

# CHAPTER-I

## INTRODUCTION

### 1.1 Background of the Study

Nepal is a small country which lies between two big countries India and China. It is least developed country in the world. It has per capita income 350 US Dollars (UNDP Report, 2008), which is lowest in South Asia Association for Regional Co-operation (SAARC) countries and almost lower per capita income in the world. The economic status of the Nepalese people is very poor in the world. Majority of population of the country engaged in agriculture. They are still using traditional method of farming rather than modern farming techniques. The rate of production of fertility is very low. Automatically, we know about the business position by seeing this agriculture scenario. It requires huge amount of revenue to make the economic condition strong and shifted the agriculture base economy in business based economy.

Every government of a country requires sufficient revenue to carry out development plans to handle day to day administration, to maintain peace and security and to launch public welfare activities in order to carry out such activities, the government collect revenues from various sources such as: tax revenues, fees, fine, penalties, subsidies and aids (Bhattraai and Koirala, 2006). Among them tax is the main sources of government revenue. In every country, the largest part of the government revenue is raised through taxation. Tax may be imposed on person income. Tax is compulsory contribution imposed by public authority using the right given by tax law. Taxpayers do not expect any return for his tax paying. It is neither an expect amount nor a penalty for any legal an exact. The chief

function of taxation is that it ensures collective taxation saving for the purpose of public investment and at the same time provides incentives for promoting private investment. Thus, its importance cannot be ignored on the overall policy scheme of the government of the developing economy. Taxes are not voluntary purchases payment but mandatory imposition, payable in line with whatever tax statute has been legislated.

Tax is collected mainly from two ways: one is direct tax and another is indirect tax. Direct tax is actually paid by the person on whom it is imposed. For example: income tax, gift tax, property tax, vehicle tax etc. while indirect tax is imposed on one person but another person abides to pay it partly or wholly. For example, value added tax (VAT), entertainment tax, hotel tax, sales tax etc. In fact, incomes tax, VAT and local tax are the main source of government revenue. Among them income tax is one of the most popular direct tax. It is charged on person's income. According to Income Tax Act 2058, income includes all the incomes, which are derived from business, investment and employment. Income tax is superior to indirect tax because it is imposed on the basis of ability to pay of the taxpayer. People whose income is below then taxable income are freed from the obligation of income tax. The main objective of tax is to distribute the wealth in equitable manner. It makes possible to reduce the gaps in the economy by imposing higher tax rates those who are having high income. Hence, it will help to make equitable economic distribution in the society. Balance regional economic development is also possible through the provision of income tax.

The government should charge higher income tax on the income from urban area and less on the income from remote area. Income tax holidays and incentives would help to develop the Priority sector of a national economy. This type of provision makes the industries shifted in urban

Area. Which produces employment in urban area. Similarly, VAT is the form of indirect tax. It is developed form of sale tax. The basic objectives of VAT are to collect revenue. It is the tax that is imposed on the value addition in its stage of production or sales. The sales taxes replaced by VAT are to avoid cascading to make account system transparent and to control the tax evasion. VAT can be collect in two ways: Subtraction and additional. Subtraction method of VAT is popular in the world. VAT system was introduced in 1919 and used in 1954. In Nepal, it was introduced in 1997 replacing sales tax, entertainment tax, hotel tax and contract tax. At present, rate of VAT in Nepal is 13%. Similarly, local tax is other types of direct tax which contribute huge amount of tax revenue. It is not a single but groups of taxes. The main variant of local tax is property tax which means a tax imposed by local body on the value of property located within the jurisdiction of that local body. The other variants are vehicle tax, business tax etc. The authority to collect the revenue to local bodies is given to provide real autonomy to them since no autonomy can be felt without sufficient self mobilized revenue. It is as old as the cities. However, in Nepal, the concept of local tax is a new one. Now, Local Tax Act, 2055 is implementing in Nepal.

Those who pay tax are known as taxpayer. Taxpayers may be classified into two categories. They are large taxpayers and small taxpayers include general taxpayers and presumptive taxpayers. A person or an entity whose annual income (sales) is more than two million is classified under large taxpayers. It included sole proprietorship business, partnership, private limited and limited company. Similarly, a person or an entity whose annual income (sales) is less than two million is classified under small taxpayers. This study is concerned with awareness of taxpayer towards business taxation. Tax payers and their awareness mean what types of knowledge

they have about the income tax act 2058. They know all the provision in income tax Act 2058. They have knowledge about different facilities provided by the government in tax law. There is no doubt if the tax payers are aware about the tax law both the government and tax payers should be benefited. In Nepal, 95% of the taxpayers want to hide the income and they are not interested to pay tax as their duty but in foreign country 95% of taxpayers willing to pay their tax liabilities (8 December 2005, Kantipur Daily). Nepal is a least developed country; sources of government revenue are very limited. Revenue structure of Nepal is depends on the foreign aids and loans. Foreigners give the donations and aids and they also mentioned different terms and conditions, which make the proper utilization of find very difficult. They make us depend in others. Therefore internal source is the key factor of government revenue to be independent. Most of the government revenue is collected from business activities. To collect the revenue from internal sources the government of the country should provide infrastructure business related laws and other necessary things. Similarly government should make business friendly relation with taxpayers.

## **1.2 Statement of Problems**

Nepal is a least developed country. It needs huge amount of revenue to provide needed facilities to operate trade and industries. To make economic condition strong. Nepal needs more economic growth then now. It has not raised enough funds from tax revenue. In Nepal, there is not business friendly environment.

Nepal has gap between required resources and supply of sources. To fulfill the gap, Nepal has to face various problem like tax evasion, lack of tax consciousness, poor tax administration etc. If Nepal manages the above

mentioned problems, it can collect sufficient revenue to provide more facilities and simultaneous living standard of the people would be better.

The contribution of income tax to the national budget must be increased to achieve the goal of national development and equal economic distribution. The goal can be increased only if the government of Nepal takes steps by bringing the new taxpayers into tax net and implementing the tax laws effectively. So as to discourage the tax evasion practice and loopholes of tax must be traced out. So this study mention simple problems but it shows the real problems of this study. The statement of the problems can be mentioned as follows:

- ❖ What is the present position of awareness of tax payer towards business taxation?
- ❖ Why they do not have knowledge about concession, rebates and facilities provided by the government in tax law?
- ❖ Why they do not register their firm?
- ❖ Why they do not pay tax according to Tax Act?

### **1.3 Objectives of the study**

Every study must have some specific objectives. So, this study has also some specific objectives. The main objectives of this study are to analyze the awareness of taxpayers towards business taxation. The following objectives have been set up as follows:

- ❖ To know the view of taxpayer about the business taxation.
- ❖ To find out the awareness of taxpayers about concession, rebates and allowances provided by the tax Act.
- ❖ To find out the effectiveness of the business taxation.

- ❖ To recommend possible measure for future improvement in business taxation and bring all taxpayer in tax net.

## **1.4 Significance of the study**

Every country needs huge amount of revenue to conduct various activities such as making infrastructure, security and other administrative work. Its source of income is tax, fines and penalty loan and subsidies and foreign Aid. Among them tax is the main sources of income. The government collects tax mainly from two types of tax payers. The first type of tax payers is small taxpayers and another one is large tax payers. Nepal is a small least developed country that's why there are so many organizations and they contributes huge amount of tax in government revenue. Business is the back bone of economy. It represents the development of the country. When there is strong business base economy; automatically they create employment and it keeps symmetrical relation to the purchasing power of people. Factors of production (land, labour, capital and technology) are easily available in market. All these activities automatically increase the government revenue.

To bring all the taxpayers into tax net, the government should take steps to aware the taxpayer's about present tax system. Taxpayers need to know about the different facilities provided by the tax law. The government should make business friendly environment to all taxpayers and bring into tax net. The study encourage the taxpayers to come into tax net and reduce tax burden by the tax planning rather than tax evasion and tax avoidance.

## **1.5 Limitations of the study**

Resources, time and availabilities if data are the main factors of the study. Here the time given by the resource department of the Tribhuvan University (TU) limits the macro level investigations and makes difficult

to find out exact truth. Similarly, this research depends on mainly in primary data. Primary data, it-self may not be accurate if the respondents bias. Its main limitations are as follows:

- ❖ Availability and reliability of data.
- ❖ To measure the degree of awareness exactly.
- ❖ This study covers only Baneswor Area.
- ❖ Resources and time factors also limit the study.
- ❖ This study is case study. The finding may not suitable for all cases.

## **1.6 Organization of the study**

Systematic organizing the study is the key factor for writing thesis. It makes the study easier and meaningful. The format provided by the research department of TU organization of the study is as follows:

### **Chapter 1:– Introduction :–**

This chapter includes general background of the study, statement of the problems, objectives of the study, significance of the study, limitation of the study and organization of the study.

### **Chapter 2:–Review of the Literature :–**

This chapter includes review of previous books, journals and thesis.

### **Chapter 3:– Research Methodology :–**

This chapter includes research design, population and sample, sources of data, data analysis tools.

### **Chapter 4:– Data Presentation and Analysis :–**

This chapter includes data presentation and analysis and major finding of the study.

**Chapter 5 :–** This chapter includes summary, conclusion and recommendation.

## CHAPTER-II

### REVIEW OF LITERATURE

Very few studies have been done on the topic taxpayer and their awareness towards business taxation. It is a way to discover what the other researcher have covered and left in the area. A critical review of the literature help the researcher to develop a through under standing and insight into previous resources works that relates to the present study. It is also way to avoid investigation on problem that has already been definitely answered. Thus a literature review is the process of locating, obtaining, reading and evaluating the resource literature in the area of the student's interest. The purpose of the literature review is to find out what research studies have been conducted in that chosen field and what remains to do.

#### 2.1 Conceptual Framework

In this topics, meaning of taxation, principle of taxation, types and classification of taxes, objectives of taxation, historical development of taxation, historical development of Income Tax laws in Nepal, Income Tax Act (2058) are to describe to knows the concept of taxation.

##### 2.1.1 Meaning of Taxation

Different persons have defined tax in different ways. In this respect, it would be better to take the definition given by Seligman. Tax is a "Compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred." (Seligman as cited in Kandel 2004). As the above definition, it can be said that firstly, a tax is a compulsory levy and those who taxed have to pay it without getting corresponding benefit of



service or goods from the government. The taxpayer does not have any right to receive direct benefit from the tax paid.

Due to the compulsory nature people have expressed different views in satirical ways about the tax. Some says, "Nothing is certain in this world but death and taxes." Some says, "Death and taxes are both certain but death is not annual." While other says, "Death means stopping to pay tax" (Kandel 2004). Here it should be noted that all compulsory payments are not taxes. For example: fines and fees are also compulsory payments without having any direct benefit to the taxpayers but they are not tax because their objective is not to collect revenue but to curb certain types of offences. Secondly, taxpayer can not receive any quip pro-quo for the payment of the 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 service. The charges of price for goods and service 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.

In conclusion, it can be said that a tax is a liability to pay an amount to the state. The basis for the payment is that the assesses have income of a minimum amount from certain specified sources or that they own certain tangible or intangible properties or that they carry on certain economic activities or they consume certain goods and services which have been chosen for taxation. One thing is noted that tax and taxes are not synonymous terms. Taxation is a device for imposing tax.

