

CHAPTER - I

INTRODUCTION

1.1 Background of the Study

Nepal is a developing country. Nepal cannot successfully and properly tear a curtain built from massive poverty, unemployment, heavy dependence on agriculture, lack of adequate industries, low income level and social, political and geographical constraints. So it is the prime concern towards the rapid economic development and Nepal is not exception to this ever continuing process. Nepal has own aims for self-reliant economic system to upgrade its living standard of people. The government has to spend a lot of money to achieve maximum national objectives.

In the modern days every government invests its revenue for the social welfare towards its people. From ancient time to modern age government fulfill its responsibility by spending a lot amount towards its people. Generally, in the ancient time, government manages its fund by internal sources and spend highly amount in the war. But, now time has changed, government and people all know their responsibilities. On the one side each government is very careful and serious towards its social responsibility and on the other side people is too much concerned towards the nation and closely watching the activities of the government. People contribute some percentage of their income to the government as the tax and the government has to spend a lot of money to fulfill the responsibilities of it's towards the people. The responsibilities may be either for security or health or education or other development activities. Now, to fulfill the high demand of social welfare program and to meet the growing public expenditure, the government must have sufficient fund. The government has two alternatives to raise the required fund. One is internal sources and other is external sources.

External sources of fund are foreign grants and loans. This kind of fund is received from foreign countries and international organization. External

sources of fund are more important for undeveloped and underdeveloped countries. It is used for economic development, reconstruction, foreign exchange, to recover crisis condition, productive use etc. (Sharma and Luitel, 2059 B.S). But external sources are uncertain, inconvenient and not good for healthy development of the nation because they have to be paid after a certain time. So, it is better to mobilize internal sources rather than looking with beggars eye to the donors (Pant, 1996).

Internal sources fund are own sources within the nation. It is the best alternative for the nation to mobilize internal sources that is certain, convenient and reduces the dependability to other countries use of external sources of fund to raise necessary public fund is not good because it reduces the liquidity position of the government, increases over-dependency upon other countries and increases the inflation. So, internal sources are more important not only financing necessary funds but also for the proper mobilization of external sources. But past experience shows that Nepal is unable to mobilize its internal sources properly or effectively.

On the other hand, sources of public revenue can be classified into two types. They are (a) Tax sources and (b) Non tax sources. Tax sources include the amounts, which are compulsory contributed by tax payers to the government. Non tax revenue includes fees, special assessment, gifts and grants, fines and penalties etc. Government imposed non-tax according to the necessary, so it is uncertain and inconvenient. Tax can be defined as the contribution from people and organization to the government from their income either by service or by business without taking corresponding benefits. Tax is the most important sources of government revenue because it occupies largest part of total revenue.

According to Prof. Seligman, "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."

From the above definition, tax is a compulsory levy imposed by the government to the people and institutions according to the prevailing laws. Those who pay tax do not get direct or corresponding benefits from the government.

Generally, taxes can be classified into two types. They are (a) direct tax and (b) indirect tax. These taxes are collected according to income level or person or organization. Income tax, property tax, interest tax, etc. are direct tax. Indirect tax is that tax which is imposed on one person but paid partly or wholly by another. Custom duty, excise duty, VAT, sales tax, import and export tax and duty etc. are indirect tax.

Income tax is most popular direct tax. It is considered as one of the major element of tax revenue. Income tax is charge on person's income according to the law of nation. It covers all the fees, additional fees, fines etc. Income includes all the income, which are received from business, investment and employment. Income tax is superior to other because it is imposed on the basis of paying capacity of tax payers. People, whose income is under the taxable income is free from the incidence of income tax.

Within the income tax system, exemptions and deductions are more important to know about income tax because they are used continuously and treated differently year to year. To make up-to-date knowledge about income tax system, it should be known. By knowing it, we can compute net income and tax liability. Income tax law of every nation has clearly mentioned about the exemption of income and deduction of expenses.

Income tax reduces concentration of wealth in a few hands by imposing high rate to those persons and organizations have high level of income and low rate to those whose income level is less. It also helps to increase the government revenue, which can use for public welfare to develop infrastructure, provide

general service etc. People who are paying tax to the government give more attention about the public expenditure. So the government expends the revenue in good manner. Income tax is not only essential for collecting government revenue but also to control over consumption to promote saving and generate more employment.

First of all, income tax system was introduced in England to manage the war. Similarly, to manage the civil war, USA introduced corporate income tax in 1862. In 1909 Federal Corporation income tax was originated. Now a days it is expanded all over the world. Every nation is introducing income tax according to their needs.

In Nepal, the first elected government in 1959 introduced “Business Profit and Salaries Tax Act 1960.” At that time, income tax was levied only on business profit and salaries. In earlier days both individual and corporate tax was taxed on progressive rate. The government replaced the prevailing tax act by “Income Tax Act 1962.” In 1974, “Income Tax Act 2031 (1974)” was enacted. Now, “Income Tax Act 2058 (2002)” is in implementation.

Income tax plays a very important role in the economic development of Nepal. It is a tool of achieving maximum social and economic objective as laid down by the constitution of Nepal. Taxation in the modern world has been taken as the best effective tool for raising the ratio of saving of the national income” (Pant 1997). It is also recognized as a good financial tool to make narrow the inequality in income. It reduces the regional economic unbalance by providing tax concession and holidays to the business or industry, which is established in remote and backwards areas. “ Income tax is essential not only for collecting government revenue but also to control over consumption, to reduce inequality of income and wealth to promote saving and investment and to accelerate economic development”(Joshi, 2005).

It is no doubt that income tax is the main source of government revenue. It is also usable in the balance economic development. Nobody can doubt that, the distribution of income of income is also possible through progressive income tax rate. The percentage of income tax in government revenue is increasing trend, but government is unable to maximize the share of income tax to the public fund as per expectations. Income tax is assessed on yearly basis.

Although the legal provision has been made and updated timely, there are many problems about income tax and exemptions and deductions. There are many problems in income tax practice in Nepal 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 payer, delays in computation and collection, lack of accuracy and unity in accounting system etc (Khadka,1994). The main objectives of taxation are more revenue collection. Exemptions and deductions play important role to collect the tax. Because of all these reasons exemptions and deductions of income tax system must be reviewed and immediate correction can be made.

1.2 Statement of the Problem

The prime concern of every nation is economic development. Every government has responsibility towards its people. The responsibility may be either for peace and security and special services or economic development and other development activities. To fulfill these responsibilities a government has to spend a lot of money (fund). Therefore, government's expenditure is increasing in high rate day by day. The government has to manage its fund from internal as well as external sources to meet the increasing expenditure. External sources are uncertain, inconvenient and it is not good for healthy economic development, if there is heavy dependence on them. Internal sources are convenient, certain and reliable, so, it is better to mobilize internal sources effectively rather than begging with the donors.

Underdeveloped countries are facing various problems in the process of economic development. Nepal is not an exception to this condition. Nepal has facing very serious problems of resources gap and high dependency of foreign loan and grants. Taxes are important sources of public revenue. It is the major instruments to increase the rate of capital formulation to achieve high rate of economic development. Higher resources mobilization is the best option of healthy economic development for the nation.

In Nepal, resources mobilization is still poor that doesn't cover the demand of growing expenditure. Because of deficit financing system, the economy has to face the resource gap which is widening continuously with the increment of total expenditure in respect to total revenue collection, the resource gap situation is presenting in the table below:-

Table 1.1
Resource Gap in Nepal

(Rs. In million)

Fiscal year	Total expenditure	Total revenue	Deficit resource gap
2000/01	79835.10	55647.00	24188.10
2001/02	80072.10	57131.60	22940.60
2002/03	84006.10	67568.90	16437.20
2003/04	89442.60	73614.40	15828.20
2004/05	102560.40	84513.90	18046.50
2005/06	110889.20	86109.60	24779.60
2006/07	133604.20	103517.5	30086.7

Source: - Economic Survey, 2006/07, Ministry of Finance, NG

By analyzing the above table, it can be said that there is significant resource gap in Nepalese budget. Internal and external borrowing is the main sources to fulfill the resources gap. The use of borrowing to fulfill the growing government expenditure brings various problems; mainly it will be repaying

huge amount in the future. In Nepal, income tax has not been playing any significant contribution to the government revenue.

Government expenditure is increasing day by day but there is no equivalent increase in government revenue. Such unbalanced growth in revenue and expenditure has resulted in massive revenue expenditure gap or budgetary deficit in the country. The major cause of resource gap in Nepal is inadequate and ineffective resource mobilization. The design of tax in Nepal is so poor and defective that as revenue rising instrument they always have very disappointing performance. The weak performance of tax is clearly reflected in Nepal's low tax GDP ratio. Nepal's direct tax revenue on GDP ratio which was 2.58 percent in 2000/01, 2.36 percent in 2003/04 and 2.50 percent in 2005/06. Perhaps it is the lowest in the world.

To raise government revenue it is necessary to raise its internal sources of revenue. Internal sources of revenue include tax and non-tax revenue. The contribution of tax revenue in the GDP was 9.86 percent in 2000/01, 10.64 percent in 2004/05 and 10.29 percent in 2005/06. Likewise the non-tax revenue on GDP was 2.58 percent in 2000/01, 3.15 percent in 2004/05 and 2.66 percent in 2005/06. In Nepal the contribution of income tax to total revenue is very low comparison to developed countries.

Nepal's low revenue collection is due to poorly designed and defective tax system where the taxes are less productive, less responsible and distortion. In Nepal, the coverage of income tax is very low. There is poor taxpaying habit of Nepalese people. Tax authorities are inefficient and ineffective in enforcement. Tax offices are looked upon as heaven for corruption. Incompetent personnel are other major problems. The assessment procedure of income tax is ineffective. There are no integrated programs for taxpayer's education, assistance, guidance and counseling (Agrawal, 1973).

Rich people are avoiding taxes by using legal loopholes and taking advantages of an inefficient tax administration. The coverage of income is very narrow in Nepal, agricultural income is exempt from income tax widespread income tax evasion, complicated and frequent change in the tax rate and policies etc. are major factor for low contribution income tax revenue at present.

Government has adopted various policies to strengthen the revenue structure of Nepal. Government implemented self tax assessment system to enhance the government revenue, although there is high tendency of income tax evasion and avoidance.

Nepal highly depends upon the external sources than internal sources. The available resources do not meet the estimated budget fulfilling the aspiration of the people and constructing the social welfare state. Therefore, there is need of improvement of income tax collection system to mobilize internal sources which is also considered as the optimum solution of resources gap and high dependency on foreign loan.

At present the exemption limit is distinct into two categories such as an individual and the family according to the personal status in Nepal. This classification does not recognize the various sizes of the dependent family members. In the Nepalese context this limit neither shows any specific or definite relationship with per capita GDP nor with the rate of inflation and poverty norm.

Income Tax Act 2058 has described about the expenses which are allowed for deduction and not allowed for deduction while calculating amount of income tax. Similarly, Finance Act (budget) provides exemption limit to family or couple and individual unit separately. The study would be found out, whether the given exemptions limit and deductions of expenses are sufficient, appropriate, and systematic or not. For this purpose a questionnaire is presented

to different people (tax experts, tax administrators and tax payers etc.) for their opinions and suggestions regarding this.

1.3 Objectives of the Study

Generally, the main objectives of this study are to gain and insight into the exemptions and deductions of present income tax system. Giving the suggestions as much as possible to improve the tax system help the government to collect more revenue and use it in the process of national development. This research does not help the government to collect more revenue but also aware the people about exemption of incomes and deduction of expenses. However, the main objective of the study is:

-) To analyze of the contribution of income tax to national revenue of Nepal.
-) To examine of deductions facilities provided by the Income Tax Act 2058.
-) To evaluate of the exempt limit under the Income Tax Act 2058.
-) To examine the views of the tax experts, tax officers and tax payers about the exemptions and deduction facilities provided in the present Income Tax Act.
-) To provide suggestions and recommendations about Income Tax Administration and Income Tax Law.

1.4 Scope of the Study

The study tries to cover the major constituents of income tax system in Nepal. It aim to find out the exemption and deduction of income tax provided by Income Tax Act, problems and weakness in income tax system, contributions of income tax to the government revenue and tries to suggest some possible areas for reform. Especially the income tax exemption and deduction is discussed in detail.

In brief the study covers the following aspects of income tax system of Nepal:

-) Nepalese tax structure.
-) Role of income tax in Nepal.

-) Exemption limit and deduction facilities under Income Tax Act 2058.
-) Existing position of Income Tax in Nepal.

1.5 Need of the Study

Developing country like Nepal requires higher magnitude of financial resources for the development program. Internal resources have more significant role than the external resources for developmental program. The income tax is one of the most important internal sources of government revenue. Income tax plays significant role in the economic. But it is a matter of great embarrassment to quote that the contribution of income tax to the national revenue is very low in Nepal. To increase the contribution of income tax to the national revenue, problem faced by the income tax system should be researched and analyzed objectively and then the corrective actions should be started. Few studies and research works have been conducting in the area of income tax in Nepal. Within income tax, the intensive study on tax exemption and deduction hasn't been done in Nepal. Most of the researchers are based on contribution on income tax or national revenue. They are not giving main emphasis to research on exemption and deduction topic which is maintained in Income Tax Act. Due to this context need and significance of this study can be known easily.

1.6 limitation of the Study

There are various constraints in this study. Focus is only given to analyze only certain aspects of income tax and study of exemptions of incomes and deductions of expenses in Nepalese income tax. The research should be conducted according to the objectives, statement problems and methodology. It is not complete study of income tax system of Nepal. So, it has the following limitation:

-) It is based on exemptions of income and deductions of expenses but not as the complete study of income tax.
-) In the context of Nepal related sectors still are unable to provide relevant data properly. There is no systematic database that makes it

difficult to carry out on any research in Nepal. Sometimes authority person do not want to provide relevant information, this problem is also incorporate with this study.

-) Due to the small size it may not fully represent Nepal as a whole.
-) The views of respondents are collected only from Kathmandu valley.
-) Absence of required related data of various countries concerned with the study limits to details study.

1.7 Scheme of the Study

The whole study has organized in five chapters. They are:

-) Introduction
-) Review of literature
-) Research methodology
-) Data presentation and analysis
-) Summary, conclusion and recommendation

The first chapter is introduction chapter. It includes background, statement of the problem, objectives of the study, scope of the study, need of the study, limitation of the study and scheme of the study.

The second chapter is about the review of the literature and conceptual frame works. Books unpublished dissertation reports and articles etc. have been reviewed for the study. Conceptual frame work includes legal provisions regarding Income Tax Act 2058, concept of tax, concept and meaning of income tax, income tax in international context, and some legal provisions of income tax in Nepal etc.

The third chapter is concerned with research methodology which includes research design, population and sample, nature and sources of data, data collection procedure, data processing and analysis procedure etc.

The fourth chapter is the major part of this study. This chapter is termed as presentation and analysis of data. This chapter includes research gap in Nepal, tax GDP ratio; Nepalese government revenue structure, composition of tax revenue in Nepal, exemption of incomes and deduction of expenses in income tax system etc. and opinion survey have been analyzed. It describes the problems and weakness of tax administration in Nepal. It contains major finding of the study also.

Fifth is mainly concerned with summary, conclusion and recommendations. Appendix and bibliography are presented in the last part of the study.

CHAPTER - II

REVIEW OF LITERATURE

Many books, dissertations, articles and reports had been reviewed to perform this research study. While reviewing the books, it was found that most of the books are T.U. syllabus oriented and some of them had described the problems of prospects of income tax system and path for reforming of income tax. Similarly many dissertation, articles and reports had described the income tax law, provisions, and structure of income tax, problem and prospects of income tax. There were no detail studies made on the topic of income tax exemptions and deduction. Nevertheless, some books are more important and relevant for these studies.

2.1 Conceptual Framework and Legal Provisions

2.1.1 Concept of Tax

The government of any country required adequate funds to undertake development activities, keep law and order, maintain peace and security, run its administration and perform other works of public good. The budget is the life blood of any government or any organization. The government collects revenue from different sources like tax, price of goods or services provided by the government, fees, fines, grants etc. All the sources of the government revenue can be divided into two parts tax and non-tax. Tax is the major part of the government revenue.

The term 'Tax' refers compulsory contribution from a person to the government without any corresponding benefits. Tax is the compulsory levy imposed by the government to the people and organization. Tax is a compulsory payment to the government by the people without getting any direct benefits.

Many economists and scholars have expressed their views in regarding to the tax. Some of the definitions on tax given by some scholars are as follows:

According to economist Dalton "A tax is compulsory contribution imposed by a public authority irrespective of the exact amount of services rendered to the tax payer in return and not imposed as penalty for any legal offence."

According to Prof. Seligman "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."

From the above definitions, it is clear that tax is compulsory levy imposed to the person by the government according to the laws of the country. The person on whom, tax is imposed must pay taxes otherwise the laws will punish him/her. The government does not provide any corresponding benefit to the taxpayer for the amount of tax.

2.1.2 Classification of Taxes

Taxes are broadly classified into two types. They are:

2.1.2.1 Direct Tax

A direct tax is a tax paid by a person on whom it is legally imposed. In direct tax the person paying and bearing tax is the same. Taxpayers cannot collect direct tax from other person. Examples of direct tax are: income tax, property tax, interest tax, gift tax etc.

2.1.2.2 Indirect Tax

An indirect tax is a tax imposed on one person but partly or wholly paid by another. Indirect tax is transferable. The person paying the tax and the person bearing the tax is different. The person who pays tax collects it from others. People pay tax when they receive or consumed goods or services. For examples: VAT, sales tax, entertainment tax, hotel tax, import and export duties, excise duty etc.

2.1.3 Concept and Meaning of Income Tax

2.1.3.1 Income

Income means a “person’s income from any employment, business or investment and the total of that income as calculated in accordance with this act” (ITA2058, Sce.2, Jan.). It includes all sorts of income received for the provision of labor or capital or both of whatever form or nature in the taxable income.

Income as the economic gain received by the person during the particular period, is most, satisfactory defined by Henry Simons as the algebraic sum of two items:

- A. The person's consumptions during the period, and
- B. The increase in the individuals' personal wealth during the period.

Symbolically, $Y = C + \Delta W$

Where, Y = Income, C = Consumption, ΔW = Change in wealth.

2.4.3.2 Income Tax

Income tax is a personal tax imposed on the net income of individuals and corporation. In most of the countries especially the United States of America, Canada and other countries, the income tax is defined in terms of the 'flow of wealth' of receipt in money or goods from the tax payers during the period. Inflow of wealth method, taxation is imposed on a realization rather than an accrual basis, and the application only when a transaction occurs between other person and taxpayers (Due, 1959).

According to the tax economists "An income tax is a levy imposed upon the income of individuals after the exemption limit. Income tax is direct tax based on the total income of the taxpayers from all sources and is graduated on a special system of exemption." It is very important sources of revenue of each country.

2.1.4 Income Tax in the International Context

History of existing income tax is the story of wars, confrontation and resistance. Great Britain was the first countries that enact modern income tax. Before modern income tax act, England used to collect revenue mainly, through customs, excise, stamp duty and other. In neighbors country India, at first income tax was introduced in 1860. After introducing “Income Tax Act 1886” in 1886, it was imposed as a permanent. Italy adopted income tax in 1964, Newzealand in 1891, Australia in 1915 and Canada in 1917. After First World War, the income tax becomes an important source of tax revenue in many developed countries.

2.1.5 Development of Taxation in Nepal

At the ancient time, tax system of Nepal was based on Vedas, smiritis and purans. Directives propounded by Manu, Yagya, Balka, Chanakya etc. were guided the taxation system. At that time, the principle of collecting tax from the people was imposition of tax without harming the tax activities of the people (Kandel, 2003).

During the period of the Lichhabis, the main source of government revenue was tax. There were ‘Tri-Karas’ system such as Bhaga (Tax on agriculture), Bhoga (Tax on livestock) and Kara (Tax on trade). Amsubarma, the popular king of that period imposed water tax and religious monument repair tax. Tax was payable in accordance to tax payers ability.

In Malla period, there were taxes related to land, trading, etc. Jayashiti Malla, imposed taxes on cremation (Daha Sanskar) and caste purity.

In Shah Period, there was contribution of the tax system of Malla period. There were different types of taxes like Walak (tax on each family) Gaddimudark, Chumawan, and Goddhawa etc.

Prithivinarayan Shah introduced Pota tax in 1772. This system of tax was based on flat system and limited on small Brita owners. In the period of Surendra Bimram Shah Excise was introduced in Nepal.

During Rana period, the main source of government revenue was land tax, custom duties and excise. Sanads and Sawals were the laws guiding the tax system. Lagati (based on lagat record) and Hasawali (not based on record) were two types of revenues. Jamna Najodnu, Kachha Nachhodnu (not to get total and no to leave even a single paisa) was the principle of revenue collection in Rana period (Shakya, 1995).

After the initiation of democracy, the first budget was introduced in 2008 B.S. stated about the introduction of income tax system in Nepal. But it was actually started from 2017 B.S. in the form of business profit and Remuneration tax. The business profit and remuneration income were subjected to tax according to “Business Profit and Remuneration Tax Act, 2017 B.S.” some other taxes that are enacted in Nepal are custom duty, sales tax, value added tax, excise duty, local tax etc. The development of income tax in Nepal can be presented with the implementation of different income tax acts with the flow of time.

2.1.5.1 Business Profit and Remuneration Act 2017

Business Profit and Remuneration Act 2017 is the first formal tax act introduced in Nepal. It was enacted by the first elected government of Nepal. According to this act, only business profit and remuneration were subjected to tax, but the revenue for these taxes should not be collected properly according to original estimates. It consisted of 22 sections only (Dhungana, 1976:66).

Main features of this act mentioned below:

-) Only business profit and remuneration income were subjected to tax. Thus the act was narrow coverage.
-) Tax on remuneration was to be deducted at sources.
-) The basis for calculating the tax liability for remuneration was the income of the current year whereas for business profits, it was the profit of the preceding fiscal year.
-) There was a provision of fines regard between Rs.500 to Rs.5000 in case of defaults.
-) The tax officer was empowered to assess tax on best judgment estimation only in case of flash statement of in absence of income tax return.
-) The first court of appeal against the tax officers' assessment was local 'Bada Hakim' or Magistrate. Thereafter, taxpayer could appeal to the "Revenue and Tax Court" but the need to deposit fixed amount of tax.
-) There was a provision of tax exemption on salary of foreign citizen, dividend of shareholders, profits to be spend in religious or public welfare activity, crop from own land, allowances granted by HMG to ministers, assistant minister, chairman, speaker and deputy speaker, amount drawn from provident fund or saving fund.

The experience of three years application of "Profit and Remuneration Tax Act" was found that the narrow coverage and vague. So, it was replaced by the "Nepal Income Tax Act 2019 B.S."

2.1.5.2 Income Tax Act 2019

“Business Profit and Remuneration Tax Act 2017” was replaced by “Income Tax Act 2019”. It had come in implementation from July; 1962. It was more clear and extension of the previous act. It has consisted 29 sections. The main purpose of the imposition of this act was not only to raise government revenue but also to reduce inequality of income and wealth distribution with social justice and to create taxpaying habit of the taxpayers. It was amended only one time in 2029 B.S.

