

CHAPTER - I

INTRODUCTION

1.1 General Background

Nepal is a small country situated between two large countries India and China. It has its own problems and prospects. Although being rich in natural heritage and bio-diversity, they are in under utilization. Primitive and orthodox society with conservative norms, values and institution exists there in.

Nepal's economy is predominantly based on agriculture. Out of total population, 68 percent is based upon agriculture which contributes about 33% to the total GDP. Agriculture is the major supplier of raw materials to industries. Main obstacle to economic development of Nepal is vicious circle. It explains the economy backwardness. The basic vicious circle stems from the fact that Nepal's total productivity is low due to deficiency of capital, market imperfections and economy backwardness and under development (*Economic Survey 2009/10*).

In order to reap advantage from the improved trends in the global economy and to sustain economic growth at a higher level, Nepal needs to undertake a flexible and appropriate structural reform measures.

A big question mark has emerged on our skill of overall economic management in a situation where the Nepalese economy entangled in the vortex of economic sluggishness amidst the double-digit price rise thereby adversely affecting the purchasing power and living standard of the Nepalese people. Hence, there is the necessity of wider reform initiatives on development efforts, investments and regulatory areas for expanding the economy. The nation is also being made to bear adverse supply shock due to frequent Bandha, Chakka Jams, strikes etc. For this,

national imperative is making sufficient legal arrangements and ensuring effecting enforcement of those provisions for completely banning Bandhs, Strikes especially against transportation and movements of the people for allowing the country's economy move ahead in a smooth and natural way, and also providing relief to the people's livelihood (*Economic Survey 2009/10*).

The constitution of Nepal has clearly directed Nepalese government for a self reliant economic system, encouragement to national enterprises, prevention of economic exploitation as well as upgrading the standard of the people. For self sustain, government must be able to generate sufficient government revenue that is most important source of financing. Through the proper administrative strategy, the national objective can be achieved.

For the self reliant economic system and sound infrastructure, government should generate sufficient public revenue. Since public revenue is the income of the government. To meet the public expenditure, governments collects fund through external and internal sources.

The world economy that grew by 3% in 2008 is estimated to turn negative by 0.6% in 2009. The economic growth rates are expected to be negative due to the contraction in both export and import after the financial crisis reflected in the decline in their gross domestic demand. The projections of such growth rates at 4.2% for the year 2010 and at 4.6% for the year 2011 indicate that the impact of American Financing Crisis started from the early 2007 has started slowing down signaling further improvements in the time to come (*Economic survey 2009/10*).

Nepal's economic growth rate in the current fiscal year 2009/2010 is estimated to decline. In comparison to 4% GDP growth achieved at producers' prices in Fiscal Year 2008/2009, is estimated to grow in this fiscal year only by 3.5%. If the

agriculture sector suffered due to adverse meatier situation not agriculture sector could not perform, better either especially due to problems like energy crisis and strikes (bandhas).Nepal's two neighbors, China and India achieved 9.6% and 7.3% respective economic growth rates in 2008,with estimates of such growth rates limited to 8.7% and 5.7% respectively in 2009 (*Economic Survey 2009/10*).

Since, being major source of fund collection of tax should be more flexible to achieve maximum social and economic objectives. Collection of tax helps in redistribution of economics, means by the transformation of wealth from person with higher economic level. Providing incentive and concessions in income tax for promoting industries in background areas may also reduce regional economical imbalances. It has become an effective instrument to ensure balanced socio-economic growth. Besides these, following points should be considered while collecting tax:

-) How much purchasing power of taxpayer has been received?
-) Whether taxpayers are feeling burdensome or not?
-) Is there any reduction in consumption of goods?

Although the legal provision is made and updated timey, there are many problems exists in income tax practice in Nepal. The leakage in tax, feeling of people about tax as a penalty, payment of additional fees, lack of consciousness of people, inability of tax administration to cover the new taxpayer within the tax portfolio, delay in tax assessment and collection, lack of accuracy and uniformity in accounting system, high cost of tax collection are some examples of those problems. Having all these existing reasons, tax administration in Nepal must be reviewed. Tax administration is the wheel of whole tax system. It gives right direction to the government and country.

1.2 Focus of the Study

The study is focused to analyze the structure of income tax and its administration aspect. The main focuses of the study are on the following aspects of income tax in Nepal.

-) Effectiveness of tax revenue collection.
-) Structure of income tax.
-) Contribution of income tax to total revenue.
-) Role of tax administration in tax collection.

1.3 Statement of the Problem

After 1980, Nepal has followed a liberal and open market economy. Social and economic development is not sufficiently reached at target point as it has a small economy with limited resources and political instability. All of those unfavorable features help to draw back the country. There is a gap between planning and its execution. Thus, policies and strategies have been largely ineffective. Dependency over foreign and aid is dramatically increasing so the deficit of budget is at a pick level. In recent year, the budget provision of debt servicing has reached around us 33 billion, which are paid by the taxes money and it is around 44% of annual revenue, it is alarming signal. Pattern of foreign assistance is now changing their slogan from '**no business but assistance**' to '**no assistance but business**'. Due to this reason, the increasing foreign aid is harmful from the prospective of national interest. To face with this problem government needs to increase internal source of finance.

It is known that increasing funds from internal source is not an easy task, particularly when business economy in itself going backward. There is another problem i.e. Inadequacy internal sources in itself. To increase internal sources of

finance, a sufficient resource is needed in the hand of government. There are various ways of rising internal resources like taxation, internal borrowing etc.

In the budgetary system of Nepal, there is a significant resource gap. Resource gap is the difference between total expenditure and total revenue. The financial expenditure of the government of Nepal has been increasing at a faster rate than increases in revenue. Every year, the resource gap is increasing at a faster rate due to the slow increase in the rate of revenue to fulfill the expenditure requirement, owing to the inefficiency of tax administration and incomprehensive tax act.

Internal and external borrowing fulfills the resource gap. There is dominant role of external resources to fulfill the gap. However, it may push in trap the economy of the country as it creates extra burden to the economy because debt servicing charge increase every year. Thus, the internal resource mobilization should be cared into mind to decrease vast level of external loans and grants.

Out of total internal resources, revenue collection from income tax plays important role. Past trend has proved that the income from taxation has not been effective. As the income tax administration of Nepal has been blamed that it is not efficient. There are many advantages of income tax collection as revenue. Some examples are:-

-) Only capable tax payer is needed to pay the tax
-) Income tax is levied on progressive way.

Further in connection to Nepal, income tax is not able to make vital role for economy development of the country. The main reasons behind it is as follows:

-) Nepalese people do not support the tax officials by giving their true information regarding tax evaders.

-) Richer Nepalese people have lack of taxpaying habit and tax consciousness
-) The tax evasion and avoidance habit is increasing day by day due to low standard of education for tax responsibility to tax payers.
-) Tax structure of Nepal is biased towards indirect taxes.
-) The tax act any other related acts, rules, regulations and policies creates complexity for calculation of tax.
-) The successful implementation of income taxation in Nepal is limited by its narrow coverage and base inefficient administration corrupt bureaucracy.

In connection to those points, various problems regarding tax administration are:

- a. Failure to locate new taxpayers.
- b. Failure to record proper accounts and records.
- c. Assessment delays.
- d. Collection delinquency.
- e. Poor tax payer compliance.
- f. Problem of evasion and avoidance.
- g. Defective personnel management.
 -) Defective selection of personnel.
 -) Lack of efficiency in tax personnel.
 -) Poor taxing opportunities.
 -) Lack of motivation in tax personnel.
 -) Lack of integrity in tax personnel.
 -) Defective organizational arrangements.

There are various research questions in this research, which are as follows:

-) What are the major sources of total revenue?
-) Which source is the most important for collection total revenue?

- J What are the percentage contributions of tax and non-tax revenues to the total tax revenue?
- J What are structures of tax revenue in Nepal?
- J Which structure is playing vital role in tax revenue during study period?
- J What is the percentage of tax in GDP in Nepal?
- J From which sources, IRD collect the more tax revenue?

1.4 Objectives of the Study

The major objectives of this study are as follows:

- J To analyze the tax and non-tax revenue in Nepal.
- J To analyze the structure of tax revenue.
- J To analyze the contribution of tax and non-tax to total revenue.
- J To evaluate performance of income tax and its share in total tax revenue
- J To study the existing tax administration system of Nepal.
- J To provide suitable recommendations for improving existing scenario of income tax administration.

1.5 Significance of the Study

Income tax plays significant role in the overall economic development in developed as well developing countries. It occupies a very important role in overall tax structure. The role of income tax is gradually increasing in the world because of economic betterment of countries.

Nepal is one of the lowest taxed economics in the world as its tax/GDP and tax/GNP ratios are the lowest among SAARC countries and among the rest of world as well. This shows poor performance of tax management in Nepal. The portion of indirect tax is greater than direct tax. However, it should be just reverse for economic welfare.

The role of income tax should not be minimized in Nepal. It may also be useful instrument to measure the life standard of people. But the income tax administration of Nepal is suffering from various problems. The main problems of tax administration of Nepal are inappropriate tax policies, administrative bottlenecks of direct tax structure and existence of mass poverty. So to identify the problems and to overcome them for improvement of existing level of tax administration, studying it is must.

Again, as being very much important role of income tax in economic development, to study it thoroughly is needed. Because it gives a plus point for policy maker as the research has supposed to become milestone for them. Though, a bit attention has been seemed towards the subject matter, those are not being sufficient to through the light upon our subject matter. All of these reasons have pushed to select the topic as tax administration in Nepal with making special reference to income tax.

1.6 Limitations of the Study

There are some limitations regarding this study which are as follows:

-) The extent of this study is based on the availability of reliable data and sufficient literature.
-) The primary data through opinion towards income tax is collected as a field survey (Opinion Survey 2010) is concluded and it is limited within Kathmandu valley due to time, budget and other constraints.
-) This study has tried to cover the date relating to income tax structure of past 15 years i.e. from fiscal year 1994/95 to 2008/09
-) This study is limited to Nepalese laws, rules and regulations to the income tax.

1.7 Organization of the Study

This study has been divided into five chapters as follows:

Chapter-I: Introduction

It contains introductory aspect of the study e.g. General background, focus of the study, statement of the problem, objectives of the study, significance of the study, limitation of the study etc.

Chapter-II: Conceptual Framework and Review of Literature

This chapter contains two parts i.e. conceptual framework of the selected topic and review of literature. The conceptual framework contains theoretical aspects of tax and administration individually, tax from different perspective, concept, significance and essential functions of tax administration. It again contains review of literature of previous researchers on the relevant subject matter.

Chapter-III: Research Methodology

It includes research design, population of sample, sampling procedure, sources of data, procedure of data collection, and this unit also goes through data processing procedure and analysis of tools.

Chapter-IV: Presentation and Analysis of Data

This chapter has three parts; the first one is theoretical analysis of Tax administration in Nepal. Second one is concerned with analysis of secondary data and third one is concerned with primary data. Analysis of secondary data contains tax and non tax revenue in Nepal and revenue collection of income tax. The third part is about analysis of empirical study.

Chapter-V: Summary, Conclusions and Recommendations

It is designed for findings, conclusions and recommendations based as the study.

CHAPTER - II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 Tax

In simple terminology, tax is a liability to pay an amount to the government. It is compulsory contribution to the national revenue. To get specific definition of tax, it can be cleared from an example. If a person is levied on its business income by government, then it becomes tax which is to be paid by the person to the government. But if the person is charged certain amount for keeping a gun for a specified time period, then it does not become tax. It is just a special fee to extent his personal benefit not for national interest. When a state levies tax, it is to be collected compulsory and taxpayers are compelled to pay. Taxpayer is not benefited directly. Tax is a monetary contribution paid to the government (*Ghimire, 2004*).

2.1.2 Tax and Efficiency

A tax except in the form of a lump sum levy reduces the consumer's welfare in two ways: directly through a transfer of resources from him to the government and indirectly through a rise in the consumer prices of taxed commodities relative to those of non-taxed ones. The former produces an income effect while the latter gives rise to both an income effect and a substitution effect in the standard manner following a relative price change.

The efficiency loss of a tax refers to the excess of the reduction in the consumer's welfare above and beyond that which can be accounted for by income loss due to

payment of the tax. For this reason, the efficiency loss is usually referred to as the excess burden of the tax.

2.1.3 Tax and Equity

Equity is one of the main issues in taxation. Equity means distribution of income, wealth and or other variables of interest equally. A possible way to give concreteness to the meaning of equity is to interpret it only in the context of redistribution. Equity issues in taxation are generally examined under the two complementary rubrics of horizontal equity and vertical equity. The former calls for the equal tax, treatment of equal individuals, while latter calls for the unequal tax treatment of unequal individuals.

2.1.4 Types of Tax

Tax may be of various types. The rate and nature of tax may be different as economists have classified the tax from different angles. They have given a very long list of the types of tax. But on the basis of impact and incidence the tax may be classified into two types.

-) Direct tax
-) Indirect tax

A direct tax is really paid by the person on whom it is legally imposed. Direct taxes are levied on the income and property. The direct taxes have been used to bridge the gap of income and wealth inequality in the society. An indirect tax is imposed on one person but paid partly or wholly by another. Indirect taxes are generally imposed on consumption of goods and services. The taxes on such goods and services are integrated with their price. Selling those goods and services on higher price, the taxpayers easily transfer the burden on general consumers (*Kandel, 2003*).

2.1.5 Income Tax

Income tax is a direct tax that is imposed on the earning of individual and corporation. Actually, tax levied on the taxable income is known as the income tax. It is charged by the government on the income of the previous year at the rate prescribed each year by the finance act. From very earlier, income tax has always been regarded as a tax based on the canon of ability. The tax could be adjusted as to exempt the lowest income groups from operation of tax and make the richer groups bear the burden of tax according to their income. Tax economists have a view that an income tax is a levy imposed upon the income of an individual after the exemption limit. All incomes about the tax exemption level are subjected to income tax that is based on the income tax act of the concerned country.

2.1.6 Administration

Certain established practices and techniques in society are recognized as constituting the field of administration. Those administrative practices and managerial techniques enable the various organizations of a society, its governments and business enterprises, its social clubs and labor unions to fulfill their responsibilities and to execute their programs. The majority of authors agree that administration plays an important role in society. But while they agree on the importance of administration, they assign to the subject different degrees of significance.

Henry Fayol believes that the administrative process is universal, that its existence is percentage wise the most element in particularly all vocations and professions. So, there is widespread need for the scientific study of administration. While Paul Pigars feels that the main purpose of administration is to preserve the status quo in society. Brooks Adam regards administration as a more important, indeed as the most important human facility because its function is to facilitate social change and to cushion the stock of social revolution. James Burnham contends that the

administrators or managers of society have appropriated so much power that the decisive revolution has already arrived, neither fascistic nor communistic revolution but managerial. Charles E. Marrion regards administration as the evolution of another human technology leading to man's adaption to his complex environment. Charles A. Beard believes that administration is the key science of contemporary civilization.

2.1.7 Tax Administration

Tax administration is regarded as a tool for including some responsibilities for determining the policies and the programs of government related to tax. Especially it is the planning, organizing, directing, coordinating and controlling of government organization related to taxation. The shape of tax system in practice is determined to a great extent by the way it is administered.

The main objectives of tax administration should be the efficient assessment, collection and enforcement of taxes legally due, without undue cost and harassment to the government or taxpayer in terms of money, time inconvenience and mental worry. More specifically the objectives of tax administration may be stated as follows:

1. To assess and collect taxes in order to meet the revenue requirements of the country.
2. To facilitate and encourage voluntary compliance by taxpayers.
3. To detect and conduct tax evasion and avoidance.
4. To maintain public confidence in the fairness and integrity of the system.
5. To administer tax legislation fairly, uniformly, impartially with firmness.
6. To keep high the morale and motivation of tax officials.
7. To work efficiently in order to make the tax system effective.

2.1.8 Significance of Tax Administration

Tax evasion and tax avoidance, whether at the national or international level, violate the principle of fiscal equity and undermine the concept of voluntary tax compliance, that is, the timely filing and reporting of required tax information, correct self-assessment of taxes due and their timely payment without resource enforcement action.

Tax evasion is normally considered to occur when non compliance is the result of a willful and conscious failure to notify the taxing authorities of taxable assets or income activities giving rise to taxable income, a deliberate failure to pay taxes legally owed or use of fraud to conceal the existence of taxable income and or obtain allowances or the repayment of taxes. Tax avoidance on the other hand, a less precise concept, is generally in such a way as to take advantage of weaknesses or ambiguities in the tax law to reduce the tax payable below. What it could otherwise be, without actually breaking the law (*Ghimire 2005*).

