

# CHAPTER – ONE

## INTRODUCTION

### 1.1 Background of the Study

Economic development of every country whether it is developed or developing is based on its business activities. Business consists of various types of economic activities in the form of establishment and operation of industries, trade, profession and vocation. One of the structural features of modern economic scenarios is business activity. The economic activities in the form of business are growing rapidly in the world. Rate of establishments of business has been increased as people's needs, wants and preferences. Moreover, it assists movement of people from one place to another place and it also helps to increase establishment and operation of new business enterprises simultaneously. Business operations can be conducted in a number of different forms and these may be classified in different types: sole proprietorship business, partnership, private limited company (Pvt. Ltd. Co.), public limited company (Ltd. Co.) and so on. As the concentration of the study is associated with sole proprietorship business, it is better to go in depth to justify sole proprietorship business, its role in the economy and its importance in the society. Similarly, the awareness of sole proprietors towards income tax and value added tax (VAT) is equally important from the view point of revenue collections.

The sole proprietorship is the oldest, most common and simplest form of business organization; owned and managed by an individual person. It can be organized very informally and does not require much legal formalities. It is relatively simple to manage and control. The study of awareness of sole proprietors towards income tax and VAT has special relevance in a country like Nepal, which is undergoing rapid economic transformation and where a substantial proportion of sole proprietorship businessmen continues to be drawn from general people. The facts of increased interests of people in business especially in sole proprietors sharply signifies the symptoms of operating business activities and reflects the interests, consciousness and awareness of people's contribution to the government fund in the form of taxes.

To a great extent, the level of consciousness, awareness and sincerity of sole proprietors towards income tax and VAT reflects the realization of taxes for the overall economic, social, cultural development, strong political structure and global economic development as well. Sole proprietorship is a key element in a task of economic development of a country. Increased

awareness of sole proprietors towards income tax and VAT depends upon the knowledge, education, family background, realization of role of revenue in economic development political and business environment of that country. Income tax and VAT are the means and tools to collect revenue on the basis of income generated and value added.

Trade and industry can be prosperous in favorable situation of that nation. Providing favorable situation to conduct any type of economic and non economic activities is primary responsibility of that state government. In order to provide business friendly environment, the government should bring appropriate acts and rules into practice, should establish peace in the country. Not only this but also the state government has responsibility to fulfill the needs of people of that particular country. For this purpose government uses different types of revenue collection tools in the form of taxes, fines, penalties etc.

Seen in this light, "A study on Awareness of Sole Proprietors towards Income Tax and VAT in Kathmandu District", assumes special relevance. With existing political situation, fluctuated business establishments and negligence of Nepal Government (GON), it has become a matter of great concern to know the awareness of sole proprietors towards income tax and VAT.

The government of every nation is responsible for a welfare state. For a welfare state the government of a nation is liable to provide all facilities and rights to the people. To provide all facilities to the people government needs resources. In order to carry out development works, to maintain daily administration, to perform public welfare activities and to maintain peace and security in the nation, government needs huge amount of fund. The fund needed to the government is collected basically from two sources-debt and revenue. Debt (deficit financing) is collected through internal and external sources. Debt collected within country is called internal debt and debt collected from outside the country is called external debt.

The government collects revenue form two sources, such as non-tax and tax revenue. The main objective of non tax revenue is not to collect revenue but to provide services to the people. The forms of non tax revenue are administrative incomes, revenue from public enterprises, grants and gifts etc. The main objective of tax revenue is to collect more revenue for financing government expenditure. The forms of tax revenue are income tax, value added tax, property tax, custom duty, excise duty etc. Revenue is collected under the prevailing Acts.

Income tax is a tax which is imposed on the income including revenue and gain generated during the particular income year. If there is no generation of income there is no compulsion of paying tax since tax is levied on income i.e. wealth. People conduct business, involve in employment and take risk of investment made. Our income tax Act 2058 (ITA 2058) imposes tax on those activities contributing toward the creation of wealth. Wealth is created with the help of labour, capital and capital-labour management activities that generate income from employment, investment and business respectively.

VAT is developed form of sales tax. The basic objectives of VAT are to collect revenue. It is the tax which is imposed on the value addition in each stage of production and distribution. The sales tax is replaced by VAT to avoid cascading to make account system transparent and to control the tax evasion. VAT can be collected in two ways – subtractions method and addition method. Subtraction method of VAT is popular in the world. Informal initiation of VAT in Nepal was made in 2052 BS but formal introduction of VAT in Nepal was made from Mangshir 1, 2054 under certain threshold. VAT has replaced sales tax, hotel tax, entertainment tax, and contract tax. Right now, the rates of VAT in Nepal are 0% and 13%. Certain goods are exempted from VAT in Nepal.

The word ‘business’ in general refers to exchanging goods with money and most of the people consider the same. From the early age, people used to exchange goods with goods because money was not invented at that time. It was the only means of fulfilling the particular needs of people. Such system of exchanging goods is called barter system. When peoples’ needs push them towards different necessities, they invented money gradually and they started transaction with money. There is still prevailed barter system in remote area, where availability of money is scarce.

In the modern age the term business refers to an enterprise, commercial entity or firm in either private or public sector, concerned with providing products or services to satisfy customer requirements. These are distinguished from one another according to the types of enterprise operations, trade, professions or vocations. Business is a lawful activity, conducted primarily for the purchase, sales, lease, manufacture, processing, marketing of products, commodities or for the sale of service to public. Business posses the characteristics of sale or transfer of title, risk of uncertainty, profits, continuity and involvement of more than one party.

Business operations can be conducted in a number of different forms and these can be classified into different types. The major types and forms are as follows:

**On the basis of activities:**

- ) Industries
- ) Trade
- ) Profession
- ) Vocation

**On the basis of liability:**

Unlimited:

- ) Proprietorship
- ) Partnership < 20

Limited:

- ) Pvt. Ltd. Co.
- ) Ltd. / Corp's
- ) Partnership > 20

It doesn't matter whether people operate business or not but it matters whether people involved in business are aware or not towards prevailing Acts, rules and other provisions. Every government collects revenue from different sources to handle day to day administrative works, development works and social works. Business is one of the important sources to collect revenue which pay taxes on income generation. So business enterprises should be aware towards tax Acts, rules, provisions and facilities provided by the government. Also, the government should be responsible to make people aware towards tax and formulate and implement the programs which make people familiar with importance of tax and taxation in nation.

When business came into existence, its scope spread out all over the world because it is the only means of economic activities which leads to the world towards prosperity. Economic prosperity is possible only when people play their role paying taxes in time according to rules, stating actual transactions, encouraging others to do the same, creating employment opportunities and bearing

social responsibility. The need of proper utilization of revenue is another aspect. So, role of awareness of sole proprietors towards income tax and VAT is important.

## **1.2 Statement of the Problem**

The problem toward which this study is directed is to identify the awareness and sincerity of sole proprietors in Kathmandu. The variable at which the study is concerned is awareness and sincerity of sole proprietors towards income tax and VAT. More specifically, this study provides the degree of awareness of sole proprietors of Kathmandu district on income tax and VAT. The statement of the problem can be mentioned as follows:

- J What is the present level of awareness of the sole proprietors towards Income Tax Act and VAT.
- J What are the factors that make the awareness strong (positive) towards income tax and VAT?
- J What are the effects (good and bad aspects) of awareness and sincerity of sole proprietors towards income tax and VAT on revenue collection?
- J What are the opinions of sole proprietors on payment of taxes on time as per the provisions of current Acts and Rules and Directives framed under such Acts.
- J What is the contribution of Income Tax from private sector and VAT on total national revenue of Nepal ?

## **1.3 Objectives of the Study**

The study has been carried out with some specific objectives. The main objectives of the study is to analyze the awareness of sole proprietors towards income tax and VAT and give appropriate suggestions to the concerned authority to improve the knowledge of people relating to tax and tax system so that the government can collect more and more revenue which can be utilized in economic development. Similarly, the other objectives can be outlined as: to collect the relevant opinions of sole proprietors on existing tax system, effectiveness and implementation of it; to find out the degree of awareness of sole proprietors towards Income Tax Act 2058 (ITA 2058) and Income Tax Rules 2059 (ITR 2059); to draw the specific findings and conclusions of the study and lastly to provide valuable suggestions and recommendation on how the government can create such environment that people who conduct business and contribute to revenue of government by paying taxes spontaneously.

Objectives of the study are shown in points below:

- J To find out awareness of sole proprietors towards provisions of ITA (2058), ITR (2059) and VAT Act 2052, directly related with business activities.
- J To assess the awareness of sole proprietors towards existing tax system and effectiveness of its implementation.
- J To assess the contribution of Income Tax from private sector and VAT to total national revenue of Nepal.
- J To draw the specific findings and conclusions on the basis of study and to provide valuable suggestions and recommendation.

#### **1.4 Significance of the Study**

Business plays the major role in economic development of every country whether in developed or developing country. In relation to economic development, sole proprietors' contribution on national revenue occupies the major share. In developing countries like Nepal, the majority of people are depending upon agriculture for their survival. For economic development of nation, it is necessary to conduct business in any form of (industry, trade, profession, vocation) it. But, due to lack of educated people, good business culture, business friendly policies, business friendly environment, programs that motivate people to conduct and registered the business, the country can not attract business potentials. The solution of the problems can be achieved through the programs that educate people, business friendly policies, political stability and co-operative government officials.

To mobilize the required fund for economic development, the GN should create business friendly environment, make firm registration procedure ease and make people conscious about tax. By which more revenue can be generated in the form of income tax and VAT which is very essential for economic development. Thus, income tax and VAT seem to be major potential resources for mobilizing larger amount of financial resources in Nepal. In the same time, income tax evasion reduces the government revenue collection which is foundation of the nation's economic development.

Various studies have been conducted with regards to various taxes. However, very negligible studies have been done in the field of tax awareness, tax consciousness. It is prevailed in practice that some of the persons, groups who conduct business try to hide income, feel hindrance to

register the firm and feel exploited if they are compelled to pay tax. In this situation, it is believed that such study would necessary be helpful to know the awareness and consciousness of sole proprietors towards income tax and VAT.

Income tax and VAT are the prominent tools to collect revenue which has great importance in economic development of nation. But, there is lack of tax paying habits and tax awareness in various classes of people. So, this study will be helpful to find out the tax awareness and consciousness of people, to organize such programs which educate people towards tax, to recognize the business friendly environment and making policies accordingly and to take corrective measures and actions which prevent the business malpractices. Not only this, but this study will be helpful to economists, planners, tax officers, tax administrators, and those who are interested to know the tax awareness and consciousness. Moreover, it will be helpful to government to formulate and amend the existing tax policies, acts and rules to cover all business activities in tax net.

### **1.5 Limitations of the Study**

In course of making the study fruitful and to meet the targeted objectives, the study of awareness of sole proprietors towards Income Tax and VAT in Kathmandu District is limited on the following ground:

- J This study will be concentrated on sole proprietors of Kathmandu District only. So, findings of this study will not represent the awareness of all businessmen of Nepal.
- J This study will fundamentally be based on the primary data and responses provided by the sole proprietors. However, assessment of contribution of Income Tax from private sector and VAT on the national revenue of Nepal is conducted on the basis of secondary data.
- J Awareness of sole proprietors towards income tax and VAT covers only existing level of the consciousness, knowledge and sincereness of sole proprietors towards ITA, ITR and VAT Act.
- J Tax evasion and tax avoidance are not taken into consideration in this study. However, the willingness and habits of complying with the provisions of ITA and VAT on time will be the subject matters of this study.
- J Resources, time and non-response problem from the targeted respondents has also created constraint on the scope of the study.

) For the purpose of data analysis, respondents are categorized as selected by themselves while responding the questionnaire.

## **1.6 Organization of the Study**

It is believed that, organizing the study is the crucial part of the whole thesis writing. Systematic organization of the study make ease to bring the study on the format prescribed by the research department. Considering the format prescribed by the research department of TU, organization of the study will be as follows:

Chapter One: Introduction: This chapter consists of background of the study, statement of the problem, objectives of the study, significance of the study, limitation of the study and organization of the study,

Chapter Two: Review of Literature includes: This chapter consists of conceptual and theoretical review of related literature and studies,

Chapter Three: Research Methodology: This chapter consists of research design, population and sample to be studied, data collection procedures, data analysis tools and chapter plan/scheme,

Chapter Four: Data Presentation and Analysis: This chapter consists of data presentation and analysis and major findings of the study and

Chapter Five: Summary, conclusions and recommendations.



## **CHAPTER – TWO**

### **CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE**

Research work is based on the specific problem about which, sufficient solution and results has not come out yet. Specific problem that may attain great support if it can be studied and analyzed properly will be the best topic for thesis writing. Considering the spirit of research, the title ‘A Study on Awareness of Sole Proprietors towards Income Tax and VAT in Kathmandu District’ is chosen. In the course of study on the title proposed, various business journals, books related to business, tax and VAT, previous related theses are studied and information from newspapers and magazines are used. While reviewing the related literatures, it is kept in mind that only supportive and proven subject matters are helpful to quest on proposed title.

Wolf and Pant (2005) in their book ‘SOCIAL SCIENCE RESEARCH AND THESIS WRITING’ have written that a review of literature is an essential part of all studies. It is also a way to discover what other research in the area of our problem has uncovered. A critical review of the literature helps the researcher to develop a thorough understanding and insight into pervious research works that relates to the present study. It is also a way to avoid investigating problem that has already been definitely answered. They further add- review of related literature helps to establish a point of departure for future research, avoids needless duplication of costly research effort and reveals areas of research needed. The literature survey also minimize the risk of reparation of research.

Sekaran (1992) (as cited in Wolf and Pant, 2005) says – literature survey emerges a clear idea as to what variables would be most important to consider, why they would be considered important and how they should be investigated to solve the problem. He further says – review of literature helps in such a way that one need not run the risk of ‘reinventing the wheel’, that is wasting effort on trying to discover something that is already known. The primary purpose (as cited in Wolf and Pant, 2005) of literature review is to learn, not to accumulate. It enables the researcher to know:

- ) What research has been done in the subject?
- ) What others have written about the topic?
- ) What theories have been advanced?

- ) Which approach has been taken by other researchers?
- ) What are the Areas of agreement or disagreement?
- ) Whether there are gaps that can fill through proposed research?

Since most of the articles, research publications, dissertations and books already published have merely analyzed the relationship of direct and indirect taxes with the total revenue, contribution of tax in total revenue, technique of computing taxable income, historical evolution of tax , tax planning etc. Hence, this ‘Study of Awareness of Sole Proprietors Towards Income Tax and VAT in Kathmandu District’ is aimed to know the level of tax payers ( in terms of education), degree of awareness towards income tax and VAT, their intentions of registering firms and paying tax on time. Many students have also written their dissertations on taxations or on tax administration or on tax system which are available in various libraries. Similarly, various text books related to tax and taxation are also available in the market and in libraries. A brief review of different studies on the area of income tax and VAT has been done in the following sections.

## **2.1 Conceptual Framework**

This section contains of – what is tax?, what is income tax?, historical background and evolution of income tax in Nepal, how present Income Tax Act, 2058 came into existence?, key features of Income Tax Act, 2058, objectives of Income Tax Act,2058, weaknesses of Income Tax Act, 2058, what items are included in business income?, deductible expenses, exemption limit, etc. Similarly, this section deals about what VAT is, types of VAT, and historical background and evolution of VAT in Nepal, rate of VAT and so on.

### **2.1.1 Tax**

Tax is a compulsory contribution to the national revenue from the tax payers according to law. It means no body can escape from paying taxes to the government, every body should follow state’s law and tax is a main source of revenue collection. A government gets revenue from different sources. It gets revenue from taxes in which there is an element of compulsion and the government gets revenue for services rendered to the public

**Professor Seligman**, as cited in Direct Tax, 2008, published by Institute of Chartered Accountants of Nepal (ICAN), has defined tax as “a compulsory contribution from a person to

the government to defray the expenses of the government which have been incurred in the common interest of all without reference to special benefit conferred.”

**Bastable**, (1892) (as cited in K. C., Jit Bahadur, 2007) defines tax as “a tax is a compulsory contribution of wealth of a person or body of person for the service of public power.”

The above definitions include each significant term and help to make clear the object defined.

From the above definitions it can be concluded that:

- J Tax is a compulsory levy imposed by the government.
- J Tax is levied on person or group of persons according to the prevailing laws.
- J Those who pay tax do not get corresponding direct benefits from the government.
- J Tax amount is spent for common interest of the people.
- J Tax is collected from haves and spent for the interest of have-nots in the society

It is necessary to collect tax by the government since it has responsibility to perform development works, to provide the basic facility like education, health, water supply, transportation, electricity, employment opportunities etc. Government provides the facilities, creates income generating environment and charges taxes on profit. The important taxes which the community should encounter during day to day activities and which provides most of the revenue of government are VAT, income tax, local tax, property tax, custom duty.

Various authors have classified tax in different types on the basis of its forms, structure, nature, essence and volume. For the simplicity, tax can be classified in to two broad categories – direct tax and indirect tax.

**Direct Tax:** A direct tax is a tax paid by a person on whom it is legally imposed. In direct tax, the person paying and bearing tax is the same. It means tax burden can not be shifted to other. Income tax, property tax, vehicle tax, interest tax, gift tax, death tax etc fall under the category of direct tax.

**Indirect tax:** An indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax, the person paying and bearing the tax is different. It is the tax on consumption or expenditure. Sales tax, VAT, entertainment tax, hotel tax, excise duty, import and export duty are included under the category of indirect tax.

### **2.1.2 Income Tax**

Income tax is levied on the earnings of a person or corporation. Commonly, it is progressive tax because the tax rate increases with increasing income. It includes employment income, interest income, business income, investment income etc. Income tax provides largest single source of government revenues in most developed countries. The revenues generated pay for a substantial part of government operations and services to the public. In Nepal, contribution of income tax from private sector and VAT to the total tax revenue is around 6.05% and 28.39% respectively, while analyzing the respective data of past five fiscal year.

A tax imposed on income base is called income tax. The basic objectives income tax are two fold – revenue collection and distribution. In some detail, it can be divided into four parts – primary objectives of raising revenue; the economic objectives of providing fiscal policy tool to stimulate private investment, reducing unemployment and lower the effects of inflation in the economy; the encouragement of certain activities like specialized industries, small business, research and development maintaining environment, personal saving etc and ; social objective of encouraging socially desirable activities like special tax favorable to social institutions, special tax exemption to low income group in the society.

Income tax is divided into two parts – individual income tax and corporate income tax. Income tax to be paid by individual or couple or sole proprietorship firm is individual income tax where as income tax paid by an entity is called corporate income tax. For the purpose of calculating income tax, taxable income should be derived at first, which is an amount of income after deducting the expenses incurred to earn concerned income. The marginal tax rate is 17% and 25% (two levels) for individual and 20% (industry), 30% (bank, financial institution, general insurance company) and 25% (other tax payers) for corporate bodies.