The main features of this act are as follows:

-) There were nine sources of income for the tax purpose such were, income from business, salaries, any profession, rent from house and land, investment in cash or bond, agriculture, insurance agencies and any other sources.
-) The status of taxpayers was defined personally as well as residentially.
-) The basis was specified for assessing tax on the best judgment estimate of the officer.
-) Act has defined basic terminology such as taxpayers, tax officers, company, firm, profit remuneration, tax assessment, non-resident etc.
-) Provision was made for payment of tax in installment as well as advance payment of tax.
-) Provision was made to carry forward of losses for the period of two years.
-) Provision was made for reassessment of tax as well as rectification of arithmetic errors.
-) The provision was made to constitute the net income assessment committee with five members.
-) Provision was made for payment of tax in installment as well as for advance payment of tax.

-) Clearly defined and stated that the assessment and method of assessing (computing) net income.
-) To expand the tax coverage at the first time agriculture income was brought under the tax net. But, the financial act 2023 B.S. exempted this income fully from income tax. Again, it was brought into tax net by financial act 2030 B.S.

2.1.5.3 Income Tax Act, 2031 B.S.

To fulfill the demand of time, “Income Tax Act, 2031” was enacted from October 1974 by replacing previous act. It has 66 sections. Its basic framework was derived from previous “Income Tax Act, 2019.” This act was amended in eight times.

Main features of this act are as follows:

-) This act has clearly defined the certain terminologies used in tax act e.g. income tax, taxpayers, non-resident, tax assessment, gross income, net income, income year, agriculture income, remuneration income, loss etc.
-) The act has classified income head into five categories (1) agricultural income (2) income from industry, trade, profession or occupation (3) remuneration (4) house rent and compound rent tax and (5) income from other sources.
-) Certain types of income were exempted from income tax that was specified in section 42.
-) Carry forward of lose has allowed for three subsequent year.
-) Provision of self-assessment of tax for the first time in Nepal.

-) The methods of computing net income from various sources have been specified clearly.
-) The provision for the taxpayers has to register their industry, business, profession or vocation in tax office before the commencement of the work.
-) The process of assessment, reassessment, and advancement of tax, deduction of tax at sources and refund of tax has clearly specified.
-) The act has clearly specified to deduct expenses while computing net income for all sources of income.
-) It has additional provision of exemption from income tax than the former act as follows: income of Guthi, income of village development committee, municipality, and amount received against life insurance.
-) Right, duties, forms, appeal were specified.
-) Provision of penalty up to Rs.5000 in case of failure of maintains or preserves accounts.
-) Provision for avoidance double taxation.

2.1.5.4 Weakness of Income Tax Act, 2031 B.S

Tax administration is not effective enough due to lack of professional skill of tax personnel, loop holes in tax laws, lack of taxpayers' information (Kharel, 2052). Some weakness in ITA 2031 as noted by him was as follows:

-) Limited taxable object or base.
-) Discretionary powers to the tax officers.
-) Imposition of various laws with regard to tax.
-) Ambiguous and insufficient.
-) Poor control mechanism for tax evasion and avoidance.

-) Tax law has not mentioned the right of taxpayers.
-) Taxing only the income originated in Nepal.
-) Low penalty rate to tax evader.
-) Unsuitable to modern economy. Etc.

2.1.5.5 Income Tax Act 2058 B.S.

“Income Tax Act, 2058” was introduced from 19th Chaitra 2058 B.S. This act replaced the income tax act 2031. The act was brought in Nepal to avoid the defects of income tax act 2031. It consists of 143 sections along with 24 chapters. The main motto of this act is to promote the economic development of the nation. HMG had enacted the income tax rules in 2059, Jestha 27th in accordance with the authority given under section 138 of ITA 2058. The new act has retained certain provision of the old tax act and has added certain new provision.

2.1.5.5.1 Objective of Income Tax Act, 2058 B.S.

According to the policy maker following are the main objectives of ITA 2058:

-) To increase the tax coverage.
-) To bring all the income generating activities within tax net.
-) To bring all the income tax related provision within one act.
-) To make income tax related provision clear and transparent.
-) To interlink Nepalese tax system with tax system of other countries.
-) To make tax system based on account.
-) To minimize tax avoidance and tax evasion.
-) To make tax system compatible to modern economy.

-) Reducing the scope of discretionary interpretation of the tax administration thereby ensuring simplicity, uniformity and the transparency.
-) Separating administrative and judicial responsibilities.
-) Defining the power as well as authority of tax administration.
-) Making more responsible to taxpayer by emphasizing on self tax assessment system.

2.1.5.5.2 Main Feature of Income Tax Act, 2058

Following are the main features of income tax act 2058:

-) Income tax related provisions are included within one act.
-) This act has clearly classified the income into three headings under section 3: (a) business (b) employment and (c) investment.
-) This act has clearly defined the terms mainly used in income tax.
-) All expenses incurred while generating taxable income are allowable to deduct.
-) The act has introduced a pool system of charging depreciation, intangible assets are also depreciated.
-) Capital gain and dividend etc. are brought into tax net.
-) The act has provided a liberal loss set-off and carry forward\backward provisions. Inter head adjustment of losses is clearly specified.
-) The act has introduced a provision for administrative review to allow the tax administration to correct mistakes make by the tax administrators internally.
-) Global incomes of a resident are made taxable. Non-residents are also taxed on their income with source in Nepal.

-) Provision of fines and penalties are made clear and strict in the new ITA 2058.
-) The act has given the option for husband and wife as a separate natural individual unit if they do not accept as couple.
-) To control the tax evasion, provision of transfer pricing, capitalization, dividend stripping is made.
-) Taxpayer's authorities are specified clearly.
-) The special provision for deduction pollution control cost and research and development cost.
-) Tax can be paid in three installments (40% at first, up to 70% at second and 100% at last).

2.1.6 Review of Some Terminologies Used in Taxation

According to ITA 2058:

a. Income (section 2 Ja)

Income means "person's income from any employment, business or investment and the total of that income as calculated in accordance with this act." It includes all sorts of income received for the provision of labor or capital or both of whatever form or nature in taxable income.

b. Income Year (section 2 Jha)

Income year means the period from the start of Shrawan of a year to the end of Ashad of the following year. ITA, 2058 has regarded Nepalese fiscal year as an income year.

c. Company (section 2 Da)

Company means, the company which is established under the company laws or act. Besides, the following institutions are also treated as company for tax purpose.

- i. Corporate body established under the laws for the time being in force.
- ii. Any unincorporated association, committee, institutions, society or group of persons other than partnership or proprietorship firm (whether or not registered) or a trust.
- iii. A partnership firm (whether or not registered under the laws for the time being in force) that has 20 or more partners, a retirement fund, a cooperative, a unit trust, or a joint venture.
- iv. Foreign company and
- v. Any foreign institution prescribed by the Director General.

d. Individual (section 2 Wa)

Individual means a natural person and proprietorship firm whether registered or unregistered owned by the person, if any, and a couple making an election as single natural person under section 50.

e. Entity (section 2 Bha)

Entity means the following institutions or organization.

- i. A partnership, trust, or company.
- ii. A VDC, Municipality or DDC.
- iii. Nepal Sarkar (Government of Nepal).
- iv. A foreign government, or a political sub-division of the foreign government, or a public international organization established under treaty, and

- v. A permanent establishment of an individual or an entity that is not situated in the country in which the individual or entity is resident.

f. Resident Person (section 2 Ka Nga)

Resident person with respect to an income year means:

-) In the case of an individual: an individual is;
 - i. Whose normal place of abode is in Nepal;
 - ii. Who is present in Nepal for 183 days or more in any period of 365 consecutive days; or
 - iii. Who is an employee or an official of Nepal Sarkar posted abroad at any time during the income year;
-) Any partnership.
-) In the case of trust: a trust that:
 - i. Is established in Nepal;
 - ii. Has trustee that is a resident person for the income year, or
 - iii. Is controlled directly or through one or more interpose entities by a person or persons one of whom is a resident person for the income year.
-) In case of a company, a company is that:
 - i. Is incorporated or formed under the law of Nepal or
 - ii. Has its effective management in Nepal during the income year.
-) A VDC, Municipality or DDC
-) In case of a foreign government or a political sub-division of the foreign government, such an entity.
 - i. If it is established under the laws of Nepal or
 - ii. Has its effective management in Nepal during the income year.
-) Any institution or entity established under treaty; and

-) A foreign permanent established of a non-resident person situated in Nepal.

A person who is not a resident person is considered as a non-resident.

g. Partnership (section 2 Ka. Pa)

Partnership means a firm (registered or not registered) that has fewer than 20 partners. However, the term does not include a proprietorship firm (registered or not registered) or a joint venture.

h. Exempt Organization (section 2 Dha)

Exempt organization means the following entities:

-) Following entities registered with IRD as tax exempt entity.
 - i. A social, religious, educational, or charitable organization of public character registered without having a profit motive.
 - ii. An amateur sporting association formed for the purpose of promoting social or sporting activities not involving the acquisition of gain.
-) A political party registered with the election commission.
-) A VDC, Municipality or DDC.
-) Government of Nepal.
-) Nepal Rastra Bank

i. Business (section 2 Ka. Ja)

Business means a industry, a trade, a profession or the like isolated transaction with a business character and include a past, present or perspective business. However, the term does not include employment.

j. Tax (section 2 Dha)

Tax means income tax imposed under this act and includes following payments:

-) As mentioned in clause 104 (8) sub clause (a) expenses incurred in relation to claims or performing action of the property of tax creditor by the department.
-) Amount payable by the withholding agent or withholder clause 90, or amount payable by an installment payer under clause 94 or the amount payable as per tax assessment under clauses 99, 100 and 101.
-) Amount payable to the department on respect of a tax liability third party under clause 107(2), 108(3), 109(1) and 110(1).
-) Amount payable by way of interest and fees under chapter 22 and
-) As per clause 129 amount payable by way of fines as per the order of the department.

2.1.7 Sources of Income

Income tax act 2058 has classified the sources of income for the purpose of assessment under the following headings:

- I. Income from Business.
- II. Income from Investment
- III. Income from Employment.

2.1.7.1 Income from Business

Income Tax Act 2058 has defined the business income for income tax purpose. Profits of gains from conducting the business are considered as business income for the purpose of income tax. While calculating a person profit and gains from the business, the following amounts derived by the person during the year will be included and following expenses are deducted. (See ITA, 2058 for detail)

Incomes are as follows:

-) Service charge (sec.7.2)
-) Sale or disposal of business\ trading stock (sec.7.2)
-) Net gain from disposal of business assets liabilities under chapter 8 (sec. 7.2)
-) Gain from disposal of pool of depreciable assets (sec. 7.2)
-) Prizes of gifts connection with business (sec. 7.2)
-) Amount received instead of acceptance of any restriction\ regarding business (sec. 7.2)
-) Income to be included due to change in accounting methods (sec. 22.6)
-) Excess amounts received due to exchange rate variation (sec. 24.4)
-) Bad debts recovered (sec. 25.1)
-) Proportionate amounts received under long-term contracts (sec. 25.1)
-) Under payment of interest according to market rate (sec. 27.1)
-) Receivable amounts paid by other (sec.29)
-) Amount received for compensation (sec. 31)
-) Other amount received under business income (sec. 7.2)

Allowable deductions:

-) Interest expenses (sec.14)
-) Cost of business\trading stock (sec. 15)
-) Repair and improvement expenses (sec. 16)
-) Pollution control cost (sec. 17)
-) Research and development cost (sec. 18)
-) Depreciation (sec. 19)
-) Loss from banking business (sec. 59)
-) Other expenses.

While calculating income tax from the business, the following amounts are excluded income from business for tax purpose.

-) Exempt amounts under section 10.
-) Taxation of dividends under section 54.
-) Final withholding payments section 92.

2.1.7.2 Income from Investment

Profit and gains from conducting an investment are considered as investment income. In calculating a person's profits and gains from an investment for an income year the following amounts derived by the person during the year should be included. Following list shows the including amount and excluding amount in investment income.

Following incomes are including in investment income:

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

-) Net gain from the disposal of the non business chargeable assets of investment (sec. 9.2)
-) Excess amount of incoming over the depreciation basis including outings on the disposal of the depreciable assets of the investment of the person (sec. 9.2)
-) Gifts and prize received in connection with investment (sec. 9.2)
-) Retirement contribution, including those paid to a retirement funds in respects of the person and retirement payments on respect of investment (sec. 9.2)
-) Amount received instead of acceptance of any restriction regarding investment (sec. 9.2)
-) Amount include under change of accounting method (sec. 24)
-) Bad debts recovered (sec. 25)
-) Underpayment of interest account according to market price (sec. 27.1)
-) Excess amount received is exchanging of currency (sec 28)
-) Amount received as composition (sec. 31)
-) Other amounts required to be included on tax accounting or quantification, allocation and characterization so amounts or transition between any entity and beneficiary on general insurance business (sec. 9.2)

The following amounts are excluded income from investment for tax purpose:

-) Exempt amounts under section 10.
-) Taxation of dividends under section 54.
-) Final withholding payment under section 92.
-) Amounts those are included in calculating the person's income from an employment or business.

Allowable deduction:

-) General deduction (sec. 13)

-) Interest (sec. 14)
-) Repair and improvement cost (sec.16)
-) Depreciation (sec. 19)
-) Business or investment less (sec. 20)

Allowable reductions:

-) Donations to tax exempt organization (sec. 12)
-) Retirement contribution (sec. 63)

2.1.7.3 Income from Employment

An individual's remuneration income from employment is termed, as income from employment. All payments or benefits received in respect of employment, including past or future employment are made taxable income. According to sec, 8 the remuneration received by a person from the employment is as following payments made by the employer. (Sec. ITA. 2058 for detail).

Following employment incomes include for tax propose.

-) Payment of wages, salary, leave pay, overtime pay, fee, prize and gifts related to employment, bank and other facilities. (Sec.8.2)
-) Payment of living allowance, rent, entertainment and transportation allowance and other personal allowances. (Sec.8.2)
-) Payment of reimbursement of cost incurred by the individual or an associate of the individual. (Sec.8.9)
-) Payment for the agreement to any condition of the employments. (Sec. 8.2)
-) Payment for the compulsory terminates loss or redundancy of the employment. (Sec. 8.2)

-) Retirement contribution amount pay by the employer to the retirement fund in the respect of the employee. (Sec. 8.2)
-) Other payment in respect of the employment

In additional to above stated, the following types of perquisites are include in remuneration of a person.

-) Prize and gifts.
-) Other payment made in respect of employment.
-) The amount of difference of the interest on loan paid by the employer lower rate than the market rate.
-) Market value of asset in case of the transfer of the assets.
-) For the payment other than stated above, the value of benefit of the payment to the third persons.

While the computing net income from employment of a natural person, the following amount are excluding on employment income:

-) Amounts exempt under section 10 and final withholding payments.
-) Meals or refreshment provided by premises operated by or behalf of an employer to the employer's employees that are available to all the employees in similar terms.
-) Payment of prescribed small amount, which are so small and thus unreasonable or administratively impractical to make accounting for them.
-) Any discharge or reimbursement of cost incurred by the individual cost.
 - Cost that serve the proper business purpose for the employer.
 - Cost that are or would be deductively in calculating the individual income from any business or investment.

Following expenses can be deducted while calculating employment income.

-) Directly related cost for generating employment income.
-) Contribution to retirement fund (provided fund, citizen investment fund and others).
-) Donation (5% of adjusted taxable income or 10,000 whichever is less).

2.4.8 Tax Exempt Organization

Exempt organization means any entity that should not paid tax legally. Non-profitable organizations are provided such facilities.ITA 2058 has clearly mentioned the tax exempt organizations in sec.2.

Following are the tax exempt organizations.

-) A religious, educational or charitable organization of a public character.
-) An amateur sporting association formed for the purpose of promoting social or sporting amenities not involving the acquisition of gain.
-) A political party registered with the election commission
-) A village development committee, municipality, or district development committee.
-) Nepal Rastra Bank.
-) Nepal sarkar

However, any benefit acquired by any person out of assets of an amounts derived by the entity expect in pursuit of the entity's function or as payment for assets or services rendered to the entity by the person it is exempt from tax.

ITA 2058 has mentioned the organizations which are tax free (Exempt organization). Act has exempted a social, religious, educational or charitable organization of a public character registered without having profit motive.

2.4.9 Tax Exempt Amounts or Inadmissible income

According to ITA 2058 Sec.10 following are tax exempt amounts.

-) Amount derived by a person entitled to privileges under bilateral or a multilateral treaty between Nepal Sarkar and a foreign country or international organization.
-) Remuneration of an individual from employment in the public service of the government of a foreign country, provided that:
 - i. The individual is a resident person solely by reasons of performing the employment or is a non-resident person.
 - ii. The amounts are payable from the public funds of the country.
-) Amount derived from public fund of the foreign country by an individual who is not a citizen of Nepal or by a member of the immediate family of the individual.
-) Remuneration paid by Nepal Sarkar to foreigner on condition of tax exemption.
-) Allowance paid by government to widows, elder citizens or disabled ones.
-) Amount derived by way of gift, bequest inheritance or scholarships which are included in income from business, employment or investment income are tax exempt.
-) Pension received by a Nepali as retired army/police of a foreign country, from public fund of foreign government.
-) Amount derived by an exempt organization by way of:

- i. Gifts (donation)
- ii. Other contribution that directly related to the exempt organization's function.
- iii. Amount derived by Nepal Rastra Bank as per its objectives.
 - Non includable amount on investment income.
 - The act has mentioned the amount which are excluded in computing income from an investment under section 9.3 They are:
 - a. Exemption amount under section 10,
 - b. Taxation of dividend under section 54.
 - c. Dividends distributed by a controlled foreign entity at the end of the year under section 69 and final withholding payment, and
 - d. Amounts that is included in calculating the person's income from any employment or business.

2.4.10 Business Exemptions and Concessions (Sec. 11)

The following business exemptions and concessions are mentioned in section 11 of ITA 2058.

-) An agricultural income derived from sources in Nepal during an income year by a person, other than the income from an agriculture derived by a registered firm, or partnership, or a corporate body.
-) Income derived by cooperative societies registered under cooperative act 2048 from business mainly based on agriculture and forest products and dividend distributed by such societies are exempted from tax.
-) Any person operating special industry during the whole income year will be taxed as under:
 - a. In case, the industry provides direct employment to 600 or more Nepali citizens during the year, 90% of applicable tax rate is applied.

- b. In case, the industry operated in a remote, undeveloped, or underdeveloped area tax at 70%, 75%, 80% of the applicable tax rate respectively up to ten income years commencing, from and including the year in which the operation commence.
- c. If the both exemptions (a & b) are available to the same industry for same income year, only on exemption must be chosen.
-) A person who is entitled to an exemption as per sub – clause (a) (b) or clause 11 should calculate the income as referred to in those subclasses as through the income was only income earned by separate person.
-) If the assets by the special industry were used previously by another person operating the similar type of special industry the ten year for the letter will be counted from the period of such use by the another person previously.
-) If any agreement made by government and any person constructing and operating infrastructure project to construct and operate an infrastructure project and for such agreement provide any tax facilities given by this act. In this condition, the person (project) can consume the facilities till to the period stated in the agreement.

2.4.11 Donations and Gifts to tax Exempt Organization (Sec -12)

Income Tax Act 2058, Sec. 12 has mentioned the provision of donations and gifts to exempt organization. The provisions are:

- a. A person may claim to have taxable income year reduces by donations (gifts) made by the person during the year to an exemption organization, that are approved for the purpose of this section by the department.
- b. Notwithstanding subsection(a) reductions allowed to a person under subsection (1) for an income year shall not exceed Rs. 100,000 or 5% of

the person's taxable income for the year calculated without a deduction for gifts referred to subsection (a) and ignoring the limitations in 17 (2) and 18 (2) whichever is less.

- c. Notwithstanding subsection (a) and (b), Nepal Sarkar may prescribe, by a notification in the Nepal Gazette, as to full or partial deduction at the time of assessing a person's income of the expenses incurred for special purpose or the expenses of the gift given by the person.
 - From the above provision (a), it is clear that the donation given to political parties is allowed for deduction. But it is not clear mentioned that 'transparency of donation amount given by businessman to political parties.'
 - Similarly, in the provision (c), there is a provision of special purpose. But the act has not defined 'what is the special purpose?'

2.4.12 Allowable Deductions

Income Tax Act 2058, Sec. 13 to 20 is described the allowable deductions which are as follows:

2.4.12.1 General Deduction (Sec. 13)

-) To calculate a person's income from any business and investment for an income year the interest expenses can be deduct following conditions:
- a. The borrowed money is use in the year;
 - b. If the money borrowed to purpose an asset, the asset must be used in the year.
 - c. In other case the borrowed money is used to generate income from business or investment.

-) In case of resident entity controlled by a tax exempted institution and that entity has paid interest to the controller institution or related person, the resident entity may deduct the interest paid without exceeding the sum of follows (a + b).
 - a. Total interest derived by that entity which is included income taxable income, and
 - b. 50% of the entity's adjusted taxable income for the year calculated without including any interest received and without deducting any interest expenses paid by the entity.
-) The portion of the interest which is not deducted during the current income year because of the limitation. So, remaining portion will be deducted in the income year.
-) For this purpose, the controller entity means the institution holding of 25% or more of equity or managerial power at any time during the income year.
-) Here, tax exempted institution means:
 - a. Tax exempted entity and related person.
 - b. Entities getting business concession and facilities under (sec.11)
 - c. Non-resident person or his related persona or
 - d. Any combination of (a), (b) and(c).

2.4.12.2 Interest Expenses (Sec.14)

To calculate a person's income from any business and investment for an income year the following costs incurred in the transaction can be deduct.

-) Incurred during the year.
-) Incurred by the concerned person.
-) The cost which is incurred to produce income from business or investment.

2.4.12.3 Cost of Trading Stock (Sec. 15)

Cost of trading stock is allowable to deduct while calculating income from business. Following points are important for the purpose:

) Raw material, work-in progress and finished goods are included in trading stock.

Cost of trading stock = Opening stock + Purchasing during the year – Closing stock.

) To evaluate the closing stock cost price and market price whichever is less is taken.

) The person keeping accounts on a cash basis for the valuation of trading stock.

a. Absorption cost can be derived as follows:

Direct material cost	Rs. +++
Direct labor cost	Rs. +++
Variable factor overhead cost	Rs. <u>+++</u>
Prime cost (Absorption cost)	Rs. +++

b. Similarly, factor cost can be derived as follows:

Direct material cost	Rs.+++
Direct labor cost	Rs. +++
Factory overhead (Fixed +variable)	Rs. <u>+++</u>
Factory cost	Rs. +++

) Repair and improvement expense and depreciation of plant and machinery should not be add while calculating factory overhead or variable factory overhead (Kandel, 2003: 68).

2.4.12.4 Repair and Improvement Cost (Sec. 16)

) For the purpose of calculating a person's income for an income year from any business or investment, repair and improvement cost of depreciable assets, owned and used by the person should be deducted which is incurred during the year.

) However, according to the act, such costs do not exceed 7% of depreciation basis of the assets pool at the end of the income year.

) If the actual repair and improvement cost is more than 7% of the assets pool, the balance amount is capitalized and added to the depreciation basis then written off in the next years.

) Repair and improvement cost can be calculated as follows.

Opening written down value of assets pool	+++
Add: Last year's capitalized part of the asset pool	+++
Add: Addition of the asset during the year	<u>+++</u>
	+++
Less: Disposal of assets of during the year	<u>+++</u>
Depreciation basis	+++

7% of depreciation basis or actual repair and improvement cost whichever is less is allowable for depreciation (Kandal, 2003:68).

