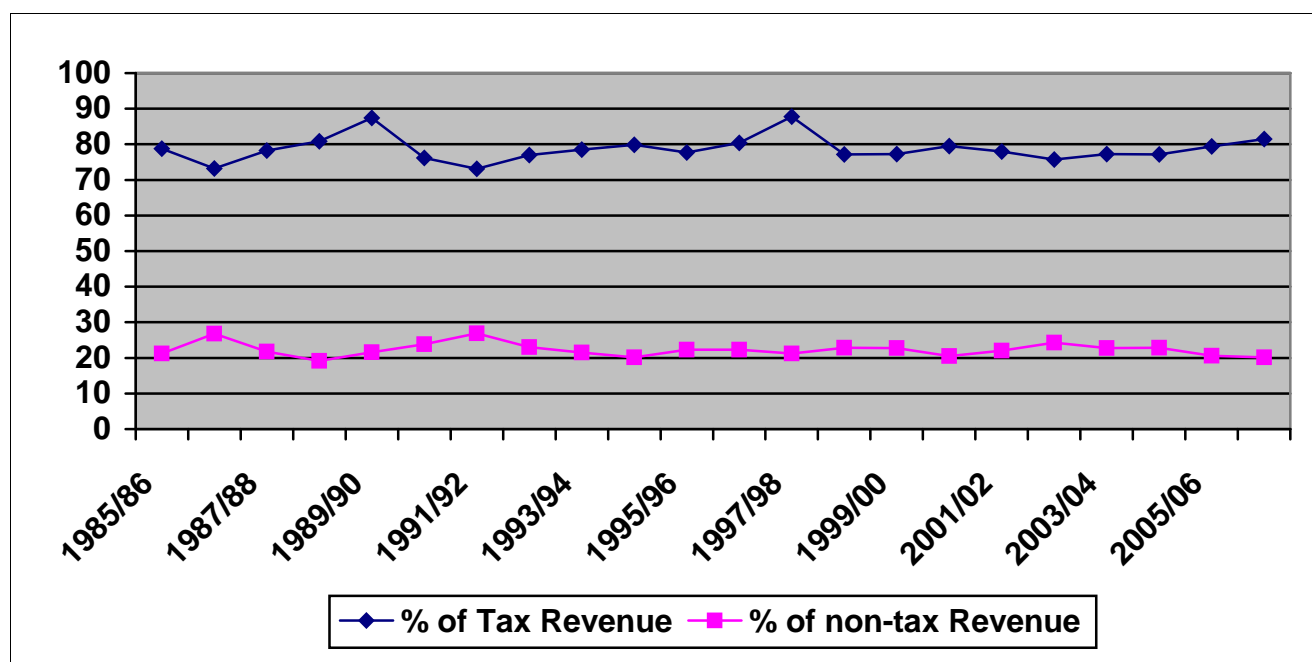
Fiscal Year	Total Revenue	Tax Revenue	% of Tax Revenue	Non-Tax Revenue	% of Non-Tax Revenue
1985/86	4644.5	3659.3	78.79	985.20	21.21
1986/87	5975.1	4372.4	73.18	1602.7	26.82
1987/88	7348.8	5752.8	78.28	1596.00	21.72
1988/89	7776.7	6287.1	80.85	1489.60	19.15
1989/90	9287.5	7283.9	78.43	2003.60	21.57
1990/91	10729.3	8175.8	76.20	2553.5	23.8
1991/92	13512.7	9875.6	73.08	3637.10	26.92
1992/93	15148.4	11662.5	76.99	3485.9	23.01
1993/94	19580.9	15371.5	78.5	4209.4	21.50
1994/95	24605.1	19660.0	79.90	4945.1	20.10
1995/96	27983.1	21668.0	77.68	6225.1	22.32
1996/97	30373.5	24424.3	80.41	5945.1	22.32
1997/98	32937.9	25939.8	78.75	6998.1	21.25
1998/99	37251.3	28752.9	77.19	8498.4	22.81
1999/00	42893.7	33152.1	77.29	9741.6	22.71
2000/01	48893.9	38865.1	79.49	10028.8	20.51
2001/02	50445.6	39330.6	77.97	11115.0	22.03
2002/03	56229.7	42587.0	75.74	13642.7	24.26
2003/04	62331.1	48173.3	77.29	14157.8	22.71
2004/05	70122.7	54104.7	77.16	16081.0	22.84
2005/06	72282.0	57430.4	79.45	14851.6	20.55
2006/07	76062.7	60850.2	81.50	15213.0	20.15

Source: Economic Survey of 22 years (1985/86 to 2006/07)

The above table showed that, the tax revenue contribute more than 73% of the total revenue and non-tax revenue occupied remaining share of total revenue. The share of tax revenue was fluctuating between 73% to 81%, and share of non-tax revenue was fluctuating between 19% to 27%. It showed that the tax revenue occupied the significant portion of total revenue. Both of the tax revenue and non-tax revenue were in increasing fluctuating.

The graphical presentation of above class is given bellow;

Figure 4.1: Composition of Total Revenue



Source: Above Table

Above figure showed that, contribution of tax revenue was dominating to non- tax revenue. Both the tax revenue and non-tax revenue were in increasing trend, but the tax revenue was increasing rapidly than non-tax revenue.

4.1.2 Contribution of Tax Revenue

The total revenue is combination of tax revenue and non-tax revenue, and the tax revenue is composed of direct tax and indirect tax. A direct tax is a tax paid by

a person on whom it is legally imposed. It is a tax on income and property. An indirect tax is imposed on one person but partly or wholly paid by another. It is imposed on consumption or expenditure. Since F.Y. 1999/00 Direct tax was in increasing negatively and indirect tax was fluctuating between 73% to 84% during this study period. Following table depicts briefly about the condition of direct and indirect tax.

Table 4.2 Composition of Tax Revenue

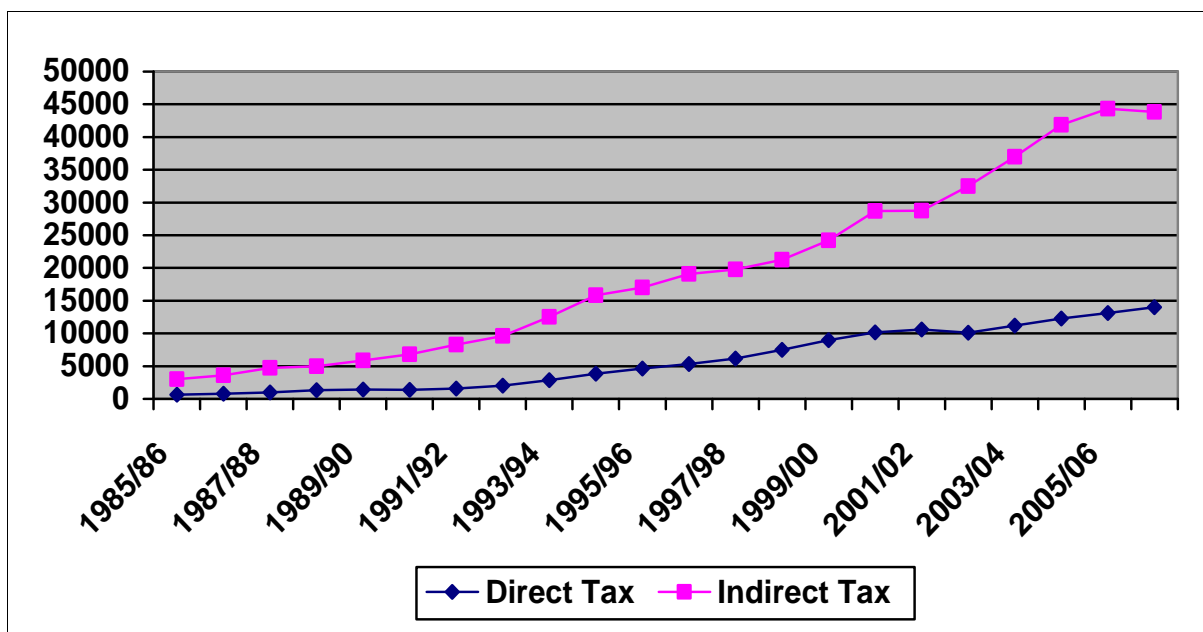
Fiscal Year	Total Tax Revenue	Direct Tax	% of direct tax	Indirect Tax	% of Indirect Tax
1985/86	3659.3	661.8	18.09	2997.50	81.91
1986/87	4372.4	768.1	17.57	3604.3	82.43
1987/88	5752.8	1010.0	17.56	4742.80	82.44
1988/89	6287.1	1331.3	21.18	4955.8	78.82
1989/90	7283.9	1435.1	19.70	5848.8	80.30
1990/91	8175.8	1368.5	16.74	6807.3	83.26
1991/92	9875.6	1595.2	16.15	8280.4	83.85
1992/93	11662.5	2036.2	17.46	9626.3	82.54
1993/94	15371.5	2855.3	18.58	12516.2	81.42
1994/95	19660.0	3849.3	19.58	15810.7	80.42
1995/96	21668.0	4655.9	21.49	17012.1	78.51
1996/97	24424.3	5340	21.86	19084.0	78.14
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	33152.1	8951.5	27.00	24200.6	73.00
2000/01	38865.1	10159.4	26.14	28705.7	73.68
2001/02	39330.6	10597.5	26.94	28733.1	73.06
2002/03	42587.0	10105.8	23.73	32481.2	76.27
2003/04	48173.3	11212.3	23.27	36961.0	76.73
2004/05	54104.7	12265.3	23.00	41839.4	77.00
2005/06	57430.4	13120.5	23.00	44309.9	77.00
2006/07	60850.2	14008.12	23.02	46842.0	76.98

Source: Economic survey of 22 years (1985/86 to 2006/07)

Above table showed that, contribution of direct tax was dominated by indirect tax. About 75% share of total tax revenues was occupied by indirect tax as an average. Amount of direct tax was normally in increasing trend and percentage share also in increasing trend up to fiscal year 1999/00, but after F.Y 1999/00, percentage share of direct tax was slightly decreasing trend. And amount of indirect tax was also in increasing trend, but its percentage share of total tax revenue was fluctuating between 73% to 84%. It was 73.06% in F.Y. 2001/02 and 83.85% in F.Y 1991/92.

The graphical presentation of above data is presented bellow:

Figure 4.2: Composition of Tax Revenue



Source: Above Table.

Above figure showed that, the share of indirect tax was significantly more than direct tax. It implies the dominant role of indirect tax in total tax revenue. Contribution of indirect tax was growing rapidly but direct tax was growing slowly.

4.1.3 Composition of Direct Tax

A direct tax is a tax paid by a person on whom it is legally imposed. In directly tax, the person paying and bearing tax is same. The major components of direct tax are: Income tax, land tax, House and land registration tax in Nepalese tax structure. Vehicle tax was considered as a direct tax until the fiscal year 1993/94 and since F.Y. 1994/95 budget speech. It has been classified under the indirect tax. Since the F.Y 1994/95 interest and urban house and land rent tax were also included under the income tax.³⁸ Composition of direct tax is given in the following table and graph.

Table 4.3: Composition of Direct Tax and Their Percentage Share

Rs. in Million

Fiscal Year	Total Direct tax	Income tax	% of income tax	Land tax	% of land tax	H & L rent tax	% of H & L rent tax	Other tax	% of other tax
1985/86	661.8	364.4	55.06	74.2	11.21	170.1	25.7	53.1	8.02
1986/87	768.1	437.5	56.96	72.4	9.43	211.6	27.55	46.6	6.07
1987/88	1010.0	579.0	57.33	80.7	7.99	286.2	28.34	64.1	6.35
1988/89	1331.3	898.6	67.50	80.4	6.04	320.6	24.08	31.7	2.38
1989/90	1435.1	951.2	66.28	74.6	5.20	377.1	26.28	32.2	2.36
1990/91	1368.5	787.0	57.29	82.1	6.00	456.6	33.36	45.8	3.88
1991/92	1595.2	897.3	56.25	64.8	4.04	571.3	35.81	61.8	3.87
1992/93	2036.2	1214.9	59.67	69.4	3.41	685.5	33.67	66.4	3.26
1993/94	2855.3	1929.6	67.58	61.0	2.14	772.20	27.04	92.5	3.24
1994/95	3849.3	2857.6	74.24	34.9	0.91	902.8	23.45	54.0	1.40
1995/96	4655.9	3518.6	75.57	18.2	0.39	1048.4	22.52	70.7	1.52
1996/97	5340	4218.4	79.00	5.9	0.11	1009.5	18.90	106.2	1.99
1997/98	6187.9	5008.8	80.95	3.6	0.06	1000.6	16.17	174.9	2.83
1998/99	7516.1	6293.5	83.73	1.4	0.02	1001.8	13.33	219.4	2.92
1999/00	8951.5	7539.1	84.22	4.6	0.05	1011.3	11.30	396.5	4.43
2000/01	10159.4	9116.9	89.74	5.1	0.05	607.8	5.98	429.6	4.23
2001/02	10597.5	8906.0	84.04	0.8	0.01	1131.0	10.67	559.7	5.28
2002/03	10105.8	7966.2	78.83	-	-	1414.3	13.99	725.3	7.18
2003/04	11212.3	9245.9	82.46	-	-	1697.5	15.14	868.9	2.40
2004/05	12265.3	9241.5	82.83	-	-	1799.2	14.67	1113.0	2.50
2005/06	13120.5	1037	79.06	-	-	2181.1	16.62	565.7	4.31
2006/07	14008.12	11235.9	80.21	-	-	2381.4	17.00	390.83	2.79

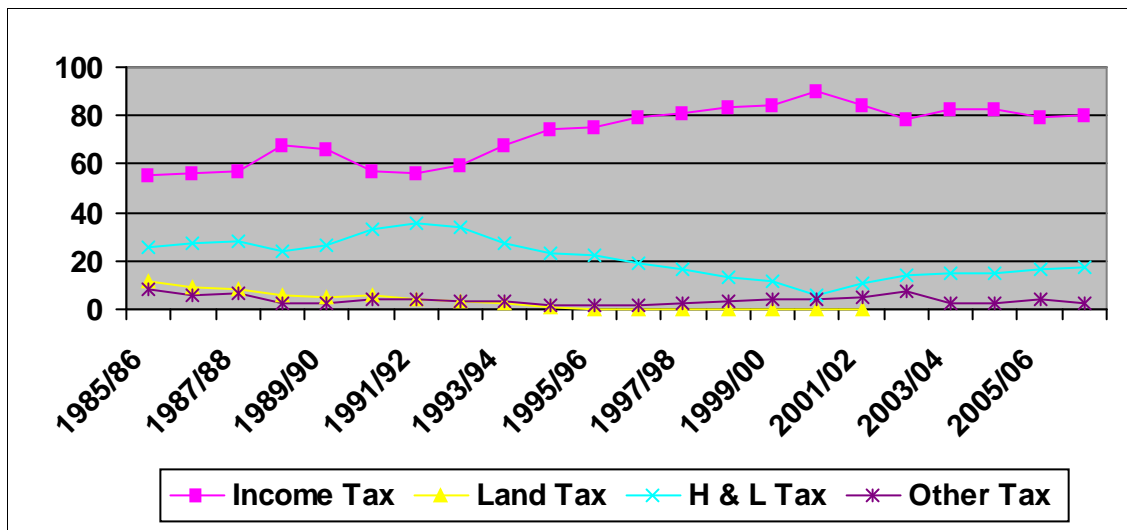
Source: Economic survey of 22 years (1985/86 to 2006/07)

³⁸ Annual Report, 1994/95. MoF, Inland Revenue Department, Kathmandu.

