

# CHAPTER-1

## I N T R O D U C T I O N

### **1.1 Background.**

Nepal is a landlocked and least developed country covering 1,47,181 square km.(i.e.56,827 square mill) area of land. It has extended 885 k.m. and 193k.m. in average length (east-west) and breadth (north-south) respectively. The area of Nepal is 0.03% of the world and 0.3% of the Asia. Her neighboring countries are Indian and China and the former is to the east, west and south and the latter is to the north only. It is agro-based country because 91.1% of Nepalese earn their livelihood from agriculture. The output per head in the agriculture is very low in the comparison to that of developed countries. The per capita income is about 383 US dollars which is the lowest in the South Asia Association for Regional Corporation (SAARC) countries and almost lower than that of the world. The economic status of Nepalese is very weak in the world. The balance of the payment is not favorable in every year in as much as of import is higher than that of the export. The gap between the expenditure and income is said to be “Resources gap” which is increasing year by year unfavorably. That is to say, amount of expenditure is increasing gigantically higher than that of the income.

In the modern era, the Government has to spend a lot of money to fulfill the responsibility towards its people like security, health, education or other activities for economic and social development. Every nation desires to improve its current status through proper utilization of resources. The expenditure of Government can be commercial and public expenditure. That’s why, Government needs huge fund for it.

So, Government collects revenue either from internal source or from external source. The internal sources of government’s fund include both tax and non-tax sources. Tax sources include the amount, which is compulsory contributed by the tax-payer to the government. Non-tax sources are uncertain and inconvenient because they are imposed as per need of the government. It proves that the taxes are the better sources for the public revenue and it has been taken as the best effective tool for raising the public fund. On the other hand, external source of funds are foreign grants, donation and loan. Such external sources are uncertain, inconvenient and not good for healthy economic development if there is heavy dependent on them. It is used for economic development, reconstruction, foreign exchange, to recover from pitiable condition, for productive use and so on.

To cut a long story short, the government has to mobilize its internal sources rather than external sources for the healthy economic development. Taxation is the most effective tool for raising public fund. Income tax has been splendid source for government revenue.

Tax is the compulsory contribution imposed on public by public authority using the right given by the law. Tax-payers do not expect any return for their tax paying. They get the benefits from government indirectly as the government provides the facilities of securities, health, and education and so on.

According to Goode “A tax is compulsory contribution to the government revenue without reference to a particular benefit recovered by taxpayer. It is a personal obligation to pay tax and there is no direct relationship among tax benefit and individual tax payers.”

According to Adam Smith “A tax is contribution from citizens for the support of the state.”

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.”

Thus, the definitions can be concluded that:-

- Tax is a compulsory levy imposed by the government.
- Tax is levied on persons as per the prevailing laws.
- Tax amount is spent for common interest of the people.
- Tax is collected from haves and spent for the interest of have-nots in the society.

The main objectives of tax are to raise more revenue, to boost up the economy, to remove regional disparities, to prevent concentration of wealth for the common good, and so on. Thus, tax occupies the most importance place in the treasury of government. Because of the importance of its source in revenue mobilization of a country, some persons like to say, “The tax as sinews of the state.<sup>1</sup>”

Taxes are basically classified into direct and indirect taxes. Direct tax is the tax whose burden cannot be shifted to others; in other words, the person paying and bearing the tax is the same. Examples of direct taxes are:-income tax, property tax, vehicle tax, interest tax, expenditure tax death tax, gift tax etc.

Indirect taxes are such taxes which are shifted partially or fully to other. In this tax system, the persons paying tax and bearing tax are different. This tax is levied on consumption or expenditures.

---

<sup>1</sup> Kandle, Pusparaj, Tax-laws and planning in Nepal, Buddha Academic Publishers Pvt.Ltd.Kathmandu.2064

Examples of indirect taxes are: - Value Added Tax (VAT), sales tax, entertainment tax, hotel tax, excises duty, import and export duty etc.

Among these all, income tax plays a pivotal role in the national economy. It is one of the important sources of revenue to the government. It is the popular direct tax which is charged on person's income. Income tax is superior to indirect tax because it is imposed on the basis of ability of the taxpayers to pay tax. People whose income is below the taxable income are freed from the obligation of income tax.

Thus modern income tax was firstly introduced in the Great Britain in 1799 A.D. to collect revenue to finance the war fought with France in 1862 A.D., the United States of American (USA) imposed income tax for financing for civil war. The federated corporation introduced income tax in 1909AD. In India, it was adopted in 1960 AD, several experiments were made from 1860 to 1866 and finally the systematic income tax legislation was enacted in 1866. In Nepal, it was introduced in 1959.

Income tax are basically classified into three groups **(a)Income tax from business,(b) Income tax from employment and(c) Income tax from investment.** Both individual and companies were taxed in similar way during the earlier period but later the companies were levied with a flat rate and individuals with progressive rates. Thus, it will be possible to reduce the gapes in income by imposing higher rate of tax to those who are having high income and that collected amount should be provided as subsidies & necessary assistance to the people with very poor economic condition.

### **1.1.1 Introduction to NTC**

Communication is one of fundamental infrastructure of national development. It helps to make people sensitive, active, enthusiastic and skillful by the help of personal meeting, postal services, telecommunications and news-papers, mail and internet.

Telecommunications service is one of the most important medium of communication in the world. In Nepal, the slogan of "communication for development" has become a catch word. The development of telecommunication services has got a place of importance in the development plans of our country.

The development functions were transferred to a board which was known as the NTC board in 1969. Its resource has considerably strengthened in terms of its ability to bundle of modern telecommunication services in Nepal. Later in 1975, the telecommunication board was converted into public corporation, which was aimed to 51% shares to GON, 25% shares to top staffs of NTC and 24% ordinary shares to public respectively according to

communication corporation act 1971. But it failed to implement from the date of 15<sup>th</sup> June 1975, government has run it in cent percent ownership under the communication corporation act 1971, as the demand of telephone lines increased, NTC has prepared a programme to distribute a large number of telephone lines during the tenth five year plan. To fulfill these objectives, NTC will establish new telephone exchanges. The number of telephone exchanges has increased and the total distribution line hoped to increase the capacity. Today's cellular mobile services have been started from the commercial as well as personal point of view.

### **1.1.2 Nepal Telecom: An Introductory Profile**

Nepal Doorsanchar Company limited (Telecom) was registered on 2060-10-22 under the company act 2053 and the notice to this effect was published in Nepal gazette dated 26<sup>th</sup> Chaitra 2060, after dissolving then Nepal Telecommunications Corporation (NTC). However, the company name was officially effective from the 1<sup>st</sup> Baishakha (13<sup>th</sup> April 2004) and the general public knew it by the name "Nepal Telecom" as it is its registered trademark.

#### **Mission**

Nepal telecom is consumer oriented entity. It is committed to provide nation wide reliable telecommunication service to the social, political and economical development of the country.

#### **Vision**

"Vision of Nepal Telecom is remained as the dominant player in telecommunication sector in the country while also extending reliable and cost effective services to all."

#### **Goal**

"Goal of Nepal Telecom is to provide cost effective telecommunication services to every nook and corner of the country."

### **1.1.3 Service provided by Nepal Telecom**

#### **Basic Telephone Services**

- ★ Local Calls
- ★ National Trunk Calls
- ★ International Trunk Calls
- ★ Leased lines
- ★ ISDN (Integrated Services Digital Network)
- ★ Pay Phone

#### **Intelligent Network(IN) services**

- ★ PCC (Prepaid Calling Card) Easy call Service
- ★ HCD ( Home Country Direct) Services
- ★ AFS ( Advance free Phone Service)

- ★ PSTN credit limit service

### **IVR Services**

- ★ IVR 197-PSTN Inquiry Services
- ★ IVR 198-PSTN and ADSL complaint registration
- ★ IVR 197-VOIP call complaint registration
- ★ IVR 1600-SLC Examination Result Publication Services
- ★ IVR 1601-10+2 Examination Result Publication Services
- ★ IVR 1606- PSTN Telephone Bill Inquiry Services
- ★ IVR 1607- to inquiry the PUK no. of GSM and CDMA mobile Services

### **PSTN VMS Services**

- ▶▶ PSTN Voice Mail / Fax Mail Services
- ▶▶ Notice Board Services

### **Other Services**

- ★ Caller I. D. Services
- ★ Locking Code Services
- ★ Hunting Services
- ★ 3-parties conference Services
- ★ Call transfer Services
- ★ Call waiting Services
- ★ Home meeting Services
- ★ Abbreviated Dialing Services
- ★ Wade up call Services

### **GSM Mobile Services**

- ★ Post-paid NTC mobile
- ★ Namaste Prepaid mobile
- ⇒ International Roaming incoming & outgoing)
- ⇒ Short Message Services (SMS)
- ⇒ Web SMS
- ⇒ Caller Ring Back Tone ( CRBT)
- ⇒ 3-G
- ⇒ GPRS
- ⇒ Voicemail
- ⇒ Balance Transfer

### **CDMA Services**

- ⇒ Fixed postpaid c-phone
- ⇒ Fixed Prepaid
- ⇒ Postpaid mobile
- ⇒ Prepaid SKY phone
- ⇒ RUIM Card Data Services (SKY DATA)

## Data Services

- ☞ Leased Line Connectivity (n\*64 kbps)
- ☞ internet and E-mail
  - ⇒ ADSL High Speeding Internet Services
  - ⇒ Dial-up internet / E-mail PSTN Dial-up
    - ★ Fixed Hour Package
    - ★ Night Surfing Package
    - ★ Fixed Hour / Month package
    - ★ Unlimited Single User Package
  - ⇒ ISDN Dial-up
- ☞ PSTN Bill in the internet
- ☞ Post-paid Mobile Bills
- ☞ Telephone
- ☞ Web SMS
- ☞ E-Mail Alert

Telecom is providing modern telecommunication services to the country. And on the other hand, it is operating in profit contributing in the government revenue by various ways.

