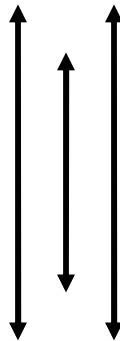


**ATTITUDE OF PEOPLE TOWARDS EXEMPTIONS AND
DEDUCTIONS UNDER INCOME TAX ACT 2058**

BY

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



*In partial fulfillment of the requirement for the Degree of
Master of Business Studies (MBS)*

**Janakpur Dham, Nepal
June, 2010**

TRIBHUVAN UNIVERSITY
FACULTY OF MANAGEMENT
R.R.M. CAMPUS, JANA K P U R

DECLARATION

I hereby declare that the work reported in this thesis entitled “Attitude of People Towards Exemptions and Deductions under Income Tax Act 2058” submitted to Office Of The Dean, Faculty of Management, Tribhuvan University is my original work in the form of partial fulfillment of the requirement for the Master of Business Studies under the supervision of Mr. Mohan Kumar Karna, Lecturer of R.R.M. Campus, Faculty of Management, T.U.

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Researcher

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CHAPTER - I

INTRODUCTION

1.1 Background of the Study

The pace of the development of a state mainly depends upon the development of industrial, agricultural, social, and cultural sectors as well as the overall growth rate of economy. On the other hand there must be adequate resource for the development of a country. Nepal is a developing country with limited means and unlimited natural resources. But these natural resources are not mobilized in optimum level. Financial resource is vital for the development of a country. Unfortunately Nepal lacks the financial resource and its optimum utilization. Politically Nepal has just transformed into federal democratic republic country. Thus, rapid economic growth is the demand and the expectation of people. Nepal is a land locked country surrounded by two huge countries India and China. Nepal is heavily dependent on agriculture. It has lack of adequate industries and so many social, political and geographical constraints. Hence it is suffering from poverty, unemployment, and starvation in some of the areas. In spite of these constraints Nepal is trying to get rid of these problems through self-reliant economic system to upgrade living standard of people and maintain the pace of development.

The government has to spend a huge amount of money to achieve its national objectives. Every government needs to invest a big share of its revenue for the social welfare of its people. In the ancient time, government manages its fund by internal sources and use to spend a huge amount in the war and religious rites. But, now time has changed, government and people all are aware enough

and better know their responsibilities. On the one side each government is very careful and serious towards its social responsibility and on the other side people is too much concerned towards the nation and closely watching the activities of the government. People contribute some percentage of their income to the government as the tax and the government has to spend a lot of money to fulfill the responsibilities of the nation towards the people. The responsibilities may be either for security or health or education or other development activities. Now, to fulfill the high demand of social welfare program and to meet the growing public expenditure, the government must have sufficient fund. The government has two alternatives to raise the required fund.

A] Internal sources

B] External sources.

External sources of revenue are grants and loan of foreign government or agencies such are uncertain, inconvenient and not good for healthy development of a nation, if there is heavy depended on them. The experiences of developing countries show that there are negative results of increasing international aids and loans to finance the public development activities. As a result their economic conditions have gone down day by day. The government imposes taxes on the people to repay the external debt, as a consequence of which the capacity of people to work and to save declines. (Kandel, 2003)

External sources are uncertain, inconvenient and not good for healthy development of the nation because they have to be paid after a certain time. So, it is better to mobilize internal sources rather than looking with beggars eye to the donors (Pant, 1996).

Internal sources of government revenue or public finance are own sources within the nation. The main sources of such type of government revenue are administrative income, business income, mobilization of natural resources and taxation. It is the best alternative for the nation to mobilize internal sources that is certain, convenient and reduces the dependability to other countries.

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

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

According to Prof. Seligman, "Tax as a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred"

According to Plehn, "Taxes are general contribution of wealth levied upon

persons, natural or corporate to defray expenses incurred in conferring common benefits upon the residents of the states.”

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

Tax has become the matter to be known by everyone because there are hardly a few areas where tax shows no presence. It has become a part of life. Income of an individual is reduced by tax which affects his/her future savings. Similarly tax is the main source of government revenue that is required to provide utility service to people in general and perform developmental activities.

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

Income tax is a direct tax. It is considered as one of the major elements of tax revenue. Income tax is charged on person's income according to the law of nation. It covers all the fees, additional fees, fines etc. Income includes all the income, which are received from business, investment and employment.

Income tax is superior to other because it is imposed on the basis of paying capacity of tax payers. People, whose income is below the taxable income are not subject to income tax.

Knowledge of exemptions and deductions are more important to calculate taxable income because they are used continuously and treated differently year to year. Hence, to make up-to-date knowledge about income tax system, one should know about the provisions regarding exemptions and deductions under prevailing income tax law. By knowing it, we can compute net income and tax liability. Income tax law of every nation has clearly mentioned about the exemption of incomes and deductions of expenses.

Income tax reduces concentration of wealth in a few hands by imposing high rate to those persons and organizations having high level of income and low rate to those having low level of income. It also helps to increase the government revenue, which can be used for public welfare to develop infrastructure, provide general service etc. People who are paying tax to the government give more attention about the public expenditure. So the government expends the revenue in good manner.

Income tax is not only essential for collecting government revenue but also to control over consumption to promote saving and generate more employment.

Great Britain is the first country in the world to introduce the modern income tax in 1799 to finance the war fought with France. Similarly, to manage the civil war, USA introduced corporate income tax in 1862. In 1909 Federal Corporation income tax was originated. Now a days it is expanded all over the world. Every nation is introducing income tax according to their needs. In Nepal, the first elected government in 1959 introduced "Business Profit and

Salaries Tax Act 1960." At that time, income tax was levied only on business profit and salaries. In earlier days both individual and corporate tax were taxed on progressive rate. The government replaced the prevailing tax act by "Income Tax Act 1962." In 1974, "Income Tax Act 2031 (1974)" was enacted. This act was amended eight times. Now, "Income Tax Act 2058 (2002)" is in implementation with a view 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.

Income tax plays a very important role in the economic development of Nepal. It is a tool of achieving maximum social and economic objective as laid down by the constitution of Nepal. Taxation in the modern world has been taken as the best effective tool for raising the ratio of saving of the national income (Pant 1997). It is also recognized as a good financial tool to make narrow the inequality in income. It reduces the regional economic unbalance by providing tax concession and holidays to the business or industry, which is established in remote and backward areas. "Income tax is essential not only for collecting government revenue but also to control over consumption, to reduce inequality of income and wealth to promote saving and investment and to accelerate economic development"(Joshi,2055).

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

Although the legal provision has been made and updated timely, there are many problems about income tax and exemptions and deductions. There are many problems in income tax practice in Nepal such as; leakage in tax, feeling of people about tax as a penalty, lack of consciousness of people, inability of tax administration to cover new tax payer, delays in computation and collection, lack of accuracy and unity in accounting system etc (Khadka,1994).

The main objective of taxation is to collect more revenue. Exemptions and deductions play important role to collect the tax. Because of all these reasons exemptions and deductions of income tax system must be reviewed and immediate correction should be made.

1.2 Statement of the Problem

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

Underdeveloped countries like Nepal are facing various problems in the process of economic development. Nepal has been facing very serious problems of resources gap and high dependency of foreign loan and grants.

Taxes are important sources of public revenue. It is the major instruments to increase the rate of capital formulation to achieve high rate of economic development. Higher resources mobilization is the best option of healthy economic development for the nation.

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

Table 1.1
Resource Gap in Nepal

Fiscal Year	Total Expenditure	Total Revenue (revenue+ foreign loan)	Deficit (resource gap)
2000/2001	79835.10	55647.00	24188.10
2001/2002	80072.10	57131.60	22940.60
2002/2003	84006.10	67568.90	16437.20
2003/2004	89442.60	73614.40	15828.20
2004/2005	102560.40	84513.90	18046.50
2005/2006	110889.20	86109.60	24779.60
2007/2008	161349.9	127943.2	33406.7

Source: - *Economic Survey, 2008/09, Ministry of Finance, GON*

By analyzing the above table, it is clear that there is significant resource gap in Nepalese budget. Internal and external loan is the main sources to fulfill the

resource gap. The use of borrowing to fulfill the growing government expenditure brings various problems; mainly it forces to repay huge amount in the future. In Nepal, income tax has not been playing any significant contribution to the government revenue.

Government expenditure is increasing day by day but government revenue is not increasing in that proportion. Such unbalanced growth in revenue and expenditure has resulted in massive revenue expenditure gap or budgetary deficit in the country. The major cause of resource gap in Nepal is inadequate and ineffective resource mobilization. The design of taxation in Nepal is so poor and defective that as revenue rising instrument they always have very disappointing performance. The week performance of tax is clearly reflected in Nepal's low tax GDP ratio.

To raise government revenue it is necessary to raise its internal sources of revenue. Internal sources of revenue include tax and non-tax revenue. The contribution of tax revenue in the GDP was 8.6 percent in 2001/02, 9.8 percent in 2006/07 and 10.4 percent in 2007/08. Likewise the non-tax revenue on GDP was 2.4 percent in 2001/02, 2.3 percent in 2006/07 and 2.8 percent in 2007/08. In Nepal the contribution of income tax to total revenue is very low comparison to developed countries.

Nepal's low revenue collection is due to its poorly designed and defective tax system where the taxes are less productive, less responsible and distortion. In Nepal, the coverage of income tax is very low. There is poor taxpaying habit of Nepalese people. Tax authorities are inefficient and ineffective in enforcement of the act. Tax offices are assumed to be a heaven for corruption. Incompetent personnel are other major problem. The assessment procedure of income tax is

ineffective. There are no integrated programs for taxpayers' education, assistance, guidance and counseling (Agrawal, 1973).

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

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

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

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

Income Tax Act 2058 has described about the expenses which are allowed for deduction and not allowed for deduction while calculating amount of income tax.

Similarly, Finance Act (budget) provides exemption limit to family or couple and individual unit separately. The study would find out, whether the given exemptions limit and deductions of expenses are sufficient, appropriate, and systematic or not. For this purpose a questionnaire is presented to different people (tax experts, tax administrators and tax payers etc.) to collect their opinions and suggestions.

1.3 Objectives of the Study

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

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

1.4 Scope of the Study

The study tends to cover the major provisions of income tax system in Nepal. It aims to find out the appropriateness of the exemption and deduction facilities provided by Income Tax Act, problems and weakness in income tax system, contributions of income tax to the government revenue and tries to suggest some possible areas for reform. But the study especially focuses on the income tax exemption and deduction in detail.

The study covers the following aspects of income tax system of Nepal:

-) Nepalese tax structure.
-) Role of income tax in Nepal.
-) Exemption limit and deduction facilities under Income Tax Act 2058.
-) Existing position of Income Tax in Nepal.

1.5 Need and significance of the Study

Every year, Nepal has been presenting deficit budget, there is increment in resource gap. Most of the developmental activities depend on bilateral and multilateral grants and loans. The nation is hardly bearing the loan and the internal sources of revenue are not sufficient even to meet the ordinary expenses. Developing country like Nepal requires higher magnitude of financial resources for the development program. Internal resources have more significant role than the external resources for developmental program. The income tax is one of the most important internal sources of government revenue. Income tax plays significant role to increase government revenue. But it is a matter of great embarrassment to quote that the contribution of income tax to the national

revenue is very low in Nepal. To increase the contribution of income tax to the national revenue, problem faced by the income tax system should be researched and analyzed objectively and then the corrective measures should be taken. Few studies and research works have been conducted in the area of income tax in Nepal. Within income tax, the proper intensive study on tax exemption and deduction hasn't been done yet in Nepal. Most of the researches are based on contribution on income tax or national revenue. The previous researches do not give emphasis on exemption and deduction facilities provided by Income Tax Act. Hence, there is a reasonable need and significance of this study.

1.6 limitation of the Study

There exist various constraints in this study. The study focus only to analyze certain aspects of income tax and study of exemptions of incomes and deductions of expenses in Nepalese income tax.

The study has the following limitations:-

-) The study is based on secondary data hence the reliability depends on it.
-) Some of the primary data are also taken into consideration.
-) Main focus is given on exemptions of income and deductions of expenses hence it is not a complete study of income tax.
-) In the context of Nepal related sectors still are unable to provide relevant data properly. There is no systematic database that makes it difficult to carry out on any research in Nepal. Sometimes authority person do not want to provide relevant information, this problem is also incorporate with this study.

-) Due to the small size of respondents the findings can not be generalize for Nepal as a whole. The views of respondents of Janakpur municipality are only considered.
-) . Absence of required related data of various countries concerned with the study limits to detail study.
-) The study has been conducted to fulfill the requirement of the MBS program of T.U. for the prescribed time.

1.7 Organization of the Study

The entire study has been organized in following five chapters.

Chapter 1. Introduction: The first chapter consists of background of the study, statement of the problem, need and significance of the study, objective of the study, limitation of the study, and organization of the study.

Chapter 2. Review of literature: The second chapter is about the review of the literature and conceptual frameworks. It is done to know that what research had been done in the related topic in previous days and what is to be done at present or in future. This chapter has been divided in two main aspects (1) Conceptual framework and (2) Review of related materials i.e. review of books, thesis journals, magazine and news articles, unpublished dissertation reports and articles etc.

Chapter 3. Research methodology: The third chapter is concerned with research methodology which includes research design, population and sampling, nature and sources of data, procedure of data collection and tools used for analysis.

Chapter 4. Data presentation and analysis: The fourth chapter is the major part of this study. This chapter is termed as presentation and analysis of data. This chapter includes research gap in Nepal, tax GDP ratio; Nepalese government revenue structure, composition of tax revenue in Nepal, exemption of incomes and deduction of expenses in income tax system etc. and opinion survey have been analyzed. It describes the problems and weakness of tax administration in Nepal. It contains major finding of the study also.

Chapter 5. Summary, conclusion and recommendation: Fifth chapter is mainly concerned with summary, conclusion and recommendations. At last essential appendix and bibliography have been presented at the end of the study.

CHAPTER - II

REVIEW OF LITERATURE

This research study had been done after reviewing many books, dissertations, articles and reports. While reviewing the books, it was found that most of the books were T.U. syllabus oriented and some of them had described the problems of prospects of income tax system and path for reforming of income tax.

Similarly many dissertation, articles and reports had described the income tax law, provisions, and structure of income tax, problem and prospects of income tax. There were no detail studies made on the topic of income tax exemptions and deduction.

2.1 Conceptual Framework and Legal Provisions

2.1.1 Concept of Tax

Every government needs sufficient funds to carry out developmental and administrative activities and to maintain peace and security, as well as to launch public welfare activities. The fund required for these activities can be collected from two sources: debt and revenue. The government revenue is collected from two sources: tax and non tax. Non tax sources include different revenues like gifts, grants, revenue from public enterprises, administrative revenues such as registration fees, fines and penalties etc. Tax sources include excise duty, VAT, income tax etc. Among these tax is the major part of the government revenue. The term 'tax' refers compulsory contribution from a person to the government without any corresponding benefits. Tax is the compulsory levy imposed by the government to the people and organization. Tax is a compulsory payment to the government by the people without getting any direct benefits.

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

According to Prof. Seligman "A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred."

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

From the above definitions, it can be concluded that tax is compulsory levy imposed to the person by the government according to the laws of the country. The person on whom, tax is imposed must pay taxes. The government does not provide any corresponding or direct benefit to the taxpayer for the amount of tax paid by them.

2.1.2 Classification of Taxes

Mainly taxes are classified into two broad categories. They are:

2.1.2.1 Direct Tax

Direct tax is the tax on income and properties. A direct tax is a tax paid by a person on whom it is legally imposed. The person paying and bearing tax is the same in direct tax. In other words, the same person pays the tax to which it is imposed. Taxpayers cannot collect direct tax from other person.

According to J.S. Mill: “A direct tax is one, demanded from the very person who is intended or desired should pay it.

Examples of direct tax are: income tax, property tax, interest tax, gift tax, vehicle tax etc.

2.1.2.2 Indirect Tax

An indirect tax is that tax which is imposed to one person but in reality the tax burden goes to other person. In other words, an indirect tax is a tax imposed on one person but partly or wholly paid by another. It is the tax on consumption or expenditure. Indirect tax is transferable. The person paying the tax and the person bearing the tax is different. The person who pays tax collects it from others.

