

CHAPTER-I

Introduction

1.1 General Background

Income tax should be justifiable to achieve maximum social and economic objective. It helps in redistribution of economic means by the transformation of wealth from persons with higher economic level to economic level. It should minimize gap between rich and poor. Regional economic imbalances may also be reduced by providing incentives and concessions in income tax for starting new industries in backward areas. It has become an effective instrument to ensure balanced socio-economic growth Nepal is an agricultural country. The predominant position occupied by the agriculture sector in the Nepalese economy is born out by the fact that more than 81 percent population of the country is dependent upon agriculture which contributes about 39 percent to the total GDP. Agriculture is the major supplier of raw materials to industries.

The Constitution of the Kingdom of Nepal has clearly directed Nepalese government for a self-reliant economic system encouragement to national enterprises, preventing of economic system encouragement to national enterprises, preventing of economic exploitation as well as upgrading the standard of the people. In self-reliant economic system and sound infrastructure for the development, the government should generate

Taxes are broadly classified into two groups: direct tax and indirect tax. Direct tax is a personal tax, if the same person to whom the tax is legally imposed and there is no possibility of shifting pays it, and then it is called direct tax. Examples include income tax; property tax etc. On the other hand, indirect tax is a commodity and service tax. If any tax is legally imposed for one person but the incidence of the tax is borne another person

through backward and forward shifting process. Then it is called indirect tax. Value added tax (VAT), hotel tax, customs duty etc are example of indirect taxes.

Income tax can be classified into two types: personal/individual income tax and corporate income tax. Individual income tax is a modern tax, which is measure of ability to pay of any individual. It is based on the progressive rates. Corporate income tax is levied on the business enterprise having a legal personality, distinct from their owners. Taxes on corporate ultimately come from the income or wealth of individuals. Generally, flat rate is applied to corporate income tax. Reducing in equality of income distribution, stabilizing the economy and checking inflation are main objective of income tax. Among them reduction of inequality of income distribution is the greatest merit of income tax.

Income tax also helps to increase the consciousness of people because the people who have paid the income tax are interested on public expenditure. Though they cannot expect any direct benefit from their tax paying, they can observe the use of the collected fund from them in from of income tax. It is also helpful fro generating the concept of social responsibility towards the nation and keeps the people vigilant to see that public money may not be misused. Income tax is essential not only for collecting government revenue but also for controlling over consumption for promoting saving and for generating were employment.

It is generally said that nothing is certain in this world except death and tax. This sentence simply means that death and tax are inevitable. However it reveals the several issues underlying in it. First, when it is said that tax is mandatory, it must to be paid. The obligation is related with legal provisions and action, that ultimately show the association with the government or its political divisions. The legislative and sometimes

executive and judiciary with the delegated authority make the rules, sub-rules and provisions which are enforcedly applicable and do execute within the frontier of the nation where it is governed. The relating to taxation is therefore imposed, guided and governed by ordinance (under certain circumstances) rules and provisions. In other word, the tax system is directly recognized by law and without law tax cannot be collected from the public. The provisions of taxation has been clearly mentioned in basic law of Nepal. The constitution of the Kingdom of Nepal 1990 (2047) in section 73, has mentioned that no taxes shall be levied and collected except in accordance with law. Therefore, tax is imposed by the government with the approval of legislation and it is binding to all targeted people. Hence, we can conclude that the government charges a certain levy to its people living inside or outside the country for their economic involvement in different activities, which can be termed as tax. Most of the people do agree with the suitable name of tax as KAR in Nepali that means as "most to pay."

"The hardest thing to understand in the world is the income tax." Albert Einstein had once commented on the nature of income tax. Supporting his view, another nuclear Scientist Jerold Ruchwald said "Nuclear physics is much easier than tax laws, it is rational and always works the same way" (Kandel-2003, Preface).

This view means that understanding tax system is not as easy as we presume. The word tax simply denotes the certain charge that has to be paid to the government in lieu of economic involvement with the legal obligation both in taxpayers and tax administrators. It is the obligation of tax payers in the sense that is their duty to pay tax on profit they make and the obligation of tax on profit they make and the obligation of the tax administrators lies in the duties and responsibilities to assess and collect

the tax according to the spirit of under certain rules and the assigned authority.

Nepal is one of the parts of eastern civilization. Within eastern civilisation, the tax used to be imposed as per the Shastras in ancient time. Koutilyanity, Manusmrity, Yagnabalka, Smriti etc, were the Shastras which governed the taxation system of that time. The main principle of taxation at that time was to impose tax without hampering the taxpayer. According to the Shastras, the taxes were to be imposed like the honey collection of honeybee or getting milk from the udder of the cow.

The proverb says that the state should collect tax just like the honeybee collects the honey from the flower. It collects honey without hampering the flower. This model of tax collection can be called honeybee collection model. Nepal's tax system was also based on this model at that time.

In Lichchhavi period, the main source of revenue of the government was tax. There were Tri-karas, Bhaga (tax on agriculture), Bhoga (tax on livestock) kara (tax on trade) Matsya kara (imposed on fishing), Goyaddha kara (imposed on wrestling), Palabdu kara (imposed on onion and garlic), Malla kara (imposed on bull fighting), Sin kara (imposed on firewood) etc. were the taxes of that time. Ansubarma, one of the kings of Lichchhavi period imposed water tax and religious monument repair tax. At that time, a tax on income of the farmers from agriculture was imposed at the rate $1/6$, $1/8$ and $1/12$ shares of crop production depending on the land quality.

In Malla period, there were taxes related to land, trading etc. Jayasthiti Malla imposed taxes on cremation (Daha sanskar) and caste purity. In Shah Period also, there was continuation of the tax system of Malla period, i.e. based on land and trade. After unification, different types of taxes like land tax, transit tax, forest product tax, mining tax, market duties were levied.

These were different types of taxes like Walak, Gaddimudarak, Chumawan and Goddhawa. Walak was collected from each family to celebrate the national festival. Gaddimudarak was for financing coronation ceremony of the new king. Chumawan and Goddhawa were the taxes to be collected in the time of ceremony of conferring office or rank and marriage ceremonies of Royal Prince and princesses. Godan was used to collect tax for funeral ceremony of reigning king. Prithivinarayan Shah introduced pota tax in 1772 A.D. This system of tax was based on flat rate system and limited on small birta owners. In the period of Surendra Bikram Shah, excise was introduced in Nepal. In Rana period, the main source of government revenue was land tax, customs duties and excise. The tax system was based on contract and amanat. Jimwal, Mukhiya, Dittha etc. were the persons who used to collect the tax. Sanads and Sawals were the laws guiding tax system. Lagati (based on lagat record) and Hasawali (not based on record) were two types of revenue. Jamma Najodnu, Kachha Nachhodnu (not to get total and not to leave even a single paisa) was the principle of revenue collection in Rana period.

After the down of democracy, the first budget was introduced in 2008 B.S. After that so many reforms in tax system are carried out in Nepal. Different types of tax laws were introduced and abolished. The major taxes are: customs, excise, income tax, sales tax/VAT, local tax and others.

Economic development is no doubt the most important concern and target of the government in the development of a country like Nepal. Achievement of the high rate of economic growth, reduction of disparities, elimination of poverty and improvement of the living standard of the people are some of the developing strategies towards which most of the government efforts have been directed in developing countries.

Nepal is one of the least developed countries with per capital income about \$276. People of the Nepal depend on agriculture for their livelihood.

There is resource gap problem in Nepalese economy. Public expenditure is greater than public receipts. The resource gap has been widening in the recent years. In 1987/88 total expenditure was Rs. 14,105 million and total revenue was Rs. 7,350.40 million. The resource gap was 6,754.60 million. In 2001/02 total expenditure was Rs. 80,072.30 million and total revenue was Rs. 50,445.60 million. The resource gap was of Rs. 29,626.70 million.

In order to meet the public expenditures, the government has to raise funds through external and internal sources. Foreign aids, external borrowing etc. constitute external sources of government fund whereas tax and non-tax revenues constitute internal sources of funds. In 1987/88, total revenue was Rs. 7,350.40 million out of which Rs. 5,752.90 million was tax revenue and balance Rs.1,597.60 million was non-tax revenue. This means tax revenue and non-tax revenue contributed about 78.26 percent and 21.74 percent in total revenue respectively. During, 1987/88 to 2001/02, the ratio of tax and non-tax revenue remained at average of 78.22 percent and 21.78 percent respectively. Tax revenue contributed about more than three fourth of total government revenue. So, it can be regarded as the most important source of government's internal sources of revenue.

The government of a country requires sufficient revenue to carryout development plans, to handle day to day administration, to maintain peace and security and other public welfare activities. The government collects revenues from various sources such as tax, revenue from public enterprises, special assessment, fees, fines, grants and assistance etc. Among them, tax is the main source of government revenue.

Being a developing country like Nepal, sources of government revenue are very limited. Nepalese revenue structure mostly depends on the foreign assistance and loan but it is unfavorable to the country. Domestic resources are most reliable source to keep minimum dependency of income in government revenue. Government needs heavy fund to maintain peace and law in the country, to carry out development activities and to provide the goods and services to its people most efficiently, economically and effectively. In a narrow sense, the needed fund is available to government by two ways that are tax revenues and non-tax revenues (in a broad sense the government may collect fund by tax revenue, non-tax revenue, grant, internal debt, external debts, overdraft etc.). Non-tax revenues include, charges, service fee, fine, penalty, royalty, profit generated by government owned or controlled corporations or by selling assets of these etc. whereas tax revenues mean all other incomes to the government except non-tax revenue and include the different types of taxes which are the major sources of government revenues. Tax revenue has been using as a permanent mechanism of raising public fund. The contribution of tax revenue to the total revenue in fiscal year 2002/03 was about 75.73 percent (Economic Survey-2004, List of table no 6). Tax revenue has been considered as the major instrument of social and economic policy and has mainly three goals: to transfer resources from private to the public sector, to distribute the cost of government fairly by income classes and among people in approximately the same economic circumstances and to promote economic growth, stability and efficiency in the country. Income tax has a pivotal share in direct tax and has been contributing in tax revenue since the state begins to raise fund as revenue. It is the tax which has been using as a tool to balance social and economic field by using it to get the social and economic objectives in pre-defined way. Income tax has great contribution informing national capital to balance national income equitably. It is more useful particularly to underdeveloped countries where the country requires enough fund to carryout necessary activities to serve

the nation and people. In Nepal, the contribution of income tax in internal tax revenue collected by IRD was about 30 percent including house rent and vehicle tax (Annual Report-2059/60, page 20). Similarly, income tax had contributed to government revenue by 14.17 percent in the fiscal years 2002/03. Similarly, the contribution made by income tax in total tax was about 18.71 percent in the fiscal years 2002/03 (Economic Survey-2004, Ibid).

One of the main objectives of the tax system in developing country is the promotion of saving and investment and also the growth in industry including export. Income tax being directly concerned with the taxpayer makes feeling of tax in real sense to the taxpayer. Income tax is the tool that enhances in internal source mobilization by providing the fund enough to support the activities. Tax revenue consists both direct and indirect taxes. Taxation system, whether, it is direct or indirect, is more reliable as the system bears certainty in nature with certain legal aspects provided that the service of goods and service to people in never ending process. Whereas non-tax items that include fee, levy and other similar charges might not be regular and are not always basic services of revenue. The country's economy, therefore, cannot be fully dependent on the non-tax revenues. The contribution of income tax in direct tax was 78.02 percent in fiscal year 2002/03 (Economic survey-2004, Ibid). Income tax is collected from various sources of profit and incomes. Income tax is collected from public enterprises, semi-public enterprise, private corporate bodies, individuals, remuneration or employment and interest.

The present study has been designed to study the contribution of tax from employment to income tax and government revenue of Nepal for last eleven year's period.

Tax is defined in different ways:

In simple terminology, tax is a liability to pay an amount to the government. It is compulsory contribution to the national revenue from the tax payers according to law.

According to Professor Seligman, "A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred." (Quoted from Dhakal, Income Tax & House-Land Tax: Law & Accounting, 2001 page:1)

According to Plehn, "Taxes are general contributions of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the residents of the states." (Ibid, page 2)

Tax is classified into two categories: direct tax and indirect tax. A person on whom it is legally imposed pays a direct tax. In direct tax, the person paying and bearing tax is the same. For example: income tax, property tax, vehicle tax, interest tax, gift tax etc.

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. For example: value added tax (VAT), import duty, export duty, excise duty, hotel tax, entertainment tax etc.

1.2 Statement of the Problem

Nepal is an underdeveloped country having poor economic growth rate. It has been facing serious gap and fiscal gap problem. Total expenditure was exceeded than total revenue in each subsequent year. The government expenditure is continuously rising due to weakness and large investment in selecting development projects and regular expenditure is increasing due to result increasing burden of debt servicing and salary as well as allowances

of government personnel. Thus, there is growing difference between expenditure and resource plus foreign aids. In other words, financial resources gap is the major constraint of the Nepalese economy.

To raise the government revenue, it is necessary to raise the sources of revenue which helps to relieve from serious bottleneck of resource gap in the proceeds of economic development programme.

To bridge the gap between total resources required and supply of the resources, income tax plays a vital role in government revenue. Collection of advance tax in Nepal has faced various problems like tax evasion, poor tax administration, and unsound income tax, collection ambiguity in tax law, lack of tax conscious people etc. If these problems are overcome, tax can be useful tool in the economic development of the country.

The contribution of income tax to the national budget must be increased to achieve the goal of national development and equal economic distribution. The goal can be increased only if the government of Nepal takes steps for making the increased by bringing the new tax payers into tax net and implementing the tax laws effectively so as to discourage the tax evasion practice. Loopholes must be traced out and monitored effectively. Large taxpayers who are hiding their employment income should be brought into tax bracket. So, shortcomings existed at present in income tax system must be avoided to fulfill the desired goal.

1.3 Objectives of the Study

This study has been carried out with some objectives. The main objectives of the study are to analyse the effectiveness of income tax on revenue generation in Nepal and give appropriate suggestions to improve the tax system so that the government has to collect more revenue and use it in the

economic development of the country. The specific objectives of the study are as follows:

-) To analyse the contribution of income tax from employment income to government revenue of Nepal.
-) To examine and analyse the effectiveness of income tax revenue collection from employment incomes.
-) To show the contribution of tax from employment income to income tax revenue and total tax revenue of Nepal.
-) To recommend possible measures regarding taxation of employment income and increasing the share of employment income in total income tax revenue and government revenue of Nepal.

1.4 Scope of the Study

The study covers the contribution of employment income to income tax revenue and government revenue of Nepal. The main scopes of the study are given below;

-) Role of employment income tax in Nepal.
-) Role of total income tax in Nepal.
-) Revenue from income tax from employment in income tax revenue of Nepal.
-) Role of income tax from employment income in public revenue of Nepal.
-) Comparative study on role of income tax from employment to total government revenue.

1.5 Significance of the Study

Nepal is a developing country. The resource collections internally are sufficient to run day to day administration of the country but the revenue surplus is not adequate to undertake development activities. So, the country

is heavily dependent on the foreign aids and grants to undertake its development activities.

Out of various sources of incomes, employment income is an important source. It is a regular source of income tax, too. Employment income has been contributing a lot to the income tax revenue of Nepal. There are lots of research and thesis reports on various topics of income tax but no one has studied in the detail on the contribution of tax from employment income to tax revenue of Nepal. So, this thesis is directed towards acquiring information about revenue collection from employment income of study.

1.6 Limitations of the Study

The study was not far from the limitations. The major limitations were as follows:

The study was based on the remuneration income.

-) The study will cover an seventeen years period from fiscal year 1991/92 to 2007/08.
-) Primary data were collected through opinion, survey of employees and tax experts available in Kathmandu only.
-) The study was based on laws, all rules, ordinances and regulations of Nepalese income tax.

1.7 Plan of the Study

The study has been organised into six chapters. They are as follows:

Chapter I : Introduction

Chapter II : Review of Literature

Chapter III : Research Methodology

Chapter IV : Presentation study and Analysis of Data

Chapter V : Summary, Conclusion and Recommendations.

The foremost chapter is about introduction that includes the general background, statement of the problem, objectives of the study, scope of the study, significance of the study and limitation of the study.

The second part of the study has contained the review of literature. This part has been studied by dividing into two units as Review of Act and Review of Thesis reports, Books and Articles. Many published and unpublished related materials were studied, presented and interpreted as per the requirement.

The third part of the study is about resource methodology and includes research design, population and samples, nature & source of data, data collection procedures, methods of presentation and analysis, tools and techniques of analysis, research variables, weight of choice, selection of respondent and respondents profiles.

Presentation and Analysis of Data has been presented in the fourth chapter. This is one of the most important chapters and includes the data related to the topic extracted from economic survey and annual reports published by Ministry of Finance. The analysis has been presented accordingly with suitable methods of presentation. Similarly, presentation and analysis of opinion survey has been placed under this chapter. It is the main body of the chapter where descriptive and analytical analysis of the primary information collected through sampling method from various respondents has been studied, analysed and presented accordingly.

The final chapter of the study, summary, conclusions and possible recommendations regarding improvement employment income and related issues.

CHAPTER-II

Review of Literature

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

2. Review of Income Tax Acts

2.1 Introduction

Review of Income Tax Act 2058 with some provision under employment income has made for the purpose of the study and to provide clear sense of employment income taxation.

2.1.1 Historical Background of Income Tax

Income tax in formal way has nearly 200 years of history of its implementation. The income tax is a modern development. The earliest instances of a general income tax were those levied in France 1793, in Great Britain in 1799, in Switzerland in 1840, in Austria in 1849, and in Italy in 1864. An income tax was first levied in the United States. The congress adopted an income tax on individuals and business at a rate of two percent. This levy was declared unconstitutional by the United States Constitution as originally enacted had prohibited the federal government

from leaving direct taxes except in proportion to population; a constitutional amendment was required to give full legal sanction to federal use of an income tax. With the satisfaction in 1913 of the 16th Amendment to the Constitution, the United States joined numerous other nations including Germany, Netherlands, Australia, New Zealand and Japan in taxing incomes. A law providing for the tax on incomes was incorporated in the Tariff Act of 1913. Under this law the tax on corporate income was fixed at 1 percent (Bhattarai & Koirala: 2003).