### **1.1.4 Role of Nepal Telecom**

Telecommunication is one of the quickest, cheapest and scientific means of communication in the modern world. It is most reliable means of communication for political economical, socio-culture and technological development in the comparison to other communicational services e.g. postal services. It brings co-ordination among different government entities which ultimately promotes administrative efficiency and it can be expected to enhance the productivity of the government decision and there can be better utilization of society and resources as well as mobilization of labour force for the achievement of national goals.

Telecommunication links to overseas countries, which helps the all kinds of foreign industries and it leads to foreign exchange earnings. It also helps in creating relationship between people and nations. It has also contributed a lot for development of social condition of the country.

NTC has played an important role in agriculture sector also by providing information on prices and market situations. Therefore, telecommunication has played a wonderful role in developing and developed counties.

Thus, NTC earns income through abovementioned services and pay income tax to the GON.

The present study has been designed to analyze only the contribution of NTC in from of income tax to GON .This real

situation and condition of income tax in the national revenue of Nepal. This study tries its best to:-

- ☞ Analyze problem and prospects raised by newly implemented income tax Act 2058.
- ☞ Study the income tax structure in Nepal.
- ☞ Study the income tax administration of NTC in form of income tax the GON.

## **1.2 Statement of the Problem.**

Nepal is the least developed country having low economic growth rate. It has been facing resources gap and financial gap problems. Total expenditure was exceeded than the total revenue in each subsequent year due to weakness and large investment in selecting development projects and increasing burden of debt servicing and salary along with allowance of government personnel. Thus, the financial and resources gap are the major constraint of the Nepalese economy. Taxation plays a pivotal role to bridge the gap between the total resources required and supply of the resources. However, collection of income tax has faced various problems like tax evasion, poor tax administration, unsound income tax, and collection ambiguity in tax law, lack of tax conscious people and so on.

This study is about to try its best to answer the following questions:-

- ⇒ Which tools of the tax planning are mostly practiced?
- ⇒ What are the major difficulties in the application of tax planning tools?
- ⇒ What is the resources gap pattern of Nepalese government?
- ⇒ What is the income tax structure of Nepal?
- ⇒ What is the contribution of NTC inform income tax to GON? Is it supporting to fulfill the resources gap?

## **1.3 Objective of the Study.**

The mentioned topic “Contribution of NTC inform of income tax to the GON” carries some objectives of the study to analyze the effectiveness of income tax on revenue generation in Nepal and give appropriate suggestions to improve the tax system so that the government can collect more revenue and utilize it. The objective can be pointed as follows:-

- ⇒ To analyze the role of income tax in utilizing the resources in Nepal.
- ⇒ To analyze the income tax structure of Nepal.

- ⇒ To analyze the contribution of NTC inform of income tax to the GON.
- ⇒ To provides valuable suggestions and recommendations for efficient implementation and improvement of tax.

## **1.4 Significant of the Study.**

Income tax plays a significant role in the overall economic development in developing countries. Income tax is a major source of public finance.

Nepal can fulfill its revenue though income tax. This study will provide information about income tax collection from various sources with special reference to NTC.

This study will be important for the following groups and individuals.

- ⇒ It provides the literature to the researcher in this field.
- ⇒ It is useful for the personnel and customers of NTC.
- ⇒ It explores the problems and potentials of NTC.
- ⇒ It also provides knowledge of tax planning tools.

Briefly, this study does not only fulfill the gap but also provides the knowledge of tax planning system.

## **1.5 Limitation of the Study.**

Every research study is limited by the various boundaries. Similarly, this research study is not free from the limitations, or say, boundaries although efforts have been made to make this study more realistic, practicable and informative for all the people. Still, this study suffers from the following limitations.

- ⇒ This study is chiefly based on secondary data.
- ⇒ This study focuses on NTC. So, it is not applicable for other enterprises.
- ⇒ There is limitation of time. That is why; this study may not be whole and sole study of NTC.

## **1.6 Organization of the Study.**

The thesis study has been designed into five main chapters which are as follows:

### **Chapter-1 Introduction**

This chapter covers the background of the study, statement of the problem, objectives of the study, significant of the study, limitation of the study, and research methodology.

### **Chapter-2 Review of Literature.**

This chapter includes two main aspects:

- (a) Conceptual
- (b) Frame work



Review of related studies relates studies which include review of thesis, books, articles and reports with findings and recommendations.

### **Chapter-3 Research Methodology**

This chapter explains the research methodology to be applied during the study and analyzing the data for finding the result. It includes introduction to research, research design, population and sampling source of data collection, procedure of data analysis and procedure and uses of tools for analysis.

### **Chapter-4 Presentation and Analysis of Data**

This chapter tries its level best for systematic presentation of data where various financial and statistical tools and techniques have been used.

### **Chapter:-5 Summaries, Conclusions and Recommendations:**

The final chapter has been devoted to summaries the major findings and recommendations.

At last, the bibliography appendix and other supported documentary are to be attached with the study.

# **CHAPTER-2**

## **REVIEW OF LITETATURE**

### **2.1 Introduction.**

“A literature review is the process of locating, obtaining, reading and evaluating the research literature in the area of the student’s interest. It is an essential part of all studies. It is a way to discover what other research in the area of our problem has uncovered. A critical review of the literature helps the researcher to develop a through understanding and insight into previous research works that relates to the present study.<sup>2</sup>”

### **2.2 Review of Theoretical Concept.**

#### **2.2.1 Concept of Tax.**

The government of any country requires sufficient revenues to carry out development plans, to handle day-to-day administration, to maintain peace and security and to launch other public welfare activities. In order to carry out such activities government collects revenue from public enterprises through special assessment, fee, fine, grants and assistance, etcetera. Among them, tax is the main source for government revenue.

According to classical economist, Adam Smith, “A tax is a contribution from citizen for the support of the state.”

According to classical economist Dalton, “A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the tax payer in return and not espoused a penalty for any legal offence.”

Briefly to say, in the view of classical economist, tax was taken as an extra burden to public. But these days, taxes are considered as a good source of revenue of government for providing maximum social welfare to the people.

According to prof. Seligman, “Tax is a compulsory contribution from a person to the government which defrays the expenses of the government which have been incurred in conferring common benefits upon the residents of the states.”

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.”

#### **2.2.2 Objectives of Tax.**

---

<sup>2</sup> Wolff,Howard K.and Pant, Prem R. Social Science Research and Thesis Writing 4<sup>th</sup> Edition page 39

Tax is a major and permanent source of revenue in a country. It has been an instrument of social and economic policy for the government. The main objectives of tax are as follows:

- (a) To raise more revenue.
- (b) To prevent concentration of wealth in few hands.
- (c) To redistribute wealth for the common good.
- (d) To boost up the economy.
- (e) To reduce unemployment.
- (f) To remove regional disparities.

### **2.2.3 Classification of Taxes.**

Fundamentally, tax is classified into two broad categories.

- (a) *Direct Tax*
- (b) *Indirect Tax*

#### **(a) Direct Tax**

A direct tax is paid by a person on whom it is legally imposed. In direct tax, the person paying and bearing tax is the same; for examples –income tax, property tax, vehicle tax, interest tax, expenditure tax, death tax, gift tax etc.

#### **(b) Indirect Tax**

An indirect tax is imposed on one person but partly or wholly paid by another. In indirect tax, the person paying and bearing the tax are different; for examples-VAT, sales taxes, entertainment tax, hotel tax, excise duty, import and export duty etc.

### **2.2.4 Canon of Taxation.**

The government of a country adopts various principles while formulating suitable tax policy. Those principles or canons of taxation are discussed below.

Adam Smith, in his book, “Wealth of Nation” has mentioned some canons of taxation which are as follows:-

#### **(a) Canon of Equality or Equity.**

High earners should be imposed higher taxes as compared to low earners. Tax policy should not discriminate the persons with same income level.

#### **(b) Canon of Certainty.**

Taxpayers should feel certainty regarding time, place, tax amount and procedure for payment of taxes.

#### **(C) Canon of Convenience.**

Tax system should be simple so that any public can easily understand and follow it. Time, procedure and place of payment of tax should be convenient to the tax payers.

#### **(d) Canon of Economy.**

The expenses at the time collection of tax should be less than the amount of tax collected so that a surplus from public revenue is

generated and the country will be benefited. The amount that goes from the taxpayers pocket should not differ greatly with amount that actually goes to government's treasury.

In addition to Adam Smith's principles of taxation, Bestable has added two other principles which are discussed below:

**(e) Canon of Productivity.**

The fund raised through taxes should be utilized by the government in productive sector of the economy so that the tax payers can realize the utilized of their earned money paid as taxes.