2.4.12.5 Pollution Control Cost (Sec.17)

-) Pollution control cost means cost incurred by a person in the possess that seeks to control pollution or protect and conserve the environment.
-) To calculate a person's income for an income year from any business, the pollution control costs can be deduct that is incurred during the year in conducting the business.
-) But the lower amount of the below is deducted.
 - a. actual pollution cost or
 - b. 50%of adjusted taxable income from all business.
-) The portion of pollution control cost not allowed as deduction will be capitalized at the beginning of the next income year under block 'D' of assets pool.
-) Government has a will of controlling pollution to protect the environment but has not sent a little bit money on it.

2.1.12.6 Research and Development Cost (Sec. 18)

-) R & D cost means cost incurred by the person for the purpose of the developing and improving the business system. Process and products etc.
-) R & D cost though the cost of capital nature are allowed for deduction to an extent from taxable income of the person.
-) The lower amount of the below is deducted.
 - a. Actual research and development cost, or
 - b. 50% of adjusted taxable income of all business.

-) The portion of R & D cost not allowed for deduction in the income year is capitalized at the beginning of next income year under block 'D' of assets pool.
-) Here, adjusted taxable income of a person for an income year is the taxable income without reducing donation (sec. 12) and without deduction of pollution control cost (sec. 17) and R & D cost (sec. 18). (Kandel, 2003:70- 71).

2.4.12.7 Depreciation Cost (Sec.19)

-) Depreciation is the gradually decreasing in the value of assets due to wear and tear, obsolescence or the passing of time.
-) Depreciation at prescribed rate is allowed to deduct on used depreciable assets owned by the persons or organization.
-) There are different rate of depreciation for different blocks. 5% for 'A' group, 25% for 'B', 20% for 'C,'15% for 'D' and Original Cost for 'E'.

Useful life

-) The depreciation basis(pool- wise) is calculated as under:

Opening depreciation basis	+++
Add: Additional during the year	<u>+++</u>
	+++
Less: Disposal during the year	<u>+++</u>
Depreciation basis	+++

-)] The following entities are allowed additional depreciation, $1/3^{\text{rd}}$ of the prescribed rate on the assets falling under A, B, C and D blocks.
 - a. Entity engaged in building public infrastructure to transfer to the government and any other entity engaged in power generation, transmission or distribution of electricity.
 - b. Entity fully engaged in operating special industry.
 - c. Entity fully engaged in operating road, bridge, tunnel, ropeway or flying bridge constructed by the entity.
 - d. The entity fully engaged in operating trolley bus or train.
 - e. The entity which earned income from export business in an income year.
-)] An individual cannot get such facilities ($1/3^{\text{rd}}$ additional depreciation) even though, she/he is operating similar activities (Kandel, 2003: 73).

2.4.12.8 Losses from Business or Investment (Sec.20)

-)] While calculating income from business for an income year following losses are allowed for deduction.
 - a. Any unrelieved loss of the year incurred by the person from any other business.
 - b. Any unrelieved loss of previous four income year incurred by the person from any business.
-)] While calculating income from investment following losses are allowed for deduction.
 - a. Any unrelieved loss of the year incurred by the person from a business or investment.
 - b. Any unrelieved loss of previous four income year incurred by the person from any business.

2.4.12.9 Bad Debts (Sec.25.2)

Under the following condition bad debts can be deduct.

- i. If the outstanding loan bank or financial institution has become bad debts accordance with the standards prescribed by Nepal Rastra Bank.
- ii. Apart from Sec. (i), the person believes that, the receivable amount could not be recovered, after taking reasonable steps to recover the amount or loans.

2.4.13 Allowance Reduction

i. Donation to Exempt Organization

Donation made to an exempt organization approved by Inland Revenue Department (IRD) is allowed for reduction from taxable income.

-) If the donation given by the person or entity, Rs 100,000 or 5% of adjusted taxable income whichever is less is allowable to reduction.
-) Donation made to Pashupati Area Development Trust (PADT) and Lumbini Area Development Trust (LADT) is deductible up to Rs 50 lakh.

ii. Retirement Contribution (Sec. 63)

An individual who is receiving of a retirement fund may claim a reduction for retirement contributions made to the fund. However, claim made by an individual for an income year will not the prescribed retirement limit.

2.4.14 Tax credit

i. Medical Tax Credit (Sec. 51)

An individual may make a claim for the offset of medical expenses incurred himself. 15% of the eligible medical expense or Rs. 750 whichever is less is allowable for deduction. It can be deduct from total tax liability.

ii. Foreign Tax Credit (Sec. 71)

A resident person may claim a foreign tax credit for an income year for any foreign income tax paid by the person to the extent to which it is paid with respects to the person's assessable foreign income for the year.

- The maximum allowable foreign tax credit to a person is calculated by applying following formula.
- Foreign Tax Credit = Assessable income from foreign sources × Average rate of income Tax in Nepal.

$$\text{Average rate of income Tax in Nepal} = \frac{\text{Total tax amount (Payable) before any foreign tax credit}}{\text{Total taxable income}} \times 100\%$$

2.4.15 Expenses not allowed for deductions

For the purpose of calculating the income of a person for an income year from any business, employment or investment; the following expenses are not allowed for deduction under section 21 of Income Tax Act 2058.

- a. Expenses of domestic of personal nature.
- b. Tax paid under this act.

- c. Fines and penalties paid to government or its local bodies for breaching of any law or regulations.
- d. Expense to the extent to which they are incurred by a person in deriving exempt amount under section 10 or final withholding payment
- e. Expenses for payment made by a person whose annual turnover for an income year exceeds Rs. 20, 00,000 is not allowed a deduction for a cash payment in excess Rs. 50,000 incurred at once other than in specified conditions. (Sec. Income Tax Act 2058, Sec. 21.2 for detail)
- f. Expenses of capital nature.
- g. Foreign income tax.
- h. Dividend.
- i. Reserve and provision fund.
- j. Any other amount to the extent to which deduction is not defined by above program.

Clarification

A person whose annual turnover for an income year exceeds Rs. 20, 00,000 is not allowed a deduction for cash payment in excess of Rs. 50,000 incurred at once other than in the following conditions by the person during the year.

-) Payment is made to Govt., a constitution body, a corporation owned by government or a bank or a financial institution,
-) Payment made to a farmer or producer producing primary agriculture products even in the case where the product is primarily processed by the farmer himself.
-) Retirement payment.
-) Payment made in those areas where banking services are not available.
-) Payment made in cash in must necessary conditions when banking service is closed, and

) Payment is made into a bank account by the payee.

For the purpose of this section:

) “Expenses of a domestic or personal nature” means the following expenses.

- Expenses incurred for an individual and the following expenses, including interest incurred with respect to money borrowed to the extent to which it is used for personal purpose.
- Expenses incurred in maintaining shelter as well as meals, refreshment, entertainment or other leisure activities to the nature individual.
- Expenses incurred with respect to individual commuting or traveling, other than connecting in the courses of conducting a business or investment.
- Expenses incurred in acquiring clothing for the individual, which are not used while doing business work.
- Expenses incurred in education and training. But, the expenses are allowed for deduction that is incurred for training and education and directly related to business which does not lead any university (academic) diploma and degree.

) “An area having banking services” means the area where there are no banking facilities within the surrounding of 10 kilometers.

) “Cash payment means a payment other than made through a bank or financial institution by of letter of credit, cheque, draft, money order, telegraphic transfer, money transfer, (Hindi) and any other form of transfer, made between two banks or financial institutions.

) “Expenses of a capital nature” means the following expenses.

- Expenses incurred in respect of natural resources prospecting exploration and development.
- Expenses incurred in the acquisition of an asset with a useful life exceeding 12 months, or
- Expenses incurred on the disposal of a liability.

2.2 Review of Books

Amatya (1965) published a book entitled “Nepal Ma Aayakar Ko Byabastha.” In this book he has tried to define income tax and its provision pertaining to Income Tax Act 2019. His contribution was the first in this field. Basically, he has analyzed the legal aspects of income tax in Nepal at that period.

Marahatta and Khatiwada (1970) they had presented the legal provisions and method of computing taxable income under the provision of tax act. They have emphasized the legal provision, rather than analytical study of the act. This book is lacking with the problems of income tax, system as well as contribution to the national revenue. This book was fully based on the campus level syllabus of that period.

Poudel and Timilsina (1990) they have described the theoretical as well as practical aspects of income tax. Writers were fully based on B.Com. Level syllabus prescribed by T.U. The book is descriptive rather than analytical.

Khadka (1994) had described the economic policy of Nepal, value added tax, income tax from rough to refined system, property taxes as the main sources of local revenue. He had shown the composition of tax revenue from 1950/51 to 1991/92.

About the income tax, he had described the introduction, development, structure, problems and possible direction of reform. He had identified the major problems of income tax such as narrow coverage unscientific tax assessment etc. He had suggested following direction for refer, they expansion of coverage improvement in tax assessment use of presumptive method, extension of withholding tax, inflation adjustment, tax treats with the major trading patterns of Nepal.

Similarly, he identified following major problems of tax administration: - weak tax administration, inadequate tax training, lack of adequate information system, inadequate physical and other facilities, lack of coherent tax policy etc.

He had suggested some suggestion for administrative reforms. They were: strengthening the revenue service, provision of existing tax training, developing an integrated information system, research on taxation etc.

Tiwari (2050) had described the legal provision, process and methods to assess the income tax with numerical examples. Writer was fully based on campus level syllabus. He had not shown the role of income tax in economic development, problem of income tax system. This book is descriptive rather than analytical today's. This book is also less important due to change of act.

Pawan Kuamr Ojha (2050) had published a book named "Taxation Law". He had described the different acts and law of income tax. He had taken many tax

cases into consideration to describe legal terms. This book may be beneficial to understand the income tax laws.

Dhakal (2001) had presented numerical examples to describe legal provision relating to income tax. His book is very useful to know the various aspect of income tax. Although, he has not shown any numerical illustration.

This book is very useful to know about the legal provisions of “Income Tax Act 2031 B.S.” Writer is fully based on the campus level curriculum prescribed by T.U. This book is informative and descriptive rather than analytical. He has not analyzed the role of income tax and the structure of income tax.

“Income tax law: Then and Now” was published by Adhikari (2059) in this book he has described the legal provisions of new Income Tax Act 2058. He has also incorporated the decision made by Supreme Court pertaining to the income tax act. He has described the legal provision with critical analysis. This book is very useful to those, who take keen interest to know about the Income Tax Act 2058. Writer has not analyzed the role of income tax and income tax structure. This book is analytical rather than descriptive.

Kandel (2003) has described the about introduction of tax, meaning of tax, history of income tax, structure and feature of income tax, meaning of different basic term of tax, exemption and tax rate, sources of income, assessable and taxable income etc. Tax based on Income Tax Act 2058. He has described about Value Added Tax.

Mallik (2003) had published a book named “Nepalese Modern Income Tax System”. He has described about legal provisions relating to income tax with numerical examples and has described historical aspect of income tax. This book is very useful to know the general information and legal provisions of income tax act 2058. The book is informative rather than analytical. The writer has not analyzed the role of income tax structure in this book.

2.3 Review of Dissertations

Some dissertations were reviewed for this study. They are as follows:-

Shrestha (1967) had prepared a master degree thesis entitled “Income Tax in Nepal”. In this study, he has tried to give some general idea of income tax act. He has described about historical background, income tax act, rules and administrative aspect of income tax. All things mentioned in it are not fully relevant at present.

Pandey (1978) has described brief review of Nepalese economy, resources mobilization. He has described tax system, structure, role and problems of income tax in Nepal. He has more emphasized on tax structure of Nepal. He has described the significant role of income tax in Nepal. About the exemptions and deduction, he has not accounted anything.

He has described the problems of income tax in Nepal. They are lack of up-to-date existing as well as potential tax payers. Lack of records keeping and maintaining, accounts by tax payers, lack of responsibility and honesty among

the tax officer, lack of co-ordination between various tax departments and revenue department, leakage in income tax collection etc. Some of these problems are more relevant and considerable at now.

He has presented some important suggestions. They are: - Capital gain should be included on income tax, income from bank interest should be subjected to income tax, income tax accounting assessment and collection method must be scientific. The system of granting income tax holiday to industries should be scrapped. Some of these suggestions are considered by income tax and financial act.

Suwal (1981) had presented a dissertation named, "Income Tax System in Nepal". He has described the concept, importance, objectives, role structure and problem of income tax. His main findings about the reasons of tax evasion are lack of tax consciousness of Nepalese people, loopholes; wide spread illegal business activities, high tax rate, open border, corruption, absence of clear and comprehensive definitions of income etc. Similarly, his findings about the problems of income tax in Nepal are: lack of responsibility and honesty among the tax officers, delays in tax administration, lack of accounts and records of tax payers, tax evasion etc. Which are more relevant at now also?

His suggestions about the income tax of Nepal were: - Scientific methods of accounting assessment and collection of income tax, widening the coverage of tax, clear and precise law etc. But he had not mentioned the legal provisions, exemption and deduction. Similarly, he had not conducted any empirical investigation.

Nepal (1983) had conducted an opinion survey of the appropriateness of exemption limit. Nine (9) out of Ten (10) officers were in positive response. But, out of 25 taxpayers 16 were in negative response. She had also taken another opinions survey about adjustment of exemption limit according to the inflation. Out of 10 tax officers and 25 tax payers, 8 tax officers and 23 tax payers were agreed to adjust the inflation situation respectively.

She has presented some suggestion about the tax rate and exemption limit. It should be elastic, scientific and progressive. The exemption limit should be separated to the couple and family. But only increasing in exemption limit will not create benefit. If exempted income is spanned in luxuries consumption, it will hamper saving and investment. She has not mentioned the legal provision reality to income tax, exempted incomes and deduction of expenses.

Shrestha (1984) has described the structure, per capita burden and problems of income tax in Nepal. She found that tax evasion is the serious problem. She finds the same types of problems and presented same types of suggestions like as previous thesis writers. But she has not mentioned the legal provision relating to income tax. Empirical investigation had not conducted. Exemptions and deductions had not accounted.

Regmi (1991) had presented a dissertation names "The role of income tax in Nepal". In his study, the main objectives of examining the share of income tax in Nepal. To increase the revenue of government he has recommended that income tax law should be clear, scientific method for accounting assessment and collection of income tax, widening the tax coverage, easy and simple procedure of tax payment, public awareness etc.

Thapa (1993) has presented a master level dissertation named “Income Tax Assessment Procedure” and found that the less effective income assessment as the main problem of income tax system in Nepal.

Acharya (1994) had described structure, productivity and problem of income tax system. His study was mainly concentrated on the problem of income tax system. Although his finding about the problem of exemption limit and allowance were considerable and accountable. He has shown the problems of exemption limit as follows:-

Exemption limit being equal to remuneration taxpayers and business individual does not seem reasonable. The exemption limit for remuneration taxpayers should be comparatively high than the business individuals.

The exemption limit in the Nepalese context neither shows any definite relationship with per capita income and GDP nor with the rate of inflation or with poverty line, so it seems to be unscientific. He has also described the exemption limit and problems of exemption limit.

Shahu (1995) has found that 0.35 percent of total population come under the categories of taxpayer during his study period. A main objective of his study was to study Nepalese tax structure, role and contribution of income tax on national revenue. He has not discussed the major aspect of income tax clearly and analytically.

Tripathee (1995) had more emphasized on the income tax administration and tax evasion. According to his study mainly following reformatory activates should be performed.

-) The items of deduction should be added.
-) For the expansion of industry additional incentive should be provided.
-) There should be prize system, which may be as the form of tax incentives or tax holidays to the taxpayers etc.

This dissertation is very useful to further study about income tax purpose. But he had not mentioned about the legal provisions relating to income tax system.

Pant (1996) had described the role of income tax in national economy and income tax management in Nepal. He has suggested treating the agricultural income and capital gain as a subject of income tax.

Bhattarai (1997) had presented a dissertation named “Effectiveness of Corporate Income Tax in Nepal”. He has described the history of income tax and corporate income tax, legal provision relating to income tax, administrative aspects of income tax, tax structure and government mechanism.

He had found that government policies, acts, rules, regulations concern with the corporate income tax were not effective in increasing taxpaying habit in Nepal. He has pointed a major problem of tax administration as a corruption

due to weakness of acts, rules and regulations in theories as well as in practice of income tax.

According to his survey about the exemption and deduction, the promotional expenses, guest hospitality, donation, prizes and grants should be allowed for deduction as expenses. About the income from foreign exchange rate, grants received, all compensation received should be tax free.

He has suggested preparing separate income tax act, rules and regulation considering the elements of the system and maintaining stability design and development electronic information and communication networking among the government and non government organization; encouraging taxpayers through tax education and awareness program. His study is very useful to know about the corporate income tax rather than other taxes.

Shrestha (2001) has covered the historical background, legal provision, structure of income tax, income tax administration in Nepal and empirical investigation. Her findings about tax structure were; there was dominant share of tax revenue in Nepalese government revenue. The tax/ GDP ratio for the period of 1984/85 was 6.81% and 9.36% in 1998/99 which is unsatisfactory with other SAARC countries. The contributions of direct and indirect on tax revenue were 17.76% and 82.42% respectively in 1984/85 which become 26.14% and 73.26% in 1998/99.

She had found various problems of income tax system in Nepal. They are: narrow tax coverage, widespread evasion and avoidance of income tax, unscientific tax assessment procedure, mass poverty of Nepalese people,

inefficient tax administration, lack of conscious of taxpayers, complicated tax laws and procedure, instability in govt. policy, high corruption, failure to locate new tax payers, failure to maintain proper accounts and records.

She has suggested broadening the Nepalese income tax base by bringing agricultural income and capital gain under income tax net. She had suggested to reform of income tax assessment, tax administration, and tax education to tax payers. Her suggestion for minimizing tax evasion were control illegal business activities, enforce power auditing and investigation, enforce heavy fine and penalties and maintain proper records and accounts.

Pradhan (2001) had conducted a study concerned with historical background and contribution of income tax to the public revenue, contribution of Nepal Telecommunication Corporation (NTC) to income tax, effectiveness of income tax collection. She had found as follows:

-) The contribution of income tax from public enterprise in Nepal was not significant.
-) NTC had been contributing effectively to total tax revenue, total income tax revenue and total government revenue was 2.37%, 16.60% and 1.93% respectively in her study period.
-) Contribution of tax revenue on GDP of Nepal was lower than other SAARC countries except Bangladesh.

Clear cut provisions; simple and clear assessment and collection provision; rewards, prize and incentive should be introduce to encourage the tax payers to pay tax voluntarily, discretionary power of tax officer should curtailed, compulsory provision of auditing etc.

She has suggested following points to improvement income tax administration in Nepal were: active promotion and reward system; tax education to tax payers, strict against corruption, efficient and honest tax has focused on the study on Nepal Telecommunication Corporation.

Poudel (2002) has described the income tax in its historical perspectives, income tax structure, elasticity and buoyancy of income tax, voluntary disclosure of income scheme, role of income tax administration in Nepal.

She has more emphasized on structure and contribution of income tax. She had mentioned that contribution of tax revenue to GDP is the lowest among the SAARC countries. Within the tax revenue, the contribution of indirect tax is about twice than direct tax.

She had suggested to broadening income tax base, reform of tax administration, successful implementation of VAT, establishment of standardized accounting system. But she had not mentioned the problem of income tax system and exemption and deduction.

Shreschan (2003) had presented a thesis covering tax structure, role and legal provision of income tax. But, specially, his study has focused on provision of fine and penalties. He had found that there was dominated share of tax revenue in Nepalese government revenue structured. Income tax had occupied third position in his study period and it was in an increasing trend. The tax/GDP ratio was not found satisfactory. With the income tax, there was the dominated role of corporate income tax but it was in a decreasing trend

and contribution of individual income tax was second position and it was in an increasing trend.

He has suggested revision the provision of fine and penalties; introducing reward, prize, incentive, clear income tax, rules and regulation; clear right and duties of tax officers. Moreover, his suggestions are timely revision in income tax policy, computerized system for payment of income tax.

The main objective of the study was analyzing the provisions of fine and penalties under income tax law, to know the knowledge of taxpayers and tax officers about fine and penalties. He has not mentioned about exemption and deduction. His study has focused only on provision of fine and penalties.

Pallimagar (2003) had presented a dissertation named "Income Tax Act in Nepal: A Study of Exemption and Deduction". He has covered tax structure, role of income tax, exemption and deduction provides in the law. He has found that there was dominated share of tax structure in Nepalese government revenue. Income tax had occupied third position in his study period and it was in an increasing trend. The tax/GDP ratio was not found satisfactory. He found that exclusion of agriculture income from the tax net.

He found various problems in Nepalese income tax system. They are: lack of trained employers, shortage of income tax experts' professionals in tax administration, lack of public participation, fully organizational structure of tax administration, weakness in government policy, less clear income tax act,

limited tax base, increased corruption, lack of timely adjustment of tax law etc.

His suggestion about exemption are: revision the exemption limit, elimination double taxation on dividend, tax rebate for submitting true income statement in time, increase the exemption limit to individuals as well as family, exemption limit must be adjusted with inflation situation, the provision of special fee must be eliminated etc. Similarly suggestion about deduction were: clear provision for deduction, fully allowed in interest expenses, pollution control cost, repair and improvement expenses, research and development expenses, carry forward of losses must be extended up to 5 to 6 years for every business, expenses for appropriate education for children, medical expenses for the person etc.

Gautam (2004) has described concept and meaning, international context, legal provision of income tax, sources of income, method of income tax assessment appeal, fine and penalties. He has focused on resource gap in Nepal, tax/GDP ratio and revenue/GDP ratio of different years. He has covered revenue structure, composition of revenue, composition of direct and indirect tax revenue, income tax collection performance in Nepal, exemption limit in Nepal, income tax rate etc. But he has not detailly described exemption, deduction and problem of income tax.

He has suggested some main suggestions, they are:-

-) Clear and simple income tax rules, regulation and system for all.
-) Income tax policy should be revised properly and formulated according to the good economic policy.
-) Rate of fine and penalties should be increased.

-) Tax personnel should be encouraged and punished according to their work performance.
-) Provision and deduction items should be clearly defined in the act.
-) The provision of reward, prize, and incentives should be introduced in the act to encourage the tax payers to pay tax voluntarily.

According to his study the major reasons for low contribution of income tax to national revenue are as follows:

-) Mass poverty and low income level.
-) Increasing habit of tax evasion.
-) Inefficient income tax administration.
-) Defective income tax law.
-) Inappropriate rate of exemption limit (Contribution of Income Tax National Revenue of Nepal, Keshav Raj Gautam, 2004).

2.3 Review of Report and Writing

Lent (1968) had presented a report entitled “Survey of Nepalese Tax Structure” under the request of IMF, Fiscal Affairs Department. He has critically analyzed the scope of income tax in Nepal, tax structure, exemption and allowance given at that time. He has suggested reforming both the income law and administration to increase government revenue through income tax.

Kayastha, Rai and Dhangang (1976) has published a report entitled “An Analysis of Tax Structure of Nepal” dealing the tax structure of Nepal. Writers had analyzed the income tax in Nepal and recommended to reform income tax to reduce resources gap and mobilize additional resource, Report had analytical.