Income tax was introduced in 1860 by Sir James Wilson to meet the financial stringency caused by the mutiny of 1857. The tax was discontinued in 1865 but was reintroduced in 1869. It was put on permanent footing in 1886. The Act of 1922 determined the basis of machinery and mechanism of administering the tax and the rates at which tax was to be levied.

Tax was levied on agriculture and business income in Lichchhavi Regime for the first time before unification of Nepal.

The tax levied on agriculture income was called "Bhaga" and the tax levied on business income was called "Kara". The farmers were supposed to pay agricultural income tax to the government in 1/6, 1/8 and 1/12 shares of their total production depending on the quality of the land that they owned. There did also exist irrigation and religious taxes during the regime of king Ansuvarma. The form of payment was either in cash or kind or labour.

The state expenditure increased after unification of Nepal and different types of taxes were imposed. The amount of taxes was depended on interest of the people. The tax was not compulsory it was voluntary payment to the government [Dhakal: 2000, p.1].

The government was following a liberal taxation policy. The Royal Palace Central Government and Local administration were entitled to collect the taxes in the country. Introduction of long term tax assessment rates in all parts of the Kingdom was no doubt one of the important contributions of Rana but the policy of the tax collection which they applied ultimately gave the birth of squeezing a higher percentage of the peasants, production even in bad years. In Rana period the major sources of public revenue were exports of forest items, land revenue etc. The service holders were paying "salami" as their remuneration taxes [Bastola].

There was no difference between the income of the state and the income of the then prime minister [Agrawal: 2002, p.117]. The Rana regime was passed without any improvement in the modern sense of income tax system.

2.1.2 Review of Income Tax Acts

The history of modern income tax is not long in Nepal. More than one decade of post Rana period is not mentionable in its history. There were no special laws, acts, regulations, policies and procedures for the income tax imposition in Nepal. The budget introduced in 2008 B.S. stated about the introduction of income tax system in Nepal. However, it was actually introduced only in 2017 B.S. when the Finance Act 2016 and Business Profit and Remuneration Tax Act 2017 were enacted. At the beginning, the Finance Act of 2017 prescribed equivalent tax rates with progression and exemption limit and afterwards to all companies, private firms, individual and families. The marginal rate of taxation prescribed by the Act was 25 percent. Since the income tax was imposed only on income from business profit and remuneration, the Tax Act could not cover all the sources of income and so was replaced by the Income Tax Act 2019 in 2019 B.S. Income Tax Act 2019 with 29 section divided the heads of income into nine parts covering business, profession and occupation, remuneration,

house and land rent, cash or kind investment, agriculture, insurance business, agency business and other sources. The Act was amended in 2029 extensively. However, considering this Act incapable of fulfilling the needs of the time, it was replaced in 2031 by another Act.

As already stated, Income Act 2031 replaced Income Tax Act 2019 in 2031. This Act having 66 sections classified the sources of income into 5 head namely:

- a) Agriculture
- b) Industry, business, profession or vocation
- c) Remuneration
- d) Home and land rent and
- e) Other sources

Income Tax Act 2031 was revised 8 times. Since 19th Chaitra, 2058, Income Tax Act 2058 has been introduced in Nepal. This Act was brought in Nepal to avoid the following defects of Income Tax Act 2031:

1. ITA 2031 had a narrow tax base. Global incomes of residents were not brought into tax net. Only the incomes originated in Nepal was taxed.
2. Income tax related matters were governed by various Acts. Dispersion of tax related Acts had arisen confusion in the effective implementation of the Act.
3. There was no clear provision regarding taxation of capital gain. The Act was also silent with regard to international taxation.
4. The terminology and provisions in the Act were inadequate. Many important provisions required to be in modern taxation system were lacking.
5. The fine and penalty imposed by the Act were very low. As a result, the level of voluntary compliance had decreased substantially.

6. There was a weak mechanism to control the tax avoidance scheme of taxpayers. The taxpayers used to evade tax through transfer pricing splitting of income, etc. The tax office had no true access to information.
7. Tax accounting method was not prescribed in the Act. Despite the provision of self assessment in the Act it had not been implemented properly. The self-assessment was more in name than in practice.
8. The Act had not distinguished civil liabilities of the tax payers from criminal liabilities. The tax authorities were empowered to enjoy the right and power as a court.
9. There were double appeal systems in the Act. The taxpayers were allowed to lodge an objection against assessment with the Revenue Tribunal or the Director General. The Director General was empowered to act as a court and there were complaints regarding decisions in favor of tax officers. There were no provisions for administrative review [Bhattarai & Koirala Page-8].

In 2058, "Income Tax Act 2058" was enacted by replacing the existing Act. This Act is broad as compared to the previous Act. This Act has been made in accordance with global standard. Income tax rule 2059 was framed by HMG to clarify some provisions of the Act. Finance ordinances have been making slight amendments in the Act every year.

The features of new Income Tax Act are as follows:

1. All income tax related matters are confined within the Act by abolishing all related concessions, rebates and exemptions provided by different acts.
2. The Act has broadened the tax base. Unlike the previous Act tax rates are spelled out in the Act. The tax rates and concessions are harmonized on equality grounds.
3. The Act has provided a liberal loss set-off and carry-forward/backward provision. Inter-head adjustment of losses is clearly specified.

4. The Act has introduced a pool system of charging depreciation. Intangible assets are also depreciated.
5. The Act has first introduced taxation of capital gain.
6. The Act has provided a stringent fine and penalty for the defaulters.
7. Global incomes of a resident are made taxable. Non-residents are also taxed on their incomes having source in Nepal.
8. List of expenses are inclusive. All expenses relating to income tax have been made admissible.
9. The Act has made provision of international taxation foreign tax credit has been introduced from the time.
10. The Act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.
11. The Act clearly explained the cash and accrual basis of tax accounting.

2.1.3 Heads of Income

The Act imposes tax on those activities contributing toward the creation of wealth. Wealth is created with the help of labour, capital and capital-labour activities that generate income from employment investment and business respectively. The act has made a broad classification of income encompassing of all income earning activities. They are:

1. Income from employment.
2. Income from business.
3. Income from investment.

2.1.3.1 Income from Employment

An individual's remuneration income is termed, as income from employment (employment income). All payments or benefits received in respect of employment, including past or future employment are made taxable. For example, salaries, wages, payments relating to terms of employment, fringe benefits, various types of allowances, payments received through third parties, etc. are included in employment income.

2.1.3.2 Income from Business

Profit and gain from conducting the business are considered as business income for the purpose of income tax. This type of income may include service fees, amount received from the disposal of trading stocks, net gain from disposal of business assets (liabilities), gifts relating to business and other amounts.

2.1.3.3 Income from Investment

Profit and gains from conducting an investment are considered as investment income. All types of investment incomes including dividend, interest, natural resource payment, rent, royalty gain from investment insurance, gain from unapproved retirement fund, retirement payment made by an approved retirement fund are included in investment income.

Remuneration means amount given for providing services. In case of remuneration, there uses to be one person getting services and other person providing services. The person getting service is called employer and the person providing service is employee. Certain conditions that are required to come under remuneration are:

- a) There should be employer-employee relationship between two persons.
- b) The amount paid should be of regular nature.
- c) The person getting remuneration should be natural person.
- d) The person getting remuneration should work as per the direction of the employer [Dr. Puspa Raj Kandel, Tax Laws & Tax Planning in Nepal, Second Edition, Buddha Academic Enterprises Pvt. Ltd. Page-(37-38)]

There are three principal ways of generating income using labour, capital or a combination of both. The income earned with the help of labour is defined as an employment income. In other words, the payment of benefit

received either in cash or kind from the employer or his associate in exchange of labour is defined as employment income (or remuneration). Two parties involved in the employment are employee and employer. An employer is a person who gets two services (i.e. labour) from the employee against consideration payments. An employee, on the other hand, is a person who provides the services to the employer to get certain amounts or benefits.

Some requiring considerations while computing employment income are:

a) Employee-employer relationship:

In order to include an amount under employment income, there must be an employee-employer relationship between the assess and the person making employment. In other words, there must be a master-servant relationship between employer and employee.

b) Income received by third parties on behalf of employer:

Any income received from third party on behalf of employer is also considered as employment income. However, the amounts received which are entirely different from those that are sent provided regularly or those that are not as per the terms and conditions of the service are not considered as employment income. Income Tax Act 2058 has stated that in order to include an amount under employment income, the amount should be paid by employer, or an associate of the employer or a third person under an arrangement with the employer or an associate of the employer. So, the income received from person other than employer (except above case) is not considered as employment income.

c) Remuneration and profession:

Remuneration and profession are conceptually different. In remuneration, the master (employer) can order his servant, (employee) how it should be done. While in profession, the master can require only what is to be done. The basic distinction between remuneration and profession lies in the distinction between a contract of service and contract for service. Contract

of service is remuneration while contract for service is profession. In remuneration, there is a master-servant relationship while in profession the person carries out activities independently [Taxation in Nepal, Ishowar Bhattarai & Girija Prasad Koirala, Page = 61-62 = Asmita Books Publishers & Distributors].

2.1.4 Meaning and Nature of Employment Income

In general terms, the act of performing a certain job for the person who appoints one for job in consideration of a regular payment is called an employment. That is why, the income from an employment can be generated only when a relation of employer and employee or master and servant has been established between a payer and a payee. Whatever the employee derives from the employment in the shape of a regular salary, allowance, overtime payment, bonus etc. is included in the income from employment. Generally, an employment is known as a long-term employment but in legal term an employment last for a short period and may also be a part-time one. An individual may have more than one employment on a day.

The employer may be any person like an individual (a proprietorship) an entity HMG a local body of the HMG an institution an organization, a foreigner, etc. but the employee is always an individual (a natural person). The employee must be present physically at the place of work to perform his or her duties. The employee is awarded on the basis of his/her ability education, experience, honesty, behaviour etc. and so a proxy is nowhere allowed to work a behalf of the employee.

A written appointment letter does not always qualify an individual to be an employee but an oral appointment or even the behaviour of the employer and employee is sufficient to treat the individual as an employee.

Whatever the employee receives from the present, past or prospective employer in consideration of the work he/she performed or for the work to be performed by him/her, is said to be the income of the employee from the employment.

In this case, a payment includes:

1. A payment made by the employer.
2. A payment made by an associate of the employer or
3. A payment made by a third party under an arrangement with the employer or an associate of the employer [Agrawal, Jagdish: 2004]

2.1.5 Review of Income Tax Act, 1961 of India

The term “Salary” has been defined differently for different purposes in the Income-tax Act. The definition as to what constitutes salary is wide. It is an inclusive definition and includes monetary as well as non-monetary items.

'Salary' under section 17(1), includes the following:

1. Wages,
2. Any annuity or pension,
3. Any gratuity,
4. Any fees, commission, perquisite or profit in live of or in addition to any salary or wages,
5. Any advance of salary,
6. Any payment received in respect of any period of leave not availed by him,
7. The portion of the annual accretion in any previous year to the balance at the balance at the credit of an employee participating in a recognized Provident Fund to the extent it is taxable and
8. Transferred balance in recognized PF to the extent it is taxable,
9. The contribution made by central government in the previous year, to the account of an employee under a pension scheme referred to in section 80.

Tax-free perquisites [for all employees]

The following perquisites shall be tax-free in the hands of all employees of India:

1. Medical facilities: the value of any medical treatment provided to an employee or any member of his family in a hospital dispensary or a nursing home maintained by the employer.
2. Medical reimbursement: any sum paid by the employer in respect of any expenditure incurred by the employee on his medical treatment or treatment of any member of his family subject to maximum of Rs. 15,000 in the previous year.
3. Refreshments: any refreshment provided to the employees during office house at the place of work.
4. Subsidised lunch or dinner provided by the employer: when lunch or dinner is provided at subsidised rates i.e. the employer charges some amount for the lunch or dinner then only it is tax-free perquisite.
5. Recreational facilities: any recreational facility provided to a group of employees by the employer is not taxable.
6. Telephone bills: telephone bills of the telephone installed at the residence of the employee, if paid/reimbursed by the employer, is not a taxable perquisite even if such telephone is used for official as well as personal benefit of the employee.
7. Goods sold by the employer at a concessional rate to his employees: when the employer sells the goods being manufactured by him to his employees at concessional rates, it is not a taxable perquisite e.g. a company manufacturing fans, sells the fans to its employees at concessional rates, the concession given to the employees shall not be taxable. However, if the employer sells other goods to the employees at a value lower than the market value of the goods, the benefit given to the employee is taxable.
8. Loans to employees: if the employer gives a loan to an employee either without interest or at a concessional rate of interest for construction

purchases of a house or for a conveyance, then the benefit of interest availed of by the employee would not be taxable.

9. Transportation facilities: if an employer, engaged in the business of transport, provides transport facilities to its employees and his family members either free of cost or at concessional rate then it would not be a taxable perquisite. For example, free passes provided by the Indian Railways to its employees are not taxable in the hands of the employees.
10. Perquisites provided outside India: perquisites provided by the government to its employees who are citizens of India for rendering services outside India are not taxable.
11. Training of employee: any expenditure incurred by the employer, for providing training to the employees or by way of payment of fees of refresher courses attended by the employee, would not be taxable because these enable the employees to perform their services more efficiently.
12. Rent-free house: rent-free official residence and conveyance facilities provided to a judge of a High Court/Supreme Court is not a taxable perquisite.
13. Employer's contribution: Employer's contribution to pension, deferred annuity scheme and staff group insurance scheme of employees is not a taxable perquisite in the hands of employees.

2.1.6 Review of Income Tax Act, 2031

Section 8 of the Income Tax Act-2031 had defined the types of payments made by an employer to the employee that were taken as the remuneration. The incomes of a person included within the head of remuneration were in cash or in kind salary special salary, allowance, special allowance, salary in lieu of leave, commission, fee, charge, bonus and other perquisites. Besides, the amount given by an employer to spend but not spent if the amount was more than 50 percent of the employee's salary and the amount paid by the employer for which the liability was on employee. The law did not include foreign allowance, medical expenses, daily or traveling

allowance, remote allowance, causal expenses, amount received in the form of reimbursement within taxable remuneration. Furthermore, Income Tax Act 2031 did not include in remuneration income the gratuity and pension, income from modal, Dashain expenses equivalent to one month's salary, amount received telephone facilities given by the organization contribution to provident fund and contribution to citizen investment fund. Facilities other than salaries were not taxable in case of minister, state minister and assistant minister of HMG/N.

2.1.7 Review of Income from Employment under ITA, 2058 (2002)

In pursuant to section 2 (aj) of Income Tax Act 2002, employment includes a past, present or prospective employment. Thus, employment means employment that was done in past, is being done at present or will be done in future. Employment is an activity of deriving income with the use of labour or capacity by a natural person. The employer-employee relationship is a must for the existence of employment.

Employment income means remuneration and fringe benefits derived by an employee or prospective employee on receipt (cash) basis in an income year. Employment income includes salary, wage, leave pay, bonus, commission, emolument, specified allowance, additional facility, retirement fund contribution, fringe benefit, gift, prize, perquisite and compensation received by an employee from an employer.

In Nepal, employment incomes are mentioned in sections 8,27,29 and 31 of Income Tax Act, 2002. As per these sections, employment incomes include salaries, wages personal allowances, remote area allowance (subject to reduction of Rs. 6000 to Rs. 30000 from taxable income), foreign allowance (subject to reduction of 75% of foreign allowance from taxable income since the income year 2061/2062 only), pension income (subject to reduction of 25% of statutory exemption limit Rs. 80000 or Rs. 100000

from taxable income for the income years 2060/2061 and 2061/2062 & 100000 & 125000 in income year 2062/2063), bonus, commission, leave pay (salary in lieu of leave), gift, prize, facility, reimbursement of personal and domestic expenses, amount received for accepting any condition or restriction of employer, employer's contribution to approved/unapproved retirement fund, retirement payment by employer, transfer of asset, motor vehicle facility (taxable upto 0.5% of annual salary), house facility/rent-free accommodation (taxable upto 2% of annual salary), concession interest on soft loan, indirect payment benefit, insurance compensation and other remuneration-related incomes.

In the broad concept, employment income includes the following amounts.

- a. Salary, wage, salary in lieu of leave (leave pay), overtime pay, fee, commission, prize, gift, bonus, Dashain expense, Tihar expense, telephone charge, transportation fare, water charge and other facility payment (section 8).
- b. Dearness allowance, subsistence allowance (cost of living allowance), house rent allowance, entertainment allowance, conveyance allowance, remote area allowance (subject to reduction of Rs.6000 to Rs.30000 from taxable income), foreign allowance (subject to reduction of 75% of foreign allowance from taxable income since the income year 2061/2062 and other personal allowances.
- c. Payment for clearance or reimbursement relating to personal, private, domestic, household, or family expenses of the employee.
- d. Payment for accepting any agreement, condition or restriction in respect of employment. For instance, amount received on the terms and conditions of not working in any other office.
- e. Payment for the discharge, redundancy, loss, termination or compulsory retirement of employment. For example, compensation, pension (subject to reduction of 25% of exemption limit Rs.100000 = Rs.25000 for a resident

individual or 25% of exemption limit Rs.125000 = Rs.31250 for a resident couple from taxable income for the income years 2062/063).

- f. Employer's contribution amount in recognized/unrecognized retirement fund for the employee or retirement payment by the employer to the employee.
- g. Amount equivalent to market value of an asset which is transferred by the employer to the employee in the case of asset transfer (Section 27).
- h. Fringe benefit for motor vehicle facility (along with driver's salary, fuel expenses and maintenance/repair costs) provided by the employer for full or partial purpose of:
 - I. A salaried staff receiving salary on monthly basis:- 0.5% of annual salary and
 - II. An un-salaried person not receiving monthly salary:- 1% of prevailing market value of motor vehicle.
- i. Fringe benefit for house facility or rent-free accommodation provided by the employer to the employee:- 2% of annual salary.
- j. Fringe benefit for excess amount contributed(paid) by the employer in respect of following expenses: (Employee's income = Employer's contribution-Employee's contribution from salary)
 - I. Service of housekeeper, cook, chauffeur (personal driver), gardener and other domestic assistants of the employee,
 - II. Meal (Food), refreshment or entertainment expenses or
 - III. Charges of drinking water, electricity, telephone or other services installed in the employee's residence.
- k. Balance/Difference interest (Remaining balance) amount if the actual interest payment is less than the prevailing interest to be paid on soft loan (concession loan) taken from the employer. It means Employee's income = Prevailing interest to be paid – Actual interest paid.
- l. Amount equivalent to benefit in case of payment received by a third party or an associated person/relative on behalf of the employee from the employer.