**(f) Canon of Elasticity.**

The government should easily change the tax rates as per the need of the country. Instead of being rigid, tax rates should be made flexible as per the changes in taxpayers' income, properties and transactions.

Other modern economists have added some other cannon of taxation. They are:

**(g) Canon of Diversity**

The tax system should not totally depend on one source of revenue. It is risky for the government to depend on a single source. So, the government should levy various taxes instead of imposing a single tax. Such system ensures smooth collection of taxes in different years.

**(h) Canon of Simplicity**

A good tax system should be easily understood to general public. These should be no administrative hassles. The payment procedure should be too lengthy.

**(i) Canon of Neutrality.**

The tax system should not affect badly to the production and distribution aspect of the nation rather it should facilitate them. The government should impose heavy taxes on harmful products and less tax or no tax on basis goods in such a way that the total tax revenue is not affected.

**(j) Canon of coordination**

There should be coordination among taxes raised in the country. Tax payers should not be imposed similar type of taxes.

## **2.3 Review of Historical Development of Income Tax Laws in Nepal.**

“Great Britain is the first country in the world to introduce the modern income tax. It introduced income tax in 1799 A.D. to finance the war fought with France. USA introduced income tax in 1862 to generate revenue to finance civil war. In India, while income tax, in its modern form, was adopted in 1860. Several experiments

were made from 1860 to 1866 and finally the systematic income tax legislation was enacted 1886.<sup>3</sup>”

“Although the taxes were collected in various forms in ancient era, the history of modern income tax is not very old in Nepal. The idea of introducing income tax in Nepal originated in the early 1950s when multiparty democratic political system was introduced in 1951, then finance minister in his budget speech declared the intention of the government to levy an income tax.<sup>4</sup>”

“Attempts were made to introduce income tax in subsequent years, in 1954, an income tax was proposed with Rs 10,000/- basic allowance and progressive taxes ranging from 5% to 25%. Due to political instability, it could not be introduced until 1958.<sup>5</sup>”

“The first elected government in 1959 finally introduced ***Business Profit and Salaries Tax Act, 1960*** in Nepal. At that time, income tax was levied only on business years experience of income tax the government replaced the prevailing Tax Act by ***Income Tax Act, 1962***, The coverage was extended in the Act, in 1974, ***Income Tax Act, 1974 (2031)*** was enacted. The act remunerated income sources into five groups (a) **Agriculture** (b) **Industry, Trade, Profession or Occupation** (c) **Remuneration** (d) **House and Compound rents** (e) **other sources**. However, agricultural income was kept outside the tax net except few years through the finance Acts.<sup>6</sup>”

“To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation and to amend and integrate the laws relating to income tax, the parliament of Nepal enacted ***Income tax Act 2002(2058)***. This Act has replaced income tax Income Tax Act, 1974(2031) which was amended for eight times and existed for a period of 28 years. GON framed Income Tax Rules, 2059 in 2059 to help clarifying the Act.<sup>7</sup>”

The following table exhibits the evolution of income tax law in Nepal.

---

<sup>3</sup> Bhattaari, Ishor and Korila, Girja Prasad, *Income Taxation in Nepal with Tax Planning and*

VAT (Second Edition, 2061 Asmita Books Publishers and Distributors page 7

4 ”

5 ”

6 ”

7 ”

**Table-2.1**  
**Evolution of Income Tax in Nepal**

S.N.	Income Tax Act.	Effective from.....To
1	Finance Act. 2016 (1959)	FY 2016/27 To 2017/18
2	Business Profit and Remuneration Ordinance,2016(1959)	FY 2016-4-25 To 2017-2-1
3	Business Profit and Remuneration Act2017(1960)	FY 2017-2-2 To 2019-4-9
4	Nepal Income Tax Act.2019(1962)	FY 2019-4-9 To 2031-7-4
5	Income Tax Act.2031(1974)	FY 2031-7-5 To 2058-12-18
6	Income Tax Act.2058(2002)	FY 2058-12-19(1st April 2002)
<p><i>Sources: A Thesis: Contribution of Investment Tax in Government Revenue in Nepal. By Premraj Acharya. Page. 9 (Nepal Commerce Campus)2064-3-19(3<sup>rd</sup> July2007)</i></p>		

### **2.3.1 Income Taxation Act 2017 (1960A.D.)**

Income tax in Nepal was first introduced in F.Y. 1959/60 which was known as “**Business Profit and Remuneration Tax.**” The imposition of tax was governed by the business profit and remuneration tax act 1960 and rules made there under this Act consisted 22 sections. The salient features of this act were as follows:-

- ☞ The sources of income tax were limited only to business and remuneration i.e. income from business and income from remuneration.
- ☞ Tax on remuneration was to be deducted at source but the specified were granted a rebate of 25% and profit from small industries were granted a rebate of 50%.
- ☞ Deduction of expenses was not specified for the calculating taxable income.
- ☞ The tax officer was empowered to assess tax on best judgment.
- ☞ In case of evasion, fine up to Rs.5000 was prescribed.
- ☞ Tax on remuneration was deducted at source (TDS).
- ☞ This act was very narrow and vague, high discretionary power was granted to tax officer, many loop-holes and inadequate provisions. So, due to these reasons, this act was replaced by ITA 1962.

### **2.3.2 Income Tax Act 2019(1962)**

This act was the extension of two business profit and remuneration tax act (2017). It had 29 sections. It was amended in 1972 A.D. The main of the act were as follows:-

- ☞ The basis of tax assessment was specified on the best judgment.
- ☞ Provision was made for the installment basis of tax for the first time.
- ☞ Income tax has defined all kinds of income such as profit from business, profession, remuneration and occupation, house and land, agriculture, insurance, business agency and any other sources.
- ☞ Provision was made for the exemption of income tax industries for a period of not exceeding ten years.
- ☞ Carry forward of losses was allowed for the period of two years.
- ☞ The act granted the power to constitute the income assessment committee.
- ☞ The residential status of the tax payers for the tax purpose was defined.
- ☞ Provision was made for reassessment of tax as well as rectification of arithmetical errors.
- ☞ Deductible expensed as well as methods of calculation of taxable income were specified.
- ☞ This act had also some weakness. The changing socio-economic environment of the nation had forced to change the ITA as a result, the ITA, 1974, (2051) was made by abolishing the existing Act 1962.

### **2.3.3 Income Tax Act 2031(1974)**

The ITA 1974 can be said as to be the refined from the ITA 1962. This act had 66 sections. This act was amended in 1977, 1979, 1980, 1985, 1986, 1989 and 1992 to make it more practical by eliminating confusing terms.

Some of the points of the act with amendment are as follows:-

- ⇒ This act had clarified the definitions about income tax, tax payer and income year, personal status of tax payer, non-resident tax payer and net income and so on.
- ⇒ Five sources of income had been specified as follows:-

1. Agriculture.
2. Industry, trade profession or vocation.
3. Remuneration.
4. House and compound rent.
5. Others.

- ❖ To carry forward of losses is allowed within subsequent three years.
- ❖ It had made provision for self-assessment of tax for the first time in Nepal.
- ❖ Methods of computing the taxable income from each head had been specified with deductions allowable.
- ❖ Deductions were required to keep accounts and records of the income and to be preserved for six years.
- ❖ Provision was made to make agreement for avoidance of double taxation with foreign government.
- ❖ Provisions were made relating to reassessment or additional assessment of tax.
- ❖ Although ITA, 1974(2031) was far ahead than it prevails act, yet it had many vague or unclear words like reasonable “Appropriateness” etc. It had also provided high discretionary powers to the tax officer in the matter of tax assessment method.

### **2.3.3.1 Defects of Income Tax, 2031**

Income Tax Act 2058 has been enacted to avoid the following defects of ITA 2031:

- ⊗ ITA, 2031 had a narrow tax base. Global incomes of residents were not brought into tax net. Only the incomes originated in Nepal were taxed.
- ⊗ There were no clear provisions regarding taxation of capital gains. The Act was also silent with regard to international taxation.
- ⊗ The terminology and provisions in the act were inadequate. Many important provisions required to be in modern taxation system were lacking.
- ⊗ The fine and penalty imposed by the act were very low. As a result, the level of voluntary compliance had decreased significantly.
- ⊗ There was a weak mechanism to control the tax avoidance scheme of taxpayers. The taxpayers used to evade tax through transfer pricing, splitting of income, etc.
- ⊗ Tax accounting method was not prescribed in the act. Despite the provision of self-assessment in the Act, it had not been implemented properly. The self-assessment was more in name than in practice.
- ⊗ The Act had not distinguished civil liabilities of the tax payers from criminal liabilities. The tax authorities were empowered to act as a court.



- ⊗ There were double appeal systems in the act. The taxpayers were allowed to lodge an objection against assessment with the Revenue Tribunal or the director General. The Director General was empowered to act as a court and there were complaints that he used to make decisions in favour of tax officers. There were no provisions for administrative review.

### **2.3.4 Income Tax Act 2002 (2058)**

ITA 2002 has been implemented from 2058/12/19 B.S. This act has replaced the ITA 1974 (2051) and other acts related to income tax. GON enacted income tax rules 2051 B.S. in according to the authority given under section 138 'g'. ITA 2002 B.S. has 143 sections—Amended ITA 2002 has dismissed the section 66. The act is broad, scientific and international standard level. The act governs all income tax matters and is applicable throughout the state of Nepal. It is also applicable to residents residing wherever out side Nepal.