According to J.S. Mill: “Indirect taxes are those which are demanded from one person in the expectation and intention that he shall identify himself at the expenses of another.”

For examples: VAT, sales tax, entertainment tax, hotel tax, import and export duties, excise duty etc.

2.1.3 Concept and Meaning of Income Tax

2.1.3.1 Income

Generally income means the inflow of cash to the person or firm. Most of the people do not take the kind as income; it is a best measure of economic well being of a person as well as of nation.

Economists define the term income in a broad sense. It is an economic gain or receipt to a person during a particular time by way of wages, interest, profit and rent.

Income means a person's income from any employment, business or investment and the total of that income as calculated in accordance with this act"

(TA2058,Sec.2, Ja.). It includes all sorts of income received for the provision of labor or capital or both of whatever form or nature in the taxable income.

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

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

Symbolically, $Y = C + W$

Where, Y = Income, C = Consumption, W = Change in wealth

2.1.3.2 Income Tax

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

Income tax is a personal tax imposed on the net income of individuals and corporation. In most of the countries especially the United States of America, Canada and other countries, the income tax is defined in terms of the 'flow of wealth of receipt in money or goods from the tax payers during the period. Inflow of wealth method, taxation is imposed on a realization rather than on accrual basis and the application only when a transaction occurs between other person and taxpayers (Due, 1995).

According to the tax economists "An income tax is a levy imposed upon the income of individuals after the exemption limit. Income tax is direct tax based on the total income of the taxpayers from all sources and is graduated on a special system of exemption. Taxation on income is the most important single source of revenue of government of developed and also developing countries either it contribute more or less.

2.1.4 International History of Income Tax

For the first time Great Britain introduced income tax in 1799 in order to finance war with France. Only after 1980, it was accepted as a permanent tax. In United State, first federal income tax was imposed in 1862 to finance civil war expenditure. However, it became a permanent feature only in 1913 after 16th amendment to U.S. constitution. England used to collect revenue mainly, through customs, excise, stamp duty and other. In neighboring country India, at first income tax was introduced in 1860. After introducing "Income Tax Act 1886" in 1886, it was imposed as a permanent. Italy adopted income tax in 1864, New Zealand in 1891, Australia in 1915 and Canada in 1917. After First World War, the income tax became an important source of revenue in most developed countries and had made appearance in number of developing nations. (Agrawal, 1980)

From the First World War decade, Income tax has shown as an important source of revenue in developed country. In the beginning of introducing time, it was generally levied at flat rate. Only after 1909, the principle of progression was introduced from the UK and New Zealand. Income tax was introduced due to the cause of war and national emergencies. Thus, the second name of income tax is war tax. After the end of the war, the tax was named as income tax. Now a days, it has been the important instrument against poverty and inequality. (Agrawal, 1978)

2.1.5 Development of Taxation in Nepal

At the ancient time, tax system of Nepal was based on Vedas, smiritis and purans. Directives propounded by Manu, Yagya, Balka, Chanakya etc were guided the taxation system. At that time, the principle of collecting tax from the

people was imposition of tax without harming the tax activities of the people (Kandel, 2003).

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

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

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

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

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

After the initiation of democracy, the first budget was introduced in 2008 B.S. stated about the introduction of income tax system in Nepal. But it was

actually started from 2017 B.S. in the form of business profit and Remuneration tax. The business profit and remuneration income were subjected to tax according to tax according to "Business Profit and Remuneration Tax Act, 2017 B.S." Some other taxes that are enacted in Nepal are custom duty, sales tax, value added tax, excise duty, local tax etc. The development of income tax in Nepal can be presented with the implementation of different income tax acts with the flow of time.

2.1.5.1 Business Profit and Salaries Tax Act 2017

The government of Nepal introduced a formal income tax for the first time in Nepal in 1960(2017 B.S.) in the form of 'Business Profit and Salaries tax Act 2017' It was enacted by the first elected government of Nepal. According to this act only business profit and remuneration were subjected to tax but the revenue for these taxes should not be collected properly according to originals estimates. It has consisted 22 sections only (Dhungana, 1976).

Main features of this act are mentioned below:

-) Only business profit and remuneration income were subjected to tax. Thus the act was narrow coverage.
-) Tax on remuneration was to be deducted at sources.
-) The basis for calculating the tax liability for remuneration was the income of the current year whereas for business profits, it was the profit of the preceding fiscal year.
-) There was a provision of fines regard between Rs.500 to Rs.5000 in case of defaults.

-) The tax officer was empowered to assess tax on best judgment estimation only in case of cash statement of in absence of income tax return.
-) The first court of appeal against the tax officers' assessment was local 'Bada Hakim' or Magistrate. Thereafter, taxpayer could appeal to the "Revenue and Tax Court" but the need to deposit fixed amount of tax.
-) There was a provision of tax exemption on salary of foreign citizen, dividend of shareholders, profits to be spend in religious or public welfare activity, crop from own land, allowances granted by HMG to ministers, assistant minister, chairman, speaker and deputy speaker, amount drawn from provident fund or saving fund.

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

2.1.5.2 Income Tax Act 2019

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

The main features of this act are as follows:

-) There were nine sources of income for the tax purpose such were, income from business, salaries, any profession, rent from house and land, investment in cash or bond, agriculture, insurance agencies and any other sources.
-) The status of taxpayers was defined personally as well as residentially.
-) The basis was specified for assessing tax on the best judgment estimate of the officer.
-) Act has defined basic terminology such as taxpayers, tax officers, company, firm, profit remuneration, tax assessment, non-resident etc.
-) Provision was made for payment of tax in installment as well as advance payment of tax.
-) Provision was made to carry forward of losses for the period of two years.
-) Provision was made for reassessment of tax as well as rectification of arithmetic errors.
-) The provision was made to constitute the net income assessment committee with five members.
-) Provision was made for payment of tax in installment as well as for advance payment of tax.
-) Clearly defined and stated that the assessment and method of assessing (computing) net income.
-) To expand the tax coverage at the first time agriculture income was brought under the tax net. But, the financial act 2023 B.S. exempted this income fully from income tax. Again, it was brought into tax net by financial act 2030 B.S.

2.1.5.3 Income Tax Act, 2031 B.S.

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

Main features of this act are as follows:

-) This act has clearly defined the certain terminologies used in tax act e.g. income tax, taxpayers, non-resident, tax assessment, gross income, net income, income year, agriculture income, remuneration income, loss etc.
-) The act has classified income head into five categories (1) agricultural income (2) income from industry, trade, profession or occupation (3) remuneration (4) house rent and compound rent tax and (5) income from other sources.
-) Certain types of income were exempted from income tax that was specified in section 42.
-) Carry forward of lose has allowed for three subsequent year.
-) Provision of self-assessment of tax for the first time in Nepal.
-) The methods of computing net income from various sources have been specified clearly.
-) The provision for the taxpayers has to register their industry, business, profession or vocation in tax office before the commencement of the work.
-) The process of assessment, reassessment, and advancement of tax, deduction of tax at sources and refund of tax has clearly specified.

-) The act has clearly specified to deduct expenses while computing net income for all sources of income.
-) It has additional provision of exemption from income tax than the former act as follows: income of Guthi, income of village development committee, municipality, and amount received against life insurance.
-) Right, duties, forms, appeal were specified.
-) Provision of penalty up to Rs.5000 in case of failure of maintains or preserves accounts.
-) Provision for avoidance double taxation.

2.1.5.4 Weakness of Income Tax Act, 2031 B.S

Tax administration is not effective enough due to lack of professional skill of tax personnel, loop holes in tax laws, lack of taxpayers' information (Kharel, 2052).

Some weakness in ITA 2031 as noted by him were as follows:

-) Narrow tax base.
-) Taxing only the income originated in Nepal
-) Discretionary powers to the tax officers.
-) Imposition of various laws with regard to tax.
-) Ambiguous and insufficient.
-) Poor control mechanism for tax evasion and avoidance.
-) Tax law has not mentioned the right of taxpayers.
-) Unsuitable to modern economy. Etc.
-) Low penalty rate to tax evader.

2.1.5.5 Income Tax Act 2058 B.S.

"Income Tax Act 2058" was introduced from 19th Chaitra, 2058 B.S. This act replaced the income tax act 2031. The act was brought in Nepal to avoid the

defects of income tax act 2031. It consists of 143 sections along with 24 chapters. The main motto of this act is to promote the economic development of the nation. HMG had enacted the income tax rules in 2059, Jestha, 27th in accordance with the authority given under section 138 of ITA 2058. The new act has retained certain provision of the old tax act and has added certain new provisions.

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

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

-) To enhance revenue mobilization through effective revenue collection procedure.
-) To increase the tax coverage.
-) To bring all the income generating activities within tax net.
-) To integrate all the income tax related provision within one act.
-) To make income tax related provision clear and transparent.
-) To integrate the tax system with global taxation.
-) To make tax system based on account.
-) To minimize tax avoidance and tax evasion.
-) To make tax system compatible to modern economy.
-) Reducing the scope of discretionary interpretation of the tax administration thereby ensuring simplicity, uniformity and the transparency.
-) Defining the power as well as authority of tax administration.
-) Making more responsible to taxpayer by emphasizing on self tax assessment system.
-) Separating administrative and judicial responsibilities.

2.1.5.5.2 Main Features of Income Tax Act, 2058

Following are the main features of income tax act 2058:

-) All the matters related to income tax are integrated within the act.
-) This act has clearly classified the income into three headings under section 3: (a) business (b) employment and (c) investment.
-) This act has clearly defined the terms mainly used in income tax.
-) All expenses incurred while generating taxable income are allowable to deduct.
-) The act has introduced a pool system of charging depreciation, intangible assets are also depreciated.
-) Capital gain and dividend etc. are brought into tax net.
-) The act has provided a liberal loss set-off and carry forward provisions. Inter head adjustment of losses is clearly specified.
-) The act has introduced a provision for administrative review to allow the tax administration to correct mistakes made by the tax administrators internally.
-) Global incomes of a resident are made taxable. Non-residents are also taxed on their income with source in Nepal.
-) Provision of fines and penalties are made clear and strict in the new ITA 2058.
-) The act has given the option for husband and wife as a separate natural individual unit if they do not accept as couple.
-) To control the tax evasion, provision of transfer pricing, capitalization, dividend stripping is made.

-) The special provision for deduction pollution control cost and research and development cost.
-) Tax can be paid in three installments (40% at first, up to 70% at second and 100% at last).
-) The act has broadened the tax base and tax rates and concessions have been harmonized on equity ground.

2.1.6 Review of Some Terminologies Used in Taxation

According to ITA 2058:

a. Income (section 2 Ja)

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

b. Income Year (section 2 Jha)

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

c. Company (section 2 Da)

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

- I. A Corporate body established under the laws for the time being in force.
- II. Any unincorporated association, committee, institutions, society or a group of persons other than partnership or proprietorship firm (whether or not registered) or a trust.

- III. A partnership firm (whether or not registered under the laws for the time being in force) having 20 or more partners, a retirement fund, a cooperative, a unit trust, or a joint venture.
- IV. Foreign company (Registered but not incorporated by Nepal Company Act)
- V. Any foreign institution prescribed by the Director General of IRD.

d. Individual (section 2 Wa)

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

e. Entity (section 2 Bha)

Entity denotes the following institutions or organization.

- i. A partnership, trust, or company.
- ii. A VDC, Municipality or DDC.
- iii. The Government of Nepal
- iv. A foreign government, a political sub-division of the foreign government, or a public international organization established under treaty
- v. A permanent establishment of an individual or an entity that is not situated in the country in which the individual or entity is resident.

f. Resident Person (section 2 Ka Nga)

Resident person with respect to an income year means:

-) In the case of an individual: an individual is;
 - i. Whose normal place of abode is in Nepal.
 - ii. Who is present in Nepal for 183 days or more in any period of 365 consecutive days; or

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

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

g. Partnership (section 2 Ka. Pa)

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

h. Exempt Organization (section 2 Dha)

Exempt organization means the following entities:

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

i. Business (section 2 Ka. Ja)

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

j. Tax (section 2 Dha)

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

-) As mentioned in clause 104 (8) sub clause (a) expenses incurred in relation to claims or performing auction of a property of a person who is liable to pay tax,

-) Amount payable by a withholding agent or withholder clause 90, or amount payable by an installment payer under clause 94 or the amount payable as per tax assessment under clauses 99, 100 and 101.
-) Amount payable to the department in respect of a tax liability of a third party under clause 107(2), 108(3), 109(1) and 110(1).
-) Amount payable by way of interest and penalties under chapter 22
-) And as per clause 129 amount payable by way of fines as per the order of the department.

2.1.7 Sources of Income

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

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

2.1.7.1 Income from Business

Business include trade, commerce, production, profession, vocation etc. Income Tax Act 2058 has defined the business income for income tax purpose. Profits and gains from conducting the business are considered as business income for the purpose of income tax. While calculating a person profit and gains from the business, the following amounts derived by the person during the year will be included and following expenses are deducted.

Incomes are as follows:

-) Service charge (sec.7.2)
-) Sale or disposal of business trading stock (sec.7.2)

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

Allowable deductions:

-) General deductions (sec. 13)
-) Interest expenses (sec.14)
-) Cost of trading stock (sec. 15)
-) Repair and improvement cost (sec. 16)
-) Pollution control cost (sec. 17)
-) Research and development cost (sec. 18)
-) Depreciation (sec. 19)
-) Bad debt (sec. 25.2)
-) Loss from business (sec. 20)

) Other expenses.

The following amounts are excluded while calculating income from business for tax purpose.

) Exempt amounts under section 10.

) Taxation of dividends under section 54 and section 69.

) Final withholding payments section 92.

2.1.7.2 Income from Investment

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

Following incomes are including in investment income:

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

) Net gain from the disposal of the non business chargeable assets of investment (sec. 9.2)

) Excess amount of incoming over the depreciation basis including outgoings on the disposal of the depreciable assets of the investment of the person (sec. 9.2)

) Gifts and prize received in connection with investment (sec. 9.2)

) Retirement contribution, including those paid to a retirement funds in respects of the person and retirement payments on respect of investment (sec. 9.2)

-) Amount received instead of acceptance of any restriction regarding investment (sec. 9.2)
-) Amount include under change of accounting method (sec. 24)
-) Bad debts recovered (sec. 25)
-) Underpayment of interest account according to market price (sec. 27.1)
-) Excess amount received due to variation of exchange rate (sec 28)
-) Amount received as compensation (sec. 31)
-) Other amounts required to be included on tax accounting or quantification, allocation and characterization so amounts or transition between any entity and beneficiary on general insurance business (sec. 9.2)

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

-) Exempt amounts under section 10.
-) Taxation of dividends under section 54 and section 69.
-) Final withholding payment under section 92.
-) Amounts those are included in calculating the person's income from an employment or business.

Allowable deduction:

-) General deduction (sec. 13)
-) Interest (sec. 14)
-) Repair and improvement cost (sec.16)
-) Depreciation (sec. 19)
-) Business or investment loss (sec. 20)

Allowable reductions:

-) Donations to tax exempt organization (sec. 12)
-) Retirement contribution (sec. 63)
-) Other reductions (Schedule 1)

2.1.7.3 Income from Employment

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

Following employment incomes are included for tax purpose.

-) Payment of wages, salary, leave pay, overtime pay, fee, prize and gifts related to employment, bank and other facilities. (Sec.8.2)
-) Payment of living allowance, rent, entertainment and transportation allowance and other personal allowances. (Sec.8.2)
-) Payment of reimbursement of cost incurred by the individual or an associate of the individual. (Sec.8.9)
-) Payment for the agreement to any condition of the employments. (Sec. 8.2)
-) Payment for the compulsory termination, loss or redundancy of the employment. (Sec. 8.2)
-) Retirement contribution amount pay by the employer to the retirement fund in the respect of the employee. (Sec. 8.2)
-) Other payment in respect of the employment

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

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

While the computing net income from employment of a natural person, the following amounts are excluded from employment income:

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

Following expenses can be deducted while calculating employment income.

-) Cost directly related with generating employment income.
-) Contribution to retirement fund (provident fund, citizen investment fund and others).
-) Donation (5% of adjusted taxable income or 10,000 whichever is less).

