

# CHAPTER – I

## INTRODUCTION

### 1.1 Background of the Study

Now days, the prime concern of every nation of the world is rapid economic development and Nepal is not exception to this ever-containing process. For the economic development, government has huge responsibility toward the people. To fulfill the responsibility of government toward the people, government has to spend a lot of money. The responsibilities may be either for security or health or education or other development activities. Government spends a lot of fund for protection of common people and for the creation of various socio-economic infrastructures. There are three type of expenditure, which incurred by the government i.e.: protection, commercial and public expenditure. If the nation has sufficient fund it will be able to achieve maximum social welfare. For the fulfillment of country's need, government expenditure is increasing day by day.

Government expenditure is increasing because of demand of time, increase in population, social progress, increase in price etc. To meet the growing public expenditure, the government has to manage its fund. It is received from different source. They are external and internal sources.

“External source of fund is foreign grants and loans. Such external sources are uncertain, inconvenient and not good for healthy development if there is heavy dependent on them. It is used for economic development reconstruction, foreign exchange, to recover from crisis condition, for productive use etc.” (Sharam & Luitel; 2002: 526) Because of different weaknesses of external sources the internal sources should be mobilized. Developing countries try to mobilize their internal source to finance necessary fund for regular and development activities. But past experience shows that Nepal has not mobilized its internal resources, which was expected.

Internal source of fund is own source within the nation. Internal source of public fund is important not only for financing necessary fund but also for proper mobilization of external source. Internal source of fund includes both tax and non-tax. Tax sources include the amount, which are compulsory contributed by taxpayers to the government. Non-taxes sources are uncertain and inconvenient because they are imposed as per need of the government. It shows that taxes are the better source of public revenue and it has been taken as the best effective tool for raising the public fund.

Tax is the main source of financing government activities. In every country the part of government revenue is raised through taxation. Tax may be imposed on a person income, fixed property holding on or the on the services or product used on. Tax is a compulsory contribution imposed by public authority using the right given by law. Taxpayer does not expect any return for his tax paying. It is neither an exact amount nor a penalty for any legal offence.

Tax may be classified into two types. They are direct and indirect. Direct tax is that tax which is really paid a person on whom it is legally imposed. These are the direct tax: income tax, property tax, interest tax, gift tax, death tax, vehicle tax etc. indirect tax is that tax which is imposed on one person but paid or wholly by another. These are the indirect tax: sales tax, entertainment tax, passenger tax, hotel tax, export and import duty, excise duties, VAT etc.

To effectively collect the tax, the municipality handles the local tax collection. As the research focuses on the Lalitpur sub-metropolitan only, the local tax collection of Lalitpur will be analysed. Lalitpur sub-metropolitan collects Land and House Registration Tax (Malpot), House and Compound Tax, House and Land Rent Tax, Advertisement tax, Entertainment tax, vehicle tax, business tax and other.

## **1.2 Statement of the Problem**

In Nepal around 0.6 percent of the total population pay the tax. Past experience shows that there is poor tax paying habit in Nepalese people and such habit is also not satisfactory in Lalitpur. There are various problem about tax administration like, proper record about the number of tax payer, defective selection of personnel, lack of training and education to tax payers and tax officer, undue delay in making assessment, lack of responsibilities of officials on their work, experience of corruption, lack of motivation to tax personnel etc. because of the inefficiency of the administration and increasing corruption, people have no faith in the work of government and its organization.

By effective implementation of tax law, government can increase the portion of direct tax to the total revenue. For the effective implementation of tax law of the nation, the tax collection should be effective from each locality. Hence, local tax is viable for the further development of the tax system of the country. There are various problems of in local tax collection; especially this study has been carried out to answer the following questions:

- ) How much does the local tax contribute on the total revenue of Lalitpur and the revenue of Nepal?
- ) Is the Lalitpur effective to collect local tax?
- ) In which trend is the local tax collection of Lalitpur going on?
- ) What are the major problems on local tax collection?

## **1.3 Objectives of the Study**

The main objective of the study is to analyze the contribution of local tax in total revenue of Lalitpur sub-metropolitan. Hence, the following specific objectives have been set for the study.

- ) To study the contribution of local tax to total revenue of Lalitpur sub-metropolitan city.
- ) To analyze the trend of local tax on Lalitpur sub-metropolitan city.
- ) To know difficulties in the process of assessing and collecting local tax from Lalitpur-submetropolitan city.

- ) To draw conclusion and provides suggestions to the mentioned objective.

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

This study will attempt to cover the major constituents of local tax collection system in Lalitpur. It aims to find out the problems in tax collection and predicts the future value of local tax on the basis of past. Further the study mainly focuses on the contribution of local tax on total revenue.

The study will be significant for the tax administration in effectively collecting tax, making future plan and policies on the basis of trend value collected. The study will also be more significant to the Tax Expert for further analysis and will be equally important to the tax payer to know the local tax that the sub-metropolitan has collected and its contribution to the total revenue.

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

Every research study is limited by the various reasons. Similarly, this research study also has certain limitations: such as limitation of the time period, area of the study, lack of sufficient relevant data and morality of respondents and also so on. Its main limitations are summarized below:

- a. This study will attempt to analyze the contribution of local tax on total revenue of Lalitpur Sub-metropolitan city only and does not cover the other aspect of tax system.
- b. This reliability of the secondary data highly depends on the accuracy of the of the data provided by Lalitpur sub-metropolitan.
- c. Similarly, primary data fully depends upon the opinion of respondents.
- d. The study covers only five years ranging from fiscal year 2003/04 to 2007/08.

## **1.6 Organization of the Study**

The entire study has been organized into five main chapters as:

Chapter I	:	Introduction
Chapter II	:	Review of Literature
Chapter III	:	Research Methodology
Chapter IV	:	Data Presentation and Analysis
Chapter V	:	Summary, Conclusion and Recommendations

The first chapter deals with background of the study, statement of problem, objective of the study, significance of the study and limitations of the study.

The second chapter deals with conceptual framework including the fundamental concept tax and local tax. It also includes the brief review of previous research work.

The third chapter deals with the research methodology which has been followed to achieve the purposes of the study. It consists of research design, the period covered, nature and sources of data, tools to be used, research variable etc.

The fourth chapter deals with presentation and analysis of data. It gives a clear picture of how the collected data has been presented on the study and how it has been analyzed.

And at last, the fifth chapter shows the summary of whole study, conclusion drawn and recommendations given. This ends the study paper.

Besides these chapters, Bibliography and Appendix are included in this research paper.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

Every possible effort has been made to grasp knowledge and information that are available from libraries, document collection centers, magazines and concerned revenue offices. Reviewing and studying process have helped to take adequate feedback to broaden the information base and input to thesis entitled “Contribution of Local Tax on Total Revenue of Lalitpur sub-metropolitan city”.

In the course of writing the thesis relating to local tax Nepal, the researcher reviewed and studied different related literature.

#### **2.1 Conceptual Framework**

##### **2.1.1 Origin of Taxation**

The history of taxation dates back to antiquity. In early days taxes were not collected in monetary terms but were collected by tribal rules, community heads etc, for communal service and at time of emergencies.

In Hindu tax system, tax was levied on the basis of welfare of the people and people were eager to pay tax because not to pay tax was taken as a great sin. According to Hindu Holy Scripture; Vedas, the duty of king was to serve and secure people, maintain peace and carry out social works. In order to perform all those activities, the king used to collect crops and cattle from farmers, gold, silver and copper from traders. These ancient form of taxation were expanded from time to time under the influence of various economic, political and ethical forces.

In the early Roman Society, the citizen had to pay taxation even for the polling rights. “Ancient Athens used to derive its revenue from taxes like customs, sales and pole tax on alien and slaves. One who was taxed and fails to pay was guilty of capital offences”. After the end of public war in 146 B.C, they were

reveled from the poll tax. They started to levy tax on the people of the captured areas instead of their citizens. At the time of Julius Cease, one percentage sales tax imposed to the people and he was the ruler who started to collect taxes through government institutions.

Kautilya's "Arthasastra" of the fourth century B.C. has classified the tax receipt into three types. (Loknath; 1988: 28)

- ) Income earned through taxes on goods produced within the country.
- ) Income earned through taxes on goods produced in the capital.
- ) Income earned through taxes on imports and exports.

Land revenue was an important source of taxation in ancient India. Kautilya mentioned, "the tax system should be such as not prove a great burden on the public (Prajā), the king should act like the bee which collects honey without inconveniencing the plant" (Garola: 1986: 48). His economic thought was guided by social welfare concept. He suggested heavy taxation for luxuries and other articles, which were not in favor of public welfare. Kautilya classified the main items of public expenditure, which are as follows:

- i. National Defense
- ii. Public Administration
- iii. Salaries of ministers and expenditure on government department and
- iv. Expenditure on maintenance of armies.

### **2.1.2 Taxation in Ancient Nepal**

"In ancient Nepal, tax was collected in the form of kinds, cash and labour service. In the Lichhavi period, the main source of revenue was tax. At that time taxes were known as "Trikar" which means three kinds of taxes. The three taxes were "Bhaga", "Bhoga", and "Kara". The Bhaga tax was levied on agriculture, the Kara tax was on business income and Bhaga was on animals. Irrigation tax and religious monumental preservation taxes also existed at the time of king Ansubarma of Nepal" (Agrawal; 1978: 75). Fixed portion of

agricultural product were payable to the king as tax. Compulsory labour work from all artisan and labours were also common way of paying taxes.

### **2.1.3 Taxation in Unified Nepal (1769 – 1846)**

During the following unified period, land tenure system was divided into five main forms: Raikay, Birta, Gouthi, Sera and Kikat. (Regmi; 1971: 56)

The major sources of revenue were; Birta and Kipat taxes on land, royal palace levies like walak, Gadimubarak, Chumawan, Godan, Government levies like Darsan Bheti, Salami, Local levies on forest and water source, commercial taxes like customs, transits and market duties, mines and mints, exports of forest products like wildlife, herbs, drugs, wax, birds, elephants, and judicial fines. Maximization of revenue was the prime objectives of the fiscal policy during the period. Taxes were collected at three levels. Royal's palace levies, government levies and local levies.

'Walak' was collected from each family on a regular basis and period of national celebration or festive or ceremonial occasion. 'Godimubarak' was collected to finance for coronation ceremony of a new king. Chuman and Goddhawa were collected to finance and sacred thread investiture and a marriage ceremony of royal princes and princesses. 'Godan' was levied to finance funeral expenses when a reigning king died. Darshan Bhet was collected from both civil and military employees at the time of their appointment and confirmation. 'Salami' was collected from local revenue collection functionaries in the terai region as an annual payment.

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



person who did not pay pota. Only common people who lived on Raikar lands paid the homestead taxes and other pota levies. There was not taxation of income in the modern sense of income.

#### **2.1.4 Taxation in Rana Nepal (1846 – 1950)**

During the period of Rana regime, there was on any hard and fast rule relating to taxation. However, the main aim of the rulers was to earn as much as they could by taxing people. Income and expenditure of the state were not transparent. No budget was framed at the time. There was no difference between the income of the state and the income of the prime minister. Taxes were levied according to the will of the rulers.

There were three traditional sources under which the state was able to acquire goods and utilize manpower without using money as a means of exchange.

- ) Mineral resources belonged to the state.
- ) The state paid emolument to its employee and functionaries party or village tax rather than assignment of “Jagir” of taxable land and village tax rather than through payment in cash and
- ) The “Jhara” system entitled the nineteenth century in Nepal state to exact porter age other labour service from its subject without paying wages.

There were four main categories of agencies which collected revenues; Rajya, Birta, Guthi and Kipat. The royal family traditionally acquired income from special levies such as Darshan bhet, Tika Bhet and Fattemubarak. ‘Tika bhet’ was collected on the occasion of the Vijay Dashami festival. ‘Fattemubarak’ was collected at the time of Indrajatra festival, commemorating Prithvi Narayan Shah’s conquest of Lalitpur in September 1768. Other three levies known as Chumawan. Godimubarak and Goddwala were collected on a country basis on special royal occasions. Soune and fagu were the most

important levies that were collected for meeting festive, ceremonial or extraordinary expenses at the royal palace. Main source of state revenue were:

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

**Receipts from the sectors:** The government got revenue from the state ownership of natural resources mainly agricultural lands, mines and forests.

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

**Kausi Tosakhana** had been established after political unification. Its main functions were to receive and disburse revenues, obtain, store and issue supplies required by the government and perform other general function related to fiscal administration. In the Rana regime, Jung Bahadur created new development treasury known as Sadar Mulukikhana to receive and account for government revenue.

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

1951. The Rana rules did not think of developing an effective revenue administration system.

### **2.1.5 Income Tax in Modern Nepal**

It was the first income tax act in Nepal. It had 22 sections. The main features of act were as follows:

- ) The source of income for tax purpose was limited only to business profit and remuneration thus, the coverage of income tax was too narrow.
- ) Tax on remuneration was to deduct at source but the specified deduction was not provided.
- ) Salary of any diplomatic representative, foreign citizen, dividend of shareholders; profit to be spent on religious or public welfare activity, profit of local autonomous organization, allowances granted by HMG to ministers, assistant ministers, speakers, deputy speakers, chairman, government chief and leaders of saving fund were exempted from tax.
- ) The basis for calculating the tax liability for remuneration was the income of the current year whereas for business profits, it was the profits of the preceding fiscal year.
- ) There was a provision of official assessment based on best judgment estimation in case of false statement or in absence of income tax return.
- ) In case of defaults the fines ranged Rs. 500 to Rs. 5000 and for information's; there was a provision of 20% of total realized if the information had been proved.
- ) The taxpayer had a right to appeal against the tax officer's assessment with the local 'Bada Hakim' or 'Magistrate'. If he had not satisfied with the decision, he could appeal to the "revenue and tax court" after depositing fixed amount.

Profit from large industries was granted a rebate of 25% and profits from small industries were granted a rebate of 50%. Thus in the beginning, the government servants were the main taxpayer.

### **2.1.6 Income Tax Act 2019**

This act had defined a wider base for income tax than the former income tax act. This act had 29 sections, it was amended in 2029 the additional features of act were as follows:

- Income was defined as all kind of income including from business, salaries, any professions, rent from houses or land, investments in cash or kind. Agriculture, insurance, agencies and any other sources.
- There was additional provision of exemption to income of nagar panchayat, village panchyat, public organization, income of Nepal Rastra Bank, deposits of employees saving from salaries, any income notified in the Nepal gazette.
- There awes special provision for newly opened industry in which the HMG might wholly exempt tax for ten years and 25%examption after ten years.
- In Agriculture income, only  $\frac{1}{4}$  of the total income was taken as net earning and remaining  $\frac{3}{4}$  of the total income as expenditure. While in case of net earning from rent of house and land, from investments and from professions 90% of total income was taken as net earning and 10% expenditure.

### **2.1.7 Income Tax Act 2031**

The Income Tax Act 2031 had 66 sections. Its basic framework had been derived from the Income Act 2019. Some of the silent features of act as amended are as follows:

- ) It had clarified certain definitions specially relating to tax. Taxpayer taxable income. Gross income, personal status of the taxpayers and non-residential taxpayer's assessment of tax, philanthropic work, non-resident etc.
- ) Source of income were classified into five categories:
  - i. Agriculture
  - ii. Industry, trade, profession or occupation

- iii. Remuneration
- iv. House rent and compound rent and
- v. Other.

- ) This act had made provision for self-assessment of tax for the first time and if any mistake arises or lower tax was assessed, tax officer might makes final assessment.
- ) The punishment provisions were specified in different headings i.e. failure to submit particulars of income, false particulars not maintaining the accounts, obstructions and others.
- ) The taxpayer had to register their industry, business profession or vocation in tax office before starting the work.
- ) Carry forward of loss was allowed for subsequent three years.
- ) The process of assessment, reassessment, advance payment of tax deduction tax and at source and refund of tax had been specified.
- ) The punishment limit to persons for violating laws and regulations was up to Rs. 10,000.

### **2.1.8 Income Tax Act 2058**

Income Tax Act 2058 is implemented from 19/12/058 B.S. This act replaces the Income Tax Act 2031, and other act related to income tax. There are various additional provisions in the new tax act.

- ) Income Tax Act 2031 had classified income tax into five heading where as this act divides only into three headings.
- ) When Income Tax Act 2031 was in practice, there were several exemptions and deductions provided by the act and other related acts. But now, there are not more exemptions and deductions except the once provided for by act.
- ) Subject to this new act, income is defined as “a person income from any employment, business and investment in accordance with this act”. It includes all kinds of income received for the provision of labour or capital or both in whatever form or nature in the taxable income.

- J The act has given the option for husband and wife as a separate natural individual until they don't accept as a couple.
- J A resident person may claim a foreign tax credit for any foreign income tax paid by the person to the extent to which it is paid with respect to the person assessable income for that year.
- J This act has determined the rate of income tax itself for the first time, which used to be determined by the finance acts in the previous years.
- J For the purpose of calculating a person's income or investment, there are provisions of deduction related overhead costs.
- J A person has defined as a resident whose place of abode is in Nepal and who presents in Nepal at any time or who presents Nepal for 183 days or more within the income year, or who is an employee of HMG posted aboard during the income year.
- J According to this act, a company is liable to tax separately from its shareholders. The bonus share, loans and advances to directors and shareholder, distribution made on liquidation etc, are also brought under the tax net in order to plug loopholes for avoidance.
- J The act has adopted a pooled system of depreciation in which assets are broadly classified into five categories. The depreciation rates are 5%, 25%, 20% for A, B, C and D respectively which are based on diminishing balance method of depreciation and for class E, the rate is based on straight line method.
- J The act has introduced the concept of medical tax credit under which resident individuals may claim a medical credit of 15% of the amount of approved medical costs.
- J Presumptive tax is limited to the small taxpayers whose annual net income is up to Rs. 100000 or annual turnover is up to Rs. One million and are subject to flat annual taxes.
- J This act has introduced the concept of administrative review to correct the administrative mistakes. The Inland Revenue department should give its decision within 90 days of the submission of objection and if

the department does not give its decision within the given time limit, the taxpayers can appeal to the revenue tribunal.

- ) According to this act, the Inland Revenue department is responsible for the implementation and administration of this act.

### **2.1.9 Property Tax in Nepal**

“The history of property tax in Nepal is not so long. Finance act 2016 had empowered the government to levy property tax. Property tax act 2017 was enacted to collect tax from property. Urban house and land & foreign investment were taxed at the same rates under property tax act 2017. Under the provision of property tax act, NG/Nepal framed property tax act 2019 was enforced and subsequently, house and land tax rules 2020 was then enacted which repeated the existing property tax act, 2017. Earlier central government of local self-governance act, 2055 local bodies (i.e. VDCs and Municipalities) impose property taxes within their boundary. Currently house and land tax act 2019 property tax act 2047 and local self governance act 2055 have been implemented in the collection of property tax. Local bodies are levying property taxes under local self-governance act and rules.” (Thapa; 2001: 14)

#### **2.1.9.1 Collection, Realization and Refund of Tax**

##### **A) Collection of Tax**

“Local self-governance act 2055 has empowered VDC municipality and DDC to levy taxes. The VDC’s and municipality in the form of land revenue, land, tax house and land tax, integrated property tax and vehicle tax levy the property taxes.