## **2.1.2 Principle of Taxation**

The principle purpose of taxation is to raise revenue to support public services. A good tax system is pre-requisite to attain goal of required revenue. The goal may be obtained through many ways. But, there are set up principles written by various scholars. The principle of good taxation emerges since the start of the seventeenth century. A French scholar, Jean Baptiste Colbert argues that a fundamental deliberation about principle of taxation. In his argument "The art of taxation is the art of plucking the goose so as to get the largest possible amount of feather with the least possible squealing." Likewise, the famous economist, Adam Smith wrote "An enquiry into the nature and causes of the wealth of nations" in 1776 and mentioned four maxims of taxation. However, among of tax system of different nations wide variations exist in how money is raise and spent? Tax and expenditure policies reveal the fundamental ideology of a government and a political system.

The successive writers to the development of taxation principles may be distinctly divided into two approaches: (1) "The benefit approach " and (2) "The ability to pay approach". He argues that benefit approach views the tax services supplied by government free of direct charges. In ability to pay approach, taxation which is unrelated to benefit to seen as a compulsory payment and the revenue expenditure process is viewed as a planning problem not subject to solution by the rules of market. Thus, the principle to design a good tax system is evaluated on the basis ability-to-pay principles.

### **2.1.3 Types and Classification of Tax**

Tax can be classified into different division on different basis. The economists have classified a long list of different types of taxes. They classified into five groups. Those may be grouped on the basis of their form, structure, nature, essence and volume.

#### **2.1.3.1 On the basis of form**

On the basis of form, tax can be divided into direct and indirect tax.

##### **◆ Direct and Indirect Tax**

One of the most important and widely used classifications of taxes is the direct and indirect tax. The economists who are devoted on the principle of taxation have defined it in their own way. In 1917 (The first was on 1892), Bastable wrote 'Public finance' and stated that "Those taxes are direct tax which are levied on permanent and recurring occasion, while charges on occasional and particular events are placed under the category of indirect taxation."

Bastable's distinction between direct and indirect taxes is vague. The above stated definition makes confusion too. Both direct and indirect taxes may be recurring nature but direct taxes are more permanent in nature as compared to indirect. Thus, Bastable definition couldn't clarify the position of direct tax and indirect tax.

In 1903, Mill defined direct and indirect taxes as; "A direct tax is one, which is demanded from the very persons who, it is intended of desired, should pay it. Indirect taxes are those which are demanded from one person in the expectation and intention that he shall indemnify himself at the expense of another."

The stated definition clears that a direct tax is actually paid by the person on whom it is imposed formally while as indirect tax is imposed on one person but another person abide to pay it partly or wholly.

### **2.1.3.2 On the basis of Structure**

Economists have classified taxes into four types on the basis of tax rate structure. They are explained as follows:

#### **◆ Proportional Tax**

If tax is similar to all tax payers, it is proportional tax. Through the tax rate is same, the amount of tax goes on increasing with the increase in tax base.

#### **◆ Progressive Tax**

If the rate itself of tax goes increasing with the increase in tax base, it is known as progressive tax.

#### **◆ Regressive Tax**

If the tax rate goes on decreasing with the increase in the ability to pay or tax base, it is called regressive tax.

#### **◆ Digressive Tax**

Digressive tax is the combination of progressive and proportional tax. The rate of taxation increase to certain limit and the rate remain constant after crossing the limit of income.

### **2.1.3.3 On the basis of Nature**

On the basis of nature, taxes can be classified into various groups: income, property, production, consumption, capital goods and consumption goods taxes etc.

#### **◆ Income Tax**

Income tax is levied on the earning of a person or corporation. It includes employment, business and investment income. A person or corporation pays tax if they earn taxable income.

#### **◆ Property Tax**

Property tax is a levy on an individual's wealth, the value of person's assets on both financial (stocks and bonds) and real property (house, car and art work).

#### **◆ Production Tax**

Production tax is levied by state on value or quantity of production or extraction of natural resources. It includes gasoline tax, gold production tax, crude oil tax, kerosene production tax etc.

#### **◆ Consumption Tax**

A consumption tax is a levy which is imposed on sales of goods or services. The most important kinds of consumption taxes are general sales tax, excise tax, Value added tax (VAT) and tariffs.

#### **◆ Capital Gain Tax**

A capital gain tax is a levy on profit realized upon sales of an asset. It includes gains from sale of financial assets including securities, derivatives or personal property as capital gains.

#### **2.1.3.4 On the basis of Essence**

On the basis of essences, tax can be classified into two categories as specific tax and ad valorem tax. These both are commodity taxes.

##### **◆ Specific Tax**

If a tax imposed as a fixed sum on each article or item or property of a given class or kind without considering its value, that is known as specific tax. In the specific tax, levy is imposed on a commodity according to its weight, size and length and measurement.

##### **◆ Ad valorem Tax**

The term "Ad valorem" denotes that in proportion to the value. The ad valorem tax is imposed on the basis of value of property. Thus, the taxes that are bases on value are called ad valorem. Especially, these are imposed in commodity according to their value.

#### **2.1.3.5 On the basis of Volume**

On the basis of volume, taxes can be classified into two categories: Single tax multiple taxes.

##### **◆ Single Tax**

Single tax occurs in a system in which the taxes are levied only one subject. There is only one tax which constitutes the source of public revenue. The single tax suggests government to grasp up those who create surplus and tax them accordingly.

##### **◆ Multiple Tax**

A multiple taxes system refers to those taxations in which taxes are levied on various items, forms and incidences. This multiple system of taxation conflicts with single tax system. The defender of multiple tax

system assumes that the contribution of different taxes contribute to achieves different objectives.

#### **2.1.4 Objectives of Taxation**

Tax is permanent instrument for collecting revenues. SO it has been very essential element of a government from the every beginning of the state system. However, the main objective of taxation has been different for different epochs. In ancient time, the major objective of taxation was strengthening the muscle of the state by providing the resources. Till to the time of Adam smith, the chief motive of collecting the revenue was to provide resource to the government for providing security to an individual and society against violence, invasion and injustice and maintaining public institutions. In modern days, the main objective of taxation has been shifted from security perception to the economic development. The modern objective of taxation is not only to maintain peace and security but also to conduct development activities. The main objectives of tax are: to raise more revenue, to prevent concentration of wealth in few hands, to redistribute wealth for the common good, to boost up the economy, to reduce unemployment and to remove regional disparities.

#### **2.1.5 Historical Development of Taxation**

Modern taxation is developed from different stage. It is started with the human civilization. Those steps of development of taxation are presented as follows:

##### **2.1.5.1 Ancient Great India**

Rangarajan (1990 p. 19) Stressed Kautilya was a master kind. 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 Artha shastra was compilation made by scholar, Kautilya in 150 A.D. The Arthashastra includes different type of cash and king taxes. Such as: custom duty (Sulka), Transaction tax (Vyaji), tax (Kare) etc.

### **2.1.5.2 Ancient Egypt**

In ancient period tax collectors were known as scribes in Egypt. They taxed even on cooking oil to collect the adequate revenue from citizens. According to Charles Adams, Egyptian workers and farmers lost their desire to work, business person moved away. Sound money disappeared as an influential inflation destroyed the capital.

### **2.1.5.3 Ancient Gress**

Adam stresses that the time of war the Athenians imposed a tax referred to as eisphora. No one was exempt from tax which was used to pay for special war time expenditure. Athenians imposed a monthly poll tax on foreigners, people who didn't have both an American father and mother of one drachma for man and a half drachma for women. The taxes are referred to as metoikion.

### **2.1.5.4 Roman Empire**

The Earliest taxes in Rome were customs duties on imports and exports called portoria. Augustus instituted an inheritance tax to provide retirement fund for the military. The tax was five percent on all inheritance except gifts to children and spouse. The English and Dutch referred to the inheritance tax on Augustus in developing their own inheritance tax.



### **2.1.5.5 Great Britain**

In 1215 A.D., King John of England was compelled to sign the Magna Carta. It was a charter of liberty obtained from king. It guaranteed free trade to merchants within England and it established the principle of "Separation of powers".

Modern forms of income taxation date to a British income tax levied in 1799. This tax raised revenue for the Napoleonic wars against France, which Britain and a coalition of other European nations won in 1815. After the war ended with Napoleon, the income tax of 1799 was withdrawn by a large majority repealing a second income tax in 1816. The parliament of England ordered to the 1804 income tax and all the government income tax records shattered.

During the nineteenth century, the German states also introduced income tax. In a few short years, the leading tax expert in America would be contrary to the course of development of every income tax system in the world. The spirit of Britain's modest income tax would become outmoded and unworkable.

### **2.1.5.6 American Tax War**

Adams points that American civil war more accurately, "The rich man's war and poor man's fight"— was caused by taxation. It was called the "American Tax War". At the time, the south paid about three quarters of all federal taxes. The tax system shifted wealth from the south to the north. The proverbial "straw that broke the camels back" was the moral tariff, passed by congress in 1861, and signed by Abraham Lincoln. Jefferson Davis, the first president of the confederacy, justified secession in his inaugural address by making reference to the declaration of independence then emphasizing the

import tax issue." The North, led by Abraham Lincoln, practiced economic rape against the south. The civil war was fought over taxes, not slavery.

The year 1894, may have been civilization's most important tax year. Britain adopted new death duties with progressive rates and united states adopted an income tax. The progressive rate in Britain soon applied to income taxation everywhere. The taxation habits of civilization would never be the same again.

#### **2.1.5.7 Pay-Tax-As-You-Earn-System**

In 1994, the Great Britain introduced Pay-Tax-As-You-Earn (PAYE) system. This replaced annual or twice yearly collections. Tax was deducted by employers and when an employee left an employer, they were given a code number income to date and tax paid to data. The scheme was piloted by Sir Kingsley Wood.

#### **2.1.6 Historical Development of Income Tax Lays in Nepal**

Great Britain is the first country in the world to introduce the modern income tax. It introduces income tax in 1799 to finance the war fought with France. USA introduces income tax in 1862 to generate revenue to finance civil war. In India, while income tax in its modern form was adopted in 1860, several experiments were made from 1860 to 1866 and finally the systematic income tax legislation was enacted in 1866.

Although, the taxes were collected in various forms in ancient era, the history of modern tax is not very old in Nepal. The idea of introducing income tax in Nepal originated in the yearly 1950s when a multi-party democratic political system was introduced. In 1951, the finance Minister in his budget speech declared the intention of the government to levy an income tax.

Attempts were made to introduce income tax in subsequent years. In 1954, an income tax with Rs 100000 Basis allowance and progressive tax ranging from 5 to 25% was proposed. Due to political instability it could not be introduced until 2057 (2000).

The first elected government in 1959 finally introduced Business profit and salaries tax Acts, 1960 in Nepal. At that time, income tax was levied only on business profit and salaries. After about three years experience of income tax, the government replaced the prevailing tax Act by income tax Act, 1962. The coverage was extended in Act. In 1974, income tax Act 1974 (2031) was enacted. The Act remunerated income sources into five groups: (a) Agriculture, (b) Industry, trade, profession or occupation, (c) Remuneration, (d) House and Compound rent, (e) Other sources. However, agriculture income was kept outside the tax net except few years through the finance Acts.