2.1.8 Tax Exempt Organization

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

Following are the tax exempt organizations.

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

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

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

2.1.9 Tax Exempt Amounts or Inadmissible income

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

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

Amounts excluded while calculating income from investment.

- The act has mentioned the amount which are excluded in computing income from an investment under section 9.3 They are:
 - a) Exemption amount under section 10,
 - b) Taxation of dividend under section 54.
 - c) Dividends distributed by a controlled foreign entity at the end of the year under section 69 and final withholding payment, and
 - d) Amounts that is included in calculating the person's income from any employment or business.

2.1.10 Business Exemptions and Concessions (Sec. 11)

Section 11 of ITA 2058 has mentioned the following business exemptions and concessions.

-) An agricultural income derived from sources in Nepal during an income year by a person, other than the income from an agriculture derived by a registered firm, or partnership, or a corporate body.
-) Income derived by cooperative societies registered under cooperative act 2048 from business mainly based on agriculture and forest products and dividend distributed by such societies are exempted from tax.
-) Any person operating special industry during the whole income year will be taxed as under:
 - a. In case, the industry provides direct employment to 500 or more Nepali citizens during the year, 90% of applicable tax rate is applied.
 - b. In case, the industry operated in a remote, undeveloped, or underdeveloped area tax at 70%, 75%, 80% of the applicable

tax rate respectively up to ten income years commencing, from and including the year in which the operation commence.

c. If the both exemptions (a & b) are available to the same industry for same income year, only one exemption must be chosen.

) A person who is entitled to an exemption as per sub clause (a) (b) or clause 11 should calculate the income as referred to in those subclasses as though the income was only income earned by separate person.

) If the assets by the special industry were used previously by another person operating the similar type of special industry the ten year for the letter will be counted from the period of such use by the another person previously.

) If any agreement made by government and any person constructing and operating infrastructure project to construct and operate an infrastructure project and for such agreement provide any tax facilities given by this act. In this condition, the person (project) can consume the facilities till to the period stated in the agreement.

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

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

- i. A person may claim to have taxable income year reduces by donations (gifts) made by the person during the year to an exemption organization, that are approved for the purpose of this section by the department.

- ii. Notwithstanding subsection(a) reductions allowed to a person under subsection (1) for an income year shall not exceed Rs.100,000 or 5% of the person's taxable income for the year calculated without a deduction for gifts referred to subsection (a) and ignoring the limitations in 17 (2) and 18 (2) whichever is less.
- iii. Notwithstanding subsection (a) and (b), Nepal Government may prescribe, by a notification in the Nepal Gazette, as to full or partial deduction at the time of assessing a person's income of the expenses incurred for special purpose or the expenses of the gift given by the person.
- iv. Expenditure incurred by a company for the protection and promotion of ancient, religious and cultural heritage located in Nepal and for building public physical infrastructure of sports is allowed for reduction up to Rs.1000000 or 10% of assessable income.
 - From the above provision (a), it is clear that the donation given to political parties is allowed for deduction. But it is not clear mentioned that 'transparency of donation amount given by businessman to political parties.'
 - Similarly, in the provision (c), there is a provision of special purpose. But the act has not defined 'what is the special purpose?'

2.1.12 Allowable Deductions

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

2.1.12.1 General Deduction (Sec. 13)

) To calculate a person's income from any business and investment for an income year the interest expenses can be deduct following conditions:

- a. The borrowed money is use in the year;
- b. If the money borrowed to purpose an asset, the asset must be used in the year.
- c. In other case the borrowed money is used to generate income from business or investment.

) In case of resident entity controlled by a tax exempted institution and that entity has paid interest to the controller institution or related person, the resident entity may deduct the interest paid without exceeding the sum of follows (a + b).

- a. Total interest derived by that entity which is included income taxable income, and
- b. 50 % of the entity's adjusted taxable income for the year calculated without including any interest received and without deducting any interest expenses paid by the entity.

) The portion of the interest which is not deducted during the current income year because of the limitation. So, remaining portion will be deducted in the income year.

) For this purpose, the controller entity means the institution holding of 25% or more of equity or managerial power at any time during the income year.

) Here, tax exempted institution means:

- a. Tax exempted entity and related person.
- b. Entities getting business concession and facilities under (sec.11)
- c. Non-resident person or his related persona or

d. Any combination of (a), (b) and (c).

2.1.12.2 Interest Expenses (Sec.14)

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

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

2.1.12.3 Cost of Trading Stock (Sec. 15)

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

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

Cost of trading stock = Opening stock + Cost of purchase or production of trading stock during the year – Closing stock.

-) To evaluate the closing stock cost price and market price whichever is less is taken.
-) The person keeping accounts on a cash basis for the valuation of trading stock.

a. Absorption cost can be derived as follows:

Direct material cost	xxx
Direct labor cost	xxx
Variable factor overhead cost	<u>xxx</u>
Prime cost (Absorption cost)	xxx

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

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

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

2.1.12.4 Repair and Improvement Cost (Sec. 16)

-) For the purpose of calculating a person's income for an income year from any business or investment, repair and improvement cost of depreciable assets, owned and used by the person should be deducted which is incurred during the year.
-) However, according to the act, such costs do not exceed 7% of depreciation basis of the assets pool at the end of the income year.
-) If the actual repair and improvement cost is more than 7% of the assets pool, the balance amount is capitalized and added to the depreciation basis then written off in the next years.
-) Repair and improvement cost can be calculated as follows.

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

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

2.1.12.5 Pollution Control Cost (Sec.17)

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

2.1.12.6 Research and Development Cost (Sec. 18)

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

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

2.1.12.7 Depreciation (Sec.19)

-) Depreciation is the depletion in the value of assets due to wear and tear, obsolescence or the passing of time.
-) Depreciation at prescribed rate is allowed to deduct on used depreciable assets owned by the persons or organization.
-) There are different rate of depreciation for different blocks.

Block – A	5%
Block – B	25%
Block – C	20%
Block – D	15%
Block – E	original cost / Useful life

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

Opening Written down value	xxx
Add: Absorbed Addition during the year	xxx
Less: Disposal during the year	<u>(xxx)</u>
Depreciation basis	xxx

-) The following entities are allowed additional depreciation, 1/3rd of the prescribed rate on the assets falling under A, B, C and D blocks.

- a. Entity engaged in building public infrastructure to transfer to the government and any other entity engaged in power generation, transmission or distribution of electricity.
- b. Entity fully engaged in operating special industry.
- c. Entity fully engaged in operating road, bridge, tunnel, ropeway or flying bridge constructed by the entity.
- d. The entity fully engaged in operating trolley bus or train.
- e. The entity which earned income from export business in an income year.

An individual cannot get such facilities (1/3rd additional depreciation) even though, she/he is operating similar activities (Kandel, 2003: 73).

2.1.12.8 Losses from Business or Investment (Sec.20)

) While calculating income from business for an income year following losses are allowed for deduction.

- a. any unrelieved loss of the year incurred by the person from any other business.
- b. Any unrelieved loss of previous four income year incurred by the person from any business.

) While calculating income from investment following losses are allowed for deduction.

- a) Any unrelieved loss of the year incurred by the person from a business or investment.
- b) Any unrelieved loss of previous four income year incurred by the person from any business.

2.1.12.9 Bad Debts (Sec.25.2)

Under the following condition bad debts can be deduct.

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

2.1.13 Allowable Reductions:

i. Donation to Exempt Organization

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

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

ii. Retirement Contribution (Sec. 63)

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

The rule prescribed in Rule 21, in an income year is Rs.300000 or one third of assessable income, whichever is lower.

2.1.14 Tax credit

i. Medical Tax Credit (Sec. 51)

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

ii. Foreign Tax Credit (Sec. 71)

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

The maximum allowable foreign tax credit to a person is calculated by using the following formula.

Foreign Tax Credit = Assessable income from foreign sources \times Average rate of income Tax in Nepal.

Average rate of income Tax in Nepal = (Total tax payable before any foreign tax credit \div Total taxable income) \times 100

2.1.15 Expenses not allowed for deductions

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

- a. Expenses of domestic or personal nature.
- b. Tax paid under this act.
- c. Fines and penalties paid to government or its local bodies for breaching of any law or regulations.
- d. Expense to the extent to which they are incurred by a person in deriving exempt amount under section 10 or final withholding payment
- e. Expenses for payment made by a person whose annual turnover for an income year exceeds Rs. 20, 00,000 is not allowed a deduction for a cash payment in excess Rs. 50,000 incurred at once other than in specified conditions. (Income Tax Act 2058, Sec. 21.2 for detail)

- f. Expenses of capital nature.
- g. Foreign income tax paid.
- h. Distribution of profits by an entity.
- i. Reserve fund and provisions.

Clarification

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

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

For the purpose of this section:

-) "Expenses of a domestic or personal nature" means the following expenses.
 - Expenses incurred for an individual and the following expenses, including interest incurred with respect to money borrowed to the extent to which it is used for personal purpose.
 - Expenses incurred in maintaining shelter as well as meals, refreshment, entertainment or other leisure activities to the nature individual.

- Expenses incurred with respect to individual commuting or traveling, other than connecting in the courses of conducting a business or investment.
- Expenses incurred in acquiring clothing for the individual, which are not used while doing business work.
- Expenses incurred in education and training. But, the expenses are allowed for deduction that is incurred for training and education and directly related to business which does not lead any university(academic) diploma and degree.
-) An area not having banking services" means the area where there are no banking facilities within the surrounding of 10 kilometers.
-) "Cash payment means a payment other than made through a bank or financial institution by of letter of credit, cheque, draft, money order, telegraphic transfer, money transfer, (Hundi) and any other form of transfer, made between two banks or financial institutions.
-) "Expenses of capital nature" means the following expenses.
 - Expenses incurred in respect of natural resources prospecting exploration and development.
 - Expenses incurred in the acquisition of an asset with a useful life exceeding 12 months, or
 - Expenses incurred on the disposal of a liability.

2.2 Review of Books

Amatya (1965) published a book entitled "Nepal Ma Aayakar Ko Byabastha." In this book he has tried to define income tax and its provision pertaining to

Income Tax Act 2019. His contribution was the first in this field. Basically, he has analyzed the legal aspects of income tax in Nepal at that period.

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

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

Khadka (2061) published a book entitled "Nepal ko kar pranali" In this book he has tried to convey different aspects of Nepalese income tax system. He has dealt with income tax and its provision related to Income. Similarly he has also described about value added tax as well as custom duty, excise tax and others. He has presented all with its evolution, present status and problems and suggestions for solution.

Khadka (1994) had described the economic policy of Nepal, value added tax, income tax from rough to refined system, property taxes as the main sources of local revenue. He had shown the composition of tax revenue from 1950/51 to 1991/92. About the income tax, he had described the introduction, development, structure, problems and possible direction of reform. He had identified the major

problems of income tax such as narrow coverage unscientific tax assessment etc. He had suggested following direction for refer, they expansion of coverage improvement in tax assessment use of presumptive method, extension of withholding tax, inflation adjustment, tax treats with the major trading patterns of Nepal. Similarly, he identified following major problems of tax administration: - weak tax administration, inadequate tax training, lack of adequate information system, inadequate physical and other facilities, lack of coherent tax policy etc.

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

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

Pawan Kumar Ojha (2050) had published a book named "Taxation Law". He had described the different acts and law of income tax. He had taken many tax cases into consideration to describe legal terms. This book may be beneficial to understand the income tax laws.

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

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

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

Bhattarai and Koirala (2003) published two books. "Taxation in Nepal" for the students of BBS and "Tax laws and tax planning" for the students of MBS level. Both the books are useful enough to gain the knowledge about the present tax system of Nepal. All the income tax matters are dealt clearly along with the sufficient illustrations and "points to remember".

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

Mallik (2003) had published a book named "Nepalese Modern Income tax

System". He has described about legal provisions relating to income tax with numerical examples and has described historical aspect of income tax. This book is very useful to know the general information and legal provisions of income tax act 2058. The book is informative rather than analytical. The writer has not analyzed the role of income tax structure in this book.

Agrawal (2004) has published a book entitled "Income Tax; theory and practice." This book has focused on the students of chartered accountants and taxation. This book has also focused to be a practitioners' reference and handbook, rather than theoretical compilation on the subject. His book is not only based on description fact but also has interrupted the various provision of the new act. Simple and clear language has been used in this book. Sufficient theoretical concepts with clear interpretation as well as sufficient examples are included in this book. This book has depth theoretical concept and examples. Some sections of ITA 2058 act have compared with the international accounting standard. Gain or loss adjustment of depreciated assets is an example. All terms are clearly defined with sections under which the terms are included.

2.3 Review of Dissertations

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

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

Kayastha (1974) has tried to analyze the contribution of income tax and property taxes to overall revenue generation in Nepal. He has studied on legal and administrative aspect of income tax system of Nepal and pointed out some drawback. According to him before 1951, Nepal didn't have scientific economic policy, which could facilitate the economic development of the country. According to him, the major problems of income tax system of Nepal are income tax evasion at high level and greater role of indirect tax in tax revenue. These problems have not solved yet effectively.

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

He has described the problems of income tax in Nepal. They are lack of up-to-date existing as well as potential tax payers. Lack of records keeping and maintaining accounts by tax payers, lack of responsibility and honesty among the tax officer, lack of co-ordination between various tax departments and revenue department, leakage in income tax collection etc. Some of these problems are more relevant and considerable at now.

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

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

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

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

She has presented some suggestion about the tax rate and exemption limit. It should be elastic, scientific and progressive. The exemption limit should be separated to the couple and family. But only increasing in exemption limit will not create benefit. If exempted income is spent in luxuries

consumption, it will hamper saving and investment. She has not mentioned the legal provision relating to income tax, exempted incomes and deduction of expenses.

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

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

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

Acharya (1994) had described structure, productivity and problem of income tax system. His study was mainly concentrated on the problem of income tax system. Although his finding about the problem of exemption limit and

allowance were considerable and accountable. He has shown the problems of exemption limit as follows:-

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

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

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

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

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

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

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

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

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

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

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

Shrestha (2001) has covered the historical background, legal provision, structure of income tax, income tax administration in Nepal and empirical investigation.

Her findings about tax structure were; there was dominant share of tax revenue in Nepalese government revenue. The tax/ GDP ratio for the period of 1984/85 was 6.81% and 9.36% in 1998/99 which is unsatisfactory with other SAARC countries.

The contributions of direct and indirect on tax revenue were 17.76% and 82.42% respectively in 1984/85 which become 26.14% and 73.26% in 1998/99.

She had found various problems of income tax system in Nepal. They are: narrow tax coverage, widespread evasion and avoidance of income tax, unscientific tax assessment procedure, mass poverty of Nepalese people, inefficient tax administration, lack of conscious of taxpayers, complicated tax laws and procedure, instability in government policy, high corruption, failure to locate new tax payers, failure to maintain proper accounts and records. She has suggested broadening the Nepalese income tax base by bringing agricultural income and capital gain under income tax net. She had suggested to reform of income tax assessment, tax administration, and tax education to taxpayers. Her suggestion for minimizing tax evasion were control illegal business activities, enforce power auditing and investigation, enforce heavy fine and penalties and maintain proper records and accounts.

Pradhan (2002) had conducted a study concerned with historical background and contribution of income tax to the public revenue, contribution of Nepal Telecommunication Corporation (NTC) to income tax, effectiveness of income tax collection. She had found as follows:

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

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

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

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

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

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

system. But she had not mentioned the problem of income tax system and exemption and deduction.

Sherchan (2003) had presented a thesis covering tax structure, role and legal provision of income tax. But, specially, his study has focused on provision of fine and penalties. He had found that there was dominated share of tax revenue in Nepalese government revenue structured. Income tax had occupied third position in his study period and it was in an increasing trend. The tax/GDP ratio was not found satisfactory. With the income tax, there was the dominated role of corporate income tax but it was in a decreasing trend and contribution of individual income tax was second position and it was in an increasing trend. He has suggested revision the provision of fine and penalties; introducing reward, prize, incentive, clear income tax, rules and regulation; clear right and duties of tax officers. Moreover, his suggestions are timely revision in income tax policy, computerized system for payment of income tax.

