

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Government plays an important role for rapid economic development of any nation. The government has various responsibilities to perform towards the nation such as to carryout development plans, to handle day to day administration activities, to maintain peace and security, to launch public welfare activities and to build various socio-economic infrastructures. So the government needs a lot of revenues and funds. Without adequate amount of revenue, the government cannot perform its work or they become handicapped.

The Government spends a lot of funds mainly in three types of expenditure i.e. protection, commercial, and public expenditure. The Government expenditure is increasing nowadays because of demand of time, increase in population, social progress, increase in price, security etc. Nepal has deficit budget and it has been making more bad economic condition of the country day by day. To meet the growing need of the public expenditure, the government has to maintain its funds. There are various sources from where the government can receive its funds.

The Government can collect revenue from two sources i.e. external and internal sources. Foreign grants, loans, aids and donation are the external sources of funds. External sources of funds are very important for the undeveloped countries like Nepal. They are used for economic development, reconstruction, foreign exchange, to recover from crisis condition etc. There are also disadvantages of external sources of funds such as they are uncertain, inconvenient and not good for healthy development of nation because they have to be paid after a certain period of time. The continuous use of external sources of fund to raise necessary public fund is not good because it reduces liquidity position of the government. Internal sources of fund are more important not only for financing necessary funds but also for mobilization of external sources. So, it is better to

mobilize internal sources of fund rather than looking beggar's eyes to the donors. Like developed countries, the developing countries try to mobilize their internal sources for regular and development activities. Nepal is not exception for it. But Nepal has mobilized internal sources fewer than expected.

On the other hand, an internal source of fund is another important sources of government revenue. These are own sources of fund within the country. Internal sources should be mobilized effectively due to various disadvantages of external sources of funds. Internal sources which constitute tax and non-tax revenues. Tax revenues include the amounts which are compulsorily contributed by taxpayers to the government. The main objective of tax revenue is to collect more revenue for the welfare of state. Customs duty, excise duty, income tax, value added tax, property tax etc. are the form of tax revenue. Non-tax revenues are uncertain and inconvenient because they are imposed as per need of the government. The main objective of non-tax revenue is not to collect revenue but to provide goods and services to the people. The forms of non-tax revenue are administrative income, gifts and grants, business income etc.

Tax is the main source of fund for the government. Tax is a compulsory payment by the citizens to the government without the expectation of any personal benefits, which are redistributed, by the government in the nation in terms of public services, peace and security and development of infrastructure. In every country, the largest part of the government revenue is raised through taxation. It is tool of achieving maximum social and economic objective as laid down by the constitution of the nation. Taxation has been a very essential element of the government from the very beginning of the state system. In the early stage, the main objective of the taxation was to make the state sound in respect of resources. In modern days, the main objective is to maintain peace and security with economic development. But nowadays the taxation is vital instrument of social and economic policy for the government. Hence, the main function of taxation is that it ensures collective saving for the purpose of public investment and at the same time provides incentives for promoting private investment.

Tax can be classified into two types i.e. direct and indirect tax. Direct tax is a tax which is really paid by a person on whom it is legally imposed. Direct tax is levied on income and property. Direct tax consists of income tax, vehicle tax, gift tax, interest tax,

death tax etc. Indirect tax is a tax which is imposed on one person but partly or wholly paid by another person. Indirect tax is levied on the computation of goods and services. Entertainment tax, sales tax, customs duty, hotel tax, passenger tax, excise duty, value added tax etc are some indirect taxes.

Income tax is the major source of government revenue. Income tax is direct tax because it is charged to the person who earns income from different sources as employment, business and investment etc. It is imposed on the basis of paying capacity of the taxpayer as per the law of the nation. The person whose income is below the taxable income is free from the obligation of income tax.

Income tax plays a vital role in the development of the nation economy. It is helpful to balance the regional economic development through the provision of income tax. The government should charge higher income tax on the income from the urban area and less tax on the income from remote area. The people in urban area have so many sources of income and earn more income in comparison to the rural area. Income tax holidays and incentives would help to develop the priority sector of the national economy. It has become an effective investment to ensure balanced socio-economic growth of the nation. It also helps to reduce the regional economic imbalance by providing tax concessions and holidays to businesses or industries, which is established in remote areas. It is useful to balance the economic development. The equal distribution of income is also possible through progressive income tax. Direct tax system reduces the gaps in society between the people having higher income group and poor people, imposing higher tax rate to higher income group. That is why; it is a means of equitable distribution of natural resources to all the people. It also helps in generating the concept of social responsibility towards the nation and keeps the people vigilant towards the public money and make us confirmed that the money is used in the right direction.

The contribution of income tax is much smaller to the total revenue for developing countries in comparison to developed countries and is likely to remain same for sometimes to come despite the efforts over the year so many least developed countries to raise more revenue. There are mainly four reasons as why income tax yield is less in developing countries as compared to developed ones. They are problems of defining

income, problems of assessing and measuring it, choice of rates, allowance and deduction and difficulties of tax collection.

Nepal's income tax has the features of both global and scheduler income tax system. It resembles the global tax system in that tax is levied on total income from all sources, although net income from various types of income is calculated separately. It also looks like a scheduler system in so far as a few sources of income have been made liable to separate taxes. It is being realized that contribution of income tax to the revenue of the government must be increased in Nepal. Nepal has adopted the income tax system since six and half decades ago. But Nepal's past experience shows that the government is unable to maximize the share of income tax to the public as per expectation.

1.2 Statement of the Problem

Every nation wants to uplift the economic condition. For this purpose, the government required a lot of revenues. Economically developed countries have so many sources of revenues, because they have more industries, more economic activities, earning more income and profit. Such high income earner can pay more tax to the government. But Nepal has very limited sources of revenue because of social, regional and geographical differences. Therefore, the Nepalese people have very low tax paying capacity. It shows only a few people pay tax. Again most of the taxpayers have very low income earners. That is why, they pay low tax. Low income group do not want to pay tax because they have little saving. Therefore Nepalese people have very poor tax paying habits.

Income tax is the main source of revenue. The country wants to collect more and more revenue to cope up with all necessity of the nation. For this purpose, the government should impose income tax in the country and tried to implement it effectively. Nepal has also being imposing income tax, but not effectively and could not collect targeted revenue. There are so many causes of ineffective implementation of tax system. The existence of corruption in the government machinery is the main cause; lack of motivation to taxpayers as well as tax authorities is also next essential cause. Lack of responsibilities of government employee is next cause. The people are also less conscious towards their responsibility of nation. They do not want to pay tax; they feel tax as

burden lay down on them by government. Either they avoid paying tax or delay to pay tax. They do not submit their statement of income or may submit false/misleading statement. They try their best to cheat the government. To avoid such problems Income Tax Act 2058 has many provisions. Among them fine and penalties is the important provision in solving such complex problems. However the tax administration of Nepal is not effective and efficient to impose the provisions of fines and penalties as per provisioned in the law because of corruption, unnecessary outside pressure, lack of information, etc.

Therefore, it is necessary to study about the income tax and its provision about fines and penalties. In this study, it is tried to find out the answer of the following questions.

1. Are the law administrations efficient to implement the provisions of fines and penalties?
2. What are the provisions of fine and penalties in the law?
3. How much taxpayers are acquainted with the provisions of fines and penalties of the Income Tax Act?
4. What should be the provision of fine and penalties in law?
5. How much provisions of fine and penalties have become successful in collecting revenues?
6. Are the taxpayers motivated to pay tax?

1.3 Objectives of the Study

The main objective of the study is to analyze the provisions of fines and penalties as per Income Tax Act. However, the following specific objectives have been set for the study:

- To analyze the efficiency of the tax administration for implementation of the provisions of Income Tax Laws.
- To measure the taxpayers' acquaintance with provisions of fines and penalties.
- To evaluate the taxpayers attitudes towards provisions of fines and penalties.

- To analyze the provision and practical implementation of fine and penalties based on Income Tax Act 2058.
- To study the contribution of income tax to national revenue.
- To study the composition of tax revenue.
- To suggest & recommend on the basis of major findings.

1.4 Significance of the Study

This study is tried to analyze the provisions of fines and penalties as per Income Tax Act. It is tried to present the different provisions and their practical implementation. This study help respective tax administrators to make their program effective and it also help to taxpayers to understand the provisions mentioned on the act. It will help to make effective provisions of fines and penalties as well as effective implementation that cause good resource collection.

Studies are conducted for some purposes. If the study can not fulfill the objectives, then it will be worthless of time, money, labor etc. Different parties may gain different benefits as per their requirements. This study also has some signification in the field of taxation of Nepal. Generally, followings are the main significance and need of the study:

- This study will evaluate the efficiency of the tax administrators.
- This study helps us to know the taxpayers' acquaintance with each and every provision of fines and penalties provided in the tax act.
- This study will try to describe the provision of fine and penalties in our income tax act.
- This study will provide reasonable suggestions and conclusion to make income tax act more effective and practical.
- This study will focus taxpayers' attitudes towards the provision of the act.
- This study helps us to judge the practical implementation of the provision of the act.

1.5 Limitations of the Study

Every study has some limitations. The research should go ahead within the limitations of the study. In this study following are the main limitations:

- Most of the information and finding are in relative terms and the conclusion could not be accepted as 100% correct.
- The study, reports relating this subject are very few. So, it is tried to collect the information, data mostly from the concerned department's publications.
- Few information is collected by creating small sample of the Kathmandu valley.
- Time and budget constraints are also the limitations of this study.

1.6 Organization of the Study

The study is planned to organize into following five chapters, they are:

I. Introduction:

This first chapter includes the introduction and background of the study, statement of the problem, objectives of the study, significance of the study and limitations of the study.

II. Review of Literature:

This second chapter includes literature review. In this chapter the researcher has reviewed from books, journals, thesis and independent studies are taken into account.

III. Research Methodology:

This third chapter research methodology includes the research design, sources of data collection, techniques of data collection, tools for analysis of data and methods of presentation and analysis.

IV. Presentation and Analysis of Data:

This fourth chapter includes presentation and analysis of data part. It is the main body of our study. It includes data presentation, interpretation and analysis of collected data.

V. Summary, Conclusion and Recommendations:

This fifth chapter includes the summary and conclusion of the research and finally suggestions and recommendations included.

CHAPTER TWO

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

Review of the literature is undertaken in order to find out what works have been conducted in the area of the concerned study. It promotes greater understanding of the problem under study, and provides comparative data to evaluate and interpret the significance of the findings, and provides fruitful sources of hypothesis and conceptual framework. It is the chapter where a researcher reviews the books, journals, magazines or any other types of studies, which are related to his/her field of study. Research is a continuous process it never ends. The procedures and the findings may change but research continues.

The purpose of reviewing the literature is to develop some expertise in one's area, to see what new contribution can be made and to receive some ideas for developing design. Thus, the previous studies can't be ignored because they provide the foundation to the present study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. From this, it is clear that for analyzing the data and to something new a researcher must review the study and know if there are any studies ahead or not.

2.1 Conceptual Framework

In this chapter, meaning of taxation, objective of taxation, principle of taxation, origin of tax system, historical development of taxation, evolution and development of income tax system in Nepal are described to know the concept of taxation.

2.1.1 Meaning of Taxation

Taxation is the system of levying taxes. The system is the set of principles. The principle is a scheme of ideas or body of rules by which a theory is organized. Thus, the system of levies was developed after the origin of tax.

Different persons have defined taxation in different ways. In the words of Seligman, 'Taxation is the compulsory contribution from a person to the government to

defray expenses incurred in the common interest of all without reference to special benefit conferred'. According to this definition given above, it can be said that firstly a tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax paid. Due to this compulsory nature, people have expressed different views in satirical ways about the taxation. Some say, "Nothing is certain in this world but death and taxes," some say, "death and Taxes are both certain... but death is not annual"; while others say, "Death means stopping to pay tax". Here it should be noted that all compulsory payments are not tax. For example, fines and fees are also compulsory payments without having direct benefit to the payer but it is not tax because its objective is not to collect revenue but to curb certain types of offences. Secondly, taxpayer cannot receive any quid pro quo for the payment of tax. The taxpayer does not receive equivalent benefit from the government. A tax is not a price paid by one, for which he can claim goods and services. The charge of price for goods and services by public authority is not a tax. Thirdly, the tax is paid for the government for running it. Fourthly, in case of tax, the amount is spent for common interest of the people. The tax is collected from haves and basically, spends for the interest of haves not in the society. Fifthly, a natural or an artificial person pays the tax. (Kandel, 2003: 2)

Taxation is a system used by governments to obtain money from people and organizations. The government uses collected revenue to support itself and to provide public services. In its nature, it is relatively permanent and compulsory and does not guarantees a direct relationship between the amount contributed by a citizen and the extent of governmental services provided to him (the Columbia Encyclopedia, 2006:23). Therefore, taxation is a devise or process of imposing a tax.

Similarly, one of the famous economists delineates, "taxation is the charge levied by the state on the property or labor of the citizens, in order to provide for the public expenses". However, it is quite different from definition of the Encyclopedia. It is a like a definition of tax though it shares some qualities, but not identical. (K.C., 2007:4)

2.1.2 Objectives of Taxation

Taxation has been a very essential element of the government from the very beginning of the state system. However, the objective of taxation has been different

epochs. In ancient time, the objective of taxation was strengthening the muscle of the state by providing the revenue. Till the time of Adam Smith, the objective of the taxation was to provide revenue to the government for providing security to an individual and society from violence, invasion, justice and maintaining public institutions which can never be for the interest of an individual. In modern days, the objectives of taxation have been shifted from security perception to the economic development. The modern objective of taxation is raising revenue for resource mobilization, equal distribution of wealth and income in the society, encouragement in employment, saving and investment, removal of regional imbalances and enforcement of government policy.

2.1.3 Principle of Taxation

As everything is based on certain principles, in the same way taxation also has some specific principle which helps to formulate appropriate tax policies. According to Adam Smith, the father of economics has mentioned the following criteria, maxims or cannons of taxation in his book “the Wealth of Nations”.

Cannon of Equality or Equity:

The tax policy should be formulated considering the ability of public to pay taxes. For this higher tax is imposed on higher income or properties. This policy established the equitable liability to the same income group. Thus cannon of equity say that the people should contribute to the government per the benefits that they get from the government.

Cannon of Certainty:

Another quality of tax system is the cannon of certainty. This cannon say that a taxpayer should be informed about the rate, time and procedures of payment of tax. Furthermore fix its target of revenues that comes from taxes.

Cannon of Convenience:

Convenience is another quality of a good tax system. Common people do not have sufficient knowledge about the taxation nor do they have the capacity to hire the experts. That is way tax system should be such that can be easily understood and followed by ordinary people in the society.

Cannon of Economy:

If the expenditure of collecting tax is more then or equal to the amount of tax, such policy will not result in surplus to the public revenues and will not be beneficial to

the country. This good tax policy has the quality of economy, that the low cost of collecting tax should be maintained to the possible extent so as to minimize the difference between the amount that people take out of their pocket to pay tax and the amount that actually goes to the government treasury.

Besides the above stated cannons of taxation given by Adam Smith, there are others too developed by other economists. These cannons given by other economists are as follows:

Cannon of Productivity:

Cannon of productivity says that every tax system should be revenue productive. It means that there should be those taxes only which provide adequate revenue. Taxes that do not provide sufficient revenue should be withdrawn.

Cannon of Flexibility:

Flexibility indicates two things. First, a tax system should have the characteristic of revenue elasticity. There should be built-in tie-up between the economic activity of a country and revenue mobilization. Higher the economic activity, higher the revenue. Second, the tax system should be of that type which provides revenue as per the necessity of the situation. If there is need of higher revenue, the tax system should provide as per the needs.

Cannon of Diversity:

Tax system not totally depends on one source of revenue. It is risky to the government to depend upon only one source. That means the sources of taxation should be diversified as far as possible. This principle says that tax should be levied on various stages and various sources. There should be multiple taxes in place of single tax. Similarly, a tax system should be of that type, the burden of which is diversified on the people of different walks of life.

Cannon of Simplicity:

Simplicity means understandable. The tax system should be simple to understand and applicable in public life. A complex tax system creates unnecessary hassles. Simple tax system with higher tax rate induces the taxpayer to compliance.

Cannon of Uniformity:

Uniformity in this context means uniformity in depreciation system, tax rate, stock valuation system, accounting method, dividend distribution system, accounting

system, appeal and penalty system, method of payment of tax and time of the payment of tax. (Kandel, 2003:4)

2.1.4 Origin of Tax System

With the origin of the country, king and people, the tax system was also in use in different models. A guardian of a family has so many responsibilities towards his family person and house. Similarly, the king had also responsibility to his country and people. So, the king imposed different rules and laws for the welfare of the society. People also used to contribute their contribution in different forms. As per requirements and situation people used to help the king by contributing money, kinds or labor service. The contribution of people is the practice of tax (Kara) prevailed with the origin of king, country and people.

Hence, every civilized society had started taxation. It is also associated with the history of rise and fall of civilization. In all civilized societies, central administration used to collect portion of people's production output to use as a reserve in hand times in order to provide for the needy and to increase the wealth and power of rulers. Until the modern era, rulers and their administrators would commonly take portions of people's crops with no consideration of costs of farm works. Thus, taxes supported all early civilizations first in the Middle East and then all around the world.