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation and to amend and integrate the laws relating to income tax, the parliament of Nepal enacted income tax Act, 2002 (2058). This act has replaced income tax Act, 1974 (2031), which was amended for eight times and existed for a period of 28 years. The Government of Nepal framed income tax rules 2059 in 2059 to help clarifying the Act.

### **2.1.7 Income Tax Act (ITA), 2058**

Income tax Act, 2058 replaced the income tax Act, 2031 due to different defects. Narrow tax base, income tax related matter were governed by various Acts, silent with regarding to international taxation, no clear

provision regarding taxation of capital gain, etc. are the main drawback of income tax Act, 2031, practicing Income Tax Act, 2058. So it is necessary to maintain different provision of Income Tax Act, 2058. So they are mention below:

### **2.1.7.1 Heads of Income**

The Act imposes tax on those activities contributing towards the certain of wealth. Wealth is created with the help of labor, capital and capital-labor activities that generated income from employment, investment and business respectively. The Act has made a broad classification of income encompassing of all income earning activities. (Sec 5). They are:

#### **◆ Income from Employment**

An individual's remuneration income from an employment, termed as income from employment, are included in employment income. All payments or benefits received in respect of employment, including past or future employment are made taxable. For example, payment related to allowances, salaries, wages, payments received through third parties etc; are included in employment income.

#### **◆ Income from Business**

Profit and gains from conducting the business are considered as business income for the purpose of income tax. This type of income may include service fees, amount derived from the disposal of trading stocks, net gains from disposal of business Assets (Liabilities), gifts, relating to the business and other amount.

## ◆ **Income from Investment**

Profit and gains from conducting an investment are considered as investment income. All types of investment income including dividend, interest, natural resources payment, royalty, gain from investment, insurance gain from an unapproved retirement fund, retirement payment made by an approved retirement fund are included in investment income.

### **2.1.7.2 Taxable Income**

The following items are taxable income as per section 7:

- a. Service Fee
- b. Amount derived from the disposal of trading stocks.
- c. Net gain from disposal of business assets/liabilities.
- d. Gifts related to business
- e. Bad debt recovery
- f. Under payment of interest than standard
- g. Income from investment direct related to business (Sole trading)
- h. Compensation received from the restriction of business.
- i. Gain due to change on exchange rate
- j. Amount required to be included due to change in accounting system.
- k. Amount required to be included as per completion of percentage of work under long term contract.
- l. Compensation against loss of stock or loss of profit.
- m. Amount received after the cessation (closing) of a business
- n. Any benefit/perquisites
- o. Deducted expenditure which is not expand
- p. Other: Discount received, Commission received, Sundry income, Miscellaneous.

### **2.1.7.3 Non-Taxable Income**

The following amounts are exempt for tax as per section 10, 11 (1)

- a. Income from agriculture (except receipt by registered agriculture firm).
- b. Income of a co-operative society registered under Co-operative act 2048 from business agriculture/forest product as well as income of a rural saving and credit Co-operative.
- c. Tax exempts remuneration under bilateral or Multi lateral agreement with foreign government / international organization, such as: Diplomats, United Nation (UN).
- d. Remuneration received from the public fund of a foreign Government.
- e. Remuneration provided by Nepal Government to foreign citizen under tax exempt condition.
- f. Allowances provided by Nepal government to widows, senior citizen and disable person.
- g. Gifts, bequest, inheritance and scholarship except to be included under section 7, 8 and 9.
- h. Pension received by retired army or police from the public fund of a foreign government.

### **2.1.7.4 Final Withholding Payments**

The following items are final withholding payment as per section 92:

- a. Dividend received from resident company.
- b. Interest received from Bank by a natural person (but not related to business)
- c. Rent received by letting house, land and furniture and fitting by a natural person (not related to business)
- d. Income from investment insurance.
- e. Amount received from approved retirement fund / provident fund.
- f. Gain from unapproved retirement fund.
- g. Examiner ship remuneration / writing articles.
- h. Accumulated home / sick leave

- i. Meeting fees
- j. Part – time remuneration
- k. Wind fall gain

### **2.1.7.5 Non-Final Withholding or Tax Credit**

The following items are the non-final withholding as per section 99.

- a. Consultation Fees
- b. Royalty
- c. Rent from property (except house rent received by natural person)
- d. Interest (except received by natural person from bank or financial institution)

### **2.1.7.6 Deductions**

The following items are the deductions:

#### **◆ General deduction (Section 13)**

Expenses related to business incurred in order to generate income from business are fully admissible.

#### **◆ Cost of Trading Stocks**

The cost of trading stocks is calculated as per (section 15). For this purpose, cost of trading stocks is calculated as follows:

Allowable Cost of Trading Stocks = Opening Stock + Purchase during the year – Closing Stock

#### **◆ Interest Expenses (Section 14)**

Interest expenses are calculated as follows:

- i. Interest on loan (not paid to controlling entity fully admissible)
- ii. Interest on loan (paid to controlling entity) admissible but not to exceeding the limit. If the interest is paid to controlling entity (tax

exempt organization). Actual paid interest of 50% of adjusted taxable income (ignoring interest income and interest expenses) + interest income which ever is less.

◆ **Repair and Maintenance Cost (Section 16)**

Repair and maintenance cost is calculated as follows:

Allowable limit is actual repair and maintenance cost or 7% of depreciable base, whichever is less.

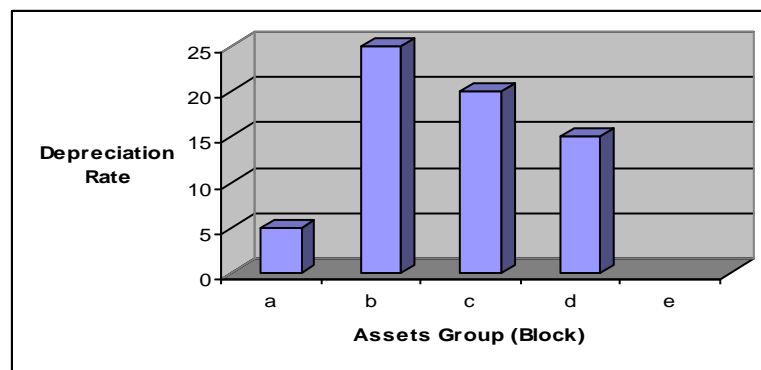
Excess repair expenses (in admissible portion) are capitalized in respective groups in order to arrive at the ending depreciation base during the relevant income year.

◆ **Depreciation on Fixed Assets (Section 19)**

It is calculated as follows:

**Table 2.1 Charging of Depreciation**

<b>Assets Group (Block)</b>	<b>Depreciation Rate</b>
A	5%
B	25%
C	20%
D	15%
E	Original cost / useful life





### ◆ **Pollution Control Cost (Section 17)**

It is calculated as under:

Allowable limit equal Actual pollution control cost (PCC) or 50% of Adjusted taxable income from business, which ever is less.

Where,

Adjusted taxable income = before deducting pollution control cost + Research and development cost + Interest paid to controlling entity + donation

### ◆ **Research and Development (R & D) Cost**

It can be calculated as follows:

Allowable limit = Actual R & D cost or 50% of adjusted taxable income from business, which ever is less.

### ◆ **Bad Debt**

Actual bad debt is charged while computing income tax.

- a. Taxes paid under existing Nepal law (except income tax)
- b. Losses : Loss on stock, set off / carry forward / backward of loss (loss of part year)
- c. Other real expenses:  
Preliminary expenditure, compensation, discount, commission, sundry expenses, miscellaneous.

### **2.1.7.7 Deductions that are Not Allowed**

The following items are the inadmissible expenses as per sec 21:

- a. Any personal or domestic expenses.
- b. Expenses not related to business.
- c. Expenses for earning not taxable income / final withholding
- d. Reserves / provisions / funds (Except risk bearing fund up to 5% of outstanding loan of bank / financial institution).

- e. dividends
- f. Cash payment in excess of Rs 50,000 at a time having annual transaction more than Rs. 20,00,000.

**Exception:**

- i. When business are closed.
- ii. If there is no banking facilities within 10 km.
- iii. If payment is made by Government of Nepal (GON), public enterprises, financial institution, bank, retirement payment.
- g. fine and penalty
- h. Income tax
- i. Others (capital expenditure and capital losses)

### **2.1.8 Custom Duty**

Customs and duties are a principle source of domestic revenue. Import tariffs are generally assessed on an ad valorem basis, with duties ranging from 0% to 140%. Most primary products, including live animals and fish, enter duty-free. Machinery and goods related to basic needs are charged 5%. Duties on agricultural imports were fixed in 2003 at 10%. Cigarettes and alcoholic beverages are charged at 100%, although alcoholic beverages with more than 60% alcohol are prohibited altogether. Other prohibited imports include narcotic drugs and beef and beef products. Products that may be imported only under special licenses include arms, ammunition, and explosives; and communication equipment, including computers, TVs, VCRs, and walkie-talkies. Valuable metals and jewelry are prohibited except under bag and baggage regulations. According to the

World Bank, Nepal's weighted average tariff rate in 2000, the most recent data available, was 17.7%. This average probably increased in 2001 and 2002 because of "security surcharges" levied on most imports. No special fee was assessed on goods with tariff rates less than 2.5%. For goods with charged duties up to 5%, the surcharge was 1%, and for all those with duties above 5%, the surcharge was 3%.

The export service charge is 0.5% and there are export duties on vegetable ghee and plastic goods of 2 to 10%. Prohibited exports include archeological and religious artifacts; controlled wildlife; narcotics; arms, ammunition and explosives; industrial raw materials; imported raw materials, parts and capital goods; and timber and logs. Since 1960, under the duty refund procedure (DRP), India has refunded to Nepal the excise duties levied on its exports to Nepal. Goods imported from India are granted a rebate of the application of ad valorem of 10% in tariff rates up to 40% and of 7% on rates above 40%.

Nepal, under bilateral trade agreements with India, has in past been afforded duty-free or preferential entry. However, the most recent India-Nepal Treaty of Trade, signed March 2002, while it continues to allow Nepali manufactures to enter the India market on a non-reciprocal, preferential or duty-free basis, with rules of origin less restrictive than the international norm (Nepal's manufacturers can have up to 70% foreign content instead of a international norm of less than 50%), India placed quotas on four sensitive imports: vegetable fats, acrylic yarn, copper products, and ferro oxide, all at volumes lower than recent Nepali exports to India.

In 1995, Nepal joined the seven-member South Asia Association for Regional Cooperation (SAARC), and has ratified SAARC's South Asia Preferential Trading Arrangement (SAPTA). Under SAPTA, members have agreed to about 5000 tariff reductions among two or more of the members. However, plans to establish a free trade area by 2002 have been delayed.

Nepal has applied for accession to the World Trade Organization and submitted the required memorandum on its foreign trade regime in June 1998. The first meeting of the Working Party was in May 2000 and market access negotiations began in September 2000. A second meeting of the Working Party was held in September 2002, but expectations for accession to the WTO by the end of 2002 have not been realized.

Smuggling is substantial across the Indian border, especially on lumber goods, labor, construction equipment, currency and weapons. Gold smuggling is thought to be particularly large. Official records show substantial imports of gold, but few gold exports, even though it is well known that most of the gold imports are intended for the Indian market. Recent efforts to combat smuggling appear to have at least changed the dominant mode from men driving trucks and buses to individuals, many women and children, driving bicycles.