Since the integrated property tax and vehicle tax are not inclusively practiced in some municipalities, tax collection and realization with respect to the house and land tax and revenue or land tax are discussed hereunder.” (Khandka; 2005: 45)

In the case of village Development Committee(VDC)

“According to section 55 of Local self Governance act 2005, the VDC may levy the property taxes as follows in its area at the rate approved by the village council, not exceeding the prescribed rate:

- ❖ House and Land tax: On the basis of size, type, design and structure of the house within the area of VDC, it may impose annual house and land tax on each house and compound.
- ❖ Land revenue (Malpot) or land tax: The VDC may levy land revenue or land tax on the land within its area. However 25% or revenue collected from land revenue or land tax has to be handed over to the District development Committee (DDC).” (Khandka; 2005: 47)

#### In the case of Municipality

According to section 136 and 140 of Local Self-Governance act 2055, the municipalities levy the following property taxes within jurisdictions:

- ❖ House and Land Tax: On the basis of size, type, design and stricture of the house, the municipality may levy annual house and land tax on each house and compound as approved by the municipal council.
- ❖ Land Revenue or Land Tax: The municipality may impose land revenue and land tax as prescribed on the land within the municipal area.
- ❖ Integrated Property Tax: The municipality may levy an integrated property tax within its jurisdiction at the prescribed rate.

According to rule 140 of self local governance regulation 2056 the maximum and minimum limits of the rate of land revenue and of house and land tax that may be levied by a municipality within its area shall be as prescribed in annex-8 of the regulation. As per rule 144, the minimum and maximum rates of the integrated property tax that may be levied by a municipality within its area shall be as prescribed in annex-12 of the regulation.

#### B) Recovery of Tax



According to section 71 and 166, the fine and punishment imposed by the village development committee or by municipality are recovered by section 260. According to this process, if any person does not pay any tax, duty or charge levied or contracted or any other amount due and payable to the local body, the district administration office recovers it as government dues.

#### C) Refund of Tax

According to section 147 of LSG act 2055, the municipality is not entitled to collect any kinds of taxes contrary to the act or the rules. If the municipality collects such taxes, Nepal's government may order to stop such collection and to refund the amount of taxes so collected to the connected person.

### **2.1.9.2 Penalties, Actions and Appeals**

#### A) Penalties and Actions

“Section 70 and 165 of Local self governance act 2055 has made the provisions for fine and penalties if anyone does not pay any taxes, fees, charges, duties, tariffs and any other amount due and payable under the act, the VDC and Municipality penalize the person.” (Joshi; 2007: 78)

#### In the case of VDC

According to section 70.2 of local self governance act, if any person does not pay the taxes imposed or levied by the village development committee, it may punish such person with a fine of up a Rs. 500 and may stop the service made available by the village development committee in regard to such person.

As per section 70.3 of the act, in case, any person commits any act in contravention of the act, of the rules, Bye-laws or orders made under the act, such person shall be punished with punishment, if any prescribed elsewhere in the act; and if punishment is not so prescribed the village development committee may punish such person with two-fold punishment for each instance.

#### In the case of Municipality

- a. According to section 165.2 if any one does not pay the taxes imposed by the Municipality, it may take the following actions.
  - ❖ If anyone does not pay the taxes, which may be collected under the act, the municipality may write to the concerned body to stop the transfer of ownership of the movable/immovable property of such person, may seal or lock up the trade, profession, and withhold the transactions including export and import.
  - ❖ If the amount which the municipality is entitled to collect under the act, could not be covered up even from the stoppage of the house, land, transaction or assets of the concerned person, the municipality may recover it by auctioning the person house, land or other assets, if any.
- b. According to section 165.5 if any one does not pay any taxes under the act, the municipality may stop the service provided by it, in regard to such person.
- c. If any one commits any action in contravention of the act or the rule bye-laws or orders made under the act, such person is punished with punishment, if any prescribed elsewhere in the act, and if punishment is not so prescribed the municipality may punish such a person with fine of up to Rs.1000 (section 165.5)
- d. As per section 165.5 if any who has already been punished under this section commits the same offence again. The municipality may punish such person with two-fold punishment for each instance.

## B) Appeals

In case any property holder is not satisfied with a punishment imposed by VDC or municipality the local self-governance act 2055 has made provisions of appeal against such punishment.

As per section 70.5, any party who is not satisfied with the punishment imposed by the village development committee may appeal to the concerned district court within 35 days from the date of knowledge of such decision.

Similarly, according to section 165.7 any party who is not satisfied with the punishment imposed by the municipality may appeal to the concerned district court within 35 days of the knowledge of such a decision.

### **2.1.9.3 Current provisions of House and Land Tax**

“The current provisions of house and land tax in Kathmandu Metropolitan city and Lalitpur sub-metropolitan city are as follows:” (Paudel; 2007: 142)

#### **A) Necessary Documents and Duties for Submitting Required Documents**

Following documents are required to submit house and land tax return in Kathmandu Metropolitan City and Lalitpur Sub-Metropolitan City:

- a) If any person has various land and houses in the Metropolitan area, statement should be submitted to related ward office of each land and houses.
- b) If any couple has separate land and house ownership, statement should be submitted jointly.
- c) If there are more than one own, statement should be submitted in the name of any one owner.
- d) People having liability to pay house and land property tax should submit the return as per act.
- e) If there is any increase/decrease in house and land property. It should be reported to the ward office.
- f) Calculated tax as per submitted statement should be deposited in bank account of within 35 days.
- g) The necessary document are:
  - i) Copy of land ownership certificate-1
  - ii) Copy of approval of house map-1
  - iii) Copy of approval of new flat map if any-1
  - iv) Field inspection report by technician for house constructed without approval before provision of Metropolitan system-1
  - v) Copy of tax receipt if any submitted to tax office-1

h) Tax officer holds right for following action if required:

- Necessary examinations and review of statements by tax payer by issuing notice for filling and taking interview.
- Field inspection

## B) Process of Tax Assessment

Process of tax assessment covers the process as follows:

- a) Necessary documents should be registered in house and land tax book,
- b) House valuation is done on the basis of size of house, area of land and depreciation rate,
- c) Different types of houses should be valued in different ways,
- d) Tax assessment is done on the basis of house and land valuation,
- e) After paying house and land tax, tax clearance certificate should be issued and keep the records,
- f) If owners are multiple persons, tax assessment should be done in the name of multiple owners like flat owners.

## C) Things to be considerer in Process of Tax Assessment:

Things to be considered in process of tax assessment are as follows:

- a) Finding out actual valuation by total area of house,
- b) Find taxable value on the basis of depreciation, types of house, total valuation, year and rate,
- c) If approval is not taken during house construction, she/he should deposit Rs.10 per sq.ft.
- d) Name and types of road should be defined in the map.
- e) Finding out the area of land in ropani/ hecter.
- f) Actual valuations are done on the basis of types of road.

## D) Mistake corrections in the process of Assessment

The processes for mistake corrections are as follows:

- a) If the tax payer complains about tax and valuation of house and land within two years, tax officer can again determine the tax and valuation
- b) The administration should provide chance of revision amount house and land tax if necessary.

#### D) Rebate on Tax payers in Kathmandu Metropolitan City

Rebate for tax payers are as follows:

1. 10% discount for paying tax before last of Shrawan.
2. No penalty for paying tax till Ashwin last.

#### E) Penalty System of House and Land Tax

Penalties provisions are as follows:

- If any person submits false document invoices or wrong documents till Ashwin or every year, the penalty is Rs.5000.
- If a person does not follow directions of tax officer penalty is Rs. 500.
- If any person does not follow rules and regulations regarding paying tax the penalty is Rs.1000.
- If tax is not deposited within 35 days 15% additional amount per annum shall be charged on assessed taxes.

## **2.2 Review of Related Studies**

For the preparation of this research study, books dissertation articles and reports had been reviewed they are as follows:

### **2.2.1 Review of Books**

First of all Marhatta and Khatiwada (1970) in this book named “Fundamental of Nepalese Income Tax With up to data Financial Directives and Regulation” has been reviewed. They have described the legal provisions relating to income tax and practical aspects. They have described Income Tax Act 2020. This Act

was not so beneficial because of changing in tax law. They fully based on campus level syllabus.

Poudyal and Timilsina (1990) in their book named Income Tax in Nepal described the theoretical and practical aspect of Income Tax. They were based on TU syllabus. They were unable to describe the tax structure of Nepal and the problems of income tax system.

Pradhananga (1993) had explained the provisions and law related to income taxation in Nepal. His book is informative rather than analytical. He has described method of income tax assessment with numerical examples but had not analyzed the major problems and defects of income tax and the role of income tax.

Tiwari (1993) had explained legal provision regarding income tax system in Nepal. He had described the process, provisions and methods to assess income tax with numerical examples. His book is based on TU syllabus. He had not shown the role of income tax in economic development and problem of income tax system.

Ojha (1993) had shown the various act and law of income tax in his book to describe the various act and law; he had taken many tax cases. This book may be beneficial to understand income tax laws. But he had not analyzed the problem of income tax and role of income tax.

Khadka (1994) had shown VAT as a long term tax for Nepal, economic policy of Nepal, income tax and composition tax revenue from 1950/50 to 1991/92 in his book named “Nepalese taxation: Path for Reform”.

In this book, he had described the introduction, development, exiting structure, main problems and possible direction of reform. He had identification of major problems were weak tax administration, imbalance and inadequate

organizational pattern, lack of adequate information system, lack of coherent tax policy and inadequate physical and other facilities.

Although he had mentioned the legal provision of income tax, his book is very useful in various aspects of income tax.

Dhakal (2001) had presented his enlarged and modified edition of his including VAT. This book was prescribed by TU syllabus of BBS and MBS. He had described the legal provision relating to income tax with numerical examples. His book was informative rather than analytical. He had not analyzed the role of income tax, tax structure and problem weakness of income tax.

Mallik (2003) has described the legal provision relating to income tax. He has also described historical prospects, weakness of Income Tax Act 2031, some practical problem and different section of Income Tax Act 2058. His book is important to get knowledge about Income Tax Act 2058. He has presented various section of Income Tax Act 2058 with example.

Although he has presented the new Income Tax Act 2058 with some numerical examples, he did not mention the role of income tax, tax structure; he has not taken any empirical investigation.

Kandel (2003) in book "Tax Law and Tax Planning in Nepal", which is based on government regulation and therefore, is a very timely work and extremely helpful for the students of Master of Business Studies.

This second edition has attached unofficial translation of the tax laws both acts and rules related to value added tax and income tax as appendices. But, he had not analyzed the role of income tax, tax structure and problem of income tax.

Bhattarai and Koirala (2004) in their book "Tax Law and Tax Planning" described the theoretical and practical aspect of income tax with related

provisions. It was based on TU syllabus. They were unable to describe the tax structure of Nepal and problems of income tax system.

### **2.2.2 Review of Thesis**

Shrestha (1967) had tried to give some general ideas about tax relating to historical background and some problem existing in income tax system of Nepal in his dissertation. He had described the various provision of income tax. But it is not helpful to get knowledge about income tax at present.

Pandey (1978) had described the brief review of Nepalese economy, resource mobilization structure of income tax, role of income tax, problem of income taxation in Nepal. He had given more emphasized on tax structure of Nepal. His finding was that income tax played a significant role in economic development of Nepal. He also described the problem of income tax in Nepal. The problems were lack of record keeping, lack of maintaining account by taxpayer, lack of responsibility and honesty of tax offices, lack of co-ordination between various tax department and revenue department. Among them, some problems are relevant at present also.

Although he had explained various aspects of income tax in Nepal, he had not mentioned the legal provision relating to income tax and empirical investigation.

Tuladhar (1979) had shown the trends of revenue from income tax, per capital burden of income tax, and tax as present of GDP etc. He had shown the growing resource gap problem in the Nepalese fiscal system. He had also described the role of income tax in the mobilization of domestic resources for the economic development. To show the increasing trend of income tax except the year 1977/78 he had used elasticity and buoyancy test. To calculated elasticity and buoyancy of income tax he had used a formula i.e.  $\log y_t = \log a + ut$ . He had also shown the legal aspect and problem of income tax in his dissertation. But he had not shown other aspect like administration, evasion etc.



Shrestha (1981) had basically, concerned with origin, definition, concept, historical background, role, objective and structure of income tax. She had also described per capital burden of income tax in Nepal and the major problem existing in Nepalese income tax system. She also found that the evasion of tax is a serious problem of tax. The reasons of tax evasion were low tax paying capacity of Nepalese people, high tax rate, corruption, lack of system of heavy punishment, widespread illegal business activities etc. she found that the tax administration is not efficient.

Although she had given various useful suggestion about the income tax like; scientific method should be applied for the collection of tax, administration should be made efficient, income tax law should be simple and easy, tax base should be broader etc. she had not mentioned the legal provision relating to income tax empirical investigation.

Suwal (1981) has described the concept of income tax, objective of income tax, importance of income tax, role of income tax for the economic development, structure of income tax, problems of income tax etc. His finding, in his dissertation, about the main reason tax evasion were lack of tax consciousness of Nepalese people, open boarder, absence of a clear and comprehensive definition of income, wide spread illegal business activities, high tax rate, corruption etc. His finding about problem of income tax in Nepal was: lack of accounts and records of taxpayers, lack of responsibility and honesty among the tax officers, delays in tax administration etc.

Although he had explained various aspect of income system of Nepal, he had not mentioned the legal provision relating to income tax and had not conducted any empirical investigation.

Nepal (1983) had emphasized on fiscal system of Nepal, origin, meaning, existing position, role, problem and future prospective of the income tax in

Nepal. She identified the various problem in Nepalese income tax system were; inefficient income tax administration, mass poverty, lack of tax consciousness, assessment efficiency, lack of tax education etc.

She had conducted an opinion survey to fulfill her study. Although her finding and suggestion were usable, she had not mentioned the legal provision relating to income tax.

Shrestha (1985) had explained the structure and estimate the responsibilities of income taxation in Nepal. He had suggested for minimum interference of government and for the control of tax evasion and avoidance of taxation an effort should be made. He also emphasized on least taxation. His study is not so believable for the study about income tax he shows the contribution of individual sector is on third position but fact and figure shows that individual sector occupies the first rank in income tax structure.

Regmi (1986) had described the conceptual framework of income tax, structure of income tax, income tax and resource mobilization, problem of income tax etc. He had more concerned on the study of tax structure i.e. share of indirect tax and share of direct tax of total tax revenue. He had noticed the problem of income tax which was assessment delays; tax evasion and lack of maintain the record of taxpayers, lack of responsibility and honesty among the tax officer, corruption lack of coordination between various revenue and non-revenue department, leakage in personnel income tax collection etc.

His suggestion about income tax were: income tax should be clear, application of scientific assessment method, simple and procedure of tax payment, honest and efficient staff, tax holiday to new industry, co-ordination between staff and department etc. although his suggestion were useful, he had not mentioned, legal provision relating to income tax any numerical example, provision of fine and penalties.

Siwakoti (1987) had shown the role of income tax, tax structure of Nepal, legal aspect of Income Tax Act 2031, problem of income tax administration in Nepal etc. He found that the role of income tax were for economic growth equitable distribution and stabilization growth. He had noticed that the problem of income tax were, defective personnel management, lack of public information, delay in tax assessment, lack of up to date role of existing as well as potential taxpayers, etc.

He had identified that the major problem of ITA 031. they were complicated language ,highly use of best judgment assessment method for the assessment of tax, no compulsion t maintain books of account, ineffective use of fines and penalties ,no compulsion of auditing of account of all types of business, assessment delays, silence about scientific research ,lack of weighed deduction, no provision of any kind of allowance ,no provision about illegal business etc.

He emphasized more on legal provision relating to income tax .he also described fine and penalties. He also suggested that the penalties should be imposed to taxpayer who dose not maintain accounts. He had not used any numerical examples nor had he conducted any empirical investigation.

Baral (1989) had described the contribution of income tax the structure of government revenue in Nepal. She had found that the share of income tax to total government revenue was increasing. She also had identified the reason of tax evasion which were, lack of clear and comprehensive definition of income, lack of efficient tax administration, lack of punishment to tax paying capacity and the consciousness among the taxpayers was low, lack of scientific method of tax collection etc.

Agrawal (1980) had described the resource mobilization through income tax, fiscal policy, and role of income tax, legal provision relating to income tax, legal aspects of income tax, and administration aspect of income tax etc. he had shown per capita income, buoyancy coefficient of income tax etc by calculation.

He had identified the major problem in income tax system, which is inefficient of tax administration and tax evasion. He found that, there were no integrated programs for taxpayers' education, assistance, guidance and counseling. About the major problem of tax administration, he found corruption, unfair dealing, harassment and incompetent personal etc.

He had taken empirical investigation about various field of income tax. About the fines and penalties, fifty percent think that there should be heavy penalty for non-maintaining accounts amount total respondents. He had suggested heavy penalty should be imposed.

This study is a comprehensive and included various aspects of tax system of that period, but all things mentioned in it are fully relevant today. Some of the problem identified in it is still in existence.

Ghimire (1993) had described the classification of tax, base of income or expenditure tax, base of tax in Nepal, procedure of computing net income, weakness of tradition accounting system, classification of tax rate, index of income tax in Nepal, contribution of tax income to national revenue, errors of past provision, some steps of administrative improvement etc. he found that the tax covered vary low portion of total revenues because of no taxation in agricultural income, narrow base of income of retail business, high exemption limit on remuneration income etc. He had also noticed some errors of provision relating to income tax. They were, progressive tax had not played an effective role for equal distribution of income, unproductive tax concession holiday and rebate, provision of low additional fee as compare to market interest rate etc. He also suggested some step of administration improvement. They were: provision of income assessment committee, flat rate of tax to small taxpayers, establishment of tax office etc.

Although she had suggested that the tax administration should be honest and efficient, tax evaders should be punished, a research unit should be established, corruption should be stopped, scientific methods should be used in tax collection etc. She had not identified the major problem of the income tax system, had not mentioned the legal provision relating to income tax and numerical examples.

Bhandari (1994) concentrated mainly on the contribution of income tax to public revenue. He noticed that the actual collection of revenue through income tax is lower than its estimated targets because of the poor tax paying habit of Nepalese taxpayers, poor tax administrative system, widespread evasion of income tax and so on. His study had been conducted with the purpose of examining the income tax structure, trend of income tax collection and the above problem and to make suggestions to solve this problem. He had not mentioned the legal provision of income tax and the problem of the income tax system.

Acharya (1994) had described that the structure of income tax, productivity of income tax and the problem of income tax. He examined the three main objectives of income tax, which are as follows:

- i. To reduce inequality of income distribution.
- ii. To collect more government revenue.
- iii. To check inflation

He had also presented some numerical data and diagrams of structure and productivity of income tax. He had not explained the provisions relating to income tax, his study about income tax was not so detailed.

Shabu (1995) had focused on the role and contribution of income tax in the process of economic development. He had found that only 0.35 percent of the population in Nepal comes under the category of taxpayers. He had also observed that in the composition of government revenue of Nepal, income tax comes in the fourth place from the viewpoint of different items contribution. Custom, excise and

sales tax occupied first, second and third place respectively. He had not mentioned the provision relating to income tax.

Pant (1996) had explained the role of income tax in national economy and income tax manager in Nepal. He conducted an empirical investigation of income tax management in Nepal. He found the major problem of income tax in Nepal which were, lack of managerial efficiency, lack of effective personnel management, lack of reward and and punishment system, poor income tax assessment procedure, poor tax information system, lack of taxpayers education, very narrow coverage of income tax etc. He had not mentioned the legal provisions relating to income tax.

