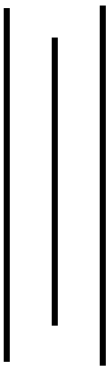
REVENUE COLLECTION FROM INCOME TAX AND ITS PRACTICAL DIFFICULTIES IN NEPAL

By
AKHANDA SHRESTHA
Shanker Dev Campus
T.U. Regd. No. 7-2-302-1-2002
Campus Roll No. : 1052/062

A Thesis Submitted to
Office of the Dean
Faculty of Management
Tribhuvan University



In partial fulfillment of the requirement for the Degree of
Master of Business Studies (M.B.S)

Kathmandu, Nepal
April, 2009

Tribhuvan University

Faculty of Management

Shanker Dev Campus

RECOMMENDATION

This is to certify that the thesis

Submitted by:

AKHANDA SHRESTHA

Entitled:

REVENUE COLLECTION FROM INCOME TAX AND ITS PRACTICAL DIFFICULTIES IN NEPAL

has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

…….	…….
Dr. Kamal Deep Dhakal	**Dr. Kamal Deep Dhakal**
(Thesis Supervisor)	**(Campus Chief**

Faculty of Management

Shanker Dev Campus

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by:

AKHANDA SHRESTHA

Entitled:

REVENUE COLLECTION FROM INCOME TAX AND ITS PRACTICAL DIFFICULTIES IN NEPAL

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

Master Degree in Business Studies (MBS)

Viva-Voce Committee

Head, Research Department ……

Member (Thesis Supervisor) ……

Member (External Expert) ……

Faculty of Management

Shanker Dev Campus

DECLARATION

I hereby declare that the work reported in this thesis entitled **"Revenue collection from Income tax and its practical difficulties in Nepal"** submitted to Shanker Dev Campus, faculty of management, Tribhuvan University is my original research work done in the form of partial fulfillment for the requirement of Master of Business Studies (MBS) under the supervision and guidance of Campus, Chief Dr. Kamal Deep Dhakal, Shanker Dev Campus.

Akhanda Shrestha
Researcher
Shanker Dev Campus
T.U Regd. No. 7-2-302-01-2002
Roll No. 1052/062
Date : April 2009

Acknowledgement

This thesis is prepared as dissertation for the partial fulfillment of the requirements for the master degree course in management. It has been tried to cover empirical findings concerning tax in the context of Nepal. This study deals with the revenue collection from tax in different years, problems of tax collection system in Nepal and knowledge about the tax of different persons in Nepal.

At this moment, I would not like to forget numerous suggestions, comments and instructions given by Dr. Kamal Deep Dhakal, who is my supervisor and also respected Campus Chief of Shanker Dev Campus. This Thesis is the outcome of his continuous encouragement, many helpful suggestions and comments.

I am very grateful to Dr. Bisheshwor Man Shrestha my other respected teacher and Head of the Research Department, whose valuable suggestions helped me to complete this research work. I would also like to record my indebtness to all my respected teachers, all administrative staff, and library staffs of Shanker Dev Campus for providing valuable suggestions, information and comments.

I would like to thank Mr. Suresh Poudel, Mr. Binda Chamlagain for them suggestion and comments. Likewise, all respondents deserve special thanks for their suggestions and responding my questionnaire. I would like to express my thanks to the staff of Inland Revenue Department, Lagimpat for their help and support for data collection.

At last, I am indebted to Mr. Ramesh for editing the manuscripts and printing this thesis.

Date: April 2009

Kathmandu

Akhanda Shrestha

Roll No. 1052/062

TABLE OF CONTENTS

Recommendation

Viva-Voce Sheet

Declaration

Acknowledgement

List of Tables

List of Figures

Abbreviation

CONTENTS

S.N. Title **Page No.**

CHAPTER- 1

INTRODUCTION

1.1 General background 1

1.2 Statement of problem 2

1.3 Objectives of the study.....3

1.4 Focus of the study.....3

1.5 Research Methodology.....4

1.6 Limitation of the study 5

1.7 Organization of the study 5

CHAPTER- 2

REVIEW OF LITERATURE

2.1 Concept of tax 7

2.2 Objectives of tax.....9

2.3 Classification of Taxes 10

2.4 Canons of Taxation 12

2.5 Meaning of income tax.....12

2.6 International History of income tax 14

2.7 Historical Aspects of income tax in Nepal.....15

2.8 Income tax in Modern Nepal.....17
2.9 Head of income 23
2.10 Individual taxpayer.....29
2.11 Tax exempt incomes under this income tax Act 33
2.12 Specimen for computing income.....34
2.13 Methods of income tax assessment 40
2.14 Installment payment 41
2.15 Appeal 41
2.16 Offences 41
2.17 The super Act 42
2.18 Review of Literature.....42
2.19 Review of Books and Reports.....42
2.20 Review of Dissertation 49
2.21 Research gap 57

CHAPTER- 3

RESEARCH METHODOLOGY

3.1 Research Design.....59
3.2 Population and sample 60
3.3 Source of Data 60
3.4 Data Collection procedures 61
3.5 Data processing and analysis procedure.....62