#### **2.3.4.1 Objectives of Income Tax Act, 2058**

Main objectives of income tax act, 2058 are as follows:-

- To bring all income generating activities into tax net.
- To harmonize tax rates and concessions on equity grounds.
- To widen the tax base.
- To confine all the income tax related matters within the act.
- To make income tax flexible and revenue productive.
- To develop a tax payer-friendly-taxation system by making it clear and transparent.
- To reduce the scope of discretionary of the tax authorities tax avoidance and tax evasion.
- To make taxpayers more responsible by implementing the self-assessment systems.
- To integrate Nepalese tax system with the tax system of foreign countries.

#### **2.3.4.2 Key Feature of Income Tax Act, 2058**

Income Tax Act, 2058 has been enacted with broad viewpoint. Different new concepts are introduced in this Act as compared to income Tax Act, 2031. Many of the concepts put forward in this Act which were not included in existing at Nepalese tax environment. This Act contains 143 sections. The key features of income Tax Act, 2058 are as follows:-

- ☞ All income tax related matters are confined within the act by abolishing all tax related concessions, rebates and exemption provided by different acts. This act has been made super in regard to all income tax matters.

- ☞ The Act has introduced a pool system of charging depreciation. A provision has also been made super in regard to all income tax matters.
- ☞ The Act has broadened the tax base. Unlike previous tax Act, tax rates are spelled out in the Act. The tax rates and concessions are harmonized on equity grounds.
- ☞ The Act has introduced a pool system of charging depreciation. A provision has also been made for depreciating intangible assets.
- ☞ The Act has first introduced the taxation of capital gains.
- ☞ The Act has provided laissez-faire loss set-off and carry forward/backward. Such provisions have been from international perspective.
- ☞ The Act has firstly introduced a provision for administrative review to allow the tax administration to correct mistakes made by tax administrators internally.
- ☞ The Act has made provisions for a stringent fine and penalty for the defaulters. There have been make provisions for punishment in the fines up to Rs 3,00,000 and imprisonment on conviction up to 3 years.
- ☞ Global income of a resident are made taxable. Non residents are also taxed on their incomes with source in Nepal.
- ☞ List of expenses is comprehensive. All expenses relating to income have been made admissible.
- ☞ The Act has made provision for global taxation. Foreign tax credit has been introduced for the first time.
- ☞ The Act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.

### **2.3.5 Feature of Income Tax Rules, 2059**

Income Tax Regulation, 2059 was issued on 27<sup>th</sup> Jestha 2059, using the power mentioned in Sec 138 of Income Tax Act 2058. The major features of Income Tax Regulation 2059 are as under:

- ▶▶ Provision and definition of Permanent Account Number (PAN).
- ▶▶ Tax deduction procedure.
- ▶▶ Payment of patty expenses.
- ▶▶ Calculation of tax amount and system of accounting.
- ▶▶ Provision of contract.
- ▶▶ Provision in connection with the use of building (accommodation) for private purpose.
- ▶▶ Provision relating to approved medical expenses and its limitation.

- ▶▶ Provision relating to approved medical expenses and its limitation.
- ▶▶ Provision relation to approve medical expenses and its limitation.
- ▶▶ Provision relating with the facility of deduction of losses from the previous income year of banking and general insurance company.
- ▶▶ Provision of approved retirement fund.
- ▶▶ Provision relating to the method and place of payment of tax.
- ▶▶ Provision of tax deduction at deduction at source.

## **2.4 Head and Sources of Income.**

Income Tax, 2058 has classified the heads of income into the three main groups for the purpose of tax assessment, According to the tax the heads of income are as follows:<sup>8</sup>

- ☞ Income from business
- ☞ Income from employment
- ☞ Income from investment

The sources of income are domestic and foreign sources, which are described below.

### **2.4.1 Income from Business.**

If any person or corporate body earns income by running any business industry or trade with in an income year such income is included while computing taxable income (as per the sec. 7,22,24,26,27,29,31,56,60)

Following are the heads of business income.

- ★ Service fees
- ★ Income earned from the disposal of trading stock.
- ★ Income earned from the disposal of business assets or liabilities.
- ★ Income earned from the disposal of depreciable assets.
- ★ Gift received n connection with business.
- ★ Income received by accepting any restriction of business.
- ★ Income received from business related investment.
- ★ Income received from various agents as commission.
- ★ Income received from various agents as commission.
- ★ Recovery of bad debt and doubtful debts.
- ★ Income received from the completion of long-term contract in part.

---

<sup>8</sup> Income Tax Act,2058

- ★ Income earned by the interest expenses paid for along at lower rate then the actual marker rate.
- ★ Income earned in respect of compensation.
- ★ Other income to be included in profit or benefit.

## **2.4.2 Income from Employment.**

Incomes received by an employee in the form of salary, allowances, any facilities and benefits etc. are included under this head. Similarly, any expenses born by employer in respect of employee are also included as the source of income from employment. From such accumulated income, life insurance premium, donation to the charitable purpose and contribution to recognized provident fund, up to 7% of insured sum, 5% of net income and 10% of gross salary respectively are allowable expenses. From such amount exemption limit is deducted according to the married status of a person to compute taxable income. In this taxable income tax rate is charged @15% for first 75,000 and rest in charged @25% to compute total tax liability.

According to income tax act, 2058 sec. 8, 24, 25,27,29,30, and 31 of ITA2058, the following are the source of income from employment.<sup>9</sup>

- ★ Salary and wages.
- ★ Paid for leave.
- ★ Income received from over timework.
- ★ Commission and charge earned.
- ★ Gift and reward received in connection of employment.
- ★ Bonus income.
- ★ Payment made for facilities enjoyed by employee but paid by employer.
- ★ Rent expenses borne by the employer.
- ★ Entertainment and transportation expenses bear by employer.
- ★ Expenses paid by employee in respect of accepting any contract between employer and employee.
- ★ Any payment made by employer to employee in respect of employment.

## **2.4.3 Income from Investment.**

Investment income means income generated from the use of capital investment i.e. use of capital for the purpose of getting income. According to income tax act, 2058 sec.2 (a), investment

---

<sup>9</sup> Ibid

means an act of holding or investing more assets of a similar nature that are used in an integrated trend. However, it excludes the following:-

- a) The act of holding asset, other than non-business taxable assets for personal use by the person owning the assets or investing amount on such asset,
- b) Employment or business.

## **2.5 Review of Terminologies used in Tax and Taxation**

### **2.5.1 Income (Section 2 Ja)**

Income means “Person’s income from any employment, business or investment and the total of that income as calculated in reference to this act.” It includes all sorts of income received for the provision of labour of capital or both of whatever form nature in the taxable income.

### **2.5.2 Income Year (Section 2 Jha)**

For the every person, the tax is imposed and calculated for an income year. The income year corresponds with government’s fiscal year i.e. the period from the start of Sharwan of a year to the end of Ashad of the following year.

### **2.5.3 Company (Section 2 Da)**

Company means a company established under the company laws for the time being in force. Besides, the following institutions are also treated as company for tax purpose:

- a. **Corporate body** established under the laws for the time being in force.
- b. Any unincorporated association, committee, institution, society or group of person other than a partnership or a proprietorship firm (whether or not registered) or a trust.
- c. **A partnership firm** (whether or not registered under the laws for the time being in force) that has 20 or more partners, a retirement fund, a co-operative, a unit trust, or a joint venture.
- d. Foreign company; and
- e. Any foreign institution prescribed by the Director-general.

### **2.5.4 Individual (Sec. 2 Wa):**

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

### **2.5.5 Entity (Sec. 2 Bha)**

Entity means the following institutions of organizations:

- a. A partnership, trust, or company.
- b. A V.D.C., municipality or D. D. C.
- c. Government of Nepal.
- d. A foreign government, or apolitical subdivision of the foreign government, or a public, international organization established under treaty and
- e. A permanent establishment of an individual of an entity is resident.

## **2.5.6 Resident Person (Sec. 2 Ka Nga)**

Resident person with respect to an income-year means:-

### **I. In the case of an individual, an individual:-**

- (a) Whose normal place of abode is in Nepal.
- (b) Who is present in Nepal for 183 days or more in any period of 365 consecutive days; or
- (c) Who is an employee or an official of GON/Nepal posted abroad at any time during the income year?

### **II. Any Partnership**

### **III. In the case of trust, a trust that**

- (a) If established in Nepal, or,
  - (b) Has trustee that is a resident person or the income year:
- Or (c) Is controlled directly or through one or more interposes by a person of persons one of whom is a resident person for the income year.

### **IV. In case of a company, a company that**

- (a) Is incorporated or formed under the laws of Nepal
- (b) Has its effective management in Nepal during the income year.