Timilsina (1997) had emphasized on tax structure in his study. His finding about the correlation coefficient between Bhajhang district and nation was positive on tax revenue, non-tax revenue and total revenue. He had not mentioned the legal provision relating to income tax, problem of income tax, as well as provision of fine and penalties.

Bhattarai (1997) had explained the history of income tax and corporate income tax, legal provision relating to income tax, administrative aspect of income tax structure and government mechanism. He conducted an opinion survey. He had found that the government policies, act, rules regulation concerned with the corporate income tax were not effective in increasing tax paying habit in Nepal. He found that the major problem of administration was corruption.

His study was fully based on the corporate income tax. He identified the problem of tax administration as a corruption. He had not described the other income tax and other problem and weaknesses of tax system. This study is very useful to know the corporate income tax.

Shrestha (2001) described the conceptual framework and legal provisions, structure of income tax in Nepal, income tax administration in Nepal: an

empirical investigation and problem and prospects of income tax in Nepal. She found that the dominant share of tax revenue in Nepalese government revenue and the contribution of tax revenue showed the decreasing trend.

She found that major problem of Nepalese income tax system were, mass poverty of Nepalese people, lack of consciousness of taxpayers, unscientific tax assessment procedure, widespread evasion and avoidance of income tax, inefficient tax administration, instability in government policy etc.

She had taken sixty people as a sample and conducted empirical investigation about the different aspects of income tax system. She had used the correlation coefficient to prove the hypothesis on the problem of income tax system.

Although she had suggested about the income tax system like, extension of tax coverage, minimizing the problem and weakness of tax administration, tax consciousness to people, she had not taken any investigation about the provision of fine and penalties.

Pradhan (2001) had explained the conceptual framework of public enterprises and the Nepal Telecommunication Corporation, conceptual framework of income tax, contribution of income tax to the public revenue and share of Nepal Telecommunication Corporation to the income tax.

Her suggestion was, about the income tax system, promotion and reward to efficient and honest personnel, motivation to personnel. Tax education to tax payer and officer, strict action to corruption, increase the public participation. Although she had more emphasized on the study of Nepal Telecommunication Corporation, she had not mentioned the legal provision relating to income tax and provision of fine and penalties.

Poudel (2002) had explained the historical prospects, tax structure, elasticity and buoyancy of income tax, role of income tax administration, in her study.

She had more emphasized on income tax structure, contribution of income tax. She found that working procedures were traditional and the cost of administration had not been satisfactory level. Although her findings and suggestions were usable, she has not mentioned the problem of income tax system and provision of fine and penalties.

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

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

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

Gautam (2004) had presented a dissertation entitled, “Contribution of income tax ton national revenue of Nepal.” He has studied the contribution of various taxes in the government revenue, tax revenue, GDP. According to him the contribution of tax revenue in the government revenue is 85.2% in the income year 1982/83 and decreased to 78.0% in the income year 2001/02. Nepalese income tax revenue is the composition of income tax from public enterprises,



semi public enterprises, private corporate bodies, individuals, remuneration and tax on interest. Income tax of Rs. 8903.7 million was collected in 2001/02. Share of individuals to income tax revenue is the highest. Within income tax, there is dominant role of individuals and it is in decreasing trend which was 69.23 percent of income tax revenue in 1982/83 but decreased to 49.63 percent of income tax revenue in 2001/02.

Sapkota (2007) in his thesis entitled, "Income tax in Nepal: Its structure and contribution from public enterprises to government revenue." His findings are that the contribution of income tax from PEs, semi PEs, private corporate bodies, individual's tax, remunerations tax and interest to total income tax are 21.26%, 00.60%, 0.12%, 69.23%, 4.38% and 4.42% of income tax in 2001/02 respectively and each are 19.87%, nil, 15.86%, 49.63%, 9.38% and 5.25% of income tax in 2001/02 respectively.

## CHAPTER – III

### RESEARCH METHODOLOGY

This chapter is devoted to research methodology applied in the study for the achievement-designed objectives.

#### 3.1 Research Design

To achieve the objectives of the study, the opinions of the various thirty respondents associated with distinct denomination i.e. tax administrators, tax experts and taxpayers were collected through structured questionnaire. The questionnaire includes effectiveness of local tax to increase revenue, problems in effectively collecting local tax, appropriate tax rate on property etc. Similarly various information published by organizations about income tax, are used for this study. In this way the research design of this study are descriptive analytical and empirical.

#### 3.2 Population and Sample

In order to fulfill the objective of the study eleven questionnaires were presented to the 35 respondents of Lalitpur. Out of which only 30 respondents replied and hence 86% of the total targeted population has been represented by the sample. The respondents have been divided into three groups. The following table shows the group of respondents and size of samples.

**Table 2.1**  
**Population and Sample**

<b>S.N</b>	<b>Group of Respondents</b>	<b>Sample Size</b>
1	Tax experts	8
2	Tax Administrator	7
3	Tax Payer	15
<b>Total</b>		<b>30</b>

Besides primary data, secondary data have also been collected from Lalitpur sub-metropolitan.

### **3.3 Nature and Sources of Data**

The research study is based on primary data as well as secondary data. Primary data are collected from questionnaires. The primary sources of the study are different groups of respondents. Different questionnaires are designed about local taxes. The questionnaires asked to the related tax administrators, tax experts and taxpayers. Secondary data are collected from Lalitpur sub-metropolitan office, economic survey, books related to tax, national newspapers, journals and reports and records of various department of taxation.

### **3.4 Data Collection Procedure**

The data of the study were collected from primary source as well as secondary source. Primary data were collected by using questionnaires method. A set of questionnaires was developed and distributed to the related respondents in order to get actual and accurate information. Secondary data were collected from published reports.

### **3.5 Data Processing and Analysis Procedure**

The data of the research study are collected from questionnaires, the primary data are collected according to the need of the study and they are adjusted with the corresponding subject matter. And the collected and processed data are analyzed to draw the conclusions using tabulation, simple percentage and central tendency of statistical method. Necessary tabulates are used as required.

### **3.6 Tools used**

For the purpose of achieving the objective different taxation tools and statistical tools have been adopted.

#### **3.6.1 Taxation Tools**

- ❖ Composition of Total Revenue
- ❖ Local Tax of Lalitpur
- ❖ Composition of Local Tax
- ❖ Contribution of Local Tax to Total Revenue

- ❖ Contribution of House and Land Registration to Local Tax
- ❖ Contribution of House and Compound Tax to Local Tax
- ❖ Contribution of House Rent Tax to Local Tax
- ❖ Contribution of Vehicle Tax to Local Tax
- ❖ Contribution of Business Tax to Local Tax
- ❖ Contribution of Entertainment Tax to Local Tax
- ❖ Contribution of Advertisement Tax to Local Tax

### **3.6.2 Statistical Tools**

- ❖ Mean
- ❖ Standard Deviation
- ❖ Coefficient of Variation
- ❖ Regression Analysis
- ❖ Trend Analysis
- ❖ Percentage
- ❖ Graph
- ❖ Bar Diagram
- ❖ Pie-chart

## **CHAPTER- IV**

### **DATA PRESENTATION AND ANALYSIS**

This chapter is devoted to the presentation and analysis of contribution of local tax to total revenue of Lalitpur sub-metropolitan and opinions about total local tax as well as the composition of local tax through definite course of research methodology. To achieve the stated objective of the study and also to make easier to understand the finding, qualitative as well as quantitative data and information has been analyzed.

#### **4.1 Secondary Data Analysis**

Taxes play important role to the economic development of Nepal. It has been used for the achievement of national economic goals. To get knowledge about the taxes, revenue structure should be known. Total revenue structure of Lalitpur from the fiscal year 2003/04 to 2007/ 08 are given below.

##### **4.1.1 Composition of Total Revenue of Lalitpur**

Total revenue in Nepal is the composition of tax revenue and non-tax revenue. When the HMG of Nepal presented first national budget in 1951/52, 73 percent of government revenue coming from non-tax sources and land tax, out of 70 percent the share of non tax revenue was 43 percent because of the increasing contribution of indirect tax on foreign trade, the share of non tax revenue was decline in 1960. Since the study focuses only the Lalitpur district, the total revenue collected from Lalitpur is presented in the below table.

**Table 4.1**  
**Composition of Total Revenue of Lalitpur**

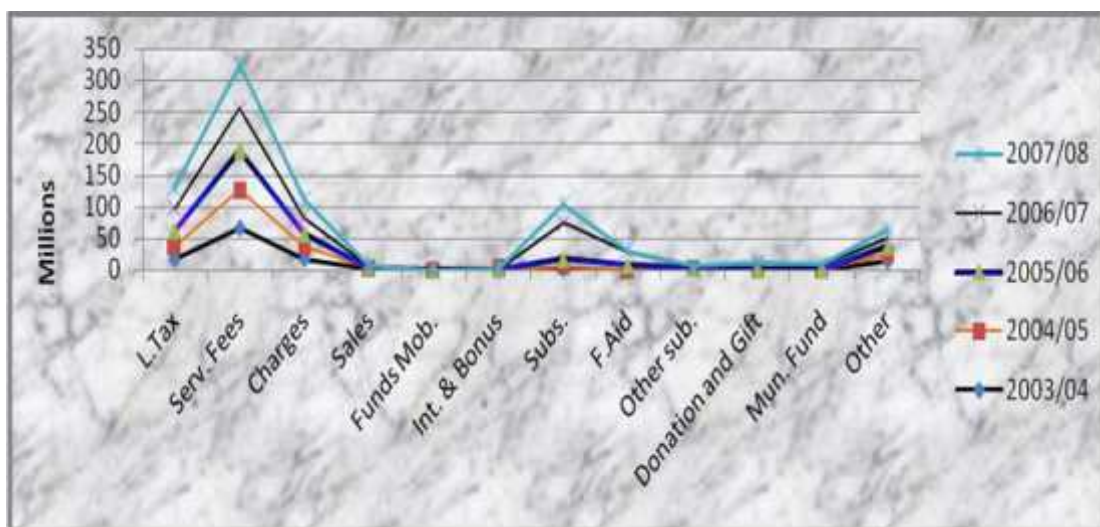
<b>Paticulars</b>	<b>Fiscal Year</b>				
	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
Local Tax	16235172	20625620	24422768	36954303	32629211
Service Fees	65809959	61105414	62652132	66061346	69250722
Charges	16843001	20420826	19128447	26158900	28447480
Sales	822185	1220598	1355269	1783259	1882656
Fund Mobilization	0	0	0	0	45057
Interest and Bonus	379891	185008	0	7314	0
Subsidies	655000	4992749	11903825	56674775	29001790
Foreign Aid	0	0	7494211	21013516	
Other subsidies	1492658	425179	88950	3259295	1881000
Donation and Gift	0	0	383850	8865142	2208227
Municipality Fund	271273	112835	0	8630217	0
Other Income	13386684	10813607	13302812	12644155	14472386
<b>Total Revenue</b>	<b>115895823</b>	<b>119901836</b>	<b>140732264</b>	<b>242052222</b>	<b>179818529</b>

*(Source: Annual Report of Lalitpur Sub-metropolitan)*

The table shows the total revenue collected from Lalitpur sub-metropolitan in each fiscal year. The total revenue followed increasing trend. The revenue ranged from Rs. 115895823 in the fiscal year 2003/04 to Rs.179818529 in the fiscal year 2007/08. The data indicates that the Lalitpur total revenue is highly dominated by Service Fees. Besides service fees, Local tax and charges occupies major portion of the revenue. Similarly, the revenue is also equally dependent on the other income like fines and penalties, deposit forfeit, club and other. Subsidies, Foreign Aid, donation and gift and sales also occupies significant portion of total income of Lalitpur sub-metropolitan.

**Figure 4.1**

**Composition of Total Revenue of Lalitpur**



**4.1.2 Total Local Tax of Lalitpur**

This data reveals the total amount of local tax that Lalipur sub-metropolitan remained capable to collect. The data also explicits the percentage change on the basis of past year. The total local tax collected in Lalitpur sub-metropolitan in the period taken for research is presented in Table 4.2.

**Table 4.2**

**Total Local Tax of Lalitpur Sub-metropolitan city**

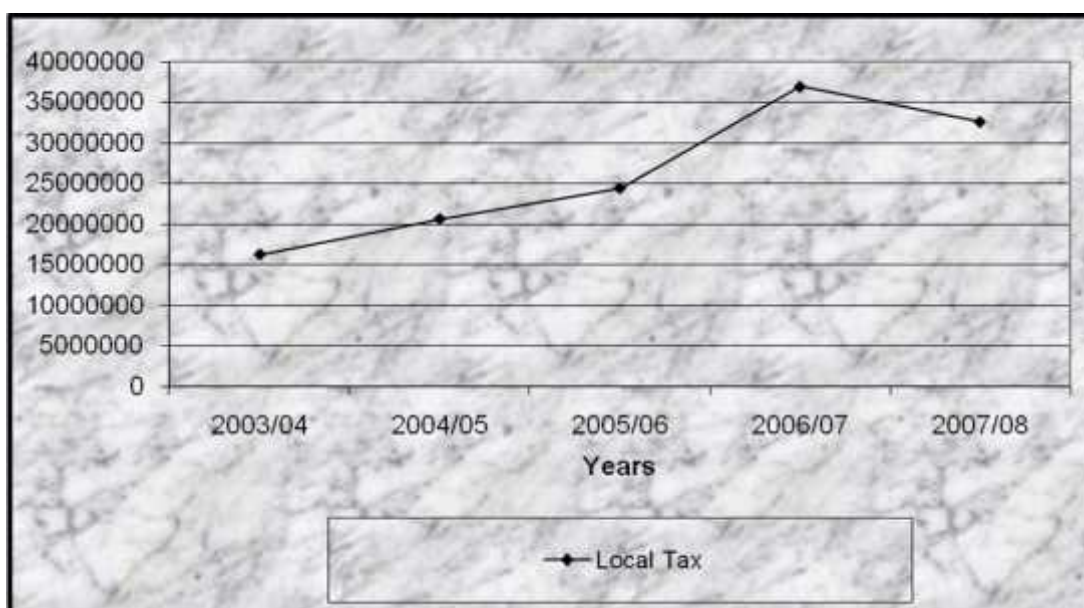
<b>Fiscal Year</b>	<b>Local Tax</b>	<b>Percentage Change</b>
2003/04	16235172	10.12
2004/05	20625620	27.04
2005/06	24422768	18.41
2006/07	36954303	51.31
2007/08	32629211	-11.70
<b>Mean</b>	<b>26173415</b>	
<b>S.D.</b>	<b>7622550</b>	
<b>C.V.</b>	<b>29.12</b>	

*(Source: Annual Report of Lalitpur Sub-metropolitan)*

The table 4.2 shows that the local tax collection of Lalitpur sub-metropolitan is in increasing trend. The tax increased from 16235172 in the fiscal year 2003/04 to Rs. 32629211 in the fiscal year 2007/08. The sub-metropolitan’s local tax increased almost by two-fold within these five year period. Similarly, the percentage change shows that the sub-metropolitan’s local tax has increased

highest by 27.04% in the fiscal year 2004/05 compared to the fiscal year 2003/04. However, in the fiscal year 2007/08, the local tax decreased by 11.70% compared to the tax of fiscal year 2006/07. In average, the sub-metropolitan collected Rs. 26173415 as local tax within the periods taken for research. The C.V. of the local tax is 29.12% indicates inconsistency in the collection of tax.

**Figure 4.2**  
**Total Local Tax of Lalitpur**



#### 4.1.3 Composition of Local Tax

The composition of Local tax depicts the sources of local tax of Lalitpur sub-metropolitan and also clarifies the amount that has been collected in different headings in different fiscal years. Also, on which source the local tax of Lalitpur is highly dominated is enlightened. The Table 4.3 shows the composition of local tax of Lalitpur sub-metropolitan.

**Table 4.3**



### Composition of Local Tax of Lalitpur

Details	Fiscal Year				
	2003/04	2004/05	2005/06	2006/07	2007/08
House & Land Registration Tax (Malpoat)	1426758	1743205	1512830	1527593	1984885
House & Compound Tax	10248904	11779394	14539856	26325148	18984331
House Rent Tax	1326376	996904	1955703	3272406	3982096
Business Tax	1639124	2053930	2747679	2732723	3466630
Vehicle Tax	833585	2711205	2326770	1752280	1935750
Entertainment Tax	477656	423112	304487	0	405516
Advertisement Tax	104409	774715	867243	1320859	1868353
Other Tax	178360	143155	168200	23285	1650
<b>Total Local Tax</b>	<b>16235172</b>	<b>20625620</b>	<b>24422768</b>	<b>36954294</b>	<b>32629211</b>

*(Source: Annual Report of Lalitpur Sub-metropolitan)*

The above tables shows the source of local tax in Lalitpur sub-metropolitan. House & Land Registration Tax (Malpoat), House & Compound Tax, House Rent Tax, Business Tax, Vehicle Tax, Entertainment Tax, Advertisement Tax and other the major source of Local Tax. The table shows that the local tax of Lalitpur sub-metropolitan is highly dominated by the House and Compound tax. Besides this, the other tax like House and Land Registration Tax (Malpoat) and House and rent tax covers the major portion of local tax.

#### 4.1.4 Contribution of Local Tax to Total Revenue

The total local tax to total Lalitpur revenue examines the contribution of local tax on the total revenue collection. The ratio clarifies that how much percentage of the total revenue has been covered by the local tax. The ratio is presented in the Table 4.4.

**Table 4.4**  
**Contribution of Local Tax to Total Revenue**

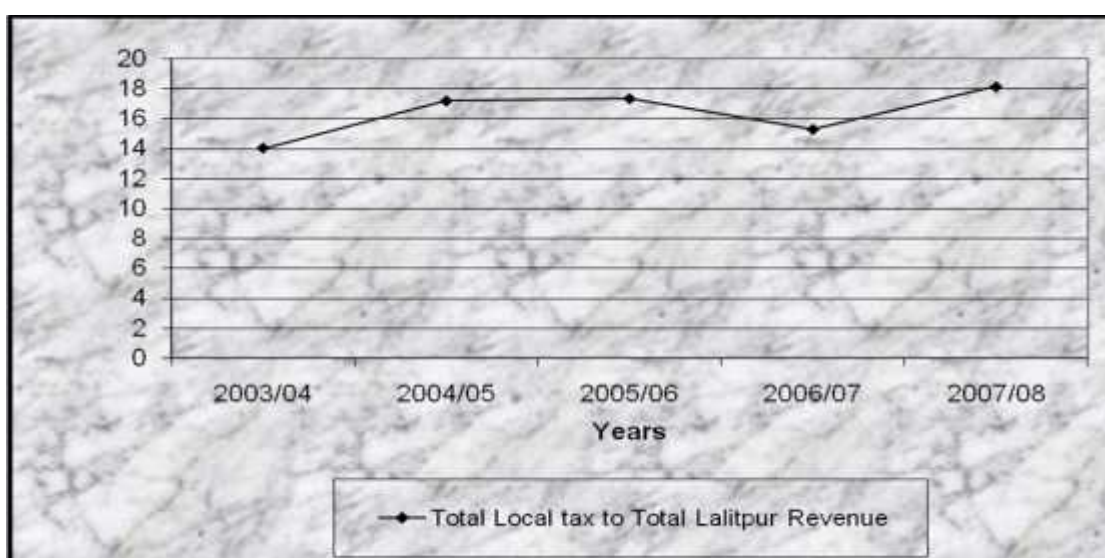
<b>Fiscal Year</b>	<b>Local Tax</b>	<b>Total Revenue</b>	<b>Ratio</b>
2003/04	16235172	115895823	14.01
2004/05	20625620	119901836	17.20
2005/06	24422768	140732264	17.35
2006/07	36954303	242052222	15.27
2007/08	32629211	179818529	18.15
<b>Mean</b>			<b>16.40</b>
<b>S.D.</b>			<b>1.52</b>
<b>C.V.</b>			<b>9.29</b>

(Source: Annual Report of Lalitpur Sub-metropolitan)

The table shows the contribution of local tax to total revenue of Lalitpur sub-metropolitan. The tables shows that the Local Tax covered 14.01%, 17.20%, 17.35%, 15.27% and 18.15% of the total revenue in the fiscal year 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08. The contribution of local tax to the total revenue of sub-metropolitan increased in the first three fiscal years and decreased to 15.27% in the fiscal year 2006/07 and again increased to 18.15% in the fiscal year 2007/08. In average local tax covered 16.40% of the total revenue in the five fiscal year and the C.V. of 9.29% also indicates that there is uniformity in the contribution of local tax in the total revenue of Lalitpur sub-metropolitan.

