

EMPLOYMENT TAX REFORM IN NEPAL  
AND  
IT'S CONTRIBUTION TO THE NATIONAL REVENUE

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## **RECOMMENDATION**

This is to certify that the thesis:

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and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirements for degree of

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## **DECLARATION**

I here by declare that the work reported in this thesis entitled “Employment Tax Reform in Nepal and It’s Contribution to the National Revenue” submitted to the Prithvi Narayan Campus, Faculty of Management, T.U. is my original work. It is done in the form of partial fulfillment of the requirements for the Masters of Business Studies (MBS) under supervision of Lecture Devi Lal Sharma, Prithvi Narayan Campus, Pokhara.

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## LIST OF ABBREVIATIONS/ ACRONYMS

Adm.	:	Administration
B.D.B.L.	:	Business Development Bank Ltd.
BLS	:	Bureau of Labour Statistics
C.A.	:	Chartered Accountant
CEDA	:	Community and Economic Development Association
Co.	:	Company
d.f.	:	Degree of Freedom
eq <sup>n</sup>	:	Equation
F.Y.	:	Fiscal Year
GDP	:	Gross Domestic product
Gen	:	General
GON	:	Government of Nepal
Gov <sup>n</sup>	:	Government
HMG	:	His Majesty's Government
i.e.	:	That is
ICAN	:	Institute of chartered Accountants of Nepal
IMF	:	International Monetary Fund
IRD	:	Inland Revenue Department
IRO	:	Inland Revenue Office
ITA	:	Income Tax Act
LR	:	Literature Review
M.D.	:	Managing Director
MOF	:	Ministry of Finance
P.G.	:	Pokhara Grande
P.N.C.	:	Prithivi Narayan Campus
PAN	:	Permanent Account Number
Rs.	:	Rupees

SAARC	:	South Asian Association for Regional Cooperation
T.U.	:	Tribhuvan University
TDS	:	Tax deduction at source
th.	:	Thousand
UNDP	:	United Nations Development Programme
VAT	:	Value Added Tax

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Nepal is one of the least developed countries in the world, which is not being able to collect necessary government revenue to fulfill their requirement. Due to poor performance on internal revenue collection and mobilization, it has still depended on foreign grants and loans to fulfill the need for developmental activities, which is not beneficial in the long run interest of the country.

Government has to spend a lot of money to fulfill its responsibilities towards the people. The government of a country requires sufficient revenue to handle day-to-day administration, carryout development plans, maintain peace security and to launch other public welfare activities. Government collects revenue from various internal and external sources. External sources of fund is foreign grants and loans. This kind of fund is received from foreign countries and international organizations. External sources of fund is important for undeveloped and underdeveloped countries. It is used for economic development, reconstruction, foreign exchange, to recover from crisis condition for productive use etc (Dhakal and Luitel, 2002).

Internal sources of fund is own source with in the nation and it includes both tax and non-tax revenues. Internal sources are more important and it is necessary for proper mobilization of internal sources to fulfill governments financing necessities. Internal source has no obligation towards the third party and is less risky as compared to the external fund.

Government revenue is the most important source of financing government expenditure. To achieve the national objectives the government is required to make and implement various policies and planning, acts and procedures. Besides these functions revenue mobilization is one of the most

important function of the government (Bhattarai and Shrestha, 1997). The income of the government is called government revenue. The government revenue can be classified broadly into two groups i.e. tax revenue and non-tax revenue. Government receives tax revenue as compulsory payment and non-tax revenue is a conditional sources. Duty fees, penalty, fines and forfeitures receipt from sales and rent of government services, dividends, interest, royalty and sales of government property, principle repayment, donation and miscellaneous income etc are the sources of non-tax revenue. Income tax, sales tax, custom duties, hotel tax, revenue from land registration etc are the sources of tax revenue. The major sources of internal revenue of government is tax revenue. In F.Y. 2064/65 the total revenue was Rs.107.62248 Billions out of which revenue the contribution of non-tax revenue was Rs.19.783843 Billions and the contribution of tax revenue was Rs.85.155457 Billions out of tax revenue the contribution of indirect tax was Rs.62.0676 Billions, and the contribution and direct tax was Rs.23.0877 Billions in F.Y.2064/65 which means that the contribution of Indirect tax revenue and direct tax revenue was 73% and 27% in total tax revenue respectively (Annual Report of IRD, 2064/65).

Income tax also helps to increase the consciousness of the people because the people who have paid the income tax are keen towards public expenditure. It is also helpful for generating the concept of social responsibility towards the nation. In fact income tax system has been originated recently as on internal sources to strengthen the sources of tax for economic growth of a country and to meet the slogan of economic revolution by searching additional sources of revenue. One of the important characteristics of income tax system is that it is impartial and just as compared to other taxes. The reason is that it is imposed keeping in view the capacity of taxpayer to bear the burden of tax. People, whose income level is under prescribed limit, are exempted from income tax liability. Income tax is basically charged for two purposes one is for collecting to meet expenses for public welfare activities and another is to create equalitarian society by

minimizing the economic gap between haves and have not. Income tax is based on the principle of certainty. It also follows the cannon of economy.

There is a resource gap problem in Nepalese economy. Public expenditure is greater than public receipts. The resource gap has been widening by every year. For the economic growth of the country, large volume of investment and expenditures on economic activities are needed. Taxation is looked upon as the most powerful tools of the government for raising revenue. In the modern world, taxation has been taken as the best effective tools for raising the ratio of saving to the national income. A country develops through taxation. It is very useful to equalize the distribution of national economy and to reduce disparity in the distribution of wealth and income and to maintain economic stability.

There are mainly four reason as why income tax yield is less in developing countries as compare to developed ones. They are: problem of defining income, problem of assessing and measuring it, the choice of rate, allowances and deductions and difficulties of tax collection (Prest, 1995). In Nepalese context our per capita income is very low. "According to World Bank report 2008, Nepal's per capita income has been US \$ 290" (International Forum Year Book, January 2008). Economic survey 2064/65 published by ministry of finance states that the per capita income has been reached to US \$ 474. It is one of the lowest in the world. Income distribution is significantly influenced by disparities in the distribution of assets and income generating opportunities. Lower saving of individuals has been the major causes for the lower saving of the household and lower investment. Very low level of revenue generation and relatively higher expenditure in social and economic infrastructures have been the features of Nepalese economy. As a result, budget deficit countries to remain at high level. Most of development projects and programs are financed through foreign loan and aid leading to problems of increasing debt servicing.

There are not effective solutions for problems of unemployment, inequality and poverty especially for minority and disables. Importance of



government control in economy seems to be more important during depression phase of trade cycle. Some task such as implementation of development plan to improve lifestyle of people maintain law and order, peace and security in nation and launch public welfare program in health and education sectors there is no alternatives of government. Therefore, role of government keeps much importance in economy. Being an organization financial flow is regarded as lifeblood for government also. Government collects funds from different internal and external sources to fulfill it's requisites.

Nepal has been adopting the income tax system for last four decades and is assessed on yearly basis. Although the legal provision has been made and updates timely, there are many problems about income tax such as leakage in tax, feeling of people about tax as a penalty, lack of consciousness of people, inability of tax administration to cover new tax payers, delays in computation and collection, lack of accuracy and unity in accounting system etc. (Khadka, 2001).

Because of these reason, the present study has been designed to highlight the Employment tax reform in Nepal and it's contribution to the national revenue. The contribution from last few years has been analyzed for the study and some recommendation have also been offered to concern sector to increase the national revenue.

## **1.2 Focus of the study**

The topic itself is clear about the focus of the study. This study will analyze Employment tax reform in Nepal and it's contribution to the national revenue, by using different tools under analytical research design. Specially This study will focus employment income tax only under ITA 2058, that's why the contribution to revenue collection will analyze from after implementation of Income Tax Act 2058 to last F.Y. 2065/66.

## **1.3 Statement of the problems**

Nepal is one of the under developed country with relatively low per capita income. Most of the Nepalese people depend on agriculture, their agriculture activities do not focus on revenue generation rather than maintaining their own life hood. So the public expenditure is greater than public income. The coverage of income tax in Nepal is very low, because of poor tax paying habit, insufficient and ineffective tax authorities, education, corruption, harassment and so on.

Agriculture incomes, retirement payments received by Nepalese people being retire from service by army or police of foreign countries are exempted. So exemption of these sources provided loophole for tax evasion and complicates to the tax administration. Contribution of the income tax to the national budget must be increased to achieve the goal of national development and equal economic distribution, so large tax payers who are hiding their employment income should be brought into tax bracket.

The mobilization of revenue has not increased to level in which the level and speed of our expenditure is rising. To raise the government revenue, this helps to overcome from the serious bottleneck of resource gap in the process of economic development program. In this context taxation can be taken as means for resolving this problem by mobilizing additional resources from domestic sources.

The government of Nepal has adopted various policies to strengthen the revenue structure in the context of changing economic policy. For the restructuring of Income tax system change in existing act has been made in 2058. But it is not seem to be so specific and effective regarding its contribution to revenue. Amount of total revenue collected in F.Y.2060/61 was Rs.62.331096 Billions and the next sixth F.Y. 2065/66 was Rs.143.474489 Billion. The total contribution of Income tax was 9514782, 10466226, 10933520, 15731804, 19077813 and 27246432 thousand rupees in F.Y. 2060/61 to F.Y.2065/66 respectively. The percentage increase in Income tax collection in comparison of last year was 18.06%, 9.96%, 9.16%, 43.36%, 21.27% and 42.82% in F.Y.2060/61 to F.Y.2065/66 respectively. In context

of employment tax, which contributed 14.63%, 16.02%, 16.02%, 12.90%, 12.03% and 11.73% in F.Y.2060/61, 2061/62, 2062/63, 2063/64, 2064/65 and F.Y.2065/66 respectively (Annual Report of IRD).

To bridge the gap between total resources and supply of the resources, income tax plays a vital role. Collection of adequate income tax in Nepal has faced various problems like tax evasion, poor tax administration, unsound income tax collection, ambiguity in tax laws, lack of tax conscious people etc. If these problem are overcome, income tax can be a useful tool in the economic development of the country.

There are many problems in Nepalese income tax system. Government is already not able to increase the income tax as per requirement after the ambitious change in law. Inefficient tax administrative system, widespread income tax evasion, complication in explanation tax provisions include in tax laws and lack of awareness political instability and frequent change in government and feelings of responsibility in taxpayers are appearing as major factors for low contribution of income tax in national revenue. Internal conflict of nation and political instability has affected the economic system indirectly but very seriously. It has damaged as well as destroyed the environment for generating more income where income is limited, certainly the tax from income will not be so optimistic.

There has a big gap between formulation of policies and it's implementation. This study will analyze the existence of such gap in employment taxation policy. To widen the base of tax different income should be include within income tax net. Thus what types of professional incomes are include in current tax reform and what are excluded? To fulfill of such gap how can broaden the tax base under this head need to be examined. So this study has tried to access the following research questions.

1. What is the current provisions of employment tax system in Nepal?
2. How much contribution made by the tax payers in Nepal through employment tax?
3. How is the employment tax administration system of Nepal?

4. How to improve the no. of employment tax payers in Nepal?

#### **1.4 Objectives of the Study**

The basic objectives of this study is to examine the current provisions of employment tax system in Nepal under Income tax Act, 2058 and give appropriate suggestion to improved the collection of national revenue. So that the government can collect more revenue. In this regards, the specific objectives of the study are as mentioned below.

1. To examine the current provisions of Income tax from employment in Nepal under Income Tax Act, 2058.
2. To measure the total contribution made by the tax payers in Nepal through employment tax in last eight fiscal year.
3. To access the employment tax administration system of Nepal.
4. To analyze, the way that improve national revenue collection from employment and suggest the government to improve the no. of employment tax payers in Nepal.

#### **1.5 Significance of the Study**

Nepal is a landlocked country and it has the poor economic condition. So it is heavily depend to the foreign aids and grants to undertake development activities. The resources of Nepal are sufficient to run day to day administration of the country, but the revenue surplus is not adequate for development activities. Every year, Nepalese government has been presenting deficit budget, there is increment in resource gap. Most of the development activities depends on bilateral and multilateral grants and loans. The nation is hardly bearing the burden of the loan and the internal sources of revenue is not sufficient even to meet the ordinary expenses. In this context the easy and long lasting way to increase revenue to strengthen the internal source in which employment income tax is one of the major components. It has been contributing to income tax revenue of the nation being a regular source of income.

As this study has analyzed the employment income tax system and its contributions to revenue collection, the findings, conclusions and recommendations of the study will be useful to design and formulate policies by the concerned authorities. Besides, the study will be helpful to the tax payers, students, economists, planners, tax officers, tax administrators and research scholars as reference materials.

## **1.6 Limitation of the study**

This study is specially concentrated on the Employment aspect, but not a complete study of the Income Tax Act, 2058. So, the limitations of the study are as follows:

1. The study focuses basically on the Employment aspects, but not as a complete study of the income tax system.
2. Primary data have been collected through an opinion survey of tax payers and tax practitioners available in Pokhara and Kathmandu valley only.
3. The report will be prepared on a short time basis using secondary data and some of the primary data, so the outcome of the study may not represent the extent of the problem for the country as a whole.
4. This study covers the secondary data from after the implementation of ITA, 2058 (F.Y. 2058/59) to F.Y. 2065/66 only.
5. Tax is a complicated and vague subject matter. So each and every aspect of the chosen topic may not be covered.

## **1.7 Organization of the study**

The whole study will be divided into five chapters, which includes:-

Chapter I – Introduction

Chapter II – Review of literature

Chapter III – Research Methodology

Chapter IV – Data presentation and Analysis

Chapter V – Summary, Conclusion and Recommendation

**Chapter I – Introduction:** The first chapter is introduction chapter. It deals with general concept about the chosen topic under general background and problems appeared related to subject matter under statement of the problems. Objectives and limitation of the study have also been pointed in this chapter.

**Chapter II – Review of literature:** Second chapter will deals review of available literature. It constitutes Review of literature through different relevant books, articles, unpublished dissertation, legal provisions, reports, journals, related websites and so on. It is focus on defining the related terms such as revenue, tax, income tax etc. History of income tax and provisions in act has been analyzed on comparative aspects.

**Chapter III – Research Methodology:** Third chapter will explains the research methodology used in this study, which includes research design, source of data, population and samples, method of data analysis etc.

**Chapter IV – Data Presentation and Analysis:** The fourth chapter is the main body of the study includes with presentation, analysis and interpretation of data. Different tables and diagrams are also presented in this chapter. It also includes the result of opinion survey about the efficiency and effectiveness of new act and major findings also presented in this chapter.

**Chapter V – Summary, Conclusions and Recommendation:** The fifth chapter summarizes the main conclusion that flows from the study and offers suggestions for further improvement, which is also a starting point of further study.

## **CHAPTER II**

### **REVIEW OF LITERATURE**

This chapter deals with the literature relevant to the study. Review of literature is basically of stock taking of available literature in the field of research. It supports the researcher to explore the relevant and true facts for the reporting purpose in the field of study. It develops expertism and help to find out contributions done. Literature review also help to know that what is uncovered and it will be clear that how the present studying relates with past. LR guides not to conduct the study on already conducted area. Thus LR established starting point for further research, avoids duplication and reveals the research needed area (Wolff and pant, 2007).

To deepen knowledge and understanding about the subject matter. Some literatures related with the study were reviewed. It includes the conceptual review and Review of some previous studies.

#### **2.1 Conceptual Review**

This sub-chapter presents the theoretical aspects of the study. It includes concept of Revenue, concept of income, concept of Tax, classification of tax, objectives and principles of Taxation, historical background of income tax, concept of employment, definition of ITA, 2058 for employment tax and so on.

##### **2.1.1 Concept of Revenue**

Revenue is regular income of government from internal resources for execution of different bodies of nation.

"Revenue means the amount that is to be paid to government as costume duty, excise duty, income tax, entertainment tax, hotel tax, sales tax,

vehicle tax, rent tax, contract tax, property tax and the word also indicates other taxes according to existing law." (Revenue Leakage Investigation and Control Act, 2052).

Revenue amount is collected through different medium from public people and spent from state for welfare of people, so it is also called public income. Government levies costume, excise, income tax, VAT, land tax, fees and penalties as source of revenue. Revenue can be divided into tax revenue and non tax revenue.

Government income specified in act and law to be paid by person, firm, industry, business, trade, profession or organization for execution of some task or work or for holding of some kinds of assets is known as tax revenue. For example: costume, excise, land tax, VAT etc.

Revenue gained by government for distribution of public service or for direct facilities provided or for fees and penalties to state against violation of rules and regulation is known as non tax revenue. For example: income from sales of government goods and services, principle, interest, dividend, royalty, fine, penalty, seizing etc. are non tax revenue.

The government of any country needs adequate budget to undertake development activities, run its administration, keep law and order and perform other works of public good. This budget is collected through various sources. The incomes collected by the government through various sources are termed as public revenue or national revenue. The major sources of public revenue are as follows:

Sources of revenue:

- a) Taxes
- b) Fees
- c) Amount for goods and services provided
- d) Fine/penalty
- e) Franchise cost
- f) Gifts and donations



### **2.1.2 Concept of Income**

Income consists of any economic gains of the people during a specific period. It is measured in monetary terms and come from property, business and employment etc. Income is the value of goods and services consumed by an individual during a particular period. Generally, income is regarded as the best measure of ability in the sence of economic well being. It is the basic determinant of level of living that a family enjoys.

Professor Haig Stressed that “Income is the economic power between consumption and net capital accumulation.” According to the Dictionary of Economic Terms, income means “The wealth measured in money, which is at the disposal of an individual or a community, per year or other unit of time; it may be regarded as a flow of purchasing power which may be expanded at once on goods and services on retained for the purposes of capital accumulation” (Ahsan, 1995).

A person's income for a specific period in an economic sense consists of net increase of personal wealth whether from accumulation of net savings or increase in the value of property held. The sum of personal wealth during the period may be negative so that income is less then consumption. Income is derived form two sources: the performance of personal services, i.e. undertaking some kind of works and the ownership of factors of production. Income is monetary or equivalent return that comes from property, business and labour etc. It is the value of goods and services consumed by an individual during a particular period.

Income tax Act, 2058 section 5 of Nepal imposes tax on those activities which contributing towards the generation of wealth. Wealth is generated with the help of labour, capital and capital-labour activities. And the Act has made 3 broad classification of income from all income earning activities. They are:

- ) Income from Employment
- ) Income from Business
- ) Income from Investment.

### 2.1.3 Concept of Employment Income

There are three principal ways of generating income-using labor, capital or a combination of both. The income earned with the help of labor is defined as an employment income. In other words the payment or benefit received either in cash or kind from the employer or his associate in exchange of labor are defined as employment income. It is the remuneration from the employment of the individual. Two parties involved in the employment are employer and employee. An employer is a person who gets the services (i.e. labor) from the employee against consideration payments. An employee, on the other hand, is a person who provides the services to the employer to get certain amounts or benefits. (Bhattarai and Koirala, 2008)

Definition of employment on the Web:

- ) The state of being employed or having a job; “they are looking for employment”, “he was in the employ of the city”.
- ) the occupation for which you are paid; “he is looking for employment”, “a lot of people are out of work.”
- ) the act of giving some one a job.
- ) Use: the act of using; “he warned against the use of narcotic drugs”; “skilled in the utilization of computers”. (25<sup>th</sup> August, 2010. <<http://www.google.com.np/search?hl=en&defl=en&q=define:employment&sa=X&ei=wyGQTMUHh8q9A93W5fKL&red=OCBMQKAE>>)

International community Development defined employment, Each month of Bureau of Labour Statistics (BLS) Surveys 160,000 non-farm businesses and agencies on their employment, wages and hours worked. These businesses employ over 400000 workers. The BLS reports on which industries are growing and shrinking, whether American workers are working longer hours, and how fast salaries are increasing. The BLS also reports on workers. age, sex, race/ethnicity.

Employment figures include part-time workers. In the first stages of an economic slow down, the number of workers stays the same, but the

percentage of part-time workers increases as people cannot find enough full-time jobs, About mid-way during the slowdown, the total number of workers often decreases as even part-time jobs become unavailable.

Conversely, when the economy starts to pick up again, the first workers hired are part-time employees. That is because business are very hesitant to add full-time salaried employees until they know that the economy will sustain continued demand for their products and services. Once full-time employment increases, then you know the economic recovery is well under way. ( 25<sup>th</sup> August, 2010. <<http://useconomy.about.com/od/supply/f/EmployDefined.htm>>)

The following two conditions must exist to include the amounts in the employment income:

- ) There should exist employer employee relationship between payer and payee. That is the employer or an associate of the employer or third person under the arrangement with the employer or an associate of the employer must make all payments.
- ) The amount paid should be regular nature. Section 22 (2) of the ITA 2058 has specified that employment income be assessed on cash basis.

Income Tax Act, 2058 has defined "employment" as a past, present or prospective employment. This definition is so broad that includes all the employment that was done in the past, is being done at present or to be done in future.

#### **2.1.4 Meaning of Tax**

Tax is any compulsory levy from individuals, households and firms to central or local government. It is simply a liability to pay an amount to the government. It is a compulsory contribution from the taxpayers. Tax is computed and paid as prescribed in the law.

Among various distinguished scholars, tax definition of Bastable comes into view substantial clear. The term is defined as, "A tax is a

compulsory contribution of wealth of a person or body of persons for the service of public power” (K.C., 2007).

Prof. Seligmen defined tax as “a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred” (Bhattarai and Koirala, 2008).

According to Dalton “A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the taxpayer in return and not imposed as penalty for any legal offence” (Kandel, 2005).

According to plehn, “Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the residents of the states” (Bhattarai and Koirala, 2008).

According to P.E. Taylor, “A tax is a compulsory payment to government without expectation of direct expenses of direct return in benefit to the taxpayer” (Bashyal, 2008).

Findlays shirras defined tax as, “a compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefits” (Lekhi, 2000, p.146).

From the above definitions, we can define tax as a compulsory contribution made by taxpayers to the government without having any direct personal benefits. In short it can be summarized that:

- ) Tax is a compulsory levy imposed by the government
- ) Tax is levied on persons as per the prevailing laws.
- ) Those who pay tax do not get corresponding benefits from the government.
- ) It is spent for common interest of the people.
- ) It is collected from haves and spent for the interest of have-nots in the society.

### **2.1.5 Concept of Income Tax / Employment Tax**

Income tax as the world refers itself as tax on income. In a broad sense, income tax is a levy based upon the productions or receipts or gains of the taxpayers within a definite period of time (Encyclopedia America, vol. 14, p. 749).