### **V. a V.D.C., municipality**

### **VI. in case of a foreign government or a political subdivision of the foreign government, such an entity-**

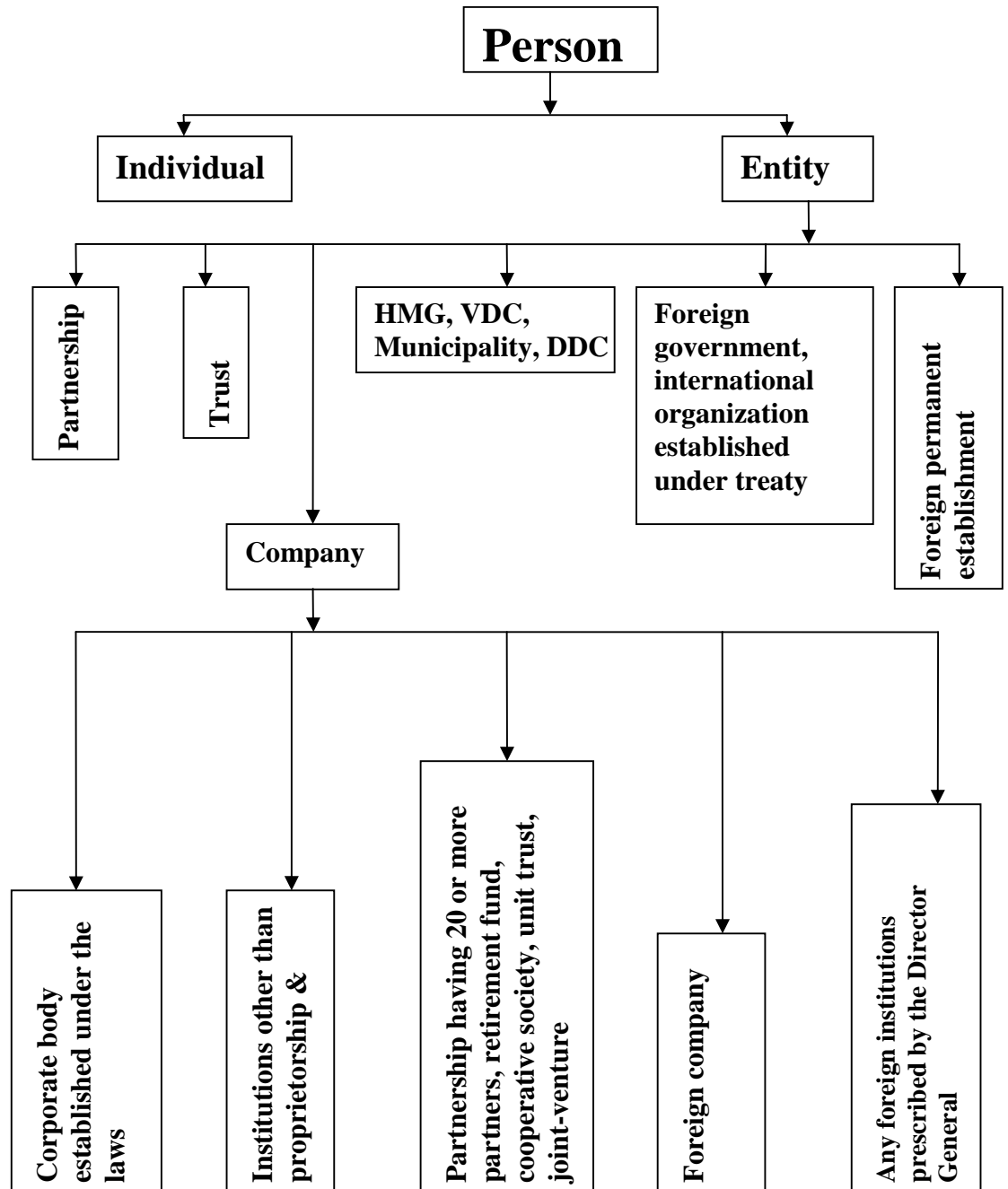
- (a) If it is established under the laws of Nepal: or
- (b) Has its effective management in Nepal during the income year

### **VII. Any institution or entity established under treaty :and**

### **VIII. A foreign permanent establishment of a non-resident person situated in Nepal.**

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

**Table 2.2**  
**Classification of Persons under Income Tax.**



### **2.5.7 Partnership (Sec. 2 Ka. Pa):**

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

### **2.5.8 Exempt Organization (Sec.2 Dha):**

Exempt organization means the following entities:

- a) Following entities registered with Inland Revenue Department as tax-exempt entity-

- (i) A social, religious, educational, or charitable or organization of public character registered without having a profit motive.
- (ii) A amateur a sporting association formed for the purpose of promoting social or sporting amenities not involving the acquisition of gain.
- b) A political party registered with the Election Commission.
- c) a V.D.C., municipality or D.D.C.
- d) Nepal Rastra Bank.
- e) Government of Nepal (GON).

However, any benefit acquired by any person out of the assets of and amounts derived by the entity except in pursuit of the entities function or as payment for assets or services rendered to the entity by the person is not exempt from tax.

### **2.5.9 Retirement fund (Sec. 2 Gha):**

Retirement fund means any entity established and maintained solely for the purpose of accepting and investing retirement fund contributions in order to provide retirement fund payments to individuals who are beneficiaries of the entity or a dependent of such an individual.

### **2.5.10 Retirement Payment (Sec. 2 Nga)**

Retirement payment means a payment to:-(a) an individual in the event of the individual's retirement, or (b) a dependent of an individual in the event of the event of the individual's death.

### **2.5.11 Retirement Contribution (Sec. 2 Cha):**

Retirement contribution means a payment made to a retirement fund for the provision or future provision of retirement payments.

### **2.5.12 Business (Sec. 2 Ka. Jai):**

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

### **2.5.13 Investment (sec. 2 Ka. Kha):**

Investment means an act of possessing or investing one or more assets. But the term excludes act of holding assets for personal use by the person owning the asset and employment and business. However, the act of holding non-business chargeable assets is considered as an investment.

### **2.5.14 Employment (Sec. 2 Ka. Dha):**



Employment includes a past, present or prospective employment. It is the return for the provision of labour.

### **2.5.15 Asset (Sec. 2 Ka. Dha):**

Asset means a tangible or intangible asset. It includes currency, goodwill, know-how, property and an owner's interest or ownership in foreign branch, a right to receive income whether present or future and part of such asset.

### **2.5.16 Tax (Sec. 2 Dha)**

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

- Expenses incurred in the process or creating charge and performing action of the property of tax creditor by the Department.
- Amount payable by a withholding agent or withholdee or amount payable by an installment payer and on assessment.
- Amount payable to the Department in respect of a tax liability of a third party.
- Amount payable by way of interest and penalties.
- Amount payable by way of fines in order to the Department.

### **2.5.17 Trading Stock (Sec. 2 Ka. Yna.):**

Trading stock means assets owned by a person that are intended to be sold in the ordinary course of a business conducted by the person, work-in –progress on such assets, and inventories of materials to be incorporated into such assets. However, the term does not include a foreign currency asset. Motor cars of an automobile dealer are trading stocks.

### **2.5.18 Business Asset (Sec. 2 Ka.Ta.):**

Business asset means an asset to the extent to which it is used in a business. A piece of land used in business is an example of a business asset.

### **2.5.19 Non-business Chargeable Asset (Sec. 2 Da.):**

Business Chargeable asset means securities or an interest in an entity as well as land and buildings. However, it excludes the following assets:

- a. Business assets, depreciable assets or trading stock.
- b. A private residential house of an individual that has been owned continuously for at least three years and resided for a

total period of at least three years either continuously or intermittently,

- c. Interest in a retirement fund of a beneficiary.
- d. A private residential house and land of an individual that is disposed in less than one crore rupees. Or,
- e. Non-business assets of an individual that is disposed of by way of any type of transfer other than sales and purchase made within three generations.

### **2.5.20 Depreciable Asset (Sec. 12 Ka. Ra.):**

Depreciable asset means an asset to the extent which it is used in the production of income from a business or investment and that is likely to lose value because of wear and tear, obsolescence, or the passing of time. However, the term does not include trading stock.

### **2.5.21 Associated Person (Sec. 2 Ka Na):**

Associated person means two or more persons where one may reasonably be expected to act in accordance with the intentions of the other. It includes:

- a. An individual and relative of the individual or an individual and a partner of the individual.
- b. A foreign permanent establishment and its owner and
- c. An entity and a person who, either alone or together with an associate or associates controls or may benefit from so percent or more of the rights to income, capital, or voting power of the entity, as the case required, either directly or through one or more interposed entities; or a person who is an associate of such person.

However, the term does not include employee and persons prescribed by the Department as not being associate persons.

### **2.5.22 Long-term Contract (Sec. 2 Pha):**

Long-term contract means such contract, the term of which exceeds 12 months.

### **2.5.23 Withholding Agent (Sec. 2 Ka):**

Withholding agent means a person required to withhold tax at the time of payment for employment, investment return, service fees or contract.

### **2.5.24 Final Withholding Payment (Sec. 2 Ga):**

Final withholding payment means a payment of dividend, rent, gains, interest and payment made to a non-resident person to be made after withholding final tax.

### **2.5.25 Withholdee (Sec.2 Na)**

Withholdee means a person receiving or entitled to receive a payment for employment, investment return, service fees and contract from which tax is required to be withheld.

### **2.5.26 Lease (Sec. 2 La):**

Lease means a temporary right of one person in respect of an asset of another person, other than money. It includes a licence, option, rental agreement or tenancy.

### **2.5.27 Natural Resource Payment (Sec.2 Sa):**

Natural resource payment means amount of any of the following payments.:-(a) Amount received for the right to take water, minerals or other living or non-living resource from the land or (b) Amount as calculated in whole or part by reference to the quantity or value of water, minerals, or a living or non-living resource taken from the land.

