Chapter 1

INTRODUCTION

1.1 General background

Nepal is a beautiful small landlocked country situated between two large countries India and China. The economic condition of Nepal is relatively poor than neighbor countries. The economic growth of China is increasing trend on the other side the economic growth of India also in increasing trend. Both countries affect the Nepalese economy directly and indirectly. In this situation the Nepalese economy cannot stay alone without considering these countries economy. On the other hand Nepal had reach in natural resources. Nepal has been facing some problems. The main problems are unemployment poverty, rapid growth of population political instability etc.

The government of Nepal should utilize the natural resources properly to avoid these problems. The government has to spend a lot of money to fulfill their responsibility towards the people these responsibility may be development, health, education etc. If the government allocates the budget in this sector properly the Nepalese economy will be increase near. But the government expenditure is increasing day to day because of different causes. To meet the expenditure government has to manage its fund different sources. These sources may be internal or external. There are many negative results of external source of fund. Nobody becomes ready to provide grants and loans with out conditions. Internal sources are better sources than external sources so the government should focus on internal sources of funds.

The government collects revenue from various sources such as tax, revenues from public enterprises, special assessment, fees, fines, grants and assistance etc. The tax is the main sources of government revenue.

Tax is the main sources of revenue to the government. The tax is a liability to pay an amount to the government it is a compulsory contribution to the national revenue from the tax payers according to law (Battrai and Koirala 2004). Tax is the compulsory levy imposed by the government. The persons who pay tax do not get corresponding benefits from the government. It is leaved on persons as per the prevailing laws tax can be classified in to two board categories.

Direct tax: The direct tax is a tax paid by a person on whom it is legally imposed, in direct tax the person paying and bearing tax is the same. Income tax, property tax vehicles tax, interest tax expenditure tax death tax and gift tax are examples of direct tax.

Indirect tax: An indirect tax is a tax imposed on one person but partly or wholly paid by an other VAT, sales tax, entertainment tax, hotel tax, excise duty import and export duty etc are examples of indirect tax.

To increase the government expenditure the government should increase his fund. To increase the fund the government should increase the collection of tax. So to get the maximum benefits the government should increase the collection of tax by different ways.

1.2 Statement of problem

Nepal is facing the problems by different ways. The government can't operate the development project due to lack of funds government expenditures are increasing day by day due to increase in price level and other circumstances. The government revenue is less than the government expenditures most of the industries are not properly in operations because of lack of fund. The government is not became success to collect internal revenue properly on the other hands there are many negative results of foreign loans. Nepal has been suffering from resources constraint, massive poverty repaid growth of population, increasing unemployment rate political instability etc. To solve these problem the government should be create the maximum employment should be operate. The government can't conduct these works properly without sufficient fund. To generate sufficient fund and government should collect the tax.

1.3 Objectives of the study

The main objective of this study is to find out the difficulties in tax collection to the governments. However the following specific objectives are sets for the study.

1. To find out the revenue collection from the different year.
2. To review the tax collection system.
3. To find out the contribution of tax to national revenue.
4. To find out the problems in tax collection system.
5. To provide suggestion for effective tax collection.

1.4 Focus of the study

Taxes are general contribution of wealth levied upon person, natural on corporate to defray expenses incurred in conferring common benefits upon the residents of states. It is compulsory levy imposed by the government without having any direct personal benefits. Nobody gets any benefits from the government those who paid tax. So more efforts should be on actual circumstances. Theoretical and practical knowledge required to implement and evaluate tax properly.

So this study analyses and evaluates Nepalese tax structure and its practice properly. This study analyses the amount received from tax different years at different heads of income. This study will provide clear idea and knowledge to those persons who are interested to know about tax system. This study also provides the clear idea about the tax system in Nepal. This study focuses the practical difficulties of tax collection system in Nepal and provides the suggestion of different persons to make effectiveness technique to collect tax.

1.5 Research Methodology

This study deals with the research design population and sample of data, data collection procedures and tools for analysis.

Research design

To conduct the research analytical and descriptive research approach is adopted or the readily available historical data used in this study are primary and secondary data.

Population of sample

Tax administration, tax exports, tax payers will consider as the total population out of them 25 tax experts. 25 tax administrations and 25 tax payers consider as the target population for the study.

Sources of data

The primary as well as secondary sources of data are collected. The major sources of data are as follows:

a) Primary data: primary sources of data are collected with in Kathmandu Valley.

b) Secondary sources of data: secondary sources of data are collected from the information received from economic survey, books, published and unpublished articles, newspaper, annual reports etc.

Tools for analysis

To find out the actual result different financial and statistical tools are used to analyze the information.

1.6 Limitation of the study

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

1) This study is based on availability of reliable data and sufficient literature
2) Field survey is based in Kathmandu.
3) Field survey is focus on Kathmandu city only.
4) This study will covers around 7 year's data only.
5) Limited business-men, tax experts, tax officers and customers are consulted to collect primary data

1.7 Organization of the study

This study is divided in to five chapters they are:

Introduction

The first chapter deals with background, statement of problem, focus of the study, objective of study, research methodology limitation of study and chapter scheme.

Literature review

The second chapter deals the review of related literatures and available studies, written and prepared by different experts and researcher.

Research methodology

The third chapter "Research Methodology" present the methodology used in this study. It deals with research design, nature and sources of data, collection of data, data processing and method of data analysis.

Presentation and analysis of data

The fourth chapter fulfills the objectives of the study by presenting the data and analyzing them with the helps of various accounting and statistical tools and techniques followed by methodology.

Summary conclusion and recommendation

The fifth chapter summarizes the whole study. Moreover it draws the summary conclusion and forwards the recommendation for the improvement of effective Tax collection system and to avoid the difficulties in tax collection system.

Chapter 2

REVIEW OF LITERATURE

2.1 Concept of tax

The government of any country requires sufficient revenues to lunch the development program to handle the daily administration to keep peace and security and to lunch other public welfare program. The government or public revenues are collected through various sources these sources can be tax revenue, revenues from government corporation and public enterprises, fees, special assessment, fines and penalties and foreign grants among them tax is the main source of collecting the public revenues because it occupies the most important part of government treasury. In Nepal about 77% of total revenue comes from tax revenue and the rest 23% from non tax revenues.

Following are the main sources of government revenue:-

- Tax: - It is a compulsory contribution from people to government.
- Price of goods or services provided by the government. It is the amount collected from special sector for specific purpose.
- Receipt from Public enterprises: The governments receipt amount from Public enterprises owned by it.
- Fee:- The amount paid for the government for receiving its services.
- Fines:- It is the amount paid for violating government's rules, act and regulations.
- Grants etc:- The amount received by the government from foreign countries and agencies.

In short, all the above sources of the government revenue can be divided into two parts- Tax and Non tax. Tax is the major source covering most part of the government revenue. Tax is the compulsory payment to the government but is not fine. Taxpayers do not get any direct benefit from the state by paying tax. Government collects tax with the permission of legislature to fulfill financial need of the state. Tax is a compulsory payment to government for the compensation of public expenditure. Tax fulfills the needs of central or local government to spend for philanthropic work. The main objective of the tax is to distribute wealth and income equally among the citizens. Mainly tax is classified into two groups. They are direct tax and indirect tax (Adhikari; 2003). Tax is a kind of money of which it is the legal duty of every citizen of a country to pay honestly. Many economists have the view that tax is a compulsory payment to the government by taxpayer without any expectation of some specified return in fur of them. The experts have given definition regarding tax and some of them are mentioned here.

According to classical economist Dalton, "A tax is a compulsory contribution imposed by public authority irrespective of the exact amount of service rendered to the taxpayer in return and not imposed a penalty for any legal offence.(Dhakal 1998)

Likewise, According to the Findlay Shirras, "Tax is compulsory contributions to public authorities to meet the general expenses of government which have been incurred for the public good and without reference to special benefits." (Lekhi; 2000)

According to Bastable, "A tax is compulsory contribution of wealth of a person or body of persons for the service of public power." (Dhakal; 1998)

According to Plehn, "Taxes are general contribution of wealth levied upon persons natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the status." (Dhakal; 1998:2)

According to Prof. Saligman, “A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all with out reference to special benefit conferred.” (Lekhi; 2000).

From the above definition, it is clear that a tax is a compulsory levy and those who are taxed has to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax they had paid. In addition, the taxpayer cannot receive equivalent benefit from the government. Amount collected through taxation is spent for common interest of the citizen and is collect from natural and artificial person.

Tax is a compulsory payment to the government from a person according to law. It is contributed to the government without expectation of any direct benefit to the taxpayer. There are may tax system in the world mainly there are two types of tax which are use in practice in the world they are direct and indirect tax.

2.2 Objectives of Tax

Taxation has been a very essential element of a government from the very beginning of the state system. However, the main objective of taxation has been different for different epochs. In ancient times, the major objectives of taxation were strengthening the muscles of the state by proving the resources. Till to the time of Adam Smith; the chief motive of collecting revenue was to provide resources to the government for providing security to an individual and society against violence, invasion and injustice and maintain public institution.

In modern days, the main objective of taxation has been shifted from security perception to the economic development. The modern objective of taxation is not only to maintain peace and security but also to conduct development activities. We Can enumerate the objectives of modern taxation as follows:-

- To have equitable distribution of income and property.
- To increase the revenue for welfare state.
- To increase the employment, saving and investment.
- To minimize regional disparity.
- To prevent concentration of wealth in few hands.

2.3 Classification of Taxes

In broad sense, taxes are classified into two categories. One is direct tax and other is Indirect tax.

a. Direct Tax

A direct tax a tax paid by a person on whom, it is legally imposed. In direct tax, the person paying and bearing tax is the same. It is the tax on income and property. Examples of direct taxes are; Income tax, Property tax, Vehicle tax, Interest tax, Expenditure tax, Death tax, Gift tax, etc.

Merits

- It is equitable as it is imposed on person as per the property or income.
- Time, procedure and amount of tax to be paid are known with certainty.
- It is elastic. The government can be change tax rate with the change in the level of property or income.
- It enhances the consciousness of the citizens. Taxpayers feel burden of tax and so they can insist the government to spend their contributions for the welfare of the community.

Demerits

- It gives mental pinch to the taxpayers as they have to curtail their income to pay to the government.

- Taxpayers feel inconvenience as the government imposes tax progressively.
- Tendency to evade tax may increase to avoid tax burden.
- It is expensive for the government to collect tax individually.

b. *Indirect Tax*

An indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax, the person paying and bearing the tax is different. It is the tax on consumption or expenditures. Examples of indirect taxes are; VAT, Sales tax, Entertainment tax, Hotel tax, Excise duty, Import and export duty, etc.

Merits

- It is convenient as the taxpayer does not have to pay a lump sum amount for tax.
- There is mass participation. Each and every person getting goods or services has to pay tax.
- There is less chance of tax evasion as the taxpayers pay the tax collected from consumers.
- The government can check on the consumption of harmful goods by imposing higher taxes.

Demerits

- It is uncertain. As demand fluctuates, tax will also fluctuate.
- It is regretful as the tax burden to the rich and the poor is same.
- It has bad effect on consumption, production and employment. Higher taxes will reduce all of them.

- Most of the taxes are included in the price of goods or services. As a result, taxpayers do not know how much tax they a re paying to the government.

2.4 Canons of Taxation

The government of a country adopts various principles while formulation suitable tax policy. Those principle or canons of taxation areas are as follows:-

1. Canon of Equity,
2. Canon of Certainty,
3. Canon of Economic,
4. Canon of Diversity,
5. Canon of Simplicity,
6. Canon of Neutrality,
7. Canon of Co-ordination,
8. Canon of Productivity and
9. Canon of Elasticity.

2.5 Meaning of Income Tax

The concept of income tax in different countries is found differently because of diverse economic structure, nature of the government and status of people. In United States, income tax is viewed as a matter of practice, recurrent is not relevant to the tax status. In United Kingdom, the original concept of the tax was that of a levy on recurrent income and the tax was applied to five schedules any item not falling within one of the five schedules not being subjected to tax. In India, the personal income tax is levied in the net income of all individual, joint

Hindu families, unregistered firm and other associations of person. (Chelliah, 1959)

Income tax is a personal tax imposed on the net income of individuals and corporation. In most of the countries especially the united State of America, Canada and other countries; the income tax is defined in terms of the 'flow of wealth' of receipt in money or good from taxpayer during the period. In flow of wealth method, taxation is imposed on a realization rather than as an accrual basis, and applies only when a transaction occurs between other persons and taxpayers. (Due, 1959)

According to tax economists- An income tax is a levy imposed upon the income of individuals after the exemption limit. Income tax is direct tax based on the total income of the payer from all sources and is graduated on special system of exemption. Taxes on income is the most important single source of revenue of government of developed and also developing countries either it contribute more or less.

The first problem encountered in establishing an income tax is the definition of income. Income, as the economic gain received by the person during the particulars period, is most satisfactory defined by Henry Simons as the algebraic sum of two items:

A. The person's consumption during the period, and

B. The net increase in the individual's personal wealth during the period

Symbolically, $Y=C+\triangle W$

Where, Y, C and W refer income, consumption and change in wealth respectively.

It is very difficult to define income precisely and clearly. So, income is exemplified rather than defined income tax laws of various countries. For example, sec.2 of the India Income tax Act, 1961 keeps profits and gains, dividend, voluntary contributions received by charitable trust, value of any perquisite or profit on lieu of salary, any capital gain, winning from lotteries, cross word puzzles etc. under the head income.

According to income tax act 2002, Sec 2(h), income means a person income from any employment, business or investment and the total of that income as calculated in accordance with this act.

2.6 International History of Income Tax

For the first time Great Britain introduce the income tax in 1799 in order to finance wars with France. Only after 1980, it was accepted as a permanent tax. In United State, first federal income tax was imposed in 1862 to finance civil war expenditure. However, it became a permanent feature only in 1913 after 16^{th} amendment to U.S. constitution. In neighbour country India, at first income tax was introduced in 1860. After introducing 'Income Tax Act 1886' in 1886, it was imposed as a permanent. Italy adopted income tax in 1864, New Zealand in 1891, Australia on 1915 and Canada in 1917. After First World War, the income tax became an important source of tax revenue in many developed countries. By 1939, it has became the most important source of revenue in most developed countries and had made appearance in a number of developing nations (Agrawal, 1980)

From the First World War decade, Income tax has shown as an important source of revenue in developed country. In the beginning of introducing time, it was generally levied at flat rate. Only after 1909, the principle of progression was introduced from the UK and New Zealand. Income tax was introduced due to the cause of war and national emergencies. Thus, the second name of income tax is war tax. After the end of the war, the tax was named as income tax. Now days, it has been the important instrument against poverty and inequality. (Agrawal, 1978)

2.7 Historical Aspects of Income Tax in Nepal

A. Taxation in Ancient age of Nepal

The collection of income tax was the key element of the government from ancient age. Very few economic activities were operated in the country so government can not collect large amount of money in form of tax. At that time, taxes are levied to the merchant, travellers and farmers in the form of cash, kind of labour. In some occasion, gold and agricultural products were also paid as taxes but the nature of these taxes were temporary and taxes were raised for special purposes. (Regmi, 1995)

Although there is no relevant source of ancient tax, in the inscription of Ansubarma, it is noted that there were three taxes called 'Trikar'. 'Bhaga' is the agricultural tax, animal husbandry was called 'Bhaga' and tax on business was called 'kara'. Irrigation tax and religious monuments preservations taxes also existed at the time of Ansubarma. During the period of 1968-1846 A.D, different types of taxes were levied to generate maximum revenue. The major sources of revenue were; Birta and Kipat, taxes on land, monopolies customs, transit and market duties, mines and mints and the export of forest products, birds, animals and various levies and fines. Taxes were collected at three levels: Royal palace levies, government levies and local levies. The various taxes levied during that period were narrow in base and were imposed primarily on occupations and economic activities, not in income or property. There was no taxation of income in the modern sense of income tax but income taxes from agriculture income and incomes from business were introduced as a direct tax for the first time in Nepal.

B. Taxation in Nepal before Democracy

From the age of 1776 to 1950 has taken as before democracy period. In this period, tax system becomes more advanced then the ancient age of Nepal.

Taxation had a broad sense in this unified Nepal. During this period, revenue maximization was only the main objective of tax policies. Raikar, Birta, Guthi, Sera and Kipat were the five main land tenure among them Bitta and Kipat are the main source of revenue.

‘Walk was collect from each family on a regular basis and in period of national celebration of festival or ceremonial occasion. ‘Gadimubarak’ was collect to finance of coronation ceremony of a new king. ‘Darshanbhet’ was collected from both civil and military employees at the time of their appointment and confirmation. ‘Salami’ was collected local revenue collection functionaries in the trial region as an annual payment. Taxes were imposed primarily on occupations and economics activity not on property. Tax base was very narrow. The Birta owner class had much influential role in political and administration. However, In 1772 Prithivi Narayan Shah Introduced ‘Pota tax’ was regarded revolutionary measures in Nepals fiscal system. It was not based on progressive tax principal it was limited on small Birta owners and privileged of the members of the nobility person did not play ‘pota’. Only common people who lived on raider lands paid the homestead taxes and other ‘Pota’ Levies. (Regmi, 1995:55)

During the period of Rana Regime, there was not formal provision for imposition and collection of taxes. Taxes were imposed according to the objectives, needs and whims of the ruling the prime Minister. There was not provision of separating the personal income of prime Minister and state treasury. There is no system of preparing government budget. The surplus of revenue over expenditure was considered the personal income of the Rana Prime Minister.

The major source of revenue in Nepal till 1951, were land tax, custom and excise duties in the from of lump sum contracts, royalties on forest , royalty on supply of porters and soldiers, entertainment tax and a few other minor taxes. Incomes were not taxed for raising regular revenues of the state treasury but for meting specific expenditure of the household of extra ordinary expenditure necessitated by war or other emergencies.

There was no direct tax in the country except land tax collected on a contractual basis and 'Salami' which the government employees used to pay out of their salaries at a very small percentage. The Salami was abolished in 1951. The Rana rulers did not think of development of effective revenue administration system. After the advent of democracy in the country in 1951, no taxes are levied and collected in Nepal except in accordance with law. (Gautam, 2004)

2.8 Income Tax in Modern Nepal

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

After the independence of the country in1951, the role of government has changed. Since, the government was enforced to operate development activities, besides governing the regular function of maintaining law and order and the collection of revenue (Bhatta and Shrestha, 1981:3)

A sound and efficient income tax system is necessary to maximize the revenue collection from income tax. Whole income tax system is made of three sub systems i.e income tax policy, income tax laws and income tax administration.

Income tax policy is determined by the government itself through Ministry of Finance. Income tax policy should be such that the main objectives of the income tax can be attained.

'No taxes shall be levied and collected except in accordance with law' (Constitution of Kingdom of Nepal, 1990). Parliament makes the laws to implement the various policies. The government levy and collect the income tax in accordance with law. The Constitution of the Kingdom of Nepal, 1990 has made the clear provision about it. In 1960, a formal Income tax act was enacted in accordance with the provision in Finance Act,1959 for the first time in Nepal. In three years experience, the Business Profit and Remuneration Act, 1960 was found very narrow and vague and it was replaced by the Nepal Income Tax Act, 1962. The Income Tax Act, 1962 remained till 1974 and Income Tax Act, 1974 also replaced by Income Tax Act, 2002. Present legal provision of income tax is associated with Constitution of Nepal,1990; Income Tax Act, 2002; Income Tax Rules 2002; Finance act of concerned financial year.

A. Business Profit and salaries tax Act 1960

The government of Nepal introduced a formal income tax for the first time in Nepal in 1960 (2017B.S) in the form of 'Business Profits and Remuneration Tax'. Before the act, Finance Act was used to make the provision regarding income tax. According to this act only Business Profits and Remunerations on income were subjected to tax but the revenue for these taxes should not be collected properly according to originals estimates. (Dhungana, 1976). It had 22 sections. The first section is about short title, areas and commencement. Similarly second section about definition and last section is about authority to make regulations of HMG to regulate the tax act. According to the Act, tax payment should be made within 35 days once the office and the tax payment to be made specified. Fine and punishments of Rs. 5000 to Rs. 500 to them those who do not pay tax and not submit account is mentioned in the Act. There is appeal system too; if any taxpayer is not satisfied with regard to the order of tax assessment, such taxpayer can appeal with in the 35 days from the date of an order of tax assessment receipt. The tax officers as per the Act are liable to assess the tax liability of taxpayer, submission of written notice to taxpayer, etc. (Act, 1960).

B. Income Tax Act 1962

Income Tax Act 1962 was came on July 1962 by replacing the Income TAX act 1960 as its limited coverage in incomes. This Act was introduced as per the articles 93 of the Constitution. This Act has all about 29 sections. As per section 6 of this Act annual statement of income to the concerned tax officer those having annual income of more than Rs. 6000. The statement should file with in 35 days of completion of the fiscal year. The salaries of diplomatic representative of foreign country, salaries of foreign of non-Nepalese citizen working in the service of the NG, dividend paid to the shareholders, incomes of Nagar Panchayat, Village Panchayat, public Organizations, educational institutes, Nepal rastra Bank, allowances granted by NG to Ministers, employees saving fund etc. were considered as tax free income by Act. As per Act ¼ income from agriculture was taxable and remaining ¾ were considered as expenditure to earn such income. The act was experienced for 13 years and was considered inadequate with the changing situation of Nepalese economy. This Act was amended only one time in 1972. The main feature of this Act can be mentioned as follows. Income was defined as all kinds of income including income from business, salaries, any professions, rent from house or land, investment in cash or bind, agriculture, insurance agencies and any other sources. In this Act status of taxpayer was defined on personal as well as residential for the tax purpose. Carry forward of losses for a period of two year's provision was made on this Act and reassessment of tax as well as rectification of arithmetic errors had provision. In this Act, provision was made for the exemption of income tax for new industries for a period not exceeding ten years (Act, 1962).