Tax avoidance techniques, although legal that is, in conformity with the letter of the law- nevertheless achieve the reduction or elimination of tax liability in circumstances where it is the underlying intention of the law, that tax should be charged. Although tax avoidance may be regarded as immoral, the techniques employed are legal and tax conduct involved is not fraudulent. It has shown that there are multiple motives for both compliance and non-compliance with the tax laws. With regard to compliance; it gives the meaning of self-motivate to pay tax. Taxpayers who obey may be motivated by a sense of civic responsibility or social justice or by a fear of sanctions that some cases by fear of the less of social acceptance if their delinquency should ever become public knowledge.

With regard to non-compliance, a number of reasons for failure to abide by the tax laws are as follows:

-) High tax rates.
-) Lack of trained staff to examine or audit accounts.
-) Weakness in the tax laws and administration.
-) Lack of coordination between tax departments and other government departments.
-) Weakness in the tax laws and administration.
-) Lack of coordination between tax departments and other governments departments, such as custom.
-) Absence of international conventions on income tax for exchange of information.

Tax evasion and avoidance are two forms of non-compliance. Significantly reduce the amount of collected taxes that is the amount of compulsory unrequited payments to government that enable to perform the tasks constitutionally and legally entrust to them and increase their dependence on non tax resources (*Ghimire 2005*).

Tax evasion and avoidance also increase the desire for taxpayer to ignore the tax laws or seek artificial ways around them. In order to offset the revenue losses this occurs, government may have to levy new taxes: increase tax rates and eliminate exemptions, there by imposing an unfair burden on honest taxpayers. The impact of this is perceived to be high taxes, which are not return with services or other identifiable benefits. They are accompanied by criticism of the size and inefficiency of government.

In the circumstances described above, the ability of tax administrations to enforce compliance and thus minimize the disparity between taxable capacity and tax effort levels becomes a matter of honest priority (*Ghimire 2005*).

The challenge facing by many developing countries is thus to overhaul their tax administrators so as to enhance their overall performance. A tax administration of high quality can help not only to meet or achieve revenue requirements but can also constitute a means of achieving greater financial self reliance, since external financial assistance, even when forthcoming can be no more than an adjunct to domestic financial resources. Moreover, any existing or new foreign borrowing will have to be serviced within the limits of two degree, the ability of developing countries to attain sustainable administration with great integrity capable of collecting revenue as specified in the tax legislation and at the same time of providing tax payers with better service.

A tax administration that operates with maximum efficiency and effectiveness helps to mobilize more revenue, thereby enabling governments to achieve greater financial reliance and facilitating the pursuit of growth-oriented structural adjustment programs, the provisions of requisite infrastructure for economic and social development and the creation of a more hospitable environment for private foreign investment.

In addition to forecasting a more attractive environment for foreign investment, a smoothly functioning tax administration yields other benefits including the following:

-) It enhances the ability of government to efficiently enforce tax with potentially high revenue yields (such as income tax and excess profit tax) which requires precise and sophisticated applications.
-) It obviates the need to broaden the tax base, i.e. to levy new taxes and or raise tax rates and may make it possible to eliminate or reduce burdensome taxes,

grant more tax exemptions and enlarge income tax brackets without reducing tax revenue, and

-) It may take it possible to successfully tax the agricultural sector, which in many countries remains largely untaxed despite its inherent potential as a significant source of revenue.

In a broader context, an efficient and effective tax administration will help developing countries to take advantages of economic recovery elsewhere in the world by including their determination to undertake necessary reforms. Thus, bolstering their ability to attract a greater share of foreign direct investment, bring back home resources lost to capital flight and come to grips with their external debt servicing burden through negotiations with their creditors. It might even help these countries to qualify for more official development assistance for the financing of needed infrastructure (*Ghimire 2005*).

2.1.9 Tax Administration and Fiscal Policy

Tax administration interacts with fiscal policy in various ways:

For example:

-) Higher taxes on certain activities or sectors, although an administratively convenient way of increasing revenue or reducing a deficit, may in fact act as a distinctive to production and efficient revenue utilization; these taxes also have a contractive effect on consumption, since they reduce the tax payer's purchasing power.
-) If it is considered politically unacceptable to increase taxes as a means of reducing budget deficits, the tax administration may be called upon to help achieve this goal by operating more efficiently and effectively. If successful, this approach reduces the budget's contribution to growth in the money

supply and this help to curb inflation and decrease dependence on non-bank financing.

- J A budget- balancing determination would make the government more conscious of its spending behavior and give the tax administration an additional incentive to combat tax evasion and avoidance and
- J A larger budgeted deficit resulting from weaknesses in tax administration may lead to a larger public debt and higher interest and tax rates as well as to lower capital accumulation and employment growth rate. Financing large deficits through money creation fuels inflation and discourages private investment. Higher tax rates and or new taxes may then become the only viable means of generating the domestic savings needed for capital-formation projects.

2.1.10 Tax Administration and Tax Policy

With regard to tax policy, experience has shown that even in countries where tax policy reforms have been implemented their economic impacts has often been compromised by poor tax administration and revenue yields have not been up to the mark. Efficient and effective tax administration gives the makers of tax policy a wider range of options and is in fact, the key to effective tax policy, for no policy can be constructive or even feasible unless properly implemented by the tax administration.

2.1.11 Tax Administration and Tax Structure

The effectiveness and efficiency of the tax administration also affects the tax structure. The tax structure can be modified, but unless the tax administration is capable of enforcing both new and existing taxes, the modifications may have no significant impact on tax collection. The importance of tax administration performance in relation to the tax structure has described by the Director of the Fiscal Affairs Department of the IMF (2006) in the following terms:

In arriving at the desirable tax structure that they will recommend, fund missions take into account:

-) The government's priorities.
-) The country's macro-economic situation.
-) The strength and honesty of the country's tax administration.
-) The existing statutory taxes structure.
-) The structure of the economy, and
-) A variety of other factors such as constitutional or legal limitations, prevailing customs and attitudes, the incidence of the existing tax system and so forth.

The factors mentioned above construction the number of feasible options and to some extent, influence the final tax structure. The weakness of tax administration may rule out all but the simplest options the maximum that 'old taxes are good taxes' would argue against a major overhaul of the tax system. There is only so much change that a tax administration can absorb at any one time.

2.1.12 Essential Functions of the Tax Administration

The tax laws impose on taxpayers certain obligations with which they are required to comply. Generally speaking, they must be registered on the tax rules, file returns, provide full and accurate information and pay the taxes due on time. A tax administration 'carries out the ordered of tax policy' its basic mission is to ensure compliance with the tax laws and regulations as they stand or are interpreted by the courts. It must help taxpayers to fulfill their tax obligations and when necessary induce or compel them to do so.

In order to execute its basic mission, a tax administration performs certain fundamental functions tax payer registration and identification, assessment, collection and audit. These functions have been classified as 'essential' whereas personnel management planning and control and taxpayer information and assistance have been described as 'auxiliary' or 'support' functions. The essential functions have also been labeled 'operational', since they involve the actual collection of taxes and entail close relations with taxpayers while the 'auxiliary' or 'support' functions have been designated as 'normative' meaning that they involve in interpretation and application the preparation and issuance of guides and standards and the establishment of working methods and procedures.

In the performance of its essential functions, a tax administration usually faces serious constraints and difficulties in developing countries, where many taxpayers, unlike taxpayer in industrialized countries, are not enmeshed in a set of interlocking recorded transactions. In industrialized countries, a major part of the tax base is linked to the activities and assets of large organizations, whereas, in developing countries, the potential base would normally be linked to the activities and assets of self- employed business persons, farmer and professionals, who constitute the 'hand-to- tax'. Consequently for reasons of administrative convenience and feasibility, developing countries tend to rely on a handful of easy to administer indirect taxes such as export duties, import duties and excise duties, other taxes on imported goods.

In fact, in many developing countries the tax laws can to a large extent be enforced fully only in the formal sector for frequently only corporations have the capacity to maintain proper accounts. First, developing countries often have a large informal sector, consisting of black markets, capital flight and so on , which are virtually beyond the reach of level of illiteracy not only creates ignorance of the tax laws and regulating but provides an excuse for it . The alleged inability of tax

payers to furnish the documentation needed for a realistic assessment prevents the income, net worth, gift and land-whose incidence is generally assumed to rest with those who pay them offer greater incentives and more opportunities for tax dodging. In addition, incomes, imports, sales, real estate and like may have objective or true values completely different from those on the basis of which the relevant taxes are calculated. This is not necessarily due to a deliberate intent to evade or avoid taxes, but any is the result of poor record-keeping and accounting standards, other things being equal, the lower the compliance cost, and the better tax administrations performance. Optimum compliance is the result of improved tax payer registration and identification assessment, collection and audit.

2.1.13. Taxpayer Registration and Identification

A tax administration needs to take all feasible steps to ensure that all natural and legal persons liable to taxation are registered. However, given the limited resources of many tax administrations, efforts to register new taxpayers have to concentrate on areas which seem likely to yield significant revenue. Upon registration, each taxpayer is immediately been issued an identification number to ensure that documents and records in master files can easily be traced to a specific taxpayer. Once, issued the identification number has not be duplicated, reissued or cancelled in the event of the tax payers death or cessation of operation.

2.1.14. Assessment

For assessment, it has been followed where feasible and appropriate, what is called the conventional approach to assessment, which emphasis voluntary compliance through self assessment- backed by random but rigorous auditing and stringent penalties and the provision to taxpayers of outreach services, including technical advice on tax assessment obligations. In that connection, taxpayers have been authorized to file and play in ways that minimize compliance cost.

On the other hand when prevailing condition make it necessary to rely primarily on administrative or official- assessment of all returns, the tax administration has to carry out economic or statistical studies where finding helps tax official to make 'best judgment assessment', when the information supplied by tax payers is deemed to be incomplete or inaccurate. To determine estimated income or value-added in the case of taxpayers who cannot be counted on to maintain comprehensive accounts. Best judgment assessment would result from the application of the rule of thumb used by experienced tax officials and the judgmental guidelines formulated by many plausibility of the intimation supply by tax payers.

2.1.15. Collection

In the developing countries-as well as in industrialized countries-the tax collation function is guided by the need to maximize revenue. Collection at source and other current payment arrangements for direct taxes (personal income tax, taxes based on accounts and records) has been strengthened and even extended. To that end, the tax administration is to be designed and implemented a monitoring system comparable to the credit control system used in private business.

In developing countries, where must tax payer either do not keep reliable records on making not reveal them the scarcity of administrative resource makes it highly desirable to use withholding as extensively as possible: third parties engaged in transaction with potential and actual tax payers is required to withhold appropriate amounts from payments. The amounts thus withheld by third parties on behalf of the tax administration is transmitted to official on accounts as promptly as possible and credited against the tax liabilities of the appropriate taxpayers. A person is to be imposed if the taxpayer underestimates by more than a given Percentage (e.g. 25 of 30 percent) his or her liability, as opposed to the actual assessment made by

the tax administration or if the tax payer fails to pay a tax installment within specified time period.

2.1.16. Audit

Auditing is accurately focused and carried out with a high degree of supervision in order to ensure its effectiveness and integrity. Auditing is to be based on appropriate selection criteria; over- extensive auditing is impractical since any additional revenue raised is offset by increased administrative costs. A good information system, using computers where feasible and appropriate is to be facilitated rapid detection of non- filers, stop filers. Taxpayers must be categorized according to type of tax, type of business, geographical location and potential contribution to revenue (*IMF Annual Report of 2009*).

2.2 Review of Literature

The study conducted in 1978 on 'Resource Mobilization for Development: The Reform of Income Tax in Nepal', under the leadership of Dr. Govindaram Agrawal. It was identified that a substantial resource gap was found in revenue structure in Nepal. Tax administration was suffered from a number of interacting and interrelating problems, which has badly affected its productivity. Dr Agrawal conducted a primary research in various aspects of income tax and also explained mathematically the untapped side of elasticity of income tax and its future projection. The picture of resource gap in Nepalese finance has been identified in the first chapter of the report. The main reason for this resource gap has been identified as the low- sided growth of government revenue generation from domestic resources as compared to government expenditure. He has calculated the elasticity of major Nepalese taxes using the double log linear model. Projection of income tax and resource gap has been made using similar linear model though the study has been identified as the first comprehensive scientific study in the income

tax in Nepal and useful for the research purpose from various aspects, they are partially irrelevant at least at present context.

Suwal (1981) described and examined various problems in Nepalese tax system, importance of income tax in solving the financial problems in Nepal and economic effects of income tax on production and trend of income tax in her dissertation '*Income Tax System of Nepal*'. The problems as noted by her are the absence of clear and comprehensive definition of income, low paying capacity and tax consciousness, high tax rate corruption etc. Her suggestion was to establish some measures regarding tax administration for collection of income tax in Nepal.

Subedi (1982) discussed the role, legal aspect, historical background and cost of collection of income tax in his dissertation "*An Analytical Study of Income Taxation in Nepal*". He analyzed the contribution of income tax to total revenue, growth of income tax collection and its ratio from one prospective of tax administration.

Nepal (1983) analyzed existing position, problems and prospects of income tax in her dissertation "*A Study on Problems and Prospects of Income Tax in Nepal*". She has indicated the major problems in Nepalese tax system are inefficient income tax administration, mass poverty, lack of tax co-operation between tax payers and tax administration, assessment deficiency etc. Her suggestion was towards the improvement on those specified problems.

Shrestha (1984) studied the origin, definition, concept, historical aspect, role, objective and structure of income tax in her dissertation '*Income Tax in Nepal*'. She has noted that tax administration is not efficient because of lack of trained and skilled personnel, lack of new source for income tax revenue, lack of proper

incentive and low salary of tax officers. Her suggestion was to make tax department as efficient.

Siwakoti (1987) examined various factors related in the field of income tax in his dissertation “An Analytical Study of Income Tax in Nepal”. The major problems identified by him are tax evasion, delay in assessment, and lack of public information, complicated acts and other defects in the income tax act, he suggested for progressive, separate research units efficient administration, separate research units in tax offices and penalties to tax payers, who do not maintain accounts.

Baral (1998) studied the “*Contribution of Income Tax in Tax Structure of Nepal*”. She gave some notable points of income tax evasion in Nepal. She also blamed the inefficient tax administration as one of the main reason of evasion of tax in Nepal.

Poudyal and Timilsina (1993) published a book “*Income Tax in Nepal*” it gives a through ideal of theoretical and practical ideas of income tax but it does not able to deal with major problems and defects of income tax system.

Khadka (1994) wrote a book entitled “*Nepalese Taxation: A Path for Reform*”. It deals with national and local taxes and tax administration in Nepal. It traces the path of evolution of Nepalese tax system and present the tax system of that period. It appraises the Nepalese tax system on the basis of conventional, theoretical concepts and suggests measures of its improvement. It examines the structure and operation of the Nepalese tax system of that period in more detail.

Pant (1996) tried to show the income tax system and its role in national economy in his dissertation ‘*A Study on Identified Various Problems of Income Tax Management in Nepal*’. He has shown the problem as lack of effective personnel management, lack of reward and punishment system, lack of managerial

efficiency, poor income tax procedure, poor tax information system, lack of tax payer's education etc.

Bhattarai (2003) examined the effectiveness of corporate income tax in his dissertation "*Effectiveness of Corporate Income Tax in Nepal*". He had thoroughly studies government mechanism with special reference to tax administration in Nepal. He concluded that there is a deep rooted corruption in income tax administration of Nepal where the tax officer is leader and both the taxpayer officer is leader and both the taxpayer and auditor are follows in the function of corruption. He pointed out the major cause and regulations in theory and practice. He has shown the lack of balance between right duties of taxpayers, balanced delegation of authority, responsibility and accountability, poor reward and punishment system and lack of systematic evaluation and control mechanism as the drawback of tax system.

Shrestha (2001) presented a dissertation under heading "*Revenue Collection from Income Tax in Nepal: Problems and Prospects*". She cleared various aspect of income tax in its contribution for national economic development. Her finding showed that there are many problems related to income tax for example one of the main problem as indicated by her is revenue collection form income tax is low. Again, she concluded that Nepalese income tax law is inappropriate and the administration is worse. She suggested that income tax laws are inappropriate and the administration is worse. She suggested that income tax laws and administration in Nepal are to be deeply scrutinized and properly implemented. Strong commitment, fair and uniform imposition is to be stored. Manpower development planning within the administration is desired for the efficiency of tax personnel side by side. Tax education packages are to be made and initiated.

Dhakal (2001) has presented his extended, modified and enlarged edition of his book as prescribed by the syllabus of B.B.S third year. It includes the provisions made under income tax laws and the methods of income tax assessment. The book is informative rather than analytical.

Malik (2003) has published a book on Nepalese modern income tax system including changes brought by the Income Tax Act 2058 and the recent development of Income Tax Management in Nepal. The need and importance of modern income tax system is also discussed. He has also discussed on tax administration assessment procedure, collection of tax review etc.