Paudel (1994) had been conducted a research on the topic of corporate tax planning in Nepal. He has mentioned the proportion of corporate tax revenue, direct tax revenue in total tax revenue and the main objectives of the study they are: to examine the corporate tax structure in Nepal, to examine the implication of tax factor in selecting the best alternative strategy in different aspects of strategy planning and so on. This research shows that corporate tax was collected form book profit. A book profit means corporate profit which is committed for tax purposes. This study has also expressed that income tax provisions are raised under different acts in different times.

Shah (1999) had conducted a research on the topics “Contribution of Income Tax in National Revenue of Income Tax”. He has described trend of income tax

burden, number of taxpayers and tax composition etc. he has described some problems and solutions of these problems. The main objectives of the study were history of income tax, number of taxpayer and their contribution portion of income tax in total national revenue and trend etc. Secondary data and only 10 years data has used. Governmental and non-governmental offices were used to collect data. Simple arithmetic rule chart, diagram, statistical tools etc. has used to analyze data. He found that only 35% population comes under tax category out of the total taxpayer. It was increasing gradually.

Revenue Consultation Committee (2001) has presented a report to Ministry of Finance by making study about overall taxation situation of Nepal in depth. This report has suggested widen the income tax base by including all kinds of tax payer and income and find out the new taxpayers of new sector. The report has focused for a couple and family as exemption limit. Mainly, it has emphasized to simplify the tax policy to increase voluntary compliance. This report recommended for written communication between taxpayers and tax administration rather than the informal relation.

Thapa (2004) had published a draft about System and its Reforms in Nepal as a descriptive way. He has described the system, features, causes and areas of reform of tax. He has characterized the tax system as too many and too high rates, myriad of incentives and tax holidays, multiple objectives of tax scheduler rather global approach to income taxation, too many income bracts and high progressively, complicated and ambiguous tax laws.

He has presented the areas of reform of tax system, they are: low rates and broad base, simplicity and neutrality, gradually abolition of exemptions,

deductions and tax holidays to broad tax base, few rates and single rate, few taxes with high revenue productivity, conversion of rates and service taxes into VAT, abolition of surcharge and additional duty system to make the tax system simple, incentives to saving and investment, emphasis on tax compliance rather than coercive enforcement etc.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

“Research methodology is the way to solve systematically about the research problem” (Kothari, 1990). This is a procedure of planned framework for the research study dealing with the research design, nature of the data, data gathering procedure, population and sample and data processing procedures.

3.2 Research Design

“Research design is the plan structure and strategy of investigation conceived so as to obtain answers to research questions and control variances” (Kerlinger, 1986). This research study attempts to analyze the present exemptions and deductions of income tax. Opinion of 50 respondents associated with the income tax. Income tax experts, income tax administrators and income tax players are collected through the questionnaire. Different types of questions regarding income tax are used in questionnaire. Similarly various publications regarding income tax are used for this study. In this way, the research design of this research is descriptive, analytical and empirical.

3.3 Population and Sample

To fulfill the objectives of the study, 50 sample sizes from the Kathmandu valley is selected. Samples are carefully selected by consultation with the supervisors and best judgments of the researcher. The respondents have been divided into three groups. The following table presents the groups of respondents and size of sample.

Table 3.1
Group of Respondents and Size of Samples

S.N	Group of respondents	Sample Size
1	Income Tax Experts	10
2	Income Tax Administrators	20
3	Income Tax Payers	20
Total		50

3.4 Nature and Sources of Data

The significance of research basically depends upon the nature availability and accuracy of information .On the side method of data collection constitute important activity of research work and on the other it is very tough task. So far as this research is concerned, I have used two methods of data collection procedure;

- I. Primary data collection.
- II. Secondary data collection.

Primary Data

Primary data and information are collected through the questionnaire from the sample population. The questionnaires were distributed to different respondents. Tax administrators are selected from department and various sector of tax offices. Tax experts are the faculties have experience of tax management, auditors, chartered accountants etc. Taxpayers are selected from various sectors i.e. finance company, bank, insurance company, private company, departmental store etc.

Secondary Data

The secondary data were collected from secondary sources. The major sources of secondary data are as follows:

-) Budget speech and economic survey of various years, ministry of finance.
-) Reports and record of department of taxation, ministry of finance of Nepal.
-) Book and bulletins related to income and public finance.
-) National and international newspapers, journals and news magazines.
-) Different dissertation related to income tax.
-) Other relevant records and data.

3.5 Data Collection Procedure

Data and information used in this study was collected from primary as well as secondary sources. To get the accurate and actual information in time, all questionnaires were distributed and collected personally through field visits.

3.6 Data Processing and Analytical Procedure

For the analysis, all collected data and information of various aspects of income tax were arranged in order and processed. Then, the descriptive tools and statistical tools such as simple percentage, simple average, graphs, charts, diagrams etc. have been applied in the way of analysis so that the findings could be presented and interpreted properly and clearly.

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Resource Gap in Nepal

Like other developed countries in the world, Nepal has been suffering from resource constraint, mass poverty, rapid growth of population, aggressive dependence on agriculture, subsistence living standard etc despite over four decades planned development efforts .

In Nepal, the source mobilization is still poor that does not cover the growing expenditure. Fiscal deficit is due to the continuously growing expenditure of the government instead of the low revenue performance in Nepal. That is why; country is facing the increasing burden of foreign loan. Widening trend of the different resource gap is show in the table 4.1.

In the table (table no. 4.1), 1st resource gap of Rs.4137.6 million in fiscal year 1982/83 reached to Rs.38607.11 million in the fiscal year 2005/06. It is continuously in increasing trend. Resource gap was decreased from the fiscal year 1991/92 to fiscal years 1994/95. In these fiscal years, total revenue was increased in greater percentage than expenditure, so resource gap was decreased. 2nd resource gap (after considering foreign grants) was Rs.3047.5 in the starting year and further widen up to Rs.24779.6 million in fiscal year 2005/06. It was decreased in the fiscal year 1989/90 by the 141.10 million than the previous year and also decreased in the fiscal year 19993/94. The

government takes internal and external loan to meet deficit finance. Foreign loan had taken Rs.985.80 million in the fiscal year 1982/83 and Rs.8214.30 million in 2005/06. After foreign loan financing, 3rd resource gap was Rs.2061.7 million in the fiscal year 1982/83 and which was increased to Rs.16565.30 million in the fiscal year 2005/06. In 2000/01, maximum foreign loan was taken in comparison to other years, so resource gap was decrease in this fiscal year. The resource gap (after considering foreign loan) was fluctuating trend. The increasing resource gap indicates that it is necessary to mobilize additional domestic resources. Ultimate and the best measure to fill up the resource gap to increase public revenue through effective tax system.

Table 4.1

Resource Gap in Nepal

Rs. In Million

Fiscal years	Total expenditure (A)	Total Revenue (B)	Resource Gap(1 st) (C)	Foreign Grants (D)	Resource Gap(2 nd) (E)	Foreign Loan (F)	Resource Gap(3 rd) (G)
1982/83	6979.2	2841.6	4137.6	1090.1	3074.5	985.8	2061.7
1983/84	7437.3	3409.3	4028.0	876.6	3151.4	1670.9	1480.5
1984/85	8394.8	3916.7	4478.1	923.4	3554.7	1754.9	1799.8
1985/86	9797.1	4644.5	5152.6	1172.9	3979.7	2501.1	1478.6
1986/87	11513.2	5957.1	5556.1	1285.1	4271.0	2705.8	1565.2
1987/88	14105.0	7350.4	6754.6	2076.8	4677.8	3815.8	862.0
1988/89	18005.0	7776.9	10228.1	1680.6	8547.5	5666.4	2881.1

1989/90	19669.3	9287.5	10381.8	1975.4	8406.4	5959.6	2446.8
1990/91	23549.8	10729.9	12819.9	2164.8	10655.1	6256.7	4398.4
1991/92	26418.2	13512.7	13905.5	1643.8	11261.7	6816.9	4444.8
1992/93	30897.7	15148.4	15749.3	3793.3	11956.0	6920.9	5035.1
1993/94	33597.4	19580.8	14016.6	2393.6	11623.0	1963.6	2459.4
1994/95	39060.0	24575.2	14484.8	3937.1	10547.7	7312.3	3235.4
1995/96	46542.4	27893.1	18649.3	4825.1	13824.2	9463.9	4360.3
1996/97	50723.7	30373.5	20350.2	5988.3	14361.9	9043.6	5318.3
1997/98	56118.3	32937.9	23180.4	5402.6	17777.8	11054.5	6723.3
1998/99	59579.0	37251.0	22328.0	4336.6	17991.4	11852.4	6139.0
1999/00	66272.5	42893.8	23378.7	5711.7	17667.0	11812.2	5854.8
2000/01	79835.1	48893.6	30941.5	6753.1	24188.1	12044.0	12144.1
2001/02	80072.3	50445.5	29626.8	6686.1	22940.7	7698.7	15242.0
2002/03	84006.1	56229.8	27776.3	11339.1	16437.2	4546.4	11880.8
2003/04	89442.6	62331.0	27111.6	11283.4	15828.2	7629.0	8199.2
2004/05	102560.4	70122.7	32437.7	14391.2	18046.5	9266.1	8780.4
2005/06	110889.2	72282.1	38607.11	13827.5	24779.6	8214.3	16565.3
2006/07	133604.6	87717.5	45887.1	15800.80	30086.3	10053.50	20032.8

Source: Economic Survey, 2006/07, Ministry of Finance, GON

4.2 Revenue Structure of Nepal

Every government is responsible to perform numerous functions for the betterment of the people in the country. A government needs huge volume of income to fulfill different type of expenditures. For this purpose, government collects revenue from different sources. Thus, the income of the government

through all sources like taxes, borrowings, fees, donations etc are called public revenue. In general, government income sources are mainly classified into two categories named tax revenue and non-tax revenue. These both sources are subject to non-repayment and their sum constituted the government revenue. Beside these sources, government has other sources, which are subject to repayment such as loans and grants. However, grants are not compulsorily repaid. These are desirable only to meet the fiscal deficits.

The trend and composition of tax revenue and non-tax revenue in different fiscal years are presented below:

Table 4.2

Magnitude of Revenue Collection in Nepal

Rs. In million

Fiscal year	Total revenue	Tax Revenue Amount		Non-tax revenue	
		Amount	% as an total revenue	Amount	% as total revenue
1991/92	13552.60	9875.50	73.6	3640.10	26.94
1992/93	15148.30	11662.40	76.99	3485.90	23.01
1993/94	19580.19	15371.50	78.51	4209.40	21.49
1994/95	24605.10	19660.00	80.00	4945.10	20.00
1995/96	27893.10	21668.00	77.68	6225.10	22.32
1996/97	30373.50	24424.30	80.41	5949.20	19.58
1997/98	32937.90	25939.80	78.75	6998.10	21.25
1998/99	372561.00	28752.90	77.19	8498.10	22.81
1999/00	42893.70	33152.10	77.29	9741.10	22.71

2000/01	48892.70	388653.90	79.49	10028.80	20.51
2001/02	50446.30	39331.30	77.97	11115.00	22.03
2002/03	56229.44	42587.00	75.73	13642.44	24.27
2003/04	62330.55	48172.50	77.29	14158.05	22.71
2004/05	70122.7	54104.7	77.16	16018.0	22.84
2005/06	70643.60	57430.40	76.33	14851.7	23.67
2006/07	87717.5	71127.5	81.09	16590.00	18.91

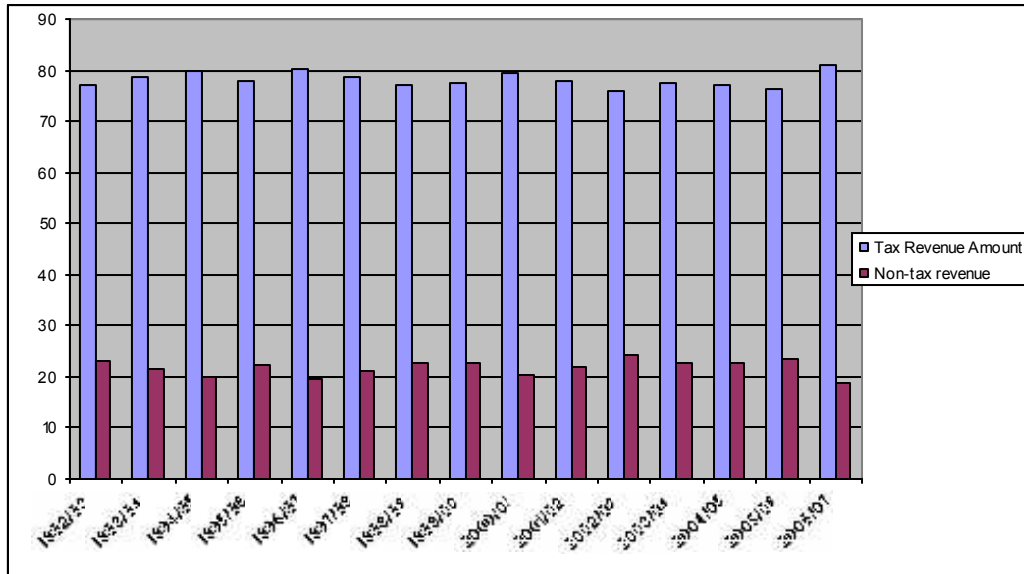
Sources: Economic Survey, 2006/07, Ministry of Finance, GON

From the above table, it can be assessed easily that in the fiscal year 1991/92 the figure for total revenue stood at Rs 13552.60 consisting of tax revenue of Rs.9875.50 and non tax revenue of Rs.3640.1. Tax revenue seemed to be increasing up to the fiscal year 1994/95 which amounted to 19666.0 (80%). The following two fiscal years showed rise and fall of it. Again from the fiscal year 1996/97 the figure for tax revenue seemed to be decreasing for three following up to the year 1998/99.

In the fiscal year 2006/07, the figure for tax revenue stood at Rs. 71127.5 which was at 81.09% of total revenue. And the amount of non tax revenue was 16590 with 18.91 % of total revenue of this year.

Figure 4.1

Revenue collection from tax revenue and non-tax revenue



4.2.1 Tax Revenue Structure of Nepal

Taxes are not a voluntary contribution of the taxpayer but it is compulsory in nature. Generally, tax is a compulsory contribution imposed by the public authority. Taxation is the main source of income of the government. Tax revenue comprises compulsory, unrequited, non-payable receipts collected by government for public purpose. It includes interest collected on tax areas and penalties collected on non-payment or late payment of taxes. Tax revenue is principle sources of the government revenue: however, its contribution is different in different countries significantly. In the context of Nepalese economy, tax revenue is major sources of government to mobilize sources effectively and properly.

Tax revenue, one of the principle sources of the government revenue, is a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the taxpayers in return. It covers theoretically and practically following heads such as person, organization,

business firms and even foreigners who are doing business of consuming goods or using service in Nepal.

In the fiscal trend of Nepal, tax revenue structure is a combination of two tax elite. They are namely direct tax and indirect tax. The trend and composition of tax revenue for the fiscal years 1991/92 to 2005/06 are given in the table below:

Table 4.3

Trend and Composition of Tax Revenue

Rs. In million

Fiscal year revenue	Total tax	Direct tax		Indirect tax	
		Amount	% as total revenue	Amount	% as total revenue
1991/92	9875.50	1595.10	16.15	8280.40	83.85
1992/93	11662.40	2036.10	17.46	9626.30	82.54
1993/94	15371.50	2855.30	18.58	12515.90	81.42
1994/95	19660.00	3849.30	19.58	15810.70	80.42
1995/96	21668.00	4655.90	21.49	17012.10	78.51
1996/97	24424.30	5340.00	21.86	19084.30	78.14
1997/98	25939.80	6187.90	23.85	1995.90	76.15
1998/99	28752.90	7516.10	26.14	21236.80	73.80
1999/00	33152.21	8951.50	25.46	24200.60	74.19
2000/01	38863.90	10159.40	26.14	28704.50	73.86

2001/02	39331.30	10597.50	29.94	28733.80	74.44
2002/03	42587.00	10105.80	22.41	32481.20	77.58
2003/04	48173.50	11912.60	23.27	32260.40	75.7
2004/05	54104.70	13071.8	24.16	41032.90	75.84
2005/06	57930.40	3968.10	24.32	43462.30	75.68
2006/07	71127.5	18980.5	26.69	52147.0	73.31

Sources: - Economic survey, 2006/07, Ministry of Finance, GON

From the above table, it is clear that the Nepalese tax structure is completely dominated by indirect tax revenue. However, the percentage of indirect tax as the total tax revenue is decreasing continuously. In the similar manner, the percentage of direct tax to total tax revenue is increasing in subsequent years. The volume of direct tax and indirect tax was Rs.1595.10 million and Rs.8280.40 million which was 16.15 percent and 83.85 percent of total revenue respectively. The direct tax was increasing gradually from Rs.1595.10 millions to Rs.10597.50 millions in the fiscal year 1991/092 to 2001/02. It slightly decreased in next year then increased in next two successive years. In fiscal year 2005/06 it dramatically declined to Rs. 3968.10 which was 24.32% in total revenue and it increase upto 18980.5 which was 26.61% in total revenue at 2006/07.

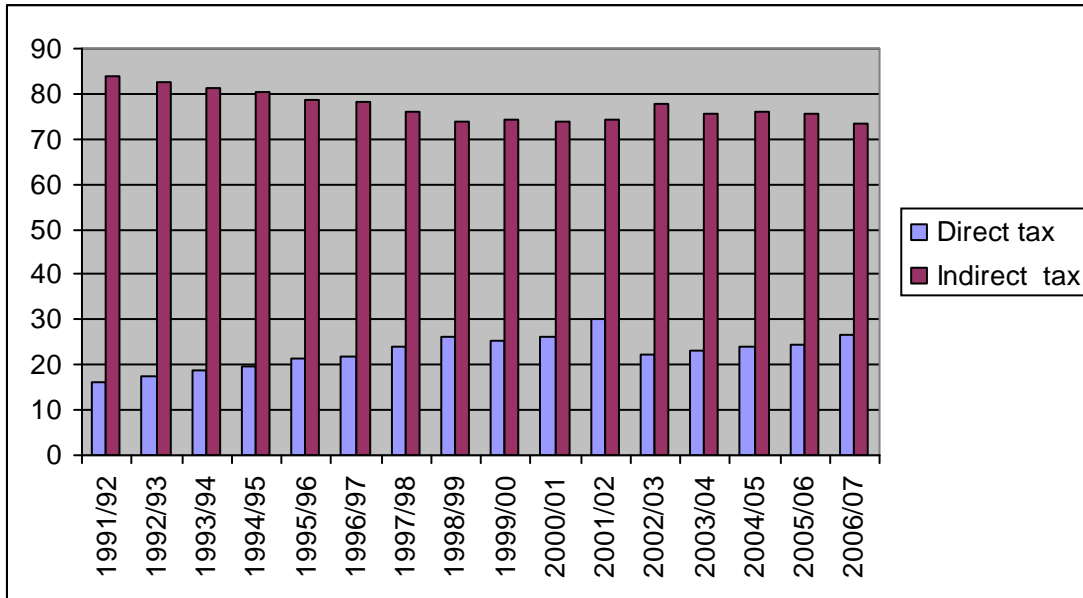
Similarly, the amount of indirect tax revenue is also in an increasing trend. It has increased from Rs.8280.40 million to Rs.32481.20 million in fiscal year between 1991/92 to 2002/03. It slightly decreased in fiscal year 2003/04 and again increased to 52147.0 in fiscal year 2006/07. The percentage contribution of indirect tax to total tax revenue was in a decreasing trend from the fiscal year 1998/99 but after then it went on fluctuating up to the fiscal year 2006/07. The contribution of indirect tax revenue to total tax revenue was

minimum 73.80 percent in 1998/99 and maximum 83.85 percentages in year 1991/92.

In developed economic like U.S.A. etc. direct tax plays a leading role for the internal resource mobilization where as in developing countries like Nepal, indirect tax plays pioneering role by dominating direct tax. In shows the magnitude of economic of economic development.

Figure 4.2

Trend of Composition of Tax Revenue



4.2.1.1 Direct Tax Revenue

Direct tax is actually paid by the person on whom it is imposed legally. By definition, direct tax is a charge imposed by government authority up on property, individual or transactions to raise money for public purpose. Direct tax is levied by the government on the income and wealth received by households and business entries in order to raise revenue and as an instrument of fiscal policy. Direct tax is so called because it is normally assumed to be the real burden of payment which falls directly on the person or business enterprise. They are fully responsible to pay tax and cannot be passed on to anybody else. Direct tax is progressive because the amount which is paid as tax varies significantly to the income and wealth of the taxpayer.

With very limited tax base and narrow coverage, direct tax in Nepal seems to be less effective to mobilize the domestic resources. So, it is an inevitable instrument of the fiscal policy and hence it must be designed and practiced properly. In general, revenue productivity of the direct tax goes on increasing as the economy of the country grows over time. If the economy growth increases, per capita income per annum of that country will automatically rise, in depth, it means that it possesses the ability to pay direct tax. Thus, the magnitude of direct tax goes up and substitutes in the place of indirect tax's magnitude. So, higher magnitude of the direct tax indicates a highly developed country. In contrast, lower the share of direct tax indicates to the less developed or developing country and hence country needs to accelerate the growth path by substituting the share of indirect tax to direct tax. Thus, it lies as a minor source of tax revenue source of Nepal. Nepalese economy direct tax is the comparison of different taxes namely income tax, land tax and wealth tax, interest tax, tax on registration etc.

In the current situation, income tax is one of the major sources of direct tax. Nepal is levying different types of income tax. Its categories interest tax. On the other side, properties tax is another major direct tax. It includes land revenue, Bhumikar, and house and land registration and house and land tax.

4.2.1.2 Composition of Direct Tax Revenue

In Nepalese tax structure; the major components of direct taxes are income tax, land tax and house and land registration tax on property. Until the fiscal year 1993/94 vehicle tax was considered as a direct tax and since 1994/95's budget speech, it has been classified under the indirect tax. On the other hand, interest tax and urban house and land rent tax were included under the

income tax since 1994/95. Thus the contribution has been larger. The share of each component of direct taxes is given below.

Table 4.4**Composition of Direct Tax Revenue**

Rs .In Million

Fiscal years	Income tax	Land tax	House and land Registration	Tax on property	Others	Total Direct tax
1991/92	875.0	64.80	571.20	67.70	16.40	1595.00
1992/93	1198.20	69.30	685.50	80.00	3.10	2036.20
1993/94	1921.20	61.00	772.20	49.80	51.10	2855.30
1994/95	2823.40	34.90	902.80	88.20	0.00	3849.30
1995/96	3431.40	18.20	1048.40	157.90	0.00	4655.90
1996/97	4123.30	5.90	1009.50	201.20	0.00	5340.00
1997/98	4898.10	3.60	1000.60	285.60	0.00	6187.90
1998/99	6170.60	1.40	1001.80	342.70	0.00	7516.10
1999/00	7420.30	4.60	1011.30	515.00	0.00	8951.50
2000/01	9114.00	5.10	607.80	432.50	0.00	10159.40
2001/02	9802.70	0.80	1131.00	562.00	0.00	10597.50
2002/03	7966.20	0.00	1414.30	559.50	165.8	10105.80
2003/04	9245.9	0.00	1697.00	700.60	268.6	11912.60
2004/05	10159.40	0.00	1799.20	806.50	306.7	13071.80
2005/06	10373.70	0.00	2181.10	847.60	565.70	13968.10
2006/07	15034	0.00	2253.5	995.0	697.8	18980.3

Source: Economic Survey, 2006/07, Ministry of Finance, GON.