C. Income tax Act 1974

To meet the changing environment of Nepal as well as the entire world and to keep the in tune with the change in the socio-economic environment the Act 1974 was introduced. The Act was divided in basic 66 sections. This Act was practiced for 28 years, almost three decades in Nepal. Through out this time the Act was amended for eight times 1977, 1979, 1980, 1984, 1985, 1986, 1989 and 1993. The act has classified the incomes in five groups as; (a) Agriculture (b) Industry, Trade, Profession or occupation (c) Remuneration (d) House and Compound, and (e) Other sources. However, the agriculture income was kept outside the tax net except few years, through the Finance Acts. This Act had made provision for self assessment of tax for the first time in Nepal. According to this act taxpayers were required to keep accounts and records for their source of income and preserve these records for a period of six years. There were additional provisions of exemption from income tax then the former act such as income of Guthi, compensation for life insurance or after the expiry of the life insurance policy. It had clear certain definitions specially relating to the tax , tax payer , taxable income, gross income , net income , personal status of the taxpayers and non resident taxpayers, assessment of tax , philanthropic work, non resident etc beside this method of computing net income from each source including the deductions allowable has been specified (Act, 1974).

D. Income Tax Act 2002

Although, Income Tax Act 1974 was much batter than previous Act, still it had many deficiencies and weaknesses so the Income Tax Act 2002 changes it.

This Act is quite advance Income tax that has ever introduced in Nepal. The main feature of this act is all the related matters with in one Act. The act is independent to levy income tax. The Act has 24 chapters and 143 sections. Amended income Tax Act 2002 has dismissed the section 66. The Act has defined three different sources of incomes: (a) Business (b) Employment (c) Investment. Tax rates for different incomes groups, tax rates as per individuals and entities , depreciation rates and depreciation methods for all the five categories of depreciable assets, provisions regarding international taxation, Capital gain taxation, panel provision , Appeal system etc. all matters of income taxation can find with in this act (Income Tax Act, 2002).

Following are the main features of Income Tax Act, 2002.

i. Income tax related provisions are included wit in one act.

ii. Act has clearly specified the amount should be included while calculating a person's gains or profits from conducting business or investment for an income year.

iii. All the expenses are allowed to deduct provided that the expenses are made by the same taxpayer in the same year in the production of income.

iv. There is the provision of carry forward of loss fro subsequent four years. The act has also provided the facilities to carry backwards of loss for five subsequent years in case of bank, insurance and long term contract.

v. Incentives are provided to infrastructure constructor, hydropower projects and special industries.

vi. Now the economy of the most of the countries in the world is open one. The provision has introduced in the tax law related to international taxation. Transfer pricing, foreign tax credit, double taxation avoidance agreement etc are the provision of international taxation.

vii. The act has given the option for husband and wife as a separate natural individual until they do not accept as a couple.

viii. Capital gain, dividend etc. has brought in tax net.

ix. Authorities of Taxpayer have specified.

x. To control the tax evasion, provision of transfer pricing, thin capitalization. Dividend stripping is made.

xi. Provision of fines and penalties has made more stringent in the new Income Tax Act 2002.

xii. This act has made a provision of relaxing the submission of income statement by a person who doesn’t have taxable income one who has the income from remuneration only.

xiii. There has the special provision for deduction pollution control and research & development expenses.

xiv. The income of an approved retirement fund is free from tax. But retirement payments in hands of employees are taxable.

xv. Resident persons are taxed only in their worldwide income, while Non-resident persons are taxed only in their income sourced in Nepal.

xvi. The pool system of depreciation of fixed assets has introduced at the first time. All types of assets are classified into five categories. Depreciation rate for classes A, B, C and D is based on diminishing balance method but straight line method for class ‘E’ (Intellectual Assets).

xvii. The act has provided the facility of Medical Tax Credit under which resident individuals may claims a Medical Tax Credit of 15 percent of the amount of approved medical costs. Unabsorbed medical tax credit amount can carry forward forever. (Mallik; 2003).

2.9 Head of Income

The Income Tax Act, 2002 has made the classification on incomes in three main categories. This Act has classified the sources of income for the purpose of assessment under the following heads:

A. Income from Employment

Employment is defined by the Act under Section 2(a) as "employment that includes a past, present or prospective employment". In general terms, the act of performing a certain job for the person, who appoints one for the job, in consideration of a regular payment is called as employment. That is why; the income from an employment can be generated only when a relation of employer and employee or master and servant has been established between a payer and a payee. Whatever the employee derives from the employment in the shape of a regular salary, allowances, overtime payment, bonus, etc. is included in the income from employment.

Generally, an employment is known as a long-term employment but, in legal terms, an employment last for a short period and may also be a part time one. An individual may have more than one employment on a day.

The employer may be any person like an individual (a proprietorship firm), an entity, NG, a local body of NG, an institution, an organization, a foreigner, etc. but the employee is always an individual (a natural person). A husband and a wife working in the same entity are treated as creation of two employments, one for husband and another for wife. The employee must be present physically at the place of work to perform his or her duties. The employment is awarded on the basis of his/her ability, education, experience, honesty, behaviour, etc. and so a proxy is nowhere allowed to work on behalf of the employee.

A written appointment letter does not always qualify an individual to be an employee but an oral appointment or even the behaviour of the employer and employee is sufficient to treat the individual as an employee (Agrawal, 2004).

According to this Section; the remuneration received by a person from the employment is as following payments made by the employer.

1. Payments of wages, salary, leave pay, overtime pay, fees, commission prizes gifts, bonuses and other facilities.

2. Payments of any personal allowances including any cost of living, rent, entertainment and transportation.

3. Payment provided of reimbursement or discharge of cost incurred by the individual or an associate of the individual.

4. Payments for the individual's agreement to any conditions of the employment.

5. Payments for the termination or loss or redundancy of the employment.

6. Retirement Contribution including those paid by the employer to the retirement fund in respect of the employees and retirement payments.

7. Other payments in respects of the employment.

8. Other amount as given in chapter 6 of the act perquisites and gains due to change in tax according required to be included. (Income Tax Act, 2002: Sec 8).

In addition, too above stated items of remuneration, the following types of perquisites are included in remuneration of a person.

a. Prizes and gifts

b. Other payments made in respects of employment.

c. The amount of difference of the interest on loan paid by employer lower rate than the market rate.

d. Market value of assets in case of the transfer of the assets.

e. For the payment other than stated above, the value of benefit of the payment to a third person.

B. Income from Business

Income Tax Act, 2002 has defined the business income as a source of income for income tax purpose. Profit and gains from conducting the business are considered as business income for the income tax purpose. Services fees, amount derived from the disposal of stocks, net gain fro disposal of business assets (Liabilities), gifts relating to business and other amounts are consider as a business income. Section 7 of Income Tax Act, 2002 deals with the receipts or receivables to be included in income from business and Section 13 and 19 deals the allowable expenses there from, Business includes trade, commerce, production, profession, vocation, etc.

<u>Trade and commerce</u>

The Oxford Dictionary defines trade as follows:

a) The exchange of goods or services for money or other goods.

b) Buying and selling.

c) To buy and sell a particular item, product, etc.

The activity of a trade starts from the moment a goods id purchased or other wise acquired with an intention to sell it for some profit. It is not necessary that the good is sold in due course and profit is acquired there from.

It's not only the purchase and sale of goods that constitutes a trade but a sale of services is also included in the definition. The transportation of goods and human beings, tourism trade etc are examples of the trade of services. Though commerce is something similar to trade, it is used especially when the trade takes place between two countries.

<u>Production</u>

The dictionary meaning of production is "to make or manufacture something especially in large quantities". The process of production may be manual or based o machinery. The machinery may or may not run by power. A production is a process whereby the form of a good is changed and the new product acquires a new commercial value.

<u>Profession and Vocation</u>

A profession is a paid occupation, which requires advanced education or training. Chartered accountants, Lawyers, Architects, etc are some examples of profession. A vocation is also paid occupation and requires practice and skill but it does not require advanced education. Carpenters, Craftsmen, etc are the examples of vocation.

For the purpose of computing income of business for any year of income, the income of such person shall include as profits or gains by him from business and should include:

a. Service Charge. (Sec.7.2)

b. Sales or disposal of business/ trading stock.(Sec.7.2)

c. Net gain from the disposal of person's business assets/liabilities of the business calculated as under chapter 8.(Sec.7.2)

d. Amount receives against the disposal of depreciable assets.(Sec.7.2)

e. Prize or gift in connection with business.(Sec.7.2)

f. Amount received instead of acceptance of any restriction regarding business (Sec.7.2)

g. Amount included under change of accounting method. (Sec.24)

h. Excess amount received due to exchange rate of currency.(Sec.28)

i. Bad debt recovered.(Sec.25)

j. Proportionate amount under long term contract. (Sec.26)

k. Under paid interest amount according to market price. (Sec.)

l. Amount received for compensation. (Sec.31)

m. Other amount received under business income. (Sec.7.2)

(Income Tax Act, 2002)

While computing income tax from business, the following amounts are excluded on profit and income from business for tax purpose.

a. Exempt amounts under section 10.

b. Taxation of dividends under section 54.

c. Final withholding payment under section 92.

(Income Tax Act, 2002)

C. Income from Investment

Section 2(a.1) defines investment as the holding of one or more properties or the investment in a property subject to the fact that:

a. The property should not used by the owner himself; or

b. The property must not be a business or an employment.

The section further says that the holding of a non-business chargeable asset is also known as an investment. Investment in general sense is an act of letting out a property by an owner to somebody else for its exclusive use for the period of letting out. An amount given to another person for his utilization is also said to be an investment. The three points are the basic requirements for an investment are:

a. A person has the legal ownership of a property;

b. The owner transfers the right to use the property to another person; and

c. For such a transfer of right the owner receives certain consideration from the transferee

Section 9 (Income Tax Act, 2002) deals with the receipts or the receivables to be included in income from investment. Section 13, 14, 15, 16 and 19 deals with the deductions to be made while computing the taxable income. (Income Tax Act, 2002).

a. Any dividend, interest, natural resource payment, rent, royalty, gain from investment insurance, gain from an unapproved retirement payment or retirement fund from approved retirement fund. (Sec.9.2)

b. Net gains from the disposal of the person's non business chargeable assets of investment. (Sec 9.2)

c. Excess amount of incomings over the depreciation basis including outgoings on the disposal of the depreciable assets of the investment of the persons. (Sec 9.2)

d. Gifts or prizes received in connection with investment. (Sec.9.2)

e. Retirement contribution including those paid to retirement funds in respect of the person and retirement payments on respect of investment. (Sec. 9.2)

f. Amount received instead of acceptance of any restriction regarding investment. (Sec. 9.2)

g. Amount included under change of accounting method. (Sec.24)

h. Excess amount received due to exchange rate currency. (Sec 28)

i. Bad debt recovered. (Sec. 25)

j. Proportionate amount under long term contract. (Sec. 26)

k. Under paid interest amount according to market price (Sec.)

l. Amount received as compensation. (Sec. 31)

m. Other amounts required to be included on tax accounting or quantification, allocation and characterizations of amounts or transaction between any entity and beneficiary or general insurance business. (Sec. 9.2)

(Income Tax Act, 2002)

2.10 Individual Taxpayer

The Income Tax Act classifies tax payers into two: an individual and an entity (Sec.2). The word “Person” is used for each taxpayers irrespective of its status. Thus the term “Person” includes:

a. An individual; or

b. An entity

a. Individual

The term “Individual” is defined by Sec.2 (ac) as follows;

a. A natural person;

b. A proprietorship firm 100% owned by a single natural person; and

c. A couple elected as single natural person under Sec 50.

The act has no provision fro an undivided family to be regarded as a single tax paper. Each of the spouses is treated as separate natural person for tax assessment. However, Section 50 of the act has the provision that a couple can choose to be treated as single individual for a particular Income year. In case the couple elects to be a single individual, the incomes of both the spouses shall be taxed in a single hand as that of one individual.

- The option is applicable even if either of the spouses is a non-earning member
- The couple is permitted to be treated as a single individual taxpayer irrespective of whether such an option was taken in any previous year.
- In case the couple has chosen to be treated as a single individual for tax purpose, either of the spouses will be either jointly or separately responsible for the payment of the tax.
- The option is allowed only to a married couple, if each of the spouses is alive on the date of signing the Tax return for the Income year. Because the next couple has to sign on the Tax Return as a token of the acceptance of the election.
- Either of the spouses can be an assesses and the next spouse may give the consent. (Agrawal, 2004)

Provision for Individual Taxpayer under Income Tax Act, 2002

a. Allowable deduction

1. <u>Retirement contribution to an approved retirement fund:</u>

Amount contributed to an approved retirement fund [Provident Fund (PF)], Citizen Investment Trust [CIT] and other approved retirement fund is allowed for deduction up to a specified limit.

i.e – Actual Contribution (employers + employee)

or 1/3 of assessable income

or Rs. 300000

whichever is less

Retirement contribution to an unapproved retirement fund is not allowed for deduction.

2. Donation to tax exempt organization

Contribution made for philanthropic purposes to tax-exempt organization registered at IRD may be deducted from taxable income under the following condition-

i.e – Actual donation

or 5% of Adjusted taxable income

or Rs. 100000

whichever is less.

But, Nepal Government may notify through official gazette that donation given to such institution will be expected for deduction up to the notified limit. Such donation shall be allowed as per the notification.

(a) Donation made to Pashupati Area Development Trust (PADT) and Lumbini Area Developmet Trust (LADT) is allowable up to Rs. 50 lakhs.

3. Exemption Limit:

Exemption limit is available only for the resident natural person. There are four types of exemption limit available only for the resident person.

(a) Basic exemption: Basic exemption is available only for resident natural person as per his family status:

Single / Unmarried/ Individual	Rs. 100,000
Couple / Married	Rs. 125,000

(b) Additional exemption limit is available for the resident natural person (both for single and couple) working (residing) in remote areas of Nepal.

Remote areas	Additional Exemption Limit
'A'	Rs. 30,000
'B'	Rs. 24,000
'C'	Rs. 18,000
'D'	Rs. 12,000
'E'	Rs. 6,000

(c) For Pension income: A resident natural person (both for single and couple) having pension income gets 25% additional exemption limit. But should not be more then pension income.

Single / individual	125,000 X 25% = Rs. 31,250
Couple/ Married	140,000 X 25% = Rs

(d) Life Insurance premium (LIP)

Life insurance premium paid by a resident natural person for his own life is allowable for deduction from taxable income up to the following limit:

Actual Premium paid

Or, 7% of Insured sum

Or, Rs. 10,000

Whichever is less

4. ***Medical Tax Credit***

Approval medical expenses incurred for a resident natural person can be claimed for a resident natural person can be claimed for deduction from his/her tax liability up to a specified limit.

Allowable medical tax credit:

15% of eligible medical expenses

+ Any amount carried forward from the previous year

Whichever is less

or, Rs. 750

Notes: For non –resident natural person no tax exemption limit of any kind is available and charge 25% flat tax rate. And special additional fee is charged on total taxable income of non-resident natural person. But 5% rebate on remaining slab is get if the income is derived by operating special industry or from export business.

2.11 Tax Exempt Incomes under this income Tax Act.

A. Amount derived by person entitled to privileges under a bilateral or a multilateral treaty conduced between Nepal Government and a foreign country or an international organization (like- employment income of foreign diplomats and employment income of UN representative)

B. Remuneration under the employment of public service of a foreign government.

C. Remuneration paid by NG to foreign citizen on terms of tax exemption.

D. Pension received by retired army / police from public fund of foreign government.

E. Allowance paid by NG to widows, elder citizen, disabled person.

F. Amount derived by way of gift, bequest, inheritance or scholarship except as required to be included in calculating income under business, investment, or employment.

G. Agricultural income otherwise then affirm, company, partnership and registered corporate body and by those who has not holding of land more then as prescribed in land act, is non taxable income.

H. Income and dividend distributed by co-operation societies registered under co-operatives act, 2048 is non taxable income.

I. Incomes from writing articles, preparation of exam paper, checking of exam paper are also tax-free income.

2.12 Specimen for computing Income

(A) Computation of Income from Business

As per Income Tax Act, 2058

Particulars	Amounts
Amounts to be included	
Service Charge (Sec 7.2)	**xxx**
Disposal of trading stock (Sec 7.2)	**xxx**
Net gain from disposal of business assets or liability (Sec 7.2)	**xxx**
Gain from disposal of pool of depreciable assets (Sec 7.2)	**xxx**
Prizes or gifts in connection with business (Sec 7.2)	**xxx**
Amount received in lieu of accepting any restriction regarding business (Sec 7.2)	**xxx**

Amounts received from any investment directly related to business (Sec 7.2)	**xxx**
Incomes to be included due to change in accounting methods (Sec 22.6)	**xxx**
Excess amount received due to exchange rate variation (Sec 24.4)	**xxx**
Bad debts recovered(Sec 25.1)	**xxx**
Proportionate amounts received under long term contracts (Sec 26.1)	**xxx**
Under payment of interest according to market rate (Sec 27.1)	**xxx**
Receivables amounts paid to others (Sec 29)	**xxx**
Amounts received for compensation (Sec 31)	**xxx**
Other amounts received under the head of business income	**xxx**
Gross income from business (A)	**xxxx**
Allowable Deduction	
Interest Expenses (Sec 14)	**xxx**
Cost of trading stock (Sec 15)	**xxx**
Repair and inprovement cost (Sec 16)	**xxx**
Pollution control cost (Sec 17)	**xxx**
Research and Development cost (Sec 18)	**xxx**
Depreciaion allowances (Sec 19)	**xxx**
Reserve fund for banks (Sec 59)	**xxx**
Others expenses	**xxx**
Total Allowable deductions (B)	**xxxx**
Assesable income from business before loss adjustment (A-B)	**xxxx**

Less Adjustment of business losses (Sec 20)	
a. Unrelieved loss from other business this year (Sec 20)	**xxx**
b. Unrelieved loss from business of previous years (Sec 20)	**xxx**
Total adjustable business loss [(a+b)=C]	**xxxx**
Assesable income from business (A-B-C)	**xxxx**

(B) Computation of Income from Investment

As per Income Tax Act, 2058

Particulars	**Amounts**
Amounts to be included	
Dividend payment (except final withholding payment (Sec 9.2)	**xxx**
Gain from Investment Insurance (except final withholding payment (Sec 9.2)	**xxx**
Interest received (except final withholding payment (Sec 9.2)	**xxx**
Rent received (except final withholding payment (Sec 9.2)	**xxx**
Payment received from natural resources (Sec 9.2)	**xxx**
Royalty Income (Sec 9.2)	**xxx**
Gain from unapproved retirement fund (except final withholding payment (Sec 9.2)	**xxx**
Gain from disposal of pool of depreciable assets (Sec 9.2)	**xxx**
Gift received by the person in respect of the investment (Sec 9.2)	**xxx**
Retirement contributions, including those paid to a retirement fund in respect of the person (Sec 9.2)	**xxx**

Amounts received in lieu of accepting any restrictions regarding investment (Sec 9.2)	**xxx**
Incomes to be included due to change in accounting methods(Sec 22.6)	**xxx**
Excess amounts received due to exchange rate variation (Sec 24.4)	**xxx**
Bad debts recovered (Sec 25.1)	**xxx**
Under payment of interest according to market rate (Sec 27.1)	**xxx**
Receivable amounts paid to others (Sec 29)	**xxx**
Amounts received for compensation (Sec 31)	**xxx**
Income received from joint investment (Sec 30)	**xxx**
Other amounts to be included under investment income	**xxx**
Gross income from Investment (A)	**xxxx**
Allowable Deductions	
Interest Expenses (Sec 14)	**xxx**
Repair and inprovement cost (Sec 16)	**xxx**
Depreciaion allowances (Sec 19)	**xxx**
Others expenses related to investment	**xxx**
Total Allowable deductions (B)	**xxxx**
Assesable income from investment before loss adjustment (A-B)	**xxxx**
Less Adjustment of losses	
a. Unrelieved loss from business or other investment this year (Sec 20)	**xxx**
b. Unrelieved loss from business of previous years (Sec 20)	**xxx**

Total adjustable loss [(a+b)=C]	**xxxx**
Assesable income from investment (A-B-C)	**xxxx**

(C) Computation of Income from Employment

As per Income Tax Act, 2058

Particulars	**Amounts**
Amounts to be included	
Salary and wages (Sec 8.2)	**xxx**
Leave pay (Sec 8.2)	**xxx**
Pay for overtime (Sec 8.2)	**xxx**
Fees (Sec 8.2)	**xxx**
Prizes and gifts related to employment (Sec 8.2)	**xxx**
Bonus (Sec 8.2)	**xxx**
Other facilities (Sec 8.2)	**xxx**
Commissions (Sec 8.2)	**xxx**
Dearness Allowances (Sec 8.2)	**xxx**
Cost of living subsistence (Sec 8.2)	**xxx**
Rent (Sec 8.2)	**xxx**
Entertainment and transportation allowances (Sec 8.2)	**xxx**
Other personal allowances (Sec 8.2)	**xxx**
Reimbursement of personal expenses (Sec 8.2)	**xxx**
Payments for the individual's agreement to any condition regarding employment (Sec 8.2)	**xxx**

Redundancy or loss related payments (Sec 8.2)	**xxx**
Other payment made in respect of employment payment (Sec 8.2)	**xxx**
Retirement payment & contribution to retirement fund (Sec 8.2)	**xxx**
Amounts of Vehicles facility (Sec 27.1)	**xxx**
Amount of services of house keeper, chauffeur, gardener, or other domestic assistants (Sec 27.1)	**xxx**
Accommodation facilities (Sec 27.1)	**xxx**
Any meal, refreshment or entertainment provided by employer (Sec 27.1)	**xxx**
Amount of services related to drinking water, electricity, telephones, and the like utilities in respect of the payees (Sec 27.1)	**xxx**
Under paid interest by employee to employer for loan taken by the employee (Sec 27.1)	**xxx**
Other amounts to be included	**xxx**
Gross income from Employment	**xxxx**

(D) Statement of Total taxable income

Particulars	**Amounts**
Assessable income from Employment	**xxx**
Assessable income from Business	**xxx**
Assessable income from Investment	**xxx**
Total assessable income	
Less: Allowable reductions	

a. Donation (as per tax law) (Sec 12) b. Retirement contribution (as per tax law) (Sec 63)	**xxx** **xxx**
Total taxable income	**xxxx**

(E) Statement of Income tax liability

Particulars	Amounts
First Rs. 100000 (individual), 125000(Couple) Next Rs. 75000 @ 15% Balance Rs. xxx @ 25%	**Nil** **xxx** **xxx**
Total tax liability	
Less: Advanced tax paid Medical tax credit	**xxx** **xxx**
Net tax to be paid	**xxxx**

2.13 Methods of Income Tax Assessment

Income Tax Act, 2058 has specified three types of assessments. They are as follows:

1. Self assessment (Sec. 99)
2. Jeopardy assessment (Sec. 100)
3. Amended assessment (Sec. 101)

Self assessment is done by the assesses himself whereas jeopardy and amended assessments are the assessments based on judgment of the Department.