Shakya (2004) studied about income tax act, 2002 in his dissertation “*A Study on ITA, 2002*”. He concluded that a commitment is must within taxpayers and tax administration to make a fair and safe tax administration. He gave emphasis to provide sufficient incentives and remuneration with is program like promotion and motivation. His suggesting were for the improvement of tax administration after implementing ITA, 2002, were: The tax act must be simple and understandable to tax payers and tax administrators: The emphasis is given to establish information center where taxpayers can get information regarding tax law, the focus point must be provide sufficient incentive and remuneration to tax administrators to expect the full effort of tax administrators towards their duties and to conduct training programs.

Ghimire (2004) had examined contribution of income tax particularly focusing in public enterprises in his dissertation “*Income Tax in Nepal: Its Structure and Contribution from Public Enterprises to Government*”. He evaluated the performance of tax administration of Nepal, particularly after implementation of tax ITA, 2002. He found that the tax administration of Nepal is inefficient due to mainly lack of trained and competent employee and complicated tax laws.

Khadka (2005) presented a book named “*Modernizing Tax Administration in Nepal*”. It has really most useful book to conduct whole research. It gave through idea about tax administration in analytical way. The book has a nine chapters starting from development of tax administration to conclusions and recommendations. The writer focused on the human resource development of tax administrators. He also gives new ideas on tax administration to reform it such as computerization and autonomous revenue improvement of tax administration in Nepal.

Dahal (2005) submitted a dissertation with heading “*Income Tax Management in Nepal*”. He focused on many administrative aspects of income tax. He concluded that the effectiveness of tax system depends on the existing management and leadership. A vigilant and transparent tax administration and capability of timely reviews in policy back sliding the gains in the revenue front. He suggested that, for the improvement of tax management strong political commitment is most.

Bhattarai and Koirala (2007) jointly have presented a book named “*Taxation in Nepal*”. Specially designed for BBS third year as a reference. They have presented some theoretical aspects with numerical problems of taxation in Nepal based on income tax act 2058. but the book does not able to give a direction to deal with problem of tax administration.

In this way, various books, dissertations reports and articles published in journals and newspapers are reviewed while preparing this dissertation. Most of literatures are concentrated on administrative, legal and assessment procedure of income tax. Since, all of them have identified the main problem in this sector as poor performance of tax administration. Although very few studies was concerned on focusing tax administration covering all sources of taxes in separate way. Setting

the lack of study mainly concentrated on covering all aspects of tax and focusing particularly income tax in more specific way.

After reviewing the various books, dissertations reports, articles and research, simply in tax administration topics found that, income tax is administered directly by the Inland Revenue Department. It is responsible for the implementation and administration of the Act. Government of Nepal is the highest authority of the tax administration. The Act has empowered the Government of Nepal to establish tax offices of the department and prescribe their Jurisdiction by notification in the Nepal Gazette to facilitate the Department in fulfilling its responsibilities. Inland Revenue Department is formed in 2001 by merging the Department of Taxation and the Department of VAT. Currently, there are 21 Inland Revenue Offices all over the kingdom of Nepal. Inland Revenue Department is headed by a Director-General, a gazetted first class officer, who is assisted by two Deputy Director Generals and one Liquor specialist. Who are also gazetted level first class officers, 20 gazetted level second class officers including chartered accountants and economist and 43 gazetted third class officers. ITA, 2058 has specified three types of assessments Viz; Self-assessment, Jeopardy assessment and Amended assessment.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Research Design

For descriptive research to achieve result of objectives of the study, the study of income tax act, finance ordinance, income tax rules and other acts, rules and regulations have been previewed. For analytical research, provision of tax administration in income tax act and role of income tax in generating tax revenue in Nepal has been carried out.

For empirical research, an opinion survey has been conducted. The opinions of 60 respondents associated with distinct category i.e. tax administrators; tax experts and taxpayers have collected through structured questionnaire with reference to tax administration in Nepal. The characteristics of Nepalese tax system, role of income tax in equal distribution of income, efficiency of tax administration, power of tax officers in Nepal, instruments to improve tax administration in Nepal has included in questionnaire. Again, views of distinct group of people relating to income tax act, 2058 with its difficulties and complexities have also been added there in.

3.2 Population and Sample

Tax administrators, tax exports and taxpayers are considered as the total population. Out of them, 30 tax administrators, 15 experts and 15 taxpayers are considered as the target population for the study. In order to facilitate this study, 60 sample sizes from Kathmandu valley is selected. The respondents have been divided into three groups. The following table shows the groups of respondents and the size of sample.

Table 3.1

Groups of Respondents and size of Sample from each Group

S.N.	Respondents	Sample Size
1	Income Tax Administrators	30
2	Income Tax Experts.	15
3	Income Tax payers.	15
Total		60

Source: As per the Research Design

Responses of respondents has been received from IRO, area no – 1, and area no -2, Babar Mahal, ICAN, Babar Mahal and other personal sources.

3.3 Sampling Procedure

Random sampling technique has been used to select the target and sample selection. The views of tax administrators, tax experts and taxpayers have been collected on the basis of stratified selection by distributing questionnaire individually.

3.4 Sources of Data

The primary as well as secondary sources of data have been collected in order to achieve the real world actual result. The major sources of data are as follows:

3.4.1 Primary Sources of Data

Primary source of data has been collected with in Kathmandu valley from those respondents who are representing from various sectors i.e. tax administrators, tax experts and taxpayers. Tax administrators have been selected from IRO, area no. 1

and 2, Babar Mahal, tax experts have been selected from ICAN, Babar Mahal and tax payers have been selected from various business houses in Putalisadak.

3.4.2 Secondary Source of Data

The secondary sources of data are the information received from books, journals, newspaper reports, dissertations etc. The major sources of secondary data are as follows:

-) Economic survey and budget speeches, MOF,GON
-) Annual reports of IRD,MOF,GON
-) Published documents of national planning commission and NRB.
-) Dissertations related to tax administration.
-) CEDA publications, T.U.
-) Books related to income tax and tax administration.
-) Other relevant records and data including useful websites.

3.5 Procedure of Data Collection

For primary data information has been collected by developing a schedule if questionnaires and distributing to three distinct types of respondents. Distribution has been done through personally field visit to get accurate and actual information in time. For secondary data, information has been collected from published reports of different organizations.

3.6 Data Processing Procedure and Analysis Tools

Information collected from questionnaire has been classified and tabulated as required. Applying different tools like simple percentage has made data analysis; simple average, graphs and chart have been presented to interpret the data visually.

CHAPATER - IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Theoretical Analysis of Tax Administration in Nepal

Tax administration exists in Nepal from the ancient time period. At that time taxes have been levied in various forms. The traditional instruments of taxation were land revenue, customs and excise duties. The collection procedure of tax varied from time to time. Sometimes middlemen were to employ to collect tax and middleman and tax officials undertook sometimes the task. It is relatively though task to search information about tax administration, which existed prior to 1950s. Although being tough task, the review is made in the basis of information available during the Rana Regime. The kind of oldest tax in Nepal is land revenue where landowners had to pay a set percentage of the agricultural yield of their lands to the government as tax. Initially, they had to pay the tax in kind, later on; the equivalent amount had also been paid in cash.

The seed of tax administration was taken in to care formally as Bakuta Tahsil Assa in 1960. It concerned with the annual land revenue administration. It was renamed as the Land Revenue office in 1896. Since, those offices were not directly involved in assessing and collecting land revenue. It was due to the difficulties in organizational arrangement with the limited number of tax officials on the payroll. At the movement, there existed an arrangement whereby these offices collected the land revenue with the help of middleman knows as Mukhiya and Zimawal in the hilly regions and Zamindar and patwari in the Tarai. The task of these middlemen was maintaining records of land holdings in their respective areas,

collecting land revenue from landholders every year and depositing the same at the concerned land revenue offices within a specified timeframe (*Khadka, 2005*).

The system had its own advantage, that is, due to hereditary characteristics of middlemen, there was no need to hire a large number of staff to either maintain records or collect revenue. Thus, at minimum administrative cost, the task of collection of tax was performed. Since, the middlemen were granted positions of power and prestige in addition to monetary rewards, they carried out their functions in an earnest manner stimulated on by the double incentives of retaining their positions and passing these positions on to their descendants. Such middlemen had also played a leadership role involving in social and development activities in their respective areas. The middlemen also got the commission from the amount of tax collected.

Since, the system of collecting land revenue from middlemen also contained several drawbacks. For example, the authority to collect tax was granted to many middlemen. So, the method of collection varied from one area to another. The system also encouraged ruthlessness in the middlemen. They forced to pay up land revenue with gifts in the form of 'walak', 'salami' or 'Bethbegar' to 'Mukhiya', 'zamindar', 'zimwal' or 'patwari'.

In fact, the system in question continued until early 1996 in these districts where the cadastral survey had not yet been conducted, while land revenue offices collected land revenue directly from landowners in other districts where the cadastral survey had been conducted. In January 1996, the task of collecting land revenue was developed to local government bodies. Another landmark in the land revenue collection was the abolition of the 'Birta' system in the year 1959/60. Under this system, some privileged families had a right to collect and retain land revenue. Moreover, all those who were entitled to collect revenue and keep it were

obliged to deposit the same at stipulated offices even as the period also saw nationalization of 'Birta Mal Tahashil'.

On the other hand, custom duties have a long history in Nepal. During lichhabi period (464-1769AD), when the trade between India and Tibet was routed via Nepal, custom duties were supposed as important source of revenue. During rana regime also custom duties were a ready source of income and were imposed on both imports and exports.

Much like custom duties, excise duties were also employed to beef up revenue mobilization. The main sources of revenue from excise duties were liquor, lather, pig- hair, mining, herbs and opium. Excise duties levied on opium, ganja were known as krisi (agriculture) Rakam while the excise duties levied on liquor, leather, bones and horns were known as Madabhatti (alcohol) Rakam and Had-Sing (bone and horn) Rakam respectively (*Ghimire, 2004*).

4.2 The Evolution of Modern Tax Administration

When the Ministry of Finance came into being in the year 1951, the modernizing tax administration had started. The ministry had a revenue section to deal with tax administration at a central level. Tax policies and regulations were formulated within this section. To abolish contract system of revenue collection and internal customs offices, enough efforts were undertaken. Custom offices at the border points replaced offices known as Bazar Adda. At that time, and after the following subsequent year, the development found within tax administration has been described as below.

4.2.1 Custom and Excise Administration

Nepal was obligated to open custom offices in different parts of the Tarai region, which were set under the into-Nepal Treaty of 1950. These offices were classified

into different categories on the basis of volume of exports and imports eventual collection of revenue. Custom commissioner was set up in 1957 and was converted into customs and Excise Department in 1959. Due to expansion of scope of custom duties and excises, the department was split into two separate departments, i.e. the Custom Department and the Excise Department. Various custom offices and sub offices were created under the custom department and sub offices were created under Excise Department.

4.2.2 Land Revenue Administration

It is the one of the oldest revenue department and was under the jurisdiction of Ministry of Finance until late 1957, and thereafter, it was put under the jurisdiction of ministry of Land Revenue and Management. The number of land revenue offices has increased over the years and now there are at least one-land revenue offices in each district. It maintains the records of land ownership.

4.2.3 Tax Administration

It was created as the Tax Directorate in 1959, the Internal Revenue Department in 1961/62 and the Tax Department in 1963/64. In 1964 there were Tax Offices in 6 places like Kathmandu, Birgunj, Biratnagar, Bhairhawa, and Janakpur. In Kathmandu there were two offices known as the eastern and western offices. After increasing the number of offices, they were classified as zonal offices and branch offices over years. In 1978/79, zonal and branch offices were converted into tax offices. Tax administration and Value Added Tax (VAT) administration were merged together and the Inland Revenue Administration was created. Originally, the tax department and field of offices under this department were responsible for administrate ring income tax, foreign investment tax, and urban house and land tax. Several new taxes including air travel tax, hotel tax interest tax and loan were introduced over the years, which were kept under the hand of this administration.

Moreover, the only tax which interested the officials was income tax and other varieties received little attention.

4.2.4 VAT Administration

It was structured along functional lines. At each functional level, sections and sub sections are created. Tax payer service, tax audit and investigation, internal monitoring, collection and registration, tax refund, large tax payer were important sections. There was clear job specialization of each position. Evolution of a corruption free system was considered as a precondition for an efficient and transparent tax administration. However, VAT administration was not attractive. In fact, even the staffs were keen to be transferred to customs. Similarly, those posted at the ministry of finance or at the customs or other tax offices did not want to be transferred to the VAT administration.

4.3 Unified Organizational Structure

To decrease the administration cost for the collection of tax, amalgamation of different types of tax offices into a single unit is must. Unification is even more necessary in a country like Nepal. Initially it was decided to merge the VAT and tax administrations, although there were four revenue departments and one training center under the Ministry of Finance at that time. Due to being opposite feature of customs administration with others, government decided to unify only the Tax and VAT department.

4.4 Existing Structure of Tax Administration

The ministry of finance is the top most body of tax administration. The Finance Minister is the head of the Ministry. Finance secretary and other senior level bureaucrats assist the minister with day-to-day work.

The Ministry of Finance is divided into nine divisions:

1. The Revenue Administration Division.

2. The Foreign Co-ordination Division.
3. The Budget and Program Division.
4. The Economic Affair and Policy Analysis Division.
5. The Corporation Co-ordination and Privatization Division.
6. The Revenue Consultation Committee.
7. The Administrative Division.
8. The Legal Division. and
9. The Monitoring and Evaluation Division.

Out of them, the Revenue Administration Division formulates the tax policies and initiates implementation of tax police with an appropriate tax administration. It monitors the status of both tax and non- tax revenue collection.

Total number of civil servants who belong to the Ministry of Finance during 2009/10 can be broken down as follows:

Table 4.1
Civil Servants Belongs to MoF

Positions	Class	Number of Employees.
Finance secretary	Gazatted special class	2
Joint secretary	Gazatted class I	9
Under secretary	Gazatted class II	24
Section officers and equivalent	Gazatted class III	37
Nayab subba and equivalent	Non- Gazatted class I	58
Kharidars and equivalent	Non- Gazatted class II	33
Litho operator	Non- Gazatted class III	2
Others	Without any class	48
Total	-	213

Source:-mof.org.np

There are three branch of tax administration under the MOF. They are:

-)] Inland Revenue Administration.
-)] Customs Administration. And,
-)] Revenue Investigation Administration.

The description of each of them is given below:

4.4.1 Inland Revenue Administration

It is responsible for the administration of VAT, Income tax, Excise duties and Vehicle tax. Tourism Development Fee and Motion Picture Development fee are administered by it on behalf of the Nepal Tourism Development Board and Motion Picture Development Board. Inland Revenue Administration consists of followings:

-)] Inland Revenue department-1.
-)] Large taxpayer offices (LOT)-1.
-)] Inland Revenue offices (IROs)-21.
-)] Window offices-16.

4.5 Organizational Structure of IRD

The Inland Revenue Development is structured on the basis of its function. That means development is divided into sections and sub-sections according to the functions. There are two main divisions in the Inland Revenue Department:

-)] The Operation Division. And,
-)] The Policy and Administration Division.

Operation Division handles function like tax credit, investigation, refund, collection, information technology, and taxpayers' service. On the other hand, the policy and administration Division covers policy, international tax, advance ruling, appeal, administration, and excise and Non-Tax Revenue matters.

4.5.1 Internal Monitoring

Its function is to review the performance of the Internal Revenue administration. It also evaluates the performance of other sections IRD as well as function of the IROs. It also deals with the management information System.

4.5.2 Audit and Investigation Section

This section deals with the audit plan and its strategy. Different levels of audits and audit plan and audit procedures and large taxpayers are defined here in. It makes a bridge between the large taxpayers; Office and Inland Revenue offices. The investigation unit is deemed more as an operational unit.

4.5.3 Refund Section

This section deals with refunds to the taxpayers as well as diplomatic missions and foreign funded projects, which are entitled to tax refunds under international protocols.

4.5.4 Collection Section

Its task is concerned with the development of enforcement procedures such as preparation of collection visits. It maintains a follow- up record of those who have not yet filed their tax return and those who have dues against their account.

4.5.5 Taxpayer's Service Section

The function of registration and de-registration of taxpayer. It is also concerned with outlining application procedures. Generally, it performs following functions:

-) It designs forms and manuals used for registration.
-) It issues registration certificates and PANs.
-) It maintains public relations.
-) Through a help desk and IRD website, it gives education to taxpayer.
-) It gives information to taxpayer through brochures, information campaigns, pamphlets, posters, television and radio taxpayers' queries and distributes tax materials to them.