Above table showed that, the contribution of Income Tax in total direct tax was in increasing trend. It was 55.06% in F.Y. 1985/86 and became 89.74% in F.Y. 2000/01 and slowly it was decreasing and reached to 80.21% in F.Y. 2006/07. The share of land tax in direct tax was in decreasing trend. It was 11.21% in F.Y. 1985/86 and became 0.01 % in the F.Y. 2001/02. The share of house and land registration tax was in fluctuating between 10.67% in F.Y. 2001/02 to 35.81% in F.Y. 1991/92. The share of other tax in direct tax was in fluctuating between 1.40% in F.Y. 1994/95 to 7.18% in F.Y. 2002/03.

The graphical presentation of above table is given below:

Figure No. 4.3: Composition of Direct Tax and Their Percentage Share



Source: Above Table

Above table and graph showed that, income occupied largest share in the direct tax. The share of Income Tax was 55.06% in the F.Y. 1985/86 and it was increasing trend and reached to 89.74% in F.Y. 2000/01. It was decreased to 56.25% in F.Y. 1991/92 and slowly increased up to 89.74% in F.Y. 2000/01. Because of inclusion of interest tax urban house and land rent tax in income tax. It turn of 80.21% in F.Y. 2006/07. The house and land rent tax occupied second position among other direct tax it occupied 5.98% to 35.81% of total direct tax and land tax, and other tax occupied nominal small portion of total direct tax.

4.1.4 Composition of Indirect Tax

An indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax the person paying and bearing the tax is different. It is the tax on consumption or expenditure. In Nepal, tax structure is heavily dependent on indirect taxes. Its contribution was 38.85% in F.Y. 1991/92. The major components of indirect taxes in the Nepalese tax structure constitutes; custom duty, excise duty, sales tax/VAT and contract tax etc. Custom duty has been classified into import duty and export duty. Other components of indirect tax like hotel tax entertainment tax, and air tax were in practice. Other tax contributes nominal share even zero, because they were included in VAT since 1997.

Table 4.4 Major Source of Indirect Tax and Their Percentage Share on Total Indirect Tax

Fiscal Year	Total indirect tax	Import Duties	% of I Duties	Export Duties	% of E. Duties	Excise Duties	% of E Duties	Sales/VAT Tax	% of S V Tax	Ent. Tax	% of Ent. Tax	Hotel Tax	% of H. Tax	Contract Tax	% of C Tax	Air Tax	% of Air Tax	Others Tax	% of Other Tax
1985/86	2997.50	1081.10	36.07	73.3	2.45	558.7	18.64	985.9	32.89	22.3	0.75	47.8	1.59	117.0	3.90	24.9	0.83	86.6	2.89
1986/87	3604.3	1285	35.65	79.9	2.22	678.6	18.83	1144	31.74	26.9	0.68	80.6	2.24	126	3.50	44.7	1.20	259.5	6.99
1987/88	4742.80	1984	41.83	107.9	2.28	825.4	17.40	1301.1	27.43	32.3	0.66	93.2	1.97	199.1	4.20	65.4	1.38	146.9	3.10
1988/89	4955.8	2133.9	43.06	62.7	1.27	877.7	17.71	1379.7	27.84	32.8	0.57	99.7	2.01	193.2	3.90	67	1.35	115.6	2.33
1989/90	5848.8	2646	45.24	32.6	0.56	1097	18.76	1650.1	28.21	33.5	0.58	115.6	1.98	170.5	2.92	87.7	1.50	31.7	0.54
1990/91	6807.3	2752.6	40.44	78.5	1.15	1200.2	17.63	2026.1	29.76	39.4	0.46	191.3	2.81	173.3	2.55	173.4	2.55	248.2	3.65
1991/92	8280.4	2795.2	33.76	114.7	1.39	1414.3	17.08	2840.7	34.31	38.3	0.55	223.4	2.70	213.3	2.58	177.9	2.15	494.7	5.97
1992/93	9626.3	3178	33.01	140.7	1.46	1452.8	15.09	3438.2	35.72	53.1	0.90	219.13	2.28	293	3.04	205.7	2.14	641.4	6.66
1993/94	12516.2	4356	34.80	427	3.41	1592.5	12.72	4693.1	37.50	112.2	0.58	229.1	1.83	356.5	2.85	270.7	2.16	489.1	3.91
1994/95	15810.7	5840.1	36.94	332.5	2.10	1657.3	10.48	60.31.7	38.15	91.1	0.59	284.2	1.80	505.2	3.20	278.2	1.76	845.5	5.35
1995/96	17012.1	6246.5	36.72	149.9	0.88	1944.3	11.43	6431.3	37.80	100.4	0.46	301.1	1.77	613.3	3.61	311.1	1.83	931	5.47
1996/97	19084.0	7093.2	37.17	167.8	0.88	2298.1	12.04	7126.5	37.34	114	0.11	458.9	2.40	621.3	3.26	314.2	1.65	1048.1	5.49
1997/98	19751.9	7019.4	35.54	217.1	1.10	2885.8	14.61	7122.6	36.06	90.6	0.12	1.5	0.01	761.5	3.86	343.3	1.74	1265.7	6.41
1998/99	21236.8	7698.3	36.25	378	1.78	2953.2	13.91	7882.2	37.12	23.5	0.11	1.8	0.01	618	3.91	240.7	1.13	1441.4	6.79
1999/00	24200.6	8959.9	37.02	432.5	1.79	3127.6	12.92	9854.9	40.72	28.5	0.01	0.1	0.00	374.5	1.55	0	0	1420.9	5.87
2000/01	28705.7	10391.9	36.25	492.6	1.72	3771.2	13.14	12047.8	41.97	30.4	-	0	-	304	1.06	0.1	0	1667.6	5.81
2001/02	28733.1	9678.4	33.68	917.4	3.19	3807	13.25	11964	41.64	2.1	-	0	-	301.2	1.05	0	0	2063	7.18
2002/03	32481.2	10567.7	32.53	855.6	2.63	4785.1	14.73	13459.7	41.44	0	-	0	-	0	-	0	0	2813.1	8.66
2003/04	36961.0	11451.7	30.98	526.5	1.42	6226.7	16.85	14478.9	39.17	0	-	0	-	0	-	0	0	4277.2	11.57
2004/05	41839.4	12845.4	30.63	697.9	1.67	6445.9	15.41	188885.4	45.14	0	-	0	-	0	-	0	0	2994.8	7.16
2005/06	44309.9	12404.0	27.99	625.6	1.41	6507.6	14.69	21610.7	48.77	0	-	0	-	0	-	0	0	3162	7.14
2006/07	46842.0	13209.44	28.2	524.6	1.12	6792.09	14.50	22952.58	49.00	0	-	0	-	0	-	0	-	3302.36	7.05

Source: Economic Survey of 22 Years (1985/86to2006/07)

The above table showed that, the share of import duty in custom duty was very high as compare to export duty. The share of import duty is fluctuating from 27.99% to 45.24% of total indirect tax. The mount of import duty is increasing trend except F.Y. 2001/02. It was amounted Rs.1081.10 million in F.Y. 1995/96 and it reached Rs.13209 in F.Y. 2006/07. The share of export data was very low as compare to import duty. It was only 2.45% in F.Y. 1985/86 and reached 1.12% in F.Y. 2006/07. It was fluctuating from 0.56% in F. Y. 1989/90 to 3.41% in F.Y. 1993/94. The share of excise duty was also fluctuating from 10.48% in F.Y. 1994/95 to 18.85% in F.Y.1986/87 to total indirect tax. After F.Y. 1994/95 it was slowly increasing trend and reached to 14.50% in F.Y. 2006/07 of total indirect tax. The sales tax/VAT became important source of overall tax revenue with increasing trend with contributed 49% to indirect tax in F.Y. 2006/07 as compared to 32.89% in F.Y. 1985/86. The share of entertainment tax was in decreasing trend from F.Y.1985/86 to 2006/07 i.e. 0.74% to 0.00%. The share of hotel tax was 2.2% in the F.Y. 1985/86 and in the F.Y. 2006/07. Its share also became to 0.00 %. The share of contract tax was fluctuating from 1% to 4%. It was 1.05% in F.Y. 2001/02 and 4.20% in F.Y. 1987/88. The share of air tax in the F.Y. 1985/86 was 0.83% and became 2.55% in F.Y. 1990/91 and than gradually decreasing trend up to F.Y. 1998/99 with 1.13% of total indirect tax and became 0.00% in F.Y. 2006/07. The share of other tax was fluctuating from 0.54% in F.Y. 1989/90 to 11.57% in F.Y. 2003/04. After F.Y. 2002/03, entertainment tax, hotel tax, contract tax, air tax, were merged in to VAT. So their contribution to indirect tax became zero since 2002/03.

4.1.5 Contribution of Total Revenue, Total Tax Revenue, Direct Tax and Indirect Tax as Percentage of GDP

The contribution of various taxes on total GDP should be known for knowledge of tax structure of Nepal. Here the contribution of total revenue, total tax revenue, total direct tax revenue and total indirect tax revenue as per GDP is presented below.

Table 4.5 Contribution of Total Revenue, Total Tax Revenue Direct Tax Revenue and Indirect Tax Revenue as per GDP

(Rs. in million)

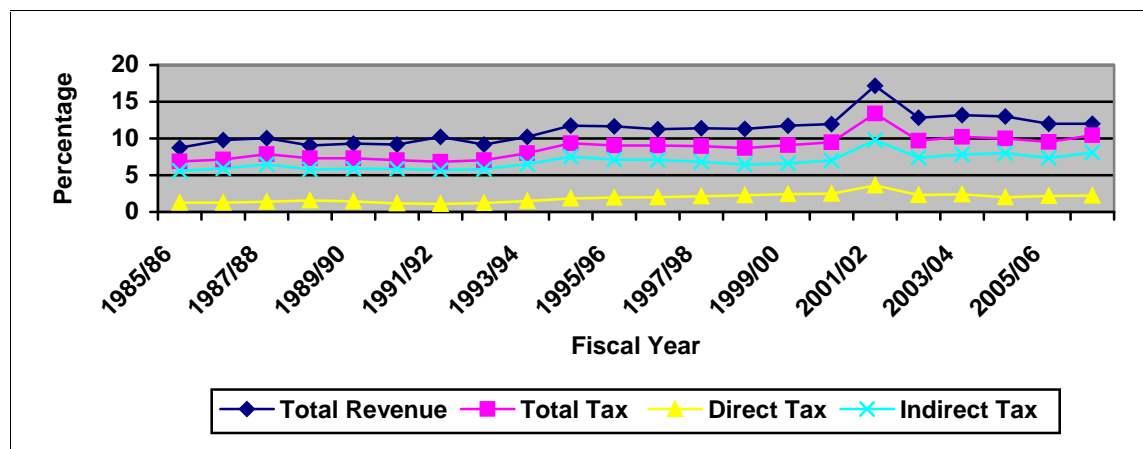
Fiscal Year	Total GDP	Total Revenue as % of GDP	Total Tax as % of GDP	Direct Tax as % of GDP	Indirect tax as % of GDP
1985/86	53215	8.73	6.88	1.24	5.63
1986/87	61140	9.77	7.15	1.26	5.90
1987/88	73170	10.04	7.86	1.38	6.48
1988/89	85831	9.06	7.32	1.55	5.77
1989/90	99702	9.32	7.31	1.44	5.87
1990/91	116127	9.24	7.04	1.18	5.86
1991/92	144933	9.32	6.81	1.10	5.71
1992/93	165350	9.16	7.05	1.23	5.82
1993/94	191596	10.22	8.02	1.49	6.53
1994/95	209976	11.72	9.36	1.83	7.53
1995/96	239388	11.65	9.05	1.94	7.11
1996/97	269570	11.27	9.06	1.98	7.08
1997/98	289798	11.37	8.95	2.14	6.82
1998/99	329960	11.29	8.71	2.28	6.44
1999/00	365470	11.74	9.07	2.45	6.62
2000/01	413428	11.95	9.50	2.48	7.01
2001/02	430396	17.18	13.40	3.61	9.79
2002/03	460325	12.81	9.70	2.30	7.40
2003/04	500699	13.91	10.20	2.37	7.82
2004/05	548484	13.00	10.00	2.00	8.00
2005/06	603672	12.00	9.51	2.17	7.34
2006/07	633856	12.00	10.45	2.21	8.10

Source: Economic Survey of 22 years (1985/86 to 2006/07)

Above table showed that, the contribution of total revenue to GDP was in increasing trend. It was 8.73% in F.Y. 1985/86 and reached 17.18% in F.Y. 2001/02 after 2001/02 it was in decreasing up to 12 % in F.Y. 2006/07. The contribution of tax revenue on GDP was fluctuating. It was 6.81% in F.Y. 1991/92 and 13.40 in F.Y. 2001/02. There was significant role of indirect tax, which contributed about three times more than direct tax. In F.Y. 1985/86 the contribution of direct and indirect tax were 1.24% & 5.63% respectively which increased to 2.21% and 8.10% in the F.Y. 2006/07. The percentage share of indirect tax was fluctuated between 5.63% to 9.79% in F.Y. 1985/86 and 2001/02 respectively among other fiscal years percentage share of indirect tax to GDP was slightly fluctuating.