2.14 Installment Payment

There is a provision of payment of income tax of the current year by three installments that is 40%, 70% and 100% by the end of Poush, Chaitra and Ashad respectively.

2.15 Appeal

A tax payer may not be satisfied with the assessment made by tax officials. In such case, he may lodge an objection against the assessment with the Director General (DG) of Inland Revenue Department or go to Revenue Tribunal. The Act has made it mandatory for the taxpayers first to file an objection with the Inland Revenue Department for an administrative review and then if unsatisfied with the decision of Director General, he/she can go to Revenue Tribunal.

2.16 Offences

Offences are dealt within the Act in a sense of criminal offences of taxpayers as well as tax administrators. They lead to punishable in the form of fines and imprisonment on conviction. The offences attracting both a fine and the imprisonment include failures to comply with the Act, failures to pay tax, maintaining documentation or filing income returns and statements of estimated tax, making false or misleading statements, impeding or coercing the tax administration, offences by the authorized and unauthorized persons, offences of aiding or abetting, etc. In case if the Tax Return File is not submitted within the period prescribed by the Act, the late fee and interest amount will be charged at the rate of 0.1% per year of the assessable income.

2.17 The Super Act

The Act is made super in regard to all income tax matters. No other Acts except this Act shall be made capable to make changes, amendment and other tax related provisions other than the provisions relating to imposition, assessment, reduction, increment, exemption or remission of tax to be made by amending this Act itself by annual Finance Acts.

2.18 Review of Literature

Income tax was imposed in Nepal by the first Parliamentary Government in 1959. Then after, various studies were made and researches conducted by different individuals and institutions concerning with various aspects of this act such as the structure, role, productivity, legal and administrative framework etc. Some of the books reports and dissertations that are reviewed during this study are as follows:

2.19 Review of Books and Reports

At the earliest in 1965, Mr. Kedar Bahadur Amatya, published a book "Nepal Ma Aayakar ko Bebastha" in 1965. He has tried to describe about income tax and provision regarding income tax. His contribution was first in the field. Basically, he analysed legal aspect of income tax in Nepal at that period. (Amatya, 1965)

In 1978, a research team leaded by Dr. Govinda Rana Agrawal. A senior research officer of CEDA has conducted a research in the topic ‘Resource Mobilization for development: The reform of income tax in Nepal.’ This research report was published by CEDA, Kathmandu. Agrawal and this team have focused this study to analyze the various aspects of income tax in Nepal. The period covered by this study was twenty – Eight years from 1951/52 to 1978/79. Both primary and secondary sources of data were used for the conduct of this study. Some of the important objectives of this study were as follows:

- To examine the problem of growing resource gap in Nepalese finance in the context of the role income tax.
- To examine the buoyancy and elasticity of income tax in Nepal including projection of income tax.
- TO examine new personal for mobilization of additional domestic resources from income tax in Nepal.
- To examine possibilities for making income tax as policy instrument for reducing inequalities of income and wealth in Nepal.
- TO examine the ways and means for increasing tax consciousness in the Nepalese public.

Mr. Agrawal and his team, in this study, have pointed out various findings and recommendations. Some remarkable findings and recommendations of the research were as follows.

a. Needs for additional resource mobilization was growing by 85 times in Nepal and she was experiencing a serious and growing problem of resource gap.
b. Income tax administration in Nepal suffered from a number of interacting and inter-related problems, whish have badly affected its productivity.
c. Income tax has been a fast growing category of tax revenue in Nepal.
d. More than 50 percent of the total income tax revenue was contributed by the individuals' taxpayers.
e. Buoyancy of income tax with respect to GDP for period 1967/68 to 1975/76 was 2.18 and elasticity was 2.01 since both buoyancy and elasticity were greater than unity; income tax in Nepal Was positively responsive to change in GDP.

f. The main defects of the income tax administration was failure to locate new tax payers , to maintain the proper accounts, delay in assessment, poor taxpayers compliance, evasion and avoidance of tax. And defectives management.

Recommendations

a. Additional domestic resources should be mobilized through taxation.
b. Tax structure of Nepal need to is redesigned in order to increase the role of direct tax.
c. Income tax should be reformed in Nepal.
d. The research team also suggested to reform income tax administration by including the affluent taxpayers into tax net, providing the permanent taxpayers register. (Agrawal, 1978).

Agrawal (2004) has published a book entitled,” Income Tax; theory and practice." This book has focused on the students of chartered accountants and taxation. This book has also focused to be a practitioners’ reference and handbook, rather than theoretical compilation on the subject. His book is not only based on description fact but also has interrupted the various provision of the new act. Simple and clear language has been used in this book. Sufficient theoretical concepts with clear interpretation as well as sufficient examples are included in this book. This book has depth theoretical concept and examples. Some sections of ITA 2058 act have compared with the international accounting standard. Gain or loss adjustment of depreciated assets is an example. All terms are clearly defined with sections under which the terms are included (Agrawal; 2004).

Lent (1968), has presented a report entitled, "Survey of Nepalese tax Structure" under the request of IMF, Fiscal Affairs Department. He has critically analysed the scope of income tax in Nepal, tax structure, taxable income exemption and allowances given at that time. He has suggested reforming both the income law and administration to increase government revenue through income tax (Lent, 1968). The book published in 1976 by Nirmal Bhattarai and Ratna Shrestha, gave information about the legal aspects of income taxation in Nepal of that period.

In 2001, Revenue Consultation Committee Report has studied the overall taxation situation in depth. It highly emphasized to simplify the tax policy to increase voluntary compliance. This report recommended for written communication between taxpayer and tax administration rather than the informal relation. This report suggested widening the income tax bases by including all kinds of taxpayer of new sector. For this, the report suggested to make the act more transparent and clear in order to attract foreign and domestic investors. It was further suggested to increase income tax exemption limit with considering purchasing power and inflation rate. (Revenue Consultation committee, 2001)

Adhikari (2002) has discussed the legal provision of new Income Tax Act, 2002. His book is analytical rather than informative. Writer has not included administrative aspect, role and structure of income tax in his book. The book has only focused on the legal aspect of income tax. Agreement and protocol relating to avoidance of double taxation and the prevention of fiscal evasions with respect to taxes on income between different countries had also included in his book. (Adhikari, 2002).

Kadel (2003) had criticized the income tax act 2002 on several grounds. Exemption of agriculture income from income tax, export duties levied on export, inequality between different capital earned income (i.e. tax on interest, dividend, and capital gain), and withdrawal of the provisions of exemption suddenly and no adjustment for inflation are the major issue he raised in his article. He further criticized the Act for the provision of income tax from export as 0.5 percent of total export because it is not good choice of income tax base. (Kadel, 2003).

Mallik (2003), has published book named "Nepalese Modern Income Tax System". He had described historical aspects of income tax and legal provisions relating to income tax with numerical examples. This book is very useful to know the general information and legal provision of Income Tax Act, 2002. His focus is on Income tax in Nepal, role of income tax, administrative and legal aspect of income tax in Nepal. His study is useful to find out facts and figures about the income tax in Nepal at that time. (Agrawal, 1980)

Poudyal and Timsina (1990) presented a book based on B.Com syllabus. This book is designed to give theoretical as well as practical ideas of income tax in Nepal. Provisions and methods of assessment have been described with numerical examples but the major problems and defects of income tax system of Nepal have not been analyzed. (Poudyal and Timsina, 1990).

Khadka (1994), had discussed the economic policy of Nepal, VAT as a long term tax for Nepal, Income tax, improving tax administration, tax reform strategy. He had analytically described about development, existing structure, main problems and possible direction of reform of income tax. He had indentified the major problems of income tax as narrow coverage, unscientific tax assessment and collection, defective system form the perspective of international taxation. Weak tax administration, imbalance and inadequate tax training, predominance of law level non technical posts, debatable scope of revenue investigation department, and lack of information system were the major problems of tax administration identified by him.

He had suggested some suggestions to overcome from the problems of income tax which were extension of tax coverage, scientific method of tax assessment, extension of withholding tax, inflation adjustment etc. He had also identified some possible direction for administrative reform. They were reorganization and expansion, applying integrated information system; research unit on taxation, strengthening the revenue service. His book was analytical and very useful to obtain the various aspects of income tax. (Khadka, 1994)

Dhakal (1998), presented his extended, enlarged and modified edition of his book including value added tax. This book is mainly based on the syllabus of BBS third year. The provisions made under income tax laws and the methods of income tax assessment have been described with numerical examples. This book is more helpful to know about general information and provisions made under Income Tax Act 1974. But he has not analyzed the role of income tax, income tax structure and defects of income tax system of Nepal. His book is informative rather than analytical. (Dhakal, 1998).

In 1999, Adhikari has published a book which is mainly based on the T.U. syllable of B.B.S. third year. Apart from the theoretical concept on taxation, he has also presented the historical background, income tax laws and its implementations, assessment of tax and tax authorities, rights and duties. He has also described the management of VAT, property Tax and Sales Tax. The book includes precedents of Superme Courts about Income Tax, classification and interpretation of revenue code, tax planning and income tax management in Nepal. The book is based in Income Tax Act, 2031. (Adhikari, 1999)

Tiwari (1999), presented a book about income tax system in Nepal. This book is published mainly for the students of Tribhuvan University but is equally useful to the tax payers, tax administrators and those who desire to get theoretical as well as practical knowledge about income tax. He has described the provisions under Income Tax Act 1974, income tax rules, information and acts related to income tax etc. He has not analyzed the major problems of income tax system. (Tiwari, 1999)

Khadka (2001), published a book on income taxation of Nepal. The book contains many interesting articles on various aspects of income tax. It first traces out the evolution of income tax around the world. It then analyzes relative importance of income tax in the tax system of some selected countries. It also defines various concepts, which are widely used in the modern income tax literature. The book also reviews major changes introduced in the field of the Nepalese income tax system since its inception in 1959 AD and examines its existing structure and operation. It also analyzes the current problems and makes recommendations for the rationalization of the structure and modernization of operation of the income tax system. The book also includes income tax acts of 1959, 1962 and 1974 A.D. (Khadka, 2001)

In 2001, Revenue Consultation Committee Report has studied the overall taxation situation in depth. It highly emphasized to simplify the tax policy to increase voluntary compliance. This report recommended for written communication between taxpayer and tax administration rather than the informal relation. This report suggested widening the income tax bases by including all kinds of taxpayer of new sector. For this, the report suggested to make the act more transparent and clear in order to attract foreign and domestic investors. It was further suggested to increase income tax exemption limit with considering purchasing power and inflation rate. (Revenue Consultation committee, 2001)

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Mallik (2003), has published book named "Nepalese Modern Income Tax System". He had described historical aspects of income tax and legal provisions relating to income tax with numerical examples. This book is very useful to know the general information and legal provision of Income Tax Act, 2002. His book was informative rather than analytical. He had not analyzed the role of income tax, structure of income tax in Nepal. (Mallik, 2003)

2.20 Review of Dissertation

Gautam (2004) has presented a dissertation entitled, “Contribution of income tax to the 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 millions 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 decreasing trend which was69.23% of income tax revenue in 1982/83 but decreased to 49.63% of income tax revenue in year 2001/02. The contribution of individual income tax is in first position, Income tax exemption limit in Nepal was Rs. 7000 for all taxpayers in 1959/60 but at present income tax exemption limits is 80000 for individuals and Rs. 100000 for couple and family in 2003/04. The exemption limit is not provided for partnership firms, corporation and non residents. It is found that exemption limit has been changed on the need of time and income.

Personal income tax rate was 5 to 50 percent with 7 slabs in 1980/81 but at present (i.e for 2003/04) it is reduced to 2 slabs. In the same way, corporate tax rate was 10 to 55 percent with 1980/81 but at present taxpayers are taxed at flat rate. Income tax is 15 percent and 25 percent for personal income tax over exemption limit, 30 percent for bank, finance companies and 25 percent for other corporate taxpayers.

His suggestions are that the objectives of taxation should be growth, redistribution, and stabilization of economy. So, the income tax policy should be properly formulated on the basis of critical analysis of existing situation (Gautam, 2004).

Shrestha (1967), has prepared a master degree thesis entitled "Income Tax in Nepal". He has described about historical background, income tax act, rules and administrative aspect of income tax. All things mentioned in it are not fully relevant at present. (Shrestha, 1967)

Kayastha (1974) has tried to analyze the contribution of income tax and property taxes to overall revenue generation in Nepal. He has studied on legal and administrative aspect income tax system of Nepal and pointed out some drawback. According to him before 1951, Nepal didn't have scientific economic policy, which could facilitate the economic development of the country. According to him, the major problems of income tax system of Nepal are income tax evasion at high level and greater role of indirect tax in tax revenue. These problems have not solved yet effectively. (Kayastha, 1974)

Pandey (1978), in his study has discussed various aspect of income tax such as legal aspects, structure of income tax role of income tax, problems of income taxation, economic effect of income tax in Nepal. He had highlighted on tax structure of Nepal. According to him, income tax played as significant role in the economic development of Nepal. He found the capital burden of income tax was Rs. 0.2 in 1962/63 and it had increased to Rs. 7 in 1975/76. He had stated that indirect tax had a dominated role in the total tax revenue. Lack of scientific record keeping, Lack of maintaining accounts by tax payers, lack of coordination, lack of scientific method of income tax assessment and collection procedure, lack of honest tax officers are the major problems identified by him. His suggestions about income tax were capital gain should bring in tax net; income tax accounting assessment and collection method must be scientific etc. His study was done with objectives of examining the economic effects of income tax but he had not described it with numerical examples and empirical investigation. (Pandey, 1978)

Subedi (1982) has analyzed about the role of income tax on national revenue of Nepal. He has examined the growth of income tax collection, its ratio to GDP, cost of income tax collection and elasticity. He has also included historical perspective and legal aspect of income tax in his study. He has pointed out that tax evasion, inefficient tax administration and dominated role of indirect tax are the major problems in Nepalese tax system. He has suggested that tax administrative reform is the major necessity in development of income tax system. (Subedi, 1982)

Nepal (1983), has critically examined the income tax system of Nepal in that time. Her study has been conducted with purpose of examining the role of income tax in overall tax structure, analyzing the problems and prospects of income tax in Nepal and highlights the future prospective of the Nepalese income tax. (Nepal, 1983)

Regmi (1986) has prepared a dissertation with the main objective of examining the trend of income tax in Nepal, ascertaining the share of income tax to total tax revenue and its ratio of gross domestic product. He has also stated as a great problem in income tax in Nepal. To increase the revenue of government, he has recommended that income tax law should be clear and precise, scientific method for accounting assessment and collection of income tax, widening tax coverage, easy and simple procedure of tax payment, public awareness. (Regmi, 1986)

Siwakoti (1987) has explained the various aspect of income tax. HIS study emphasized on drawing a clear sketch of role of income tax, structure of income tax, projection of income tax, legal aspect of income tax act and problems of income tax. Major problems existing in Nepalese income tax system, stated by him are narrow coverage, unscientific and time consuming assessment and collection procedure, complicated act and defective income tax act. (Siwakoti, 1987)

Baral (1989), has tried to shown the contribution of income tax on the structure of government revenue in Nepal. She stated that the composition of tax and non tax revenue is still less satisfactory in Nepal. She found that total revenue, total tax revenue and direct tax revenue have an increasing trend in Nepal but in low rate. She has mentioned that tax evasion as the major problem of income tax system in Nepal. In her study, inefficient tax administration, unconsciousness of tax payer, lack of scientific method of tax assessment and collection have identified as the major reasons for tax evasion at high level. (Baral, 1989)

Bhandari (1994) has tried to examine historical background, tax structure in Nepal and contribution of income tax to economic development of Nepal. He has stated that actual collection of revenue through income tax was lower than its estimated targets because the poor tax paying habit of Nepalese tax payer, poor tax administration system, wide spread evasion of income tax. He has suggested to make effective personnel management, increasing habit of tax paying of Nepalese tax payer through proper tax education and better public communication system, minimize tax evasion, reduce tax collection cost. (Bhandari, 1994)

Acharay (1994) has mentioned the main objectives of income tax as to achieve social justice, to check inflation and to collect more government revenue. He has identified the contribution of individuals in total income tax revenue seems to be greatest during his study period followed by public enterprises, enumeration, house rent, and interest taxes, semi public enterprises and private corporate bodies respectively. He has also analyzed the administrative and legal aspects of income tax. He has recommended simplifying the tax structure, legal and administrative aspect, and understanding with the consent of tax payer to raise income tax revenue. (Acharya, 1994)

Shahu (1995) has found that 0.35 percent of total population came under the category of taxpayer during his study period. Main objective of his study was to study Nepalese structure, role and contribution of income tax on national revenue. He has identified that income tax has been gradually increasing and was in the fourth place in the tax structure of Nepal. He has not discussed the major aspects of income tax clearly and analytically so it is incomplete study and all things mentioned init are not also fully relevant today because it was made 9 yrs ago. (Shahu, 1995)

Shakya (1995) presented a dissertation named "Income Tax System in Tax Structure of Nepal." His study was done with basic objective of analyzing the causes of heavy reliance of indirect taxes, analyzing the volume of indirect tax revenue and direct tax revenue in total tax structure, highlighting the revenue assessment procedure from different sources and suggesting improving on them. In his study, he has identified the income tax has occupied fourth position among tax revenue of Nepal. Custom duty, sales tax and excise duty has occupied first, second and third position respectively in Nepalese tax revenue. He has mentioned Nepalese taxable capacity is limited by various factor such as low per capita income, extensive subsistence economy, relatively "closed" (India) economy, weak export position etc.

He found the ratio of income tax to GDP total revenue; total tax revenue and direct tax revenue have been on increasing trend in Nepal. But increasing trend rate is very low in comparison to other countries. Tax evasion is the main reason behind it. Lack of clear and comprehensive definition of income, lack of punishment to the evaders, low tax paying capacity and non conscious of tax payers, lack of inefficient tax administration, lack of scientific method of tax collection and lack of trained tax collectors were the main reasons of income tax evasion identified by him. (Shakya, 1995)

Shrestha (2001), study had covered the historical background, legal provisions, structure of income tax, income tax administration in Nepal and empirical investigation. Her findings about tax structure were: there was dominant share of tax revenue in Nepalese government revenue. But the contribution of tax revenue showed the decreasing trend. The tax/GDP ration was not found satisfactory with compare to other SAARC countries. It was 6.81 percent for the period of 1984/85 and 9.36 percent in 1998/99. There was serious and growing financial resource gap in Nepal seems to be never ending problem for Nepalese economy. There was dominant role of indirect tax revenue in Nepalese tax revenue. The contribution of direct and indirect on tax revenue was 17.76 percent and 82.24 percent respectively in 1984/85 which becomes 26.14 and 73.86 percent in 1998/99. The contribution from individuals to income tax revenue was greatest in every fiscal year and it was in increasing trend. Income tax revenue was playing a significant role in direct tax revenue because the share of income tax in direct tax was increasing rapidly.