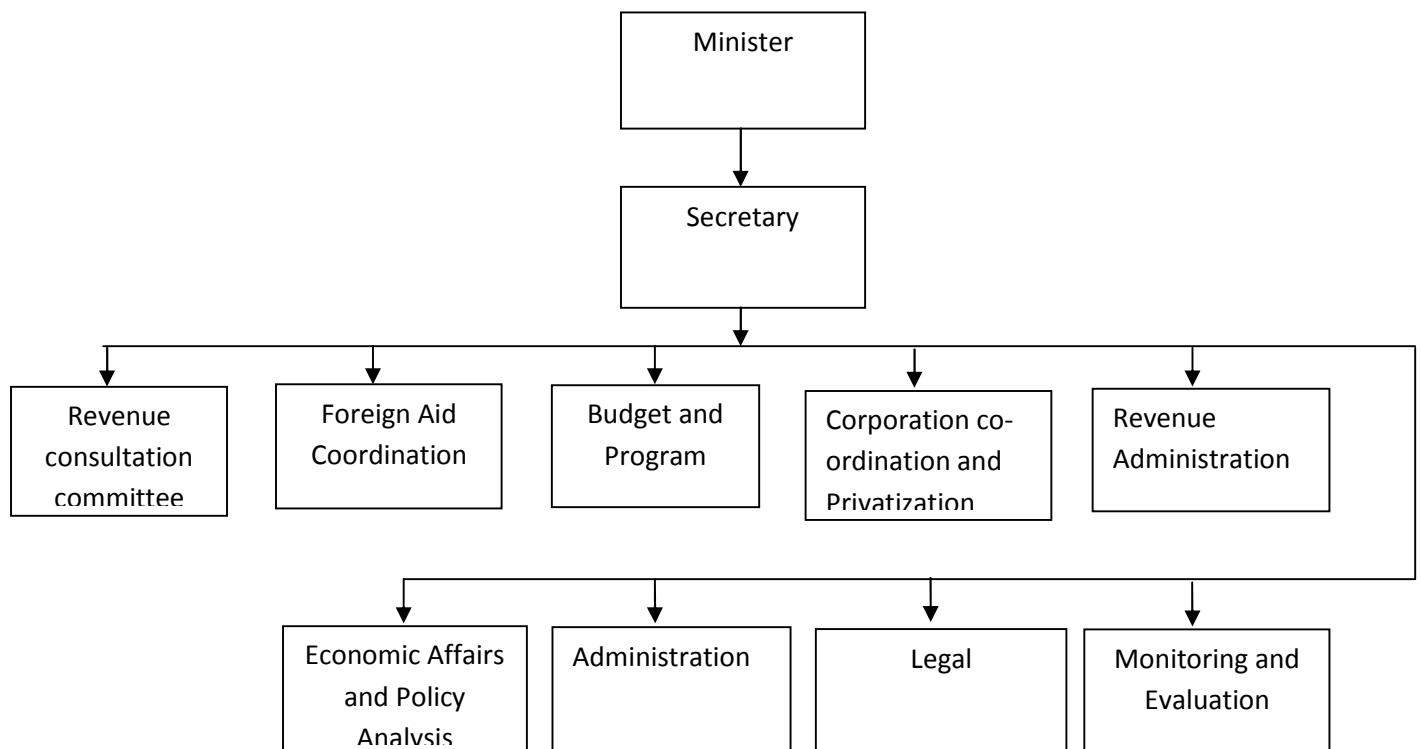
4.5.6 Legal and Review Section

This section deals with followings:

-) Procedures concerning administrative review.
-) Decision on review and forms related to review.
-) Interpretation, procedures on prosecution, forms on prosecution and manuals concerning prosecution.
-) Provides legal advice to the management of the IRD.

Figure 4.1

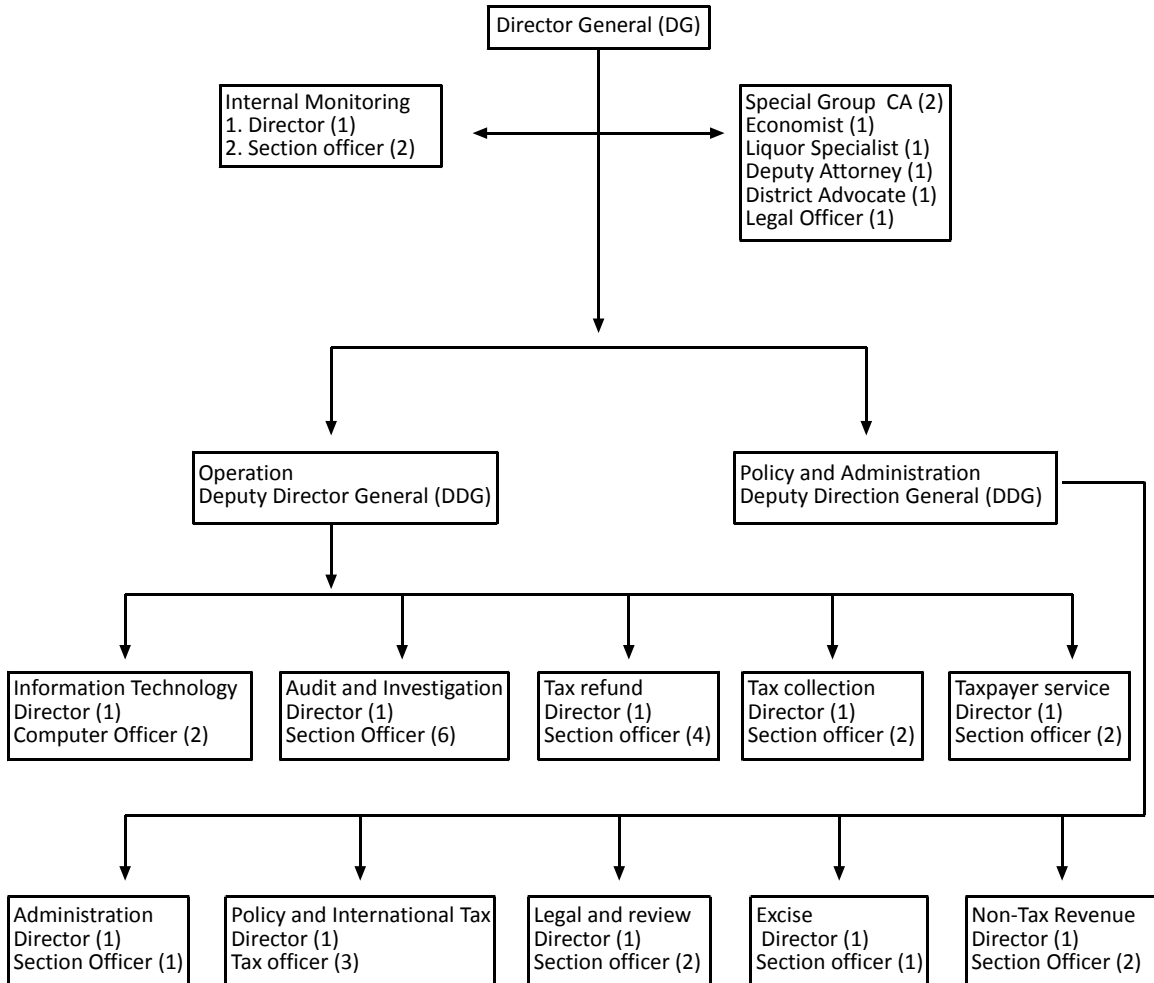
Ministry of Finance: Organizational Structure (2009/10)



Source: www.ird.gov.np

Figure 4.2

Inland Revenue Department (Organizational Structure)



Source : www.ird.gov.np

4.5.7 Policy and International Tax

This section deals with followings:

-) Tax policy.
-) Tax research and international tax matters.
-) Tax treaties.

4.5.8 Excise Section

It deals with followings:

-) It develops excise strategy, procedures, forms and manuals.
-) It provides licenses for the production, distribution and sale of liquor.
-) It prepares reports on excise duty.

4.5.9 Non- Tax Revenue Section

The section deals with followings:

-) It involves in the monitoring of non-tax revenue.
-) It develops strategies to rationalize non-tax revenue.

4.5.10 Administration

It is involved in the human resources, its management and development. The function performed by it are drawing up Job description, Career planning, training planning courses, conducting training programs and taxation etc. the administration section applies not only programs and taxation etc. the administration section applies not only intrinsic motivational tools, but also extrinsic motivational tools. These tools are giving to personnel the highly equipped materials such as vehicles, telephones, fax machines, air-conditioners, photocopiers, computers, printers etc.

4.5.11 Information Technology

This section is responsible for assessing the need for and installing computers, training and maintenance of the entire computer system. It also oversees outsourcing matters and supplies relevant information to the management and other sections as and when demanded.

4.6 Organizational Structure of IRO/LTO

There are 21 Inland Revenue offices and one large taxpayers' office. The IROs are located in the major commercial areas and the LTO is located in Kathmandu. These offices are divided into 5 grades. They are categorized as:

Table 4.2
Grading of IROs

Grade	Grade A	Grade B	Grade C	Grade D	Grade E	Total
Number of Officers	3	3	5	5	5	21

Source: Annual Report of 2008/09

These offices name and there their jurisdictions are described on the figure no-4.1. The IROs and LTO are also structured under the functional basis. The LTO and IROs are divided into three main divisions. They are:

- J Taxpayers' Service, Registration, Administration and Legal Issues/ Review section.
- J Audit, Investigation and Refund Section. And,
- J Collection Information Technology and Excise Section.

Table 4.3
Jurisdiction of IROS (2009/10)

S.N.	IRO/LTO	Jurisdiction.
1.	Kathmandu area No.1	East: north eastern part of Kathmandu District West: Tripureshwor statue, Kantipath, east of Keshar Mahal chock North: Naxal, Bhagawati Bahal, north of Dhobikhola
2.	Kathmandu area No.2	East: Tripureshwor statue, west of kesharmahal, West :Bishnumati river, North: Kesarmahal chok, Tridevi marg, pakanajol, shobhagawati. South: Bagmati river and boarder of lalitpur district.
3.	Kathmandu area No.3	East: Dhobikhola West: Rest part of Kathmandu district North: border of Kathmandu district South: Rato pool of dhobikhola, Sano Gaucher, Naxal, kesharmahal, Tridevi marg, Thamel, pakanajol, Sobhabhagawati, Rasuwa, Dhading and Nuwakot district.
4.	Biratnagar	Morang district
5.	Lalitpur	Lalitpur district
6.	Simara	Simara and Rautahat district
7.	Birgunj	Parsa district
8.	Bharatpur	Chitwan district and Nawalpur area of Nawalparasi District
9.	Pokhara	Gandaki and Dhaulagiri zones
10.	Bhairahawa	Rupendehi, palpa, Gulmi and Parasi area of Nawalparasi district
11.	Nepalgunj	Bheri and Karnali zones
12.	Bhadrapur	Mechi zone
13.	Dharan	Koshi zone, except Morang district
14.	Lahan	Koshi Zone, except Morang District
15.	Janakpur	Janakpur Zone, except Dolakha District
16.	Hetauda	Makawanpur District
17.	Bhaktapur	Bhaktapur, Dolakha, Kavrepalanchok and Sindhupalchok District
18.	Krishnanagar	Kapilvastu and Arghakhanchi District
19.	Dang	Rapti Zone
20.	Dhangadi	Seti Zone
21.	Mahendranagar	Mahakali Zone
22.	LTO, Kathmandu	Kingdom of Nepal

Source: www.ird.gov.np

4.6.1 Taxpayers Service, Registration, Administration and Legal Issues/ Revenue Section

It performs following functions:

-) Registration, de- registration and re-registration of taxpayers.
-) To issue registration certificates and PANs
-) To involve in the issuance of tax clearance certificates.
-) To receive tax returns and refund claims.
-) To accept tax payments.
-) To deal with moving taxpayers file among Inland Revenue Offices whenever required.
-) To manage ‘window offices’ etc.
-) Handles the function of personnel administration.
-) Receives appeals and complaints.
-) Monitors and conducts follow up action on all functions.

4.6.2 Audit, Investigation and Refund Section

This section performs following functions:

-) It conducts audit and investigation into self-assessment.
-) Writes reports on audit and investigation.
-) Involves in crosschecking of forms and management assessment.
-) Reviews computer assessments before notifying taxpayers.

) Processes of refund claims, etc.

4.6.3 Collection, Information Technology and Excise Section

It follows up on non- filers, non- payers and late payers:

-) It performs collection visits.
-) Deals with dues, stops import/ export.
-) Deals with calculation of interest and penalties.
-) Updates taxpayers' accounts.
-) Undertakes data entry and data transmission.
-) It also involves in excise administration.

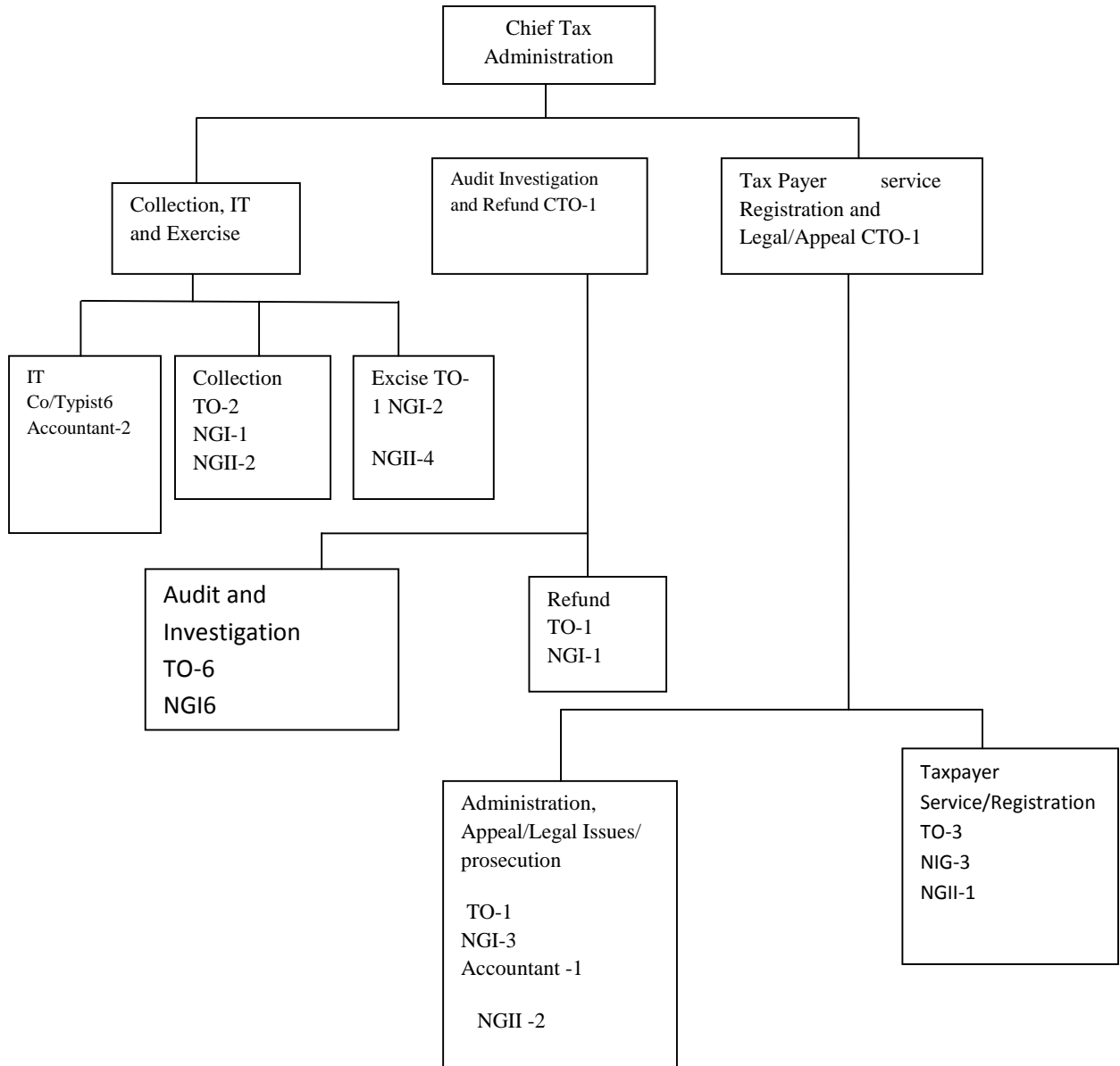
4.7 Staff Position

The director general is the apex position of Inland Revenue Department. 1st class gazetted office positions it. Just below that position, two Deputy Director-Generals and an Alcohol Specialist are there. They are also 1st class gazetted officers. There are 14 2nd class gazetted officers including chartered accounts and government advocates and 29 gazette 3rd class officers.

There are altogether 44 non- gazetted 1st class and 2nd class positions and 21 other posts including drivers and office assistants. Total number of personnel in the Inland Revenue department is 138.