There is no specific definition for income tax as it varies for countries according to diversity of economic structure, nature of government and the status of people. In General income tax is imposed on net income. Net income comes subtraction of the cost of production from gross income. In practice the expenses incurred in earning the income and appropriate exemptions are deducted to find out the taxable income. Net income may be real income or money income. Real income is more comprehensive and includes not only money income but also other incidental advantages. Real income should therefore be the time index of ability to pay. So income tax should be charged on real net income of the individual and not on his net money income (Agrawal, 1967, p.104).

Income Tax may be of two types, i.e. personal income tax and corporation income tax. When we talk of income tax, we invariably refer to personal income tax. Taxes imposed on business incomes are referred to as corporation income tax or simply corporation tax.

Employment taxes are the amount you should withhold from your employees for both income and social security tax, plus the amount of social security tax you pay on behalf of each employee.

**CAUTION:** If you ignore the federal tax deposit and filing requirements, the amount you owe can increase dramatically.

If you don't pay your employment taxes on time, or if you were required to and did not include your payment with your return, we will charge you interest and penalties on any unpaid balance. We may charge you penalties of up to 15% of the amount not deposited, depending on how many days late you are.

If you do not pay withheld trust fund taxes, we may take additional collection action. We may require you to:

File and Pay your taxes monthly rather than quarterly or open a special bank account for the withheld amounts, under penalty of prosecution. See Form 8109, Federal Tax Deposit Coupon and Circular E, Employer's Tax Guide. (25<sup>th</sup> August, 2010. <<http://www.taxhlpattonney.com/articles/employment-taxes.html>>)

Small business owners often have great responsibilities while operating and managing a business. Before you become an employer and hire employees, you need a Federal Employer Identification Number (EIN).

If you have employees, you are responsible for several federal, state and local taxes. As an employer, you must withhold certain taxes from your employees pay checks. Employment taxes include the following:

- ❖ Federal Income Tax Withholding;
- ❖ Social Security and Medicare Taxes;
- ❖ Federal Unemployment Tax Act (FUTA).

(25<sup>th</sup> August, 2010.<<http://www.allbusiness.com/acconting-reporting/corporate-taxes/2709-1.html>>)

### **2.1.6 Objectives of Taxation**

Taxation has been a very essential element of a government from the very inception of the state system. It is a permanent instrument for collecting revenue. It is a major sources of revenue in the developed world and has been appearing as an important source of revenue in the developing world as well. It has been an instrument of social and economic policy for the government. However, the objectives of taxation have been differ in time span. In ancient times, the major objectives of taxation were strengthening the muscle of the arms of the state by providing the resources. Now the main objectives of taxation have been sifted from security perception to the economic development. The objective of taxation is not only to maintain peace and security. The main objectives of taxation are:

- ❖ To raise more revenue.
- ❖ To prevent concentration of wealth in a few hands.
- ❖ To redistribute wealth for the common good.
- ❖ To boost up the economy.
- ❖ To reduce unemployment.
- ❖ To remove regional disparities.
- ❖ To Enforcing government policy.
- ❖ To increasing saving and investment.

### **2.1.7 Canons / Principles of Taxation**

The government of a country adopts various principles while formulating suitable tax policy. These principles are referred to as the canon of taxation which are still widely accepted as providing a good basis by which to judge taxes.

#### **As per Adam Smith:**

1. **Canon of Equality:** High earners should be imposed higher taxes as compared to low earners. Tax policy should not discriminate the persons with same income level.
2. **Canon of Certainty:** Taxpayers should feel certainty regarding time, place, tax amount and procedure for payments of taxes.
3. **Canon if Convenience:** Tax system should be simple so that ordinary people can easily understand and follow it. Time, procedure and place of payment of tax should be convenient to the tax payers.
4. **Canon of economy:** The collection expenses of tax should be less than the amount of tax collected, so that a surplus to public revenue is generated and the country will be benefited.

**In addition to these, Bastable has added two other principles which are as below:**

5. **Canon of productivity:** The fund raised through taxes should be utilized by the government in productive sector of the economy so

that the taxpayers can see the utilization of their hard earned money paid as taxes.

6. **Canon of elasticity:** The government should easily change the tax rates as per the need of the country. Instead of being rigid, tax rates should be made flexible as per the changes in taxpayers income, properties and transactions.

**Other modern Economists have added some other canons of taxation. They are:**

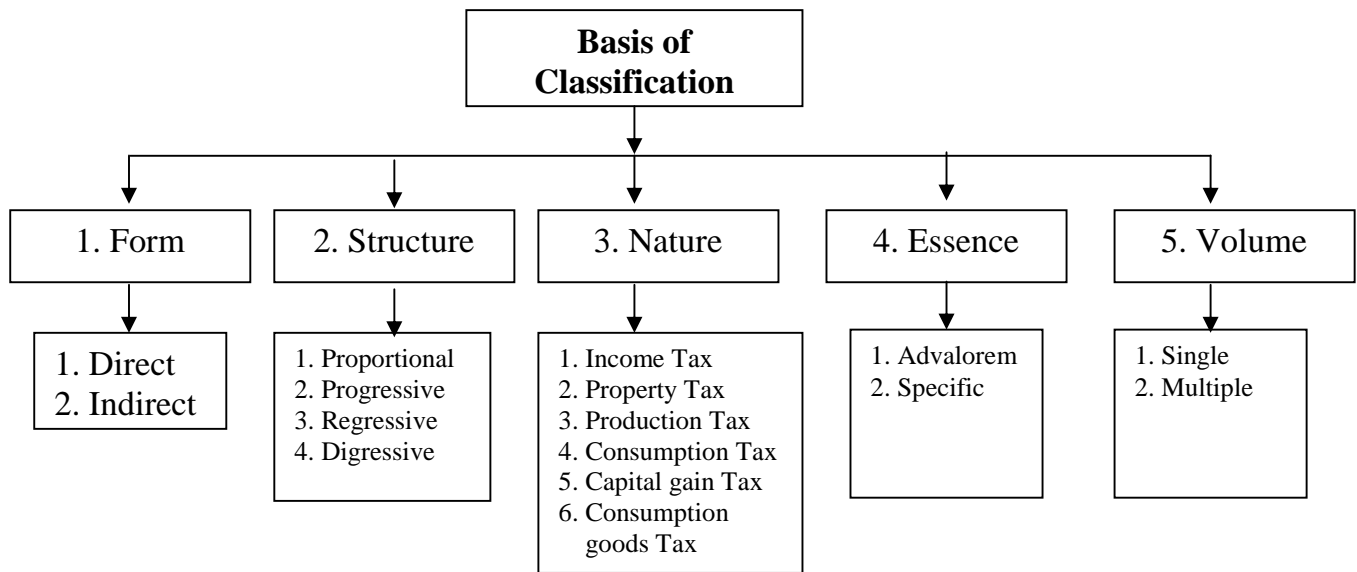
7. **Canon of diversity:** Tax system should not totally depend on one source of revenue. It is risky for the government to depend on a single source. So, the government should levy various taxes instead of imposing a single tax. This ensures smooth collection of taxes in different years.
8. **Canon of simplicity:** A good tax system should be easily understand by general public. There should be no administrative hassles. The tax payment procedure should not be too lengthy.
9. **Canon of neutrality:** The tax system should not affect badly to the production and distribution aspect of the nation rather it should facilitate them. The government should impose heavy taxes on harmful products and less tax or no tax on basic goods in such a way that the total tax revenue is not affected.
10. **Canon of co-ordination:** There should be coordination among various taxes raised in the country. Tax payers should not be imposed various similar nature taxes.

### **2.1.8 Classification of Taxes**

Taxes are constituents of human life and are paid from birth to death. Now a days, a human activity cannot separate from taxes. It means there are many taxes there are paid knowingly or unknowingly and directly or indirectly. Moreover, these are impossible to signify individually. Thus, economists have classified a long list of different types of taxes into five



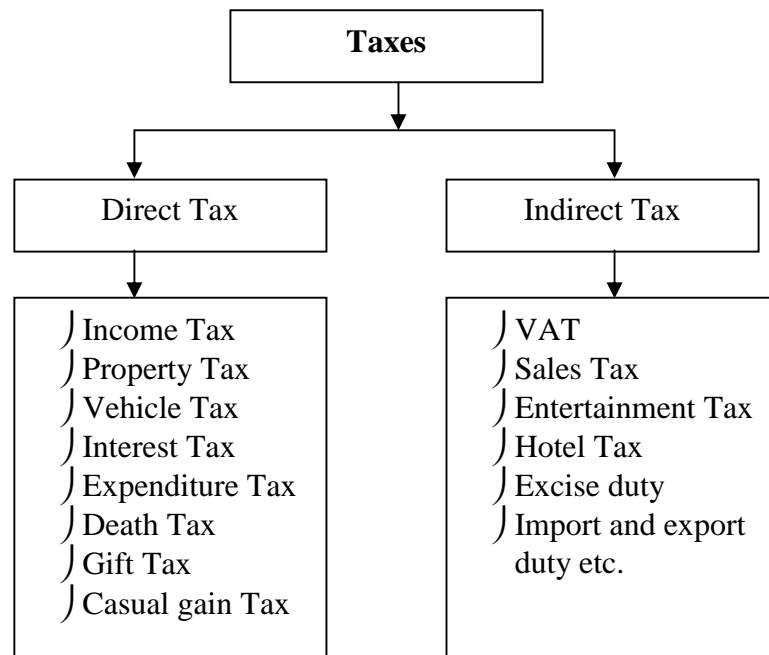
classes. There may be grouped on the basis of their form, structure, nature, essence and volume.



**Fig. 2.1: Types of Taxes on different classes (K.C., 2007)**

Basically in general, tax can be classified in to two broad categories.

- ) Direct Tax
- ) Indirect Tax



**Fig. 2.2: Classification of Taxes (Bhattarai & Koirala, 2008)**

The economists who are devoted on the principles of taxation have defined it in their own way. In 1917 (the first was on 1892). Bastable wrote 'Public Finance' and stated that, "Those taxes are direct which are levied on permanent and recurring occasions, while charge on occasional and particular events are placed under the category of Indirect taxation" (K.C., 2007).

Brainy Encyclopedia (2006) describes, in the united states the term direct and indirect taxes have more than one meaning, a Colloquial meaning and a constitutional law meaning. Certain taxes may be direct taxes in the Colloquial sense but indirect taxes in the constitutional sense.

### **Brainy Encyclopedic (2006) Summaries**

In the colloquial sense, a direct tax is one paid directly to the government by the person (legal or netural) on whom it is imposed (a tax return field by the taxpayer). Since the stated meaning income taxes, property tax, vehicle tax, interest tax, Expenditure tax, Death tax, Gift tax, Casual gain tax are the examples of direct taxes. In this sense, a direct tax is contrasted with an indirect tax (it may be called a 'collected' tax too). In this sense VAT,

sales Tax. Entertainment tax, Hotel tax, Excise duty, import and export duty are the example of indirect on collected tax. A collected tax is one which is collected by intermediaries who turn over the proceeds to the government and file the related tax return.

In a constitutional law sense the term direct tax has a different meaning. Traditionally a direct tax denotes a tax on property by reason of its ownership as well as a capitation or a head tax. Similarly an indirect tax or excise is an event tax. In this sense, a transfer taxes; inheritance and gift tax are indirect taxes. Moreover, income taxes on income from personal services such as wages are also indirect taxes. (K.C., 2007).

From the above definition, we can be concluded that. A direct tax is a tax paid by a person on whom it is legally imposed. In direct tax, the person paying and bearing tax is the same. It is the tax on income and property. 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 on expenditures.

**A. Merits of Direct Taxes**

1. Equitable
2. Certainty
3. Economy
4. Elastic
5. Civic consciousness
6. Remedy of adverse effect
7. Easy to understand

**B. Demerits of Direct Taxes:**

1. Arbitrary
2. Expensive
3. Large scale evasion
4. Few number of tax payers
5. Tax on honest persons

6. Non Suitable in underdeveloped economies.

**C. Merits of Indirect Taxes:**

1. Convenience
2. Mass Participation of tax payers
3. Means of reaching the poor
4. Difficult to evade
5. Social welfare
6. Economy in collection
7. Appropriate to developing countries

**D. Demerits of Indirect Taxes**

1. Regressive in nature
2. Inequitable
3. Uncertain
4. Unproductive
5. Inflation grower
6. Tax evasion
7. Unable to develop civic consciousness

**2.1.9 Evolution of Taxation**

History of taxation started with the human civilization. It is also associated with the history of rise and fall of civilization. Rosen (2004) holds that in all civilized societies, a central administration used to collect portions of people's productive output to use as a reserve in hard times in order to provide for needy and to increase the wealth and power of rulers. Until the modern era, rulers and their administration would commonly take portions of people's crops with no consideration of costs of farm work. The resources that rulers obtained through taxation allowed them to undertake such activities as building monuments and waging battles. Thus, taxes supported all early civilizations, first in the middle East and then all around the world.

### **2.1.9.1 International Context**

**Ancient Great India:** about the development of taxation Indian Council for Historical Research concluded that the Arthashastra was a compilation made by a scholar, Kautilya, in 150 A.D. The Arthashastra includes different types of cash and kind of taxes. For example custom duty (Sulka), Vyaji, bhaga, Kara, Pratikara, Vaidharana, Vartani, Parigha, Prakriya, Pindakara, Senabhaktham and Parsvam (K.C., 2007).

**Ancient Egypt:** In ancient period tax collectors were known as scribes in Egypt. They taxed even on cooking oil to collect the adequate revenue from citizens. Charles Adams(as cited in Mann, 1992) Wrote 'Fight, Flight and Fraud' the story of taxation.

**This book conclude that the events of Ancient Egypt as:** Continual tyranny of Egyptian tax collection created a nationwide decline in incentive. Egyptian workers and farmers lost their desire to work, agricultural lands fell into disuse, business persons moved away and workers run away. Sound money disappeared as an influential inflation destroyed the capital.

It is a strong evidence of taxation of ancient Egypt (K.C., 2007)

**Ancient Greece:** Adams stresses that in time of war, the Athenians imposed a tax referred to as eisphora. No one was exempt from tax which was used to pay for special war time expenditures. Athenians imposed a monthly poll tax on foreigners, people who did not have both an Athenian mother and father, of one drachma for men and a half drachma for women. The tax was referred to as metoikion. (K.C., 2007)

**Roman Empire:** The earliest taxes in Rome were customs duties on imports and exports called portoria. Augustus instituted an inheritance tax to provide retirement fund for the military. The tax was 5% on all inheritances except gifts to children and spouse.

**Great Britain:** In 1215 A.D., king John of England was compelled to sign the Magna Carta. It was a charter of liberty obtained from king. It guaranteed free trade to merchants within England and it established the principle of “Separation of Powers”. Rosen (2004) concludes, administrators in England attempted to collect the first time income tax, a tax on wages, in 1404, but the public quickly demanded its repeal and all tax records were burned.

Modern forms of income taxation date to a British income tax levied in 1799. This tax raised revenues for the Napoleonic wars against France, which Britain and a coalition of other European nations won in 1815. According to Adams, the tax returns of this law show a remarkable similarity to the returns of the modern tax law. This law adopted 10 percent income tax on a temporary basis to be removed six months after the war ended with Napoleon. By popular demand, the income tax of 1799 was withdrawn by a large majority replacing a second income tax in 1816. All of these tax records of the income tax 1799 were also burned. In 1842, Sir Robert Peel adopted a temporary three percent income tax, which was “Supposed to be repealed as soon as government revenues were in balance.” (K.C., 2007)

**American Tax War:** Adams points out that American Civil war – more accurately. “The Rich Man’s war and the poor man’s Fight” – was caused by taxation. It was called the “American Tax War”. At the time, the South paid about three-quarters of all federal taxes. The tax system shifted wealth from the south to the North. The proverbial “Straw that broke the Camel’s back” was the Morel Tariff passed by congress in 1861, and signed by Abraham Lincoln (K.C., 2007).

During the nineteenth century the German States also introduced income tax. Unlike the British, the Prussian System summoned taxpayers before revenue authorities for examination. All taxpayers were required to declare and pay their tax. This, income tax was adopted by different countries gradually. Italy started it in 1864, and Newzealand adopted in 1891, Australia and Canada had followed the income tax in 1915 and 1917 respectively.

In our neighbouring country India, the income taxation was started in 1860 by the British government to relief from economic burden created due to first democratic revolution. It was then regularly collected after the publication of Income tax Act 1886 (Dhakal, 1998).

In the beginning of introducing time it was generally levied on flat rate. Only after 1909, the principle of progression was introduced from UK and Newerland. In 1944, the Great Britain introduced pay – tax – as – you- Earn (PAYE) system. This replaced annual or twice yearly collection. Tax was deducted by employers and when an employee left and employer, they were given a code number, income to date and tax paid to date. The scheme was piloted by sir kingsley wood. (K.C., 2007)

#### **2.1.9.2 Nepalese Context**

History of income tax system in Nepal can brodly divided into two parts:

- ) Ancient era (Before 1951A.D.)
- ) Modern era (After 1951A.D.)

##### **a. Ancient era (Before 1951 A.D.)**

**Taxation in Ancient Nepal:** Reliable records about taxation in ancient and medieval Nepal are not available. However, tax has been one of the major sources of government's revenue from the ancient time in Nepal. Taxes were then levied on the merchants, travellers and farmers in the form of cash, kind and labour. On some occasions gold and agricultural products were also paid as taxes, but the nature of these taxes was temporary. In the Lichhavis regime, income taxes from agriculture and business were introduced as a direct tax for the first time in Nepal. Agricultural income tax was called "Bhaga". The farmers were supposed to pay agricultural income tax to the government in 1/6, 1/8 and 1/12 quality of the land that they owned. Income tax, which was levied on business income was called 'Kara'.

There did also exist irrigation and religious tax during the regime of king of Ansubarma of Nepal (Shauh, 1995).

**Taxation in Unified Nepal (1768A.D.-1846A.D.):** After unification of kingdom of Nepal, expenses for administration, military and other operational activities were increased significantly. During that period, taxation has been taken as main source of revenue and different types of taxes like land tax, transit tax, market duties, various levies and fixes, forest product tax and mining tax were levied. Local administration were directed to take whatever is paid willingly by the people." Taxes were collected from the three levels.

- ) Royal Palace: To finance occasional and ceremonial needs. The taxes were broad based and progressive.
- ) Government: To finance administrative, military and other purposes assessed on official functionaries, occupational groups and other people.
- ) Local: Prerequisites of local officials, functionaries and mendicant. (Agrawal, 1980).

The system of direct taxation was confined to land tax and special levies like "Darhsanbhet", "Salami", "Walak" etc. After the unified period, land tenure System divided into five main forms: Raikar, Birta, Guthi, Sera and Kipat. The main source of revenue from land were Birta and Kipat. In 1772, king Prithivi Narayan Shah introduced 'Pota' based on flat rate system.

**Taxation in Rana Regime (1846A.D.-1950A.D.):** During the Rana Regime, there was not formal provision for imposition and collection of taxes. Taxes were imposed according to the objectives, need and whims of the ruling prime minister. There was not provision for separating personal income of prime minister and state treasury. There was no provision of government budget. Surplus of revenue over



expenditure was considered as the personal income of ruling prime minister.

During Nepal-Tibet war (1855/56), the first Rana prime Minister Jung Bahadur had imposed a tax on the income of selected groups. Similarly, Bir Shamsheer imposed a levy of 1% on the official value of Jagir assignment of government employers in 1891, to finance the transportation of water pipe supply in the capital, Ranodip Singh imposed a 50% tax on the income made by fisherman in Deukhuri from the sales of fish in 1882. (K.C., 2007)

#### **b. Modern era (After 1951 A.D.)**

After the establishment of democracy in 1951, the role of government has been changed. Actually, the modern income tax act was started in the year 1959 in Nepal. After the political revolution in February 1951 (2007 B.S., Falgun) the role of government has increased to development as well as philanthropic works. The government of Nepal had presented its first budget in 1952 (2008, Magh, 21). The first five year plan started in 1956. The planned activities of the government needed huge amount of source and means. So huge revenue was damaged and Nepalese government started to levy tax on income as permanent source.

Parliament makes laws in implement the policies. The government levies and collects tax as per law. Different laws have been made and amended since 1951 in form of act and regulation. A brief overview on different laws related to income tax is stated below.

### **2.1.10 Development of Income Tax Act and Laws:**

#### **2.1.10.1. Before 1959 (2016 B.S.):**

The idea of introducing income tax in Nepal originated in early 1950s, when a multi-party democratic political system was introduced. In 1951, the finance minister in his budget speech declared the intension of government to levy an income tax.

Attempts were made to introduce income tax in subsequent years. In 1954, an income tax with Rs. 10,000 basic allowances and progressive taxes ranging from 5 to 25 percent was proposed. Due to political instability, it could not be introduced until 1958. (Koirala and Bhattarai: 2008).

#### **2.1.10.2 Economical Act 1959 (2016 B.S.):**

In 1959, income tax introduced through economical act. This act has made provision of tax from 5 percent to 25 percent in remuneration and business profit. The major provisions on act were:

- i. Ten tax rate provision.
- ii. Tax rebate provision for industries.
- iii. Rebate for industry was 25 percent and that for small and cottage industry was 50 percent.
- iv. Provision of tax for house and land of urban area.
- v. Provision for tax in foreign investment (Kandel, 2003).

#### **2.1.10.3 Business Profit and Remuneration Act 1960 (2017 B.S.)**

The government of Nepal introduced a formal tax act for the first time in Nepal in 1960 (2017 Jesth 2<sup>nd</sup>) in the form of "Business Profits and Remuneration Act 1960." According to this act only business profits and remuneration on income were subjected to tax but revenue for these taxes could not be collected properly as per estimates. It had 22 sections (Dhungana, 1976).

Main features of Income the act were as follows:

- i. Only business profit and remuneration income were subject to tax. The coverage of income tax was too narrow.
- ii. Tax on remuneration was to be deducted at source.
- iii. The basis for calculating the tax liability for remuneration was the income of the current year whereas for business profit, profit of the preceding fiscal year was taken.

- iv. There was a provision of tax exemption on salary of foreign citizen, dividend of shareholders, profits to be spent in religious and public welfare activity, crop from own land, allowances granted by HMG to ministers, assistant ministers, chairman, speaker and amount drawn from provident fund of saving fund.
- v. The tax office was empowered to assess tax on best judgment estimation only in case of false statement or in absence of income tax return.
- vi. There was a provision of fines ranged from Rs.500 to Rs.5000 in case of defaults.
- vii. The first court of appeal against the tax officer's assessment was local Badahakim or magistrate. People could appeal to Revenue and Tax Court but every appeal was to be accompanied by security deposit for the amount of tax payable.