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

Palli Magar (2003) had presented a dissertation named "Income Tax Act in Nepal: A study of Exemption and Deduction". He has covered tax structure, role of income tax, exemption and deduction provides in the law. He has found that there was dominated share of tax structure in Nepalese government revenue. Income tax had occupied third position in his study period and it was in an

increasing trend. The tax/GDP ratio was not found satisfactory. He found that exclusion of agriculture income from the tax net.

He found various problems in Nepalese income tax system. They are: lack of trained employers, shortage of income tax experts, professionals in tax administration, lack of public participation, fully organizational structure of tax administration, weakness in government policy, less clear income tax act, limited tax base, increased corruption, lack of timely adjustment of tax law etc. His suggestions about exemption are: revision the exemption limit, elimination of double taxation on dividend, tax rebate for submitting true income statement in time, increase the exemption limit to individuals as well as family, exemption limit must be adjusted with inflation situation, the provision of special fee must be eliminated etc. Similarly suggestion about deduction were: clear provision for deduction, fully allowed in interest expenses, pollution control cost, repair and improvement expenses, research and development expenses, carry forward of losses must be extended up to 5 to 6 years for every business, expenses for appropriate education for children, medical expenses for the person etc.

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

-) Clear and simple income tax rules, regulation and system for all.
-) Income tax policy should be revised properly and formulated according to the good economic policy.
-) Rate of fine and penalties should be increased.
-) Tax personnel should be encouraged and punished according to their work performance.
-) Provision and deduction items should be clearly defined in the act.
-) The provision of reward, prize, and incentives should be introduced in the act to encourage the tax payers to pay tax voluntarily.

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

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

Shrestha (2006) has tried to show the contribution of income tax on the structure of government revenue in Nepal. She stated that the composition of tax and non tax revenue is still less satisfactory in Nepal. She found that total revenue, total tax revenue and direct tax revenue have an increasing trend in Nepal but in low rate. She has mentioned that tax evasion as the major problem of income tax system in Nepal. In her study, inefficient tax administration, unconsciousness of taxpayer, lack of scientific method of tax assessment and

collection have identified as the major reasons for tax evasion at high level.(Shrestha, Neena 2006)

2.3 Review of Report and Writing

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

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

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

Shah (1999) had conducted a research on the topics "Contribution of Income Tax in National Revenue of Income Tax". He has described trend of income tax burden, number of taxpayers and tax composition etc. he has described some problems and solutions of these problems. The main objectives of the study were history of income tax, number of taxpayer and their contribution portion of income tax in total national revenue and trend etc Secondary data and only 10 years' data has used. Governmental and non-governmental offices were used to collect data. Simple arithmetic rule chart, diagram, statistical tools etc has used to analyze data. He found that only 35% population comes under tax category out of the total taxpayer. It was increasing gradually.

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

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

He has presented the areas of reform of tax system, they are: low rates and broad base, simplicity and neutrality, gradually abolition of exemptions, deductions and tax holidays to broad tax base, few rates and single rate, few taxes with high revenue productivity, conversion of rates and service taxes into VAT, abolition of surcharge and additional duty system to make the tax system simple, incentives to saving and investment, emphasis on tax compliance rather than coercive enforcement etc.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

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

3.2 Research Design

A research design is the specification of methods and procedures for acquiring the information needed. It is the overall operational pattern of framework, of the project that stipulates what information is to be collected from sources by what procedure. If it is a good design, it will ensure that the information obtained is relevant to the research questions and that it was collected by objective and economical procedures.

“Research design is the planed structure and strategy of investigation conceived so as to obtain answers to research questions and control variances” (Kerlinger, 1986).

This research study attempts to analyze the present exemptions and deductions of income tax. Opinion of 50 respondents associated with the income tax. Income tax experts, income tax administrators and income taxpayers are collected through the questionnaire. Different types of questions regarding income tax are used in questionnaire. Similarly various publications regarding income tax are used for this study. In this way, the research design of this research is descriptive, analytical and empirical.

3.3 Population and Sample

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

Table 3.1
Group of Respondents and Size of Samples

S.N.	Group of respondents	Sample size
1	Income Tax experts	15
2	Income Tax Administrators	15
3	Income Tax payers	20
Total		50

3.4 Nature and Sources of Data

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

I. Primary data collection.

II. Secondary data collection.

Primary Data

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

Secondary Data

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

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

3.5 Data Collection Procedure

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

3.6 Data Processing and Analytical Procedure

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

CHAPTER - IV

DATA PRESENTATION AND ANALYSIS

4.1 Problems of Resource Gap in Nepal

Nepal being a developing country has been suffering from resource constraint, rapid growth of population, mass poverty, aggressive dependence on agriculture, subsistence living standard etc in spite of planned development efforts of more than five decades.

The resource mobilization is the main challenge in the economic development of the country. In Nepal, the resource mobilization is still poor that does not

cover the growing expenditure. Fiscal deficit is due to the continuously growing expenditure of the government instead of the low revenue performance in Nepal. That is why; country is facing the increasing burden of foreign loan. “From the point of view of excessively heavy reliance on foreign aid for the Government executed development and construction works, there is the possibility of negative impact on the country’s economic structure in the long-term and its overall economic equilibrium, with added potential risk to the health, sustainability, and strength of development efforts. Hence it is necessary to make effort to increase revenue, grant component in foreign aid, optimum utilization of resources through effective project management, and pay attention to the expansion of capital expenditure.” (Economic Survey, July, 2009 GON, Ministry Of Finance)

In the table (table no. 4.1), 1st resource gap of Rs.29626.7 million in fiscal year 2001/02 decreased to Rs.27111.6 million in the fiscal year 2003/04. . Such a decreased was caused by increase in total revenue in greater percentage than expenditure. But the 1st resource gap turned to be Rs.32437.7 million in fiscal year 2004/05 and increased to Rs.53727.4 in the fiscal year 2007/08. Hence, it is in increasing trend.

2nd resource gap (after considering foreign grants) was Rs.22940.6 million in the fiscal year 2001/02 and decreased to Rs.15825.20 million in the fiscal year 2003/04. In the fiscal year 2004/05 it turned to be Rs.18046.5 million and increased continuously up to Rs.33406.7 million in fiscal year 2007/08. Although foreign grants were increased since the fiscal year 2006/07, the 2nd resource gap keep on increasing trend due to greater increase in total expenditure.

Internal and external loan is required to be borrowed by a government in order to meet deficit finance. In the fiscal year 2001/02 foreign loan taken was Rs.7698.7 million and after foreign loan financing, the 3rd resource gap in the same year was Rs.15241.9 million. In 2003/04 it decreased to Rs.8199.2 and it keeps on increasing trend and reached to Rs.24426.8 million in the fiscal year 2007/08. In the fiscal year 2006/07 maximum foreign loan was taken in comparison to other years, although resource gap could not be decrease in this fiscal year. The resource gap (after considering foreign loan) seems to be fluctuating over the years. The increasing resource gap indicates that it is necessary to mobilize additional domestic resources. It is necessary to take optimum and the efficient measures to fill up the resource gap, and only the reliable measure is to increase public revenue through effective tax system.

Table 4.1
Resource Gap in Nepal

(Rs. In Million)

Fiscal Years	Total expenditure (A)	Total Revenue (B)	Resource Gap(1 st) (C)	Foreign Grants (D)	Resource Gap(2 nd) (E)	Foreign Loan (F)	Resource Gap(3 rd) (G)
2001/02	80072.2	50445.5	29626.7	6686.1	22940.6	7698.7	15241.9
2002/03	84006.1	56229.8	27776.3	11339.1	16437.2	4546.4	11890.8
2003/04	89442.6	62331	27111.6	11283.4	15828.2	7629.0	8199.2
2004/05	102560.4	70122.7	32437.7	14391.2	18046.5	9266.1	8780.4
2005/06	110889.2	72282.1	38607.1	13827.5	24779.6	8214.3	16565.3
2006/07	133604.6	87712.1	45892.5	15800.8	30091.7	10053.5	20038.2
2007/08	161349.9	107622.5	53727.4	20320.7	33406.7	8979.9	24426.8

Source: Economic Survey, 2008/09, Ministry of Finance, GON

4.2 Revenue Structure of Nepal

A democratic government is accountable to its citizen. Every Government is responsible to perform manifold political, economic and social functions for the betterment of the people. A government needs huge amount of income to fulfill different type of expenditures. For this purpose, government collects revenue from different sources. Thus, the income of the government through all sources like taxes, borrowings, fees, donations etc are called public revenue. In general, government income sources are mainly classified into two categories named tax revenue and non-tax revenue. The trend and composition of tax revenue and non-tax revenue in different fiscal years are presented below:

Table 4.2
Magnitude of Revenue Collection in Nepal (Rs. In million)

Fiscal Year	Total Revenue	Tax Revenue amount		Non-tax revenue	
		Amount	% as total revenue	Amount	% as total revenue
2001/02	50445.50	39330.64	77.97	11114.86	22.03
2002/3	56229.80	42586.92	75.74	13642.88	24.26
2003/4	62331.00	48173.00	77.29	14158.00	22.71
2004/5	70122.70	54104.70	77.16	16018.00	22.84
2005/6	72282.10	57430.40	79.45	14851.70	20.55
2006/7	87712.10	71126.70	81.09	16585.40	18.91
2007/8	107622.50	85155.54	79.12	22466.96	20.88
Average	72392.24	56843.99	78.26	15548.26	21.74

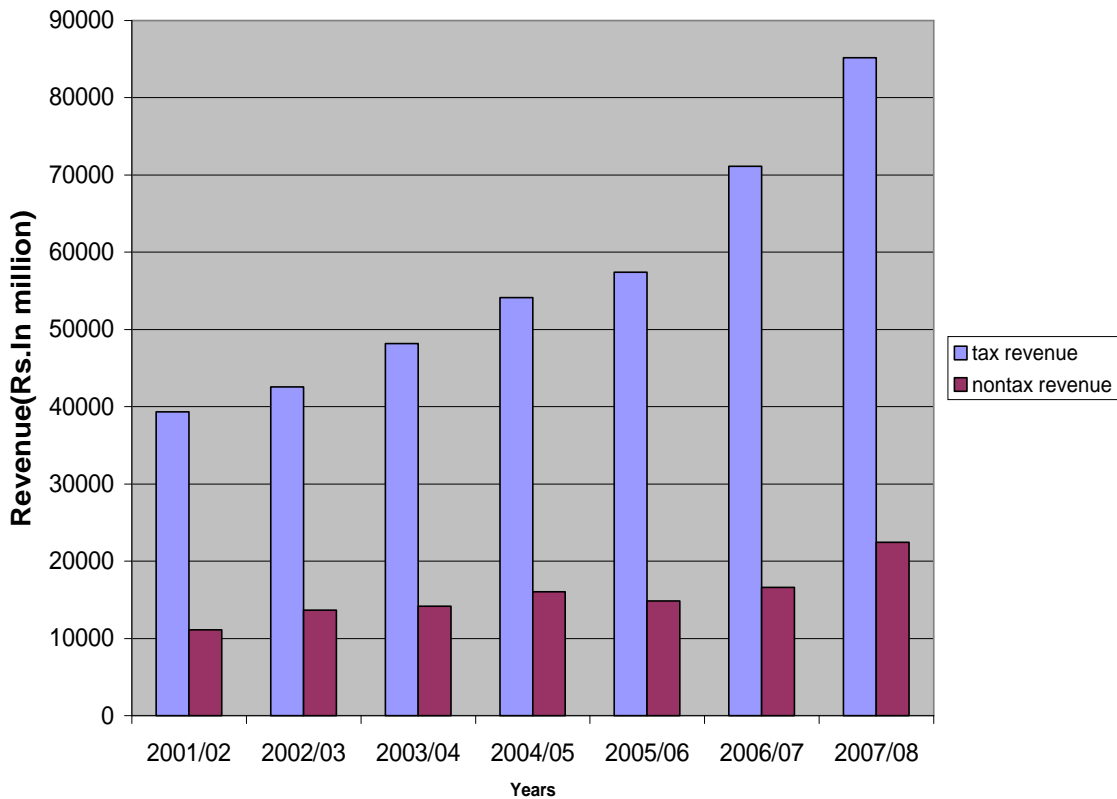
Sources: *Economic Survey, 2008/09, Ministry of Finance, GON*

From the above table, it can be assessed easily that in the fiscal year 2001/02 the figure for total revenue stood at Rs.50445.50 consisting of tax revenue of Rs39330.64 and non-tax revenue of Rs.11114.86. Total revenue seemed to be increasing up to the fiscal year 2007/08 continuously. The total revenue is

increased by Rs.57177 (i.e. 113.3441%). Similarly, tax revenue is also in increasing trend. In the fiscal year 2007/08, the figure for tax revenue stood at Rs.85115.54 which was at 79.09% of total revenue. And the amount of non tax revenue was Rs.22506.96 with 20.91 % of total revenue of this year. The average contribution of tax revenue is 78.25% and non tax revenue is 21.75% in the total revenue of government.

Figure 4.1

Revenue collection from tax revenue and non tax revenue



4.2.1 Tax Revenue Structure of Nepal

Tax is a compulsory contribution imposed by the public authority. Taxation is the main source of income of a government. Tax revenue comprises compulsory, non-payable receipts collected by government for public purpose. It includes

interest collected on tax areas and penalties collected on non-payment or late payment of taxes. Tax revenue is principal source of the government revenue: however, its contribution is different in different countries. In the context of Nepalese economy, tax revenue is the major source of government revenue to meet the Government expenditure.

Tax revenue, one of the principal sources of the government revenue, is a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the taxpayers in return. Nepalese tax revenue structure is a combination of two taxes i.e. direct tax and indirect tax. The trend and composition of tax revenue for the fiscal years 2001/02 to 2007/08 are given in the table below:

Table 4.3
Trend and composition of Tax Revenue (Rs. In Million)

Fiscal year Revenue	Total tax revenue	Direct tax		Indirect tax	
		Amount	% as total revenue	Amount	% as total revenue
2001/02	39330.64	10597.55	26.94	28733.09	73.06
2002/3	42586.92	10105.66	23.73	32481.26	76.27
2003/4	48173	11912.6	24.73	36260.4	75.27
2004/5	54104.7	13071.8	24.16	41032.9	75.84
2005/6	57430.4	13968.1	24.32	43462.3	75.68
2006/7	71126.7	18980.3	26.69	52146.4	73.31
2007/8	85155.54	23087.76	27.11	62067.78	72.89
Average	56843.99	14531.97	25.38	42312.02	74.62

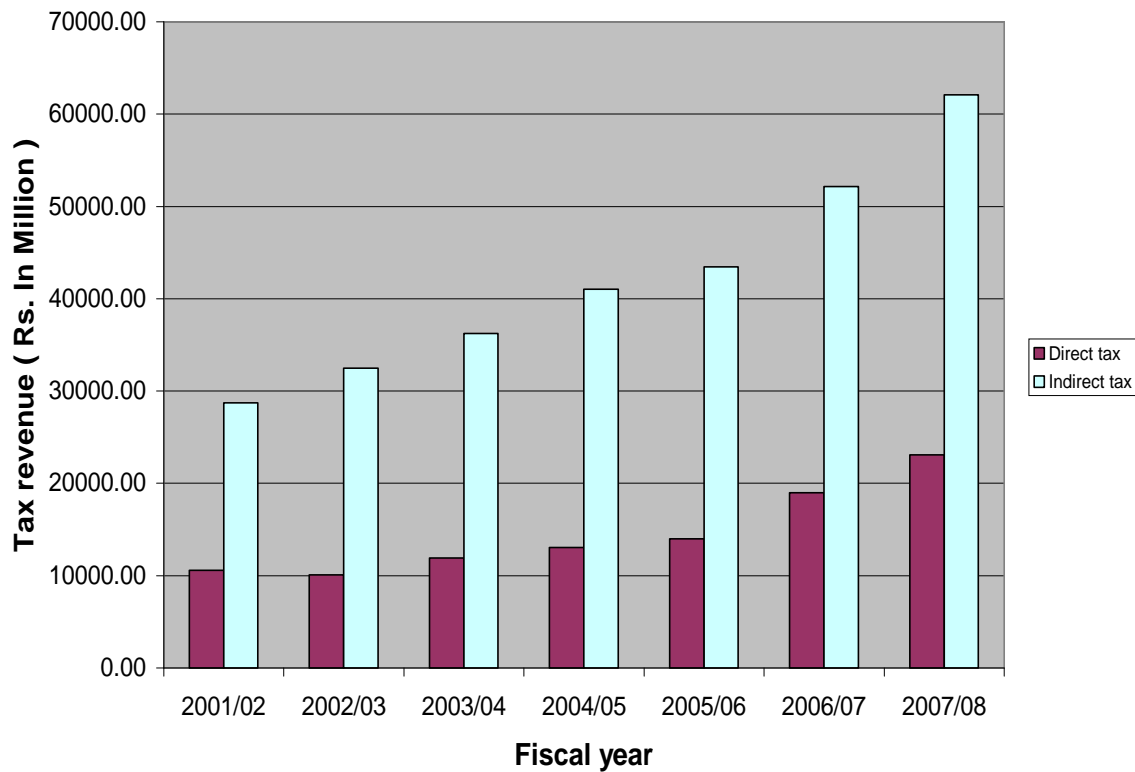
Sources: - Economic survey, 2008/09, Ministry of Finance, GON

From the above table 4.03, it is clear that the Nepalese tax structure is completely dominated by indirect tax revenue. However, the percentage of indirect tax as the total tax revenue is decreasing continuously since fiscal year 2003/04. Similarly, the percentage of direct tax to total tax revenue is in increasing trend in subsequent years. In the fiscal year 2001/02 the volume of direct tax and indirect tax was Rs.10597.55 million and Rs.28733.09 million which was 26.94 percent and 73.06 percent of total tax revenue respectively. The direct tax was increasing gradually from Rs.10597.55 millions to Rs.23087.76 millions in the fiscal year 2001/02 to 2007/08. It slightly decreased in 2002/03 then took an increasing trend. It increased up to Rs.23087.76 million which was 27.13% in total tax revenue at 2007/08.