The Customs Act of 1997 sought to simplify custom procedures, but there have been persistent complaints about the gap between policy and practice, particularly in terms of delays and arbitrary assessments. Under the program of economic reforms for FY 2002/03, the government has announced an intention to introduce a post-clearance audit as a means of reducing complaints about customs evaluation.

## **2.1.9 Value Added Tax (VAT)**

VAT is a form of indirect taxation. It is an improved and modified form of sales tax. It is levied on value added of goods and services at each stage in the process of production and distribution chain. These stages can be import, manufacturing, wholesale and retail. Value added for a firm is sales value minus all expenditures on goods and services purchased from other firms plus profit. The value added can be obtained by adding payments to factors of production (wages, salaries, rent, interest and profit). This value added is the base of VAT. Although VAT is eventually borne by the final consumer, it is collected at each stage of production and distribution chain.

### **2.1.9.1 Characteristics of VAT**

The main characteristics of VAT are stated as follows:

- It is a form of indirect taxation.
- It is a broad-based tax as it covers the value added to each commodity by a firm during all stages of production and distribution.
- It is based on value added principle. Value added can be obtained either by adding payments to factors of production (i.e., wages + rent + interest + profit) or deducting cost of inputs from sales value.
- It is a substitute for sales tax, hotel tax, contract tax and entertainment tax.

- It is based on self - assessment system and provides the facility of tax credit and tax refund.
- It avoids cascading effect existed in sales tax and contains catch-up effect.

In a nutshell, VAT is an indirect tax that is imposed on different goods and services on the basis of value added amount in different stages of production and distribution. It is not a genuinely new form of taxation but merely a sales tax administered in different form. Although it is eventually borne by the final consumer, VAT is collected at each stage of production and distribution chain.

### **2.1.9.2 Merits and Demerits of VAT**

#### ***Merits:***

Following are the merits of VAT :

- (1) As compared to other taxes, there is a less chance of tax evasion. VAT minimizes tax evasion due to its catch-up effect.
- (2) It is simple to administer as compared to other indirect taxes.
- (3) It is transparent and has minimum burden to consumers as it is collected in small fragments at various stages of production and distribution.
- (4) It is based on value added not on total price. So, price does not increase as a result of VAT.
- (5) There is mass participation of taxpayers.

***Demerits:***

Following are the demerits of VAT :

- (1) It is costly to implement as it is based on full billing system.
- (2) It is relatively complex to understand. The calculation of value added in every stage is not an easy task.
- (3) To implement the VAT successfully, customers need to be conscious, otherwise tax evasion will be widespread.

**2.1.9.3 Types of VAT**

There are three types of VAT. They are:

- Consumption type
- Income type
- Gross National product (GNP) type

**a. Consumption Type VAT**

Under consumption type VAT, all capital goods purchased from other firms, in the year of purchase, are excluded from the tax base while depreciation is not deducted from the tax base in subsequent years. The base of tax is consumption since investment is relieved from taxation under this type.

### **b. Income Type VAT**

The income type VAT does not exclude capital goods purchased from other firms from the tax base in the year of purchase. This type, however, excludes depreciation from the tax base in subsequent years. The tax falls both on consumption and net investment. The tax base of this type is the net national income.

### **c. GNP Type VAT**

Under this type, capital goods purchased by a firm from other firms are not deductible from the tax base in the year of purchase. It also does not allow the deduction of depreciation from the tax base in subsequent years. Tax is levied both on consumption and gross investment. The tax base of this type is gross domestic product.

Consumption type VAT is widely used. So, by the term 'VAT' we basically mean the consumption type VAT.

## **2.1.9.4 Origin and Evolution of VAT**

VAT is the most recent innovation in the field of taxation. The concept of VAT was developed for the first time by Dr. Wilhelm V. Siemens in Germany in 1919. The concept of VAT was developed further in 1949 by a tax mission to Japan headed by Prof. Carl S. Shoup. The tax, however, remained as only a topic of academic interest until 1953. In 1954, France introduced a VAT covering the industrial sector. The tax was, however, limited up to the wholesale level. By the end of 1960s,



only eight countries including France, Brazil, Germany, the Netherlands, Sweden, etc., had introduced VAT. Since then, VAT has been introduced by at least one country each year and by now it has been adopted by more than 120 countries.

In South Asia, India introduced modified VAT (MOD-VAT) in 1986 for manufacturing products. Pakistan, Bangladesh and Srilanka started VAT in 1990, 1992 and 1995 respectively. India has declared to implement full VAT with effect from F/Y 2003/2004.

The concept of VAT in Nepal was introduced in early 1990s. Nepal government indicated its intention to introduce VAT in the eighth plan. Subsequently, the Finance Minister declared to introduce a two-tier sales tax system to make the base of implementing VAT from the fiscal year 1992/93. A VAT task force was created in 1993, under the financial assistance of USAID in order to make necessary preparation for the introduction of VAT. The VAT task force prepared the draft of VAT legislation.

The Parliament of Nepal enacted "Value Added Tax Act, 1995 (2052)" in 1995. Subsequently, VAT regulation was made in 1996. Although the Act was passed in 1995, its implementation was delayed due to political instability and strong opposition from the business community. VAT has been fully implemented with effect from 16 November, 1997 (1 Mangsir, 2054). It has replaced sales tax, hotel tax, contract tax and entertainment tax. It has been designed to collect

same revenue as the four taxes it replaced. VAT is a new tax system for Nepal. VAT has been justified in the light of government fiscal imbalances and need for extra revenue mobilization through an efficient tax system.

### **2.1.9.5 Principles Governing VAT**

The following are the principles which govern Value Added Tax (VAT):

#### **a. Principle of Transparency:**

VAT is a transparent tax. It is an account based tax system. VAT has made tax system transparent. Tax evasion is not pervasive where accounting system is transparent.

#### **b. Principle of Removing Cascading Effect:**

VAT removes cascading effect. Cascading effect means tax on tax i.e., tax is charged on the value including tax. But VAT has removed this effect by not including the VAT in the cost price to the second stage of the distribution channel. But under sales tax system, sales tax paid at one stage is included in the cost price for another stage.

#### **c. Principle of Neutrality:**

Neutrality means not to discriminate one to another. VAT does not discriminate one economic activity against others. Tax rate or goods and services to be taxed are not discriminated by VAT. So, in this regard, VAT is neutral.

#### **d. Principle of Destination and Zero Rating:**

Under this principle, goods and services are taxed at consumption point, not based on production. Goods and services that are exported are taxed at zero rate (i.e. the taxpayer gets refund of VAT earlier paid in purchasing raw materials and interrelated goods but he should not pay tax on added value).

#### **2.1.9.6 VAT as a Substitute of Sales Tax**

Vat is an improved form of sales tax. It is a substitute for sales tax, hotel tax, contract tax and entertainment tax. It is not a genuinely new form of taxation but merely a sales tax administered in different form. The prices to be charged under VAT and sales tax do not differ. Under the VAT system, consumers know the amount they are paying in form of VAT but under sales tax system, it was not shown separately in the bill. Though both taxes are collected finally from the consumers, VAT is more transparent than sales tax. VAT is levied at each stage from production to sales but sales tax is levied on only certain level of sales.

Following example will clarify that VAT does not increase the prices of goods or services.

## **2.2 Review of Related Studies**

The main objectives of review of literature is to find out what other researches have covered and left in the related subject matter and it is also way to avoid investigation problems that have already been definitely answered. This chapter focuses on the available literature in the field of

taxation. The available literature can be divided into three sub chapters. In the first sub chapter, it includes previous research review related with taxation. In the second chapter, it includes book review related with taxation. In third chapter, it includes Journal review related with taxation.

### **2.2.1 Previous Researches Review (Unpublished Dissertation)**

In 1981, Miss Rojalin Singh Suwal presented a dissertation entitled 'Income tax system in Nepal'. She studies the problem and the important of income tax in solving financial resource gap problem in Nepal. She has also shown the rate and per capita burden of income tax in Nepal. She has shown the trend of income tax and effect of income tax on production in Nepal. Her conclusion was that income tax is an important source of revenue to mobilize additional resource for planned development. Moreover, from the social point of view, Income tax is regarded more over from the social point of view. Income tax is regard as on instrument for equal distribution of income. With a further improvement in tax administration in future years an increase of more than 25% is expected to be collected every year. The major problems in income tax collection as identified by her were: The absence of clear and comprehensive definition of income, low tax paying capacity and tax consciousness, high tax rates, corruptions, etc. She has suggested some factors like increasing tax consciousness to the taxpayers, clear and comprehensive definition of the incomes for improvement to the government of Nepal regarding tax and tax administration for the collection of income tax in Nepal.

1981, Miss Shanti Baral, presented a dissertation named "Income tax in tax structure in Nepal". She has mentioned the contribution of income tax in

tax revenue of Nepal. She has also shown that contribution of direct tax has been decreasing and indirect tax has been increasing. She has stated the problems of raising government revenue. She has mentioned the main case of tax evasion were, lack of clear and comprehensive definition of income, lack of punishment to tax evaders, lacks of tax consciousness, lack of efficient tax administration, lack of public information, lack of scientific method of tax collection and trained tax collectors.

In 1994, Hari Bahadur Bhandari presented a dissertation named, "Contribution of Income tax to Economic Development of Nepal". In his dissertation, he had examined the collection of income tax and its contribution to the economic development of Nepal. He had stated that the actual revenue collection in Nepal is lower than target set out. For this, he had also studies the income tax structure, trend of income tax collection and the share of contribution of income tax to the development of Nepalese economy. He had put some suggestion to overcome those problems such as improving tax administration system, checking income tax evasion and so on.

In 1996, Shree Krishna Kharel presented a dissertation named, "Self Assessment under Income Tax Act, In Nepal". In his worked he had made a review of tax laws about self assessment, analyzed the problem faced by the assesses while doing the Self Assessment of their own income and made relevant recommendation to reform income tax laws as well as administration in future. He had concluded that self assessment of tax is suitable means of raising domestic resources and it would be effective if taken seriously. He had further expressed that the effectiveness of self assessment of tax depends on appropriate reformation.

In 2002, Jayenti Paudyal presented a dissertation entitled "Income Tax In Nepal: A study of Its Structure and Productivity." She had described the income tax in its historical perspectives income tax structure, elasticity and buoyancy of income tax, voluntary disclosure of income scheme and role of income tax administration in Nepal. She had more emphasized on income tax structure of Nepal. She had described the contribution of income tax. She had mentioned the contribution of indirect tax is about twice then direct tax. Similarly, within the direct tax, income tax is the largest source of revenue. About the tax administration of Nepal, she had found that the working procedures were traditional and the cost of administration had not been brought on the satisfactory level.

She had suggested to broadening income tax base, reform of tax administration successful implementation of vat establishment of standardized accounting system.

In 2003, Preety Shrestha presented a dissertation entitled of "A Study on The Problem and Prospects of VAT in Nepal". She had mentioned problems in the implementation of VAT in Nepal and effectiveness of VAT. She had also mentioned sales tax, superiority of VAT over sales tax. She had suggested for effective implementation of VAT in Nepal were Follows:

- ) VAT refund mechanism should be simplified, so that the refund can be made without deals and the taxpayer's have confidence in the system.
- ) Incentives should be seemed to income registration and tax compliance. The no filers should be motive to file the tax return.