#### **2.1.10.4 Nepal Income Tax Act 1962 (2019 B.S.):**

Business Profit and Remuneration Act 1960 was replaced by Nepal Income Tax Act 1962. It came into implementation from July 1962. It was an extension of the previous act. It has 29 sections. It was amended only one time in 1972. The additional features of this act were as follows.

- i. Nine types of income source were defined. They were income from business, salaries, profession, rent from house or land, investment in cash or bond, agriculture, insurance agency and any other sources.
- ii. Act has defined certain terminologies such as taxpayer, tax officer, company, firm, profit, remuneration, tax assessment, non resident person etc.
- iii. Status of taxpayer was defined for the tax purpose such as personal, residential.
- iv. Procedure for income tax assessment and methods for calculating net income were stated. Act was based on Best judgment system.

- v. Provision was made to carry forward of losses for a period of two years.
- vi. The provision was made to constitute the net income assessment committee with five members.
- vii. The basis was specified for assessing tax on the best judgment estimate of the officers.
- viii. To burden the tax coverage, agriculture income was brought under the income tax net for the first time. But the financial act 1966 exempted this income fully from tax net. Again it was brought into tax net by financial act 1973. It was again exempted from 1977.
- ix. This act had provision to bring Nepali citizen and government personnel into tax net earning everywhere of the world. But financial act 1963 limited it within country.
- x. Provision was made for reassessment of tax as well as rectification of arithmetic errors.

#### **2.1.10.5 Income Tax Act 1974 (2031 B.S.):**

The Income Tax Act, 1974 can be said to be the refined form of Income Tax Act, 1962 (Dhakal, 2057). It had 66 sections. This act has explained various aspects of taxes, containing many provisions for taxation. This act was amended for eight times i.e. 1977 (2034); 1979 (2036); 1980 (2037); 1984 (2041); 1985 (2042); 1986 (2043); 1989 (2046); and 1992 (2049) to make it more practical and to eliminate confusing terms. His Majesty's Government formulated and enacted the Income Tax Rule 1982 (2039}, in 1982 (2039–1–27) in accordance with the authority given under sections 65 of Income Tax Rule 1982, the financial act is also equally applicable for the proper administration of income tax in Nepal.

Main Features of the act were as follows:

- i. Clarification of tax related terminologies such as income tax, taxpayer, resident, tax assessment, income year, gross income, net income, income from different sources, loss etc
- ii. Classification of income head into five categories: i) Agriculture income ii) Industry, Business, profession and vocation iii) Remuneration iv) House rent and compound rent and v) others. (Agriculture income removed after F.Y. 1975/76)
- iii. Specification the method for computing net income from different sources.
- iv. Clear mentions about rights of tax officers.
- v. Amendment of 1993 in this act introduced self-assessment system for the first time replacing judgment system.
- vi. Provision of carry forward of loss for three subsequent years.
- vii. Obligatory provision for taxpayers to register industry, business, profession or vocation in the tax office before starting work.
- viii. Clear specification for expenses allowed for deduction for computation of net income.
- ix. Specification of the procedure for assessment, reassessment, jeopardy assessment, tax deduction at source, payment and refund of tax etc.
- x. Specifications about rights, duties, forms and appeal.
- xi. Provision of penalty up to Rs. 5000 in case of failure of maintain or preserve account.

#### **2.1.10.6 Income Tax Act 2002 (2058 B.S.):**

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation, and to amend and integrate the laws relating to income tax, the parliament of Nepal enacted Income Tax Act, 2002 (2058), since 1<sup>st</sup> April 2002 (19<sup>th</sup> Chairta, 2058).

This act was brought in Nepal to avoid the following defects of Income Tax Act 2031 (Kandel, 2003).

- i. Narrow tax base and not provision for worldwide income, capital gains etc.
- ii. Presence of separate income tax related acts such as Employee Provident Fund Act 1962, Citizen Investment Trust Act 1992, Industrial Enterprise Act 1992, and Electricity Act 1992 etc.
- iii. Not ensuring the principle of equity and progressivism since tax was levied on the basis of nature of organization, nature of person, nature of income. Natural person's taxable income had declared on the basis of organization's memorandum and objectives rather than transaction.
- iv. Low penalty rate according to change of time for evasion of tax.
- v. Not clarity for definitions, explanations, legal provisions etc related to administration for implementation of self assessment system since provision of this was made by amendment.
- vi. Not clarity about accounting system and inadequate penalty for not maintaining account accordingly.
- vii. Not provision for controlling transfer pricing, interest expenses, thin capitalization etc.
- viii. Incapable to fulfill the need of time brought by globalization and economic liberalization.

Income Tax Act, 2058 has been amended two times by the finance ordinance of 24<sup>th</sup> Ashadh and 22<sup>nd</sup> Paush of 2059 B.S.

1. To levy tax on all income sources and income earning transactions.
2. To impose uniform tax to all people and all sources.
3. To make income tax revenue more productive and elastic.
4. To develop the tax system by means of extended scope, clear-cut, transparent and simple procedure.

5. To make accountable and improve tax administration.
6. To reduce economic cost neutralizing income tax.
7. To emphasize statement based on accounting system.
8. To make responsible to income taxpayers emphasizing procedure of self-assessment system.

The key features of Income Tax Act, 2058 are:

1. All income tax related matters are confined within the Act by abolishing all tax related concessions, rebates and exemption provided by different Acts.
2. The Act has broadened the tax base. Unlike previous tax Act, tax rates are spelled out in the Act. The tax rates and concessions are harmonized on equity grounds.
3. The Act has introduced a pool system of charging depreciation. Intangible assets are also depreciated.
4. The Act has first introduced taxation on capital gains.
5. The Act has provided liberal loss set-off and carry forward/backward provisions. Interhead adjustments of losses are clearly specified.
6. The Act has introduced a provision for administrative reviews to allow the tax administration to correct mistakes made by tax administrators internally.
7. The Act has provided a stringent fine and penalty for the defaulters.
8. Global incomes of a resident are made taxable. Non-residents are also taxed on their incomes with source in Nepal.
9. List of expenses are inclusive. All expenses relating to income have been made admissible.
10. The Act has made provision of international taxation. Foreign tax credit has been introduced for the first time.

The Act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.

## **2.2 Review of Related Studies**

During the course of the study, various books, articles, dissertation, reports and other reference materials were reviewed. Among them, some useful ones are summarized as below:

### **2.2.1 Review of Books**

**Mr. Kedar Bahadur Amatya (1965)**, prepared a book, “**Nepal Ma Aayakar Ko Byabastha**” analyzing the legal aspects and description of income tax system of that period. This is the first published book on income tax.

**Mr. Santosh Raj Poudyal and Mr. Prem Prasad Timsina (1990)**, published a book describing the provision and laws related to income taxation in Nepal in “**Income Tax in Nepal**”. This Book was extremely based on the syllabus of B. Com. They have described the theoretical as well as practical aspects of income tax. They analyzed the role of income tax, income tax structure and defects of income tax in Nepal. The book was descriptive rather than analytical.

**Dr. Rup Bahadur Khadka (1994)**, published a Book “**Nepalese Taxation: A Path for Reform**”. He had analytically described about development, existing structure, main problems and possible direction of reform of income tax. He had identified the major problems of income tax as narrow coverage, unscientific tax assessment and collection, defective system form the perspective of international taxation. He has also pointed out weak tax administration, imbalance and inadequate organizational pattern, inadequate physical and other facilities, inadequate tax training, predominance of low level non-technical posts, debatable scope of revenue investigation department, lack of information system.

He has suggested for extension of tax coverage, scientific method of tax assessment, extension of withholding tax, inflation adjustment etc. He has also suggested to administration for reorganize and expansion, integrated



information system, research unit, strengthening the revenue service etc. This book was analytical and useful to know different aspects of income tax.

**Mr. Kamal Deep Dhakal (1998)**, published a modified edition of book named **“Income tax and house and compound tax law and practice with VAT”**. He has described historical aspects and legal provisions related to income tax and presented methods of income tax assessment with numerical examples, This book was fully based on the syllabus of BBS third year and MBS second year and was published before coming new income tax act 2002. The book is useful to know the general information and legal provision of income tax act 1974.

**Mr. Bidyadhar Mallik (2003)**, has published a book **"Nepalese Modern Income Tax System"** with twenty-six chapters and eight annexes. He has described historical aspects of income tax, changes brought by the Income Tax Act 2002 and the development of income tax management in Nepal. Every section of income tax act has been clarified with suitable examples. He has written about the development of existing income tax and need and importance of income tax system in Nepal. The new provision made by Income Tax Act, 2058 about tax base, computation of income, tax exempt amount, deduction allowable, accounting of tax, capital gain, retirement saving and tax, dividend tax, capital gain and international taxation have been clarified precisely in his book. The book is very useful to know the general information and legal provisions of new Income Tax Act.

**K. P. Aryal and S. P. Paudel(2004)**, have written a book entitled, **“Taxation in Nepal”** in 2004. They have explained about the income tax system in Nepal along with house and land tax and value added tax. The book has been designed based on the curriculum of B.B.S. It has been divided into three parts. In the first part of the book introduction and development of income tax, capital and revenue nature expenses and income items, entity and retirement saving, dividend tax, computation of income from business, remuneration and investment have been explained with numerical and

theoretical examples. House and land tax and value added tax have been explained in the second and third part respectively.

**Dr. Puspa Raj. Kandel (2005)**, published a book named “**Nepalko Bartaman Kar Byabastha**”. The book is based on I.T.A. 2058 for the syllabus of BBS, MBS and MPA. It has twenty three chapters and eleven Appendix including ITA, 2058, Income Tax Rules 2059, value added Tax Act, 2052, value added Tax Rules 2053 and so on. He has described the three broad classification of income, VAT, concept. Tax authorities, penalty, administrative Review, Appeal and so on.

**Mr. Ishwor Bhattarai and G.P. Koirala (2008)**, have co-authored two books entitled “**Taxation in Nepal**” and “**Taxation in Nepal with Tax planning and VAT**”. The first book is designed according to the requirements of bachelors of business studies 3<sup>rd</sup> year syllabus and next one is based on MBS second year syllabus Tribhuvan University. Both of these books are useful and relevant for university students as well as others having interest in this discipline.

### **2.2.2 Review of Reports and Articles**

**Mr. George E. Lent (1968)**, has presented a report entitled, “**Survey of Nepalese Tax Structure**” to IMF, Fiscal Affair Department. He has critically analyzed the scope of income tax, tax structure, taxable income exemption and allowances in Nepal at that time. He has suggested to reform income law and administration to increase government revenue through income tax. He has also suggested to increase income tax rate at lower taxable income and to reduce at intermediate income bracket.

**Mr. Bhavani Dhungana, Mr. Narendra Lal Kayastha and Mr. Bal Prasad Rai (1976)**, have published a report “**An analysis of tax structure of Nepal**”. The researchers have analyzed the income tax in Nepal and recommended to reform income tax to reduce resource gap and mobilize additional resources.

**Dr. Govinda Ram Agrawal (1978)**, has provided details information in various aspect of income taxation in his report entitled "**Resource Mobilization for Development: The Reform of Income Tax in Nepal**". His study is the first comprehensive study in taxation of Nepal. The study has covered period of nine years from 1967 to 1976. The nine chaptered research shows picture of resource gap of Nepal in its first chapter. Fiscal policy, effective tax system, role of income tax, legal and administrative aspects, historical background of income tax etc. have been also discussed. The main reasons for growing resource gap he had included in his report were increasing cost of maintenance and debt servicing burden, increasing government investment in public sector enterprises and rising rate of inflation. He also added that, poor utilization of natural resource base, small and stagnant industrial sector, partial monetization of the economy, poor performance of public sector enterprises, poor rate of economic growth, inadequate tax efforts, deficiencies in tax policies, laws and administration, lack of adequate and reliable data base and unwanted pressures from vested interest group etc. were the major constraint in resource mobilization.

He has presented various mathematical to identify the major problems as inefficiency of tax administration and income tax evasion. He also identified tax authorities are insufficient in enforcement of law and there are not integrated programs for taxpayers' education, assistance, guidance and consulting.

**Mr. M.K. Dahal (1995)**, presented and submitted a report entitled "**Review of tax system to MOR, HMG/N**" covered the various aspects of tax system at that time. Narrow tax base, low tax elasticity, higher burden of indirect tax to direct tax, lack of voluntary compliance, leakage etc were the major defect of taxation identified by this report. This study stressed on the narrow tax base. The exemption of income from agriculture sector, which contributed 43 percent of total GDP, was marked as a main reason of narrow base. Including agriculture sector, income from domestic industries, social

sector and electricity sector that contributed 52 percent was exempted from income tax and only large industries, mines, construction, trade, hotel and restaurant that contributed 48 percent income to GDP were under income tax. All these provisions made the tax base very low. The tax rates were unnecessarily high. Only 73,000- tax payer's income was demanded which was less than 1 percent of the economically active population. Real per capital income growth rate at that time was only 0.3 percent, which showed the low taxable capacity of people. This report suggested increasing the tax to GDP, to increase the total number of tax payers and to increase the per capital income. This study further suggested about 40 percent extra resource mobilization, it proposed tax policy and program were in pace. This study recommended various practical ideas to widen income tax base like 20 percent exemption from total tax assessment effective. It also suggested the exemption limit should be raise based on inflation rate (M.K. Dahal, 1995).

**Revenue Consultation Committee Report (2001)**, has emphasized to simplify the tax policy to increase voluntary compliance. The report has recommended for written communication between taxpayer and tax administration rather than the informal relation and has suggested to widen the income tax base by including all kinds of taxpayer and income and to find out the taxpayers of new sector. It suggested bringing all potential taxpayers in to tax net to widen the tax coverage including agriculture, electricity and other sectors to increase voluntary compliance this report highly emphasized to simplify the tax policy. Suggestion has provided to make the act more transparent and clear to attract foreign and domestic investor for this purpose. The report also has suggested increasing income tax exemption limit with considering purchasing power and inflation rate.

**Damber Bahadur Pant(2004)**, had written an article entitled, "**Problems in Tax Administration and their Remedies**" published in Journal of Finance and development. 'Rajaswa' 2004, April Vol.1. He had comprehensively explained about the problems and their remedies related

with tax revenue. The major types of practical problems and challenges, in tax administration he had mentioned in his article are; showing limited amount of transaction, showing low selling price, lack of issuing and taking bills, lack of showing the real factory cost, commercial fraud, lack of co-operation in testing the tax, legal ambiguity and complexity in implementation and lack of coordination between Inland Revenue Department and Revenue Investigation Unit. Meanwhile, he had recommended some valuable suggestions to solve the problems and to overcome the challenges. They are statistical and information system should be properly managed, fixed norms and standards should be used to assess selling price and factory cost, the billing system should be made compulsory, coordination between Inland Revenue Office with various entities of HMG, Revenue Investigation Department and its related units should play the important role.

**Dr. Puspa Raj Kandel(2004)**, had written an article entitled, "**Are Tax Incentives Useful? If so, which one?**" published in Journal of Finance and Development, 'Rajaswa', Volume 1 2004 April. In that article he had tried to seek the answer from the survey of various empirical studies earlier done in Nepal, India, Pakistan and other western countries. He found that the tax incentives are still the controversial matter whether they promotes the investments or not. But he argues that the tax holiday is the most inferior type of tax incentive which causes revenue loss without enhancing the investment environment. Meanwhile, most of the researchers have opposed the tax holiday system both within Nepal and outside Nepal.

He further adds that the survey of the studies indicate that accelerated depreciation system has positive impact on investment. The work of reducing tax rate, especially, followed after 1990s to such lowest rate was not a proper decision. That is why, it Nepal wants to go to tax incentives again, it should adopt investment allowance or investment tax credit, not the full tax holiday in future. The study had detailly explained two functions and the study had recommended some valuable suggestions to the developing countries.

**Prof. Dr. Madan Kumar Dahal (2009)**, had written an article entitled **“A landmark in the History of Reforms in Nepal’s Tax System”**. In this article, he discussed about the proposal for formulating a semi-autonomous central Revenue Board (CRB), Which was constituted by Government of Nepal (GON) on 22<sup>nd</sup> September 2009, by a High Level 5 member Task Force.

According to him, the specific objectives of the Task Force are also to devise a mechanism for controlling revenue leakage and restraining corruption in tax collection, increase awareness among the tax payer through imparting tax education, provide protection to the tax payers, hear grievances of the tax payers and settle independently the dispute and complaints of tax payers against tax authorities, and make the tax structure highly competitive in the region by rationalizing and improving efficiency of tax administration in Nepal. Nepal's tax structure is lop-sided and heavily dominated by in directed taxes, which are regressive by nature. The tax effort ratio (TFR) is estimated. to be 15.7% of GDP, lowest in the South Asia region as of F.Y. 2008/09.

According to Prof. Dahal, the growth in customs duties and VAT is not a success indicator in true since, but clearly a manifestation of under development. Alternatively, Contribution of direct tax is one of the significant indicators in addition to other parameters of economic development. In addition, the task Force has recommended to set-up an independent Review Panel to provide justice and protection to the tax payers especially for review, arbitration and bail headed by a senior judge of the Appellate Court. In case tax payers is not satisfied with the decision of Review Panel may appeal to Revenue Tribunal.

He wrote that all employees under CRB would be entitled to received, in addition to salary, 0.5% of incentive package of total revenue mobilization depending on the performance. The incentive package would also be used for maintaining and expanding infrastructure under CRB. As blood circulation is necessary to keep the human body alive, revenue mobilization is imperative to

vibrate the economy. Therefore, laws of blood circulation and taxation are analogous to each other. You must know the reality that you Can't escape from two things: one is death, and other one is taxation. (28<sup>th</sup> August, 2010. <[http://telegraphnepal.com/news\\_det.php?news\\_id=6862 & PHPSESSID](http://telegraphnepal.com/news_det.php?news_id=6862 & PHPSESSID)>)

**Mr. Nir@z (2009)**, presented a small research in the taxation system of bikes that are imported from India to Nepal entitled “**Taxation system of Bikes in Nepal**”. In this study he discussed about the final price that a customer pays after all the taxes and service charge are levied on the bike.

All goods are classified under each Heading appropriate to the goods to which they are most akin. The Customs Tariff 2007-2008 has categorized motorcycles under Heading 8710 Which states that motorcycle (including mopeds) and cycles fitted with reciprocating internal combustion piston engine of a cylinder capacity not exceeding or exceeding 50cc are levied 40% import Duty of Invoice value excluding excise duty, Freight, miscellaneous charge etc.

He also present the below example for the overall taxation procedure and how much we pay as tax to the government. This is an example of CBZ extreme that cost around INR 54, 000 - NPR 56,000 which is dealer price.

Price in India INR 54000 @ 1.6	NPR 86,400
Import Duty @ 40%	NPR 34,560
Sub Total	NPR 120,960
LTD (Local Development Tax) @ 1.5%	NPR 1,814.40
Sub Total	NPR 122,774.40
Excise Duty @ 10%	NPR 12,277.44
Sub Total	NPR 135,051.84
VAT @ 13%	NPR 17,556.73
Total	NPR 152,608.57

(28<sup>th</sup> August, 2010. <<http://ryder22.blogspot.com/2009/11/taxation-system-of-bikes-in-nepal-html.>>)

### 2.2.3 Review of Dissertations

**Mr. Govinda Lal Shrestha(1967)**, has prepared a Masters Degree thesis entitled **“Income tax in Nepal”**. He has described about historical background, income tax act, rules and administrative aspects but has not shown problems related to income tax.

**Mr. Kedar Bilas Pandey(1978)**, conducted a study on **“An analysis of income tax in Nepal.”** In his study he has discussed about legal aspect, structure, role, problems etc related to income tax and Economic effect of income tax in Nepal. He has found income tax playing significant role in economic development of Nepal. His study shows that income tax contributed 4% to tax revenue and per capita burden of income tax was only Rs. 0.2 in 1962/63. Contribution of income tax increased to 10% of tax revenue and Rs. 7 per capita income tax burden in 1975/76. The major problems in taxation, according to him were lack of scientific record keeping, lack of maintaining accounts by tax payers, lack of coordination between tax departments and revenue department, leakage in personal income tax collection. He has suggested to bring capital gain and bank interest into income tax net, to make scientific income tax accounting assessment and collection procedure, to scrap the system of income tax holiday to industries and so on.

**Ms. Naina Nepal(1983)**, done a study entitled **“A study on problems and prospects of Income Tax in Nepal.”** In this study she has examined origin, meaning, existing position, role, problems and future prospective of the income tax in Nepal. Inefficient income tax administration, mass poverty, lack of tax consciousness, low numbers of tax payers, lack of coordination between taxpayers and department, narrow coverage, assessment deficiency were analyzed as major problems by her. She has suggested to separate exemption limit for family and couple and to make elastic, scientific and progressive tax rate and exemption limit.

**Mr. Shambhu Nath Regmi (1986)**, prepared a dissertation with the objective of examining the trend of income tax in Nepal, ascertaining the



share of income tax to total tax revenue and its ratio to GDP in his research entitled **“The Role of Income Tax in Nepal.”** He has concluded that income tax can check the inflationary trend of country and it also directs the flow of resources of the economy into useful and productive channels and increases the productive capacity of the economy. He has suggested for precise and clear tax law, widening tax coverage, scientific method for accounting assessment and collection of income tax, easy and simple procedure for tax payment, establishment of research unit and public awareness.

**Ms. Shanti Baral(1989)**, conducted a study on **“Income Tax in Tax structure of Nepal.”** In her study she has tried to shown the contribution of income tax on the structure of government revenue in Nepal. She found that total revenue, total tax revenue and direct tax revenue have an increasing trend in Nepal but in unsatisfactory rate. She has found that contribution of direct tax has been decreasing and that of indirect tax is increasing each year. Exemption in agriculture income is other reason for less collection of revenue. In her study, inefficient tax administration, unconsciousness of tax payers, lack of scientific method of tax assessment and collection have been identified as the major reasons for tax evasion at high level. She has suggested that the tax administration should be honest and efficient, tax evaders should be punished, there should be scientific method for tax collection, administration cost should be minimized, research unit should be established and delays in assessment procedure should be reduced.

**Shiva Narayan Shauh(1995)**, has conducted a research on the topic, **“Contribution of Income Tax in National Revenue of Nepal”** in the year 1995. His research problems were the increasing resource gap and how income tax can be the means for resource mobilization. The main objective of this research were; to show the contribution of income tax in government revenue, to show the resource gap in Nepalese finance, to highlight the importance of income tax as a source to avoid financial deficit, to find out the

rate and per capita burden of income tax and trend and structure of income tax in Nepal.

From that research he has found out and calculated that income tax can be the vital source for internal resource mobilization to fulfill resource gap. Only 0.35% of total population came under the categories of tax payers in Nepal during his research period. He found that collection of income tax was gradually growing and the contribution of income tax in total tax revenue and total national revenue was 9.95% and 7.94% respectively. Similarly he also concluded that individual tax payer had higher contribution in income tax than salaried tax payer.