Similarly, the amount of indirect tax revenue is also in an increasing trend. It has increased from Rs.28733.09 million to Rs.62027.78 million in fiscal year between 2001/02 to 2007/08. The percentage contribution of indirect tax to total tax revenue was fluctuating in previous years but since 2005/06 it went on decreasing up to fiscal year 2007/08. The contribution of indirect tax revenue to total tax revenue was minimum 72.87 percent in 2007/08 and maximum 76.27 percent in year 2002/03.

In developed economy direct tax plays a leading role for the internal resource mobilization where as in developing countries like Nepal, indirect tax plays significant role by dominating direct tax revenue.

Figure 4.2
Trend and composition of Tax Revenue



4.2.1.1 Direct Tax Revenue

Direct tax is a charge imposed by government authority upon property, individual or transactions to raise money for public purpose. Direct tax is levied by the government on the income and wealth received by households and business entities in order to raise revenue and as an instrument of fiscal policy. Direct tax is so called because it is normally assumed to be the real burden of payment which falls directly on the person or business enterprise. They are fully responsible to pay tax and cannot be passed on to anybody else. Direct tax is

progressive in nature because it varies significantly according to the wealth and income of the taxpayer.

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

4.2.1.2 Composition of Direct Tax Revenue

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

under the income tax since 1994/95. The shares of each component of direct taxes between fiscal year 2001/02 to 2007/08 are given below.

Table 4.4
Composition of Direct Tax Revenue (Rs. In Million)

Fiscal years	Income Tax	Land Tax	House and land registration	Tax on property	Others	Total Direct tax
2001/02	8903.7	0.82	1131	562.03	0	10597.55
2002/03	7966.07	0	1414.3	559.52	165.77	10105.66
2003/04	9245.9	0	1697.5	700.6	268.6	11912.6
2004/05	10159.4	0	1799.2	806.5	306.7	13071.8
2005/06	10373.7	0	2181.1	847.6	565.7	13968.1
2006/07	15034	0	2253.5	995	697.8	18980.3
2007/08	17311.22	0	2940.74	1069.21	1766.59	23087.76

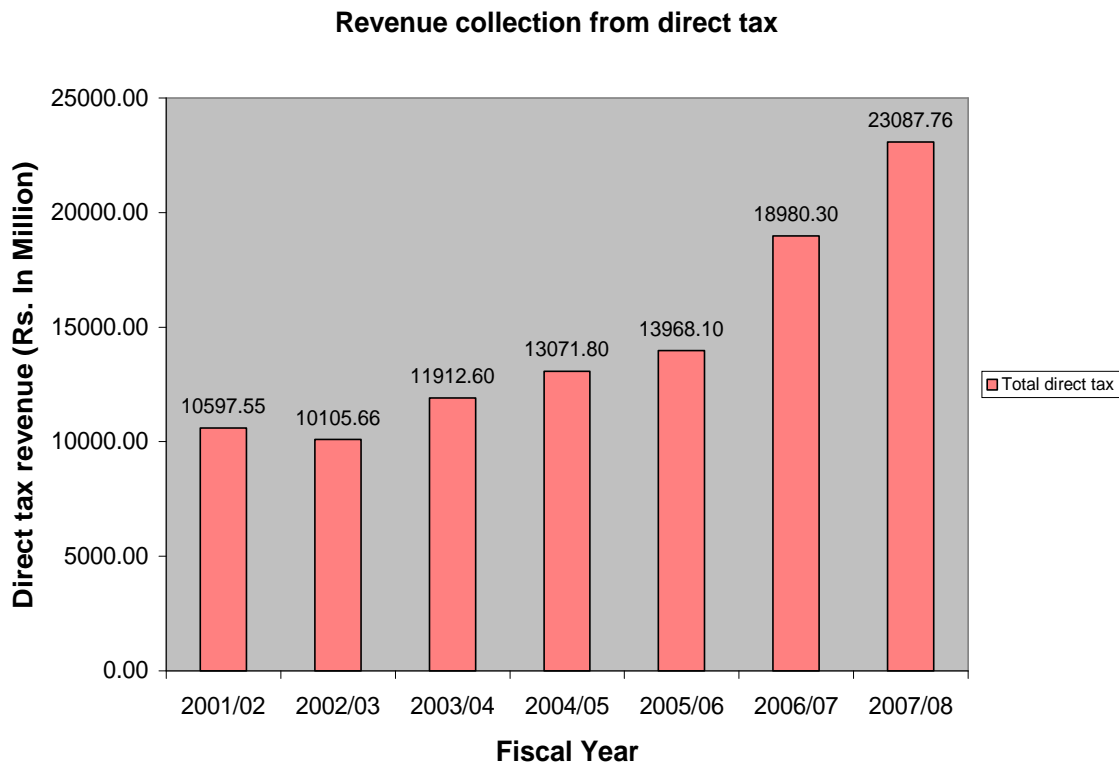
Source: - Economic survey, 2008/09, Ministry of Finance, GON

From the above table, the largest share in the direct tax is occupied by income tax, followed by house and land registration tax then tax on property. In the fiscal year 2001/02, the volume of income tax was Rs.8903.70 million. In the fiscal year 2002/03 it dramatically decreased to Rs.7966.07. But after that income tax went on increasing continuously till 2007/08 which amounted to Rs.17311.22 million .

However, the land tax which had an amount of Rs .82 million in the fiscal year 2001/02 the land tax revenue became nil subsequent years due to the conflict situation in the country. So different organizations were closed and business activities were reduced.

Besides, house and land registration tax increased from Rs.1131.00 million to Rs.2940.74 million between the fiscal year 2001/02 to 2007/08. However, tax on property slightly decreased in fiscal year 2002/03, but from the fiscal year 2003/04, the tax went on increasing till 2007/08. The total direct tax had shown the positive response throughout all fiscal years. Though it slightly dropped to 10105.80 million in the fiscal year 2002/03. But it went on increasing in the next fiscal years.

Figure 4.3



4.2.1.3 Indirect tax Revenue

Indirect tax is a powerful tool for fiscal policy to have optimum resource mobilization with the principle - "more gain from the taxpayers, no pain to the tax payers. Theoretically, it is a tax; which falls firstly and directly on the taxpayers, but the person must bear it sharing the tax burden, so, the real

income is indirectly affected. In short, indirect tax is imposed on one person but it is paid either partly or wholly by another person. So the impact and the incidence of tax are on different persons. Nepal depends heavily on the indirect tax rather than the direct tax because there is not any-good alternative. Since 1951, indirect tax had grown rapidly and speedily. If indirect tax is effective and proper, it mobilizes the internal resources. So most of the developing countries mobilize it effectively and properly of the demotic resources. The major component of indirect tax in Nepalese tax structure constitutes custom duty, excise duty, VAT. Custom duties are composed of mainly import duties, exports duties. Other components of indirect tax like entertainment tax, hotel tax contribute very nominal share hence, they are included in VAT since 1997.

4.2.1.4 Composition of Indirect Tax Revenue

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

Table 4.5
Composition of Indirect Tax Revenue (Rs. In Million)

Fiscal Years	Customs duties	VAT	Excise duties	Total Indirect tax
2001/02	12658.75	12267.3	3807.05	28733.1
2002/3	14236.43	13459.7	4785.12	32481.25
2003/4	15554.8	14478.9	6226.7	36260.4
2004/5	15701.6	18885.4	6445.9	41032.9
2005/6	15344	21610.7	6507.6	43462.3
2006/7	16707.6	26095.6	9343.2	52146.4
2007/8	21062.5	29815.7	11189.58	62067.78

Source: - Economic survey, 2008/09, Ministry of Finance, GON

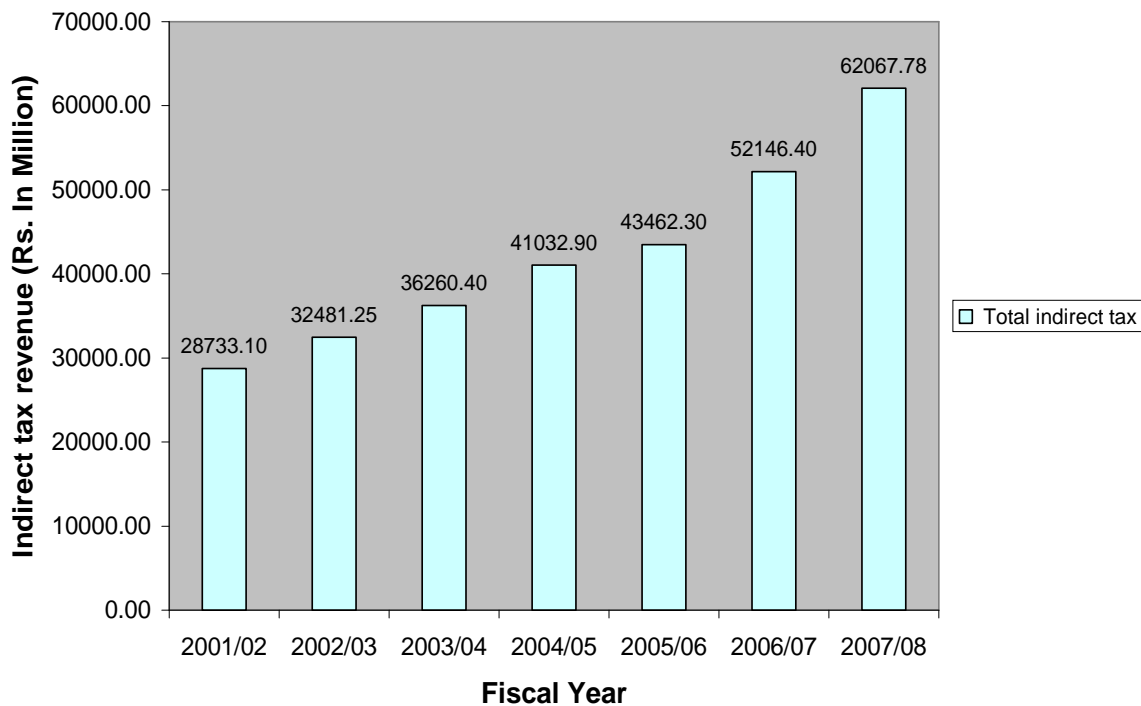
* *Custom duties include import export, Indian excise refund and other*

Above table shows the contribution of customs duties to indirect tax is in an increasing trend. Its share in the fiscal year 2001/02 was Rs.12658.75 million

which reached up to Rs.15701.60 million in the fiscal year 2004/05 and slightly decreases in fiscal year 2005/06 and it increase then after. Likewise, the share of VAT to indirect tax was also in an increasing trend which contributed Rs.12267.30 million in the fiscal year 2001/02 that reached up to Rs.29815.70 million. Similarly, revenue collection from excise duties was also in increasing trend which contributed Rs.3807.05 million in fiscal year 2001/02 and it reached up to Rs.11189.58 in fiscal year 2007/08.

Figure 4.4

Revenue collection from indirect tax



4.2.2 Non-Tax Revenue structure of Nepal

Non-tax revenue is another source of the government revenue in the revenue structure of Nepal. It is not imposed compulsorily by public authority to the taxpayers. Fees, fines, penalties, dividend, interest sales of goods etc are the bases of non-tax revenue. The composition of non-tax revenue in Nepalese tax system are the following factors such as charges, fees, fines, forfeiture,

receipts from sales of commodities and services, dividends, royalty, sales of fixed assets, principal and interest payment etc

Table 4.6
Composition of Non tax Revenue

Fiscal Year	Charges, Fees, Fines and Forfeiture	Receipts from sale of Commodities and services	Dividend	Royalty and Sale of Fixed Assets	Principal and Interest Payment	Miscell. Items	Total Non tax Revenue
2001/02	518.81	2611.17	2512.82	723.87	3109.41	1638.82	11114.9
2002/03	579.62	3063.02	2497.64	1945.46	2464.28	3092.84	13642.86
2003/04	1202.50	3497.00	2661.10	1465.00	3507.10	1825.30	14158.00
2004/05	1359.90	3849.90	4589.90	1931.40	2714.30	1572.60	16018.00
2005/06	1927.70	3932.30	3394.80	1196.80	3251.30	1148.70	14851.60
2006/07	1945.40	4776.80	4937.70	1091.80	2085.70	1748.10	16585.50
2007/08	2554.77	4897.71	5025.92	5773.65	3440.06	774.84	22466.95

Source: - Economic survey, 2008/09, Ministry of Finance, GON

The above table shows that the figure of charges, fines and forfeitures which stood at Rs.518.81 million in the fiscal year 2001/02 increased continuously. Finally, it has a sum of Rs.2554.77 in the fiscal year 2007/08 as non tax revenue.

In 2001/02, the figure for receipts from the sales of commodities and services stood at Rs.2611.17 million and went on increasing then after up to fiscal year 2007/08

Similarly, the amount for dividend in fiscal year 2001/02 was Rs.2512.82. Then after up to fiscal year 2005/06 it remains fluctuating. After that it increased in following years. Moreover, that for royalty and sales of fixed assets triggered a fluctuation path, reaching a maximum of Rs.5773.65 million in the fiscal year 2007/08 and a minimum of Rs.723.87 in the fiscal year 2001/02.

Similarly, the figure for principal and interest payment also fluctuated over the study period, reaching a maximum of Rs.3507.10 million in the fiscal year 2003/04 and a minimum of Rs.2464.28 in the fiscal year 2002/03. Moreover, the collection of non tax revenue by miscellaneous way was oscillatory reaching a maximum of 3092.84 in the fiscal year 2002/03.

4.3. Ratio of Tax and Non-Tax Revenue to GDP

It is most reasonable to examine the share of tax revenue and non tax revenue in GDP to understand the growth pattern of taxation. Following table presents the ratio of the tax and non tax revenue to GDP.