Graphical presentation of above table, is presented below:

Figure 4.4 Contributions of Total Revenue, Total Tax Revenue, Direct Tax Revenue and Indirect Tax Revenue as per GDP



Source: Above Table

The above figure showed that, between the total tax revenue, direct tax was dominated by indirect tax. Percentage share of all revenue were increasing fluctuating. Total revenue as percentage of GDP was fluctuating up to F.Y. 1989/90 after then it was increasing trend specially it was rapidly increased in F.Y. 2001/02. It reached 17.18% and then it was gradually in decreasing trend.

Percentage share of other total tax revenue, direct tax revenue and indirect tax revenue were also in same condition.

4.1.6 Contribution of Direct Tax

Direct tax is an important source of government tax revenue. This is imposed directly to the taxpayer. Which includes; income tax, property tax, vehicle tax, interest tax, death tax, gift tax etc. To get knowledge more about indirect tax, contribution of direct tax on total tax revenue on total GDP and on total revenue should be known. The share of direct tax was 18.09% of total tax 1.24% of total GDP and 14.25% of total revenue in F.Y. 1985/86 and 23.02% of total tax, 2.21% of total GDP and 18.42% of total revenue in F.Y. 2006/07. Which are given in the following table.

Table 4.6 Contribution of Direct Tax to Total tax, Total GDP and Total Revenue

(Rs. in million)

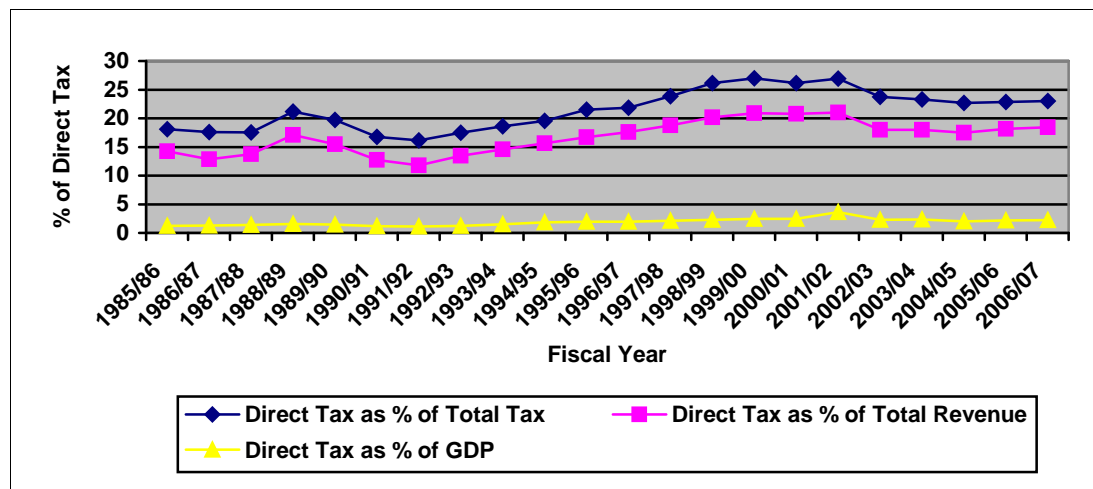
Fiscal Year	Total Direct Tax	Direct Tax as of % Total Tax	Direct Tax as % of GDP	Direct Tax as % of Total Revenue
1985/86	661.8	18.09	1.24	14.25
1986/87	768.1	17.57	1.26	12.86
1987/88	1010.0	17.56	1.38	13.74
1988/89	1331.3	21.18	1.55	17.12
1989/90	1435.1	19.70	1.44	15.45
1990/91	1368.5	16.74	1.18	12.75
1991/92	1595.2	16.15	1.10	11.81
1992/93	2036.2	17.46	1.23	13.44
1993/94	2855.3	18.58	1.49	14.58
1994/95	3849.3	19.58	1.83	15.64
1995/96	4655.9	21.49	1.94	16.69
1996/97	5340	21.86	1.98	17.58
1997/98	6187.9	23.85	2.14	18.79
1998/99	7516.1	26.14	2.28	20.18
1999/00	8951.5	27.00	2.45	20.87
2000/01	10159.4	26.14	2.48	20.78
2001/02	10597.5	26.94	3.61	21.01
2002/03	10105.8	23.73	2.30	17.97
2003/04	11212.3	23.27	2.37	17.99
2004/05	12265.3	23.00	2.00	17.49
2005/06	13120.5	23.00	2.17	18.15
2006/07	14008.12	23.02	2.21	18.42

Source: Economic Survey of 22 years (1985/86 to 2006/07)

Above table showed that, the contribution of direct tax to total tax was fluctuating between 16.15% in F.Y. 1991/92 to 27% in F.Y. 1999/00. It was increasing trend till the F.Y. 1999/00 and after the F.Y. 1999/00, it was a little bit in decreasing trend. The direct tax as percent of GDP was slightly in increasing trend F.Y. 2001/02 it was 3.16%. After 2001/02 it was slightly decreasing. Likewise, the contribution of direct tax as percentage of total revenue was slightly fluctuating 11.81% to 20.87% in F.Y. 1991/92 and 1999/00 respectively. It was 14.25% in F.Y, 1985/86 and 18.42% in F.Y. 2006/07. It showed the contribution of direct tax as percentage of total tax revenue that was little bit in increasing trend.

The graphical presentation of above data is presented below:

Figure 4.5 Contribution of Direct Tax to Total Tax, GDP, and Total Revenue



Source: Above Table

The above figure showed that, trend of direct tax as percentage of total tax was fluctuating from 16.15% to 27 %. It was 18.09% in F.Y. 1985/86 and fluctuating up to 16% in F.Y. 1991/92. After 1991/92 it was rapidly increasing trend up to F.Y. 1999/00 with 27% and then it was gradually decreasing trend with 23.02% in F.Y. 2006/07. Likewise the contribution of direct tax as percentage of GDP was fluctuating from 1.10% in F.Y. 1991/92 to 3.68% in F.Y. 2001/02. It was 1.24% in F.Y. 1985/86 and reached 2.21% in F.Y.

2006/07, and the contribution of direct tax as percentage of total revenue was 14.25% in 1985/86 and 18.42% in F.Y. 2006/07. It was fluctuating from 11.81% in F.Y. 1991/92 to 20.87% in F.Y. 1999/00. Although these ratios were in increasing trend, this was not enough because it was too low than other developing countries like India, Pakistan, Shrilanka and other countries.

4.1.7 Contribution of Income Tax in Nepal

Income Tax is an important source of government revenue. Income Tax system was introduced after budgetary system in Nepal. The formal Income Tax Act was introduced first time in 2016 B.S. named as Business Profit and Remuneration Tax Act 2016. At that time, Income Tax was levied only on business profit and salaries. After about three years, the government of Nepal had replaced that Act by new Act named Nepal Income Tax Act 2019. After twelve years of experience, the prevailing Act also replaced by new Act with the name of Income Tax Act 2031. However, this act was again replaced by new Income Tax Act 2058 after 27 years. It is enacting till now by amending in some sections. The contribution of Income Tax on various revenues such as: direct tax, total tax revenue, total revenue and total GDP are given in the following table.

Table No. 4.7: Contribution of Income Tax on Different Revenue

(Rs. in million)

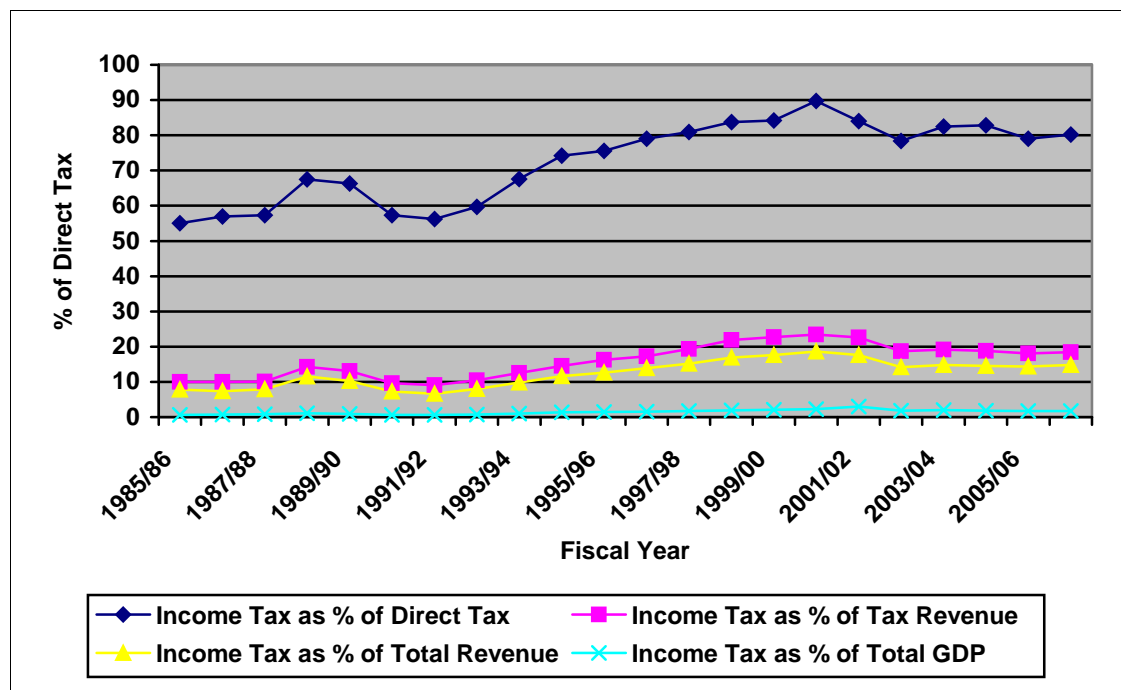
Fiscal Year	Total Income Tax	Income Tax as % of Direct Tax	Income Tax as % of Tax revenue	Income Tax as % of Total Revenue	Income Tax as % of Total GDP
1985/86	364.4	55.06	9.96	7.85	0.68
1986/87	437.5	56.96	10.01	7.32	0.72
1987/88	579.0	57.33	10.06	7.88	0.79
1988/89	896.6	67.50	14.29	11.56	1.05
1989/90	951.2	66.28	13.06	10.24	0.95
1990/91	784.4	57.29	9.59	7.31	0.68
1991/92	897.3	56.25	9.09	6.64	0.62
1992/93	1214.9	59.67	10.42	8.02	0.73
1993/94	1929.6	67.58	12.55	9.85	1.01
1994/95	2857.6	74.24	14.54	11.61	1.36
1995/96	3518.6	75.57	16.24	12.61	1.47
1996/97	4218.4	79.00	17.27	13.89	1.56
1997/98	5008.8	80.95	19.31	15.27	1.73
1998/99	6293.5	83.73	21.89	16.89	1.97
1999/00	7539.1	84.22	11.74	17.58	2.06
2000/01	9116.9	89.74	23.46	18.65	2.23
2001/02	8906.0	84.04	22.64	17.65	3.03
2002/03	7966.2	78.38	18.71	14.71	1.81
2003/04	9245.9	82.46	19.19	14.83	1.96
2004/05	10159.5	82.83	18.78	14.49	1.85
2005/06	10373.7	79.06	18.06	14.35	1.72
2006/07	11235.9	80.21	18.46	14.77	1.77

Source: Economic survey of 22 years (1985/86 to 2006/07)

The above table showed that, the Income Tax as percentage of direct tax was increasing from 55.06% in F.Y1985/86 to 89.74% in F.Y 2000/01. After then it was fluctuating in decreasing trend with 80.21% in F.Y 2006/07. The percentage share of Income Tax to total tax revenue was 9.96% in F.Y1985/86 and 18.46% in F.Y 2006/07. It was in increasing trend till 1988/89 with 14.29%, after then again it was decreasing trend till F.Y 1999/92 with 9.09%, after then, again it was increasing continuously till F.Y 2000/01 in F.Y 2000/01 it was 23.46%, after then, again it was in decreasing trend. Similarly the contribution of Income Tax as percentage of total revenue was fluctuating between 7.32% to 18.65%. It was 7.85% in F.Y. 1985/86 and 14.77% in F.Y as 2006/07. As whole it was in increasing trend, but it was not enough & satisfactory. Likewise, the percentage share of Income Tax to total GDP was normally in increasing trend. It was 0.68% in F.Y 1985/86 & reached to 30.03% in F.Y 2001/02. After then it was fluctuating in decreasing trend.

The graphical presentation of above table is given below:

Figure No. 4.6: Contribution of Income Tax on Different Revenue Heads



Source: Above Table.

The above figure showed that, contribution of Income Tax as percentage of direct tax was highest than others. It was four times greater than Income Tax Act as percentage of total tax revenue and more than others. The figure showed that, the contribution of Income Tax Act to direct tax was slightly increasing trend from F.Y 1989/86 to F.Y 1989/90 and decreased till F.Y. 1991/92. After then it was rapidly growing till F.Y 2000/01, it was 89.74%. Then it was gradually in decreasing trend. Contribution of Income Tax Act on total tax revenue, total revenue and total GDP were also in the same condition.

4.1.8 Composition of Income Tax in Nepal

Income Tax revenue was divided in three groups, such as :(I) corporate Income Tax Act, (I) individual income tax, & (III) remuneration Income till the F.Y. 1993/94. After the F.Y 1993/94 the Income Tax revenue was divided in to four groups. They are as follows:

1. Corporate Income Tax Act
2. Individual Income Tax Act
3. House & Land Rent Tax
4. Interest Tax

The corporate Income Tax Act is collected from the government corporation, public and private limited companies and partnership firms. Individual Income Tax is collected from remuneration and industry, business, profession or vocation. Interest tax is collected from banks or financial companies that pay interest on all types of deposit except current deposit. And the house rent is levied on income obtained from renting house and land in urban areas. The composition and components of Income Tax given in the following table.