**Dr. Karna Bir Poudyal(1997)**, has submitted a Ph. D. thesis entitled, **“Corporate Tax Planning in Nepal”** This thesis report was aimed to examine the implications of tax factors in strategic planning, project planning and operational planning in Nepalese companies. He has found that the majority (90%) of the companies (sample size of the study) considered tax factors while selecting the line of business. He also found the positive correlation (+0.8) between tax rate and the debt equity ratio because of interest paid on debt is a tax-deductible item. Similarly, the correlation coefficient between average fixed assets and corporate tax was (+0.75) in small companies and (+0.12) in medium size companies. As against this, in large companies, there was a negative correlation (−0.2), which showed that increase in fixed assets in large companies resulted in decrease in the corporate tax. He addressed that the tax planning should be considered while making corporate planning and so companies should set up separate tax section to get maximum benefit of provisions, provided by tax law. However, tax assessment under the best judgment blocked the application of tax planning in corporate planning. He had recommended that tax incentives should be given to non-industrial companies too, and tax rate should be differentiated for resident and non-resident companies.

**Dr. Puspa Raj Kandel(2000)**, also presented the Ph.D. thesis entitled, **“Corporate Tax System and Investment Behavior in Nepal”** in 2000. He undertook the research work to find out the problems relating to corporate tax, which blocks the development of the private investments. He showed the relationship of private investments with average effective tax rate (AETR), marginal effective tax rate(METR) and tax incentives in Nepal. He found that the METRS for debt-financed project due almost negative i.e. 17% and positive for equity financed project and debt-equity ratio project by 27% and 19% respectively. He had also found the impact of inflation to the METR. According to him, the statutory tax rate deduction had impact on private investments by 60% to 20%. In his regard, he had showed the adjusted R<sup>2</sup> value 0.87 at 5% level of significance. He had concluded that the statutory tax rate was in moderate level under the financing options: debt: mix and equity is it was not much distortive. The relationship between inflation rate and effective tax burden in Nepal was negative.

**Bharat Kumar Lamsal(2001)**, has also presented a thesis entitled, **“A study on Contribution of Income Tax on Government Revenue”**. His research had mainly focused on the removing and controlling income tax evasion for better source mobilization. As his main objective was to analyze the impact of income tax evasion in government revenue of Nepal, he set further objectives to identify the ways and causes of income tax evasion, to estimate the volume and tendency of income tax evasion in small trade sectors and to examine the role of income tax in utilizing the resources in Nepal.

From that research he has concluded that there was widespread evasion in income tax in Nepal is a suitable means for raising domestic resources. He had recommended for controlling tax evasion by controlling illegal business activities, increasing penalties and fines to tax evades, compulsory maintenance of accounts etc.

**Ms. Jyanti Poudel (2002)**, presented a dissertation entitled **“Income taxation in Nepal: A study of its structure and productivity”**. The

objectives of her study were: to analyze the structure of income tax in Nepal, to estimate the elasticity and buoyancy of income tax in Nepal, to evaluate the success of voluntary disclosure of income scheme (VDIS) program in brief and to provide the suitable recommendation for improving the scenario of income tax. She has found that overall revenue of Nepal showed on annual growth of 16% indirect taxation has more significant contribution in total tax revenue, income tax occupied the first rank among the direct taxes, personal income tax slabs has been changed radically from seven slabs in 1975/76 to two slabs in 1999/2000, VDIS could not attract more potential taxpayers into tax net due to lack of good planning and adequate home work of the government working procedures of the tax administrators are still traditional and cost of administration has not been brought to the satisfactory level.

**Mr. Keshav Raj Gautam (2004)**, has described about **“Contribution of income tax to national revenue of Nepal”** He has mainly focused about conceptual framework, legal provision, and structure of income tax. He has connected an empirical investigation about various aspects of income tax in Nepal. He has found that the contribution of direct and indirect tax revenue were 20.63 percent and 79.40 percent respectively in 2002/03. Income tax revenue has occupied third position based on mean contribution other sources of revenue; the contribution of income tax to total revenue was 8.84 percent. It may enhance the revenue of government, promote to distribute justice and encourage private sector investment. Nepalese government expenditure is increasing at the faster rate than the increase in revenue the resource gap has existed in Nepalese economy and it is increasing trend, tax/GDP ratio of Nepal is found satisfactory, the exemption limit is not satisfactory. He has made the specific suggestion for a sound and effective income tax system. They were establishment, promotion and reward system to efficient and honest tax personnel, increasing public participation to minimize the tax evasion, strict action against corruption, income tax, rules, and regulation should be clear and simple.

**Mr. Khomraj Koirala (2005)**, has described about “**Effectiveness of Advance Taxation on income tax generation in Nepal**”. The objectives of his study were: To evaluate the feasibility and effectiveness of advance taxation on income tax and overall revenue generation in Nepal, to examine the current position of advance taxation in Nepal. He has found that advance taxation is also one of the tax assessing and tax collecting procedure as per Income Tax Act 2007. Income Tax Act 2002 has absolutely embraced the self assessment system abolishing existing assessment system. Small tax payers are imposed tax on the presumptive system. This Act has made provision of amended assessment to adjust the assessed person’s liability to tax. Main source of advance tax is the corporate sector that carries more than 80% of the advance tax and the individual sector carries less than 20% of the advance tax on total advance tax collection.

He has recommended the individual sector should be prompted to pay the advance tax, the corporate sector should be encouraged to pay the advance tax by providing tax incentives., the administration, tax law and provision need to be very simple and clear so it should be amended unclear and some contradictorily provisions as far as possible, government should give the strong attention to impose the existing law rules and policy. He further added various types of problems that the employees faced while paying remuneration tax. So the problems faced by employees should be minimize.

**Mr. Sushil Kumar Dahal (2005)**, has studied a study entitled “**An Analysis of Income Tax and It’s contribution to government revenue in Nepal**” with the objectives of analyzing contribution of income tax and volume of indirect and direct tax, examining the effectiveness of income tax revenue collection, knowing view of tax payer tax experts and tax officers about various aspects of income tax and to recommend possible measures.

His major findings are: There is dominant role of tax revenue in Nepalese government revenue, but is in decreasing trend. It was 85.2 percent in 1982/83 and is 78.0 percent in 2001/02. Average contribution of direct and

indirect tax in his study period is 20.63 percent and 79.40 percent respectively. The resource gap is in increasing trend and tax GDP ratio is not found satisfactory. Income tax is the important source of internal revenue and occupies third position after costume duty and VAT. He has found income tax from individuals to be occupying first position but with decreasing trend. He has also stated that mass poverty and low income level, increasing habit of tax evasion, inefficient income tax administration are the major reasons for low contribution of income tax and lengthy process, vague provisions of income tax laws consuming unnecessary time, lack of awareness are major problems facing by tax payers.

He has made some recommendations. Tax ratio should be gradually increased to adopt principle of ability; Income tax policy should be timely revised by income tax experts following economic policy of nation; Income tax rules and regulation should be clear and simple; rate of fines and penalties should be increased; a research and intelligence centre should be established in each tax office, tax personnel and tax payers should be encouraged as well as punished for their works; separate income tax department should be established; income tax net should be broad by bringing house and land rent, doctors' clinic, consultancy service, tuition, research etc into income tax net are the major recommendations made by him.

**Mr Jhalak Mani Lamsal (2005)**, has presented a dissertation entitled **“Effectiveness of Remuneration Tax in Nepal.”** The objectives of his study were: to identify the major problems and weakness of remuneration tax in Nepal, to check out the, major facilities and benefits provides by Income Tax Act 2058 on the remuneration tax. He has found that contribution of remuneration tax in total income tax revenue of Nepal has not been found satisfactory due to unfair and weak administration, complexity in income tax policy, rules and regulation, no provision of educating any expenditure, it is high burden of tax on low level income earners. He has also found that

current exemption limit for the senior and disable citizen should not be necessarily more than that of other citizen.

**Mr. Rama Kanta Subedi (2007)**, has conducted a study an **“Employment income tax system of Nepal and it's contribution to revenue collection”**. This study was based on the provision made in taxation policy and contribution of employment income tax to total revenue, total tax revenue, total direct tax revenue and income tax revenue of Nepal. Specially the study was based on secondary data. According to him Income tax from employment has been increasing every year. It occupied 7.96% in an average to total income tax. The amount of remuneration tax is ranged from minimum of Rs.56700 thousand to maximum of Rs.1675900 thousand in the fiscal year 2049/050 and 2061/062 respectively. The result of coefficient of variation shows that the remuneration income tax collected in Nepal has higher deviation in rising way over the study period.

He further wrote that employment income tax has positive correlation toward total revenue, total tax revenue, direct tax revenue and income tax revenue. Its average contribution during the study period was 1.17%, 1.42%, 6.23% and 7.96% respectively to total revenue, total tax revenue, direct tax revenue and income tax revenue, which shows that the share of employment income tax has very insignificant role on total revenue and total tax revenue. This study was suggesting the government to classify the tax exemption limit according to the income of individual and make it proportional to the size of family that can encourage more people to pay the tax.

**Ms. Laxmi Devi Bashyal (2008)**, conducted a study on **“Impact of Income Tax in National Revenue.”** This study focused the contribution of income tax in national revenue before and after enactment of Income Tax Act 2058. It analyzed the composition of income tax revenue from different sources and concluded the part of national revenue occupied by income tax and its trend.

She has recommended that the role of income tax from public enterprises is significant. It has contributed 22.2% to total income tax in

average. The share of income tax from private corporate bodies is 17.2% is average. Income tax from public enterprises has mostly effected. Its contribution was 2928.0 million in 2000/01 and is unable to meet the record again. It declined to 1769.3 and 1251 for first two years of new act. She has also wrote that Income tax from remuneration was 54.7 million in 1991/92 and reached to 2007.9 million in 2006/07 with regular growth. Its share in total income tax is also positive and is highest year of 2005/06 i.e. 17.0%. At last she concluded that performance of income tax before and after new act seems not regular. The new income tax act is introduced on 2001/02 and total income tax has first time declined by 210.3 million and by -2.3% that year. It further decreased by 937.5 million and -10.5% for FY 2002/03.

**Ms. Krishna Sharma (2008)**, has conducted a study on **“The contribution of corporate income tax in government revenue and its impacts to fulfilling resource gap.”** She discussed about the problem of resource gap in Nepal, trend of corporate income tax in government revenue, problems in income tax administration and so on. She wrote that income tax has been considered as suitable source for the mobilizing internal resources. It can be used as a positive instrument to boost government revenue collection, to develop the economic conditions of Nepalese people and promote distribute justice and to cure resource gap problem.

She further discussed that Corporate income tax revenue (CITR) portion in income tax revenue was 62.22% of maximum in 1995/96 which was gradually decreased to 44.95% of lowest in FY 2002/03 and it was 50.97% in FY 2004/05. On average, CITR had contributed 55.36% to income to income tax revenue. This shows that CITR occupied major portion in income tax. But the massive fluctuation in CITR collection and its percentage contribution was due to the effect of unfriendly political and economic environment and lack of developing competency by public and private sector.

Beside these books reports and articles published in different newspapers and magazines and government publication such as budget



speech, economic survey national plan etc. were reviewed during the study period.

After reviewing the above thesis, it is found that various studies have been done on the field to taxation. Here the researcher has tried to highlighted about the reform of Employment tax in Nepal as well as it's contribution to the national revenue. The main focus of the study is current provisions of income tax from employment in Nepal, Furthermore it tries to examine tax administration system and suggest some specific measures to increase the no. of employment tax payers in Nepal. However, the study is not sufficient to analyze the employment income tax system of Nepal. Therefore, the study will be able to prove its own validity on the selected subject matter.

## **CHAPTER III**

### **RESEARCH METHODOLOGY**

This chapter is concerned with the procedures that are adopted in the research work. It is the road map of every research work whether scientific or applied research. It suggests every researcher to get the easy and efficient destination achievement stated in research objectives. There are eight sub-chapter of research methodology which are as below.

#### **3.1 Research Design**

A Research Design is a overall framework or plan for the activities to be under taken during the course of a research study. In other words research design is a plan, structure and strategy of investigation to find the answer of research questions. The study is designed within the framework of below research design.

##### **a. Historical Research Design**

The data and information of the study are concern with past phenomena of the performance. Past trend as well as development of the events are used for the purpose of study. The study show the relevance of past events with present situation.

##### **b. Descriptive Research Design**

It is conducted to assess the opinions, behaviours or characteristics of a population or sample to describe the situations and events occurring at present based on accumulated facts.

**c. Analytical Research Design**

In analytical research, uses of the facts and the information already available and analyzes to make a critical evaluaon of the materials. Analytical research has been carried out in terms of Employment tax, Total Tax and Total income Tax of the national revenue.

**3.2 Population and sampling**

Sampling is a process of selecting or taking representing units from among the population or universe. To fulfill the objectives of the study. 50 sample size is selected from different denomination. Persons included in the sample are carefully selected from Tax Advocate, Tax Expert, Auditor, Tax administrator and so on. The responses have been divided into two groups. The following table shows the groups of respondents and size of the sample.

**Table 3.1**  
**Groups of Respondents and Sample Size**

S.No.	Groups of Respondents	Sample size	Code
1.	Tax Practitioners	25	A
2.	Tax Payers	25	B
	Total	50	

**3.3 Nature and Sources of Data**

The study is based on both primary and secondary data.

**a. Primary Data**

The primary data of this study is opinions of some Tax practitioners and Tax payers from Kathmandu and Pokhara Valley. The primary data for this study is collected through questionnaire method with the selected persons included in the purposive sample.

## **b. Secondary Data**

Secondary sources is the major sources of data required for the research study. The required data and information is collected from various sources as below:

- ) Annual reports of IRD of different years.
- ) Budget speech, Economic surveys of various years, MOF of Nepal.
- ) Books related to income tax and public finance.
- ) Dissertations related to income tax.
- ) National news papers, journals and magazines.
- ) Websites of different organizations etc.

The secondary data from fiscal year 2058/59 to fiscal year 2065/66 is used in the study.

## **3.4 Selection of Respondents**

As per the subject matter, a set of questionnaire had been developed and distributed to two groups of respondents i.e. Tax practitioners and Tax payer. Tax practitioners comprises of character Accountants, Auditors, policy makers of IRD, some Tax Experts and legal advisor of income Tax, Tax payers comprises employees working in various organizations like banks, government office, manufacturing organizations and other private organizations were contacted for the opinions regarding various aspects of employment income.

## **3.5 Data Collection Procedures**

Necessary data for this study were collected from following procedures.

### **a. Questionnaire Method**

It is a format list of question designed to gather responses from respondents on a given topic. Structured questions and descriptive questions with ranking are design to get the response.

#### **b. Historical Data record Method**

Historical data are collected from reliable sources as different books, Annual reports, magazines, newspapers from different offices, libraries, bookstalls and different companies. Previous data, which has used by other partly are also useful for this study.

### **3.6 Data Processing and Analysis Procedures**

Information received from primary and secondary sources are first tabulated into separate format systematically in order to achieve the desired objectives. Then it is tabulated into various table according to the subject in order. Then simple statistical tools such as percentage, average, correlation, forecasting, chi-square test etc done. Available data has been presented in descriptive way. In primary data analysis, some Hypothesis has been tested to know whether there is significant different or not between the opinion of tax practitioners and tax payers.

### **3.7 Weight of the choice**

A set of questionnaire based either for a Yes/No response or for ranking the choice according to number of alternatives. For collecting opinion through alternatives, for collecting opinion through alternatives, we have prioritize first choice was most important and the last choice was least important. The total points got by each alternatives were converted into percentage of total points available to the all alternatives. The alternatives with the highest percentage has been ranked as most important and the alternative with lowest percentage has been ranked as the least important. For example, if there is five alternatives, the most important ranked by the respondents get five points and the least important alternative ranked by the respondents gets one points. The alternative, which is not ranked, doesn't get any points.

### 3.8 Presentation and Analysis Tools

Various tools are applied while conducting this study, which are as follows:

#### a. Statistical Tables

Various tables are formulated to tabulate the data according to the subject matter and master table is also presented in Appendix-I.

#### b. Charts, diagrams and graphs

These tools are used for visually description of the data. Trend line, bar diagrams, pie charts etc is used for this purpose.

#### c. Percentage

It measures the proportion of one unit among the whole units. It helps to find out the actual contribution of each units among total contributions. Thus percentage is expressed as:

$$\text{Percentage (\%)} = \frac{\text{obtained value}}{\text{Total value}} \times 100$$

#### d. Arithmetic Mean $\bar{x}$ :

Arithmetic mean is a set of observations is the sum of all the observation divided by the number of observations. It is also known as arithmetic average. Specially it is applied to compare the composition of income tax of Nepal over the study period. It is expressed as:

$$\text{Arithmetic Mean } \bar{x} = \frac{\sum x}{n}$$

Where  $\sum x$  = sum of the values

$n$  = no. of observations.

#### e. Forecasting

Forecasting means estimation of future, which is uncertain. We have forecasted the employment tax for coming five years by least square method for this study.

**f. Correlation coefficient**

The measure of correlation called the 'correlation coefficient' summarizes in our figure, the degree and direction of movement. It helps to find out the degree of relationship between two or more variables. For this study we have used this tools to calculate degree of relationship between employment tax with Total Tax and Total income tax. Which expressed as:

$$\text{Correlation coefficient } (\hat{r}) = \frac{n \sum uv}{\sqrt{\sum u^2} \sqrt{\sum v^2}}$$

Where : n = no. of observations

u = Deviated value of one variable (x)

v = Deviated value of other variable (y)

**g. Rank Correlation**

The degree of relationship between two variables with respect to their respective ranks is known as "Rank Correlation Coefficient." We have using this tools to calculate the degree of relationship between Tax practitioners and Tax payers regarding the opinion of subject matter. Which is expressed as:

$$\text{Rank Correlation } (\hat{r}) = 1 - \frac{6 \sum d^2}{n^3 - n}$$

Where : d = different between two sets of ranks

n = no. of pair of observations.

**h. Regression Analysis**

Regression analysis is used as a tool of determining the strength of relationship between two variables. With the help of which, we can estimate or predict the value of one variable when the value of other variable is known.

The Regression equation of y on x is given by:

$$y = a + bx$$

Where : y = dependent variable

x = independent variable.

a = constants to find out the position of line completely.

b = Slope i.e. change in y per unit change in x.

**i. Chi-square test ( $\chi^2$ )**

Chi-square test is applied to such frequency of occurrence as against the expected ones without reference to population parameters, which were being done earlier in significance testing. The quantity of  $\chi^2$  describes the magnitude of the discrepancy between theory and observations. In this study, we used  $\chi^2$ -test in significance testing between Tax practitioners and Tax payers regarding their opinions. It is defined as:

$$\chi^2\text{-test} = \frac{\sum \frac{(O - E)^2}{E}}$$

Where : O = Observed frequencies

E = Expected frequencies



## **CHAPTER IV**

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

This chapter is devoted to the analysis and presentation of primary and secondary data. Data obtained from economic and questionnaire survey have been tabulated and presented into various table, charts, graphs and analyzed to reach the findings. This chapter is undertaken as per the objectives of the study.

#### **4.1 Current Provisions of employment tax system**

The first objective of the study is to analyzed the current provision made for income from employment, which is presented below.

##### **4.1.1. Amounts included in Remuneration**

All the amounts or benefits received in connection with employment are taxable. As per section 8 (2) while calculating an employee's income from employment for an income year, the following payments made to the employee by the employer during the year will be included:

- a. Payments of wages, salary, leave pay, fees, commissions, prizes, gifts, bonuses and other facilities.
- b. Payment of any personal allowance, including any cost of living subsistence, rest, entertainment and transportation allowances.
- c. Payments providing any discharge or reimbursement of costs incurred by the individual or an associate of the individual.
- d. Payments for the individual's agreement to any conditions of the employment.
- e. Payments for redundancy or loss or termination of the employment.

- f. Retirement contributions (i.e. provident fund, gratuity etc.) including those paid by the employer to a retirement fund in respect of the employee, and retirement payments.
- g. Other payments made in respect of the employment and
- h. Other quantified perquisites:
  - i. Availability of motor vehicle wholly or partly for private purpose.
    - \* 0.5% of salary in case of employees
    - \* 1% of market value of vehicle in case of other (i.e. consultant).

However, it is important to note that 'motor vehicle' includes motor, car, jeep or similar other motor vehicle. This means motor cycle, cycle, joint bus facilities do not fall under the definition of motor vehicle facility. Similarly, the use of vehicle only to come office and back home has been treated as a partial use.

- ii. Provision of house to employees:
  - \* 2% of salary in case of employees
  - \* 25% of actual rent (in case of leased buildings) or prevailing rate (in case of own building) in case of other (i.e. consultant).

Here, salary includes basic salary plus annual increments but not other allowances and benefits.

- iii. Payments consisting of the provision of the following facilities, the amounts of expenses incurred by the employer in making the provision as reduced by any contribution made by the employer towards the provision.
  - \* The services of a housekeeper, chauffeur (driver), gardener or other domestic assistant.
  - \* Any meal, refreshment or entertainment.
  - \* Drinking water, electricity, telephone and the like utilities in respect of the employees place of residence.

- iv. In case where the interest paid by the employee during the year under the loan is lower than the interest to be paid as per the prevailing interest rate, the amount to the extent it is lower.

#### **4.1.2 Amounts excluded from Remuneration**

While calculating the employment income tax of a natural person, the following incomes are excluded from the consideration.

- a. Amounts exempt from income tax under section 10.
  - i. Amount derived by a person entitled to privileges under a bilateral treaty concluded between government of Nepal and foreign country or an international organization.
  - ii. Amounts derived by an individual from employment in the public service of the government of a foreign country provided that:
    - ) The individual is a resident person solely by reason of performing the employment or is a non-resident person and
    - ) The amounts are payable from the public fund of the country.
  - iii. Amounts derived from the public fund of the foreign country by an individual who is not a citizen of Nepal or by a member of immediate family of the individual.
  - iv. Amounts derived by an individual from employment who is not a citizen of Nepal in terms of tax-exemption by the government of Nepal.
  - v. Allowances paid by the Government of Nepal to widows, elder citizens or disabled individuals.
  - vi. Amounts derived by way of gifts, bequest, inheritance or scholarship except as required to be included in calculating income from business employment or investment.
  - vii. Amounts derived by an exempt organization by way of :
    - ) Gifts

) Other contributions that directly related to the exempt organizations functions whether or not the contribution is made in return for consideration provided by the organization

) Amounts derived by Nepal Rastra Bank as per its objectives.

viii. Pension received by a Nepali citizen retired for the army or police service of a foreign country provided the amounts are payable from the public fund of that country,

A. Final withholding payments under section 92.

B. Meals and refreshments provided to employees at business premises / work site if provided to all employees under equal terms section 8 (3).