- ) As most of the taxpayers are still ignorant about account keeping under VAT and who get this job by paying other people, taxpayer's education program should be continued. Extensive taxpayer's education should be conducted from time to time to familiarize the potential taxpayers and others with various aspects of VAT.

In 2004, MR. Baburam Chudali presented a dissertation named "Effectiveness of Nepalese Tax Policy on Various Business Sectors". He had described various shortcomings of the tax system and policies. His main objectives of the study were as follows:

- ) To analyze the nature of the existing Nepalese tax policy.
- ) To know the tax system of various business organizations.
- ) To find out the reactions of organizations regarding Nepalese tax policy.
- ) To draw specific findings and conclusions of Nepalese tax policy.
- ) To make recommendations for the Nepalese tax policy.

Similarly, his major recommendations were as follows:

- ) The Income Tax Act, 2058 should be revised which simplified language and ambiguity should be removed. The goods that are taxed once should be remarked so that double taxation should be avoided.

- ) There should be clear and strict rule for reward and punishment. The person who conceals tax should be properly identified and given punishment. Tax authority should build up monitoring body for proper evaluation of the tax collection.
- ) Entrepreneurs have indicated that tax officials are full of corruption so government should correct its bureaucracy. It should update its traditional and monotonous for tax collection which has encouraged corruption.
- ) Very sensible and service oriented business which provide basic requirement like health education and communication should be given tax exemption or subsidy so that these facilities can be available for all level.
- ) Nepalese tax system should be based on Nepalese economy rather than developed countries.

In 2006, Mr. Dansi Ram Bhandari submitted a dissertation named "Taxation Knowledge of Taxpayers in Nepal". He had point out the present position of taxation knowledge of taxpayer's in Nepal. Tax pay know about rapid change government policy etc. are the main problems of the study. Similarly, he has suggested to government and other sector to improve taxation knowledge in Nepal. His major suggestion was as follows:

- ) To increase income tax knowledge of taxpayer tax related information should be published regularly.



- ) Special taxpayer education program necessary for employees and small taxpayers.
- ) Professor researchers, taxpayers, tax experts should be taken while making tax policy.
- ) The school as well as campus level curriculum should include tax related education so that taxpayer education programs can be more effective.
- ) Highly co-operation between tax officer and tax payer mechanism should be established.

In 2008, Mr. Robin Ghimire presented a dissertation named "Special Provision and Contribution of Employment Income to Tax Revenue in Nepal". He had described resource gap is the major constraint of the Nepalese economy. He has also strongly stressed to fulfill the gap between total resource required and supply of the resources. He also mentioned that to raise more tax revenue, the government of Nepal takes steps for bringing new tax payers into tax net and implementing the tax law effectively. So as to discourage the tax evasion practice. Loopholes must be trace out and strictly avoided.

Similarly, his major recommendation were as follows:

- ) Direct tax revenue share is only one fourth of Nepalese tax revenue. So it is necessary to increase the share of direct tax revenue. So as to direct the economy channel of development.

- ) Too increase total tax revenue, effective change in income tax policy, rules and regulation, bringing new taxpayer in tax net should be necessary.
- ) The collection and tax assessment provision should be made clear and simple so those taxpayers would be encouraged to pay income tax.
- ) The provision of fines, penalties and punishment should be implemented effectively for income tax evaders.
- ) Co-ordination between tax policy maker, tax personnel and other department should be established.

### **2.2.2 Books Review**

In 1990, Paudel and Timsina wrote a book named "Income Tax in Nepal". This book has fully based on the syllabus of Bachelors level in management. This book has been written according to Income Tax Act, 2031. They described the theoretical as well as practical aspects.

In 1993, Ojha published a book named "Taxation Law". He described the different legal terms related in tax law. He had taken many tax cases to consideration to describe legal terms.

In 2002, Dhakal wrote a book named "Aayakar Tatha Ghar-Jagga Kar Sambandi Kar Ra Lekha". This book was based on Income Tax Act, 2031.

This book is very useful to understand the meaning and objectives of tax as well as getting knowledge about the history of taxation.

In 2003, Mallik published a book named "Nepal Ko Aadhunik Aayakar Parnali". This book is very much useful to anyone who is interested in the subject of taxation. In his book, Mr Mallik has explained Income Tax Act 2058 with example 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 and analytical. All the provision in the Act has been clarified by simple language. He has also clarified why some of the tax exempted amounts have been brought into tax net by the new Act. He also compared the provision of old Act with new Act. He also mentioned the practical aspects of tax law like, classification of Internal Revenue Office according to their Work Area, Classification of Remote Area etc.

In 2003, Adhakari published a book named "Modern Taxation in Nepal : Theory and Practice". This book has been divided into five parts. In his first part, he described the theoretical aspect of tax. In second part, he described the Income Tax Act 2058. In third part, he described about Value Added Tax (VAT). In four part, he described property tax/house and compound tax in Nepal. At last in fifth part he described wind fall tax and other provision.

In 2003, Kandel wrote two books on taxation. One book entitled "Tax Laws and Tax Planning in Nepal" and other book "Nepal Ko Bartaman Kar Byabastha". This book helpful for tax administration, auditor, tax consultant and taxpayers too. This book is also useful for effective tax planning. In his books, he described the Income Tax Act 2058, Vat in Nepal and Tax planning in Nepal. he has presented practice as well as theoretical aspects of taxation in these books.

In 2003, Amatya, Pokhrel and Dahal published a book named "Taxation in Nepal". This book is based in BBS third year syllabus. This book is useful to student, auditors and other tax administrator. Theoretical as well as practical aspects of taxation have been included in the book.

In 2006, Bhattraai and Koirala published a book revised edition named "Taxation in Nepal". This book is based on BBS third year syllabus. In his book, they showed the method of computation of VAT and Income Tax. They also clearly mentioned the different provision of Income Tax Act 2058. Relevant Theoretical and practical aspects have been discussed in their book.

In 2008, K.C. Published a book revised edition entitled "Tax Laws and Tax Planning; Theory and Practice". he divided the book in four parts. In his 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 student, tax administrator, auditor and others. This book is useful to research work also.

### **2.2.3 Journal Review:**

In 1984, Agrawal has presented a report to Ministry of Finance entitled 'Direct tax Reforms in Nepal'. He has described resource gap in Nepal and it is increasing trend in Nepal. He has shown that the growth rate of direct tax had been lower than the growth rate of total revenue. Similarly, total taxes had been lower than the growth rate of total revenue as well as total

taxes. He has strongly recommended revenue services, political and other pressure should not be subjected to tax administration. Self assessment should be encouraged Assessment of small taxpayer should be on 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.

In 2004, 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.

In 2005, Monthly journal published by federation of Nepalese Chamber of Commerce and Industries (FNCCI) named "Byabasaik Aacharan". In the journal, tax expert Pandey and Bachracharya presented different aspects of Nepalese tax system.

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.

In 2005, The Kantipur daily published news about Income Tax and VAT. The news presented the terms used in Income tax and Vat are not clear. There is not friendly business environment between taxpayers and

government. Similarly, the vocabularies used in tax act is very Ambiguous and difficult.

In 2008, 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 95% taxpayers want to hide the income and they did not pay tax as per rules and regulation.

## CHAPTER-III

### **RESEARCH METHODOLOGY**

Research word can be divided into two parts re and search, which means search again and again. Previous researcher found some things and further researcher are not cover all the facts and findings.

We should make different types of research according to subject matter like as descriptive, experimental, exploratory, case study etc. Thus the objective of the study is to find out the awareness of taxpayers towards business taxation so this study follows descriptive as well as Analytical research tools.

#### **3.1 Research Design**

This study is concerned with awareness of taxpayer towards business taxation so it takes primary as well as secondary data. While collecting primary data, questionnaires were developed and distribute to different business person to know their awareness towards business taxation. Data obtain from Kathmandu municipality ward no. 10, which is the main source of secondary data relating to tax.

#### **3.2 Population and sample**

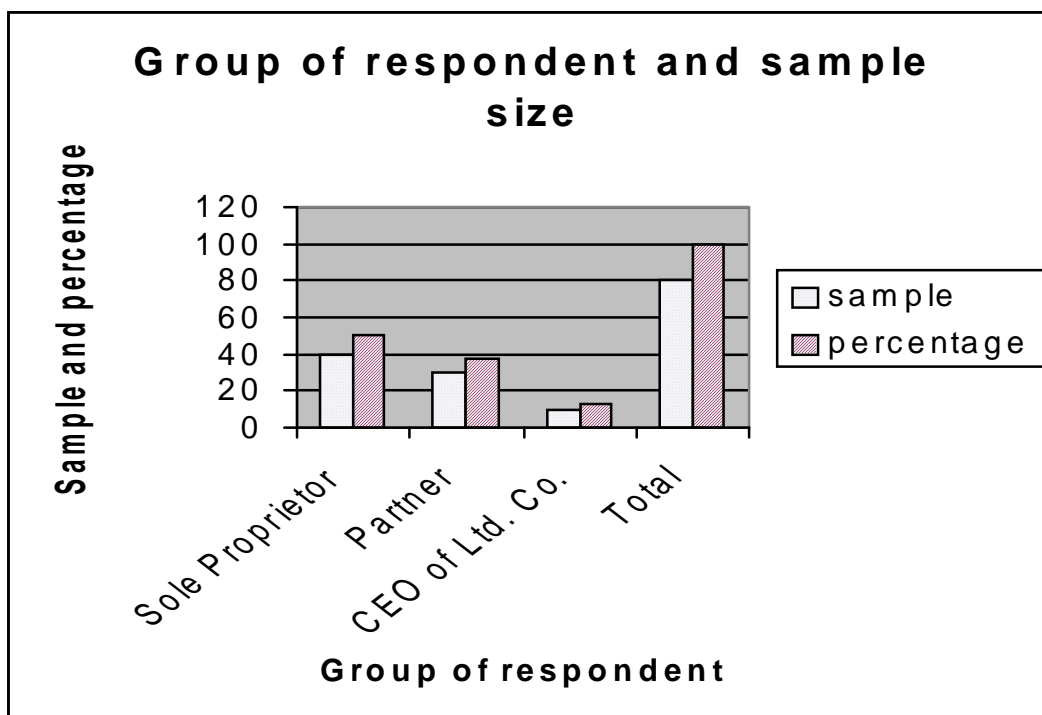
Population is the whole size of related study. Covering all the population while taking data, the study gives more accurate finding. It is not possible due to various constraints likes as time money etc. so this study take sample from large population. All the Business person of Baneshowr Area

was considered as total population. They are altogether 2500 business organization registered in Kathmandu Municipality, ward no 10. In the fiscal year 2064/2065 65 business organizations are registered. Out off them 80 business organization are taken as target sample. They are from 40 sole proprietor and 20 partnerships and 20 Ltd. co.

The following table shows the groups of respondents and size of sample.

Table 3.1 Group of Respondents and Sample Size.

S. No.	Group of Respondents	Total Sample	% (Percentage)
1	Sole Proprietor	40	50
2	Partner	30	37.5
3	CEO of Ltd. Co.	10	12.5
	<b>Total</b>	<b>80</b>	<b>100</b>





### **3.3 Source of Data**

This study mainly based on primary data but it also took secondary data as the study demanded. The main objectives of primary data are to find out different business person view relating to business taxation and test their awareness towards business taxation. Questionnaire, interview related to business taxation is the main weapons to the test awareness of taxpayer. While secondary data is obtained from Kathmandu Municipality ward no. 10 to find out increasing or decreasing trend of business registration in that office.