### **2.1.3 Evolution of Income Tax in Nepal**

Great Britain is the first country in the world to introduce the modern tax. It introduced income tax in 1799 to finance the Napoleonic Wars against France, which Britain and coalition of European nations won in 1815. According to Adams, the tax returns of this law show a remarkable similarity to the returns of the modern tax law. This law adopted 10 percent income tax on a temporary basis, to be removed six months after the ended with Napoleon. By popular

demand, the income tax of 1799 was withdrawn by a large majority repealing a second income tax in 1816. All of these tax records of the income tax were also burned.

USA introduced income tax in 1816 to generate revenue to finance civil war. The civil war was fought over taxes, not slavery. Adams conclusive evidence of the American Civil War- more accurately, “the Rich Man’s War and the Poor Man’s Fight”- was caused by taxation. It was called the American Tax War. At the time the south paid about three quarter of all federal taxes. The tax system shifted tax wealth from the South to the North. The North led by Abraham Lincoln, practiced economic rape against the south which was the root cause of civil war.

In India, while income tax in its modern form was adopted in 1860, several experiments were made from 1860 to 1866 and finally the systematic income tax legislation was enacted in 1866.

Although the taxes were collected in various forms in ancient era, the history of modern income tax is not very old in Nepal. The idea of introducing income tax in Nepal originated in the early 1950s when a multi party democratic political system was introduced. In 1951, the then finance minister in his budget speech declared the intention of the government to levy an income tax. Attempts were made to introduce income tax in subsequent years. In 1954, an income tax with Rs.10,000 basic allowance and progressive tax ranging from 5 to 25 percent was proposed. Due to political instability, it could not be introduced until 1958.

The first elected government in 1959 (2017 BS) finally introduced Business Profits and Remuneration Tax Act 1960 in Nepal. At that time, income tax was levied only on business profits and salaries. After about three years of experience of income tax, the government replaced the prevailing tax act by Income Tax Act, 1962. The coverage was extended in the act. In 1974, Income Tax Act 1974 (2031) was enacted. This act having 66 sections, classified the source of income into five groups namely (a) Agriculture, (b) Industry, Business, Profession, and Vocation, (c) Remuneration, (d) House and Land Rent and (e) Other sources. However, agricultural income was kept outside the tax net except few years through the finance act.

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation and to amend and integrate the laws relating to income tax, the parliament of Nepal enacted “Income Tax Act, 2002 (2058)”. This act has replaced Income Tax Act, 1974 (2031), which was amended for eight times and existed for period of 28 years.

Then HMG for the time being in force, framed Income Tax Rules, 2059 in 2059 BS to help clarifying the Act.

#### **2.1.4 Main Objectives of the Income Tax Act, 2058 are**

- )] To bring all income generating activities into tax net.
- )] To harmonize tax rates and concession on equity ground.
- )] To confine all the income tax related matters within the act.
- )] To widen the income tax base.
- )] To make income tax elastic and revenue productive.
- )] To develop a tax payer – friendly – taxation system by making it crystal clear and transparent.
- )] To reduce the scope of discretionary interpretation of the tax authorities.
- )] To minimize tax avoidance and tax evasion.
- )] To make taxpayers more responsible by enforcing the self-assessment systems.
- )] To integrate Nepalese tax system with the tax system of foreign countries.

Income tax plays a crucial role in national economy. It is a major source of governmental revenue. It is considered as a tool in acquiring adequate revenue to achieve social and economic objectives laid down in our constitution. It has been recognized as a good financial lever to reduce disparities of income among various levels of people. In addition, it also helps to reduce regional economic imbalances providing incentives and concessions in income tax while starting new industries in backward areas. Thus income tax has become an effective instrument to ensure balanced socio-economic development.

Present income tax law of Nepal comprises of the ITA 2058, ITR 2059 with latest amendment and Financial Ordinance 2006. The ITA 2058 came into force and it applies all over Nepal. It is main enactment. It governs computation of total income, power of tax authorities, procedure of assessment, appeal, penalties, suit, refund, rectification events etc. It has 143 sections and other subsections. Finance Ordinance is passed by parliament every year. It fixes rates of income tax, provision of deduction of tax at sources and method of payment of these taxes for respective year. It also introduces amendment of tax act to some extent. However, the Financial Ordinance, 2062 has not met these requirements due to lack of parliament in Nepal. The key features of Income Tax Act, 2058 are:

- J All income tax related matters are confined within the act by abolishing all tax related concessions, rebates, and exemption provided by different acts. This act has been made super in regard to all income tax matters.
- J The act has broadened the tax base. Unlike previous act, tax rates are spelled out in the act. The tax rates and concessions are harmonized on equity grounds.
- J The act has introduced the pool system of charging depreciation. A provision has also been made for depreciating intangible assets.
- J The act has first introduced the taxation of capital gains.
- J The act provided liberal loss set-off and carry forward/backward provisions. Inter head adjustments of losses are clearly specified. Such provisions have been made from international perspective.
- J The act has made provisions for a stringent fines and penalties for the defaulters. There have been made provisions for punishment in the fines up to Rs. 300,000 and imprisonment on conviction up to 3 years.
- J Global incomes of a resident are made taxable. Non-residents are also taxed on their incomes with source in Nepal.
- J List of expenses are inclusive. All expenses relating to income have been made admissible.
- J The act has made provision for international taxation. Foreign tax credit has been introduced for the first time.

Above mentioned features of Income Tax Act, 2058 show the provisions made and have tried to simplify the provisions made in comparison to Income Tax Act, 2031. Although, as the moon has a small darken space in it, the ITA, 20258 has some weakness too. It contains many issues, principles and doctrines. There is no denying that the act contains long sentences and many sentences do rely upon cross references for complete understanding. It requires reading for more than once to get real meaning. In many provisions there are exceptions to rules and also exceptions to exceptions. Some sections in the act do not give clear meaning. They are related with various sections which create difficulties to understand what the sections actually mean. Thus, it is only possible to understand the using an appropriate book that gives explanatory details.

## **2.2 Amounts to be Included in Business Income**

While calculating a person's profits and gains from business, the following amounts derived by the person during the year will be included:

- J Service fees including commission, meeting, management or technical service fees. (Sec.7.2.a)
- J Amounts derived from the disposal of trading stock. (Sec.7.2.b)
- J Net gains from the disposal of business assets or liabilities of the business. (Sec.7.2.c)
- J Amounts treated as derived in respect of excess depreciation on the disposal of the person's depreciable assets of the business. (Sec.7.2.d)
- J Gifts received by the person in respect of the business. (Sec.7.2.e)
- J Amounts derived as consideration for accepting restriction on the capacity to conduct the business. (Sec.7.2.f)
- J Amounts derived that are effectively connected with the business and that would otherwise be included in calculating the person's income from an investment. (Sec.7.2.g)
- J Amounts to be included by reason of change in accounting system. (Sec.22.6)
- J Amounts to be included by reason of timing. (Sec.24.3)
- J Excess amount received by reason of exchange rate. (Sec.24.4)
- J Recovered amount of bad debts deducted earlier. (Sec.25.1)
- J Amounts to be included as per contract of completion of basis in case of long term contract. (Sec.25.1)
- J Difference of actual interest and interest as per market rate incase of soft loan. (Sec.25.1.d)
- J Amounts paid to third person instead of actual payee. (Sec.29)
- J Amounts derived as compensation. (Sec.31)
- J Other amounts to be included in profit and gain.

## **2.3 Deductible Expenses**

The ITA, 2058 has classified expenses into eight broad heads including costs and allowances. According to income tax law there are two broad heads for deductions namely: general deductions and specific deductions.



### **2.3.1 General Deductions (Sec.13)**

Expenses are deductible as general deductions if they are incurred while earning or receiving assessable income or in carrying business to earn income. The significant objective is that the general deductions are part of the process of earning income. All actual expenses of general deduction to the extent it is incurred to generate income from business are allowed as deduction in they satisfy following conditions.

- if incurred during the year;
- if incurred by the person; and
- if incurred for receiving or earning income from business

However expenditure will not be deductible if it is private or capital in nature.

Expenses included in general deductions are: advertisement expenses; bonus, gifts and present; brokerage, commission for letting premises; commissions, bonuses and fees; commitment charges to raise loans; compensation expenses; cost and fees of newspapers and magazines; expenses of utilities; discount and commission; fines and penalties on contract; payment relating to inquiry; insurance premium to protect trading stock from damages; legal charges or professional fees; membership fees of trading associations; salaries and perquisites to former employees; sick and vacation pay; tax preparation fees, telephone charges; training expenses to increase the employee efficiency; traveling expenses and other expenses which are directly related to business and allowed by ITA 2058.

### **2.3.2 Specific Deductions**

These are distinctive subtraction of costs or expenses or allowance related to particular items. These are particularly related to interest deduction (Sec.14), cost of trading stocks (Sec.15), repair and improvement (R&I) costs (Sec.16), pollution control (PC) costs (Sec.17), research and development (R&D) costs (Sec.18), depreciation allowances (Sec.19) and losses.

## **2.4 Tax Provisions to Sole Proprietors**

Taxable income of sole proprietors are additionally granted by: reduction for family status and reduction for life insurance premium. Moreover, tax rates for sole proprietors are classified into 1%, 15%, and 20% / 25% on annual taxable income up to 160,000 (Individual) / 200,000 (couple), next 100,000 and balance (Industrialists) / (Trading Business persons) respectively. The special industry operated by the natural person under the status of sole proprietorship may claim additional facility. The ITA, 2058 had made provision for exemption limit in respect to couple

up to Rs.1,40,000 and for individual up to Rs.1,15,000 for the financial year 2065/66 and in respect to couple earning annual income up to Rs.200,000 and for individual up to Rs.1,60,000 for financial year 2066/67.

The following table depicts the clear picture of reduction for family status and tax rate on taxable income of sole proprietorship business.

Table 2.1  
Exemption Limits and Tax Rates for sole proprietors

Particulars	F/Y 2065/66			F/Y 2066/67		
	Individual	Couple	Tax Rate	Individual	Couple	Tax Rate
First	115,000	140,000	Exemption	160,000	200,000	1%
Next	85,000	85000	15%	100,000	100,000	15%
Next (Industrialists)	Balance	Balance	20%	Balance	Balance	20%
Next (Traders)	Balance	Balance	25%	Balance	Balance	25%
Additional	Balance	Balance	1%	Nil	Nil	Nil

## 2.5 Value Added Tax (VAT)

Tax revenue may be classified as direct tax and indirect tax. Direct tax comprises of income tax, property tax, land revenue tax, vehicle tax etc. These taxes are directly imposed on person or on organizations that bears the tax burden ultimately. The revenue generated by these taxes in Nepal is limited. Indirect taxes comprise of sales tax, entertainment tax, custom duty, excise duty, VAT etc. These taxes are shifted to other people. In a developing country like Nepal, indirect tax plays a vital role as compared to direct tax. In Nepal import tax used to be a major source of government revenue till the government adopted liberalization policies, which led to the drastic decrease in import tariff and ultimately in the government revenues. This loss in the government had to be recouped by increasing the revenue from other indirect taxes like sales tax. Sales tax, however, was collected at the import/ manufacturing point leading to narrow tax base. Also tax evasion was rampant. Hence the need to introduce a more scientific taxation tool was felt and thus VAT came into implementation in Nepal.

VAT is an indirect tax and definitely a new concept as compared to other taxes. In the history of taxation, VAT is the youngest and the most emerging tax. As the name suggests, under VAT, tax is imposed on the value added by a firm through its production and distribution activities. Value added implies the difference between the purchase price and the selling price. Thus, value added includes the entire expenses incurred in the process of preparing the goods and services for sale after purchase plus profit margin. Unlike in sales tax, tax is imposed on each stage like import, production, wholesale distribution and retail distribution. Thus, the tax liability at each stage is based on value added – difference between the value of outputs and value of inputs.

VAT is a tax imposed on the value added to goods and services consumed in Nepal. The tax is based on the principle that each producer or distributor adds value, in some way, to the materials they have purchased and it is this added value that is taxed at each stage of production and distribution chain. There is the presumption that VAT is shifted forward completely to the consumer.

In the VAT system producers, distributors, and people providing services impose VAT on the product or services sold or provided. The difference between the VAT collected on sales and VAT charged on purchases determines the amount a registrant must remit or the amount that may be claimed as refund. In other words if the tax on sales is more than the tax on purchases, the person remits the difference. If the tax on sales is less than the tax on purchases, the person may carry forward this credit for next month.

Types of VAT are determined on the basis of treatment of capital goods of a firm. Input tax paid for capital goods is allowed or not is the basic matter in the study of types of VAT. Basically VAT is of three types:

Consumption Type VAT: Under consumption type VAT, all capital goods purchased from other firms in the year of purchase, are excluded from the tax base while depreciation is not deducted from tax base in subsequent years. The base of tax is consumption since investment is relieved from taxation under this type.

Income Type VAT: The income type VAT does not exclude capital goods purchased from other firms from the tax base in the year of purchase. This type, however, excludes depreciation from tax base in subsequent years. The tax falls both on consumption and net investment.

Gross National Product (GNP) Type VAT: Under this type of VAT, capital goods purchased by a firm from other firms are not deductible from the tax base from the year of purchase. It also does not allow the deduction of depreciation from tax base in subsequent years. Tax is levied on both consumption and gross investment.

Consumption type VAT is widely used. So, by the term VAT we basically mean the consumption type VAT.

Tax reform has always been the concern of the government in every nation. The concept of VAT was first forwarded by the German industrialist Wilhelm Von Siemens in 1919 as a substitute of the multistage sales tax in order to avoid the cascading and vertical integration of the then multistage sales tax. Though serious consideration was made, it was not implemented as its execution was perceived of being complicated. But, the government of Germany reduced the tax rate of other taxes instead of introducing the VAT. A tax mission to Japan led by Prof. Carl S. Shoup further developed the concept of VAT in 1949. The mission suggested the VAT to avoid the undesirable and unintended effects and reconstruction of Japanese economy; however, it did not come into practice. In 1954, for the first time in the world, France introduced VAT which was limited up to the wholesale level only. This followed by Ivory Coast in 1961, Senegal in 1961 and Brazil in 1967. Other countries followed VAT gradually when they feel it as prominent tool to collect tax scientifically

Vietnam ventured VAT for the first time in Asia in 1973 but it was repealed in short period. South Korea adopted VAT in 1977 and continuing till this time therefore it is leading country in Asian Continent. In South Asia, Pakistan is the first country introducing VAT. It introduced VAT in 1990, Bangladesh and Srilanka started VAT in 1992 and in 1995 respectively. India had introduced Modified VAT (MODVAT) in 1986 for manufacturing products. Full VAT has been implemented there with effect from April 1, 2003.

At present, VAT is implemented in more than 123 countries around the world. It covers over 70 percent of the world's population and raises nearly 27 percent of total tax revenue in those countries.

### **2.5.1 Development of VAT in Nepal**

VAT is the improved form of indirect tax of Nepal. It replaced sales tax, hotel tax, entertainment tax which was prevailed in Nepal before introduction of VAT. To introduce VAT in Nepal, many attempts were made and it faced many hurdles from business community who used to consider VAT as an extra burden but it was necessary to introduce and implement in Nepalese economic scenario. Considering the importance of VAT in Nepal, “VAT Task Force” organized in 2052 under the financial and technical co-operation of USAID and Harvard University, USA respectively. This task force drafted VAT legislation and the GON presented this legislation as a VAT bill in parliament for adequate discussion on session.

The parliament of Nepal enacted “Value Added Tax Act, 2052 in 2052 BS. Subsequently, VAT regulation was made in 2053. Although, the act was passed on time, its implementation was delayed due to political instability and strong opposition from the business community. VAT with single rate of 10 percent had been fully implemented with effect from Mangshir 1, 2054. It has been designed to collect same revenue as the four taxes it replaced. VAT has been justified in the light of government fiscal imbalances and need for extra revenue mobilization through an efficient tax system. The GON has increased the rate of VAT to 13 percent with effect from Magh 1, 2061.

## **2.6 Review of Related Studies**

Before creating the idea of selecting this topic entitled “*A Study on Awareness of Sole Proprietors towards Income Tax and VAT in Kathmandu District*” various unpublished dissertations and published books are reviewed considering what the researchers and writers have presented and studied. I thought, this topic mentioned above is suitable to make concentration of my interest because no one has searched in this topic. In the due course of my study, the following dissertations, journals and books are reviewed which helped to make my entire study fruitful.

### **2.6.1 Review of Articles and Journals**

Dr. Govind Bahadur Thapa (1994) made an effort on “Value Added Tax in Nepalese Context” by means of an article applying the theoretical analysis and dealing with theoretical issues, concluded that “considering the present condition of Nepal facing high government expenditure, low revenue collection efforts, high dependency on foreign loan, need of more economic growth

of economy and because of low revenue potentiality from direct taxes there is a prompt need to improve the sales tax of Nepal. But, there is less chance to mobilize more revenue through existing form of sales tax. In this context there is no any other alternate except introducing VAT in Nepal.

In an article entitled “Status of VAT Implementation Necessity Realized” published in the rising Nepal 14 November, 2002 by Rup Bahadur Khadka concluded that the number of VAT registrations was 4959 in the year of VAT implementation against 2045 sales tax registrations, which has increased almost to 27000 by mid November 2002. This indicates that there has been substantial increase in the tax base in terms of the number of taxpayers. Bat refund system has also been becoming gradually effective. As there was no belief of taxpayers on the refund mechanism, no taxpayers applied for the refund in this first fiscal year of VAT implementation. But after publicity regarding the tax system, the truest of the taxpayers regarding this process gradually increased. Then they started applying for the refund. The refund amount increased to Rs. 1710 million in 2001/02 from Rs. 70 million in 1998/99 of the total returns, the share of credit, debit and zero returns was 39 percent, 32 percent and 24 percent respectively at the end of the fiscal year 2001/02.

Dr. Puspa Raj Kandel (2002), in a journal entitled “Capital Income Taxation on Nepal: An Analysis of Effectiveness Burden, Rajashow” (Journal of Finance Department) has mentioned the several positive aspects of ITA, 2002 as adoption of global taxation system, provision of transfer pricing, foreign tax credit, stock valuation system, taxation of dividend, capital gain tax, reliable loss recover provision, continuation of accelerated depreciation system etc. According to Dr. Kandel, new ITA is not without shortcomings. Double taxation – once on corporate profit and then on dividend on current years, discrimination in the treatment of debt and equity financing, no adjustments to minimize inflation related distortion on the value of depreciation and value of stocks, unnecessary inter head loss recovery provisions, abolition of investment tax credit system previously allowed by industrial enterprises Act, 1992 etc. The Act has discriminated industrial sector, investment income and business assets favoring financial sector, business income and non-business chargeable assets. He suggested adopting investment allowance or investment tax credit method and integration of tax system in the future.