Table 4.8 Components of Income Tax*(Rs. In Million)*

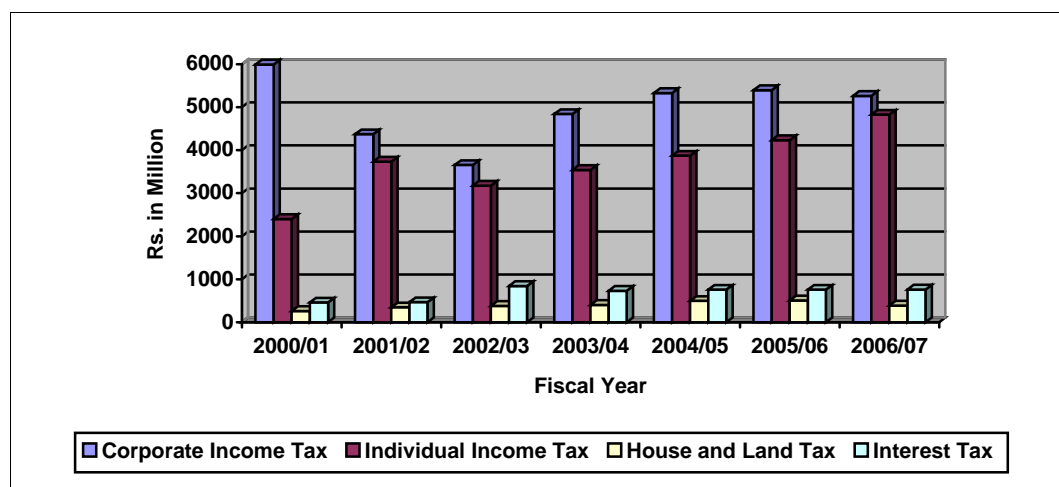
Year	00/01	01/02	02/03	03/04	04/05	05/06	06/07
Source							
A. Corporate Income Tax	5990	4371	3656	4839	5327	5396	5260
Govt. Corporation	2930	1770	1252	2057	1331	186	378
Public Ltd. Co.	1930	1430	1236	1531	2468	3523	3352
Pvt. Ltd. Co.	1130	1171	1168	1251	1528	1687	1530
B. Individual Income Tax	2400	3732	3177	3540	3872	4234	4824
Remuneration	600	835	1240	1392	1677	1751	2248
Industry, Business	1800	2897	1937	2148	2195	2483	2540
C. House & Land Rent Tax	260	348	382	403	496	509	389
D. Interest Tax	460	468	845	733	757	757	763
Total (A+B+C)	9110	8919	8060	9515	10452	10896	112359

Source: Annual Reports of IRD of 7 years (2000/01 to 06/07))

The above table showed that, the corporate Income Tax Act occupied the largest share among them and individual income tax, interest tax and House & Land rent tax occupied the second, third and fourth share respectively. Among the corporate Income Tax Act government corporation has the highest contribution and public limited companies and private limited companies were contributed second and last share respectively. Among the individual Income Tax Act remuneration tax was in increasing trend. The portion of industry, business, profession and vocation is greater than the remuneration income. The contribution of house and land rent tax and interest tax was also in increasing satisfactory level.

Graphical presentation of above table is presented below:

Figure: 4.7: Components of Income Tax



Source: Above Table

Above figure depicts the position of all components. According to figure, we can say that, the amount of corporate Income Tax Act occupied very highest position among them, but it was fluctuating trend. The portion of individual tax was occupied second highest position and it was in increasing trend. Accordingly the contribution of interest tax and house and land rent tax were in third and last position. Corporate Income Tax Act has fluctuated from Rs.3656 million in F.Y. 2002/03 to Rs.5990 million in F.Y. 2000/01. Similarly the contribution of individual tax was Rs.2400 million in F.Y. 2000/01 and reached Rs.4824 in F.Y. 2006/07. House and land rent tax was also in increasing from Rs.260 million in F.Y. 200/01 to Rs.509 in fiscal year 2005/06 and interest tax was fluctuatingly between Rs.460 million in F.Y. 2000/01 to Rs.845 in F.Y. 2002/03. It has reached Rs.763 million in F.Y. 2006/07.

Table 4.9: Composition of Income Tax*(Rs. in Million)*

F.Y	Total Income Tax	Corporate Tax		Individual Tax		House & Land Rent Tax		Interest Tax	
		Tax	%	Tax	%	Tax	%	Tax	%
1997/98	4890	2930	59.95	1560	31.90	190	3.89	210	4.29
1998/99	6170	3460	56.08	1290	35.49	200	3.24	320	5.19
1999/00	7420	4440	59.84	2320	31.27	250	3.37	410	5.52
2000/01	9110	5990	65.75	2400	26.34	260	2.85	460	5.06
2001/02	8919	4371	49.01	3732	41.84	384	3.90	468	5.25
2002/03	8060	3650	45.36	3177	39.42	382	4.74	845	10.48
2003/04	9515	4839	50.86	3540	37.20	403	4.24	733	7.70
2004/05	10452	5327	50.97	3872	37.05	496	4.75	757	7.24
2005/06	10896	5396	49.52	4234	38.86	506	4.67	757	6.95
2006/07	11235.9	5528	49.20	4439	39.51	505	4.50	763	6.79

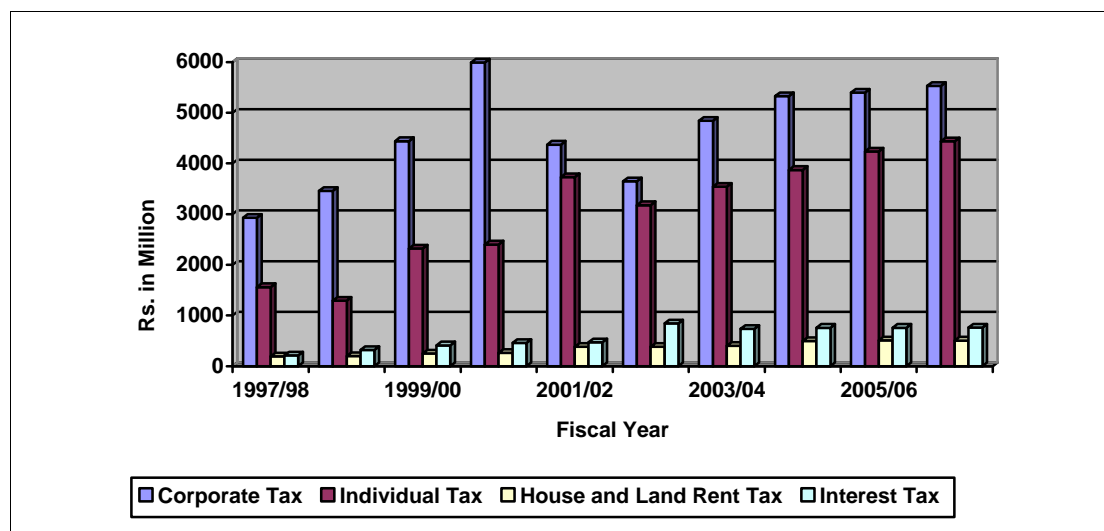
Source: Annual Reports of IRD of 10 years (1997/98 to 2006/07)

The above table showed that, the percentage share of various income taxes separately on total income tax. According to table, Share of corporate Income Tax Act was more than other tax except in F.Y. 2002/03 of total income tax. Individual Income Tax Act occupied second largest share among them. It has contributed 31.90% in F.Y 1997/98. Which has reached to 41.84% in F.Y 2001/02, but after then it was in decreasing trend to F.Y 2004/05. Then it was increasing & reached 39.51% in F.Y 2006/07. The contribution of house and land rent tax was fluctuating between 2.85% in F.Y 2001/02 to 4.75% in F.Y 2004/05. Normally it was in fluctuatingly increasing trend. Contribution of interest tax was fluctuating in increasing trend. Its contribution of interest tax was fluctuatingly increasing trend. Its contribution was between 3.64% to 10.84%. It was increasing up to F.Y 2002/03 and then slightly decreasing trend.

On the basis of above table, a diagram is presented bellow. This diagram reflects their position clearly.

The graphical presentation of above table is given below:

Figure 4.8: Composition of Income Tax



Source: Above Table

Above figure showed that the Income Tax Act was only Rs.1420 million in F.Y. 1996/97 and then it was increasing trend till F.Y 2000/01 amounting to Rs.9110. After then it was in decreasing up to Rs.8060 in F.Y 2002/03 and again it was increasing up to Rs.10896 in F.Y 2005/06. Other income taxes were also in same situation. The share of corporate tax was highest position on total income tax. It was between 45% to 66%, and hare of individual tax was second highest position on total income tax. It occupied 27% to 42% and share of interest tax and house & land rent tax were occupied third and last position respectively.

4.1.9 Trend Analysis and Estimation of Income Tax Act for Coming 5 years

The last 10 years trend of total Income Tax Act showed in increasing trend except the F.Y 2001/02 and 2002/03. It was due to political

situation and poor environment of business sector. Political conflict and instability was the main reason of decreasing trend of Income Tax in these two years. Using these ten years trend of Income Tax collection, it was an attempt to project the growth and size of next 5 years Income Tax by using trend line equation of least square method. Following formula is used in this equation.

$$Y = a+bx$$

Where,

$$a = \frac{y}{n} \text{ \& } b = \frac{xy}{x^2}$$

Table 4.10: Projection of Income Tax Act for Next Five Years.

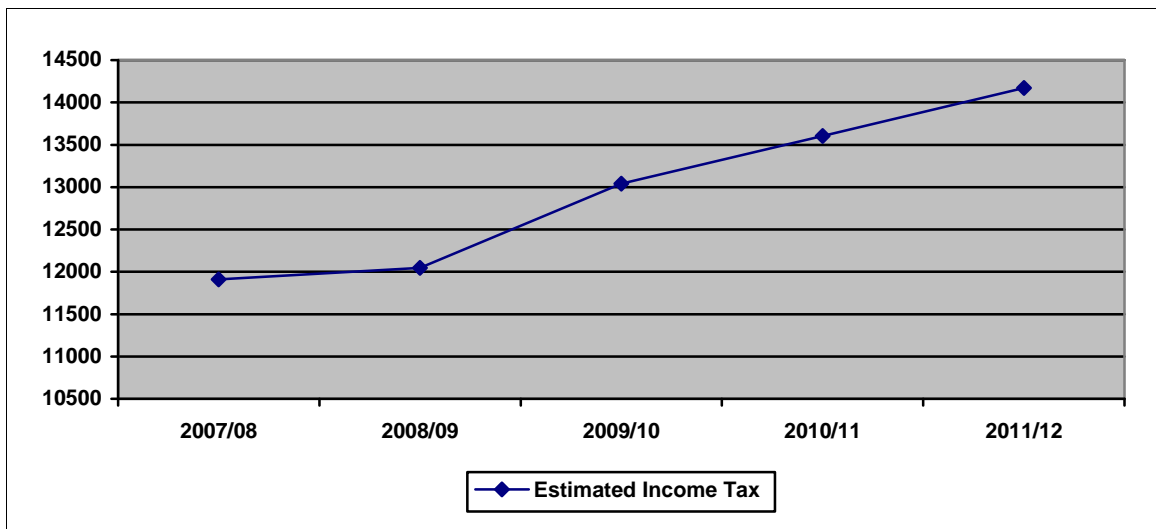
(Rs. in Million)

Fiscal Year	X = t-2003/04	Estimated Income Tax by using trend analysis least square method; y= a+bx
2007/08	X = t-2003/04 = 5	= 9086.44 + 564.73 x 5 = 11910.10
2008/09	X = t-2003/04 = 6	= 9086.44 + 564.73 x 6 = 1247.82
2009/10	X = t-2003/04 = 7	= 9086.44 + 564.73 x 7 = 13039.55
2010/11	X = t-2003/04 = 8	= 9086.44 + 564.73 x 8 = 13604.28
2011/12	X = t-2003/04 = 9	= 9086.44 + 564.73 x 9 = 19169.01

Source: Appendix-III

Above table showed that, estimated total Income Tax Act for next five years. The estimated total Income Tax Act for F.Y 2011/12 would be Rs.14169.80million, which is 1.26 times more than the total Income Tax Act in last F.Y 2006/07, which was Rs.236 million income taxes. The above trend and projection can also be studied from the graph presented a below:

Figure 4.9: Trend and Projection of Income Tax Act for Next Five Years



Source: Table no.4.10

Above figure showed that the trend of Income Tax revenue was increasing trend. But it was decreased in F.Y 2002/03. After then, again it was increasing trend.

4.2 Empirical Investigation

An empirical investigation was conducted in order to find out various aspects of Income Tax Act 2031 and 2058 and its penal provisions. The main objective of this investigation was to analysis comparatively on the various aspects of penal provisions of ITA 2031 and ITA 2058. The major tools used for this investigation was a set of questionnaire. A total of 100 set of questionnaire were distributed to the different respondents. The responses of such respondents were received and then, arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study.

The questionnaire included various aspects of Income Tax Act and about its penal provision. The respondents were asked to respond Yes/No or to rank his/her choices according to number of alternatives where the first choice was the most important and vice versa. If the number of alternatives were four the first choice got four points and last preferred choice got one point. The total

points available to each choice were converted into percentage reference to the total points available to each choice were converted into percentage in reference to the total points available for all choice. The choice with the highest core of percentage was ranked as the most important choice and vice versa. The respondents were selected from three groups in order to make the analysis easy. The following table shows the groups of respondents and code has been used to represent them.