In Hindu system, taxes were collected for the welfare of the people and the people were also eager to pay tax. Not paying the tax was regarded as great sin. As per holy Hindu scripture; the Vedas, the king's main duty was to serve and secure people, maintain peace and carry out social works. The king used to collect kinds and services from the people: crops and cattle from the farmers, gold, silver etc. from traders and businessman. These were the revenues of the country. These modes of tax were expanded from time to time according to the need of time and economic development.

The citizen had to pay tax even for the polling rights in the early Roman Society. Ancient Athens used to levy its revenue from taxes like customs, sales and pole tax on alien and slaves. One, who was taxed and fails to pay, was guilty of capital offences. After the public was in 146 BC, they started to levy tax on the people of the capture area instead of their citizens. Julius Creaser had imposed one percentage sales tax to the people. Later, he started to collect tapes through government institutions.

The ancient great economist, Kautilya had written “the lurching of all programs depends first and foremost on the treasury” [Kandel 2003]. So, every state needs resources. Whether to pay salary to the employees or to do developmental works, it needs huge revenues. He had also classified the taxes into three types:

- I. Tax imposed on goods produced within the country.
- II. Tax Imposed on goods produced in the capital.
- III. Tax imposed on imports and exports.(Kandel, 2003)

Kautilya had also described in his Arthashastra, “the tax system should be such as not prove a great burden on the public (praja), the king should act like the bee which collects honey without unconvincing the plant.” [Lokanath 1998].

2.1.5 Historical Background of Taxation

2.1.5.1 Taxation in context of Foreign Countries:

Great Britain is the first country in the world to introduce modern income tax in January 9, 1799 in order to generate revenue to finance the war fought with France which was known as Napoleonic War. However it came into force on April 5, 1799. After the end of war with France, the tax was repealed on April 5, 1802. However, the Income tax was reinstated in 1803 after the outbreak of war again with France on May 18, 1803. The new Income Tax Act was enacted on August 1, 1803. As a war tax, it was abolished on March 18, 1816 after the end of the Napoleonic Wars.

Income Tax was proposed again on March 11, 1842 as a temporary measure for three years to generate revenue to enable government to avoid budget deficits while carrying out major tariffs reforms. This tax was not abolished even after the lapse of three years because of its yield and accepted as a permanent tax by the 1880s. In 1944, the Pay-Tax-As-You-Earn (PAYE) system was introduced in Great Britain. This replaced annual or twice yearly collections. The scheme was piloted by Sir Kingsley Wood. (Khadka, 2001:10).

Adams stresses that time of war; the Athenians imposed a tax referred to as eisphora. No one was exempt from tax which was used to pay for special wartime expenditures. Athenians imposed a monthly poll tax on foreigners, people who did not

have both an Athenians mother and father, of one drachma for man and a half drachma for women. The tax was referred to as metoikon.

In USA also Income Tax was introduced on August 1861 to generate revenue to finance civil war. It was the first personal income tax. In 1894 Democrats in Congress passed the Wilson-Gorman tariff which imposed the first peacetime income tax. The purpose of the income tax was to make up for revenue that would be lost by tariff reduction. In 1895 the United States Supreme Court, in its ruling held a tax based on receipt from the use of property. The court held that taxes on rents, on interest and other income from property were treated as direct tax from property and therefore had to be apportioned. This ruling was impractical and ratified by congress in sixteenth amendment in 1913. The modern interpretation of sixteenth amendment was defined in 1954 in commissioner's ruling where it tried to include all gains/incomes derived from different sources. Congress imposed federal income tax on individualist. In 1950s tax rate were at quite bearable levels and president Regan and George W, Bush made US Tax code more progressive.

In Japan, income tax was introduced in 1887 through the enactment of the Income Tax Law on March 23, 1887. It was a general individual income tax and extended to the corporate income tax in 1899.

Rangarajan (1990 p.19) stressed Kautilya was a master mind. Kautilya wrote a definite treatise on economic and government at a time when large part of the world were sleep in intellectual darkness.

Indian Council for Historical Research concludes that the Arthashastra was compilation made by scholar, Kautilya in 150 A.D. the Arthasatra includes different type of cash and kind taxes. Such as custom duty (sulka), transaction tax (vyaji), tax(kara) etc.(K.C. 2007:26).

In India, Income Tax in its modern form was adopted in 1860. Several experiments were made and finally the systematic Income tax Legislation was enacted in 1886.

In ancient period tax, collectors were known as scribes in Egypt. They taxed even on cooking oil to collect the adequate revenue from citizens. According to Charles Adams, Egyptians workers and framers lost their desire to work, business person moved

away. Sound money disappeared as an influential inflation destroyed the capital. It is a strong evidence of taxation of ancient Egypt.

Income Tax was introduced in Switzerland in 1840, Austria in 1849, Italy in 1864, New Zealand in 1891, Sri Lanka in 1932, France in 1909, and South Korea in 1948 and in Nepal it was introduced in 1959. (Khadka. 2001:11).

2.1.5.2 Taxation in Ancient Nepal

Tax has been one of primary sources of government's revenues from the ancient time. But its practice was imposed in Nepal latter than the other developed countries. During that period taxes were levied mainly on farmers, merchants and travelers in the forms of kinds, cash and labors services. In Lichchhavi regime, direct tax was introduced for the first time in Nepal. These direct taxes were copied from Kautilya's Arthashastra which were imposed on agriculture and business income. Therefore tax which was levied on agriculture income was called 'BHOGA' (share of production) and the tax levied on the income of business was called 'KARA' which was in the form of cash. Agriculture and religious monumental preservation taxes also existed at the time of King Anshuverma of the Lichchhavi dynasty. Malla dynasties also introduced a new tax called 'POTAKA' that was received for defense contribution. It was levied on water of farmer's irrigation. There was no any act/ rules of tax. So, it was not fixed and used to change as per requirements. Fixed portion of agricultural product were payable to the king as tax. Compulsory labor work from all artisan and labors were also common way of paying taxes.

After assembly and before starting of Rana regime Nepal exercise and experienced variety of taxes to generate maximum revenue of the government. During that period, government required huge revenues to fulfill the expenditure related to administration, military and other activities which increased tremendously. In the beginning, commercial taxes were levied on land, transit, market duties, mines and mints, forest product like wildlife, herbs, drugs, wax, birds and judicial fines. mines. These taxes were collected in kinds as well as cash. These taxes were mainly imposed and collected from three different levels, i.e. Royal Palaces, Central government and local government bodies. Royal palace levies like 'Walak', 'Gadimubarak', 'Chumawan', and 'Godan'. 'Walak' was collected from each family or a regular basis and period of national

celebration or festive or ceremonial occasion. 'Gadimubarak' was collected to finance for coronation ceremony of a new king. 'Chumawan' and 'Godhawa' were collected to finance and scared thread investiture and a marriage ceremony of royal princes and princesses. 'Godan' was levied to finance funeral expenses when a reigning king died. Central government levies which included 'Darshan-bhet' which was collected from both civil and military employees at the time of their appointment and confirmation, 'Salami' was collected from local revenue collection functionaries in the terai region as an annual payment. Local levies were on forest and water source. Maximization of revenue was the prime objective of the fiscal policy during that period.

Prithivi Narayan Shah in 1772 introduced 'POTA' tax which was regarded as revolutionary measure in Nepal's fiscal system. It was not based on progressive tax. There was not taxation on income. At that time land tenure system was divided into five forms: Raikar, Birta, Gouthi, Sera and Kipat. Birta and Kipat were the main source of revenue from land (Regmi, 1971:76).

2.1.5.3 Taxation in Nepal during Rana Regime

During the period of Rana regime the Nepalese tax structure had been depends over oral mechanism with willingness and desires of Ranas. In their regime, taxes were also levied and collected according to prime minister's will, willful power and order. There was not any law. They never prepared government budget. The budget of the state was budget of the prime minister. Therefore, they built palaces for them from excess revenue of the state. Their government took pleasure in public revenues and never concerned to mobilize available financial resources to develop the country.

During Rana regime, taxes were not levied according to the income. Taxes were collected in some special forms such as 'Dharshan Bhet', 'Tika Bhet' and 'Fattemubarak' which were traditionally acquired by the royal family. 'Tika Bhet' was collected by the royal families on the occasion of Vijay Dashami Festival and 'Fattemubarak' at the time of Indraajatra Festival. They levied tax upon land, custom excise, royalties, etc. during that period taxes were collected not for raising regular revenues of the state treasury but for fulfilling specific expenditure of the royal household or extraordinary expenditure of the royal household or extraordinary expenditure necessitated by war or other emergencies.

Land tax was top techniques of collecting revenue up to 1950. And custom duties exercise was widely using approach of tax system during that period.

During the period of war between Nepal and Tibet in 1855-56, Jung Bahadur had imposed tax on the income of some selected groups. In 1882, Ranodip Singh also imposed 50% tax on the income made by fisherman in the Western inner Terai Deukhuri from the sale of fish. In 1891, Bir Shamaher imposed a levy of 1% on the official value of 'Jagir' assignment.

The government collected revenues by state intervention on trade. State conducted the activities of buying and selling of special commodities for raising the revenue and used to supply the scare commodities. These activities were monopolized by the state and get high degree of return.

In that period, the Rana government had been established a government organization named 'KAUSHI TOSAKHANA', for the collection and disbursement of revenues, obtain , store, and issues supplies to the government. This unit also perform other general activities concerning to fiscal administration. Prime Minister Jung Bahadur also established new development office known as 'SADAR MULUKIKHANA' for the maintaining the government account relating the revenues. Rana Regime also introduced tax called 'SALAMI' on employment income in Nepal. However, it was collected from government employees only. But 'SALAMI' practice was abolished in 1951. Therefore there was no effective and practical tax administration system.

2.1.5.4 Taxation in Modern Nepal

In Nepal, the idea of imposing the income tax originated in the early 1950s, when the cruel Rana regime has been replaced by Democracy. The first Budget Speech was made in 1951 by then Finance Minister and said that "a proposal to levy an income tax including tax on agriculture income is under consideration". In 1954 an income tax with Rs10000 basic exemption and progressive rate structure from 5 to 25 percent was proposed, but it could not be introduced until 1958 due to political instability. In 1959, the introduced income tax as the provision laid down in Finance Act of 1959. There were only two income heads i.e. remuneration and business. The tax rates were put in order 5

to 25 percent fixing 10 brackets. It contained the concession rate of 25% to large and 50% to the small scale industries on their tax liabilities.

Income Tax Act 1960 A.D. (2017)

In 1960 a formal Income Tax Act naming ‘**Business Profit and Remuneration Act 1960**’ was introduced in Nepal for the first time. It was introduced for avoiding unsystematic and adhoc based of tax collection it had altogether 22 sections including provision of fines and penalties. The silent features of Income Tax Act 1960 (2017) were as given below:

1. Only business profit and remuneration were subject to tax. But deductions were not specified for the purpose of calculating the taxable income.
2. Tax on remuneration was to be deducted at sources.
3. The basis for calculating the tax liability for remuneration was the income of the current year, and for business profit it was of the preceding fiscal year.
4. The tax officer was empowered to assess tax on a best judgment estimate where tax return was not filed or a false return was filed.
5. In case of default, the fines ranged Rs 500 to Rs 5000 and for information’s there was a provision of 20% of total realized if the information had been proved.
6. The first court of appeal was local “Bada Hakim” or Magistrate. Thereafter appeal could be lodged at revenue court. Every appeal was to be accompanied by
7. security deposits of guarantee for the amount of tax payable.

Profits from industries were granted a rebate of 25% and Profit from small industries were granted a rebate of 50%. In the beginning, the government servants were the main taxpayers.

In experiences of three years indicated that the ‘Business Profit and Remuneration Tax Act’ was rather narrow as well as vague. It was neither equitable nor fair. Hence this act was replaced by ‘**Nepal Income Tax Act 1962**’ (2019).

Nepal Income Tax Act 1962 A.D. (2019)

Due to so many drawbacks, Income Tax Act 1962 was introduced in 1962 A.D. it had tried o fulfill all the shortfalls of previous Income tax Act 1960. This act had altogether 29 sections it had defined tax terms clearly. The main objectives of this act

were to reduce unequal distribution of wealth, to make impartial, to guide by fairness and to establish behavior of payment of tax.

Income Tax Act 1962 was amended in 1972 and continues till 1974; the additional features of this act were as follows:

1. Income was defined as all kinds of income including income derived from business, remuneration, profession and occupation, house and land rent, investment in cash or kind agriculture, insurance business, agency, and any other sources.
2. The personal as well as residential status of the taxpayer for tax purpose was defined.
3. The procedure for assessment and collection of income tax were clarified. Specific provisions were made for the allowable deductions. Methods are also specified for calculation of net income.
4. The basis was specified for assessing tax on the best judgment estimate of the tax officer.
5. The provision was made to constitute the net income assessment committee with five members.
6. Tax payment could be in installment as well as in advance payment.
7. Provision was made of rather exemption of income tax for new industries for a period not exceeding 10 years.
8. Carry forward of losses was allowed for a period of two years.
9. Agriculture income was brought under the scope of income tax for the first time.
10. Income tax was defined as the tax on the net earning.

Income Tax Act 1974 A.D. (2031)

Income Tax Act 1974 was the changed form of Income Tax Act 1962. In this act the sources of income were wider than the former law. Its basic framework had been derived from the Income Tax Act 1962. It had retained or amended certain provision of the old act and had added certain new one. This act had 66 sections and sub sections. Following are the some salient feature of this act, as latest amended;

1. This act had clarified certain definitions specially relating to tax. Taxpayer, income tax, income assessment year, tax assessment, tax officer, company, net income, personal status of the taxpayers, philanthropic work, non resident etc.
2. Sources of income were classified into five categories: (a) agriculture, (b) industry, trade, profession or occupation, (c) remuneration (d) house rent and compound taxes and (e) income from other sources.
3. The taxpayers had to register their industry, business, profession, or vocations in tax office before the commencement of the work.
4. It had made the provisions for deduction of expenses relation to expenses incurred when the taxable income is generated.
5. Provision related to computing of net income by agreement in special cases is another main feature of this act.
6. This act had made the provision for self-assessment of tax for the first time and if any mistakes arise or lower tax was assessed. Tax officer might make final assessment.
7. There was additional provision of exemption from income tax than the former act as follows: income of Guthi, income of Village Development Committee, Municipalities, compensation for life insurance or after the expiry of life insurance policy, income from provided fund were the subject to tax exemptions.
8. Carry forward of losses was allowed for subsequent three years.
9. The punishment provision was specified in different headings: failure of submits particulars of the income, false particulars not maintaining the accounts, obstructions and others.
10. Provisions had made for re-assessment or additional tax assessment.
11. The process of advance payment of tax, deduction of tax at sources and refund of tax had been specified.
12. It had the provision relation to make agreement for avoidance of double taxation.
13. The Government of Nepal might form an income assessment committee consisted five members by publishing notice in the Nepal Rajapatra.

This Income Tax Act 1974 was amended in 1977 A.D., 1979, 1980, 1984, 1985, 1986, 1989 and 1992 A.D. to make effective, practical and to avoid confusion. But this act had some shortcomings such as limited tax base, lack of integration, unclear and vague, willful power of tax officer and government, inequitable among tax payers, unscientific presentation, lack of control on tax evasion and dual appeal system. Therefore, the new income tax act 2002 had been enforced in the country. In order “to enhance revenue mobilization through effective revenue collection process for the economic development of nation, it was imperative to make the laws of income tax in order to update, amend and integrate them”.

Income Tax Act 2002 A.D. (2058)

With the aim of providing shape of scientific and systematic Income Tax Act 2002 was evolved in 2002 by replacing Income Tax Act 1974. Present Income Tax Law of Nepal comprises Income Tax Act 2002, Income Tax Rules 2002 with amendment and finance Act 2006. Income Tax Act came into force on April 2002 and now-a-days it has been enacting all over Nepal. Every year the parliament passes Finance Act mentioning tax rates, provision of withholding and method of payment of tax for respective year. It amends Act to some extent. The finance Act 2063 is also a continuity of this practice. Silent features of Income Tax Act 2002 can trace as mentioned below:

1. Income Tax Act 2031 had classified income tax into five heading where this act divides only into three heading.
2. When Income Tax Act 2031 was in practice, there were several exemptions spread in different in Act 2058.
3. Subject to this new act, income is defined as “a person income from any employments, business and investment in accordance with this act”. It includes all kinds of income received for the provision of labour or capital or both in whatever from or nature in the taxable income.
4. The act has given the option for husband and wife as a separate nature individual until they don't accept as a couple.