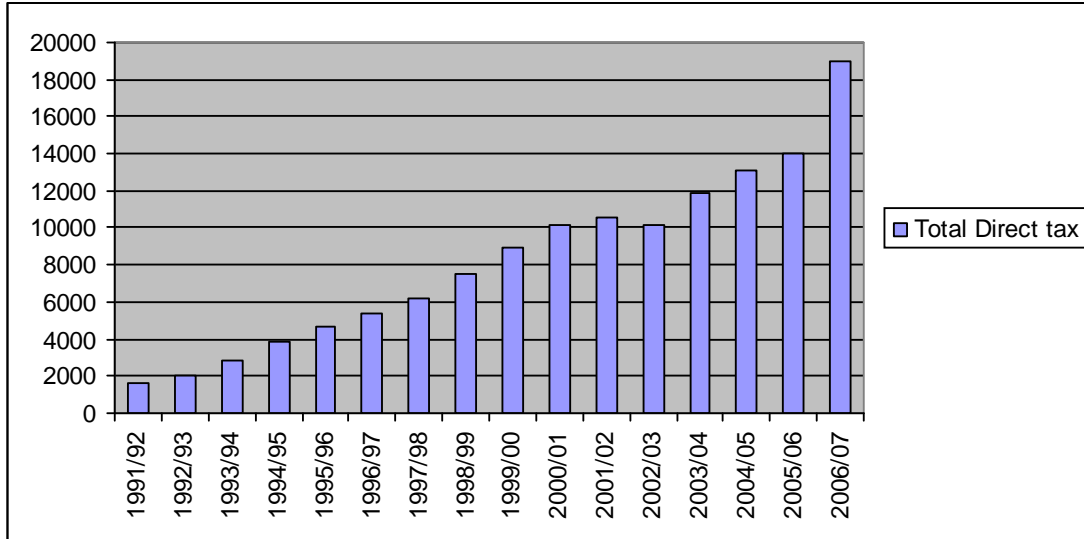
From the above table, the largest share in the direct tax is occupied by income tax, followed by house and land registration tax then tax on property (mainly transportation means). From the fiscal year 1991/92, the income tax went on increasing continuously till 2000/01 which amounted to Rs 9114.00 million. But it fluctuated between fiscal years 2001/02 to 2002/03. Then it went on increasing onwards. In the fiscal year 2006/07, the income tax is Rs 15034 million.

However, the land tax which had an amount of Rs 64.80 million in the fiscal year 1991/92 increased successively in the initial two fiscal years. Thereafter, it went on fluctuating on next four fiscal years. Then the revenue collection land tax was declining. Finally it was nil due to the conflict situation in the country. So different organizations were closed and business activities were reduced.

Besides, house and registration tax increased from Rs 571.20 million to Rs. 1048.40 million between the fiscal year 1991/92 to 1995/96 and slightly fluctuated for the next five fiscal years. Finally the amount of 607.80 million in the fiscal year 2000/01 went on increasing and to Rs 2253.5 million in the fiscal year 2006/07. However, tax on property fluctuated initially in beginning fiscal year 1991/92 to 1993/94 from the amount Rs 67.70 million to Rs 49.80 million, but with the start of fiscal year 1994/95, the tax went on increasing till 1999/00 with the amount of Rs 515.00 million. Afterwards, it fluctuated for the three fiscal years. It reached the amount of Rs 700.60 million and went on increasing. Thereafter; the total direct tax had shown the positive response throughout all fiscal years. Though it slightly dropped to 10105.80 million in the fiscal year 2002/03. But it went on increasing for the next fiscal years.

Figure 4.3

Revenue Collection from Direct Tax



4.2.1.3 Indirect tax Revenue

Indirect tax, a popular approach concerning taxation implies in the world is a very powerful missile of fiscal policy adopted especially for the optimum level of resources mobilization with the principle - "more gain from the taxpayers, no pain to the tax payers. Theoretically, it is a tax; which falls firstly and directly on the taxpayers, but the person must bear it sharing the tax burden, so, the real income is indirectly affected. In short, indirect tax is imposed on one person but it is paid either partly or wholly by another person. So the impact and the incidence of tax are on different persons. Nepal depends heavily on the indirect tax rather than the direct tax because there is not any-good alternative. Since 1951, indirect tax had grown rapidly and speedily. If indirect tax is effective and proper, it mobilizes the internal resources. So most of the developing countries mobilize it effectively and properly of the demotic resources.

The major component of indirect tax in Nepalese tax structure constitutes custom duty, excise duty, VAT/ sales tax and contract tax. Custom duties are composed of mainly import duties, exports duties. Other components of indirect tax like entertainment tax, hotel tax contribute very nominal share because they are included in VAT since 1997. Others form of indirect taxes include remission of Indian exercise duties, road bridge tax and other taxes.

4.2.1.4 Composition of Indirect Tax Revenue

In Nepalese tax structure; the indirect tax refers to three categories of taxes namely custom duties, VAT/ sales tax and exercise duties. The total indirect tax revenue realized during the study period, namely custom duties contributed the highest share up to fiscal year 2003/004 followed by VAT/ sales tax and exercise duty. But in Fiscal year 2004/05 VAT/sales tax is higher than customs duties. The share of the major components of the indirect taxes is given below.

Table 4.5**Composition of Indirect Tax Revenue**

Rs. In Million

Fiscal year	Customs Duties*	Sales Tax/VAT	Excise Duties**	Other Taxes ***	Indirect Tax
1991/92	3358.90	2840.70	1414.40	666.40	8280.40
1992/93	3945.00	3438.20	1452.80	790.30	9626.30
1993/94	5255.00	4693.10	1592.20	975.60	12515.90
1994/95	7018.10	6031.30	1657.30	1103.60	15810.70
1995/96	7327.40	6431.30	1944.30	1309.10	17012.10
1996/97	8309.10	7126.50	2298.10	1350.60	19084.30
1997/98	8502.20	7122.60	2885.80	1241.30	19751.90
1998/99	9517.70	7882.20	2953.20	883.70	21236.80
1999/00	10813.30	9854.90	3127.60	404.80	24200.60
2000/01	12552.10	12047.80	3770.00	334.60	28704.50
2001/02	12658.80	11964.00	3807.70	303.30	28733.80
2002/03	14236.40	13459.70	4785.10	0.00	32481.20
2003/04	15554.80	1478.90	6226.70	0.00	36260.40
2004/05	15701.60	18885.40	6445.90	0.00	41032.90
2005/06	15344.40	21610.70	6507.60	0.00	43462.30
2006/07	16707.6	26095.6	9343.2	0.00	52146.4

Sources: - Economic survey 2006/07 ministry of finance, GON

*Custom duties include import export, India exercise refund and other

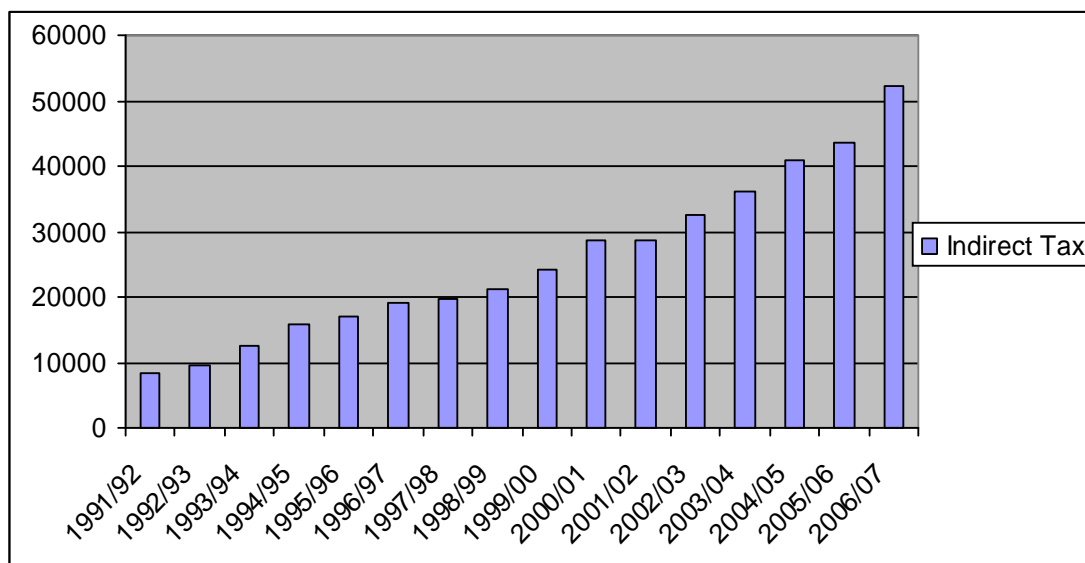
***Exercise duties are the sum of taxation, industrial product and higher contact.*

****Other taxes include entertainment tax, Hotel tax, Air flight tax, contract tax, Road and bridge maintenance tax and others.*

Above table shows the contribution of customs duties to indirect tax is in an increasing trend. Its share in the fiscal year 1991/92 was Rs.3358.90 million which reached up to Rs.15701.60 million in the fiscal year 2004/05 and slightly decreases in fiscal year 2005/06 and it was increase in 2006/07. Likewise, the share of VAT/sales tax to indirect tax was also in an increasing trend which contributed Rs.2840.70 million in the fiscal year 1991/92 that reached up to 7126.50 in fiscal year 1996/97 and slightly decreased in next year. Thereafter it was fluctuating till fiscal year 2001/02 and also it was in increasing trend. Similarly, revenue collection from excise duties was increasing trend which contributes Rs.1414.40 in fiscal year 1991/92 and it reached up to 2343.2 in fiscal year 2006/07. Other tax is nil in the fiscal year 2002/03 to 2006/07 and indirect tax is continuously increasing.

Figure 4.4

Composition of Indirect Tax Revenue



4.2.2 Non-Tax Revenue structure of Nepal

Like tax revenue, non-tax revenue is another source of the government revenue in the revenue structure of Nepal. It is not imposed compulsory by public authority to the taxpayers. Fees, fines, penalties, dividend, interest sales of goods etc are the bases of non-tax revenue. The composition of non-tax revenue in Nepalese tax system are the following factors such as charges, fees, fines, forfeiture, receipts from sales of commodities and services, dividends, royalty, sales of fixed assets, principal and interest payment etc

Table 4. 6**Composition of Non-Tax Revenue**

Rs. In million

Fiscal year	Charges, Fee, fines and forfeiture	Receipts from sales of commodities	Divided	Royalty & sales of fixed asset	Principle & interest payment	Miscellaneous	Total
1991/92	1106.30	765.00	644.40	137.80	974.40	12.20	3640.10
1992/93	333.40	889.50	755.50	59.90	1431.10	16.50	3485.90
1993/94	248.00	1270.00	775.70	90.40	1811.00	14.30	4209.40
1994/95	207.10	1388.30	1060.10	196.90	2083.80	9.60	4945.10
1995/96	286.10	1673.30	1363.00	67.80	2818.80	16.10	6225.10
1996/97	270.80	1799.60	1134.40	447.90	2220.70	75.80	5949.20
1997/98	329.60	2255.50	1311.00	565.20	2461.10	75.70	6998.10
1998/99	336.10	2146.60	1782.80	202.30	3927.50	102.80	8498.10
1999/00	386.30	2428.90	2507.50	563.30	3751.00	104.60	9741.60
2000/01	386.70	2728.00	2336.50	949.60	3497.20	130.80	10028.80
2001/02	512.80	2611.10	2512.90	723.90	3109.50	1638.80	11115.00
2002/03	579.60	3063.00	2497.60	1945.14	2464.30	3092.80	13642.44
2003/04	1202.50	3497.00	2661.10	1465.00	3507.10	1852.35	14158.05
2004/05	1359.90	3849.90	4589.90	1931.40	2714.30	1572.60	16018.00
2005/06	1927.70	3932.30	3394.80	1196.80	3251.30	1148.70	14851.60
2006/07	1945.4	4776.8	4937.7	1091.8	2085.7	1748.1	16585.5

Sources: - Economic survey 2006/07 ministry of finance, GON

The above table shows that the figure of charges, fines and forfeitures which stood at Rs 1106.30 in the fiscal year 1991/92 fluctuated in such a manner that it dramatically dipped to 333/40 in the fiscal year 1992/93. Afterwards, the trend was in a non uniform manner. Finally, it has a sum of 1945.4 in the fiscal year 2006/07 as a non tax revenue.

In 1991/92, the figure for receipts from the sales of commodities stood at 765.00 in the fiscal year 1991/92. The trend was upward except the fall in the fiscal year 1998/99 and 2001/02.

In the similar manner, the amount for dividend which stood at Rs 644.40 in the fiscal 1991/92 increased slowly and uniformly up to fiscal year 1995/96. Afterwards, the trend was oscillatory.

Moreover, that for royalty and sales of fixed assets triggered a fluctuation path, reaching a maximum of 1931.40 in the fiscal year 2004/05 and a minimum of 59.90 in the fiscal year 1992/93. In addition to, the figure for principal and interest payment which stood at Rs 974.40 in the fiscal year 1991/92 increased gradually up to the fiscal year 1995/96. Afterwards, the trend was in a fluctuation manner. Moreover, the collection of non tax revenue by miscellaneous way was oscillatory reaching a maximum of 3092.80 in the fiscal year 2002/03.

4.3. Tax and Non-Tax Revenue in GDP

In order to understand the growth pattern of taxation properly, it would be desirable to examine the share of tax revenue and non-tax revenue in GDP.

Following table present an account of the tax and non tax revenue as percentage of GDP.

Table 4.7

Tax and Non-Tax Revenue as Percentage of GDP

Rs. In Million

Fiscal year	Gross Domestic product	Tax revenue	Non - tax revenue	Percentage of GDP	
				Tax/GDP	Non-tax/GDP
1991/92	144933	9875.50	3640.10	6.81	2.51
1992/93	165368	11662.40	3485.90	7.05	2.11
1993/94	191596	15371.50	4209.40	8.02	2.20
1994/95	209974	19660.00	4945.10	9.36	2.36
1995/96	239388	21668.00	6225.10	9.05	2.60
1996/97	269570	24424.30	5949.20	9.06	2.21
1997/98	289798	25939.80	6998.10	8.95	2.41
1998/99	330018	28752.90	8498.10	8.71	2.58
1999/00	366251	33152.10	9741.60	9.05	2.67
2000/01	394052	38865.10	10028.80	9.86	2.58
2001/02	406138	39330.60	1115.00	9.68	2.74
2002/03	407546	42587.00	13642.70	9.73	3.12
2003/04	474919	48173.00	14158.00	10.14	2.98
2004/05	508751	54104.70	16018.00	10.64	3.15
2005/06	557869	57430.40	14851.60	10.29	2.66
2006/07	612604	71127.50	16590	12.32	2.89

Source: Economic survey 2006/07, Ministry of finance, GON.

Above table represents an account of tax and non-tax revenue as percentage of GDP. In the GDP, the tax revenue had been increased much higher than the non-tax revenue over the study period 1991/92 to 2005/06. The share of tax revenue increased from 6.81 Percent of the GDP in fiscal year 1991/92 to 10.64 percent in year 2004/05. Then it was slightly decreased to 10.29 percent in 2005/06. The share of the non-tax revenue barely increased from 2.51 percent of the GDP in fiscal year 1991/92 to 3.12 percent in fiscal year 2004/05. There after it was in a fluctuating trend.

The relationship between tax and GDP are known as tax/GDP ratio. This is an indicator of the utilization of taxable capacity. The above table shows rather disappointing scenario of tax/GDP ratios for the different fiscal years of study period.

4.4 Direct tax and indirect tax Revenue in GDP

The revenue is composed of direct and indirect tax. The contribution of direct tax revenue is very low in Nepal in comparison to developed countries like United State and Japan etc. because, being an under developed country, the people of Nepal live in subsistence level and all of their income is spent on consumption. As a result, direct tax cannot product more revenue than indirect tax.

To know the contribution of direct tax and indirect tax revenue it will be desirable to examine the share of direct tax and indirect tax revenue in GDP.

The following table indicated the share of direct and indirect tax revenue in GDP.

Table 4.8**Direct Tax and Indirect Tax Revenue as Percentage of GDP**

Rs. In Million

Fiscal year	Gross Domestic product	Direct Tax	Indirect tax	Percentage of GDP	
				Tax/GDP	Non-tax/GDP
1991/92	144933	1595.10	8280.40	1.10	5.71
1992/93	165368	2036.10	9626.30	1.23	5.82
1993/94	191596	2855.30	12515.90	1.49	6.53
1994/95	209974	3849.30	15810.70	1.83	7.53
1995/96	239388	4655.90	17012.10	1.94	4.11
1996/97	269570	5340.00	19084.30	1.98	7.08
1997/98	289798	6187.90	19751.90	2.14	6.62
1998/99	330018	7516.10	21236.80	2.28	6.44
1999/00	366251	8951.50	24200.60	2.44	672
2000/01	394052	10159.40	28704.50	2.58	7.29
2001/02	406138	10597.50	28733.80	2.61	7.24
2002/03	407546	10105.80	32481.20	2.26	7.05
2003/04	474919	11912.60	36260.40	2.36	7.64
2004/05	508751	13724.60	41032.30	2.51	8.93
2005/06	557869	13968.10	43462.30	2.50	7.79
2006/07	612604	18980.3	52146.4	2.83	8.09

Source: Economic survey 2006/07, Ministry of finance, GON.

From the above table, the share of direct tax in GDP was in an increasing trend from fiscal year 1991/92 to fiscal year 2001/02 which was 1.10 percent to 2.61 percent. And it slightly decreased in next fiscal year. Thereafter it went on increasing in next two years. In fiscal year 2005/06 it was at 2.50 percent.

The share of indirect tax revenue increased from 2.51 percent in the fiscal year 1991/92 to 7.79 percent in fiscal year 2005/06. However, this increment is not continuous which peaked 7.53 percent in fiscal year 1994/095 then started to decline continuously until 1998/99, and again started to rise in fiscal year 1999/00 and decreased to fiscal year 2002/03. It was also increased in 2004/05 to 8.93 percent. Finally, it decreased slightly in 2005/06.

4.5 Exemption Limit in Nepal

Exemption limits directly influence income tax revenue collection. Taxpayer having low tax paying capacity should exclude from the tax net for the social justice and economic balance between rich and poor. The exemption limit provided in the various years is presented in below the table 4.9.

In the earlier time, there was equal amount of exemption to all the taxpayer i.e. individual, couple, family and corporate bodies. Exemption limit to all taxpayers was Rs.7000 in the fiscal year 1959/60 to 1962/63. In the fiscal year 1965/66 to 1966/67 it was Rs.5000 for all. After 1967/68, tax payers were categories in to three heads, i.e. individual, couple and family. After 1979/80 to till now the exemption limit for couple and family is same. The exemption limit to the family was Rs 6000 in the fiscal year 1967/068 to 1974/75 whereas

it was Rs.4500 to the couple and Rs 3000 for the individual. The exemption limit to individual, couple and family were 5500, Rs.6500 and Rs.7500 respectively in the fiscal year 1975/76. In the fiscal year 1992/93 to 1996/97 the limit was Rs.25000 for individual and Rs.35000 for couple or family. It is increasing till now.

From the table 4.9, it is clear that exemption limit is extended according to need of time and income condition. At present time, individual having the taxable income Rs.125, 000 is exempted from tax and that for couple or family is Rs.140, 000.

Table 4.9**Exemption Limit in Nepal****From Fiscal year 1959/60-2006-07**

In Rs.

Fiscal	Individual	Couple	Family	All taxpayers
1959/60	-	-	-	7000
1963/64	-	-	-	7000
1965/66	-	-	-	5000
1967/68	3000	4500	6000	-
1974/75	4500	6000	6000	-
1975/76	5500	6500	7500	-
1976/77	6500	7500	8500	-
1979/80	7500	10000		-
1981/82	10000	15000		-
1983/84	15000	20000		-
1990/91	20000	30000		-
1992/93	25000	35000		-
1997/98	30000	40000		-
1999/00	40000	50000		-
2000/01	55000	75000		-
2001/02	55000	75000		-
2003/03	65000	85000		-
2003/04	80000	85000		-

2004/05	1,00,000	1,25,000	-
2005/06	1,05,000	1,30,000	-
2006/07	1,25,000	1,40,000	

Source: Finance Acts of various years, Ministry of Finance, GON.

4.8 Empirical Study

An empirical investigation was conducted in order to find out the various aspects of income tax from the experience of the real world. In this empirical study, the analysis has been done about income tax on the basis of information collected from the tax experts, tax administrators and tax payers. The major tools used for this purpose is questionnaire.

In this study, the questions were asked to 50 different individuals related to this field i.e. tax experts, tax administrators (tax officers), tax payers. The questionnaire has covered various aspects of income tax concerning with the exemptions and deductions (see the format of questionnaire in appendix). The respondents were asked either to responses yes/no or selecting one alternatives among different alternatives or for ranking of choices according to number of alternatives while first choice is the most important and last choice is least important. The information received from the respondents are tabulated and analyzed in the proper way. The following table shows the groups and number of respondents.

Table 4.10

Group of Respondents and Number

S.N	Group of respondents	Number
1	Income Tax Experts	10
2	Income Tax Administrators(officer)	20
3	Income Tax Payers	20
Total		50

Result of Empirical Investigation

1. Effectiveness of Income Tax Administration in Nepal

To know the opinion about the effectiveness of income tax administration in Nepal, a question was asked with the respondents “Do you consider that the income tax administration in Nepal is effective?” The responses received from the respondents are tabulated as follows:

Table 4.11

Effectiveness of Income Tax Administration of Nepal

Responses	Yes		No		Total	
	No.	%	No.	%	No	%
Tax Experts	4	40	6	60	10	100
Tax Administrators	12	60	8	40	20	100
Tax Payers	6	30	14	70	20	100
Total	22	44	28	56	50	100

Source: Opinion Survey

From the above table (Table no. 4.11), the question received 100 percent response as 44 percent of total respondents agree that the income tax administration of Nepal is effective and 56 percent of the total respondents do not agree about the effectiveness of income tax administration in Nepal. Most of the respondents disagree about the effectiveness of income tax administration in Nepal. 70 percent of tax payers were against the effectiveness of income tax administration. So, it can be concluded that the income tax administration in Nepal is ineffective.

Similarly, another question was asked to the respondents who were disagreed about the effectiveness of income tax administration in Nepal. To know their opinion the question was asked, "If no, what are the causes which are the responsible for the creation of ineffective tax administration?" The respondents were requested to rank their answer from 1 to 6. But some respondents ranked and some made tick mark. The responses of the respondents are presented as follows:

Table 4.12

Causes of Ineffective Tax Administration

S. N.	Alternatives	Respondents			Total frequency	%	Rank
		Tax experts	Tax adm*.	Tax payers			
1	Defective Income Tax Act.	4	6	12	22	19	3
2	Less public participation.	6	5	12	23	20	2
3	Lack of trained employee.	3	7	7	17	15	4

4	Weakness in government's economic policy.	6	6	12	24	21	1
5	Faulty organizational structure of tax administration.	4	5	6	15	13	5
6	Shortage of income tax experts/professionals in tax administration.	4	5	5	14	12	6
Total					115	100	

Source: Opinion Survey

**Tax administrators.*

In the above table (Table no. 4.12), percentage was calculated according to the total frequency are obtained by each alternative. For ranking purpose percentage of each alternative was matched with each other and assigned first rank to the highest percentage. According to the respondents' point of view, the main causes for the creation of ineffective income tax administration in Nepal were ranked as follows.