Table 4.11: Codes Used for Groups o Respondents

S. No.	Groups of Respondents	Sample Size	Code Used
1	Tax Experts	20	A
2	Tax Administrator	20	B
3	Tax Payers	60	C
	Total	100	

4.2.1 The Factors Affecting the Tax Paying Habit of Nepalese Tax Payer

To know about the factor which effect to increase the tax paying habit of Nepalese tax payers, a question was asked, "Which factor should effect to increase the tax paying habit of Nepalese tax payers in your opinion?" The respondents were asked to rank their answer from 1 to 5. The responses received by the respondents were tabulated below:

Table 4.12: The Factors Affecting the Tax Paying Habit of Nepalese Tax Payers

Response	Respondents			Total	%	Rank
	A	B	C			
Penal Provision	8	7	20	35	35	4
Low Tax Rate/Concession/Rebate	2	2	15	19	19	1
Effective & Efficient Administration	6	8	12	26	26	3
Educated People	4	3	123	20	20	2
Total	20	20	60	100	100	

Source: Opinion Survey 2065

Above table showed that the factor affecting to increase tax paying habit of Nepalese tax payers as (I) 35% of respondents were ranked 4 for penal provision. (II) 26% of respondents were ranked 3 for effective and efficient administration. (III) 20% of respondents were ranked 2 for educated people and (IV) 19% respondents were ranked 1 for low tax rate/concession/rebate.

From the above information researcher concluded that, the penal provision plays the most important role to increase the tax paying habit of taxpayers. After that tax administration should also be effective and efficient for increase the tax paying habit of Nepalese taxpayers and Government should conduct the educational programmes regarding income taxation and its various provision.

4.2.2 Provision of Additional Fees of ITA 2031

To know the opinion of the respondent about the provision of additional fees of 2031a question was asked as, "What do you think about the provision of additional fees on section 29(2), 37(3), and 37(4) of ITA 2031.were they right to impose?" and requested to tick on one option. The responses received by the respondents have been tabulated below.

Table 4.13 Provision of Additional Fees of ITA 2031

Responses Respondents	Yes		No		Total	
	No	%	No	%	No	%
A	16	80	4	20	20	100
B	17	85	3	15	20	100
C	36	60	24	40	60	100
Total	69	69	31	31	100	100

Source: Opinion survey of 2065

From the above table it was observed that majority of the respondents showed that provision of additional fee of ITA 2031 was right to

impose 69 percent of respondents response were in favour of that provision and rest 31 percent were not in favour of that provision.

4.2.3 Interrupt to Give Passport

To know about the provision of to interrupt to give him passport who failure to comply with the duties Prescribed by the act of ITA2031.A question was asked to respondents "The provision of interruption to giving passport who failure to comply with the duties prescribed by the act [sec63(c)] of ITA 2031 was enough and right?" The responses of various respondents have been tabulated bellow.

Table 4.14: The Provision of Interrupting Issuance of Passport

Respondent	Responses				Total	
	yes	%	No	%	No	%
A	4	20	16	80	20	100
B	5	25	15	75	20	100
C	35	58.33	25	41.67	60	100
Total	44	44	56	56	100	100

Source: Opinion Survey 2065

From the above table researcher concluded that the provision of interrupting issuance of passport [sec 63 (c)] of ITA 2031 was not appropriate. Because, majority of respondents were not in favour of this provision. According to opinion survey 56% of respondent were not its favour and only 44% of respondents were in its favour. Mainly tax experts and tax administration were not in favour of that provision. 80% and 75% tax exports and tax administrators were not in favour of that provision respectively.

4.2.4 Penalty for Disobeying the Act and Rules of ITA 2031

The respondents were asked a questions regarding [sec 63(b)] of ITA 2031. The question was "What do you think about the provision of fine up to

Rs.1000 for disobeying the act & rules of ITA 2031, was that enough?" The response has presented bellow.

Table 4.15 Penalty for Disobeying the Act and Rules of ITA 2031

Responses Respondents	Yes		No		Total	
	No	%	No	%	No	%
A	2	10	18	90	20	100
B	4	20	16	80	20	100
C	36	60	24	40	60	100
Total	42	42%	58	58%	100	100

Source: opinion survey 2065

Above the table showed the most of the respondents though that the penal provision of fine up to Rs.1000 for disobeying the act and rules of ITA2031 was not enough. Majority of tax expert and tax administrator responded against the prevision. So researcher concluded that, the prevision of fine up to Rs.1000 for disobeying the act and rules was not enough to improve this, the amount of fine and punishment should be increased.

4.2.5 Penalty for failure to Register

In order to know the appropriateness of penalty for failure to register, a question was asked, "Penalty for failure to register fine up to Rs.500 or interrupt the transaction, or seize the property of ITA 2031 was good and enough?" the responses received were tabulated below.

Table 4.16: Penalty for Failure to Register

Responses	Respondents						Total	
	A	%	B	%	C	%	No	%
Good and enough	4	20	5	25	30	50	39	39
Good but not enough	14	70	12	60	22	36.67	48	48
Not good and not enough	2	10	3	15	8	13.33	13	13
Total	20	100	20	100	60	100	100	100

Source: Opinion Survey of 2065

Above table showed that majority 48% of respondents were opined that the provision of penalty for failure to register was good but not enough. Similarly second portion 39% of respondents were in favour of that provision was not good and not enough. According to above opinion, researcher concluded that, the provision of penalty for failure to register was a good provision, but the quantity of penalty was not enough.

4.2.6 Power to Imprison for Default in Payment of Tax and Departmental Action in Case of Negligence

To know respondents view about the provision of power to imprison for default in payment of tax [Sec 37(a)] and Departmental action in case of negligence [Sec 58(b)] a question was asked to respondents, "The provision of power to imprison for default in payment of tax [sec 37(a)] and departmental action in case of negligence [sec 58 (a)] of ITA 2031 were effective and clear?" the respondents of various responses were tabulated below:

4.17: The Provision of Power to Imprison for Default in Payment of Tax and Departmental Action in Case of Negligence

Responses Respondents	Yes		No		Total	
	No	%	No	%	No	%
A	4	20	16	80	20	100
B	8	40	12	60	20	100
C	24	40	36	60	60	100
Total	37	37	63	63	100	100

Source: Opinion Survey 2065

Above table showed that majority of the respondents were opined in against of the provision. 63 percent respondents were opined that the provision was not effective and clear. Only 37 percent respondents were favour of that provision. According to that, researcher concluded that, the provision of sec 37 (a) and sec 58 (b) of ITA 2031 were not effective and not clear.

4.2.7 Penalty for Failure to Deposit Tax Deducted at Source

To know respondent opinion about penalty for failure to deposit tax deduct at source (Sec 63) a question was asked "Penalty for failure to deposit tax deduct at source fine up to Rs.500 sec 63 of ITA 2031. What do you think about that provision?" The opinions given by respondents were presented below:

Table 4.18: Penalty Provision for Failure to Deposit Tax Deducted at Source

Responses	Respondents						Total	
	A	%	B	%	C	%	No	%
Good and enough	6	30	8	40	31	51.67	45	45
Good but not enough	14	70	12	60	20	33.33	46	46
Not good and not enough	-	-	-	-	9	15	9	9
Total	20	100	20	100	60	100	100	100

Source: Opinion Survey of 2065

From the above table, researcher concluded that, the penal provision for failure to deposit tax deducted at source of ITA 2031 was good but not enough of penalty. Majority of the tax expert and tax administrator were in favour of that provision.

4.2.8 Right to Tax Officer to Impose Interest on ITA 2058.

To know the opinion of respondents regarding right to tax officer to impose interest on ITA 2058, one question was asked. "What is your opinion regarding right to tax officer to impose interest of ITA 2058, is it right?" the responses from respondents have been tabulated below:

Table 4.19: Right to Tax Office to Impose Interest on ITA 2058

Responses Respondents	Yes		No		Total	
	No	%	No	%	No	%
A	12	60	8	40	20	100
B	10	50	10	50	20	100
C	18	30	42	70	60	100
Total	40	10	60	100	100	100

Source: Opinion Survey 2065

Hundred percent responses were received from the respondents. Above table showed that, the majority of the respondents (60%) were against of charging interest for under estimation of tax payable by installment. However most of tax expert claimed that it is right to charge interest and in the view of tax administrators were for and against the provision. Thus, it may be concluded that majority of the respondents were against the imposition of interest.

4.2.9 Fees for Failure to Maintain Document to File Statement of Tax Return and File Statement by with Holding Agents

To find out the views of respondents about provision of fees on failure to maintain document, failure to file statement of tax return and failure to file statement by with holding agents on Sec 117(1), (2) and (3) of ITA 2058, a question was asked, "The provision of fees on failure to maintain document [sec 117(1)] failure to feel statement of tax return [Sec 117 (2)] and failure to file statement by with holding agent [sec 117 (3)] of ITA 2058, is this provision right?" The responses received from respondents have been tabulated below to analyze their opinions.

Table 4.20: Fees Provision of Sec 117(1), 117(2) and 117(3) of ITA 2058

Responses Respondents	Yes		No		Total	
	No	%	No	%	No	%
A	20	100	-	-	20	100
B	18	90	2	10	20	100
C	40	66.67	20	33.33	60	100
Total	78	78	22	22	100	100

Source: Opinion Survey 2065

The question was asked with two options *Yes* and *No*. According to their opinion. Above table showed that the majority of the respondents (78%) were in favour of that provision. Among them 100% of tax experts were for that provision. Only 22% of respondents were not in favour of this provision. Among them taxpayers were in majority i.e. 33.33%. According to this, researcher concluded that, the provision of fees sec 117(1), (2) and (3) of ITA 2058 were suitable provision.

4.2.10 Penalty for Making False or Misleading Statement Knowingly or Recklessly and Unknowingly or Due to Carelessness

There is provision of penalty 100% of the underpayment of tax for making false or misleading statement knowingly or recklessly, and 50% of underpayment of tax for making false or misleading statement unknowingly or due to carelessness. To know opinion of respondents about this provision, a question was asked, "Is it right to impose penalty equal to 100% of underpayment of tax who submits false or misleading statement knowingly or recklessly and 50% of underpayment of tax who submits false or misleading statement unknowingly or due to carelessness?" The responses were presented below:

Table 4.21: Penalty for Making False or Misleading Statement

Responses Respondents	Yes		No		Total	
	No	%	No	%	No	%
A	16	80	4	20	20	100
B	15	75	5	25	20	100
C	36	60	24	40	60	100
Total	67	67	33	33	100	100

Source: Opinion Survey 2065

From the above table, it knew that, 67% of respondent approved that these provisions are right. Minority of respondents were in favour of this provision. Among the groups of respondent 80% and 75% of tax expert and tax administrators were in favour of this provision respectively. According to respondent's opinion researcher concluded that this provision is suitable and right to impose.

4.2.11 Penalty for Obstructing or Coercing or Influencing Tax Administration (Sec 125)

To know the views of respondents about the penal provision for obstructing or coercing or influencing tax administration (sec 125) of ITA 2058., a question was asked, "Any person impeding or coercing tax administration is liable to fine between Rs.5000 to Rs. 20,000 or imprisonment between 1 month to 3 month or both" is it correct?" the responses received from respondent has been presented below:

Table 4.22: Penalty for Obstructing or Coercing

Responses Respondents	Yes		No		Total	
	No	%	No	%	No	%
A	18	90	2	10	20	100
B	20	100	-	0	20	100
C	40	66.67	20	33.33	60	100
Total	78	78	22	22	100	100

Source: Opinion Survey 2065

Above table showed that, majority of the respondents (78 percent) were responded that provision is correct and remaining 22 percent respondents were responded that provision is not correct or responded as no. Among them most of the tax exports and tax administrators were in favour of this provision and 40 tax payers out of 60 i.e. 66.67% were also in favour of this provision. So researcher can concluded that, this provision is correct.

4.2.12 Penalties for Authorized and Un- authorized Persons

To know the opinion of respondents regarding penalty for authorized person if breaches the official secrecy [sec 126(1)] of ITA 2058 and penalty for an unauthorized person collecting or attempting to collect tax [sec 126(1)] of ITA 2058 and penalty for an unauthorized person collecting or attempting to collect tax[(sec126(2)] of ITA 2058 a question was asked to respondents "an authorized person if breaches the official secrecy is liable to pay fine up to Rs.80000 or imprisonment up to 1 years or both and an unauthorized person collecting or attempting to collect tax is liable to pay fine between Rs.80000 to Rs. 240,000 or imprisonment between 1 years to 3 years or both (sec126) of ITA 2058 what do you think about that provision?" The responses from the respondents were presented in the following table.

Table 4.23: Penalties for Authorized and unauthorized persons.

Respondents Responses	A		B		C		Total	
	No	%	No	%	No	%	No	%
Good	12	60	3	45	40	66.67	61	61
Satisfactory	8	40	11	55	20	33.33	39	39
Not good	-	-	-	-	-	-	-	-
	20	100	20	100	60	100	100	100

Source: Opinion Survey 2065

The respondents were requested to choose three options (a) good (b) satisfactory and (c) not good. Above table showed that, majority (61%) respondents thought that the provision is good or they were in favour of this provision and 39 percent respondent responded that the provision is satisfactory, but nobody responded in against this provision according to this researcher can say that, this provision is effective and good.

4.2.13 Penalty for Aiding or Abetting to Another

To know the view of respondents about the penal provision for aiding or abetting to another (sec127) of ITA 2058 a question was asked to respondents. The question was, "the penal provision for aiding or abetting to another is liable to half of the penalty that is imposed on the main offender (if abettor is general public) and full penalty that is imposed on the main offender (if abettor is government official) according to sec 127 of ITA 2058. What is your opinion regarding this provision?" the responses received from respondents were tabulated below:

Table 4.24: Penalty for Aiding or Abetting to Another

Respondents Responses	A		B		C		Total	
	No	%	No	%	No	%	No	%
Highly Effective	7	35	9	45	31	51.67	47	47
Effective	12	60	8	40	23s	38.33	43	43
Not Effective	1	5	8	15	6	10.00	10	10
	20	100	20	100	60	100.00	100	100

Source: Opinion Survey, 2065

Above question was requested to choice one option according to their opinion. The options were; (a) Highly effective (b) effective and (c) Not effective. The responses showed that, the penal provision for aiding or abetting to another is highly effective or good, majority (47%) of the respondents proved that, 43 percent respondents responded that the provision is effective, and only 10% were in against this provision.