C. Settlement by or reimbursement to an employee of expenses incurred solely for the purpose of business section 8 (3).

D. Payments by the employer for petty expenses relating to tea expenses, stationeries, tips prizes and emergency medical treatment up to Rs.500 at a time whose accounting is not practical or administratively difficult section 8 (3).

E. Other amounts: As per a notification published by IRD in Kantipur on 05<sup>th</sup> July. 2002 and also as per Rule 20(6), all amounts exempt from tax under ITA, 2031 which accrued prior to the Act coming into force will remain exempt from tax even if payments is made after Chaitra 18, 2058. So, the following amounts seem to be exempted from tax.

i. Encashment of anavailed (accumulated) leave accrued before chaitra 19, 2058.

ii. Payments up to Rs.180,000 as medical expenses at the time of refreshment to employees who where in employment when Act came into force.

- iii. Provident fund including interest accrued before chaitra 19, 2058. However, the interest earned on the exempt amount after chaitra 18, 2058 will be taxable.
- iv. Gratuity accrued before Chaitra 19, 2058.
- v. Amounts deposited with CIT including interest accrued before chaitra 19, 2058. However, the interest earned on the exempt amount after Chaitra 18, 2058 will be taxable.

#### **4.1.3 Allowable Reductions**

The following payments are allowed for reduction from the total assessable income of an individual:

- a. **Retirement contributions to an Approved fund (sec. 63):** Citizen investment Trust and provident fund are recognized institution for the deposit of retirement fund. Under sec 63 of ITA 2058, Contribution to an approved retirement fund, subject to capping threshold, set out in the Income Tax Rules, 2059, will be deductible for the income tax purpose. The limit prescribed by Rule 21, in an income year is Rs.300,000 or one third of assessable income whichever is lower. Retirement contribution to unapproved fund is not eligible for reduction.
- b. **Donation (sec 12):** Donation to an approved exempt organization is deductible up to a maximum of Rs.1000,000 or 5% of taxable income after retirement benefits or actual which ever is lower. However, the Government of Nepal may prescribe, by a notification in the Nepal Gazette, as to allow full or partial deduction at the time of assessing income of the expense incurred for special purpose or donation given by the person.
- c. **Life Insurance Premium:** The income Tax Act, 2058 has specified to deduct life insurance premium from taxable income. The limit

prescribed finance Act, 2066 is 7% of insured sum or maximum Rs.10,000 or actual which ever is lower.

#### 4.1.4 Exemptions

The income Tax Act, 2058 has prescribed to deduct basis exemption from their taxable income. The limit for the resident individual, couple or family is different according to fiscal year, that's why the exemption limits of different years are mentain in below table.

**Table 4.1**  
**Exemption limits**

**(in Rs.)**

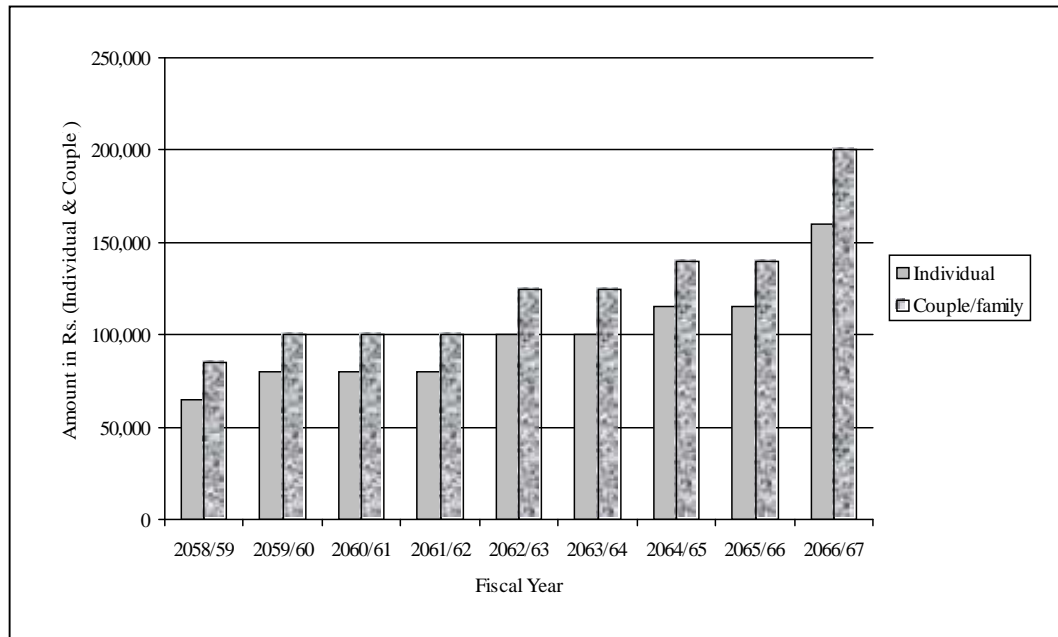
<b>Fiscal Year</b>	<b>Individual</b>	<b>Couple/family</b>
2036/37 to 2037/38	7,500	10,000
2038/39 to 2039/40	10,000	15,000
2040/41 to 2046/47	15,000	20,000
2047/48 to 2048/49	20,000	30,000
2049/50 to 2053/54	25,000	35,000
2054/55	30,000	40,000
2055/56	40,000	50,000
2056/57	50,000	60,000
2057/58	55,000	75,000
2058/59	65,000	85,000
2059/60 to 2061/62	80,000	100,000
2062/63 to 2063/64	100,000	125,000
2064/65 to 2065/66	115,000	140,000
2066/67	160,000	200,000

**Source:** Fiscal Acts of various year, ministry finance, Government of Nepal.

There was only one exemption limit for all taxpayers until 2023/24 Bs. After that, the taxpayers were categorized into individual and couple/family. All unmarried divorced or separated natural persons deriving employment income are treated as an individual. similarly, married having or not having any child are treated as couple/family.

However we can present the such Exemption limits form fiscal year 2058/59 to till now in below multiple bar diagram.

**Figure 4.1**  
**Exemption limit of Nepal in multiple Bar Diagram**



Under, Income Tax Act, 2058 each natural person is treated as a single. In order to assess income tax as a couple, the taxpayer and his/her spouse must notify IRD in writing. Until and unless the couple elects to be treated as couple, they should be treated as singles. The widow or the person losing their spouse with dependents should be treated as couples. But without dependents they should be treated as singles.

The Taxable income of non-resident individual is taxed at the rate of 25% because they have no exemption limits. An individual having pension income is entitled to 25% additional basic exemption. A disable natural individual is entitled to 50% of basic exemption as an additional exemption. Similarly, 75% of foreign allowance received by a Nepalese diplomat is exempt from tax, which should be posted outside Nepal.

#### **4.1.5 Remote Area Allowance**

The districts or places which indicate remote area are published in Nepal Gazette and can be amended as per notification published by the IRD of Nepal. As per our ITA 2058, there is five category of A,B,C,D and E according to our geographical structure, which facilitate us for additional exemption upto Rs.30,000 is available for individual working in remote parts of Nepal. In case an individual works in Remote Area A, B, C, D and E, an additional exemption of Rs.30,000, Rs.24,000, Rs.18,000, Rs.12,000 and Rs.6000 respectively will be granted to the individuals.

#### **4.1.6 Tax Rates**

ITA, 2031 and earlier income tax laws had not specified the tax rates and Fiscal Act used to specify the tax rates for each income year. Unlike earlier income tax laws, ITA, 2058 has specified the tax rates applicable to different taxpayers in Table 4.2. Tax rates differ in structure and income in terms of percentage depending on whether the taxpayers is an individual or an entity.

The tax rates for single individuals and couple have a progressive three-tier structure. First, a basic exemption threshold was remains tax free before fiscal Act 2066/67, but it is taxed at the rate of 1%, representing the taxpayer basic living amount. Second, after the exemption threshold, the middle part of the taxable income is taxed at the rate of 15%. Third, the part of the income exceeding a certain upper limit or ceiling of income is taxed at the highest rate of 25%. The amounts of the basic exemption threshold, the middle part of the income and the upper limit vary depending on whether the tax payer is taxed as a single individual or a couple. In fiscal year 2062/063, there was extra 1.5% tax in spite of previous special fees for an employees on their 25% taxed income.



**Table 4.2**  
**Basic tax rates for an income-year 2066/67**

Individual	Couple	Tax Rate
1 <sup>st</sup> 160,000	1 <sup>st</sup> Rs200,000	1%
Next Rs.100,000	Next Rs. 100,000	15%
Balance	Balance	25%

Source: 05<sup>th</sup> April, 2010. <[http://www.ird.gov.np/information.php?C=Income % 20 Tax](http://www.ird.gov.np/information.php?C=Income%20Tax)>

An individual engaged in a special industry or export business is taxed at 20% instead of 25% on his/her upper limit. The resident couple are normally taxed as two single individuals. A resident individual and the resident spouse of the individual may elect to be treated as a couple under section 50 of the act.

A specific relief is provided for resident individual taxpayers running a small business. If such taxpayers have income exclusively from a business having a source in Nepal, income and annual turn over do not exceed Rs.150,000 and Rs.1500,000 respectively and if they elect to apply this provision for the year, they are imposed a fixed amount depending on the area where the business is conducted. The annual tax will be as follows:

Metropolitan or Sub-metropolitan cities	Rs. 2000
Municipalities	Rs. 1500
Any where else in Nepal	Rs. 1000

The tax applicable to public transport is as follows:

**Table 4.3**  
**Tax applicable to Public Transport**

Types of vehicle	Annual tax per vehicle (Rs)
a) Minibus, mini trucks, bus	1500
b) car, jeep, van, micro bus	1200
c) Three wheeler, Auto Rickshaw, Tempo	850
d) Tractor and power Tiller	750

Source: Fiscal Act, 2066.

**Figure 4.2**

**Annual tax rates for public transport in Single Bar Diagram**

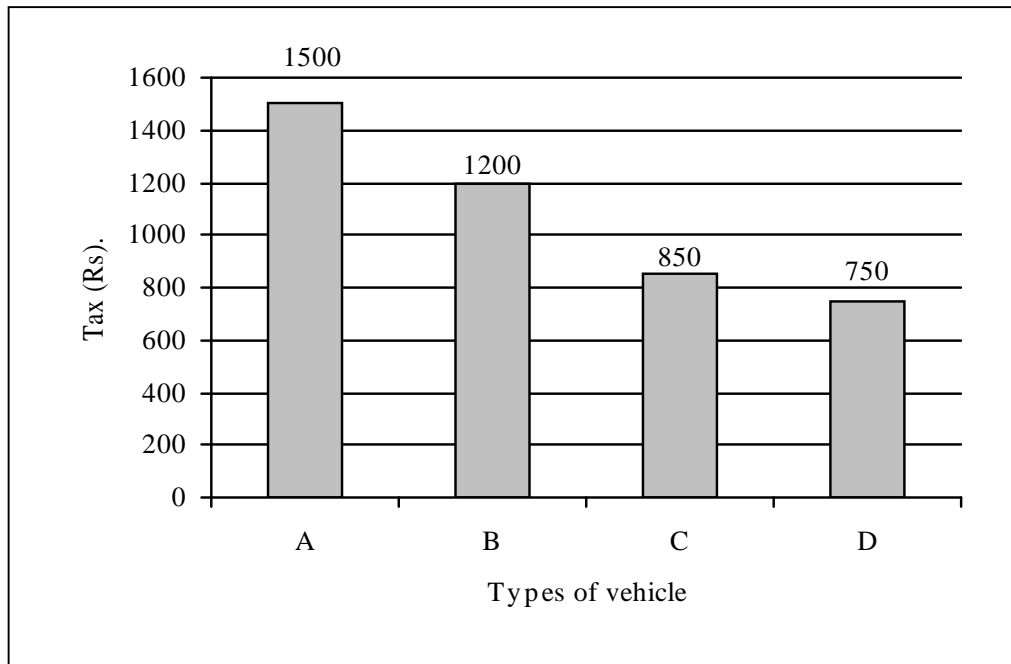


Fig: Tax applicable to public transport.

In above figure x-axis refers types of vehicle and y-axis refers Tax in Rs. and A,B,C,D and E are the types of vehicle as per table 4.3.

If the owner is a natural person, the tax will be final.

Gain from the disposed of non business chargeable assets i.e. obtained in the course private activity, are taxed at the rate of 10%. Gain derived in the course of business and interest are part of the business or investment income and taxed accordingly. If an individual has only gain from non-business chargeable assets, then taxed will be as follows.

I <sup>st</sup> Rs.160000 (Rs.200000 for couple)	1%
Balance	10%

If an individual has also other taxable income, then the greater of the following two is taxed at the rates applicable to an individual and balance is taxed at the rate of 10%.

Increment an exemption limit and tax rates is not strictly based on inflection. It is on random basis. Above the exemption limit of individual

income, different tax rates are imposed for different slabs. The following table shows the personal income tax rates in Nepal.

**Table 4.4**  
**Tax rates of personal income over exemption limit**

Fiscal Year	Rates and slabs (over Exemption limit in Rs)							
	1	2	3	4	5	6	7	8
2042/043 to 2046/47	5000 10%	5000 15%	10000 10%	15000 25%	15000 30%	30000% 40%	200000 50%	Balance 55%
2047/48 to 2051/52	10000 15%	15000 20%	20000 35%	25000 40%	30000 45%	Balance 50%		
2052/53 to 2056/57	40000 10%	25000 20%	Balance 25%					
2057/58 to 2063/64	75000 15%	Balance 25%						
2064/65 to 2065/66	85000 15%	Balance 25%						
2066/67	100000 15%	Balance 25%						

*Source* : Fiscal Act of various year, ministry of Finance, Government of Nepal.

From the above table, we can evaluate that the slabs over exemption limit was in decreasing ratio in comparisons of previous year. But it was fixed on only two slabs after implementation of ITA, 2058. Same the way, there was a variation in Tax rates according to slabs, it was in increasing trend as per step of slabs. Which was the main feature of previous ITA 2031, that mean the higher earner must pay the higher amount tax as well as higher tax rate also. But after the fiscal year 2057/58 there is only two slabs and the tax rate are 15% and 25% respectively, which is continue till now.

#### **4.1.7 Medical Tax credit**

As per Income Tax Act, 2058 section 51(1) medical expenses incurred for a resident individual can be claimed for tax offset. claim to be adjusted in a year will be 15% of the eligible medical expenses plus any amounts carried forward in respect thereof from the previous year. Maximum amount that can be claimed in an income year will not exceed Rs.750 as per Rule17.

The eligible medical expenses includes health insurance premium and the expenses as per bills of treatment from recognized hospital, nurshing

home, health centre or a doctor. However, the eligible medical expenses incurred on cosmetic surgery and medical expenses compensated by the insurance company.

#### **4.1.8 Assessment of income from employment (Format)**

ITA, 2058 has treated every assessment as self assessment. Even if a person fails to file a return by the due date, the person is treated to have made an assessment on the due date for filing the return and his assessed tax for the year will be equal to the sum of the tax withheld and tax paid in installment. The Department may then, proceed for an amended assessment. Tax on employees remuneration is levied on source. The employer should deduct required amount of tax from the salary and benefits of concerned employee on monthly basis and deposit to concerned department within the 15 days of deduction. At the end of the year, the employee or the organization assessed total taxable remuneration. It should be filled in the format as specified by the IRD. The specimen for the assessment of income from employment is presented in below table.

**Table 4.5****Assessment of income from employment as per income tax Act, 2058**

S.N.	Particulars	Rs.	Rs.
1.	Salary and wages (8.2)	xxx	
2.	Leave pay (8.2)	xxx	
3.	Pay for overtime (8.2)	xxx	
4.	Fees (8.2)	xxx	
5.	Prize and gifts related to employment (8.2)	xxx	
6.	Bonus (8.2)	xxx	
7.	Other facilities (8.2)	xxx	
8.	Commission (8.2)	xxx	
9.	Dearness allowances (8.2)	xxx	
10.	Cost of living subsistence (8.2)	xxx	
11.	Rent (8.2)	xxx	
12.	Entertainment and transportation allowance (8.2)	xxx	
13.	Other personal allowances (8.2)	xxx	
14.	Reimbursement of personal expenses (8.2)	xxx	
15.	Payments for the individual's agreement to any condition regarding employment (8.2)	xxx	
16.	Redundancy or loss related payments (8.2)	xxx	
17.	Other payments made in respects of employment payment (8.2)	xxx	
18.	Retirement payments & contribution to retirement fund (8.2)	xxx	
19.	Amounts of vehicle facility (27.1)	xxx	
20.	Amounts of services of house keeper, chauffeur, gardener or other domestic assistants (27.1)	xxx	
21.	Accommodation facilities (27.1)	xxx	
22.	Any meal, refreshment or entertainment provided by employer. (27.1)	xxx	
23.	Amount of services related to drinking water, electricity, telephones and the like utilities in respect of the payees (27.1)	xxx	
24.	Under paid interest by employee to employer for loan taken by the employee (27.1)	xxx	
25.	Other amounts to be included	xxx	
	Assessable income from employment		###

**Table 4.6**  
**Statement of total taxable income**

S.N.	Particulars	Rs.	Rs.
1.	Assessable income from employment	xxx	
2.	Assessable income from business, if any	xxx	
3.	Assessable income from investment, if any	xxx	
	Total Assessable income		###
	Less: Allowable Reductions:		
	* Retirement contribution (63)	xxx	
	* Donation (12)	xxx	
	* Life insurance premium	xxx	###
	Total taxable income		###

**Table 4.7**  
**Calculations of tax liability**

S.N.	Particulars	Rs.	Rs.
1.	Exemptions (Single / couple) @ 1%	xxx	
2.	First Rs.100,000 @ 15%	xxx	
3.	Balance Rs ..... @ 25%	xxx	
	Total tax liability		###
	Less: Tax paid in advance	xxx	
	Less: Medical Tax credit	xxx	###
	Net tax payable to Gov <sup>n</sup> .		###

## **4.2 Contribution of employment tax made by tax payers**

Government revenue of Nepal is comprised of different taxes such as custom, excise, sales tax/vat, income tax, land revenue and registration miscellaneous taxes and non-tax revenues. The annual Report of IRD shows that, the contribution of internal revenue to the Total Tax Revenue is 67.56%, 68.53%, 71.51%, 73.96% and 72.63 in F.Y. 2061/62, 062/63, 063/64, 064/65 and 065/66 respectively. As per above figure total contribution of internal Revenue to Total Tax Revenue is upto 73.96% in F.Y 2064/065 which is

maximum contribution for last five fiscal years. In fiscal year 2065/66 it decreased by 1.33% by becoming 72.63%

Likewise, the collection of Total income tax is increasing by 18.66%, 9.9%, 9.16%, 43.36%, 21.27% and 42.82% in fiscal year 2060/61, 062/63, 063/64, 064/65 and 065/66 respectively It shows that the government has success to collect maximum revenue in fiscal year 2063/064 and 2065/66 in comparison of previous years from income tax. The structure of government revenue has been presented in below table. According to below table the structure of Total Tax refer the contribution of Total internal Revenue.

**Table 4.8**  
**Contribution of employment tax made by tax payers**

**in thousand**

Fiscal Year	Employment Tax	Total Tax	Total income Tax	% of Employment Tax on Total Tax	% of Employment Tax on Total Income tax
2058/59	834849	25537690	8919680	3.27	9.36
2059/60	1240291	26853422	8059575	4.62	15.39
2060/61	1391522	30920989	9514782	4.50	14.63
2061/62	1676982	36552762	10466226	4.59	16.02
2062/63	1751505	40202336	10933520	4.36	16.02
2063/64	2028857	51541450	15731804	3.94	12.90
2064/65	2294553	62979367	19077813	3.64	12.03
2065/66	3195623	85019150	27246432	3.76	11.73

*Source:* Annual Report of various years, Inland Revenue Department.

From the above table 4.8, which shows the total structure of employment tax, Total tax and total income tax respectively from fiscal year 2058/59 onwards. As per above table. We can concluded that employment tax and total tax is in increasing trend from fiscal year 2058/59. But the total income tax was less in fiscal year 2059/60 in comparison of the previous fiscal year 2058/59 behind this reason some tax expert explain that it is the impact of replacing income tax Act 2031 by new ITA 2058. Because ITA

2058 established with the different income head with its own objectives which effected the above structure of tax. However the total tax structure is in increasing trend till now.

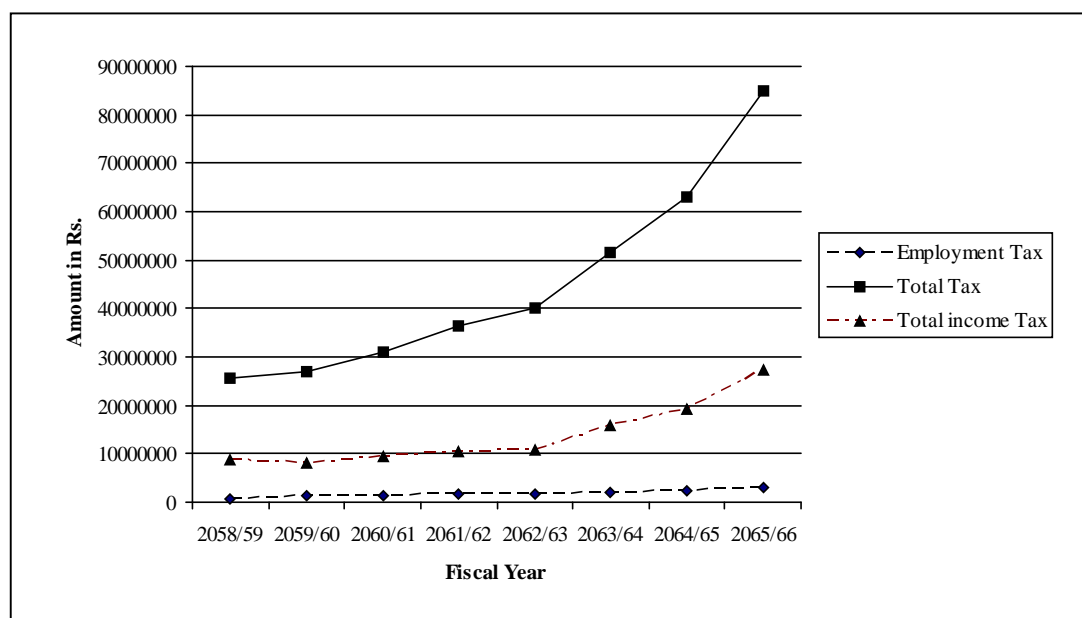
According to the above table we can calculate that the total contribution of employment tax to Total Tax (Total internal revenue) and to Total income Tax. As per above table 4.6 the contribution of employment tax to Total Tax (Total internal revenue) is 3.27%, 4.62%, 4.50%, 4.59%, 4.36% 3.94%, 3.64% and 3.76% in fiscal year 2058/59, 2059/60, 2060/61, 2061/62, 2062/63, 2063/64, 2064/65 and 2065/066 respectively. It shows that the employment tax contribute to total tax 4.09% in an average of last eight fiscal years.