1. Weakness in government's economic policy.
2. Less public participation.
3. Defective Income Tax Act.
4. Lack of trained employee.
5. Faulty organization structure of tax administration.
6. Shortage of income tax experts/professionals in tax administration.

From the above table as well as other discussion with respondents, it can be concluded that the main causes for the creation of ineffective tax administration are lack of trained employee, shortage of tax experts and less public participation.

2. Opinion about the Current Income Tax Rate

To know the opinion on current income tax rate, respondents were requested to select one among the three alternatives (high, medium, low). The question was asked, “What is your opinion about the current income tax rate?” The responses received from respondents are tabulated below:

Table 4.13

Opinion about the Current Income Tax Rate

Respondents Responses	Tax experts	Tax administrators	Tax Payers	Total	
				No.	Percentage
High	1	0	13	14	28
Medium	7	18	6	31	62
Low	2	2	1	5	10
Total	10	20	20	50	100

Source: Opinion Survey

The above table (Table no.4.13) shows that 100 percent responses were received. Out of 100 percent responses, 62 percent respondents agreed that the current income tax rate is medium. 28 percent respondents agreed on high tax rate whereas 10 percent respondents agreed on low tax rate. From the table, it is concluded that the current income tax rate is medium. Majority tax experts and tax administrators were agreed on it whereas; majority respondents felt that the rate is not absolutely high, but it is higher as compared to taxpaying capacity of Nepalese people.

3. Sufficiency of Exempted Items of Income Tax

Income tax has provided exemption to the various income or different items of income. Act has mentioned the tax free incomes and tax exemption organization. To know the sufficiency of exempted items of income a question

was asked “Do you think that the exempted items of income are sufficient?”

The responses are tabulated as follows:

Table 4.14**Sufficiency of Exempted Items of Income Tax**

Responses	Yes		No		No responses		Total	
	No.	%	No.	%	No.	%	No.	%
Respondents								
Tax experts	4	40	5	50	1	10	10	100
Tax administrators	16	80	2	10	2	10	20	100
Tax payers	12	60	5	25	3	15	20	100
Total	32	64	12	24	6	12	50	100

Source: Opinion survey

By observing the table (Table no.4.14) 64 percent respondents agreed that exemption items are sufficient. 24 percent respondents disagreed about the sufficiency of exempted items. 12 percent of the respondents did not provide any response.

As who gave the negative responses about the sufficiency of exempted items of income were asked another question "If no, what kind of income should be exempted?" They were requested to write their opinion. Most of the respondents did not give any response about it. However, only 4 tax experts, 3 tax payers and 1 tax administrator provided response. The respondents suggested that following income must be tax exempted from incomes.

Tax Experts

-) Income from interest and rent.
-) Income derived by tax exempted organization.
-) Income from provident fund (capital gain).
-) Remote area allowance.
-) Income from life insurance.

Tax Administrators

-) Medical allowance.
-) Retirement benefits.

Tax payers

-) Medical allowance.
-) Over time allowance.
-) Remote area allowance.
-) Income from life insurance.

From the above list, income from life insurance premium, medical allowance and remote area allowance etc. must be tax exempted incomes.

4. Appropriateness of Current Income Tax Exemption Limit

Finance Act of Nepal yearly prescribed the tax rate and exemption limit of income. From the very beginning the tax rate and exemption limit are changing year to year. To know the respondents' view about the current

exemption limit, a question was put “Do you think that the current income tax exemption limit is appropriate?” The responses are presented as follows:

Table 4.15

Appropriateness of Current Income Tax Exemption

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Respondents						
Tax Experts	2	20	8	80	10	100
Tax Administrator	16	80	4	20	20	100
Tax Payers	3	15	17	85	20	100
Total	21	42	29	58	50	100

Source: Opinion survey

From the above table (Table no.4.15) 58 percent respondents were against the appropriateness of current exemption limit whereas 42 percent respondents were in favor of it. Majority of tax experts and tax payer agreed with inappropriateness of exemption limit. From the above table and personal discussion with respondents it can be concluded that the current income tax is inappropriate.

The respondents who were against the appropriateness of current exemption limit were asked another question “If no, how much the exemption limit

should be to an individual unit?" The responses of the respondents are tabulated as follows:

Table 4.16

Suggested Exemption Limit for an Individual Unit

Respondents Responses	Tax experts	Tax administrators	Tax payers	Total	
				No.	%
Rs.1,80,000	2	--	--	2	6.90
Rs.2,00,000	4	1	10	15	51.72
Rs other (if any)	2	3	7	12	41.38
Total	8	4	17	29	100

Source: Opinion survey

On the response about the exemption limit of individual it was found that 6.90% in favor of Rs. 1, 80,000. 51.72% of the respondents suggested that the exemption limit should be Rs. 2, 00,000. But 12 respondents (41.38) who specified on other (if any). They suggested Rs, 2, 25, 000, Rs. 3, 00,000 and Rs. 3, 50,000 as tax exemption limit for an individual unit.

From the above table as well as personal discussion with the respondents, it can be said that according to the economic condition and income level of Nepalese People, it is found that the appropriate exemption limit for an individual is Rs. 1,50,000.

Similarly, a question was raised on the topic of exemption limit to the respondents for a family as “How much exemption limit should be for a family?” The responses are presented in the following table.

Table 4.17

Exemption Limit for a Family

Respondents Responses	Tax experts	Tax administrators	Tax payers	Total	
Rs. 2,00,000	3	--	8	11	37.93
Rs.2,50,000	4	3	7	14	48.28
Rs. Other(if any)	1	1	2	4	13.79
Total	8	4	17	29	100

Source: Opinion survey

From the above table (Table no.4.17) it is clear that most of the respondents (i.e. 48.28%) suggested for Rs. 2, 50,000 as exemption limit for a family. 37.93% of the respondents were suggested for Rs.2, 00,000. Four respondents who specified as other(if any) was Rs, 3,00,00 by two respondents and Rs. 4,00,000 by two respondents. One the personal discussion with the respondents, the researcher found exemption limit must be equal to family surviving amount different part of the country.

5. Family Exemption must be provided on the Basis of Number of Dependents

Income Tax Act has provided limit to a family or a couple. But it has not mentioned the number of dependents in a family. So, to know the opinion of the respondents the exemption limit of a family must be provided on the basis of number of dependents. A question was put “Do you agree that family exemption must be provided according to the number of dependents?” the responses of the respondents are tabulated as follows:

Table 4.18

Family Exemption Limit on the Basis of Number of Dependents

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	6	60	4	40	10	100
Tax administrators	12	60	8	40	20	100
Tax payers	15	75	5	25	20	100
Total	33	66	17	34	50	100

Source: Opinion survey

Above table (Table 4.18) shows that 100 percent response was received. 66 percent respondents agreed that the exemption limit must be provided according to the number of dependents. But 34 percent respondents were disagreed to provide exemption according to the number of dependency. On the personal discussion with the respondents the researcher found that the respondents were supporting to provide exemption limit to a family according

to the number of dependents. But it is very difficult to implement in the practical field.

6. Exemption Limit on the Basis of Inflation Situation of the Country

To know the opinion of the respondents whether the exemption limit should be provide according to the inflation of the country. The question was asked “Do you feel that exemption limit should be adjusted according to the inflations situation of the country?” The responses of the respondent are tabulated as follows:

Table 4.19

Exemption Limit According to the Inflation Situation of the Country

Response	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	10	100	--	--	10	100
Tax administrators	20	100	--	--	20	100
Tax payers	20	100	--	--	20	100

Total	50	100	--	--	50	100
-------	----	-----	----	----	----	-----

Source: Opinion survey

From the above table (Table no.4.19) it is clear that 100 percent response was received. According to the table, all of respondents agreed to adjust the exemption limit according to the inflation situation of the country.

7. Opinion on Providing Exemption an Agriculture Income

From the commencement of Income Tax Act, agriculture income has been treated as taxable income for some time and tax exempted income for some time. The new Income Tax Act 2058 has defined agricultural income. To know the views of respondents about it, a question was asked “What is your opinion on providing exemption an agricultural income?” The responses of the respondents are presented as follows:

Table 4.20

Exemption Facility for Agriculture Income

Respondents Responses	Tax Expert	Tax administrators	Tax payers	Total	
				No.	%
Yes, it should be exempted	8	16	10	34	68
No	--	--	2	2	4
It should be treated as other income	--	4	4	8	16

Other(if any specified)	2	--	4	6	12
Total	10	20	20	50	100

Source: Opinion Survey

The above table (Table no.4.20) shows that, 68 percent respondents agreed that agricultural income should be tax exempted income whereas 4 percent respondents were against the exemption on agricultural income. Similarly, another 16 percent respondents supported that the agricultural income should be treated as other income and 12 percent respondents who specified other if any following opinion were presented as follows.

-) Commercial agricultural income should be taxed as other income.
-) Organizational agriculture income should be given for limit period of establishment.
-) A separate, agriculture Income Tax Act should be presented.

On the personal discussion with the respondents as well as the above table the researcher found that the agricultural income should be tax exemption income because 80% to 90% people are based on agricultural income. In our country farming system is based on traditional system. Traditional system does not provide sufficient income to the family for living. So, it should be exempted.

8. Opinion on Providing Additional Exemption to the Individual Working in Different Remote Areas

To know the view of the respondents about additional exemption which is given to the person, who are working in different remote area of the country is suitable or not, a question was put "An individual working in remote area A, B, C, D and E can get an additional exemption of Rs. 30,000, 24,000, 18,000,

12,000 and Rs, 6,000 respectively is it suitable?" The responses of the respondents are tabulated as follows:

Table 4.21

**Opinion on Providing Additional Exemption to the Individual Working in
Different Remote Areas**

Response	Yes		No		No responses		Total	
	No.	%	No.	%	No.	%	No.	%
Tax experts	5	50	5	50	--	--	10	100
Tax administrator	16	80	2	10	2	10	20	100
Tax payers	12	60	4	20	4	20	20	100
Total	33	66	11	22	6	12	50	100

Source: Opinion survey

According to the table (Table no.4.21), 66 percent respondents agreed that the current additional exemption to the individual who are working in different remote areas was sufficient. 22 percent respondents disagreed with the current additional exemption facility. 12 percent respondents did not provide any responses. According to the table, majority respondent were agreed with the current additional exemption limit for an individual who are working in different remote areas is proper or suitable.

On the personal discussion with the respondents it was found that according to the economic condition and per capita income of country current additional tax exemption to the individual working in different area is suitable or proper.

Similarly, another question was asked to know the opinion of the respondents who disagreed in current additional exemption limit to the individual who are working in different remote areas. The question was asked “if no, how much exemption limit should be?”

Out of the 11 respondents (see in above table) 5 respondents did not mention any thing, 3 respondents suggested following amount given in the table.

Areas	A	B	C	D	E
Amount Rs.	60,000	40,000	30,000	25,000	20,000
Amount Rs.	50,000	40,000	30,000	20,000	10,000

On the other hand, other three respondents suggested the following points.

-) It cannot be quantized in amount. The amount which a person gets in remote area should be exempted means extra benefit derived should be totally exempted.
-) It should be adjusted as per the life style of the area.
-) It should be adjusted availability of basic needs.

9. Additional tax Exemption Facility to the Special Industries Established in Different Areas

Income Tax Act 2058 has provided additional exemption facility for 10 income year to the special industries established in different areas. To know the view of the respondents about such facility, they were asked whether the tax rate for the special industries established in remote, undeveloped and

underdeveloped areas i.e. 70%, 75% and 80% respectively is suitable for 10 income year or not. Their responses are tabulated as below:

Table 4.22

Additional Tax Exemption Facility to the special Industries Established in Different Areas

Responses	Yes		No		No responses		Total	
	No.	%	No.	%	No.	%	No.	%
Tax experts	6	60	2	20	2	20	10	100
Tax administrators	12	60	5	25	3	15	20	100
Tax Payers	13	65	5	25	2	10	20	100
Total	31	62	12	24	4	14	50	100

Source: opinion survey

By observing the table (Table no.22), it can be said that 62 percent respondents agreed with the current additional exempt facility (30% of tax rate for remote areas, 25% for undeveloped area and 20% for underdeveloped areas) to the special industries established in different area which is applicable for 10 income year. 24 percent or 12 respondents disagreed with the present additional tax exempted facilities to the special industries established in different area, 14 percent respondents did not provide any responses about the questions. Majority tax experts, tax administrators and tax payers agreed with present exemption facility. So, it can be concluded that the current facility is proper.

Similarly, another question was asked to the respondents who disagreed with the present additional tax exempt facility provided by Income Tax Act 2058 to the special industries established in different remote areas. To know the opinion of the respondents, given the question was put to them, “how much additional tax exempted facilities should be?” The responses were given by the respondents are as follows:

Out of 12 respondents (see above table)

-) 7 respondents suggested the facility should be given for long period of time to attract the industry in such areas.
-) 3 respondents suggested that the special industries established in remote, undeveloped and underdeveloped area should pay tax only 40%, 50 % and 75% of the tax rate respectively for 10 income year.
-) 2 respondents did not provide any responses.

10. Opinion of Medical Tax Credit Facility

According to Income Tax Act 2058 medical tax credit facility is given to an individual. Rs. 750 or 15% of eligible medical expenses whichever is less allowed to deduct as medical tax credit facility. To know the opinion of the respondents about appropriateness of such medical tax credit facility to an individual, the question was asked “Do you think that medical tax credit is given to an individual up to Rs.750 or 15% of eligible medical expense is proper?” The responses received from the respondents are tabulated as follows.

Table 4.23

Opinion on Appropriateness of Medical Tax Credit Facility

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	4	40	6	60	10	100
Tax administrators	10	50	10	50	20	100
Tax payers	2	10	18	90	20	100
Total	16	32	34	68	50	100

Source: Opinion survey

The above table (table no.4.23) shows that, out of 50 respondents, 68 percent respondents disagreed with the present medical tax credit facility (Rs. 750 or 15% of eligible medical expenses whichever is less) provided by Income Tax Act 2058. Majority tax experts and tax payers were against with present medical tax credit facility. Only 16 or 32 percent respondents were agreed.

From the table as well as personal discussion with the respondents, the researcher found that the present medical tax credit facility is less. So the present tax credit facility is not proper.

Similarly, another question, "If no, how much will be proper?" was asked to the respondents who were disagreed with present medical tax credit facility. The responses are tabulated as follows:

Table 4.24**Proper Amount of Medical Tax Credit**

No. of alts*	Respondents Responses	Tax experts	Tax administrators	Tax payers	Total	
					No.	%
a.	Amounts(Rs.750)	1	8	4	13	38.24
b.	Actual medical expenses	3	-	8	11	32.35
c.	..% of eligible medical expenses	-	-	-	--	----
d.	Others (if any specified)	2	2	6	10	29.41
	Total	6	10	18	34	100.0

Source: Opinion survey

*Alternatives

From the above table (Table no.4.24), it was found that 13 or 38.24 percent respondents (see first alternative) provided their suggested amount, they are as follows:

Respondents	Medical tax credit facility should be Rs.
2	Rs. 10,000 per year
6	Rs. 5,000 per year
2	Rs. 3,000 per year
3	Rs. 2,500 per year

Similarly, 11 or 32.35 percent respondents suggested actual medical expenses should be deductible. Out of 10 respondents (see 4th alternative), 4 respondents suggested that it is not effective yet. 4 respondents suggested that total medical expenditure done on government hospital. And 2 respondents suggested that the medical tax credit facility should be based on income level of the people

11. Opinion on Deduction Facility of Repairs and Improvement Cost

According to Income Tax Act 2058, the repair and improvement cost is allowable to deduct but such facility is provided to deduct only 7 percent of depreciation basis of assets pool. To know the opinion of respondents about such facility the question was asked, “Do you agree that repairs and improvement cost is allowable to deduct, 7 percent of depreciation basis of assets pool, is it proper?” The responses of the respondents are tabulated as below:

Table 4.25

Opinion on Appropriateness of Existing Deduction Facility of Repair and Improvement Cost

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	8	80	2	20	10	100
Tax administrators	20	100	-	-	20	100
Tax payers	8	40	12	60	20	100
Total	36	72	14	28	50	100

Source: Opinion survey

By observing the table (Table no. 4.25), it can be said that 72 percent respondents supported present repairs and improvement cost deductive facility. Majority tax experts and all tax administrators agreed with the present facility. 28 percent respondents were found against the present deduction facility of repair and improvement cost. Majority tax payers were disagreed with the present facility. So, it can be conducted that the repairs and improvement cost is allowable to deduct, 7 percent of depreciation basis of assets pool, it is proper.

Similarly, another question was asked to the respondents who were disagreed with the present repairs and improvement cost deduction facility. To know their opinion, the question was asked “if no, how much should be deducted?” The responses are tabulated as below:

Table No. 4.26

**Opinion for Different Alternatives of Repairs and Improvement Cost
Deduction Facility**

No. of alts*	Respondents Responses	Tax experts	Tax payers	Total	
				No.	%
1.	..% of depreciation basis	1	5	6	42.86
2.	..% of actual expenses	-	2	2	14.28
3.	Actual expenses	1	5	6	42.86
4.	Other(if any specified)	-	-	-	----
	Total	2	12	14	100

Source: Opinion survey

*Alternatives

Above table (Table no. 4.26) shows that 42.86 percent respondents were selected 1st alternative. Out of 6 respondents (1st alternative) provided following opinion: 4 respondents suggested 10% of depreciation basis whereas 2 respondents suggested 15% of depreciation basis. Similarly, 42.86 percent respondents (3rd alternative) suggested that actual repair and improvement cost must be facilitated for deduction. In 2nd alternative, one respondent suggested 75% and another respondent suggested 50% of actual expenses should be deducted.

On the personal discussion with the respondents the researcher found that actual repair and improvement cost must be facilitated for deduction. But in practical field, it was very difficult to determine actual repair and improvement cost which must be accepted the tax authorities. There is high chance of fraud.

12. Opinion about the Present Depreciation System

Income Tax Act 2058 has classified assets into five (5) class and different rates are determined for each class for depreciation propose. The whole legal provisions relating to depreciation is given in section 19 in Income Tax Act 2058. To know the opinion about the depreciation system, a question was asked “are you satisfied with the present depreciation system of income tax?” The responses about it are break down as follows.

Table 4.27

Opinion about the Present Depreciation System

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	9	90	1	10	10	100
Tax administrators	18	90	2	10	20	100
Tax payers	11	55	9	45	20	100
Total	38	76	12	24	50	100

Source: Opinion survey

From the above table (Table no.4.27), out of the total respondents, 76 percent respondents were satisfied with present depreciation system of income tax whereas only 24 percent of total respondents were not satisfied with the present depreciation system. So, it can be concluded that majority of the respondents are satisfied with present depreciation system.

13. Problems and Weakness of Nepalese Income Tax System

Income tax system of Nepal has been blamed that it is not efficient. To know the opinion of the respondents about causes of problems and weakness of Nepalese income tax system, a question was asked, “What are the major problems and weakness in Nepalese income tax system?” The respondents were requested to rank the given causes (their answer) from 1 to 10. Out of total respondents, more than half respondents ranked but other made tick mark. For ranking purpose, opinions of the respondents are presented as below:

Table 4.28

Problems and Weakness of Nepalese Income Tax System

S.N.	Problems & weakness	Respondents			Total No.	percentage	Rank
		Tax experts	Tax adm.*	Tax payers			
1	Voluntary compliance	7	14	9	30	12.10	4

2	Relatively high tax rate	5	10	7	22	8.87	7
3	Difficulty to maintain the account for tax purpose	3	7	5	15	6.05	9
4	Limited tax base	7	15	3	25	10.08	5
5	Lack of cooperation in tax administration	9	11	14	34	13.71	2
6	Lack of provisions under the Nepalese income tax laws	2	5	4	11	4.43	10
7	Ambiguous provision under the Nepalese income tax laws	6	10	8	24	9.68	6
8	Lack of trained employee	8	17	12	37	14.92	1
9	Lack of timely adjustment of tax laws	5	7	7	19	7.66	8
10	Increased corruption	7	15	9	31	12.50	3
Total					248	100	

Source: Opinion survey

*Tax administrators

By observing the above table (Table no.4.28), according to preference of the respondents major problems and weakness of the Nepalese income tax system are ranked as follows:

1. Lack of trained employees.
2. Lack of cooperation in tax administration.
3. Increased corruption.
4. Voluntary compliance.
5. Limited tax base.
6. Ambiguous provision under the Nepalese income laws
7. Relatively high tax rate.
8. Lack of timely adjustment of tax laws.
9. Difficulty to maintain the account for tax purpose.
10. Lack of provisions under the Nepalese income tax laws.

Other problems stated by the respondents are as follows:

1. Tax evasion (which come into voluntary complains).
2. Complicated language in tax act laws.
3. Lack of monitoring system.
4. Lack of education and motivation system.

From the above table, it can be said that the major problems and weakness of Nepalese Income Tax System are lack of trained employees, lack of cooperation in tax administration, increased corruption, limited tax base, relatively high tax rate, complicated language in act.

After the personal discussion with the respondents, the researcher found that increased corruption was major problem and weakness of Nepalese Income Tax System. Tax administrators and tax payers both blamed each other for this situation but both aspects were found to be equally responsible for increment of corruption. Besides, this complicated language was found to be another major problem.

14. Sufficiency of Provisions under the Income Tax Act 2058

To know the opinion of the respondents about the sufficiency provision made under Nepalese Income Tax Act 2058, they were requested to select one between two alternatives. The question was, “In your opinion, are the provision made under the Nepalese Income Tax Act sufficient in all respect?” The responses about the question are tabulated as below:

Table 4.29

Sufficiency of Provisions of Income Tax Act 2058

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
respondents						
Tax experts	2	20	8	80	10	100
Tax administrators	14	70	6	30	20	100
Tax Payers	8	40	12	60	20	100
Total	24	48	26	52	50	100

Source: Opinion survey

By observing the table (Table no.4.29), it was found that 52 percent respondents disagreed with sufficiency of provision made under the Nepalese income tax system whereas 48 percent respondents found to be agreed the sufficiency of provision made Income Tax Act.

On the personal discussion with the respondents the researcher found that the provisions are made under the Nepalese Income Tax Act insufficient in all respect.

15. Suggestion for the improvement in the present Income Tax Act 2058.

The respondents were requested to give their opinions or suggestions in regard to the improvement of the present Income Tax Act 2058. As per their valuable opinions, the required suggestions are concluded so far.

Out of the total respondents, only 20 respondents provided their suggestions. More than half or 30 respondents did not provide any responses about the question. The opinions or suggestions for the improvement in the present Income Tax Act 2058 are listed below:

Tax experts

-) The provision should be clear and understandable.
-) Tax administration should be transparent.
-) Awareness rising.
-) Monitoring the compliance.
-) Decrease corruption.
-) Implementation of rules and regulation.
-) Tax base should be expanded.

Tax administrators

-) Harder law.

-) Tax education should be improved.
-) Tax law should be made very simple to increase tax compliance.
-) Efficient manpower and expert should be encouraged to join tax administrations.
-) Timely feedback system.
-) Implementation level should be improved.

Tax payers

-) Tax payment system should be simple.
-) Improved in tax administration.
-) Language should be simple.
-) Tax education.

From the above list it is found that the language of tax act must be simple. Tax education should be improved. Tax base should be expanded.