**Figure 4.3**

**Contribution of Local Tax to Total Revenue**



**4.1.5 Contribution of House and Land Registration Tax to Local Tax**

The house and land registration tax to local tax measures the contribution of house and land registration tax in the local tax of Lalitpur in each fiscal year. The ratio calculated is presented in the table 4.5.

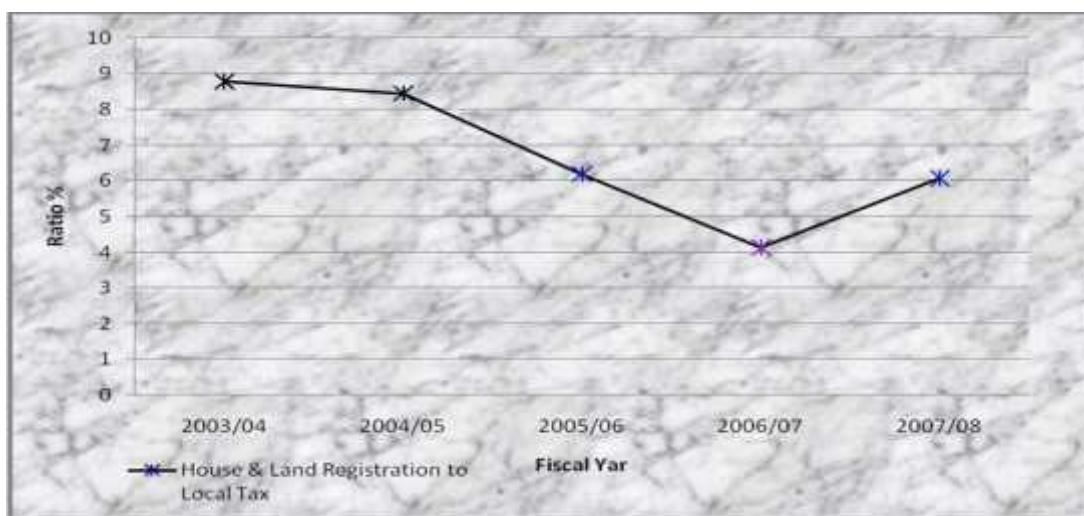
**Table 4.5**  
**Contribution of House and Land Registration Tax to Local Tax**

<b>Fiscal Year</b>	<b>House &amp; Land Regd. Tax</b>	<b>Total Local Tax</b>	<b>Ratio %</b>
2003/04	1426758	16235172	8.79
2004/05	1743205	20625620	8.45
2005/06	1512830	24422768	6.19
2006/07	1527593	36954303	4.13
2007/08	1984885	32629211	6.08
<b>Mean</b>			<b>6.73</b>
<b>S.D.</b>			<b>1.71</b>
<b>C.V.</b>			<b>25.46</b>

*(Source: Annual Report of Lalitpur Sub-metropolitan)*

The above table shows that the House and Land Registration Tax (HLR) to Local Tax of Lalitpur followed decreasing trend except in the fiscal year 2007/08. The HLR covered 8.79%, 8.45%, 6.19%, 4.13% and 6.08% of total local tax collected in the fiscal year 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 respectively. In average, the HLR covered 6.73% of local tax in the periods taken for research. However, the C.V. of 25.46% indicates high fluctuation in the ratio.

**Figure 4.4**  
**Contribution of House and Land Registration Tax to Local Tax**



#### 4.1.6 Contribution of House and Compound Tax to Local Tax

The house and compound tax to local tax measures the contribution of house and compound tax on the total local tax of Lalitpur. It also enlightens on the amount collected on House and Compound tax as a part of Local Tax in different fiscal years. The ratio in from the fiscal year 2003/04 to 2007/08 is depicted in the Table 4.6.

**Table 4.6**  
**Contribution of House and Compound Tax to Local Tax**

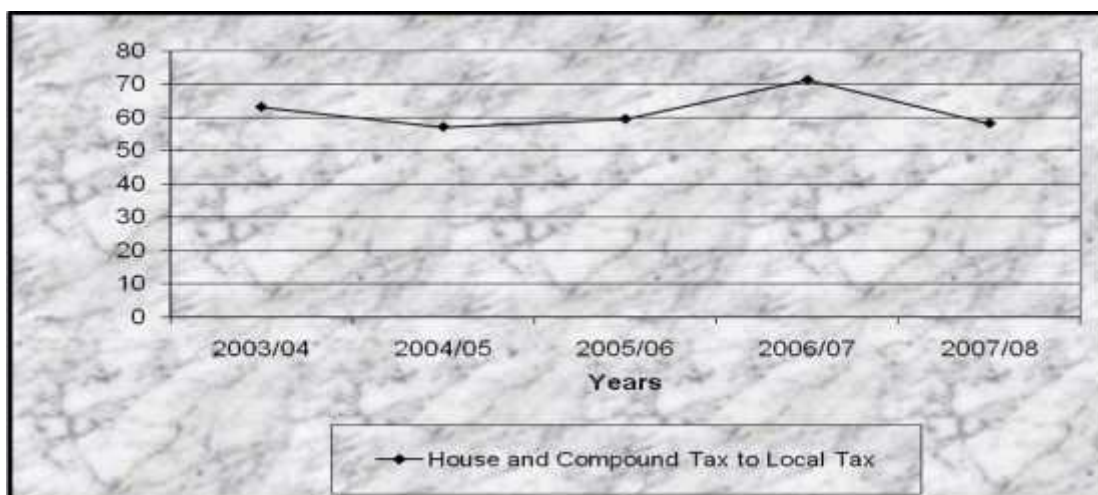
<b>Fiscal Year</b>	<b>House &amp; Compd. Tax</b>	<b>Total Local Tax</b>	<b>Ratio %</b>
2003/04	10248904	16235172	63.13
2004/05	11779394	20625620	57.11
2005/06	14539856	24422768	59.53
2006/07	26325148	36954303	71.24
2007/08	18984331	32629211	58.18
<b>Mean</b>			<b>61.84</b>
<b>S.D.</b>			<b>5.12</b>
<b>C.V.</b>			<b>8.28</b>

*(Source: Annual Report of Lalitpur Sub-metropolitan)*

The table shows that the House and Compound Tax (HCT) to Local Tax of the Lalipur sub-metropolitan fluctuated during the entire period taken for research. The ratio was 63.13% in the fiscal year 2003/04 and decreased to 57.11% in the fiscal year 2004/05, increased to 59.53% in the fiscal year 2005/06 and 71.24% in the fiscal year 2006/07 and finally decreased to 58.18% in the fiscal year 2007/08. In average, House and Compound Tax contributed 61.84% of Local tax collection. The table indicates that the local tax is highly dominated by the House and Compound Tax, which is almost three-fifth of local tax. The C.V. of 8.28 also indicates uniformity in the House and Compound Tax collection. Hence, the tax administration should focus on making new policies for further enhancement in House and Compound tax collection in future.

**Figure 4.5**

### Contribution of House and Compound Tax to Local Tax



#### 4.1.7 Contribution of House & Land Rent Tax to Local Tax

This ratio measures the contribution of house and land rent paid by the citizens from the income of rent to the local tax collected by sub-metropolitan. The ratio in from the fiscal year 2003/04 to 2007/08 is presented in the Table 4.7.

**Table 4.7**

#### Contribution of House and Land Rent Tax to Local Tax

Fiscal Year	House Rent Tax	Total Local Tax	Ratio %
2003/04	1326376	16235172	8.17
2004/05	996904	20625620	4.83
2005/06	1955703	24422768	8.01
2006/07	3272406	36954303	8.86
2007/08	3982096	32629211	12.20
<b>Mean</b>			<b>8.41</b>
<b>S.D.</b>			<b>2.35</b>
<b>C.V.</b>			<b>27.92</b>

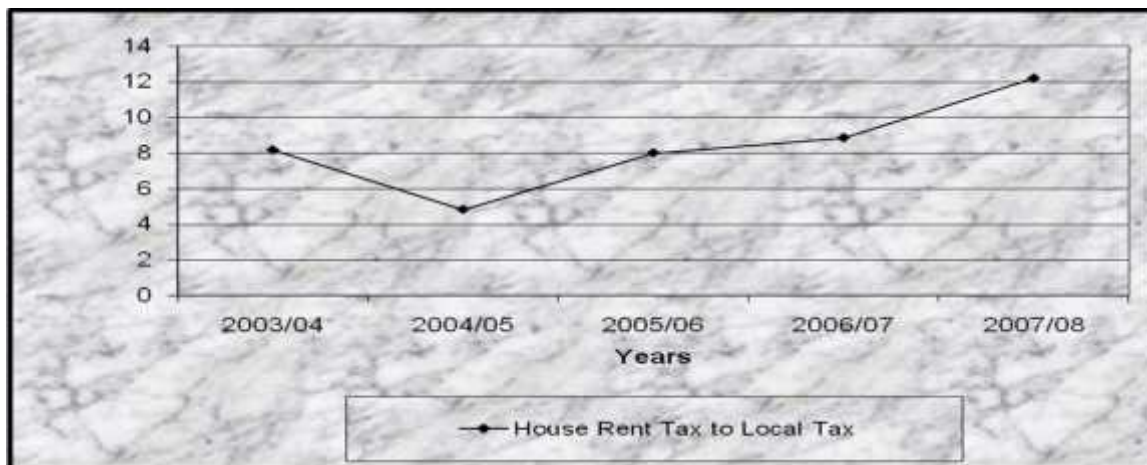
(Source: Annual Report of Lalitpur Sub-metropolitan)

The table shows that the House Rent Tax (HRT) to Local Tax ratio has been fluctuated during the entire period taken for research. The ratio ranged from 4.83% in the fiscal year 2004/05 to 12.20% in the fiscal year 2006/07. In average, House Rent Tax contributed only 8.41% of the total local tax collection. The C.V. of 27.92% also indicated high inconsistency in the collection pattern. Hence, it will be worthwhile if the related institution traces

out the fluctuation in the collection policy and formulates appropriate rules and regulations to ameliorate the collection amount.

**Figure 4.6**

**Contribution of House and Land Rent Tax to Local Tax**



**4.1.8 Contribution of Business Tax to Local Tax**

Business tax also occupies a major role in local tax. The contribution of business tax on local tax of Lalitpur sub-metropolitan is evaluated in each fiscal taken for research in the table 4.8.

**Table 4.8**

**Contribution of Business Tax to Local Tax**

<b>Fiscal Year</b>	<b>Business Tax</b>	<b>Total Local Tax</b>	<b>Ratio %</b>
2003/04	1639124	16235172	10.10
2004/05	2053930	20625620	9.96
2005/06	2747679	24422768	11.25
2006/07	2732723	36954303	7.39
2007/08	3466630	32629211	10.62
<b>Mean</b>			<b>9.86</b>
<b>S.D.</b>			<b>1.32</b>
<b>C.V.</b>			<b>13.36</b>

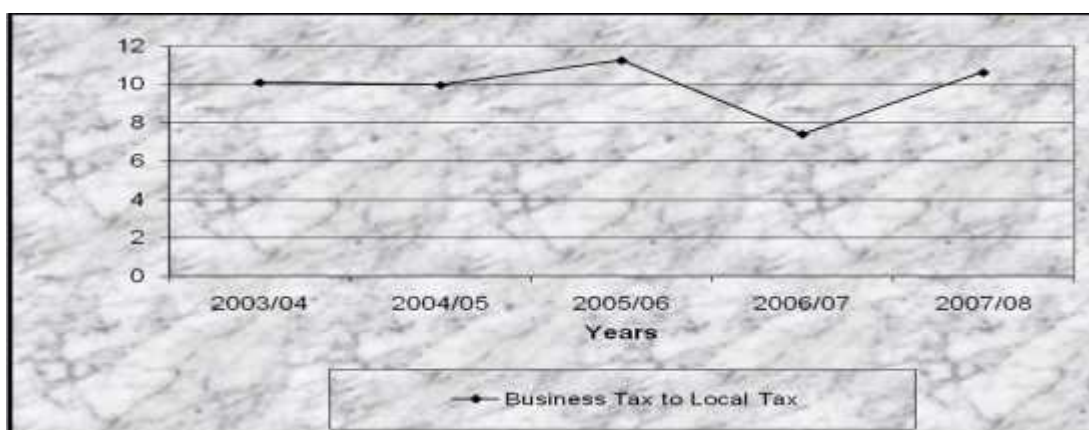
*(Source: Annual Report of Lalitpur Sub-metropolitan)*

The above table shows that the contribution of business tax to total local tax has followed fluctuating trend. The business tax covered 10.10%, 9.96%, 11.25%, 7.39% and 10.62% of the total local tax in the fiscal year 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 respectively. In average, business tax contributed only 9.86% of the total local tax of Lalitpur district. On the basis of

mean ratio (9.86%) and C.V. (13.36%) it can be considered that the number of tax offender is high in business sector, also the government rules and regulations are inappropriate in the collection of business tax and tax administration is ineffective in collection of business tax. Compulsory fines and penalties to tax offender and strict implementation of rules and regulation are inevitably needed to increase the contribution of business tax in local tax system.

**Figure 4.7**

**Contribution of Business Tax to Local Tax**



#### 4.1.9 Contribution of Vehicle Tax to Local Tax

The vehicle tax to local tax shows the contribution of vehicle tax on the total local tax collected in each fiscal year covering from 2003/04 to 2007/08. The ratio also indicates the trend that has been followed. The ratio is presented in the Table 4.9.

**Table 4.9**

**Contribution of Vehicle Tax to Local Tax**

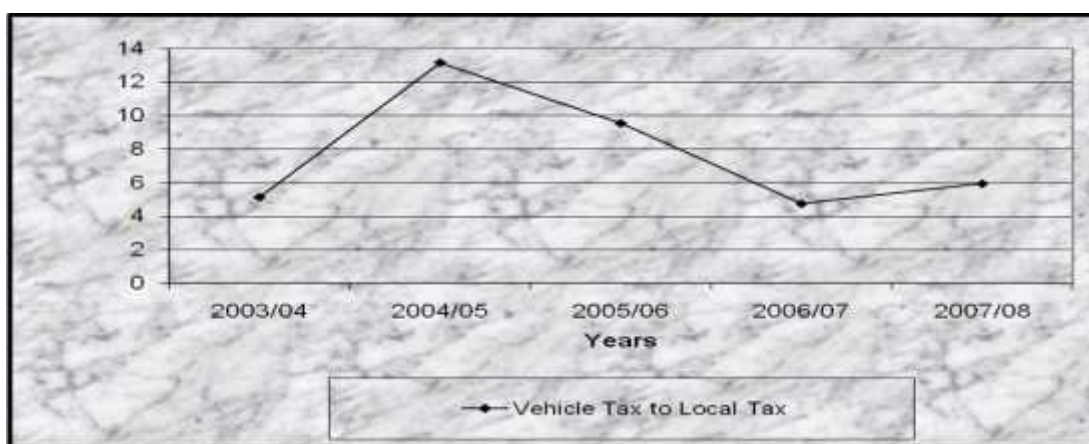
Fiscal Year	Vehicle Tax	Total Local Tax	Ratio %
2003/04	833585	16235172	5.13
2004/05	2711205	20625620	13.14
2005/06	2326770	24422768	9.53
2006/07	1752280	36954303	4.74
2007/08	1935750	32629211	5.93
<b>Mean</b>			<b>7.69</b>
<b>S.D.</b>			<b>3.21</b>
<b>C.V.</b>			<b>41.69</b>

(Source: Annual Report of Lalitpur Sub-metropolitan)

The above table showed that the contribution of vehicle tax to local tax also fluctuated in the entire period taken for research. The ratio was highest (13.14%) in the fiscal year 2004/05 and lowest (4.74%) in the fiscal year 2007/08. The C.V. of 41.69% indicated that there is high inconsistency in the ratio. However, in average the vehicle tax covered 7.69% of the total local tax. Also, the vehicle tax ranged from Rs. 833585 in the fiscal year Rs. 2711205 in the fiscal year 2004/05.

**Figure 4.8**

**Contribution of Vehicle Tax to Local Tax**



#### 4.1.10 Contribution of Entertainment Tax to Local Tax

Entertainment tax is considered as indirect tax on levied on the customer. The entertainment tax collected by Lalitpur sub-metropolitan on different sectors and the contribution of such tax on total local tax in the five year period is presented in the Table 4.10.

**Table 4.10**

**Contribution of Entertainment Tax to Local Tax**

Fiscal Year	Entertainment Tax	Total Local Tax	Ratio %
2003/04	477656	16235172	2.94
2004/05	423112	20625620	2.05
2005/06	304487	24422768	1.25
2006/07	0	36954303	0.00
2007/08	405516	32629211	1.24
<b>Mean</b>			<b>1.50</b>
<b>S.D.</b>			<b>0.98</b>
<b>C.V.</b>			<b>65.19</b>

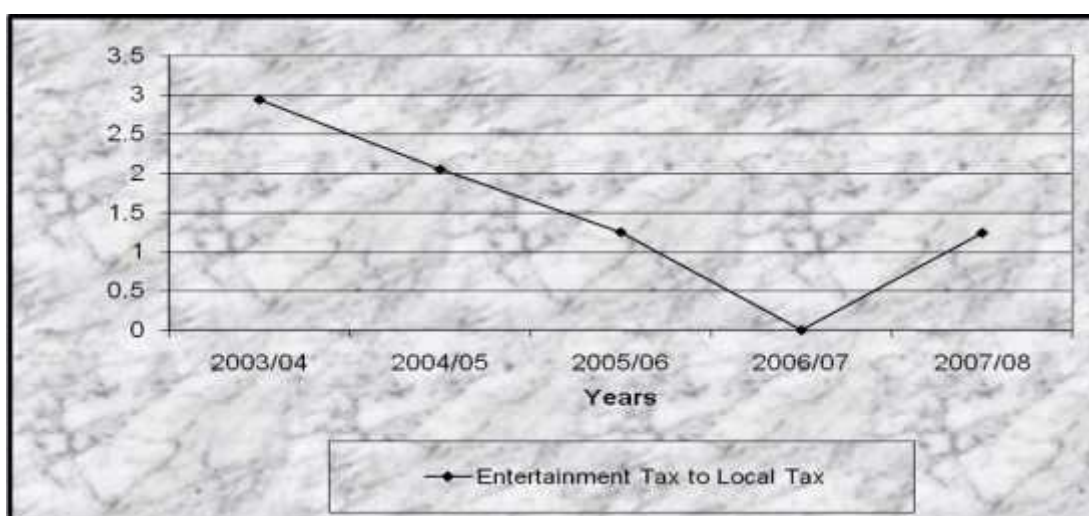
(Source: Annual Report of Lalitpur Sub-metropolitan)



The above table shows that the entertainment tax to local tax followed decreasing trend in the periods taken for research. The ratio ranged from 0%, no tax collected, in the fiscal year 2006/07 to 1.24% in the fiscal year 2007/08. The entertainment tax was Rs. 477656, Rs. 423112, Rs. 304487, Rs. 0 and Rs. 405516 in the fiscal year 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 respectively. In average, entertainment tax covered only 1.50% of the total local tax of Lalitpur. Also, the C.V. of 65.19% indicated high inconsistency in the ratio.