Likewise, the contribution of an employment tax to Total income tax is 9.36%, 15.39%, 14.63%, 16.02%, 16.02%, 12.90%, 12.03% and 11.73% in fiscal year 2058/59, 2059/60, 2060/61, 2061/62, 2062/63, 2063/64, 2064/65 and 2065/066 respectively. Here, the contribution of employment tax is decreasing from fiscal year 062/063. It is also decrease in contribution to Total tax from same fiscal year. It shows that there may be poor tax paying habits of Nepalese tax payers on employment. It conclude the tax payers of employment may not responsible in companion to other sources.

To analysis the trend of employment tax, we can present the above data on below graph.

**Figure 4.3**

**Contribution of employment tax made by tax payers.**





From the above figure it is clear that the trend is in increasing form except the trend line of total income tax on starting year. However it is also in increasing trend after then onwards. Because it was a impact of dividing income in different head on New ITA 2058. From the above figure the trend of total tax is in top position then the trend of total income tax and employment tax in highest position respectively. Because behind this reason Employment tax is the sub-head of total income tax, and all total aggregate figure is total tax. So the above trend is seems to be in steps form.

#### **4.2.1 Forecasting of Employment tax**

In simple sense forecasting, means estimation of future. Future is uncertain that's why forecasting is exist. According to Prof. K.K. Seo" If the future were known with certainty. forecasting would be unnecessary. Decisions called be made and plans formulated on a once and for all basis, without the need for subsequent revision. But uncertainly does exist; future outcomes are rarely assured. There for an organized system of forecasting is often desirable." (Sharma, 2003).

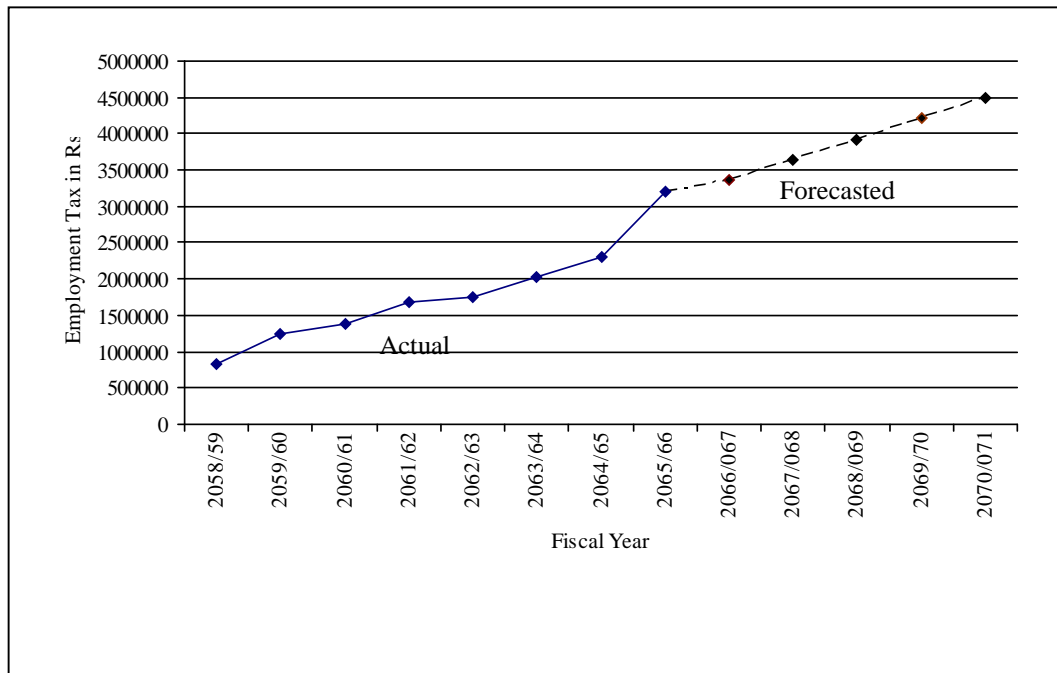
As per the actual structure of Employment Tax of previous eight years we can forecasted below structure of employment tax for coming five years.

**Table 4.9**  
**Forecasting of Employment Tax**

<b>Fiscal Year</b>	<b>Employment Tax</b>
2066/067	Rs.3359010
2067/068	Rs.3642144
2068/069	Rs.3925278
2069/070	Rs.4208412
2070/071	Rs.4491546

*Source:* Appendix - I, Master Table.

**Figure 4.4**  
**Actual and forecasted value of employment tax**



From the above figure, x-axis refers fiscal years and y-axis refers employment tax in Rs. from the above trend Employment tax is increasing every years but the increasing ratio is different we can see, the trend of increasing in fiscal year 2065/066 is maximum in comparison of other year.

#### 4.2.2 Correlation and Regression Analysis

For the better analysis of above data we have to calculate correlation and Regression analysis between Employment tax and Total Tax and Employment tax and Total income Tax.

Two variables are said to have "Correlation", when they are so related that the change in the value of one variable is accompanied by the change in the value of other. The measure of correlation called the 'correlation coefficient' summarizes in one figure, the degree and direction of movement. But the important thing that is to be noted here is that correlated analysis only helps in determining the extent to which the two variable are correlated but it does not tell us about cause and effect relationship. Though, there is a high degree of the correlation between two variables one cannot say which one is

the cause and which one the effect. So, from calculating correlation coefficient, we have to find out the degree of relationship between two or more variables.

On the other hand, literal meaning of regression is stepping or returning back to the original position. The theory of regression analysis was first developed by Sir F. Galton. Regression Analysis is used as a tool of determining the strength of relation between two variables. Thus it is a statistical device, with the help of which, we can estimate or predict the value of one variable when the value of other variable is known. The unknown variable which we have to predict is called dependent variable and variable whose value is known is called independent variable. The analysis used to describe the average relationship between two variables is known as simple linear regression analysis. So that, from calculating Regression we have to find out nature of relationship between two or more variables.

#### **A. Correlation and Regression Analysis between Employment Tax and Total Tax:**

Let, Employment Tax and Total Tax be denoted by  $x$  and  $y$  respectively.

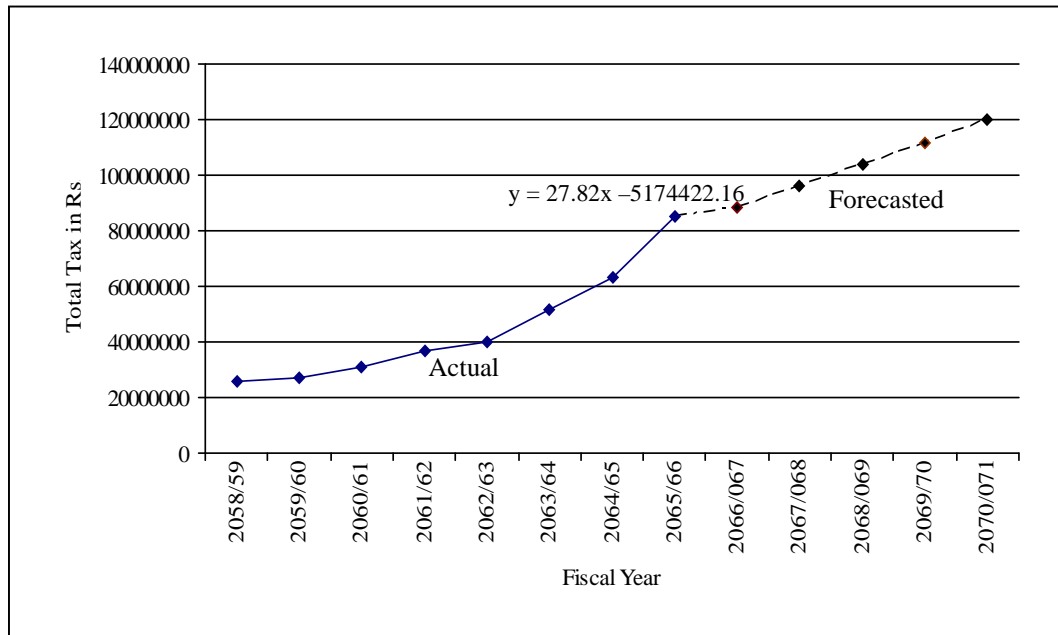
..Correlation ( $r$ ) = 0.979 (Source : Appendix I,b)

Hence,  $r$  is nearer to +1, so there is high degree of positive correlation between Employment Tax ( $x$ ) and Total Tax ( $y$ ).

The regression equation of  $y$  on  $x$  is given by  $y = 27.82x - 5174422.16$   
(Source: Appendix I, b)

Above Regression equation shows the average relationship between two variables employment tax and Total Tax in forecasted value. Which shows the total structure of Total Tax ( $y$ ) on Employment Tax ( $x$ ) for coming fiscal year 2066/67, 2067/68, 2068/69, 2069/70 and 2070/71 are 82273236, 96150024, 104026812, 111903600 and 119780388 thousand rupees respectively. (Appendix I, b).

**Figure 4.5**  
**Trend of Total Tax**



From the above figure 4.5, it shows the trend of Total Tax revenue from F.Y. 2058/59 to next 5 fiscal years 2070/71. As per above figure total tax revenue increasing over the study period, but the ratio of increasing rapidly from F.Y. 2062/63 to F.Y. 2065/66. After F.Y. 2065/66 the trend shows the forecasted value of Total Tax depended on Employment tax (x). However it indicates that the total tax revenue of Nepal is increasing trend over the study period.

**B. Correlation and Regression Analysis between Employment Tax and Total Income Tax**

Let, Employment Tax and Total income Tax be denoted by x and y respectively.

... Correlation (r) = 0.954 (Source : Appendix I, C)

Hence, In above figure r is nearer to +1, so there is high degree of positive correlation between Employment Tax (x) and Total income Tax (y).

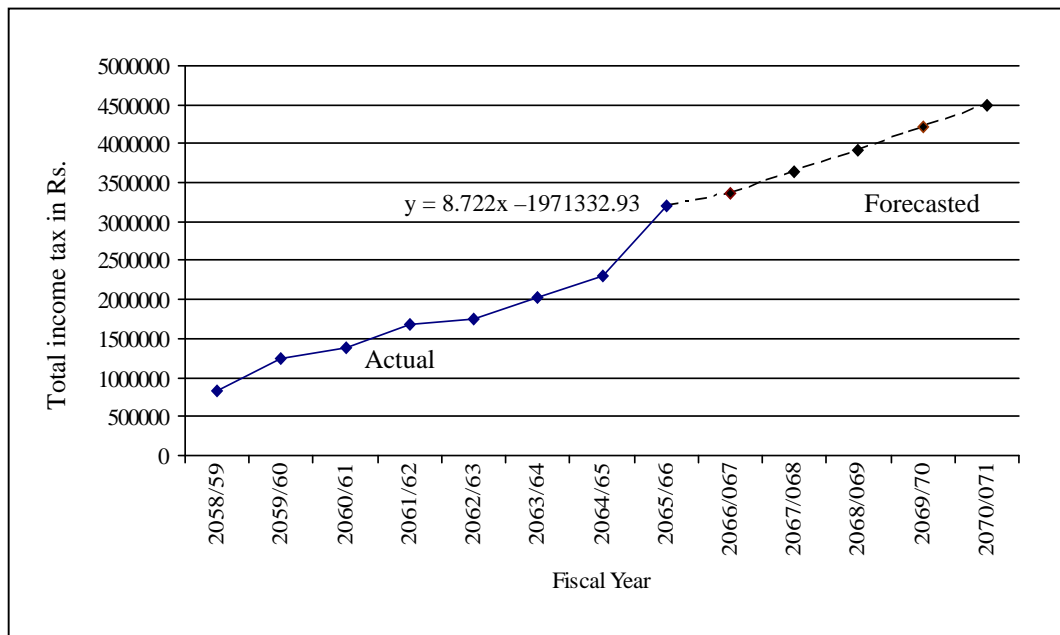
The Regression equation of y on x is given by,

$$y = 8.722x - 1971332.93 \text{ (source : Appendix I, C)}$$

From the above calculation we can say that the trend of total income tax is not in the form of uniformity. Because we can see the total revenue of F.Y. 2059/60 is quite less in comparison of previous year 2058/59. After that it was increasing slowly till fiscal year 2064/65. But in F.Y. 2065/66 the Total income tax increase rapidly. That's why the regression equation also show the forecasted income tax in such way. So, the forecasted income tax for F.Y. 2066/67 is almost equal to previous fiscal year 2065/66 and we have analyze the regression equation of income tax by taking the independent value of employment tax which is also forecasted.

**Figure: 4.6**

**Trend of Total income tax**



From the above figure 4.6, we can conclude that the trend of Total income tax is increasing except in F.Y. 2059/60. According to above figure the ratio of increasing in starting year is very less but it is increasing rapidly from F.Y. 2064/65 to 2065/66. Likewise, the trend of starting year, forecasted value is also minimum, it is almost equal to the contribution of F.Y. 2065/66. However, it is based on employment tax (x). Which depends the regression equation for the total income tax. As per the regression analysis the total contribution of total income tax on Employment Tax will be 27325952,

29795447, 32264942, 34734437 and 37203931 thousand rupees in coming year 2066/67, 2067/68, 2068/69, 2069/70 and 2070/71 respectively. (Appendix-I, C).

### 4.3 Empirical Investigation: Introduction

An empirical investigation has been conducted in order to find out the various aspects of employment tax from the experience of real life situation. The major tool used for this purpose is an opinion survey. For collecting the opinion, a set of 50 questionnaire were distributed into two category i.e Tax practitioner and Tax payer. The responses received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study. The format of questionnaire and the list of respondents are attach here with in Appendix II & III respectively.

The set of questionnaire based either for a Yes/No response or for ranking the choice according to number of alternatives. In collecting opinion through alternatives, we have prioritize first choice was most important and the last choice was least important. Choice were assigned weights according to number of alternatives. If the number of alternatives were nine then the first preferred choice got nine points. Second got eight points, third got seven points and so on. Any alternatives, which was not ranked did not got any points. The total points available to each choice were converted into percentage in reference to the total points available for all choice. The choice with the highest score of percentage was ranked as the most important choice and one with the lowest percentage being ranked as last choice. The following table shows the groups of respondents.

**Table 4.10**  
**Groups of Respondents**

Groups of Respondents	Sample size	Code
Tax Practitioners	25	A
Tax payers	25	B
Total	50	

#### 4.4 Employment tax administration system

To access the employment tax administration system of Nepal, we collected the information through opinion survey from different respondents and from different questions. Which are presented as bellows:

##### 4.4.1 Effectiveness of employment tax administration system of Nepal

To know the respondents opinion about the employment tax administration system, the question, 'In your opinion, How is the employment tax administration system of Nepal?' Was asked with the alternatives of a) effective b) Ineffective. The responses received from the respondents are tabulated as follows.

**Table 4.11**  
**Employment tax administration system of Nepal**

Respondents	Effective		Ineffective		Total	
	No.	%	No.	%	No.	%
Tax practitioners (A)	8	32	17	68	25	100
Tax Payers (B)	-	-	25	100	25	100
Total	8	16	42	84	50	100

Source: Opinion Survey, 2010.

From the above table it has been clear that 84% of the respondents responded in favour of Employment tax administration system of Nepal is ineffective and rest 16% of respondents responded in favour of effective.

Thus, for the better analysis of Employment tax administration system of Nepal, We can test the Hypothesis under Chi-Square ( $x^2$ ) test below:

Formulation of Hypothesis:

Respondents	Effective	Ineffective	Total
Tax practitioners (A)	8	17	25
Tax Payers (B)	0	25	25
Total	8	42	50

**Null Hypothesis (Ho) :** There is no significant different in between Tax practitioner and Tax payers for the opinion regarding effectiveness of employment tax administration system of Nepal.

**Alternative Hypothesis (H<sub>1</sub>) :** There is significant different in between Tax practitioner and Tax payers for the opinion regarding effectiveness of employment tax administrate system of Nepal.

**Test Statistics:**

$$\chi^2\text{-test} = \frac{\sum \frac{(O - E)^2}{E}}{E}$$

**Calculation of Expected Frequency (E) and  $\chi^2$**

Cell	Observed (O)	Expected (E)	(O-E)	(O-E) <sup>2</sup>	$\frac{(O - E)^2}{E}$
(1,1)	8	12.5	-4.5	20.25	1.62
(1,2)	17	12.5	4.5	20.25	1.62
(2,1)	0	12.5	-12.5	156.25	12.5
(2, 2)	25	12.5	12.5	156.25	12.5
	O X50				$\frac{\sum (O - E)^2}{E} = 28.24$

$$\dots E = \frac{O}{n} \times \frac{50}{4} \times 12.5$$

Degree of freedom = (r-1) (c-1) = (2-1) (2-1) = 1×1=1

..Tabulated value of  $\chi^2$  at 5% level of significant for 1 degree of freedom (d.f) is 3.841.

**Decision:** Since  $\chi^2$  calculated (28.24) >  $\chi^2$  tabulated (3.841). Hence Ho is rejected i.e. there is significant different in between Tax practitioner and Tax payers for the opinion regarding effectiveness of employment tax administration system of Nepal.

A supplementary question was asked to the respondents to suggest the main causes of ineffectiveness of tax administration system. The responses received from the respondents are listed as bellows.



**Table 4.12**  
**Causes of ineffectiveness of employment tax administration**  
**system of Nepal**

S.N.	Causes	Weight		Total Weight	Percentage	Rank
		A	B			
1.	Lack of trained and competent tax personnel	102	173	275	20.03	1
2.	Complicated tax laws	70	150	220	16.01	2
3.	Lack of proper communication	54	105	159	11.58	4
4.	Lack of proper direction	62	78	140	10.20	6
5.	Under delay in making assessment	55	78	133	9.69	7
6.	Unnecessary outside pressure	43	65	108	7.87	8
7.	Lack of co-ordination	54	103	157	11.43	5
8.	Inadequate economic policy	81	100	181	13.18	3
	Total			1373	100	

*Source:* Opinion Survey, 2010

The main causes of ineffectiveness of employment tax administration system ranked in order of preference of respondents are given as below.

- i) Lack of trained and competent tax personnel
- ii) Complicated tax laws.
- iii) Inadequate economic policy.
- iv) Lack of proper communication.
- v) Lack of co-ordination.
- vi) Lack of proper direction.
- vii) Undue delay in making assessment.
- viii) Unnecessary outside pressure.

Some of the respondents stated other causes, which are corruption, punishment system, biased reward system etc.

#### **4.4.2 Problems in paying employment income tax:**

In order to know the employment tax administration system. We issues a question 'Did you feel any problem in paying employment income tax?'. The

responses received from respondents in two alternative yes or No, which is tabulated as below.

**Table 4.13**

**Problems in paying employment income tax**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax practitioners (A)	13	52	12	48	25	100
Tax Payers (B)	15	60	10	40	25	100
Total	28	56	22	44	50	100

Source: Opinion Survey, 2010

From the above table, it is clear that 56% of respondents responses on Yes alternative and 44% of respondents responses on No alternative.

**Formulation of Hypothesis:**

Respondents	Effective	Ineffective	Total
Tax practitioners (A)	13	12	25
Tax Payers (B)	15	10	25
Total	28	22	50

**Null Hypothesis (H<sub>0</sub>) :** There is no significant different on opinion regarding problems in paying employment tax between Tax practitioners and Tax payers.

**Alternative Hypothesis (H<sub>1</sub>) :** There is significant different on opinion reading problems in paying employment tax between tax practitioners and tax payers.

Test statistics :

$$\chi^2 - \text{test} = \frac{(ad - bc)^2}{(a+b)(c+d)(a+c)(b+d)} \cdot \frac{a+b+c+d}{n}$$

$$= \frac{(13 \cdot 10 - 15 \cdot 12)^2}{(25 \cdot 25 \cdot 28 \cdot 22)} \cdot \frac{50}{50}$$

$$= \frac{(250)^2}{385000}$$

$$= \frac{125000}{385000}$$

$$= 0.327$$

Degree of freedom (d.f) = (r-1) (c-1) = (2-1) (2-1) = 1

Tabulated value of  $\chi^2$  at 5% level of significant for 1 d.f is 3.841.

Decision : Since  $\chi^2$  calculated (0.327) <  $\chi^2$  tabulated (3.841). Hence  $H_0$  is accepted i.e. There is no significant different on opinion regarding problems in paying employment tax between Tax practitioners and Tax payers.

A supplementary question 'If yes, what kind of problems?' was asked to the respondents. The responses received from them are prioritize on the base of total weight. The following list shows the problems in paying employment tax as per the priority which were assigned by the respondents.

- i) Expectation of under taxable payments by tax payers.
- ii) Negligence by tax personnel.
- iii) In-effective administration.
- iv) Lack of sufficient tax information.
- v) Bad behaviour of tax officers.

#### **4.4.3 Improvement of Tax administration system**

To determine the income tax administration system by collecting suggestion from respondents the question 'for the improvement of tax administration system, what suggestion do you have?' was asked. The responses received from the respondents are listed as below:

**Table 4.14****Suggestion to improve the tax administration system**

S. N.	Causes	Weight		Total Weight	Percentage	Rank
		A	B			
1.	Decentralization of authority	130	70	200	11.70	5
2.	Training and seminar to tax personnel	150	178	328	19.18	1
3.	Effective personnel management	110	150	260	15.21	2
4.	Effective outside pressure	30	62	92	5.38	8
5.	High penalty and fines to corrupted personnel.	108	115	223	13.04	4
6.	Effective co-ordination	80	100	180	10.53	7
7.	Clear act, rules and regulation	125	108	233	13.63	3
8.	Proper communication and direction	127	67	195	11.33	6
	Total			1373	100	

Source: Opinion Survey, 2010

In above table, we know that there is some variance between tax practitioners and tax payers. So to know how much the view of Tax payers and Tax practitioners are related, we assist comparative analysis. For this analysis we can test Rank correlation coefficient.

So, first of all, we have to assign ranks to the above figures highest being 1 and lowest as 8. Let  $R_1$  be the ranks to Tax practitioners and  $R_2$  be the ranks to Tax payers as shown below. Let  $d$  be absolute value of difference between two sets of ranks.