### **3.4 Data Collection Techniques**

This study is concerned with taxpayer's awareness towards business taxation. So, it is necessary to collect data from both primary as well as secondary data. Primary data are collected by making questionnaire, interview and telephone calls. Questionnaire is distributed to different business person to get needed information. While secondary data is obtained from Kathmandu Municipality.

### **3.5 Methods of Analysis and Presentation**

At first both primary and secondary data are presented in tabular form and then make necessary diagrams, pie-chart, and other as requirement. Then analysis is made on the basis of their character. Analysis is made with the help of different mathematical and statistical tools.

## CHAPTER-IV

### **DATA PRESENTATION AND ANALYSIS**

The presentation of data is the basis organization and classification of the data for analysis. After data collection is completed, the data is in raw form. It is necessary to arrange the data to makes some sense to researcher and others. It can later be presented to the reader of the research. Similarly,, the purpose of analyzing the data is to change it form an unprocessed form to an under standing presentation. The raw data convey little information as such. These must, therefore be complied, analyzed and interpreted carefully. This process of transforming data is called analysis of data.

This chapter deals with the presentation and analysis of data. The main objective of the study is to find out the awareness towards business taxation so it mainly focuses the primary data. Though the secondary data is only taken from the Kathmandu Municipality ward No 10 to find out the exact number of business Established in Baneshwor Area. The primary data is taken from 80 business person. Out of them 40 are sole proprietors and 20 are partners and 20 are Chief Executive Officer (CEO) of Ltd. Company. The primary data obtained by making questionnaire about Income Tax, VAT and Custom Duty. 80 sets of question are distribute and received about different types of taxes to know the awareness of taxpayers towards business taxation.

## 4.1 Analysis of Secondary Data

This chapter focuses on the presentation and analysis of secondary data. The secondary data have been obtained from Kathmandu Municipality ward No 10. The available data related to the study have been tabulated, presented, analyzed and interpreted to reach at some finding.

Table 4.1 Number of Business Established

<b>Fiscal Year</b>	<b>No. of Business register</b>
2060/2061	48
2061/2062	55
2062/2063	59
2063/2064	60
2064/2065	65

In fiscal year 2060/2061, the number of business firm register in municipality was 48, in 2061/2062; the number of business firm register in municipality was 55. In the fiscal year 2062/2063, the number of business firms register in municipality were 59. In the fiscal year 2063/2064, the number of business firm registered in Municipality was 60 and in fiscal year 2064/2065 the number of business firm registered in municipality was 65. The above increasing trend of business firm established showed that the awareness of taxpayer about business taxation is increasing. They registered their firm and doing business legally as compared to the past years.

## 4.2 Analysis of Primary Data

The main objectives of this study are to find out the awareness of taxpayers about business taxation. Awareness of taxpayer about business

taxation means whether they have knowledge about different provision of Income Tax Act, 2058, Vat Act 2052 and other tax related rules and regulation. So In this chapter VAT, Income Tax Act and Custom Duty related questionnaires was design and distribute to sole proprietor, partners and CEO of Pvt. Ltd. Co. 80 sets of question were distributes and all question were collected.

The questionnaire was asked for Yes/No response or asked for ranking of alternatives where the first choice was the most important and the least choice was the least important. The following table shows the profile of respondents.

Table 4.2 Profile of Respondent

<b>S. No.</b>	<b>Group of Respondents</b>	<b>Sample Size</b>
1	Sole Proprietor	40
2	Partner	30
3	CEO of Ltd. Co.	10

## **4.2.1 Presentation and Analysis of Responses about Income Tax**

Income Tax is the major source of Government Revenue. Government collect huge amount of revenue from this tax. So, it is necessary to make aware about the Income Tax to taxpayer. SO, to check the income tax knowledge of taxpayer 80 respondents are taken for the study. The responses received for different questionnaire are present below.

### **4.2.1.1 Familiar with the Nepalese Income Tax.**

To check the knowledge of the Nepalese taxpayer, this question was asked. The responses received from the respondents are tabulated as below:

Table 4.3 Familiar with the Nepalese Income Tax.

<b>Response</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	30	75	10	25	40	100
Partner	25	83.33	5	16.67	30	100
CEO of Pvt. Ltd. Co.	10	100	0	0	10	100
<b>Total</b>	<b>65</b>	<b>81.25</b>	<b>15</b>	<b>18.75</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed that 81.25% of the respondents have knowledge about Nepalese income tax. 18.75% of the respondents did not have knowledge about Nepalese income tax.

In conclusion, most of the respondents were familiar about Nepalese Income Tax.

#### **4.2.1.2 Sufficiency of the provision of Rebates, Concession and Facilities Included in that Income Tax.**

This question was asked to respondents to know their opinion about the facilities provided in Tax Laws. The responses received from the respondents are tabulated as follows:

Table 4.4 Sufficient of the Provision of Rebates, Concession and Facilities included in that Income Tax.

<b>Response</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	20	50	20	50	40	100
Partner	18	60	12	40	30	100
CEO of Pvt. Ltd. Co.	3	30	7	70	10	100
<b>Total</b>	<b>41</b>	<b>51.25</b>	<b>39</b>	<b>48.75</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed that in aggregate 51.25 % of the respondents were satisfied the provision of rebates, concession and facilities included in that Income Tax Law 48.75% of respondents were not satisfied with this provision. In Conclusion, most of the respondents are satisfied with this provision in Income Tax.

#### **4.2.1.3 Charging of Depreciation is Adequate in Income Tax Act, 2058.**

This question was asked to know the opinion of respondents about provision of deprecation in Tax Act whether they were satisfied with this provision or not. The responses received from respondents are tabulated as below.

Table 4.5 Charging of Depreciation is Adequate in that Income Tax.

<b>Response</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	10	25	30	75	40	100
Partner	5	16.67	25	83.33	30	100
CEO of Pvt. Ltd. Co.	5	50	5	50	10	100
<b>Total</b>	<b>20</b>	<b>25</b>	<b>60</b>	<b>75</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed that in aggregate 25% of the respondents were agree with the question. 75% were disagreeing with the question.

In Conclusion, most of the respondents feel that the provision of charging of depreciation is not adequate.

#### **4.2.1.4 Current Income Tax Exemption Limit.**

This question was developed to know the opinion of respondents about current income tax exemption limit. Weather they were satisfied with this exemption limit or not. The responses received from respondent are tabulated as follows:

Table 4.6 Current Income Tax Exemption Limit is Appropriate

<b>Response</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	12	30	28	70	40	100
Partner	10	33.33	20	66.67	30	100
CEO of Pvt. Ltd. Co.	10	100	0	0	10	100
<b>Total</b>	<b>32</b>	<b>40</b>	<b>48</b>	<b>60</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed that in aggregate 40% of the respondent responded that current Income Tax exemption limit is appropriate but 60% of the respondents responded that the current exemption limit is not appropriate.

In Conclusion, most of the respondents opined that current Income Tax exemption limit is not appropriate.

#### **4.2.1.5 Good Knowledge about Income Tax to Taxpayer Discouraging Illegal Business.**

This question was developed to know the view of taxpayer about discouraging the illegal business through tax education. The responses received from respondents are tabulated below.



Table 4.7 Good Knowledge about Income Tax to Taxpayer Discouraging Illegal Business.

<b>Response</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	24	60	16	40	40	100
Partner	21	70	9	30	30	100
CEO of Pvt. Ltd. Co.	5	50	5	50	10	100
<b>Total</b>	<b>50</b>	<b>62.5</b>	<b>30</b>	<b>37.5</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table shows that in aggregate 62.5% of respondents were agree with the question but 37.5 were disagree with the question. They still think that only good knowledge is not enough for discouraging illegal business.

In Conclusion, most of the respondents responded that good knowledge about Income Tax to taxpayer been discouraging illegal business.

#### **4.2.1.6 Opinion about the Current Income Tax Rate :**

This question was asked to know the opinion about the current tax rate whether it is high medium or low. The responses received from respondent are presented below:

Table 4.8 Current Income Tax Rate

<b>Response</b>  <b>Respondents</b>	<b>High</b>		<b>Medium</b>		<b>Low</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	28	70	16	15	6	15	40	100
Partner	20	66.67	5	16.66	5	16.66	30	100
CEO of Pvt. Ltd. Co	8	80	1	10	10	10	10	100
<b>Total</b>	<b>56</b>	<b>70</b>	<b>12</b>	<b>15</b>	<b>12</b>	<b>15</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed in aggregate 70% of the respondent responded that the income tax rate is high. Similarly, 15% of the respondent responded that the current tax rate is medium and low respectively.

In Conclusion, most of the respondents responded that the current tax rate is high.

#### **4.2.1.7 Sufficiency of Exempted and Deduction Items.**

To know the respondent's opinion about the exempted and deduction items are sufficient or not, a question was asked, "Do you think that exempted and deducted items are sufficient"? The responses received from the respondents are tabulated below:

Table 4.9 Exemption and Deduction Items are Sufficient

<b>Response</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	8	20	32	80	40	100
Partner	9	30	21	70	30	100
CEO of Pvt. Ltd. Co.	1	10	9	90	10	100
<b>Total</b>	<b>18</b>	<b>22.5</b>	<b>62</b>	<b>77.5</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed that in aggregate 22.5% were satisfied with the provision of exemption and deduction but 77.5% were dissatisfied with that provision.

In Conclusion, most of the respondents responded that exempted and deduction items are not sufficient.

#### **4.2.1.8 Income Tax Revenue Contributing Significantly to the Tax Revenue of Nepal.**

This question was developed to know opinion of Taxpayer about Income Tax Revenue Contributing Significantly to the Income Tax Revenue of Nepal or not. The responses received from respondents are presented below:

Table 4.10 Income Tax Revenue Contributing Significantly to the Tax Revenue of Nepal.

<b>Response</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	20	50	20	50	40	100
Partner	18	60	12	40	30	100
CEO of Pvt. Ltd. Co.	5	50	5	50	10	100
<b>Total</b>	<b>43</b>	<b>53.75</b>	<b>37</b>	<b>46.25</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed that in aggregate 53.75% respondents responded that income tax revenue contributing significantly to the tax revenue of Nepal and 46.25 was not agreed with this question.

In Conclusion, most of the respondents responded that Income Tax Revenue contributing significantly to the Tax Revenue of Nepal.

#### **4.2.1.9 Problem faced by Businessman While Paying Business Tax.**

This question was developed to know the view of taxpayer's problems while paying business tax. The Responses received from respondents are presented below:

Table 4.11 Problem faced by Businessman While Paying Business Tax.

S. No.	Problem	No. of Respondent	% of Respondent	Rank
1	Due to lack of knowledge about taxpaying procedure	20	25	2
2	Complicated Procedure	40	50	1
3	Weak and immature feeling of tax administration	12	15	3
4	Others	8	10	4
	Total	80	100	

Source: Field Survey 2008

The above table showed that the most important problem faced by business while paying business tax is procedural complication. Similarly, due to lack of knowledge about tax paying procedure is second prioritized problem, weak and immature feeling of tax administration and other problem are third and fourth priorities problems.