5. A resident person may claim a foreign tax credit for any foreign income tax paid by the person to the extent to which it is paid with respect to the person assessable income for that year.
6. There is a provision of functional division of work among tax officers.
7. The division is to be made under the direction of HMG director general.
8. The penalties are dividing into two parts. The tax officers can levy only fines and interest and the court can levy penalties and imprisonment.
9. This act has guaranteed the rights and secrecy of taxpayer through the act and strict punishment for non-maintaining the secrecy are provided.
10. This act has determined the rate of income tax itself for the first time, which used to be determined by the finance acts in the previous years.
11. For the purpose of calculating a person's income or investment, there are provisions of deduction related overhead costs. The government allowance for widows, elder citizens or disabled individual, gifts, bequest, inheritance, scholarship, income of foreign officials, bodies and non-profit organization have been exempted from the income tax net. Amount of person privileged under bilateral or multilateral treaty, an agriculture income and income of cooperative societies based on agriculture product and dividend of such society etc, also exempted from income tax.
12. A person has defined as a resident whose place of abode is in Nepal and who present in Nepal at any time or who present Nepal for 183 days or more within the income year, or who is an employee of HMG posted abroad during the income year.
13. According to this act, a company is liable to tax separated from its shareholders. The bonus share, loan and advance to director and shareholder, distribution made on liquidation, are also brought under the tax net in order to plug loopholes for avoidance.
14. Under this act, resident, individuals and domestic companies are taxed on their worldwide income while non-residential individual and foreign companies are taxed only in their sourced in Nepal.

15. The income of unapproved retirement fund is free is from tax. But retirement payments in the hands of employees are taxable.
16. Capital gains are taxed explicitly under this act after four and half decades of the introduction of income tax. In case of business capital gains, gains on the disposition of business property are taxed as an ordinary income and in the case of non- business capital gain; only the gain from the casual sales of real property (land and building) and securities are subject to capital; gain tax at flat rate of 10%. There is also a clear provision for adjusting net loss during the fiscal year.
17. The tax is based on global income tax principal and brought all the source of income in the tax in an equal manner. This act has abandoned the itemized system of deduction on expenses are taken into accounts on a global manner but not in a line-by-line basis.
18. The act has adopted a pooled system of depreciation in which assets are broadly classified in to five categories. The deprecation rates are 5%, 25%, 20% for A, B, C and D respectively which are based on diminishing balance method of depreciation and for class E, the rate is based on straight line method.
19. This act focus on the self assessment system and every assessment is treated as a self-assessment. The tax officer can determine only the amended tax assessment within four years, the Jeopardy assessment is essential when a person become a bankrupt is wounded-up, or goes into liquidation, a person is about to leave Nepal forever or to close down activity in any department or in Nepal. There is no time limit in the case of jeopardy assessment.
20. This act has introduced the concept of administrative review to correct the administrative mistakes. The Inland Revenue department should give its decision within 90 days of objection and if the department dose not gives its decision within the given time limit, the taxpayer can appeal to the revenue tribunal.
21. According to this act, the Inland Revenue department is responsible for the implementation and administration of this act.

2.2 Review of Related Studies

For the preparation of this research study, reviewing of Income tax Act 2058, various related books, different dissertations and thesis, articles as well as reports had been concerned. They were fully utilized in this thesis writing which are as following below:

2.2.1 Provisions of Fines and Penalties According to Income Tax Act, 2058

Under the Income Tax Act 2058, a penalty may be imposed upon the taxpayer for one or more faults and up to a sum indicated in the respective sections. Penalty is a punishment for breach of law where a status requires any persons to do a particular thing and he fails to do so, he renders himself liable to penalty. Similarly, when the status requires any person not to do a particular thing and he does so, he exposes himself to penalty. The nature and quantum of penalty differs from statute and from default. The following provisions are applicable to the imposition of penalties under the Act.

Penalties and Appeals

There is no essential difference between tax and penalty. The liability for payment of both is imposed as a part of the machinery of assessment and penalty is merely an additional tax imposed in certain circumstances on account of the taxpayer's conduct under the Income Tax Act, a penalty may be imposed upon the taxpayer for one or more faults upon a sum indicated in the respective sections. Penalty is a punishment for breach of law where a statute requires any person to do a particular thing and he fails to do so, he renders himself liable to penalty. Similarly when the statue requires any person not to do particular thing and he does so, he exposes himself to penalty. The nature and quantum of penalty differs from statue and from default. The following provisions are to the imposition of penalties under this Act:

1. Penalty for nonpayment of tax:

A taxpayer should be liable for payment of a fee at the rate of 15% of the tax amount due from him, if he makes default in the payment of tax within 35 days from the date on which tax assessment was relayed or within the time extended by tax officer. Such amount of tax or fee as are in arrears shall be realized by the officer or the office notified by the tax officer in the following manners.

- a. By impounding or seize the movable property of the tax payer.
- b. By imposing any deposit of the tax payer in any government office or corporation owned by Government of Nepal or any amount payable to him by such office or corporation.
- c. By withholding in transaction of the tax payer including that of import or export trade.
- d. By auctioning of the whole or part of the movable or immovable property of the taxpayer in one or several lots.

2. Penalty for Failure to Submit Statement of Income:

- a. Any tax payer who failed to submit his statement of income within 3 months after the expiry of income year shall be liable to a fine up to Rs.5000 and such amount of fine shall be kept as security. But such fine shall not exceed 10% of the taxable amount.
- b. Anybody who fails to submit his statement of income within the time allowed by an order made by tax officer shall be liable to the fine equal to an amount of 15% of the tax payable annually by him.
- c. For any tax payer who fails to submit statement of income within the time allowed by the tax officer may take any of the proceeding or all pending the submission of statement of income.
 -) To impound or seize the movable property of the tax payer.
 -) To impound any deposit of the tax payer in any government office or corporation owned by Government of Nepal or any amount payable to him by such office or corporation.

-) To restrain the business of the tax payer including that of import or export trade. In order to take this action it shall be necessary for the tax officer to obtain previous approval of the director.
- d. Any tax payer who failed to submit statement within the time prescribed under Section 27 and 28 or whose tax has been assessed by the tax officer using his best judgment under Section 33 (2) and who has given order by the tax officer of being heard or producing any evidence in support of his statement of income shall be liable to a fine equal to an amount of 7% of the tax payable.
 - e. If penalty is imposed under subsection (4) penalty shall not be imposed under subsection (2).
 - f. While determining the fines, advance payment of tax shall be deducted from the actual amount of tax payable and the fine shall be determined on the balance amount.
 - g. Notwithstanding any thing contained on the subsection (2) and (4) the amount of fine shall be determined under the same subsections from the expiry of the time of three months after the completion of financial year and the fines payable shall not exceed the 25% of outstanding tax payable.

3. Penalty for Submitting False Statement of Income:

Any person who submits or cause a false statement shall be required to pay such amount of tax which had fallen short due to the submission of such false statement and shall also be liable to fine equivalent to the amount of tax so payable or to imprisonment exceeding two years or both. But the penalty of imprisonment shall be imposed only after it has been referred to and confirmed by the Revenue Tribunal.

4. Penalty for Failure to Maintain or Preserves Account:

Any person earning or acquiring income from industry, business, profession or vocation or any other sources as may be specified by Nepal government in a notification published in the Nepal Gazette shall maintain proper accounts of his income and expenses. The method of maintaining such accounts and the language to be used shall be as specified by government of Nepal in the Nepal Gazette.

In 20 Bhadra, 2034 issue of Nepal Gazette, government notified the methods of maintaining accounts and the language to be used by the taxpayers earning incomes from industry, business, profession or occupation.

Every taxpayer shall preserve the accounts and relevant documents of his industry, business, profession or vocation for 6 years from the date on which income has been assessed. Any taxpayer, who fails to maintain proper accounts, or fails to preserve any accounts and supporting documents shall be liable to a fine not exceeding 5000 rupees.

5. Penalty for Obstructing Search:

Any person who obstructs any search operation to be made under Section 46 shall be liable to a fine not exceeding Rs. 500 or to imprisonment not exceeding one month or both by an order of the local zonal commissioner.

Any person not satisfied with the order made by the zonal commissioner may appeal against such order to zonal court.

6. Penalty for Failure to Deposit Tax Deducted at sources:

According to the provision under Section 36, any person paying any remuneration, share, commission or profit or interest to any person shall at the time of such payment deduct tax, there from and the tax so deducted shall be deposited for Government of Nepal within 15 days. If any person fails to do so within the specified period he shall be liable to fine not exceeding Rs. 500.

Under section 41 (3) where any payment is made without making any deduction of tax in advance which had otherwise to be deducted under this act, the amount for deduction while computing net income of such person.

7. Punishment for Breach of the Provision of the Act of Rules:

Except for any act punishable under Sections 59, 60, 61, 62 and 63 of this act, any person, firm, company, bank, financial or other institutions responsible for any breach of the provision of this act or the rules made there under shall be punishable by an order of the tax officer with a fine up to the thousand rupees.

8. Penalty for Failure to Comply with the Duties Prescribed by the Act:

Without prejudice to the liability for punishment under other section of this Act, the tax officer may by an order prohibits the issuance of passport to such taxpayer who is bound to comply with obligations imposed by this act until fulfillment there of by the taxpayers.

9. Penalty for Carrying Business without Registration:

Any person carrying on any industry, trade, profession or vocation without registration shall be punishable by the order of tax officer with a fine up to Rs.500. The tax officer may withhold carrying out the business of such person until registration or impound any or all or the commodities pertaining to that business. But the tax officer has to obtain approval of the director to impose such penalty.

10. Power to Imprison for Default in Payment of tax:

In case any taxpayer, with intention of avoiding payment of tax transfer his property of business to another person after or before the assessment of tax payable by him and does not pay the amount of tax within the time specified in Sub-section (1) and (2) of section 37. Such taxpayer, notwithstanding anything mentioned in the said Section 37, may be kept in prison by the order of Government of Nepal, until he makes payment of tax, but Government of Nepal may not order the detention of such person more than 6 months.

11. Department Action Incase of Negligence:

If it is found that a tax officer has with regard to any taxpayer made dishonest or negligent tax assessment and as a result of which the tax liability of such person has become excessive or reduced the Director shall initiate proceedings for departmental punishment in accordance with the provisions made in the conditions of service of such tax officer.

12. Penalty for not submitting Advance Payment of Tax:

If the Tax Officer is satisfied that any taxpayer with an intention of avoidance of payment of tax changes being the name of the firm and location or business activities, any taxpayer being a non Nepali citizen or non resident is obliged to pay income tax under the Income Tax Act or any other existing Nepal law, is likely to abscond to avoid payment of tax, he may order that the amount of tax finally assessed be deposited in advance.

2.2.2 Review of books:

Amatya (1965) has published a book entitled by “Nepalma Ayakar Bayabastha”. He has analyzed the legal aspects of income taxation in this whole book. His contribution was first in this field.

Mahatta (1970) and Ananda Prasad Khatioda in this book named “Fundamental of Nepalese Income Tax with up to date Financial Directives and Regulation” have been reviewed. They have described the legal provisions relating to income tax and practical aspects. They have described Income Tax Act 2020. This Act was not so beneficial because of changing in tax law. They fully based on campus level syllabus.

Agarwal (1980) had written a book entitled, “Resource mobilization in Nepal” published by CEDA. The book had been divided in to eight chapters; the first chapter deals with special reference to Nepal. The second chapter deals with fiscal polices in developing nations and Nepal, third chapter looks at income tax in Nepal from the historical prospective the forth chapter deals with structure of Nepalese taxation. Forth chapter is related to tax structure, the writer had concluded that taxation trend in Nepal have been shown that role of indirect taxes have been predominant in the tax structure. More than 60% of tax revenue was derived from foreign trade alone. However, since 1974/75 the role of income tax has been increasing.

Mr. Agrawal had made an empirical study taking tax policy makers, tax experts, tax administration, tax lawyers, and accountants and tax payers of different parts of Nepal. From that study, he had concluded that Nepalese taxpayers were favorably disposed to income tax. However, the major constraints in the effective functioning of

tax system seem to be administrative deficiencies, poor tax paying habits, lack of taxpayer's education, complex procedures and defective tax information system.

Khadka (1994) had described the scenario of Nepalese Tax system from origin of income tax , adaptation of quasi-global or a limited scheduler system, segregation of corporate income tax from individual income tax, increasing dependence on the presumptive basis, basic allowance and progressive rate structure, move from joint taxation to individual taxation and shift from itemized to flat system of standard expenses, experiment with an advance tax on impacts and the existing structure, commodity taxes and poverty taxes. He had evaluated the Nepalese tax system base on conventional, theoretical concepts and suggested various measures for its improvement. The book had been directly focused on corporate tax only but explains the whole Nepalese taxation system and structure for its reform.

Tiwari (1999) published a book named Income Tax System in Nepal. This book is also based on syllabus of T.U. the book is knowledgeable for theoretical as well as practical knowledge about Income Tax Act 1974 A.D.

Khadka (2001) again wrote another book named 'Income Taxation in Nepal: Retrospect and Prospect'. It traces out the evolution of income tax around the world. It then analyzed relative importance of income tax in the tax system of some selected countries. It also defined various concepts which are widely used in the modern income tax literature. This book also reviews major changes introduced in the field of the Nepalese Income Tax system since its inception in 1959 A.D. and examines its existing structure and operation. It also analyses the current problems and makes recommendations for the rationalization of the structure and modernization of operation of the income tax system. The book also includes Income Tax Acts of 1959, 1962 and 1974 A.D.

Dhakal (2002) wrote a book named "Aayakar tatha ghar-jagga kar sambandhi kar ra lekha" this book was based on Income Tax Act 2031. This book is very useful to understand the meaning and objective of tax as well as getting knowledge about the history of taxation.

Kandel (2003) wrote two books on taxation, one entitled "Tax laws and Tax planning in Nepal and another Nepal ko Bartaman Kar Byabastha". These books are

helpful for tax administration, auditors, tax consultants and taxpayers. These books are also useful for effective tax planning. In his books, he described the Income Tax Act 2058, VAT and tax planning in Nepal. He has presented practical as well as theoretical aspects on taxation in these books.

Mallik (2003) published a book named “Nepal ko Aadhunik Aayakar Pranali”. This book is very much useful to anyone who is interested in the subject of taxation. In this book Mr. Mallik has explained Income Tax Act, 2002 with examples wherever necessary. He has presented the complex act in simple and lucid manner so that it will be easy to understand the Act. He has shared his expertise in his book. His book is descriptive as well as analytical. All the provisions in the act have been clarified in simple language. He has also compared the provision of the old act and the new act.

Amatya (2003) published a book named “Taxation in Nepal”. This book is based on BBS third year syllabus. This book is useful to students, auditors and tax administrators too. Theoretical as well as practical aspects of taxation have been included in this book.

Poudel (2004) had written a book entitled, “Taxation in Nepal”. They had explained about the income tax system in Nepal along with house and land tax and VAT. The book has been designed on the curriculum of B.B.S. it has been divided into three parts. In the first part of the book introduction and development of income tax, capital and revenue nature expenses and income items, entity and retirement saving, dividend tax, computation of income from business, remuneration and investment have been explained with numerical and theoretical examples. House and land tax and value added tax have been explained in the second part and third part respectively, the book also included proper bibliography and adequate appendix where various income tax, house rent and VAT related forms, schedules and format had been described.

Bhattarai and Koirala (2006) published a book revised edition named “Taxation in Nepal”. This book is based on BBS third year syllabus. In this book, they showed the method of computation of VAT and Income Tax. They also clearly mentioned the different provisions of Income Tax Act 2058. Relevant theoretical and practical aspects have been discussed in their book.

K.C. (2007) published a book revised edition entitled “Tax Laws and Tax Planning: Theory and Practical”. He divided the book in four parts. In the first part, he described the conceptual foundation. In second part, he described basis concept of income taxation of Nepal. In third part, he described VAT in Nepal. In last part, he described Tax Planning. This book has presented practical as well as theoretical aspects. This book is useful to students, tax administrators, auditors, as well as to others. This book is useful to research work too.

Kamal Deep Khakal (2008) had written an article entitled "Historical Perspective an Income tax in Nepal", this article has describe previous income tax act and shown main fatigue of income tax 2058 are as follows:

-) Provision of set and pooling of depreciable assets.
-) Tax on capital gain
-) International taxation
-) Medical tax credit
-) With holding payment and qualification allocation and characterization of the amounts.

2.2.3 Review of the Journals:

Nepal Tax Journals published news about taxation. In this news their include lack of taxpayer education program, taxpayer should not have fully knowledge about positive aspects of tax laws. The news was stressed that taxpayers are accepting Income Tax Act 2058, as a compulsory law (Nepal Tax Act, 2004:24).

Monthly journal published by Federation of Nepal Chamber of Commerce and Industries (FNCCI) named “Bayasaik Aacharan”. In the journal, tax expert Mr. Pandey and Bajracharya presented different aspects of Nepalese Tax System (Pandey & Bajracharya, 2005:43).

The Institute of Chartered Accountants of Nepal (ICAN) published a monthly journal on December 2005. Sinha presented an article named “taxation-legal illegality”? he had described the taxpayer have been encouraged by the tax officials themselves to go courts over the complaints of their wrong doing because the

authority is totally convinced that no immediately solution can be expected from the court of tribunal on short- span of time as long as they are in position, the Tribunal court reviews the decision of Inland Revenue Department's director. (Sinha, 2005:23).

The Kantipur Daily published news about Income Tax and VAT. The news presented the terms used in Income Tax and Vat is not clear. There is not friendly business environment between taxpayers and government. Similarly, the vocabularies used in tax act are very ambiguous and difficult. (Kathmandu Daily, 2005:6).

