

CHAPTER-ONE

INTRODUCTION

1.1 Backgrounds of study

In the present situation, prime concern of every nation is economic development. In the context of Nepal, Nepal has got one of the poorest economies in the world. Different plans have been implemented by Nepal up to running 10th five year plan but there is no effective and significant achievement has been so far achieved. It is due to ineffective and effortless planning, programs and policies. On the other side, in the context of globalization, international marketing and economic liberalization have becoming prime concern to the nations for their rapid economic growth. Nepal cannot be the exception and hence aims for self dependent economic system to upgrade living standard of its people. Problems are critical .How to develop economic condition of Nepal? The aggregate answer is the huge amount of funds.

The government of nation is accountable for a welfare state. The government is also responsible for providing all the facilities and rights to the people. To provide all facilities and rights to the people, to maintain daily administration, to execute public welfare activities, to maintain peace and security and to carry out development works the government needs a huge amount of resources and funds. The Government of nation requires money to run the country just like the blood is needed to perform a circulatory system in a body. Money activates different organs of the country. No departments and offices function if there is lack of money. Sufficient amount of money is needed to transform government's plan and budget into real achievements.

Every sector of the world has been changing due to growing social awareness and welfare, increase of price of commodity and goods, increase of population, increase of national income, and other political activities. The government needs to cope with ocean of problem and needs to maintain a good balance between needs and resources. The money that is needed to perform various activities to the government is called public revenue. Public revenue is the most important source of financing the

government expenditure. To meet the need of growing expenditure, the government has to manage its revenue properly. Government revenue constitutes internal and external sources.

The fund need to the government is collected basically from two sources external and internal sources. Borrowing includes both internal and external. Most of the public expenditure is financed by taxation and borrowing. Internal and external debt collected within the country is called internal debt and debt collected from outside is called external debt. These sources are utilized for economic activities. Taxes and charges are withdrawn from the private sector without leaving the government with a liability to the payee. Borrowing involves a withdrawal made in return for the government's promise to repay of future and to pay interest in the interim. Borrowing to raise necessary public fund is not good for economic development of the nation. It reduces liquidity position of the government and increase the inflation. Mobilization of internal source is far more productive for the nation rather than putting beggar's eyes to the donors for external sources.

Internal source of fund includes both tax and non tax revenues. The main objective of non tax revenue is not to collect revenue but to provide goods & services to the people. The forms of non tax revenue are administration incomes, revenue from public enterprise, grants and gifts. Non tax sources are uncertain and inconvenient because they are imposed according to the necessary government.

If a person bearing and paying tax is same it is called direct tax. In the Dalton's words a direct tax is really paid by the same person on whom it is legally imposed. Direct tax included income tax, property tax, vehicles tax, gifts tax, death tax, interest tax, expenditure tax etc. Where as indirect tax is imposed by one person but paid partly or wholly by another. Again in Dalton's words an indirect tax is imposed on one person but paid partly or whole by another. In indirect tax, the persons bearing tax and paying tax are different. Indirect tax includes VAT, Sales tax, entertainment tax, Hotel tax, excise duty, import and export duty etc.

Indirect tax is commodity tax. An indirect tax is tax which is partly or fully passed on by forward and backward shifting process. Most of the developing nations including Nepal have been basically depending upon indirect taxes for internal revenue

generation because of administrative inefficiency ,lack of tax culture and awareness of tax payers and very low per capital income.

Income tax has very important role in the Nepalese economy. Income tax is one of the better sources of the public revenues. Income tax is the tax of equity. It is imposed because of paying capacity of taxpayers. Therefore, there is possibility of reducing gap in income by imposing higher rate to those who have higher income and lower rate or none to the people having poorer economic condition. It is tool of achieving maximum social and economic objectives as per the expectation of the constitution of Nepal. Income tax is essential not only for collecting government revenues but also for controlling over consumption for saving and for generating more employment. Different acts and laws are in action to improve tax system and policy so as to maximize the collection.

Within the income tax, tax exemption is a vital factor that minimizes tax liability in different condition. This way is legal, moral, ethical and intentionally positive for minimizing the tax liability. Tax exemption is a facility that allows different concessions rebates and allowances to the taxpayers' .Tax exemption not only reduce tax liability but also promote investment or business by which the government or nation can collect more revenue.

1.2 Statement of problem

Every nation or country tries an economic revolution. Their main concern is economic development for doing different activities. Under developing countries are facing complex problems for maintaining their income and expenditure. Underdeveloped countries are suffering from trading loss. This means export is less than import .In Nepal 41.76% people are under the poverty line and per capita income is less than \$320 and trading loss -74705.60 Million (in 2006\07 National Report).Nepal needs a huge investment to develop economic condition. There is huge gap between income and expenditure. To fulfill this gap we need internal sources.

Our nation is facing a serious problem of resource gap. Resource gap means that government expenditures are much more than government collected revenues. The

resources gap was only 4137.6 million in 1982\83, it became 15749.3 million in 1992\93 and further it widened to 45892.38 million in 2006\07 (2007/08 economic survey). To meet resource gap government manage its fund from external source. External sources are not good they may create a harmful effect in the economy. That's why we need to explore internal sources for powerful economy.

Internal sources are constitutes tax and non tax revenues. In the context of the Nepal the contribution of direct tax is less then indirect tax. This is not good signal of nation. Taxation is widespread tool that every government of a country apply to collect revenue from internal. To increase government revenue it is necessary to raise its internal sources of revenues. Internal sources of revenues constitute tax and non tax revenues. The revenues structure of NG (government of Nepal), share of tax revenues and Non-tax revenue were 81.09% and 18.91% respectively in F.Y. 2006\07 (2007/08 economic survey). Despite the major portion of government revenue is based on taxation it has not yet set stable in term of growth and accuracy.

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 higher tendency of income tax evasion. For the restructuring of income tax system change in existing act has been made in 2058 .But it does not seem to be so specific and effective regarding its contribution in revenue. Amount of tax collected in 2000\01 was 9114.0 just before the act and 15034 million for its fifth year of implementation in 2006\07. The contribution of income tax in national revenue was 18.64 %(2000\01) and 17.34 %(2006\07) respectively.

The context of exemption, income tax coverage is very narrow point of view. Different kinds of income give tax exemption likewise, pension received by retired army\policy from public fund of a foreign government, income from agriculture, remuneration under the employment of public service of a foreign government. Income tax also categories tax exempt organization which is registered in I.R. Department such as social, religious, educational or charitable organization of public character registered without having a profit motive, amateur sporting association formed for the purpose of promoting social or sporting amenities not involving the acquisition of gain. Exemption of these sources and organization are provided

loopholes for tax evasion and tax avoidance. It is way corruption. Changing name of firm - formations of trust, social, amateur sporting; which are exempt for tax but which benefits are derived by the member of the family. There is no specifying category exemption limit to an individual or family. Agricultural exemption is good in some extent but we should not forget that agriculture income plays a vital role in national revenue. Without tax the GDP is decreased.

Some exemption are social, motivated and encourage able such as allowance paid by NG to windows, senior citizens or disable persons, gift, bequest, inheritance or scholarship except as required to included in calculating income under sec. 7,8 and 9, exemption for handicapped \ disable persons who enjoy 50% of statutory exemption. Some exemptions are encouraged to establish company or organization because of the income tax gives to different facilities. It also encourage to establish in remote area which categories by A, B, C, D, E area who enjoy remote area allowance.

But all facilities and allowances are not sufficient for time and situation. It also creates loopholes of tax evasion. Revenue doesn't collect easily when people think that it is his\her responsibility to pay tax to the government. People are aware to pay tax but tax administration or rules are not strong but so that revenue collection is not satisfactory. That's way time and situation we make and correction of rule by consideration exemption of income tax.

1.3 Objective of the study

Every work would carry an objective for what purpose that work is going to be performed. In the same way, this study has also carried some objectives. Major objects of this study are set as follows:

- (1) To analyze income tax exempt: which are provided by the Income Tax Act, 2058.
- (2) To find out the contribution of income tax to public revenue of Nepal.
- (3) To provide necessary suggestions about tax exempt income.

1.4 Scope of study

This study mainly focused on the provision of exemption which is provided by income tax act 2058 and also tries explaining problem and weakness in the income tax system. The major areas covered by this study are as follows.

- (1) Exemption of income tax.
- (2) Formation of government revenue in Nepal.
- (3) Contribution of income tax to the government revenue and GDP.
- (4) Administrative aspects of income tax in Nepal.

1.5 Need of the study

Every nation wants a rapid economic development by adopting good Income Tax System. In context of Nepal Income Tax System has been suffering from traditional way and lacks far sightedness. There is no co-ordination between Tax administration and Income Tax System. At this situation Nepal is unable to achieve the goal. Exemption of income tax is also an important topic or subject of the income tax. Writers & researcher have been giving minor priority to the student and have failed to focus the subject matter in the campus syllabus. Hence a study of the subject has become important & significant.

1.6 Limitation of study

There are different causes due to which a researcher has to conduct the research from some limitation. The major limitations of the study are as follows.

- (1) Only study tax exemption which provided by Income tax act.
- (2) The views of respondents are collects only from Kathmandu valley.
- (3) Generally used sample data are collected for opinion survey.
- (4) Generally used secondary data, newspaper, book etc.

1.7 Organization Scheme

The present study is organized in five chapters. The first introduction chapter includes background of study, statement of problem, objectives of the study, scope of the study, need and significance of the study, limitation of study and organization of the study.

The second chapter is a review of the literature which is done to know what researches had made the related topic in previous days and what to be done at present or in the future. This chapter has been divided into two main aspects: (1) Conceptual framework (2) review of related materials i.e. review of books, review thesis, review of newspaper, magazine, journal etc.

Research Methodology is mentioned in the third chapter. The research methodology aspects deals with research design, population and sample, data collection procedure, sources and nature of data, data analysis tools and techniques used.

The fourth chapter is the main body of research which is data presentation and analysis. It reflects the research results. Strongly collected and sufficiency of data on the related topic provides the strength of the study. In this chapter, various data collected from various economy surveys, IRD Reports and journals, different libraries. They are presented in the graphs and tables analyzing the fact. Data presentation and analysis consists of two type's data: Secondary data and primary or empirical data.

The fifth Chapter includes summary, conclusion and recommendation. Moreover, it is the theme of the whole study.

CHAPTER - TWO

CONCEPTUAL FRAME WORK AND REVIEW OF LITERATURE

2.1 CONCEPTUAL FRAME WORK

2.1.1 Concept of tax

Tax is an obligation to pay sum of money by people according to value income, purchase etc to government for public purpose.

According to Dalton “A tax is compulsory contribution imposed by a public authority irrespective of exact amount of services rendered to tax payers in return”.

“A tax is compulsory contribution of a person or body of persons for the service of public power.”-P.E. Taylor

According to Plehn “Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the resident of the states.

Professor Sligman “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”.

Above different definition we find that

Tax is compulsory levy and the taxpayer does not have any right to receive direct benefits from tax paid. Amount collected from tax should be expended for public benefits. It is also clear that “Nothing is certain in this world but death and taxes are certain.” Death means stopping to pay tax. Death and taxes are both certain but death is not annual.

2.1.2 Classification of tax

Tax can be classified on the basic of different views. Basically taxes are categorized in the following.

(i) Direct tax

Direct tax is a kind of tax which is imposed to the person who actually pays it. Direct tax can not be shifted or carry forward to one person to another. Another words of directs tax is bearing and paying tax is same it is called direct tax. In the Dalton’s

words a direct tax is really paid by the same person on whom it is legally imposed. Direct tax includes income tax, property tax, vehicles tax, gifts tax, death tax, interest tax, expenditure tax etc. Its main theme is equal distribution of tax by imposing a higher tax to whom having higher income and a lower tax to whom having lower income. Direct tax concern to person because it pays personally. In this system person either tries to pay a lower tax or attempts a tax evasion. It concerns about personal earning or property that's why it discourages private saving and investment. This system lacks mass participation.

(ii) Indirect tax

Indirect tax is imposed by one person but paid partly or wholly by another. Again in Dalton's words an indirect tax is imposed on one person but paid partly or whole by another. In indirect tax the persons bearing tax and paying tax are different. Indirect tax includes VAT, Sales tax, entertainment tax, Hotel tax, excise duty, import and export duty etc. Indirect tax do not involve people therefore, they do not feel burden to pay lump sum. There is mass participation because they pay indirect pay tax when they receipt goods and services. Indirect tax may create an unhealthy or unequal wealth distribution of nation because it is imposed to every person either rich or poor. They pays equal amount of tax on goods or services. It is uncertain and it's harmful to economy.

2.1.3 Objectives of tax

In the early stage, the main object of taxation was to make the state sound in respect of resources. In modern days, the main object of taxation is to maintain peace and security with economic development. Taxation is a now a vital instrument for social and economic policy for the government. There are many objects of tax. The main objectives are as follows.

- Raising more revenue
- Prevention of concentration of wealth in a few hands
- Redistribution of wealth for the common good
- Maintenance of welfare state
- Encourage essential products production

- Rapid economic growth
- Increasing saving and investment
- Reduction in unemployment
- Removal of regional disparities

2.1.4 Canon of tax

Every government collects the revenue from different sources. At that situation the government has adopted various systems to collect the more revenues. Tax is also most important source of government revenues. The government's success depends upon their tax collection system or principle of tax. Adam Smith view in this respect is generally accepted as the characteristics of a good tax system. The cannons of taxation that are given by Adam Smith for his book name "Wealth of Nation" are as follows.

- Canon of equality or equity
- Canon of Certainty
- Canon of Convenience
- Canon of Economic

In the modern economist described canon of tax as follows.

- Canon of productivity
- Canon of Elasticity
- Canon of diversity
- Canon of simplicity
- Canon of Neutrality
- Canon of Coordination

Generally, before making tax policy the government considers the above principle or canon. The success of policy or system depends upon above principle and factors such as this economic, political and others. The Government adopts structure of tax according to time and situation.

2.1.5 Meaning of income tax

Income tax means that a persons who earns or receipts or gains or production for the shorten period of time, this amounts or gains pays to certain percentage of a levy to government, it certain percentage amounts call income tax.

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

- A. The Person's consumption during the period, and
- B. The net increase in the individual's personal wealth during the period

Symbolically, $Y = C + W$

Where, $Y =$ Income

$C =$ Value of consumption

$W =$ Net Increase of personal wealth respectively.

The concept of income tax in different countries is found differently because of diverse economic structure, nature of government and status of people. In United States, income tax is viewed, as a matter of practice, recurrent is not relevant on the tax status. In Great Britain, the original concept of tax, a levy on recurrent income and was applied to five schedule, any item , not falling within one of the five schedules not being subject to tax. In India, the personal income tax is levied on the net income of all individual, joint Hindu families, unregistered firm and other associations of person- According to Chelliach, 1959.

According to John F. Due-"Income tax is levied also on the capital gain of individual. All income above tax exemption level is subject to income tax is depended upon the income tax act of the country".

According to income tax act 2002, Sec, 2, (h), income means "a Persons income from any employment, business or investment and total of that income as calculated in accordance with this act." The act also clears that admissible expenses and inadmissible expense.

In General income tax is imposed on net income. Net income comes after deduction of the cost of good sold from gross income. In practice the expenses incurred in

earning the income and appropriate exemptions are deducted to find out the taxable income.

2.1.6 Definition of Terms and Terminology

In this act many terms and terminology used which is certain definition .This kinds of definition has clearly understanding different term and also avoid the confusion regarding in this act. Some of the terms defined by the Act are as follows:

- a. **Assessment:** The process of ascertaining the tax liability.
- b. **Person:** In this Acts, person means natural persons includes firm, company organization.
- c. **Income Year:** Incomes year mean the period from the start of Shrawan of a year to the end of Ashad of the following year. Income Tax Act, 2058 has regarded Nepalese fiscal year as an income year.
- d. **Firm:** Firm Means, firm established under Nepalese law. This firm also indicates that partnership firm.
- e. **Company:** Company means, company established under company law or act. The following institutions shall also be treated as company for the tax proposes any un-incorporated association and committee.
- f. **Non Resident:** Person who lives less then 183days in Nepal in any period of 365 consecutive days.
- g. **Resident person:** Whose normal place of dwelling is in Nepal; or person who posted abroad by Nepal Government at any time during the income year.
- h. **Income:** Person who earns cash or product which is call income. In this act provided different income heads; Business, employment and investment.
- i. **Business:** Business means industry, trade, profession, vacation etc.
- j. **Employment:** Employment includes present, past as well as future employment.
- k. **Investment:** Investment means holding one or more assets of similar nature and investment.
- l. **Tax exempt organization:** Tax exempt mean the following entities.
 - a. Following organizations that are registered in Inland Revenue Department as tax exempt organization.
 - A social, religious or charitable organization of a public character registered without having a profit motive.

- An amateur sporting association formed for the purpose of promoting social or sporting amenities not involving the acquisition of gain.
- A VDC, municipality or district development committee, municipality or district development committee.
- Nepal Rastra Bank.
- Nepal Government.

2.2 History of income tax

2.2.1 International Context;

In the world, for the first time the Great Britain introduced the income tax in 1799 in order to collect revenue to finance Napoleonic war with France. Only after 1860, it was accepted as a permanent tax. For the first time USA introduced income tax in 1862 to finance civil war. However, it became permanent only in 1909. In India, modern income tax was adopted in 1860 and systematic income tax legislation was enacted in 1886. In Japan, income tax was introduced in 1887. It was general individual income tax and extended to the corporate income in 1899. Italy adopted income tax in 1864, New Zealand in 1891, Canada in 1917, Germany in 1871, Australia in 1895, Denmark in 1903, Sri Lanka in 1932 and South Korea in 1948. But in Nepal income tax was introduced in 1959.

Different Kinds of war were witnessed in the world. In the first war decade, income tax has shown as an importance source of revenue in developed country. In the beginning introducing time, it was generally levied on flat rate. Only after 1909, the principle of progression was introduced from UK and New Zealand.

It has not only remained a source of revenue of emergency or war, but as a regular source of income for government and also important instrument against poverty and inequality.

2.2.2 Historical aspects of income tax in Nepal

We can classify the history of taxation in Nepal in the following ways.

- a. Tax system in ancient Nepal.
- b. Tax system after unified Nepal.
- c. Tax System in Rana Regime.

But in fact the term of income tax formally used after 1951. Although the taxes were collected in various forms in ancient era, the history of modern income tax isn't very old in Nepal. The idea of introducing income tax in Nepal originated in the early 1950, when a multi-party democratic political system was introduced. In 1951 the finance minister in his budget speech declared the intention of government to levy on the income on income tax. Attempts were made to introduce income tax in subsequent years. In 1954 an income tax with Rs. 10,000 basic allowance and progression taxes ranging from 5 to 25% was proposed. Due to political instability, it could not be introduced until 1958. The first elected government in 1959 finally introduced business profit and salaries tax act 1960 in Nepal. At that time income tax was levied only on business profit and salaries. After about three years experience of income, the government replaced the prevailing tax act by income tax act, 1962. The coverage was extended in the act. In 1974, income tax act 1974(2031) was enacted. The remunerated income sources into five groups.

- a. Agricultural
- b. Industry ,Trade ,Profession or occupation
- c. Remuneration
- d. House and compound rents
- e. Other sources

However, agriculture income was kept outside the tax net except few years through the finance act.