As the news published on Kantipur National Daily newspaper dated 30<sup>th</sup> June, 2007, it is stated by the experts that the government is unable to make the tax payers enthusiastic to pay taxes on

time. 'In the western countries, 95 percent of the total population are interested to pay tax on time but in Nepal, 95 percent of the total population feel happy if they are able to hide the tax, it means only 5 percent of the total population are interested to pay tax' said senior chartered accountant Sudarshan Raj Pandey on the program organized by Nepal Rastra Bank. In his opinion, the government should make the tax payers enthusiastic. Other experts were agreed with his opinion.

### **2.6.2 Review of Books**

Dr. Rup Bahadur Khadka (2000), in his book entitled "The Nepalese Tax System" explains about the necessity to introduce VAT in Nepal. There are several reasons to introduce VAT in Nepal. One of the important reasons was to develop a stable source of revenue by broadening the tax base; moreover, it will help to become less dependent on international trade. Since it will not be in a position to levy import duties on trade that take place within the South Asian Association for Regional Co-operation (SAARC) region after the implementation of South Asian Free Trade Arrangement (SAFTA). Nepal has applied for the member of the World Trade Organization (WTO) which will also have to be considered in this context.

Mr. Kamal Deep Dhakal (2002) wrote his revised edition of his book 'Aayakar Tatha Ghar-Jagga sambandhi Kar Lekha'. This book is based on ITA, 2031 because the new ITA was not led by the government till this edition. This book is very much useful in getting knowledge about the history of taxation, conceptual knowledge of taxation and numerical examples under the previous Act.

Mr. Surendra Keshar Amatya, Dr. Bihari Binod Pokharel and Rewan Kumar Dahal (2003), wrote a book entitled "Taxation in Nepal". This book is based on the syllabus prescribed by TU to serve the requirement of students of bachelor and master level students. Theoretical as well as practical aspects of taxation, income tax in Nepal, property tax in Nepal, VAT in Nepal have been served in this book. Historical background of tax in the world and development of taxation in Nepal is clearly mentioned thereon. This book not only for academicians but also for tax administrators, auditing professionals, tax consultants and tax payers is useful.

Mr. Bidhyadhar Mallik (2003) published a book entitled "Nepal Ko Aadhunik Aayakar Pranali". This book is very much useful to anyone who is interested in the subject of taxation. In this 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 think 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 ITA, 2058. In some cases, he has also compared the provisions of the old Act and new Act.

Mr. Ishwor Bhattarai and Mr. Girija Prasad Koirala (2003) published two books named “taxation in Nepal” and “Tax Laws and Tax Planning”. The first book has been designed under the syllabus of BBS 3<sup>rd</sup> year and the second one has been designed under the syllabus of MBS 2<sup>nd</sup> year of TU. Writers have shown their capacity to present the subject matter in easy way. Though they have presented the theoretical aspects in short, clear cut meaning can be gained from the book. They have mentioned the technique for assessment of taxable income from business, employment, and investment. Similarly, origin of VAT and meaning of VAT with illustrations is mentioned thereon.

In 2003, Dr. Chandra Mani Adhikari published a book entitled “Modern Taxation in Nepal: Theory and Practice”. Specially, this book has been designed to meet the requirement of BBS third year, TU. This book does not serve to the student in theoretical aspects of tax in detail rather it guides the students how taxable income from different sources are ascertained. Any way, this book is useful to the students and other parties who are interested in the subject of taxation.

In 2003, Dr. Puspa Raj Kandel published a book entitled “Tax Laws and Tax Planning in Nepal”. He has explained the meaning of tax and taxation in detail giving various ritual examples which ultimately helps to get the clear meaning. He has explained the duties which were prevailed in early age with their meaning and purposes. Dr. Kandel has presented numerical aspects with examples and reasons. He has described Income Tax Act, 2058, Local Tax Act, 2055, custom duty, excise duty. VAT in Nepal in this book. This book is very much useful to academicians, tax administrators, auditors, tax consultants and tax payers as well. This book is useful for effective tax planning to all tax payers.

In 2004, Mr. Jagadish Agrawal published a book entitled “Income Tax: Theory and practice”. In his book, Mr. Agrawal has explained Income Tax Act, 20058. He has explained in brief about



fixed assets and depreciation treatment on income tax purpose and has provided a schedule for depreciation. This book is useful to anyone who is interested on the subject of taxation.

In 2007, Mr. Jit Bahadur K. C. published a book entitled “Tax Laws and Tax Planning”. This book is strictly based on the syllabus of MBS second year, TU. This book presents the fundamental concepts related to income taxation and its tax planning more easily. More preciously, this book helps the readers to understand easily with the help of examples and cases through out the book. This book is very much useful to academicians, tax consultants, chartered accountants, tax administrators, tax payers and to all those who really want to broaden their knowledge in the area of tax and taxation.

### **2.6.3 Review of Dissertations and Reports**

Mr. N. L. Kayastha (1974), in his dissertation entitled “Tax of Income and Wealth of Nepal”. He had tried to examine the role of income tax in the economic development of Nepal and the problems of income tax. He has found that in developing countries, income tax to the great extent plays significant role if it is duly collected. For this purpose he has suggested that whole full-flagged support of people and commitment of the government is necessary.

Mr. C. L. Shrestha (1977), in his dissertation entitled “A Case Study on Income Tax in Nepal”. He has emphasized in his dissertation on laws and Acts relating to income tax. He has seldom tried to show contribution on income tax in resources mobilization.

Miss Rojalin Singh Suwal (1981), presented her dissertation entitled “Income Tax System in Nepal” to Department of Economics, TU. She has studied the problem and the importance of income tax in solving financial resources gap problem in Nepal. She has also shown the rate and per capita burden of income tax in Nepal. She has 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 coming years, an increment of more than 25 percent is expected to be collected every year. The major problem in income tax collection as defined by her were: the absence of clear and comprehensive definition of income, low tax paying capacity and low tax consciousness , high tax rates, corruption etc. She has suggested some of factors like

increasing tax consciousness to the tax payers, clear and comprehensive definition of the income for improvements regarding tax and tax administration for the collection of income tax in Nepal.

Mr. Prem Prasad Timilsina (1987), presented a dissertation entitled “Income tax Evasion in Nepal”. The objectives of his study were: to analyze the structure of income tax on 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 has find out the problem of financial resources gap, intention of not showing actual economic transactions, under stating of income, unregistered and illegal businesses, corrupted intention of high level officials, inefficient tax administration, lack of consciousness of people towards tax, negligence of government etc. He has suggested that – first of all the government should be able to check and control the business malpractices and committed to punish who fails to follow the rules and regulations led by government. Secondly, the whole hearted support of people is needed to implement the rules and Acts.

Miss Shanti Baral (1989) has presented a dissertation entitled “Income Tax in Tax Structure of Nepal”. She has analyzed the tax structure of Nepal and contribution of income tax in tax revenue of Nepal. She has stated the tendency of tax evasion which results in low revenue collection. She has also analyzed that the contribution of direct tax in total tax revenue is less in comparison with the contribution of indirect tax. According to him, the reason behind this is people are not much aware about tax, dealing of tax officials who often encounter in tax office is not friendly and equitable, lack of public information, lack of scientific method of tax collection ,unclear tax Acts and lack of well trained personnel in tax office.

Mr. Hari Bahadur Bhandari (1994), has presented a dissertation entitled “Contribution on Income Tax to Economic Development of Nepal”. In his dissertation he has presented the tax collection amount and how it is essential in economic development on a country. He has mentioned that, in Nepal, every year the revenue collection is lower than the target set out in total. The reason is low tax paying habit of Nepalese tax payers, poor tax administration, widespread income tax evasion, lack of programs from government side that educate people towards tax and lack of awareness of people towards income tax. He has suggested the corrective measures that prevent of being such as establishing strong tax mechanism that could stop the tax evasion, business friendly policies and conducting programs that could make the people conscious.

In 1996, Shree Krishna Kharel presented a dissertation named, "Self Assessment under Income Tax Act, In Nepal". In his worked he had made a review of tax laws about self assessment, analyzed the problem faced by the assesses 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 suitable means of rising domestic resources and it would be effective if taken seriously. He had further expressed that the effectiveness of self assessment of tax depends on appropriate reformation.

Miss Jayanti Paudyal (1999), presented a dissertation entitled "Income Tax in Nepal: A Study of its Structure and Productivity" to TU. She has explained the income tax in its historical perspectives, structure of income tax, voluntary discloser of income schemes and role of income tax administration in Nepal. In her study, it is seen that she is more concerned on tax structure of Nepal, contribution of income tax in overall development and indirect tax is more important than direct tax. She has stated that revenue collection from tax is not satisfactory since revenue collection from tax is always below the target set out. She has further recommended that tax net rather than tax rate should be broadened in ordered to collect more revenue.

Miss Binita Shrestha (2001), presented a dissertation entitled "Revenue Collection from Income Tax in Nepal: Problem and Prospects". In her study she has mentioned about the hindrances while collecting revenue, effectiveness of income tax collection policy and recommended corrective measures of improvement of income tax laws and management on Nepal. She has found out the problems under which the income tax system of Nepal is suffering are narrow tax base, dominancy of people under poverty line, lack of knowledge towards tax, tax Acts and tax system even of own country, rapid change of government policies and inefficient tax administration. She seems the possibility of improvement in revenue collection from income tax if people felt themselves the importance of tax in overall development of Nepal and if government showed the commitment to improve the tax mechanism by all means.

In 2002, Jayanti Paudyal presented a dissertation entitled "Income Tax In Nepal: A study of Its Structure and Productivity." She had described the income tax in its historical perspectives income tax structure, elasticity and buoyancy of income tax, voluntary discloser of income scheme and role of income tax administration in Nepal. She had more emphasized on income tax structure of Nepal. She had described the contribution of income tax. She had mentioned

the contribution of indirect tax is about twice then direct tax. Similarly, within the direct tax, income tax is the largest source of revenue. About the tax administration of Nepal, she had found that the working procedures were traditional and the cost of administration had not been brought on the satisfactory level. She had suggested to broadening income tax base, reform of tax administration successful implementation of vat establishment of standardized accounting system.

Mr. Padam Bahadur Katuwal (2003), presented in his dissertation entitled “A Study on the Management System of Value Added Tax in Nepal. In his study he has found out the problems as – the people are not well familiar with VAT due to illiteracy, the management system of VAT is not effective in Nepal, there is lack of co-ordination between government and business enterprises and powers and authorities decentralized properly. In his study he has presented the data of revenue collected in different years and made the comparison between tax collections in different years. His study has concluded that VAT is more popular and effective technique to collect more revenue in Nepal. So he has recommended that there is need of effective implementation of VAT in Nepal. Only the introduction of VAT is not really acceptable as a tax reform. There is need of great reform of VAT in Nepalese context.

In 2003, Miss Preety Shrestha submitted a dissertation entitled “A Study on the Problem and Prospects of Value Added Tax in Nepal”. The objective of her study was to analyze the problem on implementation of VAT, to know the awareness of people towards VAT and the prospects of VAT in Nepal. In her dissertation, she has concluded that the main impediment in effective implementation of VAT is – consumers go into the pocket of the vendors and on the other hand fair competition lack of the practice of issuing and receiving invoices, under invoicing and maintenance of double accounts. This, on one hand, leads to revenue leakage as the tax paid by the will not take place in the market. As per field survey, the majority of the respondents believe that tax payers are more to be blamed for tax evasion, she has stated. She has suggested making the valuation system of goods imported from the various custom offices fair and genuine first then VAT collection mechanisms should be made transparent in the involvement of tax payers.

In 2004, Mr. Dipendra Basnet has explained about tax, tax system and VAT in his dissertation entitled “An Analysis of Value Added Tax in Nepal”. He says – the success of any taxation system depends on the creating a conducive atmosphere where tax payers come forth voluntarily to play their roles and duties as dignified citizens and the state recognizes and appreciates such

actions. It must also be undeclared that, no matter how good a system is, there will always be exception on the other side of the coin. Any action or regulation based on controlling the exception will seldom achieve the stated output. This would perhaps require a complete turnaround in our attitude, which definitely will have to digest. The time now is right to give tax payers such a break. There is no doubt, such actions produce results beyond the expectation of any one's mental horizon. He further concludes that, until and unless the entire citizens are aware, tax revenue can not be increased, no matter whatever the policy or reforms made. Business man or general public don't feel themselves as a dignified citizen unless they are ensured that the taxes they paid in the various tax heads is properly utilized for the nation and for the people of nation as a whole.

In 2005, Mr. Pankaj Sharma presented a dissertation entitled "Income Tax in Nepal, Structure, Productivity and Problems". His main objectives were to review the income tax system of Nepal and identify the existing problems of income tax administration in Nepal. He has concluded that due to various problems relating to income tax, revenue collection from income tax is very low in Nepal. It is charged that the ITA, 2058 is ambiguous and the tax administration is not efficient enough. Dealing of tax officials with tax payers is not friendly. They think them of being superior and don't provide necessary information. He further recommends that for a sound, effective and efficient tax administration in the country, increment in voluntary compliance is necessary. He further adds tax payers should be educated, professionalism in tax administration should be developed and information technology should be widely used if the government really wants to see the improvement in tax system.

In 2006, Mr. Sabin Hamal presented a dissertation entitled "A Study on Value Added Tax Mobilization in Kathmandu Valley". He has concentrated his study on prospects and problems of VAT in Kathmandu valley, contribution of Kathmandu valley in revenue collection through VAT and to study views and opinions of concerned people about increased VAT rate. His conclusion is that instable political system and lack of common economic agenda are major problems for implementing long term economic programs. Though there have been some institutional reforms, development and implementation of new economic policy is taking place but persistent problem of peace and security hindering all the reforms. The successful implementation of VAT depends upon efficient and capable tax administration, strong political commitment, high public awareness, co-operation private and public sector.

He recommends very strongly saying – sustainable development and economic growth can not be achieved without political stability and flexible administrative system. We lack common minimum economic commitment among various parties. Similarly a simple transparent and efficient tax administration is required for the proper implementation of VAT. Registration procedure under VAT should be made simple. Complicated registration procedure may stimulate to tax evasion behaviour.

In 2006, Mr. Dansi Ram Bhandari submitted a dissertation entitled “Taxation Knowledge of Taxpayers in Nepal”. He has studied on this topic keeping the objectives to know views of taxpayers about Nepalese tax system, to examine the effectiveness of Nepalese tax system and to review the existing tax system in Nepal. He has collected views of tax payers by taking interviews and distributing questionnaires. From his effort he has concluded that knowledge of income tax to related taxpayers is not in satisfactory level in Nepal. Without knowledge of taxation small as well large taxpayers may not included in tax system. He has recommended to publish and broadcast tax related information through journals, magazines, radio and television. Similarly, he has further recommended to organize special taxpayer education programs and to build strong tax administration mechanism.

In 2008, Mahesh Kumar Dahal submitted a dissertation entitled "Implementation Problems of Income Tax Act 2058". He has conclude that the problems can be solved in some extent and the income tax will lead to substantial increase revenue and the Nepalese tax administration has been attempting to modify itself to meet the challenges brought about by change in technology and economy policies and than we can solve the problem in implementation of Income Tax Act, 2058 in Nepal.

In this way, various books, dissertations and published news related to my study boost up to search the various realities in the area of taxation. It is found that the research on topic "Study on Awareness of Sole Proprietors Towards Income Tax and VAT in Kathmandu District" has not been covered so far. Thus, this topic seems to be interesting and unique research.

## **CHAPTER - THREE**

### **RESEARCH METHODOLOGY**

Business is pillar of economic development of every country and their contribution in terms of income tax and VAT are essential tools to achieve required fund for that purpose. Revenue can be collected in sufficient amount if all the businesses are in tax net and their payment of tax liability is made in time. This study is carried out to measure the degree of awareness of sole proprietors towards income tax and VAT of Kathmandu District. While measuring the degree of awareness of sole proprietors towards income tax and VAT opinion survey method is used. To collect the opinion of sole proprietorship business, questionnaires are distributed to different groups of respondents who are related to income tax and VAT. The respondents are divided into three categories namely Large & Medium Industrialists, Cottage & Small Industries and Trading Business persons and industry. To achieve the stated objectives, various research methodologies are used. This chapter contains a brief description of research design, the population and sample size, nature and sources of data, data collection procedure

#### **3.1 Research Design**

This research study is concerned with the degree of tax knowledge and tax consciousness of sole proprietors of Kathmandu District. Efforts have been made to collect the opinions of sole proprietors as much as possible and actual contribution of Income Tax from private sector and VAT to total national revenue of Nepal from fiscal year 2061/062 to 2065/066 is taken into consideration. Being a field based study; it examines the attitude and consciousness of sole proprietors towards income tax and VAT. Thus this study has followed descriptive as well as analytical research design to analyze and interpret the awareness of taxpayers in Kathmandu district.

#### **3.2 Population and Sample**

Sample is a collection of items or elements from a population. It comprises some observations selected from the population. So, this study has taken the sample from sole proprietors of Kathmandu District that has represented the total population. For the purpose of study, the sample size of respondents has been divided into three groups namely: Large & Medium

Industrialists, Cottage & Small Industrialists and Trading Business Persons. The following table shows the groups of respondents and size of samples:

Table 3.1  
Classification of respondents and Sample Size.

S. N.	Class of Respondents	No of Questionnaire Distributed	No of Questionnaire Collected (Sample Size)	Percent (%)
1	Large & Medium Industrialists	50	45	37.50
2	Cottage & Small Industrialists	45	35	29.17
3	Trading Business Persons	45	40	33.33
	Total	140	120	100.00

For the study of contribution of income tax from private sector and VAT to total national to total national revenue of Nepal, actual contribution from fiscal year 2061/062 to 2065/66 is taken as sample.

### 3.3 Sources of Data

Being this study a field study and directed to know the opinions and find out the awareness towards tax, different questionnaires are designed about income tax and VAT. The questionnaires are distributed to the targeted respondents to measure their awareness towards income tax and VAT. Since this study covers the large number of tax payers, opinions are collected by telephone interview too. Primary data are the source of information collected with the help of interviews and questionnaires. On the other hands, secondary data for the study and analysis of contribution of income tax from private sector and VAT to the total national revenue of Nepal is taken from the Financial Survey, a journal published by Ministry of Finance.

### 3.4 Data Collection Procedures

The data for the study and analysis of the awareness of sole proprietors are taken from primary sources. Primary data are collected by using questionnaire method. For this purpose, a set of questionnaires are designed and distributed to all targeted respondents in order to get actual and



accurate information about their awareness towards income tax and VAT. Similarly the data for the study and assessment of contribution of income tax and VAT to total national revenue is taken from the secondary source i. e. from the Economic Survey, a journal published by the Ministry of Finance.

### **3.5 Data Analysis Tools**

For making analysis and interpretation of collected data and information from primary sources are presented in tables, charts, diagrams, are used as demanded by the subject matters. From the data presented, interpretations are made by using simple mathematical and other statistical tools wherever necessary.

### **3.6 Methods of Analysis and Presentation**

The data collected from primary sources are first presented and tabulated on charts and diagrams and analysis will be made on the basis of their characteristics. The next method of analysis will be made on the basis of responses provided by numerous respondents on interviews and questionnaires.