The Kantipur Daily published news about tax paying behaviors in Nepal and European countries. The news presented that 95% of taxpayer in European countries were willing to pay tax but in Nepal taxpayer want to hide the income and they did not pay tax as per rules and regulation. (Kathmandu Daily, 2007:8).

2.2.4 Review of Dissertations and Thesis:

Shrestha Suman(1967) has described about historical background, income tax act, rules and administrative aspect of income tax. All things mentioned in it are not fully relevant at present.

Shrestha Arbin(1984) has conducted a study concerning with the origin, definition, concept, historical background, role, objectives and structure of income tax. The major problems existing in Nepalese income tax system identified by her is tax evasion. She has recommended that the practice of evasion must be controlled, and then income tax can contributed toward the economic growth of Nepal by channeling more resources.

Kandel Jhabindra(2000) has undertaken the research work to find out the problems relating corporate tax, which blocks the development of the private investments. The main objective of the his study were to evaluate the corporate tax system in general, to examine the sensitivity of certain policy like inflation, capital gain tax dividend tax and interest tax etc. best on there impact on tax burden. He has showed the relationship of private investment with average effect tax rate, marginal effective tax rate and tax incentives in Nepal.

Pradhan Susma(2001) has tried to analyze the contribution of income tax from PEs to public revenue of Nepal. pradhan has also showed the contribution of income tax from NTC to total tax and income tax revenue of Nepal as well as the effectiveness of income tax revenue collection from NTC.

Paudel Kisor(2002) presented a thesis entitled 'Income Taxation in Nepal: Study of Its Structure and Productivity'. The objectives of the study were to analyze the structure of income tax in Nepal, to estimate the elasticity of buoyancy of income tax in Nepal, to assess the role of income tax administration in Nepal, to evaluate the success of VDIS (Voluntary Disclosure of Income Scheme) in brief and to provide suitable recommendation for improving scenario of income tax. She has found that overall revenue of Nepal showed the annual revenue growth of 16%, indirect taxation has occupied the first rank among the direct taxes, personal income tax slabs has been changed radically from seven slabs in 1975/76 to two slabs in 1999/2000, VDIS couldn't attract more potential taxpayers into tax net due to lack of good planning and adequate homework of the government, working procedures of the tax administrations are still traditional and cost of administration has not been brought to the satisfactory level.

Gurung Thaman (2003) has found that there was dominant share of tax revenue in Nepalese government revenue structure. He has suggested revising the provision of fees and penalties; introducing reward, prize and incentives, provisions formulating the clear income tax rules and regulation and clear right and duties of tax officers. This study was done with the main objectives of analyzing the provisions of the fees and penalties under Income Tax Law and knowing the taxpayers knowledge and tax officers' view about fines and penalties. Therefore his study had focused only on provision of fines and penalties.

Dhakal Akash (2004) analyzed historical perspective on income tax in Nepal, tax system in Nepal, administrative aspects of income tax in Nepal, the ways and means for increasing tax concessions in the public, and he has conducted an empirical investigation regarding the problems on various aspects of income tax administration system of Nepal. His study emphasized on drawing a clear sketch of income tax administration in Nepal and its problems. He also gave recommendation for the

improvement of income tax administration in Nepal. According to him, the tax administration in Nepal is facing the following problems .i.e. failure to locate new taxpayers, poor-record keeping system of taxpayers, weak tax administration, poor training opportunities, and lack of motivation in tax personnel.

Korjala Giri Raj(2005) presented thesis in the topic 'Contribution of employment income to income tax revenue of Nepal'. He has pointed out that low base salary with respect to mounting human desired, contribution tax to government revenue is satisfactory. TDS system included in income tax has been effective means for increasing revenue. He recommended that medical expenses, Dashami allowances and pension income should be made tax exempted income. He tried to show few mentally cumbersome (e.g. getting tax clearance certificate has been delayed and mental pinch) to employees by tax administrator should be avoided through simplify tax law. Interestingly he expressed, tax contribution from employment income would be raised if salary adjusted in term of changing environmental factors.

Bhandari Suman (2006) has tried to know the views of taxpayers about Nepalese tax system. He has also tried to make relevant suggestion and to generate practical ideas of modern taxation for the taxpayers. He has recommended that to increase the good knowledge of income tax to taxpayers, clear tax laws, dynamic tax administration and stability of economic and taxation policy plays the important role. He has also suggested that tax related information should be organized regularly to increase the taxation knowledge of taxpayers.

Ghimire Puskar(2007) has tried to specify the special provision regarding the employment income from Income Tax Act 2002. He has concluded that the contribution of income tax from employment income to the tax revenue can be increased mainly by making tax deduction at source more effective and changing income tax policy, rules and regulations.

Prasai Shiva(2007) has focused effect of different income sources of government revenue. Among that individual was the dominant out of other direct tax collection. Emphasized efficiency of Nepalese tax system depends upon; three factors were income tax policies, income tax laws, and income tax administration. And juxtaposing economic policy with tax policy is essential for achieving higher

productivity of taxation. Further he tried to show administration aspect is urgent need to be improved as well as enough concern should be given to research and development function to improve tax system or exploitation of possible sources of revenue. Widening VAT that not equity, imposing similar tax rate to resident and non- resident company, incentives package to honest tax payer and skilled and limited persons were required to sound administration, were major immediately focused point to generate adequate revenue from Income Tax in Nepal.

Basnet Narayan(2008) submitted a thesis entitled a study on effectiveness of self tax Assessment in Nepal. According to this dissertation self tax Assessment system is effective in Nepal but not as expected according to this thesis, the trend of applying self tax assessment system is increasing. It contributes for increment of tax revenue. The no of taxpayers are increasing in some extent. They are motivated to collect the tax to self assessment system. He has recommended that further policies should be determined to bring the potential taxpayers within the tax net and there should be organized conscious campaign to provide the orientation for basic according system and self assessment system.

Bhattarai Krishna(2009) has identified various problems of income tax management in Nepal and among them lack of managerial efficiency is the main problem. Lack of effective personnel management, poor reward and punishment system, weak income tax assessment procedure, poor tax information system, lack of taxpayer's education, very narrow coverage of income tax are the other problems of income tax management in Nepal identified by him.

Thapa Krishna(2009) has mentioned the contribution of income tax in revenue of Nepal. She has also shown that contribution of direct tax has been decreasing and indirect tax has been increasing. Baral has stated the problems of raising government revenue. She has mentioned the main cause of tax evasion, were lack of clear and comprehensive definitions of income, lack of tax consciousness, lack of punishment to tax evaders, lack of public information, lack of efficient tax administration, lack of scientific method of tax collection and trained tax collectors.

2.2.5 Review of Reports/Articles:

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

Kayastha and Rai (1967) have published a report entitled “An Analysis of Tax Structure of Nepal” dealing the tax structure of Nepal. Writers have analyzes the income tax in Nepal and recommended to reform income tax to reduce resource gap and mobilize additional resource. Report was not analytical

A senior researcher in the field of Nepalese taxation, Dr. Govind Ram Agrawal had conducted a research entitled, “Are sources mobilization for development: the reform of income tax in Nepal”. The main objective of this study were to examine the problem of growing resource gap in Nepalese finance in the context of the role of income tax in Nepal including projection if income tax, to examine the ways and means for increasing tax consciousness in Nepalese people etc (Agrawal, 1978:67).

Agrawal (1980) has presented another research report concerning about the income tax administration. He states that tax administration is an important sub-system in the total system that can either carefully tend or mercilessly kill the goose that lays golden eggs. It is the essence of implementing tax policy and laws. Too much pre-occupation with to do in terms of tax policy and laws alone is not good unless attention is given to how to do it in terms of tax administration. He has found that, there are no integrated programs for taxpayers’ education, assistance, guidance and counseling. About the major problems of tax administration he found are corruption, unfair dealings, harassment and incompetent personnel, etc.

Agrawal (1984) has presented a report to ministry of finance entitled ‘Directed tax Reform in Nepal’. He has described resource gap Nepal and it is increasing in Nepal. He has shown that the growth rate of direct tax had been lower than the growth rate of total revenue. Similarly, total tax has been lower than the growth rate of total revenue as well as total taxes. He has strongly recommended revenue service, political and

other pressure should not be subjected to taxpayer administration. Self- assessment should be encouraged. Assessment of small taxpayer should be door to door basis. Capital gains should be included in income for income tax purpose. His major recommendation has been adopted in the new Income tax Act 2058.

Panta (2004) had written an article entitled, “Problems in Tax Administration and Their Remedies” published in journal of finance and development ‘Rajaswa’, 2004, April vol. 1. In this article he had comprehensively explained about the problem and their remedies related with tax revenue and major types of practical problems and challenges, in tax administration. He had mentioned in his article that the main problems of taxation system were showing limited amount of transaction, showing low selling price, less of issuing in taking bills, lack of showing the real factory cost, commercial fraud, lack of co-operation in tax auditing, legal ambiguity and complexity in implementation and lack of co-ordination between Inland Revenue Department and revenue investigation unit. Meanwhile, he had recommended some valuable suggestion to solve the problems and to overcome the challenges. They were statistical and information system should be properly managed, fixed norms and standards should be used to assess selling price and factory cost, the billing system should be made compulsory, co-ordination between Inland Revenue Office with various entities of Nepal Government, revenue investigation and its related unit should play the important roles.

2.3 Research Gap

There is gap between the present research and the previous researchers. The findings of the previous researches were mostly based on secondary data. Most of the previous researches did not disclose what kinds of fines and penalties provisions strategies should be implemented in Nepalese environment. Thus to fill up those gap the current research is conducted. This research is a survey type of research. It is based on secondary data and primary data. This research study is based on using current data 2002/03 – 2008/09 which was not included in previous studies. So, this study will be fruitful to those interested person, parties, scholar, civil society, general public, businessmen and government for academically as well as policy prospective.

CHAPTER THREE

RESEARCH METHODOLOGY

This methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives. This chapter refers to the overall research method from the theoretical aspects to the collection and analysis of data. This study covers quantitative methodology in a greater extent and also uses the descriptive part based on both technical aspects and logical aspect.

“Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view’ (Kothari, 1994: 19). Therefore, we can conclude that research methodology tries to make clear view of the method and process adopted in the entire aspect of the study. It is also considered as the path from which researcher can systematically solve the research problem.

3.1 Research Design

This study is descriptive and analytical nature. Selection of appropriate research design is necessary to meet the objectives of any study. “Research design is a plan, structure and strategy of investigation conceived so as to obtain the answer to research questions and to control the variance” (Kothari, 1994:43). A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework for the project that stipulated what information is to be collected, from which sources and by what procedures. Thus a research design is a plan for the collection and analysis of data. For research there exists different types of research design like; historical research, descriptive research, case study research, field research, analytical research, true experimental research and so on. This study mainly concerned with historical research. If applicable, something descriptive and analytical approach may also be used.

The main objective of this study is to focus on the provisions of fines and penalties in the light of Income Tax Act 2058 B.S. That is why it has tried to achieved the specified objectives of the study, the opinions of the various 100 respondents associated with the distinct denomination i.e. tax experts, tax administrators and tax payers were collected through structured questionnaire. The questionnaire includes about the essential of income tax to the government, Income Tax Act 2058, roles of fines and penalties in relation to the collection of revenue, effectiveness of Income Tax Act, tax paying habit of tax payers, necessity of provision of fines and penalties, effectiveness of tax administrators etc. similarly various information published by organizations about income tax are used for this study. In this way the research design of this study are descriptive, analytical and empirical.

3.2 Types of Research

This study included three types of research are as follows:

1. **Descriptive Research:** Descriptive Research includes surveys and fact- finding inquires of different kinds. The major purpose of this research is the descriptions of the statue of affairs as it exist at present. The study of Income Tax Acts, Income Tax Rules and Finance Act were made for descriptive research. This thesis mostly based on this type of research.
2. **Analytical Research:** Analytical research has to use fact and finding information already available and analyze these to make a critical evaluation of material. As per this research type, the chapter four has been composed.
3. **Empirical Research:** Empirical research relies on observation alone after without due regards for system and theory. It is data based research coming up with conclusion, which is capable of being verified by observation. In such a research it is necessary to get at facts first hands, at their sources and actively to go about doing certain things, to simulate the production of desired information. The following research type, the chapter four has been composed where an opinion survey has been conducted.

3.3 Population and Sample

The population of this study has been composed of all people belong to income tax in Nepal. The following groups and numbers are taken as samples.

Group of Respondents and Size of Sample

S. No.	Group of Respondents	Sample Size
1.	Income Tax Administrators	25
2.	Income Tax Experts	25
3.	Income Tax Payers	50
	Total	100

3.4 Nature and Sources of Data

Data necessary for this study were collected from primary and secondary sources. The major sources of these data were as follows:

3.4.1 Primary Data

The primary data were collected by distributing structure questionnaire and personally field visit, contact and interviews with related respondents. Tax administrators are selected from tax Department and Various sectors of Tax Offices in Kathmandu valley. Tax experts are lectures, auditors, charter accountant (C.A.), lawyers who have knowledge and ideas about Income Tax etc. Tax payers are selected from various sectors e.g. manufacturing company, departmental stores, trading companies, banks, finance companies, sole business and employee, etc.

3.4.2 Secondary Data

The secondary sources of data are the information received from published books, journals, newspaper, reports, dissertations, website and other unpublished thesis and term paper etc. the major sources of secondary data are as follows:

-) Economic survey and Budget Speech of various years, Ministry of Finance;

-) Reports and records of Inland Revenue Department, Ministry of Finance and Central Bureau of Statistics;
-) Various books written by Tax Officers and Scholars related to Income Tax;
-) Thesis and Dissertation reports related to Income Tax available at library of Nepal Commerce Campus and Central Library T.U.;
-) National and international newspapers, journals, souvenirs and magazines;
-) Various websites related to the study;
-) Published documents and annual reports;
-) Other articles related to the study;
-) Publication of UNO and World Bank.

3.5 Data Collection Procedures

Data of this study were collected from two sources. Primary data are collected from Tax Administrators, Tax Experts and Tax payers by using structured questionnaires. First of all these sets of questionnaires were developed and distributed to the three distinct types of respondents. Distribution was done personally through field visit rather than sending by any means to get accurate and actual information in time. Secondary data were collected from published reports of different organizations.

3.6 Data Processing and Analysis Procedure

Data obtained from the various sources cannot be directly used in their original form. Further, they needed to be verified and simplified for the purpose of analysis. Data, information, figures and facts related to the study has been checked, rechecked, edited and tabulated for analyzing them.

According to the nature of data, they are inserted in meaningful tables, which are shown in the annexes. Homogeneous data have been stored in one table and various tables are prepared in understandable manner. Data are analyzed and interpreted using different types of statistical tools as given below:

-) Simple Percentage,
-) Simple Average,
-) Charts and Diagrams.

3.7 Weight of Choice

The respondents are requested either to rank their answer or to give yes/no response or to write their opinion. In the case of ranking the answer the scale varies from question to question. The scale is given according to the number of probable answer. For example, if the probable answers are 5, the scale is given 1 to 5, where 1 stands for most important and 5 stands for least important. The total points get by each choice are converted into percentage of total points available to the all choice. The choice having higher percentage is ranked as most important and the choice having lowest percentage is ranked as least important.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

Presentation and analysis of data is very important stage of research study. Its main purpose is to change the unprocessed data into understandable form. It is the process of organizing the data by tabulating and then placing that data in presentable form by using various tables, figures and source. This analysis attempts to throw light on the provision of fines and penalties related to the Income Tax Act 2058. Basically, this study has focused on empirical study. Some secondary data regarding revenue structure in Nepal are analyzed. Data and information were collected from different sources. Data relating to income tax and provision related to the fine and penalty are presented in this chapter to make research findings more meaningful. In this chapter, data gathered from different sources are presented, analyzed, compared and verified with the use of various financial and statistical tools. In fact, this chapter determines findings of the research and helps to fulfill research objectives.

4.1 Analysis of Secondary Data

Secondary data is defined as data collection either for a purpose other than the one currently being persuaded. Secondary data are often in the form of raw data and published materials. However the unpublished data such as records or statistics gathered or compiled by others prior to the study are also secondary data (Wolf & Pant 2007: p.194). In this section data collected from different sources such as IRD, CBS etc. has been presented in tabular form, diagram, chart and analysis as per our requirement.

4.1.1 Government Expenditure and Sources of Financing

Revenue mobilization is the major source of government expenditure. A minimal gap between expenditure and revenue is to be maintaining for fiscal balance. Comparing the fiscal statistics of FY 2008/09 with that of FY 2003/04 the contribution of revenue on total expenditure increase at an annual average rate of 9% while the revenue mobilization increase at an annual average rate of 2%.

The annual government expenditure and source of financing of this period is displaced in the table 4.1 as well as in figure also.