According to that opinion of respondents, researcher concluded that, penalty for aiding or abetting to another sec 127 of ITA 2058 is suitable, good and effective.

4.2.14 Comparison of Sec 60 of ITA 2031 and Sec 124 of ITA 2058

To get information regarding opinion on penal provision for submitting false statement of income sec 60 of ITA 2031 and sec 124 of ITA 2058 of respondents, a question was asked, "Penal for submitting false statement of income (sec 60) of ITA 2031 and submission of false or misleading statement (sec 124) of ITA 2058. Which is the better provision according to you? "The responses received by them were tabulated as follow:

Table 4.25: Comparison of Sec 60 of ITA 2031 and Sec 124 of ITA 2058

Responses	A		B		C		Total	
	No	%	No	%	No	%	No	%
Provision of ITA 2031	2	10	-	-	24		26	26
Provision of ITA 2058	19	90	20	100	36	60	74	74
Total	20	100	20	100	60	100	100	100

Source: *Opinion Survey, 2065*

Above table showed that, majority (74%) of respondent was in favour of provision of ITA 2058. and remaining (26%) of respondents was against of ITA 2058. They thought that, the penal provision of ITA 2031 for submitting false statement of income (sec 60) was better than provision of ITA 2058.

4.2.15 Comparison of Sec 61 of ITA 2031 and Sec 117 (1) of ITA 2058

To know the view of respondents regarding penal provision for failure to maintain or preserve account (sec 61) of ITA 2031 and fees for failure to maintain document [sec 117 (1)] of ITA 2058, which are same in nature. One question was asked to respondent, "Penalty for failure to maintain or preserve account (sec 61) of ITA 2031 and fee for failure to maintain document [sec 117 (1)] of ITA 2058. Which is the better provision according to you?" responses from respondents were tabulated below:

Table 4.26: Comparison of Sec 61 of ITA 2031 and Sec 117(1) of ITA 2058

Responses	A		B		C		Total	
	No	%	No	%	No	%	No	%
Provision of ITA 2031	14	70	12	60	25	41.67	51	51
Provision of ITA 2058	6	30	8	40	35	58.33	49	49
Total	20	100	20	100	60	100	100	100

Source: *Opinion Survey, 2065*

Above table showed that, penal provision for failure to maintain or preserve account [sec 61] of ITA 2031 was better than fees for failure to maintain document [sec 117(1)] of ITA 2058 according to majority 51% of respondent.

4.2.16 Effectiveness of Penal Provision of ITA 2058

To know the views of respondents about the overall effectiveness of penal provision of ITA 2031 and ITA 2058 comparatively a question was asked to respondents, "What do you think about the penal provision of ITA 2058? Is it effective than penal provision of ITA 2031?" The responses of respondents were tabulated below:

Table 4.27: Effectiveness of Penal Provision of ITA 2058

Responses	Yes		No		Total	
	No	%	No	%	No	%
A	14	70	6	30	20	100
B	15	75	5	25	20	100
C	31	51.67	29	48.33	60	100
Total	60	60	40	40	100	100

Source: Opinion Survey, 2065

Above table showed that, the majority (60%) of respondents were responded the penal provision of ITA 2058 is effective than penal provision of ITA 2031. According to this survey, researcher concluded that the penal provision of ITA 2058 is effective and better than penal provision of ITA 2031. But all respondents were not agreed with this opinion 40 % of respondents were opinion the penal provision of ITA 2058 is not effective at all. So, to find out their opinion about penal provision of ITA 2058, another question was asked to them, who were not in favour of penal provision of ITA 2058, "if not, why?" Tick on the following reasons. Responses of respondents were tabulated below:

Table 4.28 Drawbacks of Penal Provision of ITA 2058

Responses	Respondents			Total	
	A	B	C	NO	%
Not Clear and Vague	-	-	6	6	20
High Punishment Rate	-	-	7	7	23.33
Insufficient Provisions	1	1	10	12	40
Double Standard	1	2	2	5	16.67
Total	2	3	25	30	100

Source: Opinion Survey, 2065

Four options were given to choice for respondents. From the above table researcher concluded that, the penal provision of ITA 2058 has various constraints. According to responses of respondent, the provision has not include sufficient provision and majority (40%) of respondent among against the penal provision of ITA 2058 were proved it. Other constraint was high punishment rate second majority (23.33%) of respondent opinioned on this, likewise 20% of respondents were though that the provision is not clear and it is vague and rest 16.67% respondents opinioned that the provision is double standard.

According to above opinion of respondent, researcher concluded that, the penal provision of ITA 2058 was better and efficient than penal provision of ITA2031 but it was not free from the defects. Its defects or weakness were, firstly insufficient provisions, likewise high punishment rate, similarly not clear and vague and double standard respectively.

4.2.17 Effectiveness of Penal Provision of ITA 2031

To know the views of respondents regarding effectiveness of penal provision of ITA2031, researcher was asked a question to the respondents as

"was the penal provision of ITA 2031 effective than ITA 2058?" The responses received from respondent were presented in the following table.

Table 4.29 Effectiveness of Penal Provision of ITA 2031

Responses Respondents	Yes		No		Total	
	No	%	No	%	No	%
A	-	0.00	14	70	14	70
B	1	5	15	75	16	80
C	20	33.33	31	51.67	51	51
Total	21	21.87	60	75	81	81

Source: Opinion Survey 2065

Above table showed that all respondents were not responded only 14 tax experts out of 20 and 16 tax administrator out of 20 were replied the questions and 51 taxpayers out of 60 replied their responses. According to that the researcher concluded that, the penal provision of ITA 2031 was not effective than ITA 2058. 60% respondents proved it only 21.87 % respondents were satisfied by penal provision of ITA 2031. It means that the penal provision of ITA 2031 was defective in various aspects. To know the causes of disagreement on penal provision of ITA 2031 an extra question was asked to the respondents. The question was "if not, what were the drawbacks of penal provisions of ITA2031?" The responses received from respondents were tabulated bellow.

Table 4.30 Drawbacks of Penal Provision of ITA2031

Responses	Respondents			Total %		Rank
	A	B	C			
That was Vague and not clear	2	2	10	14	23.33	1
Low Punishment rate	7	7	8	22	36.67	2
Not sufficient provision	5	6	13	24	40	3
Total	14	15	31	60	100	

Source: Opinion Survey, 2065

Respondents were requested to rank their opinion from 1 to 3 where 1 was for low priority 2 for medium and 3 for high priority of their opinion. Above table showed that majority (40%) of respondents thought that provision was not sufficient second weakness aspect of penal provisions of ITA 2031 was low punishment rate 36.67% of respondents were proved that and the penal provision of ITA 2031 was vague and not clear also 23.33% of respondents were ranked it less point.

According to above opinion of respondents, researcher concluded that, the penal provision of ITA 2031 was not effective than ITA 2058. Since, majority of respondents were in against of penal provisions of ITA 2031.

4.2.18 Tax Paying Habit of Nepalese Tax Payer

Every act has managed the penal provision; similarly Income Tax Act 2031 and 2058 has managed the penal provision. Penal provision plays an important role to implement that Act. Penal provision of ITA 2031 and ITA 2058 are not exception of it. Here to know the view of respondents about the tax paying habit of Nepalese tax payer before and after enactment of ITA 2058, a question was asked, "What do you think, the tax paying habit of Nepalese tax payer, has improved after enactment of ITA 2058?" The responses of respondents were tabulated below:

Table 4.31: Tax Paying Habit of Nepalese Tax Payers

Responses Respondents	Yes		No		Total	
	No	%	No	%	No	%
A	11	55	9	45	20	100
B	10	50	10	50	20	100
C	32	53.33	28	46.67	60	100
Total	53	53	47	47	100	100

Source: Opinion Survey, 2065

Above table showed that the tax paying habit of Nepalese tax payer has improved after enactment of ITA 2058. Majority (53%) of respondents were agreed with this. But all respondents were not agreed with this. It means, tax paying habit of Nepalese tax payers have not improved fully. So, another question was also asked to them who were for the tax paying habit of Nepalese tax payers has been improved to know their opinion regarding the level of improvement the question was, "if yes, in which level do you satisfied?" The responses from respondents were presented in the following table:

Table 4.32: Improvement of Tax Paying Habit of Nepalese Tax Payers

Responses Respondents	A		B		C		Total	
	No	%	No	%	No.	%	No	%
High level	-	-	-	-	6	18.75	6	11.32
Medium level	6	54.54	6	60	16	50	28	52.083
Low level	5	45.46	4	40	10	31.25	19	35.83
Total	11	100	10	100	32	100	53	100

Source: Opinion Survey, 2065

The above table showed that, the respondents who though the tax paying habit of Nepalese taxpayers had improved were not fully satisfied. Majority (52.083%) of them were though that the tax paying habit of Nepalese tax payers has improved in medium level, 35.85% them were opined low level

improvement and only 11.32% of them were through high level improvement. So researcher concluded that, the tax paying habit of Nepalese taxpayer has improved but not fully satisfactory level.

4.3 Major Finding of the Investigation

On the basis of secondary data presentation and analysis of some important finding has summarized below.

-) The Government revenue was composition of tax revenue and non-tax revenue. Among them tax revenue occupied larger portion than non-tax revenue. The tax revenue occupied 73% to 81% of total revenue, and non-tax revenue occupied rest of the share.
-) Tax revenue was the composition of direct tax and indirect tax in Nepalese tax revenue. The contribution of indirect tax was between 73% in F.Y. 1999/00 to 83.85% in F.Y. 1991/92 of the total tax revenue. It showed that, indirect tax has dominant role in tax revenue.
-) Direct tax was composition of various taxes such as; income tax, land tax, house and land rent tax and other tax. Among them there are dominant share of income tax revenue in total direct tax. Which occupied 55.06% in F.Y. 1985/86 and 89.74% in fiscal year 2000/01. House and Land Rent tax occupied second position of share in total direct tax. It was between 5% in f.y. 2000/01 to 35.81% in f.y. 1991/92. Other tax occupied third portion of share in total direct tax. Its contribution was 5% in average of total direct tax. Land tax was 11.21% in F.Y. 1985/86. But it was decreasing trend up to F.Y 2001/02 and become 0.01%, after than it was zero.
-) Indirect tax was the composition of various taxes such as: import duty and export duty, VAT, excise duty, entertainment tax, hotel tax, contract tax, air tax and other tax. The contribution of custom duty (Import duty + export duty) had occupied largest share among them. That was (36.07% + 2.45%) in F.Y. 1985/86 and become (45.24% + 0.56%) in F/Y 1989/90. After then that was 35% in average. After F.Y. 1992/93

the share of sales tax/VAT had contributed largest share among them. That was 35.72% in F.Y. 2092/93 and 49% F.Y. 2006/07 were contribution of custom duty was 34.47% in F.Y 1992/93 and 29.40% in F.Y 2005/06. Contribution of excise duty was also significant, that was between 10.48% in F.Y. 1994/95 to 18.83% in F.Y 1986/87. Contribution of other tax was around 5% in average and other entertainment tax, hotel tax, contract tax. where contribution smaller portion of total indirect tax.

) The total revenue to GDP ratio was not found satisfactory. That was only 8.73% in F.Y 1985/86. That reached 13.19% in F.Y 2003/04 which also was not satisfactory. The tax revenue to GDP ratio of Nepal also was not satisfactory. That was between 6% to 14% only. The direct tax revenue to GDP was only around 2% and contribution of indirect tax to total GDP was 5.63% in F.Y 1985/86 and reached 9.79% in F.Y 2001/02.

) Contribution of income tax to total direct tax was occupied 55.06% in F.Y 1985/86 and that reached 89.74% in F.Y 2000/01. Income tax as percentage of total tax revenue was between 9.09% in F.Y 1990/91 to 23.46% in F.Y 200/01. That was 9.96% in F.Y. 1985/86. Income tax as percentage of total revenue was 7.85% in F.Y. 1985/86 and 18.65% in F.Y. 2000/01, which was highest till now. Similarly contribution of income tax to total GDP was 0.68% in F.Y. 1985/86, then that was increasing up to 3.03% in F.Y. 2001/02 and then it was slowly decreasing trend.

) The income tax constitutes corporate income tax, individual income tax house and lent rent tax and interest tax. There was dominant role of corporate income tax. That was fluctuating trend. The contribution of individual income tax was in second position that was increasing trend. Third contribution was contributed by interest tax. It was 5.19% in F.Y. 1998/99 and reached 10.48% in F.Y. 2002/03. This was highest till now.

House and land rent tax occupied only 2% to 5% share of total income tax.

-) Income tax was in increasing trend. It was increasing 56473 million per years. It was calculated by the trend line equation of least square method.

To find out the opinion of various respondents an empirical investigation was also conducted on the basis of opinion of respondents. Data was collected and presented in table and analyzed. Some important findings from the investigation were as follows.