**Figure 4.9**

**Contribution of Entertainment Tax to Local Tax**



#### **4.1.11 Contribution of Advertisement Tax to Local Tax**

Advertisement tax includes the tax levied on advertising in the form of hoarding board, sign board, pamphlets and other. The total amount of advertisement tax collected and its contribution to the Local tax of Lalitpur in the period covering 2003/04 to 2007/08 is presented in the table 4.11.

**Table 4.11**

### Contribution of Advertisement Tax to Local Tax

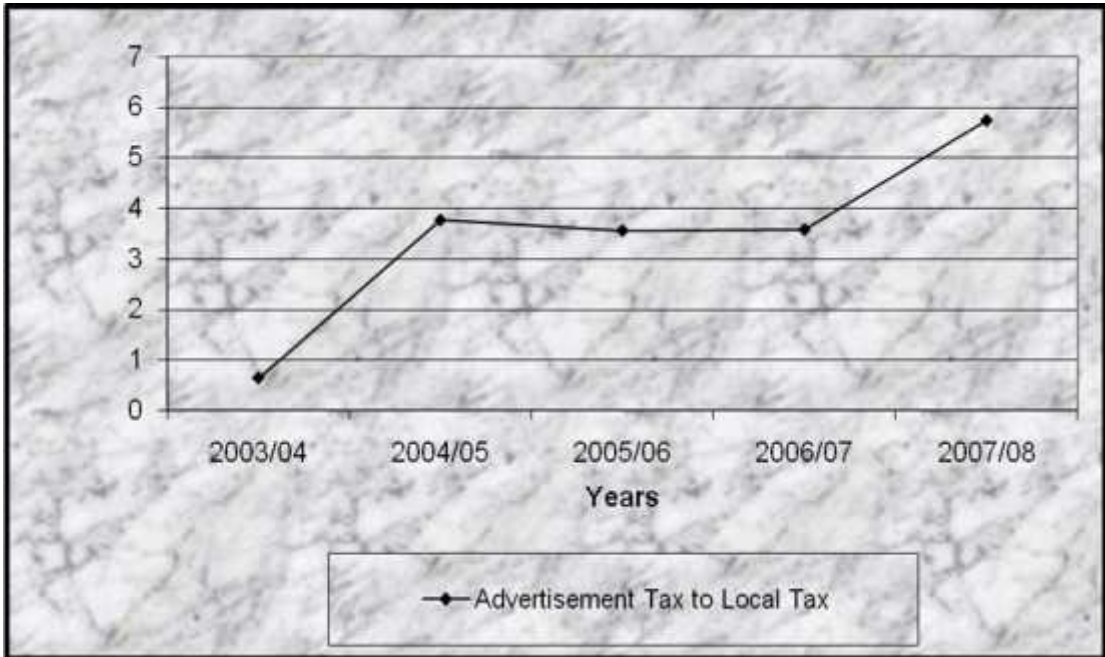
<b>Fiscal Year</b>	<b>Advertisement Tax</b>	<b>Total Local Tax</b>	<b>Ratio %</b>
2003/04	104409	16235172	0.64
2004/05	774715	20625620	3.76
2005/06	867243	24422768	3.55
2006/07	1320859	36954303	3.57
2007/08	1868353	32629211	5.73
<b>Mean</b>			<b>3.45</b>
<b>S.D.</b>			<b>1.63</b>
<b>C.V.</b>			<b>47.12</b>

*(Source: Annual Report of Lalitpur Sub-metropolitan)*

The above table shows that the advertisement tax to local tax followed increasing trend in the periods taken for research, except in the fiscal year 2005/06 when there is slight decrease by 0.21% compared to the fiscal year 2003/04. The ratio ranged from 0.64% in the fiscal year 2003/04 to 5.73% in the fiscal year 2007/08. In average, advertisement tax covered 3.45% of the total local tax of the Lalitpur sub-metropolitan. Also, the advertisement tax in the fiscal year 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 is Rs. 104409, Rs. 774715, Rs. 867243, Rs. 1320859 and Rs. 1868353 respectively. The data showed that the advertisement tax increased almost by 18 times during the entire period taken for research. This indicates the higher efficiency in advertisement tax collection, awareness of advertiser to pay tax and increment of advertisement like hoarding board, sign board, pamphlets and other in the Lalitpur sub-metropolitan.

**Figure 4.10**

### Contribution of Advertisement Tax to Local Tax



#### 4.1.12 Trend Analysis

The trend analysis aids to predict the future value on the basis of the past years. To know the components of local tax and local tax as whole of the Lalitpur sub-metropolitan in future the trend analysis has been used.

##### 4.1.12.1 Trend Analysis of House and Land Registration Tax (HLR)

Let Year (X) 1, 2, 3, 4 and 5 denotes fiscal year 2003/04, 2004/05, 2005/06, 2006/0 and 2007/08 respectively. Then regression line of House and Land Registration Tax (Y) on year is given by;

$$Y = a + b X$$

$$\text{HLR} = 1368862 + 90064 X$$

The trend value of House and Land Registration (HLR) calculated from this regression equation is presented in the following table.

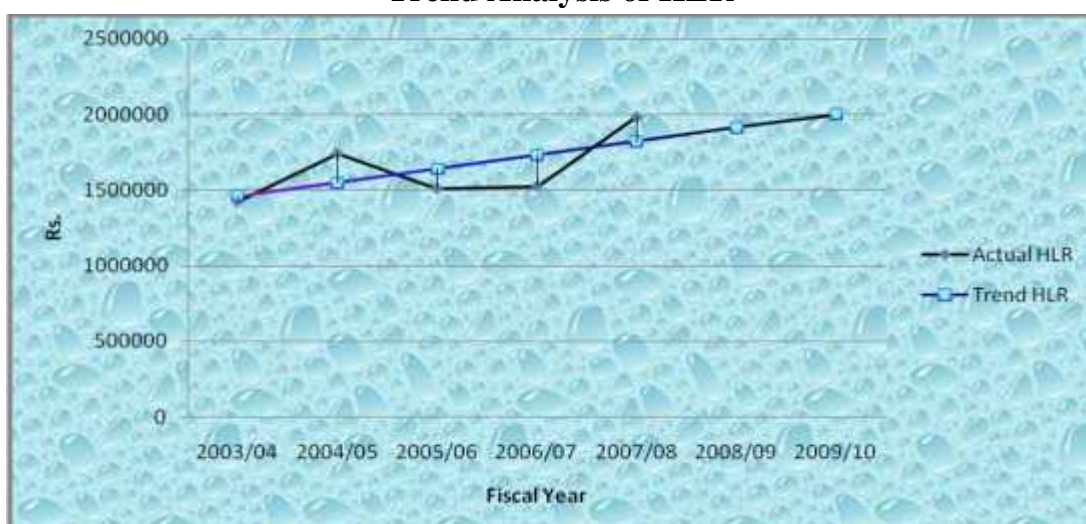
**Table 4.12**  
**Trend Analysis of HLR**

Fiscal Year	House and Land Registration Tax (Malpot)	
	Actual	Trend
2003/04	1426758	1458926
2004/05	1743205	1548990
2005/06	1512830	1639054
2006/07	1527593	1729118
2007/08	1984885	1819183
2008/09		1909247
2009/10		1999311

(Source: Appendix IV)

The table shows that the trend HLR of Lalitpur follows increasing trend. The table depicts that the House and Land Registration Tax in the fiscal year 2008/09 and 2009/10 will be Rs. 1909247 and Rs. 1999311 respectively. Likewise, the regression equation shows the positive relation of House and Land Registration Tax with the year and in each fiscal year the Tax will increase by Rs. 90,064. This might be because of the increasing interest of general people on holding possession on land and building. This indicates that the sale of land and building in Lalitpur district increased in each fiscal year.

**Figure 4.11**  
**Trend Analysis of HLR**



#### 4.1.12.2 Trend Analysis of House and Compound Tax (HCT)

The regression line of House and Compound Tax (HCT) on year is given by:  
(Appendix-IV)

$$\text{HCT} = 6770544 + 3201661 X$$

The trend value of House and Compound Tax calculated on the basis of the above regression equation is presented in the following table.

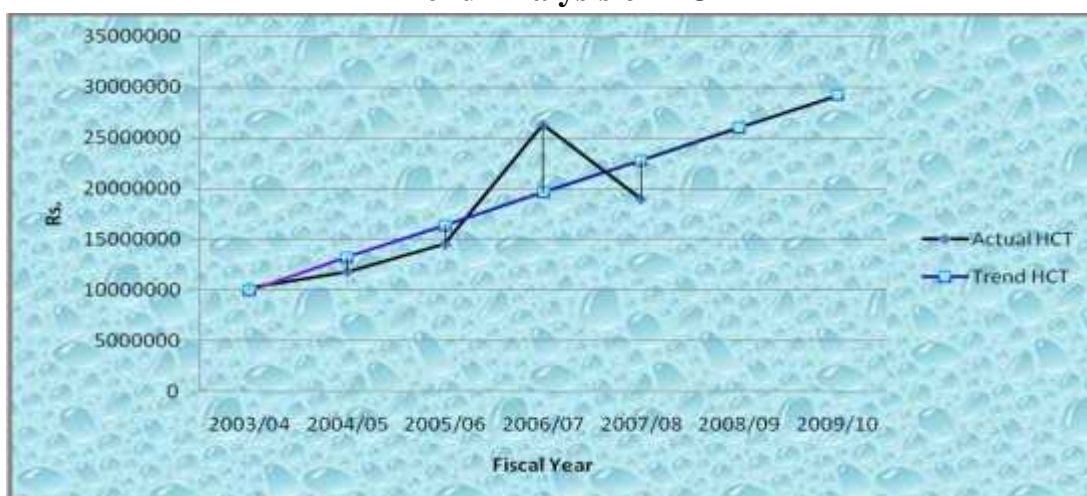
**Table 4.13**  
**Trend Analysis of HCT**

Fiscal Year	House and Compound Tax	
	Actual HCT	Trend HCT
2003/04	10248904	9972205
2004/05	11779394	13173866
2005/06	14539856	16375527
2006/07	26325148	19577187
2007/08	18984331	22778848
2008/09		25980509
2009/10		29182170

(Source: Appendix IV)

The regression line shows that in each fiscal year, the House and Compound Tax increases by Rs. 3201661. Also, the table shows that the predicted House and Compound Tax of Lalitpur Sub-metropolitan in the fiscal year 2008/09 and 2009/10 will be Rs. 25980509 and Rs. 29182170 respectively.

**Figure 4.12**  
**Trend Analysis of HCT**



#### 4.1.12.3 Trend Analysis of House Rent Tax (HRT)

The regression equation of House Rent Tax (dependent variable) on Year (independent variable) is;

$$\text{HRT} = 30614 + 758694 X$$

The trend value of House Rent Tax computed from the regression line is presented in the table below:

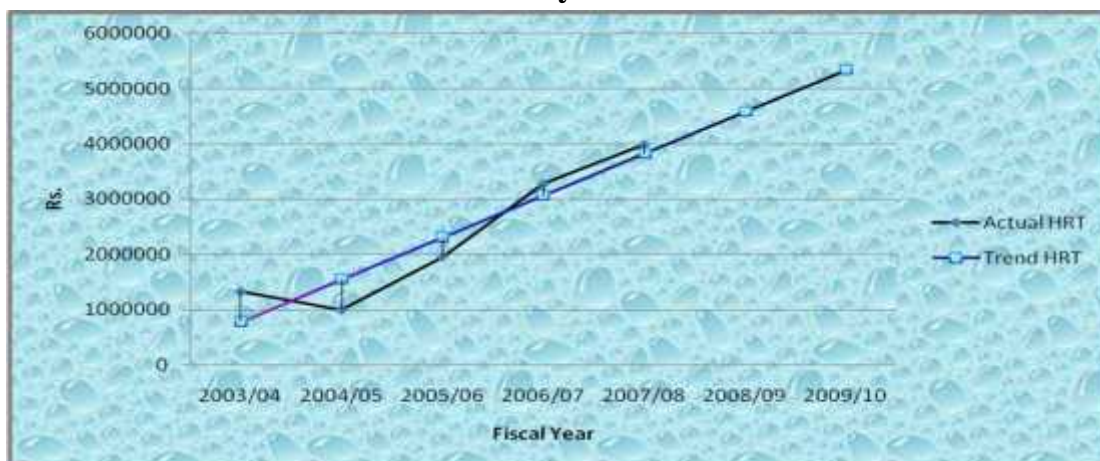
**Table 4.14**  
**Trend Analysis of HRT**

Fiscal Year	House Rent Tax	
	Actual	Trend
2003/04	1326376	789309
2004/05	996904	1548003
2005/06	1955703	2306697
2006/07	3272406	3065391
2007/08	3982096	3824085
2008/09		4582780
2009/10		5341474

*(Source: Appendix IV)*

The table shows that the estimated house rent tax that the Lalitpur sub-metropolitan will collect as a part of local tax in the fiscal year 2008/09 and 2009/10 will be Rs.4582780 and Rs.5341474 respectively. The regression line also shows that the House rent Tax will increase by Rs. 758694 per year. It may be due to the growing awareness of citizens about the rent tax, increasing number of tenant, tax administrator's effectiveness and others.

**Figure 4.13**  
**Trend Analysis of HRT**



#### 4.1.12.4 Trend Analysis of Business Tax (BT)

Let the dependent Variable, Business Tax be denoted by Y and the independent variable, Year be denoted by X. Then, the regression equation of Business Tax on Year is given by;

$$BT = 1227876 + 433381 X$$

**Table 4.15**

**Trend Analysis of Business Tax (BT)**

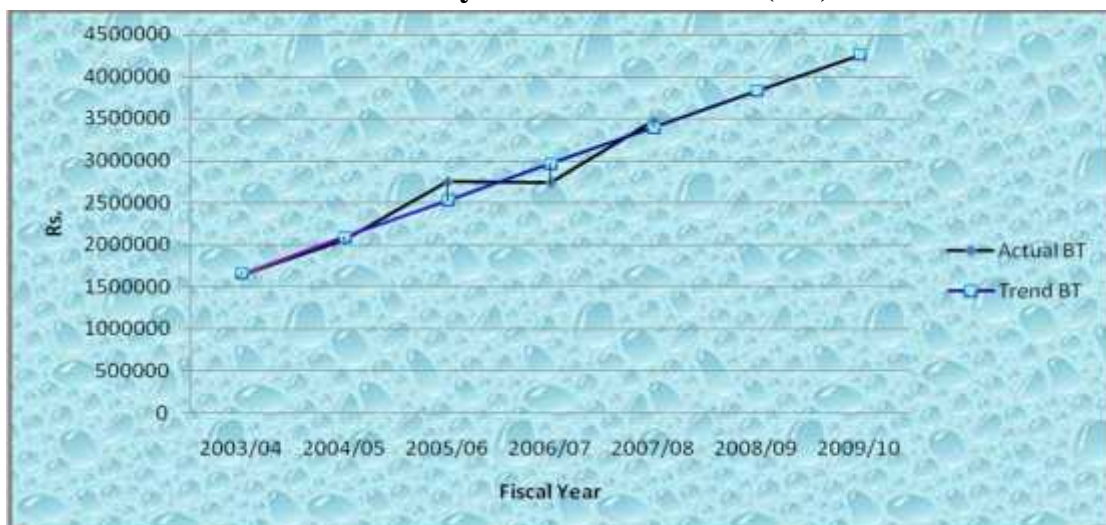
Fiscal Year	Business Tax	
	Actual Value	Trend Value
2003/04	1639124	1661256
2004/05	2053930	2094637
2005/06	2747679	2528017
2006/07	2732723	2961398
2007/08	3466630	3394778
2008/09		3828159
2009/10		4261539

*(Source: Appendix IV)*

The table shows that the estimated value of Business tax will be Rs. 3828159 and Rs. 4261539 in the fiscal year 2008/09 and 2009/10 respectively. Similarly, the regression line of business tax on time period indicates that in each year, the business tax increases by Rs. 433381, if the other variable (1227876) remains constant.

**Figure 4.14**

**Trend Analysis of Business Tax (BT)**



#### 4.1.12.5 Trend Analysis of Vehicle Tax (VT)

Let vehicle tax be the dependent variable on time period, independent variable and vehicle tax and time period be denoted by Y and X respectively. Then, the regression line of Vehicle Tax (Y) on time period (X) is given by;

$$VT = 1538297 + 124541 X$$

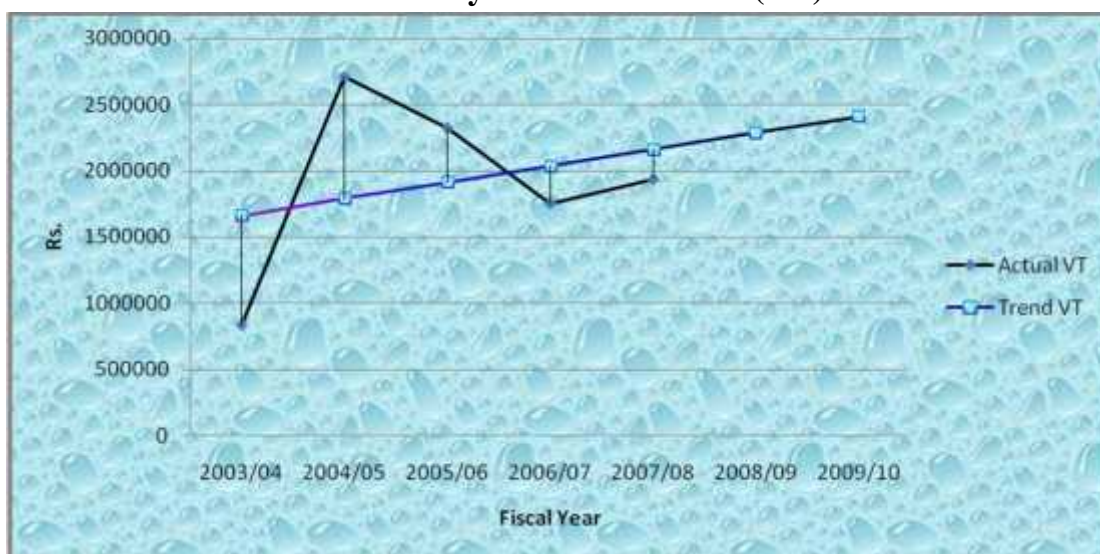
**Table 4.16**  
**Trend Analysis of Vehicle Tax (VT)**

Fiscal Year	Vehicle Tax	
	Actual Value	Trend Value
2003/04	833585	1662837
2004/05	2711205	1787378
2005/06	2326770	1911918
2006/07	1752280	2036459
2007/08	1935750	2160999
2008/09		2285540
2009/10		2410080

(Source: Appendix IV)

The table shows that on the basis of past collection, Lalitpur sub-metropolitan will collect Rs. 2285840 and Rs. 2410080 as part of local tax in the fiscal year 2008/09 and 2009/10 respectively. The regression line of vehicle tax on time period also indicates that the vehicle tax will increase by Rs. 124541 annually if the other variable (91538297) remains constant.