LTO and Grade 'A' IROs are headed by a Chief Tax Officer. They are 1st class gazetted officer. 2nd class gazetted officer handles the rest of offices. The total number of position held by LTO/IROs is 813.

Figure 4.3
Organizational Structure of Grade ‘A’ Inland Revenue



Source: www.ird.gov.np

Table 4.4
Staff Position of Inland Revenue Offices/LTO

Position	Grade A	Grade B	Grade C	Grade D	Grade E	LTO	Total
CTA	3	-	-	-	-	1	4
CTO	9	3	5	5	5	6	33
TO	42	26	45	28	15	21	181
Nayab Subba	48	24	45	25	25	14	177
Accountant	3	3	5	5	5	2	23
DEO	12	7	10	9	5	3	46
Typist	12	6	10	5	5	-	38
Kharidar	27	27	43	20	15	2	134
Drivers	6	5	10	5	5	1	32
Office Assistances	30	23	35	33	20	4	145
Total	192	124	208	135	100	54	813

Source: www.ird.gov.np

Table 4.5
Staff Position OF IRD

S.N.	Position	Grade	Service	Group	No.
1.	DG	G I	Administration	General Administration	1
2.	DDG	G I	Administration	General Administration	2
3.	Liquor Specialist	G II	Miscellaneous	-	1
4.	CA	G II	Contract	General Administration	2
5.	Director	G II	Administration	Revenue	10
6.	IT Director	G II	Miscellaneous	-	1
7.	Deputy Attorney	G II	Law	Govt. Advocate	1
8.	Economist	G III	Miscellaneous	-	1
9.	Section Officer	G III	Administration	Administration	1
10.	Section Officer	G III	Administration	Revenue	22
11.	Account Officer	G III	Administration	Account	1
12.	Legal Officer	G III	Law	Law	1
13.	District Attorney	G III	Law	Law	1
14.	Computer Engineer	G III	Miscellaneous	-	2
15.	D.E.S	NG-I	Miscellaneous	-	12
16.	Accountant	NG-I	Administration	Account	3
17.	Nayab subba	NG-I	Administration	Revenue	16
18.	Kharidar	NG-II	Administration	Revenue	11
19.	A.D.E.S	NG-II	Miscellaneous	-	2
20.	Driver	-	-	-	6
21.	Office Assistant	-	-	-	15
Total					112

Source: www.ird.gov.np

4.8 Custom Administration

It generally administration customs duties, agricultural reform levies, VAT and excise duty on imports. It also collects the local development fees and special duties. Customs offices are responding for followings:

-) To assess and collect customs duties.
-) To prevent fraud and smuggling.
-) To control carriers, persons and article entering into and leaving the
-) Country etc.

4.8.1 Organizational Structure

Unlike the inland Revenue Department, customs Department is not based on the functional basis. But the organizational structure of the department looks like a functional one. It has six sections as:

-) Duty and Classification Section.
-) Valuation and Appeal Section.
-) Textiles and CDK Section.
-) Information technology Section, Bonded Warehouse, Duty Refundable, Statistics and International Relation Section.

There are different field offices under the Customs Department. Currently, there are 29 main customs offices and 143 sub-customs offices under this department. Out of 29 main customs offices, one is situated in the Kathmandu valley, 9 are in Tibetan border and remaining of them is situated in the border of India. On the other hand, one sub –customs office is situated in Kathmandu Valley, six are in Tibetan Border and 136 are in the border of India.

4.9 Revenue Investigation Department

The department investigates cases of fraud and issues inspection orders on suspected business enterprises, taxpayers and sometimes for even tax offices. Its function is to review the suspected tax assessments and to investigate possible cases of collusion between taxpayers and tax officials. Under this department, there are four unit offices. They are as follows:

Table 4.6
Unit Offices of Revenue Investigation Department

Places	Area Covered by them	No of units
Itahari	Eastern Development Region	1
Pathlaiya	Middle Development Region	1
Butwal	Western Development Region	1
Kohalpur	Mid and Far-western Development Region	1
Total		4

Source: ird.gov.np

4.10 Revenue Administration: Training and Control

It is involved in performing training program for revenue and account officials. It has short term and medium term training programs. The short-term program has a period not more than two weeks, where as medium term program is generally five weeks. The center is also responsible for conducting seminars and workshop.

4.11 Analysis of Secondary Data

This chapter deals with the presentation and analysis of data and information in connection with the taxation in Nepal. Full attention was given to find out the effectiveness of tax administration with the help of trend and contribution of income tax in government structure of Nepal. At the end, empirical investigation based on opinion survey has been presented with relevant sub topics.

4.11.1 Tax and Non- Tax Revenue in Nepal

The sum of tax and non-tax revenue is the total revenue. The structure of total revenue for the fiscal year 1994/95 to 2008/09 is shown in the table 5.1. The share of tax revenue has always been more than 75 percent i.e. greater than the share of non- tax revenue. The average share of tax revenue for the 15 years time period was 79.04 percent. Tax revenue is placed as a major source of government revenue in Nepal. The trend of tax and non-tax revenue is shown in chart 4.4

Table 4.7
Composition of Tax and Non-Tax Revenue in Nepal
(Fiscal year 1994/95 to 2008/09)

(Rs. In million)

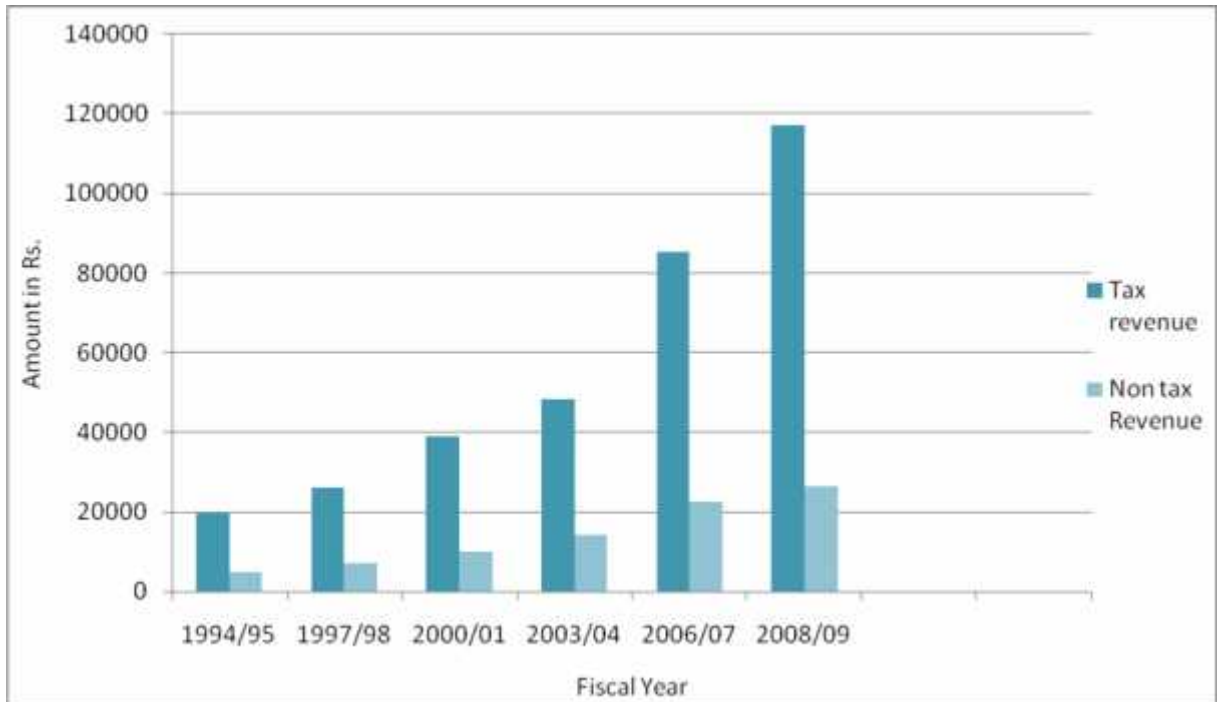
Fiscal year	Total Revenue(Rs)	Tax Revenue		Non-tax Revenue	
		In Rs.	In %	In Rs.	In %
1994/95	24575.30	19660.1	80.00	4915.20	20.00
1995/96	27893.10	21668.0	77.68	6225.10	22.32
1996/97	30373.50	24424.3	80.41	5949.2	19.59
1997/98	32937.90	25939.8	78.75	6998.1	21.25
1998/99	37251.0	28752.9	77.19	8498.10	22.81
1999/00	42893.7	33152.10	77.29	9741.60	22.71
2000/01	48839.9	38865.10	77.49	10028.80	20.71
2001/02	50445.6	39330.6	77.88	11115.0	22.12
2002/03	56229.7	42587.0	77.0	13642.7	23
2003/04	62329.0	48173.0	77.29	14156.0	22.71
2004/05	70122.70	54104.7	77.16	16018.00	22.84
2005/06	72282.0	57430.4	79.45	14851.60	20.55
2006/07	87712.20	71126.70	81.09	16585.5	18.91
2007/08	107622.58	85155.54	79.12	22467.04	20.88
2008/09	143474.5	117051.9	81.58	26422.6	18.42
Total	895036.68	707422.14	79.04	187614.54	20.96
Average	59665.51	47161.48	79.04	12507.64	20.96

Source: Economic Survey of 2008/09

From the year 1994/95 to 2008/09, the amount of tax revenue found to be increasing every year with the amount of Rs.19660.1 million to Rs 117051.9 million. The maximum contribution of tax revenue to total revenue was 81.58 percent in the fiscal year 2008/09 and least contribution of tax revenue to total revenue was 77 percent in the fiscal year 2002/03.

The trend of non-tax revenue collection was also fluctuating during the period from 1994/95 to 2008/09. The contribution of non-tax revenue in the fiscal year 2004/05 was maximum and at the minimum level of 18.42 percent in the year 2008/09. However, there is fluctuation in the revenues, that is tax revenue and non-tax revenue are in increasing trend. It has clearly shown in the chart 5.1

Figure 4.4
Composition of Tax and Non-Tax Revenue in Nepal
(Fiscal year 1994/95 to 2008/09)



Source: Table 5.1

4.11.2 Structure of Tax Revenue in Nepal

The structure of government revenue in Nepal has been represented in table 5.2 and table 5.3 in Rs. and percentage respectively from the fiscal year 1994/95 to 2008/09. The structure of government revenue of Nepal is formulated by Customs, excise, sales tax (VAT), Income tax, land revenue and registration, miscellaneous tax revenue and non-tax revenue.

Out of those Sales Tax (VAT) has a position at the top level. The revenue from sales tax /VAT varies from Rs.6031.7 million to Rs 39700.9 million from 1994/95 to 2008/09. The trend shows that the gradual increase in sales tax/VAT makes it to hold the top position. The average percentage of sales tax /VAT to total revenue for last 15 years is 24.95 percent.

The second top position is occupied by Customs Revenue from customs is increased from Rs. 7018.10 million to Rs. 26792.9 million from the fiscal year 1994/95 to 2008/09. The average contribution of customs to the total revenue for last 15 years is 19.05 percent. Similarly, non tax revenue has occupied the third. On the basis of average contribution income tax is in the third position, from the year 1994/95 to 2008/09, Non Tax Revenue found to be gradually in increasing order with the amount of Rs. 4945.1 million to Rs 26422.6 million. The average percentage of non tax revenue to total revenue for last 15 years is 21.24 percent.

On the other hand, top fourth position is income tax. Income tax is another portion in contributing revenue structure of the government. Income tax revenue has also increased from fiscal year 1994/95 to 2000/01 from Rs 2823.5 million to Rs 8903 million. Then it decreased in 2001/02 to 2002/03. After 2003/04 to

2008/09 increases from Rs 9245.3 million to Rs 25142.4 million. Average contribution of total revenue is 15.38 percent.

Revenue from excise is increasing in each year. It increased from Rs. 1657.3 million in year 1994/95 to Rs.16220.9 in the year 2008/09. But the percentage contribution of excise to total revenue is 8.84 percent.

Land revenue and registration is also increased from Rs. 937.7 in year 1994/95 to Rs. 5223.3 in year 2008/09. But the percentage of contribution of land revenue and registration has declined from 3.82 percent in 1994/95 to 3.64 percent in 2008/09. The average contribution of land revenue and registration to the total revenue for the 15 years is 2.82 percent to total revenue.

Revenue from miscellaneous tax is increasing trend from fiscal year 1994/95 to 1996/97 but this tax has decreased after 1997/98 up to fiscal year 2002/03 and has increased slightly in the year 2003/04. The average contribution of miscellaneous tax to the total revenue for the 15 years is 2.83 percent to the total revenue.

Table 4.8
Structure of Government's Revenue in Nepal
(Fiscal year 1994/95 to 2008/09)Rs. In million

Fiscal Year	Custom	Excise	Sales Tax(VAT)	Income Tax	Land Revenue & Registration	Miscellaneous Tax	Non Tax Revenue	Total
1994/95	7018.1	1657.3	6031.7	2823.5	937.7	1191.4	4945.10	24604.80
1995/96	7327.4	1944.3	6431.3	3431.4	1066.6	1467.80	6225.10	27893.10
1996/97	8309.1	2298.1	7126.5	4123.4	1015.4	1531.80	5949.20	30373.50
1997/98	8502.2	2885.8	7122.6	4898.1	1004.2	1526.80	6998.10	32937.80
1998/99	9517.7	2953.2	7882.2	6170.2	1003.2	1226.40	8498.40	37251.30
1999/00	10813.3	3127.6	9854.9	7420.6	1015.9	919.80	9741.60	42893.70
2000/01	12552.1	3771.2	12047.8	9114.0	612.9	767.10	10028.8	48893.90
2001/02	12658.8	3807	12267.3	8903.6	1131.82	865.30	11115	50445.60
2002/03	14236.4	4785	13459.7	7966.0	1414.30	725.3	13642.9	56329.70
2003/04	15554.8	6226.7	14478.9	9245.3	1697.50	969.20	14158	62331.00
2004/05	15701.6	6445.9	18885.4	10160	1799.20	1113.20	16018	70123.30
2005/06	15344.0	6507.6	21610.7	10373.7	2181.10	1413.3	14851.60	72282
2006/07	16707.6	9343.2	26095.6	15034.0	2253.50	1692.80	16585.50	87712.20
2007/08	21062.5	11189.6	29815.7	17311.3	2940.74	2835.80	22467	107622.6
2008/09	26792.9	16220.9	39700.9	25142.4	5223.3	3971.5	26422.6	143474.50
Total	202098.5	83163.38	232811.2	142117.5	25297.36	22217.5	187646.9	895169

Source: Economic Survey 2008/09, MoF

Note:

-) Custom includes: imports +exports + Indian excise refund+ others.
-) Excise includes: Industrial products + liquor contracts.
-) Income tax includes: Tax from-PEs+ Semi PEs + private corporate bodies+ Individuals +Remunerations+ Tax on interest.
-) Miscellaneous includes: Entertainment tax + Hotel tax + Air flight tax + contracts tax + Road and bridge maintenance tax+ Urban house and land tax + Vehicle tax +Other taxes.
-) PEs= public enterprises.

Table 4.9
Structure of Government Revenue in Nepal

(in percentage)

Fiscal Year	Custom	Excise	Sales Tax(VAT)	Income Tax	Land Rev .& Regist.	Miscellaneous Tax	Non Tax Revenue	Total
1994/95	28.56	6.74	24.54	11.49	3.82	4.85	20	100
1995/96	26.26	9.97	23.06	12.3	3.82	5.26	22.32	100
1996/97	27.36	7.57	23.46	13.58	3.34	5.1	19.59	100
1997/98	25.81	8.76	21.62	14.87	3.05	4.64	21.25	100
1998/99	25.55	7.93	21.16	16.57	2.69	3.29	22.81	100
1999/00	25.21	7.29	22.98	17.3	2.37	2.14	22.17	100
2000/01	25.67	7.71	24.64	18.64	1.25	1.57	20.51	100
2001/02	25.19	7.58	23.81	17.32	2.25	1.72	22.15	100
2002/03	25.27	8.49	23.89	14.14	2.51	1.46	24.21	100
2003/04	24.95	10	23.20	14.83	2.70	1.60	22.70	100
2004/05	22.39	9.19	26.93	14.49	2.56	1.60	22.84	100
2005/06	22.23	9.0	29.90	14.35	3.02	1.96	20.54	100
2006/07	19.05	10.65	29.75	17.14	2.60	1.92	18.89	100
2007/08	19.57	10.40	27.70	16.09	2.73	2.63	20.88	100
2008/09	18.67	11.31	27.67	17.52	3.64	2.77	18.42	100
Total	361.74	132.59	374.31	230.63	42.35	42.51	319.28	1500
Average	24.12	8.84	24.95	15.38	2.82	2.83	21.24	100

Source: Table 12

4.11.3 Tax/GDP Ratio in Nepal

Nepal is one of the lowest taxes economies in the world. In Nepal, Tax/GDP ratio never exceeds 11 percent. The average percentage of Tax/GDP ratio of 15 fiscal years is 10.17 percent from the chart 5.2, It is cleared that the growth rate of contribution of tax revenue on GDP is in positive direction but slow rate and somehow in fluctuation. If the share of tax revenue on GDP is considered, it is not found satisfactory. The fluctuation was continued over the past 15 years, the trend is in positive path.