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation and amend and integrate of Nepal enacted income tax, 2002, (2058). This act has replaced income tax, 1974, (2031), which was amended for eight times and existed for rules, 2059 in 2059 to help clarifying the act. Therefore, Income tax act 2058 is one of modern tax act for developing the country.

2.2.3 Income tax in modern Nepal

In ancient time, tax was collected forms different sector. It was imposed on agriculture, business income and animal. At that time the government collected revenue according to necessary for the government. The government had to collect for the purpose of war. After the independence of country from Rana rule in 1951, the role of government has changed. Since, the government had to collect to operate

development activities, besides governing the regular function of maintaining law and order and collection of revenue. A sound and efficient income tax system is necessary to maximize the revenue collection from income tax. Whole income tax system is made of three sub systems i.e. income tax policy, income tax laws and income tax administration. Income tax policy is determined by the government itself through Ministry of Finance. Income tax policy should be such that the main objectives of income tax can be attained. Government makes laws to implement the policies. The government levies and collects tax as per law. Different laws have been made and amended since 1951 in form of act and regulations.

In Modern Nepal, Tax imposed on import, export and domestic business, profit, property and other investment income including service. A brief overview on different laws related income tax is stated below.

A. Business profit and Remuneration act 1960(2017)

It was the first income tax act in Nepal. It had 22 sections. According to this act only business profits and remuneration on income were subjected to tax. The main features of act were as following.

- i. In this act only coverage of business profit and remuneration income were subjected to tax.
- ii. In this act tax on remuneration was to be deducted source.
- iii. In this act following items were provisioned for tax exemption; Salary of diplomats, Dividend of shareholders, Profit to be spent in Religious and public welfare activity, Chop of own land, allowance Granted by HMG to minister, assistant minister, Speakers, Deputy Speakers, Chairman, Government chief, whip and opposition leader and money drawn from provident or saving fund.
- iv. The basis for calculating tax liability for remuneration was the income of the current year whereas for business profit, profit of the preceding fiscal year was taken.
- v. The tax office was empowered to assess tax best judgment estimation only in case of false statement or in absence of income tax return.
- vi. There was a provision of fines ranged from Rs. 500 to Rs. 5000 in case of defaults.

- vii. The taxpayer had right to appeal against the tax officer's assessment to local 'Bada Hakim' or 'Magistrate'. If he had not been satisfied with decision, he could appeal to the 'Revenue and tax court' after depositing fixed amount.

B. Income tax act 1962 (2019)

Business profit and Remuneration act has been replaced Income tax act 1962. It was come in implementation from July 1962. It was amended in 1972. It has 29 Section. The additional features of this act were as following.

- i. The personal as well as residential status of the tax payer for the tax purpose was defined.
- ii. The provision was made to constitute the net income assessment committee with five members.
- iii. The basis was specified for assessing tax on the best judgment estimate of the tax officer.
- iv. Income was defined as all kind of income including Pension, House and Land Rent, Investment in cash or Kind, Agriculture, Insurance, Business agency and other sources.
- v. Agriculture income was brought under the scope of income tax for the first time.
- vi. Carry forward of losses was allowed for a period of two year.
- vii. Tax payment could be installment.
- viii. Provision was made for re-assessment of arithmetical errors
- ix. In agriculture income only one fourth of the total income was taken as net earning.

C. Income tax 1974, (2031)

Time and situation, the existing Act was replaced by another act because of existing act was incapable of fulfilling the needs of the time; exiting act was replaced by another act 'income tax 1974, (2031). This new act was brought in practice from

October 1974. It had 66 sections. This act was amended in 1977, 1979, 1988, 1984, 1985, 1986, 1989 and 1993.

Main features of this act as amended are as follows.

- i. Clarification of income related terminology such as income tax, Taxpayer, Resident, tax assessment, income year, and gross income, net income, income from different sources, loss etc. appeared.
- ii. Income head were classified into five categories (a) Agriculture income (a) (a) (b) Industry, trade, profession or occupation, (c) Remuneration, (d) House rent and compound rent and (e) others.
- iii. Specific the method for computing net income from different sources came in existence.
- iv. Appointment rights of tax officers had provided to HMG and rights of the tax officers had mentioned clearly.
- v. Amended of 1993 in this act introduced self assessment system for the first time replacing judgment system.
- vi. The provision of carry forward of the loss for three subsequent years was made.
- vii. Obligatory provision for taxpayers to register industry, Business, Profession or vocation in the tax office before starting work was introduced.
- viii. The expenses allowed for deduction while computing net income had clearly specified for all sources of income.
- ix. Specification of the procedure for assessment, reassessment, Jeopardy assessment, tax deduction at source, payment and refund of tax etc.
- x. Specification about right, duties forms and appeal.
- xi. Provision of penalty up to Rs. 5000 in case of failure of maintain or preserve accounts.

D. Income Tax Act 2002, (2058)

In Nepal Income tax Act 2031 was active before Act 2058 which was not enough to meet the requirement and objective revenue mobilization in 21'st century and amendment was necessary. To meet that objective income tax Act 2058 in enacted

from 19th Chaitra 2058 replacing the Act 2031. Income Tax 2058 has the following key features.

- i. Income tax related provisions are included with in one act.
- ii. Income Tax Act 2031 had classified income tax into five headings whereas; this act divides only into three heading.
- iii. When income Act 2031 was in practice, there were several exemptions and deduction provided by the Act and other related acts. But now, there are no more exemption and deduction except the one provided for the Act.
- iv. The pool system of depreciation of fixed assets has introduced at the first time. All types of assets are classified into five categories. Depreciation rate for class A, B, C, and D are 5%, 25%, 20%, 15% respectively. Which is based on diminishing method and E, class is adopt straight line method.
- v. There is the provision of carry forward of loss for subsequent four years. The act has also provided the facilities to carry backward of loss for five subsequent years in case of bank, insurance and long term contract.
- vi. Act has clearly specified business capital gains, Non-business capital gain. Business capital gains are taxes as ordinary income and Non-Business capital gains are taxes at flat rate of 10%. There is also a clear provision for adjusting net loss during the fiscal year.
- vii. In this act, the income of an approved retirement fund is free from tax. But retirement payments in the hands of employees are taxable.
- viii. The provision has introduced in the tax law related to international taxation. Transfer pricing, foreign tax credit, double taxation avoidance agreement etc are the provision of international.
- ix. The act has provided facilities to individual resident person who is claims a medial credit of 15% of the amount of approved medical costs. Unabsorbed medical tax credit amount can carry forward forever.
- x. The penalties are divided into two parts: The tax officer can levy only fines and interest and the court can levy penalties and imprisonment.
- xi. According to the 1974 approval of the concerned authority is required to change the stock evaluation method once one method is adopted, but act 2002 has made clear provision regarding the valuation of stock for tax purpose.

- xii. This act focuses on the self –assessment system, and every assessment is treated as a self-assessment.
- xiii. Dividend has brought in tax net.

2.2.4 Head of Income

For the purpose of assessment of income, the new act has classified the income source as following heads:

- (A) Business income
- (B) Employment Income and
- (C) Investment Income

(A) Business income

Income Tax Act 2002 has defined business income as a source of income for income tax purpose. Business incomes include profits or gain made by persons in one income year for the purpose of income tax. The source of income from business includes industry, trade, Profession, vocation. The following source are termed as Business incomes by income act Sec7;

- Service fees
- Amount derived from disposal of trading stock.
- Net gain from disposal of business assets\liabilities
- Gain on sale of depreciable assets used in business.
- Gift received from parties in respect of the business.
- Compensation received in restrain of the business.
- Amount received by any investment that in directly related to business.
- Gain due change on exchange rate
- Bad debt received.
- Under payment of interest on loan (Interest subsidy).
- Compensation received against loss of stock\profit.
- Any benefit or perquisites.
- Amount received after the cessation (closing) of a business.
- Amount derived according to percentage of contract completed during the year under long term contract.
- Deducted expenditure which is not so expended.

- Other incomes required to be included such as miscellaneous income, sundry income, discount, Commissions.

Admissible Expenses

- General deductions(sec-13)
Expenses related to business incurred in order to generate incomes from business are fully admissible.
- Interest expenses:(sec-14)
Interest of loan = fully admissible,
Interest on loan if paid to a controlling entity (Except Nepal Government) = Admissible but not exceeding limit.
- Cost of trading stock (sec-15)
Allowable cost of trading stock = opening stock plus purchase less Closing stock but considering calculation of closing stock which is depends upon market price or cost price. We consider market price or cost price whichever less is.
- Repair & improvement cost (sec-16)
Allowable limit- Actual repair expense or 7% of depreciation base for the year whichever in less.
- Pollution control and research & development cost
Allowable Limit- Actual P.C.C. or R&D cost or 50% adjusted taxable income from business whichever in less.
- Depreciation expenses which are provided by sec-19. In this section Categorized by five classes, A, B, C, D. Their depreciation rates are 5%, 25%, 20%, 15% respectively but class E calculation by = original cost\ useful life.
- Bad debt
- Taxes paid under existing Nepal law (except income tax).
- Other real expenses.

- Loss recovery (if any) sec-20
- Common deduction:-
 - Contribution to approved retirement fund (for natural person) sec: 63 rule-21
 - Donation to approved exemption organization.

(B) Employment Income

The source of income from employment includes all payments and benefits received by the employee including past, present as well as future employment are taxable.

Following incomes include in employment income.

- Payments of wage, salary, leave pay, overtime pay, fees, commission, prize, gifts, bonus and other facilities.
- Payments of any personal allowance including any cost of living, rent, entertainment and transportation.
- Payment of reimbursement of cost incurred by individual or an associate of the individual.
- Payment for the individual's agreement to any condition of the employment.
- Payments for the termination or loss or redundancy of the employment.
- Retirement contributions including those paid by employer to the retirement fund in respect of the employee and retirement payments.
- Other payment made in respect of the employment.
- Other amount as given in chapter 6 of the act, perquisites and gains due to change in tax accounting required to be included.

While calculating the net income from employment of natural person, the following amounts are to be excluded on employment income:

- Other payment made in respect of tax accounting such as transfer of assets(sec 27.a), vehicle facility and house facility(sec 27.b), expenses made by employer for the provision of domestic assistance, food, house-hold utilities of the employee (sec. 27c), reduce amount of interest paid to employer as per concession rate with compared to standard rate(sec. 27d), Compensation(sec 3.a, 62 and 92), and amount of bill directly paid by the employer(sec 27.e).

(C) Investment Income

The investment means holding one or more assets of similar nature or investing in such assets. However, the non- business chargeable assets hold for personal use by owner himself and the employment or business is not investment.

These following sources are Investment Income.

- Dividends (Except from resident company).
- Interest income, rent received, royalty not deducted at source.
- Natural resource payment.
- Gain from disposal of depreciable assets (used in investment).
- Gifts in respect of investment.
- Amount derived as consideration of any restriction regarding investment
- Income to be included due to change in accounting method.
- Exchange gain
- Bad debt recovered.
- Under payment of interest than standard
- Amount received for compensation.
- Amount paid to third person instead of actual payee (investor).
- Other amount to be included under investment.

Admissible Expenses

- General expenses related to investment
- Interest
- Repair and improvement cost
- Depreciation
- Unrelieved loss from investment\business (current year).
- Unrelieved loss from business (previous).
- Common expenses like, retirement contribution and donation.

Inadmissible expenses

- Any personal or domestic expenses
- Income tax paid, fine and penalties

- Expenses incurred for acquiring tax free incomes and final withholding amounts
- Cash payments in excess of Rs. 50,000 at time by a person having annual transaction more than Rs. 20,00,000 except in certain circumstances
- Distribution of profit by an entity such as dividend
- Expenses not relating to earning of income
- Any reserve, provision or fund
- Other expenditure not exempted as admissible

2.2.5 Method of income tax assessment

Income Tax Act 2058 has specified three types of assessment.

a. Self assessment tax:(Section-99)

Self assessment of tax means determining the taxable income and tax liability by the taxpayers themselves. It has made more responsible to taxpayers and reduces the compliance cost. If tax authority doubts about the income of taxpayers, it can investigate. Otherwise that becomes the final.

b. jeopardy Assessment:

Jeopardy is a special assessment done by IRD. This assessment is done when a person becomes bankrupt, goes into liquidation, the person is about to leave Nepal indefinitely, the person is otherwise about to cease activity in Nepal, or IRD considers it is required for a tax payer. If assessment is made with respect to full income year, the assessed persons will file return of income for the year, however with respect to part of an income year the assessed person is still required to file return for the income year. Where department makes a jeopardy assessment, it should serve of the assessment on the person.

c. Best judgment/ Amended Assessment

Reassessment of an assessment by IRD which is already assessed by the assessor is amended assessment. IRD may amend an assessment made by the tax payer to adjust the assessed person's liability to tax in such manner as according to the department's best judgment is consistent with the intention of ITA 2058.

2.2.6 Appeal

A person who is not satisfied with the decision of tax officer concerning income tax the right of appeal against such decision. Appeals concerning income tax can fill of following places.

a. Appeal to Revenue Tribunal

Any person aggrieved by the imposition of a penalty or order of assessment of tax made by Direct General under this act shall have right of appeal against such order to revenue tribunal. The appeal should be filled with in 15 days of the receipt of tax assessment order or penalty ordered. Taxpayers also submit a copy of appeal to IRD.

b. Appeal to Direct General

If any taxpayers believe that his tax liability has increase due to negligence of tax officer than can appeal against such order to the direct general with in 30 of receipt of tax assessment order with a deposit of half of assessed tax. (sec. 115)

c. Appeal to appeal court

The taxpayer who is aggrieved with the decision of Revenue Tribunal may appeal to Appeal court.

d. Appeal to supreme court

A taxpayer or tax officer who is not satisfied with decision made by Appeal Court has the right to appeal in the Supreme Court on the question of law. Generally, the decision of the Supreme Court is final.

2.2.7 Fines and Penalties

a. Penalty for failure to maintain documentation or file statements or return of income:

A person who fails to maintain proper documentation for an income year or file return for an income year is liable to pay fees for each month and part of month during which the failure continue. The rate would be 1.5 percent per annum of the person's assessable income with a gross of any deductions or Rs 1000 per month whichever is higher. According, a withholding agent who fails to file a statement as requires is liable to pay at 1.5 percent per annum to the amount of withheld or Rs.

100 per month whichever is higher applied for each month and part of a month during which the failure continues.((Sec.117)

b. Interest for understanding estimated tax payable by installment:

A person who fails to pay tax on or before the date on which the tax is payable is liable to pay interest for each month and part of month from the date the first installment is payable until the date the tax is payable on assessment. The amount of interest is calculated at the standard interest rate. (Sec. 118)

c. Interest for failure to pay tax:

A person who fails to pay tax on or before the date on which is payable is liable to pay interest for each month and part of a month for which any of the tax is outstanding calculated as the standard interest rate applied to the amount outstanding.(sec. 119)

d. Penalty for false or misleading statements:

A person who makes a statement to the Department that is false or misleading in a material particular or omits from the statement made to the Department any matter or thing without which the statement is misleading in a material particular is liable for penalties as follows:

- i. Where the statement is happened to be false or misleading without knowingly or recklessly, 50 percent of the underpayment of tax; or
- ii. Where the statement is made false or misleading knowingly or recklessly,100 percent of the underpayment of tax.

e. Penalty for Aiding and Abetting:

A person who knowingly or recklessly aids or abets another person to commit an offence related to failure to comply with this act, failure to pay tax, makes false or misleading statements or impedes tax administration to counsels induces another person to commit such an offences is liable for penalty equal to 100 percent of the underpayment of that tax.

2.2.8 Exemption from Income Tax

Income Tax Act 2058 has mentioned the amounts which are exempt and other concession. They are as follows.

(a) Tax- exempt Amounts -:

The following amounts are exempt from tax as per section-10.

1. Exempted Remuneration (under bilateral or multilateral treaty with foreign government\ international organization, such as: Diplomats)
2. Remuneration paid by Nepal Government to foreign citizen on condition of tax exemption.
3. Remuneration under the employment of public service of a foreign government.
4. Allowance paid by Nepal government to widows, senior citizen (elder) or disable person.
5. Gift, bequest, inheritance or scholarship except as required to be included in calculating income under section 7, 8, and 9.
6. Pension received by Nepalese retired army\ police from fund of a foreign government.

(b) Business Exemption and concessions

ITA, 2058 has provided business exemption and concessions in section-11.

1. Any agriculture income derived from sources in Nepal by a person other than the following is exempt from tax.
 - i. Income from an agriculture business derived by a registered firm company partnership or corporate body.
 - ii. Income through the land above the holding ceiling as prescribed in section 12 of Land Act 2021.
2. Income derived by co-operative societies, registered under cooperative Act, 2048, from business mainly based on agriculture and forest such as sericulture, horticulture and fruit processing, animal husbandry, dairy industries, poultry Farming, bee-keeping, honey production, fertilizer, agriculture tools etc. and dividend distributed by such societies are exempted from tax. However, other community-based saving and credit cooperative societies are imposed 50% of tax otherwise applicable.
3. Any persons operating special industry during the whole income year will be taxed as under.
 - i. If the industry is providing direct employment to 600 or more Nepalese citizens through out the whole year, 90% of the applicable tax rate (20%) is applied for the year.

- ii. The industry operating in remote, undeveloped and underdeveloped area will have to pay 70%, 75% and 80% of the applicable tax rate (20%) respectively up to ten incomes year in which are operation commences.
- iii. If both exemptions are available to the same special industry for same income, only one exemption is available as per the selection made by the industry.
- iv. If assets used by the special industry were used previously by another person operating the similar types of special industry the ten year. For the latter will be counted from the period of such use by another person previously.
- v. The incomes received under business exemption & concession should be calculated separately assumption that, these income are received by separate persons. That is, income received under business exemption & concession should be separated from other general business and investment incomes.

2.3 Review of Literature

Various book and dissertation were studied in course of this research study. Most of books are syllabus oriented. This thesis has tried to cover aspects of exemption from Income tax in brief. The thesis also tries to describe about importance of tax administration.

Some books mentioned decided cases that are concerned with exemption from income tax to clarify the laws but not given detail information about exemption. No book is found entirely devoted to exemption.

The important books that were studied for the purpose of this research study are as follows.

Amatya(1965) had written book “Nepal Ma Aayaqkar Byabastha”. The author has furnished a descriptive analysis of then legal provision of income tax along with the brief introductory back ground of tax problem there is any book regarding income tax in Nepalese context ever published before this book is written to the reference of Nepalese income tax. There is nothing written about exemption in this book.

Shrestha (1967) has written a Master Degree thesis entitled “Income tax in Nepal”. He has described about historical background, income tax act, rules and administration aspects. We achieve general information about previous tax system for it but it was out dated.

Lent (1968) has presented a report entitled “Survey of Nepalese tax structure “under the request of IMF, Fiscal Affairs department. He has critically explored the scope of income tax in Nepal .Tax structure, taxable income exemption and allowance given of that time. He has suggested restructuring both the income law, administration to increase government revenue through income tax. But he has not described detailed about tax exemption.

Kayastha (1974) has written a Master Degree thesis entitled “Taxation in income and property in Nepal”. He had tried to examine the role of income and property to the national revenue of Nepal. He has focused his study about how to collect more revenue, what are the weakness of tax system, how to solve the income tax evasion. He has also pointed out dominant role of indirect tax in total tax revenue.