- m. Benefit amount derived by the employee from indirect payment (Section 29).
- n. Compensation received by the employee from insurance contract or other contract (Section 31).
- o. Any other income derived or to be derived by the employee in respect of employment.

The total amount of above-mentioned incomes is known as Assessable Income from Employment.

2.1.8 Non-chargeable Incomes under Employment

In Nepal, the following amounts are not included in employment income of an employee during an income year. In other words, such amounts are excluded while calculating the employee's income from employment in any income year.

- a. Tax-exempt amounts (Tax-free incomes) as per sections 8.3a and 10.
- b. Final withholding payments (incomes) under section 8.3a and 92.
- c. Meals and refreshments provided by the employer to all employees on similar terms in the workplace (office, factory) as per section 8.3b.
- d. Amount paid (received) for clearance or re-imburement of expenses (TEDA, Office expenses, etc.) directly related to the business purpose and admissible expenditure of the employer under section 8.3c.
- e. Payment of petty/small expenses (upto Rs.500 at one time) which are not practicable and administratively difficult to record in accounts under sections 8.3d, 21 (clarification a2c) and rule 6. For instance, tea, refreshment, stationary, tip, gift, emergency medical expenses and similar small payments at a time.

2.1.9 Common Reductions

An employee is not entitled to deduct any expenses from the employment income in any income year. However, as per sections 63 and 12, contributions to approved retirement funds and approved donations (gifts)

are allowed for reduction from the assessable employment income (total amount of remuneration income from employment) of the employee. The balance amount is termed as taxable income from employment of the employee.

- a. Contributions to approved (recognised) retirement funds (Provident Fund, Citizen Investment Trust and Gratuity Fund):-

In pursuant to Section 63 and Rule 21, an employee is entitled to reduce one-third of assessable employment income or Rs.300000 or actual contribution amount, whichever is less from the assessable employment income. In pursuance of the prevailing rule, both the employer and employee contribute 10% of annual salary to the approved provident fund. However, the employee alone can contribute 5%, 10% of annual salary or upto limit amount in the Citizen Investment Trust. It is also noted that any contribution to un-approved (un-recognised) provident fund is not eligible for reduction from assessable employment income while computing taxable income of an employee.

- b. Donation or Gift to approved tax-exempt organization (Section 12)

S.N.	Tax-exempt organization	Eligible donation amount (Limit)
1	Specified tax-exempt organization as per notice in Nepal Gazette by Government of Nepal	Full or Partial Amount
2	Other approved tax-exempt organization (Education, professional, social, religious, cultural, health, red cross, human welfare, scouts, sports and charitable institution)	5% of adjusted taxable income before deducting donation or Rs.100000 (maximum limit) or actual donation amount, whichever is less.

According to the prevailing income tax law, an employee-taxpayer is not entitled to reduce from taxable income any donation amount given to any political party.

2.1.10 Income Tax Exemptions

By "exemptions" we mean amounts which are allowed for reduction from taxable income of a taxpayer. As per Schedule 1 of ITA 2002 (2058), given below are the exemptions for and from the IY 2062/2063 [2063/2064].

- a. Statutory Exemption Limit:- Rs.100,000 for a resident individual and Rs.125,000 for a resident couple.
- b. Remote Area Allowance (Relief) as an additional exemption:- Rs.30,000, Rs.24,000, Rs.18,000, Rs.12,000 and Rs.6,000 to all natural persons (individuals and couples) having income from employment, business or investment and residing in A, B, C, D and E class districts (areas) as prescribed by His Majesty's Government of Nepal.
- c. Additional exemption for foreign allowance:- 75% of foreign allowance is exempted to the Nepalese Nationals (employees) employed (posted) in the Royal Nepalese Embassies and His Majesty Government's offices in the foreign countries. It means that only 25% of foreign allowance is taxable in Nepal. This provision is effective from the IY 2061/2062 [AY 2062/2063] only.
- d. Additional exemption for pension income:- A retired resident Nepalese natural person having pension income is entitled to an additional exemption @ 25% of statutory exemption limit (Rs.100,000 or Rs.125,000). It means that a resident individual can enjoy Rs.25,000 (25% of Rs.100,000) from taxable income and a resident couple can enjoy Rs.31,250 (25% of Rs.125,000) from taxable income thus, the total exemption limit would be Rs.125,000 for a retired resident individual taxpayer and Rs.156,250 for a retired resident couple taxpayer in the income years 2062/063.
- e. Additional exemption for Life Assurance Premium (Investment Insurance Premium):- with effective from the income year 2060/061, a resident natural person is allowed to reduce the life insurance premium upto 7% of assured policy amount or Rs.10,000 (maximum limit) or actual assurance premium paid, whichever is less.

2.1.11 Assessment of Income Tax Liability on Employment Income

In pursuant to Schedule 1 of ITA 2002, a resident employee-taxpayer is required to assess the income tax liability after reducing statutory exemption limit, remote area allowance exemption, foreign allowance exemption, pension exemption and life assurance premium from her/his taxable income in any income year.

A resident natural person is subject to capital gain tax @ 10% on net gain from disposal of non-business chargeable assets (NBCA: share, securities, land & building).

A non-resident natural person is subject to income tax liability at a flat rate of 25% of taxable income and surcharge @ 1.5 % of Taxable income in an income year.

2.1.12 Tax Credits

Tax credit means the amount which can be deducted (reduced) from income tax liability of a person. Such as advance tax paid, medical costs incurred and foreign income tax paid.

- a. Advance tax credit:- last year's excess tax payment carried forward in current year, tax deducted at source (TDS) or non-final tax withholding (sections 87, 88, 90 & 91) and income tax paid on installment system (section 94) only in case of a person having assessable income from business or investment).
- b. Medical tax credit:- as per section 51 and rule 17, all resident natural persons having employment, business or investment income are allowed to reduce 15% of approved medical costs (except cosmetic surgery) plus unabsorbed medical expenses carried forward from the preceding year or Rs.750, whichever is less as medical tax credit from total tax liability in an income year. The annual tax relief upto Rs.750 is equivalent to the

reduction upto Rs.5000 from taxable income of a taxpayer. The excess medical tax credit over Rs.750 can be carried forward to the next income years. (It is also noted that approved medical costs refer to health insurance premium and other medical treatment expenses borne by the employee and employer or by other person on behalf of the employer for the employee.)

- c. Foreign tax credit:- according to section 71, all natural persons and legal persons (entities) having foreign source income (from employment, business or investment) are allowed to deduct the income tax paid in a foreign country as foreign tax credit from the total tax liability due in each (particular) country in an income year. Country-wise income tax payment should be reduced from county-wise tax liability. However, the foreign tax credit amount should not exceed the average income tax rate of Nepal. In other words, it should be upto Nepalese income tax rate (amount) only. In stead of foreign tax credit, the taxpayer can deduct income tax paid in foreign country from foreign source taxable income.

2.1.13 Surcharge/Additional Income Tax (Previously Special Fee)

With effective from 1st Shrawan 2062 (income year 2062/063), the Surcharge or Additional Income Tax (in place of special fee) has been imposed @ of 1.5 % of taxable income. However, an employee-taxpayer having taxable employment income subject to 15% tax rate only is not required to pay the Surcharge. It means that an employee-taxpayer is subject to pay the Surcharge on the taxable income where 25% tax rate is also applicable.

2.1.14 Specimen

Computation of Assessable Income from Employment as per Income Tax Act 2058

Particulars	Rs	Rs
Salary & wages (8.2)	----	
Leave pay (8.2)	----	
Pay for overtime (8.2)	----	
Fees (8.2)	----	
Prizes & gifts related to employment (8.2)	----	
Bonus (8.2)	----	
Other facilities (8.2)	----	
Commission (8.2)	----	
Dearness allowance (8.2)	----	
Cost of living subsistence (8.2)	----	
Rent (8.2)	----	
Entertainment & transportation allowance (8.2)	----	
Other personal allowances (8.2)	----	
Reimbursement of personal expenses (8.2)	----	
Payment for the individual's (8.2)	----	
Agreement to any condition (8.2)	----	
Regarding (8.2)	----	
Other payments made in respect of employment payment (8.2)	----	
Redundancy or loss related payment (8.2)	----	
Retirement payments & contribution to retirement fund (8.2)	----	
Amount of vehicle facility (27.1)	----	
Amount of services of house keeper, gardener or other domestic assistant (27.1)	----	
Any meal, refreshment on entertainment provided by employer (27.1)	----	
Amount of services related to drinking water, electricity telephones and the like utilities in respect of the payees (27.1)	----	
Under paid interest by employee to employer for the loan taken by the employees (27.1)	----	
Other amount to be included assessable income from employment.	----	
Assessable Income from employment		-----

Statement of Total Taxable Income

Particulars	Rs	Rs
Assessable income from employment	----	
Assessable income from business (if any)	----	
Assessable income from investment (if any)	----	
Total assessable income		-----
Less: Reductions		
a. Retirement contribution (section-63)	----	
b. Donation (section-12)	----	
Total taxable income		-----

Calculation of Income Tax Liability

Particulars	Rs	Rs
First Rs.100000 (individual) or Rs.125000 (Couple)	Nil	
Next Rs.75000 @ 15%	----	
Balance Rs. @ 25%	----	
Add: surcharge @ 1.5 % of Taxable Income excluding Rs.75000	----	
Total Tax Liability		-----
Less:		
Advance tax paid	----	
Medical tax credit	----	
Tax payable		-----

2.2 Review of Thesis Reports, Books & Articles

Many researches and studies can be found that have been conducted regarding to income tax. However, direct comparison of employment tax towards national revenue has been written by a student of Shankar Dev Campus. So, the revision of thesis or dissertation relating to the topic was not feasible. However the study has made review a brief of thesis or

dissertation and some books written at different times and available at Central Library, Nepal Commerce Campus, Shankar Dev Campus and market:-

1. In the year 1965, Mr. Kedar Bahadur Amatya published a book, "Nepal Ma Aayakar Ko Bebastha." He had first explained the description and the legal aspects of the income tax system of that period (Amatya-2022 B.S.).
2. Mr. George E. Lent in 1968 had presented a report to IMF. He had critically analysed the income tax rate structure for individual and company. He had suggested that increment in personal income tax rate at lower taxable income and reduction of rate at intermediate income bracket are desirable. He had not gone through other aspects of income tax.
3. In their books published by Nirmal Bhattarai and Ratna Shrestha in 1976, information about the legal aspects of income taxation in Nepal of that period is given. This book is theoretically based rather than analytical (Bhattarai & Shrestha-1976).

The three researchers Mr. Bhavani Dhungana, Mr. Narendra Lal Kayastha and Mr. Bal Prasad Rai had given the tax structure of Nepal in their report presented in 1976. Their report had examined the problems and possibility of mobilizing additional resources and had also provided some recommendations for the reform of income tax. They have not studied other aspects.

In 1974, Mr. Narendra Lal Kayastha presented a dissertation named "Taxation of Income and Property in Nepal." He had tried to analyse income tax and property in overall revenue generation of Nepal. He had pointed out various drawbacks of income tax system and suggested measures to remove them. He had mentioned the major problems of

income tax system of Nepal are income tax evasion at high level and greater role of indirect tax in tax revenue.

In 1978, Mr. Kedar Bilas Pandey presented his dissertation on "An Analysis of Income Tax in Nepal." In his study, he had shown the role of direct tax in total revenue and tax revenue, dominant role of indirect tax in Nepalese tax system and the role of income tax to control the inflationary trend of the country. Also he had discussed the legal aspect, role and problems of income tax, structure and economic effect of income tax in Nepal, mode of mobilizing additional resources from income tax.

In 1978, Dr. Govind Ram Agrawal presented a nine chaptered research report. The picture of resource gap in Nepalese finance had been indicated in the first chapter of report. The main reason for this resource gap had been the lop-sided growth of government expenditure as compared to revenue generation from domestic sources. He had also discussed about the historical background of income tax, legal and administrative aspects, and role of income tax in Nepal. He had also calculated the elasticity and buoyancy of major Nepalese taxes using the double log linear model. Projection of income tax and resource gap had been made using similar linear model.

In 1981, Miss Rojalin Singh Suwal presented a dissertation entitled "Income Tax System in Nepal." She had studied the problem and the importance of income tax in solving financial resource gap problem in Nepal. She had also shown the rate and per capita burden of income tax in Nepal. She had shown the trend of income tax and effect of income tax on production in Nepal. Her conclusion was that: income tax is an important source of revenue to mobilize additional resources for planned development moreover from the social point of view. Income tax is regarded as an instrument for equal distribution of income. With a further improvement in tax administration, in future years, an increase of more

than 25 percentages is expected to be collected every year. The major problems in income tax collection as identified by her were: the absence of clear and comprehensive definition of income, low tax paying capacity and tax consciousness, high tax rates, corruption etc. She had suggested some factors like increasing tax consciousness to the taxpayers, clear and comprehensive definition of the incomes for improvements to HMG regarding income tax and tax administration for the collection of income tax in Nepal.

In 1983, Miss Naina Nepal presented her Master's Level dissertation on "A Study of Problems and Prospects of Income Tax in Nepal." She had emphasized on fiscal system of Nepal, origin, meaning, existing position, role, position, problems and future prospects of income tax in Nepal. She had pointed out some problems of existing Nepalese income tax system as inefficient income tax administration, mass poverty, lack of tax consciousness, low number of taxpayers, narrow coverage, assessment deficiency etc. She had suggested for effective tax administration, widening the tax coverage etc. for solving the problems so as to utilize resources efficiently.

In 1984, Dr. Govind Ram Agrawal has presented a report to Ministry of Finance entitled "Direct Tax Reforms in Nepal." In his report, he had shown resource gap in Nepal was in its increasing trend. So, the dependency on foreign aid was increasing. He had shown an urgent need to mobilize additional resources from domestic resources. He had shown that the growth rate of direct taxes had been lower than the growth rate of total revenue as well as total taxes. Registration fees have the maximum buoyancy whereas income tax has the lowest buoyancy; urban property tax has been found to be most elastic. He had strongly recommended a Revenue Service. Political and other pressures should not be subjected to tax administration. Self-assessment should be encouraged. Assessment of small taxpayers should be on a door to door basis. Capital gains should be

included in income for income tax purpose. Most of the suggestions recommended by him had been adopted in the new act.

In 1984, Miss Roshani Shrestha wrote a dissertation entitled "Income Tax in Nepal." She had described the historical background of income tax in Nepal and the role of income tax in Nepalese taxes structure. She had studied the problems of income tax in Nepal. She had found that revenue from the income tax is small due to tax evasion, which shows that income tax policy is not well operated and the collective revenue is low. To increase the revenue from taxation, per capita income should first be increased. Growing per capita, real income provides a handed to collect larger tax revenue. To increase income tax revenue, there must be efficient administration. She had suggested that the practice of tax evasion must be checked if the taxes are to contribute to the economic growth of Nepal.

In 1985, Mr. Roshan Shrestha presented a Master's level dissertation entitled "Income Taxation in Nepal: A Study of its Structure and Productivity." He had concentrated his dissertation mainly on the analysis of the structure of income tax and its responsiveness and productivity with respect to GDP and its components. He had found that income tax has been contributing significantly in direct taxes. He had shown the constraints of resource gap in Nepalese finance is serious. According to him, Nepal's tax effort ratio was still very low in comparison to other developing countries. Individual taxpayers contributed about two-third of total income tax revenue. He had suggested that an effort should be initiated by the government to control evasion and tax avoidance.

In 1986, Mr. Shambhu Nath Regmi wrote a dissertation entitled "The Role of Income Tax in Nepal." He had discussed the trend and contribution of income tax in the developmental efforts of Nepalese government. He had suggested checking income tax evasion because it has been a great problem in income tax collection of Nepal. According to him, if the income tax

evasion was checked properly, income tax can contribute significantly to the economic growth of Nepal.

In 1987, Mr. Prem Prasad Timsina wrote a thesis entitled "Income Tax Evasion in Nepal." The objectives of his study were: to analyse the structure of income tax in Nepal, to study the role of income tax in mobilizing resources in Nepal, to examine income tax evasion tendency in Nepal, to observe the general opinion about income tax evasion in Nepal, to estimate the volume of income tax evasion in Nepal and to draw suggestions for the elimination of income tax evasion in Nepal. He had shown serious problem of financial resource gap in Nepalese economy. He had stated that income tax evasion tendency by remuneration taxpayers are increasing in Nepal. He had pointed out different causes of income tax evasion in Nepal namely-widespread illegal business, high corruption, poor tax paying habit, inefficient tax administration, open border with India and political indiscipline in Nepal. He had also mentioned different methods of income tax evasion in Nepal viz-non reporting of income from illegal business, non maintenance of accounts, failure to submit income statements, none reporting of family member's incomes, under-reporting of income from different sources (TDS). He had concluded that income tax evasion is in decreasing trend in Nepal. But due to lack of authentic data, he was unable to prove it statistically.

In 1989, Miss Shanti Baral presented a dissertation entitled "Income Tax in Tax Structure of Nepal." She had shown the contribution of income tax in tax revenue and total revenue of Nepal. She had shown that the contribution of direct tax has been decreasing and indirect tax has been increasing. Also, she had stated the problems of raising government revenue. Nepalese people's tendency to evade tax had been the main reason of least contribution of direct tax. She had found lack of clear and comprehensive definition of income, lack of punishment to tax evaders, lack of tax consciousness, lack of efficient tax administration, lack of

public information and lack of scientific method of tax collection and trained tax collectors as main causes of income tax evasion.

In 1990 A.D., Mr. Santosh Raj Poudyal and Prem Prasad Timsina wrote a book "Income Tax in Nepal." This book was based on the Income Tax Act, 2031. They had given a detailed computation of income from various sources. They had also described other theoretical aspects of income taxation. This book was mainly written for the course requirement of Bachelor's level in management. The book was not relevant today, as the Act has been changed. But some description and historical aspects can be drawn for the study.