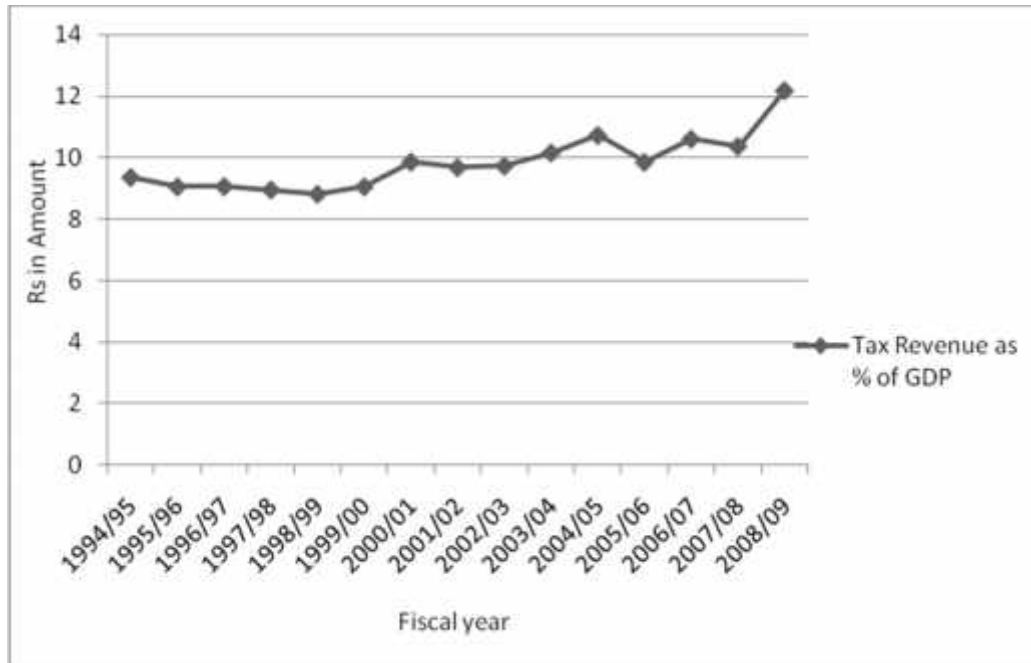
Table 4.10
Contribution of Tax Revenue in GDP

(Rs. In million.)

Fiscal Year	GDP	Tax Revenue	Tax revenue as percentage of GDP
1994/95	209974	19660.10	9.36
1995/96	239380	21668	9.05
1996/97	269570	24424.3	9.06
1997/98	289798	25939.8	8.95
1998/99	330018	28752.9	8.71
1999/00	366251	33152.10	9.05
2000/01	394052	38865.1	9.86
2001/02	406138	39330.6	9.68
2002/03	437546	42587	9.73
2003/04	474129	48173	10.16
2004/05	504101	54104.7	10.73
2005/06	582950	57430.4	9.85
2006/07	670589	71127	10.61
2007/08	820814	85155.45	10.37
2008/09	960012	117051.91	12.19
Total	6955322	707422.36	10.17
Average	463688.1	47161.49	10.17

Source: Economic Survey 2008/09

Figure 4.5
Tax Revenue as % of GDP



Source: Table 4.10

4.11.4 Income Tax /GDP Ratio in Nepal

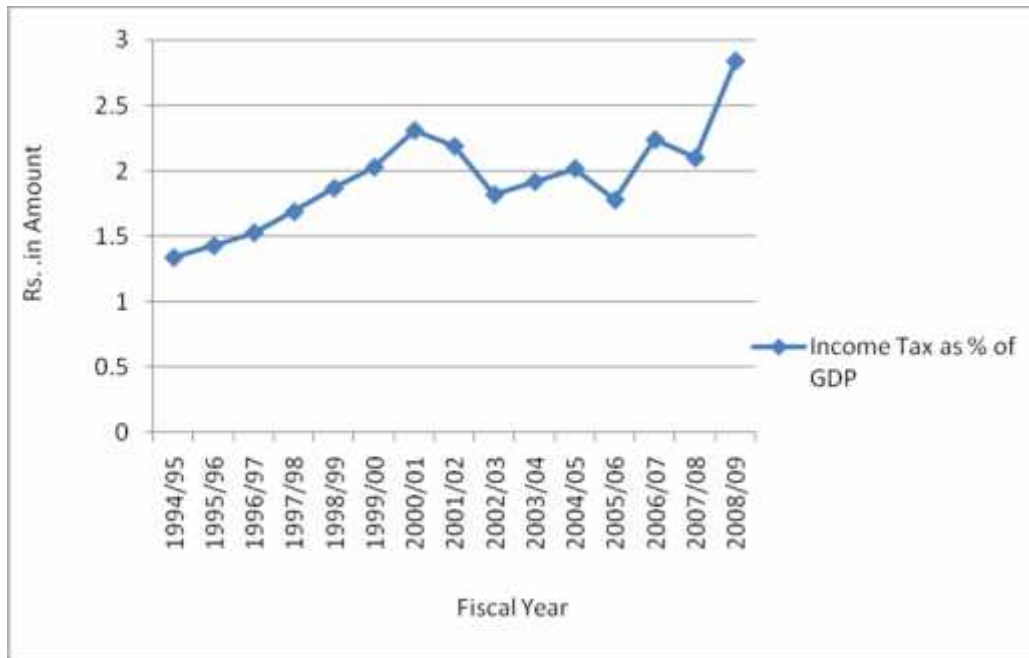
Table 4.11
Contribution of Income Tax in GDP
Fiscal Year 1994/95 -2008/09

Fiscal Year	GDP.	Income tax.	Income Tax as Percentage of GDP
1994/95	209974	2823.5	1.34
1995/96	239380	3431.40	1.43
1996/97	269570	4123.40	1.53
1997/98	289798	4898.10	1.69
1998/99	330018	6170.20	1.87
1999/00	366251	7420.60	2.03
2000/01	394052	9114	2.31
2001/02	406138	8903.6	2.19
2002/03	437546	7966	1.82
2003/04	474129	9245.3	1.92
2004/05	504101	10160	2.02
2005/06	582950	10373.70	1.78
2006/07	670589	15034	2.24
2007/08	820814	17311.32	2.10
2008/09	960012	27246.43	2.84
Total	6955322	144221.6	2.07
Average	463688.1	9614.77	2.07

Source: Economic Survey 2008/09

While evaluating income tax with connection to gross domestic product of 15 years, it was found that the income tax/GDP ratio was fluctuating in various fiscal years i.e. in year 1994/95 to 2008/09. The income tax as percentage of GDP is increasing from 1994/95 to 2000/01 and thereafter income tax as per of GDP are fluctuating.

Figure 4.6
Income Tax as % of GDP



Source: Table 4.11

4.11.5 Contribution of income Tax to Total Revenue

Table 4.12

Contribution of Income Tax to Total Revenue

Fiscal Year 1994/95 to 2008/09

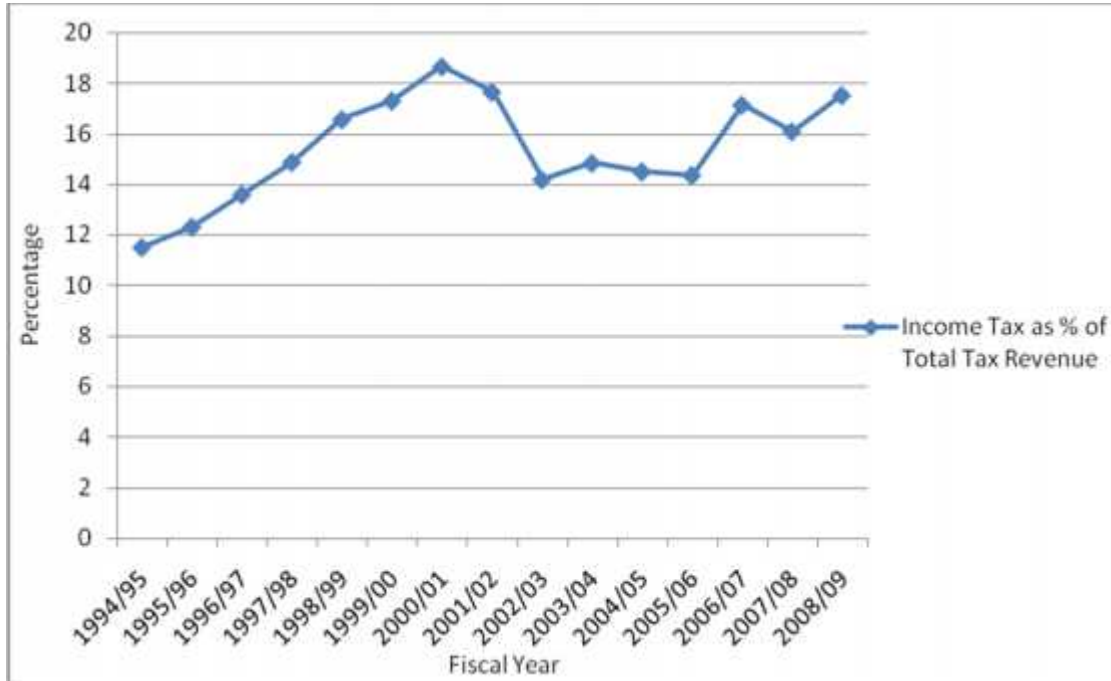
Fiscal Year	Total Revenue	Income Tax	Percentage
1994/95	24575.30	2823.50	11.49
1995/96	27893.10	3431.40	12.30
1996/97	30373.50	4123.40	13.58
1997/98	32937.90	4898.10	14.87
1998/99	37251.00	6170.20	16.56
1999/00	42893.70	7420.60	17.30
2000/01	48839.90	9114.00	18.66
2001/02	50445.60	8903.60	17.65
2002/03	56229.7	7966.00	14.17
2003/04	62329.00	9245.30	14.83
2004/05	70122.70	10160.00	14.49
2005/06	72282.00	10373.70	14.35
2006/07	87712.20	15034.00	17.14
2007/08	107622.58	17311.32	16.09
2008/09	143474.50	25142.4	17.52
Total	895036.68	142117.5	15.88
Average	59665.51	9474.50	15.88

Source: Economic Survey 2008/09

On the basis of above calculation, the ratio of Income Tax to Total Revenue is increasing order every year since 1994/95(i.e. 11.49%) to 2000/01 (i.e. 18.66%). Then, it has been decreased and fluctuated every year up to 2008/09. The ratio of Income Tax to Total Revenue 2008/09 is 17.52%.

Figure 4.7

Income Tax as % of Total Tax Revenue



Source: Table 4.12

4.11.6 Revenue Collection of IRD- A Comparative Study

In almost year, the collection of VAT is in top position where the custom duty has been in second position. If the net contribution of the fiscal year 2008/09 is evaluated, it is found that the VAT is in top position with 35.5 percent. The income tax came to second position with 23.96 percent (See Figure 4.7)

Table 4.13
Inland Revenue Collection
(Fiscal Year 1994/95 to 2008/09)

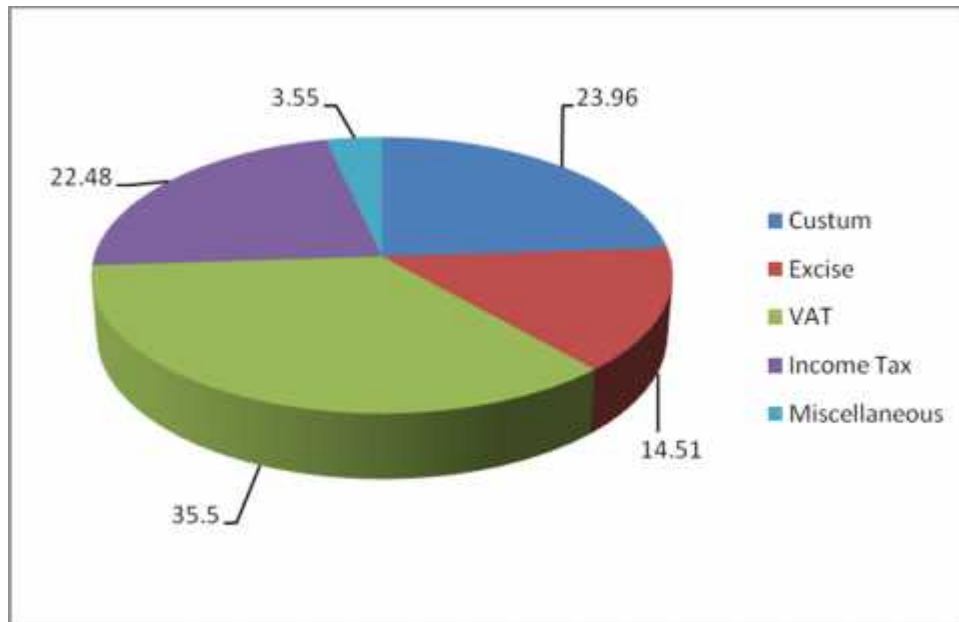
(Rs. In million)

Fiscal Year	Customs	Excise	Sales tax VAT	Income Tax	Misc. Tax	Total
1994/95	7018.10	1657.30	6031.70	2823.5	1191.40	18722
1995/96	7327.40	1944.30	6431.30	3431.40	1467.80	20602.2
1996/97	8309.10	2298.10	7126.50	4123.40	1531.80	23388.9
1997/98	8502.2	2885.8	7122.60	4898.10	1526.8	24935.5
1998/99	9517.7	2953.20	7882.20	6170.20	1226.40	27749.7
1999/00	10813.3	3127.60	9854.9	7420.60	919.80	32136.2
2000/01	12552.1	3771.20	12047.8	9114	767.10	38252.2
2001/02	12658.8	3807	12267.30	8903.6	865.3	38502
2002/03	14236.4	4785	13459.7	7966	725.3	41172.4
2002/03	15554.8	6226.7	14478.90	9245.3	969.20	46474.9
2004/05	15701.6	6445.90	18885.40	10160	1113.20	52306.1
2005/06	15344.0	6507.60	21610.70	10373.70	1413.3	55249.3
2006/07	16707.6	9343.20	26095.6	15034	1692.80	68873.2
2007/08	21062.5	11189.58	29815.70	17311.32	2835.80	82214.9
2008/09	26792.9	16220.9	39700.9	25142.4	3971.5	111828.6
Contribution in 2008/09	23.96%	14.51%	35.5%	22.48%	3.55%	100%

Source: www.ird.gov.np (Annual Report of IRD 2008/09)

Note: The figure may be differing with Economic Survey due to taking round figure in Economic survey.

Figure 4.8
Inland Revenue Collection



Source: Table 4.13

4.11.7 Structural Condition of Income Tax Revenue

With comparison of five fiscal years, collection of income tax in the fiscal years 2004/05 and 2008/09 has increased in every year. Out of sub categories of income tax, corporate tax was in top position in all years. And similarly, Public Ltd Co., Sole Trade and PVT LTD Co. are second, third and fourth place respectively.