She had found various problems of income tax system in Nepal. They were Narrow tax coverage, mass poverty of Nepalese people, and lack of conscious of taxpayer, widespread evasion and avoidance of income tax, unscientific tax assessment procedure, inefficient tax administration, complicated tax laws and procedures, instability in government policy. She had also identified the major weak points of income tax administration in Nepal. They were failure to locate new taxpayers, failure to maintain proper accounts and records, defective selection of personnel, undue delay in making assessment, lack of motivation in tax personnel, existence of corruption.

She had suggested broadening the Nepalese income tax base by bringing agriculture income and capital gain under income tax net. She had suggested to make consciousness to people, reform of income tax assessment, reform the tax administration and minimizing the tax evasion. For the improvement of income tax administration, she has suggested computerization and effective exchange of information, she has suggested computerization and effective exchange of information, tax education to tax payers, tax inspectors and officials, effective personnel management, Her suggestion for minimizing tax evasion were control illegal business activities, enforce proper auditing and investigation, enforce heavy fines and penalties and maintain proper records and accounts. (Shrestha, 2001)

Pradhan (2002), study is basically concerned with historical background, contribution of income tax to the public revenue, contribution of Nepal Telecommunication Corporation (NTC) to income tax, effectiveness of income tax collection. She had found the contribution of income tax from public enterprises in Nepal was not significant due to poor achievement, weakness in government's economic policy and deficiency in legislation. NTC has been contributing effectively to total income tax revenue. Contribution of tax revenue on GDP of Nepal was lower than other SAARC countries except Bangladesh. Average contribution of income tax from NTC to total tax revenue, total income tax revenue and total government revenue was 2.37 percent, 15.60 percent and 1.93 percent in her study period.

Her suggestion about income tax system were clear cut provision, discretionary power of tax officers should curtailed, assessment and collection provision should be made clear and simple, provision of reward, prize, incentive should introduce to encourage the taxpayers to pay voluntarily, compulsorily provision of auditing, etc. For the improvement income tax administration in Nepal, she had suggested promotion and rewards to active, efficient and honest tax personnel, tax education to tax payers, strict actions against corruption, and reduction of delays in tax assessment. Specially, her study had focused on the study on Nepal Telecommunication Corporation. (Pradhan, 2002)

Sherchan (2003), study had covered tax structure, role of income tax and legal provision of income tax. But specially, his study had focused on provision of fines and penalties. He had found that there was dominated share of tax revenue in Nepalese government structure. Income tax had occupied third position in his study period and it as increasing trend. The tax/GDP ratio was not found satisfactory. With the income tax, there was the dominated role of corporate income tax but it was in decreasing trend and contribution of individual income tax was second position and it was in increasing trend.

He had suggested revising the position of fees and penalties, introducing reward, prize, incentives position, clear income tax, rules and regulation, clear right and duties of tax officers. Further, his suggestions were: timely revision in income tax policy, computerized system for payment of income tax. This study was done with main objectives of analyzing tax structure of Nepal, analyzing the position of fines and penalties under income tax law, know the taxpayers knowledge and tax officers view about fines and penalties. His study had focused only on study on provision of fines and penalties. So, this study is incomplete study. (Sherchan, 2003)

Palli Magar (2003), had covered tax structure, role of income tax and exemptions and deduction provided in the law. He had found that there was dominated share of tax structure in Nepalese government revenue. Income tax had occupied third position in his study period and it was increasing trend. The tax/GDP ratio was not found satisfactory. With the income tax, there was the dominated role of corporate income tax but it was in decreasing trend and contribution of individual income tax was second position and it was in increasing trend. Lack of trained employees, shortage of income tax experts professional in tax administration, lack of public participation, faulty organizational structure of tax administration, weakness in government policy, defective income tax act were the major cause for inefficient tax administration, observed by him. His suggestion about exemption were: revision the exemption limit, elimination double taxation on dividend, tax rebate for submitting true income statement in time, increase income tax rate slab up to 10, increase the exemption limit to individual as well as family etc. Besides above, suggestions about deduction were: clear provisions for deduction; fully allowed interest expense, pollution control expenses, repair and improvement expenses, research and development expenses. He is totally concentrated on the exemption and deduction in his study. He has not study about various aspect of income tax. (Palli Magar, 2003)

Besides these reports, books and master level dissertations, some articles about income tax published in Kathmandu post, Rising Nepal, Ghorkhapatra, The Kantipur, The Kathmandu Post etc. and publication of Ministry of Finance such as Budget Speech, Economic Survey were reviewed in the study period.

Shrestha (2006) has tried to shown the contribution of income tax on the structure of government revenue in Nepal. She stated that the composition of tax and non tax revenue is still less satisfactory in Nepal. She found that total revenue, total tax revenue and direct tax revenue have an increasing trend in Nepal but in low rate. She has mentioned that tax evasion as the major problem of income tax system in Nepal. In her study, inefficient tax administration, unconsciousness of tax payer, lack of scientific method of tax assessment and collection have identified as the major reasons for tax evasion at high level. (Shrestha, Neena 2006)

2.21 Research gap

Tax is the strong sources of government revenue. It plays important role in revenue collection. To increase the revenue collection from tax the government should either increase the tax rate on make wide coverage. If tax collection is effective the government revenue will increase well. Tax system depends on its legal provision and its popularity also depends on its transparency for providing a lot of information about tax. Different researches have research on the topics of income tax in different ways. Their objectives and analyzing system are in different way. After studying different research paper held on "A study on revenue collection from income tax and its practical difficulties in Nepal", the researcher found various gap on selected topic to make this research different for other research also analyze theoretical concepts. Analyze the reliable data and analyze the different views of different respondents.

Chapter 3

RESEARCH METHODOLOGY

This chapter is devoted to the research methodology applied in the study for, the achievement for desired objectives. Both primary as well as secondary sources of data are used to conduct this study. Opinion survey technique was adopted while collecting primary data to find out the views of respondents representing different groups related to Income tax. This opinion survey was opted to find out the practical aspect of Income Tax. While conducting the opinion survey, questionnaires were distributed to the tax experts, tax officers, business-men and consumers in the sizeable manner in Kathmandu valley.

3.1 Research Design

To achieve the stated objectives of the study, the study of income tax act 2058 made or descriptive research where as analytical research has been carried out in terms of role of vat in generating government revenue in Nepal. For an empirical research, an opinion survey has been conducted. The options of various seventy-five respondents associated with distinct denominations (groups) i.e. tax administrators, tax experts and tax payers were collected through structured questionnaire with reference to tax system of Nepal, major problem of tax system, remedy to minimize corrupt practice existed in Nepalese tax administration, cause of ineffectiveness of tax administration, the most important factor for effectiveness of tax including necessary suggestion for achieving effectiveness of tax in Nepal. Hence, the research methodology followed in the study can be termed as survey cum analytical and descriptive research design.

3.2 Population and sample

In order to benefit this study 75-sample size from Kathmandu is selected. Persons included in the sample are carefully selected by consultation with tax experts, professor and judgment of the researcher. The respondents have been divided in to four groups. The following table shows the group of respondents and the size or samples:

Table no. 3.1

Groups of Respondents and size of Samples from each group

Serial Number	Group of respondents	Sample size	%
1.	Tax experts	25	33.33
2.	Tax administrations	25	33.33
3.	Tax payers	25	33.33
	Total	75	100

3.3 Source of Data

Both primary as well as secondary source of data have been collected in order to achieve the real and fact full result from this research. All the possible and useful data as far available have been collected. The major sources of data are as follows:

a) Primary data

The major tools used for the collection of primary data are distribution of a questionnaire to a responsive of persons. A set of questionnaire was developed and distributed to the selected respondents in order to get accurate and actual information. The questionnaire was distributed to different tax group i.e. tax experts, tax administrations and tax payers. Tax experts and tax officers are selected from tax department, various sectors of tax officers in Kathmandu and Ministry of Law and Justice, reputed lawyers, auditors, and. intellectuals who have knowledge and ideas about tax. Tax payers i.e. business-men and consumers are selected from different manufacturing company trading company, department stores, shopping center, finance company etc.

b) Secondary data

The secondary sources of data are the information serviced from books journals, newspapers, reports and dissertations etc. The major sources of secondary data are from economic survey and annual reports, Ministry of Finance, Publications, Tribhuvan University, reports and records of department of taxation, Ministry of Finance, dissertation related to tax available at library of Shanker Dev campus, central library of TU, publication of tax projects, publication of tax department, economic review and indicators from Nepal Rastra Bank, world development report, published documents of Nepal Rastra Bank and national planning commission, books related to tax, national news paper, journals, souvenir and news magazines, other relevant records and data related to his studies.

3.4 Data Collection procedures

A total 75 sets of questionnaire were distributed to the selected respondents in order to get actual and accurate information. Distribution work is done personally rather than sending by any means to get accurate and actual information in time.

3.5 Data processing and analysis procedure

The information revived from primary and secondary sources is firstly tabulated in to separate formats systematically in order to achieve desire objectives. After that these data are tabulated and analyzed. For the purpose of analysis generally simple statistical tools have been used which are simple percentage methods, ranking methods, graphs, charts and diagrams.

Chapter 4

DATA PRESENTATION AND ANALYSIS

4.1 Analysis of Secondary Data

4.1.1 Revenue collection from tax

The main source of revenue collection of government is tax revenue the revenue collection from tax is in increasing trend. The revenue collection from tax in fiscal year 2000/01 is Rs 38865. 1 million but in FY 2007/08 the revenue collection is Rs. 50898.8 million it shows the revenue collection from tax is increasing trend. Following table shows the revenue collection from tax in different year. Tax revenue includes customs, tax on consumption and product of goods and services land revenue and registration and tax on property profit and income. The total tax collection during the seven year is as follows:-

Table No. 4.1

Revenue collection from tax

Rs. in million

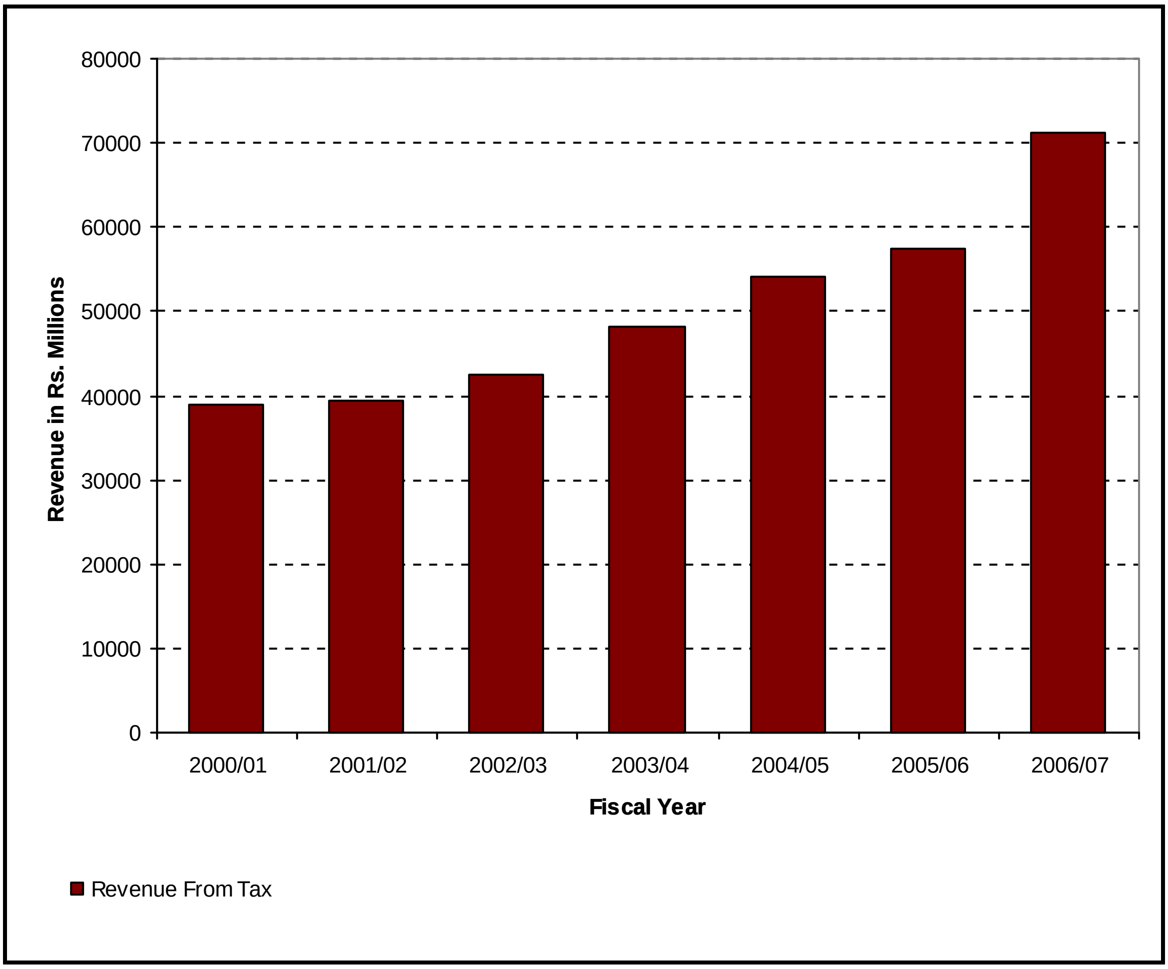
Fiscal year	Tax revenue
2000/01	38865.1
2001/02	39330.6
2002/03	42587.0
2003/04	48173.0
2004/05	54104.7
2005/06	57430.4
2006/07	71126.7

Source: Economic survey 2007/08 MOF.

From the above table the revenue collection from tax was increased from FY 2000/01 to 2006/07. Then FY 2006/07 the above explanation can be shown in following figure.

Figure No. 4.1

Revenue collection from tax



4.1.2 Composition of tax revenue

Tax revenue includes the tax from customs, tax on consumption and product of goods and services land revenue registration, tax on property profit & income the composition of tax revenue in different year is given in following table.

Table No. 4.2

Composition of tax revenue

Rs. in million

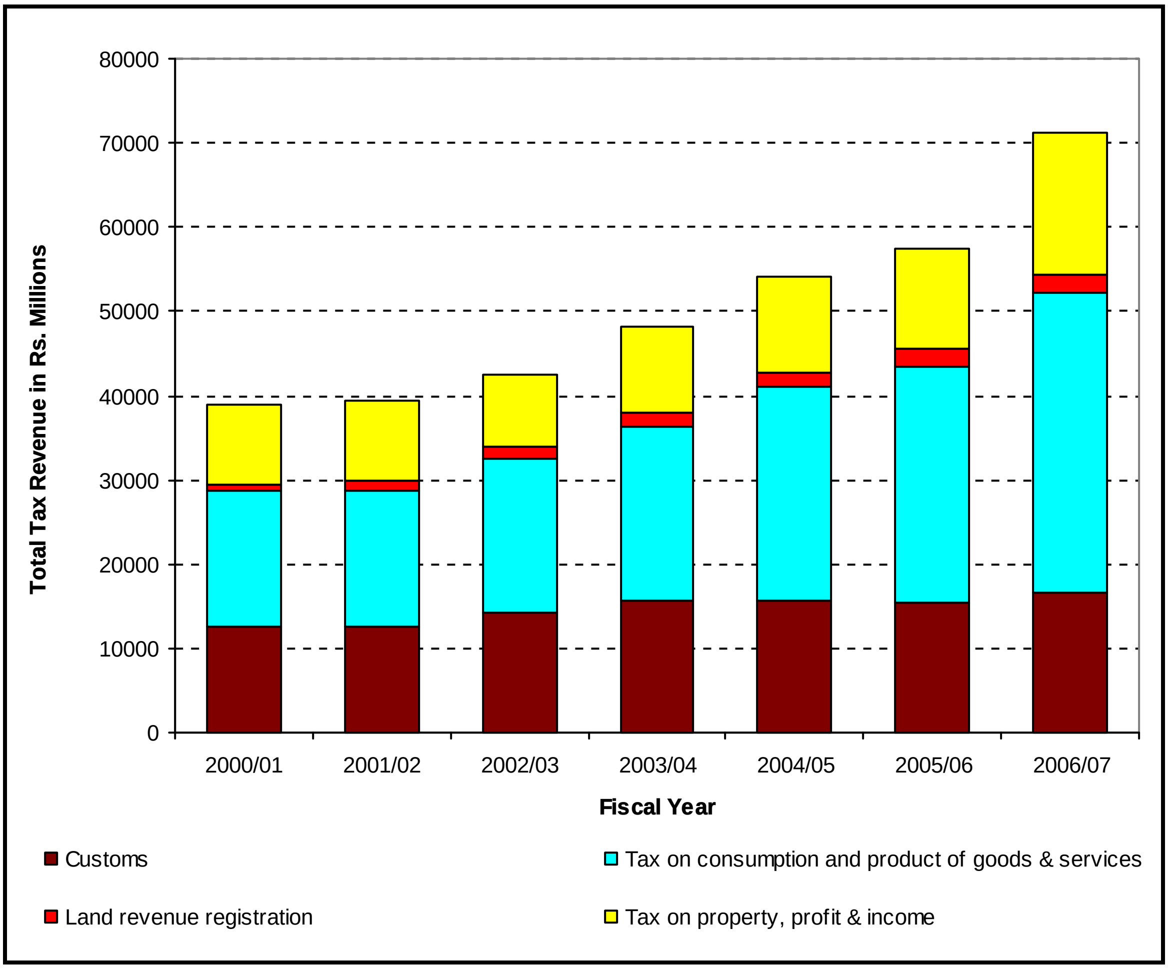
Fiscal year	Customs	Tax on consumption and product of goods services	Land revenue registration	Tax on property profit & income	Total
2000/01	12552.1	16153.6	612.9	9546.5	38865.1
2001/02	12658.8	16074.3	1131.8	9465.7	39330.6
2002/03	14236.4	18244.8	1414.3	8691.5	42587.0
2003/04	15554.8	20705.6	1697.5	10215.1	48173.0
2004/05	15701.6	25331.3	1799.2	11272.6	54104.7
2005/06	15344.0	28118.3	2181.8	11787.0	57430.4
2006/07	16707.6	35433.8	2253.5	16726.8	71126.7

Source: Economic survey 2007/08, MOF.

In Nepal the major sources of government revenue is tax revenue. In the tax revenue the major sources of tax is custom tax which includes. Imports, exports, Indian excise returned and others. Another major source of tax is tax on consumption product goods and services which includes exercise on industrial products and value added tax. Another source of tax is tax on income tax from public enterprises income tax from semi-public enterprises, income tax from private corporate bodies and income tax from individuals. Tax from remuneration, House and land tax, vehicle tax, tax on interest and others. The tax collection from different year in different year in shown in above table which shows the every sources of tax is in increasing trend the above data can be shown in following figure.

Figure No. 4.2

Composition of tax revenue



4.1.3 Composition of tax revenue and non tax revenue

Tax revenue includes tax from customs, tax on consumption and product of goods and services land revenue and registration and tax on property, profit and incomes. Non tax revenue includes charges. Fees, fines and forfeiture, receipts from sale of commodities and services dividend, Royalty and sales of fixed assets, principal and interest payment and miscellaneous. The composition of tax revenue and non tax revenue of government in different year in given in following tables:-

Table No. 4.3

Composition of tax revenue and non tax revenue

Rs. in million

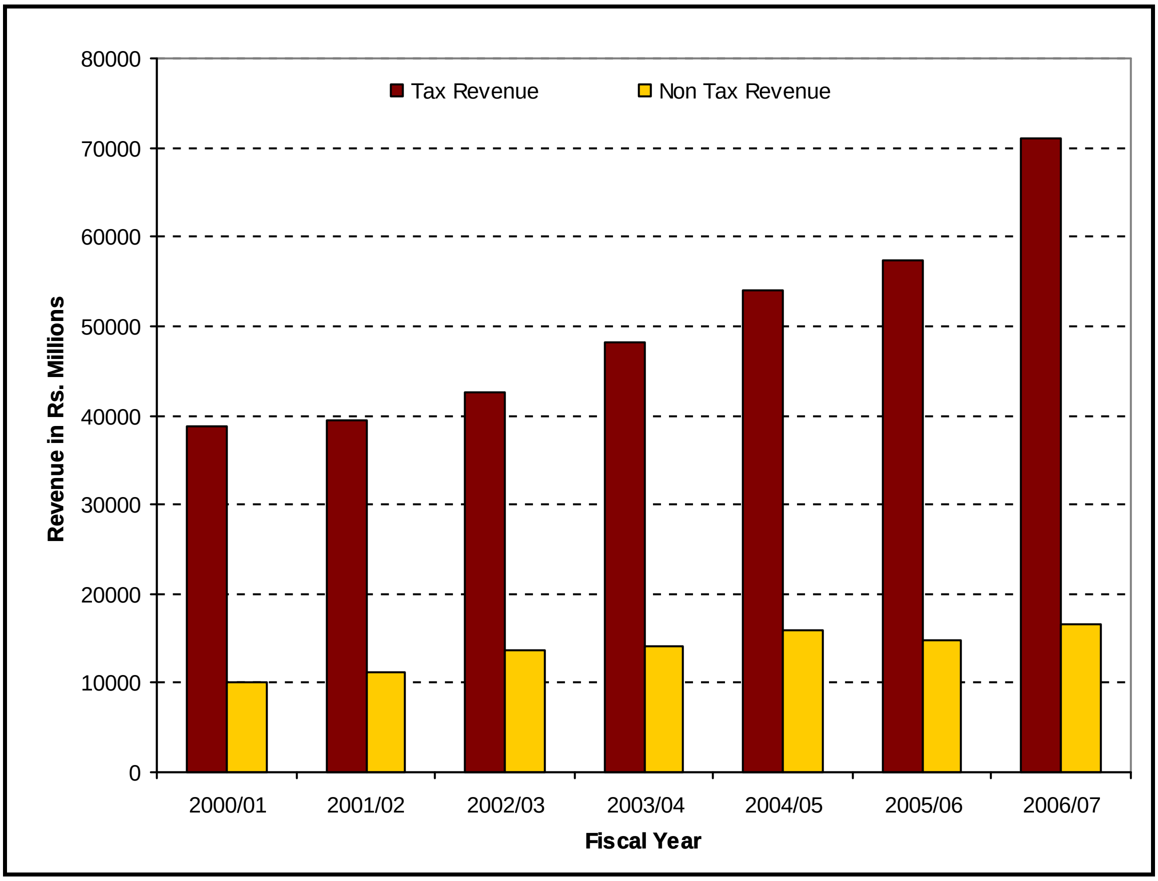
Fiscal year	Tax revenue	Non tax revenue	Total revenue
2000/01	38865.1	10028.8	48893.6
2001/02	39330.6	11115.0	50445.5
2002/03	42587.0	13642.7	56229.8
2003/04	48173.0	14158.0	62331.0
2004/05	54104.7	16018.0	70122.7
2005/06	57430.4	14851.7	72282.1
2006/07	71126.7	16585.8	87712.10

Sources: Economic survey 2007/08, MOF.