In 1993, Mr. Ram Bahadur Thapa presented his dissertation entitled "Income Tax Assessment Procedure in Nepal: An Analytical Study." In his study, he had analysed income tax in its historical perspective, examined the contribution of income tax to the national exchequer and reviewed the legal provisions relating to income tax assessment procedure prevailing in SAARC countries. He had shown the high degree of corruption was in practice of income tax administration of Nepal. Nepalese taxpayers are facing various difficulties in paying income tax. Due to lack of professional skill, tax administration was not efficient and there is a widespread income tax evasion in Nepal.

In 1993, Mr. Narendra Lal Kayastha wrote an article in "Rajaswa" entitled "Problems and Prospects of Resource Mobilization through Direct Taxation in Nepal." In his article, he had shown that Nepalese tax structure had heavily relied upon indirect taxes and non-tax revenues. With the growth in comparison to the share of direct taxes was expected to grow in comparison to other taxes but the trends in Nepal was still not encouraging. He had stated that there was utmost need for certain tax measures and widening of the tax bases.

He had mentioned that revenue administration is very urgent to widen the tax base. He had pointed out the following factors responsible for weak revenue administration in Nepal:

1. Lack of tax policies with a clear direction and consistency in a long run perspective.
2. Lack of information and records.
3. Lack of trained staff and heavy dependence on non-technical staff.
4. Lack of proper accounting and auditing system in general for business firms.
5. Lack of monitoring and prevalence of large informal sector both in industry and trade.

The tax collection process suffered from leakages and loopholes also because of discretionary powers with authorities on the one hand and low salary structure of the government as against the high social obligation and a high cost of livings. In order to make the revenue administration more effective, the formation of separate "Revenue Group" was a commendable beginning. As per him, drastic reforms in tax rates, rules and the regulations in the annual budget along with the above suggestions may help to increase the domestic resource mobilization through taxation in Nepal.

In 1994, Mr. Sanjaya Acharya in his dissertation entitled "Income Taxation in Nepal: A Study of its Structure, Productivity and Problems" had assessed the existing problems and future prospects of income taxation in Nepal. He had also analysed the structure of Nepalese income tax and examined the productivity of income tax revenue in Nepal. He had shown that the contribution of individual in total income tax revenue has the greatest share, central level tax administration seems to be very inefficient.

He had recommended for the transfer of employees of tax offices in every two or three years of interval in order to check the unofficial linkages between them and the taxpayers, social status of income taxpayers should be higher than non-payers etc.

In 1994, Mr. Hari Bahadur Bhandari wrote a dissertation entitled "Contribution of Income Tax to Economic Development of Nepal." In his dissertation, he had examined the collection of income tax and its contribution to the economic development of Nepal. He had stated that the actual revenue collection in Nepal was lower than the targets set out. For this, he has pointed out some responsible factors like poor tax paying habit of Nepalese taxpayers, poor tax administrative system, widespread income tax evasion etc. He had also studied the income tax structure, trend of income tax collection and the share of contribution of income tax to the development of Nepalese economy. He had put forward some suggestions to overcome those problems such as improving tax administration system, checking income tax evasion etc.

In 1995, Krishna Kumar Shakya presented a dissertation entitled, "Income Tax in Tax Structure of Nepal." In his study, he had endeavored to examine the pattern of existing income tax structure of Nepal with view on its collection, mobilization in development perspective. He had pointed out some factors responsible for limiting Nepal's taxable capacity. They are low per capita income, extensive subsistence economy, relatively closed economy, political and social factors; weak export position, administrative and enforcement problems of tax etc. He had suggested for honest and efficient administration, punishment to tax evaders, scientific method of taxation, and assessment of small taxpayers on door to door basis and encouragement of self-assessment tax system.

In 1995, Mr. Balanda Poudel made a study on Nepalese tax structure in his dissertation entitled, "A study of Nepalese Tax Structure." He had made a

review of revenue structure of HMG/N, analysed revenue generation from individual taxes, analysed the relationship of direct and indirect taxes with total revenue and GDP and assessed various weaknesses and problems of present tax system and put forward suitable recommendation to solve them. He had suggested that the tax system will be successful and effective with the political support, administrative efficiency and people's confidence. Given these conditions, the measures to be taken and the policy to be adopted should be such that could generate more revenue for our economic development.

In 1995, Mr. Shiva Narayan Shahu Presented a Master's level dissertation entitled, "Contribution of Income Tax in National Revenue of Nepal." His study had focused on the role and contribution of income tax in the economic development of Nepal. He had found that very insignificant percentage i.e. 0.35 percentage of the population of Nepal fall in income tax bracket. He had shown that income tax occupies the fourth rank in the revenue composition of Nepal. Indirect taxes like customs, excise and sales tax occupied first, second and third rank respectively.

In 1996, Mr. Parameshwor Pant presented his Master's level dissertation entitled, "A Study on Income Tax Management in Nepal." He had identified various problems of income tax management in Nepal and among them lack of managerial efficiency is the main problem. Lack of effective personnel management, poor reward and punishment system, weak income tax assessment procedure, poor tax information system, lack of taxpayers education, very narrow coverage of income tax were the other problems of income tax management in Nepal identified by him.

In 1996, Mr. Dayaraj Tripathi in his dissertation entitled, "Application of Best Judgment in Income Tax Assessment with reference to Income Tax Act, 1974 had shown the role of best judgment in income tax assessment. He had described the existing provision of best judgment in ITA, 1974 and

suggested best judgment assessment especially when taxpayer does not maintain regular accounts and if he submits false particulars. Many cases that had been filed in Supreme Court regarding income tax assessment were concerned with best judgment assessment. It was a source of corruption, as the officials do possess many discretionary powers to assess the tax. He had suggested implementing VAT system effectively so that the best judgment assessment will be minimized and there was less possibility of tax evasion.

In 1996, Mr. Shree Krishna Kharel presented a dissertation entitled, "Self Assessment under Income Tax Act in Nepal." In his work, he had made a review of tax laws about self-assessment, analysed the problems faced by the assessee while doing the self-assessment of their own income and made relevant recommendation to reform income tax laws as well as administration in future. He had concluded that self-assessment of tax is a suitable means of raising domestic resources and it would be effective if taken seriously. He had further expressed that the effectiveness of self-assessment of tax depended upon its appropriate reformation.

In 2001, Miss Bibha Pradhan wrote a thesis entitled, "Contribution of Income Tax from Public Enterprises to Public Revenue of Nepal with reference to Nepal Telecommunication Corporation." She had analysed the contribution of income tax from public enterprises to public revenue of Nepal, examined the revenue collection from public enterprises, shown the contribution of income tax in total tax and total income tax revenue of Nepal, and analysed the effectiveness of income tax revenue collection from NTC. She had also recommended possible measures to increase the present status. She had found that the contribution of income tax from PEs in Nepal is not satisfactory due to poor achievement, weaknesses in government's economic policy and deficiency in legislation. Existing corporate tax rate was found suitable. Self-assessment of tax was more appropriate. Public enterprises remained in the second place on total

income tax revenue. Out of PEs, NTC was contributing effectively to total income tax revenue of Nepal. NTCs contribution to total corporate income tax is high. She found that the average share of NTC on corporate income tax was 35.76 during ten years period i.e. from fiscal year 1989/90 to 1998/99. She had recommended possible measures to overcome the existing problems. Staff should be taught discipline and be motivated. Management should have the feeling to contribute to the state etc.

In 2001, Miss Binita Shrestha wrote a thesis on, "Revenue Collection from Income Tax in Nepal, Problems and Prospects." She had analysed the effectiveness of income tax collection policy, examined the problems of revenue collection from income tax and recommended measures for improvement of income tax law and management in Nepal. She had found that the level of income tax collection had been rising. Income tax system of Nepal was suffering from various problems such as narrow tax coverage, mass poverty of Nepalese people, lack of conscious taxpayers, inefficient tax administration, instability in government policy etc.

In 2001, Mr. Satyendra Timilsina wrote a thesis entitled, "Personal Income Taxation in Nepali: A Study of Exemptions and Deductions." He had analysed the existing system of tax exemption and the deductions and given suggestions to improve the tax system so that the government can collect more revenue and use it in the process of national development. He had measured the extent of exemption limit provided to the individual and the family and examined its appropriateness to its subsistence requirements and analysed the existing nature of standard deductions. He suggested the following:

1. Standard deductions should be reintroduced.
2. Exemption should be provided to the couple/family considering the dependents

3. Income tax revenue and personal income tax revenue is increasing every year.
4. A minimum of Rs. 90,000 exemption should be provided in the assumption that the employment income of a section officer in a government institution should not be taxed.
5. Morale of the tax officials should be increased.

He had stated that exemption limit should be provided by considering the general expenses of two dependent children and the dependent parents for the year. Income from agriculture above some exemption limit must be taxed. The exemption limit must be adjusted with the inflationary condition of the country every year.

In 2002 B.S., Mr. Kamal Deep Dhakal presented his revised edition book, "Aayakar Tatha Ghar-jagga Kar sambandhi Kar ra Kekha." This book was based on Income Tax Act, 2031. This book is very much useful in getting knowledge about history of taxation and the practice under the previous Act.

In 2002, Miss Jayanti Poudel presented a dissertation entitled, "Income Taxation in Nepal: A Study of its Structure and Productivity." The objectives of her study were: to analyse the structure of income tax in Nepal, to estimate the elasticity and buoyancy of income tax in Nepal, to assess the role of income tax administration in Nepal, to evaluate the success of Voluntary Disclosure of Income Scheme (VDIS) program in brief and to provide the suitable recommendation for improving the scenario of income tax. She found that overall revenue of Nepal showed an annual growth of 16%, indirect taxation has more significant contribution in total tax revenue, income tax occupied the first rank among the direct taxes, personal income tax slabs has been changed radically from seven slabs in 1975/76 to two slabs in 1999/2000, VDIS could not attract more

potential taxpayers into tax net due to lack of good planning and adequate homework of the government, working procedures of the tax administrators are still traditional and cost of administration has not been brought to the satisfactory level.

In 2003, Mr. Thaman Sherchan studied about fines and penalties under Income Tax Act, 2058 in his thesis entitled, "An Analysis of fines and Penalties regarding to Income Tax System of Nepal." He had analysed tax structure of Nepal, found out the share of income tax to government revenue, analysed the provisions of fines and penalties under income tax law, tried to know the taxpayers, knowledge and tax officers, views about fines and penalties, shown the role of fines and penalties to increase the tax paying habit of Nepalese people and suggested regarding fines and penalties provisions under current income tax system. He found fines and penalties are not the only effective methods of reducing tax evasion. He suggested making provisions of fines and penalties effective. Education to the taxpayers to increase tax consciousness should also be provided.

In 2003, Mr. Dan Bahadur Palli Magar wrote a thesis entitled, "Income Tax in Nepal: A study of Exemptions and Deductions." He studied the exemptions and deductions provided by the Income Tax Act, 2058 problems and weaknesses in income tax system, contribution of income tax to government revenue and suggested possible areas of reform. He stated the need for clarity in provisions and language of the Act. He has recommended ten slabs for taxing the income of a taxpayer- first rate being 5% and the last one being 55%. He suggested the following expenses for deduction from remuneration income:

- Expenses for the better education of their children.
- Medical expenses made by the taxpayer.
- Expenses made for house rent.

- Education expenses for the taxpayer himself if he is studying in an educational institution.
- Life insurance premium of the taxpayer.

In 2003, Mr. Bidhyadhar Mallik published a book named, "Nepal Ko Aadhunik Aayakar Pranali." This book is very much useful to anyone who is interested in the subject of taxation. In his book, Mr. Mallik has explained Income Tax Act, 2058 with examples wherever necessary. He has presented the complex Act in simple and lucid manner so that it will be easy to understand the Act. He has shared his expertise in his book. His book is descriptive and analytical. All the provisions in the Act have been clarified in simple language. He has also clarified why some of the tax-exempted amounts have been brought into tax net by the new Act. In some cases, he has also compared the provisions of the old act and the new Act.

In 2003, Dr. Chandra Mani Adhikari wrote a book entitled, " Modern Taxation in Nepal: Theory and Practice." This book also has been written according to the syllabus requirement of different faculties. Especially, the BBS 3rd year syllabus of Tribhuvan University has been taken into consideration. Income Tax Act, 2058 as amended by Finance Ordinance, 2060 has also been included. Theoretical as well as practical aspects have been put in the book.

In 2003, Mr. Ishwor Man Rai and Mr. Narayan Prasad Baskota published a book entitled, "Taxation in Nepal." This book has also been designed according to syllabus of BBS 3rd year. Computations regarding different sources of incomes have been included in this book.

In 2003, Dr. Puspa Raj Kandel wrote two books on taxation- one book entitled, "Tax Laws and Tax Planning" for MBS 2nd year and another "Nepal Ko Bartaman Kar Byabastha" for BBS 3rd year. He has presented practical as well as theoretical aspects on taxation in these books.

In 2003, Mr. K.P. Aryal and Mr. Surya Prasad Poudel wrote a book entitled, "Taxation in Nepal." This book is also designed as per the syllabus of BBS 3rd year. They have also included theoretical and practical aspects of taxation in their book.

In 2003, Mr. Surendra Keshar Amatya, Dr. Bihari Binod Pokharel and Rewan kumar Dahal wrote a book entitled, "Taxation in Nepal." This book is also designed to meet the requirement of BBS 3rd year syllabus. Theoretical as well as practical aspects of taxation have been included in the book. This book is a descriptive not analytical.

In 2004, Mr. Ishwor Bhattarai and Mr. Girija Prasad Koirala published a book named, "Tax Laws and Tax Planning" basically designed to meet the requirement of MBS 2nd years students under Tribhuvan University. The book includes the theoretical concepts along with the practical exercise to be familiar with subjects matter for the master level student. The book is based entirely on new Act and has tried to enrich tax planning, value added tax and some other procedural matters under new Act.

In the year of 2004, Mr. Jagdish Agrawal authored a book entitled, "Income Tax Theory and Practice." The book has been said to come in the market after the author's maiden effort an authentic book. The book, in the word of author, has been designed to serve tax practioner, charter Accountants, registered auditors, accountants and other managerial personnel in big organization, CA students and student to law having taxation as one of the subjects. Though the author has not named for management student as a target user reader the book is equally useful all those who need taxation either academically or by professionally. The author has indicated towards the mass user by writing etc. in his target people. However, the book may not be useful to normal people who have general interest on the matter. This book has been written completely on the basis of new income tax Act and seems to design to meet the student

requirement at bachelor level. The book has tried to make clear cut theoretical concepts of the provisions of the Act with suitable practical practices and has also included the taxation and administrative procedures under the new Income Tax Act, 2002.

In May 2004, Mr. Dipen Raut Chhetheri of Shanker Dev Campus presented his thesis entitled, "Income Tax System of Nepal and its Contribution to Revenue collection." In his study he has studied the present tax structure of the country and has shown that custom, VAT, Income Tax, Excise Duty have contributed the most in the tax revenue respectively. Resource and fiscal gaps are considered as the never ending problem of Nepalese economy has mentioned in his thesis. He has focused that the contribution of tax to GDP is poor in comparison to other countries.

In July 2004, "Income Tax in Nepal, its Structure and Contribution from Public Enterprises to Government Revenue" was the topic selected by Mr. Durga Prasad Ghimire from his thesis study. In his dissertation he mainly has studied the sources of income to government and their contribution in public fund. He focused that for the suitable mobilization of resources in economic development of the country and has shown that the decreasing trend of income tax contribution to the GDP in recent years. His study also seems to focus the appropriateness of new income tax Act in current situation. He has mentioned that the most appropriate method for income taxation in Nepal is self-assessment of income tax method. Together he had written that tax evasion and avoidance were major constraints of resource mobilization. In this thesis, he has pointed out the major problems and difficulties faced by tax administration in collection of tax from PEs are as follows:

- Slow to get audited.
- Unaware of Submission of income statement.

- Tend to delay the payment of tax dues due to their unfavorable cash flow position.
- No co-operative with tax administration.
- No transparent income.

In the same year, Mr. Girija Prasad Koirala prepared a Master's Level Thesis entitled on "Contribution of Income Tax from Employment Income to Public Revenue of Nepal." Mr. Koirala has mentioned about tax and non-tax revenue in Nepal, composition of direct tax and indirect tax revenue in Nepalese tax structure, structure of direct tax in Nepal, contribution of income tax in total revenue, tax revenue and direct tax revenue of Nepal, tax/GDP Ratios including SAARC countries and other countries for 1997, structure of income tax in Nepal and contribution of income tax from remuneration in total revenue, total tax revenue, direct tax revenue and income tax revenue of Nepal. Accordingly, he has done empirical investigation on the basis of primary data collected by survey method. He has suggested various alternative and provisions that should be done regarding taxation of employment income after the detailed analysis of empirical study.

In September 2004, Mr. Dharma Raj Shakya conducted a research work entitled to "A study on Income Tax Act, 2002" for his MBS degree. In his study, he has mentioned that income tax is the major source of tax revenue and for the economic development of the country, internal resources of the country should be mobilized effectively. He has further stated that tax directorate established in 1959 is the first organized income tax administration of Nepali Government which has gradually converted into Internal Revenue Department, Department of Taxation and Inland Revenue Department in 2001. He mentioned that the most appropriate method for income taxation in Nepal is self-assessment of income tax method. Tax

evasion and avoidance are major constraints of resource mobilization through income taxation was another findings.

In a journal of management '*PRAVAHA*' was published in the year 2005, by Nepal Commerce Campus, Mr. Surendra Keshar Amatya has written an article. The article is entitled on "Assessment of Tax liability on employment Income in Nepal." He has covered a brief history of "Income Tax Law" in Nepal under his study including heads and sources of income. He has explained in detailed about employment income in the article. He has shown non-chargeable incomes and common deductions. He has also explained about income tax exemptions and income tax assessment under employment income. A detail formant for the computation of assessable income, taxable income, tax liability and balance tax payable from employment for the relevant income year has been presented in a simplified order with the simple practical example. He has also explained about special fee under this article.