4.9 Major Findings

On the basis of preceding chapters some important finding can be drawn. Major's findings of this research study are summarized follows:

4.9.1 Major Finding of Primary Data

There is highly resource gap in Nepal. Some part of gap is fulfilled by foreign loan and grants. Income tax is the major sources of the government revenue. Government revenue is the composition of external revenue and internal revenue. The contribution of tax revenue to total revenue is in an increasing trend and in the percentage it is in a fluctuating trend. Nepalese tax revenue is the composition of direct and indirect revenue. Direct tax revenue is the composition of income tax, house and land registration, tax on property and others. Indirect tax revenue is the composition of custom duty, VAT, excise duties and other taxes etc. Nepalese income tax revenue is collected from public enterprises, semi-public enterprise, private corporate and remuneration etc. the tax GDP ratio of Nepal is not found satisfactory as compare to other developing counties. Income tax is the important sources of internal revenue of government.

In the earlier year, there was equal amount of exemption limit for all types of tax payers, from the fiscal year 1965/66 to 1966/67 it was Rs.5000 of all. Then it was divided into three categories i.e. individual, couple and family up to fiscal year 1978/79. From 1980/81 it was divided into two categories i.e. individual and couple of family. Both exemption limits were increased according to time and situation. Now, Rs. 1.25,000 is exemption limit for an individual and Rs 1, 40,000 for family or couple. At the present situation, the

exemption limit is insufficient for both. Some provisions of deduction facilities are sufficient and some provisions are insufficient.

An opinion survey has been conducted in order to find out the appropriateness of exemption and deduction and some other aspects of Income Tax Act 2058. From the opinion survey with tax administrators tax experts and tax payers following points have been drawn.

-) Income tax administration in Nepal is ineffectiveness.
-) Weakness in government's policy, less public participation, defective Income Tax Act, lack of trained employee, faulty organization structure of tax administration, shortage of income tax experts/professional in tax administration are the main causes for the creation of ineffective tax administration.
-) Current income tax rate is medium in Nepal.
-) Exempted items mentioned in Income Tax Act 2058 are sufficient.
-) Current income tax exemption limit is inappropriate for individual as well as family or couple.
-) Family exemption should be provided according to the number of dependents.
-) Exemption limit can be provided adjusting with inflations situation of country.
-) In Nepal most of the people's income is based on traditional income so, it must be out of tax net.
-) According to the economic condition and per capita income of the country, current additional tax exemption limit (Rs. 30,000, 24,000, 18,000, 12,000 and Rs. 6,000 to A, B, C, D and E areas respectively) to the individual working in different remote area is proper or suitable.

-) Special industries established in remote, undeveloped and underdeveloped area of the country get additional tax exemption facilities i.e. 30%, 25% and 20% of tax rate respectively and it is applicable for 10 income year is proper at present context of Nepal.
-) At present context, the medical tax credit facility (Rs. 750 or 15% of eligible medical expenses whichever is less) to the individual is not proper or appropriate.
-) Present repair and improvement cost (7% of depreciation basis of assets pool) of different assets pool's deduction facility is appropriate or proper.
-) Most of the tax experts, tax administrators and tax payer are satisfied with present depreciation system.
-) Provisions made under the Nepalese Income Tax Act 2058 are insufficient in all respect.

4.9.2 Major Findings of Secondary Data

-) Government revenue includes external revenue and internal revenue. The sources of the internal revenue are tax and non tax revenue. There is dominant share of tax revenue in Nepalese government revenue. Tax revenue was fluctuating trend it was 75.73 percent in fiscal year 2002/03, 77.29 percent in 2003/04 and 81.09 percent in 2006/07. Similarly, non tax revenue was also in a up and down trend that was 24.27 percent in 2002/03, 22.71 percent in 2003/04 and 18.91 percent in 2006/07.
-) Nepalese tax revenue is the composition of direct and indirect tax. There is dominate role of indirect tax revenue in Nepalese tax revenue. The direct tax was high in 2001/02 by 26.94 percent and it was 26.69

percent in 2006/07. The direct tax was also fluctuating trend that it was 1991/92 in 83.85 percent and 73.81 percent in 2006/07.

-) The tax –GDP ratio of Nepal is not found satisfactory compare to other countries. Tax- GDP ratio was 10.14 percent in 2003/4, which was in an increasing trend and non- tax revenue was 2.98 percent in 2003/04.
-) Indirect tax revenue is the composition of custom duty, VAT, excise duty and other tax. Out of the various indirect taxes, the custom duty has occupied the first position and VAT has occupied second position and contribution is in an increasing trend.
-) Direct tax revenue is composition of tax on property, profit and income and land revenue and registration.
-) Nepalese income tax revenue is composition of income from public enterprises, semi public enterprises, private corporate bodies ,individuals, remuneration and tax on interest,
-) Income tax is the important source of internal revenue of Government.

4.8 Empirical Study

An empirical investigation was conducted in order to find out the various aspects of income tax from the experience of the real world. In this empirical study, the analysis has been done about income tax on the basis of information collected from the tax experts, tax administrators and tax payers. The major tools used for this purpose is questionnaire.

In this study, the questions were asked to 50 different individuals related to this field i.e. tax experts, tax administrators (tax officers), tax payers. The questionnaire has covered various aspects of income tax concerning with the exemptions and deductions (see the format of questionnaire in appendix). The respondents were asked either to responses yes/no or selecting one alternatives among different alternatives or for ranking of choices according to number of alternatives while first choice is the most important and last choice is least important. The information received from the respondents are tabulated and analyzed in the proper way. The following table shows the groups and number of respondents.

Table No 4.10
Group of Respondents and Number

S.N	Group of respondents	Number
1	Income Tax Experts	10
2	Income Tax Administrators(officer)	20
3	Income Tax Payers	20
Total		50

Result of Empirical Investigation

1. Effectiveness of Income Tax Administration in Nepal

To know the opinion about the effectiveness of income tax administration in Nepal, a question was asked with the respondents “Do you consider that the income tax administration in Nepal is effective?” The responses received from the respondents are tabulated as follows:

Table No 4.11
Effectiveness of Income Tax Administration of Nepal

Responses	Yes		No		Total	
	No.	%	No.	%	No	%
Tax Experts	4	40	6	60	10	100
Tax Administrators	12	60	8	40	20	100
Tax Payers	6	30	14	70	20	100
Total	22	44	28	56	50	100

Source: Opinion Survey

From the above table (Table no. 4.11), the question received 100 percent response as 44 percent of total respondents agree that the income tax administration of Nepal is effective and 56 percent of the total respondents do not agree about the effectiveness of income tax administration in Nepal. Most of the respondents disagree about the effectiveness of income tax administration in Nepal. 70 percent of tax payers were against the effectiveness of income tax administration. So, it can be conducted that the income tax administration in Nepal is ineffective.

Similarly, another question was asked to the respondents who were disagreed about the effectiveness of income tax administration in Nepal. To know their opinion the question was asked, “If no, what are the causes which are the responsible for the creation of ineffective tax administration?” The respondents were requested to rank their answer from 1 to 6. But some respondents ranked and some made tick mark. The responses of the respondents are presented as follows:

Table No. 4.12
Causes of Ineffective Tax Administration

S. N.	Alternatives	Respondents			Total frequency	Percentage	Rank
		Tax experts	Tax adm*.	Tax payers			
1	Defective Income Tax Act.	4	6	12	22	19	3
2	Less public participation.	6	5	12	23	20	2
3	Lack of trained employee.	3	7	7	17	15	4
4	Weakness in government's economic policy.	6	6	12	24	21	1
5	Faulty organizational structure of tax administration.	4	5	6	15	13	5
6	Shortage of income tax experts/professionals in tax administration.	4	5	5	14	12	6
Total					115	100	

Source: Opinion Survey

*Tax administrators.

In the above table (Table no. 4.12), percentage was calculated according to the total frequency are obtained by each alternative. For ranking purpose percentage of each alternative was matched with each other and assigned first rank to the highest percentage. According to the respondents' point of view, the

main causes for the creation of ineffective income tax administration in Nepal were ranked as follows.

1. Weakness in government's economic policy.
2. Less public participation.
3. Defective Income Tax Act.
4. Lack of trained employee.
5. Faulty organization structure of tax administration.
6. Shortage of income tax experts/professionals in tax administration.

From the above table as well as other discussion with respondents, it can be concluded that the main causes for the creation of ineffective tax administration are lack of trained employee, shortage of tax experts and less public participation.

2. Opinion about the Current Income Tax Rate

To know the opinion on current income tax rate, respondents were requested to select one among the three alternatives (high, medium, low). The question was asked, "What is your opinion about the current income tax rate?" The responses received from respondents are tabulated below:

Table No. 4.13

Opinion about the Current Income Tax Rate

Respondents Responses	Tax experts	Tax administrators	Tax Payers	Total	
				No.	Percentage
High	1	0	13	14	28
Medium	7	18	6	31	62
Low	2	2	1	5	10
Total	10	20	20	50	100

Source: Opinion Survey

The above table (Table no.4.13) shows that 100 percent responses were received. Out of 100 percent responses, 62 percent respondents agreed that the current income tax rate is medium. 28 percent respondents agreed on high tax rate whereas 10 percent respondents agreed on low tax rate. From the table, it is concluded that the current income tax rate is medium. Majority tax experts and tax administrators were agreed on it whereas; majority respondents felt that the rate is not absolutely high, but it is higher as compared to taxpaying capacity of Nepalese people.

3. Sufficiency of Exempted Items of Income Tax

Income tax has provided exemption to the various income or different items of income. Act has mentioned the tax free incomes and tax exemption organization. To know the sufficiency of exempted items of income a question was asked “Do you think that the exempted items of income are sufficient?” The responses are tabulated as follows:

Table No.4.14

Sufficiency of Exempted Items of Income Tax

Responses	Yes		No		No responses		Total	
	No.	%	No.	%	No.	%	No.	%
Respondents								
Tax experts	4	40	5	50	1	10	10	100
Tax administrators	16	80	2	10	2	10	20	100
Tax payers	12	60	5	25	3	15	20	100
Total	32	64	12	24	6	12	50	100

Source: Opinion survey

By observing the table (Table no.4.14) 64 percent respondents agreed that exemption items are sufficient. 24 percent respondents disagreed about the sufficiency of exempted items. 12 percent of the respondents did not provide any response.

As who gave the negative responses about the sufficiency of exempted items of income were asked another question “If no, what kind of income should be exempted?” They were requested to write their opinion. Most of the respondents did not give any response about it. However, only 4 tax experts, 3 tax payers and 1 tax administrator provided response. The respondents suggested that following income must be tax exempted from incomes.

Tax Experts

-) Income from interest and rent.
-) Income derived by tax exempted organization.
-) Income from provident fund (capital gain).
-) Remote area allowance.
-) Income from life insurance.

Tax Administrators

-) Medical allowance.
-) Retirement benefits.

Tax payers

-) Medical allowance.
-) Over time allowance.
-) Remote area allowance.
-) Income from life insurance.

From the above list, income from life insurance premium, medical allowance and remote area allowance etc. must be tax exempted incomes.

4. Appropriateness of Current Income Tax Exemption Limit

Finance Act of Nepal yearly prescribed the tax rate and exemption limit of income. From the very beginning the tax rate and exemption limit are changing year to year. To know the respondents' view about the current exemption limit, a question was put "Do you think that the current income tax exemption limit is appropriate?" The responses are presented as follows:

Table No. 4.15
Appropriateness of Current Income Tax Exemption

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	2	20	8	80	10	100
Tax Administrator	16	80	4	20	20	100
Tax Payers	3	15	17	85	20	100
Total	21	42	29	58	50	100

Source: Opinion survey

From the above table (Table no.4.15) 58 percent respondents were against the appropriateness of current exemption limit whereas 42 percent respondents were in favor of it. Majority of tax experts and tax payer agreed with inappropriateness of exemption limit. From the above table and personal discussion with respondents it can be concluded that the current income tax is inappropriate.

The respondents who were against the appropriateness of current exemption limit were asked another question “If no, how much the exemption limit should be to an individual unit?” The responses of the respondents are tabulated as follows:

Table 4.16
Exemption Limit for an Individual Unit

Respondents Responses	Tax experts	Tax administrators	Tax payers	Total	
				No.	%
Rs.1,80,000	2	--	--	2	6.90
Rs.2,00,000	4	1	10	15	51.72
Rs other (if any)	2	3	7	12	41.38
Total	8	4	17	29	100

Source: Opinion survey

On the response about the exemption limit of individual it was found that 6.90% in favor of Rs. 1, 80,000. 51.72% of the respondents suggested that the exemption limit should be Rs. 2, 00,000. But 12 respondents (41.38) who

specified on other (if any). They suggested Rs, 2, 25, 000, Rs. 3, 00,000 and Rs. 3, 50,000 as tax exemption limit for an individual unit.

From the above table as well as personal discussion with the respondents, it can be said that according to the economic condition and income level of Nepalese People, it is found that the appropriate exemption limit for an individual is Rs. 1,50,000.

Similarly, a question was raised on the topic of exemption limit to the respondents for a family as “How much exemption limit should be for a family?” The responses are presented in the following table.

Table No. 4.17
Exemption Limit for a Family

Respondents Responses	Tax experts	Tax administrators	Tax payers	Total	
Rs. 2,00,000	3	--	8	11	37.93
Rs.2,50,000	4	3	7	14	48.28
Rs. Other(if any)	1	1	2	4	13.79
Total	8	4	17	29	100

Source: Opinion survey

From the above table (Table no.4.17) it is clear that most of the respondents (i.e. 48.28%) suggested for Rs. 2, 50,000 as exemption limit for a family. 37.93% of the respondents were suggested for Rs.2, 00,000. Four respondents who specified as other(if any) was Rs, 3,00,00 by two respondents and Rs. 4,00,000 by two respondents. One the personal discussion with the

respondents, the researcher found exemption limit must be equal to family surviving amount different part of the country.

5. Family Exemption must be provided on the Basis of Number of Dependents.

Income Tax Act has provided limit to a family or a couple. But it has not mentioned the number of dependents in a family. So, to know the opinion of the respondents the exemption limit of a family must be provided on the basis of number of dependents. A question was put “Do you agree that family exemption must be provided according to the number of dependents?” the responses of the respondents are tabulated as follows:

Table No. 4.18

Family Exemption Limit on the Basis of Number of Dependents

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	6	60	4	40	10	100
Tax administrators	12	60	8	40	20	100
Tax payers	15	75	5	25	20	100
Total	33	66	17	34	50	100

Source: Opinion survey

Above table (Table no.4.18) shows that 100 percent response was received. 66 percent respondents agreed that the exemption limit must be provided according to the number of dependents. But 34 percent respondents were disagreed to provide exemption according to the number of dependency. On the personal discussion with the respondents the researcher found that the respondents were supporting to provide exemption limit to a family according to the number of dependents. But it is very difficult to implement in the practical field.

6. Exemption Limit on the Basis of Inflation Situation of the Country

To know the opinion of the respondents whether the exemption limit should be provide according to the inflation of the country. The question was asked “Do you feel that exemption limit should be adjusted according to the inflations situation of the country?” The responses of the respondent are tabulated as follows:

Table No. 4.19

Exemption Limit According to the Inflation Situation of the Country

Response	Yes		No		Total	
	No.	%	No.	%	No.	%
Respondents						
Tax Experts	10	100	--	--	10	100
Tax administrators	20	100	--	--	20	100
Tax payers	20	100	--	--	20	100
Total	50	100	--	--	50	100

Source: Opinion survey

From the above table (Table no.4.19) it is clear that 100 percent response was received. According to the table, all of respondents agreed to adjust the exemption limit according to the inflation situation of the country.

7. Opinion on Providing Exemption an Agriculture Income

From the commencement of Income Tax Act, agriculture income has been treated as taxable income for some time and tax exempted income for some time. The new Income Tax Act 2058 has defined agricultural income. To know the views of respondents about it, a question was asked “What is your opinion on providing exemption an agricultural income?” The responses of the respondents are presented as follows:

Table No. 4.20
Exemption Facility for Agriculture Income

Respondents Responses	Tax Expert	Tax administrators	Tax payers	Total	
				No.	%
Yes, it should be exempted	8	16	10	34	68
No	--	--	2	2	4
It should be treated as other income	--	4	4	8	16
Other(if any specified)	2	--	4	6	12
Total	10	20	20	50	100

Source: Opinion Survey

The above table (Table no.4.20) shows that, 68 percent respondents agreed that agricultural income should be tax exempted income whereas 4 percent respondents were against the exemption on agricultural income. Similarly, another 16 percent respondents supported that the agricultural income should be treated as other income and 12 percent respondents who specified other if any following opinion were presented as follows.

-) Commercial agricultural income should be taxed as other income.
-) Organizational agriculture income should be given for limit period of establishment.
-) A separate, agriculture Income Tax Act should be presented.

On the personal discussion with the respondents as well as the above table the researcher found that the agricultural income should be tax exemption income because 80% to 90% people are based on agricultural income. In our country farming system is based on traditional system.

Traditional system does not provide sufficient income to the family for living. So, it should be exempted.

8. Opinion on Providing Additional Exemption to the Individual Working in Different Remote Areas

To know the view of the respondents about additional exemption which is given to the person, who are working in different remote area of the country is suitable or not, a question was put “An individual working in remote area A, B, C, D and E can get an additional exemption of Rs. 30,000, 24,000, 18,000, 12,000 and Rs, 6,000 respectively is it suitable?” The responses of the respondents are tabulated as follows:

Table No.4.21

Opinion on Providing Additional Exemption to the Individual Working in Different Remote Areas

Response	Yes		No		No responses		Total	
	No.	%	No.	%	No.	%	No.	%
Tax experts	5	50	5	50	--	--	10	100
Tax administrator	16	80	2	10	2	10	20	100
Tax payers	12	60	4	20	4	20	20	100
Total	33	66	11	22	6	12	50	100

Source: Opinion survey

According to the table (Table no.4.21), 66 percent respondents agreed that the current additional exemption to the individual who are working in different remote areas was sufficient. 22 percent respondents disagreed with the current additional exemption facility. 12 percent respondents did not provide any responses. According to the table, majority respondent were agreed with the current additional exemption limit for an individual who are working in different remote areas is proper or suitable.

On the personal discussion with the respondents it was found that according to the economic condition and per capita income of country current

additional tax exemption to the individual working in different area is suitable or proper.

Similarly, another question was asked to know the opinion of the respondents who disagreed in current additional exemption limit to the individual who are working in different remote areas. The question was asked “if no, how much exemption limit should be?”

Out of the 11 respondents (see in above table) 5 respondents did not mention any thing, 3 respondents suggested following amount given in the table.

Areas	A	B	C	D	E
Amount Rs.	60,000	40,000	30,000	25,000	20,000
Amount Rs.	50,000	40,000	30,000	20,000	10,000

On the other hand, other three respondents suggested the following points.

-) It cannot be quantized in amount. The amount which a person gets in remote area should be exempted means extra benefit derived should be totally exempted.
-) It should be adjusted as per the life style of the area.
-) It should be adjusted availability of basic needs.

9. Additional tax Exemption Facility to the Special Industries Established in Different Areas

Income Tax Act 2058 has provided additional exemption facility for 10 income year to the special industries established in different areas. To know the view of the respondents about such facility, they were asked whether the tax rate for the special industries established in remote, undeveloped and underdeveloped areas i.e. 70%, 75% and 80% respectively is suitable for 10 income year or not. Their responses are tabulated as below:

Table No. 4.22

Additional Tax Exemption Facility to the special Industries Established in Different Areas

Responses	Yes		No		No responses		Total	
	No.	%	No.	%	No.	%	No.	%
Tax experts	6	60	2	20	2	20	10	100
Tax administrators	12	60	5	25	3	15	20	100
Tax Payers	13	65	5	25	2	10	20	100
Total	31	62	12	24	4	14	50	100

Source: opinion survey

By observing the table (Table no.22), it can be said that 62 percent respondents agreed with the current additional exempt facility (30% of tax rate for remote areas, 25% for undeveloped area and 20% for underdeveloped areas) to the special industries established in different area which is applicable for 10 income year. 24 percent or 12 respondents disagreed with the present additional tax exempted facilities to the special industries established in different area, 14 percent respondents did not provide any responses about the questions. Majority tax experts, tax administrators and tax payers agreed with present exemption facility. So, it can be concluded that the current facility is proper.

Similarly, another question was asked to the respondents who disagreed with the present additional tax exempt facility provided by Income Tax Act 2058 to the special industries established in different remote areas. To know the opinion of the respondents, given the question was put to them, “how much additional tax exempted facilities should be?” The responses were given by the respondents are as follows:

Out of 12 respondents (see above table)

-) 7 respondents suggested the facility should be given for long period of time to attract the industry in such areas.
-) 3 respondents suggested that the special industries established in remote, undeveloped and underdeveloped area should pay tax only 40%, 50 % and 75% of the tax rate respectively for 10 income year.
-) 2 respondents did not provide any responses.

10. Opinion of Medical Tax Credit Facility

According to Income Tax Act 2058 medical tax credit facility is given to an individual. Rs. 750 or 15% of eligible medical expenses whichever is less allowed to deduct as medical tax credit facility. To know the opinion of the respondents about appropriateness of such medical tax credit facility to an individual, the question was asked “Do you think that medical tax credit is given to an individual up to Rs.750 or 15% of eligible medical expense is proper?” The responses received from the respondents are tabulated as follows.

Table No.4.23

Opinion on Appropriateness of Medical Tax Credit Facility

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	4	40	6	60	10	100
Tax administrators	10	50	10	50	20	100
Tax payers	2	10	18	90	20	100
Total	16	32	34	68	50	100

Source: Opinion survey

The above table (table no.4.23) shows that, out of 50 respondents, 68 percent respondents disagreed with the present medical tax credit facility (Rs. 750 or 15% of eligible medical expenses whichever is less) provided by Income Tax Act 2058. Majority tax experts and tax payers were against with present medical tax credit facility. Only 16 or 32 percent respondents were agreed.

From the table as well as personal discussion with the respondents, the researcher found that the present medical tax credit facility is less. So the present tax credit facility is not proper.

Similarly, another question, “If no, how much will be proper?” was asked to the respondents who were disagreed with present medical tax credit facility. The responses are tabulated as follows:

Table No. 4.24

Proper Amount of Medical Tax Credit

No. of alts*	Respondents Responses	Tax experts	Tax administrators	Tax payers	Total	
					No.	%
a.	Amounts(Rs.750)	1	8	4	13	38.24
b.	Actual medical expenses	3	-	8	11	32.35
c.	..... of eligible medical expenses	-	-	-	--	----
d.	Others (if any specified)	2	2	6	10	29.41
	Total	6	10	18	34	100.0

Source: Opinion survey

*Alternatives

From the above table (Table no.4.24), it was found that 13 or 38.24 percent respondents (see first alternative) provided their suggested amount, they are as follows:

Respondents	Medical tax credit facility should be Rs.
2	Rs. 10,000 per year
6	Rs. 5,000 per year
2	Rs. 3,000 per year
3	Rs. 2,500 per year

Similarly, 11 or 32.35 percent respondents suggested actual medical expenses should be deductible. Out of 10 respondents (see 4th alternative), 4 respondents suggested that it is not effective yet. 4 respondents suggested that total medical expenditure done on government hospital. And 2 respondents suggested that the medical tax credit facility should be based on income level of the people

11. Opinion on Deduction Facility of Repairs and Improvement Cost

According to Income Tax Act 2058, the repair and improvement cost is allowable to deduct but such facility is provided to deduct only 7 percent of

depreciation basis of assets pool. To know the opinion of respondents about such facility the question was asked, “Do you agree that repairs and improvement cost is allowable to deduct, 7 percent of depreciation basis of assets pool, is it proper?” The responses of the respondents are tabulated as below:

Table No. 4.25

Opinion on Appropriateness of Existing Deduction Facility of Repair and Improvement Cost

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	8	80	2	20	10	100
Tax administrators	20	100	-	-	20	100
Tax payers	8	40	12	60	20	100
Total	36	72	14	28	50	100

Source: Opinion survey

By observing the table (Table no. 4.25), it can be said that 72 percent respondents supported present repairs and improvement cost deductive facility. Majority tax experts and all tax administrators agreed with the present facility. 28 percent respondents were found against the present deduction facility of repair and improvement cost. Majority tax payers were disagreed with the present facility. So, it can be conducted that the repairs and improvement cost is allowable to deduct, 7 percent of depreciation basis of assets pool, it is proper.