From the above table it is clear that the major of part of total revenue is tax revenue. The revenue from tax in year 2000/01 was Rs. 38865.1 million and from non tax revenue was 10028.8 million similarly the revenue from tax in fiscal year 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 Rs. 57430.6, Rs. 42587.6, Rs. 48173.0, Rs. 54104.7, Rs. 507430.4 and Rs. 71126.7 million respectively. Similarly revenue collection from non tax were in fiscal year 2001/02, 2002/03, 2003/04, 2004/05, 2005/06 and 2006/07 were Rs. 11115.0 million, Rs. 13642.7 million, Rs. 14158.0 million, Rs. 16018.0 million, Rs. 14851.7 million and Rs. 16585.5 million respectively. This explanation can be shown in following figure.

Figure No. 4.3

Composition of tax and non tax revenue



4.1.4 Revenue collection from Income Tax

Income tax is the main source of revenue for the government. Income tax includes Corporate tax, Individual tax and Interest tax. Corporate tax includes Income tax from Public Enterprises, Income tax from Semi-public Enterprises and Income tax from Private Corporate bodies. Individual tax includes income tax from Individual and Income tax from remuneration, Interest tax includes tax related to Interest Income.

In the fiscal year 2000/01 revenue collection from Income tax was Rs. 9114.0 Millions and in Fiscal year revenue from Income tax is increased to Rs. 15034.0 Millions. The following table shows the revenue collection from income tax in different year.

Table No. 4.4

Revenue collection from Income Tax

Rs. in million

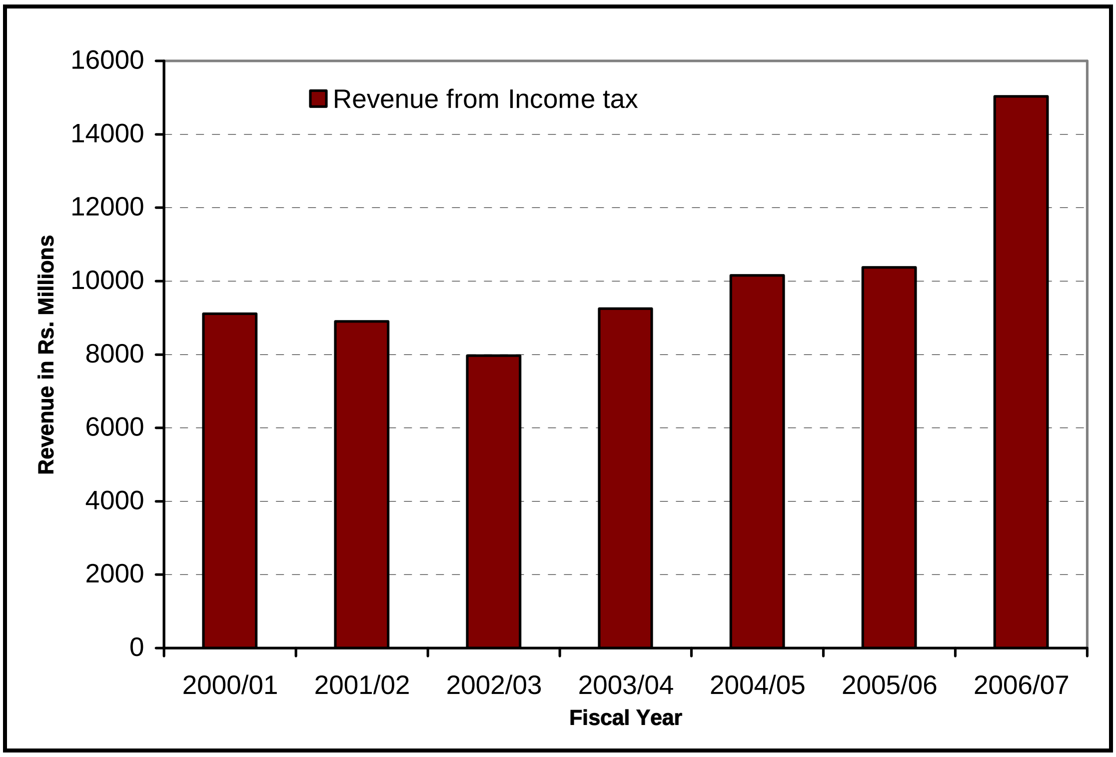
Fiscal year	Amount
2000/01	9114.0
2001/02	8903.7
2002/03	7966.2
2003/04	9245.9
2004/05	10159.4
2005/06	10373.7
2006/07	15034.0

Source: Economic Survey 2007/08, MOF.

The trend of revenue collection from Income tax can be shown in following figure.

Figure No. 4.4

Revenue Collection from Income Tax



4.1.5 Composition of Income Tax

Income tax includes Income tax includes Corporate tax, Individual tax and Interest tax. Corporate tax includes Income tax from Public Enterprises, Income tax from Semi-public Enterprises and Income tax from Private Corporate bodies. Individual tax includes income tax from Individual and Income tax from remuneration, Interest tax includes tax related to Interest Income.

The composition of Income Tax in different year is given in following table:-

Table No. 4.5

Composition of Income tax

Rs. in million

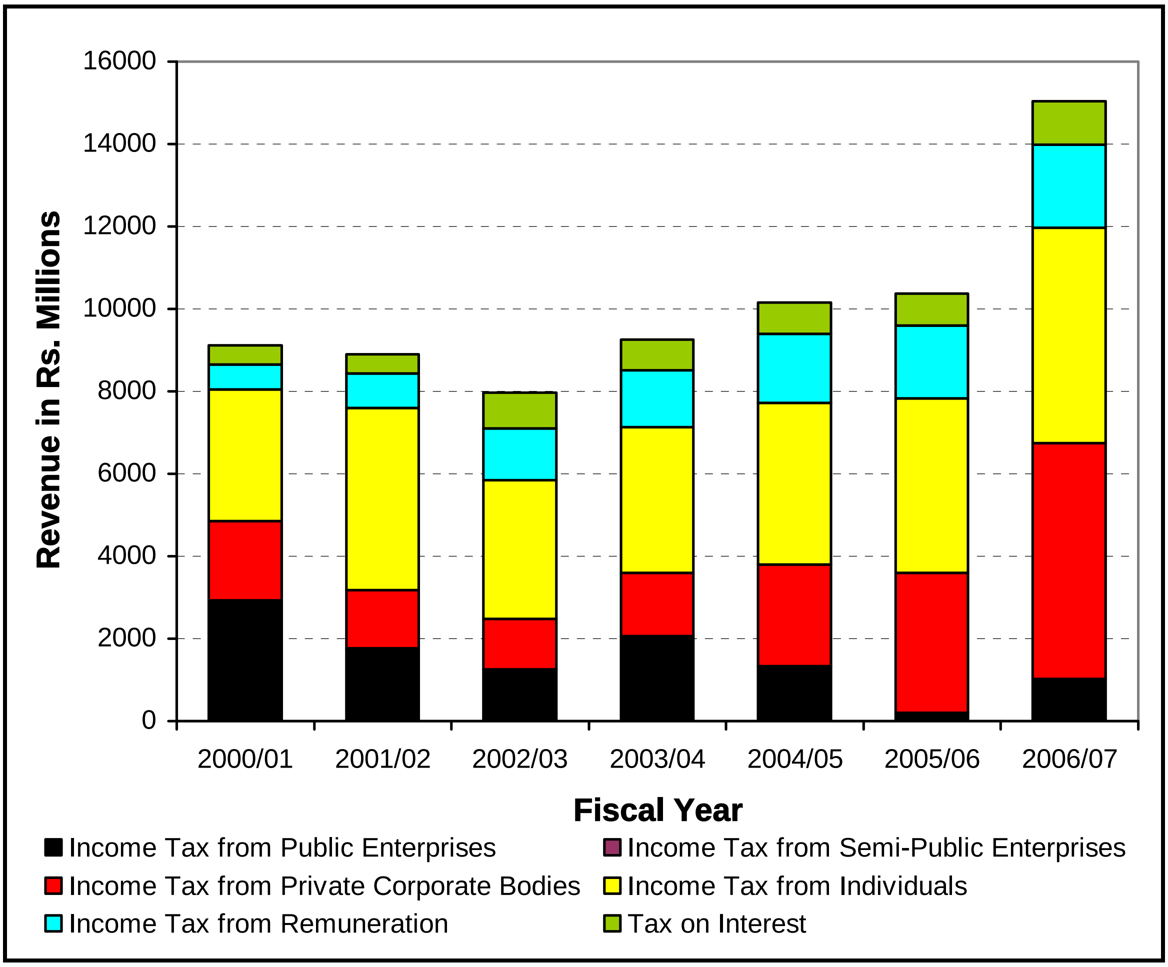
S.N	Heading / Fiscal Year	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
1.	Income tax from Public Enterprises	2928.0	1769.3	1251.0	2056.0	1332.4	195.7	1019.7
2.	Income tax from Semi-Public Enterprises	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3.	Income tax from Private Corporate Bodies	1924.3	1412.0	1236.3	1531.3	2467.8	3404.3	5717.1
4.	Income tax from Individuals	3200.5	4419.1	3362.3	3533.4	3926.3	4234.7	5234.4
5.	Income tax from Remuneration	597.3	835.6	1252.6	1391.2	1675.9	1764.1	2007.9
6.	Tax on Interest	463.9	467.7	864.0	733.4	757.0	774.9	1054.9
	Total	**9114.0**	**8903.7**	**7966.2**	**9245.9**	**10159.4**	**10373.7**	**15034.0**

Source: Economic Survey 2007/08, MOF.

The above table shows the consumption of Income tax revenue in different fiscal year. The above explanation can be shown in figure; the following figure shows the composition of Income tax revenue in different fiscal year.

Figure No. 4.5

Composition of Income tax revenue



4.1.6 Contribution of Income tax to Total Revenue

The government total revenue includes Tax revenue and Non tax revenue. Tax revenue includes Tax from customs, Tax on consumption and products of Goods and Services, Tax from Land revenue and registration, Tax on property profit & Incomes. Similarly Non tax revenue includes charges, fees, fines and Forfeiture, Received from sales of commodities and Services, Dividend, Royalty and sales of Fixed assets, Principle and Interest payment and Miscellaneous items. Income tax is one part of Total revenue. The contribution of Income tax on the Total revenue in different year is given below:

Table No. 4.6

Contribution of Income tax to Total revenue

Rs. in million

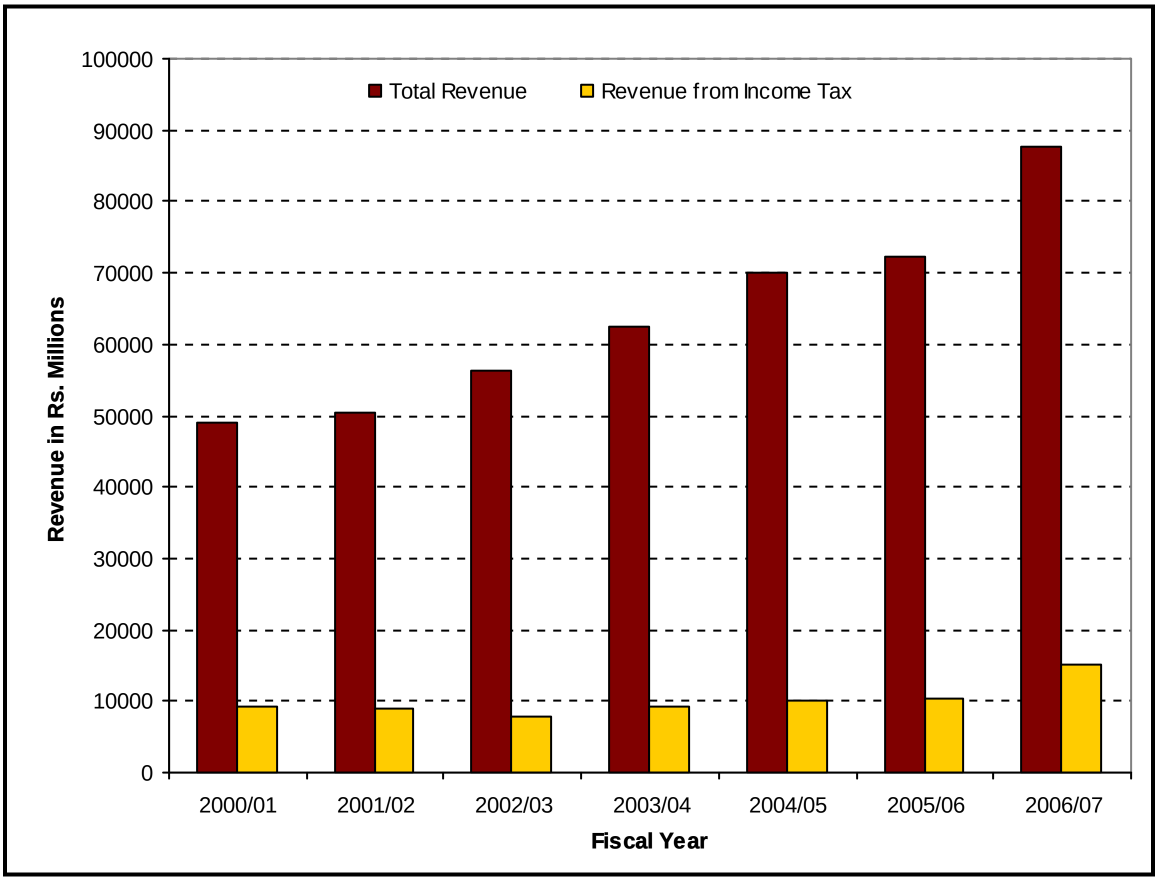
Fiscal Year	Total Revenue	Income Tax	% of Income tax to Total Revenue
2000/01	48893.9	9114.0	18.64
2001/02	50445.6	8903.7	17.65
2002/03	56229.7	7966.2	14.17
2003/04	62331.0	9245.9	14.83
2004/05	70122.7	10159.4	14.49
2005/06	72282.1	10373.7	14.35
2006/07	87712.1	15034.0	17.14

Source: Economic Survey 2007/08, MOF.

In fiscal year 2000/01; the contribution of Income tax to total revenue was 18.64%. Similarly in fiscal year 2001/02;fiscal year 200/03; fiscal year 2003/04; fiscal year 2004/05; fiscal year 2005/06; fiscal year 2006/07 were 17.65%, 14.17%, 14.83%, 14.49%, 14.35% and 17.14% respectively. Above table shows in an aggregate the contribution of Income tax on total revenue is 15.90%. The explanation can be shown in following figure.

Figure No. 4.6

Contribution of Income tax to Total revenue



4.1.7 Contribution of Income tax to Total tax revenue

Total Tax revenue includes Tax from customs, Tax on consumption and products of Goods and Services, Tax from Land revenue and registration, Tax on property profit & Incomes. So, Income tax is one of the components of Total tax revenue. The contribution of Income tax on the Total tax revenue is in average 20.28%. The following table shows the contribution of Income tax to total tax revenue in different year.

Table No. 4.7

Contribution of Income tax to Total tax revenue

Rs. in million

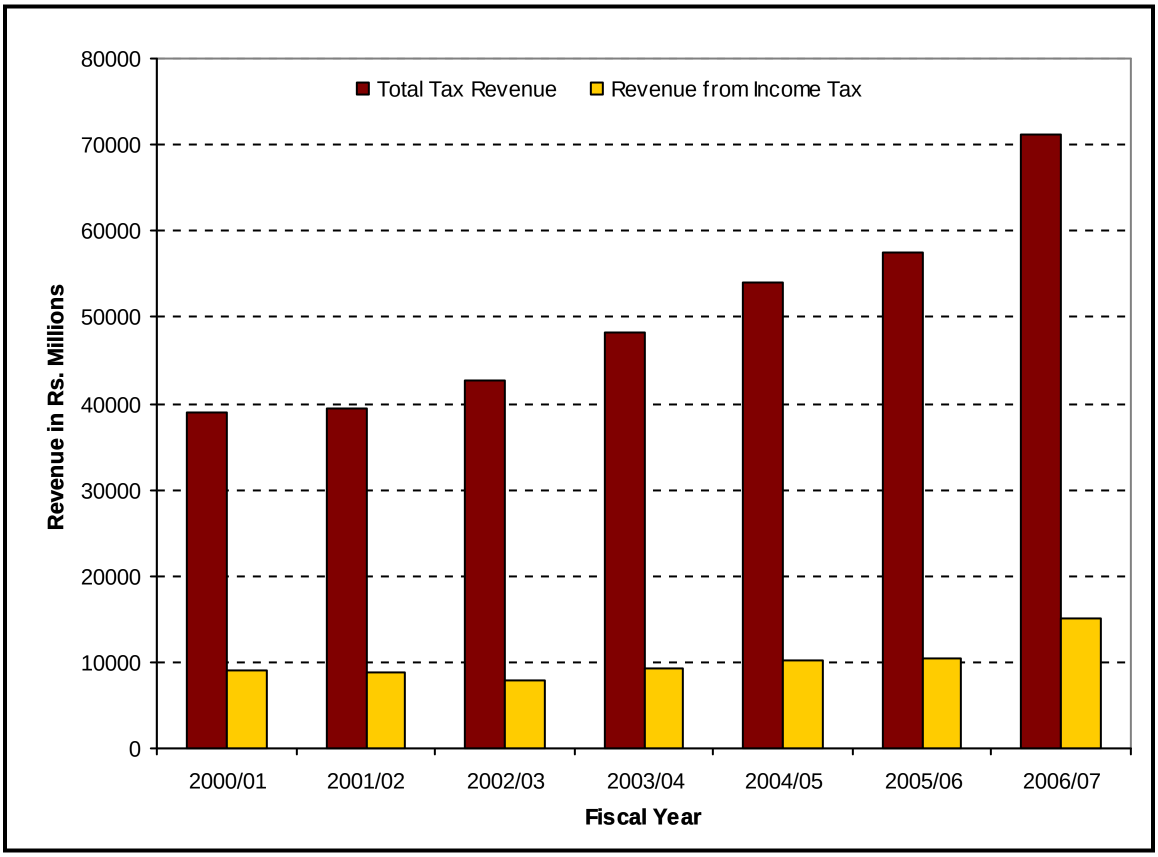
Fiscal Year	Total Tax Revenue	Income Tax	% of Income tax to Total Tax Revenue
2000/01	38865.1	9114.0	23.45
2001/02	39330.6	8903.7	22.64
2002/03	42587.0	7966.2	18.71
2003/04	48173.0	9245.9	19.19
2004/05	54104.7	10159.4	18.78
2005/06	57430.4	10373.7	18.06
2006/07	71126.7	15034.0	21.14

Source: Economic Survey 2007/08, MOF.

In fiscal year 2000/01; the contribution of Income tax to total tax revenue was 23.45%. Similarly in fiscal year 2001/02;fiscal year 200/03; fiscal year 2003/04; fiscal year 2004/05; fiscal year 2005/06; fiscal year 2006/07 were 22.64%, 18.71%, 19.19%, 18.78%, 18.06% and 21.14% respectively. Above table shows in an aggregate the contribution of Income tax on total tax revenue is 20.28%. The explanation can be shown in following figure.

Figure No. 4.7

Contribution of Income tax to Total tax revenue



4.1.8 Contribution of Income tax to Direct tax revenue

Direct tax revenue includes Tax from Land revenue, House and Land Registration Fees and Tax on property, Profit & Incomes. So, Income tax is one of the components of Direct tax revenue. The contribution of Income tax on the Direct tax revenue is in average 80.20%. The following table shows the contribution of Income tax to total tax revenue in different year.