Table 4.14
Structural Condition of Income Tax

(Rs. In '000')

Particular	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Corporate income tax	7345003	7576530	11605600	13268756	19624768	59420657
Public enterprises	1332430	195774	1019677	204585	959047	3711513
Public limited company	2467789	3405582	5717056	7186458	9425132	28202017
Private limited company	1531305	1703027	2306976	3140371	4197536	12879215
Individual Income Tax (Remuneration)	1675861	1771129	2007930	2451039	3195623	11101582
Investment Income Tax	1424770	1546555	2080024	3271475	4161963	12484787
Sole Trade/Individual Firm	1885657	1958791	2306645	2452345	4472091	13075529
Rent	495549	528457	594181	721102	960198	3299487
Interest	757035	774820	1054942	1087927	1685094	5359818
Dividend	165147	242585	429502	657694	736546	2231474

Source: *www.ird.gov.np (Annual Report of IRD 2008/09)*

Table 4.15
Target and Achievement of Income Tax –A Comparative Study

(Rs. In '000')

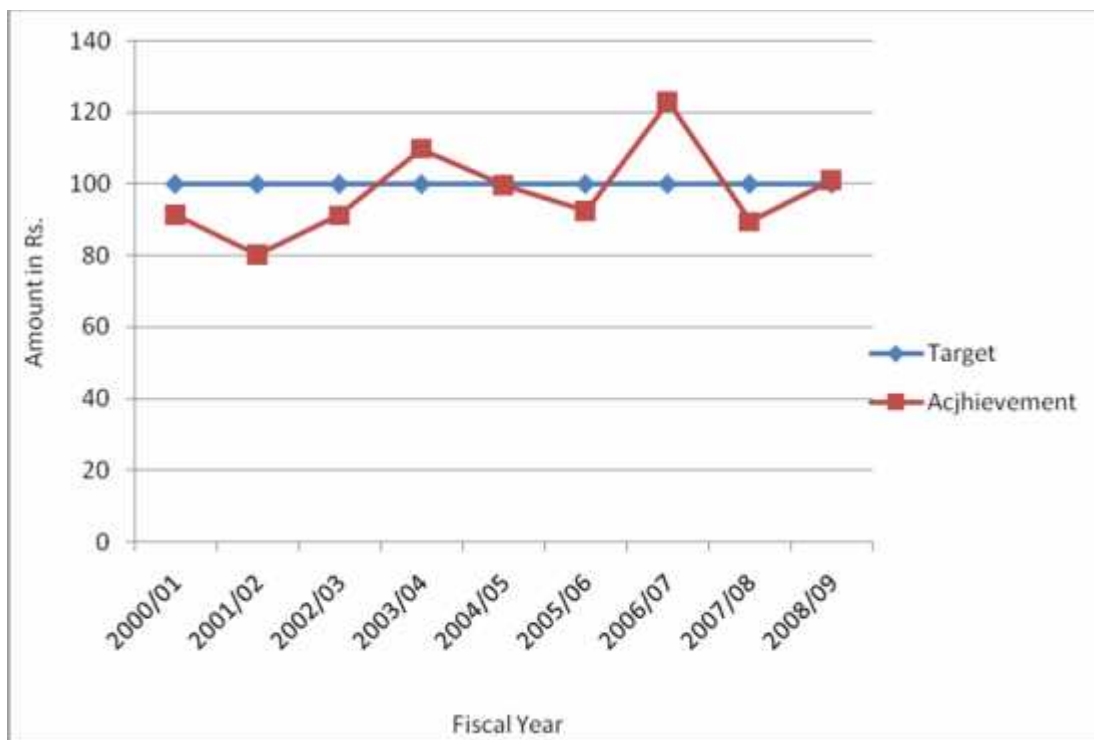
Fiscal Year	Target	Achievement	Ratio
2000/01	9980000	912050	91.39
2001/02	11140000	8922799	80.10
2002/03	8706700	7935674	91.14
2003/04	8428900	9246182	109.70
2004/05	10500000	10452637	99.55
2005/06	11800000	10896449	92.34
2006/07	12710500	15621430	122.90
2007/08	19387509	17327915	89.38
2008/09	24386500	24602094	100.88

Source: *Annual Report of 2008/09*

After evaluating the income tax of nine fiscal year that is from 2001/02 to 2008/09, it is found that the performance of income tax was moreover good in year 2006/07(122.9%), 2003/04 (109.7%) and 2008/09 (100.88%) of achievement over target. In others Years show that income tax is below the target. Within the heading the income tax, contribution of corporate income tax is more than others.

Figure 4.9

Ratio of Achievement and target of Income Tax



Source: Table 4.16

4.12 Empirical Study

An empirical investigation has been conducted to examine effectiveness of tax administration in Nepal. The major tool used for this purpose is an opinion questionnaire. While conducting this investigation, 40, 20 and 20 sets of questionnaire were distributed to the tax administrators, tax payers and tax experts respectively. Out of them, 30, 15 and 15 sets of questionnaires have been received.

The responses received from various respondents have been arranged, tabulated and analyzed.

The questionnaire is arranged in response of yes/no and ranking of choices according to number of alternatives where first choice was most important and the last as least important. If the number of alternative were ten, then the first preferred choice got ten points and if the number of alternative were one, then the last choice got point one. The total points available to each choice were converted into percentage in reference to the total points available for all choice. The choice with the highest score of percentage was ranked as the most important choice and one with the lowest percentage being ranked as last choice. Table 4.17 shows the groups of respondents and code used to represent them.

Table 4.16
Groups of Respondents and Code Used

S.N.	Groups of Respondents	Sample Distributed	Sample Received	Code used.
1.	Tax administrators	40	30	A
2.	Tax experts	20	15	B
3.	Tax payers.	20	15	C

Source: As per the Research Design

Attitude towards Performance of Nepalese Tax System

Since, it has been accused that the Nepalese tax system has many problems. To know whether the tax system of Nepal has problems or not, a question was asked “Do you think that Nepalese tax system has poor performance?” The responses received from the respondents are tabulated as follows.

Table 4.17

Attitude towards Poor Performance of Nepalese Tax system

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	18	60	12	40	30	100
B	11	73.33	4	26.67	15	100
C	15	100	0	0	15	100
Total	44	73.33	16	26.67	60	100

Source: Opinion Survey (2010)

From the above table 4.18 it has been cleared that Nepalese tax system has somehow problems. Majority of the respondents (i.e.73.33 percent) through that there were problems in Nepalese tax system with regard to its performance.

To know causes of being poor performance another question was attached with this “If yes, what are the major causes of being poor performance in Nepalese tax system?” The respondents are requested to rank their answer of the responses their priority. The breakdown of the responses is shown below

Table 4.18**Major Reasons towards Poor Performance of Nepalese Tax System**

S.N.	Major reasons	Groups			Total point	Percent	Rank
		A	B	C			
1.	Lack of incentives for maintenance of accounts	78	45	67	190	9.60	8
2.	lack of meaningful taxpayer information	120	80	90	290	14.65	1
3.	Defective assessment procedures.	99	70	75	244	12.32	4
4.	Complicated collection procedures.	86	21	103	210	10.61	7
5.	Failure of public sector enterprises to pay the tax.	89	60	68	217	10.96	6
6.	Tax concession granted to industries located at remote area	34	18	31	83	4.19	9
7.	Lack of taxpayer education	103	64	86	253	12.78	3
8.	Lack of research in tax matters.	96	50	90	236	11.92	5
9.	Problems of evasion and avoidance.	105	87	65	257	12.97	2
Total		810	495	675	1980	100	-

Source: Opinion Survey (2010)

The Major reasons of the system of being poor performance in Nepal were ranked in order of the preference of the respondents as follows:

-) Lack of meaningful taxpayer information.
-) Problem of evasion and avoidance.
-) Lack of taxpayer education.
-) Defective assessment procedure.
-) Lack of research in tax matters.
-) Failure of public sector enterprises to pay the tax.

-) Complicated collection procedures.
-) Lack of incentives for maintenance of Accounts.
-) Tax concession granted to industries located at remote area.

It can be concluded from above result that in the opinion of respondents there are problems in tax system of Nepal, basically due to lack of meaningful taxpayer information, lack of taxpayer education and problem of evasion and avoidance.

Attitude towards the Income Tax as acting discouragement for Deriving more Income

To know the attitude towards effectiveness of income tax on higher income level, a question was asked. “Do you think that income tax acts as a discouragement for earning income?” These responses received from the various respondents are tabulated as below:

Table 4.19
Attitude towards the Income Tax as Acting Discouragement
for Deriving more Income

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A.	8	26.67	22	73.33	30	100
B.	2	13.33	13	86.67	15	100
C.	8	53.33	7	46.67	15	100
Total.	18	30	42	70	60	100

Source: Opinion Survey (2010)

It is clear from the above that 70 percent respondents are disagreed with the statement that the income tax as acting discouragement for earning higher income. A minority of respondents, 30 percent is agreed with the statement.

Attitude towards the Role of Income Tax to Reduce the Gap between Rich and Poor

Table 4.20

Attitude towards the Role of Income Tax to Reduce the Gap Between Rich and Poor

Respondents	Highly Effective		Fairly Effective		Not Effective		Total	
	No.	%	No.	%	No.	%	No.	%
A.	5	16.67	15	50	10	33.33	30	100
B.	3	20	9	60	3	20	15	100
C.	0	0	0	0	15	100	15	100
Total	8	13.33	24	40	28	46.67	60	100

Source: Opinion Survey (2010)

From above table 4.21, it is cleared that there is low level of attitude towards the role of income tax as highly effective in reducing gap between rich and poor, i.e. 13.33 percent. Whereas, 40 percent of respondents believes that the role of income tax is fairly effective in reducing gap between rich and poor. The majority portion of respondent's i.e.46.67 percent believes that the role of income tax in reducing gap between rich and poor is not effective at all.

To know causes of being not effective as income tax to reduce gap between rich and poor, a question was attached with this, i.e. "If it is not effective, what may be the probable reasons not supporting to reduce gap between rich and poor?" The respondents are asked to rank their answer according to their priority. The breakdown of the responses is shown below.

Table 4.21
Major Causes which are Responsible not to Reduce the Gap Between
Rich and Poor by Income Tax.

S.N	Major reasons.	Groups			Total point	%	Rank
		A	B	C			
1.	Wide spread evasion of taxes.	60	16	92	168	13.33	1
2.	Small number of taxpayers.	45	13	62	120	9.52	8
3.	Inefficient instrument for reducing the gap by income tax.	54	14	72	140	11.11	4
4.	Poor taxpaying capacity	44	16	73	133	10.56	7
5.	Lack of tax consciousness	56	20	87	163	12.94	2
6.	Defective government expenditure programs.	50	12	76	138	10.95	5
7.	Defective tax rates.	48	10	78	136	10.79	6
8.	Poor administration.	58	17	85	160	12.70	3
9.	Decreasing purchasing power of people.	35	17	50	102	8.10	9
	Total	450	135	675	1260	100	-

Source: Opinion Survey (2010)

The causes of being not effective as income tax reduce the gap between rich and poor were ranked in order of the preference of the respondents as follows:

-) Wide spread evasion and avoidance of tax.
-) Lack of consciousness.
-) Poor tax administration.
-) Inefficient instrument for reducing the gap by income tax.
-) Defective government expenditure.
-) Defective paying capacity.
-) Poor taxpaying capacity.
-) Small number of taxpayers.
-) Decreasing purchasing power of people.

It can be concluded from the above table that in the opinion of respondents, wide spread of evasion and avoidance of tax, lack of consciousness towards tax and tax administration are the main reasons as being causes that responsible for not to reduce the gap between rich and poor.

Attitude towards Efficiency of Tax Administration

To know the attitude of respondents towards efficiency of tax administration, a question was asked, “Do you think that tax administration is Nepal is efficient?” The responses received from the various respondents are tabulated as below.

Table 4.22
Attitude towards Efficiency of Tax Administration

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A.	15	50	15	50	30	100
B.	4	26.67	11	73.33	15	100
C.	2	13.33	13	86.67	15	100
Total.	21	35	39	65	60	100

Source: Opinion Survey (2010)

It is cleared from above table 4.23, that majority of the respondents i.e. are dissatisfied with the present efficiency of tax administration. On the other hand, only 35% are in favor of the efficiency of tax administration of Nepal.

To know causes of inefficient tax administration of Nepal, respondent were asked to rank the given causes according to their priority. The breakdown of the responses is shown below:

Table 4.23
Major Causes Responsible for Inefficient Tax Administration in Nepal

S.N.	Major Reasons	Groups			Total point	Percent	Rank
		A	B	C			
1.	Lack of trained and competent staff.	115	84	88	287	16.35	1
2.	Complicated tax laws.	81	49	80	210	11.97	4
3.	Lack of information.	95	74	72	241	13.73	2
4.	Unnecessary outside pressures.	61	39	65	165	9.40	7
5.	Undue delay in making assessments.	54	35	56	145	8.26	8
6.	Lack of co-ordination within the tax department.	67	54	72	193	11.00	5
7.	Lack of motivation in tax personnel.	88	69	66	223	12.71	3
8.	Defective procedures.	61	59	46	166	9.46	6
9.	Defective organizational arrangements.	53	32	40	125	7.12	9
	Total	675	495	585	1755	100	-

Source: Opinion Survey (2010)

The major causes for inefficient tax administration of Nepalese were ranked in order of preference of the respondents as follows:

-) Lack of trained and competent staff.
-) Lack of information.
-) Lack of motivation in tax personnel.
-) Complicated tax laws.
-) Lack of co-ordination within tax department.

-) Defective procedures.
-) Unnecessary outside pressures.
-) Undue delay in making assessments.
-) Defective organizational arrangements.

It can be concluded from the above that in the opinion of respondents, Lack of information about taxpayers and lack of motivation in tax personnel are the main causes for the responsible of inefficient tax.

Attitude towards the Excess Power of Tax Officer in Nepal

To know the attitude of respondents towards the power of tax officer, a question was asked. “Do you think that tax officer has excess powers in Nepal”? The cause of keeping this question is to compare power of tax authority as given by the acts 2031 and 2058. The responses received from the various respondents are tabulated as below.

Table 4.24

Attitude towards the Excess Power of Tax Officer in Nepal

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A.	0	0	30	100	30	100
B.	0	0	15	100	15	100
C.	8	53.33	7	46.7	15	100
Total	8	13.33	52	86.67	60	100

Source: Opinion Survey (2010)

From above table, it is noted that Majority of respondents i.e. 86.67 are against with the statement that tax officers have widespread boundless power in Nepal. Thus, the conclusion should be drawn in such a way that there is no discretionary power with tax officers.

Attitude towards Legal Opportunities for Addressing Taxpayer’s Grievances

To know the attitude of respondents towards the redressing taxpayer’s grievances, a question was asked, “Do you think that tax payers have adequate administrative and legal opportunities for addressing their grievances?” The responses received from the various respondents are tabulated as below.

Table 4.25

Attitude towards Legal Opportunities for Addressing Tax Payers Grievances

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A.	22	73.33	8	26.67	30	100
B.	13	86.67	2	13.33	15	100
C.	5	33.33	10	66.67	15	100
Total	40	66.67	20	33.33	60	100

Source: Opinion Survey (2010)

It is cleared from above table that majority of respondents i.e. 66.67 percent accepts that there is adequate administration and legal opportunities to handle taxpayer’s grievances. On the other hand, minorities of respondent’s i.e.33.33 percent are disagreed with the former.

It shows that, even there in somehow legal provisions to handle taxpayer’s grievance, it does not cover whole taxpayer as a whole.

Attitude towards the Improvement of Tax Administration in Nepal

To know the view of respondent towards improvement of tax administration in Nepal, they are asked to rank given guidelines to their priority. The breakdown of the responses is shown below:

Table 4.26**Guidelines for the Improvement of Tax Administration in Nepal**

S.N.	Guidelines	Groups			Total point	Percent	Rank
		A	B	C			
1.	Proper training to tax officers.	189	101	85	375	13.89	1
2.	Better co-ordination with custom Office, banks, registration office and others.	148	60	77	285	10.56	6
3.	Better tax information system.	170	81	73	324	12.00	3
4.	Better public relation by tax office.	122	93	39	254	9.42	8
5.	Simple tax policies	134	72	117	323	11.96	4
6.	Realistic tax policies	138	74	107	319	11.81	5
7.	Simple tax procedures.	202	80	48	330	12.22	2
8.	Educating tax payers.	108	54	93	255	9.44	7
9.	Motivating tax personnel.	139	60	36	235	8.70	8
	Total	-	-	-	2700	-	-

Source: Opinion Survey (2010)

The guidelines noted for the improvement of tax administration of Nepal were ranked in order of preference of the respondents as follows.

-) Proper training to tax officers.
-) Simple tax procedures.
-) Better tax information system.
-) Simple tax policies.
-) Realistic tax policies.
-) Better co-ordination with custom office, banks registration office and others.

-) Educating taxpayers.
-) Motivating tax personnel.
-) Better public relation by tax office.

From above, the conclusion is drawn in such a way that proper training to tax officers, simple tax procedures and better tax information system are the main notable points for the improvement existing level of tax administration in Nepal.

Attitude towards Changes of Collection Pattern by Efficient Tax Administration after Restoration of Democracy

Table 4.27

Attitude towards Changes of Collection Pattern by Efficient Tax Administration after Restoration of Democracy

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A.	18	60	12	40	30	100
B.	12	80	3	20	15	100
C.	13	86.67	2	13.33	15	100
Total	43	71.66	17	28.33	60	100

Source: Opinion Survey (2010)

Since, it has been said that the tax administration in Nepal after restoration in of democracy has been improved. It is cleared from above table that there is significantly change in tax administration with special reference to its collection procedure. Because majority of respondents i.e. 71.66 % were in favor of change and only 28.33% are in against. If it is individually analyzed, then it is seen that most of respondent from group A i.e. tax administration are either not responding or denying the change due to recent political development in the country. Thus,

who did not respond, political development in the country. Thus, who did not respond were also included in rejecting the change in tax administrator?