In may 2005, Mr. Indra Dhoj K.C. made a research entitled on "Taxation under Business Income in Nepal: past and present." During his study he has found that none of the thesis has been written in the income taxation under two Acts even when the previous income tax Acts were introduced. He claimed this point as the research gap and select the topic for his study, he has further explained to it. He has taken total 90 population samples for his study 30 each samples were taken from Tax Payers, Tax Administrations and tax experts respectively where as only 85 samples were collected for the final study. Out of them 26 were from tax payers, 29 were from tax administrators and the remaining 30 samples were from tax experts for the study analysis. He has dividend into two parts for the presentation and analysis of data, the first part covered the analysis of secondary data where as the second part was related with primary data collected for the purpose of empirical study. He has compared the taxation under business income on the basis of Income Tax Act, 2058 with old

income tax Act, 2031. He found the deviation in tax liabilities in his study and has provided the reasons of changed in tax liabilities. They were as follows:

Causes of changes

- Interest expenses.
- Pollution control cost.
- Research and development cost.
- Advertisement and pre-operating expenses.
- Bonus and salary given to employees.
- Flexible donation provision.

In this way, various books, dissertations, reports and articles have been reviewed while preparing this dissertation. Books are found mainly based on the syllabus requirement of Tribhuvan University. Almost dissertations were written on different aspects of income taxation. So, it has been found that no one has studied on remuneration aspect of income tax in detail. This study is unique and original.

CHAPTER-III

RESEARCH METHODOLOGY

Research methodology is a systematic way to solve the research problem. In other words, research methodology describes the methods and process applied in the entire aspect of the study. Research methodology refers to the various sequential steps (along with a rationale of each step) to be adopted by a researcher in studying a problem with certain objectives in view. Thus the overall approach to the research is presented in this chapter. This chapter consists of research design, sample size and selected process, data collection procedure and data processing techniques tools.

3.1 Research Design

Most of the materials of this study were concerned with past phenomena of the performance in numerical or theoretical terms. The study was oriented to:

i. Analytical Research

In analytical research, the researcher used the facts and the information already available and analyses to make a critical evaluation of the materials. Analytical research had been carried out in terms of role of total tax revenue, income tax revenue and employment tax in the public revenue of Nepal.

ii. Descriptive Research

Descriptive research includes survey and fact-finding enquiry of different kinds. It is concerned with finding of facts relating to the subject matter, obtaining important data and getting new areas of knowledge by describing them. Descriptive research has been carried out in the study of income tax and employment income.

iii. Empirical Investigation

Empirical investigation was conducted in respect of income tax collection, employment income's contribution to income tax revenue and effectiveness of income tax collection from employment income and other practical aspects of employment income.

To achieve the stated objectives of the study, opinions of 50 respondents were collected. Respondents are classified into tax-experts and employees. Questionnaires were sent to the respondents. The study was attempted to collect information regarding the share of employment tax to total income tax revenue, suggestions to increase its shares and aspects of employment income.

3.2 Population and Sample

All the tax experts and employees in Nepal were considered as total population. Out of them, the experts and employees in Kathmandu Valley were considered as target sample. The denominations of the respondents have been presented in Table 4.1.

Table: 4.1, Group of respondents and sample size.

S.N.	Denomination of the respondents	Sample size
1.	Tax Experts cum administrators	25
2.	Employees	25
	Total	50

3.3 Nature and Sources of Data

Both primary and secondary data were used in the study. The primary data were the opinions of experts and employees regarding employment tax. Primary data were obtained through questionnaire method followed in most cases face to face interviews/discussions with the selected persons included in the purposive sample.

The secondary sources of data were the statistics relating to tax published by HMG/Nepal. They are obtained from Economic Survey, bulletins etc.

3.4 Selection of the Respondents

After careful study of the subject matter, a set of questionnaire was developed and distributed to two respondent groups' viz. tax experts and employees. Tax experts comprises of chartered accountants, lawyers, professors and policy makers of Ministry of Finance. Employees comprised of employees working in various organizations like banks, government offices, manufacturing organizations and other private organizations were contacted for their opinion regarding various aspects of employment income.

3.5 Data Collection Procedure

A set of questionnaire was developed and distributed to the selected respondents in order to get actual and accurate information. Distribution work was done personally rather than sending by any other means. Additional information was collected from interviews with the respondents.

3.6 Procedure of Processing and Analysis of Data

The information collected from primary and secondary sources were first tabulated into separate format systematically in order to achieve the desired objectives. The data were then tabulated into various tables according to the subject in order. Then simple analysis was done by using statistical tools such as percentages, average, correlation, chi-square (χ^2) test for hypothesis etc.

Available data were presented and analysed in descriptive way. In primary data analysis, some hypothesis was tested to know whether there was significant difference between the opinion of tax experts and employees.

3.7 Weightage of the Choice

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

3.8 Profile of Respondents

Questionnaires were distributed to fifty respondents-tax experts and employees. All of them, questionnaires were received from both groups. The following table reveals the different numbers and percentages of the respondents.

Profiles of respondents

S.N.	Respondents	Total sample		Responses received	
		No.	%	No.	%
1.	Tax experts	25	50	25	50
2.	Employees	25	50	25	50
Total		50	100	50	100

Source: Primary Data

CHAPTER-IV

PRESENTATION AND ANALYSIS OF DATA

4 Analysis of Secondary Data

The presentation and analysis of data is the main content of fourth chapter. This chapter is one of the major parts of the study. It enhances knowledge of contemporary and past-related matters. In this chapter, data related to the study have been tabulated, presented, analyzed and interpreted. The reliability of the analysis under this chapter solely depends on the data available in those sources.

In order to make the study comprehensive, this chapter has been divided into followings heads:

- 4.1 Structure of income tax in Nepal.
- 4.2 Target and collection of Income Tax (Comparative Study).
- 4.3 Income tax to GDP Ratio.
- 4.4 Public revenue in Nepal: Tax Revenue and Non-tax Revenue.
- 4.5 Tax Revenue: Direct Tax and Indirect Tax.
- 4.6 Structure of Direct Tax in Nepal.
- 4.7 Contribution of income tax in Nepal.
- 4.8 Fiscal and Resource Gap.
- 4.9 Findings.

4.1 Structure of Income Tax in Nepal

The income tax base of Nepal income tax system constitutes the different tax sectors such as government corporations, public companies, private companies, individuals, property, and house rent etc. Individual taxation may be employment, sole-proprietorship, and partnership. Basically income tax is comprised of tax from public enterprises (PEs), semi-public enterprises, private corporate bodies, individuals, remuneration and tax on interest. This is presented in table 4.1 (a) below:

Table: 4.1 (a)**Composition of income tax in Nepal during 17 fiscal years**

(Rs. in million)

Fiscal Year	Total income tax revenue	Public Enterprises	Semi-public Enterprises	Private Corporate bodies	Individuals	Remuneration	Tax on interest
1991/92	879.60	216.90	2.6	0.40	597.40	43.80	18.50
1992/93	932.10	240.90	2.4	-	625	50.70	13.10
1993/94	783.70	162.20	2.7	-	531	49.90	37.80
1994/95	875.00	171.10	5.3	6.5	617.90	54.70	19.50
1995/96	1198.20	255.30	2.6	9.5	800.70	56.70	73.40
1996/97	1921.20	534.10	2.1	19.70	1184.80	83.80	96.70
1997/98	2823.50	860.20	-	440.10	1293.10	118.40	111.60
1998/99	3431.50	1144.50	-	563.90	1470.10	133.10	119.80
1999/00	4123.40	1231.10	-	858.40	1711.40	168.10	154.40
2000/01	4898.10	1317.80	-	925.10	2120.80	322.20	212.20
2001/02	6170.20	1526.50	-	1155	2772.70	396.50	319.50
2002/03	7420.60	2198.80	-	1339.50	3016.40	451.50	414.40
2003/04	9114.00	2928.00	-	1924.30	3200.50	597.30	463.90
2004/05	8903.70	1769.30	-	1412	4419.10	835.60	467.70
2005/06	8131.89	1276.70	-	1262.07	3447.92	1262.88	882.31
2006/07	9514.49	1836.29	-	981.89	4501.30	1391.19	803.97
2007/08	10466.22	1393.05	-	1666.22	4962.03	1675.64	769.27

Source: Economic Survey 2007/08, Ministry of Finance (MOF), HMG/N.

Here, fully government-owned enterprises are public enterprises if the investment of government is 51 percentage or higher individuals devote sole trades and partnership. Similarly, remuneration refers to salaries earned by government and non-government sector employees. The percent-wise structure of income tax of Nepal is tabulated as follows:

Table: 4.1(b)
Composition of income tax in Nepal during 17 fiscal years

(in percentage)

Fiscal year	Total Income Tax Revenue	Public Enterprises	Semi-public Enterprises	Private corporate Bodies	Individuals	Remuneration	Tax on Interest
1991/92	100	24.66	0.30	0.05	67.92	4.98	2.09
1992/93	100	25.84	0.26	-	67.05	5.44	1.41
1993/94	100	20.70	0.34	-	67.78	6.37	4.81
1994/95	100	19.55	0.61	0.74	70.62	6.25	2.23
1995/96	100	21.31	0.22	0.79	66.83	4.73	6.12
1996/97	100	27.80	0.11	1.03	61.67	4.36	5.03
1997/98	100	30.47	-	15.59	45.80	4.19	3.95
1998/99	100	33.35	-	16.43	42.84	3.88	3.50
1999/00	100	29.86	-	20.82	41.50	4.08	3.79
2000/01	100	26.90	-	18.89	43.30	6.58	4.33
2001/02	100	24.74	-	18.72	44.94	6.43	5.17
2002/03	100	29.63	-	18.05	40.65	6.08	5.59
2003/04	100	32.13	-	21.11	35.12	6.55	5.09
2004/05	100	19.87	-	15.86	49.63	9.38	5.26
2005/06	100	15.70	-	15.52	42.40	15.52	10.86
2006/07	100	19.30	-	10.32	47.31	14.62	8.45
2007/08	100	13.31	-	15.92	47.41	16.01	7.35

Source: Ibid

Referring to above table 4.1, total income tax revenue seem to have an increasing trend except in certain year. In FY 1991/92, Rs. 879.6 million was raised from income tax revenue. In FY 2007/08 Rs. 10466.22 million was raised as income tax revenue. It was more than 11 times income tax revenue raised in 1991/92. income tax revenue has fallen in FY 2004/05 and 2005/06. In FY 2004/05, income tax revenue has fallen by Rs.210.30 million i.e. 2.31 percent of FY 2003/04. Similarly, it has further decreased by Rs. 771.81 in FY 2005/06 i.e. 9.49 percent of 2004/05. But, income tax revenue has increased in FY 2006/07 and FY 2007/08 by Rs. 1382.6 million and Rs. 951.73 million respectively.

The income tax contribution of individuals has occupied first position in total income tax revenue of Nepal. In FY 1991/92, Rs.597.40million was

raised from individuals as income tax. Since then, it has been increasing upto the FY 2007/08. In FY 2005/06, out of total income tax revenue of Rs. 8131.89 million, Rs. 3447.72 million was raised from individuals. It is about 42% contribution by individuals in the total income tax revenue. In FY 2007/08 out of total income tax revenue of Rs. 10466.22 million Rs. 4962.03 million was raised from individuals. It was about 47.41% contribution by individuals. The mean contribution of individuals in total income tax revenue from FY 1991/92 to 2007/08 has been computed to be 51.93 %.

From the above tables 4.1(a) & (b), it is seen that income tax from public enterprises has occupied second position regarding its contribution in total income tax revenue of Nepal. In FY 1991/92, out of total income tax revenue of Rs. 879.60 million, Rs. 216.90 million was raised from public enterprises. It was about 24.66 percentages contribution. Except the years 1993/94, 1994/95 and 2004/05, its contribution remained in increasing trend. However, it was decreasing since the year 2004/05 and this decreasing trend continued upto the year 2007/08 except FY 2006/07. In the year 2007/08 out of total income tax revenue of Rs. 10466.22 million, Rs. 1393.05 million was contributed by public enterprise. This was about 13.31 percent contributed by public enterprise to income tax revenue of Nepal. Decreased percentage in FY 2007/08 in comparison to FY 2006/07 was about 24.14%. The mean contribution of public enterprise in total income tax revenue was about 24.48 percent.

Similarly, income tax contribution made from private corporate bodies remained much fluctuated from about 1 to 21 percent. In 1991/92, private corporate bodies paid Rs. 0.4 million out of Rs. 879.60 million total income tax revenue. This was very much in significant contribution made from private corporate body. Private corporate bodies contributed 0.30 percent of total income tax revenue. After 1996/97, its contribution has been increased by a great amount Rs.19.70 million, contribution in 1996/97

and Rs. 440.10 million contribution in 1997/98. It was a very big difference. In 2003/04, out of total income tax revenue of Rs. 9114 million, private corporate bodies have contributed Rs. 1924.30 million. It was about 21 percent contribution in total income tax revenue of Nepal. However, in 2005/06, Rs. 1262.07 million was contributed by private corporate bodies in total income tax revenue of Rs.8131.89 million. It was about 15.52 percent contribution. In the year 2007/08 and 2007/08, Rs. 981.89 million and 1666.22 million were contributed by private corporate bodies which were about 10.32 percent and 15.92 percent of the total income tax revenue. The average contribution (mean contribution) of private corporate bodies from FY 1991/92 to 2007/08 was 11.17 percent. Remuneration tax has occupied the fourth position in total income tax revenue of Nepal. In the FY 1991/92 total contribution from remuneration income was Rs. 43.80 million which was about 4.98 percent of total income tax revenue. The contribution of remuneration in total tax revenue was in increasing trend in the year 2007/08 and it reached in the 16.01 percent peak and which was about Rs. 1675.64 million out of the total income tax revenue collected in the year of Rs. 10466.22 million. Whereas the percentages of interest tax on total income tax occupied fifth position in the ranking. Similarly, the contribution made by semi-public enterprises has been very much in significant in total income tax revenue. The contribution was Rs.2.6 million in the FY 1991/92 and it went up to the year 1996/97 only where it contributed Rs. 2.1 million only. Since then, this was not even a single digit contribution made from this sector.

4.1.1 Contribution of Employment (Remuneration) Income in Income Tax Revenue

Referring to the tables 4.1 (a) and 4.1 (b), it has, however, be studied and analyzed the employment section as a constituents. In fact, remuneration income has not been able to achieve 10 percentages past of the total income tax revenue up to the year 2004/05. However, in the FY 2005/06, it could achieve this success by reaching the contribution form remuneration

income of 15.52 percent and FY 2006/07 and 2007/08 the contribution from remuneration income of 14.62 percent and 16.01 percent respectively. In the FY 1991/92 remuneration income was Rs.43.80 million that was 4.98 percentages out of total income tax revenue. Upto the FY 1997/98 total contribution from remuneration income in total income tax revenue was less than Rs. 100 million but in the FY 1997/98 it reached to the Rs. 118.40 million. Furthermore, it continued its increasing trend of more than Rs. 100 million upto the FY 1999/00. During the FY 2000/01 and 2001/02 this contribution was reached to more than Rs. 300 million not exceeding Rs. 400 million that was Rs. 322.20 million and Rs. 396.50 million respectively. This increasing trend of remuneration income in total income tax revenue has been crossed the Rs. 1000 million level in the FY 2005/06 that amounted to Rs. 1252.60 million. In FY 2006/07 and 2007/08 tax collection from remuneration Rs. 1391.19 million and Rs. 1675.64 million respectively. The contribution of the FY 2007/08 was about 38.26 times of the FY 1991/92. This showed that the collection on remuneration tax was in satisfactory level at the area of total income tax revenue.

4.2 Target and Collection of Income Tax by IRD (A Comparative Study for Five years)

The effectiveness of the Act or provision does reflect in the collection of revenue. Hence, we must see how the change in Act has made change in revenue collection and this also makes enable to know the collection status of different taxes under different heads of income. However, collection of revenue is not the sole part of the Act, because there are number of reasons and factors behind this task. The Act provides the legal framework to play. This topic has included the analysis of the secondary data from annual report published by Inland Revenue Development (IRD) regarding the achievement in tax collection against the target set.

4.2.1 Income Tax: Target and Collection

In the collection, study and analysis of secondary data, the annual report published by IRD was studied. The report basically consists of the general introduction about Inland Revenue Department, Administration, work progress and collection of revenue, and other matters in relating to the revenue collection procedures. While studying this report, some data related with the study have been presented and analyzed below.

However, the report has included the entire major subject in relating to the government revenue, information, target and progress of direct and indirect tax in collection etc. The following table 4.2 (a) includes the income tax structure the past for five fiscal years as follows:

Table: 4.2 (a)

Comparative Study of Income Tax Structure and its Collection Target

(Rs. in 000)

Particulars	2003/04	2004/05	2005/06	2006/07	2007/08
Target					
Corporate tax	33200000	4570000	6540000	7260000	54300000
Government corporation	1330000	1770000	2520000	3600000	2020000
Public Ltd. Co.	1040000	1440000	2270000	2320000	2120000
Pvt. Ltd. Co.	950000	1360000	1750000	1340000	1290000
Individual Income tax	1920000	2550000	2730000	3010000	3582500
Remuneration	350000	430000	550000	675000	1230000
Industry, Trade, Profession or vocation	1570000	1820000	2180000	2335000	2352500
House and land rent tax	250000	240000	310000	320000	380000
Interest tax	290000	320000	400000	550000	470000
Total	5870000	7380000	9980000	11140000	9862500

Progress:

Particular	2003/04	2004/05	2005/06	2006/07	2007/08
Corporate tax	3460000	440000	5990000	4371208	3655556
Government Corporation	1530000	2200000	2930000	1770651	1251615
Public Ltd. Co.	1150000	1340000	1930000	1429904	1236268
Pvt. Ltd. Co.	780000	900000	1130000	1170652	1167673
Individual Income Tax	2190000	2320000	2400000	3731653	3177104
Remuneration	400000	450000	600000	834849	1240291
Industry, Trade, Profession or Vocation	1790000	1870000	1800000	2896803	1936813
House & Land rent tax	200000	250000	260000	348524	381715
Interest tax	320000	410000	460000	468294	845200
Total	6170000	7420000	9110000	8919680	8059575
Progress percentage	106.75	100.50	91.28	80	81.70

Source: Annual Report 2007/08, Inland Revenue Department, Ministry of Finance, HMG/N

From the study of above data, the following findings have been drawn:

1. Income tax collected in the fiscal year 2007/08 was Rs. 8059 million which was less than that of previous income year 2006/07 by 9.64 percent.
2. The contribution of corporate tax, individual tax, house rent tax and interest tax was 45.36, 39.42, 4.74 and 10.48 percentages respectively.
3. The percentages of tax collection from corporate tax, individual tax, and house rent tax and interest tax in comparison to the goal were 67.32, 88.68, 100.45 and 179.83 respectively.
4. Tax collection from Government Corporation in corporate tax was only Rs. 1251 million and the amount was only the 70.68 percentage of previous fiscal year from the same.
5. Tax collected from remuneration in individual tax was 100.83 percentage of target, which is 148.56 percentage of previous fiscal year. Similarly, tax collected from industry, trade, profession and vocation in individual tax was 82.33 percentage of target, which is 66.86 percentages of previous fiscal year.