Table No. 4.8

Contribution of Income tax to Direct tax revenue

Rs. in million

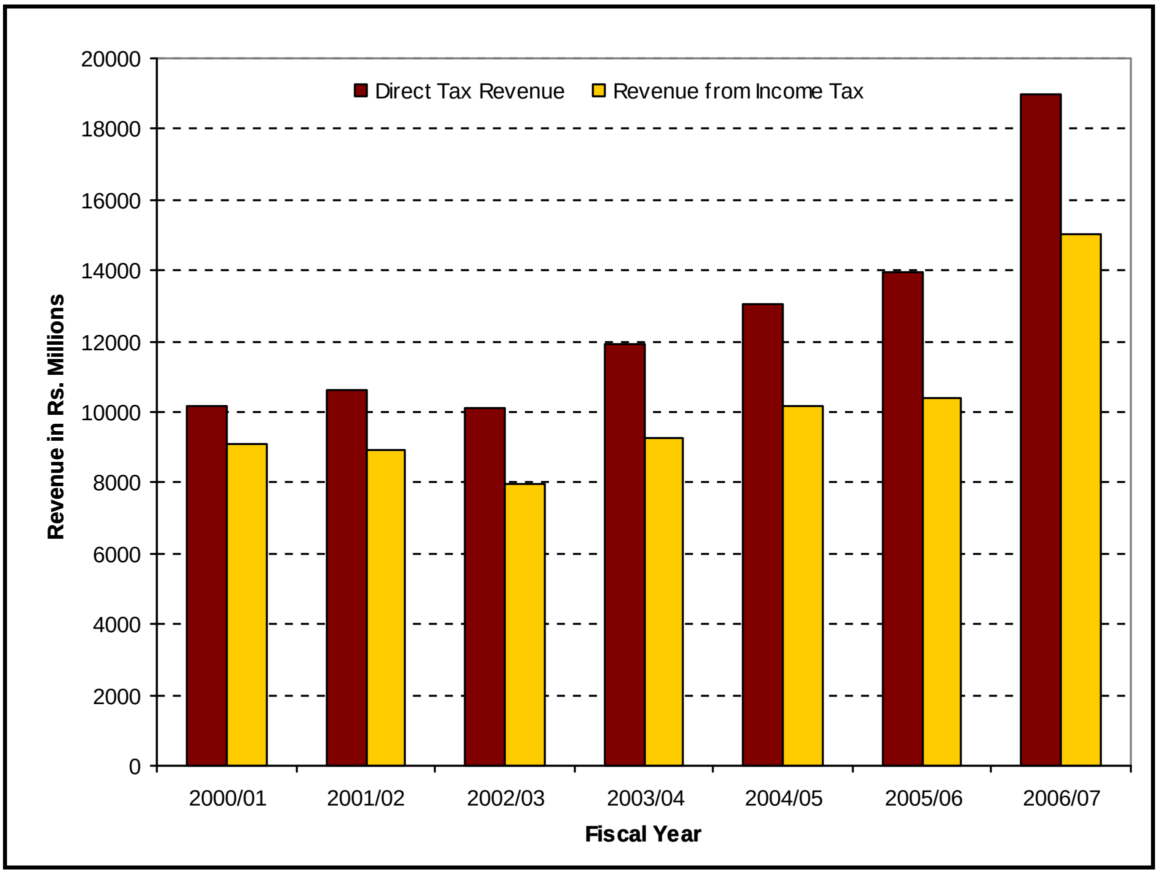
Fiscal Year	Direct Tax Revenue	Income Tax	% of Income tax to Direct Tax Revenue
2000/01	10159.4	9114.0	89.71
2001/02	10597.5	8903.7	84.02
2002/03	10105.8	7966.2	78.83
2003/04	11912.6	9245.9	77.61
2004/05	13071.8	10159.4	77.72
2005/06	13968.1	10373.7	74.27
2006/07	18980.3	15034.0	79.21

Source: Economic Survey 2007/08, MOF.

In fiscal year 2000/01; the contribution of Income tax to Direct tax revenue was 89.71%. Similarly in fiscal year 2001/02;fiscal year 200/03; fiscal year 2003/04; fiscal year 2004/05; fiscal year 2005/06; fiscal year 2006/07 were 84.02%, 78.83%, 77.61%, 77.72%, 74.27% and 79.21% respectively. Above table shows in an aggregate the contribution of Income tax on total tax revenue is 80.20%. The explanation can be shown in following figure.

Figure No. 4.8

Contribution of Income tax to Direct tax revenue



4.1.9 Government expenditure

Government expenditure includes the recurrent expenditure, capital expenditure and principal payment. In the fiscal year 2000/01 the total government expenditure is Rs. 79855.1 million which includes recurrent expenditure Rs. 45837.3 million, Capital expenditure is Rs. 28307.2 million and principal payment is Rs. 5690.6 million. In fiscal year 2006/07 the government expenditure is Rs. 133604.60 million, which includes recurrent expenditure Rs. 77122.40 million, capital expenditure Rs. 39729.90 million and principal payment Rs. 16752.30 million. The following table shows the government expenditure in different fiscal year.

Table No. 4.9

Government expenditure

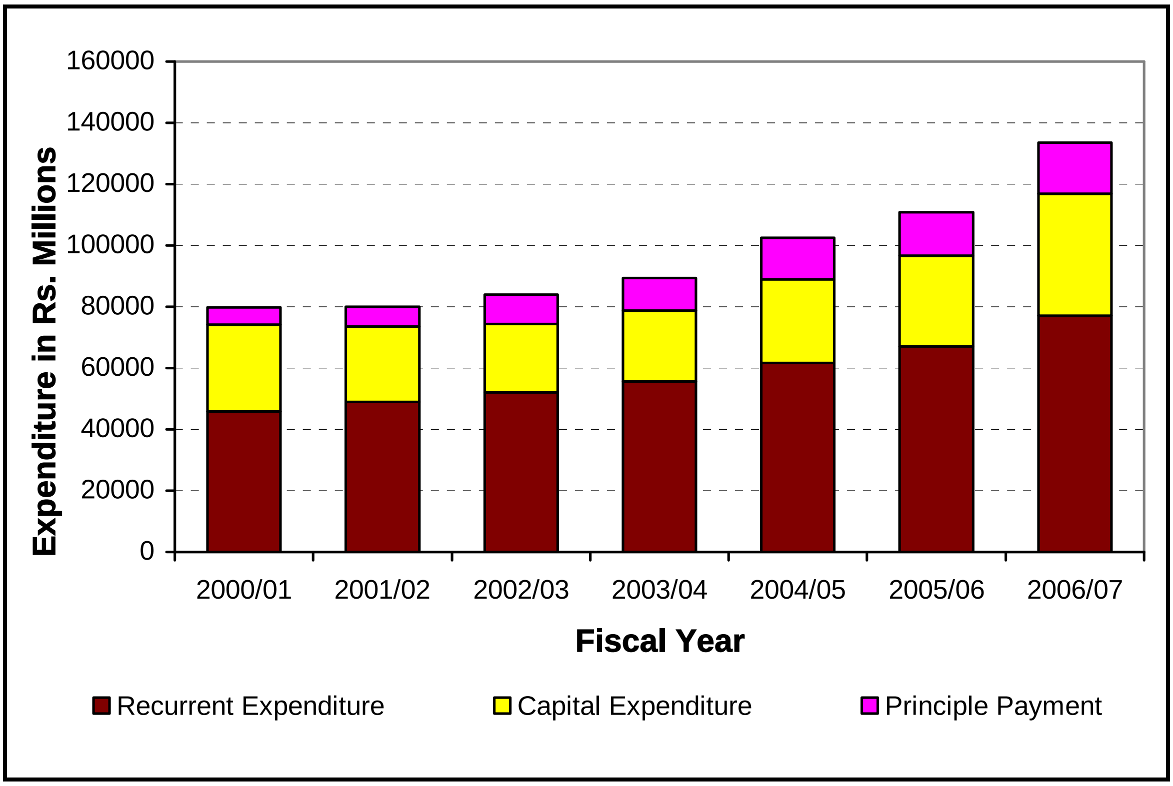
Fiscal year	Government expenditure			Total
	Recurrent expenditure	Capital expenditure	Principal payment	
2000/01	45837.3	28307.2	5690.6	79835.10
2001/02	48863.9	24773.4	6434.9	80072.20
2002/03	52090.5	22356.1	9559.5	84006.10
2003/04	55552.1	23095.6	10794.9	89442.60
2004/05	61686.4	27340.7	13533.3	102560.40
2005/06	67017.8	29606.6	14264.8	110889.20
2006/07	77122.40	39729.90	16752.50	133604.60

Source: Economic Survey 2007/08, MOF.

The above explanation can be shown in following figure.

Figure No. 4.9

Government Expenditure



4.1.10 Government Receipts

Government receipts include the total tax and non tax revenue and foreign grants. The main source of government receipts is revenue. Total government receipts in fiscal year 2000/01 was Rs. 55647.0 million which includes Rs. 48893.6 million from revenue and Rs. 6753.4 million from grants. Similarly total government receipts in different fiscal year and its composition is given in following tables.

Table No. 4.10

Government receipts

Rs. in million

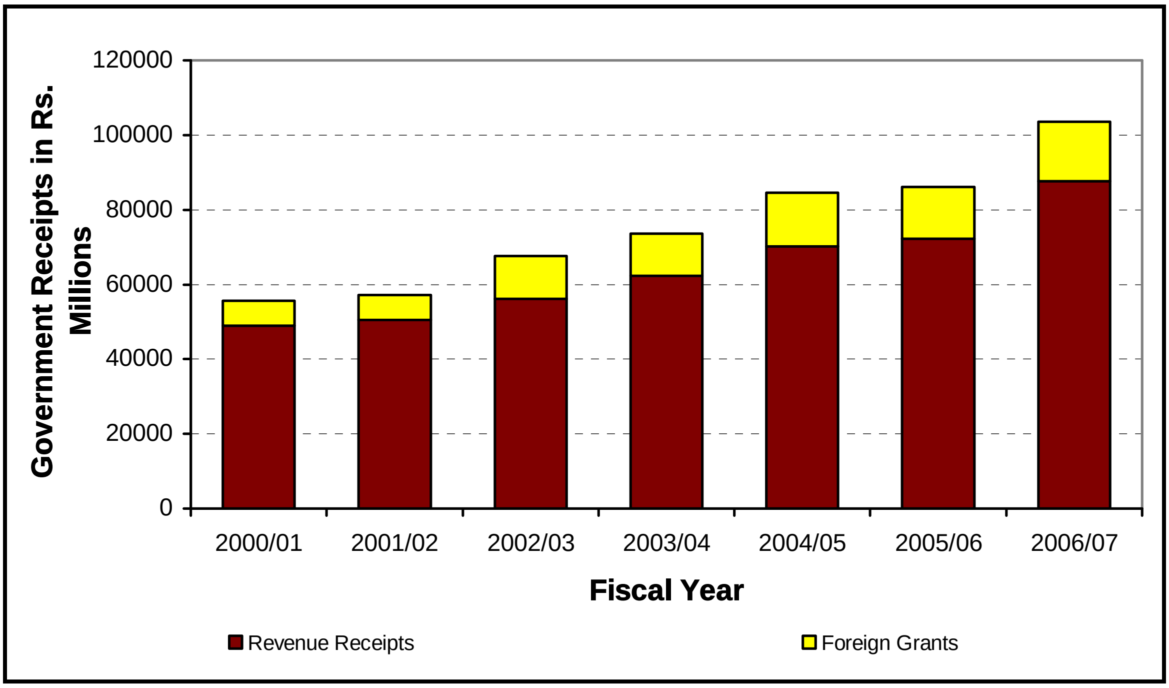
Fiscal year	Revenue receipts	Foreign grants	Total receipts
2000/01	48893.6	6753.4	55647.0
2001/02	50445.5	6686.1	57131.60
2002/03	56229.8	11339.1	67568.9
2003/04	62331.0	11283.4	73614.4
2004/05	70122.7	14391.2	84513.9
2005/06	72282.1	13827.5	86109.6
2006/07	87712.10	15800.80	103512.90

Source: Economic Survey 2007/08, MOF.

Government receipts from revenue and foreign grants in different year can be shown in figure. Following figure shows the total receipts from revenue and foreign grants in different fiscal year.

Figure No. 4.10

Government receipts composition



4.1.11 Comparative study of government receipts and expenditure

Government collect's revenue from different sources; they are tax revenue, non tax revenue and foreign grants. Government expenditure head mainly are recurrent expenditure, capital expenditure and principal repayment. Government collects revenue and grants and expenses in different heads. If receipt is more than expenditure there is surplus, if expense is more than revenue there is deficit. Following table shows the government receipts, expenditure and surplus & deficit relation.

Table No. 4.11

Comparative study of government receipts and expenditure

Rs. in million

Fiscal year	Expenditure	Receipts	Surplus (+) / deficit (-)
2000/01	79835.1	55647.0	-24188.10

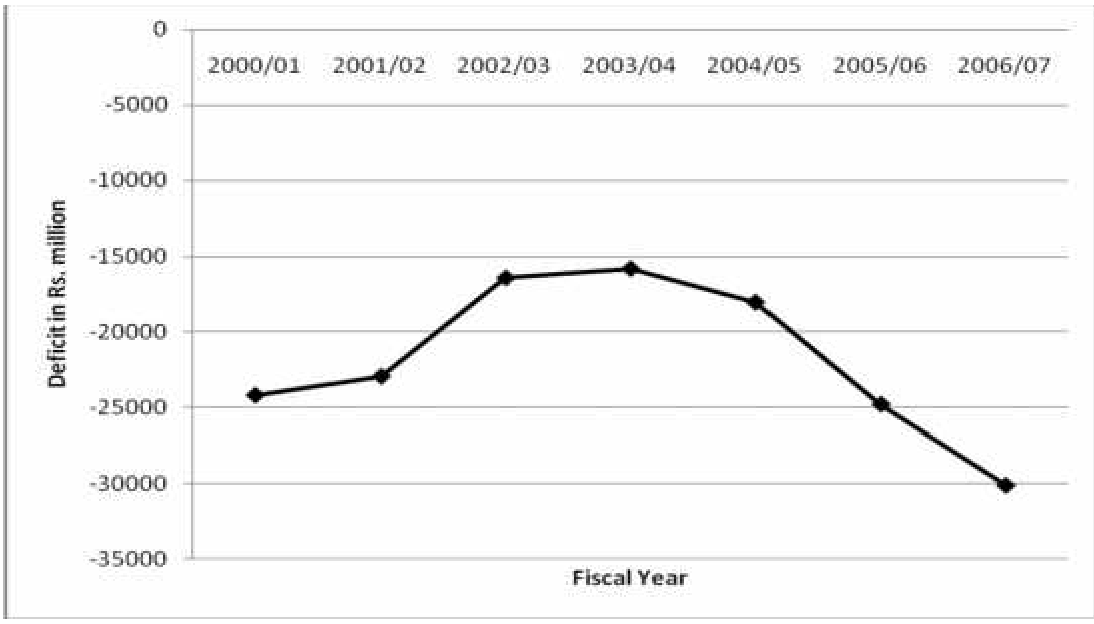
2001/02	80072.2	57131.6	-22940.60
2002/03	74006.1	67568.9	-16437.20
2003/04	89442.6	73614.4	-15828.20
2004/05	102560.4	84513.9	-18046.50
2005/06	110889.2	86109.6	-24779.60
2006/07	133604.6	103512.90	-30091.70

Source: Economic survey 2007/08, MOF.

The above table shows the relation between government expenditure and government revenue. The table clearly shows the government expenditure is more than government receipts in and every year. Every year is deficit because expenditure is more than receipts. The deficit in fiscal year 2000/01, FY 2001/02, FY 2002/03, FY 2003/04, FY 2004/05, FY 2005/06 and FY 2006/07 was Rs. 24188.1 million, Rs. 22940.6 million, Rs. 16437.2 million, Rs. 15828.2 million, Rs. 18046.5 million, Rs. 24779.6 million and Rs. 30091.7 million respectively. The above explanation can be shown in following figure also.

Figure No. 4.11

Trend of deficit



4.1.12 Exemption Limit in Nepal

Exemption limit directly influence income tax revenue collection. Taxpayer having low tax paying capacity should exclude from the tax net for the social justice and economic balance between rich and poor. The exemption limit provided in the various years is presented in the table 4.12. In the earlier time, there was equal amount of exemption to all the taxpayers i.e. individual, couple, family and corporate bodies. Exemption limit to all taxpayers was Rs. 7000 in the FY 1959/60 to FY 1962/63. The exemption limit to the corporate taxpayer was curtailed from the FY 1965/66. The exemption limit to the couple and family was equal each year except FY 1967/68 to FY 1973/74 and FY 1975/76 to FY 1978/79. The exemption limit to the family was Rs. 6000 in the FY 1967/68 to FY 1973/74 whereas it was RS. 4500 to the couple. The exemption limit to couple and family was Rs. 6500 and 7500 respectively in the FY 1974/75 and it was further extended by Rs. 1000/1000 for the fiscal year 1976/77 to 14978/79. From the table, it is clear that exemption limit is extended according to need of time and income condition. At present time, individual having the taxable income up to Rs. 1000000 are exempted from tax and that for couple is Rs. 125000.

Note that if it is pension income of a resident person, the exemption limit would be exemption amount plus 25 percent of exemption amount.

Table No. 4.12

Exemption Limit in Nepal

From fiscal year 1959/60-2005/06

Fiscal Year	Individual	Couple	All taxpayers
1959/60-1962/63	-	-	7000
1963/64-1964/65	-	-	6000

1965/66-1966/67	-	-	5000
1967/68-1973/74	3000	4500	-
1974/75	4500	6000	-
1975/76	5500	6500	-
1976/77-1978/79	6500	7500	-
1979/80-1980/81	7500	10000	-
1981/82-1982/80	10000	15000	-
1983/84-1989/90	15000	20000	-
1990/91-1991/92	20000	30000	-
1992/93-1996/97	25000	35000	-
1997/98	30000	40000	-
1998/99	40000	50000	-
1999/00	55000	75000	-
2000/01	55000	75000	-
2001/02	65000	85000	-
2002/03	65000	85000	-
2003/04	80000	100000	-
2004/05	80000	100000	-
2005/06	100000	125000	-
2006/ up to now	125000	140000	

Source: Finance Acts of Various year, Ministry of Finance

4.2 Analysis of primary data

4.2.1 Introduction

The survey result has been conducted to find out the various aspects of income tax in Nepal. The structured questionnaire was prepared and distributed for this purpose. The opinion of the various 75 respondents associated with distinct denominations i.e. tax administration, tax expert and tax payers were collected. The questionnaire has covered role of income tax, major problem of income tax system, problems facing by tax payer, the most important factors for the effectiveness of income tax system in Nepal (see the format of questionnaire in a appendix 1). The respondents were asked either to response yes/no or for ranking of choices according to no of alternatives where first choice was the most important and last choice was least important. Number of respondents in each denomination is equal 25. Information received from the respondents are tabulated and analyzed in the proper way.

Table No. 4.13

Group of Respondents and Number from each Group

S.N.	Groups of Respondents	No.
1	Groups tax administrators	25
2	Income tax experts	25
3	Income tax payers	25
	Total	75

Source: Estimated figure

4.2.2 Result of Empirical investigation

4.2.2.1Income tax as suitable means of raising government revenue:

To know whether income tax as a suitable means of raising government revenue in Nepal, a questions was asked "Do you consider that income tax is the suitable means of raising government revenue in Nepal?" The respondent's responses are tabulated in the following table.

Table No. 4.14

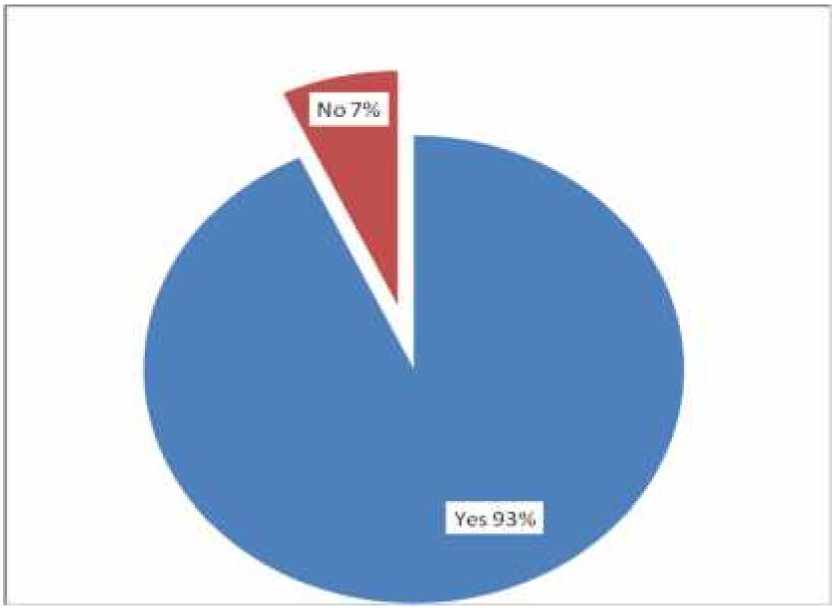
Income tax as a suitable means of raising revenue

Response / Respondent	Yes		No		Total	
	No.	**Percentage**	**No.**	**Percentage**	**No.**	**Percentage**
Tax Administrator	24	96	1	4	25	100
Tax Expert	24	96	1	4	25	100
Businessmen	22	88	3	12	25	100
Total	70	93.3	5	20	75	100

Source: Field survey 2009.