Attitude towards Difficulties and Complexities after Implementing ITA, 2058

To know the attitude of respondents towards the difficulties and complexities faced by respondents after its implementation, a question was asked ‘Do you think that implementing ITA, 2058 has created difficulties and complexities in tax administration. The responses received from the various respondents are tabulated as below.

Table 4.28

Attitude towards Difficulties and Complexities after Implanting ITA, 2058

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A.	15	50	15	50	30	100
B.	11	73.33	4	26.67	15	100
C.	13	86.67	2	13.33	15	100
Total	39	65	21	35	60	100

Source: Opinion Survey (2010)

From above table it is cleared that the majority of respondent i.e. 65% felt that implementation of ITA, 2058 has really created difficulties and complexities whereas 35% of the respondent were in against of the statement. The conclusion drawn from it is that is reality, stakeholders of tax are facing difficulties after implantation of ITA, 2058.

To know the view of respondent towards causes of being difficulties faces by tax administration after implementation of ITA, 2058. They are asked to rank given causes according to their priority. The breakdown of the responses is shown as follows;

Table 4.29
Major Causes towards Difficulties and Complexities after
Implementing ITA, 2058

S.N .	Major Causes	Groups			Total points	Percent	Rank
		A	B	C			
1.	Tax payers and tax administration before application of Act.	45	39	32	116	29.74	1
2.	Many confusion regarding new provisions and procedures.	30	24	40	94	24.10	3
3.	Difficult to understand the Act.	52	27	17	96	24.63	2
4.	Inclusion of more theoretical aspect than practical aspect.	23	20	41	84	21.53	4
	Total	150	110	130	390	100	-

Source: Opinion Survey (2010)

The major causes for being the difficulties faced after implementation of ITA, 2058 are ranked in order of preference of respondents as follows:

-) Tax payers and tax administrators have not got orientation before Application of Act.
-) 2. Difficult to understand the Act.
-) 3. Many confusion regarding new provisions and procedures.
-) 4. Inclusion of more theoretical aspect than practical aspect.

In the context of Nepal, the major source of government revenue is tax revenue. The average revenue from tax revenue is 79.04% and non-tax revenue is 20.96%. The structure of government revenue of Nepal is formulated by customs, excise, sales tax (VAT), income tax, land revenue and registration, miscellaneous tax revenue and non-tax revenue. The average percentage of Tax/GDP ratio is 10.17%. As per the research, sales tax (VAT) plays the top level of government

revenue. Custom duties, income tax excise duties are also plays important role in government revenue respectively. It shows that Collection of income tax in Nepal is satisfactory. The researcher found that Nepal's' Tax Administration is poor performance due to lack of meaningful taxpayer information, problem of evasion and avoidance etc.

4.13 Major Findings

On the basis of previous chapter, data presentation and analysis, some important and major findings can be drawn. The major findings of this dissertation are summarized as follows:

- J In the structure of government revenue of Nepal, VAT (sales tax), Customs, Income tax and Excise duty are the major sources. The average contributions of VAT (sales tax), custom, income tax and excise duty were 24.95%, 24.12, 15.38% and 8.84% respectively for the fiscal year 1994/95 to 2008/09. If we evaluate individually, contribution of VAT is in decreasing rate for several years. Overall tax revenue has more than 79 percent contribution in total revenue within the country.
- J However, there is a fluctuation in non-tax revenue for several years; the contribution of it is less than 21 percent of total revenue.
- J The Tax/GDP ratio of Nepal is not found in satisfactory level. But the trend of contribution of tax revenue on GDP is gradually increasing from 9.36 percent from in fiscal year 1994/95 to 10.17 percent in fiscal year 2008/09. Since, the contribution of income tax on GDP is fluctuated in recent years; however it is in positive trend.
- J The ratio of Income Tax to Total Revenue is increasing order every year since 1994/95 (i.e. 11.49%) to 2000/01 (i.e. 18.66%). Then, it has been decreased and fluctuated every year up to 2008/09. The ratio of Income Tax to Total Revenue 2008/09 is 17.52%

- J While evaluating income tax with connection to Gross Domestic product of fifteen years, it was found that the income tax/GDP ratio was fluctuating in various fiscal years and it was 2.07 percent in the fiscal year 2008/09.
- J In the fiscal year 2008/09, the net contribution of income tax was however at satisfactory level i.e. 17.52 percent out of total tax revenue of Inland Revenue Department and the connection was also improved in the fiscal year 2008/09
From the opinion survey, the following findings have been drawn:
 - J Nepalese tax system has poor performance due to mainly following reasons.
 - a. Lack of meaningful taxpayer information.
 - b. Lack of taxpayers' education.
 - c. Problems of evasion and avoidance.
 - J Income tax is not a barrier for people of higher-level income.
 - J Income tax is not playing effective role to reduce the gap between rich and poor. The main reasons as stated:
 - a. Widespread evasion and avoidance.
 - b. Lack of tax consciousness.
 - c. Poor tax administration.
 - J Tax administration was not found at efficient level. The main reasons as stated:
 - a. Lack of trained and competent staff.
 - b. Lack of information.
 - c. Lack of motivation in tax personnel.
 - J After implementing ITA, 2002, the widespread power of tax official was found in decreased.
 - J From the perspective of tax administrators, there was found enough legal opportunities to handle taxpayers' grievances.
 - J Tax administration and its collection were found to be changed in positive way after restoration of democracy.

-) After implementing ITA, 2002, certain difficulties were found to be faced by tax officials. They are:
- a. Taxpayers and tax administrators have not got orientation before application of Act.
 - b. Difficult to understand the Act.
 - c. Many confusion regarding new provisions and procedures.

CHAPTER -V

SUMMARY, CONCLUSIONS AND RECOMMEDATIONS

This is the final chapter of the research which briefly deals with the summary of study. It also tries to draw the final conclusion of the study while attempting to offer various recommendations to make the various aspect of Tax Administration of Nepal.

5.1 Summary

This research work entitle “A study on Tax Administration in Nepal” has been carried out to ponder into administration of tax and its implementation. In this study about fifteen years data has been analyzed. To achieve the objective of study secondary data, published by Inland Revenue Department and Economic Survey has been used. Questionnaires have been developed for primary data collection which is required for empirical study on Tax Administration. The study has been divided five broad chapters. The contents of that chapter are as follows.

Chapter I: Introduction

Chapter II: Conceptual Framework and Review of literature

Chapter III: Research Methodology

Chapter IV: Presentation and Analysis of Data

Chapter V: Summary, Conclusions and Recommendations

The first chapter begins with the brief background of the study i.e. introduction. To meet public expenditure, revenue can be raised through internal and external sources. The chapter also goes on to focus of study, statement of problems, objectives of study , significance of study, limitation of study and organization of study.

In the second chapter; theoretical framework and Review of Literature has been discussed. In this chapter; meaning of tax, tax and efficiency, types of tax income tax, tax administration, signification of tax administration, tax administration and fiscal policy and tax policy, tax administration and tax structure and essential function of tax administration. Likewise, in the resume of earlier studies, related materials likes books dissertations and journals have been reviewed.

The third chapter briefly explained the research design, population and sample, sampling procedure, sources of data, procedure of data collection and processing of data and analysis tools.

The fourth chapter is the main body of the research work which includes theoretical analysis of Tax Administration in Nepal, presentation and analysis of data and major findings. Secondary data has been obtained from Inland Revenue Department and Economic survey. From secondary data , composition of tax and non tax revenue, structure of tax revenue , tax and GDP ratio, Income tax and GDP ratio, Revenue collection of IRD, and structural condition of income tax revenue have been studied. Similarly, for empirical study, primary data have been collected by giving eleventh set of questions to the target population.

The fifth and final chapter contains the summary of four earlier chapters. This chapter also has conclusion of the research and attempted to offer various suggestions and recommendations for the enlargement and betterment of tax administration of Nepal.

5.2 Conclusions

After restoration of democracy, particularly from point of conflict there has been a dramatic change in the composition of public expenditure. The public expenditure pattern has show in early 1990s regular expenditure accounts for about one third

of expenditure and the development expenditure was about two thirds of the total public expenditure. But the regular expenditure increased rapidly and exceeded the development expenditure during 1998/99. In recent years, the volume of development expenditure has also decreased in real terms.

On the other hand, the development expenditure is increasing at a slow rate which is not desirable condition for country like Nepal. Only development expenditure is responsible to create the infrastructure required for economic development and the execution of many projects to improve social conditions such as health and education.

Public revenue, main source to fulfill the need of public expenditure has not been able to pace with public expenditure. The Public revenue is of two types i.e. tax revenue and non tax revenue. Tax revenue contributes about 79.04 percent of the total revenue while the non-tax revenue represents about 21.96 percent of total revenue. To increase the revenue through non-tax revenue is very tough job due to its rigidity characteristics. So, it is necessary to make every effort to generate more revenue through taxes, which are levied on commodities, incomes and properties.

Income tax is one of the most important resources of the government revenue and it is considered as a good remedy to cure growing and serious resources gap problems of Nepal. Contribution of income tax for the economic development of Nepal has been increasing significantly in recent years as compared to past fifteen years but does not mean that it has the share in satisfactory level.

Nepal attracts foreign assistance in the form of grants and loans from different bilateral and multilateral donors. Till the 1980s, grants were used to be major component of foreign assistance, but after 1980s, loans have been increased at significant level. Since, public revenue and foreign grants lay behind in relation to

public expenditure: there is a large deficit in the fiscal system. Furthermore, heavy reliance on external loans indicates a danger of debt trap since Nepal will have to pay a higher amount of principal and interest, just like external loans, internal loans also cause inflationary pressure.

Since, a large part of revenue is spent on regular expenditure, there has been very little revenue surplus, i.e. revenue minus regular expenditure. Revenue surplus provides a small part of total development expenditure. The situation has become even more critical in recent years.

Since, non-tax revenue cannot be used as an effective instrument of revenue mobilization: attempts must be made to mobilize more tax revenue through the reform of the tax system.

The major steps attempted to reform the tax systems are found as:

Introduction of VAT

As a part of tax reform, it has been implemented. It replaced the sales tax, Hotel tax, contract tax and entertainment tax.

Implementation of new Income Tax Act

The Income Tax Act of 2002 was introduced in place of Income Tax Act; 1974. It is comprehensive and follows modern concepts. It adopted full-flagged self-assessment system and reduced the discretionary power of tax official. Although, it has many difficulties and confusions at implementation level.

Administrative Reform

A functional organization was established in mid July 1996 for the administration of VAT. It was computerized in order to establish a strong database and an information based tax system. Income tax and VAT has been merged in order to

avoid duplication and overlapping of functions. It is now being beneficial for parties, government and taxpayers.

The new unified administration is structured along functional lines, which is expected to reduce the scope for collusion and corruption. A large taxpayer office is also opened mid –January 2004.

5.3 Recommendations

Without efficient tax administration, tax policy does not work. So, time-to-time measurement of tax administration and its reform is must. To increase the efficiency of tax administration reform of tax administration is needed on all fronts such as the organizational structure, the personnel system, the incentive package, tax procedures, automation and the appeal system. They are described as follows:

Performance of Nepalese Tax System

As per study, Nepalese tax system has poor performance which creates many more difficulties. To increase the performance of Nepalese tax system following activities can be done.

-) Provide meaningful tax payer information.
-) Reduce the problem of tax evasion and avoidance by doing proper follow up and audit program.
-) Provide tax payer education which help to understand the importance of tax collection.
-) Reduce defective assessment procedures by doing research program.
-) Reduce the complicated collection procedure. Tax payer should allow paying tax any bank not specified by government and appropriate collection strategy should be adopted.

The role of Income Tax to Reduce the gap Between Rich and Poor

As per research, majority of respondents belief that Income Tax does not reduce the gap between rich and poor. Following activities can be done to address the problem.

-)] Wide spread of tax evasion of tax can be controlled through regular follow up and proper auditing.
-)] Tax consciousness has been increased through media, regular follow up, reward and punishment.
-)] Poor tax administration has been decreased through training and orientation program. Similarly, no interfere can be done and incentives should provide as different form.
-)] Defective government expenditure can be reduced.

Efficient tax Administration in Nepal

On the basis of study, respondents are dissatisfied with Tax Administration. To be efficient Tax Administration following activities can be applied.

-)] Competent and trained manpower should be developed.
-)] Tax information has been provided regularly.
-)] Motivation in tax personnel can be increased.
-)] Complicated tax laws can be made simple and easy to understand.
-)] Co-ordination with different tax department can be increased.

Legal Opportunities for Addressing Tax Payer's Grievances

IRD must provide to hear the grievance of tax payers in regular basis.

Improvement of Tax Administration in Nepal

-)] Tax Administration can be improved through following ways.

-) Providing training to tax officers
-) Simple tax procedure can be applied.
-) Better tax information can be provided.
-) Simple and realistic tax policies are applied.
-) Better coordination between custom offices, bank registration offices and other offices can be done.

Smooth implementation of Income Tax Act 2058

On the basis of study, smooth implementation of ITA 2058 is required. For that purpose, following points should remember.

-) Training and orientation program has been done before application of ITA 2058
-) Confusion regarding new provision and procedure can be clarified through interaction.
-) Include more practical aspect than theoretical aspect which is

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APPENDICES

Appendix Questionnaires

Dear Sir/ Madam,

Could be most obliged if you could answer the questions given below. Please tick your answer or wherever appropriate, put in order of preference from 1 to 10 scales where 1 is the most important and 10 is the least important.

Q.1 Do you think that Nepalese tax system has poor performance?

(a) Yes.

(b) No

Q.2 If yes, what are the major reasons of being poor performance in Nepalese tax system?

(Please rank 1-10, according to the priority)

S.N.	Major Reasons	Ranking
1.	Lack of incentives for maintenance of Accounts.	
2.	Lack of meaningful tax payer information.	
3.	Defective assessment procedures.	
4.	Complicated collection procedures.	
5.	Failure of public sector enterprises to pay the tax.	
6.	Tax concession granted to industries located at remote area.	
7.	Lack of tax payer education.	
8.	Lack of research in tax matters.	
9.	Problem of evasion and avoidance.	
10.	Others (if any, please specify)	

Q.3 Do you think that income tax as acting discouragement for earning higher income?

- (a) Yes (b) No

Q.4 Do you think that income tax has been played an effective role in reducing the gap between rich and poor?

- (a) Highly effective (b) Fairly effective (c) Not effective

Q.5 If it is not effective, what may be the probable reasons not supporting to reduce gap between rich and poor?

(Please rank 1-10, according to the priority)

S.N.	Major Reasons	Ranking
1.	Wide spread evasion of taxes.	
2.	Small number of tax payers.	
3.	Inefficient instrument for reducing the gap by income tax.	
4.	Poor taxpaying capacity.	
5.	Lack of tax consciousness.	
6.	Defective government expenditure programs.	
7.	Defective tax rate.	
8.	Poor administration.	
9.	Decreasing purchasing power of people.	
10.	Other (if any please specify)	

Q.6 Do you think that tax administration in Nepal is efficient?

- (a) Yes (b) No

If no, please rank from following reasons scaling those from 1 to 10.

S.N.	Major Reasons	Ranking
1.	Lack of trained and competent staff.	
2.	Completed tax laws.	
3.	Lack of information.	
4.	Unnecessary outside pressures.	
5.	Undue delay is making assessments.	
6.	Lack of coordination within the tax department.	
7.	Lack of motivation in tax personnel.	
8.	Defective procedures.	
9.	Defective organizational arrangements.	
10.	Others (if any, please specify)	

Q.7 Do you think that tax officers has excess power in Nepal?

- (a) Yes (b) No

Q.8 Do you think that tax payer have adequate administration and legal opportunities for addressing their grievances?

- (a) Yes (b) No

Q.9 In your opinion, what may be the guidelines for the improvement of tax administration in Nepal?

Please rank from following guidelines scaling those from 1 to 10.

S.N.	Guidelines	Ranking
1.	Proper training to tax officers.	
2.	Better coordination with custom office, banks, registration office and others.	
3.	Better tax information system.	
4.	Better public relation by tax office.	
5.	Simple tax policies.	
6.	Realistic tax policies.	
7.	Simple tax procedures.	
8.	Educating tax	
9.	Motivating tax personnel.	
10.	Other (if any please specify)	

Q.10 In your opinion is there any difference between the system of tax administration with its special reference to its collection before and after restoration of democracy at 2046.

- (a) Yes (b) No

Q.11 Do you think that implementing income tax act, 2058 has created difficulties and complexities in tax administration?

- (a) Yes (b) No

If yes, please rank from following causes scaling those from 1to5

S.N.	Major Causes	Ranking
1.	Taxpayers and tax administrators have not got orientation before application of Act.	
2.	Many confusion regarding new provisions and procedures.	
3.	Difficult to understand the Act.	
4.	Inclusion of more theoretical aspect than practical aspect.	
5.	Others (If any, please specify.)	