6. 109.52 percentage of property/house rent tax and 180.45 percentage of interest tax in comparison to fiscal year were collected in the fiscal year of 2007/08.
7. Since the year 2005/06 (the year of implementation of Inland Revenue Administration), the percentage of collection of tax revenue has increased by 11.70 percentages than that of the previous income year 2006/07. However, it can not be said that this is just because of implementation of new policies and programmes.

4.2.2 Internal Revenue Collection in FY 2007/08

Collection of revenue in desired volume is challenging task to the government. The target set by IRD for the collection of internal revenue in fiscal year 2007/08 and the actual collection of the revenue during this year has been tabulated as follows:

Table 4.2 (b)
Internal Revenue Collection for Fiscal Year 2007/08

Total	Target	Collection	Collection Percentage
Total Tax Revenue (a+b)	29067550	26853422	92.38
Total Direct Tax (a)	9862500	8059575	81.72
Income Tax	9012500	6832660	75.81
House & Land Rent Tax	380000	381715	100.45
Interest Tax	470000	845200	179.83
Total Indirect Tax (b)	19205050	18793847	97.86
VAT	13730050	13449123	97.95
Excise duty	4725000	4785244	101.28
Vehicle Tax	750000	559480	74.60

Source: Annual Report 2007/08, Inland Revenue Department, Ministry of Finance HMG/N.

The above table 4.2 (b) predicts that the collection of revenue does not always meet the target. Sometimes, it is less than expectation and sometime it goes up than target. Referring to above table the collection of income tax and vehicle tax in FY 2007/08 was below than the target, which

is 75.81 and 74.60 percent of target collection respectively. However, the collections of house rent tax (property) and excise duty had met the target and exceed by nominal figure. But the interest tax collection exceeded the target by nearly 80 percent. In terms of target, direct tax collection was less than indirect tax collection i.e. there was high proportion of indirect tax collection than direct tax if we study the target and progress in collecting revenue for the fiscal year 2007/08. This shows that there has been lacking in proper analysis while setting target and personnel are used to set target without making adequate exercise. The collection of income tax during the fiscal year was 75.81 percent of target, which was not satisfactory result; hence efforts of concerned sector should be directed towards the collection of income tax in designed level. The following graphs depict the trend of income tax collection in past five years.

Figure no: 4.1

Internal Revenue Collection for Fiscal Year 2007/08

(Rs. in million)

Source: Table 4.2 (a)

The graph plotted above shows that the collection of income tax was decreasing comparatively and relatively in recent years. The collection of income tax by Inland Revenue Department was higher in the FY 2005/06 which was Rs 9540 million. Since then, the collection was in decreasing trend in the year of FY 2006/07 and FY 2007/08, which is nearly 8,919 million and 8,059 million respectively.

The factors responsible for poor collection of income tax should be analyzed and corrected properly. This must be represented in policy that what can be done in order to increase the contribution of income tax in derived level, otherwise if this collection trend remains decreasing, the deficit financing will be increasing and severely will hamper in overall revenue collection and ultimately in poverty reduction as set by the only one goal of tenth plan. In informal discussion with one senior officer of IRD, it has come to know that the government is just able to collect only 60 percent revenue of the total capacity.

4.3 Tax/GDP Ratio

Here an attempt has been made to know about analysis of the share of taxation in total Gross Domestic Product (GDP) of Nepal. The topic has also included the study in the share of tax revenue to GDP of some other countries of world. It is to be noted here that current tenth plan has targeted to increase the share of tax revenue in GDP.

4.3.1 Tax/GDP Ratio in Nepal

Nepal is one of the least developed countries in the world. Nepalese economic activity is very slow and does not show any drastic positive change. There are several reasons behind this fact and the country is not even capable of maintaining internal regular and development expenditure itself. Revenue collection is not satisfactory and since there is very low level of economic activity so is taxing economy. The moderate Tax/GDP Ratio ranged from 15-18 percent is other developing countries (The World Bank: 1991) but in Nepal, it is obvious from the fact that tax/GDP ratio never exceeded 10 percent and it was even dustered around 8 percent throughout the years FY 1991/92 to FY 2007/08. Table 4.3 shows the contribution of tax revenue in GDP of Nepal over seventeen years from FY 1991/92 to 2007/08. Tax/GDP ratio has fluctuated between 6.81 percent to 11.85 percent.

If the share of Tax Revenue on GDP is considered, it is found satisfactory. From 1991/92 to 1994/95, Tax/GDP ratio fell down from 7.31 percent to 6.81 percent. In FY 1995/96, Tax/GDP ratio was 7.05 percent. Then after Tax/GDP ratio has been above 8 percent. A maximum of 11.85 percent Tax/GDP ratio was achieved in 2007/08. The mean Tax/GDP ratio for the seventeen years has been computed to be 8.77 percent. It has already been stated that moderate Tax/GDP ratio in developing countries ranges between 15 to 18 percent but Nepalese Tax/GDP ratio averaged 8.77 percent. That is too below the minimum limit. So Tax/GDP ratio has not been found satisfactory.

Income Tax/GDP ratio of Nepal has not exceeded 2.32 percent since FY 1991/92 to 2007/08. Income Tax/GDP ratio in FY 1991/92 was 1.03 percent where as it was 2.08 percent in 2007/08. In FY 2003/04, income Tax/GDP ratio was observed higher i.e. 2.32 percent. The mean contribution of income tax to GDP of Nepal since the year 1991/92 to 2007/08 was about 1.49 percent. The fall in income tax to GDP ratio from the fiscal year 2004/05 if remain continue, the role of income tax in total public revenue will be more minimum and it is perhaps because of the low level of economic activities in the country in the recent years. Policy should be taken consciously to combat such situation prevailing in the country and to foster the economic activities.

Table: 4.3**Contribution of Tax Revenue and Income Tax Revenue in GDP of Nepal during 17 Fiscal years**

(Rs. in million)

Fiscal Year	GDP	Tax Revenue	Tax Revenue as Percentage of GDP	Income tax revenue	Income Tax Revenue as a Percentage of GDP
1991/92	85831	6287.20	7.33	879.60	1.03
1992/93	99702	7283.90	7.31	932.10	0.94
1993/94	116127	8177.40	7.04	783.70	0.68
1994/95	144933	9875.60	6.81	875.00	0.60
1995/96	165350	11662.50	7.05	1198.20	0.73
1996/97	191596	15371.50	8.02	1921.20	1.00
1997/98	209976	19660.00	9.36	2823.50	1.35
1998/99	239388	21668.00	9.05	3431.50	1.43
1999/00	269570	24424.30	9.06	4123.40	1.53
2000/01	289798	25939.80	8.95	4898.10	1.69
2001/02	330018	28752.90	8.71	6170.20	1.87
2002/03	366251	33152.10	9.05	7420.60	2.03
2003/04	393566	38865.10	9.88	9114.00	2.32
2004/05	404482	39330.60	9.72	8903.70	2.20
2005/06	435531	42587.00	9.78	8131.89	1.87
2006/07	474129	48173.00	10.16	9514.49	2.01
2007/08	504001	59759.00	11.85	10466.22	2.08

Source: Economic Survey 2007/08, MOF, HMG/N,

- ❖ Revised estimate
- ❖ Preliminary estimates

Note: GDP is taken as Nominal GDP at current prices.**4.4 Public Revenue in Nepal: Tax and Non-Tax Revenue**

In a narrow sense, government does collect public fund either by tax revenue or by non-tax revenue. Tax revenue comprises of customs, excise, VAT, income tax, land revenue and registration and miscellaneous taxes. Table 4.4 shows the composition of tax and non-tax revenues in Nepalese

revenue structure for the seventeen years i.e. from fiscal year 1991/92 to 2007/08. In Nepalese revenue structure, tax revenue has always been greater than three times of non-tax revenue. This means that the public fund of the country heavily depends on the contribution of tax revenue. Tax revenue in amounts has always been increasing per year than the previous years. Its percentage contribution has always been fluctuating within the lower limit of about 73.08 percent to the upper limit of about 80.85 percent. In 1991/92, out of total revenue of Rs. 7,776.70 million, 80.85 percent i.e. Rs. 6,287.20 million was contributed by tax revenue. In 2007/08, 79.13 percent i.e. Rs. 59,759 million of total revenue was collected as tax revenue. Average contribution of tax revenue in total revenue has come about 77.93 percent.

Non-tax revenue has the lower contribution as compared to tax-revenue. Its contribution to total revenue has remained below 27 percent. In 1991/92, Rs. 1,489.60 million was collected as non-tax revenue. It was about 19.15 percent of total revenue. Its contribution over the seventeen years period fluctuated from 19.15 to 26.92 percent. In 2007/08, out of total revenue of Rs. 75517.90 million, Rs. 15758.90 was contributed from non-tax revenue. It was about 20.87 percent of total revenue. Average contribution of non-tax revenue was about 22.06 percent.

Table: 4.4
Composition of Tax and Non-tax Revenue in Nepal during
17 Fiscal years

(Rs. in million)

Fiscal Year	Total Revenue	%	Tax Revenue	%	Non-tax Revenue	%
1991/92	777.60	100	6287.20	80.85	1489.60	19.15
1992/93	9287.50	100	7283.90	78.43	2003.60	21.57
1993/94	10730.50	100	8177.40	76.21	2553.50	23.79
1994/95	13512.70	100	9875.60	73.08	3637.10	26.92
1995/96	15148.40	100	11662.50	76.99	3485.90	23.01
1996/97	19580.90	100	15371.50	78.50	4209.40	21.50
1997/98	24605.20	100	19660.00	79.90	4945.10	20.10
1998/99	27893.10	100	21668.00	77.68	6225.10	22.32
1999/00	30373.50	100	24424.30	80.41	5949.20	19.59
2000/01	32937.90	100	25939.80	78.75	6998.10	21.25
2001/02	37251.30	100	28752.90	77.19	8498.40	22.81
2002/03	42893.10	100	33152.10	77.29	9741.60	22.71
2003/04	48839.90	100	38865.10	79.49	10028.80	20.51
2004/05	50445.60	100	39330.60	77.97	11115.00	22.03
2005/06	56229.70	100	42587.00	75.73	13642.70	24.26
2006/07	62331	100	48173.00	77.28	14158.00	22.72
2007/08	75517.90	100	59759.00	79.13	15758.90	20.87

Source: Economic Survey 2007/08, MOF, HMG/N.

4.5 Tax Revenue: Direct Tax and Indirect Tax

As mentioned earlier, public tax revenue Nepal consists of tax revenue and non-tax revenue. Tax revenue consists of direct tax revenue and indirect tax revenue. The following table 4.5 shows the composition of direct tax and indirect tax revenue in total tax revenue of the country from the fiscal year 1991/92 to 2007/08. Direct tax includes income tax, land revenue and registration, urban house and land tax, property tax, vehicle tax etc. Indirect tax includes customs, excise, VAT (Sales tax, entertainment tax, hotel tax, contract tax) an flight tax, road and

Bridge Maintenance Tax

The table 4.5 shows that Nepalese tax structure is heavily dominated by indirect tax revenue. In 1991/92, out of total tax revenue of Rs. 6,287.2 million, Rs. 1,331.4 million and Rs. 4,955.8 million were contributed by direct tax revenue and indirect tax revenue respectively. It means about 21.18 percent and 78.82 percent of total tax revenue was contributed by direct tax and indirect tax revenue respectively. Out of Rs. 59,759 million of total tax revenue in FY 2007/08, the composition remained Rs. 13,580.70 million and Rs. 45,178.30 million from direct tax and indirect tax revenues respectively. That is, about 22.73 percent and 77.27 percent of total tax revenue were collected from direct tax and indirect tax revenue respectively.

Table: 4.5
Contribution of Direct and Indirect Tax in Total Revenue in Nepal
during 17 Fiscal years

(Rs. in million)

Fiscal year	Total tax revenue	In %	Direct tax revenue	In %	Indirect tax revenue	In %
1991/92	6287.20	100	1331.40	21.18	4955.80	78.82
1992/93	7283.90	100	1435.10	19.70	5848.80	80.30
1993/94	8177.40	100	1369.70	16.75	6807.70	83.25
1994/95	9875.60	100	1595.20	16.15	8280.40	83.85
1995/96	11662.50	100	2036.20	17.46	9626.30	82.54
1996/97	15371.50	100	2855.30	18.58	12516.20	81.42
1997/98	19660.00	100	3849.30	19.58	15810.70	80.42
1998/99	21668.00	100	4655.90	21.49	17012.10	78.51
1999/00	24424.30	100	5340.00	21.86	19084.30	78.14
2000/01	25939.80	100	6187.90	23.85	19751.90	76.15
2001/02	28752.90	100	7516.10	26.14	21236.80	73.86
2002/03	33152.10	100	8951.50	27.00	24200.60	73.00
2003/04	38865.10	100	10159.40	26.14	28705.70	73.86
2004/05	39330.60	100	10597.50	26.94	28733.10	73.06
2005/06	42587.00	100	10105.80	23.73	32481.20	76.27
2006/07	48173.00	100	11912.60	24.73	36260.40	75.27
2007/08	59759.00	100	13580.70	22.73	46178.30	77.27

Source: Economic Survey 2007/08, MOF, HMG/N

From the table 4.5, it is observed that the mean contribution of direct tax revenue was 22.03 percent in total tax revenue whereas indirect tax revenue had mean contribution of 78 percent in total tax revenue from the fiscal year 1991/92 to 2007/08.

Comparison of direct tax and indirect tax revenue shows that Nepalese economy is heavily relied upon indirect taxation. To divert the channel of development, it is necessary to increase the share of direct tax, ultimately decreasing the share of indirect tax

4.5.1 Structure of Internal Tax Revenue collected by IRD in 2007/08

Chart: 4.2

Structure of Internal Tax Revenue collected by IRD in 2007/08

Source: Annual Report 2007/08; IRD, MOF, HMG/N

The above chart reveals that there was dominate contribution of VAT (Value Added Tax) in total tax revenue, which was about 51 percent. Income tax (excluding interest tax and property tax) contributed in second position and its percentage was about 25 percent. Similarly, the contribution of excise duty was about 18 percent in trend position. Interest tax and house and land tax contributed by 3 & 2 percent and fell in the fourth and fifth position of contribution in total tax revenue. The percentage of contribution from vehicle tax was about 1 percent. It is to be

noted that, is the internal tax structure collected by Inland Revenue Department and does not include the customs.

4.6 Structure of Direct Tax in Nepal

Direct Tax Revenue constitutes income tax revenue, land revenue and registration and miscellaneous taxes and their composition is shown in table 4.6. Income tax occupies the highest rank among various taxes in direct tax revenue. As compared to the previous years, the share of income tax revenue has been increasing in the recent years. In 1991/92, out of total direct tax revenue of Rs. 1,331.4 million, Rs. 879.60 million was contributed by income tax revenue. This was about 66.07 percent contribution of income tax revenue in total direct tax revenue. In 2007/08, out of total direct tax revenue 13,580.70 million, Rs. 10,544.40 million was contributed by income tax revenue. It was about 77.64 percent of the total direct tax revenue. Except in fiscal years 1992/93 and 1993/94, the amount of income tax revenue was increasing. The mean contribution of income tax revenue in total direct tax revenue was 78.52 percent for the period of seventeen years.

Land revenue and registration occupies the second place among direct tax revenues. The trend of land revenues and registration is fluctuating. In 1988/89, out of total direct tax revenue of Rs. 1,331.40 million, Rs. 401 million was contributed by land revenue and registration. It was 30.12 percent of total direct tax revenue. In the year 2007/08, total direct tax revenue was Rs. 13,580.70 million and land revenue and registration amounted to Rs. 1,929 million, which was 14.20 percent of direct tax revenue. The percentage contribution was decreasing in the recent years. The average contribution of land revenue and registration came to be 16.75 percent of total direct tax revenue.

Table 4.6
Contribution of various Taxes in Direct Tax Revenue of Nepal during 17
Fiscal years

(Rs. in million)

Fiscal Year	Direct Tax Revenue	In %	Income Tax Revenue	In %	Land Revenue & Registration	In %	Misc. Taxes	In %
1991/92	1331.40	100	879.60	66.07	401.00	30.12	50.70	3.81
1992/93	1435.10	100	932.10	64.95	451.70	31.48	51.30	3.57
1993/94	1369.70	100	783.70	57.22	540.00	39.42	46.00	3.36
1994/95	1595.20	100	875.00	54.85	636.10	39.88	84.10	5.27
1995/96	2036.20	100	1198.20	58.84	754.90	37.70	83.10	4.07
1996/97	2855.30	100	1921.20	67.28	833.20	29.18	100.90	3.54
1997/98	3849.30	100	2823.50	73.35	937.70	24.36	88.20	2.29
1998/99	4655.90	100	3431.40	73.70	1066.60	22.91	157.90	3.39
1999/00	5340.00	100	4123.40	77.22	1015.40	19.01	201.20	3.77
2000/01	6187.90	100	4898.10	79.16	1004.20	16.23	285.60	4.61
2001/02	7516.10	100	6170.20	82.09	1003.20	13.35	342.70	4.56
2002/03	8951.50	100	7420.60	82.90	1015.90	11.35	515.00	5.75
2003/04	10159.40	100	9114.00	89.71	612.90	6.03	432.50	4.26
2004/05	10597.50	100	8903.70	84.02	1131.80	10.68	562.00	5.30
2005/06	10105.80	100	8132.00	80.46	1414.30	13.99	559.50	5.53
2006/07	11912.60	100	9514.50	79.87	1697.50	14.25	700.60	5.88
2007/08	13580.70	100	10544.40	77.64	1929.00	14.20	1107.30	8.16

Source: Economic survey 2007/08, MOF, HMG/N

Note: Miscellaneous Taxes include (a) urban House and Land Tax (b) Vehicle Tax and Other Taxes

Figure No: 4.3
Contribution of various Taxes in Direct Tax Revenue of Nepal
during 17 Fiscal years

Miscellaneous taxes occupy third and last position among various taxes. The trend of miscellaneous taxes has been fluctuating. In 1991/92, Rs. 50.70 million was collected as miscellaneous taxes. It was 4.67 percent of total direct tax revenues. In FY 2007/08, Rs. 1107.30 million was collected as miscellaneous taxes out of Rs. 13580.70 million of direct taxes. The mean contribution of miscellaneous taxes on direct tax revenue of Nepal was 4.72 percent.