**Figure 4.15**  
**Trend Analysis of Vehicle Tax (VT)**



#### 4.1.12.6 Trend Analysis of Entertainment Tax (ET)



Let entertainment tax be the dependent variable on time period. Then, the regression line of Entertainment Tax (Y) on time period (X) is given by;

$$ET = 492372 - 56739 X$$

The calculated trend value of entertainment tax with the aid of regression line is presented in the below table.

**Table 4.17**

**Trend Analysis of Entertainment Tax (ET)**

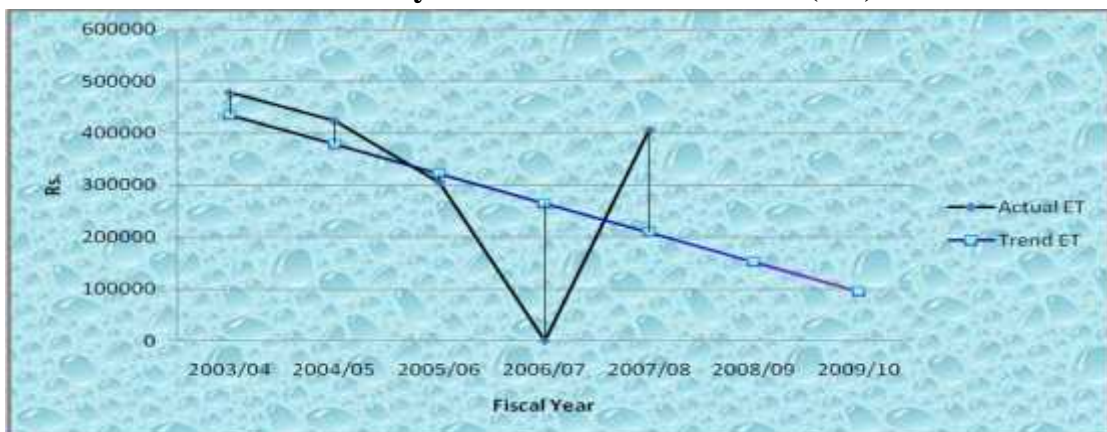
Fiscal Year	Entertainment Tax	
	Actual Value	Trend Value
2003/04	477656	435633
2004/05	423112	378893
2005/06	304487	322154
2006/07	0	265415
2007/08	405516	208676
2008/09		151937
2009/10		95197

(Source: Appendix IV)

The table shows that the estimated value of entertainment tax will be Rs. 151937 and Rs. 95197 in the fiscal year 2008/09 and 2009/10 respectively. Similarly, the regression line of entertainment tax on time period indicates that entertainment tax has negative relationship with the time period and thus in each year, the entertainment tax decreases by Rs. 56739, if the other variable (492372) remains constant.

**Figure 4.16**

**Trend Analysis of Entertainment Tax (ET)**



**4.1.12.7 Trend Analysis of Advertisement Tax (AT)**

Let Year (X) 1, 2, 3, 4 and 5 denotes fiscal year 2003/04, 2004/05, 2005/06, 2006/07 and 2007/08 respectively. Then regression line of Advertisement Tax (Y) on year is given by;

$$AT = -235094 + 407403 X$$

**Table 4.18**

**Trend Analysis of Advertisement Tax (AT)**

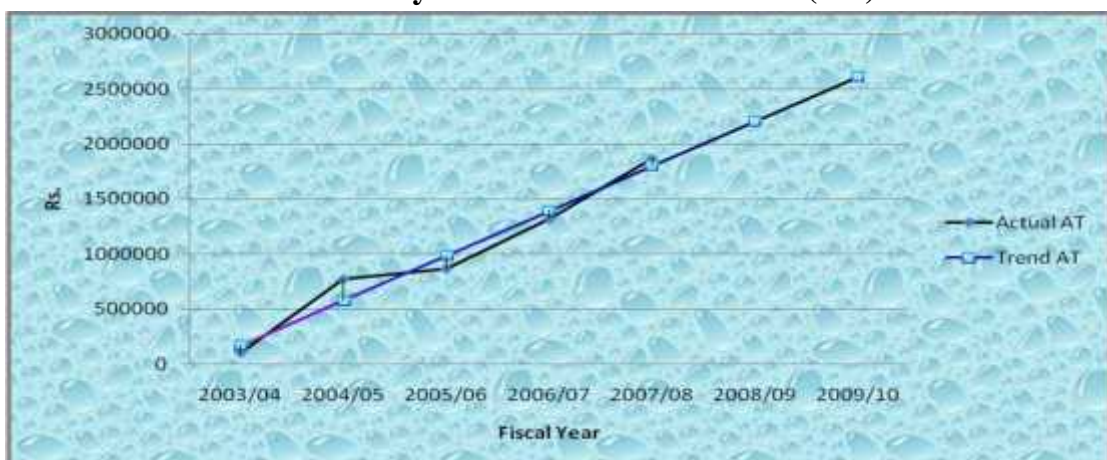
Fiscal Year	Advertisement Tax	
	Actual Value	Trend Value
2003/04	104409	172309
2004/05	774715	579713
2005/06	867243	987116
2006/07	1320859	1394519
2007/08	1868353	1801922
2008/09		2209325
2009/10		2616729

(Source: Appendix IV)

The table shows that the estimated advertisement tax that the Lalitpur sub-metropolitan will collect as a part of local tax in the fiscal year 2008/09 and 2009/10 will be Rs.2209325 and Rs.2616729 respectively. The regression line also shows that the Advertisement Tax will increase by Rs. 407403 per year. It may be due to the high publicity of companies about the product in the form of hoarding board, pamphlets, sign board and other.

**Figure 4.17**

**Trend Analysis of Advertisement Tax (AT)**



**4.1.12.8 Trend Analysis of Total Local Tax (LT)**

Let entertainment tax be the dependent variable on time period. Then, the regression line of Entertainment Tax (Y) on time period (X) is given by;

$$LT = 11438387 + 4911676 X$$

The calculated trend value of total local tax using regression line is presented in the below table.

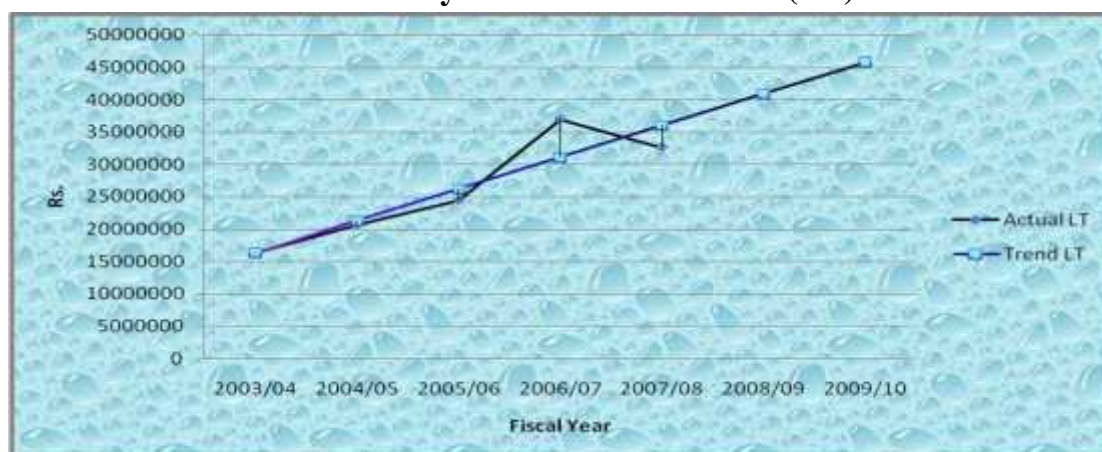
**Table 4.19**  
**Trend Analysis of Total Local Tax (LT)**

Fiscal Year	Total Local Tax	
	Actual Local Tax	Trend Local Tax
2003/04	16235172	16350063
2004/05	20625620	21261739
2005/06	24422768	26173415
2006/07	36954303	31085091
2007/08	32629211	35996767
2008/09		40908443
2009/10		45820119

*(Source: Appendix IV)*

The table shows that the estimated value of total local tax will be Rs. 40908443 and Rs. 45820119 in the fiscal year 2008/09 and 2009/10 respectively. Similarly, the regression line of total local tax on time period indicates that total local tax has positive relationship with the time period and thus in each year, the entertainment tax decreases by Rs. 4911676, if the other variable (11438387) remains constant.

**Figure 4.18**  
**Trend Analysis of Total Local Tax (LT)**



## 4.2 Primary Data Analysis

For the purpose of collecting primary data, a questionnaire having a set of 11 questions were prepared and presented to 35 respondents. However, only 30 respondents responded. The respondents consist of Tax Experts, Tax Administrators and General Public. The questions contained variety in types. The Question No. 1 was given to rank while the Question No. 2 to 11 were objective and requested to tick out which they think best. The summary of the quantitative findings of questionnaire survey has been given in *Appendix III*.

#### 4.2.1 Classification of Respondents

A total of 35 respondents were targeted to survey randomly from Internal Revenue Department of Lalitpur, Tax Experts and Tax Payers of Lalitpur District. Among these, 10 respondents were chosen from Tax Experts, 10 from Tax Administrator, and 15 from Tax Payers. However, 2 respondents from Tax Experts and 3 respondents from Tax Administrator didn't show interest to respond as a result only 30 respondents have to be taken for the questionnaire purpose. The number of respondents taken represented 85.71% of the total population targeted. Likewise, the respondents are classified in terms of their age and sex as given in Table below.

**Table 4.20**  
**Classification of Respondents**

S.N.	Basis of Classification	Male	Female	Number	Percentage
1	<b>Occupation</b>				
	Tax Expert	5	3	8	27
	Tax Administrator	4	3	7	23
	Tax Payer	9	6	15	50
	<b>Total</b>	<b>18</b>	<b>12</b>	<b>30</b>	<b>100</b>
2	<b>Age</b>				
	Below 25	6	3	9	30
	25 to 40	9	7	16	53
	40 above	3	2	5	17
	<b>Total</b>	<b>18</b>	<b>12</b>	<b>30</b>	<b>100</b>

*(Source: Field Survey, 2009)*

As given in table, 60% of the respondents were male where as 40% were female. Similarly, 30% of the respondents were from the age group below 25 years, 53% were between 25 to 40 years and 17% were 40 above. Likewise,

27% of the respondents were Tax Experts, 23% of the respondents were Tax Administrator, 50% of the respondents were Tax Payer.

#### 4.2.2 Specific goal of Tax

Tax is levied on the citizen to achieve some specific goal. As regards the specific goal of taxation in Nepal, respondents were requested to rank their response on first most important to fourth list important. The question was “what should be the goal of tax in Nepal?” Table 4.21 gives the breakdown of response.

**Table 4.21**  
**Specific Goal of Tax**

Indicators	Basis	Rank				Total	Weight	Mean Wt.	Overall Rank
		1	2	3	4				
Increase Revenue	<b>Total</b>	16	9	5	0	30	49	1.63	1
	Tax Experts	6	2	0	0	8	10	1.25	1
	Tax Administrators	6	1	0	0	7	8	1.14	1
	Tax Payers	4	6	5	0	15	31	2.07	2
Reduce Poverty Gap	<b>Total</b>	10	13	7	0	30	57	1.9	2
	Tax Experts	2	3	3	0	8	17	2.13	2
	Tax Administrators	1	5	1	0	7	14	2	2
	Tax Payers	7	5	3	0	15	26	1.73	1
Promote Private Sector	<b>Total</b>	0	1	5	24	30	111	3.7	4
	Tax Experts	0	1	2	5	8	28	3.5	4
	Tax Administrators	0	0	2	5	7	24	3.43	4
	Tax Payers	0	0	1	14	15	59	3.93	4
Reduce Unemployment	<b>Total</b>	4	7	13	6	30	81	2.7	3
	Tax Experts	0	2	3	3	8	25	3.13	3
	Tax Administrators	0	1	4	2	7	22	3.14	3
	Tax Payers	4	4	6	1	15	34	2.27	3

*Source: Field Survey, 2009*

The above table showed that the majority of the respondents, 6 out of 8 Tax Experts, 6 out of 7 Tax Administrators strongly ranked 1 that the specific goal of tax should be to increase the government revenue, whereas the majority of the Tax payer, 7 out of 15, ranked 1 to the poverty gap reduction. Looking

overall, to increase government revenue was ranked 1, to reduce poverty gap was ranked 2, to reduce unemployment was ranked 3 and to promote private sector was ranked 4.

Hence, from the above ranked it is clear that increase the revenue of government is most important goal of taxation in Nepal. It is also an important factor to reduce the gap between poor and rich.

#### 4.2.3 Tax paying habit of Lalitpur people

To examine the tax paying habit of Lalitpur people, a question was asked to the respondents “Do you think that tax paying habit of Lalitpur people is poor?” The responses have been tabulated below.

**Table 4.22**

**Tax Paying Habit of Lalitpur People**

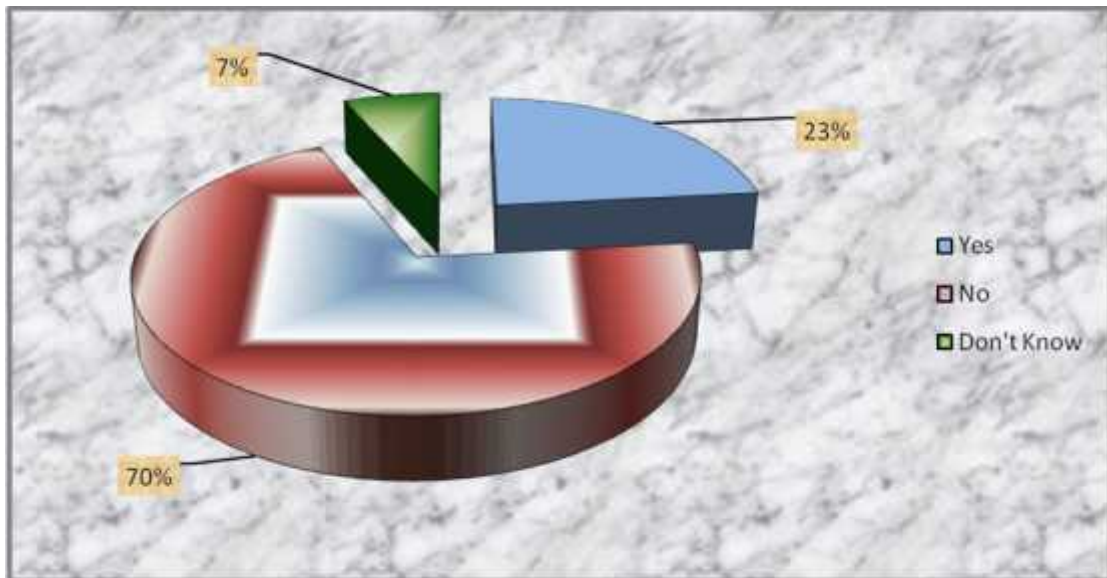
Response	Number of Respondents			Total	
	Tax Experts	Tax Administrators	Tax Payers	Responses	%
Yes	3	2	2	7	23
No	5	5	11	21	70
Don't Know	0	0	2	2	7
<b>Total</b>	<b>8</b>	<b>7</b>	<b>15</b>	<b>30</b>	<b>100</b>

*Source: Field Survey, 2009*

The above table showed that the majority of the Tax Expert, 5 out of 8, majority of the Tax Administrators, 5 out of 7, and the majority of the Tax payers, 11 out of 15 stated that the tax paying habit of Lalitpur people is not poor. In overall, 21 out of 30, 70% the respondents said that the tax paying habit is not poor. Gazing the majority, it can be considered that the tax paying habit of Lalitpur people is not so poor.

**Figure 4.19**

**Tax Paying Habit of Lalitpur People**



The significance of above responses is tested with the help of chi-square method. The calculation of chi-square value regarding the tax paying habit is done in the following table.

**Table 4.23**  
**Chi-square on Tax Paying Habit of Lalitpur People**

<b>O</b>	<b>E = <math>\frac{RT \times CT}{N}</math></b>	<b>O - E</b>	<b>(O - E)<sup>2</sup></b>	<b><math>\frac{(O - E)^2}{E}</math></b>
3	1.87	1.13	1.28	0.69
5	5.60	-0.60	0.36	0.06
0	0.53	-0.53	0.28	0.53
2	1.63	0.37	0.13	0.08
5	4.90	0.10	0.01	0.00
0	0.47	-0.47	0.22	0.47
2	3.50	-1.50	2.25	0.64
11	10.50	0.50	0.25	0.02
2	1.00	1.00	1.00	1.00
			<b><math>\frac{(O - E)^2}{E} =</math></b>	<b>3.50</b>

Where,

- O = Observed value
- E = Expected value
- RT = Row Total
- CT = Column Total

Here, Degree of Frequency, d.f. = (r-1) (c-1) = (3-1) (3-1) = 4

The tabulated value of  $\chi^2$  at 5% level of significance for 4 d.f. is 9.49. Since the calculated value of  $\chi^2$  (3.50) is lower than the tabulated value of  $\chi^2$  (9.49), it can be said that the opinions of all responding groups are similar and there is no significant difference in the opinions that the tax paying habit of Lalitpur people is not poor.

#### 4.2.4 Effect of Local Tax to increase tax paying habit of Lalitpur People

To know the effect of local tax to increase tax paying habit of Lalitpur people a question was asked. “Do you agree that the tax paying habit of Lalitpur people can be increased by the effective local tax system?” The responses received from the various respondents are tabulated as follows:

**Table 4.24**  
**Effect of Local Tax to increase tax paying habit**

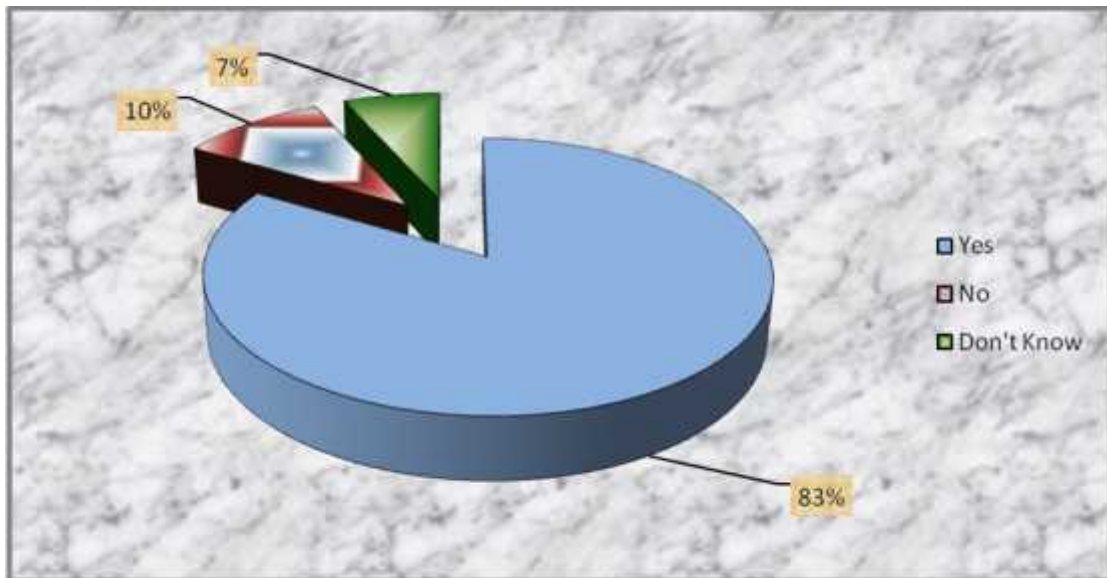
Response	Number of Respondents			Total	
	Tax Experts	Tax Administrators	Tax Payers	Responses	%
Yes	8	6	11	25	83
No	0	1	2	3	10
Don't Know	0	0	2	2	7
<b>Total</b>	<b>8</b>	<b>7</b>	<b>15</b>	<b>30</b>	<b>100</b>

*Source: Field Survey, 2009*

From the above table it has been clear that 83 percent of the respondents approved that there is significant effect of local tax to increase tax paying habit of Lalitpur people and 10 percent of the respondents approved there is no effect of local tax to increase tax paying habit of Lalitpur people. Similarly, 7 percent of the respondents remained neutral. Viewing each category, 8 out of 8 of tax experts, 6 out of 7 tax administrators and 11 out of 15 tax payers that the tax paying habit of Lalitpur people can be enhanced by the effective local tax system.