Assignment of Ranks and calculation of Rank correlation coefficient ( $r$ ) :

A	$R_1$	B	$R_2$	$d = R_1 - R_2$	$d^2$
130	2	70	6	-4	16
150	1	178	1	0	0
110	5	150	2	3	9
30	8	62	8	0	0
108	6	115	3	3	9
80	7	100	5	2	4
125	4	108	4	0	0
127	3	67	7	-4	16
				$d=0$	$d^2=54$

$$\begin{aligned} \text{Rank Correlation } (\hat{r}) &= 1 - \frac{6 \sum d^2}{n^3 - \sum n} \times \frac{1}{8} \frac{6}{8^3} \frac{54}{8} \\ &= 1 - \frac{324}{504} \\ &= 0.357 \end{aligned}$$

..Since the correlation coefficient takes on positive value the two sets of ranks have been related directly. The numerical value is as low as 0.357. Hence, there is low degree of positive association between two ranking sets i.e. tax practitioner and Tax payers.

#### 4.5 Improvement of National Revenue and no. of tax payers

From the questionnaire survey, we received opinion to improve national revenue and no. of employment tax payers in Nepal through different questions. Which is analyze and presented as below.

##### 4.5.1 Employment tax revenue collection in Nepal

To know the respondents opinion about the revenue collection through employment tax, we issue a question ‘Do you think that the government success to collect sufficient income tax through employment ?’ and the responses received from respondents are as below:

**Table 4.15**

**Respondents opinion to revenue collection through employment tax**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Practitioners (A)	18	72	7	28	25	100
Tax Payers (B)	15	60	10	40	25	100
Total	33	66	17	34	50	100

Source: Opinion Survey, 2010

Formulation of Hypothesis:

Respondents	Yes	No.	Total
Tax Practitioners (A)	18	7	25
Tax payers (B)	15	10	25
Total	33	17	50

Null Hypothesis, (H<sub>0</sub>): There is no significant different regarding opinion to revenue collection through employment tax between Tax practitioners and Tax payers.

Alternative Hypothesis, (H<sub>1</sub>): There is significant different regarding opinion to revenue collection through employment tax between Tax practitioner and Tax payers.

Test Statistics:

$$\chi^2\text{-test:} = \frac{f_{ad} Z_{bc} \bar{A} f_a \Gamma b \Gamma c \Gamma d \bar{A}}{f_a \Gamma b \bar{A} f_c \Gamma d \bar{A} f_a \Gamma c \bar{A} f_b \Gamma d \bar{A}} \quad \begin{matrix} a & b \\ c & d \end{matrix}$$

$$= \frac{18 \cdot 10 \cdot 7 \cdot 15 \cdot 50}{25 \cdot 25 \cdot 33 \cdot 17}$$

$$= \frac{75 \cdot 50}{350625}$$

$$= 0.802$$

Degree of freedom (d. f.) = (r - 1) (c - 1) = (2 - 1) (2 - 1) = 1

Tabulated value of  $\chi^2$  at 5% level of significant for 1 d.f. is 3.841.

Decision: Hence,  $\chi^2$  calculated (0.802) <  $\chi^2$  tabulated (3.841). Since H<sub>0</sub> is accepted i.e. there is no significant different regarding opinion to revenue collection through employment tax between Tax practitioners and Tax payers.

A supplementary question was asked to the respondent 'if No, How to increase the employment tax revenue in Nepal?' The responses received from them are tabulated as below.

**Table 4.16****Suggestion to improve employment tax revenue**

S.No	Suggestions	Weights		Total Weight	%	Rank
		A	B			
1.	By increasing tax rate	9	25	34	4.81	8
2.	By reducing exemption limit	19	75	94	13.31	3
3.	By reducing concessions, rebates and withholding payments	21	63	84	11.90	4
4.	By bringing new tax payers into tax net	58	63	121	17.14	1
5.	By giving a training to tax administrative and tax payers about tax laws and regulations	49	70	119	16.86	2
6.	By making proper communication	42	37	79	11.19	6
7.	By making clear act, rules and regulations	51	32	83	11.76	5
8.	By reducing tax collection costs	33	32	65	9.21	7
9.	By applying high penalty and fines to corrupted personnel's	12	15	27	3.82	9
	Total			706	100	

Source: Opinion Survey, 2010.

For assist comparative analysis, we have to calculate Rank correction. So, we have to assign Rank to the above figures as per previous table.

**Calculation of Rank Correlation (r):**

A	R <sub>1</sub>	B	R <sub>2</sub>	d = R <sub>1</sub> - R <sub>2</sub>	d <sup>2</sup>
9	9	25	8	1	1
19	7	75	1	6	36
21	6	63	3.5	2.5	6.25
58	1	63	3.5	-2.5	6.25
49	3	70	2	1	1
42	4	37	5	-1	1
51	2	32	6.5	-4.5	20.25
33	5	32	6.5	-1.5	2.25
12	8	15	9	-1	1
				Ed = 0	d <sup>2</sup> = 75

In above table two set of item of B series are equal, one with 63 and another with 32. So, for the consideration we use average for both rank.

$$\begin{aligned} \dots \text{Rank Correlation (r)} &= 1 - \frac{6 \sum d^2}{n^3 Z_n} \\ &= 1 - \frac{6 \times 75}{9^3 \times 9} = 1 - \frac{450}{720} = 0.375 \end{aligned}$$

... Since r is nearer to zero. So there is low degree of positive correlation between Tax practitioner and Tax payers for the opinion to improve employment tax revenue.

#### 4.5.2 Additional tax rate for Non-resident on employment income

To collect the maximum revenue for the government, we raise a question 'Is it reasonable to increase additional tax rate for the non-resident on employment income? The responses are as bellows.

**Table 4.17**

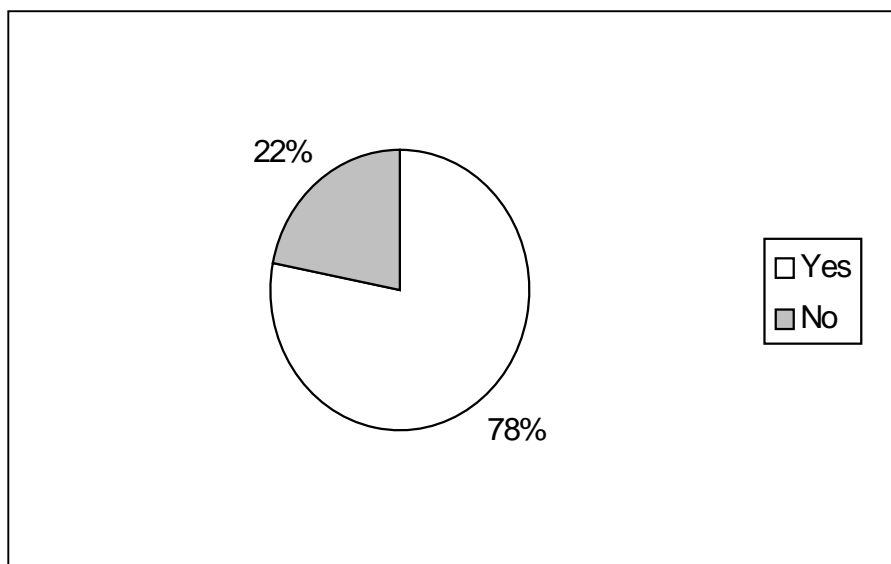
**Additional Tax rate for Non-resident**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Practitioners (A)	23	92	2	8	25	100
Tax Payers (B)	16	64	9	36	25	100
Total	39	78	11	22	50	100

Source: Opinion Survey, 2010.

**Fig. 4.7**

**Additional tax rate for Non-resident (Pie chart)**





As per above figure, it is clear that the additional tax rate for the non-resident is reasonable, because 78% of respondent give their opinion to that view. Out of them above table shows that maximum of tax practitioners give their opinion to additional tax rate for non-resident in comparison to tax payers. And we can also say that the additional tax rate to non-resident cause to maximize the national revenue.

### 4.5.3 Broadening the base of employment tax

To find the opinion on Broadening the base of employment tax we issues two alternative Yes or No. The responses received from respondents are listed as bellows.

**Table 4.18**  
**Broadening the base of employment tax**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Practitioners (A)	25	100	-	-	25	100
Tax Payers (B)	25	100	-	-	25	100
Total	50	100	-	-	50	100

*Source: Opinion Survey, 2010*

From the above table, it is clear that, all respondents responses on yes alternatives of the questions 'Is it effective to broadening the base of employment tax'. Thus we can concluded that by increasing the numbers of employment tax payers, must broadening the base of employment tax.

We have asked a supplementary questions 'If yes, how to increase the no. of employment tax payers in Nepal? and we collected their opinion on priority basis, which is as follows.

**Table 4.19****Factors for increasing no. of tax payers in Nepal**

S.No	Suggestions	Weights		Total Weight	%	Rank
		A	B			
1.	By decreasing tax rate	170	162	332	19.55	1
2.	By reducing exemption limit, concessions, rebates and with holding payments	100	135	235	13.84	4
3.	By making clear act, rules and regulations	128	115	243	14.31	3
4.	By effective implementation of the act	155	110	265	15.61	2
5.	Provision of international taxation	47	80	127	7.48	8
6.	Provision for resident and non-resident persons	58	85	143	8.42	7
7.	Clear classification of sources of employment income.	100	105	205	12.07	5
8.	By applying high penalty and fines	90	58	148	8.72	6
	Total			1698	100	

Source: Opinion Survey, 2010.

From the above ranking assign by the respondents opinion factors for increasing no. of tax payers in Nepal is listed as below as per order of preferences.

1. By decreasing tax rate.
2. By effective implementation of the act.
3. By making clear act, rules and regulations.
4. By reducing exemption limit, concession, rebates and withholding payments.
5. Clear classification of sources of employment income.
6. By applying high penalty and fines.
7. Provision for resident and non-resident person.
8. Provision for international taxation.

To find the correlation between Tax practitioners and Tax payers regarding above opinion we have to calculate Rank Correlation by assign ranks to the above figure highest being 1 and lowest as 8. Let,  $R_1$  be the ranks

to Tax practitioners and  $R_2$  be the ranks to Tax payers as shown below. Let  $d$  be absolute value of different between two sets of ranks.

**Calculation of Rank Correlation (r):**

A	$R_1$	B	$R_2$	$d = R_1 - R_2$	$d^2$
170	1	162	1	0	0
100	4.5	135	2	2.5	6.25
128	3	115	3	0	0
155	2	110	4	-2	4
47	8	80	7	1	1
58	7	85	6	1	1
100	4.5	105	5	-0.5	0.25
90	6	58	8	-2	4
				$d = 0$	$d^2 = 16.5$

$$\begin{aligned} \dots \text{Rank Correlation (r)} &= 1 - \frac{6 \sum d^2}{n^3 - n} \\ &= 1 - \frac{6 \times 16.5}{8^3 - 8} = 1 - \frac{99}{504} = 1 - 0.196 = 0.804 \end{aligned}$$

... Since, there is high degree of positive correlation between tax practitioner and tax payers regarding factors for increasing no. of tax payers in Nepal.

**4.6 Major Findings of the Study**

On the basis of data presentation and analysis in above sub-chapters some important findings of the study are summarized as below:

- 4.6.1 All the amounts or benefits received in connection with employment are taxable. As per section 8 (2) of ITA 2058, while calculating an employee's income from employment for an income year all the benefits received in connecting with employee will be included.
- 4.6.2 While calculating the employment income tax of a natural person, Amount from income tax under section 10, Final withholding

payments under section 92. Some receipts as per section 8 (3) and also as per Rule 20 (6) are excluded from the consideration.

4.6.3 ITA, 2058 has treated every assessment as self-assessment. Even if a person fails to file a return by the due date, the person is treated to have made an assessment on the due date for filing the return and his assessed tax for the year will be equal to the sum of tax withheld and tax paid in installment. The Department may, then, proceed for an amended assessment.

4.6.4 Retirement contributions to an approved fund (Sec. 63), Donation to an approved exempt organization (Sec. 12), Life insurance premium are allowed for reduction from the total assessable income of an individual up to the limit prescribed by ITA. 2058. And, as per sec 51 (1) eligible medical expenses incurred for a resident individual can be claimed for tax offset.

4.6.5 The income Tax Act. 2058 has prescribed to deduct basic exemption from their taxable income. The limit for the resident individual and couple or family is different. ITA 2058 is Silent regarding no. of dependent, it keep same category for couple and family. And ITA. 2058 facilitate us for additional exemption of Rs.30,000, Rs.24000, Rs.18000, Rs.12000 and Rs.6000 in case of an individual work in Remote Area A.B.C.D. & E respectively.

4.6.6 The taxable income of a resident individual for an income-year 2066/67 will be taxed at the following rates:

Up to Rs.160,000 @ 1%.

From Rs.160000 - up to Rs.260000 @ 15% plus Rs.1600.

Above Rs.260000 @25% plus Rs.16,600.

And, the taxable income of a couple, if they chose to be treated as a couple will be taxed at the following rates:

Up to Rs.200000@ 1%.

From Rs.200,000 - up to Rs.300,000 @ 15% plus Rs.2000.

Above Rs.300,000 @ 25% plus Rs.17,000.

- 4.6.7 Government Revenue is the composition of internal and external Revenue. Internal revenue play a significant role for collect the government revenue. The contribution of internal revenue to the Total Tax Revenue is 67.56%, 68.53%, 71.51%, 73.96% and 72.63% in fiscal year 2061/62, 062/63, 2063/64, 2064/65 and 2065/66 respectively.
- 4.6.8 Employment income tax is one of the component of total income tax. Income tax from Employment has been increasing every year. But the Total Contribution of Employment Tax to Total Tax and Total Income tax is decreasing from fiscal year 2062/63. However, there is some fluctuation in previous fiscal year also. Anyway, Employment Tax Contributes 4.09% to Total Tax and 13.51% to Total Income Tax on an average for Last eight fiscal years.
- 4.6.9 Income Tax from remuneration was 834.849 million in fiscal year 2058/59 and reached to 3195.623 million in fiscal year 2065/66. Income Tax from remuneration is not declining after introduction of New ITA 2058. The forecasted data of Employment Tax shows, it is also in increasing trend. It is continuously rising with in study period. But the Trend of Total Income Tax is decreasing in fiscal year 2059/60, otherwise it is also in increasing trend.
- 4.6.10 The coefficient of correlation between Employment Tax and Total Tax is +0.979 and between Employment Tax and Total income Tax is +0.954. It shows there is high degree of positive correlation between Employment Tax with Total Tax and Total income Tax as well. So, we can say that; If two variable vary in the same direction i.e. if increase (or decrease) in the value of Employment tax (one variable) results increase (or decrease) in the value of other variable i.e. Total Tax and Total Income Tax.
- 4.6.11 The Regression equation of Total Tax (y) on Employment Tax (x) is  $y = 27.82x - 5174422.16$ . It shows that if we have the value of Employment Tax of any fiscal year we can easily predict the value of

Total Tax. Similarly, the Regression equation of Total Income Tax (y) on Employment Tax (x) is  $y = 8.722x - 1971332.93$ . By the help of above regression equations we can find the average relationship between two variables. As per above equation Employment Tax is independent variable and other Total Tax and Total Income tax are dependent variables.

4.6.12 As per the opinion of Tax practitioners and Tax payers, 84% of respondents responses indicate that the Employment Tax administration system of Nepal is ineffective. Among them all Tax payers says it's ineffective, only some of Tax practitioners response for effective. According to them the causes of ineffectiveness are lack of trained and competent tax personnel, complicated tax laws, Inadequate economic policy, lack of proper communication, coordination and direction, undue delay in making assessment, unnecessary outside pressure etc.

4.6.13 There is mixed responses regarding problem in paying employment income tax. And, there is no different in view for it between tax practition and Tax payers. However some of respondent feels below problems while paying employment income tax. i.e. Expectation of under taxable payments by tax payers, Negligence by tax personnel, In-effective administration, lack of sufficient tax information, Bad behaviour of tax officers etc.

4.6.14 The suggestion to improve the tax administration system of Nepal are Training and seminar to tax personnel, Effective personnel management, clear act, rules and regulations, High penalty and fines to corrupted personnel, Decentralization of authority, proper communication and direction, Effective coordination, Effective outside pressure etc. There is low degree of positive correlation between Tax practitioner and Tax payers regarding suggestion to improve the tax administration system of Nepal.

4.6.15 Majority of Respondents opined that Government success to collect sufficient income tax through employment. However some of them suggested the way that improve national revenue i.e. By bringing new tax payers into tax net, By giving a training to tax administrative and tax payers about the tax laws and regulations, By reducing exemption limit, By reducing concession, rebate and withholding payments, By making clear act, rules and regulations, By making proper communications, By reducing tax collection costs, By increasing tax rate, By applying high penalty and fines to corrupted personnel etc. And, there is low degree of positive correlation i.e. +0.375 between tax practitioners and Tax payers regarding to opinion for improve the employment tax revenue.

4.6.16 To improve the National revenue collection through employment tax, additional tax rate for the non-resident employers is reasonable.

4.6.17 To broad the base of employment tax, we have to increase the no. of employment tax payers in Nepal. So, as per the respondents opinion the factors for increasing no. of employment tax payers are by decreasing tax rate, By effective implementation of the act, By making clear act, rules and regulations. By reducing exemption limit, concession, rebates and withholding payments, clear classification of sources of employment income, By applying high penalty and fines, provision for resident and non-resident persons, provision for international taxation. And, there is high degree of positive correlation i.e. +0.804 between tax practitioner and tax payers regarding the opinion for increasing no. of employment tax payers in Nepal.

Besides the above findings, we have collect some important opinion for Employment Tax Reform in Nepal, which are drawn as below.

- a. Employment tax is an importance sources of collecting government revenue.
- b. Employment income tax system of Nepal is very poor.

- c. Exemption limit for an employee provided by ITA 2058 is appropriate.
- d. There is poor tax paying habits of Nepalese tax payers.
- e. Awareness through media, Harder provisions in rules, Incentives such as prize and respect are the most appropriate way that make tax payers more responsible.



## **CHAPTER V**

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

#### **5.1 Summary**

Nepal is one of the under developed country with relatively low per capita income. Most of the Nepalese people depend on agriculture, their agriculture activities does not focus on revenue generation rather than maintaining their own life hood. Due to poor performance on internal revenue collection and mobilization, it has still depended on foreign grants and loans to fulfill the need for developmental activities, which is not beneficial in the long run interest of the country. The resource gap i.e. the gap between government expenditure and internal source is widening continuously. There is no alternative to mobilize internal resources and collect funds internally through revenue for rapid and sustainable economic growth.

To bridge the gap between total resources and supply of the resources. Employment tax plays a vital role. Collecting of adequate income tax in Nepal has faced various problems like tax evasion, poor tax administration, unsound income tax collection, ambiguity in tax laws, lack of tax conscious people etc. Inefficient tax administrative system, widespread in tax evasion, complication in explanation tax provisions include in tax laws and lack of awareness, political instability and frequent change in government and feeling of responsibility in tax payers are appearing as major factor for low contribution of income tax in national revenue.

This study entitled 'Employment tax reform in Nepal and it's contribution to the national revenue' is related to the employment aspect of income taxation only. The study is based on both primary and secondary data. Secondary analysis has been done by presenting the relevant data into tables

and figures. For the study purpose, the whole nation was taken as the study area. Simple mathematical and statistical tools have been used to get meaningful result of the collected data in last eight fiscal years.

The analysis has been made according to the objectives. The primary data, which obtained from opinion survey with the respondents have been tabulated and analyzed to achieve desired objective. Hypothesis have been set out and tested in order to see the similarity or dis-similarity in the opinions of Tax practitioners and Tax Payers on various aspect of employment taxation.

The research study focused to examine the current provisions of income tax form employment in Nepal under income Tax Act, 2058. Similarly the total contribution made by tax payers in Nepal through employment tax in last eight fiscal years have been shown comparatively in the study. And it is also discussed on the opinions regarding employment tax administration system and way to improve national revenue collection through employment tax by increasing no.of employment tax payers in Nepal. Major findings of the study are put at the end of the presentation and Analysis chapter.

Some conclusion and the recommendation of the study are presented in last chapter and some mathematical calculations are also attach in appendix. At last a list of materials, which was used in this study was organize as a bibliography.

## **5.2 Conclusions**

In developing countries like Nepal, lack of sufficient resources is the main constraint for national economic development, public expenditure is greater than public receipts. Taxation is looked upon as the most powerful tools of the government for raising revenue. So, employment tax is an important sources of collecting government revenue.

The current provisions made for income tax from employment in Nepal under ITA, 2058 are complicated for an average tax payers. IRD has

not been able to provide adequate knowledge either to the tax payers or tax administrator, even it is also fail to effective implementation of the act.

However, ITA 2058 has specify those payments which are taxable or which are not taxable. Although it has made some provision for allowable reduction of provident fund, donation and life insurance from the Employment income upto the prescribed limit. But local banks are not approved organization to deposit retirement fund and hospitals, nursing homes, some institutions are only the approved organization for medical tax credit.

There are some provisions for exemption limit, Remote Area allowance and different Tax rates according to the threshold limit. Similarly, there is not adjustment for those provisions as per inflection rate.

Employment income tax contributed to Total Tax 4.09% and to Total income Tax 13.51% on an average for last eight fiscal years. Similarly, the correlation coefficient between employment tax and total tax is +0.979 and between Employment Tax and Total income tax is +0.954, which shows there is high degree of positive correlation between Employment Tax with Total tax and Total Income Tax.

In Nepalese context, employment Tax administration system is ineffective, so for collect the maximum revenue the Tax administration system must be improved.

As per the current situation, Government success to collect sufficient income tax through employment. So, for the maximum collection the base of employment tax must be broad by increasing no. of employment tax payers in Nepal. And, there is poor tax paying habits of Nepalese tax payers.

### **5.3 Recommendations**

On the basis of major findings and conclusions mentioned above the following recommendation has been drawn.

- 5.3.1 The gap between formulation of policies and implementation should be minimize. The problems faced by the taxpayers should also be minimize. Tax administrations should be made responsible and dedicated to collected the national revenue. Procedural complication in paying income tax should be minimize.
- 5.3.2 All actual medical expenses, dashain allowances, life insurance premium, Donation to approved exempt organization should be made tax exempted. And, transportation expenses house rents, education expenses should be made deductible at the assessment of Employment income tax.
- 5.3.3 The provisions of employment income tax should be made simple and understandable to general tax payers. Employees should be provided adequate taxation knowledge by training and seminar. So, they can calculate own tax liability by self assessment as facilities provided by ITA, 2058. They should also be encouraged for Tax planning.
- 5.3.4 Exemption limit, Remote area allowances and Threshold limit should be adjusted as per inflection rate and level of income. And exemption limit should be specify for couple and family as per the no. of dependent.
- 5.3.5 The contribution of employment income tax towards various tax revenue should be increase by monitoring tax evasion and bringing new tax payers into tax net. The threshold limit (slabs) should be adjusted so that the high income earner should levied higher income tax.
- 5.3.6 The same flat rate levied to both resident and non- resident individual is unreasonable. In many countries like India, Germany, Belgium, Indonesia, New Zealand etc are taxed at the higher rate than resident

individuals. It feels that in Nepal should also be apply higher tax rate, say 40% in case of non- resident individuals.