Dhugana, Kayastha and Rai (1976) had written book “An analysis of tax structure of Nepal” dealing the tax structure of Nepal. The authors have described the income tax in Nepal. They have focused that how to fulfill resources gap considering the income tax. Writers also had given to recommendation and suggestion to improvement of income tax to decrease resource gap and utilization of additional resource to develop nation.

Agrawal (1978) in his research report “Resource Mobilization for Development: The Reform of Income Tax system of Nepal”. He has provided details information in various aspects of income taxation in his report. His study is the first comprehensive scientific study on this ground. The study has covered period of nine years from 1967 to 1976.it has mainly dealt with the necessity of resource mobilization in Nepal through of income tax. Role of income tax, legal aspect of income tax and administration, problems facing by the tax authority, tax evasion problems etc. are the major things that he has analyzed in his report. He has presented various mathematical calculations such as per capita burden of income tax, buoyancy coefficient of income

tax etc. have been calculated. He has identified the major problem in income tax system as inefficiency of tax administration and income tax evasion though other many have been also shown. He observed that tax authorities are insufficient in enforcement of law. All things stated in research are not fully relevant today.

Pandey (1978) has presented a Master Degree Level dissertation named, “An analysis of income tax in Nepal”. He has mainly focused about legal aspect, structure, role, problem etc related to income tax and economic effect of income tax in Nepal. He had emphasized on tax structure of Nepal. Role of income tax is very important for economic development of nation. His study shows that income tax contributed 4% to tax revenue and per capita burden of income tax was only Rs. 0.2 in 1962/63. Contribution of income tax increased to 10% of tax revenue and Rs. 7 per capita income tax burden in 1975/76. He had avowed that indirect tax had a dominated role in the total tax revenue. He has shown clear picture about weakness of income tax system and administration such as lack of scientific record keeping, lack of maintaining accounts by tax payers, lack of coordination, lack of scientific method of income tax assessment and collection procedure, lack of honest tax officers etc. His suggestions about income tax were capital gain should bring in tax net; income tax accounting assessment and collection method must be scientific etc. His suggestions are still useful. In fact he had not described it with numerical examples and empirical investigation.

Subedi (1982), has presented a dissertation entitle “An Analytical Study on income Taxation in Nepal”. He has analyzed about the role on national revenue, legal aspect and historical background of income tax in Nepal. He has examined the growth of income tax collection, it ratio to GDP, cost of income tax collection and elasticity. He also discussed about income tax system. He pointed out about contribution of income tax to total revenue is low, due to tax evasion, inefficient tax administration and dominating role of indirect tax. He has suggested to reform tax administration.

Nepal (1983), has presented a dissertation named “A study on the problem and Prospectus of income tax in Nepal”. In her study she has concentrated to origin, meaning, existing position, role, problems and prospective of income tax in Nepal. She found that raising resource gap is significance expansion in regular as well as

development expenditure, increasing burden of debt, increasing cost of maintenance and rising inflation year to year. She has also identified the various problems regarding Nepalese income tax system such as inefficient income tax administration, mass poverty, lack of tax consciousness, low numbers of tax payers, lack of coordination between taxpayers and department, narrow coverage, tax assessment problem, tax evasion and avoidance, inappropriate tax rate and exemption limit etc. She has suggested to reform tax administration and raised question about tax consciousness problem. She has also suggested that the tax rate and exemption limit should be changed according time and situation.

Agrawal (1984) a Nepal submitted to ministry of finance “Direct tax reform in Nepal”. Agrwal analyzed the incompetence of domestic resources mobilization to cut down the rising dependence over foreign sources to meet resources to meet resources gap in national budget of government of Nepal. The report analyze that direct tax growth rate is lower than total tax revenue. Agrawal recommended interfere free tax administration to administer tax affairs effectively and unbiased. In the report Agrwal suggested to encourage self assessment inclusion of capital gains for income tax purpose etc.

Regmi (1986) has presented a dissertation named “The role of Income Tax in Nepal”. He has prepared a dissertation with a main objective of examining the trend of income tax in Nepal; find out the share of income tax to total tax revenue and its ratio to gross domestic product. He has also stated as a great problem in income tax in income tax in Nepal such as tax evasion, inefficient tax administration and dominated role of indirect tax. To increase the revenue of government, he has recommendation that income tax should be clear and precise scientific method for accounting assessment and collection of income tax, widening tax coverage, easy and simple procedure of tax payment and public awareness.

Siwakoti (1987) has presented dissertation names, “An Analytical Study of Income Tax in Nepal”. He has focused the Income Tax Act 2019. He has described income tax role for economic development. The major problems identified by him are income tax evasion at high rate, delay in assessment, insignificant role of income tax in total tax structure, lack of public information about tax, complicated act, etc. He also

focused weakness of tax administration as well as government. He has suggested to reform tax administration, strong fine and penalties is implementation, those who does not keep their account properly, progressive tax rate should be use. He has recommendation for provision of weighted deduction and reduce time limit for assessment.

Timilsina (1987) has presented a Master Level dissertation named, “Income Tax Evasion in Nepal.” He has devoted his study for tax evasion. Who is responsible for creating cause tax evasion? He identified the cause and ways of income tax evasion with appropriate suggestion for correction. He also described about structure of income tax, historical aspects and its role to gross domestic product.

Baral (1989) has presented a dissertation entitled, “Income Tax in Tax Structure of Nepal”. She has tried to show the contribution of income tax on the structure of government revenue in Nepal. She has presented different figure, the historical aspect of income tax system, structure of government revenue, contribution of income tax to total tax revenue and total revenue of Nepal, contribution of income tax in gross domestic product, total revenue and total tax revenue. She found the ratio of tax and non tax revenue is not satisfactory, the ratio of total tax revenue, total tax revenue and direct tax revenue have an increasing trend but in low rate. She has analyzed the reason for less collection of tax revenue in Nepal. She has pointed out some reasons are inefficient tax administration, unconsciousness of tax payers, lack of scientific method of tax assessment and tax evasion. Exemption in agriculture income is other reason for less collection of revenue.

She has suggested improving of income tax system by appointing, qualified, honest and responsible persons in the tax administration, strong implementation of fine and penalties introduction of simple tax assessment is stopping the corruption etc.

Poudyal and Timsina (1990) have presented a book entitled “Income tax in Nepal”. This book extremely based on Syllabus of B.Com. The authors have described the provision and laws related to income taxation in Nepal with theoretical as well as practical way. The authors have not touched further more about income tax. The book was descriptive rather than analytical.

Bhandari (1994) has presented a dissertation named, “Contribution of Income Tax to the Economic Development of Nepal; with reference to Kathmandu and Pokhara Valley”. He has tried to examine historical background, tax structure in Nepal and contribution of income tax to economic development of Nepal. He tried to show the contribution of income tax to GDP, total budget expenditure, development budget expenditure, regular budget expenditure, total government revenue and direct tax also. He has drawn clear picture about low collection revenue rather than estimated tax revenue. He is pointed out reasons are, unconscious tax payer, inefficient tax administration, huge corruption, spread of tax evasion. He has suggested making sound and effective tax administration, encouraging to the taxpayer to pay tax for his / her responsibility by giving proper tax education, discourage tax evasion and minimize the tax collection cost.

Acharya (1994), has presented a dissertation entitled “Income Taxation; a study of its structure, productivity and Problems”. He has examined main objectives of income tax which are, to reduce the inequality of income distribution, to check inflation and to collect more government revenue. Further he has identified the contribution of individuals to be greatest to income tax revenue followed by public enterprises, remuneration, house rent and interest tax, semipublic enterprise and corporate bodies respectively. He has analyzed the exemption limit, allowance, rate structure, tax administration and problems concerning the legal aspect in his study.

Khadka (1994) has written book entitled “Nepalese Taxation a Path for Reform” The book is divided into seven chapters: the general economic condition of Nepal, Commodity taxes, property taxes, local taxation, tax administration and the strategy for tax reform respectively. The book is deal with both national and international taxes. The writer has detailed describing of the scenario of Nepalese tax system from exiting major problem and possible direction for reform. He has identified the major problem of income tax as narrow coverage, unscientific tax assessment and collection, defective system from the perspective of international taxation, weak tax administration, imbalance and inadequate organizational pattern, inadequate physical and other facilities, inadequate tax training, predominance of low level non-technical posts, debatable scope of revenue investigation department, lack of information system etc. His possible direction for reform were extension of tax coverage,

improvement in tax assessment, use of presumptive method, extension of withholding tax, inflation adjustment, introduction of current year payment basis, tax treaties with the major trading partner of Nepal. This book is analytical and useful to know different aspects of income tax. But he has not shown any numerical illustration and not mentions the legal provision relating to income tax in this book.

Shakya (1995) has presented dissertation named 'Income Tax System in Tax Structure of Nepal.' He has tried to analyze causes of dominant role of indirect tax in Nepalese tax structure. He has studied tax structure, role of income tax. He concluded that income tax revenue occupied fourth position. Custom duty, sales tax and excise duty has occupied first, second, and third position respectively in Nepal tax revenue. The ratio of income tax to GDP, total revenue; total tax revenue and direct tax revenue have been increasing trend in Nepal. But increasing rate is very low in other countries. The problems of Nepalese income tax observed by Shakya were, lack of clear and comprehensive definition of income, lack of punishment to tax evaders, low tax paying capacity due to low per capita income, non conscious tax payers, lack of inefficient tax administration, lack of scientific method of tax collection and lack of trained tax collectors etc. He stated some suggestion for reform of possible area like revising the exemption limit, increasing efficiency of income tax, assessment of small tax payers should be on a door to door basic, self assessment of tax should be encouraged.

Pant (1996), has presented a dissertation named, "A Study on income Tax Management in Nepal." He explained the role of income tax in national economy and income tax management in Nepal. Forty samples were taken to fulfill the purpose of empirical study. He has identified various problems of income tax management in Nepal and among them lack of managerial efficiency is told a major problem. Lack of effective personnel management, poor reward and punishment system, weak income tax assessment procedure, poor tax information system, lack of taxpayers education , very narrow coverage of income tax are the other problems of income tax management in Nepal identified by him. He tries to show the reason of evasion were inefficient tax administration, reluctance to maintain accounts, poor tax morality. A high degree of corruption is found in income tax administration in Nepal.

Dhakal (1998) has presented a book entitled “Income tax and House and compound Tax law and Practice with VAT”. This book is edited for twelve times. This book is extremely based on syllabus of B.B.S and M.B.S. He has described about the historical aspects and legal provision of income Tax Act 2031 and presented method of income tax assessment with numerical examples. The book is very useful to know the general information and legal provision of income tax act 2031. However, this book became out dated when the new Income Tax 2058, came its replacing the old income Tax Act 2031.

Pradhan (2001) presented a thesis entitled “Contribution of Income Tax from Public Enterprises to public revenue of Nepal with Reference to Nepal Telecommunication Corporation”. His study tried to describe the, conceptual frame work, Legal provision, conceptual framework of PEs and Nepal Telecommunication, contribution of income tax from NTC to total tax and total income tax revenue collection from NTC. To interpret the presented data related to income tax contribution, various statistical tools and mathematical ratios were used. For the purpose empirical study, opinion survey was made during this study. Her Findings about tax structure were: average contribution income tax from NTC to total income tax revenue, total direct tax revenue, total tax revenue and total Government revenue were 15.06%, 2.37%, 11.1% and 1.93% respectively in average in the FY 1998/99. She also found that contribution of tax revenue on GDP of Nepal was lower than SAARC countries except Bangladesh. Almost respondents like tax experts, taxpayers, tax administrators and NTC officials unsatisfied the contribution of income tax from PEs to national revenue. She also stated problem in her study are least contribution of income tax from PEs, weakness in government policy and deficiency in legislation. She has suggested about the income tax system were: the clear provision of income taxation, checking discretionary power of tax personnel, reward and punishment system to increase voluntary compliance and to control corruption, tax education to tax payers and reduction of undue delay in tax assessment. She has also suggested that NTC should increase its profit earning capacity by preparing highly qualified, dynamic and energetic personnel.

Timilsina (2001) has presented a Master Level dissertation entitled, “Personal Income Taxation in Nepal: A study of Exemption and Deduction”. He has analyzed

present tax exemption and deduction as well as concept, classification and development of exemption and deduction. He has also presented a comparative study of exemption and deduction in selected countries. He has conducted an empirical investigation about exemption, deduction and tax administration and he suggested for the improvement of tax administration, increase of the exemption limit for an individual; to minimum of Rs. 90,000 and family exemption based on the dependent children and parent as well as inflationary rate. He also suggested that to increase tax volume, we need to extent tax area such as agriculture, capital gains and other sources. His study was not completely focused about exemption. He focused only to individual taxpayer but not the corporate and other institutional accesses.

Shrestha (2001) concluded a thesis on taxation entitled “Revenue Collection from Income Tax in Nepal: Problem and Prospective”. She has covered the historical background, legal provision, structure of income tax, income tax administration in Nepal. Through the empirical study and secondary data analysis she has concluded that income tax has been considered as a suitable source for the collection of government revenue and the contribution of tax revenue has the decreasing trend as it had contributed by 80.46% in the 1984/85 on total revenue but it was declined to reach to 77.19% in the FY1998/99. Tax/GDP Ratio was not satisfactory in comparison to SAARC countries. She found Ratio was 9.36% in 1998/99. The resource gap was an increasing trend and direct tax was dominant by indirect tax.

She has found various problems of income tax system as well as tax administration in Nepal. She had suggested widening the Nepalese income tax volume by bringing agriculture income and capital gain under income tax net. Making people conscious, reforming income tax assessment, reforming the tax administration, minimizing the tax evasion, enforcement of heavy penalties and fines and maintains proper records also included in her suggestions.

Malik (2003) had written book “Nepalese Modern Income Tax System” this book especially deals with the through analysis of income tax act, 2002 with example. Every section of income tax has been clarified with suitable examples .He had written about the development of existing income tax and need and importance of income tax system in Nepal. The new provision made by income tax ,tax exempt amount ,deduction allowable ,accounting of tax capital gain ,retirement saving and tax ,

dividend tax ,capital gain and international taxation . tax auditing have been clarified precisely in his book , similarly the book had been also explained about tax administration , documentation , information collection payment of tax ,installment tax income statements ,tax –assessment , tax collection review and appeal ,fees and interest fine and penalties tax rate determination of provision of depreciation. This book is very useful to know the general information and legal provision of Income Tax Act 2002.

Kandel (2003) published a book entitled “Tax Laws and Tax planning in Nepal”. This book is extremely based on syllabus of B.B.S. and M.B.S for the practical problem and provision relating to the act. It has five parts, sixteen chapters and seven annexes on basic concept , provision of income tax 2002, tax administration, house and land tax, VAT, tax planning etc. The book is very useful to know the general information and legal provisions of new Income Tax Act.

Adhikari (2003) wrote a book entitled modern taxation theory and practice. This is book also based on the new Act ITA 2058 as amended by finance ordinance, 2060 has also been included and based on the academic syllabus of T.U. Theoretical as well practical aspects have been put in the book

Palil Mager (2003) has presented a dissertation named, “A Study of Exemption and Deduction: Income Tax in Nepal. He has described, about the weakness and various recommendations about exemption and deduction which was provided by Income Tax Act 2002.He has found that there was dominant share of tax revenue in Nepalese government revenue but the contribution of tax revenue was decreasing trend. It had contributed 81.73% in 1975/76 on total revenue but it was decreased to 77.97%in 2001/02. Tax/GDP ratio was not satisfactory. It has never exceeded 14%. In 1975/76 the ratio was only 5.24%, which exceeded 13.39% in 2001/02. The contribution of direct tax and indirect tax on total tax revenue were 25.56% and 74.44% respectively in 2001/02 which shows the dominant role of indirect tax .Income tax has playing significant role for the collection of Government revenue. With the income tax, there was dominated role of corporate income tax but it was decreasing trend and contribution of individual income tax was in second position. The problem of Nepalese income tax observed by Mr. Magar was lack of trained tax officials,

shortage of income tax experts and professional in tax administration, Lack of public participation. Defective organizational structure of tax administration, poor government policy incomplete income tax acts etc. Mr. Magar stated some suggestion for the reform of possible areas like revising the exemption limit, elimination double taxation on dividend, tax rebate for submitting true income statement in time, increase income tax slab up to 10, increase and adjust the exemption limit with regard inflationary rate and number of dependent, clear provision for deduction, fully allowed interest expense, pollution control, repair and improvement, research and development expenses. He had suggested widening the Nepalese income tax volume by bringing agriculture income and capital gain under income tax net. His research has in some extent described about the exemption but in fact they are outdated.

Sherchan (2003) presented a thesis named “An analysis of fine and penalties regarding to income tax system of Nepal”. Sherchan has focused that Legal Provision, condition, strong point and weakness of fine and penalties in the consideration of income tax act 2002. Sherchan has also presented government revenue contributed by fine and penalties, existing position of income tax and historical prospective of taxation in Nepal. Sherchan also has given suggestion and recommendation to review of legal provision on fine and penalties relating income act 2002. He has found that income tax had occupied third position and it was increasing trend. The tax/GDP ratio was not found satisfactory. With the income tax, there was dominated role of corporate income tax but it was decreasing trend and contribution of individual income tax was second position and it was increasing trend. For the purpose empirical study, opinion survey was made during this study. His Findings about the effect of fine and penalties tax paying habit of Nepalese people, 58.33% of the respondent approved there is significant effect of fine and penalties to increase tax paying habit of Nepalese people. He had suggested revising the provision of fee and penalties, introducing reward, prize, incentives provision, clear income tax, rule and regulation, clear right and duties of tax officers, introducing the computerized system etc. further his suggestion was Rs. 5000 as a minimum fine should be revised and class interval should be made for different class of tax payer to pay fine. His study had focused only on study on provision of fine and penalties.

Koirala (2004) has presented a dissertation named “Contribution of Employment Income Tax Revenue”. He has analyzed on employment income under direct tax contribution in income tax revenue of Nepal. He has tried to show the cause of low contribution of employment income to income tax revenue. For the purpose of analysis various statistical tools have been used, simple percentage, simple average, correlation, chi-square test. For the purpose of empirical study, opinion survey made during this study. 64 respondents have included income tax experts, employees. His findings about 98% of respondents agreed that income tax revenue as an importance source of collecting government revenue and out of 100%, 64% respondents against the employment income could play significant in contribution of income tax revenue of Nepal. He has given various suggestions about increasing the employment income’s contribution to income tax revenue.

Bhattarai and Koirala (2004) have been focused T.U. Syllabus of M.B.S.2’nd year. This book is helpful for those students and readers who remember for short note because the author has been presented every chapter note of remember. The book consists of practical problems and solutions regarding income tax assessment from different groups of income.

Gautam (2005) conducted a study entitled “Personal Income Taxation in Nepal: A Study on Exemption and Deduction”. His study is confined with exemption and deduction provision ITA 2058 .He has described that to increase the government revenue, the present tax base must be widened by including the income from foreign sector , such as amount received by Nepalese people after their retirement should be taxed with some exemption limit. The present level of income tax exemption is not appropriate .it must be raised to minimum of Rs. 100000 against Rs. 85000 for an individual. Similarly the limit provided to family and couple is not appropriate and should be adjusted in once to the inflationary situation of the country on the year basis. He had to various suggestions about deduction item. He had made the empirical analysis by making survey of 50 samples in Kathmandu Valley.