Figure No. 4.12

Income tax as a suitable means of raising revenue



From the opinion survey, it is found that 96 percent of tax administrators and tax experts and 88 percent of taxpayers recognize income Tax as a suitable means of raising government revenue. Only 4 percent tax administrators and tax expert and 12 percent tax payer does not recognize. In aggregate, 93,3 percent respondent recognized and 6.6 percent does not recognized income tax as a suitable means of raising government revenue in Nepal. Thus, it is concluded that income tax is a suitable means of raising government revenue in Nepal.

4.2.2.2Need of public awareness program

To known the respondents view towards public awareness program the questions was put "Do you think that public awareness program is necessary in Nepal for raising the government revenue?" opinion result summarized in the following table.

Table No 4.15

Need of public awareness program

Response / Respondent	Yes		No		Total	
	No.	**Percentage**	**No.**	**Percentage**	**No.**	**Percentage**
Tax Administrator	25	100	-	-	25	100
Tax Expert	25	100	-	-	25	100
Tax payer	25	100	-	-	25	100
Total	75	100	-	-	75	100

Source: Field survey 2009.

All of the samples of tax administration, tax experts and tax payer approved that public awareness program are necessary in Nepal for raising government revenue. Thus, it can be concluded that public awareness program is very much necessary for raising Nepalese government revenue.

4.2.2.3Contribution of Income Tax Revenue

Income tax has contributed about 20 percent to public revenue in Nepal. It is blamed that contribution of income tax to national revenue is not satisfactory. To know the fact, the question was asked to respondent "In your opinion, is contribution of income tax to national revenue of Nepal satisfactory?" Opinion result is presented in the following table.

Table No. 4.16

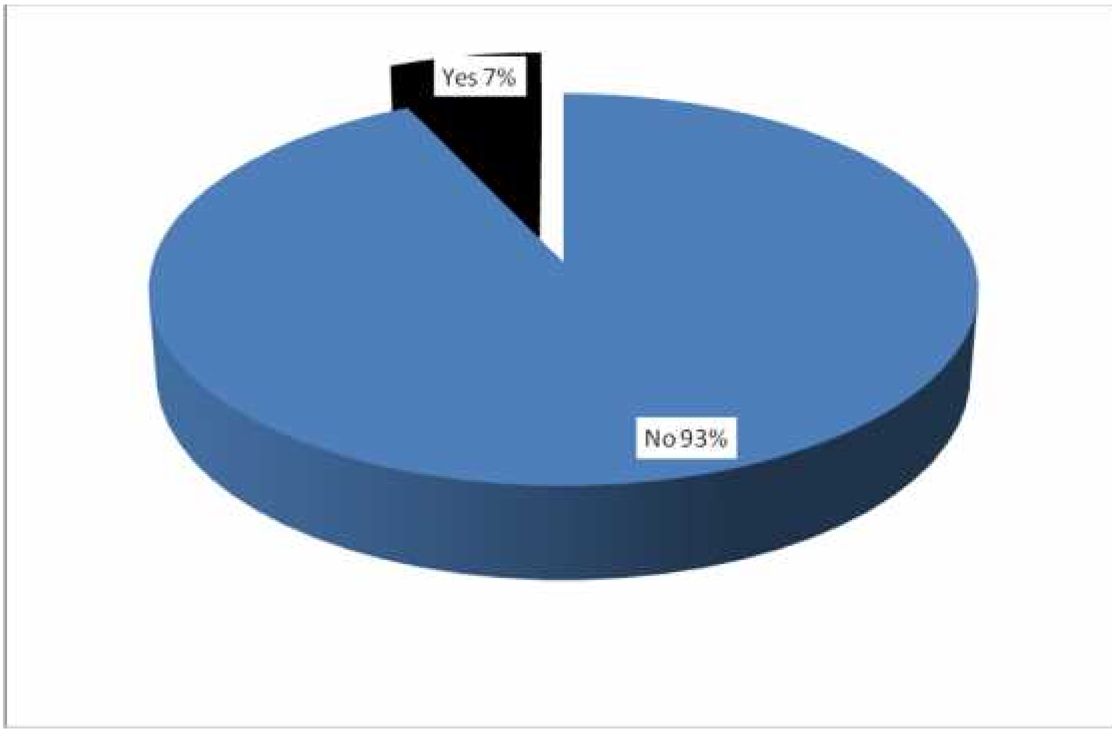
Satisfactory Contribution of Income Tax Revenue

Response / **Respondent**	**Yes**		**No**		**Total**	
	No.	**Percentage**	**No.**	**Percentage**	**No.**	**Percentage**
Tax Administrator	2	8	23	92	25	100
Tax Expert	3	12	22	88	25	100
Tax payer	-	-	25	100	25	100
Total	5	6.7	70	93.3	75	100

Source: Field survey 2009.

Figure No. 4.13

Satisfactory Contribution of Income Tax Revenue



Only 8 percent of tax administrators and 12 percent of taxpayers approve that income tax contribution to public revenue is satisfactory. But cent percent tax payers argue that contribution of income tax to national revenue in Nepal is unsatisfactory. In aggregate, 6.7 percent respondents argue that Nepalese income tax contribution is satisfactory.

4.2.2.4Reasons for low contribution of Income Tax

In order to know the major reasons for lower contribution of income tax, next question was asked, "If no, what are the major reasons." The respondents were requested to rank their choice from 1 to 5 according to preference.

Table No.4.17

Reasons for Low contribution of Income Tax to National Revenue

S.N.	Method	Total points Received				Percentage	Rank
		Tax Administrator	Tax Expert	Tax payer	Total		
1	Defective of Income Tax Act	90	73	99	262	24.95	4
2	Mass poverty and low income level	43	80	49	172	16.38	2
3	Increasing habit of tax evasion	45	34.	77	156	14.86	1
4	Inefficient income tax administrator	99	52	42	193	18.38	3
5	Inappropriate rate and exemption limit	68	91	108	267	25.43	5
	Total				1050	100	

Source: Field survey 2009.

In table rank 1 is given to the lowest percentage and 5 to the highest. Here lowest percentage is obtained by the method which is regarded highly appropriate by the respondents. In the questionnaire, the respondents were requested to given number 1 to the most appropriate of last to the least appropriate.

From the above table, the major reasons for low contribution of income tax to national revenue ranked in order of preference of the respondents are as follows:

1. Increasing habit of tax evasion
2. Mass poverty and low income level
3. Inefficient income tax administration
4. Defective income tax act
5. Inappropriate rate and exemption limit

4.2.2.5 Contribution of Direct Tax

Direct tax includes tax on poverty, tax on income, tax in interest and other taxes. The contribution of direct tax to nation revenue is about 21 percent in average.

To know whether the contribution of direct tax to national revenue is effective or not, a question was asked, "Do you think that contribution of direct tax to total revenue is effective?" The responses are tabulated in following table.

Table No.4.18

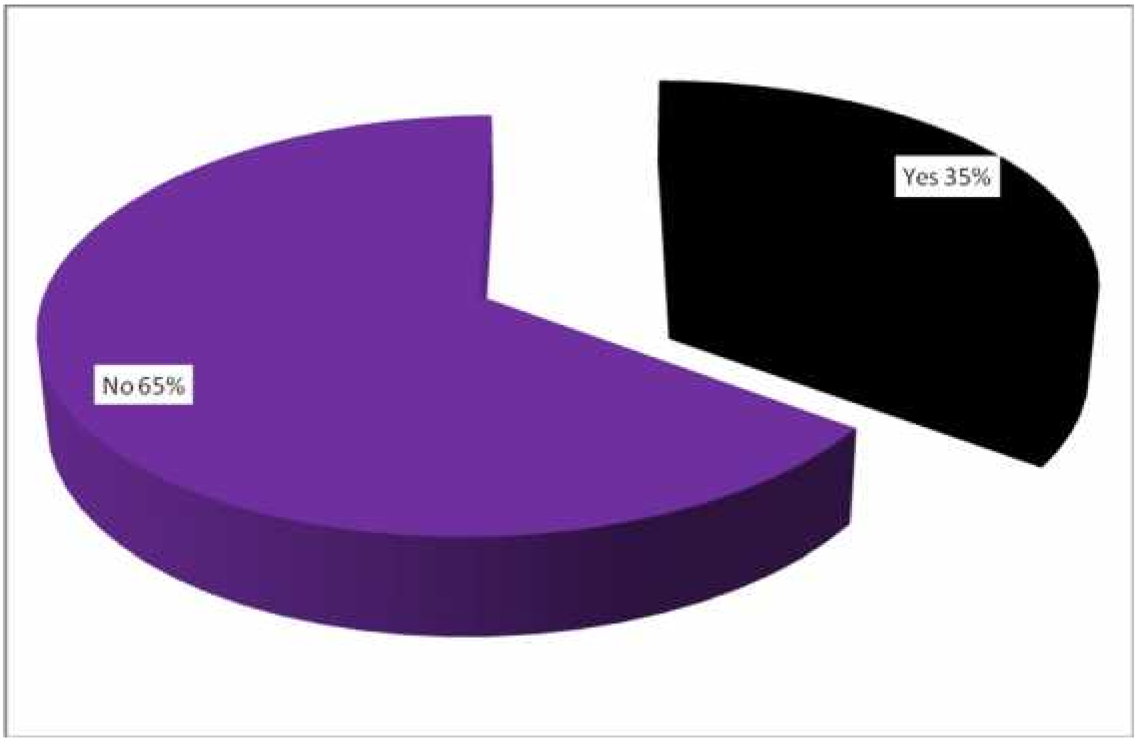
View towards Effective Contribution of Direct Tax

Response / Respondent	Yes		No		Total	
	No.	**Percentage**	**No.**	**Percentage**	**No.**	**Percentage**
Tax Administrator	6	24	19	76	25	100
Tax Expert	12	48	13	52	25	100
Tax payer	8	32	17	68	25	100
Total	26	34.6	49	65.3	75	100

Source: Field survey 2009.

Figure No. 4.14

Views towards Effective Contribution of Direct Tax



Only 24 percent of tax administrator 48 percent of tax expert and 32 percent of taxpayer recognized the contribution of direct tax to total revenue is effective. 65.3 percent respondent did not approve that contribution of direct tax to total revenue is effective. From this opinion, it can be concluded that the contribution of direct tax to total revenue is not effective.

4.2.2.6Appropriateness of Exemption and Deduction

Adequate exemption and deduction is necessary to promote the business enterprises. Many exemption and deduction are provided by "Industrial Enterprises Act, 2049" and "Income Tax Act, 2058". The question "Are exemption and deduction provided by Act appropriate?" was asked to find out the opinion of the respondent regarding the exemption and deduction. Opinion result is summarized in the table.

Table No 4. 19

Appropriateness of Exemption and Deduction

Response / Respondent	Yes		No		Total	
	No.	**Percentage**	**No.**	**Percentage**	**No.**	**Percentage**
Tax Administrator	3	12	22	88	25	100
Tax Expert	5	20	20	80	25	100
Tax payer	2	8	23	92	25	100
Total	10	13.3	69	86.6	75	100

Source: Field survey 2009.

Only 13.3 percent of respondent agree with present exemption and deduction. But large figure i.e., 86.6 percent respondents disagree with the present exemption and deduction.

4.2.2.7Appropriate Method of Income Tax Assessment

Revenue collection from income tax also depends on the income tax assessment procedures. Therefore, assessment procedure should be appropriate and effective. A question, "Which income tax assessment method is more appropriate in Nepal?" was asked to know the respondents' opinion about appropriate method of income tax assessment. The response is presented in the table below.

Table No. 4.20

Appropriate Method of Income Tax Assessment

S.N.	Methods	Tax Administrator	Tax Expert	Tax Payer	Total	Percent
1	Self Assessment	18	23	25	66	88
2	Jeopardy Assessment	-	2	-	2	2.6
3	Amended Assessment	7	-	-	7	9.3
	Total	25	25	25	75	

Source: Field survey 2009.

88 percent respondents approved self-tax assessment method is more appropriate to assess income tax. 2.6 percent respondents are in favor of jeopardy assessment and 9.3 percent in favor of amended assessment. The respondent category that is most in favors of self-assessment is taxpayers. From the above opinion, it can be concluded that self-tax assessment method is more appropriate while assessing income tax to collect large amount of revenue through income tax. But during the survey, the opinion of one of the respondent was that, these are not mutually related. So they all are equally important.

4.2.2.8 Attitude toward Problems in Paying Income Tax

To know the problems facing by the taxpayers while paying income tax, the respondents were requested to rank their choice from 1 to 5 according to their preference. The question was, "In your thinking, what types of problems are facing by the tax payer while paying income tax." Responses received from respondents are tabulated in the table.

Table No. 4. 21

Problems in Tax Paying

S.N.	**Problems**	**Points Received**				**Percent**	**Rank**
		Tax Administrator	**Tax Expert**	**Tax payer**	**Total**		
1	Consuming unnecessary time	76	92	113	281	24.98	5
2	Expectation of illegal incentives by tax personnel	80	81	61	222	1973	2
3	Vague provision in income tax laws	58	37	51	146	12.98	1
4	Lengthy process	70	88	94	252	22.50	4
5	Lack of cooperation by tax administrator	91	77	56	224	19.90	3
	Total				1125	100.00	

Source: Field survey 2009.

In table no. 4.16. Rank 1 is given to the lowest percentage and 5 to the highest. Here lowest percentage is obtained by the problem which is treated as the important problem by the respondents. In the questionnaire, the respondents were requested to give number 1 to the most appropriate of last to the least appropriate.

From the table, the major problems facing by the taxpayer while paying income tax ranked in order of preference of the respondents are as follows.

1. Vague provision in income tax laws
2. Expectations illegal incentives to the personnel
3. Lack of co-operation by tax administrator
4. Lengthy process
5. Consuming unnecessary time

4.2.2.9Reasonableness of Existing Provision of Fines and Penalty

Fines and penalty also play significant role to reduce the tax evasion and illegal activities and make morality to the tax payer. To know the views of respondents about the find and penalty, the respondents were requested to tick yes/no option. The question was, "Are the provisions of fines and penalty under the Nepalese tax system reasonable?" The opinion of respondents tabulated in the table.

Table No.4.22

Reasonableness of existing Provision of Fines and Penalty

Response / Respondent	Yes		No		Total	
	No.	**Percentage**	**No.**	**Percentage**	**No.**	**Percentage**
Tax Administrator	19	76	6	24	25	100
Tax Expert	18	72	7	28	25	100
Tax payer	4	16	21	84	25	100
Total	41	54.6	34	45.3	75	100

Source: Field survey 2009.

54.6 percent respondents are in favor of present provisions of fines and penalty but 45.3 percent respondent is against the present provisions of fines and penalty. Out of totals taxpayer respondent, the highest 84 percent are against the present fine and penalty.

In order to know reasons of unreasonable fine and penalty provisions, the next question was asked, "If no, how should it be made reasonable?" Views of respondents are tabulated in the table.

Table No. 4.23

Reasonable Fine and Penalty Rate

Respondents	By Increasing		By Decreasing		Total	
Tax Administrator	6	100	-	-	6	100
Tax Expert	7	100	-	-	7	100
Tax Payer	4	19	17	81	21	100
Total	17	73	17	27	34	100

Source: Field survey 2009.

73 percent of the respondents, who were against percent fines and penalty, gave their view for increasing fine and penalty and 27 percent gave view in the favor of decreasing rate. The unsatisfied tax administrators and tax experts are totally in favors of increasing fines and penalty.

4.2.2.10 Soundness of Income Tax System in Nepal

To known the respondents view regarding soundness and efficient of income tax system in Nepal, a question, "In your opinion is income tax system of Nepal sound and efficient"? was asked the responses are tabulated in the table.

Table No. 4.24

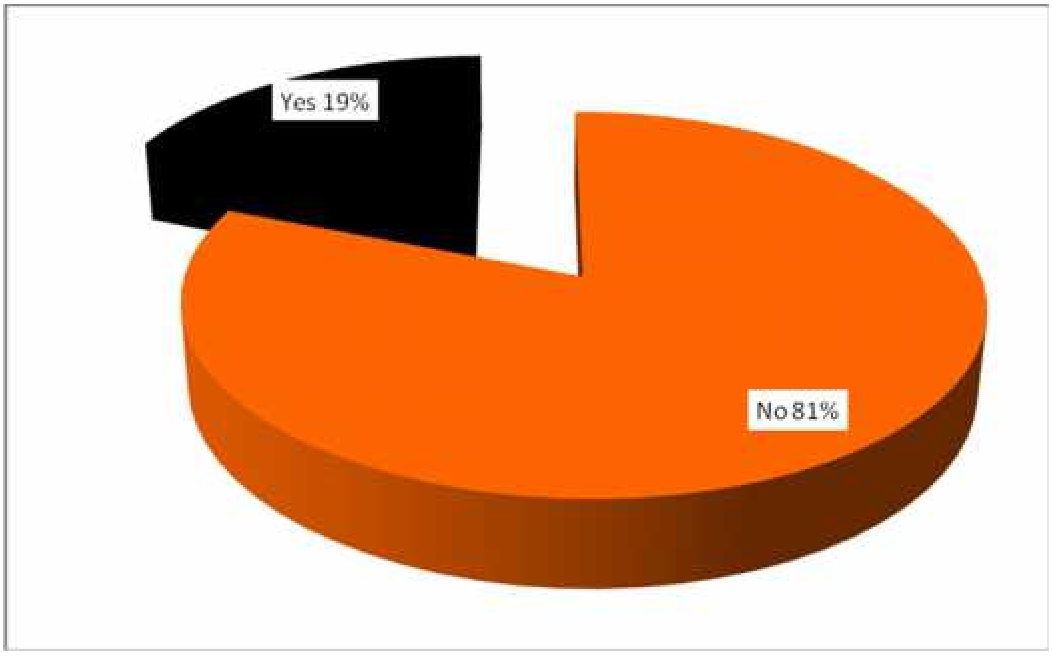
Soundness of Income Tax System in Nepal

Response / Respondent	Yes		No		Total	
	No.	**Percentage**	**No.**	**Percentage**	**No.**	**Percentage**
Tax Administrator	11	44	14	56	25	100
Tax Expert	3	12	22	88	25	100
Tax payer	-	-	25	100	25	100
Total	14	18.6	61	81.3	75	100

Source: Field survey 2009.

Figure No. 4.15

View towards income tax system in Nepal



81.3 percent respondent approve that income tax system of Nepal is not sound and efficient. Only 18.6 percent respondents approve soundness and efficient tax system of Nepal.

4.2.2.11 Effectiveness of Income Tax Administration

To know the respondents view regarding effectiveness of income tax administration in Nepal a question, "Do you agree that Nepalese income tax administration is effective?" was asked. The responses are tabulated in the following table.

Table No. 4. 25

Effectiveness of Income Tax administration in Nepal

Response / Respondent	Yes		No		Total	
	No.	**Percentage**	**No.**	**Percentage**	**No.**	**Percentage**
Tax Administrator	17	68	8	32	25	100
Tax Expert	3	12	22	88	25	100
Tax payer	-	-	25	100	25	100
Total	20	26.6	55	73.3	75	100

Source: Field survey 2009.

From the table it has been clear that Nepalese income tax administration is not effective. Most of the respondents i.e. 73.3 percent of respondents recognize it ineffective. The high percentage of respondent who are in favors of Nepalese tax administration is the tax administrators themselves.

4.2.2.12 Suitable Tax Rate in Nepal

In order to find out the suitable income tax rate system in Nepal, respondents were requested to select any one among the three alternatives. The question was "In you opinion, which income tax rate is suitable for Nepal?" The responses are tabulated in the table.

Table No. 4.26

Suitable Tax Rate in Nepal

S.N.	Methods	Tax Administrator	Tax Expert	Tax Payer	Total	Percent
1	Progressive	20	25	15	60	80
2	Proportional	5	-	10	15	20
3	Regressive	-	-	-	-	-
	Total	25	25	25	75	

Source: Field survey 2009.

From the table it is clear that, 80 percent of respondents prefer progressive income tax rate in Nepal. So, it can be concluded that progressive tax rate is most suitable means of tax rate in Nepal.

4.2.2.13 Most important factors for effectiveness of Income Tax

The respondents were requested to rank their choice from 1 to 5 according to their preference to know the opinion of the respondents' view regarding to important factors for effectiveness of income tax in Nepal. A question, "In your opinion, what is the most important factor for effectiveness of income tax in Nepal to raise government revenue?" was asked. Responses are summarized in table.

Table No. 4. 27

Most important factors for effectiveness of Income Tax

S.N.	Factors	Points Received				Percent	Rank
		Tax Administrator	Tax Expert	Tax payer	Total		
1	Clear Act, Rules and Regulations	79	70	90	239	21.24	4
2	Conscious and honest tax payers	31	65	55	151	13.42	1
3	Moral and honest tax officers	60	75	45	180	16.00	2
4	Effective tax administration	98	60	70	228	20.27	3
5	Political non interruption	107	105	115	327	29.10	5
	Total				1125	100.00	

Source: Field survey 2009.