5.3.7 The problems faced by employees should be minimize. Tax clearance certificate should be provided immediately to the employees after paying income taxes, refund of tax should be made with no delay, procedural complications in paying income tax should be minimize, unclear and cumbersome provisions of the tax act and rules should be simplified and made understandable and employees should be made such that they do not feel mentally pinched by paying employment income tax by giving them a sense of contributing to the nation.

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## APPENDIX I

### Contribution of employment tax made by tax payers

**in thousand**

Fiscal Year	Employment Tax	Total Tax	Total income Tax
2058/59	834849	25537690	8919680
2059/60	1240291	26853422	8059575
2060/61	1391522	30920989	9514782
2061/62	1676982	36552762	10466226
2062/63	1751505	40202336	10933520
2063/64	2028857	51541450	15731804
2064/65	2294553	62979367	19077813
2065/66	3195623	85019150	27246432

*Source:* Annual Report of various years, Inland Revenue Department.

**a) FITTING TREND LINE BY LEAST SQUARE METHOD (Forecasting)**

Let the trend line between the dependent variable Y (i.e. employment tax) and the independent variable x (i.e. time) be represented by  $Y = a + bx$  ----- equation I.

Since, the no. of years are 8, so the Mid-value of F.Y. 2062/63 should be taken as a deviation for the consideration.

Fiscal Year (X)	Employment Tax (Y)	Mid-value $x = X - 2062/63$	x <sup>2</sup>	xy
2058/59	834849	-4	16	-3339396
2059/60	1240291	-3	9	-3720873
2060/61	1391522	-2	4	-2783044
2061/62	1676982	-1	1	-1676982
2062/63	1751505	0	0	0
2063/64	2028857	1	1	2028857
2064/65	2294553	2	4	4589106
2065/66	3195623	3	9	9586869
N=8	$\phi y = 14414182$	$\phi x = -4$	$\phi x^2 = 44$	$\phi xy = 4684537$

$$..b = \frac{N\phi xy}{N\phi x^2} \frac{Z\phi x \cdot \phi y}{Z(\phi x)^2}$$

$$\begin{aligned}
&= \frac{8 \mid 4684537 \sum Z(Z4) \mid 14414182}{8 \mid 44 \sum Z(Z4)^2} \\
&= \frac{95133024}{336} \\
&= 283134 \\
\therefore a &= \frac{\sum y \sum Zb \cdot \phi x}{N} \\
&= \frac{14414182 \sum Z283134 \mid (Z4)}{8} \\
&= \frac{15546718}{8} \\
&= 1943340
\end{aligned}$$

$$\dots y = a + bx$$

$$\dots y = 1943340 + 283134 \cdot x$$

$$\begin{aligned}
\text{For } 2066/67, x = 5 \quad \dots y &= 1943340 + 283134 \times 5 \\
&= \text{Rs. } 3359010 \text{ th.}
\end{aligned}$$

$$\begin{aligned}
\text{For } 2067/68, x = 6 \quad \dots y &= 1943340 + 283134 \times 6 \\
&= \text{Rs. } 3642144 \text{ th.}
\end{aligned}$$

$$\begin{aligned}
\text{For } 2068/69, x = 7 \quad \dots y &= 1943340 + 283134 \times 7 \\
&= \text{Rs. } 3925278 \text{ th.}
\end{aligned}$$

$$\begin{aligned}
\text{For } 2069/70, x = 8 \quad \dots y &= 1943340 + 283134 \times 8 \\
&= \text{Rs. } 4208412 \text{ th.}
\end{aligned}$$

$$\begin{aligned}
\text{For } 2070/71, x = 9 \quad \dots y &= 1943340 + 283134 \times 9 \\
&= \text{Rs. } 4491546 \text{ th.}
\end{aligned}$$

b) Correlation and Regression analysis between Employment Tax and Total Tax

Correlation coefficient is independent of change of origin and scale and Regression coefficient are independent of change of origin. So, we can neglect the common no. of thousand figure ('000) for the consideration from total structure in every calculations.

Let employment tax and total tax in Rs. is denoted by x and y respectively.

### Computation of r :

x	y	u = x-1751505	v = y - 40202336	u <sup>2</sup>	v <sup>2</sup>	uv
834849	255379690	-916656	-14664646	840258222300	215051842300000	13442435740000
1240291	26853422	-511214	-13348914	261339753800	178193505000000	6824151722000
1391522	30920989	-359983	-9281347	129587760300	86143402130000	3341127137000
1676982	36552762	-74523	-3649574	5553677529	13319390380000	271977203200
1751505	40202336	0	0	0	0	0
2028857	51541450	277352	11339114	76924131900	128575506300000	3144925946000
2294553	62979367	543048	22777031	294901130300	518793141200000	12369021130000
3195623	85019150	1444118	44816814	2085476798000	2008546817000000	64720767800000
$\phi_x = 14414182$	$\phi_y = 359607166$	$\phi_u = 402142$	$\phi_v = 37988478$	$\phi_{u^2} = 3694041474000$	$\phi_{v^2} = 3148623604000000$	$\phi_{uv} = 104114406700000$

We, know

$$r = \frac{n\phi_{uv} Z\phi_u\phi_v}{\sqrt{n\phi_u^2 Z(\phi_u)^2} \cdot \sqrt{n\phi_v^2 Z(\phi_v)^2}}$$

$$= \frac{8 \mid 104114406700000 Z402142 \mid 37988478}{\sqrt{8 \mid 3694041474000 Z(402142)^2} \sqrt{8 \mid 3148623604000000 Z(37988478)^2}}$$

$$= \frac{817638491100000}{835407400300000}$$

...r = 0.979

$$\text{Now, } \bar{x} X_a \Gamma \frac{\phi_u}{n} X 1751505 \Gamma \frac{402142}{8}$$

$$= 1751505 + 50267.75$$

$$= 1801772.75$$

$$\bar{y} X_b \Gamma \frac{\phi_v}{n} X 40202336 \Gamma \frac{37988478}{8}$$

$$= 44950895.75$$

$$b_{yx} = b_{vu} = \frac{n \phi_{uv} Z \phi_u \phi_v}{n \phi_u^2 Z \phi_u^2}$$

$$= \frac{817638491100000}{8 \mid 3694041474000 - (402142)^2}$$

$$= \frac{817638491100000}{2939061360000}$$

$$= 27.82$$

...The regression equation of y on x is given by,

$$y - \bar{y} = b_{yx} (x - \bar{x})$$

$$\text{or, } y - 44950895.75 = 27.82 (x - 1801772.75)$$

$$\text{or, } y - 44950895.75 = 27.82x - 50125317.91$$

$$\dots y = 27.82x - 5174422.16$$

$$\begin{aligned} \text{For } 2066/67, x = 3359010 \text{ th.} \quad & \dots y = 27.82 \times 3359010 - 5174422.16 \\ & = 88273236 \text{ th.} \end{aligned}$$

$$\begin{aligned} \text{For } 2067/68, x = 3642144 \text{ th.} \quad & \dots y = 27.82 \times 3642144 - 5174422.16 \\ & = 96150024 \text{ th.} \end{aligned}$$

$$\begin{aligned} \text{For } 2068/69, x = 3925278 \text{ th.} \quad & \dots y = 27.82 \times 3925278 - 5174422.16 \\ & = 104026812 \text{ th.} \end{aligned}$$

$$\begin{aligned} \text{For } 2069/70, x = 4208412 \text{ th.} \quad & \dots y = 27.82 \times 4208412 - 5174422.16 \\ & = 111903600 \text{ th.} \end{aligned}$$

$$\begin{aligned} \text{For } 2070/71, x = 4491546 \text{ th.} \quad & \dots y = 27.82 \times 4491546 - 5174422.16 \\ & = 119780388 \text{ th.} \end{aligned}$$

- c) Correlation and Regression analysis between employment Tax and Total income Tax

Let, employment tax and total income tax in Rs. is denoted by x and y respectively.

### Computation of r :

x	y	u = x-1751505	v = y -10933520	u <sup>2</sup>	v <sup>2</sup>	uv
834849	8919680	-916656	-2013840	840258222300	4055551546000	184599851900
1240291	8059575	-511214	-2873945	261339753800	8259559863000	1469200919000
1391522	9514782	-359983	-1418738	129587760300	2012817513000	510721561500
1676982	10466226	-74523	-467294	5553677529	218363682400	34824150760
1751505	10933520	0	0	0	0	0
2028857	15731804	277352	4798284	76924131900	23023529340000	1330813664000
2294553	19077813	543048	8144293	294901130300	66329508470000	4422742025000
3195623	27246432	1444118	16312912	2085476798000	266111097900000	23557769850000
$\phi x = 14414182$	$\phi y = 109949832$	$\phi u = 402142$	$\phi v = 22481672$	$\phi u^2 = 3694041474000$	$\phi v^2 = 370010428300000$	$\phi uv = 33172070690000$



We know that,

$$r = \frac{\sum n \cdot uv}{\sqrt{\sum n \cdot u^2} \sqrt{\sum n \cdot v^2}}$$

$$= \frac{8 \mid 33172070690000 \mid 22481672}{\sqrt{8 \mid 3694041474000 \mid (402142)^2} \cdot \sqrt{8 \mid 370010428300000 \mid (22481672)^2}}$$

$$= \frac{256335741000000}{268596166000000}$$

$$= 0.954$$

Now,  $\bar{x} = \frac{\sum Xa}{n} = \frac{1801772.75}{8}$

$\bar{y} = \frac{\sum Xb}{n} = \frac{10933520}{8} = 13743729$

$$r_{yx} = \frac{\sum n \cdot uv}{\sum n \cdot u^2} = \frac{256335741000000}{293906136000000}$$

$$= 8.722$$

..The Regression equation of y on x is given by,

$$y - \bar{y} = r_{yx}(x - \bar{x})$$

$$\text{or, } y - 13743729 = 8.722(x - 1801772.75)$$

$$\text{or, } y - 13743729 = 8.722x - 15715061.93$$

$$\therefore y = 8.722x - 1971332.93$$

For 2066/67, x = 3359010 th.  $\therefore y = 8.722 \times 3359010 - 1971332.93$   
 $= 27325952$  th.

For 2067/68, x = 3642144 th.  $\therefore y = 8.722 \times 3642144 - 1971332.93$   
 $= 29795447$  th.

For 2068/69, x = 3925278 th.  $\therefore y = 8.722 \times 3925278 - 1971332.93$   
 $= 32264942$  th

For 2069/70, x = 4208412 th.  $\therefore y = 8.722 \times 4208412 - 1971332.93$   
 $= 34734437$  th.

For 2070/71, x = 4491546 th.  $\therefore y = 8.722 \times 4491546 - 1971332.93$   
 $= 37203931$  th.

## APPENDIX II QUESTIONNAIRE

Dear Sir/ Madam,

I am a student of Prithvi Narayan Campus studying in the final year of M.B.S. As you know, the student of this level have to write a dissertation on the subject of their specialization. Being a student of accountancy stream, I have determined to present a dissertation on taxation. The topic approved for me by Tribhuvan University is "**Employment tax reform in Nepal and it's contribution to the national revenue.**"

I have enclosed a questionnaire with this cover letter. I request you to fill up the questionnaire as per the instruction given below. It would be a matter of great pleasure for me if you kindly respond me back in spite of your busy and valuable time schedule. Yours responses will be of great importance to my study.

I assure you that your responses will be kept confidential.

I am looking forward to your kind co-operation and support in this study.

Thank you

Sincerely yours

.....

Guru Prasad Subedi

Prithvi Narayan Campus

T.U. Reg. No. 7-1-48-1229-2001

Campus Roll No.: 21/063

Date:.....

Ph. No:..... (Off.)

Name of Respondents: .....

Designation:.....

Office/organization: .....

Category: Tax Practitioner / Tax payer

**Please put tick mark (☐) against the answer of your choice and where ranking of alternatives are provided, please rank from 1 (most important alternative) to last number in order of preference.**

1. Do you think that employment tax is an importance sources of collecting government revenue? Please suggest.
  - a) Yes [.....]
  - b) No [.....]
  
2. How is the employment income tax system in Nepal in your opinion? Please suggest.
  - a) Sound and efficient [.....]
  - b) poor [.....]
  
3. What is your perception towards the present employment tax exemption? Please suggest.
  - a) Positive [.....]
  - b) Negative [.....]
  
4. Is it effective to broading the base of employment tax? Please suggest.
  - a) Yes [.....]
  - b) No [.....]

If Yes, how to increase the no. of employment tax payers in Nepal?  
(Please rank you answer in order of priority)

[.....] By decreasing tax rate.

[.....] By reducing exemption limit, Concessions, rebates and withholding payments.

[.....] By making clear act, rules and regulations.

- [.....] By effective implementation of the act.
- [.....] Provision of international taxation
- [.....] Provision for resident and non-resident person.
- [.....] Clear classification of sources of employment income.
- [.....] By applying high penalty and fines.
- [.....] If other please specify .....
- .....

5. Do you think that the government success to collect sufficient income tax through employment? Please suggest.

- a) Yes [.....]
- b) No [.....]

If No, How to increase the employment tax revenue in Nepal? (Please rank your answer in order of priority),

- [.....] By increasing tax rate
- [.....] By reducing exemption limit.
- [.....] By reducing concessions, rebates and withholding payments.
- [.....] By bringing new tax payers into tax net.
- [.....] By giving a training to tax administrative and tax payers about tax laws and regulations.
- [.....] By making proper communication
- [.....] By making clear act, rules and regulations.
- [.....] By reducing tax collection costs.
- [.....] By applying high penalty and fines to corrupted personnel's
- [.....] If other, please specify .....
- .....

6. Is there poor tax paying habit of Nepalese tax payers?

- a) Yes [.....]
- b) No [.....]

If yes, what should be the main reason behind it? (Please rank your answer in order of priority)

- [.....] Poverty of tax payers.
- [.....] Little knowledge of tax and it's importance.

- [.....] Wide spread practices of illegal business.
- [.....] No provision of incentives for regular tax payers.
- [.....] Defective tax administration system.
- [.....] Complexity of tax laws and policies
- [.....] Poor public relations by tax officers.
- [.....] Less number of employees.
- [.....] Low pay scale of the employees.
- [.....] If other, please Specify .....
- .....

7. To increase tax paying habit of Nepalese people, What are your suggestions?

(Please rank you answer in order of priority)

- [.....] Proper tax education.
- [.....] Better incentives for regular tax payers.
- [.....] Heavy penalties and fines to the irregular tax payers.
- [.....] Effective tax administration system.
- [.....] Simplification of tax laws and policies.
- [.....] Better communication system between tax payers and tax office.
- [.....] High level of exemption limit.
- [.....] Better education on tax planning
- [.....] Simplification of tax assessment procedures.
- [.....] Broading the base of employment tax.
- [.....] If other, please specify .....
- .....

8. What is the most appropriate way that make tax payers more responsible?

(Please rank you answer in order of priority)

- [.....] Awareness through media.
- [.....] Harder provisions in rules
- [.....] Incentives such as prize and respect



11. Is it reasonable to increase additional tax rate for the non-resident on employment income? Please suggest.

- a) Yes [.....]
- b) No [.....]

12. Did you feel any problem in paying employment income tax?

- a) Yes [.....]
- b) No [.....]

If yes, what kind of problem? (Prioritize)

- [.....] Lack of sufficient tax information.
- [.....] Expectation of under taxable payments by tax payers.
- [.....] Negligence by tax personnel.
- [.....] In-effective administration.
- [.....] Bad behaviour of tax officers.
- [.....] If other, please specify .....
- .....

13. If you have any other comments and suggestion regarding employment tax reform in Nepal, Please specify .....

.....

**Thank You,**

## APPENDIX III

### LIST OF RESPONDENTS

#### A. Tax Practitioners:

1. Mr. Narayan Psd. Sapkota  
- Section officer (chief), IRO, Pokhara
2. Ms. Pramila Karki  
- Director of IRD, Kathmandu
3. Mr. Jivan K. Ghimire  
- Section officer of IRO, Pokhara
4. Mr. Bishwa Bandhu Poudel  
- Section officer of IRO, Pokhara
5. Mr. Ananda Kafle  
- Section officer of IRO, Pokhara
6. Mr. Prakash Sharma  
- Section officer of IRO, Pokhara
7. Ms. Sita Bartaula (Koirala)  
- Section officer of IRD, Pokhara
8. Mr. Kishore Bartaula  
- Section officer of IRD, Pokhara
9. Mr. Lok Prasad Neupane  
- Section officer of IRD, Kathmandu
10. Mr. Binod Lamichhane  
- Section officer of IRD, Kathmandu
11. Mr. Gopal Psd. Koirala  
- Section officer of IRD, Kathmandu
12. Mr. Tilak Acharya  
- Lawer, Chhorepatan, Pokhara



13. Mr. Shiv Raj Baral  
- Auditor, Newroad, Pokhara
14. Mr. Shiva Psd Dahal  
- Auditor (Chartered Accountant), Kathmandu
15. Mr. Chiranjibi Acharya  
- Legal Advisor of Pokhara Grande, Pokhara
16. Mr. Virendra Singh Gajmer  
- Finance Controller of P.G. (C.A.), Pokhara
17. Mr. Chiranjibi Dwe  
- Auditor, Tersapatti, Pokhara
18. Mr. L.K. Sharma  
- Auditor of L.K. Sharma and Co., Pokhara
19. Ms. Ritu Thapa  
- Chartered Accountant, ICAN, Kathmandu
20. Mr. Manamohan Raj Kafle  
- Chartered Accountant, Kathmandu
21. Mr. Tirtha Man Shakya  
- DGE of Rotary International, Kathmandu
22. Mr. Govinda Ballav Pant  
- Tax Advocate, Kathmandu
23. Mr. Pawan Kumar Ojha  
- Tax Advocate, Kathmandu
24. Mr. Satish Raj Joshi  
- Chartered Accountant, Nepal Insurance Co. , Kathmandu
25. Mr. Yog Raj Dhakal  
- Lawyer, Chhorepatan, Pokhara

**B. Tax Payers:**

1. Mr. Surya Prasad Regmi  
- Tax officer, IRO, Pokhara
2. Mr. Laxman Bastola  
- Tax officer, IRD, Kathmandu
3. Mr. Krishna Subedi  
- Credit Manager, B.D.B.L., Pokhara
4. Mr. Krishna Acharya  
- Front officer Manager of P.G. , Pokhara
5. Ms. Samjhana Gurung  
- Guest Relation Executive of P.G., Pokhara
6. Mr. Bal Krishna Subedi,  
- Section officer of Gen. Adm. Office, Pokhara
7. Mr. Kirti Tripathi  
- M.D. of Grand Holidays Tours and Travels, Pokhara
8. Mr. Manoj Gautam  
- Manager, Nilgiri Bachat Sahakari, Pokhara
9. Mr. Badri Nath Pahari  
-Asst. Head Master of Chhorepatan High School, Pokhara
10. Mr. Deepak Thapa  
- M.D. of Eastern Motors Pvt. Ltd., Kathmandu
11. Mr. Prabhat Jha  
- Civil Engineer, Pokhara
12. Mr. Ganesh Sapkota  
- Civil Engineer, Pokhara
13. Mr. Ashish Thapa  
- BOD of United Modi Hydropower, Kathmandu
14. Mr. Samyog Pant  
- Regional Operation Specialist of Western Union, Kathmandu
15. Mr. Anoj Rimal  
- Director- Finance of Yeti Airlines, Kathmandu

16. Mr. Anup Manandhar  
- Asst. Sales Manager of World link Communication Pvt. Ltd.,  
Kathmandu
17. Mr. Narayan Dahal  
- Local Searching Manager of Spice Nepal Pvt. Ltd., Kathmandu
18. Ms. Rashmi Shakya  
- Deputy manager of Sipradi Trading Pvt. Ltd., Kathmandu
19. Mr. Mahadutta Bhattarai  
- Sr. Officer of Sipradi Trading Pvt. Ltd., Pokhara
20. Mr. Yugesh Rajbhandari  
- Sr. Adm. Assistant of World Health Organization, Kathmandu
21. Dr. Munni Sharma  
- Program Coordinator of Finish Embassy, Kathmandu
22. Mr. Indra B. Malla  
-Sales and Marketing Officer of Casino Everest, Kathmandu.
23. Mr. Prakash Raj Pant  
- Supply chain officer of UNDP, Kathmandu
24. Mr. Manoj Mishra  
- Sales Manager of Berger Jenson And Nicholson Pvt. Ltd, Kathmandu
25. Mr. Baikuntha Khanal  
- Sales Manager of Casino Pokhara Grande, Pokhara.

## CURRICULAM-VITAE

1. Name: Guru Prasad Subedi
2. Date of Birth: 2040-12-15 (28<sup>th</sup> Mar. 1984)
3. Permanent Address: Pokhara-17, Chhorepatan, Davis Fall
4. Nationality: Nepalese
5. Marital Status: Single
6. Language: Nepali, English, Hindi
7. E-mail address: [subedigp@hotmail.com](mailto:subedigp@hotmail.com)

### 8. Academic Qualification:

Level	Board	School/Campus	Year	%	Division	Remarks
S.L.C.	S.L.C. Board of Nepal	Chhorepatan H.S.S.	2001	65.63	1st	First in class
I.Com.	T.U.	P.N.C.	2003	54.8	2nd	I.com first year faculty top
B.B.S.	T.U.	P.N.C.	2006	49.36	2nd	-
M.B.S.	T.U.	P.N.C.	-	66.33	1st	Except thesis

### 9. Training:

Institute	Course	Year	Remarks
Origin Computer Institute, Pardi, Pokhara	Basic in Computer	2001	Excellent
Om Computer Institute, Davis Fall, Pokhara	Diploma in Computer (pagemaker)	2003	Excellent
MATCOSC, Bhimsenchowk, Pokhara	Business a/c, Tax a/c, General Banking & Tally	2006	Excellent

### 10. Experience:

Organization	Designation	Duration
Hotel Blue Heaven, Lakeside, Pokhara	Receptionist	18 <sup>th</sup> Feb. 2005 to 07 <sup>th</sup> Mar. 2007.
Hotel Pokhara Grande, Pardi, Pokhara	Reservation Incharge	1 <sup>st</sup> August 2007 to till date.

11. Contact no: 00977-9846067742  
00977-61-460764 (Res.)  
00977-61-460210 (Off.)