Regmi (2006) has presented a dissertation entitled “Income Tax Administration and Its Effectiveness in Nepal”. Basically he has tried to find out effectiveness and problems of tax administration in Nepal. He has also described income tax structure in

Nepal. He has found different reasons for tax administration are unsound such as inefficient and unscientific income tax administration, lack of coordination between departments, unscientific record keeping, lack of experts in tax administration, lack of tax education in tax officers as well as payers, defect tax assessment producers, unnecessary outside pressure, high cost for tax collection etc. The tax administration if draw that the attention with above problem seriously, should be better. He has also pointed out that the income tax volume should be winded by doing or bringing the income from house and land rent , doctors, clinic, consultancy service, tuition, research, works into income tax net. In these sectors, income tax has been highly evaded.

Oli (2006) has conducted his dissertation entitled “Contribution of Income Tax on Government Revenue of Nepal”. He has mainly analyzed the contribution of indirect and direct tax in total tax revenue and find out the share of income tax in total tax revenue and problem of resource gap. He has compared about total tax/GDP for moderate standard but Nepalese total tax\ GDP ratio is contributing 9.37% only on average. To achieve the standers rate around 19% the government can increase the portion of direct tax by bringing the education, Public transportation etc. into tax net. He further added that the government has lunched the automated system of customs data, consumer’s awareness lottery, 3 year consumer’s reform and modernization action plan 2060 and self assessment of tax income tax act, 2058 which have positive impact on revenue collection. He had also put on attention to tax avoid-ness, reason and its prevention in his study.

Singh (2006) has presented his dissertation entitled “Income Tax Collection from public enterprises.” She tried to analyze the contribution of income tax from PEs to public revenue of Nepal reference with Nepal Telecom and contribution of income tax of Nepal Telecom in government revenue, direct tax, income tax, corporate tax revenue. She found that in 1889/90, contribution of income tax from PEs to government revenue was 2.59%. In the year 2003/04, it was 3.30%. Similarly, in corporate tax, PEs share has covered more then 50%.In FY 1989/90 the share of corporate income taxes from PEs was 97.90% and its share has decreased to 42.49% in 2003/04. NTC has 31.22% share of income tax revenue from PEs in FY1989/980. She analyzed that contribution of income tax from NTC to government revenue was

1.89% in FY 2003/04. It had zigzag trend for previous year. She has given various suggestions into the income tax administration as well as Nepal Telecom. She stated the suggestion that NTC should prepare and implement profit planning and concept should be introduces.

Bastola (2007) has analyzed a dissertation named “The Role of Income Tax in National Economy and Tax Management in Nepal”. She has examined main objectives of income tax in national economy and tax management which are: to find out the share of income tax on the government revenue, to examine the Nepalese income tax structure, to review the trend of income tax collection and tax revenue as well, to identify the factors to increase tax paying habit of income tax payers, to identify the problems of income tax management. She has analyzed the income tax structure as well as pointed the weakness of income tax system and tax management. She has identified that income tax in Nepal is inefficient due to inefficient tax management, inadequate government policy and defectives income tax act. There is poor paying habit of taxpayers. The main reasons of poor taxpaying habit are little knowledge of tax and its importance, poverty of taxpayers and widespread practice of illegal business. The tax paying habit can be developed largely by providing education to taxpayers about tax, incentives to regular taxpayers, simplification of tax law, timely assessment etc. she has also identified that income tax management in Nepal is not efficient enough due to the lack of appropriate management system and serious managerial problems. Major problems which income tax management have been facing are misuse of power by tax administration, lack of motives and trained employee, lengthily process of income tax assessment.

Chalise (2007) has conducted a thesis named “A study on contribution of income tax to Government Revenue”. He has tried to show the contribution of income tax on the structure of government revenue in Nepal. He has presented different figure, the historical aspect of income tax system, structure of government revenue, contribution of income tax to total tax revenue and total revenue of Nepal, contribution of income tax in gross domestic product, total revenue and total tax revenue. The problems of Nepalese income tax observed by Mr. Chalise were tax evasion, inefficient tax administration, reluctance taxpayers to maintain account, poor development of corporate sector, illegal business etc. and he had conducted the empirical analysis of

individual data, he found that the way of controlling income tax evasion are controlling illegal business activities, fine and penalties to the evaders, compulsory maintenance of account and educating them.

Silwal (2007) has presented a Master Degree Level dissertation named, “Contribution of Income Tax from Manakamana Darshan Pvt. Ltd.: To the National Revenue of Nepal”. His study tried to describe the, conceptual frame work legal provision, contribution of income tax from PCB, the effectiveness of income tax revenue collection from PCB, contribution of income tax from MD (P) Ltd. to total tax revenue and total income tax revenue on national revenue of Nepal. For the purpose of analysis generally simple statistical tools have been used, simple percentage, simple average, correlation and graphs. For the purpose of empirical study, opinion survey made during this study. 50 respondents have included income tax administrator, tax experts, tax payers and MD (P) Ltd officials. His findings about private corporate bodies has contributed around 24% in the total income tax contribution, Manakamana Darshan Pvt. Ltd has contributed around 0.10% of income tax generated by Private corporate bodies. Its contribution is about 0.246% to the total income tax in FY 2004/05. The contribution of income tax from MD (P) Ltd and total revenue is 0 .00356% and 0 .0046% respectively in the FY 2004/05. He has pointed out some problems like lack of clarity and transparency under rule and regulation of assessment producer, high volume of leakage, assessment procedure of MD (P). He stated some suggestion for increasing income tax from MD (P) Ltd are up to date petting tax return effective implementation of leakage control procedure committed and transparent management team are the main.

2.4 RESEARCH GAP

Research means to search or study about a phenomenon. The word research is composed by re and ‘search’ where re’ means repeatedly or again and again is research. Generally, research is an effort to search new fact, knowledge, and principle in scientific manner. Therefore research gap means that there is a gap between this research and previous research.

Passing through manly books, dissertation, reports and other income tax related both published and unpublished materials; it is found that, various kinds of studies have

been done already based on the theme of income tax or Nepalese taxation system. Most of the books are found to be limited to curriculum of Bachelor, Master Degree of T.U.

Normally, previous researcher studies were based on historical, legal provisions, administration aspects. However nobody found particularly focused his/her study at the exemption related issue. More or less this study is specially based on analysis of exemption related issue and it has concluded some results regarding the prevailing scenario of exemption in Nepal in relation to legal provisions, effectiveness, and administration under income tax act 2002 of Nepal. Therefore, this study hopes to fulfill the research lack in the part of exemption of Nepalese income tax system.

CHAPTER-THREE

RESEARCH METHODOLOGY

This chapter is dedicated to research methodology and design in the study for achievement of desired objectives.

3.1 Introduction

Research methodology is defined as part of the body of the report that explains the research design or framework, sampling procedures and other technical procedures used for collecting data.

This chapter deals mainly with the research methodology which is used in the period of research. Research means to research the problem again and again to find out something more about the problem.

Similarly methodology refers the various steps that are generally adopted by researcher in the studying his\her research problem along with the logic behind it. Thus research methodology is a way to systematically research problem.

In this regard, this chapter explains not only about the research methods but also considers the logic behinds the methods which are used in the context of our research study, so, research design ,nature and sources of data , data collection method, data processing and analysis , use of statistical tools are basically explained in this chapter.

3.2 Types of research

This study includes three types of research: descriptive, empirical and analytical.

3.3 Research Design

The research is focused on present exemption of income tax. Likewise it also attempt to analyze tax administration, composition of tax revenue, income tax for descriptive and analytical research. For an empirical research an opinion survey has been conducted. To achieve the stated objectives of the, the opinion of various 45 respondents associated with distinct denomination i.e. tax expert, tax administrations and taxpayers were through structured questionnaire. The questionnaire included the examination exemption of income tax are sufficient, adequate, sound or not, who are

responsible for creation of unsound income tax system in Nepal, essential factors for making income tax administration effective, suggestion to reform income tax system. In this sense, the research design followed for this research can termed as descriptive research design, empirical and analytical research designs.

3.4 Population and Sample

The respondents have been taken from Kathmandu valley. They have been divided into three groups. Population of tax payers included trading house, bank insurance, financial institute, manufacturing organization, hotel etc has been identified as population for this research. Registered C.A., professors, lectures, leaders and lawyers have been taken as population of tax experts and IRD officers have been taken as population of tax administration. Persons selected for empirical study are carefully selected by consultation with lecturers and best judgment method. The respondent of respondents and size of sample is stated in table 3.1.

Table 3.1

Group of Respondents and Size of Samples

S.NO.	Groups of Respondents	Sample size
1	Income Tax Administrators	15
2	Income Tax Experts	15
3	Income Tax payers	15
	Total	45

3.5 Nature and Source of Data

Necessary data and information to describe this study has been collected from primary as well as secondary sources. The major sources of data are as follows:

A. Primary Data:

Primary data are those data which are primarily collected or identified by the researcher for the study. The primary data have been collected from the response of persons representing from various sectors through structured questionnaire. The questionnaire was distributed among three group i.e. tax payers, tax experts and tax administrator. Tax payers are selected from trading house, bank insurance, financial institute, manufacturing organization, and hotel etc. Tax experts are

registered C.A., professors, lectures, leaders and lawyers etc who have tax knowledge and tax administrators from different sector of tax department in Kathmandu valley.

B. Secondary Data:

The secondary data are those data which are already been published, unpublished, mentioned, analyzed or found by another researcher or others but not by the present researcher. The secondary sources of data are the information received from books, journals newspapers, reports, and dissertation. The major sources of secondary sources of data are as follows:

1. Economic survey of various years, Ministry of Finance, NG
2. Budget speech of various years, Ministry of Finance, NG
3. Annual Reports of IRD, MOF, NG.
4. T.U., CEDA publication.
5. Dissertation related to income Tax
6. Campus Library.
7. Books related Income Tax
8. National Newspapers
9. Secondary data from FY1991/92 to FY 2006/07 has been used for the study.

3.6 Data collection Procedure:

In this research two kinds of data are collected from different procedure. The secondary data collected through different sources and way such as filed visit, annual report which were published by Nepal government and Newspapers. The primary data collected from tax administration, tax experts and tax payers by using questionnaire.

3.7 Data processing and Analysis Procedure

The collected data from primary and secondary source are tabulated separately according to their natures and orders. For the purpose of analysis generally simple statistical tools have been used. Simple Average, Percentage, chart and graph are used to analyze the data and to present the findings of the research.

CHAPTER- FOUR

PRESENTATION AND ANALYSIS OF DATA

The data presented and analyzed is the main body of the research study. It reflects the research results. Strongly collected sufficient data on the related topic provide the strength to the study. In this chapter, various data are collected from various economy survey, IRD Reports and journals, different libraries and presented in graph and table and analysis the fact. Data presentation and analysis has been used two types data: Secondary data and primary or empirical data.

4.1 Secondary data

This part is conducted to know the resource gap in Nepal, revenue structure, composition of tax revenue, and composition of income tax, contribution of income tax in Nepal, Exemption limit in Nepal, Income tax in Nepal.

4.1.1 Resource Gap in Nepal

Resource Gap means that difference between national income and national expenditure. Or Resource gap means that the gap between government total expenditure and total revenue is known as resource gap. In context of Nepal, the condition of source mobilization is unscientific. Revenue collection administrations are also still poor. National revenue doesn't cover the growing expenditure for the various reasons such as security, poverty line, rapid growth of population, uneducated people etc. are also increasing trend so resource gap is also in growing trend. To fulfill this gap Nepal is facing the increasing burden of foreign loan. Widening trend of the different resource gap is shown in the table and graph-4.1.1.

As shown in table, almost year resource gap is increasing trend. Comparing the 16 years, resource gap of 12905.5 million in FY 1990/91 and it reached to 45892.38 million in FY 2006/07. It is huge gap between FY 1990/91 and 2006/07. In FY 1992/93 resource gap increased 22.04% and decreased in 1993/94 was 11%. In FY 1994/95 to 1997/ 98 at that time resource gap was increasing trend. At time

government was failure to collect the revenue and increased government expenditure. In 1998/99, some extent decreased government expenditure but next year increased in high ratio in 1999/00 and 2000/01. In 2000/01 while government expenditure expanded from 66272.5 to 79835.10. It is 32.35% increased value. In the three year, 2001/02, 2002/03, 2003/04 decreasing trend appears regularly. It is due to slow growth in government expenditure and comparatively rapid growth in revenue collection. It is good signal for the nation but it is depending up foreign loan taken or not. Last three years of a study 2004/05, 2005/06 and 2006/07 the gap is being wider while resource gap of -2.39% in 2003/04 increased to two digits ration 19.65%, 19.02% and 18.87% respectively.

In study of 16 year increasing trend of resource is much more than decreasing trend. Decreasing trend was 11% in 1993/94 but increase trend was 32.35% in 2000/01. It seem or focus that increasing trend is not good health of nation hence we utilization of domestic resource and increasing national revenue by adoption new technique, sound administration and effective tax system and collect more revenue.

Table-4.1.1
Resource Gap in Nepal

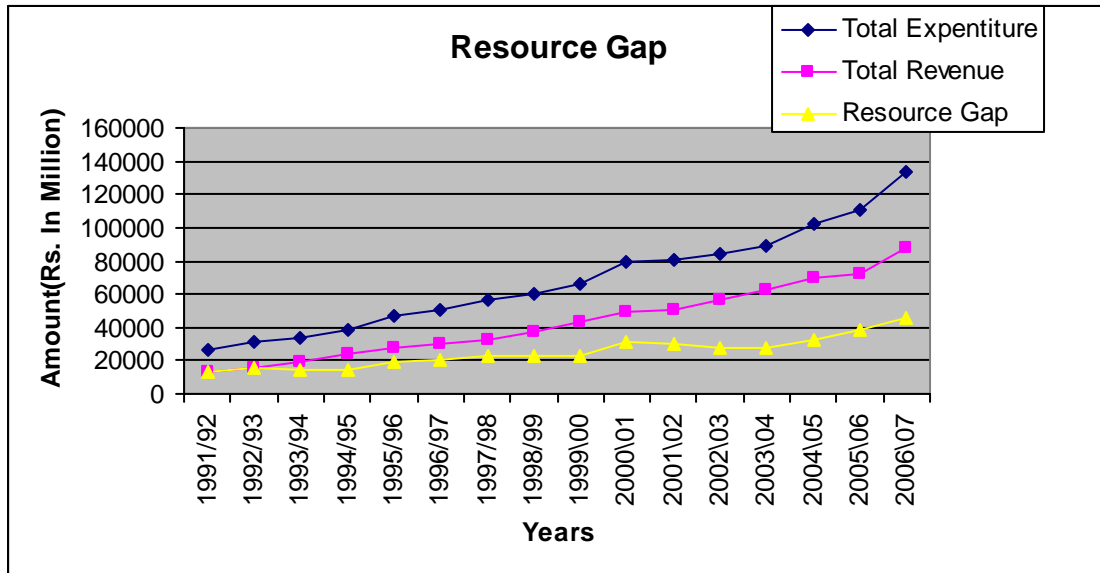
Rs in Million

Fiscal Year	Total Expenditure	Total Revenue	Resource Gap	Percent Increased
1991/92	26418.2	13512.7	12905.5	
1992/93	30897.7	15148.4	15749.3	22.04
1993/94	33597.4	19580.8	14016.6	-11.00
1994/95	39060	24575.2	14484.8	3.34
1995/96	46542.4	27893.1	18649.3	28.75
1996/97	50723.7	30373.5	20350.2	9.12
1997/98	56118.3	32937.9	23180.4	13.91
1998/99	59579	37251	22328	-3.68
1999\00	66272.5	42893.8	23378.7	4.71
2000\01	79835.1	48893.6	30941.5	32.35
2001\02	80072.2	50445.5	29626.7	-4.25
2002\03	84006.1	56229.8	27776.3	-6.25
2003\04	89442.6	62331	27111.6	-2.39
2004\05	102560.4	70122.7	32437.7	19.65
2005\06	110889.2	72282.1	38607.1	19.02
2006/07	133604.5	87712.12	45892.38	18.87

Source: Economic Survey 2007/08, G/N Ministry of Finance, 2008

Figure-4.1.1

Resource Gap in Nepal



4.1.2 Revenue Structure in Nepal

Government collects revenue from different sources such as custom duty, excise duty, sales or value added tax, income tax, land revenue and registration and miscellaneous tax. Basic sources the government revenue are divided into tax and non-tax revenue. Tax revenue is a composition of custom duty, value added tax, hotel tax, contract tax, land revenue, house and land registration income tax and other taxes. But non tax revenue is a composition of revenue from charges, fees, dividend royalty and sales of fixed assets, interest and loan, amount etc.

In 1952 when government prepared and presented the budget to the people for the first time in Nepalese history, the contribution of tax revenue to the total revenue was 56.16%, while the contribution of non-tax revenue was 43.84%. Today the tax revenue has played significant role in the public revenue of Nepal. The trend and composition of tax revenue and non-tax revenue in different fiscal years are presented below: Table and graph-4.1.2.

In the 16 year observation, it is clear that, the composition of total revenue, the contribution tax revenue was always greater than composition on non-tax revenue. Tax revenue of 9875.6 million in FY1991/92 reached to 71126.70 million in 2006/07. It is continuously increasing rapidly. The contribution of non-tax was 3637.1 million and 16585.50 in subsequent fiscal years. The above table and graph reflects that the non-tax revenue was increasing trend from fiscal year 1996/97 to 2004/05. But the non-tax revenue collection in FY 2005/06 was decreased to Rs. 148651 million as compared with Rs. 16018 million in FY 2004\05. The contribution of non-tax revenue was maximum Rs. 16585.50 in FY 2006\07 and minimum Rs.3485.9 in FY 1992/93.

It shows that non-tax revenue is in fluctuating trend in contribution to actual revenue. From the fiscal year 1991/92 to 1994/95, the percentage contribution of tax revenue was increased up to Rs.9875.50 from Rs 19660.0 respectively. In the year 1996/97, the tax revenue was Rs. 24424.30 million, 80.41% of total revenue Rs. 30373.50 million. Between the 16 years of period 1991/92 to 2006/07 the average contribution of tax revenue has not exceeded from 81.09% and gone down from 75.74%. In the year 2006/07, it to 81.09% and in the year 2002/03 it was 75.74%. In this period tax revenue is always in fluctuating trend. The highest tax revenue collects in this period is in the year 2006/07 which amounts to Rs. 71126.70 millions and lowest is Rs. 9875.60 in FY 1991\92.