### **2.5.28 Rent (Sec. 2 Sha):**

Rent means any premium including house rent received under a lease of a tangible asset and any other payment made for the granting of the lease. However, it does not include a natural resource payment.

### **2.5.29 Royalty (Sec. 2 Ka Ka):**

Royalty means any payment under a lease of an intangible asset. It includes any payments made for

- the use of , or the right to use a copyright, patent, design, model, plan, secret formula, or process or trademark
- the supply of know-how.
- The use or right to use, a cinematography film, video tape, sound recording or any their like medium and the supply of information concerning industrial, commercial or scientific experience.
- The supply of assistance ancillary to a matter referred to above
- A total or particular forbearance with respect to a matter referred to above.
- However, the term does not include a natural resource payment.

### **2.5.30 Service Fee (Sec. 2 Ka Ma):**

Service fee means any fee paid to a person based on market values, for services rendered by the person. It includes a commission or a meeting management, or technical service fee.

### **2.5.31 Permanent Establishment (Sec. 2 Ka Ma):**

Permanent establishment means a place where a person wholly or partly carries on a business, and includes the following places:

- i. a place where a person wholly or partly carries on a business through an agent, other than a general agent of independent status acting in the ordinary course of business as such :
- ii. a place where a person has , is using or is installing substantial equipment or substantial machinery
- iii. one or more places within a country where a person furnishes (whether through employees or otherwise ) related services (including technical, professional, or consultancy services)for a period or periods aggregating more than 90 days within any 12 month period; or
- iv. A place where a person is engaged in a construction, assembly, or installation project for 90 days or more , including a place where a person is conducting supervisory activities in relation to such a project.

### **2.5.32 Gift (Sec. 2 Yna.):**

Gift means a payment that is without consideration or a payment with consideration to the extent of market value of the payment exceeds the market value of the consideration.

### **2.5.33 Turnover (Sec. 2 Ta1):**

Turnover is defined as a total of the inclusions calculated for the purpose of computing income from business or investment.

### **2.5.34 Adjusted Taxable Income (Sec. 2 Na 1):**

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) and interest expenses.

### **2.5.35 Relative (Sec. 2 Ba):**

Relative means a spouse, children (including adopted children) parent, grandparent, sibling, aunt, uncle, nephew, niece, grand-son and grand-daughter, brother in laws, sister-in-laws, father-in-laws and mother in laws of an individual.

### **2.5.36 Interest (Sec. 2 Ka Jha):**

Interest means the following payments or gains-

- a payment made or incurred under a debt obligation that is not a repayment of capital;
- any gain realized by way of a discount, premium, substitute payment, or similar payment, and
- The portion which is treated as interest in the payments made to a person under an annuity or by a person acquiring an asset under an installment or the use of asset under a finance lease.

## **2.5.37 Taxing Subjects (Sec.2 Ka. Nga)**

- ▶▶ The tax payers are persons on whom income tax is imposed. A person is a natural person, who is an individual or a couple but includes also a proprietorship, or it can be an artificial person, i.e. an entity; an entity means a partnership, trust, company and foreign permanent establishment or government body.
- ▶▶ The act distinguishes between resident and non-resident persons. A resident person is an individual whose normal place of habitat is in Nepal and who is present at any time of the year, or who is present in Nepal for 183 days or more, or who is an employee or government of Nepal posted abroad at any time during the year.
- ▶▶ A trust is a resident person if it is established in Nepal, or has a resident person as a trustee, or is controlled by a resident person. A company residing in Nepal and it is incorporated under the laws of Nepal or has its effective management in Nepal. Partnerships are always resident persons. Permanent establishments are places where a person carries on business and are subject to tax if they belong to a non-resident person and are situated in Nepal.

## **2.5.38 Taxable Income (Sec.5)**

The taxable income of a person for an income-year is equal to the amount as calculated by subtracting reduction, if any claimed for the year under section 12 (gifts to an exempt organizations) or 63 (retirement contribution to an approved retirement fund) from the total the person, assessable income for the year from each of the followings income heads:- **Business, Employment, and investment**

## **2.5.39 Exempt Amounts (Sec. 10)**

The following amounts are exempt from tax:  
Amount delivered by a person entitled to privileges under a bilateral or a multilateral treaty concluded between Nepal government and a foreign country or international organization.

- Amount received by an individual from employment in the public service of the Government by a foreign country provided.
- The individual is a resident person solely by reason of performing the employment or is a non-resident person.
- The amounts are payable from the public funds of the country.
- Amounts derived from public fund of the foreign country by an individual who is not a citizen of a Nepal or by a member of the immediate family & the individual
- Amounts derived by an individual who is not citizen of Nepal from employment by Nepal Government on terms of a tax exemption.
- Allowances paid by Nepal Government to widows, elder citizens or disabled individual.
- Amount derived by way of gift, bequest, legacy or a scholarship except as required to be included in calculating income from business, employment or investment.
- Amounts derived by an exempt organization by way of;
  - :-Gifts & Donation.
  - :-Other contributions that directly relate to the exempt organizations for example, subscription fee received by a club i.e. exempt from tax, amount derived by Nepal Rastra Bank as per objectives.

### **2.5.40 Business Exemptions and Concessions**

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

- (i) Any agricultural income derived from sources in Nepal by a person other than the following is exempt from tax.
  - (a) Income from an agriculture business derived by a registered firm company, partnership or corporate body.
  - (b) Income through the land above the holding as ceiling as prescribed in section 12 of Land Act 2021.
- (ii) Income derived by community-based rural co-operative societies and such societies established in municipality having in adequate infrastructure as approved by **IRD** registered under **Co-operative Act 2048** from business mainly based on agriculture and forest products and dividend distributed by such societies are exempted from tax. However, other community-based saving and credit cooperative societies are imposed 50% of tax otherwise applicable.

- (iii) Any person operating special industry during the whole income year will be taxed as under:
  - (a) If the industry is providing direct employment to 600 or more Nepalese citizens throughout the whole year, 90% of the applicable tax rate (20%) is applied for the year.
  - (b) The industry separating in remote, undeveloped and underdeveloped area will have to pay 70%, 75% and 80% of the applicable tax rate (20%) respectively up to ten income years commencing from and including the year in which the operation commences.
  - (c) If both exemptions rate available to the same special industry for same income, only one exemption is available as per the selection made by the industry.
  - (d) If the assets used by the special industry were used previously by another person operation the similar type of special industry the ten year for the latter will be counted from the period of such use by the another person previously .
  - (e) The income received under business exemptions and concessions should be calculated separately assuming that these incomes received under business exemptions and concessions should be separated from other general business and investment incomes.

### **2.5.41 Deduction (Section -3)**

Basically, all actual costs to the extent incurred in generating income from the business or investment are deducted while calculating a person's income. This generalization, however, are taken into consideration in conjunction with the special provisions made in the act. For example, interests paid by exempt controlled entity to the parent in the course of conducting a business or investment, are deductible with some limitations. Other costs such as cost of trading stock, repair and improvement cost of owned and used depreciable asset, pollution control, research and development are also deductible with some limitations.

Depreciation allowances are granted for depreciable asset, which are categories in 5 classes. These classes are based upon the average useful life of the assets belonging to one class. The assets of each class are placed in a pool and a depreciation rate applies to each pool.

Allowable limit for repair and improvement cost of owned and used depreciable asset is raised to 7% of depreciation bases.

No deductions are granted for expenses that are of a domestic personal nature, income tax, government penalties costs in

deriving exempt amounts of final withholding payment, dividends distributed by an entity, cost of a capital nature and casts payment above Rs. 50,000 under prescribed conditions.

### **2.5.42 International Taxation**

For taxation purpose, all payment and gains need to be considered on the basis of the source country of the payment details or the circumstances under which the source rules are defined are given in the act.

Tax is imposed on the repatriated income of a foreign permanent establishment of a non-resident person situated in Nepal.

A non-resident person carrying on a business of chartered or air transport operator are taxed at a flat rate in their amounts derived from carriage of passengers, mail or goods which embark in Nepal. The provision is also applied to non-resident persons who transmit messages by any technical means if the apparatus is established in Nepal.

A tax credit may be claimed for any foreign income tax paid with respect to foreign source income. The tax credits are calculated separately for assessable foreign income sources in each country and will not exceed the average rate of Nepal income tax applied to the assessable foreign income.

### **2.5.43 Set up, Carry forward and Carry back of Losses (Section 20)**

- ☞ Losses are in principles deductible but are treated differently depending on whether the result from construction a business or an investment and whether they are of domestic or foreign nature. Losses from a domestic business can be offset against all types and sources of income; where as losses from a domestic investment can offset any against foreign income. Foreign business losses can be offset against foreign business income or investment income.
- ☞ Unrelieved business losses of previous 4 years are allowed to carry forward.
- ☞ In case of electricity projects involving in building power station, generating and transmitting electricity and the projects conducted by any entity so as to build public infrastructure, own, operate and transfer to the Government any unrelieved loss the previous seven years are allowed to carry forward.
- ☞ If a person incurs a loss for an income year any banking and deduct it in calculating the income from the business for any of the five preceding income years.



- ☞ Special provisions exist in the act on how to deal with losses incurred in conducting a business of global long-term cost.

## **2.5.44 Special Provisions for Individuals.**

ITA-2058 has made some special provisions for individuals.