4.7 Contribution of Income Tax in Total Revenue, Tax Revenue & Direct Tax Revenue of Nepal

Taxes on income and capital are known as direct taxes whereas taxes on consumption are known as indirect taxes. As mentioned frequently throughout this study, tax structure of Nepal is composed of direct and indirect taxes. Income tax has been a major player on direct tax and it has been playing an important role in generating government revenue. The role of income tax in public revenue can be studied as the role in total revenue, role in tax/revenue and role in direct tax revenue as follows.

4.7.1 Income Tax in Total Revenue of Nepal

The percentage contribution of income tax in total revenue of Nepal has been presented in table 4.7. Its contribution on total revenue has in fluctuating trend. In 1991/92, total revenue was Rs.7,777.60 million and income tax revenue was Rs.879.60 million. It was about 11.31 percent of total revenue of Nepal. In 2007/08, total revenue was Rs. 75,517.90 million and income tax revenue was Rs. 10,544.40 million. It was about 13.96 percent of total revenue. The average contribution of income tax revenue on total revenue was 14.67 percent over seventeen years period from fiscal year 1991/92 to 2007/08.

Table: 4.7

Contribution of Income Tax in Total Revenue, Total Tax Revenue and Direct Revenue in Nepal during 17 Fiscal years

(Rs. in million)

Fiscal year	Income Tax Revenue	Total revenue	%	Total Tax Revenue	%	Direct Tax Revenue	%
1991/92	879.60	7776.70	11.31	6287.20	13.99	1331.4	66.07
1992/93	932.10	9287.50	10.04	7283.90	12.80	1435.10	64.94
1993/94	783.70	10730.50	7.30	8177.40	9.58	1369.70	57.22
1994/95	875.00	13512.70	6.48	9875.60	8.86	1595.20	54.85
1995/96	1198.20	15148.40	7.91	1162.50	10.27	2036.20	58.84
1996/97	1921.20	19580.90	9.81	15371.50	12.50	2855.30	67.29
1997/98	2823.50	24605.20	11.47	19660.00	14.36	3849.30	73.35
1998/99	3431.40	27893.10	12.30	21668.00	15.84	4655.90	73.70
1999/00	4123.40	30373.50	13.58	24424.30	16.88	5340.00	77.22
2000/01	4898.10	32937.90	14.87	25939.80	18.88	6187.90	79.16
2001/02	6170.20	37251.30	16.56	28752.90	21.46	7516.10	82.09
2002/03	7420.60	42893.70	17.30	33152.10	22.38	8951.50	82.90
2003/04	9114.00	48893.90	18.64	38865.10	23.45	10159.40	89.71
2004/05	8903.70	50445.60	17.65	39330.60	22.64	10597.50	84.02
2005/06	7966.20	56229.70	14.17	42587.00	18.71	10105.80	78.02
2006/07	9514.50	62331.00	15.26	48173.00	19.75	11912.60	79.87
2007/08	10544.40	75517.90	13.96	59759.00	17.64	13580.70	77.64

Source: Economic Survey 2007/08, MOF, HMG/N.

Figure: 4.4
**Contribution of Income Tax in Total Revenue, Total Tax Revenue and
Direct Revenue in Nepal during 17 Fiscal years**

4.7.2 Income Tax in Tax Revenue of Nepal

The above table 4.7 shows the percentage contribution of income tax revenue in total tax revenue fluctuating from about 8 percent to 23 percent over the seventeen years. In 1991/92 out of total tax revenue of Rs. 6,287.20 million, Rs. 879.60 million was contributed by income tax revenue. It was about 13.99 percent contributed by income tax revenue to total tax revenue. In FY 2007/08, out of total tax revenue of Rs. 59,759 million, Rs. 10554.40 million was contributed by income tax revenue. It was about 17.64 percent of total tax revenue contributed by income tax revenue. In average, 18.78 percent of total tax revenue was contributed by income tax revenue from fiscal year 1991/92 to 2007/08.

4.7.3 Income Tax in Direct Tax Revenue of Nepal

In above table 4.7, the percentage contribution of income tax revenue in direct tax revenue was in the dominant position. However, it was fluctuating 54 percent to 89 percent over the seventeen years from FY 1991/92 to 2007/08. In 1991/92, out of direct tax revenue of Rs. 1,331.40 million, Rs. 879.60 million was contributed by income tax revenue. It was 66.07 percent of direct tax revenue. In FY 2007/08, out of total direct tax

revenue of Rs. 13,580.70 million, Rs. 10,544.40 million was contributed by income tax revenue. It was about 77.64 percent of total direct tax revenue. That is 12.07 percent less than that of the FY 2003/04 when this contribution was 89.71 percent in direct tax. The mean contribution of income tax on direct tax revenue was 79.63 percent.

4.8 Fiscal and Resource Gap in Nepal

Nepal has been facing a serious resource gap problem in her finances from the beginning of her developmental phase to the present time. To fulfil this growing resource gap, a large amount of external aid loan and internal loan was borrowed but the scarcity of resources seems to be never ending problem for Nepal.

The following table 4.8, provides a picture of the growing resource and fiscal gap in Nepalese finances. During the period of 1991/92 to 2006/07, resource gap increased from Rs. 10,228.30 million to Rs. 27,111.60 million. Even if foreign grants and foreign loans were included in revenue, the fiscal gap increased from Rs. 2,881.30 million and Rs. 14,300.50 million during the same period. The increasing gap between government expenditure and revenue and high fiscal deficit was contributed causing economic distortion such as increase in prices, large flow of imported goods and services and low level of domestic saving and heavy reliance on external debt. Increase in government expenditure has out placed the growth in revenue collection in Nepal.

The highest resource gap was observed in FY 2003/04 in which the amount totaled Rs. 30,941.20 million but it decreased to Rs. 29,626.70 million in FY 2004/05. The highest fiscal gap was observed in FY 2004/05 in which total amount was Rs. 15,241.90 million.

The above analysis shows a clear indication of the serious and growing financial resource gap problem in Nepal. The increasing magnitude of resource gap clearly indicates that there is an urgent need for mobilizing

additional resources. Income tax has appeared as one of the most effective fiscal policy instruments to mobilize additional resource and for achieving the desired developmental objectives of Nepal.

The growing resource gap shows the deteriorating economic conditions of the country that has immensely pressurized for effective mobilization of internal resources and reducing the non-productive expenses. In FY 2006/07 the deficit was financed by internal loan of Rs. 5,607.80 million in addition to foreign loan of Rs. 7,629 million.

Table: 4.8
Fiscal and Resource Gap in Nepal during 17 Fiscal years

(Rs. in million)

Fiscal year	Total Expenditure (A)	Total Revenue (B)	Resource Gap (A-B)	(Total Revenue+ Foreign Grants+Foreign Loans) (C)	Fiscal Gap (A-C)
1991/92	18005.00	7776.70	10228.30	15123.70	2881.30
1992/93	19669.30	9287.50	10381.10	17222.50	2446.80
1993/94	23549.80	10730.50	12819.30	19152.00	4397.80
1994/95	26418.20	13512.70	12905.50	21973.40	4444.80
1995/96	30897.70	15148.40	15749.30	25862.60	5035.10
1996/97	33597.40	19580.90	14016.50	31138.10	2459.30
1997/98	39060.00	24605.20	14454.80	35854.60	3205.40
1998/99	46542.40	27893.10	18649.30	42182.10	4260.30
1999/00	50723.70	30373.50	20350.20	45405.40	5318.30
2000/01	56118.30	32937.90	23180.40	49395.00	6723.30
2001/02	59579.00	37251.30	22327.70	53440.30	6138.70
2002/03	66272.50	42893.70	23378.80	60417.60	5854.90
2003/04	79835.10	48893.70	30941.20	67691.30	12143.80
2004/05	80072.30	50445.60	29626.70	64830.40	15241.90
2005/06	84006.00	56229.70	27776.37	72115.20	11890.80
2006/07	89442.60	62331.00	27111.6	75142.10	14300.50
2007/08	-	75517.90	-	-	-

Source: Economic Survey 2007/08, MOF, HMG/N.

Note: The expenditure heads till FY 2006/07 were classified as regular and development. During FY 2007/08, such expenditure has been classified as recurrent, capital and principal repayment. As such, expenditure heads and subheads from 1991/92 to 2006/07 may not tally with previous heads/subheads.

4.9 Analysis of Primary Data

Previous chapters incorporated introduction of the study, review of literature, research methodology and analysis of secondary data respectively. This chapter attempts to analyze data on various subject matters directly collected from respondents. The respondents were requested to fill the pre-structured questionnaire designed after the extensive review of literature. Respondents were selected from various financial as well as government bodies of the Kathmandu Valley. Most of respondents are graduates from different universities and Gazeted officers as designation. Respondents were divided into two groups viz. Tax Administrator, Auditor and Employee. Tax administrators consisted first, second and third class government officers. Auditors consist of Chartered Accountant, Registered Auditor and Experts of Income Tax. Similarly Employees include those persons who are paying tax, income from employment of different financial institutions, government offices and private organizations.

All together 50 respondents were enquired about the questionnaire. The questionnaires include 11 questions related to the study. The questionnaire was asked either for yes/no response or for ranking of the choices according to the number of alternatives where the first choice was the most important and the least choice was the least important. Some open ended questions were also included in the questionnaire. After the compilation of the filled questionnaire, the data were entered in the SPSS data processor for the further processing. Collected data were attempted to present in table as well as chart and diagram.

4.10 Frequency Analysis of Respondents

Respondents are selected from two occupational groups viz. Employees and Tax Administrator. 50 percent respondents out of 50 are employees and rests are Tax Administrator/Auditor (table 5.1). All respondents responded all questions included in the questionnaire. Responses of the respondents in various questions are tabulated below.

Table 4.9
Occupation of the respondents

Respondents	Frequency	Percent
Employee	25	50.0
Tax Administrator/Auditor	25	50.0
Total	50	100.0

Source: Field Survey 2007/08

Table 4.10
Has the Income Tax Act 2058 included Income from
Employment completely?

Response	Frequency	Percent
Yes	33	66.0
No	17	34.0
Total	50	100.0

Source: Field Survey 2007/08

Table 4.11
Is it right to charge tax completely in all allowances except
the salary?

Response	Frequency	Percent
Yes	36	72.0
No	14	28.0
Total	50	100.0

Source: Field Survey 2007/08

Table 4.12

**Has the exemption limit inspired people to invest in Life Insurance/
Citizen Investment Trust?**

Response	Frequency	Percent
Yes	42	84.0
No	8	16.0
Total	50	100.0

Source: Field Survey 2007/08

Table 4.13

**Has the exemption for remote area allowances inspired people to go
and work in remote area?**

Response	Frequency	Percent
Yes	13	26.0
No	37	74.0
Total	50	100.0

Source: Field Survey 2007/08

Table 4.14

**Is the exemption for Medical Tax Credit provided by Income Tax Act
2058 adequate?**

Response	Frequency	Percent
Yes	14	28.0
No	36	72.0
Total	50	100.0

Source: Field Survey 2007/08

Table 4.15

**Has the permission of TDS at income from employment made
convenient to employee and tax administrator?**

Response	Frequency	Percent
Yes	41	82.0
No	9	18.0
Total	50	100.0

Source: Field Survey 2007/08

The tables presented above displays the frequency of respondents in different questions. In the response of the question 'has the Income Tax Act 2058 included income from employment completely?', 66 percent respondent responded positively and 34 percent responded negatively (table 5.2). Similarly, 72 percent respondents were of the view that it is right to charge tax completely in all allowances except the salary in income tax whereas rest 28 percent thinks that the provision is wrong (table 5.3). In the same way, in the response of the question whether the exemption limit has inspired people to invest in life insurance/ Citizen Investment trust, 84 percent respondents responded positively (table 5.4). In case of exemption limit, most of the respondents (74%) viewed that the exemption for remote area allowances has not inspired people to go and work in remote area (table 5.5). Only 28 percent respondents accepted that the exemption for medical tax provided by Income Tax Act 2058 was adequate and rest of the respondents thought it to be inadequate (table 5.6). But 82 percent respondents viewed that the provision of TDS at income from employment has made convenient to employees as well as tax administrator.

4.11 Cross Tabulation and Hypothesis Testing of the Primary Data

4.11.1 Respondents' view regarding to inclusion of Income from Employment in Income Tax Act, 2058.

The respondents were asked whether the Income Tax Act 2058 has included Income from employment completely or not. In the response almost all Administrators/Auditors (96%) responded positively and only one respondent (4%) responded negatively. In the case of Employees, most of the respondents (64%) view opposite to the Administrators/ Auditors. Only 36 percent employees responded positively towards the question (table5.8, figure 5.1)

Table 4.16
Has the income Tax Act 2058 included Income from
Employment completely?

Response	Administrators/ Auditors		Employees	
	Frequency	%	Frequency	%
Yes	24	96	9	36
No	1	4	16	64
Total	25	100	25	100

Source: Field Survey 2007/08

Figure 4.5
Has the income Tax Act 2058 included Income from Employment
completely?

Chi- Square (t^2) Test

H_0 : There is no significant difference between Tax experts (Administrator/ Auditor) and employees' view regarding to inclusion of Income from employment in Income Tax Act 2058.

H_1 : There is significant difference between Tax experts (Administrator/ Auditor) and employees' view regarding to inclusion of Income from employment in Income Tax Act 2058.

Table 4.17
Hypothesis test (4.16)

Level of Significance	0.05
Number of rows	2
No of column	2
Degree of freedom	1
Tabulated value	3.841
Chi-Square statistics	20.053

Since chi-square (χ^2) test statistic (20.053) is greater than the chi-square (χ^2) tabulated value (3.841), Null hypothesis (H_0) is rejected. This means that the view of tax experts and the employees is significantly different.

Conclusion:

Tax experts (Administrator/ Auditor) are satisfied with inclusion of Income from employment in Income Tax Act 2058 whereas the employees are not. The result may be affected by the difference between level of knowledge and perception regarding to the provision of tax.

4.11.2 Respondents' view regarding to the tax charging in allowances except salary.

Table 4.18

Is it right to charge Income Tax completely in all allowances except the salary?

Response	Administrators/ Auditors		Employees	
	Frequency	%	Frequency	%
Yes	24	96	12	48
No	1	4	13	52
Total	25	100	25	100

Source: Field Survey 2007/08

Table 5.10 displays the clear picture of the respondents view on the rightness of charging tax completely in all allowances except the salary in income tax. 96 percent out of 25 respondents from tax administrator/ auditor group responded the system to be right and only one respondent from the group said that the system is not right. But most of the respondents (52%) from employees' group answered the system to be wrong. And 48 percent of employees said it to be right.

Figure 4.6

Is it right to charge Income Tax completely in all allowances except the salary?

Chi- Square (χ^2) Test

H_0 : There is no significant difference between Tax experts (Administrator/ Auditor) and employees' view regarding to the tax charging in allowances except salary in income tax.

H_1 : There is significant difference between Tax experts (Administrator/ Auditor) and employees' view regarding to the tax charging in allowances except salary.

Table 4.19
Hypothesis test (4.18)

Level of Significance	0.05
Number of rows	2
No of column	2
Degree of freedom	1
Tabulated value	3.841
Chi-Square statistics	14.286

Since chi-square (χ^2) test statistic (14.286) is greater than the chi-square (χ^2) tabulated value (3.841), Null hypothesis (H_0) is rejected. This means that the view of tax experts and the employees is significantly different.

Conclusion:

Tax experts think that the tax should be charged in order to collect more revenue whereas employees think that it is not right to charge tax on allowances.

4.11.3 Respondents' opinion regarding to the exemption limit and peoples' Investment in Life Insurance/ Citizen Investment trust.

Table 4.20

Has the exemption limit inspired people to invest in Life Insurance/ Citizen Investment Trust?

Response	Administrators/ auditors		Employees	
	Frequency	%	Frequency	%
Yes	24	96	12	48
No	1	4	13	52
Total	25	100	25	100

Source: Field Survey 2007/08

Table 5.12 also displays the similar type of result as table 5.11 displays. Respondents were asked whether the exemption limit has inspired people to invest in life insurance/Citizen investment trust. 96 percent out of 25 respondents from tax administrator/ auditor group responded the question positively. But most of the respondents (52%) from employees' group answered the question negatively.

Figure 4.7

Has the exemption limit inspired people to invest in Life Insurance/ Citizen Investment Trust?

Chi- Square (t^2) Test

H₀: There is no significant difference between Tax experts (Administrator/ Auditor) and employees' view regarding to the exemption limit and peoples' investment in Life Insurance/ Citizen Investment trust.

H₁: There is significant difference between Tax experts (Administrator/ Auditor) and employees' view regarding to the exemption limit and peoples' investment in Life Insurance/ Citizen Investment trust.

Table 4.21

Hypothesis test (4.20)

Level of Significance	0.05
Number of rows	2
No of column	2
Degree of freedom	1
Tabulated value	3.841
Chi-Square statistics	.595

Since chi-square (χ^2) test statistic (.595) is smaller than the chi-square (χ^2) tabulated value (3.841), Null hypothesis (H₀) is accepted. This means that the view of tax experts and the employees is not significantly different.

Conclusion:

The visions of tax experts and tax payees on employment tax are found to be similar in this regard. It means that both of them viewed that the

exemption limit has inspired people to invest in Life Insurance and Citizen Investment trust.