Table-4.1.2

Composition of Total Revenue in Nepal

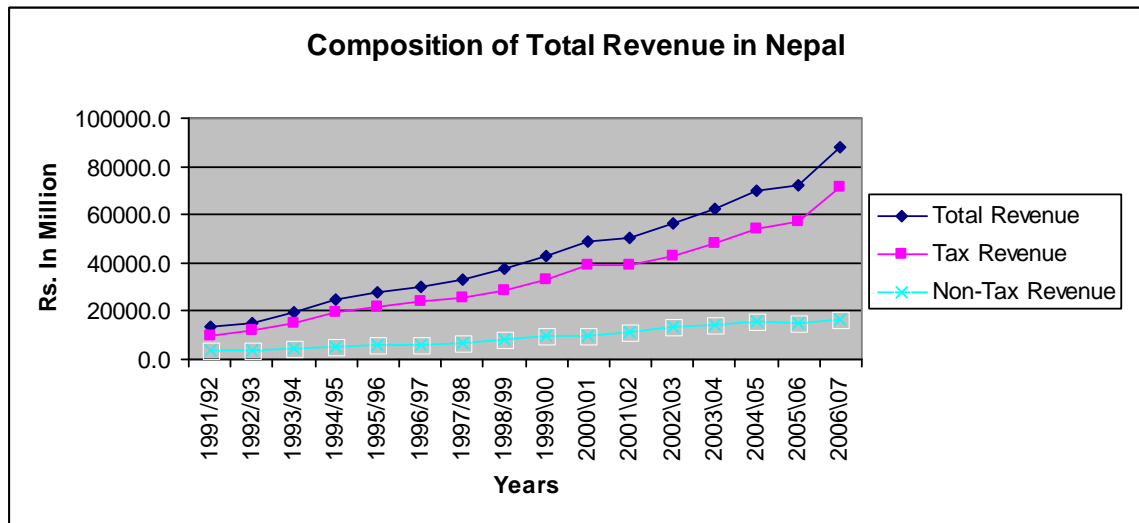
Rs. in Million

Fiscal year	Total Revenue	Tax revenue		Non- Tax Revenue	
		Amount	Percentage	Amount	Percentage
1991/92	13512.7	9875.6	73.08	3637.1	26.92
1992/93	15148.4	11662.5	76.99	3485.9	23.01
1993/94	19580.9	15371.5	78.50	4209.4	21.50
1994/95	24605.1	19660.0	79.90	4945.1	20.10
1995/96	27893.1	21668.0	77.68	6225.1	22.32
1996/97	30373.5	24424.3	80.41	5949.2	19.59
1997/98	32937.9	25939.8	78.75	6998.1	21.25
1998/99	37251.0	28752.9	77.19	8498.1	22.81
1999\00	42893.8	33152.1	77.29	9741.6	22.71
2000\01	48893.6	38865.1	79.49	10028.8	20.51
2001\02	50445.5	39330.6	77.97	11115	22.03
2002\03	56229.8	42587.0	75.74	13642.7	24.26
2003\04	62331.0	48173.0	77.29	14158	22.71
2004\05	70122.7	54104.7	77.16	16018	22.84
2005\06	72282.1	57430.4	79.45	14851.7	20.55
2006/07	87712.20	71126.70	81.09	16585.50	18.91

Source: Economic Survey 2007/08, G/N Ministry of Finance, 2008

Figure-4.1.2

Composition of Total Revenue in Nepal



4.1.3 Composition of Tax Revenue in Nepal

Tax revenue can be classified on the basis of different views. Basically Nepalese taxes are categorized in direct tax and indirect tax. Direct tax includes income tax, land revenue and registration, urban house and land tax, property tax, vehicle tax etc where as indirect tax includes sales tax, custom duty, VAT, hotel tax, entertainment tax, export/import duty, and others. Tax revenue is main source of government. It is a mostly 80% contribution of tax revenue in Nepal.

Composition of direct and indirect tax is presented in table 4.3 and graph-3. The table and graph shows that the share of indirect tax is more direct tax. But, share of the indirect as percentage of total tax revenue decreasing continuously where as, share of direct tax to total tax is increasing in subsequent years. The average contribution of direct tax in total revenue in these 16 years is in between 16.15 to 27%. Where as average contribution of indirect tax in total revenue these 16 year is in between 73 to 83.85%. It sows that contribution of direct tax and indirect vast different. It is not good signal in nation. Comparison development countries like, UK, USA, Japan etc contribution of direct taxes in Nepal is very low.

The amount of indirect tax in the year 1991/92 was Rs 8280.40million which is 83.85 % of total tax revenue, but even after the 16 years in the year 2006\07 share indirect tax is 73.31%, In Rs. 52146.40 million. But, the share of indirect tax in total revenue is decreasing after the FY 1992/93 gradually up to 73% in the FY 2002/03; but upon down reached to 73.31% in the FY 2006/07. In the other hand the direct tax almost increasing trend. It share became 26.69 percent in 2006/07 from 16.15 in 1991/92. From 16 year studies the contributions of direct tax 1991/92 to 1999/00 gradually increase. It reaches 16.15% to 27% in total revenue. From FY 2000/01 to 2006\07 direct tax is coming upon down condition.

Table-4.1.3

Composition of Tax Revenue in Nepal

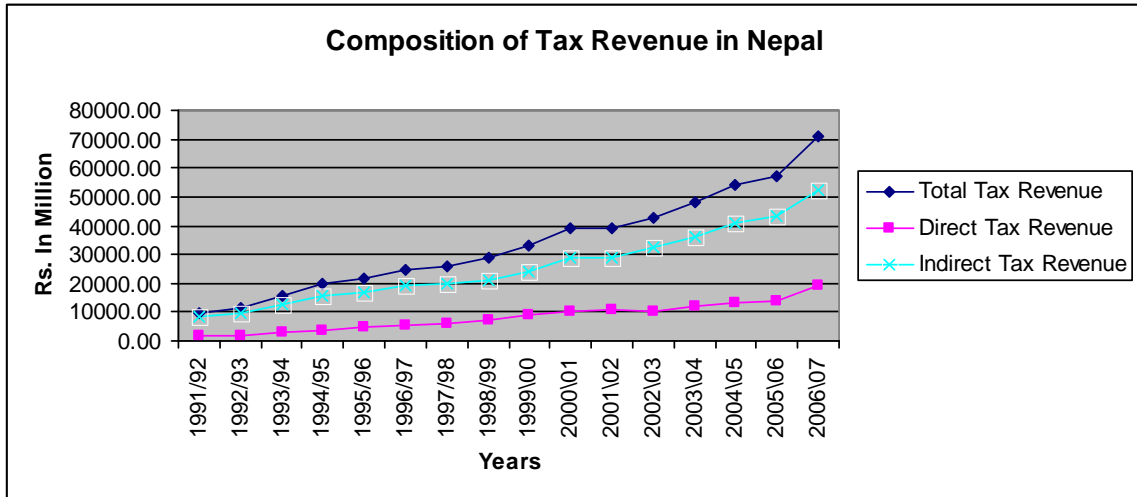
Rs. in Million

Fiscal year	Total Tax Revenue	Direct Tax Revenue		Indirect Tax Revenue	
		Amount	Percentage	Amount	Percentage
1991/92	9875.60	1595.20	16.15	8280.4	83.85
1992/93	11662.50	2036.20	17.46	9626.3	82.54
1993/94	15371.50	2855.30	18.58	12516.2	81.42
1994/95	19660.00	3849.30	19.58	15810.7	80.42
1995/96	21668.00	4655.90	21.49	17012.1	78.51
1996/97	24424.30	5340.00	21.86	19084.3	78.14
1997/98	25939.80	6187.90	23.85	19751.9	76.15
1998/99	28752.90	7516.10	26.14	21236.8	73.86
1999\00	33152.10	8951.50	27.00	24200.6	73.00
2000\01	38865.10	10159.40	26.14	28705.7	73.86
2001\02	39330.60	10597.50	26.94	28733.1	73.06
2002\03	42587.00	10105.80	23.73	32481.2	76.27
2003\04	48173.00	11912.60	24.73	36260.4	75.27
2004\05	54104.70	13071.80	24.16	41032.9	75.84
2005\06	57430.40	13968.10	24.32	43462.3	75.68
2006/07	71126.70	18980.30	26.69	52146.40	73.31

Source: Economic Survey 2007/08 G/N Ministry of Finance, 2008

Figure-4.1.3

Composition of Tax Revenue in Nepal



4.1.4 Composition of Income Tax in Nepal

Income tax revenue is an importance source the direct tax. Its structure of Nepal is the composition of the tax from public enterprises, semi- public enterprises, private corporate bodies, individuals, remuneration and tax in interest. Here, public enterprise means 100% government ownership and semi-public enterprise consists at least 51% government ownership; private corporate bodies mean public limited companies, individual denote sole traders, partnership etc. Income of salary from government and non-government employees are denote as remuneration.

When income tax introduced in Nepal in first as ‘Business Profit and Remuneration Tax in 1960’, it had contributed Rs. 203 thousand as revenue. The composition of income tax for the recent year 16 year in presented in table 4.4 and 4.5. Income tax was increasing each year except 1990/91 and 2001/02. The contribution of income tax from public enterprise is significant. It has contributed 19.09 % to total income tax in average. The trend of income tax from public enterprises is fluctuating. In 16 year studies, it was contributed in income tax 171.10 million in 1991/92 and progressively rises up to 2928.0 million in FY 2000/01. Their minimum and maximum

contributions were 1.89% and 33.35% in 2005/06 and 1995/96 respectively. After that it was declined and reached in very low as 195.7 million in 2005/06 but it was bust up reach 1019.70 million in 2006/07. Semi-public enterprises are the least contributing revenue resources of income tax revenue. The contribution of this sector is previous year 5.30, 2.60, 2.10 million in 1991/92, 1992/93, 1993/94 respectively. After that nil contribution in total tax income. After restructuring the sources of income, share of semi-public enterprises are not calculating separately. Private corporate bodies are at the third positing revenue generating sectors for income tax .it is fluctuating trend. The average contribution 17.20% in 16 year studies period. Their minimum and maximum shares were 0.7% in1991/92 and 38.02% in 2006/07 respectively. The contribution ration was 0.7 % to 38.02% between 1991/92 to 2006/07 in the 16 year of period. Last year of the study had maximum contribution of private corporate bodies in income tax.

Individual income tax is largest revenue generating sector of income tax revenue. It has contributed up to 70.6% in 1991/92. Although the amount is increasing up to 2001\02, after that it declines to 3362.3 million in next fiscal year and unable to met the record in subsequent year up to 2005/06 while the amount is 4234.7 million after slow growth in preceding years. After a huge contribution was Rs. 5234.40 million in 2006/07. Their minimum and maximum shares were 34.82% in 2006/07 and 70.6% in 1991/92 respectively. Average contribution from remuneration and tax on interest are 8.76 and 5.67 % respectively. The share of income tax revenue from remuneration is increasing trend each year. It was Rs. 54.70 million in FY 1991/92 and reached to Rs.2007.90 million in last year of study. Another income tax revenue source is interest tax, which has highest contribution of 10.85% in 2002/03. The shares of income tax revenue from tax on interest were fluctuating rate. It has gradually down from 2002\03 to 2006/07. It was 7.02% in 2006/07.

Table-4.1.4(a)

Composition of Income Tax Revenue**Rs. in Million**

Fiscal Year	Total Income Tax Revenue	Public Enterprises	Semi Public Enterprises	Private Corporate Bodies	Individuals	Remunerations	Tax on Interest
1991/92	875.00	171.10	5.30	6.50	617.90	54.70	19.50
1992/93	1198.20	255.30	2.60	9.50	800.70	56.70	73.40
1993/94	1921.20	534.10	2.10	19.70	1184.80	83.80	96.70
1994/95	2823.40	860.20	0.00	440.10	1293.10	118.40	111.60
1995/96	3431.40	1144.50	0.00	563.90	1470.10	133.10	119.80
1996/97	4123.40	1231.10	0.00	858.40	1711.40	168.10	154.40
1997/98	4898.10	1317.80	0.00	925.10	2120.80	322.20	212.20
1998/99	6170.20	1526.50	0.00	1155.00	2772.70	396.50	319.50
1999\00	7420.60	2198.80	0.00	1339.50	3016.40	451.50	414.40
2000\01	9114.00	2928.00	0.00	1924.30	3200.50	597.30	463.90
2001\02	8903.70	1769.30	0.00	1412.00	4419.10	835.60	467.70
2002\03	7966.20	1251.00	0.00	1236.30	3362.30	1252.60	864.00
2003\04	9245.90	2056.60	0.00	1531.30	3533.40	1391.20	733.40
2004\05	10159.40	1332.40	0.00	2467.80	3926.30	1675.90	757.00
2005\06	10373.70	195.70	0.00	3404.30	4234.70	1764.10	774.90
2006/07	15034.00	1019.70	0.00	5717.10	5234.40	2007.90	1054.90

Source: Economic Survey 2007/08, G/N Ministry of Finance, 2008

Table-4.1.4(b)

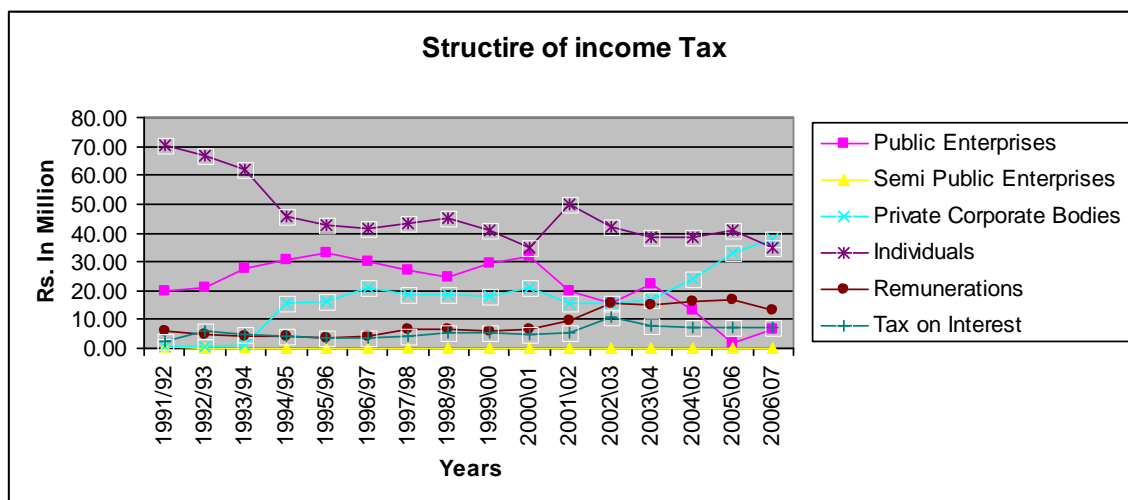
Composition of Income Tax Revenue**In percentage**

Fiscal Year	Total Income Tax Revenue	Public Enterprises	Semi Public Enterprises	Private Corporate Bodies	Individuals	Remunerations	Tax on Interest
1991/92	100.00	19.55	0.61	0.74	70.62	6.25	2.23
1992/93	100.00	21.31	0.22	0.79	66.83	4.73	6.13
1993/94	100.00	27.80	0.11	1.03	61.67	4.36	5.03
1994/95	100.00	30.47	0.00	15.59	45.80	4.19	3.95
1995/96	100.00	33.35	0.00	16.43	42.84	3.88	3.49
1996/97	100.00	29.86	0.00	20.82	41.50	4.08	3.74
1997/98	100.00	26.90	0.00	18.89	43.30	6.58	4.33
1998/99	100.00	24.74	0.00	18.72	44.94	6.43	5.18
1999\00	100.00	29.63	0.00	18.05	40.65	6.08	5.58
2000\01	100.00	32.13	0.00	21.11	35.12	6.55	5.09
2001\02	100.00	19.87	0.00	15.86	49.63	9.38	5.25
2002\03	100.00	15.70	0.00	15.52	42.21	15.72	10.85
2003\04	100.00	22.24	0.00	16.56	38.22	15.05	7.93
2004\05	100.00	13.11	0.00	24.29	38.65	16.50	7.45
2005\06	100.00	1.89	0.00	32.82	40.82	17.01	7.47
2006/07	100.00	6.78	0.00	38.02	34.82	13.36	7.02

Source: Economic Survey 2007/08, G/N Ministry of Finance, 2008

Figure-4.1.4 (b)

Composition of Income Tax Revenue



4.1.5 Contribution of income Tax

This topic an attempt to analysis and check the contribution of income to GDP, total revenue, total tax revenue and direct tax revenue is made. Contribution of income tax to the GDP, Total Revenue, and Total Tax Revenue is presented as below.

4.1.5.1 Contribution of income Tax to GDP

Table-4.5.1 shows that percentage of income tax to GDP from FY 1991/92 to 2006/07. From the table it is clear that the share of income tax in the GDP in Nepal is very low and it has not exceeded by 2.32 through out of the period of sixteen years. From the fiscal year 1991/92 to 2006/07, income tax revenue of Nepal as a percentage of GDP is between 0.60% and 2.32. The below table shows the trend of income tax to GDP in fluctuating trend. From 1991/92 to 2000/01 it has been increasing and 2001/02, it declined to 2.20% and again to 1.83% in 2002/03. It slowly increased to 1.95% and 2.00% for the following years and again declined to 1.86% in 2005/06 but it increased in 2006/07.

4.1.5.2 Contribution of Income Tax to Direct Tax Revenue

Income tax is important factor of direct tax. In Nepal, it has been contributing significantly in the tax structure. Table-4.6 shows that percentage of income tax to the direct tax revenue from FY 1991/92, to 2006/07. From the year 1991/92 the ration of contribution of income tax is gradually increasing. From the year 1991/92, the ration of contribution only 54.85%, But in 2000/01 it reached 89.71%. It declined to continue from the following year end 2005/06 but it reached to 79.21% in last of study.

4.1.5.3 Contribution of Income Tax to Total Revenue

Income tax is most important resources to collect revenue in the nation. It contributed significantly but not satisfactory. The contribution of income tax to total revenue was 6.48% in FY 1991/92. It shows the trend of income tax to total revenue in fluctuating trend. It was gradually increased from 1991/92 to 2000/01, after that inflation and deflation it reached to 17.14% in FY 2006/07. The Average contribution of income tax is 13.85%.

4.1.5.4 Contribution of Income Tax to Total Tax Revenue

Total tax means combination both tax direct tax and indirect tax. In the context of Nepal indirect tax is dominant role of Nepalese's tax structure. That is way income tax has not effective role in total tax. The contribution of income tax to total tax revenue presented in the table-4.6 Shows that Percentage of income tax to the Total tax revenue from FY 1991/92 to 2006/07. From 1991/92 was 8.86% and increased with slow growth rate to 23.45% in 2000/01. After that increasing, decreasing it reached 21.14% in 2006/07 for the study period. The highest contribution of income tax was 23.45% in the FY 2000/01 and average contribution is 17.71% and minimum contribution was 8.86% in FY 1991/92.