Table no 4.1
Government Expenditure and Source of Financing

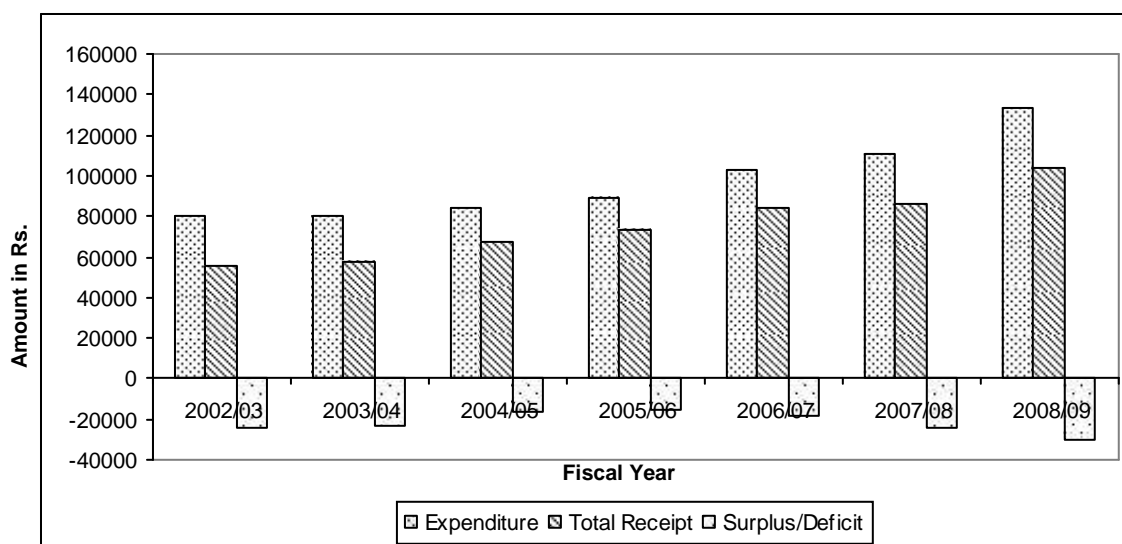
(Rs. in Million)

Fiscal Year	Expenditure	Receipt				Total Receipt	Surplus/Deficit
		Revenue	Percent	Grant	Percent		
2002/03	79835	48893	88	6754	12	55735	-24100
2003/04	80072	50445	88	6686	12	57219	-22853
2004/05	84006	56229	83	11339	17	67651	-16355
2005/06	89442	62331	85	11283	15	73699	-15743
2006/07	102560	70122	83	14391	17	84596	-17964
2007/08	110889	72282	84	13827	16	86193	-24696
2008/09	133604	87712	85	15800	15	103597	-30007
Average			85.14		14.85		

Source: Economic Survey FY 2008/09, Ministry of Finance, Nepal Government.

Figure: 4.1 Government Expenditure and Source of Financing

(Rs. in million)



The table 4.1 states that the government manages its sources average 85% from revenue and 14.85% from foreign grants.

4.1.2 Resource gap in Nepal

Resource mobilization is the main challenge in the developing country like Nepal. It is due to resource constraint, mass poverty, rapid population growth, dependence on agriculture etc. the collection of resources of Nepal hardly cover the 50 percent to 75 percent of our total annual expenditure.

Due to so many development activities the government expenditure is in increasing trend. The total expenditure 20.5% in FY 2008/09 compared to the increase of 8.10% in FY 2007/08. While the trend of increase in revenue collection could not match the government trend of expenditure. The revenue increase by 21.3% in FY 2008/09 compared to that of FY 2006/07. The government revenue had finance 65.2% of government expenditure in FY 2007/08 and 65.7% in FY 2008/09.

The foreign grants also play major part of government receipts. Its portion to total government receipt is 15% in average of the study period of seven years. The government collects the deficit amount by domestic borrowings. The gap between the government expenditure and receipt is known as Resource Gap.

The table 4.1, Government expenditure and source of financing, given above describe the annual resource gap in Nepal. Nepal has received grant in increasing trend but this trend is also not sufficient to recover the gap. The government is trying to match the gap by taking more and more foreign loan which is not good to the nation. Government should try to maximize revenue collection and grant but not loan which creates burden to the nation.

4.1.3 Nepalese Government Revenue Structure

Government revenue structure in Nepal is the composition of tax revenue and non-tax revenue. These are the basic sources of government revenue. Whatever taxation is the major source of revenue in the country besides non-tax revenue. In year 1952/53, when Nepal government prepared and presented the first annual budget, the revenue structure was typically that of traditional economy, with the contribution of tax revenue to the total revenue of only 56.15% while the share of non-tax revenue was 43.84% (Dahal, 1983: 248). In 1960s the share of non-tax revenue was decline because of

increasing contribution of indirect tax in foreign trade. Today the tax revenue has played significant role in the public revenue of Nepal.

The composition of revenue structure of Nepal since FY 2002/03 is presented in the table 4.2 and in figure below:

Table No.4.2
Composition of Total Revenue Structure

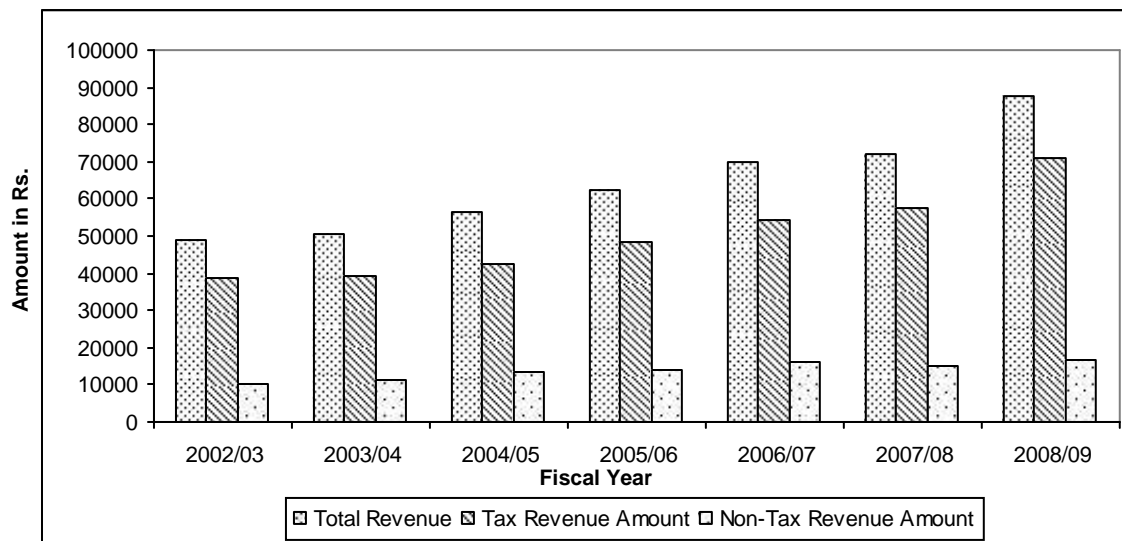
(Rs. in Million)

Fiscal Year	Total revenue	Tax Revenue		Non-tax Revenue	
		Amount	Percent	Amount	Percent
2002/03	48893.6	38865.1	79.49	10028.8	20.51
2003/04	50445.5	39330.6	77.97	11115.0	22.03
2004/05	56229.8	42587.0	75.74	13642.7	24.26
2005/06	62331.0	48173.0	77.29	14158.0	22.71
2006/07	70122.7	54101.7	77.16	16018.0	22.84
2007/08	72282.1	57430.4	79.45	14851.7	20.55
2008/09	87712.0	71126.7	81.1	16585.5	18.91
Average			78.31429		21.68714

Source: Economic Survey 2008/09, Ministry of Finance, Government of Nepal.

Figure 4.2 Composition of Total Revenue Structure

(Rs. in million)



The table 4.2 states that the contribution of tax revenue is gradually increasing in every year from FY 2002/03 to FY 2008/09 amounting from Rs.38865.10 million to Rs. 71126.7 million. But there is fluctuation in percentage figure which reaches to 81.10% in FY 2008/09.

Similarly non-tax revenue also contributes in the increasing trend to the total revenue from FY 2002/03 amounting Rs. 10028.80 million to FY 2008/09 amounting Rs. 16585.50 million. According to the study period of seven years, 24.26% is the highest contribution of non-tax revenue in the FY 2004/05.due to fluctuation in percentage it drop down to 18.91% in FY 2008/09 which is the lowest contribution of non-tax revenue to total revenue.

Therefore, from the above detail it is clear that tax revenue plays a significant role in the total revenue structure of Nepal. Share of tax revenue is more than non-tax revenue in revenue structure. In average tax revenue contributes about 81% of total revenue whereas non-tax revenue about 19% of total revenue.

4.1.4 Composition of Tax Revenue

Tax revenue is major source of government in Nepal. It contributes approximately 81% of total revenue mobilization. It is composed of direct tax revenue and indirect tax revenue. Direct tax includes income tax. Property tax and land revenue and registration tax whereas indirect tax includes custom duties, excise on industrial production, VAT/sales tax, entertainment tax etc. the composition of tax revenue for last seven years is presented in table and figure below:

Table No: 4.3
Composition of Tax Revenue

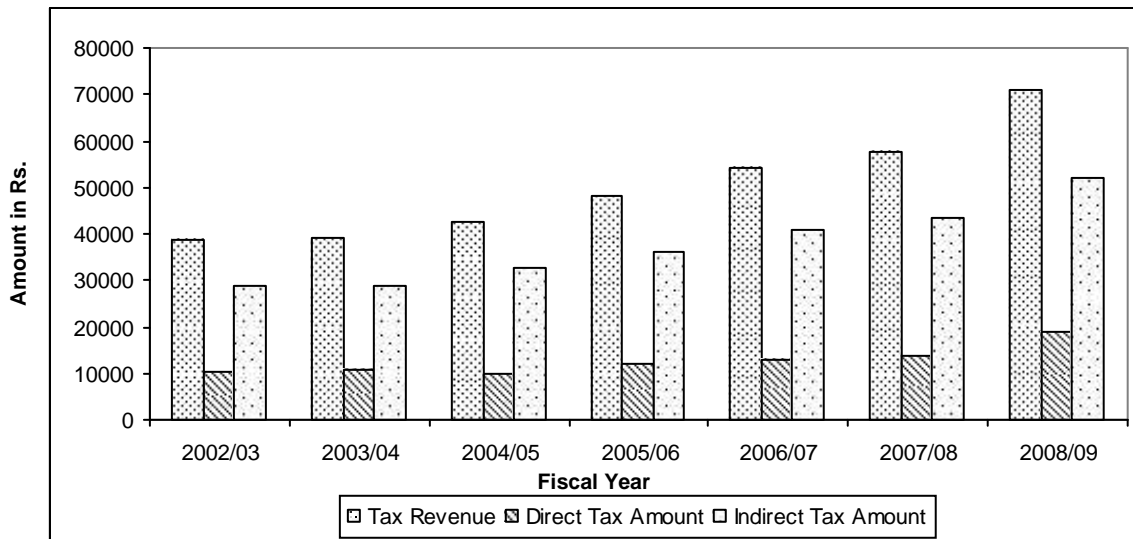
(Rs. in Million)

Fiscal Year	Tax Revenue	Direct Tax Revenue		Indirect Tax Revenue	
		Amount	Percent	Amount	Percent
2002/03	38865.1	10159.4	26.14	28705.7	73.86
2003/04	39330.6	10597.5	26.94	28733.1	73.06
2004/05	42587.0	10105.8	23.73	32481.2	76.27
2005/06	48173.0	11912.6	24.73	36260.4	75.27
2006/07	54104.7	13071.8	42.16	41032.9	75.84
2007/08	57430.4	13968.1	24.32	43462.3	75.68
2008/09	71126.7	18980.3	26.69	52146.4	73.31
Average			27.81		74.75

Source: Economic Survey, 2008/09, Ministry of Finance, Nepal Government.

Figure: 4.3 Composition of Tax Revenue

(Rs. In million)



From the table 4.3 the amount of direct tax revenue is Rs. 10159.4 million in FY 2002/03 which decline in FY 2003/04 and FY 2004/05 and reaches to amount Rs. 10105 million in FY 2004/05. Then after increase in the further years and reaches to Rs. 18980.3 million in FY 2008/09. But the percentage contribution of direct tax to tax revenue is fluctuating over the study period of seven years reaches to 26.69% in FY 2008/09.

The amount of indirect tax revenue is Rs. 28705.7 million in FY 2002/03. It was also increasing each year and has reaches to Rs.52146.4 million in FY 2008/09. The percentage contribution of indirect tax revenue to total tax revenue is fluctuating over the last seven years which reaches to 73.31% in FY 2008/09. Therefore it occupied a large portion in the total tax revenue than direct tax revenue. So indirect tax implies the dominant role in tax revenue.

4.1.5 Composition of Direct Tax Revenue

If the person paying and bearing tax is same it is called Direct Tax. It is really paid by the same person on whom it is legally imposed. The characteristic of direct tax are equitable as per the property or income, certainty as per the process of payment, amount to be paid and time of payment, elasticity in nature etc. The major components of

direct tax are income tax, property tax (urban house and land tax, vehicle tax, interest tax), land revenue, house and land registration tax and some other taxes.

In Nepalese direct tax revenue structure the contribution of direct tax and share of other components are shown in table and figure below:

Table No: 4.4
Composition of Direct Tax Revenue

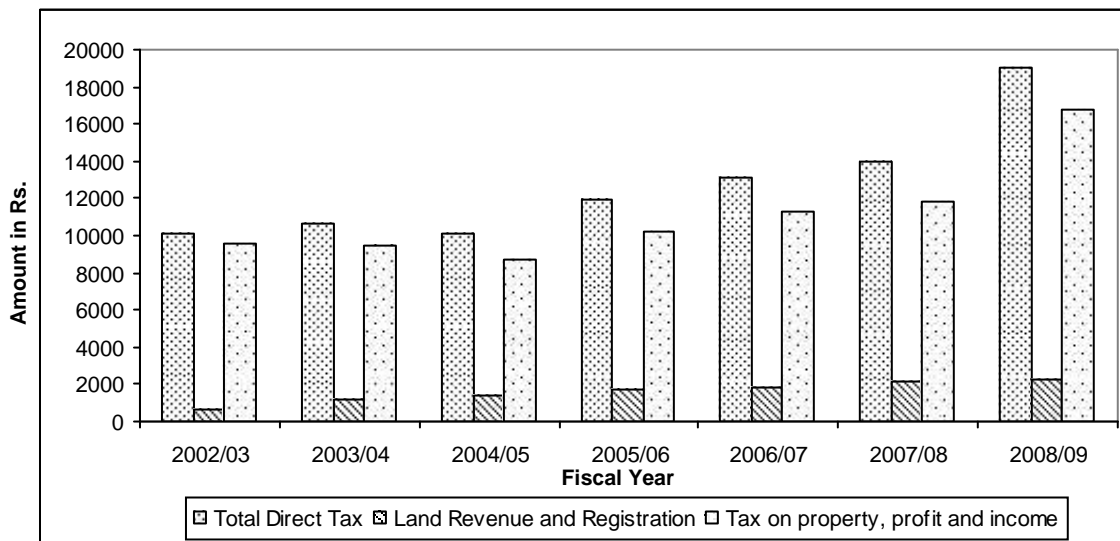
(Rs. in Million)

Fiscal Year	Total Direct Tax	Land Revenue & Registration				Tax on Property, Profit and Income				
		Land Tax	House Land Registration	Total	% of Direct Tax	Income Tax	Tax on Property	Other Tax	Total	% of Direct Tax
2002/03	10159.4	5.1	607.8	612.9	6.03	9114.0	432.5	0.0	9546.5	93.97
2003/04	10597.5	0.0	1131.0	1131.0	10.68	8903.7	562.0	0.0	9465.7	89.32
2004/05	10105.8	0.0	1414.3	1414.3	13.99	7966.2	559.5	165.8	8691.5	86.01
2005/06	11912.6	0.0	1697.5	1697.5	14.25	9245.9	700.6	268.6	10215.1	85.75
2006/07	13071.8	0.0	1799.2	1799.2	13.76	10159.4	806.5	306.7	11272.6	86.24
2007/08	13968.1	0.0	2181.1	2181.1	15.61	10373.7	847.6	565.7	11787.0	84.39
2008/09	18980.3	0.0	2253.5	2253.5	11.87	15034.01	995	697.8	16726.8	88.13
Average					12.31					87.68

Source: Yearly book of IRD and Economic Survey 2008/09.

Figure: 4.4 Composition of Direct Tax Revenue

(Rs. in million)



According to the table 4.4 given above, direct tax is classified into two parts i.e. land revenue & registration and tax on property, profit and income. Land revenue and registration further classified into land tax, and house and land registration. The role of land tax is very nominal, contributes only Rs. 5.1 million in FY 2002/03. Then after decline to Rs 0.8 million in FY 2003/04 and reaches to nil for last 5 years up to FY 2008/09. The land revenue and registration category fully dependent on house and land registration portion. It is in incasing trend from FY 2002/03 to 2008/09 in amounting Rs. 607.8 million to Rs. 2253.5 million. Therefore the percentage of total direct tax is 6.03% in FY 2002/03 amounting Rs. 612.9 million. It is further in increasing trend after that has reached to 2181.1 million, occupying 15.61% of direct tax revenue. But in FY 2008/09 it fluctuated in percentage and reaches to 11.87%.