Table 4.7
Ratio of Tax and Non-Tax Revenue to GDP
(Rs. In million &percentage)

Fiscal year	*Gross Domestic product	Tax revenue	Non-tax Revenue	Ratio	
				Tax/GDP	Non-Tax/GDP
2001/02	459443	39330.64	11114.9	8.56	2.42
2002/3	492231	42586.92	13642.86	8.65	2.77
2003/4	536749	48173	14158.00	8.97	2.64
2004/5	589412	54104.7	16018.00	9.18	2.72
2005/6	654055	57430.4	14851.60	8.78	2.27
2006/7	727089	71126.7	16585.50	9.78	2.28
2007/8	818402	85155.54	22466.95	10.41	2.75

Source: - Economic survey, 2008/09, Ministry of Finance, GON

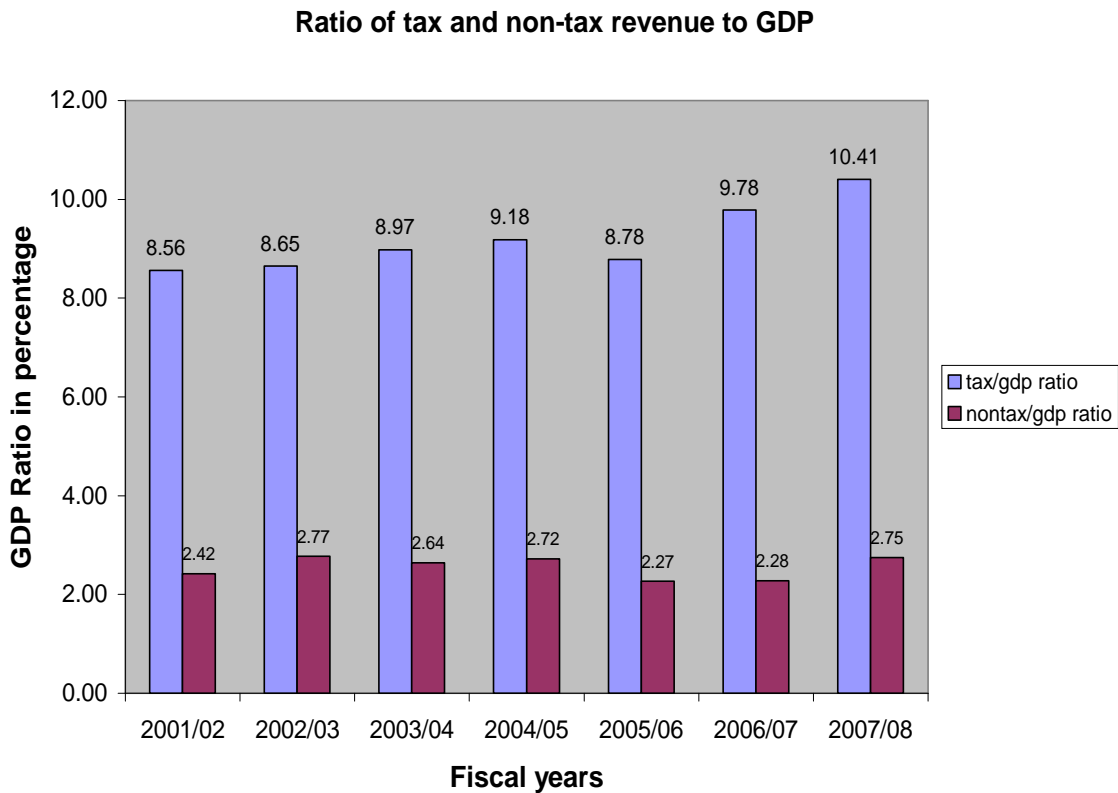
*GDP is taken at the current producer's price.

The above table represents the ratio of tax and non-tax revenue to GDP. The share of tax revenue to GDP is much higher in comparison to the share of non-tax revenue. During the study period it is observed that the ratio of tax revenue

to GDP has been increased significantly. In 2001/02 it was 8.56 percent which reached to 9.18 in 2004/05 and it slightly decreased in 2005/06, after that it increased continuously and reached to 10.41 in 2007/08. On the other hand the ratio of non-tax revenue to GDP in 2001/02 was 2.42 percent. It seemed to be fluctuating over the years below 3 percent.

Hence, it is concluded that tax revenue has contributed a lot more than non-tax revenue in GDP.

Figure 4.5



4.4 Ratio of direct tax and indirect tax revenue to GDP

In Nepalese tax structure the tax revenue is composed of direct tax and indirect tax. The contribution of direct tax is very low in Nepal in comparison to other developed countries. Nepal is a developing country. Hence, the people of Nepal

live in subsistence level and a great share of their income is spent on consumption. Therefore, direct tax produces less revenue in comparison to indirect tax.

The table below shows the ratio of direct tax and indirect tax to GDP.

Table 4.8
Ratio of direct tax and indirect tax revenue to GDP
(Rs.in million & percentage)

Fiscal year	*Gross Domestic product	Direct tax Revenue	Indirect tax Revenue	Ratio	
				Direct tax/GDP	indirect tax/GDP
2001/02	459443	10597.55	28733.09	2.31	6.25
2002/3	492231	10105.66	32481.26	2.05	6.60
2003/4	536749	11912.60	36260.40	2.22	6.76
2004/5	589412	13071.80	41032.90	2.22	6.96
2005/6	654055	13968.10	43462.30	2.14	6.65
2006/7	727089	18980.30	52146.40	2.61	7.17
2007/8	818402	23087.76	62067.78	2.82	7.58

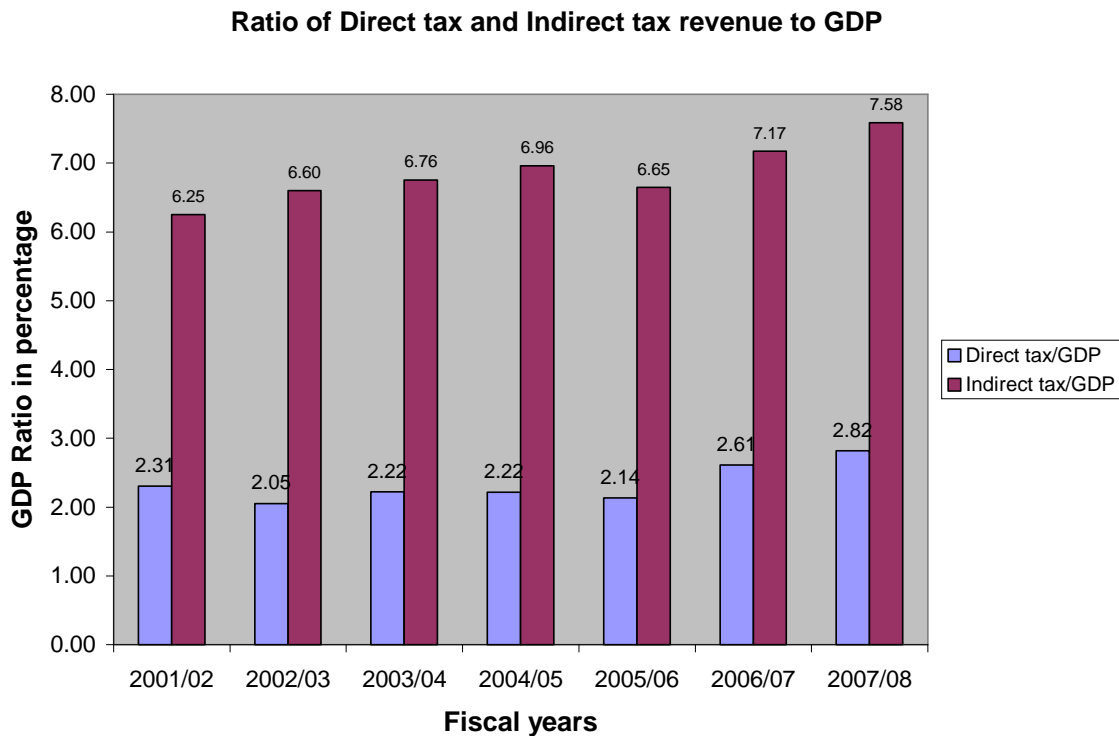
Source: - Economic survey, 2008/09, Ministry of Finance, GON

**GDP is taken at the current producer's price.*

From the above table, it is clear that contribution of indirect tax on GDP is more than the contribution of direct tax. Direct tax to GDP ratio is seemed to be fluctuating over the years. It was 2.31 percent in 2001/02 and reached to 2.82 percent in 2007/08.

On the other hand, ratio of indirect tax revenue to GDP seems to be in increasing trend. It was 6.25 percent in 2001/02, decreased slightly in 2005/06 in comparison to previous year and reached to 7.58 percent in 2007/08.

Figure 4.6



4.5 Exemption Limit in Nepal

Tax exemption limit means a taxable income of a natural person up to a certain limit as prescribed in the Act on which the tax is charged at zero percent.

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

From the table 4.9, it is clear that exemption limit is extended according to need of time and income level of people. Exemption limit for an individual and couple for the income year 2001/02 was Rs.65, 000 and 85,000 respectively. At

present (i.e. income year 2008/09), individual having the taxable income Rs.115, 000 is exempted from tax and that for couple is Rs.140, 000.

Table 4.9
Exemption Limit in Nepal

(In Rs.)

Income year	Individual	couple
2001/02	65,000	85,000
2002/03	65,000	85,000
2003/04	80,000	100,000
2004/05	80,000	100,000
2005/06	100,000	125,000
2006/07	100,000	125,000
2007/08	115,000	140,000
2008/09	115,000	140,000

4.6 Empirical Investigation

An empirical investigation was conducted in order to find out the various aspects of income tax imposed in Nepal in the ground of reality. In this empirical study, the analysis has been done about income tax on the basis of information collected from the tax experts, tax administrators and tax payers through questionnaire.

In this study, the questions were asked to 50 different individuals related to this field i.e. Tax experts, tax administrators (tax officers) and taxpayers. The questionnaire has covered various aspects of income tax concerning with

the exemptions and deductions (see the format of questionnaire in appendix). The respondents were asked either to responses yes/no or selecting one alternatives among different alternatives or for ranking of choices according to number of alternatives while first choice is the most important and last choice is least important.

The responses from various respondents have been arranged, tabulated and analyzed in the proper way to facilitate the descriptive analysis of the study.

The following table indicates the groups and number of respondents.

Table 4.10
Group of Respondents and Number

S.N.	Group of Respondent	Number	*Abbreviation Used
1	Income Tax Experts	15	TE
2	Income Tax Administrators	15	TA
3	Income Taxpayers	20	TP
	Total	50	

*Abbreviations are used whenever it is felt inconvenient to use full forms.

Result of Empirical Investigation

4.6.1 Effectiveness of Income Tax Administration in Nepal

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

Table 4.11

Effectiveness of Income Tax Administration of Nepal

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Experts	6	40	9	60	15	100
Tax Administrators	12	80	3	20	15	100
Taxpayers	4	20	16	80	20	100
Total	22	44	28	56	50	100

Source: Opinion Survey

From the above table 4.11, it is clear that 44 percent of total respondents agreed that the income tax administration of Nepal is effective and 56 percent of the total respondents do not agree about the effectiveness of income tax administration in Nepal. More number of the respondents disagrees about the effectiveness of income tax administration in Nepal. It is observed that 80 percent of taxpayers and 60 percent of tax experts disagree about the effectiveness of income tax administration. Hence, it could be concluded that the income tax administration in Nepal is ineffective.

The respondents who disagree with the effectiveness of income tax administration in Nepal were asked another question, “If no, what is the reason for the ineffective tax administration?” The respondents were requested to rank their opinion from 1 to 6(i.e. point 1 to the most appropriate alternative and point 5 to the least appropriate alternative). The responses of the respondents are presented as follows:

Table 4.12
Causes of Ineffective Tax Administration

S. N.	Alternatives	Points of Respondents			Total Points	%	Rank
		TE	TA	TP			
1	Lack of trained employee.	45	14	79	138	23.47	6
2	Lack of taxpayers voluntary compliance	21	38	5	64	10.88	1
3	Defective Income Tax Act	32	11	60	103	17.52	4
4	Faulty organizational structure of tax administration.	30	11	48	89	15.14	3
5	Weakness in government's economic policy.	23	9	44	76	12.93	2
6	Lack of experts in tax administration	38	13	67	118	20.06	5
	total	189	63	336	588	100	

Source: Opinion Survey

In the above table (Table no. 4.12), percentage was calculated according to the total points obtained by each alternative. Ranking was done by comparing percentage of each alternative and assigned first rank to the lowest percentage. According to the respondents' point of view, the main causes for the creation of ineffective income tax administration in Nepal were ranked as follows.

1. Lack of taxpayers voluntary compliance.
2. Weakness in government's economic policy.
3. Faulty organizational structure of tax administration.

4. Defective income tax act.
5. Lack of experts in tax administration.
6. Lack of trained employees.

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

4.6.2 Opinion about the Current Income Tax Rate

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

Table 4.13
Opinion about Current Income Tax Rate

Responses of Respondents	Tax experts	Tax administrators	Tax Payers	Total	
				No.	percentage
High	2	0	15	17	34
Medium	8	9	5	22	44
Low	5	6	0	11	22
Total	15	15	20	50	100

Source: Opinion Survey

The above table (Table no.4.13) shows that out of 100 percent responses, 44 percent respondents agreed that the current income tax rate is medium. 34 percent respondents agreed on high tax rate whereas 20 percent

respondents agreed on low tax rate. From the table, it is concluded that the current income tax rate is medium. Majority tax experts and tax administrators were agreed on it whereas; majority respondents felt that the rate is not absolutely high, but it is higher as compared to taxpaying capacity of Nepalese people.

4.6.3 Sufficiency of Exempted Items of Income Tax

Income tax has provided exemption to the various income or different items of income. Act has mentioned the tax free incomes and tax exemption organization.

To know the sufficiency of exempted items of income a question was asked “Do you think that the exempted items of income are sufficient?” The responses are tabulated as follows:

Table 4.14
Sufficiency of Exempted Items of Income Tax

Responses	Yes		No		No response		Total	
	No.	%	No.	%	No.	%	No.	%
Tax experts	5	33.33	9	60	1	6.67	15	100
Tax administrators	11	73.33	4	26.67	0	0.00	15	100
Taxpayers	10	50	6	30	4	20	20	100
Total	26	52	19	38	5	10	50	100

Source: Opinion Survey

By observing the table (Table no.4.14) 52 percent respondents agreed that exemption items are sufficient. 38 percent respondents disagreed about the sufficiency of exempted items. 10 percent of the respondents did not provide any response. As who gave the negative responses about the sufficiency of exempted items of Income were asked another question “If no, what kind of income should be exempted?” They were requested to write their opinion. Most of the respondents did not give any response about it. However, only 4 tax experts, 3 tax payers and 1 tax administrator provided response. They suggested that following income must be tax exempted from incomes.

Tax Experts

-) Remote area allowance.
-) Income from interest and rent.
-) Income from provident fund (capital gain).
-) Income from life insurance.

Tax Administrators

-) Salary in lieu of leave
-) Dashain allowance
-) Medical allowance.
-) Retirement benefits.

Taxpayers

-) Income from life insurance.
-) Medical allowance
-) Salary in lieu of leave
-) Remote area allowance
-) Dashain allowance

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

4.6.4 Appropriateness of Current Income Tax Exemption Limit

Finance Act of Nepal yearly prescribes the tax rate and exemption limit of income. Tax rates and exemption limit are changing year to year. To know the respondents' view about the current exemption limit, a question was put "Do you think that the current income tax exemption limit is appropriate?" The responses are tabulated below.

Table 4.15

Appropriateness of Current Income Tax Exemption Limit

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Respondents						
Tax experts	2	13.33	13	86.67	15	100
Tax Administrator	12	80	3	20	15	100
Taxpayers	4	20	16	80	20	100
Total	18	36	32	64	50	100

Source: Opinion Survey

From the above table (Table no.4.15), 64 percent of the respondents were against the appropriateness of current exemption limit whereas 36 percent respondents were in favor of it. Majority of tax experts and tax payer agreed with inappropriateness of exemption limit. From the above table and personal

discussion with respondents it can be concluded that the current income tax exemption limit is inappropriate.