-) Penal provision is the most important factor, which affects the tax paying habit of Nepalese taxpayers and effective and efficient tax administration is also the factor of affecting taxpaying habit of taxpayers.
-) Provision of additional fee of ITA 2031 was right provision 69% of respondents were proved that.
-) The provision of to interrupt to give passport of ITA 2031 was not enough and right. 56% of respondents were thought that.
-) Penalty for disobeying the Act and rules [Sec63 (b)] of ITA 2031 was not enough. Majority 58% of respondents were responded that.
-) Penalty for failure to register [Sec63,c(2)] of ITA 2031 was good but not enough punishment rate. 48% respondents though that and 39% were thought that was good and enough.
-) The provision of power to imprison for default in payment of tax, and department action in case of negligence. Sec 37 (a) and sec58 (b) of ITA 2031 were not effective and not clear. Majority 63% respondents were opined so.
-) The provision of penalty for failure to deposit tax deduct at source sec63 of ITA 2031 was good provision but that was not enough penalty 46% respondents were responded that and 45% respondents though that the provision was good and enough

-) Right to tax officer to impose interest on understating estimation of tax installment [sec 118(1)] and failure to pay tax before the date on which the tax is payable sec [119 (1)] of ITA 2058 is not good provision 60% respondent opined so.
-) Provision of fees for failure to maintain document to file statement of tax return and file statement by withholding agent of ITA 2058 was right. Majority (78%) of respondent thought that.
-) Penal provision of submission of false or misleading statement sec 124 of ITA 2058 was better than penal provision of submitting false statement of income sec 60 of ITA 2031. 74% respondents were in favour of provision of ITA 2058.
-) Penalty provision for making false or misleading statement knowing or recklessly and unknowing or due to carelessness of ITA 2058 is right because 67% respondents were opined for this provision.
-) Penal provision for obstructing or coercing or influencing tax administration [sec 125] of ITA 2058 is good provision according to 78% of respondents.
-) Penalty for authorized person if breaches the official secretary [sec 126 (1)] and provision for an unauthorized person collecting or attempting to collect tax [sec 126(2)] ITA 2058 is good. 61% respondents were responded good and remaining 39% respondent thought this provision is satisfactory.
-) Penal provision for aiding or abetting to another sec 127 of ITA2058 was highly effective according to 47% respondent, and effective according to 43% respondents. So, researcher had concluded that, the provision was good and effective.
-) Penal provision of ITA 2058 was effective than penal provision of ITA 2031. 60% respondents opined that. But 30% respondents opined against that showing following reasons: Provision are not sufficient, high punishment rate, not-clear and vague and double standard etc. 10% respondents were stand neutral.

-) Penal provision of ITA 2031 was suffered from following defects: provisions were not sufficient, low punishment rate, vague and not clear etc.
-) Tax paying habit of Nepalese taxpayer has improved, after enactment of ITA 2058. 53% of respondents thought so, and remaining 47% respondents thought tax paying habit of Nepalese tax payer has not improved. Out of 53 respondent who were in favour of improved tax paying habit, 52.83% were satisfied medium level, 35.85% were low level and only 11.32% were satisfied high level.
-) Most of the penal provisions of ITA 2058 are effective and better than provision of ITA 2031. But they are not free from defects.
-) Penal provision of ITA 2031 was not fully defective. Some of they were suitable, effective and good.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The government requires sufficient revenues for the economic development, as well as to handle day to day administration like maintaining peace and security, launching other public welfare activities. Government expenditure is increasing because of increase in population, increase in price, increase in people's expectation etc. To meet the growing expenditure, the government has to manage its fund. It is received from two different sources, one is external source and other is internal sources. External sources are foreign loans, grants, donation etc, which are uncertain. Internal sources are collected within the nation, which is certain and convenient source of government. Internal sources of fund includes both tax and non-tax revenue. Non-taxes sources are uncertain and inconvenient because they are imposed as per needs of the government. But tax revenue is certain and convenient source of government. So, it is the main source of financing government activities. In every country, the largest part of the government revenue is raised from taxation.

K.C.(2007), described that history of taxation begin with the development of human civilization and the history of taxation was began in Nepal from the ancient period in the name of Bhaga, Bhoga and Kara in Lichhabi regime. But the history of Income Tax was not so long in Nepal. The first Income Tax Act was introduced as a trail in the fiscal year 1959/60

entitled business profit and remuneration Tax Act 2016 by the first elected government. Income Tax Act 1962 (NITA 1962) replaced to BPRTA 1960 in 1962. It amended in 1972 (2029 B.S.) and continued till 1974 (2031 B.S.). Income Tax Act 1974 (ITA 1974) replaced to the NITA 2062 in 1974. ITA 1974 was enacted by the king Birendra. It was amended in 1977, 1979, 1970, 1980 1984, 1985, 1986, 1989 and 1992. Income Tax Act 2002 (ITA 2058) replaced ITA 1974 in 2002 (2058). It came into effect on April 1, 2002 (Chaitra 19, 2058). It is a second Income Tax Act passed by the elected members of the parliament in the history of Nepal and it is continuing till now.

Government revenue was the composition of external and internal revenue. Internal revenue includes both tax and non-tax revenue. Nepalese tax revenue was the composition of direct and indirect tax revenue. There was dominant role of indirect tax revenue in Nepalese tax revenue structure. Indirect tax revenue contributed three times more than the direct tax. Direct tax revenue was the composition of income tax, land tax, house and land registration tax and other taxes. There was dominant role of income tax in total direct tax, that was more than 55% and it was in increasing trend. Income tax revenue was the composition of income tax from corporate bodies, income tax revenue from individual, income tax, revenue from house and land rent tax, and income tax from interest. There was dominant role of income from corporate bodies in total income tax revenue.

Contribution of tax revenue on total revenue was 73% to 81% and contribution of non-tax revenue on total revenue was 19% to 27%. Contribution of direct tax on total tax revenue was between 17% to 27% and contribution of indirect tax to total tax revenue was 73% to 83%. It showed that there was dominant role of indirect tax on total tax revenue. Contribution of income tax on total direct tax was more than 55% in F.Y. 1985/86 and increased to 89.74% in F.Y. 2000/01, it is a good symptom of income tax. Among indirect tax, VAT occupied largest portion of total indirect tax and it

was increasing trend. It was 32.89% in F.Y.1985/86 and reached 49% in F.Y.2006/07. Custom duty occupied second largest share among them and excise duties contributed third position, it was between 10% in F.Y. 1994/95 and 18.64% in F.Y. 1985/86. But it was decreasing trend and other kinds of indirect taxes also contributed smaller portion on indirect tax.

Contribution of total revenue on total GDP was in increasing trend. It was 8.73% in F.Y. 1985/86 and reached 13% in F.Y. 2006/07. Similarly, total tax revenue as percentage of GDP was also in increasing trend. It was 6.88% in F.Y. 1985/86 and 9.69% in F.Y. 2006/07. Contribution of direct tax on GDP was also in increasing trend. It was 1.24% in F.Y. 1985/86 and reached 2.21% in F.Y. 2006/07. Likewise contribution of indirect tax to total GDP was also in increasing trend. It was 0.63% in F.Y. 1985/86 and reached 2.21 in F.Y. 2006/07. Income Tax as percentage of Total GDP was 0.68% in F.Y. 1985/86 and 1.77% in F.Y. 2006/07. Among income tax, corporate income tax occupied dominant share. But it was decreasing trend. It was 59.95% in F.Y. 1997/98 and 49.20% in F.Y.2006/07. Individual income tax occupied second largest share among them. It was increasing trend. It was 31.90% in F.Y1997/98 and reached 39.51% in F.Y. 2006/07. And other interest tax and house and land rent tax occupied third and fourth portion of total income tax.

To get objective of this research study, researcher had conducted an empirical investigation also. Summarized view of different groups of respondents has presented bellow:

Provision of additional fees of ITA 2031 was right to impose. 69 respondents out of 100 were in favour of that provision. The provision of interrupt to give passport who failure to comply with the duties prescribed by the act sec 63 (c) of ITA 2031 was not enough and right 56% responded opined that. Penalty up to Rs.1000 for disobeying the Act and rules sec 63 (b) of ITA 2031 was not enough according to 58% respondents. Penalty or failure to

register up to Rs.500 or interrupt the transaction or seize the property [sec 63 (c). 2] of ITA 2031 was good but not enough majority or respondent viewed so, penal provision of power to imprison for default in payment of tax [sec 37 (a)] and departmental action in case of negligence [sec 58 (b)] of ITA 2031 were not effective and clear. Majority 63% respondents were opined that. Penalty for failure to deposit TDS fine up to Rs.500 sec 63 of ITA 2031 was good but not enough. Majority of respondent thought so.

The provision of right to tax officer to impose interest for under estimation of tax payable by installment of ITA 2058 was not right and justifiable. 60% respondents were in against of this provision. Fees for failure to maintain document by with holding agent provision of ITA 2058 were right to impose 78 respondent out of 100 were thought so. Penal provision for making false or misleading statement knowing or recklessly and unknowingly or due to carelessness [sec 120(a), (b)] of ITA 2058 was good provision, 67% respondents were for this provision. Penalty for obstructing or coercing the tax administration sec 125 of ITA 2058 is correct. 78% respondents were opined so.

Penalty for authorized person if breaches the official secrecy is liable to pay fine up to Rs.80, 000 or imprisonment up to 1 year or both sec 126 (1) and an unauthorized person collecting or attempting to collect tax is liable to pay fine between Rs.80, 000 to Rs.240, 000 or imprisonment between 1 year to 3 year or both sec 126 (2) of ITA 2058 is good provision 61% respondent through good and 39% respondent though satisfactory. Penal provision for aiding or abetting to another, sec 127 is a good and effective provision. 47% respondent though, it is highly effective and 43% respondent though, it is effective, and most of other penal provision of ITA 2058 is also good and effective according to opinion survey.

In whole, majority of respondents were in favour of penal provision of ITA 2058. 60% respondent responded that the penal provision of ITA 2058 is effective than penal provision of ITA 2031. Minority 30% of respondents were responded that the penal provision of ITA 2058 is not effective at all aspect. They pointed the draws backs of ITA 2058 as, provisions were not sufficient high punishment rate vague not clear and double standard etc. 10 respondents out of 100 were stand neutral in this respect. Respondents who were in favour of ITA 2058 has criticized the penal provision of ITA 2031 as that was vague and not clear, low punishment rate, not sufficient provision etc. Most of the respondents (53%) were thought that the tax paying habit of Nepalese tax payers is improved after enactment of ITA 2058. Out of them, 35.85% were satisfied low level, 52.83% were satisfied medium level and only 11.32% were satisfied high level.

According to opinion survey, the researcher has concluded that, the penal provision of ITA 2058 is better than penal provision of ITA 2031. But that was not free from defects in all aspects and all penal provision of ITA 2031 were not fully defective. Some of them were good and effective.

5.2 Conclusion

Now a day, government expenditure is increasing day by day. To meet such expenditure, government requires sufficient revenue. But, lack of sufficient financial resources is the main constraint for the national economic development for developing countries like Nepal. Nepal has been suffering from capital shortage to accelerate the economic growth. Nepal government has been collecting revenue from internal and external sources. Between them, internal sources are preferable for sustainable economic development. But, Nepal has been unable for proper mobilization of internal resources due to various causes, like corruption, inefficient tax administration, vague and unclear provisions of Income Tax Act, narrow coverage of taxation etc.

To increase the government revenue, Nepal government is trying to take stringent action against those who involved in disobeying the Acts and rules prescribed by the Act and do not comply with the Act. But, there is not effective implementation till now. Due to vague, unclear, and double standard penal provision, most of the tax evader and criminals are releasing from punishment. So, the criminal's confidence is going upward.

Government collects internal revenue from tax and non-tax sources from people. Tax is imposed on person's income. Within tax, income tax is one of the most important resources of government. Income tax contributes more than 55% of total direct tax. It is considered as a good remedy to cure growing and serious resources gap problem of Nepal. Total revenue as percentage of total GDP is increasing trend, but it is not sufficient as compared to other developing countries. About 40 percent of government revenue has been leaking on. To alleviation this, the penal provision of ITA can play an important role.

Lack of knowledge about law and rules, managerial inefficiency, lack of effective personnel management, lack of reward and punishment system, poor income tax assessment procedure, poor tax information system, corruption in administration, narrow coverage of income tax are the major problems of income tax management in Nepal. Being various problems relating to income tax, revenue collection from income tax is low as compared to other developing countries like Srilanka, India, Pakistan etc.

The tax paying habit of Nepalese taxpayers is poor. Various factors can affect to increase the tax paying habit of Nepalese tax payers such as: penal provision, effective and efficient administration, educated tax payer, low tax rate/concession/rebate etc. Regarding this research study, penal provision of income Tax Act 2058 is effective and better than penal provision of ITA 2031. But it does not mean that, all provision of ITA 2058 is not efective than all provision of ITA 2031. Some provisions of ITA 2031 were good and effective

which are not included in ITA 2058. Such as; provisional fees sec 29(2), 27(2), 37(3) and 37 (4), penalty for failure to register sec 63, (2), penalty for failure to deposit TDS sec 63, etc. And not sufficient penal provision, low punishment rate, vague and not clear etc were the main drawbacks of penal provision of ITA 2031. Penal provision of ITA 2058 is good and effective than penal provision of ITA 2031. But it is also not free from defects at all aspects. Some important provisions are not included in this Act, which was included in ITA 2031.

5.3 Recommendations

On the basis of findings of this study, the following recommendations are:

-) Income Tax Act, rules and regulations should be made cleared and simple for all tax payers as well as related persons.
-) To educate people about income taxation and its penal provision, information regarding taxation should be provided by different medias as well as meeting and seminar should be held.
-) Should educate people about the objectives of taxation and its penal provision.
-) To increase tax paying habit of Nepalese tax payer, penal provision should be made effective but it is not only the method, but respect to tax payers, right behavior towards tax payers from tax administration, concessions/rebate/low tax rate, effective and efficient administration and educated people are also the factors to increase tax paying habit.
-) Provision of addition fee sec 29 (2), 27 (2), 37 (3), 37(4) of ITA 2031 were good provision. So these provisions should include in newly introduced act.
-) It is not good to impose interest on under estimation of installment.
-) Penalty for failure to register sec 63, (2) of ITA 2031 was good, but punishment was not enough. So, with increasing punishment rate this provision should also include in new penal provision.

-) The penal provision of power to imprisonment for default in payment of tax sec 37(a) and departmental action in case of negligence sec 58 (c) of ITA 2031 was good provision but penalty rate was low. So with increasing punishment rate this provision can be include in new penal provision.
-) Penalty for failure to deposit TDS sec 63 of ITA 2031 was good provision, so that provision should be continued.
-) Right to tax officer to impose interest of ITA 2058 is not right according 60% of respondents. So this provision should be emended accordingly.
-) Provision of fees for failure to maintain document, to file statement of tax return and to file statement by withholding agents of ITA 2058 is right provision. So it should be continued.
-) Penalty for obstructing or coercing tax administration (sec125) of ITA 2058 is correct. But 22% respondents were not satisfied with this provision. So with respecting suggestions of those. This provision should be continued.
-) Penalty for authorized and unauthorized person sec 126 (1) and sec 126 (2) of ITA 2058 is good and satisfactory, so this provision should be continued.
-) Penalty for aiding or abetting to another sec 127 of ITA 2058 is effective. Only 10% respondents were against of this provision. So respecting those respondents this provision should be continued.
-) Penal provision for submitting false statement of income sec 124 of ITA 2058 is better than provision of submitting false statement of income sec 60 of ITA 2031. So this newly provision should be continued.
-) 60 percent respondents were thought that penal provision of ITA 2058 is effective than penal provision of ITA 2031. But 30 respondents out of 100 respondents were not fully satisfied with penal provision of ITA 2058. So, with including their suggestion regarding penal provision, new amendment should be done.