### **▶▶ Couples (Sec.50):**

A resident natural person and a resident spouse of the person may elect to be treated as an individual. For this, they have to notify **IRD** in writing. In this case, both are jointly or separately liable for any tax payable by the couple for the year.

### **▶▶ Medical Tax Credit (Sec.51)**

A resident individual may claim a medical tax credit for an income year for any approved medical costs paid by the individual oneself or through others during the year in respect of the individual. The maximum amount that can be claimed will not exceed 15% of approved medical costs or Rs.750. Any excess amount due to limitation or lack of tax payable can be carried forward and added to the amount for the next income year.

Eligible medical costs include:

- (a) Health insurance premium and
- (b) The expenses as per bills for treatment by recognized hospital, nursing home, health care or a doctor.

However, the eligible medical costs will not include expenses incurred on cosmetic surgery and medical expenses compensated by insurance company on account of health insurance.

## **2.5.45 Special Provision for Entities.**

### **I) Principles of Taxation in Respect of Entities (Sec. 52):**

ITA, 2058 has introduced some paramount principles of taxation for entities. These principles are:

- Any entity is liable to tax separately from its beneficiaries.
- Distribution of entities (i.e. dividend) will be taxed to beneficiaries in the form of final withholding payment.
- Amounts derived and expenses incurred by an entity are treated as derived or incurred by the entity (not any other person).
- Assets owned and liabilities owed by an entity are treaty as owed or owed by the entity and not any other person.
- Foreign income tax paid with respect to the income of an entity whether paid by a manager, beneficiary or the entity, is treated as paid by the entity.
- Transactions between an entity and its managers and beneficiaries are recognized.

### **II) Distribution by Entities (Sec.53)**

A distribution of an entity includes:

- ★ A payment made by the entity to any of its beneficiaries, in any capacity, or
- ★ Any capitalization of profit.
- ★ Any payment becomes a distribution only if the amount of the payment exceeds the amount of any payment made by beneficiary to the entity in that are included in return for the entity's payment and if the payment does not include amount that are included in beneficiary's income or a final withholding payment other than by reason of being a distribution (dividend).

### **2.5.46 Special Provision for Retirement Savings.**

The act distinguishes between the treatment of approved and unapproved retirement fund. Incase where a resident person files an application with the department including to get approval for establishing a retirement fund, the department shall pronounce the approval as prescribed.

An individual who is a beneficiary of an approved retirement fund may claim a reduction of retirement contributions made to the fund for an income-year. The limit of the claim is the lower of Rs. 300,000 or one third of his assessable income for the year. Contributions to an unapproved retirement fund are not deductible. The income of on approved retirement find is free of tax where as an unapproved fund it is subject to full income tax.

### **2.5.47 Other Prevision of Income Tax Act 2058**

- ⇒ The act has broadened the tax base. The rates are spelled out in the act itself and the rates and concessions are harmonized on equity grounds.
- ⇒ A full-fledged self-assessment system is implemented and the presumptive taxation and current year taxation system are strengthened.
- ⇒ The scope of discretionary interpretation of the tax administration is drastically reduced ensuring simplicity uniformity and the transparency. The act has also defined the power and authority of the tax administration is drastically reduced ensuring simplicity uniformity and the transparency. The act has also defined the power and authority of the tax administration.

- ⇒ The act has separated administrative and judicial responsibilities by distinguishing civil liabilities of the taxpayers from criminal liabilities.
- ⇒ The appeal system is further steam lined by making its mandatory for the taxpayers to file an objection with the Inland Revenue department of administrative review before appealing to the revenue committee.

## **2.6 Theoretical Framework of Tax Planning**

Panning is an important tool for every business enterprises whether it is big or small, old or new private or public. Planning regards corporate planning as “A formal and systematic managerial process organized by responsibility time and information to ensure that operational planning project planning and strategic planning are carried out regularly for future of an enterprise” operational planning refers to the future planning of existing operations in existing market with existing customer. Project planning includes the general appraisal and working out the details of an action (project) outside the scope of existing operations strategic planning is the process of formulating long-run objectives and deciding on the resources for achieving them. Corporate planning, this includes operational planning, project planning and strategic planning. Basically there are four ways of minimizing the tax liability i.e. tax evasion, tax avoidance, tax delinquency and tax planning.

### **2.6.1 Tax Delinquency**

The meaning of tax delinquency is delaying in paying taxes. Tax delinquency is also one way of reducing tax liabilities. In this case, the liability is reduced in respect value by deferring the payment, although, tax delinquency means the failure to pay tax due to lack of sufficient fund. It also covers non-payment at the time of having fund. It is temporary deceiving of tax by the tax payers although he can not escape in the long term.

### **2.6.2 Tax Avoidance**

“Tax avoidance is the art of dodging tax without actually breaking the law”. It is a method of reducing tax liability by taking advantages of certain loopholes in the tax laws. Wheat croft analysis elements were absent; therefore, tax avoidance involves (a) A transaction interred into avoid tax and with full legal backing and (b) A transaction which the legislature wouldn’t intend to encourage. The following are the criteria used by English and Indian court to find out of tax avoidance

- use of colorable devices
- twisting of facts

- Taking only strict spirit of law and suppressing the legislative intend.

Tax avoidance is the reduction of tax liability through the manipulation of existing law. It is legally permissible but unethical. Sec 35 of the income tax act 2058 has defined tax avoidances any means or arrangement, one of the main purposes of which is the avoidance or reduction or tax liability.

## **2.6.3 Tax Planning**

Tax planning is the art and science of planning the company' operations in such a way as to attract the minimum liability to tax with the help of various concessions allowances and relief's provided for in the tax laws. As such the basic purpose of corporate tax planning is to reduce or postpone the overall tax burden in the present and foreseeable future. Tax planning is a discipline and in attitude towards solving the corporate problems in a methodical way from a long run point of view.

Tax planning is a scientific panning of company operation. It is the use of various incentives, concessions, allowances, rebates etc. and it is an activity rebates etc. and it is an activity related to future. It has the objectives of (a) reducing of tax liabilities, (b) Minimization of legal action (c) productive investment, (d) healthy growth of the economy (e) economic stability.

### **2.6.3.1 Features and Important of tax planning.**

#### **Features:**

- It is the genuine use of the facilities provided by the government.
- It is entrance economic environment of the country.
- It reduces tax liability
- It is universal in nature. It means all the business organizations use tax planning.
- It is a use of expertise to get consciously given facilities.
- It is related to future activities.

#### **Impotence:**

- Tax planning saves tax and increases profitability.
- It avoids unnecessary worries, tensions and administrative basses.
- It helps in using the facilities provided by the government.
- It helps in analysis of risk.
- It creates good business environment.
- It helps in development.

- It helps in development of man power

## 2.6.4 Tax Evasion

Tax evasion involves hiding income illegally or concealing the particulars of income or a particular source or sources of income or manipulating the accounts to overstate expenditures and other outgoings and understate incomes with a view to reducing profit and thus the taxable income. Tax evasion is therefore, illegal unethical and uneconomic as well. Tax evasion means reduction of tax through illegal means. It is done through various ways like non-reporting income, underreporting of income, making fraudulent changes in account books, maintaining multiple sets of accounts, reporting business transactions under different names, opening bank account in dummy name, over reporting of expenses, fragmentation of income, transfer pricing etc. Tax evasion is unethical, illegal and uneconomic activity also. It is unethical because the activity of not paying tax is against moral ethics. It is illegal because the law does not permit to evade the tax. In the same way, it's uneconomic because it promotes black money i.e. underground economic system in the country.

Basically, there are three types of effects of tax evasion in the country i.e. less revenue to the state, redistribution of income which affects the efficiency of resource allocation in the economy and creating wrong statistics leading to errors in government policies. Tax factors include tax rate, tax base, tax structure, penalty and possibility of applying penalty if evasion is detected. Mainly tax factors are more concerned with the tax evasion on income from legal activities. There are several types of tax evasion unilateral (tax payer himself), bilateral (with the connivance or assistance of government official), trilateral (from the collusion of tax officers tax auditors and tax payer) and multilateral (all parties from government to tax payer). In a work of tax evasion, it is very difficult to find among business men, professional, a person in service, or a politician who is not a tax evader.

## 2.7 Review of Related Studies

In course of the study, various books, articles, dissertations and other reference materials were reviewed. Some useful ones are mentioned below.

### 2.7.1 Review of Books.

*Mr. Santoh Raj Poudel and Mr. Prem Prasad Timisina (1990)* wrote a book “**Income Tax in Nepal.**” This book has been written on the income tax act, 2031. They have given a detailed computation of income from various sources. They have also

described other theoretical aspects of income taxation. This book was mainly written for the course requirement of Bachelor's level in management. This book is not relevant today as the Act has been changed. But some description and historical aspects can be drawn for the study.

*Mr. Bidhyadhar Mllik (2002)* published a book named **“Nepal ko Aadhunik Aayakar Pranali.”** This book is very much useful to anyone who is interested in the subject of taxation. In his book, he has explained income Tax Act.2058 with examples wherever necessary. He has presented the complex Act in simple and lucid manner so that it will be easy to understand the act. He has shared his expertise in his book his book is descriptive and analytical. All the provisions in the act have been clarified in simple language. He has clarified why some of the tax-exempted amounts have been brought into tax net by the new act. In some cases, he has also compared the provisions of the old act and the new act.