In Conclusion, the majority of respondent responded that the most important problem faced by business man while paying tax is procedural complication.

#### **4.2.1.10 Effectiveness of the Nepalese Income Tax System.**

This question was developed to know the responses about the effectiveness of Nepalese Tax. The responses received from respondents are presented below:

Table 4.12 Effectiveness of the Nepalese Income Tax System.

<b>Response</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	0	0	40	100	40	100
Partner	0	0	30	100	30	100
CEO of Pvt. Ltd. Co.	5	50	5	50	10	100
<b>Total</b>	<b>5</b>	<b>6.25</b>	<b>75</b>	<b>93.75</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed that in aggregate 6.25% of the respondent agree with the question but 93.75% were not agree with this question.

In Conclusion, most of the respondents feel that Nepalese Income Tax System is not effective.

#### **4.2.2 Presentation and Analysis of Responses about Custom Duty**

Custom duty is also another source of government revenue. Business man paid tax while imports and exports goods and service. Therefore they must have knowledge about Custom Duty. To check the awareness about Custom Duty 80 respondents are taken the study. The responses received from different questionnaire are presented below:

#### 4.2.2.1 Knowledge about Custom Duty.

This question was developed to check the knowledge of respondents whether they have any knowledge of custom duty or not. The responses received from respondents are tabulated as follows:

Table 4.13 Knowledge about Custom Duty

<b>Response</b> <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	20	50	20	50	40	100
Partner	18	60	12	40	30	100
CEO of Pvt. Ltd. Co.	8	80	2	20	10	100
<b>Total</b>	<b>46</b>	<b>57.5</b>	<b>34</b>	<b>42.5</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed that 57.5% of the respondent had knowledge about custom duty and 42.5% had not knowledge about custom duty.

In Conclusion, most of the Business man had knowledge about custom duty.

#### 4.2.2.2 Knowledge about the Procedure of Paying Custom Duty.

This question was asked to know the knowledge about paying the procedure of paying custom duty to the respondents. The responses received from respondents are tabulated s follows:

Table 4.14 Knowledge about the Procedure of Paying Custom Duty.

<b>Response</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	0	0	40	100	40	100
Partner	1	50	15	50	30	100
CEO of Pvt. Ltd. Co.	9	90	1	10	10	100
<b>Total</b>	<b>24</b>	<b>30</b>	<b>56</b>	<b>70</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed that in aggregate 30% of the respondents had knowledge about procedure of paying tax and 70% of the respondent had not knowledge about procedure of custom duty.

In conclusion, most of the respondents do not have knowledge about paying procedure of custom duty. It means they hire broker or another way to clear the goods from custom.

#### **4.2.2.3 Clearance of the Custom Duty.**

This question was designed whether they should clear the goods from custom themselves or hire third party. The different responses of respondents are presented in the following table.



Table 4.15 Clearance of the Custom Duty.

Response Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Sole Proprietor	0	0	40	100	40	100
Partner	0	0	30	100	30	100
CEO of Pvt. Ltd. Co.	0	0	10	100	10	100
<b>Total</b>	<b>0</b>	<b>0</b>	<b>80</b>	<b>100</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed that 100% (all respondent) had not cleared the custom duty their self.

In conclusion, all respondents responded that they should not clear the custom duty themselves. They hire broker or CA or Auditor other party to clear the custom duty.

#### **4.2.2.4 Needed Taxpayer Knowledge about Custom Duty.**

This question was designed to know the view of taxpayer education program is needed or not. The responses received from respondent are tabulated below:

Table 4.16 Needed Taxpayer Knowledge about Custom Duty

<b>Response</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	4	100	0	0	40	100
Partner	30	100	0	0	30	100
CEO of Pvt. Ltd. Co.	10	100	0	0	10	100
<b>Total</b>	<b>80</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed that 100% of the respondents agreed with this questionnaire. It showed that Current education is not effective.

In conclusion, all respondents responded that the taxpayer knowledge about custom duty is needed.

#### **4.2.2.5 Good Knowledge about Custom Duty to Taxpayer help to Increase the Government Revenue.**

This question was developed to check whether good knowledge about custom duty to taxpayers helps to increase Government revenue or not.

Table 4.17 Good Knowledge about Custom Duty to Taxpayer help to Increase the Government Revenue

<b>Response</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	28	70	12	30	40	100
Partner	15	50	15	50	30	100
CEO of Pvt. Ltd. Co.	7	70	3	30	10	100
<b>Total</b>	<b>50</b>	<b>62.5</b>	<b>30</b>	<b>37.5</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed that in aggregate 62.5% of the respondent agree with questionnaire and 37.5 were disagreeing with the questionnaire.

In conclusion, all respondents responded that good knowledge about custom duty increase Government Revenue.

#### **4.2.2.6 Appropriation of Current Custom Duty Rate.**

This question was designed to check whether custom duty rate is appropriate or not. The responses received from respondent are present below:

Table 4.18 Appropriation of Current Custom Duty Rate.

<b>Response</b>  <b>Respondents</b>	<b>High</b>		<b>Medium</b>		<b>Low</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	20	50	16	40	4	10	40	100
Partner	18	60	6	20	6	20	30	100
CEO of Pvt. Ltd. Co	7	70	3	30	0	0	10	100
<b>Total</b>	<b>45</b>	<b>56.25</b>	<b>25</b>	<b>31.25</b>	<b>10</b>	<b>12.5</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed that in aggregate 56.25% feel that the Current Tax rate is high, 31.5% feel medium and 12.45% feel low. It means taxpayer feel high rate. They suggest low tax rate and wide base.

In conclusion, all respondents responded that the current tax rate is high.

#### **4.2.2.7 Realisticness of Good Valuation System in Custom.**

This question was asked to check whether goods valuation system in Custom is realistic or not. The responses received from respondent are presented below:

Table 4.19 Realisticness of Goods Valuation System in Custom.

<b>Response</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	36	90	4	10	40	100
Partner	24	80	6	20	30	100
CEO of Pvt. Ltd. Co.	7	70	3	30	10	100
<b>Total</b>	<b>67</b>	<b>83.75</b>	<b>13</b>	<b>16.25</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed that in aggregate 83.75% of the respondent responded that goods valuation system in custom is realistic but 16.5% of the respondent responded that the goods valuation system in system is not realistic.

In conclusion, most of the respondent responded that goods valuation system in customs is realistic.

#### **4.2.2.8 Steps to be taken to Make Custom Duty Effective.**

This question was developed to know view of taxpayer to make custom duty effective. The responses received from respondent are tabulated as follows:

Table 4.20 Steps to be taken to Make Custom Duty Effective.

<b>S. No.</b>	<b>Alternative</b>	<b>Rank</b>
1	Strict in goods valuation	1
2	Nepotism and Favoritism should be stop	3
3	Increase morality of government employee	2
4	System of reward and punishment should be established	4

The above table showed priorities to make custom duty effective are.

1. Strict in good valuation.
2. Increase morality of Government employee.
3. Nepotism and Favoritism should be stop.
4. System of reward and punishment should be established.

### **4.2.3 Presentation and Analysis of Responses about VAT**

Sales Tax was replaced by VAT. VAT is another form of sales tax. It is charged on transaction by transaction on each stage of value added. Now a day's most of the countries followed this tax. To find out different provision of VAT different set of questionnaire is prepared and received responses on it. The result from questionnaire is prepared below:

#### **4.2.3.1 Familiar about VAT.**

This question was asked to check the awareness about VAT. Whether they are familiar of this term or not. The responses received from respondent are presented below:

Table 4.21 Familiar about VAT

<b>Response</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	20	50	20	50	40	100
Partner	18	60	14	40	30	100
CEO of Pvt. Ltd. Co.	10	100	0	0	10	100
<b>Total</b>	<b>48</b>	<b>60</b>	<b>32</b>	<b>40</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed that in aggregate 60% of the respondent were familiar about VAT. 40% of the respondents were not familiar about VAT.

In conclusion, the above result that most of the responded were familiar about VAT.

#### **4.2.3.2 Register in VAT.**

This question was developed to check knowledge about register in VAT. They were registering their transaction in VAT knowingly or unknowingly. The responses receive from respondent are presented below:

Table 4.22 Register in VAT

<b>Response</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	16	40	24	60	40	100
Partner	15	50	15	50	30	100
CEO of Pvt. Ltd. Co.	10	100	0	0	10	100
<b>Total</b>	<b>41</b>	<b>51.25</b>	<b>39</b>	<b>48.75</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed that in aggregate 51.25% of respondent knowledge about who should register in VAT 48.75% of respondent had not knowledge about who should register in VAT.

In Conclusion, most of the respondent had knowledge about register in VAT.

#### **4.2.3.3 VAT is superior to Sales Taxes.**

This question was asked to respondent whether sales tax is superior to VAT or not. The responses received from respondent are presented below:



Table 4.23 VAT is superior to Sales Taxes

<b>Response</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	32	80	8	20	40	100
Partner	21	70	9	30	30	100
CEO of Pvt. Ltd. Co.	9	90	1	10	10	100
<b>Total</b>	<b>62</b>	<b>77.5</b>	<b>18</b>	<b>22.5</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed that in aggregate 77.5% of respondents were agreed that VAT is superior to Sales Tax. 22.5% of respondents were not agreed in that question.

In Conclusion, most of the respondent opinioned that VAT are superior to sales tax.

#### **4.2.3.4 Coverage of VAT.**

This question was asked whether the coverage of VAT is enough or not. The responses received from respondents are tabulated below:

Table 4.24 Coverage of VAT

<b>Response</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	4	10	36	90	40	100
Partner	0	0	30	100	30	100
CEO of Pvt. Ltd. Co.	0	0	10	100	10	100
<b>Total</b>	<b>4</b>	<b>5</b>	<b>76</b>	<b>95</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

As presented in above table in aggregate 95% of the respondent respond that coverage of VAT is not enough. 5% of the respondents were disagreed with this question.

In Conclusion, most of the respondent were disagreed with this questionnaire.

#### **4.2.3.5 Applicableness of current VAT rate.**

This question was designed to check whether current VAT rate is applicable or not. The responses received from respondents are tabulated below:

Table 4.25 Applicableness of Current Vat Rate.

<b>Response</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	4	10	36	90	40	100
Partner	0	0	30	100	30	100
CEO of Pvt. Ltd. Co.	0	0	10	100	10	100
<b>Total</b>	<b>4</b>	<b>5</b>	<b>76</b>	<b>95</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed in aggregate 5% of the respondents was agreed to the question. 95% of respondents were against the question. It means they feel high rate of VAT and they requested to reduce the VAT rate.

In Conclusion, most of the respondents feel that current VAT rate is high.

#### **4.2.3.6 Sound ad Effectiveness of VAT system in Nepal.**

This question was developed to know the opinion of respondent about VAT system is effective or not. The responses received from respondent are tabulated as follows:

Table 4.26 Sound and effectiveness of VAT system in Nepal.

<b>Response</b>  <b>Respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>	<b>Nos.</b>	<b>%</b>
Sole Proprietor	8	20	32	80	40	100
Partner	9	30	21	70	30	100
CEO of Pvt. Ltd. Co.	0	0	10	100	10	100
<b>Total</b>	<b>17</b>	<b>21.25</b>	<b>63</b>	<b>78.75</b>	<b>80</b>	<b>100</b>

Source: Field Survey 2008

The above table showed in aggregate 21.25% of respondent was agreed this question but 78.75% of respondent were not agreed with this question.

