

# **“EFFECTIVENESS OF INCOME TAX SYSTEM IN NEPAL”**

## **A THESIS**

### **Submitted by**

**Lekh Nath Adhikari**

**Shanker Dev Campus**

Campus Roll No.1525/2062

T.U. Regd. No.:7-2-302-64-2002

Exam Symbol No.:8898

### **Submitted to**

Office of the Dean  
Faculty of Management  
Tribhuvan University

In Partial Fulfillment of the Requirements for the  
**Degree Of Master of Business Studies (M.B.S.)**

Putalisadak, Kathmandu  
September, 2010

## RECOMMENDATION

This is to certify that the thesis

Submitted By:

**Lekh Nath Adhikari**

Entitled:

**“EFFECTIVENESS OF INCOME TAX SYSTEM IN NEPAL”**

Has been prepared as approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

.....

Prof. Dr. Kamal Deep Dhakal

(Thesis Supervisor)

.....

Prof. Bisheshwor Man Shrestha

(Head, Research Department)

.....

Prof. Dr. Kamal Deep Dhakal

(Campus Chief)

Date:- .....2010

# VIVA - VOCE SHEET

We have conducted the viva-voce examination of the thesis.

Submitted By:

**Lekh Nath Adhikari**

Entitled:

**“EFFECTIVENESS OF INCOME TAX SYSTEM IN NEPAL”**

And found the thesis to be the original work of the student written in accordance with the prescribed format. We recommend this thesis to be accepted as partial fulfillment of the requirements for the Master’s Degree of Business Studies (M.B.S).

**Viva- Voce Committee:**

Chairperson, Research Committee: .....

Member, (Thesis Supervisor): .....

Member (External Expert): .....

Date:- .....

# DECLARATION

I hereby, declare that this thesis entitled “**Effectiveness of income tax system in Nepal**” has been submitted to the Office of the Dean faculty of management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirements for the Master of Business Studies (MBS) under supervision and guidance of Prof. Dr. Kamal Deep Dhakal of Shanker Dev Campus Tribhuvan university.

Date:-.....2010

**Researcher**

**Lekh Nath Adhikari**

**Shanker Dev Campus**

Campus Roll No.1525/2062

T.U. Regd. No.:7-2-302-64-2002

Exam Symbol No.:8898

## ACKNOWLEDGEMENTS

This thesis has been prepared for the completion of MBS programmed Tribhuvan University. This study is an attempt to analyze the contribution of income tax to total Inland Revenue of Nepal. This thesis has come in this shape not by the sole effort of me but the contribution of many individuals and institutions.

I am extremely indebted to my thesis advisor "**Prof. Dr. Kamal Deep Dhakal**" Shanker Dev Campus, Tribhuvan University for his generous encouragement and supervision of my entire research work.

I am very much grateful to **Prof. Bishwashor Man Shrestha** and other respected teachers of Shanker Dev Campus, Tribhuvan University for providing invaluable suggestion, information and comments.

I would like to express my special thanks to joint secretary **Mr. Shishir Kumar Dhungana**, undersecretary **Mr. Rajendra Prasad Dahal**, tax officer **Mr. Jay Bahadur Bhandari** and **Mr. Purushottam Lamichane** for providing thesis Reports, books and valuable suggestions to complete this thesis. I am very thankful to **Mr. Atmaram Khatiwada** for helping in thesis preparation. In the same way, I would like to express my deep appreciation to friends **Mrs. Namrata**, who always inspired and helped me for preparing this thesis. I would like to acknowledge to **Mr. Shree Kanta Parajuli** and **Mr. Krishna Raj Pandey** for computer typing.

I am grateful to all the persons who provided valuable responses directly and indirectly.

**Lekh Nath Adhikari**

**M.B.S. Final Year**

# TABLE OF CONTENTS

VIVA-VOCE SHEET

RECOMMENDATION

DECLARATION

ACKNOWLEDGEMENT

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

## CHAPTER: ONE

### INTRODUCTION

1.1	Background of the Study	1
1.2	Statement of the Problem	6
1.3	Objectives of the Study	8
1.4	Significance of the Study	9
1.5	Limitations of the Study	9
1.6	Organization of the Study	10

## **CHAPTER: TWO**

### **REVIEW OF LITERATURE**

2.1	Introduction	11
2.1.2	Review of Income Tax Act 2058	12
2.1.3	Provisions under Income Tax Act 2058	14
2.1.4	Definition of related terms under Income Tax Act 2056	14
2.1.5	Income Heads	21
2.1.6	Features of Income Tax Act 2058	25
2.1.7	Tax Exempted Amount	29
2.1.8	Business Exemption and Concessions	30
2.1.9	Tax Exempt Organization	32
2.1.10	Tax Rates	33
2.1.11	Tax to Resident	34
2.1.12	Tax to Entity	37
2.1.13	Withholding Payments	38
2.1.13 (a)	Withholding By employers	38
2.1.13(b)	Withholding From Investment Returns and Service Fees	38
2.1.14	Objectives of Income Tax	39
2.2	Reviews of Books	40