## **CHAPTER - FOUR**

### **PRESENTATION AND ANALYSIS OF DATA**

This chapter deals with data presentation, analysis and interpretation of information available through the study and research. In this course of analysis, data gathered from various sources have been inserted in the tabular form. By using quantities as well as statistical tools, the data have been analysed. The samples of computation of each model have been included in annexes.

The presentation of data is the basic organization and classification of the data for analysis. Since the objectives of my study are to collect the relevant opinions of the sole proprietors about the provisions current income tax Acts and Rules, existing tax system, effectiveness of their implementation and to assess the awareness of sole proprietors towards ITA 2058, ITR 2059, VAT Act 2052 and VAT Rules 2053.

This chapter consists of presentation of primary data collected from different categories of respondents through questionnaires which depict the opinion of respondents towards income tax and VAT. Analysis has been made on the basis of data obtained and the questionnaire received back. 120 respondents are taken as sample and they are divided in to three classed as Large and Medium Industrialists, Collage and Small Industrialists and Trading Business persons. Out of 120 respondents 45 are Large and Medium Industrialists, 35 are Cottage and Small Industrialists and 40 are Trading Business Persons. Similarly, this chapter also includes presentation and analysis of secondary data regarding the assessment of contribution of income tax and VAT towards total national revenue of Nepal.

#### **4.1. Presentation and Analysis of Responses towards Income Tax**

It is all obvious that income tax is the backbone of country economy. Employee, businessmen, investors, industrialists earn income. Every state tries to provide earning friendly environment. So every employee, businessmen, industrialists should be aware of income tax system. To make income tax effective, tax knowledge should be increased in tax payers, tax payers education programs should be conducted by the government, proper implementation of rules and acts is needed. To check income tax knowledge of sole proprietorship business, 120 respondents are

taken as sample for the study which includes 45 Large & Medium Industrialists, 35 Cottage & Small Industrialists and 40 Trading Business Persons.

Questionnaire has designed and distributed to assess the general awareness of sole proprietors about income tax. Every tax payers should have knowledge of income tax because they have to pay tax on their income earned as well as gain. If they don't have adequate knowledge about income tax, problems may arise on effective implementation of provision of income tax Act and Rules as well as their business plans and policies, which exert the direct impact the national economy. The results from the questionnaires distributed to and received from respondents are presented below:

#### 4.1.1 Views towards the meaning of Income Tax

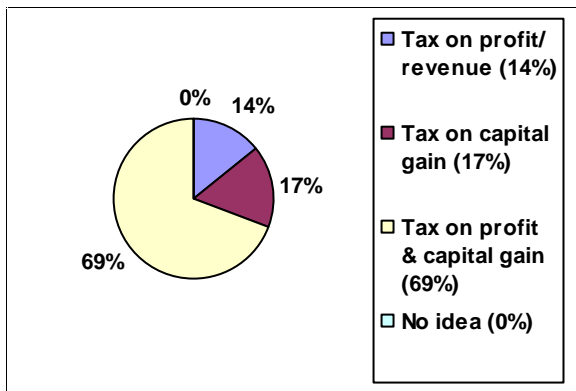
The response from the respondents to assess the knowledge of sole proprietors towards the meaning of Income Tax in response to questionnaire with related alternatives is presented in following table:

Table No 4.1.1  
Views towards meaning of the Income Tax

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) Tax on profit/ revenue	No	7	6	4	<b>17</b>
	%	15.55	17.14	10	<b>14.00</b>
ii) Tax on capital gain	No	8	4	8	<b>20</b>
	%	17.78	11.43	20	<b>17.00</b>
iii) Tax on profit and capital gain	No	30	25	28	<b>83</b>
	%	66.67	71.43	70	<b>69.00</b>
iv) No idea	No	0	0	0	<b>0</b>
	%	0	0	0	<b>0</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

Income tax encompasses tax on both revenue profit as well as capital gain earned from disposal capital assets. Above Table No 4.1.1 has shown 15.55%, 17.78%, 66.67%, of Large & Medium Industrialists, 17.14%, 11.43%, 71.43%, of Cottage & Small Industrialists and 10%, 20%, 70% of Trading Business person express their view representing the meaning of income tax towards Profit on income, Profit on gain, Profit on income and gain respectively. On the other hand, 0% of respondents express their view towards No Idea. The aggregate response is disclosed in following figure.



**Figure No 4.1.1: Aggregate view towards meaning of IT.**

Similarly, aggregate response of all 120 respondents, as depicted by Table 4.1, is presented in Figure No 4.1 which shows that 14%, 17% , 69% and 0% respondents express their view toward Tax on profit, Tax on gain, Tax on profit and gain and No idea. ii, iii, and iv as shown in table No 4.1 representing the meaning of the term Income Tax. This indicates that overall 31% (14+17) and 69% of respondents are found to be aware towards the simple and core meaning of Income Tax respectively.

#### **4.1.2 Views towards the primary step to be taken for income tax purpose before commencing profitable business.**

The response from the respondents towards the primary step to be taken for income tax purpose before commencing the profitable business in response to questionnaire with related alternatives is presented in table below:

Table No 4.1.2

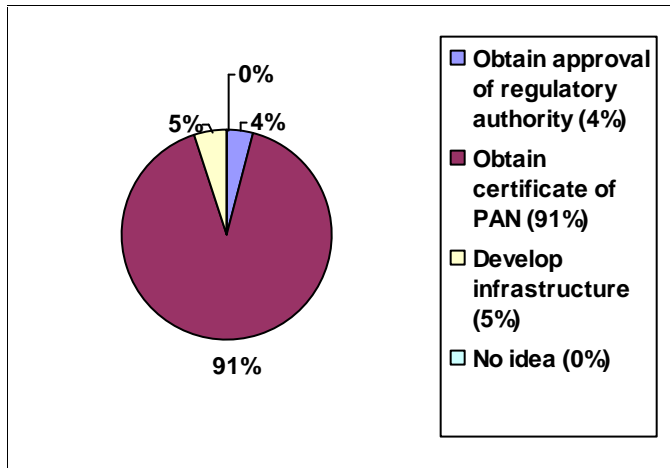
Views towards primary step to be taken before commencing profitable business.

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) Obtain approval of regulatory body	No	1	2	2	<b>5</b>
	%	2.22	5.71	5.00	<b>4.00</b>
ii) Obtain Certificate of PAN	No	42	30	37	<b>109</b>
	%	93.33	85.71	92.50	<b>91.00</b>
iii) Develop required infrastructure	No	2	3	1	<b>6</b>
	%	4.44	8.57	2.50	<b>5.00</b>
iv) No idea	No	0	0	0	<b>0</b>
	%	0	0	0	<b>0</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

As per the provisions of Income Tax Act 2058 and Income Tax Rules 2059, the persons desirous to operate profitable business are required to obtain the certificate of Permanent Account Number (PAN), before commencing such business.

As shown in the above Table No 4.1.2, 2.22%, 93.33%, 4.44%, of Large & Medium Industrialists, 5.71%, 85.71%, 8.57%, of Cottage & Small Industrialists and 5%, 92.50%, 2.50% of Trading Business person express their view in respect of first step to be taken before commencing the profitable business for the purpose of income tax towards Obtaining approval of regulatory authority, Obtaining certificate of PAN and Developing infrastructure. On the other hand, 0% of respondents express their view towards alternative representing No Idea. The composite view of respondents is presented in the pie chart below.



**Figure No 4.1.2: Aggregate view towards primary step to be taken before commencing profitable business.**

Similarly, aggregate response of all 120 respondents towards alternatives Obtain approval of regulatory body, Obtain certificate of PAN, Develop required infrastructure and No idea, found to be 4%, 91% , 5% and 0% respectively. This indicates that 91% of respondents are found to be familiar towards obtaining certificate of PAN, before commencing the profitable business.

#### **4.1.3 View towards the Income Tax Act being in force now.**

The views from the respondents towards the Income Tax Act in force now in response to questionnaire with related alternatives are presented in Table below:

Table No 4.1.3

Views towards Income Tax Act in force.

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) Income Tax Act 2031	No	0	0	0	<b>0</b>
	%	0.00	0.00	0.00	<b>0.00</b>
ii) Income Tax Act 2058	No	43	31	37	<b>111</b>
	%	95.56	88.57	92.50	<b>93.00</b>
iii) None of the above	No	0	0	0	<b>0</b>
	%	0.00	0.00	0.00	<b>0.00</b>
iv) No idea	No	2	4	3	<b>9</b>
	%	4.44	11.43	7.50	<b>7.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

As shown in the above Table No 4.1.3; 95.56%, 88.57%, and 92.50% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons have expressed their view in respect of Income Tax Act, being in force now towards Income Tax Act 2058; 4.44%, 11.43% and 7.50% of them have responded in the favor of No idea. The consolidated view of respondents is presented in the pie chart below:

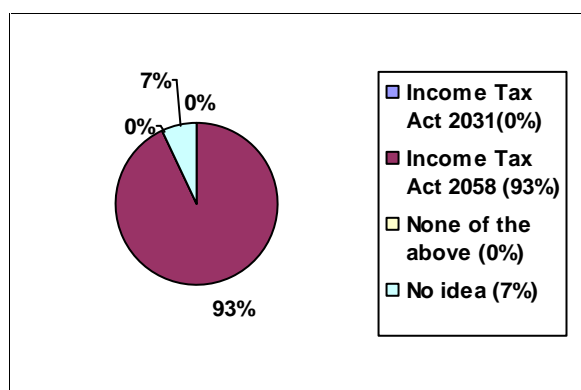


Figure No 4.1.3: Aggregate view towards ITA in force.

Aggregate view of 120 respondents in respect of Income Tax Act in force is found to be 93% in favor of Income Tax Act 2058 and 7% of them only have expressed the ignorance. This shows that respondents have strong awareness towards income tax Act in force, despite of few them are unknown in this regards.

#### 4.1.4 Views towards knowledge of books of accounts to be maintained for tax purpose.

The responses from the respondents towards the knowledge of books of accounts to be maintained for the Income Tax purpose in respect of questionnaire with related alternatives is presented in the table below:

Table No 4.1.4

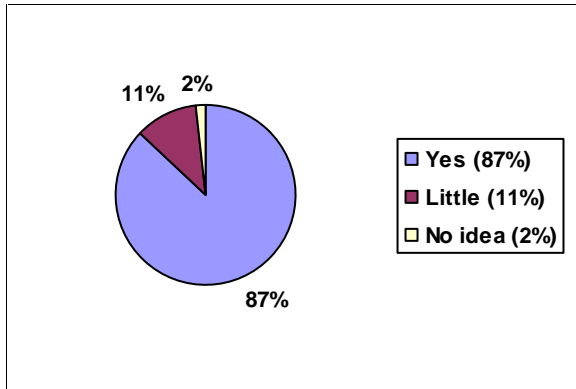
Views towards knowledge of books of accounts to be maintained for Income Tax purpose.

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) Yes	No	45	31	29	<b>105</b>
	%	100	88.57	72.50	<b>87.00</b>
ii) Little	No	0	4	9	<b>13</b>
	%	0.00	11.43	22.50	<b>11.00</b>
iii) No idea	No	0	0	2	<b>2</b>
	%	0.00	0.00	5.00	<b>2.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

As shown in the above table, 100%, 88.57%, and 72.50%, of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business person express the knowledge the response of having knowledge, 0%, 11.43% and 22.50% of them express of having little knowledge and 5% of Trading Business Persons express no knowledge of books of account to be maintained for Income Tax Purpose. Aggregate response is presented in pie chart below:





**Figure No 4.1.4: Aggregate view towards knowledge of books of account to be maintained**

Amongst 120 respondents 87% of them shows their knowledge, 11% shows little knowledge and 2% only shows no knowledge. This indicates that majority of respondents have better knowledge of books of account to be maintained for income tax purpose.

#### **4.1.5 Views towards the time period over which accounts and records must be retained.**

The response from the respondents towards time period over which accounts and records must be retained after the expiry of the relevant income year in respect to questionnaire with related alternatives is presented in Table below:

Table No 4.1.5

Views towards the time period of retaining books and records.

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) One year	No	0	0	0	<b>0</b>
	%	0.00	0.00	0.00	<b>0.00</b>
ii) Three years	No	9	6	5	<b>20</b>
	%	20	17.14	12.50	<b>17.00</b>
iii) Five year	No	36	29	33	<b>98</b>
	%	80.00	82.86	82.50	<b>81.00</b>
iv) No idea	No	0	0	2	<b>2</b>
	%	0.00	0.00	5.00	<b>2.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

Tax payers are under the obligation to retain the Books and records in safe custody, relating to the assessment of taxable income for a period of five years after the expiry of relevant income year. As shown in the above table; 80%, 82.86% and 82.50% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have expressed their view towards five years and 20%, 17.14% and 12.50% of them express towards three years and 5% of Trading Business persons have express no idea. The aggregate view of them is presented in pie chart below:

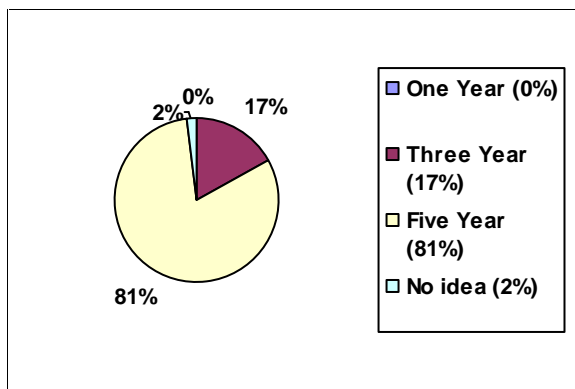


Figure No 4.1.5: Aggregate view towards time period of retaining books of account.

Aggregate response of 120 respondents is found to be 81%, 17%, and 2% towards five year, three year and no idea. Which indicates that majority of respondents are aware of the time period of retaining accounts and records relating to income tax.

#### 4.1.6 Views towards the payment on which TDS must be deducted.

The response from the respondents towards the payments on TDS must be deducted in respect to questionnaire with related alternatives is presented in Table below:

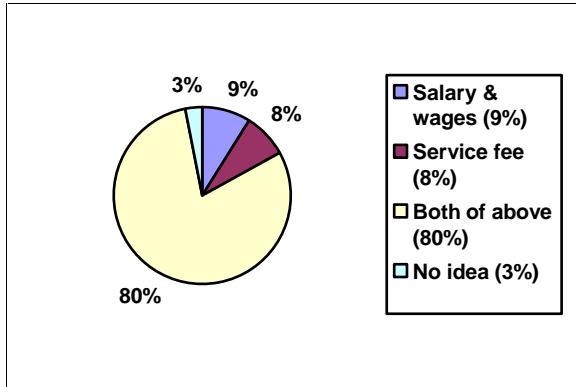
Table No 4.1.6  
Views towards the payment on which TDS must be deducted.

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) Salary & wages	No	4	4	3	<b>11</b>
	%	8.89	11.43	7.50	<b>9.00</b>
ii) Service fee	No	2	3	5	<b>10</b>
	%	4.44	8.57	12.50	<b>8.00</b>
iii) Both of above	No	39	28	29	<b>96</b>
	%	86.67	80	72.50	<b>80</b>
iv) No idea	No	0	0	3	<b>3</b>
	%	0	0	7.50	<b>3.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

According to the Section 87, 88 and 89 of Income Tax Act 2058, TDS must be deducted while making the payment of salaries and wages, service fee, rent, royalty, retirement payment etc. Above Table shows, 86.67%, 80%, 72.50% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have expressed their response towards salary & wages and service fee, 8.89%, 11.43%, 7.50% have responded towards salary & wages and 4.44%, 8.57%, 12.50% responded towards service fee respectively. Similarly, only 7.50% of

Trading Business persons have responded for no idea. The aggregate result is presented in the pie chart below:



**Figure No 4.1.6: Aggregate view towards payment on which TDS must be deducted.**

Aggregate response of 120 respondents is found to be 80%, 9%, 8% and 3% towards salary & wages and service fee, service fee, salary and wages and no idea. Hence, majority of respondents have awareness of payment on which TDS must be deducted.

#### **4.1.7 Views towards maximum time period within which TDS must be deposited to revenue.**

The response from the respondents towards the time period within which TDS must be deposited to revenue after the expiry of each relevant month is presented in Table below:

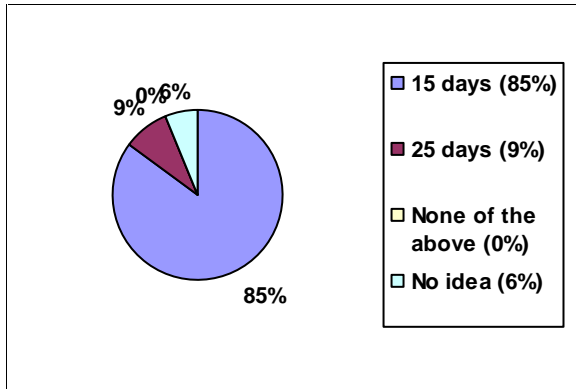
Table No 4.1.7

Views towards the time period within which TDS must be deposited to revenue.

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) 15 days	No	42	27	33	<b>102</b>
	%	93.33	77.14	82.50	<b>85.00</b>
ii) 25 days	No	3	3	5	<b>11</b>
	%	6.67	8.57	12.50	<b>9.00</b>
iii) None of above	No	0	0	0	<b>0</b>
	%	0.00	0.00	0	<b>0.00</b>
iv) No idea	No	0	5	2	<b>7</b>
	%	0.00	14.29	5.00	<b>6.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

The withholding agent is under the obligation to deposit the TDS to revenue office within 15 days from the expiry of relevant month in which such TDS is deducted. Above Table shows, 93.33%, 77.14, 82.50% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have expressed their response towards 15 days and 6.67%, 8.57%, 12.50% of them express their view towards 25 days respectively. On the other hand 14.29% and 5% of Cottage & Small Industrialists and 5% of Trading Business persons have expressed no idea. The aggregate result is presented in the pie chart below:



**Figure No 4.1.7: Aggregate view towards time period for TDS deposit**

Aggregate response of 120 respondent is found to be 85%, 9%, and 6% towards 15 days, 25 days and no idea. Which indicates that majority of respondents are aware of time period within which TDS must be deposited to revenue after the expiry of each relevant month.