-) The main drawbacks of penal provision of ITA 2058 are not clear and vague, high punishment rate, insufficient provision, double standard according to respondents. So, penal provision of ITA 2058 should be made clear and use simple words and include good and effective provisions of ITA 2031, punishment rate should be made certain and punishment rate should be adjusted accordingly.
-) Tax paying habit of Nepalese tax payers is improved after enactment of ITA 2058. 53% respondents were though so. But they were not satisfied fully. And remaining 47% respondents were against of this. So, to improve the tax paying habit of Nepalese tax payers, government should take stringent action against those, who doesn't comply with the Act, who defy the rules prescribed by the Act, should educate people by various means, should motivate tax payers by various techniques and by using other techniques.

BIBLIOGRAPHY

Books:

Adhikari, Chandramani (2060). *Modern Income Taxation in Nepa: Theory & Practice*. Kathmandu: Pairavi Prakashan

Agrawal, Jagadish (2004). *Income Tax: Theory & Practice*. Kathmandu: Buddha Academic Publishers & Distributors Pvt. Ltd.

Adhikari, Prapanna (2064). *Taxation in Nepal*. Kathmandu : Dhaulagiri Books.

Amatya, Surendra Kesher, Pokharel, Bijari Binod & Dahal, Rewanta Kumar (2004). *Taxation in Nepal: Income Tax Property & Value Added Tax..* Kathmandu: M.K. Publishers & Distributors.

Adhikari, Resh Raj & Gautam, Tika Ram (2060). *Research Methods in Sociology and Anthropology*. Kathmandu: Bidhyarthi Pustak Bhandar.

Bhattarai, Ishwor & Koirala, Girija Prasad (2061). *Income Taxation in Nepal with Tax Planning & VAT*. Kathmandu: Asmita Books Publishers & Distributors.

Bastable, Charles F. (1917). *Public Finance*. London: Macmillan & Co. Limited.

Dhakal, Kamal Deep (2058). *Income Tax and House & Compound Tax Law and Practice*. Kathmandu: Kamal Prakashan

Joshi, Puspa Raj (2061). *Research Methodology*. Kathmandu: Buddha Academic Publishers & Distributors.

Kandel, Puspa Raj (2003). *Tax Law and Planning in Nepal*. Kathmandu: Buddha Academic Publishers Pvt. Ltd.

Khadka, Rup Bahadur (1994). *Income Taxation: A Path for Reform*. Kathmandu: Marburg Consult for Self help Promotion.

K.C. Jit Bahadur (2007). *Tax Laws and Tax Planning: Theory and Practice*. Kathmandu: Khanal Books Prakashan.

Mallik, Vidhyadhar (2060). *Nepalko Aadhunik Aayakar Pranali*. Kathmandu: Anita Mallik.

Mann, Frederick (1992). *The Economic Rape of America*. U.S.A. Free America Institute.

Poudel, Santosh Raj & Timilsina, Prem Prasad (1990). *Income Tax in Nepal*. Kathmandu: Aatharai Enterprises.

Panta, Prem Raj and Wolf Howland K. (2000). *A Handbook for Social Science Research and Thesis Writing*. Kathmandu: Buddha Academic Enterprises Pvt. Ltd.

Rangarajan, L.M. (1992). *Kantilya the Arthashastra*. New Delhi: Penguin Books India.

Regmi, M.C.(1971). *A Study in Nepalese Economic History*. New Delhi: Manjusri Publishing House India.

Unpublished Dissertations:

Adhikari, Thaba Raj (2006). *A Comparative Study of Tax Planning Practice Among Listed Companies of Nepal*. Kathmandu: Submitted to Faculty of Management, T.U.

Adhikari, Rishi Ram (2007). *Municipal Tax in Nepal*. Kathmandu: Submitted to Faculty of Management, T.U.

Acharya Kamal (2008). *Contribution of Income Tax to Nepalese Government with Special Reference to Income from Employment*. Kathmandu: Submitted to Faculty of Management, T.U.

Adhikari, Harihar (2008). *Contribution of Finance Tax to Nepal Government with Special Reference to Nepal Telecom*. Kathmandu: Submitted to Faculty of Management, T.U.

Baral, Samjhana (2005). **Contribution of Income Tax from Public Enterprises to Government Revenue in Nepal with Special Reference to National Trading Limited**. Kathmandu: Submitted to Faculty of Management, T.U.

Bhandari, Kul Chandra (2005). *Contribution of Income Tax from Public Enterprises to Government Revenue in Nepal*. Kathmandu: Submitted to Faculty of Management, T.U.

Bhattarai, Toya Nath (2005). *Contribution of Income Tax from Public Enterprises to Government Revenue in Nepal*. Kathmandu: Submitted to Faculty of Management, T.U.

Bhusal, Ram Kumar (2007). *Contribution of Custom Duty to Government Revenue in Nepal*. Kathmandu: Submitted to Faculty of Management, T.U.

- Dahal, Tirtha Raj (2006). *Fees, Interest, Fine and Penalties Regarding to Income Taxation in Nepal*, Kathmandu: Submitted to Faculty of Management, T.U.
- Gautam, Uttam (2005). *Income Tax in Nepal; A Study of Deduction & Exemption*. Kathmandu: Submitted to Faculty of Management, T.U.
- Gaire, Bishnu Prasad (2007). *Analysis of Fees and Penalties Regarding to Income Tax System of Nepal*. Kathmandu: Submitted to Faculty of Management, T.U.
- Gautam, Ranjan (2007). *An Analysis of Interest, Offence and Penalties with Reference to Income Tax Act 2058*. Kathmandu: Submitted to Faculty of Management, T.U.
- Pandey, Yuva Raj (2004). *Corporate Tax Planning in Nepal*. Kathmandu: Submitted to Faculty of Management, T.U.
- Poudel, Sabin (2005). *An Analytical Study of Management in Nepal*. Kathmandu: Submitted to Faculty of Management, T.U.
- Prasai, Bhisma (2007). *Revenue Collection From Income Tax in Nepal Problem & Prospect*. Kathmandu: Submitted to Faculty of Management, T.U.
- Shrestha, Ram Prasad (2007). *A Study on Insurance Business and its Contribution to Tax Revenue in Nepal*. Kathmandu: Submitted to Faculty of Management, T.U.
- Shaha, Rabindra Bikram (2008). *Tax Payers Awareness in Kathmandu Valley*. Kathmandu: Submitted to Faculty of Management, T.U.
- Timilsina, Prajit Kumar (2007). *Taxation in Nepal: Special Reference to Land Revenue and Land Registration Tax*. Kathmandu: Submitted to Faculty of Management, T.U.

Articles:

- Ghimire, Bamshishar (1993). *Principle of Direct Tax and Provision of Direct Tax*. Kathmandu: Vol2.
- Government of Nepal (2001). *Revenue Consultation Committee Report*. Ministry of Finance.
- Thapa, Govinda Bahadur (2002). *Business Age* Vol-4, Kathmandu

APPENDIX-I

Sir/Madam

First of all, I would like to introduce myself as a student of Tribhuvan University, Nepal Commerce Campus, Naya Baneshwor, MBS Final year. I am conducting a research study for the fulfillment of the partial requirement of master's Degree in Business Study of Tribhuvan University of Nepal, entitled "A Comparative Study on Penal Provisions of Income Tax Acts 2031 and 2058".

The subject matters are related to you, so your kind co-operation and valuable suggestions are essential for the completion of my thesis. I would be very much appreciated if you could provide your time for filling this questionnaire.

I hope for your kind co-operation and support.

Yours Sincerely
Rabi Chandra Rai

APPENDIX-II

"A Comparative Study on Penal Provisions of Income Tax Acts 2031 and 2058".

QUESTIONNAIRE

Name:

Organization:

Position:

Please you can requested to tick the answer of your choice where ever appropriate or according to suggestion given in following questions.

1. Which factor should affect to increase the tax paying habit of the Nepalese tax payer, In your opinion? Please rank your answer in following option.
 - a. Penal provisions
 - b. Low tax rates/ Concessions/Rebates
 - c. Effective & efficient administration
 - d. Educated people

2. What do you think about the provision of additional fees on sec 29(2), 27(1), 3793) and 37(4) of ITA 2031. Were they right to impose? Please tick on one option.
 - a. Yes
 - b. No

3. The provision of interruption to give passport who failure to comply with duties prescribed by the act [sec 63(c)] of ITA 2031 was enough and right? please tick on one potion.
 - a. Yes
 - b. No

4. What do you think about the provision of fine up to Rs, 1000 for disobeying the act & rules of ITA 2031? was that enough? Please tick on one option.
- a. Yes
- b. No
5. Penalty for failure to register, fine up to Rs 500 or interrupt the transaction, or seize the property of ITA 2031 was good and enough ? Please tick on one of the following option.
- a. Good and enough
- b. Good but not enough
- c. Not good and not enough
6. The provision of power to imprison for default in payment of tax [sec 37 (a)] and departmental action in case of negligence [sec 58 (b)] of ITA 2031 were effective and clear? Please tick one of the following option according to your opinion.
- a. Yes
- b. No
7. Penalty for failure to deposit tax deducted at source fine up to Rs. 500 sec 63 of ITA 2031. What do you think about that provision? Please tick on one of the following option.
- a. Good and enough
- b. Good but not enough
- c. Not good & not enough
8. What is your opinion regarding right to tax officer to impose interest of ITA 2058, is it right ? Please tick on one option.
- a. Yes
- b. No
9. The provisions of fee on failure to maintain document [sec 117 (2)], failure to file statement of tax return [sec 117 (2)], and failure to file

statement by withholding agent [sec 117(3)] of ITA 2058, is this provision right? Please tick on one of the following option.

a. Yes

b. No

10. Is it right to impose penalty equal to 100% of underpayment of tax who submits false or misleading statement knowing or recklessly, and 50% of underpayment of tax who submits false or misleading statement unknowingly or due to carelessness ? Please tick on one option.

a. Yes

b. No

11. Any person impeding or coercing tax administration is liable to fine between Rs 5000 to 20,000 or imprisonment between 1 month to 3 month or both, is it correct? Please tick on one option according to you.

a. Yes

b. No

12. An authorized person if breaches the official secrecy liable to pay fine up to Rs 80,000 or imprisonment up to 1 year or both, and an unauthorized person collecting or attempting to collect tax is liable to pay fine between Rs 80,000 to Rs 240000 or imprisonment between 1 year to 3 year or both sec 126 of ITA 2058. What do you think about that provision? Please tick on one option.

a. Good

b. Satisfactory

c. Not good

13. The penal provision for aiding or abetting to another is liable to half of the penalty that is imposed on the main offender (if abettor is general public) and full penalty that is imposed on the main offender (if abettor is government official) According to sec 127 of ITA 2058. what is your opinion regarding this provision? Please tick on the following option.
- a. Highly effective
 - b. Effective
 - c. Not Effective
14. Penalty for submitting false statement of income [sec 60] of ITA 2031 and submission of false or misleading statement (sec 124) of ITA 2058, which is the better provision according to you ? Please tick on one of the following option.
- a. Provision of ITA 2031
 - b. Provision of ITA 2058
15. Penalty for failure to maintain or preserve account (sec 61) of ITA 2031 and fees for failure to maintain document [sec 117(1)] of ITA 2058. Which is the better provision according to you? Please tick on one of the following option.
- a. Provision of ITA 2031
 - b. Provision of ITA 2058
16. What do you think about the penal provision of ITA 2058? Is it effective than penal provision of ITA2031? Please tick on one option.
- a. Yes
 - b. No
17. If not, why? Please rank the following options
- a. Not clear and vague
 - b. High punishment rate
 - c. provisions are not sufficient
 - d. Double standard

18. Was the penal provision of ITA 2031 effective than ITA 2058?

Please, tick on one option.

a. Yes

b. No

19. What do you think, tax paying habit of the Nepalese tax payer has improved after enactment of ITA 2058? Please, tick on one option.

a. Yes

b. No

20. If yes, in which level do you satisfied?

a. High level

b. Medium level

c. Low-level

Appendix-III

Trend and Projection of Income Tax for Coming next five year

Fiscal Year	Income Tax (Y)	X=t- 2002/03	X ²	ZY
1998/99	6170	-4	16	-24680
1989/00	7420	-3	9	-22260
2000/01	9110	-2	4	-18220
2001/02	8919	-1	1	-8919
2002/03	8060	0	0	
2003/04	9515	1	1	9515
2004/05	10452	2	4	20904
2005/06	10896	3	9	32688
2006/07	11236	4	16	44944
	Y X81778	X X0	X ² X60	XY X33884

Since $\sum X = 0$

We have formula,

$$a = \frac{\sum y}{n}$$

$$a = \frac{81778}{9}$$

$$a = 9086.44$$

$$b = \frac{\sum xy}{\sum x^2}$$

$$b = \frac{33884}{60}$$

$$b = 564.73$$

Putting the value of a and b in equation.

We get

$$y=a+bx$$

$$y= 9086.44+564.73x$$

Estimated Income Tax for Next Five years

Fiscal Year	X=t—2002/03	Estimated Income Tax by using trend analysis by least square method (y=a+bx)
2007/08	X=t-2002/03=5	=9086.44+564.73x5=11910.10
2008/09	X=t-2002/03=6	9086.44+564.73x6=12474.82
2009/10	X=t-2002/03=7	9086.44+564x7=13039.55
2010/11	X=t-2002/03=8	9086.44+564.73x8=13604.28
2011/12	X=t-2002/03=9	9086.44+564.73x9=14169.01