Other sources of direct tax revenue are tax on property, profit and income has been subdivided into income tax, tax on property and other taxes. This category of direct tax seems to be contributes 93.97 % in FY 2002/03 and it declines for next three years. It declines to 84.39% in FY 2007/08. In FY 2008/09 it contributes Rs 16726.81 million of revenue.

4.1.6 Composition of Indirect Tax Revenue

Indirect tax is levied on the spending on goods and services. This tax is not directly paid to the government by the real taxpayer. Indirect tax is that tax system where the person paying the tax and the person bearing the tax is different. An indirect tax is imposed on one person but paid partly or wholly by another. The main features of indirect tax are convenience to pay, mass participation, limited evasion, shifting of incidence etc.

Indirect tax is the main sources of government revenue. The major components of indirect tax are custom duties, excise duties, VAT/sales tax. Custom duties are composed of import, export duties and export service charge, custom duties and Indian excise refund. Excise duties levy in the industrial production and VAT has wider coverage which includes sales tax, entertainment tax, and hotel tax etc. composition of indirect tax revenue is presented in the table and figure below:

Table No: 4.5
Composition of Indirect Tax Revenue

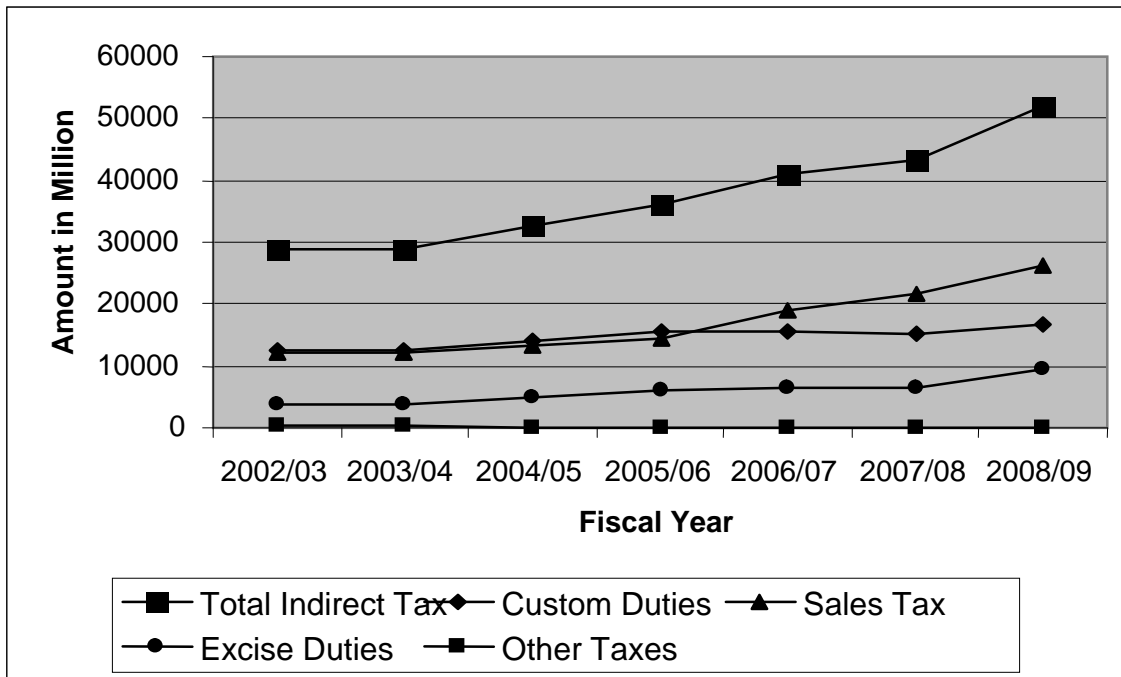
(Rs. in million)

Fiscal Year	Total Indirect Tax	Custom Duties		Sales Tax(VAT)		Excise Duties		Other Taxes	
		Amount	%	Amount	%	Amount	%	Amount	%
2002/03	28705.7	12552.1	43.73	12047.8	41.97	3771.2	13.14	334.6	1.17
2003/04	28733.1	12658.8	44.06	11964.0	41.64	3807.0	13.25	303.3	1.06
2004/05	32481.2	14236.4	43.83	13459.7	41.44	4785.1	14.73	0.0	0.0
2005/06	36260.4	15554.8	42.90	14478.9	39.93	6226.7	17.17	0.0	0.0
2006/07	41032.9	15701.6	38.27	18885.4	46.02	6445.9	15.71	0.0	0.0
2007/08	43462.3	15344.0	35.30	21610.7	49.72	6507.6	14.97	0.0	0.0
2008/09	52146.4	16707.6	32.04	26095.6	50.04	9343.2	17.92	0.0	0.0
Average			40.02		44.39		15.27		0.32

Source: Economic Survey 2008/09. Ministry of Finance, Nepal Government.

Figure: 4.5 Composition of Indirect Tax Revenue

(Rs. in million)



Above table 4.5 states that the contribution of custom duties to the total indirect tax is more than 32.04% in every year during the study period of 7 years. Its contribution in the FY 2002/03 is 43.73% amounting Rs.12047.8 million. It is in decreasing trend reached to 32.04% in FY 2008/09 amounting Rs.16707.6 million. Therefore, it has decreasing contribution to total indirect tax.

Contribution of VAT is fluctuation in every year is Rs. 41.97% in FY 2002/03 which reaches to 50.04% in FY 2008/09 amounting Rs. 12047.8 million to Rs.26095.6 million. The highest contribution to indirect tax was in FY 2008/09 over the study period of seven years. Amount of excise duties is also increasing each year reaches Rs. 3771.2 million to Rs.9343.20 million in FY 2008/09 with fluctuation in percentage figure and contributes only 17.92% to the indirect tax revenue.

Therefore according to the table there is fluctuation in each year in every component of indirect tax. But Sales / Vat tax contributes highest % of amount than other components over the study period of seven years.

4.1.7 Structure of Income Tax Revenue

Income tax is an important source of direct tax revenue in Nepal. Income tax revenue was divided into three types i.e. Corporate Income Tax, Individual Income Tax and Remuneration until fiscal year 1993/94. After that the income tax was divided into four groups i.e. Corporate Income Tax, Individual Income Tax, House and Land Rent Tax and Interest Tax. The Corporate income tax is collected from Government Academy, Public Company and Private Corporate Bodies. Individual income tax is collected from remuneration, and industry business, profession or vocation. House rent tax is levied on income obtained from renting house and land in urban areas. Interest tax is collected from banks and finance companies that pay interest on all types of deposits. The components of income tax revenue for last seven years are presented in table and figure below:

Table No: 4.6
Structure of Income Tax Revenue

(Rs. in million)

Fiscal Year	Total Income Tax		Public Enterprises		Private Company		Individual Income		Remuneration		Interest Tax	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
2002/03	9114.0	100	2928.0	32.1	1924.3	21.1	3200.5	35.1	597.3	6.6	463.9	5.1
2003/04	8903.7	100	1769.3	19.9	1412.0	15.9	4419.1	49.6	835.6	9.4	467.7	5.3
2004/05	7966.2	100	1251.0	15.7	1236.3	15.5	3362.3	41.2	1252.6	15.7	864.0	10.8
2005/06	9245.9	100	2056.6	22.2	1531.3	16.6	3533.4	38.2	1391.2	15.0	733.4	7.9
2006/07	10159.4	100	1332.4	13.1	2467.8	24.3	3926.3	38.6	1675.9	16.5	757.0	7.5
2007/08	10373.7	100	195.7	1.9	3404.3	32.8	4232.7	40.8	1764.1	17.0	565.7	5.5
2008/09	15034.0	100	1019.7	6.7	5717.1	38.02	5234.4	34.82	2007.9	13.36	1054.1	7.01
Average		100		15.95		23.46		39.76		13.37		7.016

Source: Yearly book of IRD (2003/04 and 2008/09) and Economic Survey 2009/09.

Figure: 4.5 Structure of Total Income Tax Revenue

(Rs. in million)

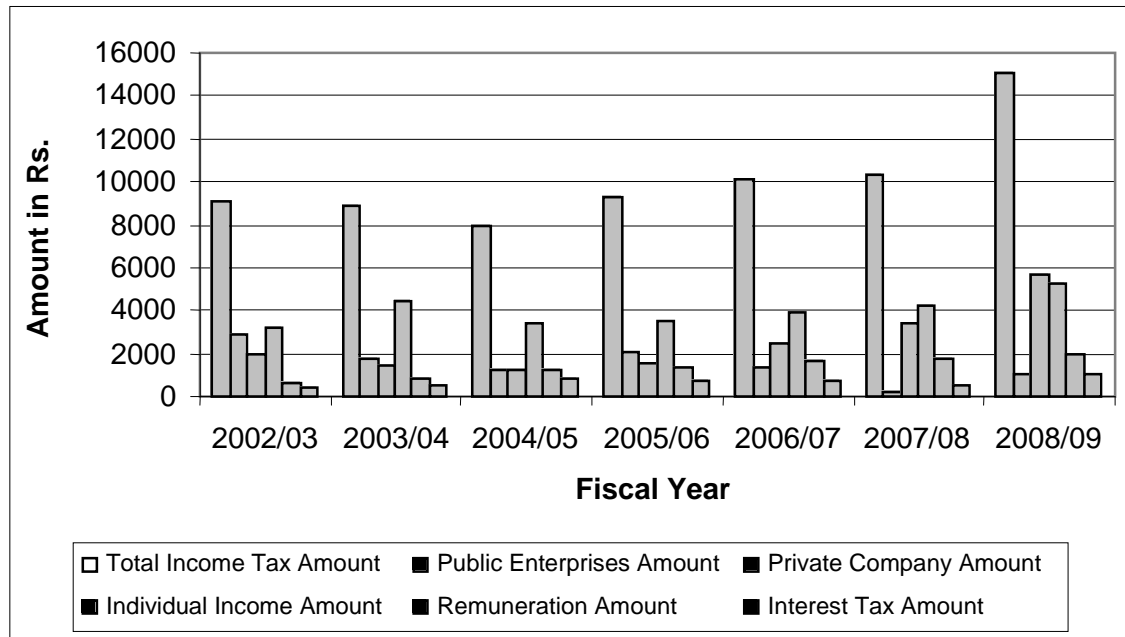


Table given above states that income tax revenue was increasing each year except FY 2003/04 and 2002/2003. In FY 2003/04 and 2004/05 it was decreased by Rs 191 million and Rs. 560 million respectively. But after that it was in increasing trend reaches to Rs. 15034.01 million in FY 2008/09.

Corporate income tax is in satisfactory level as compared to other sources. The above table shows that it was gradually decreased to 1.9% in FY 2007/08. but in FY 2008/09 it seems increased to 6.7%. Private company tax also started to increase gradually from FY 2002/2003 to 2008/09 reaches to 83.2% amounting Rs.5717.1 million.

Individual source of income tax also contribute reliable portion on total income tax. It seems that it is in increasing trend up to FY 2004/05 i.e. 42.4% then slightly decreased to 34.82% in FY 2008/09 amounting Rs. 5234.4 million. Performance of remuneration was also excellent which contributes 9.4% in FY 2003/04 and jumps up to 70% in FY 2007/08 and fall to 13.36% in FY 2008/09. Interest income was also in positive way but still there is lot to do. It contributes 5.1% in FY 2002/03 and reaches up to 10.8% in FY 2004/05.

4.1.8 Contribution of Income Tax to GDP and Total Revenue

Revenue collection from income tax is in increasing trend but the performance is not satisfactory because we can measure the performance of income tax according to its contribution in GDP even though it is not absolute technique in developing countries. But due to lack of reliable data it is widely applicable technique. If we go through the table it shows that Income Tax GDP ratio is in decreasing trend it clear that performance is not satisfactory as desired. But the sign of hope is still left because revenue from income tax is in increasing way. The contribution of Income tax to GDP and total revenue is shown by the table given below:

Table No: 4.7
Contribution of Income Tax to GDP and Total Revenue

(Rs. in million)

Fiscal Year	Total Income Tax Revenue	% of Income Tax to GDP	Total Revenue	% of Income Tax to Revenue
2002/03	9114.0	2.34	48893.6	18.64
2003/04	8903.7	2.20	50445.5	17.65
2004/05	7966.2	1.89	56229.8	14.17
2005/06	9245.9	2.16	62331.0	14.83
2006/07	10159.4	2.27	70122.7	14.49
2007/08	10373.7	2.19	72282.1	14.35
2008/09	15034.1	3.05	87712.1	17.34

Sources: Yearly book of IRD (2003/04 and 2007/08) and Economic Survey 2007/08.

The table 4.6 states that the contribution of income tax to GDP. The contribution of income tax to GDP in FY 2002/03 is 2.34% which is the maximum level. It started to decline and reaches to 1.89% in FY 2004/05. It slowly increased to 2.16% and 2.27% for following two years and again decline to 2.19% in 2007/08. It tends to 3.05% in FY 2008/09.

The contribution of income tax to total; revenue is positively correlated with the share of 18.64% in FY 2002/03. It decline for next two years to 17.65% and 14.17% then it gradually increased in FY 2005/06 to 14.83% and again decreased to 14.49% and 14.35% for last two years. But it increased to 17.34% in FY 2008/09.

4.1.9 Proportion of Penalties and Fines to Direct Tax

Ignorance of law is not an excuse. The proverb is also equally applicable for the Income Tax Act too. Every person having an income during the year has to meet many obligations specified in the Act, Rules, circulars and notifications issued by IRD. Payment of tax is not only a sufficient fulfillment of the obligation. Besides, other duties like submission of returns, providing true and fair information, keeping records and accounts etc also should be performed in time to avoid penalties.

Penalties and fines are of two types: one a penalty for regularly and commonly happening mistakes and irregularities; and another, for fraudulent and intentional

manipulation of income and amount of taxes. The Act has named them as fines, interest and penalties. The provisions of fines and penalties play an important role to collect the tax in time and to control tax evasion culture. The amounts of penalties and fines, which are ultimately included in tax amount, have some contribution in tax revenue. The table below shows the proportion of penalties and fines towards direct tax for the last four years.

Table No: 4.8
Proportion of Penalties & Fines to Direct Tax

(Rs. in million)

Fiscal Year	Total Direct Tax	Penalties Amount	%of Penalty to Direct Tax	Fines Amount	% of Fines to Direct Tax	%of Penalties and Fines to Direct Tax
2005/06	11212.3	24.817	0.22	5.44	0.05	0.27
2006/07	13071.8	16.042	0.12	2.974	0.02	0.14
2007/08	13968.1	48.081	0.34	49.826	0.04	0.38
2008/09	18980.3	15.916	0.08	8.172	0.04	0.12
Average			0.19		0.15	0.91

Source: Inland Revenue Department.

Above table shows that in the FY 2005/06 and FY 2006/07, the proportion of penalties is higher than fines to total direct tax. The amount of penalties is higher than the amount of fine since the penalties is imposed for the greater mistake. The contribution of penalties to total direct tax is 0.22% whereas as the contribution of fines is only 0.05%. The overall contribution of fines and penalties to direct tax is 0.27% in FY 2005/06 and 0.14% in FY 2006/07. But it has highest contribution to total direct tax in FY 2007/08. The contribution of fines is 0.04% and penalties is about 0.34% and overall they contributes about 0.38%. Whereas in FY 2008/09 percentage of contribution from penalties decreased and reach to only 0.08% and fines contributes about 0.04%. The overall contribution of fines and penalties to the total direct tax is about 0.12% which is the lowest among the study period of last four years.

4.2 EMPIRICAL ANALYSIS

Introduction

An empirical investigation has been conducted in order to fine out various aspects of Income Tax System in Nepal from the real life experience. The major tool used for this purpose is an opinion survey through a set of structured questionnaire. A total of hundred sets of same questionnaire were distributed to three groups of respondents i.e. Tax experts, tax administrators and tax payers. The responses received from these respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of this study.

The questionnaire either asked for a yes/ no response or asked for ranking of choices according to number of alternative where first choice was most important and last choice was least important. If the number of alternatives were six then the first preferred choice got six points and the last preferred choice got one point. Any alternatives, which were not ranked, did not get any point. The total points available to each choice were converted into percentages in reference to the total points available to each choice. The choice with the highest score of percentage was ranked as the most important choice and one with the lowest percentage being ranked as least choice. The following table shows the group of respondents and code used to represent them.

Table No: 4.9

Groups of Respondents and Code Used

S. No.	Groups of Respondents	Sample Size	Codes Used
1	Tax Experts	25	A
2	Tax Administrators	25	B
3	Tax Payers	50	C
	Total	100	

4.2.1. Essential of Income Tax Collection for Government

As we say that Income Tax plays a vital role in the economic development of Nepal. It is tool of achieving maximum social and economic objectives. It reduces the regional economic imbalance. Therefore as regards to above mention, a question has been asked to the respondents as to how important Income Tax is to the government. The

question was “Is the collection of Income Tax essential for the government”? Table 4.9 gives the breakdown of response.