**4.1.8 Views towards due date within which estimated tax return must be filed to IRD/IRO.**

The views of respondents in respect to the due date within which the estimated tax return must be filed to respective IRD/IRO for each income year, in response to the questionnaire with related alternatives is presented in the table below:

Table No 4.1.8

Views towards the due date of filing estimated tax return to IRO

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) By the end of Kartik	No	0	2	2	<b>4</b>
	%	0	5.71	5.00	<b>3.00</b>
ii) By end of the Pouch	No	41	31	32	<b>104</b>
	%	91.11	88.57	80	<b>87.00</b>
iii) By the end of Baisakh	No	0	0	0	<b>0</b>
	%	0	0	0	<b>0</b>
iv) No idea	No	3	3	6	<b>12</b>
	%	6.67	8.57	15	<b>10</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

Estimated tax return must be filed to revenue by the end of Pouch every fiscal year. Above Table shows, 91.11%, 88.57%, 80% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have expressed their response towards by the end of Paush; 0%, 5.71% and 5% have responded towards by the end of Kartik and 6.67%, 8.57% and 15% of them respectively responded no idea. The aggregate result obtained from respondent is shown in the pie chart below:

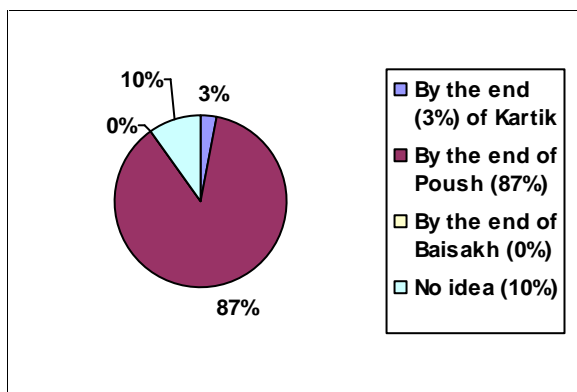


Figure No 4.1.8: Aggregate views towards time period for filing estimated tax return.

Aggregate response of 120 respondents is found to be 87%, 10% and 3% towards by the end of Pouch, no idea and by the end of Kartik respectively. This shows that the taxpayers are aware towards the date of filing estimated tax return in respect of each income year.

#### 4.1.9. Views towards the number of installments in which income tax is paid.

The response from the respondents towards the number of installments in which income tax shall be payable is presented in the table below:

Table No 4.1.9

Views towards the numbers of installments in which income tax is paid.

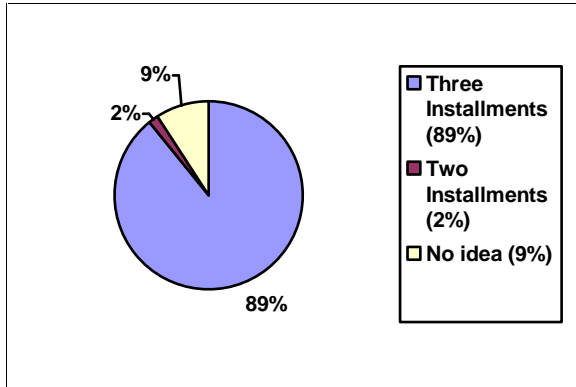
Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) Three Installments	No	43	31	33	<b>107</b>
	%	95.55	88.57	82.50	<b>89.00</b>
ii) Two Installments	No	0	1	1	<b>2</b>
	%	0.00	2.88	2.50	<b>2.00</b>
iii) None of the above	No	0	0	0	<b>0</b>
	%	0.00	0.00	0.00	<b>0</b>
iv) No idea	No	2	3	6	<b>11</b>
	%	4.44	8.57	15	<b>9.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

As per provision of ITA 2058, income tax shall be paid in three installments at the rate of up to 40% by the end of Poush, up to 70% by the end of Chaitra and up to 100% by the end of Ashadh every year. As shown in the above table, 95.55%, 88.57%, 82.50% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have expressed their response towards three installments, 0%, 2.88%, 2.50% of them have responded



in respect to two installments and 4.44%, 8.57% and 15% of them respectively have responded no idea. The aggregate result obtained from respondent is shown in the pie chart below:



**Figure No 4.1.9: Aggregate view towards numbers of installment for payment of IT.**

Aggregate response of 120 respondent is found to be 89%, 2% and 9% towards three installments, two installments and no idea respectively, which has depicted the awareness of tax payer towards the numbers of installments in which income tax shall be payable.

#### **4.1.10. Views towards the due date of filing final tax return and payment of Income Tax.**

The response from the respondents towards the due date of filing final tax return after the end of relevant income year in response to questionnaire with related alternatives is presented in following table:

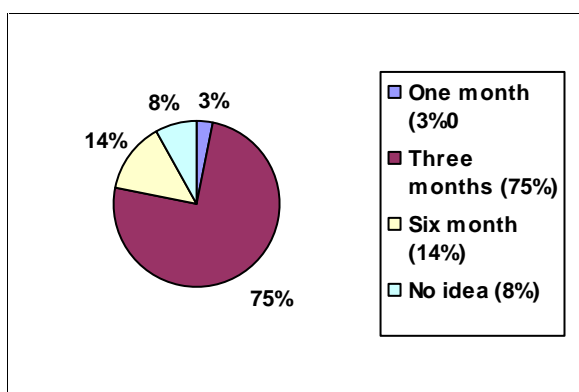
Table No 4.1.10

Views towards the due date of filing final tax return and payment of income tax.

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) Within one months	No	0	1	3	<b>4</b>
	%	0	2.86	7.50	<b>3.00</b>
ii) Within three months	No	36	28	26	<b>90</b>
	%	80	80	65	<b>75.00</b>
iii) Within six months	No	7	4	6	<b>17</b>
	%	15.56	11.43	15	<b>14.00</b>
iv) No idea	No	2	2	5	<b>9</b>
	%	4.44	5.71	12.50	<b>8.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

Tax payers are under the obligation to file the final tax return and pay the tax within three month after the expiry of each relevant income year. Above table shows 80%, 80%, 65% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have expressed their response towards three months, 15.56%, 11.43%, 15% of them have responded in respect to six months and 4.44%, 5.71% and 12.50% of them respectively have responded no idea. The aggregate result obtained from respondent is shown in the pie chart below:



**Figure No 4.1.10: Aggregate view towards due date of filing tax return and payment of Tax.**

Aggregate response of 120 respondents is found to be 75%, 14%, 3% and 8% towards three months, six months, one months and no idea respectively, which has depicted the awareness of tax payer towards the due date of filing final tax return after the end of relevant income year.

#### **4.1.11. Views towards the knowledge of tax exemption and tax concession.**

The response from the respondents towards the knowledge of tax exemption and tax concession with related alternatives is presented in following table:

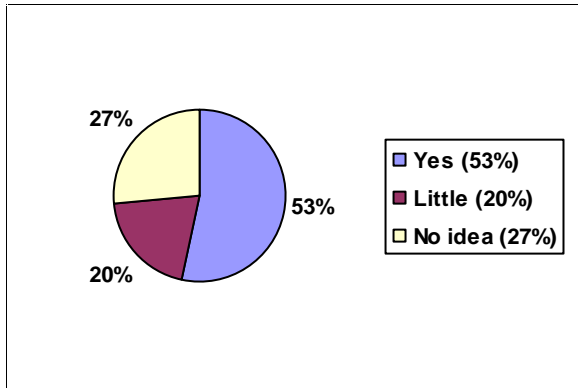
Table No 4.1.11

#### Views towards the knowledge of tax exemption and tax concession

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) Yes	No	24	19	21	<b>64</b>
	%	53.33	54.29	52.50	<b>53.00</b>
ii) Little	No	9	7	8	<b>24</b>
	%	20.00	20.00	20.00	<b>20.00</b>
iii) No idea	No	12	9	11	<b>32</b>
	%	26.67	25.71	27.50	<b>27.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

Above table shows 53.33%, 54.29%, 52.50% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have expressed their response towards having knowledge, 20%, 20%, 20% have responded little knowledge and 26.67%, 25.71%, 27.50% respectively have expressed towards no idea. The aggregate result obtained from respondent is shown in the pie chart below:



**Figure No 4.1.11: Aggregate view towards tax exemption and tax concession.**

Aggregate response of 120 respondents is found to be 53%, 20% and 27% towards having knowledge, little knowledge and no idea respectively, which has depicted the awareness sole proprietors have weak knowledge towards tax planning.

**4.1.12. Views towards the effect of failure to pay tax within due date.**

The response from the respondents towards the effect of failure to pay tax within due date in response to questionnaire with related alternatives is presented in following table:

Table No 4.1.12

Views towards the Effect of failure to pay tax within due date.

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) Relief from tax liability	No	0	0	0	<b>0</b>
	%	0.00	0.00	0.00	<b>0.00</b>
ii) Liable for fines & penalties	No	45	33	37	<b>115</b>
	%	100.00	94.29	92.50	<b>96.00</b>
iii) No idea	No	0	2	3	<b>5</b>
	%	0.00	5.71	7.50	<b>4.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

As shown in above table, 100%, 94.29%, 92.50% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have expressed their response towards liable for fine and penalties and 0%, 5.71%, 7.50% of them respectively have responded towards no idea. The aggregate result obtained from respondent is shown in the pie chart below:

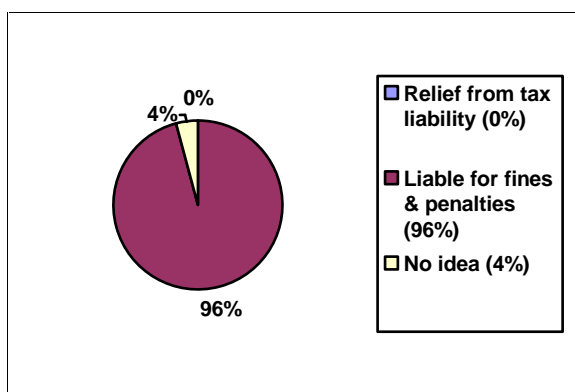


Figure No 4.1.12: Aggregate view towards effect of failure to pay IT within due date.

Aggregate response of 120 respondents is found to be 96%, 0% and 4.17% towards liable for fines & penalties, relief from tax liability and no idea respectively. This indicates that the awareness sole proprietors towards the effect of failure to pay tax within due date is found to be strong.

#### 4.1.13. Views towards the Knowledge of rights and duties of taxpayers.

The response from the respondents towards the knowledge of sole proprietors towards rights and duties of tax payers as specified by Income Tax Act 2058 and Income Tax Regulations 2059 in response to questionnaire with related alternatives is presented in following table:

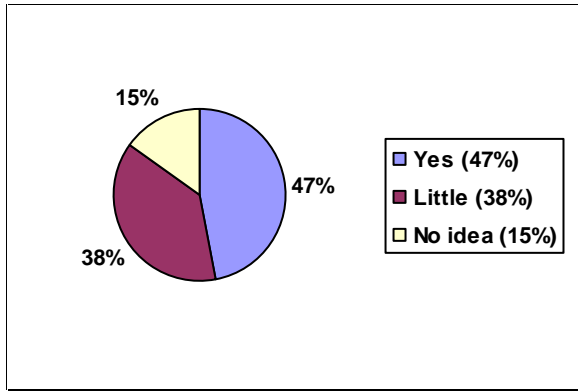
Table No 4.1.13

Views towards the knowledge of rights and duties of taxpayers.

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) Yes	No	26	13	18	<b>57</b>
	%	57.78	37.14	45.00	<b>47.00</b>
ii) Little	No	15	16	14	<b>45</b>
	%	33.33	45.72	35.00	<b>38.00</b>
iii) No idea	No	4	6	8	<b>18</b>
	%	8.89	17.14	20.00	<b>15.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

As shown in above table, 57.78, 37.14%, 45% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have responded towards having knowledge, 33.33%, 45.72%, 35% towards little knowledge and 8.89%, 17.14%, 20% of them respectively have responded towards no idea. The aggregate result obtained from respondent is shown in the pie chart below:



**Figure No 4.1.13: Aggregate view towards rights and duties of tax payers.**

Aggregate response of 120 respondents is found to be 47%, 38% and 15% towards having knowledge, little knowledge and no knowledge respectively. This indicates that the awareness of sole proprietors towards the rights and duties of taxpayers is found to be weak.

**4.1.14. Views towards the knowledge of existing Income Tax system and effectiveness of its implementation**

The response from the respondents towards the existing income tax and effectiveness of it's implementation in response to questionnaire with related alternatives is presented in following table:

Table No 4.1.14

Views towards the knowledge of existing income tax system and effectiveness of it's implementation

Alternatives		Respondents				
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total	
i) Yes	No	16	11	19	<b>46</b>	
	%	35.55	31.43	47.50	<b>38.00</b>	
ii) Little	No	26	10	13	<b>49</b>	
	%	57.78	28.57	32.50	<b>41.00</b>	
iii) No idea	No	3	14	8	<b>25</b>	
	%	6.67	40.00	20.00	<b>21.00</b>	
<b>Total</b>		<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

Above table shows 35.55%, 31.43%, 47.50% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have expressed their response towards yes, i.e., having awareness, 57.78%, 28.57%, 32.50% of them have responded in respect to little awareness and 6.67%, 40% and 20% of them respectively have responded no idea. The aggregate result obtained from respondent is shown in the pie chart below:

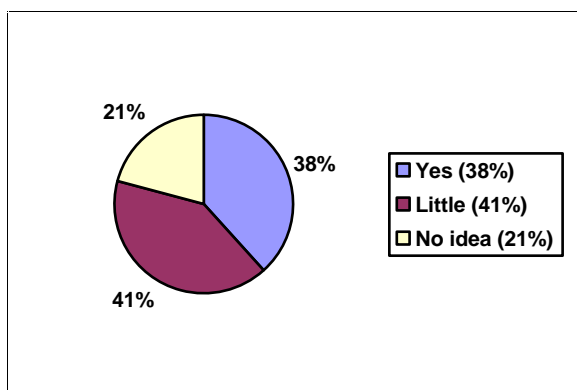


Figure No 4.1.14: Aggregate view towards knowledge of existing tax system and effectiveness of it's implementation.



Aggregate response of 120 respondents is found to be 38%, 41% and 21% towards having knowledge, little knowledge and no knowledge respectively, which has depicted the poor awareness of sole proprietors towards the existing income tax system and effectiveness of its implementation.

#### 4.1.15 Views towards problems for implementation of provisions of IT.

The response from the respondents towards the problems they have felt for effective implementation of provisions of Income Tax with respect to questionnaire with related alternatives is presented in following table:

Table No 4.1.15

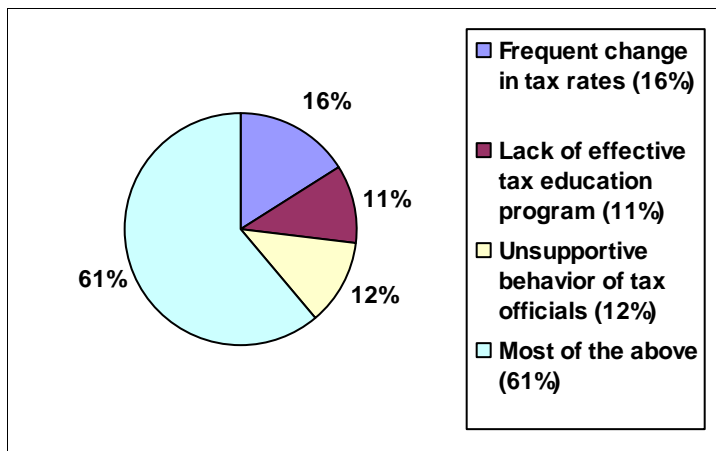
Views towards the problems for implementation of provisions of IT.

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) Frequent change in tax rate	No	8	5	6	<b>20</b>
	%	17.78	14.29	15.00	<b>16.00</b>
ii) Lack of effective tax education program	No	6	3	4	<b>13</b>
	%	13.33	8.57	10.00	<b>11.00</b>
iii) Unsupportive behavior of tax officials	No	7	4	3	<b>14</b>
	%	15.56	11.43	7.50	<b>12.00</b>
iv) Most of the above	No	24	23	27	<b>74</b>
	%	53.33	65.71	67.50	<b>61.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

As shown in above table, 17.78%, 14.29% and 15% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have responded towards Frequent change in tax rate, 13.33%, 8.57% and 10% of them towards Lack of effective tax education program, 15.56%, 11.43% and 7.50% of them towards Unsupportive behavior of tax

officials and 53.33%, 65.71% and 67.50% of them respectively express their view towards Most of the above. The composite response is presented in the pie chart below:



**Figure No 4.1.15: Aggregate view towards problems for effective implementation of provisions of IT.**

Aggregate response of 120 respondent is found to be 17%, 11%, 12% and 60% towards Frequent change in tax rate, Lack of effective tax education program, Unsupportive behavior of tax officials and Most of the above. Which has shown that the government has to take initiative towards the development of effective mechanism and it's implementation in order to facilitate the tax payer regularly.

## **4.2 Presentation and Analysis of Responses towards VAT**

Value added tax (VAT), in this modern economic age has become an indispensable means of collecting government revenue. It is a modified form of sales tax. Persons who conduct business under VAT criteria should pay tax on each value added. Economy of each state depends on how tax system is practiced. For this purpose, people who conduct business, industries or economic activities should be aware towards VAT to make VAT successful. If people don't have knowledge about VAT, tendency of tax evasion rises. In the due course of this thesis writing, responses received through questionnaires from respondents are presented below.

#### 4.2.1 Views towards the meaning of VAT.

The response from the respondents to assess the knowledge of sole proprietors towards the meaning of Value Added Tax (VAT) in response to questionnaire with related alternatives is presented in following table:

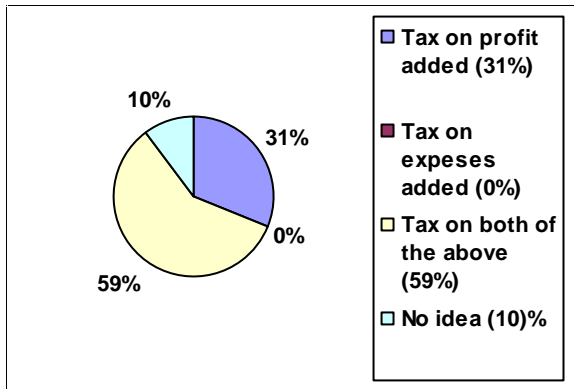
Table No 4.2.1  
Views towards the meaning of VAT.

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) Tax on profit added	No	10	13	14	<b>37</b>
	%	22.22	37.14	35.00	<b>31.00</b>
ii) Tax on expenses added	No	0	0	0	<b>0</b>
	%	0	0	0	<b>0</b>
iii) Both of the above	No	31	19	21	<b>71</b>
	%	68.89	54.29	52.50	<b>59.00</b>
iv) No idea	No	4	3	5	<b>12</b>
	%	8.89	8.57	12.50	<b>10.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

VAT refers the tax value addition on goods and services made by business entities at the successive stages of production and distribution. Value addition includes expenses as well as profit addition.

Above table shows 68.89%, 54.29%, 52.50% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have expressed their response towards profit added and expenses added, 22.22%, 37.14%, 35% of them have responded in respect to profit added and 8.89%, 8.57% and 12.50% of them respectively have responded no idea. The aggregate result obtained from respondent is shown in the pie chart below:



**Figure No 4.2.1: Aggregate view towards meaning of VAT.**

Aggregate response of 120 respondents is found to be 59.17%, 30.83%, and 10% towards Tax on profit and expenses added, Tax on profit added and no idea respectively, which indicates that the sole proprietors have moderate awareness towards the core meaning of VAT.