Table-4.1.5

**Contribution of Income Tax to GDP, Total Revenue, and Tax Revenue and
Direct Tax Revenue**

Fiscal Year 1991/92 to 2006/07

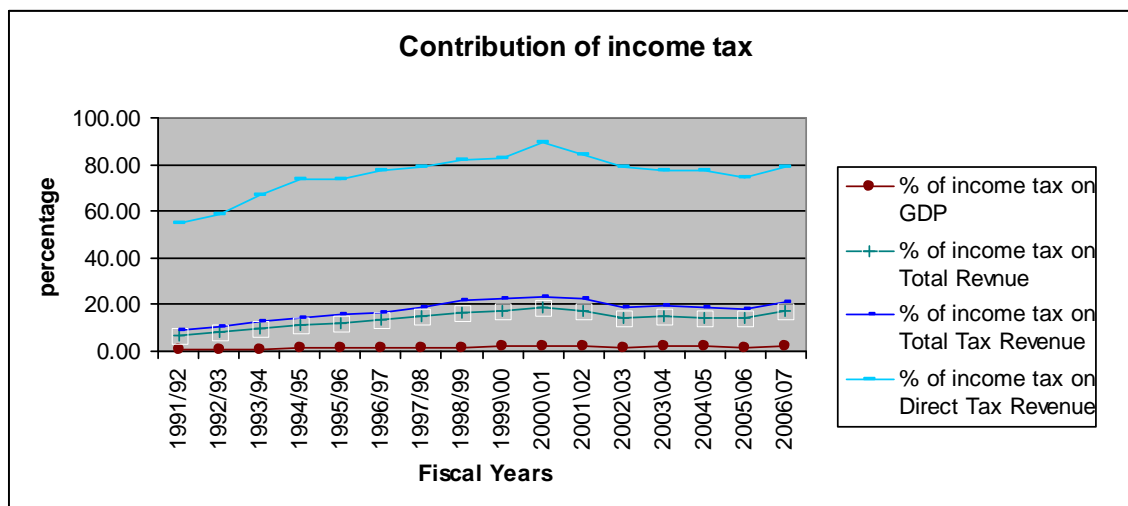
(Rs In Million)

Fiscal Year	GDP	Total Revenue	Total Tax Revenue	Direct tax Revenue	Income Tax Revenue	% of Income tax on GDP	% of Income tax on Total Revenue	% of Income Tax on Total Revenue	% of Income Tax on Direct Tax Revenue
1991/92	145833	13512.7	9875.6	1595.2	875	0.60	6.48	8.86	54.85
1992/93	164137	15148.4	11662.5	2036.2	1198.2	0.73	7.91	10.27	58.84
1993/94	192120	19580.9	15371.5	2855.3	1921.2	1.00	9.81	12.50	67.29
1994/95	210702	24605.1	19660	3849.3	2823.4	1.34	11.47	14.36	73.35
1995/96	239958	27893.1	21668	4655.9	3431.4	1.43	12.30	15.84	73.70
1996/97	269570	30373.5	24424.3	5340	4123.4	1.53	13.58	16.88	77.22
1997/98	289798	32937.9	25939.8	6187.9	4898.1	1.69	14.87	18.88	79.16
1998/99	330018	37251.3	28752.9	7516.1	6170.2	1.87	16.56	21.46	82.09
1999\00	366251	42893.7	33152.1	8950.9	7420.6	2.03	17.30	22.38	82.90
2000\01	393566	48893.7	38864.9	10159.4	9114	2.32	18.64	23.45	89.71
2001\02	405632	50445.6	39330.6	10597.5	8903.7	2.20	17.65	22.64	84.02
2002\03	435310	56229.7	42587	10105.8	7966.2	1.83	14.17	18.71	78.83
2003\04	474919	62331	48173	11912.6	9245.9	1.95	14.83	19.19	77.61
2004\05	508651	70122.7	54105.7	13071.8	10159.4	2.00	14.49	18.78	77.72
2005\06	557869	72282.1	57430.4	13968.1	10373.7	1.86	14.35	18.06	74.27
2006/07	675484	87712.2	71126.70	18980.3	15034.0	2.23	17.14	21.14	79.21

Source: Economic Survey 2007/08, G/N Ministry of Finance, 2008

Figure-4.1.5

Contribution of Income Tax to GDP, Total Revenue, and Tax Revenue and Direct Tax Revenue



4.1.6 Direct Tax and its Composition

If a persons paying and bearing the tax same, it is called direct tax. A direct tax is really paid by the same persons on whom, it is legally imposed. Direct tax in Nepalese economy is composed of different taxes namely income tax, land tax, property tax and wealth tax, tax on registration. Share of different components of direct tax are shown on table 4.1.6 and graph 4.1.6.

In the figure cleared that the income tax role was very important in total direct tax revenue. The contribution of income tax to direct tax was increasing continuously except in the fiscal year 2001/02. Average contribution was Rs 6478.65 million. Land and others tax role was minimum. Land tax was start declining from 1992/93 amounting Rs. 64.8 million up to 2001/02 amounting 0.8 million after that it was nil position from 2002/03 to 2006/07. Other tax was nil from1993/94 to2001/02 after that it was increasing trend and reached Rs.697.80 million in 2006/07. The contribution of house and land registration to direct tax revenue was second position. The revenue collection from house and land tax is declining continuously after 2000/01.FY 2001/02 it was boost of it reached from 1131 million in 2001/02 to Rs. 2253.50

million in FY 2006/07. Graph and table cleared that total direct tax was increasing continuously since 1991/92 except the year 2002/03. Total direct tax average contribution was Rs. 8236.39 million.

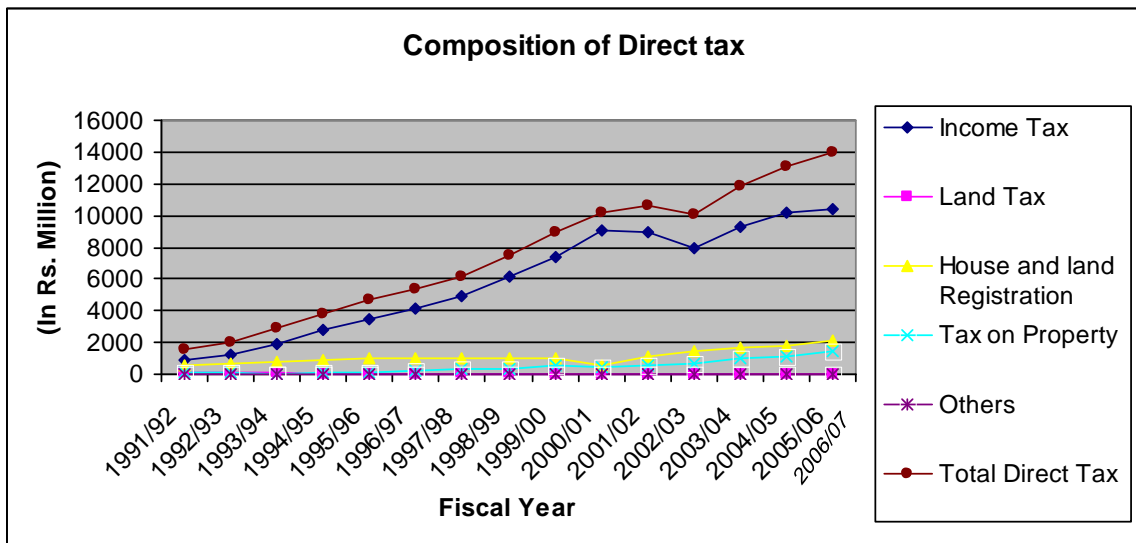
Table-4.1.6
Composition of Direct tax Revenue

Rs. In Million

Fiscal year	Income Tax	Land Tax	House and land Registration	Tax on Property	Others	Total Direct Tax
1991/92	875.00	64.80	571.20	67.70	16.40	1595.10
1992/93	1198.20	69.30	685.50	80.00	3.10	2036.10
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	5339.90
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	7516.50
1999/00	7420.30	4.60	1011.30	515.00	0.00	8951.20
2000/01	9114.00	5.10	607.80	432.50	0.00	10159.40
2001/02	8903.70	.80	1131.00	562.00	0.00	10597.50
2002/03	7966.20	0.00	1414.30	559.50	165.80	10105.80
2003/04	9245.90	0.00	1697.00	700.60	268.60	11912.10
2004/05	10159.40	0.00	1799.20	806.50	306.70	13071.80
2005/06	10373.70	0.00	2181.10	847.60	565.70	13968.10
2006/07	15034.00	0.00	2253.50	995	697.80	18980.30
Average	6478.65	16.85	1192.95	418.24	129.7	8236.39

Source: Economic Survey 2007/08, G/N Ministry of Finance, 2008

Figure-4.1.6
Composition of Direct tax Revenue



4.1.7 Exemption limit in Nepal

The provision of income tax exemption has started the enactment of the first finance act in 1959 AD. Since then tax exemption has revised the several times. For the purpose of income taxation the taxpayers classified in two ways (a) according to persons and (b) according residential status. According to persons the income tax has classified tax payers to two categories namely; individual and family. According residential status has classified bank, financial institute as well partnership firm. There single provision for tax exemption when the first finance act introduced in Nepal. In 1967/68 the taxpayers were classified according to personal status and for the first time there was the provision of different level of tax exemption limit for the taxpayers according to different provision of exemption limit different personal status. An amount of income allowed by the law as tax free is exempt amount of income. Exemption limit means that kind of limit, the Act has provided to deduct for his income for certain amount. It cuts to tax liability but promote the business and industry to give the certain limit to deduct for his income. Income tax has provided different exemption limit different persons like this individual, family and others. It directly affect in income tax revenue collection. Taxpayers having low tax paying capacity should exclude from tax net for social justice and economic balance between rich and poor. The exemption limit provided in the various years is presented in the

table 4.8.7. In earlier time, there was equal amount of exemption to all taxpayers i.e. individual, couple, family and corporate bodies. Exemption limit to all tax payers was Rs.7000 in FY 1959/60-1962\63, Rs. 6000 in FY1963/64-1964\65 and Rs.5000 in FY1965/66-1966/67. After that the exemption limit has provided by only individual and couple. From FY1967/68 to 1973/74 the limit was different between individual and couple. It was decreased rather then previous year. It was Rs. 3000 to individual and 4500 to couple and family. In 1974/75 the exemption limit was increased to 1500 /1500 for individual and couple respectively. The exemption limit to couple was Rs. 6000 and 4500 to individual. After that the exemption limit was increasing trend. From the table it is clear that exemption limit is extended according to need at present time, individual having the taxable income up to Rs.1, 15,000 are exempted from tax and that for couple is Rs.1, 40,000.

Note that (if it is pension income of a resident person, the exemption limit would be to exemption amount plus 25% exemption amount)

Table-4.1.7
Exemption Limit in Nepal

In Rs.

Fiscal Year	Individual	Couple	All Taxpayers
1959/60-1962\63	-	-	7,000
1963/64-1964\65	-	-	6,000
1965/66-1966\67	-	-	5,000
1967/68-1973/74	3,000	45,00	-
1974/75	4,500	6,000	-
1975/76	5,500	6,500	-
1976/77-1978/79	6,500	7,500	-
1979/80-1980/81	7,500	10,000	-
1981/82-1982/83	10,000	15,000	-
1983/84-1889/90	15,000	20,000	-
1990/91-1991/92	20,000	30,000	-
1992/93-1996/97	25,000	35,000	-
1997/98	30,000	40,000	-
1998/99	40,000	50,000	-
1999/00	55,000	75,000	-
2000/01	55,000	75,000	-
2001/02	65,000	85,000	-
2002/03	65,000	85,000	-
2003/04	80,000	1,00,000	-
2004/05	80,000	1,00,000	-
2005/06	1,00,000	1,25,000	-
2006/07	1,15000	1,40,000	-

Source- Finance Acts of Various Years, MOF

4.1.8 Income tax rate in Nepal

The collection of income tax is influenced by income tax rate. The rate is responsible for the equitable distribution of wealth in the society. The society justice can achieved through progressive income tax rate. The tax payer cannot be bear the burden of higher tax rate and lower rate cannot fulfill the objective of the income taxation. So, there is frequent change in income tax on basic of time and economic condition of the people. Nepal has adopted the progressive tax rate in personal income tax. The personal income taxes rate various from two to eight slabs from the year 1984/85 to 2006/07. Currently the income tax has divided into two slabs. The current rate is 15% on income up to Rs. 75,000 beyond the exemption amount and 25% on further incomes beyond taxable income of Rs. 75,000.

Table-4.1.8
Rates of personal income tax in Nepal

(Slabs over exemption Limit)

FY \ Slabs	1	2	3	4	5	6	7	8
1975/76	5000 7%	5000 10%	10,000 20%	10,000 30%	10,000 40%	50,000 55%	Bal. 60%	-
1984/85	5000 5%	5000 10%	10,000 15%	20,000 20%	20,000 30%	30,000 40%	Bal. 50%	-
1985/86	5000 10%	5000 15%	10,000 20%	15,000 25%	15,000 30%	30,000 40%	20,000 50%	Bal. 55%
1990/91	10,000 10%	15,000 20%	20,000 35%	25,000 40%	30,000 15%	Bal. 50%	-	-
1995/96	40,000 10%	25,000 20%	Bal. a) 25% b) 33%	-	-	-	-	-
2000/01	75,000 15%	Bal. 25%	-	-	-	-	-	-
2001/02	75,000 15%	Bal. 25%	-	-	-	-	-	-
2002/03	75,000 15%	Bal. 25%	-	-	-	-	-	-
2003/04	75,000 15%	Bal. 25%	-	-	-	-	-	-
2004/05	75,000 15%	Bal. 25%	-	-	-	-	-	-
2005/06	75,000 15%	Bal. 25%	-	-	-	-	-	-
2006/07	75,000 15%	Bal. 25%	-	-	-	-	-	-

Source:- Finance Act of Various Years, MOF

(a) Remuneration

(b) Others

Similarly income tax rate is for partnerships firm, corporation non residents. In the case of these exemptions limit is not given. Tax is charged on the income after deducting expenses. The rate and slabs approved for different years given below. Income tax rates for partnership, firms, corporation, and non residents are various from two to eight slabs from the year 1984/85 to 2006/07. Currently the income tax has divided into two slabs. The current rate is 25% on total income for bank, financial co. and financial firms and 30% for other (including partnership).

Table-4.1.9

**Income tax rates for partnership firms, corporation and non residents
(Slabs over exemption Limit)**

s FY	Slab							
	1	2	3	4	5	6	7	8
1975/76	10,000 15%	10,000 25%	10,000 40%	50,000 55%	Bal. 60%			-
1984/85	5000 5%	5000 10%	10,000 15%	20,000 20%	20,000 30%	30,000 40%	Bal. 50%	-
1985/86	5000 10%	5000 15%	10,000 20%	15,000 25%	15,000 30%	30,000 40%	20,000 50%	Bal. 55%
1990/91	10,000 15%	15,000 30%	20,000 35%	25,000 40%	30,000 45%	Bal. 50%	-	-
1995/96	33% in total amount	-	-	-	-	-	-	-
2000/01	(a) 25% (b)30%	-	-	-	-	-	-	-
2001/02	(a) 25% (b)30%	-	-	-	-	-	-	-
2002/03	(a) 25% (b)30%	-	-	-	-	-	-	-
2003/04	(a) 25% (b)30%	-	-	-	-	-	-	-
2004/05	(a) 25% (b)30%	-	-	-	-	-	-	-
2005/06	(a) 25% (b)30%	-	-	-	-	-	-	-
2006/07	(a) 25% (b)30%	-	-	-	-	-	-	-

Source:- Finance Act of Various Years, MOF

(a) For bank, financial co. and financial firms

(b) Other(including partnership)

4.2 Empirical Investigation

4.2.1 Introduction

Primary data are those data are primarily collected, fund or identified by the researcher for the study. The secondary data are those data are already published, unpublished, mentioned, analyzed and found by another researcher or others but not by the present researcher. Primary data have been used; it loses its primary characteristics and becomes secondary. In this study, this part is related with primary sources of data.

An empirical investigation has been conducted in order to find out various aspects of income tax act, 2058 in Nepal from real life experience. For this, questionnaire was developed and responses were collected from the respondents. Questionnaire was distributed to 60 persons representing different personality's tax administrator, tax experts and tax payers including provision of exemption and tax administration. Out of 60, only 40 responses were received. The respondents were asked to tick the answer of their choice or put the ranking numbers as first choice was the most important and last choice was least importance. Information received from 40 respondents was tabulated into the separate table format and they were presented in percentage of total number or points then analyzed descriptive way. The respondents were selected three denominations and code was used to represent each denomination in order to make easy the analysis. The following table shows denomination of respondents and code used to represent them.

Table- 4.2.1

Groups of respondents and code used

S.NO.	Groups of respondents	Sample size	Code used
1	Income Tax Administrators	15	A
2	Income Tax Experts	15	B
3	Income Tax payers	15	C
	Total	45	

4.2.2 Evaluation of New Income Tax Act, with Regard Tax Exemption

Income Tax Act amended many time. Income tax 2031 amended after new income tax act 2058 introduced. Many concession, rebate, allowance were changed in new tax. To know the respondents view about current tax exemption, a question was asked “With regard to tax exempt income, what is your opinion about income tax Act 2058”? The responses are as follow:

Table-4.2.2

Evaluation of New Income Tax Act, with Regard Tax Exemption

S.NO.	Alternatives	Group			Total No.	Percentage
		A	B	C		
1	Sound & efficient	6	5	4	15	33.33
2	Satisfactory	6	9	6	21	46.67
3	Poor	3	1	5	9	20
	Total				45	100

Opinion Survey, 2008

Out of 100 percent response, 33 percent of respondents were agreed that the current exempt income is sound & efficient. 67 percent disagreed in this matter. 46.67 percent of respondents agreed on satisfactory and 20 percent of respondents agreed on poor exempt income.

Above table, it can be concluded that the current tax exempt income was satisfactory.

4.2.3 Awareness about the Provision of Tax Exemption

Income Tax 2058 has provided different provision regarding exemption. It gave different exemption for different condition. To know awareness about the provision of tax exemption, a question asked, “Are you aware about the provision of tax exemption per income tax act 2002 of Nepal?” The responses are as below:

Table-4.2.3

Awareness about the Provision of Tax Exemption

Response	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Respondents						
A	15	100	0	0	15	100
B	15	100	0	0	15	100
C	6	40	9	60	15	100
Total	36	80	9	20	45	100

Opinion Survey, 2008

There were 100 percent responses received respondents. Out of 45 respondents, 36 persons (80%) were awareness about the provision of tax exemption per income tax act 2002 of Nepal. But 9 respondents (20%) were against this matter.

As who gave the negatives responses about awareness of provision of income tax exemption, the next question was asked, “What are the cause or possible reason of it?” the responses were as below:

Table-4.2.4

Reasons for Unawareness about the Provision of Tax Exemption

S.NO.	Alternatives	Group			Total frequency	Percentage	Rank
		A	B	C			
1	Different provision regarding exemption	-	-	30	30	55.56	1
2	Tax office also dilemma in this regard	-	-	17	17	31.48	2
3	I don't think it necessary	-	-	7	7	12.96	3
Total					54	100	

In the above table, percentage was calculated according to the total frequency obtained by each causes. For ranking purpose percentage of each cause was matched with each other assigned first rank to the highest percentage.

According to the respondent's point of view the main cause not aware about the provision of tax exemption per income tax act, 2002 of Nepal were ranked as follows:

1. Different provision regarding exemption
2. Tax office also dilemma in this regard
3. I don't think it necessary

From who specified their responses as other, their responses were lack of tax education to tax payers as well as tax personnel's, complexity income tax policy, rules and regulations etc.

From the above in overall, it can be concluded that the main cause for unawareness is different provision regarding exemption.

4.2.4 Sufficiency of Exempted Items of Income Tax

Income tax has provided different kind of income and different organization were tax exempted. To know the sufficiency of exempted items of income, a question was asked to respondent; "Do you think that the exempted items of income sufficient?" Responses from the respondents are tabulated as below.