2.3	Reviews of Thesis	44
2.4	Research Gap	54

**CHAPTER: THREE**  
**RESEARCH METHODOLOGY**

3.1	Research Design	55
3.2	Population and Sample	56
3.3	Nature and Sources of Data	56
3.4	Selection of the Respondents	57
3.5	Data Collection Procedure	57
3.6	Data Analysis Tools	57

**CHAPTER: FOUR**  
**PRESENTATION AND ANALYSIS OF DATA**

4.1	Analysis of Secondary Data	58
4.2	Analysis of Primary Data	73
4.2.1	Most Important factors for Effectiveness of Income Tax in Nepal	73
4.2.2	Effectiveness of Fine and Penalties	75
4.2.3	Fine and Penalties increase the Government Revenues	75



4.2.4 Poorness of Taxpaying Habit of Nepalese people	76
4.2.5 Effect of Fine and Penalties to Increase Taxpaying Habit of Nepalese people	77
4.2.6 Appropriateness to Pay Rs 5000  - Minimum Fine	78
4.2.7 Effectiveness of Income Tax Administration in Nepal	79
4.2.8 Provision of Penalty who Fail to Register	81
4.2.9 Effectiveness of Tax Administration to Impose Fine and Penalties	82
4.2.10 Sufficiency of Provision Made Under the Nepalese Income Tax Act 2058	84
4.3 Major Findings	86

## **CHAPTER: FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

5.1 Summary	90
5.2 Conclusion	92
5.3 Recommendations	94

## **BIBLIOGRAPHY**

## **APPENDIX**

## LIST OF TABLES

Table No.	Heading	Page No
2.1	Tax to Resident	34
2.2	Remote Area Exemption for Individuals	35
2.3	Annual Tax According to Table of Vehicle	36
2.4	Tax to Entity	37
3.1	Group of Respondents and sample Size	56
4.1	Mobilization of Income Tax	58
	Inland Revenue collection and Gross Domestic Production	59
4.3	Condition of Aggregate Revenue Collection in Fiscal Year 2008/09	60
4.4	Revenue collection of Inland Revenue Department In fiscal year	61
	Revenue Collection of Inland Revenue Department	63
	Comparative study of structural condition of income tax	68
	Comparative collection of Revenue in Fiscal year 2008/09	70
4.8	Collection of Income Tax from Different Sources	71
4.9	Most Important factors for Effectiveness of Income Tax in Nepal	73
4.10	Cases in which Aspect the Fine is Higher	74
4.11	Effectiveness of Fine and Penalties	75
4.12	Fine and Penalty Increases the Government Revenue	76
4.13	Poorness of Tax Paying Habit of Nepalese People	76

4.14	Effect of Fine and Penalties to Increase Tax Paying Habit of Nepalese people	77
4.15	Effective Level of Fine and Penalties to Increase Taxpaying Habit of Nepalese People	78
4.16	Appropriateness of Payment Rs 5000 as Minimum Fine	79
4.17	Most Important factors for Effectiveness of Income Tax in Nepal	80
4.18	Causes of Ineffectiveness of Nepalese Income Tax Administration	80
4.19	Necessity of Provision of Penalty who fails to Register	81
4.20	Effectiveness of Tax Administration to Impose Fine and Penalties	82
4.21	Reasons of Ineffective Tax Administration to Impose Fine and Penalties	83
4.22	Sufficiency of Provision of Income Tax	84

## LIST OF FIGURES

<b>Figure No.</b>	<b>Heading</b>	<b>Page No.</b>
4.1	Structural condition of Inland Revenue Department	62
4.2	Tax Revenue Collection	64
4.3	VAT Collection	65
4.4	Income Tax Collection	66
4.5	Excise Duty	67
4.6	Structural Condition of Income Tax	69
4.7	Comparative Collection of Revenue in Fiscal Year 2008/09	71
4.8	Collection of Income Tax from Different Sources	72

## **ABBREVIATIONS**

A.D.	Anno Domini
BBS	Bachelor of Business Studies
BS	Bikram Sambat
CBS	Central Bureau Statistics
Co.	Company
DDG	Deputy Director General
DG	Director General
e.g.	For Example
Etc.	Etcetera
FY	Fiscal Year
GON	Government of Nepal
GDP	Gross Domestic Product
i.e.	That is
IRD	Inland Revenue Department
IRO	Internal Revenue Office
ITA	Income Tax Act
ITR	Income Tax Rules
IY	Income Year
LTO	Large Taxpayer's Office
MBS	Master of Business Studies
MOF	Ministry of Finance
NRB	Nepal Rastra Bank
N.D.	no date
PAN	Permanent Account Number
Rs.	Rupees
SAARC	South Asia Association for Regional Co-operation
S.N.	Serial Number

TIN	Tax Payer Identification Number
TU	Tribhuvan University
VAT	Value Added Tax
VDIS	Voluntary Discussion Disclosure of Income scheme
WWW	World Wide Web