#### **4.2.2 Views towards the reason of registration of business on VAT.**

The response from the respondents towards the reason of registration of business on VAT in respect to questionnaire with related alternatives is presented below:

Table No 4.2.2

Views towards the reasons of registration of business on VAT.

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) To face competition	No	0	0	0	<b>0</b>
	%	00.00	0.00	0.00	<b>0.00</b>
ii) To create reputation	No	0	0	0	<b>0</b>
	%	00.00	0.00	0.00	<b>0.00</b>
iii) To comply with provisions of VAT Act.	No	45	33	37	<b>115</b>
	%	100	94.29	92.50	<b>96.00</b>
iv) No idea	No	0	2	3	<b>5</b>
	%	0.00	5.71	7.50	<b>4.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

One should register the business on VAT to comply with the provisions of VAT Act. As shown in the above table, 100%, 94.29%, 92.50% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have expressed their response towards to comply with the provisions of VAT Act, 0%, 2.71% and 7.50% of them respectively responded no idea. The aggregate result obtained from respondent is shown in the pie chart below:

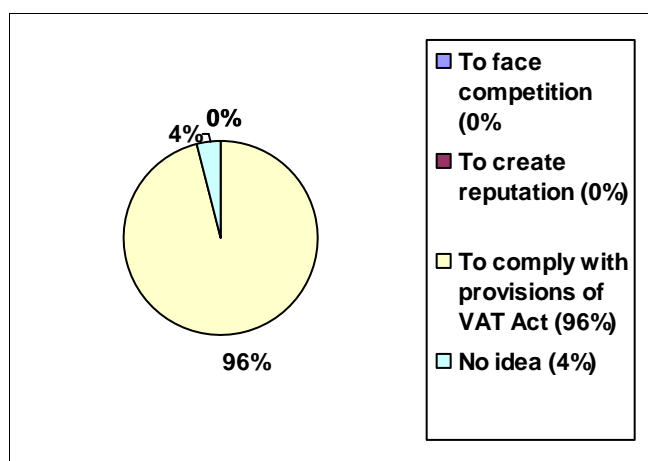


Figure No 4.2.2: Aggregate view towards reason of registration of business on VAT.

Composite response of 120 respondents is found to be 96% and 4% towards to comply with the provisions of the VAT Act and no idea respectively. This shows that the taxpayers have strong awareness towards the reasons of registration of business on VAT.

#### 4.2.3. View towards the category under which registration on VAT can be done.

The Views towards the category under which registration on VAT can be done in response to questionnaire with related alternatives is presented as below:

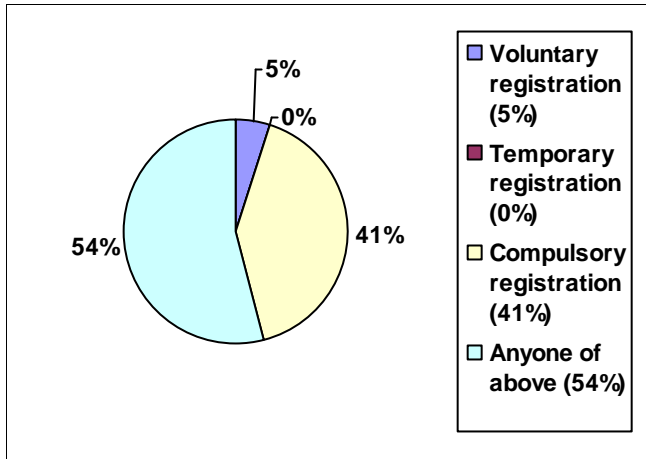
Table No 4.2.3  
Views towards the category of registration of business on VAT.

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) Voluntary registration	No	3	2	1	<b>6</b>
	%	6.67	5.71	2.50	<b>5.00</b>
ii) Temporary registration	No	0	0	0	<b>0</b>
	%	00.00	0.00	0.00	<b>0.00</b>
iii) Compulsory registration	No	18	15	16	<b>49</b>
	%	40.00	42.86	40.00	<b>41.00</b>
iv) Anyone of above	No	24	18	23	<b>65</b>
	%	53.33	51.43	57.50	<b>54.17</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

One can be registered on VAT either voluntary or temporary or compulsory basis depending upon the level of transactions and circumstances of business. As shown in the above table, 53.33%, 51.43%, 57.50% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have expressed their response towards Any one of above, 40%, 42.86%, 40% of them responded to Compulsory registration and 6.67%, 5.71% and 2.50%

of them respectively responded to Voluntary registration. The composite result obtained from respondent is shown in the pie chart below:



**Figure No 4.2.3: Aggregate view towards category of registration on VAT.**

Composite response of 120 respondent is found to be 54%, 41% and 5% in the favor of Anyone of above, Compulsory registration and Voluntary registration respectively. This shows that the taxpayers have weak awareness towards the category of registration on VAT.

#### **4.2.4 Views towards the person bearing ultimate burden of VAT.**

The response from the respondents towards the person who has to bear the ultimate burden of VAT in response to questionnaire with related alternatives is presented below:

Table No 4.2.4

Views towards the persons bearing ultimate burden of VAT.

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) Importer/Manufacture	No	0	0	0	<b>0</b>
	%	00.00	0.00	0.00	<b>0.00</b>
ii) Wholesaler/Retailer	No	0	0	0	<b>0</b>
	%	00.00	0.00	0.00	<b>0.00</b>
iii) Consumer	No	45	35	40	<b>120</b>
	%	100	100.00	100.00	<b>100.00</b>
iv) No idea	No	0	0	0	<b>0</b>
	%	0.00	0.00	0.00	<b>0.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

Ultimate burden of VAT is to be born by the ultimate consumers of goods and services. As shown in the above table, 100%, of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons, have expressed their response in favor of Consumer, which shows that sole proprietors have strong awareness towards the person who has to bear ultimate burden of VAT.

#### 4.2.5. Views towards the persons who have to issue Tax Invoice.

The response from the respondents towards the proprietors who have to issue Tax Invoice on sale of goods and services in response to questionnaire with related alternatives is presented in following table:



Table No 4.2.5

Views towards the persons to issue Tax Invoice .

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) All business persons	No	3	8	7	<b>18</b>
	%	6.67	22.86	17.50	<b>15.00</b>
ii) Registered persons only	No	42	24	28	<b>94</b>
	%	93.33	68.57	70.00	<b>78.00</b>
iii) Unregistered persons only	No	0	0	0	<b>0</b>
	%	0.00	0.00	0.00	<b>0.00</b>
iv) No idea	No	0	3	5	<b>8</b>
	%	0.00	8.57	12.50	<b>7.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

Registered persons only are under the obligation to issue T.I. Above table shows 93.33%, 68.57%, 70% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have expressed their response towards Registered persons only, 6.67%, 22.68%, 17.50% of them have responded in respect to All proprietors and 0%, 8.57% and 12.50% of them respectively have responded no idea. The aggregate result obtained from respondent is shown in the pie chart below:

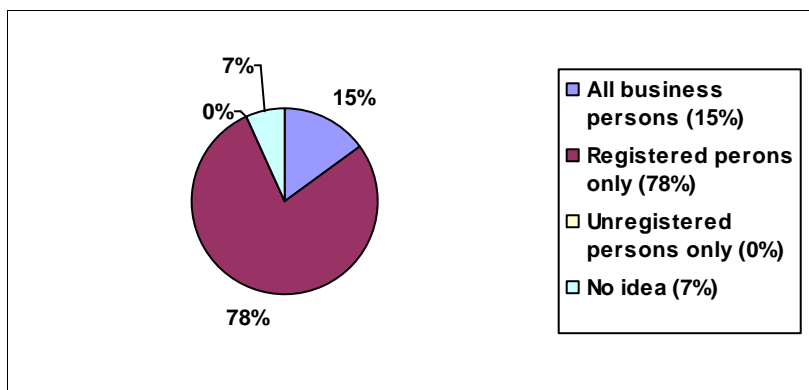


Figure No 4.2.5: Aggregate view towards person to issue Tax Invoice.

Amongst 120 respondent, 78.%, 15%, and 7% of respondents have expressed their view towards Registered persons only, All proprietors and No idea respectively. Since 78% of respondents' view is favor of Registered persons only, sole proprietors are aware towards the persons who have to issue Tax Invoice.

#### 4.2.6. View towards the applicable rate of TDS on payment against VAT bill.

The response from the respondents towards the applicable rate of TDS on payment against the VAT bill in response to questionnaire with related alternatives is presented in following table:

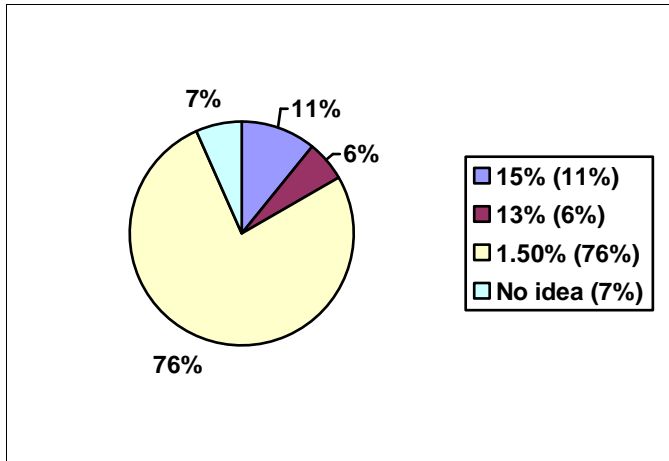
Table No 4.2.6  
Views towards rate of TDS on VAT bill.

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) 15%	No	6	4	3	<b>13</b>
	%	13.33	11.43	7.50	<b>11.00</b>
ii) 13%	No	3	0	4	<b>7</b>
	%	6.67	0	10.00	<b>6.00</b>
iii) 1.50%	No	36	25	31	<b>92</b>
	%	80.00	71.83	77.50	<b>76.00</b>
iv) No idea	No	0	6	2	<b>8</b>
	%	0.00	17.14	5.00	<b>7.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

Rate of TDS on payment against VAT bill is 1.50%. Above table shows 80%, 71.83%, 77.50% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have expressed their response towards 1.50%. Similarly 13.33%, 11.43%, 7.50 of them have responded in respect to 15%; 6.67%, 0%, 10% towards 13% and 0%, 17.14%

and 5% of them respectively have responded no idea. The aggregate result obtained from respondent is shown in the pie chart below:



**Figure No 4.2.6: Aggregate view towards rate of TDS on VAT bill.**

Aggregate response of 120 respondent is found to be 77%, 11%, and 6% in favor of 1.50%, 15%, and 13% respectively. Only 7% of them do not have exact idea. which indicates that the sole proprietors have general awareness towards the applicable rate of TDS on payment against VAT bill.

#### **4.2.7 Views toward the person authorized to certify the purchase and sales registers of registered person.**

The response from the respondents towards the person who is authorized to certify the purchase and sales registers of registered person in respect to questionnaire with related alternatives is presented below:

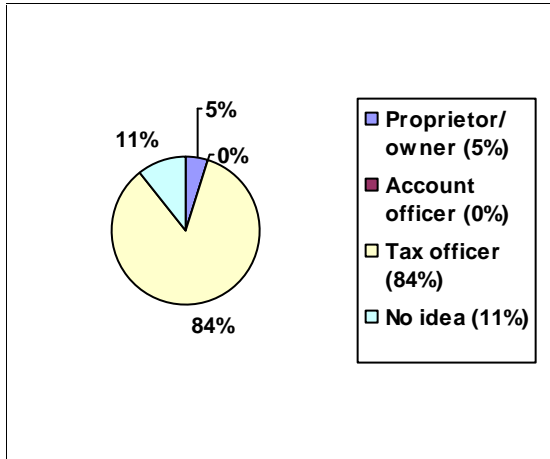
Table No 4.2.7

Views towards the person authorized to certify purchase and sales registers.

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) Proprietor/ owner	No	0	2	4	<b>6</b>
	%	00.00	5.71	10.00	<b>5.00</b>
ii) Account officer	No	0	0	0	<b>0</b>
	%	00.00	0.00	0.00	<b>0.00</b>
iii) Tax officer	No	45	27	29	<b>101</b>
	%	100	77.15	72.50	<b>84.17</b>
iv) No idea	No	0	6	7	<b>13</b>
	%	0.00	17.14	17.50	<b>10.83</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

Purchase and sales registers of registered business persons must be certified by Tax Officer. As shown in the above table, 100%, 77.15%, 72.50% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have expressed their response towards Tax officer; 0%, 5.71%, 10% responded towards Proprietor/owner and 0%, 17.14%, 17.50% of them respectively responded no idea. The aggregate result obtained from respondent is shown in the pie chart below:



**Figure No 4.2.7: Aggregate view towards persons authorized to certify purchase and sales registers**

Composite response of 120 respondents is found to be 84% and 5% in favor of Tax officer and Proprietor/ owner respectively and 11% of them do not have exact knowledge. This shows that the taxpayers have strong awareness towards the person authorized to certify sales and purchase register of registered person.

#### **4.2.8. Views towards the meaning of VAT return.**

The views of respondents towards the meaning of VAT return in respect to questionnaire with alternatives are presented in the table below:

Table No 4.2.8

## Views towards the meaning of VAT return

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
Statement of:	No				
	%				
i) VAT payable	No	3	7	3	<b>13</b>
	%	6.67	14.29	7.50	<b>11.00</b>
ii) VAT receivable	No	0	0	0	<b>0</b>
	%	00.00	0.00	0.00	<b>0.00</b>
iii) Net VAT payable/ receivable	No	39	26	31	<b>96</b>
	%	86.68	80.00	77.50	<b>80.00</b>
iv) No idea	No	3	2	6	<b>11</b>
	%	6.67	5.71	15.00	<b>9.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

VAT return refers the statement of net VAT payable/ receivable during each tax period. As shown in the above table, 86.68%, 80%, 77.50% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have expressed their response towards Statement of Net VAT payable/ receivable; 6.67%, 14.29%, 7.50% of them responded to VAT payable and 6.67%, 5.71%, 15% of them respectively responded to No idea. The composite result obtained from respondent is presented in the pie chart below:

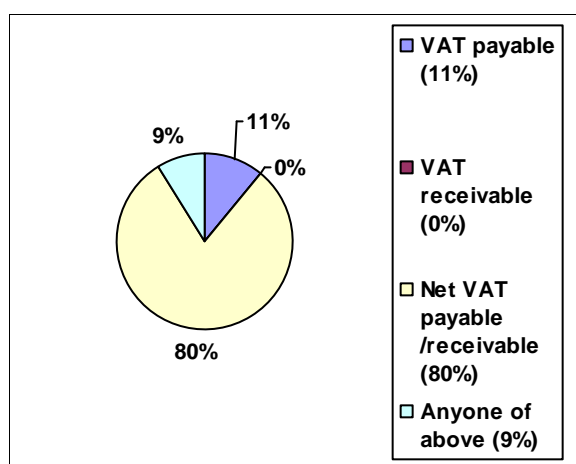


Figure No 4.2.8: Aggregate view towards meaning of VAT return.

Composite response of 120 respondent is found to be 80%, 11% and 9.% in the favor of Net VAT payable/receivable, VAT payable and Anyone of the above respectively. This shows that the taxpayers have strong awareness towards the meaning of VAT return.

#### 4.2.9. View towards the due date of filing VAT return after the expiry of relevant tax period.

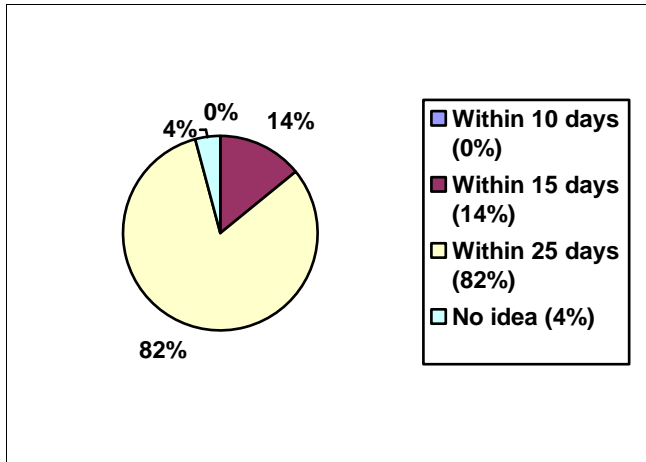
The response from the respondents towards the due date of filing VAT return after the expiry the relevant tax period in response to questionnaire with related alternatives is presented in following table:

Table No 4.2.9  
Views towards the due date of filing VAT return .

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) Within 10 days	No	0	0	0	<b>0</b>
	%	0.00	0.00	0.00	<b>0.00</b>
ii) Within 15 days	No	6	7	4	<b>17</b>
	%	13.33	20.00	10.00	<b>14.00</b>
iii) Within 25 days	No	39	26	33	<b>98</b>
	%	86.67	74.28	82.50	<b>82.00</b>
iv) No idea	No	0	2	3	<b>5</b>
	%	0.00	5.71	7.50	<b>4.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

Each registered persons are under the obligation to file the VAT return within 25 days after the expiry to each tax period. Above table shows 86.67%, 74.28%, 82.50% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have expressed their response towards Within 25 days, 13.33%, 20%, 10% of them have responded in respect to Within 15 days and 0%, 5.71% and 7.50% of them respectively have responded no idea. The aggregate result obtained from respondent is shown in the pie chart below:



**Figure No 4.2.9: Aggregate view towards due date of filing VAT return.**

Amongst 120 respondents, 82%, 14%, and 4% express their view towards Within 25 days, Within 15 days and respectively, which indicates that the sole proprietors have moderate awareness towards the due date of filing VAT return.

**4.2.10 Views toward the knowledge of existing VAT system and effectiveness of it's implementation.**

The response from the respondents towards the existing VAT system and effectiveness of it's implementation in response to questionnaire with related alternatives is presented in following table:



Table No 4.2.10

Views towards the knowledge of existing VAT system and effectiveness of it's implementation

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) Yes	No	16	11	19	<b>46</b>
	%	35.55	31.43	47.50	<b>38.00</b>
ii) Little	No	26	10	13	<b>49</b>
	%	57.78	28.57	32.50	<b>41.00</b>
iii) No idea	No	3	14	8	<b>25</b>
	%	6.67	40.00	20.00	<b>21.00</b>
<b>Total</b>		<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

Above table shows 35.55%, 31.43%, 47.50% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have expressed their response towards yes, i.e, having awareness, 57.78%, 28.57%, 32.50% of them have responded in respect to little awareness and 6.67%, 40% and 20% of them respectively have responded no idea. The aggregate result obtained from respondent is shown in the pie chart below:

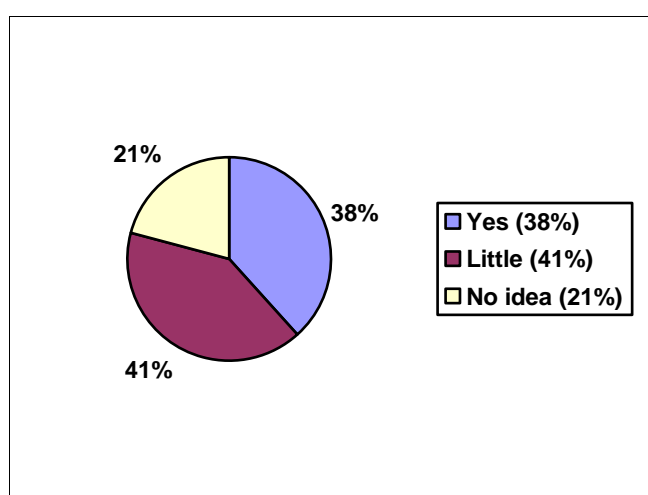


Figure No 4.2.10: Aggregate view towards knowledge of existing VAT system and effectiveness of it's implementation.