Table-4.3.5
Sufficiency of Exempted Items of Income Tax

Response	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Respondents						
A	12	80	3	20	15	100
B	10	66.67	5	33.33	15	100
C	6	40	9	60	15	100
Total	28	62.22	17	37.78	40	100

Source: Opinion Survey 2008

From the above table it is clear, that about 62.22 percentage respondents were supported that the exempted items of income are sufficient. Among 45 respondents, only 17 respondents replied that the exempted items of income are not sufficient.

To specify this matter, the respondents those who said the exempted items of income are not sufficient were requested to any special provision of deduction for expenses from personal income. They were requested to rank the given expenses 1 to 6 in the order of priority. The received are as follows:

Table-4.2.6
Reasons for Insufficiency of Exempted Items of Income Tax

S.NO.	Alternatives	Group			Total frequency	Percentage	Rank
		A	B	C			
1	Dearness allowance	18	31	47	96	26.89	1
2	Remote area allowance	10	12	24	46	12.89	4
3	Education allowance	13	18	54	85	23.81	2
4	Life insurance allowance	6	13	17	36	10.08	6
5	Pension amount	9	19	33	51	14.29	3
6	Medical Allowance	7	12	24	43	12.04	5
	Total				357	100	

From the above table it has been cleared that dearness allowance is most priority to the respondents for tax exemption. Most of the respondent's i.e. more than 26.89, 23.81, 14.29 are in favor of tax exempted for dearness allowance, education allowance and pension amount respectively.

Following is the arrangement of alternatives according to choice of respondents:

1. Dearness allowance
2. Education allowance
3. Pension amount
4. Remote area allowance
5. Medical Allowance
6. Life insurance allowance

From the above table it is clear that individual taxpayer wants dearness allowance be made tax exempted. Education, pension, remote, medical, life insurance, are other priority respectively. Beside the above category some of the respondents desired for exemption on Dashain allowance, leaving allowance etc putting their opinion in others category.

4.2.5 Adequacy of the Exemption Limit

Income tax has provided exemption limit to individual and family. In the context to know the opinion the current exemption limit is adequate or not, a question was asked, “Do you think the current exemption limit provided to individual and family is adequate?” For the response, yes or no alternative was provided. Responses from the respondents are tabulated as below.

Table 4.2.7
Adequacy of the Exemption Limit

Respondents	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
A	12	80	3	20	15	100
B	12	80	3	20	15	100
C	7	46.67	8	53.33	15	100
Total	31	68.89	14	31.11	45	100

Source: Opinion Survey 2008

From the above table, we can say that about 68.89 percent respondents collectively put their opinion that current exemption limit is adequate but only 31.11 percentages replied that it is not satisfactory by the current exemption limit. From the above, it concluded that the current exemption limits seems to be adequate.

In order to know the causes of inadequacy of the exemption limit, the next question asked, if no what factor or facts should it be consider for betterment? Give four

alternatives respondents are asked to arrange in order. Following tables shows the summery of respondents.

Table 4.2.8

Factors to be considered for Adjusting Exemption Limit

S. NO.	Alternatives	Group			Total frequency	Percentag e	Rank
		A	B	C			
1	Based on number of dependents	7	9	19	35	25	3
2	Based on income size	5	5	15	25	17.86	4
3	Based on living cost	8	7	21	36	25.71	2
4	Inflation ratio of the country	10	9	25	44	31.43	1
	Total				140	100	

The main factor or facts it should be consider for adjustment of exemption limit of individuals ranked in the order of priority by the respondents are as follows:

1. Inflation ratio of the country
2. Based on living cost
3. Based on number of dependents
4. Based on income size

From above rank, it is clear that more then 31.43 percent of respondents thinks Inflation ratio of the country should consider as most important factor. Similarly, based on living cost, based on number of dependents, based on income size are considered as other important factors. Education expenses, life insurance expenses made by individual were some of the caused stated by the respondents.

4.2.6 Appropriateness of Current Income Tax Limit

Adequate exemption is necessary to promote the business enterprises. Many exemptions are provided by income tax act 2058. The question was, “Do think that

the amount of current income tax exemption limits is appropriate' asked to find out the opinion of respondent regarding exemption. The responses received from the respondents are tabulated as follows:

Table-4.2.9
Appropriateness of Current Income Tax Limit

Response	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Respondents						
A	2	13.33	13	86.67	15	100
B	3	20	12	80	15	100
C	2	13.33	13	86.67	15	100
Total		15.56		84.44	45	100

Source: Opinion Survey 2008

There was 100 percent response received from the respondents. Majority of respondents are disagreed that the current income tax exemption limit is appropriate. 84.84 percent respondents are unsatisfied. Only 15.56 percent are satisfied with current income tax exemption limit.

As the corollary to the earlier question was asked, "if no, how much be the exemption limit should be for an individual?" The opinions of respondents are as presented in the following table.

Table-4.2.10
Exemption Limit for an Individual

S.NO.	Alternatives	Group			Total	Percentage	Rank
		A	B	C	No.		
1	Rs.1,00,000	2	2	1	5	13.16	4
2	Rs.1,25,000	7	4	3	14	36.84	1
3	Rs.1,50,000	2	4	4	10	26.32	2
4	Rs.1,75,000	2	2	4	8	21.05	3
5	If, other	-	-	1	1	2.63	5
	Total				38	100	

From the above table shows that responses about exemption limit of individual, it was found that 36.84 percent respondents in favor of Rs. 1, 25,000. 26.32, 21.05 and 13.16 percent respondents suggested for Rs. 1, 50,000, 1, 75,000 and 1, 00,000 respectively. From who gave specified his response on other (if any) was 1, 10,000.

In accordance to the preference of the respondents, the exemption Limit for an individual are as ranked follows:

1. Rs.1, 25,000
2. Rs.1, 50,000
3. Rs.1, 75,000
4. Rs.1, 00,000
5. Any other

From the above in overall, it can conclude that the exemption limit for an individual should be Rs.1, 25,000.

As context similar question asked to respondents about exemption limit for a family as, “how much exemption limit should be for a family?” The opinions of respondents are as presented in the following table.

Table-4.2.11
Exemption Limit for a Family

S.NO.	Alternatives	Group			Total No.	Percentage	Rank
		A	B	C			
1	Rs.1,25,000	3	2	2	7	18.82	4
2	Rs.1,50,000	4	3	3	10	26.32	2
3	Rs.1,75,000	4	3	4	11	28.95	1
4	Rs. 2,00,000	2	4	3	9	23.68	3
5	If, other	-	-	1	1	2.63	5
	Total				38	100	

From the above table shows that responses about exemption limit of Family, it was found that 28.95 percent respondents in favor of Rs. 1, 75,000. 28.95 of the respondents suggest that exemption limit should be Rs.1, 50,000. 26.32 percent respondents suggested for Rs. 1, 50,000, and 18.82 percent respondents suggested for Rs.1, 25,000. From who gave specified his response on other (if any) was 1, 60,000.

In accordance to the preference of the respondents, the exemption Limit for a family are as ranked follows:

1. Rs.1, 75,000
2. Rs.1, 50,000
3. Rs.2, 00,000
4. Rs.1, 25,000
5. Any other

From the above in overall, it can conclude that the exemption limit for a family should be Rs.1, 75,000.

Most of respondents suggested that the exemption limit should be providing by the family around Rs. 50,000 higher than the individual because of cost of living them.

4.2.7 Opinion on providing Exemption an Agriculture Income

Previous Act 1974 has cleared provision that half of agriculture income taxable and remaining amount tax exempted but Income Tax Act 2002 and Land Act 2001 cleared that income from agriculture (except Registered agriculture firm-sec:-11.1) were tax exempted .To know the opinion about exemption an agriculture income, the question was asked,” What is your opinion on providing exemption on agriculture income?” The responses were as follows:

Table-4.2.12**Opinion on providing Exemption an Agriculture Income**

S.NO.	Alternatives	Group			Total No.	Percentage	Rank
		A	B	C			
1	Yes, it should be exempted	4	3	9	16	35.56	2
2	No	2	4	1	7	15.56	3
3	Half of amount should be treated as income	6	7	4	17	37.78	1
4	It should be treated as other income	3	1	1	5	11.10	4
	Total				45	100	

The above tables, 37.78 percent of the respondents were agreed that half of amount should be treated as income; where as 35.56 percent disagreed in this matter. They supported that it should be exempted.15.56 percent respondents were agreed that it should not be exempted. Reaming 11.10 percent were supported that it should be treated as other income. For the personal discussion some respondents gave some suggestion about agriculture incomes. If Person who starts agriculture mainly based on business purpose, half of amount should be treat as income but they should be give tax free for purchasing agriculture instruments. Some said that if person mainly depend upon agriculture or based on subsistence farmer, it should be treated as tax free. Some said that it is not possible to treat as income because there is a condition of not collecting land tax or revenue.

Opinions on providing exemption on agriculture income are ranked below in order of performance.

1. Half of amount should be treated as income
2. Yes, it should be exempted
3. No
4. It should be treated as other income

From the above in overall, it can concluded that providing exemption an agriculture income, half of amount should be treat as income.

4.2.8 Opinion on Providing Exemption a Pension Amounts

Income tax act 2058 has provided by pension received by Nepalese's retired army/ police from public fund of a foreign government were tax free. In order to know the providing exemption on a pension amounts, a question asked, "What is your opinion providing exemption on pension received by Nepalese retired army/ police from public fund of a foreign government?" The following table shows the response of the respondents regarding the providing exemption on a pension amounts.

Table-4.2.13
Opinion on Providing Exemption a Pension Amounts

S.NO.	Alternatives	Group			Total No.	Percentage	Rank
		A	B	C			
1	Yes, it should be exempted	4	5	3	12	26.67	2
2	No	3	3	4	10	22.22	3
3	Half of amount should be treated as income	5	5	6	16	35.56	1
4	It should be treated as other income	3	2	2	7	15.56	4
	Total				45	100	

Total 45 responses were received.35.56 percent of total received response are ranked first on view to half of amount should be treated as income. 26.67 percent of total respondents in favor of it should be exempted. 22.22 percent and 15.56 percent of total respondents opined that it should not be tax exempted and it should be treated as other income respectively. Some respondents expressed their intention about pension amount. They gave the some suggestions. Pension's income should be taxed by giving

enough exemption limits to the pension's holders. Other wise it creates the negatives impact for oldness people.

Opinion on providing exemption on pension received by Nepalese retired army/ police from public fund of a foreign government are ranked below in order of performance.

5. Half of amount should be treated as income
6. Yes, it should be exempted
7. No
8. It should be treated as other income

4.2.9 Soundness of Nepalese Income Tax System

A question provided with two alternatives (yes/no) was asked to respondents to know the respondent's opinion about the soundness of income tax system in Nepal, a question , “ Do you think that tax administration in Nepal sound?” was asked. The responses are tabulated as follows:

Table-4.2.14
Soundness of Nepalese Income Tax System

Response	Yes		No		Total	
	No.	Percentage	No.	Percentage	No.	Percentage
Respondents						
A	10	66.67	5	33.33	15	100
B	2	13.33	13	86.67	15	100
C	3	20	12	80	15	100
Total		33.33		66.67	45	100

From the opinion survey, it is found that 66.67 percent tax administer, 13.33 percent tax expert and 20 percent taxpayers recognize income tax system in Nepal is sound whereas, 33.33 percent tax administrator, 86.67 percent tax experts and 80 percent tax payers recognize that income tax system in Nepal is not sound. In aggregate, 33.33 percent respondents approve inseam tax system in Nepal is sound and 66.67 percent

respondents approve income tax system in Nepal is not sound. From this, it can be concluded that income tax administration of Nepal is unsound.

The respondents who were considered that income tax administration in Nepal is not sound requested to illustrate the causes which are responsible for unsound income tax administration in Nepal a question was asked “ if no, what are the causes which are responsible for creation of unsound income tax administration?” The respondents were requested to rank their responses in order to priority, 1 is most importance whereas 6 is the least importance. The responses of the respondents are tabulated as below:

Table-4.2.15
Causes for Unsound Income Tax System

S.NO.	Alternatives	Group			Total frequency	Percentage	Rank
		A	B	C			
1	Lack of training and sufficient incentives to employees.	20	40	41	101	16.03	4
2	Lengthy process of income tax assessment	14	43	69	126	20	1
3	In adequate government economic policy	17	39	43	99	15.71	6
4	Lack of mass public participation	20	51	19	90	14.29	5
5	Misuse of power by tax administrator	13	47	49	109	17.30	2
6	Lack of tax expert in tax administration	21	53	31	105	16.67	3
	Total				630	100	

In accordance to the preference of the respondents, the major causes for unsound income tax administration in Nepal are as ranked as follow:

1. Lengthy process of income tax assessment

2. Misuse of power by tax administrator
3. Lack of tax expert in tax administration
4. Lack of training and sufficient incentives to employees
5. Lack of mass public participation
6. Inadequate government economic policy
- 7.

From the above table results, it can be concluded that the income tax administration is not sound and satisfactory because of lengthy process of income tax assessment, misuse of power by tax administrator and lack of tax experts in administration as well as lack of training and sufficient incentives to employees

4.2.10 Essential Factors for Making Income Tax Administration Effective

To know the essential factors which are responsible for making income tax administration effective in Nepal, a question, “What are essential factor making income tax administration effective in Nepal for establishment of effective income tax system?” was asked. The responses are as follow:

Table-4.2.16
Essential Factors for Making Income Tax Administration Effective

S.NO.	Alternatives	Group			Total frequency	Percentage	Rank
		A	B	C			
1	Proper training to tax personnel	62	53	46	161	23.85	1
2	Decentralization and delegation of authority	43	51	31	125	18.52	4
3	Tax education to taxpayer	50	47	43	140	20.74	2
4	Simple tax assessment procedure	33	41	57	131	19.41	3
5	Reward and punishment system	37	33	48	118	17.48	5
Total					675	100	

Opinion Survey, 2008

The essential factors for making income tax administration effectiveness the establishment of effective income tax system ranked in the order of priority by the respondents are as follows:

1. Proper training to tax personnel
2. Tax education to taxpayer
3. Simple tax assessment procure
4. Decentralization and delegation of authority
5. Reward and punishment system

Promotion of tax personnel based on performance, increment of salary or incentives of tax personnel were some of the cause sated by respondents.

From the above in overall, it can concluded that the most essential factor for making income tax administration effective in Nepal is proper training to tax personnel.

4.2.11 Comment and suggestions about the income tax in Nepal.

The respondents were requested to write comments and suggestion about income tax in Nepal in the blank. Almost respondents were giving his/her comments and suggestion about income tax. Various comments and suggestion regarding income tax in Nepal are summarized as follow:

Comments were

Income tax evasion at high level and greater role of indirect tax revenue in Nepal, lack of scientific record keeping , lack of maintaining accounts by tax payers , Lack of coordination, lack of scientific method of tax assessment and collection producer, lack of honest tax officers, imbalance and adequate organization pattern, inadequate physical and other facilities, inadequate tax training, predominance of low level non-technical posts, debatable scope of revenue investigation department etc.

Suggestions were

Additional domestic resource should be mobilized through taxation, tax structure of Nepal needs to redesign in order to increase the role of direct tax, and income tax should be reformed in Nepal. To reduce the dependency upon foreign aid and emphasize on proper tax administration, making honest and efficient administration of income tax, punishment to tax evaders, improving in collection method, reducing the collection cost, establishment of research unit, avoid the corruption, increasing habit

of tax paying of Nepalese tax payer through proper tax education and better public communication system, to make effective personnel management, exemption limit should be consider, simplicity of tax laws rules and regulation.

From above respondents comment and suggestion indicated that income tax system suffering from various problems such as tax evasion, inefficient tax administration, complicity of tax law, rules and regulation and lack of mass public participation in tax. To improved the income tax system we should be redesign and reformed income tax, increasing tax experts in tax administration, providing tax education, high fine and penalties system should be implement those avoid the tax etc.

4.3.12 Major Finding

1. The Nepal government was facing huge gap between income and expenditure. Government is not able to fulfill the growing expenditure rather than income. That's way huge gap between income and expenditure. Resource gap of 12905.5 million in FY 1990/91 reached to 45892.38 million in FY 2006\07.
2. Nepalese tax structure classified into tax and non tax revenue. This revenue is not sufficient to cover expenditure in Nepal. Where taxation revenue plays dominant role, in FY 2006/07 taxation source contributes 81.09% on total revenue while non tax source contributes 18.91% on total revenue. The contribution of tax revenue to total revenue is increasing trend where as non tax revenue is zigzag. It contributed in 2006/07 was Rs. 71126.70 million and non tax revenue was only 16585.50 million.
3. Tax revenue is composition of direct tax and indirect tax. Nepalese tax structure is dominated by indirect taxation on revenue in the revenue structure. It contributed in FY 1991/92 was Rs 8280.40 million and increased to reach in FY 2006/07 was 52146.40 million which 73.31% of total revenue is. Average contribution was Rs 23879.66. Where as the average contribution of direct was Rs.7520.173 million. In comparison to other developing countries, contribution of direct taxes is very low in Nepal. There are various reasons that the government is failure to collect direct revenue. This could be reason

that direct tax is not producing more revenue rather than indirect revenue and also reasons that evasion and avoiding of tax in country.

4. Income tax revenue is an importance source of the direct tax. Its structure of Nepal is the composition of tax from public enterprise, semi- public enterprise, Private corporate bodies, individuals, remuneration and tax in interest. Income tax increasing each year except 1990/91, 2001/02 and 2002/03. The contribution of income tax from public enterprise is significant. It has contributed 19.9 % to total income tax in average. The trend of income tax from public enterprises is fluctuating. In 16 year studies, it was contributed in income tax 171.1 million in 1991/92 and progressively rises up to 2928.0 million in FY 2000/01. Their minimum and maximum contributions were 1.89% and 33.4% in 2005/06 and 1995/96 respectively. Semi-public enterprises are the least contributing revenue resources of income tax revenue. The contribution of this sector is previous year 5.30, 2.60, 2.10 million in 1991/92, 1992/93, 1993/94 respectively. After that nil contribution in total tax income. After restructuring the sources of income, share of semi-public enterprises are not calculating separately. Private corporate bodies are at the third positing revenue generating sectors for income tax .it is fluctuating trend. The average contribution 17.2% in 16 year studies period. Their minimum and maximum shares were 0.7% in 1991/92 and 38.02% in 2006/07 respectively. Individual income tax is largest revenue generating sector of income tax revenue. It has contributed up to 70.6% in 1991/92. Although the amount is increasing up to 2001\02, its shares are in declining trend. Their minimum and maximum shares were 34.82% in 2006/07 and 70.6% in 1991/92 respectively. Average contribution from remuneration and tax on interest is 8.76 and 5.67 % respectively. The share of income tax revenue from remuneration is increasing trend each year.
5. Income tax revenue/GDP ratio, income tax revenue/ total tax revenue, income tax revenue/direct tax revenue ration was 2.23%, 17.14%, 21.14% and 79.21% in 2006/07 respectively. The contribution of each ratio was satisfactory but not enough. Average contribution ratio was 1.63%, 13.63%, 17.48% and 75.44% in 2005/06 respectively.