**Figure 4.20**  
**Effect of Local Tax to increase tax paying habit**





The significance of the responses regarding the effects of local tax to increase the tax paying habit of Lalitpur People is tested through chi-square method.

**Table 4.25**

**Chi-square value on Effects of Local Tax to Increase Tax Paying Habit**

O	$E = \frac{RT \times CT}{N}$	O - E	$(O - E)^2$	$\frac{(O - E)^2}{E}$
8	6.67	1.33	1.78	0.27
0	0.80	-0.80	0.64	0.80
0	0.53	-0.53	0.28	0.53
6	5.83	0.17	0.03	0.00
1	0.70	0.30	0.09	0.13
0	0.47	-0.47	0.22	0.47
11	12.50	-1.50	2.25	0.18
2	1.50	0.50	0.25	0.17
2	1.00	1.00	1.00	1.00
			$\frac{(O - E)^2}{E} =$	<b>3.55</b>

The tabulated value of  $\chi^2$  at 5% level of significance for 4 d.f. is 9.49. Since the calculated value of  $\chi^2$  (3.55) is lower than the tabulated value of  $\chi^2$  (9.49), it can be said that the opinions of all responding groups are similar and there is no significant difference that the tax paying habit of Lalitpur people can be increased by imposing effective local tax system.

#### 4.2.5 Role of Local Tax System of Lalitpur to Increase Tax Government Revenue

In order to know the effective level of local tax of Lalitpur to increase the Government revenue, the next question was asked. “In what extent does local tax of Lalitpur play role to increase the Government revenue?” The responses received from the various respondents are tabulated as follows.

**Table 4.26**  
**Role of Local Tax System to Increase Tax Government Revenue**

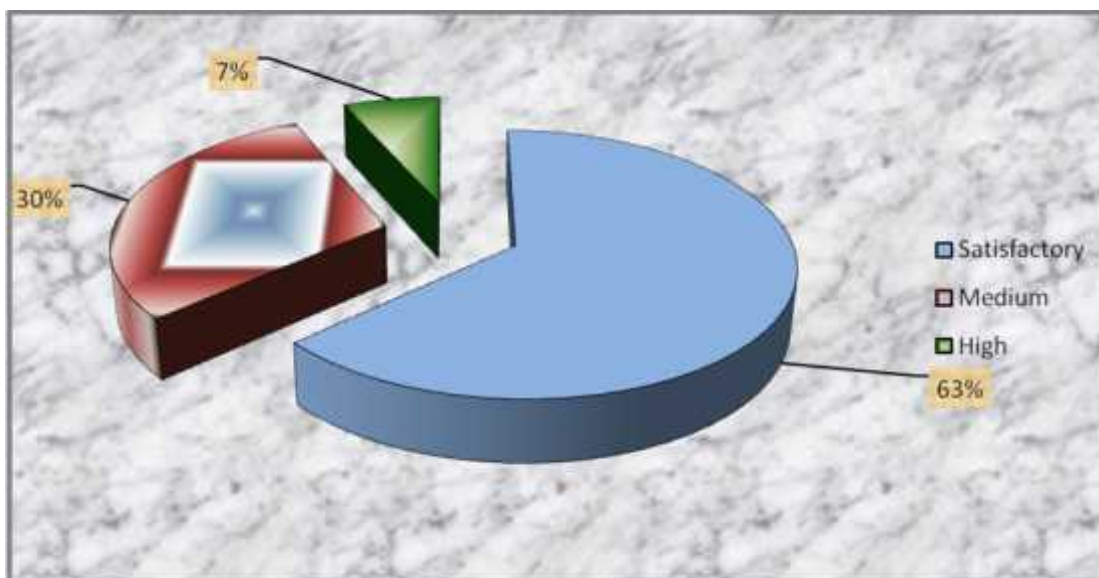
Response	Number of Respondents			Total	
	Tax Experts	Tax Administrators	Tax Payers	Responses	%
Satisfactory	6	4	9	19	63
Medium	2	3	4	9	30
High	0	0	2	2	7
<b>Total</b>	<b>8</b>	<b>7</b>	<b>15</b>	<b>30</b>	<b>100</b>

*Source: Field Survey, 2009*

Above table shows that 19 respondents among 30 (63%) affirmed the effective level of local tax to increase the government revenue is satisfactory, 9 (30%) and 2 (7%) respondents among 30 respondents stated that the level of effect is medium and high respectively. Hence it can be concluded that the effective level of local tax of Lalitpur sub-metropolitan to increase government revenue is satisfactory.

The above table is better understood with the aid of following pie-chart.

**Figure 4.21**  
**Role of Local Tax System to Increase Tax Government Revenue**



#### 4.2.6 Regular Payment of House and Compound Tax Annually

The citizen residing in the urban area has to pay tax annually for having house and compound. To investigate whether the House and Compound owner pay tax regularly, the respondents were asked on this matter. The responses achieved from them are presented in the table below.

**Table 4.27**

#### Regular Payment of House and Compound Tax Annually

Response	Number of Respondents			Total	
	Tax Experts	Tax Administrators	Tax Payers	Responses	%
Yes	0	1	2	3	10
No	6	4	12	22	73
Don't Know	2	2	1	5	17
<b>Total</b>	<b>8</b>	<b>7</b>	<b>15</b>	<b>30</b>	<b>100</b>

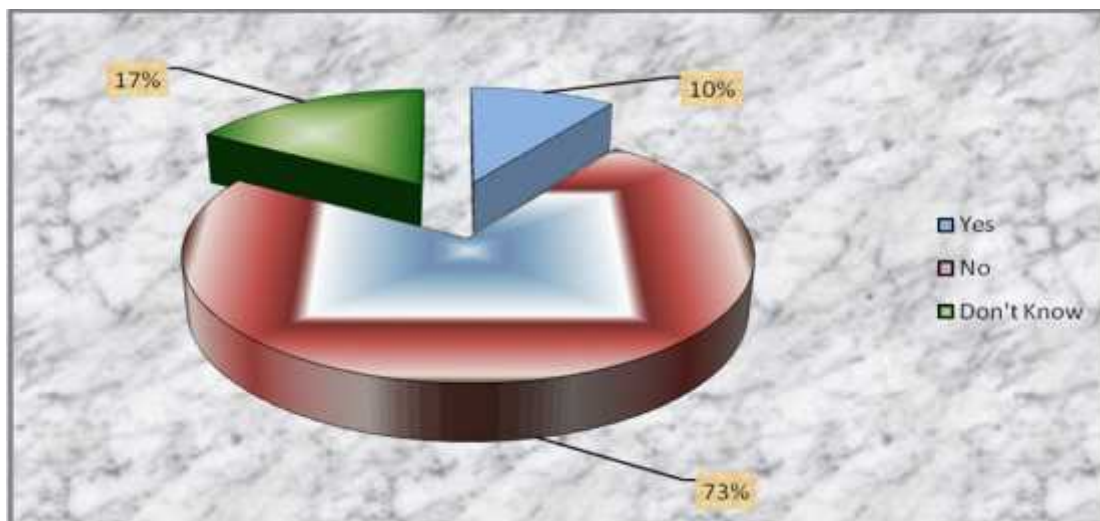
*Source: Field Survey, 2009*

The above table showed that the majority of the respondents, 22 out of 30 respondents (22%), strongly affirmed that the payment of house and compound tax is not made annually. Viewing each category, the majority of tax experts, 6 out of 8, the majority of tax administrators, 4 out of 7 and the majority of tax payers, 12 out of 15 stated that the the payment is not made annually. Hence, it

can be concluded that Lalitpur sub-metropolitan is unable to effectively collect local tax in the form of House and Compound tax regularly.

**Figure 4.22**

**Regular Payment of House and Compound Tax Annually**



The significance of the responses presented by the respondents is tested with the aid of chi-square method. The chi-square value for the payment of House and Compound tax annually is presented in the below table.

**Table 4.28**

**Chi-square value on Payment of House and Compound Tax Annually**

O	$E = \frac{RT \times CT}{N}$	O - E	$(O - E)^2$	$\frac{(O - E)^2}{E}$
0	0.80	-0.80	0.64	0.80
6	5.87	0.13	0.02	0.00
2	1.33	0.67	0.44	0.33
1	0.70	0.30	0.09	0.13
4	5.13	-1.13	1.28	0.25
2	1.17	0.83	0.69	0.60
2	1.50	0.50	0.25	0.17
12	11.00	1.00	1.00	0.09
1	2.50	-1.50	2.25	0.90
			$\frac{(O - E)^2}{E} =$	<b>3.27</b>

Since the calculated value of  $\chi^2$  (3.27) is lower than the tabulated value of  $\chi^2$  (9.49), it can be said that the opinions of all responding groups are similar and

there is no significant difference that the tax paying of Lalitpur people for holding house and compound is not made annually.

#### 4.2.7 Appropriateness of House and Compound Tax rate

The sub-metropolitan imposes a flat rate of Rs.300 per annum for having house valuing between one million to two million. Thus, to investigate the appropriated house and compound tax rate, the respondents were asked to express their opinions in this matter. The responses obtained from them are presented in the following table.

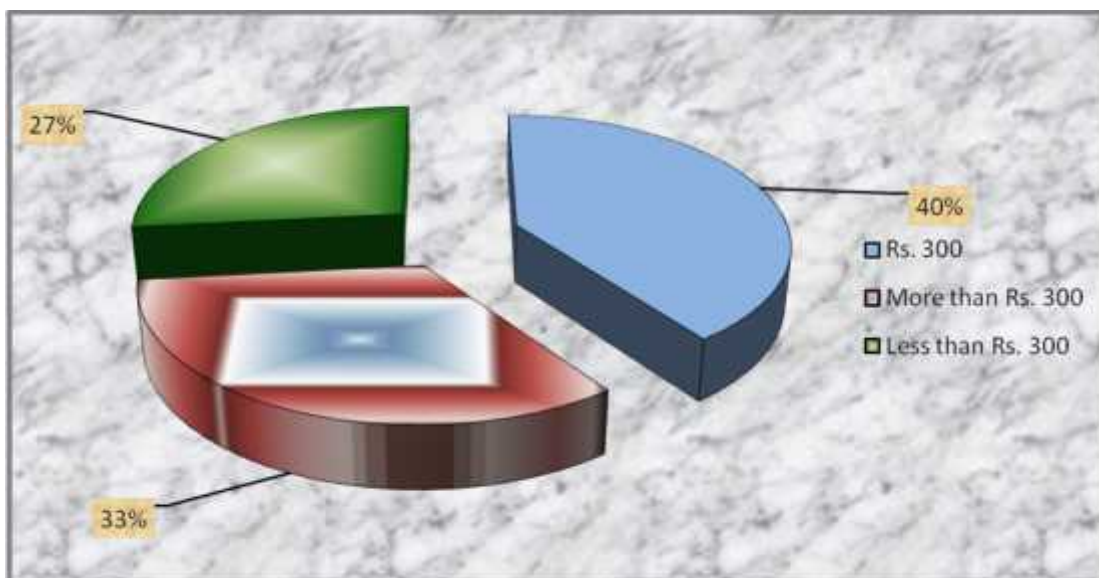
**Table 4.29**  
**Appropriateness of House and Compound Tax rate**

Response	Number of Respondents			Total	
	Tax Experts	Tax Administrators	Tax Payers	Responses	%
Rs. 300	3	4	5	12	40
More than Rs. 300	5	2	3	10	33
Less than Rs. 300	0	1	7	8	27
<b>Total</b>	<b>8</b>	<b>7</b>	<b>15</b>	<b>30</b>	<b>100</b>

*Source: Field Survey, 2009*

The above table depicts that the majority of the respondents, 12 out of 30 (40%) stated that the Rs. 300 is the appropriate minimum tax rate for house and compound. Similarly, 33% of the respondents, 10 out of 30, stated more than Rs. 300 will be appropriate for house and compound tax and 27% of the respondents stated less than Rs. 300 will be appropriate. Looking each category, the majority of tax experts, 5 out of 8 favored more than Rs. 300, the majority of tax administrators, 4 out of 7 favored Rs. 300 and the majority of the tax payers, 7 out of 15 favored less than Rs. 300 as the appropriate tax rate. Although, each category favored what they think, it can be considered that Rs. 300 is the appropriate tax rate looking the majority of the respondents.

**Figure 4.23**  
**Appropriateness of House and Compound Tax rate**



#### 4.2.8 Appropriateness of House and Land Rent Tax

To government used to impose 15% tax on house and land rent until last fiscal year but since this year a new rate of 10% is introduced and began to collect tax. So to examine which of this tax rate on house and land rent will be appropriate, the respondents were asked to express their feelings. The suggestion obtained from them is presented in the table.

**Table 4.30**

**Appropriateness of House and Land Rent Tax**

Response	Number of Respondents			Total	
	Tax Experts	Tax Administrator	Tax Payers	Responses	%
Recent 10%	4	4	10	18	60
Previous 15%	4	3	5	12	40
<b>Total</b>	<b>8</b>	<b>7</b>	<b>15</b>	<b>30</b>	<b>100</b>

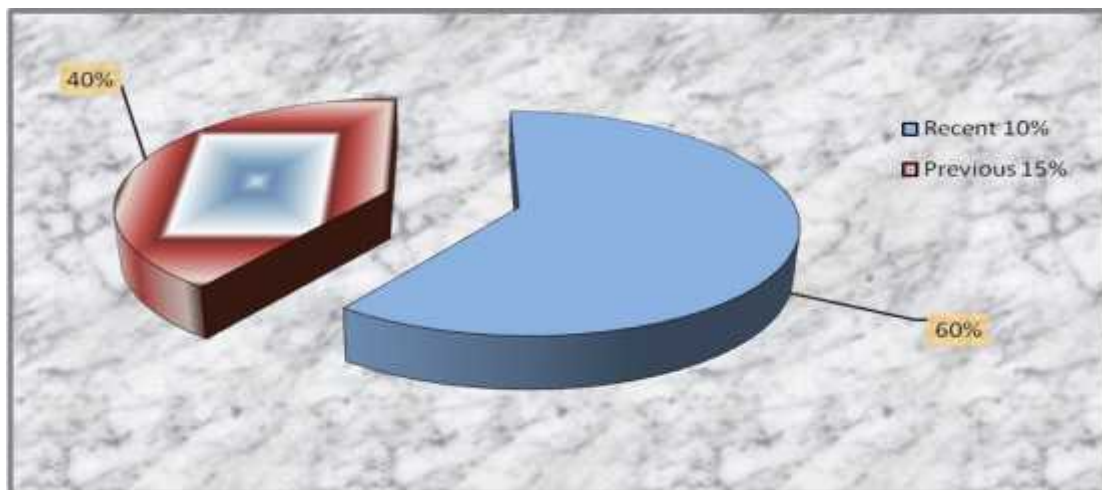
*Source: Field Survey, 2009*

The table showed that 60% of the respondents, 18 out of 30 stated that recent 10% tax rate is appropriate and 40% of the respondents, 12 out of 30 affirmed that previous 15% tax rate is appropriate. Looking each category, the majority of tax administrator, 4 out of 7 and tax payers, 10 out of 15 supported recent 10% while half of the tax experts supported recent 10% and half supported previous 15%. However, on the basis of overall majority, it can be considered

that the recent 10% tax rate on house and land rent is more appropriate to collect local tax than the previous 15% tax rate.

**Figure 4.24**

**Appropriateness of House and Land Rent Tax**



**4.2.9 Transparency on House and Land Transfer Rate**

While transferring the possession of House and Land, the individual has to pay tax on the different tax structure classified on the type of land. Hence, to know whether such tax rate is transparent or not, the respondents were asked to state their opinions. The responses achieved from them is presented in the following table.

**Table 4.31**

**Transparency on House and Land Transfer Rate**

Response	Number of Respondents			Total	
	Tax Experts	Tax Administrators	Tax Payers	Responses	%
Yes	5	6	2	13	43
No	2	1	11	14	47
Don't Know	1	0	2	3	10
<b>Total</b>	<b>8</b>	<b>7</b>	<b>15</b>	<b>30</b>	<b>100</b>

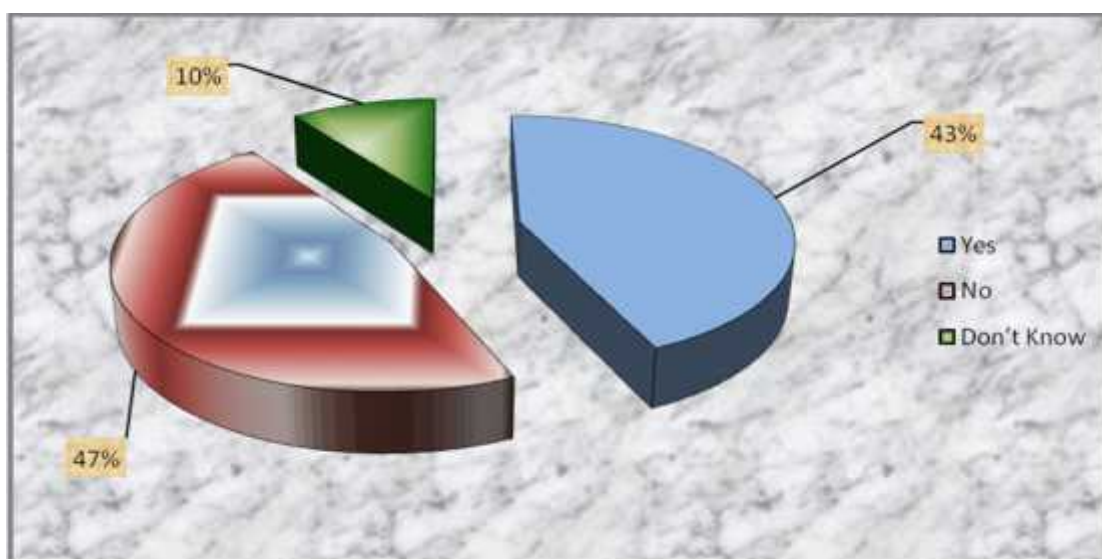
*Source: Field Survey, 2009*

The above table shows that the majority of the respondents, 14 out of 30 (47%) stated that the house and land transfer rate is not transparent. Similarly, 43% of the respondents, 13 out of 30 stated that the rate is transparent and 10% of the

respondents, 3 out of 30 remained silent. Looking each category, the majority of tax experts, 5 out of 8 and tax administrators, 6 out of 7 stated that the rate is transparent, while the majority of the tax payers, 11 out of 15 stated that the rate is not clear. Hence, on the basis of the overall majority, it can be considered that the tax rate on house and land transfer is not clear and thus should be made transparent in order to increase the local tax of Lalitpur sub-metropolitan.