Aggregate response of 120 respondent is found to be 38%, 41% and 21% towards having awareness, little awareness and no awareness respectively, which has depicted the poor awareness of sole proprietors towards the existing VAT system and effectiveness of it's implementation.

#### 4.2.11 Views toward the problems for effective implementation of provisions of VAT.

The response from the respondents towards the problems they have felt for effective implementation of provisions of VAT with respect to questionnaire with related alternatives is presented in following table:

Table No 4.2.11

Views towards the problems for implementation of provisions of VAT.

Alternatives		Respondents			
		Large & Medium Industrialists	Cottage & Small Industrialists	Trading Business Persons	Total
i) VAT evasion practice in the market	No	8	5	6	<b>19</b>
	%	17.78	14.29	15.00	<b>16.00</b>
ii) Under invoicing by suppliers	No	6	3	4	<b>13</b>
	%	13.33	8.57	10.00	<b>11.00</b>
iii) Negative attitude of customers	No	11	9	5	<b>25</b>
	%	15.56	11.43	7.50	<b>21.00</b>
iv) Weak monitoring system.	No	20	18	25	<b>63</b>
	%	53.33	65.71	67.50	<b>52.00</b>
<b>Total</b>	<b>No</b>	<b>45</b>	<b>35</b>	<b>40</b>	<b>120</b>

Source: Field Survey, 2009

As shown in above table, 17.78%, 14.29% and 15% of Large & Medium Industrialists, Cottage & Small Industrialists and Trading Business persons respectively, have responded towards VAT evasion practice in the market; 13.33%, 8.57% and 10% of them towards Under Invoicing by suppliers; 15.56%, 11.43% and 7.50% of them towards Negative attitude of customers and 53.33%, 65.71% and 67.50% of them respectively express their view towards Weak monitoring system. The composite response is presented in the pie chart below:

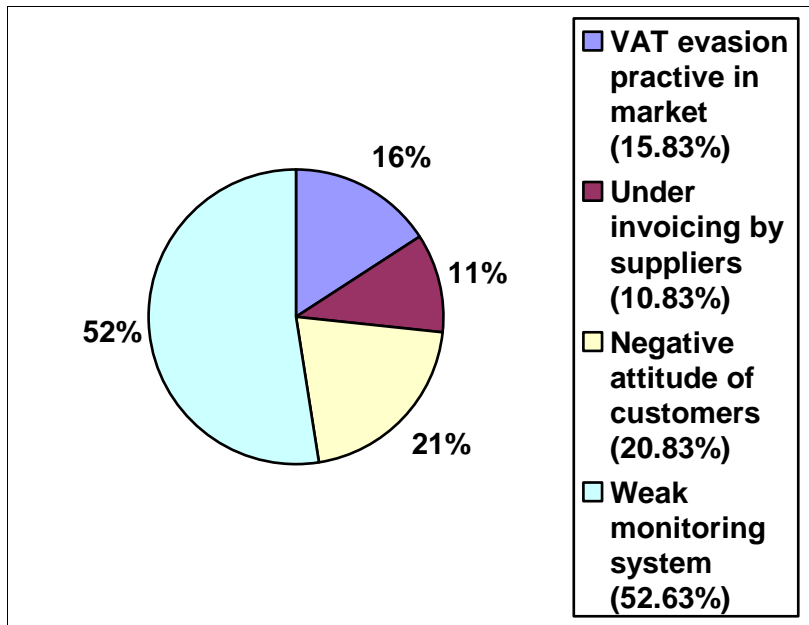


Figure No 4.2.11: Aggregate view towards problems for effective implementation of provisions of VAT.

Aggregate response of 120 respondents is found to be 16%, 11%, 21% and 52% towards VAT evasion practice in the market, Under invoicing by suppliers, Negative attitude of customers and weak monitoring system. Majority of respondents have express their views towards weak monitoring system of tax authority.

### 4.3 Analysis of contribution of Income tax (Private Sector) and VAT to total revenue of Nepal.

For the purpose of assessment of the impact of awareness to sole proprietors towards income tax and VAT, analysis of the contribution of income tax from private sector to the total national revenue seems to be essential. There is direct as well as indirect relationship between the taxpayers' awareness and the quantity of revenue collection. This means higher and broader the level of awareness about the provisions of income tax and VAT on the taxpayers, the quantity of revenue collection shall be positive and encouraging. Similarly, taxpayers who are ignorant or not fully aware about the provisions and systems of tax, may always try to avoid tax and involve in illegal business. These sorts of activities pay the negative role in economy as well as revenue collection of the state.

### 4.3.1 Contribution of Income Tax (Private Sector) to total revenue on Nepal.

The actual collection of income tax from private sector and its contribution to total revenue of Nepal in terms of crore is presented in the following table.

Table No 4.3.1  
Contribution of Income Tax (Private Sector) to total revenue of Nepal.  
(Rs. in crore)

Fiscal Year	Total Revenue	Income Tax (Private Sector)	% of Income Tax (Private Sector) to Total Revenue
2061/062	7012.27	392.63	5.60
2062/063	7228.21	423.47	5.86
2063/064	8771.21	523.44	5.97
2064/065	10762.25	638.12	5.93
2065/066	14347.45	987.75	6.89
Total	48121.39	2965.41	30.25
Average	9624.28	593.08	6.05

Source: Economic Survey 2066/067

Contribution of income tax from private sector to the total revenue of Nepal is very minimal which is depicted by above table. In fiscal year 2061/062, contribution of income tax to total revenue was 5.60% was approximately one twentieth of total national revenue and that reached to 5.86% in next year by increasing 0.26%. Such share of contribution was 5.97% in the year 2063/064, increased by 0.11%. In the year 2064/065 such share was 5.93% as reduced by 0.04%. However, contribution of income tax from private sector in the year 2065/066 was increased by 0.96% and reached to 6.89%. This assessment shows that the average contribution of income tax from private sector during the last five years could not increased by one sixteenth on total revenue of Nepal. The comparative contribution of income tax from private sector to total revenue of Nepal is also shown in the bar diagram below:

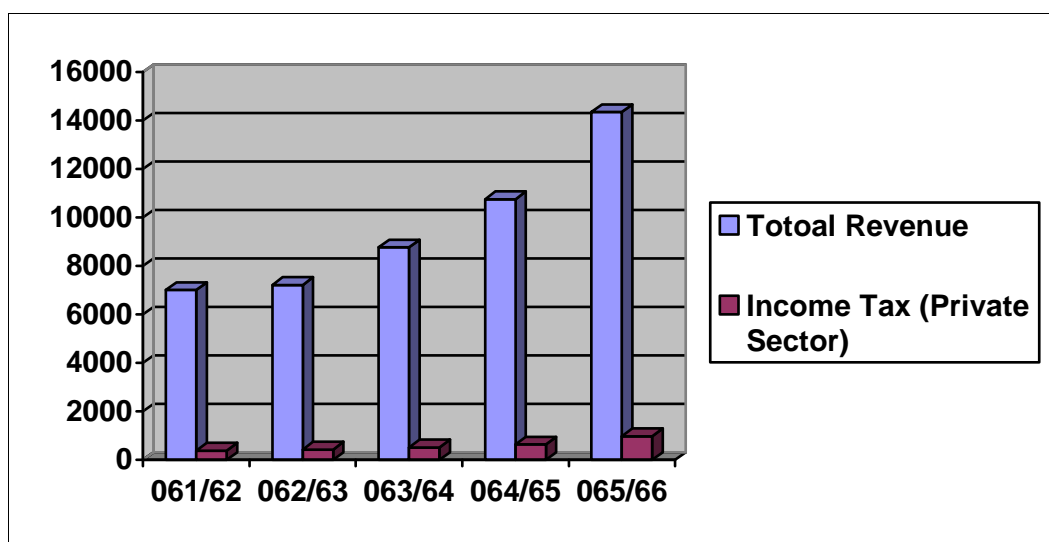


Figure No 4.3.1: Contribution of Income Tax (Private Sector) to Total revenue on Nepal

#### 4.3.2 Contribution of VAT to total revenue of Nepal.

The actual collection of VAT and it's contribution to total revenue of Nepal in terms of crore is presented in the following table.

Table No 4.3.2

Contribution of Income Tax (Private Sector) to total revenue of Nepal.

(Rs. in crore)

Fiscal Year	Total Revenue	VAT	% of VAT to Total Revenue
2061/062	7012.27	1888.54	26.93
2062/063	7228.21	2161.07	29.90
2063/064	8771.21	2609.56	29.75
2064/065	10762.25	2981.57	27.70
2065/066	14347.45	3970.09	27.67
Total	48121.39	13610.83	141.95
Average	9624.28	2722.17	28.39

Source: Economic Survey 2066/067

As shown in the above table, contribution of VAT to the total revenue of Nepal is also seemed to be minimal during the past five years. In fiscal year 2061/062, contribution of VAT to total revenue was 26.39%, approximately one fourth of total national revenue and that reached to

29.30% in next year by increasing 2.91%. Such share of contribution was 29.75% in the year 2063/064, decreased by 0.15%. In the year 2064/065 such share was 27.70% as further reduced by 0.05%. Similarly, such contribution of VAT in the year 2065/066 was further decreased by 0.03% and reached to 27.67%. This assessment shows that the average contribution of VAT during the last five years could not increased above 28.89%. The comparative contribution of VAT to total revenue of Nepal is also shown in the bar diagram below:

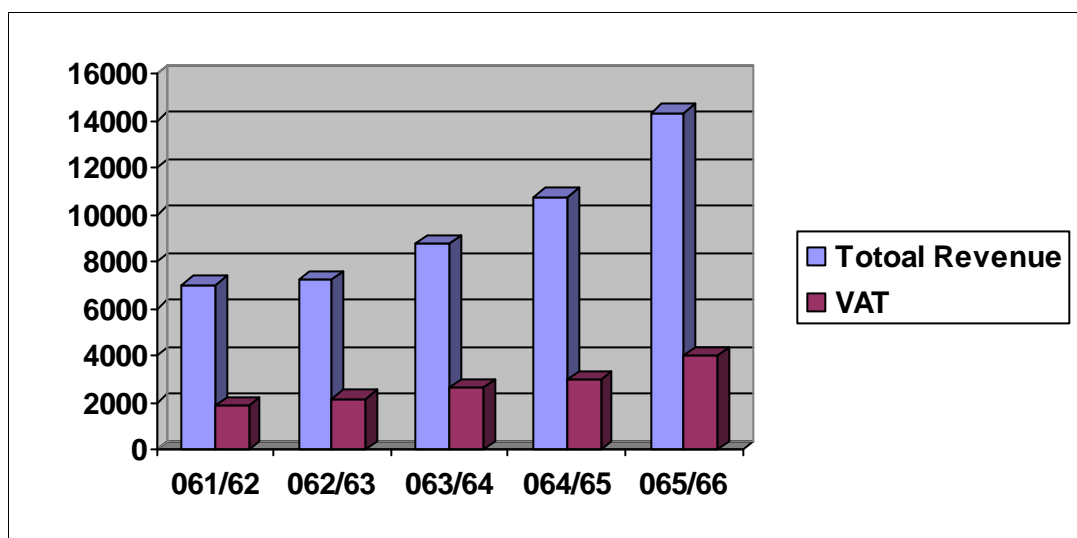


Figure No 4.3.2: Contribution of VAT to Total revenue on Nepal

#### 4.4 Major Findings of the Study

In order to fulfill the objectives of the study, questionnaires have been set out and distributed to the respondents. After getting back the questionnaires from the respondents and performing their presentation and interpretation, the following major findings have been drawn.

##### 4.4.1 Findings relating to Income Tax

) Majority of respondents have expressed their good knowledge regarding:

- i) Nature of Chargeability income tax on income as well as capital gain earned in course conducting business activities.
  - ii) For the purpose of income tax, the first step to be taken before conducting profitable business.
  - iii) The Income Tax Act being enforced for charging tax on income.
  - iv) Books of account to be maintained for the purpose of income tax and the time of their safe retention after the expiry of relevant income year.
  - v) Nature of payment on which TDS must be deducted and due date of deposit of TDS in respective IRO after the expiry of relevant month in which such TDS is deducted.
  - vi) Due date of filing estimated tax return and number of installments in which income tax is paid.
  - vii) Due date of filing final tax return and final payment of income tax after the end of respective income year/ financial year.
- ) Respondents are also found to be aware towards the problems for effective implementations of provision Income Tax.
- ) However, some of the sole proprietors have express their weak awareness and no awareness in respect of provisions of income tax as stated above.
- ) Most of the sole proprietors have responded their weak awareness about:
- i) Matters relating awareness of tax exemption and tax concession granted by the current Income Tax Act 2058 and Income Tax Regulations 2059.
  - ii) Level of awareness of existing income tax system and effectiveness of it's implementation.
  - iii) Awareness about rights and duties of taxpayers.
- ) Average contribution of income tax from private sector to total national revenue during the past five year i.e. form fiscal year 2061/062 to 2065/066 is 6.05% only

#### **4.4.2. Findings relating to VAT.**

- ) Majority of respondents have expressed their good knowledge regarding:
- i) Nature of chargeability of VAT on value addition made by intermediate business persons in course of production and distribution of goods and services.

- ii) Necessity of registration of business on VAT and possible categories under which business can be registered for VAT purpose depending upon the nature and size of business activities.
- iii) The persons who have to bear the ultimate burden of VAT and the business persons authorized to issue Tax Invoice (TI).
- iv) VAT return and due date of filing VAT return to respective IRO after the expiry of relevant Tax (VAT) period.
- v) Problems being faced for implementation of provisions of VAT.

) However, some of the sole proprietors have expressed their weak awareness and no awareness in respect of matters relating to VTA as stated above.

) Most of the sole proprietors have responded their weak awareness about matters relating to VAT as follows:

- i) Rate of TDS chargeable on payment made against VAT bill, i.e. Tax Invoice.
- ii) The persons authorized to certify the purchase and sales registers of registered persons.
- iii) Existing VAT system and effectiveness of it's implementation.

) Hence, satisfactory level of awareness of the respondents have found in respect of the provisions of income tax and VAT which are recurring in nature in course of carrying routine business activities. Similarly, the matters relating to income tax and VAT which are not repeatedly followed in course of carrying routine business activities, level of awareness of respondent is found to be weak.

) Average contribution of VAT to total national revenue during the past five year i.e. from fiscal year 2061/062 to 2065/066 is 28.39% only



## **CHAPTER - FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary**

Nepal is agriculture based least developed country. The economy status of Nepalese people is very poor. For economic prosperity political stability is a necessary condition and favorable economic policies and acts play great role in economic development. Economic development doesn't happen itself, it depends upon how fairly and timely economic activities are performed in the country.

One of the main objectives of each and every country is to raise the living standard of the people thorough economic development activities. To launch, these activities Government need various resources: Money, man, Machine and Materials. Nepalese economy is facing serious problems of resource gap. Revenue collection by the government is internally sufficient to meet the cost of day to day administration of the country only. So, Nepal has been dependent on foreign aids and loans to fulfill the need for developmental activities, which is not beneficial in the long run interest of the country. The present study entitled "Study of Awareness of Sole Proprietors Towards Income Tax and VAT in Kathmandu District". The awareness of sole proprietors to wards Income Tax and VAT in response to questionnaire with related alternatives have been presented and analyzed in the study.

In first chapter role and background of my study is included under which importance of trade and industry are studied. Similarly, objectives of the study, limitation of the study, problems of the study are mentioned. Concept of income tax and VAT, its importance, different type of tax, how income tax and VAT took place in Nepal are included in first chapter.

In second chapter review of literature has made. Thorough study of related literatures is made. Various related books, journals, newspapers and dissertations are studied. Their study helped me to choose the topic of my study because I saw there a lack of study on this concern I did. In this chapter different writers' views and their study made on the subject, different published and unpublished dissertations are analyzed and presented in further research reviews.

In chapter three research design of my study, population of the study, sources of data, data collection procedures and data processing and analysis are included which have helped to make my study systematic and fruitful.

In chapter four 'data presentation and analysis', data collected from primary sources are presented and analyzed. In this chapter, on the basis of questionnaires distributed and received back, data are presented and analyzed logically. Views of respondents towards Income Tax and VAT are presented and analyzed originally.

In the due course of this study to know the awareness of sole proprietors towards income tax and VAT, 140 questionnaires have been prepared and distributed to the respondents and 120 questionnaires only have received back from them. Their responses are presented and analyzed to achieve the proposed objectives of the study. After the completion of data tabulation and analysis, summary and conclusion are made in this fifth chapter. Similarly, recommendations are also given at the end of this chapter which will be helpful enhance the awareness of sole proprietors towards Income Tax and VAT in Kathmandu district as well as in Nepal.

## **5.2 Conclusion**

Most of the respondents are found to have knowledge about income tax and VAT, though some respondents are not aware about basic provisions of them. Good as well as satisfactory level of awareness of the respondents have found in respect of the provisions of income tax and VAT which are recurring in nature in course of carrying routine business activities. Similarly, the matters relating to income tax and VAT which are not repeatedly followed in course of carrying routine business activities, level of awareness of respondent is found to be weak. Specially, awareness of respondents towards existing income tax and VAT and effectiveness of their implementation is found to weak.

Lacks of public awareness, effective tax education programs, ineffective tax administration are the major problem for enhancing and developing awareness regarding the provisions of income tax and VAT.

Without knowledge of taxation small taxpayers may not be included in the tax system. Ineffective taxpayer education program, rapids changing government economic and taxation

policy, ineffective tax administration are the major problems of income tax system which affect income tax knowledge to taxpayers in Nepal. Lacks of co-operation between taxpayers and tax authority, Corrupted mentality of tax administrators, rapid changing taxation policy are the major problems for effective implementation of the provisions of Income Tax and VAT.

It is noticed that our tax mechanism and tax administration are not strong. Every body can escape from it. People do not possess any knowledge about provisions of Income Tax and VAT and their importance.

The effect of such weakness is also reflected in the contribution of income tax from private sector and VAT to the total national revenue of Nepal. The analysis contribution of income tax from private sector to total national revenue is found to be very much discouraging in comparison with the contribution the VAT.