In table rank 1 is given to the lowest percentage and 5 to the highest. Here lowest percentage is obtained by the factor which is regarded highly appropriate by the respondents. In the questionnaire, the respondents were requested to give number 1 to the most appropriate of last to the least appropriate.

The important factors for effectiveness of income tax in Nepal according to the preference of the respondents were as follows:

1. Conscious and honest tax payers
2. Moral and honest tax officers
3. Effective tax administration
4. Clear act, rules and regulation
5. Political non interruption

4.3 Major findings of the study

After analyzing the data from primary and secondary sources we get some important findings about income tax and its difficulties in collection and improved such kind of findings are as follows.

4.3.1 Findings from the secondary data

- Government expenditure is in increasing trend. In fiscal year 2000/01 total expenditure of government was Rs. 79835.1 million, in FY 2001/02 the total expenditure Rs. 80072.2 million similarly in fiscal year 2006/07 the total government expenditure was Rs. 133604.60 million. It shows the government expenditure is increasing each and every year.
- Government expenditure includes recurrent expenditure, capital expenditure and principal payment. And government receipts include revenue and foreign grants. If government expenditure is equal to government received that is balance budget. If receipts is more than expenditure that is surplus

budget. And if receipts is less than expenditure that is deficit budget. In Nepal, each and every year's expenditure is more than revenue. That is deficit budget.

- Government receipts include revenue and foreign grants. The main source of receipts is revenue which is more than 80% in total receipts.
- Total receipts in fiscal year 2000/01 was Rs. 55647.0 million similarly in fiscal year 2001/02, 2002/03, 2003/04 and 2004/05 and 2006/07 was Rs. 57131.6 million, Rs. 67568.9 million, Rs. 73614.4 million, Rs. 84513.9 million, Rs. 86109.6 million, Rs. 103512.90 million respectively.
- In Nepal the government expenditure is more than government revenue so there is deficit budget the deficit amount of different fiscal 2000/01 was Rs. 24188.1 million and in 2001/02 Rs. 22940.6 million, in fiscal year 2002/03 was Rs. 16437.2 million in fiscal year 2003/04 was Rs. 15828.2 million similarly in fiscal year 2004/05 FY 2005/06 and FY 2006/07 was Rs. 18046.5 million, Rs. 24779.6 million and Rs. 30091.70 million respectively.
- The deficit budget does not play important role in the economy so the government should increase the receipts. To increase the total receipts the government should collect more revenue from tax because foreign grants is not good way to raise the revenue.
- Nepalese government revenue is the composition of direct tax revenue and indirect tax revenue the direct tax revenue is in decreasing trend the indirect tax revenue play the dominant role in the economy.
- The main sources of tax revenue is tax from customs, tax on consumption and product of goods and services, land revenue and registration and tax on property, profit and income.
- Total tax collection in FY 2000/01 Rs. 38865.1 million, in FY 2001/02 Rs. 393306.6 million in FY 2002/03 Rs 42587.8 million, in FY 2003/04 Rs.

48173.0 million, similarly in FY 2004/05, FY 2005/06 and FY 2006/07 was Rs. 54104.7 million, Rs. 57430.4 million and 71126.7 million respectively.

- Tax collection from customs includes tax from imports, exports, Indian excise duty and others. Tax collection from customs in fiscal year 2000/01 was Rs. 12552.1 million, similarly in FY 2001/02, FY 2002/03, FY 2003/04, FY 2004/05, FY 2005/06 and FY 2006/07 were Rs. 12658.8 million, Rs. 14236.4 million, Rs. 15554.8 million, Rs. 15701.6 million, Rs. 15344.0 million and Rs. 16707.6 million respectively.
- Tax collection from consumption product of goods and services in FY 2000/01 to FY 2006/07 were Rs 16153.6 million, Rs. 16074.3 million, Rs. 18244.8, Rs. 20705.6, Rs. 255331.8 million, Rs 28118.3 million and Rs. 35438.8 million respectively. This shows the revenue collection from consumption product is higher than other tax sources.
- Income tax collection from property, profit and income in FY 2000/01was Rs. 9546.5 million in FY 2001/02 was Rs. 946.7 million in FY 2002/03, Rs. 8691.5 million similarly in FY 2003/04 FY 2004/05, FY 2005/06 and FY 2006/07 were Rs. 10215.1 million, Rs. 11272.6 million and Rs. 16726.8 million respectively.
- Income tax exemption limit in Nepal was Rs. 7000 for all taxpayer in FY 1959/60 but at present income tax exemption limit is Rs.125000 for individuals and Rs. 140000 for couple and family in FY 2007/09. The exemption limit is not provided for partnership firms, corporation and non-residents. It is found that exemption limit has been changed on the need of time and income.
- Increment in the number of taxpayers is very much essential in order to broaden the tax base. Number of registered income taxpayers in Nepal for the FY has reached while it's in the previous year.

4.3.2 Findings from the study of primary data

An opinion survey has been conducted in order to find out the role of income tax in Nepal and some other aspects of income tax. From the opinion survey with tax administrators, tax experts and taxpayers, the following findings have been drawn.

- Income tax is the suitable means of raising government revenue.
- Public awareness program is necessary to increase tax consciousness and raising the government revenue.
- Mass poverty and low income level, increasing habit of tax evasion, inefficient income tax administrations etc are the major reasons for the Low contribution of income tax to national revenue.
- Contribution of direct tax to total revenue is not effective.
- Exemption and deduction should be increased to promote the special industry and export.
- To increase the voluntary compliance by taxpayer, self-assessment method is the appropriate method while assessing the income tax.
- Lengthy process, vague provision in income tax laws, consuming unnecessary time etc are the major problems facing by the taxpayer while paying the tax.
- The fines and penalty under the Nepalese tax system are not reasonable and it should be increase to discourage tax evader and illegal activities.
- Income tax system of Nepal has not reached at the satisfactory level yet.

- The current income tax administration is not running satisfactorily and is not efficient.
- Progressive income tax rate is considered as the suitable means of tax in Nepal.
- Clear act, rules and regulation, effective tax administration are the most important instruments for effectiveness of income taxation in Nepal.

Chapter 5

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The government of any country requires sufficient revenues to lunch the development programs to handle the daily administration to keep peace and security and the lunch other public wale fare programs. The government collects revenue from various sources such as, taxes, fees, special assessment, fine and penalties, foreign grants etc. Among them tax is the main source of collecting the public revenues because it occupies the most important part of the government treasure.

Tax is the compulsory payment to the government from a person according to law. Tax is the contributed to the government without expectation of the direct benefit in the board sense there are two types of taxes direct and indirect tax income tax, gift tax, interest tax, property tax, vehicle tax, house & land tax, contract tax etc are the example of direct tax export/import duty, excise duty, sales tax, value added tax, entertainment tax, hotel tax, passenger tax are example of indirect tax.

The idea of introducing income tax in Nepal originated along with the first budget on 2157 Magh 2008 (1952). Then the first elected government introduced "Business profit and remuneration Act 2017" to impose income tax on remuneration and business profit in Nepal. Business profit and remuneration tax act 2017 had so narrow coverage that income tax was imposed only on business profit and remuneration. It was replaced by the Nepal income tax act 2019 after two years. After that income tax rule 2020 were enacted with the view of implementations the objective of the income tax act. As "Nepal income tax act 2019" was incapable in fulfilling the needs of the time, it was replaced by another income tax act 2031. In the course of development and modernization of income tax system the new income tax act 2058 has been enacted. Similarly the new income tax rules 2059 have also been enacted for the effective implementation of the objective of the act. Income tax act 2058 has classified the heads of income in to three categories viz. employment, business and investment.

Now, individual income tax is levied with two rates 15% and 25% while corporate income tax is levied with a single or flat rate of 20% however bank and financial institutions are liable to pay income tax @ 30% of taxable income. The industrial enterprises liable to pay income tax only at the rate of 20% of taxable income. The industry established in backward and operated in remove area are entitled some facilities concessions and rebates.

For the tax purpose the determination of when a person derives an amount or incurs expanses in made according to Generally Accepted Accounting Principle (GAAP) considering the provisions made by the act. As per the law natural person is required to maintain the accounts on the cash basis. A company is required to maintain its accounts on an accrual basis within the framework of GAAP other entity operating business or having investment may adept either cash or accrual basis for maintaining its accounts. Similarly a natural person operating business may adopt either cash or accrual basis unless the department prescribes otherwise by written notice.

Income tax act 2058 intends to bring all the incomes in to the tax net. However certain incomes of some individuals or entities are especially exempt from income tax by the law. Further more the act had provided the facilities of relaxing with the concession tax rate for specified individuals or entities.

Income tax is lived on taxable income that is obtained by subtracting deductable expenses from chargeable incomes. But sometimes a taxpayer may face the situation of loss due to the occurrence of deductable expenses in excess of chargeable incomes. In respect of business or investment a taxpayer is entitled to set off or carry backward on forward of such unrelieved loss as per tax law. The unrelieved loss of an income year incurred by a person from any business or investment is calculated as calculated as the excess of deductable expenses over chargeable income ignoring the treatment of unrelieved losses.

Income tax assessment refers to the procedure of ascertaining the taxable income and tax liability of a person and tax payable by a person. Income tax is assessed adopting different methods the methods of tax assessment practiced in Nepal are self assessment, jeopardy assessment and amended assessment.

To fulfill the general objective of this study different source of data are use to find out the accurate and actual conclusion. Mainly the secondary data are collected from economic survey, published by ministry of finance Nepal government annual report published by Inland Revenue department and other publicities. And primary data are use from field survey in different area of Kathmandu valley.

By analyzing the secondary data it is found that government expenditure is in increasing trends each and every year on the other hand government receipts also increase. But the expenditure is more them the receipts in each and every year. So there is deficit budget in every year the sources of government receipts are mainly two sources government revenue and foreign grants. Foreign grants is not better sources of receipts it is not sure in every year so the government revenue is better sources of government receipts. The government collects revenue from tax and from non tax revenue tax revenue includes tax from customs tax on consumption and product of goods & services, land revenue and registration, tax on property profit and income. Among them the main source of receipts of government revenue is customs and tax on consumption and product and sources.

Total tax revenue collects in fiscal year 2006/07 was Rs. 71126.7 million and non tax revenue Rs. 7488.90 million. According to the field survey, most of the respondents are conscious about the payment of tax. But they have not proper knowledge about it the government should conduct the awareness programs about it.

5.2 Conclusion

The government need huge amount to achieve the maximum objectives of nation. In developing countries like Nepal, lack of sufficient financial resource is the main constraint for the national economic development. Nepal has facing serious problem of resource gap and high dependency on foreign loan. Resource gap has been increasing at a faster rate than the increase in revenue. The resource gap is widening continuously with the increment of total expenditure in respect to total revenue collection. To solve such serious problem of deficit fiscal, income tax should play important role. But, resource mobilization in Nepal is still poor.

Developing countries such as Nepal utilize external borrowing as a technique to address the gap between the government revenue and investment as well as to meet the export-import gap. This kind of borrowing adds to the total resources available to the government over a given period and enables the government to incur higher expenditure than would be otherwise possible. These resources can contribute to poverty alleviation and economic growth if properly employed.

The government of Nepal introduced a formal tax for the first time tin Nepal in 1959 (2017 B.S.) in the form of "Business profits and Remuneration

Tax." According to this Act, incomes only from Business profits and remuneration were subjected to tax. At present, in Income Tax Act, 2002 which became effective since April 1^{st} 2002, sources of Nepalese income are classified into Business income, investment income and employment income for the tax purpose. The percentage share of income tax to government revenue is not satisfactory in comparison to other developing countries like India, Pakistan, Bangladesh and Sir Lanka etc. There are three major income tax assessment methods in Nepal.

Currently, income tax revenue in Nepal is collected through four sector i.e. corporate income tax, individual income tax, house and land rent tax and interest tax. Among them, share of the individuals' income tax is the highest. Exemption limit and tax rate of the income tax is determined according to the income level and sector wise but is not adjusted according to the inflationary situation of the country and number of dependents. Exemption limit is not provided to the corporate bodies.

The success or effectiveness of income tax system entirely depends upon implementation of provisions, which is the major responsibility of income tax administration. Income tax system of Nepal has blamed as not efficient enough. Various problems existed in the income tax such as increasing habit of tax evasion, inefficient income tax administration, defective income tax law are the reasons of lower contribution of income tax. But if we analyze the data relating to it then we can find out that revenue collection from income tax is increasing continuously. Provisions in Act and language have to be made clear. Some reforms in income tax administration are needed to raise the income tax revenue.

Due to reform, the corruption in income tax administration can be decreased, the efficiency and transparency can be improved and the tax administrations will treat the taxpayers as responsible citizen to a considerable extent. The cost of tax collection to taxpayer, government and economy as a whole can be reduced to some extent.

The role of revenue is crucial for the overall development of the country. In this context, the Nepalese government needs to develop a sustainable broad based source of revenue. Since more than 80 percent of the total revenue is collected from the tax source, efficient tax system has to be developed and strengthened. In recent years, the government has taken several measures to reduce tax-induced distortions, strengthening tax administration, simplifying tax laws and procedures to make them more transparent. With an aim to broaden the tax base the government enacted new Income Tax Act in 2002. This Tax Act brought all sources of income - from employment, business and investment - under the tax net and helped maintain neutrality of taxation in various income generating activities. The Customs Act was amended to make the Nepalese system compatible with the WTO valuation system, broaden the tax base and mobilize additional revenues by curtailing wide range of exemptions. In 1997, the government introduced VAT aiming to develop it as the backbone of Nepalese Revenue.

5.3 Recommendations

On the basis of this study, the following recommendations are made in order to increase the contribution of income tax on government revenue of Nepal.

- Income tax policy should be formulated according to the economic policy of the country. Income tax policy should be revised timely.
- Tax ratio should be increased gradually on long run basis to meet the deficit in budget. Fro this, the tax base should be widened.
- The members involved in formulating income tax policies must have depth knowledge about income tax.

- The provisions rewards, prize, incentives should be introduced in the act to encourage the taxpayers to pay tax voluntarily rather through coercive measures.
- Tax personnel should be encouraged, punished and transferred on the basis of their work and experience. Regular and effective training system; reward, prize and punishment system should be established for the effective personnel management.
- The provisions of fines, penalties and punishments should be made at higher rate for income tax evaders.
- Income tax, rules and regulation should be clear and simple for all the taxpayers as well as for tax administrators.
- The definition made in Income Tax Act should be further clarified and well defined in simple language.
- Clear provisions should be made in case of deduction. All the items of deductions should be clearly defined in the act.
- To promote export, more deduction should be provided.
- A research and intelligence centre should be established in each tax office for proper planning and to collect the information in regard to income tax evaders, potential new taxpayers and non-residents who have conducted business without registration.
- Separate income tax Department should be established so that ht specialization could be achieved in matter of income tax.
- Effectiveness of income tax system depends upon the income tax administration. In Nepal, one of the most important reasons for unsound income tax system is inefficient and unscientific income tax administration.

Following recommendations are made for improvement of income tax administration.

- Delays assessment should be reduced as possible.
- Computerized information system is necessary to keep up to date records of income tax.
- Proper tax education should be provided to tax officials as well as tax inspectors and taxpayers regularly.
- Unnecessary outside pressure should be avoided.
- Income tax experts/profession should be increased in tax administration.
- The administration should pay great attention to bring the income from house and land rent' doctor's clinic' consultancy service; tuition; research works into income tax net. In these sectors, income tax has been highly evaded.
- With a large and growing population of taxpayers it is simply not possible to check the returns filed by every assesses. It is better to proceed on the basis of "self-assessment", subject to random checks. Every taxpayer should be under a credible threat of getting caught for any misstatement.
- The habit in business sector of not keeping the complete accounts of the transactions of not submitting the real account for tax assessment must be abolished.
- There must me coordination between the departments of tax.
- There must be good faith between the taxpayers and the tax collectors.
- Effective public participation is necessary to minimize the income tax evasion. Tax authority should do continuous effort in order to develop the taxpayers' positive attitude towards taxation.

- There must be partnership between the government and the private sector leadership like FNCCI, CNI etc. in respect of making the taxpayers aware of the taxation.
- There are insufficient numbers of tax offices within and outside the Kathmandu valley. Therefore the numbers must be increased to provide the services conveniently.

There has been the problem of collection income tax revenue from a long time in Nepal. The problem can be minimized and income tax will follow a substantial increment in revenue structure of Nepal if the above-mentioned recommendations are managed timely and effectively.

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Appendix-A

Questionnaire to the tax experts, tax payers and tax administration

Name ……………………..   Designation ……………………..

Office/Organization ……………………..   Occupation ……………………..

1. Are you familiar about income tax?   Yes ( )   No ( )
2. Do you consider, that the income tax as a suitable means of raising government revenue?   Yes ( )   No ( )
3. In your opinion, is contribution of income tax to national revenue of Nepal satisfactory?   Yes ( )   No ( )
4. If no, what are the major reasons? (Please rank according to the priorities)
   a. Defective of income tax act ( )
   b. Mass poverty and low income level ( )
   c. Increasing habit of tax evasion ( )
   d. Inefficient income tax administration ( )
   e. Inappropriate rate and exemption limit ( )
5. Do you think that contribution of direct tax to total revenue is effective? Yes ( )   No ( )
6. Are exemption and deduction provided by act are appropriate?

   Yes ( )   No ( )
7. Which income tax assessment method is applicable in Nepal?
   a. Self-assessment ( )
   b. Jeopardy Assessment ( )
   c. Amended Assessment ( )
8. Which income tax assessment system is used in Nepal
   a. Self-assessment ( )
   b. Jeopardy Assessment ( )
   c. Amended Assessment ( )
9. In your thinking, what types of problems are facing by the tax payers while paying income tax?

a. Consuming unnecessary time ( )

b. Expectation illegal incentives by tax personnel ( )

c. Vague provisions in income tax laws ( )

d. Lengthy process ( )

e. Lack of co-operation by tax administrator ( )

10. Are the provisions of fines and penalty under Nepalese tax system reasonable? Yes ( ) No ( )

If no, how should it be made reasonable?

a. By increasing b. By lowering

11. In your opinion, is income tax system of Nepal sound and efficient?

Yes ( ) No ( )

12. Do you agree that Nepalese income tax administration is effective?

Yes ( ) No ( )

13. In your opinion, which income tax rate is suitable for Nepal?

a. Progressive

b. Proportional

c. Regressive

14. In your opinion, what is the most important factor for effectiveness of income tax in Nepal to raise government revenue?

a. Clear act, rules arid regulation ( )

b. Conscious and honest tax payers ( )

c. Moral and honest tax officers ( )

d. Effective tax administration ( )

e. Political non interruption ( )

f. Others, please specify ………………………………………….

15. Do you have any other suggestions for achieving effectiveness of income tax in Nepal? If yes, please specify ………………………………………

…………………………………………………………………………………

16. Do you think that public awareness program is necessary in Nepal for raising government revenue? Yes ( ) No ( )

***** Thanks for Co-operation *****

Appendix-B

Composition of tax revenue

Rs. in million

Fiscal year	Customs	Tax on consumption and product of goods services	Land revenue registration	Tax on property profit & income	Total
2000/01	12552.1	16153.6	612.9	9546.5	38865.1
2001/02	12658.8	16074.3	1131.8	9465.7	39330.6
2002/03	14236.4	18244.8	1414.3	8691.5	42587.0
2003/04	15554.8	20705.6	1697.5	10215.1	48173.0
2004/05	15701.6	25331.3	1799.2	11272.6	54104.7
2005/06	15344.0	28118.3	2181.8	11787.0	57430.4
2006/07	16707.6	35433.8	2253.5	16726.8	71126.7

Sources: Economic survey 2007/08, MOF.

Appendix-C

Composition of tax revenue and non tax revenue

Rs. in million

Fiscal year	Tax revenue	Non tax revenue	Total revenue
2000/01	38865.1	10028.8	48893.6
2001/02	39330.6	11115.0	50445.5
2002/03	42587.0	13642.7	56229.8
2003/04	48173.0	14158.0	62331.0
2004/05	54104.7	16018.0	70122.7
2005/06	57430.4	14851.7	72282.1
2006/07	71126.7	16585.8	87712.10

Sources: Economic survey 2007/08, MOF.

Appendix-D

Government expenditure

Rs. in million

Fiscal year	Government expenditure			Total
	Recurrent expenditure	Capital expenditure	Principal payment	
2000/01	45837.3	28307.2	5690.6	79835.10
2001/02	48863.9	24773.4	6434.9	80072.20
2002/03	52090.5	22356.1	9559.5	84006.10
2003/04	55552.1	23095.6	10794.9	89442.60
2004/05	61686.4	27340.7	13533.3	102560.40
2005/06	67017.8	29606.6	14264.8	110889.20
2006/07	77122.40	39729.90	16752.50	133604.60

Source: Economic Survey 2007/08, MOF.

Appendix-E

Government receipts

Rs. in million

Fiscal year	Revenue receipts	Foreign grants	Total receipts
2000/01	48893.6	6753.4	55647.0
2001/02	50445.5	6686.1	57131.60
2002/03	56229.8	11339.1	67568.9
2003/04	62331.0	11283.4	73614.4
2004/05	70122.7	14391.2	84513.9
2005/06	72282.1	13827.5	86109.6
2006/07	87712.10	15800.80	103512.90

Source: Economic Survey 2007/08, MOF.