CHAPTER- 4

DATA PRESENTATION AND ANALYSIS

4.1 Analysis of Secondary Data 63
4.1.1 Revenue collection from tax 63
4.1.2 Composition of tax revenue 64
4.1.3 Composition of tax revenue and non tax revenue 66

4.1.4 Revenue collection from income tax.....68
4.1.5 Composition of income tax 70
4.1.6 Contribution of income tax to total revenue.....71
4.1.7 Contribution of income tax to total tax revenue.....73
4.1.8 Contribution of income tax to direct tax revenue.....75
4.1.9 Government expenditure 77
4.1.10 Government Receipts 79
4.1.11 Comparative study of government receipts and expenditure 80
4.1.12 Exemption Limit in Nepal.....82
4.2 Analysis of primary data 84
4.2.1 Introduction 84
4.2.2 Result of Empirical investigation.....85
4.2.2.1 Income tax as suitable means of raising Government revenue 85
4.2.2.2 Need of public awareness program.....86
4.2.2.3 Contribution of Income Tax Revenue.....87
4.2.2.4 Reasons for low contribution of Income Tax 88
4.2.2.5 Contribution of Direct Tax.....90
4.2.2.6 Appropriateness of Exemption and Deduction 91
4.2.2.7 Appropriate Method of Income Tax Assessment 92
4.2.2.8 Attitude toward Problems in Paying Income Tax.....93
4.2.2.9 Reasonableness of Existing Provision of Fines and Penalty 95
4.2.2.10 Soundness of Income Tax System in Nepal 96
4.2.2.11 Effectiveness of Income Tax Administration 98
4.2.2.12 Suitable Tax Rate in Nepal 99
4.2.2.13 Most important factors for effectiveness of Income Tax...99
4.3 Major findings of the study 101

4.3.1 Findings from the secondary data 101
4.3.2 Findings from the study of primary data 104

CHAPTER- 5

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary 106
5.2 Conclusion 109
5.3 Recommendations 111

BIBLIOGRAPHY

APPENDIX

QUESTIONAIRRE

LIST OF TABLE

Table no.	Title	Page no.
3.1	Groups of Respondents and size of Samples from each group	60
4.1	Revenue collection from tax	63
4.2	Composition of tax revenue	65
4.3	Composition of tax revenue and non tax revenue	67
4.4	Revenue collection from income tax	69
4.5	Composition of income tax	70
4.6	Contribution of income tax to total revenue	72
4.7	Contribution of income tax to total tax revenue	74
4.8	Contribution of income tax to direct tax revenue	76
4.9	Government expenditure	78
4.10	Government Receipts	79
4.11	Comparative study of government receipts and expenditure	80
4.12	Exemption Limit in Nepal	82
4.13	Group of Respondents and Number from each Group	84
4.14	Income tax as a suitable means of raising revenue	85
4.15	Need of public awareness program	86
4.16	Satisfactory Contribution of Income Tax Revenue	87
4.17	Reasons for Low contribution of Income Tax to National Revenue	89
4.18	View towards Effective Contribution of Direct Tax	90
4.19	Appropriateness of Exemption and Deduction	92
4.20	Appropriate Method of Income Tax Assessment	93
4.21	Problems in Tax Paying	94
4.22	Reasonableness of existing Provision of Fines and Penalty	95
4.23	Reasonable Fine and Penalty Rate	96
4.24	Soundness of Income Tax System in Nepal	97
4.25	Effectiveness of Income Tax administration in Nepal	98
4.26	Suitable Tax Rate in Nepal	99
4.27	Most important factors for effectiveness of Income Tax	100

LIST OF FIGURE

Figure no.	Title	Page no.
4.1	Revenue collection from tax	64
4.2	Composition of tax revenue	66
4.3	Composition of tax and non tax revenue	68
4.4	Revenue collection from income tax	69
4.5	Composition of income tax revenue	71
4.6	Contribution of income tax to total revenue	73
4.7	Contribution of income tax to total tax revenue	75
4.8	Contribution of income tax to direct tax revenue	77
4.9	Government expenditure	78
4.10	Government Receipts composition	80
4.11	Trend of deficit	81
4.12	Income tax as a suitable means of raising revenue	85
4.13	Satisfactory Contribution of Income Tax Revenue	88
4.14	View towards Effective Contribution of Direct Tax	91
4.15	View towards incomes tax system in Nepal	97

Acronyms

B.S.	: Bikram Sambat
ed.	: Education
FNCCI	: Federation of Nepalese Chamber of Commerce and Industry.
FY	: Fiscal Year
GAAP	: General Accepted Accounting Principle
GDP	: Gross Domestic Product.
Govt	: Government
i.e.	: That is
IMF	: International Monetary Fund.
IRD	: Inland Revenue Department.
Mgmt	: Management
MOF	: Ministry of Finance.
NCC	: Nepalese Chamber of Commerce
No.	: Number
PAN	: Permanent Account number
Rs.	: Rupees
RST	: Retailer sales tax
SAARC	: South Asian Association for regional co-operation
SN	: Serial Number
TPIN	: Tax Payers Identification Number
T.U.	: Tribhuvan University
UN	: United Nations
VAT	: Value Added Tax
WST	: Wholesaler sales tax
&	: And