Similarly, another question was asked to the respondents who were disagreed with the present repairs and improvement cost deduction facility. To know their opinion, the question was asked “if no, how much should be deducted?” The responses are tabulated as below:

Table No. 4.26

Opinion for Different Alternatives of Repairs and Improvement Cost Deduction Facility

No. of alts*	Respondents Responses	Tax experts	Tax payers	Total	
				No.	%
1.	.... of depreciation basis	1	5	6	42.86
2.	.... of actual expenses	-	2	2	14.28
3.	Actual expenses	1	5	6	42.86
4.	Other(if any specified)	-	-	-	----
	Total	2	12	14	100

Source: Opinion survey

*Alternatives

Above table (Table no. 4.26) shows that 42.86 percent respondents were selected 1st alternative. Out of 6 respondents (1st alternative) provided following opinion: 4 respondents suggested 10% of depreciation basis whereas 2 respondents suggested 15% of depreciation basis. Similarly, 42.86 percent respondents (3rd alternative) suggested that actual repair and improvement cost must be facilitated for deduction. In 2nd alternative, one respondent suggested 75% and another respondent suggested 50% of actual expenses should be deducted.

On the personal discussion with the respondents the researcher found that actual repair and improvement cost must be facilitated for deduction. But in practical field, it was very difficult to determine actual repair and improvement cost which must be accepted the tax authorities. There is high chance of fraud.

12. Opinion about the Present Depreciation System

Income Tax Act 2058 has classified assets into five (5) class and different rates are determined for each class for depreciation propose. The whole legal provisions relating to depreciation is given in section 19 in Income Tax Act 2058. To know the opinion about the depreciation system, a question was asked “are you satisfied with the present depreciation system of income tax?” The responses about it are break down as follows.

Table No. 4.27

Opinion about the Present Depreciation System

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	9	90	1	10	10	100
Tax administrators	18	90	2	10	20	100
Tax payers	11	55	9	45	20	100
Total	38	76	12	24	50	100

Source: Opinion survey

From the above table (Table no.4.27), out of the total respondents, 76 percent respondents were satisfied with present depreciation system of income tax whereas only 24 percent of total respondents were not satisfied with the present depreciation system. So, it can be concluded that majority of the respondents are satisfied with present depreciation system.

13. Problems and Weakness of Nepalese Income Tax System

Income tax system of Nepal has been blamed that it is not efficient. To know the opinion of the respondents about causes of problems and weakness of Nepalese income tax system, a question was asked, “What are the major problems and weakness in Nepalese income tax system?” The respondents were requested to rank the given causes (their answer) from 1 to 10. Out of total respondents, more than half respondents ranked but other made tick mark. For ranking purpose, opinions of the respondents are presented as below:

Table No. 4.28**Problems and Weakness of Nepalese Income Tax System**

S. N.	Problems & weakness	Respondents			Total No.	percentage	Rank
		Tax experts	Tax adm.*	Tax payers			
1	Voluntary compliance	7	14	9	30	12.10	4
2	Relatively high tax rate	5	10	7	22	8.87	7
3	Difficulty to maintain the account for tax purpose	3	7	5	15	6.05	9
4	Limited tax base	7	15	3	25	10.08	5
5	Lack of cooperation in tax administration	9	11	14	34	13.71	2
6	Lack of provisions under the Nepalese income tax laws	2	5	4	11	4.43	10
7	Ambiguous provision under the Nepalese income tax laws	6	10	8	24	9.68	6
8	Lack of trained employee	8	17	12	37	14.92	1
9	Lack of timely adjustment of tax laws	5	7	7	19	7.66	8
10	Increased corruption	7	15	9	31	12.50	3
Total					248	100	

Source: Opinion survey

*Tax administrators

By observing the above table (Table no.4.28), according to preference of the respondents major problems and weakness of the Nepalese income tax system are ranked as follows:

11. Lack of trained employees.

12. Lack of cooperation in tax administration.

13. Increased corruption.
14. Voluntary compliance.
15. Limited tax base.
16. Ambiguous provision under the Nepalese income laws
17. Relatively high tax rate.
18. Lack of timely adjustment of tax laws.
19. Difficulty to maintain the account for tax purpose.
20. Lack of provisions under the Nepalese income tax laws.

Other problems stated by the respondents are as follows:

5. Tax evasion (which come into voluntary complains).
6. Complicated language in tax act laws.
7. Lack of monitoring system.
8. Lack of education and motivation system.

From the above table, it can be said that the major problems and weakness of Nepalese Income Tax System are lack of trained employees, lack of cooperation in tax administration, increased corruption, limited tax base, relatively high tax rate, complicated language in act.

After the personal discussion with the respondents, the researcher found that increased corruption was major problem and weakness of Nepalese Income Tax System. Tax administrators and tax payers both blamed each other for this situation but both aspects were found to be equally responsible for increment of corruption. Besides, this complicated language was found to be another major problem.

14. Sufficiency of Provisions under the Income Tax Act 2058

To know the opinion of the respondents about the sufficiency provision made under Nepalese Income Tax Act 2058, they were requested to select one between two alternatives. The question was, “In your opinion, are the provision made under the Nepalese Income Tax Act sufficient in all respect?” The responses about the question are tabulated as below:

Table No. 4.29

Sufficiency of Provisions of Income Tax Act 2058

Responses respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	2	20	8	80	10	100
Tax administrators	14	70	6	30	20	100
Tax Payers	8	40	12	60	20	100
Total	24	48	26	52	50	100

Source: Opinion survey

By observing the table (Table no.4.29), it was found that 52 percent respondents disagreed with sufficiency of provision made under the Nepalese income tax system whereas 48 percent respondents found to be agreed the sufficiency of provision made Income Tax Act.

On the personal discussion with the respondents the researcher found that the provisions are made under the Nepalese Income Tax Act insufficient in all respect.

15. Suggestion for the improvement in the present Income Tax Act 2058.

The respondents were requested to give their opinions or suggestions in regard to the improvement of the present Income Tax Act 2058. As per their valuable opinions, the required suggestions are concluded so far.

Out of the total respondents, only 20 respondents provided their suggestions. More than half or 30 respondents did not provide any responses about the question. The opinions or suggestions for the improvement in the present Income Tax Act 2058 are listed below:

Tax experts

-) The provision should be clear and understandable.
-) Tax administration should be transparent.
-) Awareness rising.
-) Monitoring the compliance.
-) Decrease corruption.
-) Implementation of rules and regulation.

) Tax base should be expanded.

Tax administrators

) Harder law.

) Tax education should be improved.

) Tax law should be made very simple to increase tax compliance.

) Efficient manpower and expert should be encouraged to join tax administrations.

) Timely feedback system.

) Implementation level should be improved.

Tax payers

) Tax payment system should be simple.

) Improved in tax administration.

) Language should be simple.

) Tax education.

From the above list it is found that the language of tax act must be simple. Tax education should be improved. Tax base should be expanded.

4.9 Major Findings

On the basis of preceding chapters some important finding can be drawn. Major's findings of this research study are summarized follows:

There is highly resource gap in Nepal. Some part of gap is fulfilled by foreign loan and grants. Income tax is the major sources of the government revenue. Government revenue is the composition of external revenue and internal revenue. The contribution of tax revenue to total revenue is in an increasing trend and in the percentage it is in a fluctuating trend. Nepalese tax revenue is the composition of direct and indirect revenue. Direct tax revenue is the composition of income tax, house and land registration, tax on property and others. Indirect tax revenue is the composition of custom duty, VAT, excise duties and other taxes etc. Nepalese income tax revenue is collected from public enterprises, semi-public enterprise, private corporate and remuneration

etc. the tax GDP ratio of Nepal is not found satisfactory as compare to other developing countries. Income tax is the important sources of internal revenue of government.

In the earlier year, there was equal amount of exemption limit for all types of tax payers, from the fiscal year 1965/66 to 1966/67 it was Rs.5000 of all. Then it was divided into three categories i.e. individual, couple and family up to fiscal year 1978/79. From 1980/81 it was divided into two categories i.e. individual and couple of family. Both exemption limits were increased according to time and situation. Now, Rs. 1.25,000 is exemption limit for an individual and Rs 1, 40,000 for family or couple. At the present situation, the exemption limit is insufficient for both. Some provisions of deduction facilities are sufficient and some provisions are insufficient.

An opinion survey has been conducted in order to find out the appropriateness of exemption and deduction and some other aspects of Income Tax Act 2058. From the opinion survey with tax administrators tax experts and tax payers following points have been drawn.

-) Income tax administration in Nepal is ineffectiveness.
-) Weakness in government's policy, less public participation, defective Income Tax Act, lack of trained employee, faulty organization structure of tax administration, shortage of income tax experts/professional in tax administration are the main causes for the creation of ineffective tax administration.
-) Current income tax rate is medium in Nepal.
-) Exempted items mentioned in Income Tax Act 2058 are sufficient.
-) Current income tax exemption limit is inappropriate for individual as well as family or couple.
-) Family exemption should be provided according to the number of dependents.
-) Exemption limit can be provided adjusting with inflations situation of country.

-) In Nepal most of the people's income is based on traditional income so, it must be out of tax net.
-) According to the economic condition and per capita income of the country, current additional tax exemption limit (Rs. 30,000, 24,000, 18,000, 12,000 and Rs. 6,000 to A, B, C, D and E areas respectively) to the individual working in different remote area is proper or suitable.
-) Special industries established in remote, undeveloped and underdeveloped area of the country get additional tax exemption facilities i.e. 30%, 25% and 20% of tax rate respectively and it is applicable for 10 income year is proper at present context of Nepal.
-) At present context, the medical tax credit facility (Rs. 750 or 15% of eligible medical expenses whichever is less) to the individual is not proper or appropriate.
-) Present repair and improvement cost (7% of depreciation basis of assets pool) of different assets pool's deduction facility is appropriate or proper.
-) Most of the tax experts, tax administrators and tax payer are satisfied with present depreciation system.
-) Provisions made under the Nepalese Income Tax Act 2058 are insufficient in all respect.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary and conclusion

Income tax is a suitable means of raising government revenue and mobilization of the domestic sources. To achieve the goal of the national development and for economic growth of the country some specific objectives of income tax has to be set up. For this purpose specified program should be implemented.

Nepal is one of the least developed countries. Nepal cannot successfully and properly tear a curtain built from massive poverty, hunger, diseases, unemployment, heavy dependence on agriculture, lack of adequate industries. Yet, Nepalese economy is suffering from ineffective and effortless plan, program and policy of development.

Nowadays, prime concern of every nation of the world is rapid economic development and Nepal is not exception to this ever continuing process. Nepal has its own aims for self-reliant economic system to upgrade its living standard of people. Thus a lot of money has to be spent by the government to achieve maximum national objectives. Government collects revenue to pay regular expenditure, to do development works and to provide social welfare activities towards its people.

Government collects revenue from different sources. The sources of government revenue can be classified into two sectors i.e. external sources and internal sources. External sources of government revenue are foreign loan, foreign borrowing, grants, donations etc. External sources are uncertain, inconvenient and not good for healthy economic development of the nation because it should be repaid after certain time with interest and it increases the dependability of the country. So, it is better to mobilize internal sources rather than external sources. Internal sources fund are own sources within the nation.

Internal sources of revenue can be classified into two types. They are: non-tax sources and tax sources. Fines and penalties, gifts and grants, royalty etc. are the example of non-tax revenue.

Tax is a compulsory levy imposed by the government to the people and industries according to the prevailing laws. Those who pay tax do not get any direct and corresponding benefits from the government. Tax revenue is important sources of government revenue. Taxation is regarded as an effective instrument, it monitor various economic activities in the country. Income tax, VAT, property tax, import and export duty, hotel tax etc. are the example of tax revenue

Tax can be classified into categories i.e. direct tax and indirect tax. The tax which is collected from the person or organization to which it is legally imposed is known as direct tax. Income tax, vehicles tax etc. are the example of direct tax. Indirect tax is imposed on one person or organization but party or wholly paid by others. VAT, hotel tax, import and export duty etc. are the example of indirect tax.

Income tax is a most popular direct tax. It is superior to other tax because it is imposed on the basis of paying capacity of the tax payers, according to the nation. Income tax reduce concentration of wealth in a few hand by imposing high rate to those person or organizations who have high level of income and low rate to those whose income level is less.

In the ancient time, tax system was based on Vedas, Smrities and Purans. First of all income tax system was introduced into England to manage the war. Then, USA introduced 'corporate Income Tax' in 1862. Nowadays, it is expanded all over the world. In Nepal, the first elected government in 1959 introduced "Business Profit and Remuneration Act 1960." In 1974 "Income Tax Act 2031" was enacted. Now "Income Tax Act 2058" is implementing

Income tax is main source of government revenue. It is used to balance economic development of the country. It is a tool for achieving maximum social economic objective. But government of Nepal is unable to maximize the share of income tax to the public fund as per expectation. Nowadays, in Nepal, income tax is collected through four sectors i.e. corporate income tax, individual income tax, house and land rent tax and interest tax. Among them, share of individual income tax is the highest. There is high resources gap or budgetary deficit in the country. The main cause of resources gap in Nepal is inadequate and ineffective resources mobilization.

Income tax system of Nepal has been blamed as not effective enough. There are many problems in income tax practice and revenue collection through income tax in Nepal such as increasing habit of tax evasion, defective income tax law, inefficient tax administration, narrow coverage, unscientific tax assessment, leakage in tax, lack of accuracy and unity in according system etc. but if we analyze the data relating to income tax, it has been found that revenue collection from income tax is increasing trend.

There are different legal provisions about income tax exemption and deduction of expenses in “Income Tax Act 2058”. It is necessary to know about the exemption and deduction of expenses to make up to date knowledge about the income tax system. The act has satisfied about the exemption limit to individual unit and family or couple. It has described about the expanses which are allowed for deduction and not allowed for deduction while calculating taxable income and tax liability. At present exemption limit and tax rate of the income tax is determining according to the income level and sector-wise but it is not adjusted according to the inflationary situation of the country and number of dependents. Exemption limit is not provided to the corporate bodies. The study carried out, the given exemption limits and deduction of expenses are sufficient, appropriate or not.

50 respondents have been selected to fulfill the objective of this study. Total respondents have divide into three groups i.e. tax experts, tax administrators and taxpayers. Data has been collected from primary and secondary sources to conduct the study. Different charts, diagrams percentage etc. are used to analyze the data.

An opinion survey has been collected from primary and secondary in other to find out the various aspects of income tax, exemptions and deductions. From the opinion survey of various respondents i.e. tax experts, tax administrators and taxpayers, it can be concluded that the income tax administration in Nepal is ineffective. According to the economic level, income level of the family and inflation situation of the country present exemption limit is inappropriate for both individual and family of couple. It must be increased and should be adjusted with inflation of country. Similarly, additional exemptions facilities who are working in different remote areas are sufficient, additional tax exemption facility to the special industries established in different remote area are proper. But, present medical tax facility is insufficient.

5.2 Recommendations

Nepal has already taken the membership of WTO. In this global environment Nepalese Income Tax system should fit with the global environment. Tax authorities should think in global perspective. For better utilization or mobilization of limit sources and to achieve the goal of the taxation following recommendations can be drawn based on findings of the research study.

Following recommendations are made on tax exemption and deduction:

-) Present tax base must be widened by including the house and rent income given for different purpose.
-) Present exemption limit for individual and family is not sufficient. It must be raised to Rs.1, 50,000 for individual and Rs.2, 00,000 for

family. Some additional exemption can be provided for maximum two children and two dependents parents.

-) Some additional exemption and concession is given for some period to encourage establishing industries in different remote areas but it is not effective because businessmen change names, ownership or place of the business when the concessions facilities expire. So, separate special package should be introduced for this purpose like establishment of medium industrial areas.
-) Income Tax Act 2058 has mentioned some organization as tax exempt organization. Social, religious, educational etc. that are established and registered without having any profit motive, so there are tax exempt organizations. At present, in the case of non-transparent private business like boarding schools, higher secondary schools, NGO's, other educational institutions whereas maximum profit is earned but it is out of tax net. So, it should be brought into tax net by making separate law and rules.
-) Dividend received from private residential company is final withholding payment and it can be included in income from investment, after deducting all the expenses regarding with the dividend.
-) Clear provisions should be made in the case of deduction in that act. All the items of deductions should be clearly defined in the act. The relationship between clause to clause and sub-clause to sub-clause or other creates double meaning which creates loopholes so, it should be reduced in the act.
-) Donation up to Rs. 50 lakh given before six month until election to the political parties registered with the election commission is allowed for deduction. There is no transparency of donation amount given by businessmen to political parties. This facility highly supports to make the corruption. So, such facility should be eliminated from the tax act. Amount can be provided to the political parties by the government according to their receiving vote from previous election.

) Deduction allowed from an employment income is not sufficient. So, the following deduction should be provided to the taxpayers whose sources of income are only the remuneration.

- Standard limit of expenses for better education of their two children.
- Actual medical expenses made by taxpayers for own self.
- Standard limit of expenses made for house rent.

If the tax payer is still studying in an education institution, some limit of educational expenses of taxpayers should be deductible.

) Deduction allowed from business of investment incomes is not sufficient. So the following, deduction should be provided to the tax payees whose sources of income are business or investment.

- In the case of tax exempt Organization controlled resident entity, full deduction of interest expenses is not allowed. It is not lawful step to the businessmen who operate the business with loan or debt amount. So it should be fully allowed for deduction within an income year.

) Income tax, rules and regulation should be clear and simple for all the tax payers as well as for tax administrators.

) The language of Act should be simple and clear.

) Clear provision should be made in case of deduction. All the items of deduction should be clearly defined in the Act.

) To promote export, more deduction should be provided.

) The provision of tax deduction at source and advance payment of tax should be extended to different sources of income as far as possible.

) Computerized information system is necessary to keep up to date records of income tax.

) Proper tax education should be provided to tax officials as well as tax payer regularly.

) Unnecessary outside pressures should be avoided.

) Income tax experts/profession should be increases in tax administrations.

Following recommendations are made in income tax law.

-) The language of act should be simple and clear. The definition made in income Tax Act should be further clarified and well defined.
-) The assessment and tax collection provisions should be made clear and simple so that taxpayers would be encouraged to pay income tax.
-) The provisions of fines, penalties and punishments should be made at higher rate for income tax evaders.
-) Discretionary power of the tax officials should be curtailed in the act.
-) The provision of rewards, prize, and incentive should be introduced in the act to encourage the taxpayers to pay tax voluntarily rather than coercive measures.
-) Special provisions should be made in the act for research and development.

Following suggestions are made for the improvement of income tax administration in Nepal.

-) The members who are involved in formulating income tax plans and policies must have deep knowledge about income tax.
-) All the tax personnel should be given training on various aspects of taxation on regular basis. For this purpose, a separate training department should be established.
-) Effective reward and punishment system should be established for personnel.
-) Income tax experts/professionals should be increased in tax administration.
-) Detail record of taxpayer and amount of tax must be kept and after some period of time or at the oldest period of taxpayers, some percentage of tax paid by taxpayers previously can be refunded to the taxpayers for their

security which encourage paying tax to the taxpayers and reducing the tax evasion.

-) Working environment of the tax offices should be improved. Necessary machine instruments and modern equipment should be provided.
-) Due to the lack trust between taxpayers and tax officer, their relationship is not good. The behavior of personnel towards taxpayers should be improved. Tax officer and personnel must be helpful and should provide good suggestion to the taxpayers.
-) Effective monitoring system and information system be established to prepare the list of potential taxpayers and gather information of various aspects and improve tax administration. A separate monitoring department can be established.
-) Tax education should be provided to taxpayers on regular basis.
-) Fear and scientific provision of promotion and career development opportunity to the personnel should be introduced. Financial benefits and extra incentives should be provided to the personnel.

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QUESTIONNAIRES

TAX PAYER'S ATTITUDE TOWARDS EXEMPTIONS AND DEDUCTIONS UNDER INCOME TAX ACT 2058

Name of the Respondent:

Position:

Department:

Tenure of service:

(Please tick your answers in the following and put in order of preference from first to last number if there are more than four alternatives)

1. Do you consider that the income tax administration in Nepal is effective?

- a) Yes b) No

) If no, what are the causes, which are responsible for the creation of ineffective tax administration? (Please Rank)

- a. Defective income tax.
- b. Less public participation.
- c. Lack of trained employee.
- d. Weakness in government 's economic policy.
- e. Faulty organizational structure of tax administration.
- f. Shortage of income tax experts / professionals in tax administration.
- g. Others (if any, specify)

2. What is your opinion about the current tax rate?

- a) High b) Medium c) Low

3. Do you think that the exempted items of income are sufficient?

- a) Yes b) No

) If no, what kind of income should be exempted?

Please note in order:

- a)

9. Special industries established in remote, undeveloped and underdeveloped areas should pay tax 70%, 75% and 80% respectively of the tax rate; it is applicable for 10 income years is it proper or suitable.

) If no, how much it should be, please write your opinion in percent or other:

a) Area: Remote Undeveloped Underdeveloped

Amount:

b) Other (if any, specify)

10. Do you think that medical tax credit is given to an individual up to Rs. 750 or 15% of eligible medical expenses in proper?

a) Yes b) No

) If no, how much will be proper? Please write your opinion.

a) A fixed amount Rs.

b)% of eligible medical expenses.

c) Actual medical expenditure

d) Other (if any, specify),

11. Do you agree that, repair and improvement cost is allocable up to 7% of the depreciation basis of assets pool. It is sufficient?

a) Yes b) No

) If no, how it should be?

a)% of depreciation basis.

b).....% of actual expenses.

c) Actual expenses only.

d) Other (if any, specify)

12. Are you satisfied with the present depreciation system of income tax?

a) Yes b) No

13. What are the major problem and weakness in Nepalese income tax?

(Please Rank)

a) Voluntary compliance.

b) Relatively high tax rate.

- c) Difficult to maintain the account for tax purpose.
- d) Limited tax base.
- e) Lack of corporation in tax administration.
- f) Lack of provisions under the Nepalese income tax laws.
- g) Ambiguous provisions under the Nepalese income tax laws.
- h) Lack of trained employees.
- i) Lack of timely adjustment of tax laws
- j) Increased corruption
- k) Others (if any, specify).

14. In your opinion, are the provisions made under the Nepalese Income Tax Act sufficient in all respect?

- a) Yes
- b) No

15. Please give your suggestion for the improvement in the present Income Tax Act 2058.

- a).....
- b).....
- c).....
- d).....

Thank You !