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

Table 4.16
Suggested Exemption Limit for an Individual Unit

Respondents Responses	TE	TA	TP	Total	
				No.	%
Rs.175,000	7	2	0	9	28.13
Rs.200,000	5	1	12	18	56.25
Any other amount	1	0	4	5	15.62
Total	13	3	16	32	100

Source: Opinion Survey

On the response about the exemption limit of individual it was found that 56.25% in favor of Rs.200,000 and 28.13% in favor of Rs.175,000. But 5 respondents specified any other amount. They suggested Rs.185,000, Rs, 2, 25, 000, Rs. 250,000 and Rs.300,000 as tax exemption limit for an individual unit. From the above table as well as personal discussion with the respondents, it can be said that according to the economic condition and income level of Nepalese people, it is found that the appropriate exemption limit for an individual is Rs.1,75,000.

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

Table 4.17
Exemption Limit for a Couple

Respondents Responses	TE	TA	TP	Total	
				No.	%
Rs.215000	3	1	0	4	12.5
Rs.240000	7	2	14	23	71.87
Any other amount	3	0	2	5	15.63
Total	13	3	16	32	100

Source: Opinion Survey

From the above table (Table no.4.17) it is clear that most of the respondents (i.e.71.87%) suggested for Rs.2,40,000 as exemption limit for a family. 12.5% of the respondents suggested for Rs.215,000. Out of the five respondents who specified any other amount were Rs.200,000 by three respondents and Rs.250,000 by two respondents. On the personal discussion with the respondents, the researcher found that people think that exemption limit must be sufficient and vary according to the cost of living in different part of the country.

4.6.5 Exemption to couple should be provided on the Basis of Number of Dependents

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

Table 4.18

Exemption Limit for a couple on the Basis of Number of Dependents

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	6	40	9	60	15	100
Tax administrators	5	33.33	10	66.67	15	100
Taxpayers	18	90	2	10	20	100
Total	29	58	21	42	50	100

Source: Opinion Survey

The table 4.18 shows that 100 percent response was received. 58 percent respondents agreed that the exemption limit must be provided according to the number of dependents. But 42 percent respondents were disagreed to provide exemption according to the number of dependent. On the personal discussion with the respondents the researcher found that most of the tax experts and tax administrators were disagree to provide exemption limit to a family according to the number of dependents because it is very difficult to implement it in real ground practically.

4.6.6 Exemption Limit on the Basis of Inflation Situation of the Country

To know the opinion of the respondents whether the exemption limit should be provided according to the inflation situation of the country or not. The question was asked “Do you think that exemption limit should be adjusted according to the inflation situation of the country?” The responses of the respondent are tabulated as follows:

Table 4.19
Exemption Limit According to the Inflation Situation of the Country

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	15	100	-	-	15	100
Tax administrators	15	100	-	-	15	100
Taxpayers	20	100	-	-	20	100
Total	50	100	-	-	50	100

Source: Opinion Survey

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

4.6.7 Opinion on Providing Exemption to an Agriculture Income

Since Nepal is agro-based country, majority of the people still rely on agriculture, which has remained the major source of employment and income. Agriculture contributes the largest share to the GDP. From the commencement of Income Tax Act, agriculture income has been treated as taxable income for some time and tax exempted income for some time. The new Income Tax Act 2058 has defined agricultural income.

According to Income Tax Act, 2058 “Income received by a land lord, holding the land within the ceiling prescribed in Land Act, 2021, from agriculture business is exempt from income tax.” To know the views of respondents about it a question was asked “What is your opinion on providing exemption to agricultural income?” The responses of the respondents are presented as follows:

Table 4.20
Exemption Facility for Agriculture Income

Respondents Responses	TE	TA	TP	Total	
				No.	%
Yes, it should be exempted	13	10	14	37	74
No, it should not be exempted	-	-	-	-	-
It should be treated as other income	-	5	4	9	18
Any other opinion	2	-	2	4	8
Total	15	15	20	50	100

Source: Opinion Survey

The above table (Table no.4.20) shows that, 74 percent respondents agreed that agricultural income should be tax exempted income. No any respondents were against the exemption on agricultural income. Similarly, another 18 percent respondents supported that the agricultural income should be treated as other income and 8 percent respondents who specified other if any following opinion were presented as follows.

- A separate, agriculture Income Tax Act should be presented.
- Commercial agricultural income should be taxed as other income.

- Organizational agriculture income should be exempted for a certain period from its establishment.

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

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

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

Table 4.21

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

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	9	29	6	31.58	15	100

Tax administrators	10	32	5	26.32	15	100
Taxpayers	12	39	8	42.10	20	100
Total	31	62	19	38	50	100

Source: Opinion Survey

According to the table (Table no.4.21), 62 percent respondents agreed that the current additional exemption to the individual who are working in different remote areas was sufficient. 38 percent respondents disagreed with the current additional exemption facility. According to the table, majority respondent were agreed with the current additional exemption limit for an individual who are working in different remote areas is proper or suitable.

On the personal discussion with the respondents it was found that according to the economic condition and per capita income of country current additional tax exemption to the individual working in different area is suitable or proper. Similarly, another question was asked to know the opinion of the respondents who disagreed in current additional exemption limit to the individual who are working in different remote areas. The question was asked “If no, how much exemption limit will be sufficient?”

Out of the 19 respondents, twelve respondents who were unsatisfied with the current provision of additional exemption to the individual working in different remote areas suggested the following amount which is presented here approximately in two categories in the table below.

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

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

-) It should be adjusted according to the life style of the area.
-) It should be adjusted as per the availability of basic needs.
-) It cannot be quantified in amount. The additional amount which a person gets in remote area should be exempted. (I.e. extra benefit derived should be totally exempted).

4.6.9 Additional tax Exemption Facility to the Special Industries

Established in Different Areas

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

Table 4.22

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

Responses	Yes		No		No response		Total	
	No.	%	No.	%	No.	%	No.	%
Tax experts	9	60	4	26.67	2	13.33	15	100

Tax administrators	8	53.33	4	26.67	3	20	15	100
Taxpayers	14	70	5	25	1	5	20	100
Total	31	62	13	26	6	12	50	100

Source: Opinion Survey

By observing the table (Table no.22), it can be said that 62 percent respondents agreed with the current additional exemption facility (30% of tax rate for remote areas, 25% for undeveloped area and 20% for underdeveloped areas) to the special industries established in different area which is applicable for 10 income year. 26 percent or 13 respondents disagreed with the present additional tax exemption facilities to the special industries established in different area, 12 percent respondents did not provide any responses about the questions. Majority tax experts, tax administrators and tax payers agreed with present exemption facility.

So, it can be concluded that the current facility is proper.

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

Out of 13 respondents (see above table)

-) 7 respondents suggested the facility should be given for a long period of time to attract the industry in such areas.

-) 3 respondents suggested that the special industries established in remote, undeveloped and underdeveloped area should pay tax only 40%, 50 % and 75% of the tax rate respectively for 10 income year.
-) 3 respondents did not provide any responses.

4.6.10 Opinion about Medical Tax Credit Facility

According to Income Tax Act 2058 medical tax credit facility is given to an individual. An individual is allowed to deduct 15% of eligible medical expenses plus any amount carried forward in respect there of from the previous year or Rs.750, whichever is less, to deduct as medical tax credit facility. To know the opinion of the respondents about appropriateness of such medical tax credit facility to an individual, the question was asked “Do you think that medical tax credit facility is sufficient?” The responses received from the respondents are tabulated as follows.

Table 4.23

Opinion on Appropriateness of Medical Tax Credit Facility

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	6	40	9	60	15	100
Tax administrators	10	66.67	5	55	15	100
Taxpayers	3	15	17	85	20	100
Total	19	38	31	62	50	100

Source: Opinion Survey

The above table (table no.4.23) shows that, out of 50 respondents, 62 percent respondents disagreed with the present medical tax credit facility

(Rs.750 or 15% of eligible medical expenses, whichever is less) provided by Income Tax Act 2058.

Majority tax experts and tax payers were against with present medical tax credit facility. Only 38 percent respondents were satisfied with the facility.

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

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

Table 4.24
Proper Amount of Medical Tax Credit

No. of alternatives	Respondents Responses	TE	TE	TP	Total	
					No	%
A	Amounts	2	2	5	9	29.03
B	Actual medical expenses	4	2	6	12	38.71
C% of eligible medical expenses	2	-	1	3	9.68
D	Others (if any specified)	1	1	5	7	22.58
	Total	9	5	17	31	100

Source: Opinion Survey

From the above table (Table no.4.24), it was found that 9 or 29.03 percent respondents (see first alternative) provided their suggested amount, they are as follows:

Respondents	Medical tax credit facility should be Rs.
6	Rs.10,000 per year
3	Rs.7,000 per year

Similarly, 12 or 38.71 percent respondents suggested actual medical expenses should be deductible. Similarly 3 or 9.68 percent of respondents (see 3rd alternative) suggested that it should be 25% of actual medical expenses. Out of 7 respondents (see 4th alternative), 5 respondents suggested that total medical expenditure done on government hospital should be allowed to deduct. Whereas, 2 respondent suggested that it should be according to income level of people.

4.6.11 Opinion on Deduction Facility of Repairs and Improvement Cost

According to Income Tax Act 2058, expenses incurred during an income year on repair and improvement of an owned and used depreciable asset in order to generate income is allowed to be deducted from taxable income. But such facility is provided to deduct only 7 percent of depreciation basis of assets pool. To know the opinion of respondents about such facility the question was asked, “Do you agree that current provision of deducting 7% of asset pool as repairs and improvement cost is proper?” The responses of the respondents are tabulated as below:

Table 4.25

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

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	11	73.33	4	26.67	15	100
Tax administrators	15	100	0	0	15	100
Taxpayers	5	25	15	75	20	100
Total	31	62	19	38	50	100

Source: Opinion Survey

From the above table (Table no. 4.25), it is clear that 62 percent respondents are in favour of present provision about repairs and improvement cost deduction facility. Majority tax experts and all tax administrators agreed with the present facility. 38 percent respondents were found against the present deduction facility of repair and improvement cost. Majority tax payers disagreed with the present facility.

So, it can be concluded that the current provision of deducting 7% of asset pool as repair and improvement cost is proper.

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

Table 4.26

Opinion for Different Alternatives of Repairs and Improvement Cost Deduction Facility

No. of	Respondents	TE	TP	Total
--------	-------------	----	----	-------

alternatives	Responses			No.	%
1	...% of depreciation basis	2	7	9	47.37
2	...% of actual expenses	-	2	2	10.53
3	Actual expenses	2	6	8	42.10
4	Other (if any specified)	-	-	-	-
	Total	4	15	19	100

Source: Opinion Survey

Above table (Table no. 4.26) shows that 47.37 percent respondents selected 1st alternative. Out of 9 respondents (1st alternative) provided following opinion: 5 respondents suggested 10% of depreciation basis whereas 2 respondents suggested 15% of depreciation basis. Similarly, 2 or 10.53 percent respondents (2nd alternative) suggested that 50% of actual repair and improvement cost must be allowed for deduction. Similarly, 42.10 percent respondents (3rd alternative) suggested that actual repair and improvement cost must be fully allowed for deduction. On the personal discussion with the respondents the researcher found that actual repair and improvement cost must be facilitated for deduction. But in practical field, it was very difficult to determine actual repair and improvement cost which must be accepted by the tax authorities since there is high chance of fraud.

4.6.12 Opinion about the Present Depreciation System

Income Tax Act 2058 has classified assets into five (5) class and different rates are determined for each class for depreciation propose. The whole legal provisions relating to depreciation is given in section 19 of Income Tax Act, 2058. To know the opinion about the depreciation system, a question was asked

“are you satisfied with the present depreciation system of income tax?” The responses about it are break down as follows.

Table 4.27
Opinion about the Present Depreciation System

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	12	80	3	20	15	100
Tax administrators	15	100	0	0	15	100
Taxpayers	14	70	6	30	20	100
Total	41	82	9	18	50	100

Source: Opinion Survey

From the above table (Table no.4.27), out of the total respondents, 82 percent respondents were satisfied with present depreciation system of income tax whereas only 18 percent of total respondents were not satisfied with the present depreciation system. So, it can be concluded that majority of the respondents are satisfied with present depreciation system.

11. Opinion on Deduction Facility of Pollution Control Cost

According to Income Tax Act 2058, cost incurred by a person with respect to a process or an asset that seeks to control pollution or otherwise protect or sustain the environment is Pollution Control Cost. Although these costs are of capital nature are allowed for deduction for income tax purpose. According to the Act, Actual Pollution Control Cost or 50% of adjusted taxable income from all business whichever is lower is allowed for deduction. To know the opinion of respondents about such facility the question was asked, “Do you agree that

current provision of deducting pollution control cost is proper?" The responses of the respondents are tabulated as below:

Table 4.28
Opinion on Appropriateness of Existing Deduction Facility of Pollution Control Cost

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	12	80	3	20	15	100
Tax administrators	15	100	0	0	15	100
Taxpayers	15	75	5	25	20	100
Total	42	84	8	16	50	100

Source: Opinion Survey

From the above table, it is clear that 84 percent respondents are in favor of present provision about Pollution control cost deduction facility. Majority tax experts, tax administrators and tax payers agreed with the present facility. 16 percent respondents were found against it.

So, it can be concluded that the current provision of deducting Pollution control cost is proper.

11. Opinion on Deduction Facility of Research and Development Cost

According to Income Tax Act 2058, cost incurred by a person for the purpose of developing the person's business and improving business products or process is Research and Development Cost. Although it is of capital nature is allowed for deduction for income tax purpose. According to the Act, Actual R&D Cost or 50% of adjusted taxable income from all business, whichever is lower is allowed for deduction. To know the opinion of respondents about such facility

the question was asked, “Do you agree that current provision of deducting Research and Development cost is proper?” The responses of the respondents are tabulated as below:

Table 4.29
Opinion on Appropriateness of Existing Deduction Facility of Research and Development Cost

Responses	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax experts	11	73.33	4	26.67	15	100
Tax administrators	15	100	0	0	15	100
Taxpayers	16	80	4	20	20	100
Total	42	84	8	16	50	100

Source: Opinion Survey

From the above table, it is clear that 84 percent respondents are in favor of present provision about R&D cost deduction facility. Majority tax experts, tax administrators and tax payers agreed with the present facility. 16 percent respondents were found against it.

So, it can be concluded that the current provision of deducting R&D cost is proper.

In the personal discussion with the respondents who disagree with the existing provision they suggested that total amount of expenditure should be allowed for deduction in the same year when it incurred.

4.6.13 Problems and Weakness of Nepalese Income Tax System

Most often it is heard that Nepalese income tax system is inefficient. To know the opinion of the respondents about the causes of problems and weakness of Nepalese income tax system, a question was asked, “What are the major problems and weakness in Nepalese income tax system?” The respondents were

requested to rank the given possible causes from 1 to 10. For ranking purpose opinions of the respondents are presented as below:

Table 4.30

Problems and Weakness of Nepalese Income Tax system

S. N.	Problems & weakness	Points of Respondents			Total Points	%	Rank
		TE	TA	TP			
1	Complicated income tax act, rules & regulation	90	84	66	240	7.3	1
2	Limited tax base	105	88	117	310	9.4	7
3	Lack of voluntary compliance of taxpayers	57	91	129	277	8.4	4
4	Inefficient tax administration	76	88	119	283	8.6	6
5	Lack of trained employee	89	89	68	246	7.5	2
6	Increased corruption	80	102	72	254	7.7	3
7	Lack of provisions under the Nepalese income tax laws	104	77	100	281	8.5	5
8	Lack of timely adjustment of tax laws	98	138	102	338	10.2	9
9	Lack of awareness to taxpayers	156	113	78	347	10.5	10
10	Difficulty to maintain the account for tax purpose	127	101	95	323	9.8	8
11	Relatively high tax rate	124	159	118	401	12.1	11
	Total	1106	1130	1064	3300	100	

Source: *Opinion Survey*

By observing the above table 4.28, according to preference of respondents major problems and weakness of the Nepalese income tax system are ranked as follows:

1. Complicated income tax act, rules & regulation
2. Lack of trained employee
3. Increased corruption
4. Lack of voluntary compliance of taxpayers
5. Lack of provisions under the Nepalese income tax laws
6. Inefficient tax administration
7. Limited tax base
8. Difficulty to maintain the account for tax purpose
9. Lack of timely adjustment of tax laws
10. Lack of awareness to taxpayers
11. Relatively high tax rate

Other problems stated by the respondents are as follows:

1. Ambiguous language in the income tax act and income tax rules.
2. Tax evasion
3. Lack of monitoring system
4. Fines and penalty imposed strictly without considering the behavioral inconvenience that lead to that fault.