Table 4.10
Essential of Income Tax Collection

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	25	100	–	–	25	100
B	25	100	–	–	25	100
C	40	90	10	10	50	100
Total	90	90	10	10	100	100

Source: Opinion Survey

Above table shows that 90% of total respondents agree that the government should collect income tax which is very essential element, while only 10% disagree. All the tax experts and tax administrators’ respondents are in favor. But 20% taxpayers are not in favor of the above statement. Therefore it is shown that collection of Income Tax is essential for the government.

4.2.2. Knowledge about Income Tax Act 2058

To know about situation of Income Tax Act 2058, two questions were asked, “How is our Income Tax Act 2058”? And if not good then why”? The responses received from the various respondents are tabulated below:

Table 4.11
Knowledge about Income Tax Act 2058

Responses Respondents	Good		Moderate		Not Good		Total	
	No.	%	No.	%	No.	%	No.	%
A	15	60	10	40	–	–	25	100
B	20	80	5	20	–	–	25	100
C	10	20	25	50	15	30	50	100
Total	45	45	40	40	15	15	100	100

Source: Opinion Survey

From the above table we observed that 45% of respondents agree that current Income Tax Act 2058 is good. There is no problem in it. 40% of respondents say it is

moderate, it needs some improvement. But 15% of respondents i.e. taxpayers think that the current Income Tax Act is not good. From above we can conclude that the present Income Tax Act of Nepal is not bad i.e. it is satisfactory, while very few respondents from group C think that current Income Tax Act 2058 is not good.

Again from the respondents who feel that Income Tax Act 2058 is not good, they were asked a question that, “if not good then why? Choice your view from the following:”

- a. Not Scientific.
- b. It favors big taxpayers.
- c. It is not in favor of high taxpayers.
- d. Not recognized the good taxpayers.
- e. If any specify your reason.....

From the total 100 respondents only 15 of them all from the group C i.e. taxpayers have view that Income Tax Act 2058 is not good. Therefore from total 15 respondents, 6 give reason that it is not scientific i.e. 40%. 2 respondents say that it favors big taxpayers and 2 say that it is not in favor of high taxpayers. Remaining respondents say it is poor which not recognize the good taxpayers and also it is not simple but is vague.

Therefore, from the above, it can be concluded that the present Income Tax Act of Nepal is not bad i.e. it is satisfactory, whereas some respondents feels that current Income Tax Act 2058 is not good so somehow it needs to be improved.

4.2.3. Tax paying Habit of Nepalese Taxpayers

To know the tax paying habit of Nepalese people, a question was asked, “Tax paying habit of Nepalese taxpayers is poor”. Do you agree? The responses have been tabulated below:

Table 4.12

Tax Paying Habit of Nepalese Taxpayers is Poor

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	22	88	3	12	25	100
B	21	84	4	16	25	100
C	27	54	23	46	50	100
Total	70	70	30	30	100	100

Source: Opinion Survey

Since 70% of respondents were agreed with taxpaying habit of Nepalese taxpayers is poor and 30% of respondents argued that there is poor tax paying capacity, which is the reason for not paying tax. Thus it is cleared that the tax paying habit of Nepalese people is poor.

The Reason for Poor Tax Paying Habit

The reasons for poor tax paying habit of Nepalese taxpayers given by Tax Experts, Tax Administrators and Taxpayers are presented below on priority basis of each respondent.

Tax Experts

- i No fair tax assessment system.
- ii Tax avoiders are enjoying more freedom.
- iii Lack of tax awareness.
- iv Inefficient tax administration
- v Higher tax rate and
- vi Poverty

Tax Administrators

- i Poor enforcement of law.
- ii Tax evasion culture.
- iii Lack of tax awareness.
- iv Inadequate fine and penalty system.
- v Poverty and
- vi Poor Mentality.

Tax Payers

- i Poverty
- ii Lack of tax consciousness and education
- iii Corruption in governing bodies
- iv Weak tax administration
- v Ineffective fine and penalty system
- vi Lack of tax awareness.

From the above reasons it could be concluded that the common reason for poor tax paying habit of Nepalese people are poverty, inefficient tax administration, ineffective fine and penalty system and lack of tax awareness.

4.2.4. Effect of Fines and Penalties to improve Poor Tax Paying Habit

To know the effect of legal provisions of fines and penalties to improve tax paying habit of Nepalese people a question was asked, “Do you agree, poor tax paying habit can be improved by effective fines and penalties provision in the Income Tax Act”? The responses received from various respondents are tabulated as follows:

Table 4.13

Effect of Fines and Penalties to Improve Tax Paying Habit

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	21	84	4	16	25	100
B	25	100	–	–	25	100
C	15	30	35	70	50	100
Total	61	61	39	39	100	100

Source: Opinion survey

From the above table it is observed that 61% of the respondents have agreed fines and penalties related provision can improved the tax paying habit of Nepalese people and 39% of the respondents showed their disagreement to this concept. Thus it means that it is effective to increase tax paying habit of Nepalese taxpayers.

4.2.5. Familiar with Fines and Penalties Provision

To know how much the respondents are familiar with provisions related to fines and penalties of Income Tax Act 2058, a question was asked, “Are you familiar with the fines and penalties provisions in Income Tax Act 2058?” The responses received from the respondents are tabulated as below:

Table 4.14

Familiar with the Provisions Related to Fines and Penalties in Income Tax Act 2058

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	25	100	-	-	25	100
B	25	100	-	-	25	100
C	20	40	30	60	50	100
Total	70	70	30	30	100	100

Source: Opinion survey

From above table it is observed that 70% of respondents are familiar with provision of fines and penalties. But majority of respondents from group C i.e. taxpayers showed their ignorance about the provision. Thus, from the above study it is analyzed that the taxpayers have little/less knowledge about provisions related to fines and penalties of Income Tax Act.

4.2.6. Have You Ever Been Penalized

In order to know that have the respondents ever paid fines or penalties, a question was asked, “Have you ever paid Fine/Penalty?” The responses received from the various respondents are tabulated as follows:

Table 4.15

Fins and Penalties Paid by the Taxpayers

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	-	-	25	100	25	100
B	-	-	25	100	25	100
C	2	4	48	96	50	100
Total	2	2	98	98	100	100

Source: Opinion Survey

From the above table it is analyzed that 98% of respondents disagreed that they have ever paid fines and penalties and only few respondents confess that they have paid fines and penalties i.e. 2%. And in order to know the reason why they are penalized a question was asked with these 2% respondents, “If yes, why? Please state your cause of payment.” The answers received from them are presented following:

Reasons for Payment of Fines and Penalties:

-) Due to the confusion description on the clause of Income Tax Act.
-) Due to not settlement of income tax in time.

Hence it may be concluded that due to less knowledge about the related provisions, they are being penalized. But only small percentages of respondents confess that they had paid fine and penalties.

4.2.7. Satisfactory to the Provisions of Fines and Penalty Made in Income Tax Act 2058

In order to know the view of various respondents about the satisfaction of provision of fines and penalties made in current Income Tax Act 2058 a question was asked, “ Do you think, the fines and penalty provision of Income Tax Act 2058 is Satisfactory?” The responses of the respondents are presented in the tabular form below:

Table 4.16
Satisfaction to the Provision of fines and penalties

Responses Respondents	Yes		Moderate		No		Total	
	No.	%	No.	%	No.	%	No.	%
A	4	16	8	32	13	52	25	100
B	7	28	13	52	5	20	25	100
C	6	12	7	14	37	74	50	100
Total	17	17	28	28	55	55	100	100

Sources: Opinion survey

Since 17% of respondents were agreed that the provision of fines and penalty made in the Income Tax Act is satisfactory. 28% of respondents say that it is moderate but 55% of respondents are not satisfied with the provision of fines and penalties of

income Tax Act. Thus it can be concluded that majority of the respondents are dissatisfied with the provisions in Income Tax Act.

The respondents who gave negative responses about the satisfaction of provision of fine and penalty made in Income Tax Act were asked a question that, “If not Yes, then which area needs consideration?” and requested to write their reason for their view.

The majority of respondents disagree that the provision related to the fines and penalty made in Income Tax Act 2058 is satisfactory. Due to the weak implementation process of the provision related to the fine and penalty, there are so many problems in our income tax system. Therefore, mainly the implementation part needed to be considered by the law authorities. The reasons why the implementation part of income tax system needed to be improved have been stated below:

-) Needs to make procedures.
-) Enforcements of law and taxpayers education program needs to enhance side by side.
-) Some of the rules are not suitable to our circumstances and situation. They need to be changed as per requirement.
-) Taxpayers want benefits and facilities from the government. So they should be encouraged and motivated.
-) The government should promise to use such funds for the wellbeing of the people and nation.

Thus it is concluded that there are many reason that the present provision of fine and penalty of Income Tax Act 2058 need to be improved in various field.

4.2.8. Effectiveness of Tax Administration to Impose Fines and Penalties

In order to know the effectiveness of tax administration to impose fines and penalties in Nepal, a question was asked, “may you agree that the tax administration of Nepal is effective to impose fines and penalties as per Income Tax Act?” Table below gives a breakdown of responses.

Table 4.17**Effectiveness of Tax Administration to Impose Fines and Penalties**

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	10	40	15	60	25	100
B	25	100	–	–	25	100
C	–	–	50	100	50	100
Total	35	35	65	65	100	100

Source; Opinion Survey

From the above table it is clear that most of the respondent i.e. 65% think that tax administration is not effective to impose fines and penalties in Nepal. Only 35% respondents think that tax administration is effective to impose fines and penalties in Nepal. Most of the tax administrators are in favor with effectiveness of tax administration to impose fines and penalties because they do not want to show their weakness. Thus, it can be concluded that the tax administration of Nepal is not effective to impose fines and penalties as per Income Tax Act.

In order to know the cause of ineffective tax administration the next question was asked. “If no, then why? If more than one cause please marks your opinion by ranking.” The respondents were requested to rank their answer from 1 to 6. Table 8(a) below gives the breakdown of response.

Table 4.17(a):**Reasons of Ineffectiveness of the Tax Administration to impose Fines and Penalties.**

S. No.	Reasons	Groups			Total Points	Percentage	Ranks
		A	B	C			
1	Corruption	18	0	114	132	50	1
2	Lack of information	10	0	15	25	9.46	5
3	Lack of Competency	12	0	36	48	18.18	2
4	Complicated Tax Provisions	6	0	21	27	10.23	4
5	Undue influence/pressure	8	0	22	30	11.36	3
6	No Logistic Support	1	0	1	2	0.75	6
	Total				264	100	

Source: Opinion Survey

The causes of ineffectiveness of Nepalese income tax administration to impose fines and penalties as per Income Tax Act were ranked in order of the preference of the respondents were as follows:

1. Corruption.
2. Lack of competency.
3. Undue influence/pressure.
4. Complicated tax provisions.
5. Lack of information.
6. No logistic support.

It can be concluded that corruption, lack of competency, undue influence/pressure, complicated tax law and lack of information is the most important causes of ineffectiveness of Nepalese tax administration to impose fines and penalties as per Income Tax Act. But the main cause is corruption.

4.2.9. Knowledge about Fines and Penalty by not complying income tax law

To know how much the respondents have knowledge that they will be punished by fines and penalties if they fail to comply income tax property a question was asked, “Do you think taxpayers know they will be penalized if they fail to comply income tax properly?” The responses received from various respondents are tabulated below:

**Table 4.18:
Knowledge about the reasons for Fines and Penalty**

S. No.	Answers	Groups			Total	Percentage
		A	B	C		
1	Do not know	9	0	24	33	33
2	All know	2	14	5	21	21
3	A few know	7	0	13	20	20
4	Most of them Know	7	11	8	26	26
	Total	25	25	50	100	100

Source: opinion survey

From the above table it can be said that 33% of respondents think that taxpayers do not have knowledge that they will be penalized if they fail to comply income tax

property and 20% of respondents think that only some taxpayers have knowledge and 21 % of respondents think that they all know . 26% of respondents think most of them know. Thus it is concluded that most of that taxpayers have knowledge that if they fails to comply income tax properly they will be punished but they avoid it because they feel payment of income tax is worthless and it only a burden to them.

In order to know the reason why taxpayers do not have knowledge about the rules- they will be punished if they do not pay income tax in time a question was asked to the respondents that, “If your answer is not other than (b), what is the reason?” The answer received from the respondents is presented in tabular form below:

**Table 4.18(a):
Reasons for not knowing the causes of penalties**

S. No.	Reasons	Groups			Total	Percentage
		A	B	C		
1	Lack of proper publicity.	12	2	20	34	43
2	Taxpayer do not want to know	7	9	1	17	22
3	Tax administration does not think it is necessary	2	0	15	17	22
4	The government desires to collect more revenue by fines and penalties.	2	0	9	11	13
	Total	23	11	45	79	100

Source: Opinion survey

The above table shows that 43% of respondents think that due to the lack of proper publicity the taxpayers do not know that they will be penalized if they do not comply income tax properly. 22% of respondents express their cause as taxpayers themselves do not want to know and similarly 22% of respondents express that tax administration does not think it is necessary. Only 13% of respondents blame the government as to collect more and more revenues by fines and penalties.

4.2.10 Does the Provisions of Fines and Penalty Motivates and Inspires Taxpayers

In order to know that the taxpayers are motivated and inspired to pay the tax in time due to the provision of fines and penalties of Income Tax Act 2058, a question was asked to all the respondents that, “the provision of fines and penalties motivate and inspires taxpayers to pay tax in time and they do not conceal their real income.” Are you

agreeing with this statement? The responses received from the various respondents are presented in the tabular form below:

Table 4.19:
Provision of Fines and Penalties Motivates and inspires Taxpayers

Responses Respondents	Yes		Yes, in some extent		No		Total	
	No.	%	No.	%	No.	%	No.	%
A	20	80	5	20	–	–	25	100
B	22	88	3	12	–	–	25	100
C	9	18	6	12	35	70	50	100
Total	51	51	14	14	35	35	100	100

Source: Opinion survey

Above table show that 35% of respondents disagree with the statement, the provision of fines and penalties motivate and inspires taxpayers while 51% express their opinion in favor of the statement. Thus the effective provisions in income tax act certainly motivate and inspire the taxpayer. And such provision helps government to collect more income tax.

To know the reason of disagreement with the statement that the provision of fines and penalties motivate and inspires taxpayers a separate question was asked to the respondents, the result of their opinion is shown below:

Table 4.19(a)
Reasons of disagreement

S. No.	Answers	Groups			Total	Percentage
		A	B	C		
1	Non compliance of provisions.	0	0	4	4	12
2	Tax administration can be influence.	0	0	20	20	57
3	Contradictory explanation.	0	0	6	6	17
4	Inefficient tax administration.	0	0	5	5	14
	Total	0	0	35	35	100

Source: opinion survey

From the above table we can say that 35 out of 50 respondents from group C are not in favor of the given statement while all the respondents of group A and B are in

favor. 57% of the respondents say that tax administration can be easily influence by politicians, powerful person etc. The vague and contradictory explanation in the Income Tax Act is the second main reason i.e. 17%. The third reason is inefficient tax administration which is 14% of total respondents. The fourth reason of disagreement is Non compliance of provisions which is only 12%

4.2.11. Sufficiency and Satisfactory of Provision Made under the Income Tax Act. 2058

In order to know the sufficiency of provision made under the Nepalese Income Tax Act 2058 a question was asked, ” Do you feel, the provision made under the Nepalese Income Tax Act sufficient and satisfactory?” The responses receive on it are tabulated below.

Table 4.20:

Sufficiency and Satisfactory of Provisions of Income Tax Act 2058

Responses Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	5	20	20	80	25	100
B	7	28	18	72	25	100
C	32	64	18	36	50	100
Total	44	44	56	56	100	100

Source: Opinion Survey

From the above table it is observed that 44% of respondents were agreed the sufficiency and satisfactory of provision made under the Nepalese Income Tax Act 2058, but 56% of the respondents were against the sufficiency and satisfactory of Income Tax Act. Thus it can be concluded that majority of the respondents were against the sufficiency and satisfactory of provisions made in the Income Tax Act 2058.

The respondents who gave negative response about the sufficiency and satisfactory of provisions made under Income Tax Act were requested to write their opinion on the blank area. A question was asked, “If not in which aspect the improvement is needed? Please give your reasons:” The reasons for the improvement of different aspects of Nepalese Income Tax Act are given below:

Group “A” (Tax Experts)

1. Tax Law
2. Training to staff
3. Tax administration
4. Capital gain
5. Necessary to revise
6. Tax evader
7. Suitable to modern economy and Nepalese context
8. Necessary to revise
9. In deduction
10. Filing of return
11. Clarity without dual meaning
12. Tax Rate
13. Obligation toward taxpayer
14. Stable tax structure

Group “B” (Tax Administrators)

1. Tax law
2. Income tax structure
3. Administration review and appeal
4. Penalty system
5. In register
6. Compulsory billing system
7. Simplify the language
8. Not match able with Nepalese contest

Group “C” (Taxpayers)

1. Language
2. Tax system should be flexible
3. Tax law
4. Tax administration

5. Remuneration income
6. Incentives to industries that compete
7. Trained staff
8. Fines and penalties system

From the above listing, most of respondents suggested to simplify the language, trained staff, improve tax law and tax structure etc. they also focused to improve the administration and computerized system.