4.11.4 Respondents' opinion regarding to the provision of exemption for Remote Area Allowances.

Table 4.22

Has the exemption for remote area allowances inspired people to go and work in remote area?

Response	Administrators/ auditors		Employees	
	Frequency	%	Frequency	%
Yes	12	48	1	4
No	13	52	24	96
Total	25	100	25	100

Source: Field Survey 2007/08

The table 5.14 and the figure 5.4 show the controversial view of administrators and employees. In the response of the question whether the exemption for remote area allowances has inspired people to go and work in remote area, 48 percent respondents from administrators/auditors group responded positively and rest of the respondents negatively.

Figure 4.8

Has the exemption for remote area allowances inspired people to go and work in remote area?

Chi- Square (t^2) Test

H_0 : There is no significant difference between Tax experts (Administrator/Auditor) and employees' view regarding to the provision of exemption for remote area allowances.

H_1 : There is significant difference between Tax experts (Administrator/Auditor) and employees' view regarding to the provision of exemption for remote area allowances.

Table 4.23
Hypothesis test (4.22)

Level of Significance	0.05
Number of rows	2
No of column	2
Degree of freedom	1
Tabulated value	3.841
Chi-Square statistics	12.578

Since chi-square (χ^2) test statistic (12.578) is greater than the chi-square (χ^2) tabulated value (3.841), Null hypothesis (H_0) is rejected. This means that the view of tax experts and the employees is significantly different.

Conclusion:

The vision of tax experts and employees is found to be different in this regard. Employees think that the provision of exemption in remote area allowances has not inspired people to go and work in remote area. But tax experts view that people are somehow inspired by the provision.

4.11.5 Respondents' opinion regarding to the provision of exemption for Medical Tax Credit provided by Income Tax Act, 2058.

Table 4.24

Is the exemption for Medical Tax Credit provided by Income Tax Act, 2058, adequate?

Response	Administrators/ Auditors		Employees	
	Frequency	%	Frequency	%
Yes	13	52	1	4
No	12	48	24	96
Total	25	100	25	100

Source: Field Survey 2007/08

The table presented above and figure 5.16 pleads that almost all respondents from employees' group (96%) are of the view that the exemption for Medical Tax Credit facilities provided by Income Tax Act 2058 is not adequate whereas most of the respondents from Administrators/ Auditors groups (52%) said that they are adequate.

Figure 4.9

Is the exemption for Medical Tax Credit provided by Income Tax Act, 2058 adequate?

Chi Square Test

H₀: There is no significant difference between Tax experts (Administrator/ Auditor) and employees' view regarding to the provision of exemption for Medical Tax Credit provided by Income Tax Act 2058.

H₁: There is significant difference between Tax experts (Administrator/ Auditor) and employees' view regarding to the provision of exemption for Medical Tax Credit provided by Income Tax Act 2058.

Table 4.25
Hypothesis test (4.24)

Level of Significance	0.05
Number of rows	2
No of column	2
Degree of freedom	1
Tabulated value	3.841
Chi-Square statistics	14.286

Source: Field Survey 2007/08

Since chi-square (χ^2) test statistic (14.286) is greater than the chi-square (χ^2) tabulated value (3.841), Null hypothesis (H₀) is rejected. This means that the view of tax experts and the employees is significantly different.

Conclusion:

Employees view that the provision of exemption for Medical Tax Credit provided by Income Tax Act 2058 is inadequate. But most of the tax experts' view the provision to be adequate.

4.11.6 Respondents' opinion regarding to the provision of TDS at Income from Employment.

Respondents were further asked whether the provision of TDS at income from employment has made convenient to employee and tax administrator. The responses of the respondents are presented below.

Table 4.26
Has the provision of TDS at income from employment made convenient to employee and tax administrator?

Response	Administrators/ Auditors		Employees	
	Frequency	%	Frequency	%

Yes	22	88	19	76
No	3	12	6	24
Total	25	100	25	100

Source: Field Survey 2007/08

The table 5.18 put on view that most of the respondents agree that the provision of TDS at income from employment has made convenient to employee and tax administrator. 88 percent respondents from administrator/ auditor group and 76 percent of respondents from employees group responded positively towards the question. The percentage of respondents who responded negatively is 12 and 24 respectively.

Figure 4.10

Has the provision of TDS at income from employment made convenient to employee and tax administrator?

Chi- Square (t^2) Test

H₀: There is no significant difference between Tax experts (Administrator/ Auditor) and employees' view regarding to the provision of TDS at income from employment.

H₁: There is significant difference between Tax experts (Administrator/ Auditor) and employees' view regarding to the provision of TDS at income from employment.

Table 4.27
Hypothesis test (4.26)

Level of Significance	0.05
Number of rows	2
No of column	2
Degree of freedom	1
Tabulated value	3.841
Chi-Square statistics	1.220

Since chi-square (χ^2) test statistic (1.220) is smaller than the chi-square (χ^2) tabulated value (3.841), Null hypothesis (H_0) is accepted. This means that the view of tax experts and the employees is not significantly different.

Conclusion:

The vision of tax administrator and tax payee is found to be similar regarding to the provision of TDS at income from employment. It means that the provision has made convenient to both employees and tax administrators.

4.12 Correlation Analysis

Income Tax Act 2058 has provided different facilities in employment income. To know the respondents' opinions towards the provided facilities, they were requested to rank the 5 statements asked in the questionnaire. They were further requested to give the number according to their judgment ranking from 5 for the most important to 1 for the least important statement. The responses received from the respondents are tabulated and calculated below.

Table 4.28
Calculation of Rank correlation coefficient

S.N.	SAlternatives	Total points X	Total points Y	Rank for X	Rank for Y	D=R ₁ - R ₂	D ²
1	To go and work in remote	76	49	3	4	-1	1

	area						
2	To invest in Life insurance	110	111	1	1	0	0
3	To determine self assessment tax	71	70	4	3	1	1
4	To invest in Citizen Investment Trust	86	108	2	2	0	0
5	To donate in tax-exempt organization	32	37	5	5	0	0
							D ² =2

Note: X refers to judgment of Tax experts (Auditor/Administrator) and Y refers to the judgment of Employees.

We have formula,

$$r_{X1Z} = \frac{6 \cdot D^2}{n(n^2 - 1)}$$

$$X1Z = \frac{6 \cdot 2}{5(5^2 - 1)}$$

$$= 0.9$$

The rank correlation indicates that there is high degree of positive correlation between tax experts (Administrators/Auditors) and employees' ranking regarding to facilities provided by Income Tax Act 2058 in employment income.

4.13 Major Findings

While studying above secondary data related to the study some findings can be outline as follows:

- Public revenue of the country constitutes tax and non-tax revenues. In 1991/92, Rs.6287.2 millions has been contributed by tax revenue whereas non-tax revenue had contributed Rs.1489.6 millions during this period. In 2007/08, the contribution of tax and non-tax revenue in total revenue has increased to Rs. 59759 millions and Rs. 15758.9 millions respectively. Average contribution of tax revenue and non-tax revenue in total revenue has come out about 79.13 and 20.87 percent respectivelyThe contribution

of income tax has the major share in direct taxation. Income tax consists of public enterprises semi-public enterprises, private-corporate bodies, individuals, remuneration and tax on interest. Recent trend shows that contribution from individual, public enterprises, private corporate bodies, remuneration and tax on interest have occupied the first, second, third, fourth and fifth positions in income tax.

✚ Tax revenue consists of direct tax revenue and indirect tax revenue. Nepalese tax revenue has been heavily dominated by indirect tax revenue. The seventeen years average of indirect tax revenue was 77.27 percentages whereas direct tax revenue contributed only 22.73 percent. In total inland tax revenue there has been dominant contribution of VAT. The contribution of VAT in fiscal year 2007/08 was about 51 percent. Income tax falls in second position with the contribution of about 25 percent excluding of interest and house/property tax. To divest the economy in the channel of development, it is necessary to increase the share of direct tax revenue. Resource mobilization through direct taxation should be focused.

✚ The collection of tax revenue from different sources is not found satisfactory. However tax collection from remuneration and interest has exceeded the target. There has been poor collection of tax from business. In fiscal year 2007/08, the percentages of tax collection against the target from Government Corporation and public limited are 61.96 and 58.31 respectively. The collection of revenue from private sector in comparison to public sector is high which 90.71 percentage of target is in fiscal year 2007/08. Similarly, the revenue collection from industry, trade, profession and vocation is also relatively high which is 82.32 of target. However these are also not satisfactory result in terms of revenue collection. An intense effort should be taken to increase the revenue collection from business sector and make it flourish.

- ✚ Direct tax revenue consists of income tax revenue, land revenue and registration and miscellaneous taxes urban house and land tax, vehicle tax and others taxes. Among direct tax revenues, income tax revenue has occupied the largest share. Average contribution of income tax revenue in direct tax revenue was 70.03 percent from fiscal years 1991/92 to 2007/08. In 1991/92. It was 66.07 percent but it has increasing trend. In 2003/04, it reached 89.71 percent. However, it has fallen to 77.64 Percent in the fiscal year 2007/08.
- ✚ In 1991/92, income tax revenue contributed 11.31 percent, 13.99 percent and 66.07 percent of total revenue, total tax revenue and direct tax revenue respectively. In 2007/08, 13.96 percent, 17.64 percent and 77.64 percent of total revenue have been contributed by income tax revenue respectively. In average, 14.67 percent of tax revenue and 79.63 percent of direct tax revenue have been contributed by income tax revenue. Similarly, its average contribution total revenue over the seventeen years period is 12.07 percent.
- ✚ Some data in economic survey 2007/08 and in the annual report 2007/08 published by Inland Revenue Department are found different. This is perhaps, the source of these publications are different. Since this is the part of further research, secondary data have been presented in this thesis as and when they are published.
- ✚ Nepalese economy is facing serious resource gap problems from early period of growth. Total expenditure has exceeded total revenue in each subsequent year. The gaps have reached to Rs. 27111.60 and 14300.50 in the year 2006/07. The resource gap was Rs. 10228.30 millions in 1991/92 and Rs. 27111.60 millions in FY 2005/06. This pertains to the serious deficiency in national budget of the country. Fiscal gap has also been showing an increasing trend. The fiscal gap in FY 1991/92 and 2006/07

were Rs. 2881.30 millions and Rs. 14300.50 millions respectively. This indicates that the mobilization of resources has not increased to the level in which the level and speed of its expenditure is increasing. Regular expenditure of the government in recent years is increasing due to the result of increasing burden of debt servicing and salary as well as allowances of government personnel and most importantly due to the increasing expenditure in non-productive sector in recent years.

Studying above primary data related to the study some findings can be outline as follows:

- ✚ 96 percent out of 25 respondents from tax administrator/ Auditor group responded that the exemption limit has inspired people to invest in life insurance/Citizen investment fund. But most of the respondents (52%) from employees' group respond the question negatively.
- ✚ 96 percent out of 25 respondents from tax Administrator/ Auditor group think that the system of charging tax completely in all allowances expects the salary is right and only one respondent from the group said that the system is not right. But 52 percent respondents from employees' group are in the negation of the system
- ✚ 96 percent Administrators/Auditors are of the view that the Income Tax Act 2058 is successful to include income from employment completely whereas most of the employees (64%) view opposite to the Administrators/ Auditors.
- ✚ Only 48 percent respondents from administrators/auditors group and 4 percent respondents from employee group are of the idea that the exemption for remote area allowances has inspired people to go and work in remote area. Rest of them do not believe that the provision of exemption

for the remote area allowances encourage the employee to go and work in the remote area.

- ✚ 96 percent of respondents from employees' group and 48 percent of the respondents from the Administrator/ Auditors' group are of the view that the exemption for Medical Tax Credit facilities provided by Income Tax Act 2058 is not adequate.
- ✚ Employees want to deduct the transpiration expenses and breakfast expenses from their employment income.
- ✚ There is high degree of positive correlation between tax experts' (Administrators/Auditors) and employees' ranking regarding to facilities provided by Income Tax Act 2058 in employment income.
- ✚ 88 percent respondents from administrator/ auditor group and 76 percent of respondents from employees' group agree that the provision of TDS at income from employment has made convenient to employee and tax administrator.

Chapter-V

Summary, Conclusion and Recommendation

5.1 Summary

The present study entitled to contribution from employment income to government revenue is related to the employment aspect of income taxation. In this study, contribution from employment income to government revenue has been analyzed, examination and analysis of effectiveness of income tax revenue has been done and contribution of employment income to total tax revenue and income tax revenue of Nepal has been shown. This study has been based on the opinion about tax rules and laws in the view of employees and tax experts. Also, this study has covered the role of income tax in Nepal. Income from employment income in government revenue comparatively study on the role of income tax from employment income to total tax revenue and the government revenue of Nepal.

Various books, articles, dissertations and other reference materials are studied during the course of this study. Almost dissertations have been found written on various aspects of income taxation. Books are found based mainly on the syllabus of universities so they are descriptive than analytical. Mr. Girija Prasad Koirala has written thesis about employment income but he has analysed about secondary data. He has not taken about the view employees and administration in employment income.

Various concepts of taxation have been discussed in this study. Source of government revenue meaning of tax classification of taxes historical background of income tax heads of incomes and concept of employment have been discussed. Also in this study has been discussed about Indian Income Tax Act 1961.

Secondary data as well as primary data are used in this study. Economic survey has been used as the major secondary data. Opinion survey technique has been used in this study to collect primary data an employment income. Primary data have been collected from two

respondent groups tax experts and employees. Tax experts consist of chartered accountants lawyers, Government officers. Employees consist of employees working in banks, government offices and other private organizations. A set of questionnaire was developed and 50 questionnaires have been distributed to the respondents 25 each for both groups. All the responses have been received from both groups statistical tools like rank correlation and chi-square test for hypothesis have been used to analyze and interpret the data so as to obtain desired result. In calculating finding of statistical tools SPSS programme has been used.

Secondary analysis has been done by presenting the relevant data into tables and figures. Percentages and averages have been computed from 1991/92 to 2007/08. Comparative analysis for different years has been done in the analysis part of the study. Major findings of the secondary data analysis are put at the end of the chapter.

Data obtained from opinion survey with the respondents have been tabulated and analyzed to achieve desired result. Hypothesis have been set out and tested in order to see the similarity or dissimilarity in the opinions of tax experts and employees on various aspects of employment taxation. Major findings of the primary data analysis are put in the end of the chapter.

Conclusions of the study are given in the last chapter. Some recommendations are also given on the end of the study to increase the contribution of employment income to income tax revenue.

In this way this study has been completed with the achievement of the stated objectives.

5.2 Conclusion

The conclusions of this study are mentioned below:

- ✚ Tax revenue consists of direct and indirect tax revenues. From fiscal year 1991/92 to 2007/08, average contribution of indirect tax revenue has been found 76.75 percent whereas direct tax revenue has contribution only 23.25 percent in tax revenue.
- ✚ Nepalese economy is suffering from serious resource gap and fiscal gap problems. The gap has been widening in the recent years as compared to the past years.
- ✚ Nepalese revenue structure is composed of tax and non-tax revenues. Tax revenue has largest share of contribution (i.e. more than $\frac{3}{4}$ of total revenue).
- ✚ Income tax has the average contribution of 15 percent in tax revenue and 78 percent in direct tax revenue from 1991/92 to 2007/08. Contribution of individual sectors in income tax revenue has been highest in the study period. Income tax from employment has occupied fourth position in total income tax revenue of Nepal. Its contribution has been increasing in the recent years. The average contribution of employment income to income tax revenue of Nepal from fiscal year 1991/92 to 2007/08 has remained at 6.25 percent through its contribution is increasing in the recent years.
- ✚ Tax/GDP ratio of Nepal has not been found satisfactory as compared to other developing countries. Income tax/GDP ratio of Nepal has average 1.6 percent from 1991/92 to 2007/08.
- ✚ Medical tax credit is not sufficient for employees medical treatment.
- ✚ Tax administrator as well as employees has recognized income tax as an important source of collecting government revenue.

- ✚ The contribution of income tax from employment in total income tax revenue has not been found satisfactory due to low pay scale of the employees, in effectiveness in the implementation of the Act, etc.
- ✚ Employees have faced problem while paying income tax such as poor responses from tax administrators, unnecessary delays and hassles from the tax offices in getting tax clearance certificate.
- ✚ Remote areas allowance has not encouraged to employees work at remote areas.
- ✚ There is less chance of the evasion in employment income as tax has already deducted as source while receiving salaries.

5.3 Recommendation

On the basis of above analysis the following recommendations are offered regarding taxation of the employment income:

- ✚ The government should provide incentives for regular tax payer and they should be reward. The regular tax payer should get reorganization from government.
- ✚ Income tax Act should be made effective in the implementation aspect. Employees should be provided knowledge of tax so that they will be aware of the existing provisions in the force of the Income Tax Act regarding taxation of employment income.
- ✚ Standard deduction for expenses in the course of generating taxable income should be provided from employment income of previous Income Tax Act

2031. Transportation expenses, home rent paid by the employee etc, should be allowed for deduction at a standard amount.

- ✚ The contribution of employment income in income tax revenue has been increasing in the recent years as compound to previous years. It is a good sign for government revenue. The tax slabs should be adjusted in such a way that high income earners should be made to pay higher income taxes.
- ✚ Remote area allowance is not sufficient to encourage the employees to work in remote area, so remote area allowance should be adjusted according to difficulties of working at remote area.
- ✚ The medical tax credit is not adequate to meet the actual medical expenses. So the government should provide minimum Rs. 1500 for medical tax credit.
- ✚ To increase the contribution of employment income in income tax revenue of Nepal, new tax-payers should be brought into tax net, tax deduction at source should be made more effective etc.
- ✚ Medical expenses paid by employer, Dashain allowance, etc should be tax exempted.
- ✚ The government revenue is heavily contributed by indirect tax revenue. Only 25 percent (average) of tax revenue has been contributed by direct tax revenue. It is necessary to increase the share of direct tax revenue.
- ✚ Behaviour of tax administrators should be improved and they should have the feeling of contribution toward the state.
- ✚ Rules and regulations of the income tax should be simplified.

- ✚ Taxpayers should be provided taxation knowledge.
- ✚ Current exemption limit should be increased and couple should get significantly higher tax exemption limit than individual.

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