If entrepreneurs are aware about any type of tax and its importance, not rapid change in policies and Acts, proper implementation of rules and regulations and timely monitoring in practice, Nepal can really be economically prosperous within ten years but for this mission whole hearted support of people is needed.

### **5.3 Recommendations**

On the basis of presentation and analysis of data, major findings and conclusions, following recommendations have been offered regarding awareness of sole proprietors towards income tax and VAT and subsequent contribution of income tax from private sector to total national revenue in order to make Income Tax and VAT system more effective and increase the contribution of Income Tax and VAT in future.

- Effective tax education program should be developed in order to enhance awareness of all the tax payers including sole proprietors about fundamental provisions in Income Tax Act, Income Tax Regulations, VAT and VAT Regulations as well as subsequent changes on them by Finance Act each year.

- Dynamic tax administration system and timely and effective monitoring systems should be developed and implemented and subsequent support from government as well political parties is recommended
- Provisions of Income Tax Act, Income Tax Rules, VAT Act and VAT Rules should be made clear and easily understandable, so that taxpayers themselves may be clear about the effect of failure to comply them.
- All levels of taxpayers including sole proprietors should be participated while developing and framing tax related policies and program.
- Government should assure the taxpayer that the tax paid by them is effectively utilized by making the government expenditure transparent as per the plan and policy framed through the budget each year.
- Illegal business should be discouraged by effectively implementing the laws and orders framed for this purpose.
- The provision of concession, rebates and facilities should be made transparent and implemented effectively for the encouragement of taxpayers.
- There should be regular publication of different categories of businesspersons including sole proprietors, paying tax timely, paying late and not paying tax so far along with quantification of tax liability, fines and penalties for which they are liable.
- Effective coordination amongst the tax officials and business persons should be established. So that taxpayers may be encouraged to pay tax timely and felt that tax officials are also their facilitators rather than administrators only.
- The school as well as campus level curriculum should include tax related education. So, that taxpayer may be aware about tax from their student life as well as education program may be more effective.
- Awareness towards Income Tax and VAT can be developed by organizing workshops, seminars and rallies, broadcasting tax related programs through radios and televisions and publishing interviews and opinions of experts and professors newspapers and journals.
- The superior attitude and unfriendly behave of the tax officials should be discouraged and changed and tax officials must be aware towards the belief that they are not only administrators but also facilitators and information providers to tax payers which may develop positive feeling and encouragement on the taxpayers.

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## APPENDIX 1

### Request letter to respondents

Dear Sir/Madam,

I would like to introduce myself as a student of Shankar Dev Campus MBS final year, engaged in a research work. In order to fulfill the partial requirement of Master's Degree in Business Studies (MBS) of Tribhuvan University of Nepal, I am going to prepare a dissertation on "A Study of Awareness of Sole Proprietorship Business Persons Towards Income Tax and VAT in Kathmandu District".

I humbly request you for your valuable information on this issue which could prove very useful my study. So I request you to fill up the questionnaire attached with this letter. Please tick ( ) the answer of your choice from beginning to the end of the questionnaire.

Anticipating your kind co-operation.

Thanks!

Mani Raj Kaphle.



## APPENDIX 2

### QUESTIONNAIRE

(For sole proprietors only)

Name of respondent :

Designation:

Nature of Business :

- i) Big and Medium Industry ( )
- ii) Cottage and Small Industry ( )
- iii) Trading Business ( )

#### A. Questionnaire about Income Tax

1. Which of the following indicates the meaning of "Income Tax" ?
  - i) Tax on profit/ revenue ( )
  - ii) Tax on capital gain ( )
  - iii) Tax on profit and gain ( )
  - iv) No idea ( )
2. What is the primary step to be taken for income tax purpose before commencing the profitable business ?
  - i) Obtain approval of regulatory body ( ).
  - ii) Obtain certificate of PAN ( )
  - iii) Develop required infrastructure ( )
  - iv) No idea ( )
3. Which Income Tax Act is in force now ?
  - i) Income Tax Act 2031 ( )
  - ii) Income Tax Act 2058 ( )
  - iii) None of the above ( )

- iv) No idea ( )
4. Do you have knowledge of books of accounts to be maintained for tax purpose ?  
i) Yes ( ) ii) Little ( ) iii) No idea ( )
5. How long the accounts and records must be retained after the expiry of relevant income year for income tax purpose ?  
i) One Year ( ) ii) Three Year ( ) iii) Five year ( ) iv) No idea ( )
6. On which of the following payment, TDS must be deducted ?  
i) Salary and wages ( )  
ii) Service fee ( )  
iii) Both of above ( )  
iv) No idea ( )
7. What is the maximum time period within which TDS must deposited to Revenue after the close of relevant month ?  
i) Within 15ay ( )  
ii) Within 25 days ( )  
iii) None of the above ( )  
iv) No idea ( )
8. On which of the following date, estimated tax return is to be filed to IRD/IRO for each relevant income year ?  
i) By the end of Kartik ( )  
ii) By the end of Poush ( )  
iii) By the end of Baisakh ( )  
iv) No idea ( )
9. In how many number of installments income tax shall be payable ?  
i) Three installments ( )  
ii) Two installments ( )  
iii) None of the above ( )  
iv) No idea ( )
10. Which of the following is the due date of filing final tax return to IRD/IRO and payment of income tax after the end of relevant income year ?  
i) Within one month ( )  
ii) Within three month ( )  
iii) Within six month after ( )  
iv) No idea ( )

11. Do you have knowledge of tax exemption and tax concession ?  
 i) Yes ( )                      ii) Little ( )                      iii) No idea ( )
12. What will be the effect of failure to pay tax within due date ?  
 i) Relief from tax liabilities ( )  
 ii) Liable for fines & penalties ( )  
 iii) No idea ( )
13. Do you have the knowledge of rights and duties of tax payers ?  
 i) Yes ( )                      ii) Little ( )                      iii) No idea ( )
14. Are you familiar with existing tax system and effectiveness of its implementation ?  
 i) Yes ( )                      ii) Little ( )                      iii) No idea ( )
15. What problems do you feel for effective implementation of provisions of Income Tax ?  
 i) Frequent change in tax rates ( )  
 ii) Lack of effective tax education program ( )  
 iii) Unsupportive behavior of tax officials ( )  
 iv) Most of the above ( )  
 v) Others:.....( )

**B. Questionnaire about VAT.**

1. Which of the following refers the meaning of "VAT" ?  
 i) Tax on profit added ( )                      ii) Tax on expenses added ( )  
 iii) Both of the above ( )                      vi) No idea ( )
2. Why do we have to register our business on VAT ?  
 i) To face competition ( )                      ii) To create reputation ( )  
 iii) To comply with provision of VAT Act ( )                      iv) No ideas ( )
3. Under which category registration on VAT can be done ?  
 i) Voluntary registration ( )                      ii) Temporary registration ( )  
 iii) Compulsory registration ( )                      iv) Anyone of the above ( )
4. Which of the following person has to bear the ultimate burden of VAT ?  
 i) Importer/Manufacturer ( )                      ii) Wholesaler/Retailer ( )  
 iii) Consumer ( )                      iv) No idea ( )
5. Who has to issue Tax Invoice on sale of goods and services ?  
 i) All business persons ( )                      ii) Registered persons only ( )



**APPENDIX 3**  
**List of Respondents**

**1. Large & Medium Industrialists.**

<b>S.N</b>	<b>Business</b>	<b>Address</b>	<b>Proprietor</b>
1	Chandeshori Khadya Udhog	Baneshwor, Ktm	Kaji Bahadur Shrestha
2	Kathmandu Leather Goods Industry	Balaju, Kathmandu	Gyan Prasad Karmacharya
3	Nepal Talks Industry	Kathmandu	Krishna Prasad Pokhrel
4	Sundar Ice Cream Candy Udhog	Dallu, Kathmandu	Sundar Mohan Shrestha
5	Indu Tayari Poshak Udhod	Tangal, Kathmandu	Padam Bahadur Kshetri
6	Hartimata Dhunga Roda Udyog	Satungal, Kathmandu	Rameshwor Manandhar
7	Malakar Stone Udyog	Kathmandu	Madhab Bir Malakar
8	Shilu Kund Roda Udhog	Thankot, Kathmandu	Manjou Dhowaj Joshi
9	Kathmandu Concreet Industries	Kirtipur, Kathmandu	Prabin Nakarmi
10	Jay Laxmi Concreet Udhog	Kathmandu	Jiban Bahadur Shrestha
11	Sujan Garments Industries	Jorpati, Kathmandu	Madhav Prasad Bhandari
12	Busy Garment Udyog	Kathmandu	Bishwo Raj Regmi
13	Matarani Garment Industries	Baudha, Kathmandu	Rupak Murarka
14	Deurali Noodles Udyog	Balaju, Kathmandu	Dhurba Prasad Sharma
15	Nepal Bags Industries	Teku, Kathmandu	Trilok Chandra Agrawal
16	Namokar Kebul Industries	Mahabaudha, Kathmandu	Bijay Surana
17	Nepal Cassette Industries	Mathmandu	Kiran Devi Mundawa
18	Korolight Bag Industries	Kathmandu	Bishnu Prasad Acharya
19	Mahalaxmi Tel Udyog	Satungal, Kathmandu	P.L. Sanghai
20	Pabitra Khelauna Industries	Balaju, Kathmandu	Suraj Kumar Singh
21	Namokar Electrical Industry	Kathamandu	Niraj Kumar Surana
22	Jay Bag Industries	Rabibhawan, Ktm.	Sanjay Kumar Agrawal
23	Pako Hojiyair Industry	Pako, Newroad	Ramesh Raj Pokhrel
24	M.M. Appareals Industries	Kathmandu	Chandreshwor Chaudhary
25	Sati Garment Industries	Kathmandu	Sati Silwal
26	Nepal Silk Industries	Kathmandu	Kamal Thapa
27	Pashupati Fashion Industries	Kathmandu	Sashi Kanta Agrawal
28	Capital Garment Industries	Gaurighat, Kathmandu	Dipak Prasad Adhikari
29	Satyam Tayari Poshak Udyog	Kathamndu	Shyam Lal Sarabagi

30	Pashupati Camera Industries	Kathamndu	Shashikanta Agrawal
31	Sibalik Plastic Industry	Kathamndu	Rameshwor Agrawal
32	Kanchan Appareals Industry	Kathmandu	Kanchan Kumar Panta
33	Yahu Pipe Udyog	Kathmandu	Laxmi Narayan Singh
34	Ambuja Sonmaika Industry	Kathmandu	Satya Prakash Podar
35	Rainbow Album Udyog	Satungal, Kathmandu	Sajjan Kumar Agrawal
36	Vijay Steel Furniture Udyog	Teku, Kathmandu	Vijaya Kumar Shrestha
37	Arun Polythene Udhog	Kathmandu-33	Govinda Ram Sariya
38	Royal Sticking Udhog	Baneshowr, Kathmandu	Nishan Acharya
39	Amrit Paper Industry	Sitapaila, Kathmandu	Sunil Kumar Chung
40	Sanny Hills Pvt. Ltd	Kathmandu-31	Ramesh Kumar Bhandari
41	Gopikrishna Movies Pvt. Ltd	Chabahil, Kathmandu	Udhav Paudel
42	Deurali Biscuits Pvt. Ltd	Kathmandu-23	Ratna Bir Nakarmi
43	Devi Housing Pvt. Ltd	Kathmandu-31	Madhusudan Pradhan
44	Jewells Nepal Pvt. Ltd	Kathmandu-26	Piyush Bahadur Amatya
45	Shree Minearl Water Pvt. Ltd	Kathmandu	Desh Bandhu Maske

## 2. Cottage & Small Industrialists

S.N	Business	Address	Proprietor
1	Laxmi Restaurant	New Road Ktm	Laxmi Shrestha
2	Limbu Khaja Char	Anamnagar, Ktm	Purna Bahadur Limbu
3	Lekali Restaruran	Thapathali, Ktm	Norbu Tamang
4	Lakpa Hotel	Kumarigal, Ktm	Lakpa Sherpa
5	Laxmi Newa Kitchen	Golkopakha, Ktm	Laxmi Maharjan
6	Lavkush Newa Restaurant	Gangabu, Ktm	Lokesh Danglo
7	Smriti Construction Pvt. Ltd	Budhanagar, Ktm	Raju Thapaliya
8	Om Chand Construction	Kapan, Ktm	Om Kumar Chand
9	Muna Nirman Sewa	Jorpati, Ktm	Mohan Kumar Thapa
10	Om Printing Press	Naradevi, Ktm	Om Lal Shrestha
11	D.S. Printers	New Baneshowor, Ktm	Dambar Sharma
12	Devi Printing Press	Shankhamul, Ktm	Dev Raj Neupane
13	Everest Printing Press	Dhobidhara, Ktm	Bikash Tandukar
14	Bagmati Offset Press	Minbhawan, Ktm	Drona Kumar Sijapati
15	Prakritik Swastha Kendra	Bhimsengola, Kathmandu	
16	Aarogya Upachar Kendra	Baneshwor, Ktm	Krishmurari Ghimire
17	Jagriti Upachar Kendra	Gaushala, Kathmandu	Ramkrishna Ghimire
18	Aasha Jewllers	Maitidevi, Ktm	Rupak Shrestha
19	Devika Jewllers	Naxal, Kathmandu	Maya Shakya

20	Lu: Nima Newari Khaha	Gaurinagar, Ktm	Nem Bahadur Shrestha
21	Yog Ananda Ayurbet Pvt Ltd	Jorpati, Ktm	Ananda Shivakoti
22	Bishram Manasik Kendra	Chabahil, Ktm	Mukti Nath Sharma
23	Ugrabajra Nirman Sewa	Bajrayogini, Ktm	Kumud Aryal
24	J. N. Construction Pvt. Ltd	Sankhu, Kathmandu	Bal Kumar Shrestha
25	Baju Nirman Sewa	Ka.Ma. Na. Pa-23	Baju Ram Giri
26	Saileshori Chhapakhana Pvt. Ltd	Ka.Ma. Na. Pa-23	Rupak K.C.
27	L.T. Bag Industries	Ghattekulo, Kathmandu	Rajendra Kuamr Basnet
28	Kirpa Fashion	Maitidevi, Ktm	Nirman Chitrakar
29	Sanja Fashion	Gyaneshwor, Ktm	Pramod Prasad Pandey
30	Kantipur Kastha Udyog	Chapali, Kathmandu	Laxmi Gautam
31	Morang Kastha Udyog	Jadibuti, Kathmandu	Damodar Upreti
32	Mainali Furniture Udyog	Maharajgunj, Ktm	Uddab Mainali
33	Upreti Sa: Mill	Baneshwor, Ktm	Harihar Upreti
34	Kafle Rice Mill	Moolpani, Kathmandu	Gopi Krishna Kafle
35	Gyaneshwor Mill	Gyaneshwor, Ktm	Rameshowr Panta

### 3. Trading Business Persons

S.N	Business	Address	Name of Proprietor
1	New Arun Impex	Jhochhe, Kathmandu	Arun Kumar Khetan
2	Deepa Comercial Enterprises	Tankeswor, Kathmandu	Bhanu Prasad Pradhan
3	Padam Trading Enterprises	Guchha Tole, Kathmandu	Hari Narayan Malla
4	Global Auto Care	Koteshwor, Kathmandu	Huma Kaanta Tiwari
5	Rabi Enterprises & Traders	Kathmandu-24 Wotu	Rabi Dahal
6	Janani Concern	Maitidevi, Kathmandu	Nalini Tuladhar
7	Siddhi Ganesh Traders	Wotu, Kathmandu	Om Prakash Shrestha
8	Sony Radio Traders & Concern	Kathmandu-22 Pako Newroad	Gopal Prasad Shrestha
9	Surya Auto Parts	Kathmandu-14 Kuleshwor	Gautam Kumar Shrestha
10	Joshi & Sons Stores	Kathmandu-6 Bauddha	Bal Gopal Joshi
11	Sigdel Suppliers	Manamaiju, Kathmandu	Laxmi Sigdel
12	Hani Enterprises	Kathmandu-28 Nhyokhatole	Dinesh Prasad Shrestha
13	Valley Departmental Store	Kathmandu-13 Kalimati	Mithila Kumari Katuwal
14	Valley Departmental Store	Kathmandu-13 Kalimati	Mithila Kumari Katuwal
15	Ganga & Umesh Enterprises	Kathmandu-35 Koteshwor	Raben Dhaubanjari
16	Bijeshwori Enterprises	Khichapokhari, Kathmandu	Bijayshwori Tandukar
17	Kalpa Bina Enterprises	Ombahal, Kathmandu	Krishna Prasad Pokharel

18	Manamaiju Traders	Manamaiju, Kathmandu	Purna Lal Shrestha
19	Mani & sons	Kathmandu-24 Indrachowk	Suresh Kumar Agrawal
20	Karkat Enterprises	Kathmandu-23 Ombahal	Lava Prasad Dhungel
21	Kamdheni Enterprises	Kathmandu-23 Jhonchhe	Binod Kumar Gupta Khetan
22	P.R. Traders	Kathmandu-31 Bagbazar	Prem Ratna Bajracharya
23	Nawa Jiban Enterprises	Guchha Tole, Kathmandu	Satish Kumar Bajaj
24	Punam Traders	Kathmandu-35 Koteswor	Lal Bahadur Mahato
25	Sakar Enterprises	Kathmandu-34 Naya Baneshwor	Ranjana Bataju
26	Rajan Traders	Kathmandu-10 Baneswor	Ram Krishna Shrestha
27	Madhu Enterprises	Kathmandu Makhantole	Madhusudan Singhal
28	Maw Enterprises	Kathmandu syuchatar-8	Yadabh Prasad Gautam
29	Man Trade Link	Kathmandu Chhetrapati	Puspa Man Manandhar
30	Madan Traders	Kathmandu Mahadevsthan-8	Madan Thapa Magar
31	Sunkoshi Suppliers	Kathmandu-35 Manahara	Sankar Budathoki
32	Kalpataru Traders	Kathmandu Mikhado Makhangalli	Binod Kumar Kabara
33	Gauri Ganesh Impex	Kathmandu-7 Chabahil	Kailash Chandra Goyal
34	Dwarika Prasad & Sons	Kathmandu Tangal	Mage Lal Agrawal
35	New B.K. Suppliers & Trading	Kathmandu Bishnu-3	Kailash Basnyat
36	Karmacharya Comers Centers	Kathmandu-10 Naya Baneswor	Guhyaswari Malepati
37	Banshal Trading Concern	Kathmandu Khichapokhari	Mahendra Singh Ghiraiya
38	Sankar & Sons	Kathmandu-13 Kalimati	Sankar Bhakta Shrestha
39	Aastha & Ayus Enterprises	Kathmandu-22 Tebahal	Indira K.C.
40	Budhathoki Hardware Sels Centre	Kathmandu-7 Chuchchepati	Udaya Bahadur Budhathoki