Lastly an open question was kept with respondents to express their view regarding the provision of fines and penalties in Income Tax Act 2058. The gist of their responses is given in point wise:

-) Suitable and timely amendment of the provision makes the act practical and easy implementation.
-) Provisions should be fixed in permanent law. They should not be changed yearly by financial laws as in practice.
-) Provisions in act should be clear, simple and understandable to all taxpayers even also to layman.
-) The government should adopt different methods to educate the taxpayers about the provisions through different media.
-) Fair implementation of provisions and avoid influences as well as corruption makes act popular as well as easy on effective implementation.
-) Strong and fair action to financial miscreants and social respect to genuine and honest tax payers makes income tax act authentic, indisputable, legitimate and unadulterated act.
-) Tax administrators should be trained, motivated to their duty so that they will be able to implement as the objective and the mission of the government.
-) Tax Administration should fair and equipped with necessary logistic as required for effective implementation.

4.3 Major Finding

- It is essential for the government to collect income tax revenue.
- Current Income Tax Act 2058 of Nepal is good.
- Tax paying habit of Nepalese taxpayer is poor.
- Poor tax paying habit can be improved by effective fine and penalty provisions.
- Taxpayers are less familiar with the fine and penalty provision of Income Tax Act 2058.
- Only small percentage of respondents had paid penalty.
- Provision related to fines and penalties in income tax act is not satisfactory, which needed to be improved in various field.
- Tax administration of Nepal is not effective to impose fines and penalties as per income tax act. The main reasons of ineffectiveness are corruption, lack of competent staff and complicated tax law.
- Tax payers have knowledge they will be penalize if they fail to comply income tax properly but they deny.
- Most of the respondent agree that “the provision of fine and penalty motivates and inspires tax payers to tax in time and they do not conceal their real income”
- Provisions made under the Nepalese income tax act are not sufficient and satisfactory in all aspect. Improvements are need in language, competent staff, tax law, tax administration, computerized system, etc.
- Revenue mobilization is the major source of government expenditure. Government manages its expenditure through revenue collection from general public and grants and aids from foreign countries. Comparing the fiscal year 2003/04 the contribution of revenue on total expenditure increase at an annual average rate of 9%, while the revenue mobilization increase at an annual rate of 2%. Hence, it is clear that government manages it sources average 85% from revenue and 14.85% from foreign grants.
- Government revenue structure in Nepal is the composition of internal and external revenues. Internal revenue includes both tax revenue and non-tax revenue. Among tax and non-tax revenue, there is dominant share of tax revenue in Nepal government’s revenue. It had contributed 79.49% in fiscal year 2002/03 but it was

- decreased to 75.74% in fiscal year 2004/05. Then after it was increased to 81.10% in fiscal year 2008/09. It shows that the contribution of tax revenue is in increasing trend.
- Tax revenue is major sources of government revenue in Nepal. It is composition of direct and indirect tax. The contribution of indirect tax in fiscal year 2002/03 was 73.86% and in fiscal year 2008/09 was 73.31% and contribution of direct tax was 26.14% and 26.69% respectively. The percentage contribution of indirect tax and direct tax to total tax revenue was fluctuating over the study period. It seems the dominant role of indirect tax revenue in Nepalese tax revenue.
 - Direct tax revenue is the composition of land revenue and registration and tax on property, profit and income. The contribution of tax on property, profit and income in fiscal year 2002/03 was 93.97% to the direct tax revenue but decreased to 88.13% in fiscal year 2008/09. The contribution of land revenue and registration to the direct tax was 6.03% in fiscal year 2002/03 which reaches to 11.87% in fiscal year 2008/09. Therefore, there is dominant share of tax on property, profit and income to direct tax revenue, which is also in increasing trend.
 - Indirect tax revenue is the composition of custom duty, VAT, excise duties, entertainment tax and other taxes. The contribution of custom duty, sales tax(VAT), excise duty, and other taxes were 43.73%, 41.97%, 13.14% and 1.17% respectively in fiscal year 2002/03 and contributed in fiscal year 2008/09 were 32.04%, 50.04%, 17.92% and 0% respectively. It seems that VAT/sales tax contributed large portion of shares to indirect tax revenue which is also in increasing trend.
 - Income tax structure consists of public enterprise, private company, individual income, remuneration, interest on tax. There is dominant role of private company which was in decreasing trend, contributes 21.10% in fiscal year 2002/03 but increases to 31.03% in fiscal year 2008/09 to income tax. The contribution of individual income tax is in second position and it is in decreasing trend.
 - The performance of income tax to Gross Domestic Product (GDP) is not satisfactory. It is in increasing trend. In fiscal year 2002/03 income tax-GDP ratio

was 2.34% and it was 3.05% in fiscal year 2008/09. The income tax-total revenue ratio was 18.64% in fiscal year 2002/03 and then it was in decreasing trend reaches to 14.35% in fiscal year 2007/08. But in fiscal year 2008/09 it increases to 17.34%.

- Fines and penalties also play a significant role towards the contribution of government revenue. The proportions of penalties are higher than fines to the total direct tax revenue. In fiscal year 2005/06 contribution of fines and penalties to direct tax revenues are 22% and 5% respectively and overall they contribute 27% to direct tax revenue. But in the fiscal year 2008/09 penalties contribute only 8% and fines about 4% only and over all they contribute only 13% to direct tax revenue. It shows that they contribute in decreasing trend.

An opinion survey has been conducted in order to find out the role of fine and penalty to collect income tax and its related provision and some other aspects of income tax. From the opinion survey of various respondents ,i.e., Tax experts, tax administrators and tax payers the following findings has been drawn:-

- The major goal of income taxation in Nepal is to increase the revenue of the nation. Therefore, it is essential for government to collect revenue in the form of income tax from the general public.
- The situation of current Income Tax Act 2058 of Nepal is satisfactory.
- The tax paying habit of Nepalese tax payer is poor.
- Tax paying habit of Nepalese taxpayers can be improved by effective fine and penalty provision of Income Tax Act.
- Tax payer has less knowledge about the provision related to fine and penalty of Income Tax Act.
- Most of the respondents deny that they have ever paid penalties but only small percentages of respondents confess that they had paid fines and penalties.
- The provisions of fine and penalty made in Income Tax Act 2058 are not satisfactory which are needed to be improved in various fields.
- The income tax administration of Nepal is not effective to impose fine and penalty as per Income Tax Act. The main cause of ineffectiveness of tax

- administration to impose fines and penalties are corruption, lack of competency, undue influence/pressure, complicated tax provisions, etc.
- Most of the respondents have knowledge they will be penalized if they fail to comply income tax properly but they avoid it because they feel payment of income tax is worthless and it only creates burden to their life.
 - Main reasons why the tax payer do not know they will be penalized if do not comply income tax properly are lack of proper publicity, taxpayer do not want to know, tax administration does not think it is necessary and government desires to collect more revenue by imposing fines and penalties.
 - Most of the respondent agreed that “the provision of fine and penalty motivates and inspires tax payers to pay tax in time and they do not conceal their real income”
 - Most of the respondents feel that provisions made under the Nepalese Income Tax Act 2058 are not sufficient and it does not satisfied them. Improvements are needed in language, competent staff, tax law, tax administration, computerized system of payment of tax, etc.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is the important for the research because this chapter is the extract of all the previously discussed chapters. This chapter consists of mainly three parts: Summary, conclusion and recommendation. In summary part, revision or summary of all four chapters is made. In conclusion part, the result from the research is summed up and in recommendation part, suggestion and recommendation is made based on the result and experience of thesis. Recommendation is made for improving the present situation to the concerned parties as well as for further research.

5.1 Summary:

The government needs lots of revenue to maintain fiscal policy, to carry out functions of the government such as national defenses and to redistribute resources among the individuals or classes. For this purpose, government collects revenues from various sources like tax revenue from public enterprises, special assessment, fees, fines, grants and assistance etc. Among them, a tax is a significant and inseparable source of revenue to the government for the economic development of the state.

Taxation has been a very essential element of the government from the very beginning of the state system. However, the objective of taxation has been different epochs. In ancient time, the objective of taxation was strengthening the muscle of the state by providing the revenue. But it is totally different in modern period. Modern objectives of taxation are to raise revenue for resource mobilization, equal distribution of wealth and income in the society, encouragement in employment, saving and investment, removal of regional imbalances and enforcement of government policy.

Taxation is a device for imposing tax. It is liability to pay an amount to the state. Tax system was origin with the development of human civilization. Great Britain was the first country in the world to introduced income tax in 1799 A.D. The idea of income tax system in Nepal was started latter than other developed countries. In lichchhavi Regime,

direct tax was introduced for the first time in Nepal in the name of Bhaga, Bhoga and Kara. Malla dynasties also introduced a new tax called Potaka. During Rana Regime, taxes were not levied according to the income but they were collected in some special forms such as Dharshan Bhet, Tika Bhet and Fattemubarak. During that period, Rana government established a government organization named KAUSHI TOSAKHANA for the collection and distribution of revenue obtain stores and issues supplies to the government. Prime ministry Jung Bahadur Rana also established new development office known as SADAR MULUKIKHANA for the maintaining the government account relating revenue. But the history of income tax was not so long in Nepal.

Although there was tax system in Nepal in ancient time also, the concept of income tax was brought only by the first budget. The first budget pioneered the introduction of Income Tax System in Nepal in 1950. However, formal Income Tax Act naming Business Profit and Remuneration Act 1960 was introduced in Nepal for the first time in fiscal year 1959/60. There was no specific act made to define and treat income tax. Only business income and remuneration were subject to tax under this act. Due to narrow and vague of income tax act, it was replaced by Nepal Income Tax Act 1962. In 1974 A.D. income Tax Act 1974 was introduced which was changed form of Income Tax Act 1962. Income Tax Act 1974 was amended for eight times to make effective, practical and to avoid confusion. But this act had some shortcomings, therefore, the new income tax act i.e. Income Tax Act 2002 had been enforced in the country.

Nepalese government revenue structure is the composition of tax revenue and non- tax revenue. There is dominant role of tax revenue in revenue structure of Nepal government. From the study period of last seven year, it has found that contribution of tax and non- tax revenue was about 78% and 22% respectively in total revenue structure in average. In this regard tax revenue has been found as a major instrument for additional internal financial resource mobilization.

Nepalese tax revenue is the composition of direct tax revenue and indirect tax revenue. Nepalese tax structure is dominated by indirect tax revenue. Indirect tax revenue contributes three times more than the direct tax revenue. During the study period of last seven years, the average share of direct tax and indirect tax revenue was 27.81% and 74.75% respectively.

Direct tax is the composition of land tax, house land registration tax and tax on property, profit & income. Income tax occupied largest percentage of share to the total direct tax revenue. Tax on property, profit and income contributes 87.68% to the total direct tax revenue over the study period of last seven years in average. Similarly indirect tax revenue is the composition of custom duty, VAT, excise duty and other taxes. According to the study VAT and custom duty have dominant role in indirect tax revenue. The average contribution of VAT and custom duty are 44.39% and 40.02% respectively during the study period of last seven years.

income tax structure consists of public enterprises, private company, individual income, remuneration and interest on tax. There is dominant role of individual income to the income tax structure of Nepal. The contribution of individual income top the total income tax is about 39.76% in average during the study period of seven years. Private companies contribute about 23.46% in average to the income tax. The performance of income tax to GDP and total revenue is not satisfactory. However, it is in increasing trend. The contribution of total income tax revenue to GDP and total revenue of government is 2.3% and 15.92% respectively in average in the study period of last seven years.

Fines and penalties also play a significant role towards the contribution of government revenue. The proportions of penalties are higher than fines to the total direct tax revenue. From the study period of last seven years, the contribution of fines and penalties to direct tax revenue are 0.15% and 0.19% respectively and overall they contribute 0.91% to direct tax revenue. From the study of last seven years period it is shown that their contribution is in decreasing trend.

In order to find out the role of Income Tax in collecting revenue, different provisions of fines and penalties proposed in income Tax Act, its effectiveness etc, a set of structured questionnaire were distributed to related person, i.e. tax experts, tax administrators and tax payers. On the basis of opinion survey our empirical investigation has found different views. Respondents not only points out the weakness of income tax but also has pointed out their constructive suggestions to improve the effectiveness of fines and penalties in collecting more revenue.

According to the investigation most of the opinions are in favor of IT in revenue collection. Few of them say that the current IT is not good because it is not scientific and it is in favor of big tax payers. But Nepalese people have poor tax paying habit; they do not want to pay tax and try to waive. It is because of poverty, ineffective fine and penalty system and lack of tax awareness.

To create the tax paying habit, there are the provisions of fines and penalties in Income Tax Act. These provisions initiate the taxpayers to pay tax in time and in right manner. But it is a matter of regret that the taxpayers have little/ less knowledge about income tax. But majority of the respondents disagrees that the provisions related to the fines and penalties of Income Tax Act is not satisfactory. They have pointed out so many points to make it effective.

But the effectiveness of provisions mainly depends on the tax administration. The respondents clearly state that our administration is not capable to administer the tax rules properly, so they are inefficient. Main causes of this inefficiency are corruption, lack of competency, undue influence/ pressure, lack of information etc.

Tax not paying in time and in proper way by taxpayers is crime and they will be penalized. But they are unable to comply the provisions due to lack of proper publicity and education with taxpayers. If the tax administration is efficient in administering the tax rule properly, then such provisions certainly motivate the taxpayer and help government in collecting more revenue. Again most of the respondents have their views that the provided provision of fines and penalties is not satisfactory and sufficient. It needs to be improvement on language with dual and vague meaning, on provision of fines and penalties, timely correction on the provisions as well as tax law and rules, utilization of the modern information technology on the tax administration, trained and competent staff in tax administration.

5.2 Conclusion:

Being one of the least developed nations in the world, Nepal has always been suffering from the social and economic problems. Nepal could not successfully and properly tear the curtain built from the massive poverty, hunger diseases, unemployment,

heavy dependence on agriculture, low income level and social, political and geographical constraint. Lack of sufficient financial resources is the main for all the above.

The government needs huge amount of funds for the development of national economic. To fulfill such objectives government collects revenue from various sources. Government revenue structure of Nepal is composing of internal revenue and external revenue. Internal revenue includes tax revenue and non-tax revenue, where tax revenue has dominant share in Nepalese government. Internal revenue is preferable for sustainable economic development. But Nepal has been unable for proper mobilization of internal resources, it also heavily relying on foreign loans and grants. The dependence is increasing which is dangerous for any economy. Fiscal deficit of Nepal has been increasing.

Income tax is one of the important measures to collect internal revenue to increase government revenue. Therefore income tax was introduced in the fiscal year 1959/60. Income tax collection in Nepal is satisfactory and the percentage of income tax to government revenue is in increasing trend.

The concept of punishment has been also emerged in income tax system of Nepal. It has been emerged for taxpayers who do not comply the tax law. It is imposed according to the provisions provided b the Income Tax Act. It plays an important role to collect tax. There are no doubt fines and penalties must be imposed to the defective taxpayers but also to control tax evasion.

The success and effectiveness of income tax system entirely depends up on the implementation of provision made by the Income Tax Act, which is the major responsibility of income tax administration. Income tax system of Nepal has blamed as not efficient enough due to various problems existed in income tax. For the economic development of Nepal the problems relating to income tax system of Nepal should be solved and resources should be effectively utilized.

5.3 Recommendations:

On the basis of above analysis, the following recommendations have been made regarding income tax system, its administration and effective implementation of income tax.

1. Income tax policy should be made such that the main goal of imposing tax can be achieved. Income tax policy should be revised timely.
2. Income tax act, rules and regulation should be clear and simple for all tax payers as well as for tax administrators.
3. Tax paying habit of Nepalese taxpayers is poor. To improve the taxpaying habit of Nepalese taxpayers, provisions of fine and penalty should be made effectives. Similarly concessions/rebates on tax rate should also be granted and tax awareness program should be organized.
4. Most of the taxpayers are unfamiliar with the income tax act, its provisions as well as provision related to fine and penalty. For this purpose, information should be provided by different media, by organizing seminar and other tax related program as well as providing orientation to taxpayers.
5. The rate of fines and penalties should be increase. The provision of fines, penalties and punishment should be made a higher rate for income tax evaders.
6. To impose fine and penalties effectively as per Income Tax Act, tax administration should be made free from corruption, motivating them through punishment and rewards system, unnecessary outside pressure should be ignored; coordination between tax personnel and department must be established.
7. Tax personnel should be encouraged, punished and transferred on the basis of their work and experience. Regular and effective trainings, seminars, rewards, prizes and punishment system should be established for the effective personnel management.
8. Effective, efficient and two way information system between taxpayers and tax authorities should be developed and maintained. Tax administration should possess multiple source of information system.
9. The provision of rewards, prize, incentives should be introduces in the act to encourages the taxpayers to pay tax voluntarily rather than through coercive matter.
10. The tax system should be practical and effective. It should match the national economic condition. It should be equally beneficial to the taxpayers.

11. Tax laws should be clear, comprehensive and simple. It should not contain any ambiguity and should be revised frequently and reformed.
12. Computerized information system should be established to keep up to date records as well as for payment of income tax.
13. To improve the tax collection procedure, maximum penalties should be imposed for non-compliance of income tax within the due date.
14. Income tax policy should be made attractive also for foreign business group.