**Figure 4.25**

**Transparency on House and Land Transfer Rate**



The significant of the result obtained from the respondents on the transparency of the tax rate on house and land transfer is tested with the aid of chi-square. The calculated value of chi-square is presented in the following table.

**Table 4.32**

**Chi-square value on Transparency on House and Land Transfer Rate**

O	E = $\frac{RT \times CT}{N}$	O - E	$(O - E)^2$	$\frac{(O - E)^2}{E}$
---	------------------------------	-------	-------------	-----------------------



	<b>N</b>			<b>E</b>
5	3.47	1.53	2.35	0.68
2	3.73	-1.73	3.00	0.80
1	0.80	0.20	0.04	0.05
6	3.03	2.97	8.80	2.90
1	3.27	-2.27	5.14	1.57
0	0.70	-0.70	0.49	0.70
2	6.50	-4.50	20.25	3.12
11	7.00	4.00	16.00	2.29
2	1.50	0.50	0.25	0.17
		$\frac{(O - E)^2}{E} =$		<b>12.27</b>

As the calculated value of  $\chi^2$  (12.27) is higher than the tabulated value of  $\chi^2$  (9.49), it can be said that the opinions of all responding groups are not similar and there is significant difference that in the opinion that the tax rate on transferring property is not transparent.

#### 4.2.10 Effectiveness to collect Local Tax

To examine whether the Lalitpur sub-metropolitan is effective in collection of local tax, the opinions were collected from the respondents to clarify on this matter. The responses achieved are presented in the following table.

**Table 4.33**

#### Effectiveness to collect Local Tax

Response	Number of Respondents			Total	
	Tax Experts	Tax Administrators	Tax Payers	Responses	%
Yes	5	5	12	22	73
No	3	1	2	6	20
Don't Know	0	1	1	2	7
<b>Total</b>	<b>8</b>	<b>7</b>	<b>15</b>	<b>30</b>	<b>100</b>

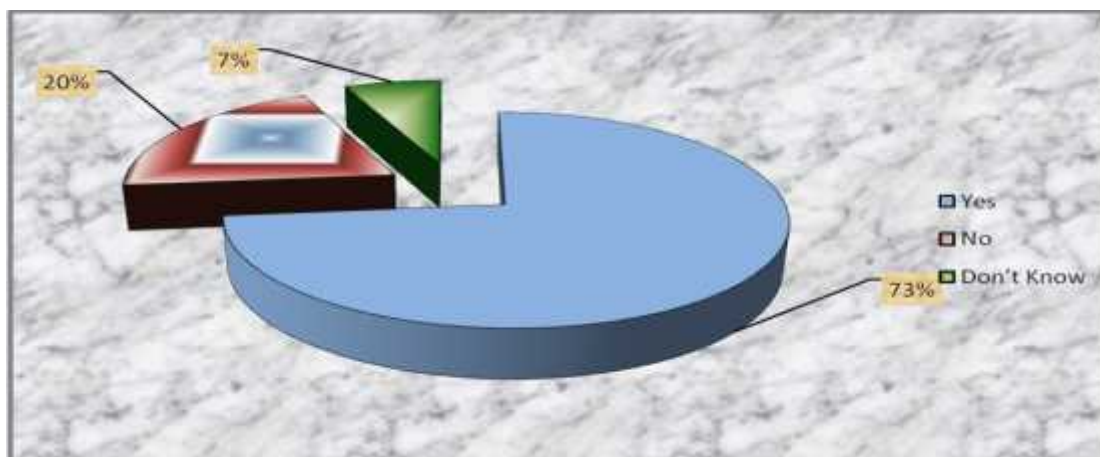
*Source: Field Survey, 2009*

The table shows that the 73% of the respondents, 22 out of 30 stated that the Lalitpur sub-metropolitan is effective in the collection of local tax, while 20% of the respondents, 6 out of 30 affirmed that the sub-metropolitan is not effective in local tax collection and 7% of the respondents, 2 out 30 remained

silent. The majority of all category, 5 out of 8 tax experts, 5 out of 7 tax administrators and 12 out of 15 tax payers collectively stated that the sub-metropolitan is effective in local tax collection.

**Figure 4.26**

**Effectiveness to collect Local Tax**



To measure the significance of the responses obtained on the efficiency of sub-metropolitan to collect local tax, chi-square method is adopted. The calculation of chi-square is done in the following table.

**Table 4.34**

**Chi-square value on Effectiveness to collect Local Tax**

O	E = $\frac{RT \times CT}{N}$	O - E	$(O - E)^2$	$\frac{(O - E)^2}{E}$
5	5.87	-0.87	0.75	0.13
3	1.60	1.40	1.96	1.23
0	0.53	-0.53	0.28	0.53
5	5.13	-0.13	0.02	0.00
1	1.40	-0.40	0.16	0.11
1	0.47	0.53	0.28	0.61
12	11.00	1.00	1.00	0.09
2	3.00	-1.00	1.00	0.33
1	1.00	0.00	0.00	0.00
			$\frac{(O - E)^2}{E} =$	<b>3.04</b>

The tabulated value of  $\chi^2$  at 5% level of significance for 4 d.f. is 9.49. Since the calculated value of  $\chi^2$  (3.04) is lower than the tabulated value of  $\chi^2$  (9.49), it can be said that the opinions of all responding groups are similar and there is no significant difference that Lalitpur sub-metropolitan is effective in local tax collection.

#### 4.2.11 Problems in Local Tax Collection

To investigate the problems that are barricading in the effective collection of local tax, the respondents were asked to express their opinions. The answers obtained from them are presented in the following table.

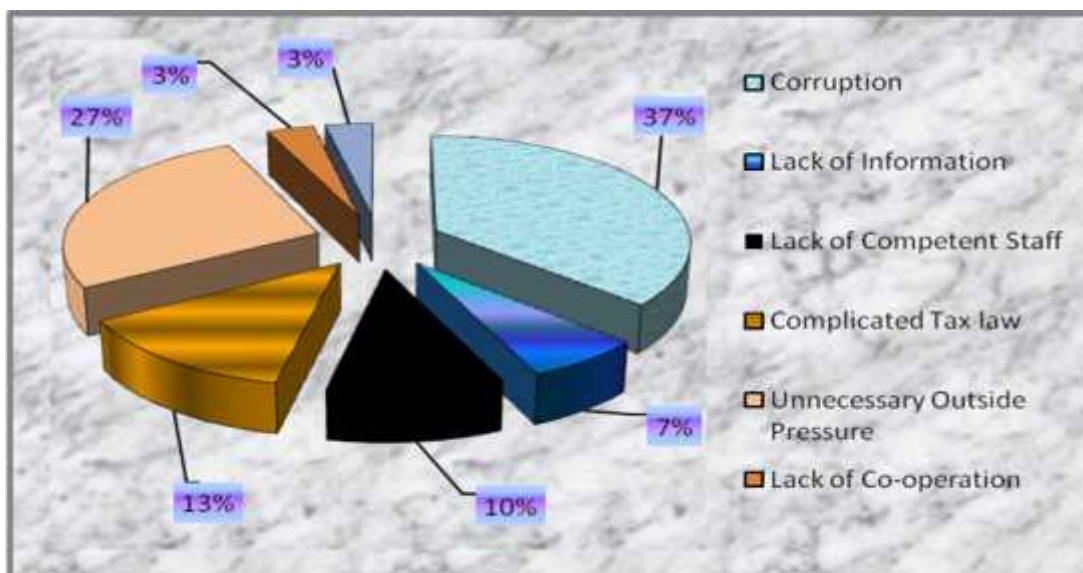
**Table 4.35**  
**Problems in Local Tax Collection**

Response	Number of Respondents			Total	
	Tax Experts	Tax Admins.	Tax Payers	Response	%
Corruption	3	0	8	11	37
Lack of Information	0	1	1	2	7
Lack of Competent Staff	1	0	2	3	10
Complicated Tax law	2	1	1	4	13
Unnecessary Outside Pressure	2	3	3	8	27
Lack of Co-operation	0	1	0	1	3
Lack of Logistic Support	0	1	0	1	3
<b>Total</b>	<b>8</b>	<b>7</b>	<b>15</b>	<b>30</b>	<b>100</b>

*Source: Field Survey, 2009*

The table shows that corruption is the major problem of effective local tax collection as 37% of the respondents, 11 out of 30 chose it. Besides corruption, Unnecessary outside pressure (27%), complicated tax law (13%), lack of competent staff (10%), lack of information (7%), lack of co-operation (3%) and lack of logistic support (3%) are the problems hindering the effectiveness of local tax collection respectively in Lalipur sub-metropolitan.

**Figure 4.27**  
**Problems in Local Tax Collection**



#### 4.2.12 Suggestion for Effective collection of Local Tax

Finally the respondents were asked to express their suggestion for effective collection of local tax in Laltipur. The responses obtained from them is presented in the table below.

**Table 4.36**  
**Suggestion for Effective collection of Local Tax**

Response	Number of Respondents			Total	
	Tax Experts	Tax Admins.	Tax Payers	Responses	%
Reduce Corruption	2	0	5	7	23
Increase Tax Rate	1	1	1	3	10
Aware Citizens	3	4	6	13	43
Strict Fines and Penalties	1	2	1	4	13
Capable Staff	1	0	2	3	10
<b>Total</b>	<b>8</b>	<b>7</b>	<b>15</b>	<b>30</b>	<b>100</b>

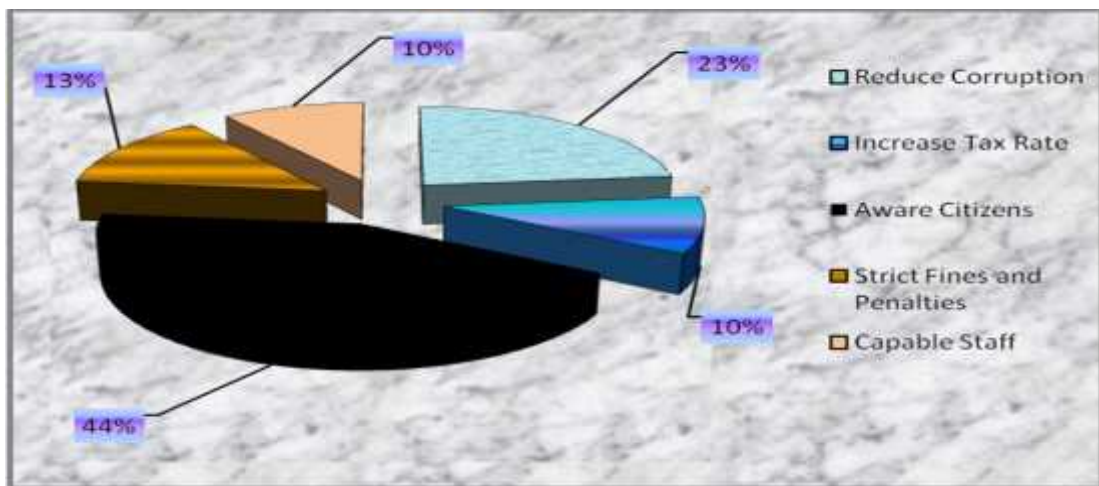
*Source: Field Survey, 2009*

The table shows that 43% of the respondents opined that awareness of citizens to pay tax is most essential in effective collection of tax. Besides this, 23% of the respondents suggested that reduction of corruption is crucial for effective tax collection. Similarly, 13% of the respondents suggested strict fines and penalties for tax offenders and 10% of the respondents recommended increase

tax rate and recruitment of capable staff each to collect the local tax effectively in Lalipur sub-metropolitan. Hence, for effective collection, the sub-metropolitan should conduct awareness program on tax and should try to convince that the tax payer himself will be benefited from the tax amount he pays. Also, corruption alleviation and strict fines and penalties for tax offenders are also equally important.

**Figure 4.28**

**Suggestion for Effective collection of Local Tax**



**4.3 Major Findings**

On the basis of data presentation and analysis some important findings were as follows:

- ❖ The revenue of Lalitpur sub-metropolitan is highly dominated by the Service fees. Besides service fees, local tax occupies the major portion of revenue. Local tax contributed almost 16.40% of revenue in average.
- ❖ Lalitpur sub-metropolitan collected an average local tax amounting Rs. 26173415 in the five year period taken for research. Also, the local tax increased highest by 27.04% in the fiscal year 2004/05.
- ❖ House and compound tax is the major source of local tax of Lalitpur. Besides, house and compound tax, business tax occupies the major portion of local tax.
- ❖ Likewise, House and Compound tax covered 61.84%, house and land rent tax covered 8.41%, business tax covered 9.86%, vehicle tax covered

7.69%, entertainment tax covered 1.50% and advertisement tax covered 3.45% in average of the total local tax of Lalitpur.

- ❖ The trend analysis showed that HLR tax increases by Rs. 90064, HCT increases by Rs. 3201661, HRT increases by Rs. 758694, BT increases by Rs. 433381, VT increases by Rs. 124541, ET decreases by Rs. 56739, AT increases by Rs. 407403 and LT increases by Rs. 4911676 per year.
- ❖ The primary data analysis showed that 16 out of 30 respondents affirmed that to increase the government revenue should be the special goal of tax system. Similarly, 10 respondents enforced that to reduce poverty gap should be the prime concern.
- ❖ 70% of the respondents opined that the tax paying habit of Lalitpur people is not poor and 83% opined that effective local tax increases the tax paying habit of Lalitpur people. Also, 63% of the respondents explicated that the role of local tax system of Lalitpur to increase government revenue is satisfactory.
- ❖ Likewise, 73% of the respondents think that house and compound tax are not paid annually by the owner and the majority opined that Rs.300 flat tax rate on house and compound valuing between one to two million.
- ❖ Similarly, 60% of the respondents favored the current 10% tax rate on House and Land rent than previous 15% tax rate and 47% of the respondents said that the tax rate on transferring property is not transparent.
- ❖ 73% of the respondents are in the view that Lalitpur sub-metropolitan is effective in local tax collection. Also, the majority of the respondents said that corruption is the major barricade in sound collection of local tax and 43% of the respondents suggested to aware people about the local tax system for effective collection.

## CHAPTER-V

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary

The government requires sufficient revenues for the economic development as well as to handle day-to-day administration to perform activities like maintaining peace and security, launching other public welfare and developing activities. To perform such activities, the government collects revenues from various sources such as tax revenue from public enterprises, special assessment, fees, fines, grants and assistances etc. Among them, revenue collected from tax plays a vital role in state economy. The main philosophy behind taxation is that every individual should contribute towards the expenses of the government.

Government revenue is the composition of external and internal revenue. Internal revenue includes both tax and non-tax revenue. Nepalese tax revenue is the composition of direct and indirect tax revenue. There is dominant role of indirect tax revenue in Nepalese tax revenue structure. Indirect tax revenue contributed three times more than the direct tax. Direct tax revenue is the composition of income tax, land tax, house and land registration tax and other tax. There was dominant role of income tax in total direct tax. However, the contribution of local tax like house and land registration (Malpot), house and compound tax, house rent tax, advertisement tax and other collected by the municipality in the total revenue of government.

Likewise, the contribution of Lalitpur sub-metropolitan on collection of local tax to increase the government revenue is the fact to study. Thus the specific objective of this study is to examine the contribution of local tax on the total revenue of Lalitpur sub-metropolitan. To achieve this objective different taxation tools and statistical tools have been adopted.

The study has been divided into five main chapters, viz, i) Introduction, ii) Review of Literature, iii) Research Methodology, iv) Data Presentation and Analysis and v) Summary, Conclusion and Recommendations.

## **5.2 Conclusion**

On the basis of the data analyzed and major findings drawn, it can be concluded that there is good prospect of local tax in Lalitpur. The total local tax of Lalitpur has increased in each year except in last year. However, the local tax increased by two fold within these five year period. Similarly, local tax occupies the second major portion of the total revenue of the sub-metropolitan and is highly dominated by the House and Compound Tax. On the basis of the secondary data it can be concluded that the local tax of Lalitpur highly relies on the House and Compound tax, which occupies more than three-fifth of the total local tax collection.

Similarly, the contribution of House and Land registration tax, House rent tax, Business Tax, Vehicle Tax, Entertainment Tax and Advertisement Tax on total local tax are less than ten percent. The trend analysis shows that except entertainment tax all the major source of local tax increases in each fiscal year and thus has positive relationship with time period.

On the basis of primary data analysis, it can be concluded that the specific goal of tax in Nepal should be to increase the government revenue. Besides that, the reduction of poverty gap should also be the specific goal. Also, tax paying habit of Lalitpur people is not poor and further can be enhanced with the effective implementation of local tax. Likewise, the role of local tax to increase the revenue of government is satisfactory in Lalitpur. Similarly, it can be concluded that every owner does not pay the house and compound tax annually and the tax rate imposed for property transfer is not transparent. Although, the sub-metropolitan is effective to collect local tax, corruption is the major problem in tax collection and increase awareness on consumer and reduction in corruption can enhance the local tax collection



### **5.3 Recommendations**

On the basis of finding of the study, the following recommendations are made regarding contribution of local tax in increasing total revenue:

- ❖ Strong political commitment is necessary for the effective implementation and Local Tax and its provisions regarding to property tax.
- ❖ People should be encouraged to pay tax voluntarily. A system should be introduced that a tax-paying citizen is entitled to receive more benefits and incentives than non-taxpaying citizen.
- ❖ To increase local tax and eventually total revenue, the effective collection policy in less dominated source like entertainment, vehicle and advertisement.
- ❖ To improve the tax collection procedure, the maximum penalties should be imposed for non-compliance of tax with in the due date.
- ❖ Tax laws should be clear, comprehensive and simple. It should not contain any loopholes and ambiguity. Therefore it should be reviewed frequently and reformed.
- ❖ Property Tax Act, rules and regulation should be made cleared and simple for all taxpayers as well as for all related persons.
- ❖ The House and Compound tax is not paid annually by every citizens. So, strict fines and interest rate should be followed for them to speed up the collection and smooth increase in local tax and revenue.
- ❖ The language used in tax law and policy should be simple and clear. In spite of using the vague meaningful words clear-cut provision should be made.
- ❖ To make the administration capable of facing new challenges, there should be improvement in professionalism as well as development of new professional ethics compatible to the changed context of liberalization.
- ❖ For IRD, separate research and control unit should be established in order to find out lapses in tax policies issued by government.

- ❖ The IRD made provision of reward to those informants who supplies information about tax evasion, abiding and abetting etc.
- ❖ Computerization and effective exchange of information system should be maintained. If there is enough reasons to believe that the taxpayers has earned from illegal business and corruption. So, the income earned should be made liable to tax at high rate without exemption limit and maximum penalty.
- ❖ Tax personnel should be encouraged, punished and transferred on the basis of their work and experience not on the basis of outside pressure.

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