In Conclusion, most of the respondents said that VAT system in Nepal is not effective and sound.

#### **4.2.3.7 Major problems of VAT system in Nepal.**

This question was asked to find out the rank of the major problems of VAT system in Nepal. The responses received from respondents are presented below:

Table 4.27 Major problems of VAT system in Nepal

<b>S. No.</b>	<b>Problems</b>	<b>No. of respondent</b>	<b>% of respondent</b>	<b>Rank</b>
1	Lack of consumer awareness	20	25	2
2	Underground Economy	12	15	3
3	Unfair and weak administration	40	50	1
4	Others	8	10	4
	<b>Total</b>	80	100	

Source: Field survey 2008

The above table showed most important problems faced by businessman is unfair and weak administration. While ranking together, the corresponding prioritized problems are as follows:

- a. Unfair and weak administration
- b. Lack of consumer awareness
- c. Underground economy
- d. Others

#### **4.2.3.8 Steps to be taken to make VAT effective.**

The question was prepared to know sequence of priorities from respondents to make VAT effective.

Table 4.28 Steps to be taken to make VAT effective

<b>S. No.</b>	<b>Problems</b>	<b>No. of respondent</b>	<b>% of respondent</b>	<b>Rank</b>
1	Increasing public awareness	20	25	2
2	Billing enforcement	15	18.75	3
3	Political Stability	30	37.5	1
4	Stop illegal trade	15	18.75	3
	<b>Total</b>	80	100	

Source: Field survey 2008

From the above table the ideas of all groups to make VAT effective are ranked as follows:

- a. Political Stability
- b. Increasing public awareness
- c. Billing enforcement
- d. Stop illegal trade

#### **4.2.4 Major Findings**

Following conclusion have been drawn out from this research. They are summarized below:

- 1) Most of the respondents have knowledge about Income Tax, Custom Duty and VAT.

- ) Most of the businessmen are not satisfied about the provision of concession, rebates and facilities included in Income Tax.
- ) Businessman feels high tax and Vat rate.
- ) Taxpayers were agreed that good knowledge of Taxation to taxpayer been discouraging illegal business.
- ) Major problems that employees faced while paying Income Tax is procedural complication.
- ) Taxpayer education program in Nepal are ineffective.
- ) Taxpayer agreed that they should not clear the Custom Duty themselves, Businessmen hire broker, auditor or CA for that job.
- ) The majority of respondents agreed that tax related education is needed.
- ) According to field survey. 48.75% of the respondents do not have knowledge that should register in VAT.
- ) Majority of respondents were agreed that VAT is superior to Sales Tax.
- ) Income tax is a suitable mean of raising domestic resources.
- ) Taxpaying habit of Nepalese people is poor.
- ) The present level of revenue collection of the government is not satisfactory. There should be attempt to increase it.
- ) Income tax system of Nepal has not reached at the satisfactory level yet. Inefficient income tax management, lack of education to taxpayers, complicated tax act, rules and regulation are considered as the major problem in income tax system of Nepal.

- ) The current tax management is not sounding just satisfactory. It indicates that there should be added some efforts towards increment of efficiency in income tax management.
- ) Effective fees, fines and penalties system can help to increase the taxpaying habit of Nepalese people.
- ) Lack of trained and competent tax personnel, complicated tax law, delay in making assessment are the major causes of ineffectiveness of Nepalese income tax administration.
- ) Clear act, rules and regulation, honest tax officer, effective tax administration are the important factor for effectiveness of income tax in Nepal.
- ) To make custom duty effective most of the businessman thinks that the system of reward and punishment should be established.
- ) Most of the businessman thinks that VAT system in Nepal is not sound and effective.



## CHAPTER-V

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### 5.1 Summary

Nepal is agriculture based least developed country. The economy status of Nepalese people is very poor. The per-capita income is near about 350 dollar. (UNDP Report 2008). This is lowest among SAARC Countries and almost lowers per-capita income of the world. One of the main objectives of each and every country is to raise the living standard of the people thorough economic development activities. To launch, these activities Government need various resources: Money, man, Machine and Materials. Nepalese economy is facing serious problems of resource gap. Revenue collection by the government is internally sufficient to meet the cost of day to day administration of the country. So, Nepal has been dependent on foreign aids and loans to fulfill the need for developmental activities, which is not beneficial in the long run interest of the country.

The present study entitled “Taxpayers and their Awareness towards Business Taxation : A case Study of Baneshwor Area”. The major taxes Income Tax, VAT and Custom Duty were presented and analyzed in the study.

In the first chapter, Introduction, Background of the study, Statement of the problem, Objectives of the study, Limitation of the study and Organization of the study have been discussed in this chapter.

In second chapter, the literature review has made through the study of various books, articles, dissertation and other reference materials. Various concepts of the taxation have been discussed in this study. Sources of the government revenue, meaning of tax, classification of taxes, objectives of taxation, historical background of income tax, heads of income, historical development of income tax laws in Nepal have been discussed in conceptual frame work of this study.

In third chapter, the researcher has discussed about various aspects of research methodology as: Research design used for this study, data collection procedure, population sample, nature and sources of data, selection of the respondents, procedures of processing and analysis of data.

In fourth chapter, chapter four has presented primary as well as secondary data and analyzed them to get the meaningful result. Data obtain from Baneshwor municipality ward No 10 was major sources of secondary data. To collect primary data opinion survey techniques was used in this study. Primary data were collected from three respondent group i.e. sole proprietor, partners and CEO of Pvt. Ltd Company of the business. Major finding of the primary data analysis have been put in the end of the chapter.

Conclusion of the study is given in the last chapter. Some recommendations are also given on the end of the study. In this way, this study was completed with the achievement of the stated objectives.

## 5.2 Conclusion

The conclusion of this study is mentioned as below:

- ) Most of the respondents had knowledge about income tax, VAT and custom duty, Though some respondents had not knowledge about it.
- ) Provision of rebates concession and facilities included in income tax were not satisfactory.
- ) Current tax and VAT rate is high. It must be reducing.
- ) Taxpayer were agreed that good knowledge of tax reducing illegal business.
- ) Majority of the respondent were agreed that VAT is superior to sales tax.
- ) Lacks of public awareness, ineffective tax administration are the major problem of VAT.
- ) Without knowledge of taxation small taxpayers may not be included in the tax system.
- ) Defective Income Tax Act, rule, ineffective taxpayer education program, rapids changing government economic and taxation policy, ineffective tax administration are the major problems of income tax system which affect income tax knowledge to taxpayers in Nepal.
- ) Lacks of co-operation between taxpayers and custom officers, Corrupted tax administration, rapid changing taxation policy are the major problems of custom duty.

### 5.3 Recommendation

On the basis of above analysis, the following recommendation are offered regarding taxpayer and their awareness towards business taxation.

- ) Present tax related education is not effective. Most of the taxpayer does not aware about changing tax rule and regulation. So, to increase awareness of taxpayer, dynamic tax administration, billing enforcement, clear and effective tax policies are recommended.
- ) Tax office collects Income Tax and VAT in their own office. Ax must be collect from business house door to door. So that, businessman pay their tax in time without hesitation. This mechanism should be also recommended.
- ) There should categories the businessman who paid tax in time and who do not pay tax in time. Those who paid tax in time give more priorities in government office and others. This system can be seen in our neighboring country India.
- ) Most o the countries follow the self assessment system of tax. So, Nepal should also follow it bit there should be establishing strong mechanism to check the fraud of businessman.
- ) The provision of concession, rebates and facilities should be implemented effectively for encouragement to businessman.
- ) Co-ordination between tax policy maker, tax personnel and other department should be established.
- ) The school as well as campus level curriculum should include tax related education. So, that taxpayer education program can be more effective.

) Goods and services are imported and exported from one country to another country. While in this process, the businessman pays custom duty to government. They do not have much more knowledge about it. They hire broker to clear the custom. In this process, illegal business is made by the help of broker and custom officer. So, to overcome this problem, co-operation between taxpayers and custom officers and stability of economic and taxation policy are also recommended.

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# **APPENDIX**

**Name of Respondent:**

**Designation :**

**Office/Organization**

(Please, you are requested to tick answer of your choice in order of preference from 1 stand for most important)

## **QUESTIONNAIRE ABOUT INCOME TAX**

1. Are you familiar with the Nepalese Income Tax?  
a) Yes                                      b) No
2. Do you think the provision of rebates, concession and facilities?  
a) Yes                                      b) No
3. Do you think the charging of depreciation in Income Tax?  
a) Yes                                      b) No
4. Do you consider that current Income Tax exemption limit is appropriate?

- a) Yes                                  b) No
5. Do you think that good knowledge about Income Tax to taxpayer been discouraging illegal business?
- a) Yes                                  b) No
6. What is your opinion about the current tax rate? The current Income Tax rate is:
- a) High                                  b) Medium                                  c) Low
7. Do you feel that exempted and deducted items are sufficient?
- a) Yes                                  b) No
8. In your opinion, Is Income Tax Revenue contributing significantly to the Income Tax Revenue of Nepal?
- a) Yes                                  b) No
9. What types of problem that businessman faced while paying business tax?
- a) Due to lack of knowledge about taxpaying procedure.
- b) Complicated procedure.
- c) Weak and immature feeling of Tax Administration.
- d) Others

10. The Nepalese Income Tax System is effective?

- a) Yes                                  b) No

## QUESTIONNAIRE ABOUT CUSTOM DUTY

1. Do you have knowledge about custom duty?

- a) Yes                                  b) No

2. Do you have knowledge about the procedure of paying custom duty?

- a) Yes                                  b) No

3. Do you clear the custom duty yourself? If no, to whom you appoint.

- a) Broker              b) Auditor              c) C.A.              d) Others

4. Do you think that taxpayer education (related with custom duty) needed?

- a) Yes                                  b) No

5. Will the good knowledge about custom duty to taxpayer help to increase the government revenue?

- a) Yes                                  b) No

6. Do you think current custom duty rate is appropriate?

a) High

b) Medium

c) Low

7. Do you think that goods valuation system in custom is realistic?

a) Yes

b) No

8. In your opinion, what steps to be taken to make custom duty effective?

a) Strict in goods valuation

b) Nepotism and Favoritism should be stop.

c) Increase morality of government employee.

d) System of reward and punishment should be established.

### **QUESTIONNAIRE ABOUT VAT**

1. Are you familiar about VAT?

a) Yes

b) No

2. Do you know who should register in VAT?

a) Yes

b) No

3. Do you think VAT is superior to sales tax?

a) Yes    b) No

4. Do you know coverage of VAT is enough?

a) Yes    b) No

5. Is current VAT rate is appropriate?

a) Yes    b) No

6. Do you think that VAT system in Nepal is sound and effective?

a) Yes    b) No

7. What are the problems of VAT system in Nepal?

a) Lack of consumer awareness.

b) Underground economy.

c) Unfair and weak administration.

d) Others.

8. In your opinion, what steps to be taken to make VAT effective?

a) Increase Public Awareness.

b) Billing Enforcement.

c) Custom Valuation should be Realistic.

d) Corruption should be eliminated.