6. Direct Tax Revenue is the composition of income tax. Property tax, land tax, house and registration, other tax where as the income tax dominant role from FY1991/92 to 2005/06 about Rs. 875 million and 10373.70 million respectively. Average contribution was Rs. 5908.29. Where as house and land registration is second position to contributes in direct tax revenue. Its contribution was zigzag. Average contribution was 1122.25 million. Property and other tax contributes small portion to direct tax revenue.
7. Income tax exemption limit in Nepal was Rs 7,000 for all taxpayer in FY 1959/60 but at present income tax exemption limits Rs. 1,150, 00 for individual and 1, 40,000 for the couple and family 2006/07. It also cleared that exemption limit was only for individual and couple for resident persons not for other. It is found that the exemption limit has been change on the time.
8. Income tax rate different between personal income tax and partnership firms, corporation and non residents. The personal income taxes rate and partnership firms, corporation and non resident's income taxes rate various from two to eight slabs from the year 1984/85 to 2006/07. Currently the income tax has divided into two slabs. The current rate is 15% on income up to Rs. 75,000 beyond the exemption amount and 25% on further incomes beyond taxable income of Rs. 75,000 for personal income but is for bank, financial co. and financial firms are 25% and 15% for other (including partnership).

An opinion survey has been conducted in order to find out the various aspects income tax exemption as well as income tax administration. From the opinion survey with tax administrator, tax experts and taxpayers, the following findings have been drawn.

- i. Majority of the respondents do agree that present tax exemption has been satisfied.
- ii. Almost respondents were conscious about tax exemption. However it should increase more awareness about tax exemption clear provision should be made.

- iii. The business concessions rebate and exemption are not found enough in taxpayers view. Significant numbers of taxpayers are in favor of more facilities the act should guarantee to enhance business activities of the country especially dearness, education, pension amount etc.
- iv. There is adequate exemption limit provided by income tax act but who gave negative response following factors should be considered before fixing the exemption limit such as inflation ration, living cost, income tax, number of dependents.
- v. All income of an individual and family cannot be taxable because the minimum cost required for subsistence cannot be tax. That's way individual should be provided 1, 25000, and family should be provided 50,000 higher than the individual because of cost of living them.
- vi. Half of Agriculture income should be taxed because it is importance in GDP.
- vii. Half of pension amount should be taxed because it kept equal distribution.
- viii. With respect to the causes for unsound income tax system in Nepal. There was variation in the views of respondents group. Main causes indicated by respondents from each group are lengthy process of income tax assessment, misuse of power by tax administrator and lacks of tax experts in tax administration as well as lack of training and sufficient incentives to employee are the main problems regarding unsoundness of income tax administration in Nepal.
- ix. With respect to the essential factors for making income tax administrations effective as per the overall ranking, proper training to tax personnel, tax education to taxpayers, simple tax assessment procedure as well as decentralization and delegation of authority were the important factors to make income tax administration effective.

CHAPTER- FIVE

SUMMARY, CONCLUSION&RECOMMENDATION

5.1 Summary

In the present situation every nation of world prime concern are development of their economic condition such as security, education, health, other economic development. A lot fund is required to meet the additional financial requirements for development activities of the country. In the context of Nepal, Nepal is one of the least developed economic of the world. Nepal has been suffering from capital shortage to pick up the pace the economic development. The expenditure of Nepalese government is increasing year to year. To meet the additional capital requirements Nepalese government has using external and internal revenue. Internal revenue are preferable for sustainable economic development but external resources not good for the nation it creates inflation, unnecessary deficit of nation. Nepal has been unable for proper mobilization of internal revenue. Hence Nepal has been suffering from fiscal deficit and resource gap year to year for increasing trend.

To solve this problem, taxation is on the major source of government's revenue of Nepal. The examples of tax revenue are export/ import, customs, excise duty, tax on consumption and production of goods and service, land revenue and registration, tax on property, profit and income and other taxes. In Nepal of the total government expenditure of Rs.133604.5 million in FY2006/07, 65.65 % was met from revenue collection. Wherein share of tax revenue and non- tax revenue were 81.09% and 18.91% respectively (Economic Survery-2007/08). Despite the major portion of government revenue is based on taxation, it has not yet stable in terms of growth and accuracy. To generate adequate tax revenue it is essential to increase the contribution of income tax effectively. In the other hand there is the need of revise easier and general acceptable laws and rules regarding taxation and in the other hand proper monitoring and controlling mechanism is essential to implement the laws and rules properly goods manner.

In the context of Nepal, there is so much conflict and complication on tax laws and rules which is not motivating the willingness to pay tax to the general tax payers. General people have always doubt the government of Nepal. The major problems for

Nepalese income tax system are inefficient tax administration, widespread tax evasion, complicated and frequency changing tax law rules and regulation, voluntary compliance, increased corruption, lack of trained employee etc.

This study tried to analyzes the income tax exemption under Income Tax Act, 2058 of Nepal regarding legal provision, and effectiveness of income tax exemption in term of tax collection, awareness, and satisfactory of tax payers. The scope and contents of Nepalese taxation is very board. However this study is limited to subject of tax exemption to fulfill the specified objects of this study.

The studies have been including introduction chapter, conceptual framework, literature review, research methodology, data present and analysis and finally conclusion and recommendation.

The first introduction chapter exhibited the specific objectives of this study along with brief introductory background of study, scope, limitation of study and organization study.

Second chapter has included legal provision regarding income tax exemption. In which were clearly defined exemption amount, exemption organization, exemption limit, tax rebate, allowance, concession as well as different income tax act review in this chapter. Definition of different terms, fines and penalties and assessment types also included in this chapter. Various books, dissertation, report and article published in journal and newspapers are reviewed while preparing this dissertation. However no body found particular focuses his/her study of the exemption related issue or from the review of previous study on this regards the researcher found that there is gap between this research and other research.

In third chapter exhibited research design, population and sample, nature and source of data, data collection procedure, data processing and analysis procedure. In this dissertation has used both secondary as well as primary data with deal descriptive, empirical and analytical way.

In fourth chapter included primary data as well as secondary data. Primary data included government revenue structure. Secondary data included opinion survey. The researcher has conducted the opinion survey for 45 respondents include tax administrator, tax experts and taxpayers. The researcher has made different questionnaire with related income tax exemption as well as income tax system. The questionnaire were current exemption sound or not, sufficient or not, adequate or not, appropriate or not, tax administration sound or not by using simple average, simple percentage, rank.

Finally chapter of this study has contained the conclusion and recommendation of the overall study.

5.2 Conclusions:

The government of nation is accountable for a welfare state of government of a nation is answerable to provide all facilities and right to the people. To provide all facilities to the people, government needs resources to carry out development work to maintain daily administration, to execute public welfare activities and peace and security in the nation government needs huge amount of fund. In developing countries like Nepal, Lack of sufficient financial resource is the main constrain for national economic development. Nepal has facing serious problem by resource gap has been increasing at a faster than the increase in revenue. The resource gap is winding continuously with the increment of total expenditure in respect to total revenue collection. To solve such serious problem of deficit fiscal, income tax should pay important role. But resources mobilization in Nepal is still poor.

The Nepalese income tax system has introduced in the FY 1959/60. The first elected government levied the first income tax and no specific act was made to define and treat income tax. Since then four income tax acts has been implemented. Currently income tax system of Nepal encompasses four taxes. They are corporate income tax, individual tax, house and land tax and interest tax. Among them contributing of corporate sector is the highest. The provision of income tax exemption has started since the enactment of the first fiancé act in 1959 AD. Since then tax exemption has revised the several times. For the purpose of income taxation the taxpayers classified in two ways (a) according to persons and (b) according residential status. According

to persons the income tax has classified tax payers to two categories namely; individual and family. According residential statute has classified bank, financial institute as well partnership firm. There was single provision for tax exemption when the first finance act introduced in Nepal. In 1967/68 the taxpayers were classified according to personal status and for the first time there was the provision of different level of tax exemption limit for the taxpayers according to their personal status. Till now the same concept is being used from income tax purpose. All incomes of an individual cannot be tax because the minimum tax required for subsistence can not be taxed. The exemptions, tax relief are essential to encourage an individual as well as other firm to work more. Tax relief works as an incentive to an individual and other firm. Exemption limit and rate of income tax is determined according to the income level and sector wise but is not considered other factors. Exemption limit is not provided to the corporate bodies. Income tax exemption, rebate, relief, concession, allowance and exemption limit should be adjusted according to time and situation.

Income tax system is not fully satisfactory. Due to various problems existed in the income tax such as increasing habit of tax evasion, inefficient income tax administration, defective income tax law are the reasons of lower contribution of income tax. Internal conflict of nation and political instability has also affected the economic system indirectly but very seriously. It has damaged as well as destroyed the environment for generating more income. Although, if we analyze the data relating to it then we find out that revenue collection from income tax is increasing continuously. Some reforms in income tax administration are needed to raising the income tax revenue. The success or effectiveness of income tax system entirely depends upon implementation provision that is the major responsibility of income tax administration.

5.3. Recommendation

In context of Nepal, there are many problem relating income tax and income tax administration. Income tax act has provided certain facilities to individual, family and other firms for their status such as exemption limit, remote area allowance, tax rebate and others. In opinion survey and other factor consider that exemption items, exemption limits, rebate, remote area allowance and other are not escape from

problems. The study did not look into problems that are not related to exemption, the recommendation made for other than the exemption may be considered as the general recommendations. Hence, the researcher of this study has made the following recommendation on tax exemption.

1. The present level of income tax exemption limit is not appropriate. It must be raised to a minimum of Rs. 1, 25,000 for an individual and Rs.1, 75,000 for family.
2. Family should be provided more tax exemption limit as compared to individual's because of cost of living of them. The exemption limit should be around Rs. 50,000 higher than the individual.
3. Average cost of living of tax payers, education expenses of at least two children and inflationary condition of country should be considered to adjust the exemption limit of individual and family and be provided of a standard amount.
4. Agriculture income should be taxed by giving enough exemption limits to the subsistence farmer because it is only source for their life survival. Additional 50% of prevailing exemption limit should be provided to them so that the high income farmers should only be taxed. In context of Nepal agriculture has most important role in national GDP.
5. Pension income (Pension Received by Nepalese retired army/ police from public fund a foreign government) should be taxed giving enough exemption limits to the pension holders because in the old age, pension holders lack of other source of incomes. Additional 50% of prevailing exemption limit should be provided to them so that the high income pension holders should only be taxed.
6. The income tax rate slab should be adjusted according to their income, lower the income, low rate, and higher income, high tax rate. But it should be adopted scientific way. It may be reducing the gap between rich and poor some extents.
7. Income tax act defined as tax exemption organization. Some tax free organization has done significant role in a social development and maintain social culture. But other hand some exemption organization has opened

without having profit motive but doing legal or illegal way earned more profit. They should be taken into tax net.

8. If the industry is providing direct employment to 600 or more Nepalese citizens through the whole year. They should be raised 20% rebate on tax for ever because it should be decreased unemployment people in Nepal some extents and encourage establishes more industries.
9. Reward and punishment system must be implementing with real sense. To the taxpayers who keep the daily account fairly and who submit the true income statement within given period, they should be rewarded as tax rebate. Otherwise high penalties system should be taken.
10. Medical expenses paid by employer, dearness allowance, remote area allowance, life insurance premium, contribution to provident fund by the employer etc. should be tax exempted so that employees will be relieved from heavy income tax burden imposed on them.
11. To increase the tax revenue, the current tax volume must be widened by including the income from agriculture; pension amount received by Nepalese citizen for a foreign government, consultant services, NGOs , private boarding school/ colleges, tuition institution and others sources.
12. Income tax administration in suffer from a number of interacting and interrelated problems, which have badly affected its productivity and image. Thus the following suggestions are made for the improvement of income tax administration.
 - Proper tax education should be provided to tax payers as well as tax officials regularly.
 - Monetary and non monetary incentives are to be provided to tax administrative staffs for their performance.
 - The tax administration should use computerized system effectively. Its own software should be developed and implement property to achieve the goal of e-governance.
 - The tax administration should be made free from corruption for this strong action should be taken against the corrupted employee.
 - The rights and duties of tax administration should be clearly defined.
 - Cost of income tax collection should be minimized as soon possible.
 - Unnecessary outside or inside pressure should avoid.

- Lengthy process of income tax assessment should be avoided
- Tax experts and researcher will be introduced in tax administration.

13. Provision of act and regulation are to be improved or change as per need.

Following factors are to be considered while making change:

- The language should be clear and simple
- Rules and regulation should be change according to time and situation.
- Provision of fines and penalty amount and rate are revised each year.
- Discretionary power of the tax officials should be curtailed by act.
- The collection and tax assessment provision should be made clear and simple so those taxpayers would be encouraged to pay tax voluntary.

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D. Various Reports, Journals and Newspapers

E. Different Web Sites

Appendix-B

Name: Designation.....

Category: Tax Administrator/Tax Expert/ Tax Payer Office/Organization
.....

Please tick mark [] the answer of your choice Yes or NO or wherever appropriate put in order of preference from 1 to last number on the basis of number on the basis of numbers of alternatives. Number 1 stands for the most important and the last number for least.

1. With regard to tax exemption income, what is your opinion about in Income Tax Act 2058?

a. Sound & efficient [] b. Satisfactory [] C. Poor []

2. Are you aware about the provision of tax exemption per the income tax act 2002 of Nepal?

Yes [] No []

If no what are the cause or possible reason of it? Please rank in order

Differing provision regarding exemption []

- a. Tax office also dilemma in this regard []
- b. I don't think it necessary []
- c. If Others, Please Specify.....

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

Yes [] No []

If no, what incomes should be included tax exemption income? Please rank in order

- 1) Dashain Allowance []
- 2) Remote area Allowance []
- 3) Award and Reward []
- 4) Education Allowance []
- 5) Life insurance Premium []
- 6) Pension Amount []
- 7) Medical Allowance []
- 8) None of Them []
- 9) If Others, Please Specify []

.....
.....
.....

8. Do you think that the income tax administration in Nepal sound and efficient?

Yes [] No []

If no, what is the major problem of income tax administration? Please rank in order

- 1) Lengthy process of income tax assessment []
- 2) Lack of appropriate assessment procedure []
- 3) In adequate government economic policy []
- 4) Lack of mass public participation []
- 5) Misuse of power by tax administration []
- 6) If other,
specify.....
.....

9. What are the essential factors for making income tax administration effective in Nepal?

- 1) Proper training to tax personnel
- 2) Decentralization and delegation of authority
- 3) Tax Education to taxpayer
- 4) Simple tax assessment procure
- 5) Reward and punishment system
- 6) If
other,specify.....

10. You have any other comments and suggestion about income tax in Nepal. Please specify

.....
.....
.....
.....
.....
.....

(Thank for your co-operation)

Appendix- A

Cover Letter

Date:-

To,

.....
.....

Dear sir/madam,

First of all I would like introduce myself as the student of ShakharDev Campus, Master in Business studies (M.B.S.) final year. I am going to prepare a dissertation entitled “**A study of Exemption: Under Income Tax Act 2058 in Nepal**” to fulfill partial requirement of Master’s Degree in Business Studies of Tribhuvan University of Nepal.

I would gladly appreciate if you could kindly spare a few minute of your valuable time in filling this questionnaire enclosed with your valuable suggestion. Your information will be strictly used for study.

I assure to keep every detail you provide me confidential.

Looking forward to your cooperation and support with many thanks.

Yours sincerely
Sujan Bhandari
Shankhar Dev Campus, (T.U.)

Lists of Respondents

1. Tax Administrators

S.N	Name	Designation	Office
1.	Devi Prasad koirala	Chief Tax Officer	Inland Revenue Department, Lazimpat
2.	Govind Bahadur Baniya	Chief Tax Officer	Inland Revenue Department, Lazimpat
3	Harihar Puri	Tax Officer	Inland Revenue Office, Babarmandal
4	Love Kumar Adhikari	Tax Officer	Inland Revenue Office, Babarmandal
5	Narayan Shrestha	Tax Officer	Inland Revenue Department, Lazimpat
6	Rajendra Poudel	Tax Officer	Inland Revenue Department, Lazimpat
7	Ram B. Karki	Tax Officer	Inland Revenue Office, Babarmandal
8	Ram Prasad Sharma	Tax Officer	Inland Revenue Department, Lazimpat
9	Ramshakar Khadaka	Tax Officer	Inland Revenue Office, Babarmandal
10	Rishi Raj Adhikari	Tax Officer	Inland Revenue Office, Babarmandal
11	Shadanada Gurung	Chief Tax Officer	Inland Revenue Department, Lazimpat
12	Sharad Nirula	Tax Officer	Inland Revenue Department, Lazimpat
13	Shiva Sharma	Tax Officer	Inland Revenue Office, Babarmandal
14	Taka Prasad Pandey	Tax Officer	Inland Revenue Office, Babarmandal
15	Udab Raj Neupane	Tax Officer	Inland Revenue Office, Babarmandal

2. Tax Payers

S.N	Name	Designation	Office
1	Arjun Bhahadur Rout	Executive Director	Lalitya Trade Concern, New Baneshor
2	Bharat Koirala	Proprietor	Iccha and Company Pvt., Baneshor
3	Binaya Dahal	Manager	Nepal Investment Bank, Kathamandu
4	Biswa Raj Regmi	Proprietor	Thakamal Trading Pvt.,Koteshor
5	Chiranjibi Basnet	Manager	Dynamic Trade link, Gwarko
6	Deepak Guragai	Manager	S.B. Trade Link,Gwarko
7	Dharma Poudel	Proprietor	Jayamata Kalika Trading Pvt., Newroad
8	Manish Argawal	Ass. Manager	Himalayan Bank, Kathamandu
9	Mira Adhikari	Executive Director	Team of Business Entrepreneurs, Anamnager
10	Rabin Shrestha	Junior Manager	Life Insurance Corporation(Nepal),Kathamandu
11	Ramesh Shrestha	Proprietor	Mountain enterprises,Balaju
12	Ravi Raj Shresha	Ass. Manager	Laxmi Bank,Newroad
13	Shankhar raj Aacharya	Chief Account	Nepal Sahakari Sasthan,NewBaneshor
14	Shiva Kumar lath	Executive Director	Prompt Construction and engineering , Bhotebhal
15	Suman jhoshi	Marketing Executive	AD Media Pvt.,Anamnager

3. Tax Experts

S.N	Name	Designation	Office
1	Bijaya Bhandari	CA	Standards Charters Bank,New Baneshor
2	Basanta Gautam	Advocator	Team of Business Entrepreneur, Anamnager
3	Bimala Kaderiya	Advocator	Sharama and Kederiya Firm,Koteshor
4	Binod Poudel	Auditor	B& Company,New Road
5	Deepk Aahhchaya	CA	Himalayan Bank
6	Gopal Sharma	Advocator	Legal Consolation service Pvt, Gaushala
7	Gopal Koirala	Auditor	GK& Company,New Baneshor
8	Keshab Koirala	Ass. Lecture	T,U
9	Mahesh Lamichhane	Auditor	Manhes & Company, Babarmahal
10	Mahesh N. Rimal	CA	Rimal and Associates,Thamel
11	Milian Shrestha	Ass. Lecture	Universal college, Kathamandu
12	Sachin lamichhane	Auditor	Manhes & Company,Babarmahal
13	Sadanada Lamsal	Auditor	Lamsal& Company,Chabahil
14	Subhash Chandra Bhandari	CA	Bhandari Chartered Association,Gaushala
15	Sudarsan Suwal	CA	Laxmi Bank,NewRoad