Hence, it can be said that the major problems and weakness of Nepalese Income Tax System are complicated income tax act, rules & regulation, lack of trained employees, increased corruption, lack of voluntary compliance of taxpayers etc. After the personal discussion with the respondents, the researcher found that increased corruption was major problem and weakness of Nepalese Income Tax System. Tax administrators and tax payers both blamed each other for this situation but both aspects were found to be equally responsible for increment of corruption.

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

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

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

Tax experts

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

) Tax base should be expanded.

Tax administrators

) Harder law.

) Tax education should be improved.

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

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

) Timely feedback system.

) Implementation level should be improved.

Tax payers

) Tax payment system should be simple.

) Improved in tax administration.

) Language should be simple.

) Tax education.

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

4.7 Major Findings

On the basis of preceding chapters some important findings can be drawn.

Major findings of this research study are summarized below:

4.7.1 Major Findings of Primary Data

There is the problem of high resource gap in Nepal although, some part of gap is fulfilled by foreign loan and grants. Income tax is the major source of the government revenue.

Government revenue is the composition of internal and external revenue. The contribution of tax revenue to total revenue is in an increasing trend and in the percentage it is in a fluctuating trend. Nepalese tax revenue is the composition of direct and indirect revenue. Direct tax revenue is the composition of income tax, house and land registration, tax on property and others. Indirect tax revenue is the composition of custom duty, VAT, excise duties and other taxes etc. The tax- GDP ratio of Nepal is not found satisfactory as compare to other developing countries. Income tax is the important sources of internal revenue of government.

Exemption limit is divided into two categories (i.e. Individual and couple). Exemption limit for the income year 2001/02 was Rs.65000 and Rs.85000 for individual and couple respectively. Both exemption limits were increased time and again. Now, Rs.115,000 is exemption limit for an individual and Rs.140,000 for a couple. At the present situation, the exemption limit is insufficient for both. Some provisions of deduction facilities are sufficient and some provisions are insufficient.

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

-) Income tax administration in Nepal is ineffective.
-) Lack of taxpayers voluntary compliance, weakness in government's economic policy, faulty organizational structure of tax administration, defective Income Tax Act, lack of experts in tax administration, lack of trained employee are the main causes for the creation of ineffective tax administration.

-) Current income tax rate is medium in Nepal.
-) Exempted items mentioned in Income Tax Act 2058 are sufficient.
-) Current income tax exemption limit is inappropriate for individual as well as a couple.
-) Exemption for a couple should be provided according to the number of dependents.
-) Exemption limit should be provided adjusting with inflation situation of country.
-) In Nepal most of the people's income is based on agriculture so, it must be out of tax net.
-) According to the economic condition and per capita income of the country, current additional tax exemption limit (Rs.30,000, 24,000, 18,000, 12,000 and Rs.6,000 to Area A, B, C, D and E areas respectively) to the individual working in different remote area is proper or suitable.
-) Special industries established in remote, undeveloped and underdeveloped area of the country get additional tax exemption facilities i.e. 30%, 25% and 20% of tax rate respectively and it is applicable for 10 income years is proper at present context of Nepal.
-) At present context, the medical tax credit facility (Rs.750 or 15% of eligible medical expenses whichever is less) to the individual is not proper.
-) Present repair and improvement cost (7% of depreciation basis of assets pool) of different assets pool's deduction facility is proper or appropriate.

-) Most of the tax experts, tax administrators and taxpayer are satisfied with present depreciation system.
-) Deduction facility regarding the Pollution Control Cost is appropriate or satisfactory.
-) Deduction facility regarding the Research & Development Cost is appropriate or proper.
-) Major problems and weakness of the Nepalese income tax system are Complicated income tax act, rules & regulation, lack of trained employees, increased corruption, lack of voluntary compliance of taxpayers, lack of provisions under the Nepalese income tax laws, inefficient tax administration etc.

4.7.2 Major Findings of Secondary Data

-) Government revenue includes internal revenue and external revenue. The sources of the internal revenue are tax and non-tax revenue. There is dominant share of tax revenue in Nepalese government revenue. Tax revenue seems to be in fluctuating trend. It was 75.74 percent in fiscal year 2002/03(minimum), 81.09 percent in 2006/07(maximum) and 79.12 percent in 2007/08 (latest). Similarly, non tax revenue was also in an up and down trend that was 24.26 percent in 2002/03(maximum), 18.91 percent in 2006/07(maximum) and 20.88 percent in 2007/08(latest).
-) Nepalese tax revenue is the composition of direct and indirect tax revenue in which largest share belongs to indirect tax revenue. The direct tax was 27.11 percent in 2007/08(maximum) and it was 23.73 percent in 2002/03(minimum). The direct tax seems to be in increasing trend in

- resent years. The indirect tax also seems to be in fluctuating trend that it was 76.27 percent in 2002/03 and 72.89 percent in 2007/08.
-) The tax-GDP ratio of Nepal is not found satisfactory in comparison to other countries. Tax-GDP ratio was 8.56 percent in 2001/02 which took an increasing trend and became 10.41 percent in 2007/08, and non- tax revenue was 2.42 percent in 2001/02 which fluctuate over the years and became 2.75 percent in 2007/08.
 -) Indirect tax revenue is the composition of custom duty, VAT and excise duty. Out of which, the VAT has occupied the first position and Custom duty has occupied second position and excise duty stood in third position and their contribution is in an increasing trend.
 -) Direct tax revenue is composition of income tax, land tax, house and land registration tax, tax on property and others.
 -) Income tax is the important source of internal revenue of Government.

CHAPTER - V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary and conclusion

Lack of sufficient financial resources is the main constraint for national economic development of the developing country like Nepal. Income tax is a suitable means of raising government revenue and mobilization of the domestic sources. To achieve the goal of the national development and for economic growth of the country some specific objectives of income tax has to be set up. For this purpose specific programs should be implemented.

Yet, Nepalese economy is suffering from ineffective and effortless plan, program and policy of development.

The prime concern of every nation of the world is rapid economic development and Nepal is not exception to this ever continuing process. Thus a lot of money has to be spent by the government to achieve maximum national objectives.

The sources of government revenue can be classified into two sectors i.e. external sources and internal sources. External sources of government revenue are foreign loan, foreign borrowing, grants, donations etc. External sources are uncertain, inconvenient and not good for healthy economic development of the nation because it should be repaid after certain time with interest and it increases the dependability of the country. So, it is better to mobilize internal sources rather than external sources. Internal sources fund are own sources within the nation. Internal sources of revenue can be classified into two types. They are: tax and non-tax sources. Fines and penalties, gifts and grants, royalty etc. are the example of non-tax revenue.

Tax is a compulsory levy imposed by the government to the people and industries according to the prevailing laws without any direct benefits. Tax revenue is important source of government revenue. Taxation is regarded as an effective instrument, it monitor various economic activities in the country. Income tax, VAT, property tax, import and export duty etc. are the examples of tax revenue.

Tax can be classified into two categories i.e. direct tax and indirect tax. The tax which is collected from the person or organization to which it is legally imposed is known as direct tax. Income tax, vehicles tax etc. are the example of direct tax.

Indirect tax is imposed on one person or organization but party or wholly paid by others. VAT, hotel tax, import and export duty etc. are the example of indirect tax.

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

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

Income tax is main source of government revenue. It is used to balance economic development of the country. It is a tool for achieving maximum social economic objective. But government of Nepal is unable to maximize the share of income tax to the public fund as per expectation. There is high resources gap or budgetary deficit in the country. The main cause of resources gap in Nepal is inadequate and ineffective resources mobilization.

Income tax system of Nepal has been blamed as not effective enough. There are many problems in income tax practice and revenue collection through income tax in Nepal such as increasing habit of tax evasion, defective income tax law, inefficient tax administration, narrow coverage, unscientific tax assessment, leakage in tax, lack of accuracy and unity in according system

etc. but if we analyze the data relating to income tax, it has been found that revenue collection from income tax is in increasing trend.

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

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

An opinion survey has been collected in order to find out the various aspects of income tax, exemptions and deductions. From the opinion survey of various respondents i.e. tax experts, tax administrators and taxpayers, it can be concluded that the income tax administration in Nepal is ineffective. According to the economic level, income level of the family and inflation situation of the country present exemption limit is inappropriate for both individual and family of couple. It must be increased and should be adjusted

with inflation of country. Similarly, additional exemptions facilities who are working in different remote areas are sufficient, additional tax exemption facility to the special industries established in different remote area are proper. But, present medical tax facility is insufficient.

5.2 Recommendations

Nepal is a member of WTO. Nepalese Income Tax system should fit with the global business environment. Tax authorities should think in global perspective. For better utilization or mobilization of limited sources and to achieve the goal of the taxation following recommendations can be drawn based on findings of the research study.

Following recommendations are made on tax exemption and deduction:

- Present exemption limit for individual and family is not sufficient. It must be raised to Rs.150000 for individual and Rs.200000 for family. Some additional exemption can be provided for maximum two children and two dependents parents.
- The additional exemption and concession given for some period to encourage establishing industries in different remote areas is not effective because businessman change names, ownership or place of the business when the concessions facilities expire. So, separate special package should be introduced for this purpose like establishment of medium industrial areas.
- Income Tax Act 2058 has mentioned some organization as tax exempt organization. Social, religious, educational etc. that are established and registered without having any profit motive, so there are tax exempt organizations. At present, there are a lot of organizations where maximum

profit is earned but it is out of tax net. So, they should be brought into tax net.

- Dividend received from private residential company is final withholding payment which can be included in income from investment, after deducting all the expenses regarding with the dividend.
- Clear provisions should be made in the case of deduction in that act. All the items of deductions should be clearly defined in the act. The relationship between clause to clause and sub-clause to sub-clause or other creates double meaning which creates loopholes so, it should be reduced in the act.
- Deduction allowed from an employment income is not sufficient. So, the following deduction should be provided to the taxpayers having only remuneration income.
 - Standard limit of expenses for better education of their two children.
 - Actual medical expenses made by taxpayers for own self.
 - Standard limit of expenses made for house rent.
 - If the tax payer is still studying in an educational institution, some limit of educational expenses of taxpayers should be deductible.
- Deduction allowed from business or investment incomes is not sufficient. So the following, deduction should be provided to the tax payees whose sources of income are business or investment.
 - In the case of tax exempt Organization controlled resident entity, full deduction of interest expenses is not allowed. It is not lawful step to the businessmen who operate the business with loan or debt amount. So it should be fully allowed for deduction within an income year.
- Income tax, rules and regulation should be clear and simple for all the tax payers as well as for tax administrators.

- The assessment and tax collection provisions should be made clear and simple, so that tax payers would be encouraged for paying income tax.
- Clear provision should be made in case of deduction. All the items of deduction should be clearly defined in the Act.
- To promote export, more deduction facility should be provided.
- The provision of tax deduction at source and advance payment of tax should be extended to different sources of income as far as possible.
- Computerized information system is necessary to keep up to date records of income tax.
- Proper tax education should be provided to tax officials as well as tax payer regularly.
- Income tax experts/profession should be increases in tax administrations.

Following recommendations are made in income tax law.

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

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

- The members who are involved in formulating income tax plans and policies must have deep knowledge about income tax.
- A separate training department should be established to provide training to all the tax personnel with the view to increase their efficiency.
- Effective reward and punishment system should be established..
- Income tax experts/professionals should be increased in tax administration.
- Detail record of taxpayer and amount of tax must be kept and after some period of time, some percentage of tax paid by taxpayers previously can be refunded to the taxpayers for their security which encourage paying tax to the taxpayers and reducing the tax evasion.
- Working environment of the tax offices should be improved by providing necessary machine, instruments and modern equipments.
- Due to the lack of trust between taxpayers and tax officer, their relationship is not good. The behavior of personnel towards taxpayers should be improved. Tax officer and personnel must be helpful and should provide good suggestion to the taxpayers.
- Effective monitoring system and information system should be established to prepare the list of potential taxpayers and gather information of various aspects and improve tax administration. A separate monitoring department can be established.
- Tax education should be provided to taxpayers on regular basis.
- Fair and scientific provision of promotion and career development opportunity to the personnel should be introduced. Financial benefits and extra incentives should be provided to the personnel.

QUESTIONNAIRES

ATTITUDE OF PEOPLE TOWARDS EXEMPTIONS AND DEDUCTIONS UNDER INCOME TAX ACT 2058

Name of the Respondent:

Position:

Department:

Tenure of service:

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

1. Do you think that the income tax administration in Nepal is effective?
 - a) Yes b) No
 - If no, what is the reason for the ineffective tax administration? (Please Rank)
 - a. Lack of trained employee.
 - b. Lack of taxpayers voluntary compliance
 - c. Defective Income Tax Act
 - d. Faulty organizational structure of tax administration.
 - e. Weakness in government's economic policy.
 - f. Lack of experts in tax administration

2. What is your opinion about the current income tax rate?
 - a. High b. Medium c. Low

3. Do you think that the exempted items of income are sufficient?
 - a) Yes b) No
 - If no, what kind of income should be exempted? Please, specify in order:
 - a)
 - b).....
 - c).....

4. Do you think that the current income tax exemption limit is appropriate?
 - a) Yes b) No
 - If no, how much do you think the exemption limit should be for an individual?
 - a. Rs.175000 b. Rs.200000 c. Any other amount , please specify.....
 - How much exemption limit should be for a couple?
 - a. Rs.215000 b. Rs.240000 c. Any other amount, Please specify...

5. Do you agree exemption limit for a couple should be provided according to the number of dependents in the family?
 - a) Yes b) No

6. Do you think that exemption limit should be adjusted according to the inflation situation of the country?
 a) Yes b) No
7. What is your opinion on providing exemption to agricultural income?
 a) Yes, it should be exempted.
 b) No, it should not be exempted
 c) It should be treated as other income.
 d) Other (if any, specify)
8. An individual working in remote area A, B, C, D and E can get an additional exemption of Rs. 30,000, 24,000, 18,000, 12,000 and Rs,6,000 respectively is it suitable?
 a) Yes b) No
 ■ If no, how much exemption limit will be sufficient? Please specify.
 Area: AB..... C..... D..... E.....
9. tax rate for the special industries established in remote, undeveloped and underdeveloped areas i.e. 70%, 75% and 80% respectively is suitable for 10 income year or not?
 a) Yes b) No
 ■ If no, how much additional tax exemption facilities should be provided? Please specify in Percent or other:
 a) Area: Remote Undeveloped Underdeveloped
 Amount:
 b) Other (if any, specify)
10. Do you think that medical tax credit facility is sufficient?
 a) Yes b) No
 ■ If no, how much will be proper? Please write your opinion.
 a) A fixed amount Rs.....
 b) % of eligible medical expenses.
 c) Actual medical expenditure
 d) Other (if any, specify),.....
11. Do you agree that current provision of deducting 7% of asset pool as repairs and improvement cost is proper?
 a) Yes b) No
 ■ if no, how much deduction facility should be provided?
 a)% of depreciation basis.
 b)% of actual expenses.
 c) Actual expenses only.
 d) Other(if any, specify).....
12. Are you satisfied with the present depreciation system of income tax?
 a) Yes b) No

13. Do you agree that current provision of deducting pollution control cost is proper?
a) Yes b) No
14. Do you agree that current provision of deducting Research and Development cost is proper?
a) Yes b) No
15. What are the major problems and weakness in Nepalese income tax system? (Please Rank)
- a. Complicated income tax act, rules & regulation
 - b. Limited tax base
 - c. Lack of voluntary compliance of taxpayers
 - d. Inefficient tax administration
 - e. Lack of trained employee
 - f. Increased corruption
 - g. Lack of provisions under the Nepalese income tax laws
 - h. Lack of timely adjustment of tax laws
 - i. Lack of awareness to taxpayers
 - j. Difficulty to maintain the account for tax purpose
 - k. Relatively high tax rate
16. Please give your suggestion for the improvement in the present Income Tax Act 2058.
- a).....
 - b).....
 - c).....
 - d).....
 - e).....

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