*Mr. Isshwor Bhattaraj and Mr. Girija Prasad Koirala (2003)* published two books name **“Taxation in Nepal”** and **“tax Laws and Tax planning .”** first book has been designed in conformity width the syllabus of BBS 3<sup>rd</sup> and the second one has been designed based on the syllabus of MBS 2<sup>nd</sup> year. Relevant theoretical and practical aspects have been discussed in the books. Both books have shown how taxable incomes are computed under employment, business and investment sources.

*Mr. K.P. Aryal and Mr. Surya Parasad Poudel (2003)* wrote a book entitled **“Taxation in Nepal”** this book is also designed as per the syllabus of BS third year. They have also included theoretical and practical aspects of taxation in their book.

*Mr. Surendra Kushar Amatya, Dr. Bihari Binod Pokheral and Rewat Dahat (2003)* wrote a book entitled **“Taxation in Nepal.”** This book is also designed to meet the requirement of BBS THIRD year syllabus. Theoretical as well as practical aspects of taxation have been included in the book. This book is a descriptive one, not analytical.

*Mr. Jagadish Agrawal (2004)* published a book named **“Income tax: theory & practice”** this book is useful to anyone to who is interested in the subject of taxation. In his book, Mr. Agrawal has explained income tax act, 2058. The book is also sources of information on the subject of income tax. He brief explain fixed assets & depreciation treatment on income tax purpose Mr.Agrawal provides a schedule for depreciation.

*Mr. Jit bahadur K.c. (2006)* wrote a book entitled **“Tax laws and tax planning.”** for MBS second year. He has presented

practical as well as theoretical aspects on taxation in this book. This book is useful to any one who is interested in the subject of taxation. This book is also useful to research work.

*Howard K. Wolff and Prem R. Pant (2005 4<sup>th</sup> Ed.)* wrote a book entitled “**Social Science Research and Thesis Writing**” has presented theoretical as well as practical aspects of research methodology including writing a thesis.

### **2.7.2 Review of Reports.**

Dr. Govinda Ram Agrawal a senior research officer of **CEDA** had conducted a research a topic: “Resources Mobilization for development the reform of income tax in Nepal” **CEDA** Kathmandu published this report in 1978. This study focused the various aspect of income tax in Nepal. Some of the important objectives of this study were as follows.

- To examine the problem of growing resource gap in Nepalese finance in the context of the role of income tax.
- To examine the buoyancy and elasticity of income tax in Nepal including projection of income tax.
- To examine the ways and means for increasing tax consciousness in the Nepalese public.

Some remarkable findings and recommendation of the reports were as following.

- a. income tax has been a fast growing category of tax revenue in Nepal
- b. The individual tax payers contributed more than 50% of the total income tax revenue.
- c. Needs for additional resource mobilizations were growing by 8 times in Nepal and he was experiencing a serious and growing problem of resource gap.

### **2.7.3 Review of Journal**

Mr. Surendra Keshar Amataya (2006) wrote an article entitled “Taxation of Employment income in Nepal, Concept, Computation and Contribution” in **PRAVAHA** a journal of management Vol 16, July 2006. He has mentioned about Nepalese income tax law income law income year and assessment year, heads and sources of income, concept of employment, computation of income from employment, non-chargeable incomes under employment, common reductions, income tax exemption, and assessment of income tax liability on employment income, surcharge and contribution of employment income to tax revenue of Nepal. He has also shown about estimation and collection of employment income tax during the past decade. In this study, he has clearly

pointed that actual collection of employment tax is satisfactory then estimate target.

In this way, various dissertations, books and articles have been reviewed while preparing this project work books are found mainly based of Tribhuvan University (T.U. ) syllabus requirement of T.U. almost dissertations were written on different aspects of income taxation.

## **2.7.4 Review of Thesis**

*Mr. Kedar Bilas Pandey (1978)* presented his dissertation on '**Income Taxation in Nepal.**' In his study, he has shown the role of direct tax in total revenue and tax revenue, dominant role of indirect tax in Nepalese tax system and the role of income tax to control the inflationary trend of the country. Also he has discussed the legal aspect, role and problems of income tax, structure and economic effect of income tax in Nepal, mode of mobilizing additional resources from income tax.

*Roshni Srestha (1984)* in her study "**Income Tax Nepal**" had basically, concerned with origin, definition, concept, historical background, role, objective and structure of income tax she has also described per capital burden of income tax in Nepal and the major problem existing in Nepalese income tax system. She also found that the evasion of tax is a serious problem of tax. the reason of tax evasion more low tax paying capacity of Nepalese people, high tax rate , corruption, lack of system of heavy punishment widespread illegal business activities etc. she found that the tax administration is not efficient.

Although she had given various useful suggestions about the income tax like, scientific method should be applied for the collecting of tax, administration should be made efficient, income tax law should be simple and easy, tax base should be broader etc. she had mentioned the legal provision relation to income tax and empirical investigation.

*Bamshidar Ghimire (1993)* wrote a these entitled "**Principle of Direct Tax and Provision of Direct Tax Rajaswa**" had described the classification of tax , base of income of expenditure tax, base of tax in Nepal, procedure of computing net income, weakness of tradition accounting system, classification of tax rate in tax of income tax in Nepal, contribution of tax income to national revenue errors of past provision, some steps to administrative improvement etc. he found that the tax covered very low portion of total revenue because of no taxation in agricultural income, narrow base of income of retail business, high exemption limit on remuneration income etc. he has also noticed some errors of provision



rating to income tax. they were progressive ax had not played an defective role for equal distribution of income, unproductive tax concession holy day and rebate, provision of low additional fee a s compare to market interest rate etc. he also suggested some step of administrative improvement. They were provision of income assessment committee floor rate of tax to small tax payer's establishment of tax office etc.

*Sanjay Acharya ( 1994)* wrote a thesis entitles “**Income Taxation in Nepal**” A study of its structure, productivity and problems had describes that the structure of income tax, productivity of income tax and problem of income tax. He examined the tree main objectives of income tax, which are as follows:(a)To reduced inequality of income distribution.(b)To collect more government revenue.(c) To check infection.

He had also presented some numerical and diagrams of structure and productivity of income tax. He had not explained the provisions relation to income tax. His study about income tax was not so detailed.

*Puspa Raj Kandel (2000)* also presented Ph.D. thesis entitled “**Corporate Tax system and Investment behavior in Nepal.**” He undertook the research work to fine out the problems relating to corporate tax, which blocks the development of private investments. The main objectives of this study were valuating the corporate tax system in general, to examine of sensitivity if certain policy like inflection capital gain, dividend tax and interest tax etc. Based on their impact on tax burden, he showed the relationship of private investment with average effective tax rate (AETR) marginal effective tax rate (METR) and tax incentives of Nepal.

*Binita shrestha (2004)* wrote a thesis entitled “**Revenue collection from income tax in Nepal, problem and prospects**” described the conceptual frame work and legal provision, structure of income tax in Nepal, income tax administration in Nepal. An empirical investigation and problem and prospects of income tax in Nepal. She found that the dominant share of tax revenue in Nepalese government revenue and the contribution of tax revenue showed the decreasing trend.

She found that major problem of Nepalese income tax system were, mass poverty of Nepalese people, lack of the consciousness of tax payers unscientific tax assessment procedure, widespread evasion and avoidance of income tax, inefficient tax administration instability in government policy etc. she had taken 60 people as a sample and conducted empirical investigation about the different aspects of income tax system. She had used the correlation

coefficient to prove the hypothesis on the problem of income tax system.

Although, she had suggested about the income tax system like extension of tax coverage, minimizing the problem and weakness of tax administration, tax consciousness to the people, she had taken any investigation about the provision fine and penalties.

**Basant Kumar Singh (2006)** had conducted a research entitled “**A study on Application of Best judgment of income tax assessment with reference to ITA, 1974**” need provision and the role of best judgment in income tax assessment are mainly performed by committee. The data shows that above 70% of the total income tax assessment is finalized by committee. He also found that only 9.01% of the total income tax assessments were performed of the basis of account in 1990/91, which was 10.49 % in 1999/2000; its share remained only 3.89% of income tax assessment.

He also discussed on the income tax assessment of Nepal, basis of assessment, necessary condition for the best judgment assessment natural justice and best judgment etc.

**Pradhan, Bibaha(2006)** studied basically concerned with historical background, contribution of income tax to the public revenue, 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 that the contribution of income tax from public enterprises in Nepal was not significance due to the poor achievement, weakness in government’s economic policy and deficiency in legislation. NTC had been contributing effectively to total tax revenue. Contribution of tax revenue of GDP of Nepal was lower that other SAARC countries except Bangladesh. Average contribution of income tax from NTC to total tax revenue, total income tax revenue and total government revenue were 237 % ,15.60% and 1.93 in her study period. He suggestions about income tax system were clear cut collection provision should be made clear and simple, provision of reward, prize., incentives should introduce to encourage tax payers today voluntarily, compulsory provision of auditing etc. for the improvement of income tax administration in Nepal, she had suggested promotion and reward to active efficient and honest tax preserved, tax education to tax payers ,strict acting against corruption of delays in tax assessment, Especially, her study had focused of the study on Nepal Telecommunication Corporation.

# **CHAPTER -3**

## **RESEARCH METHODOLOGY**

### **3.1 Introduction**

Research is a systematic and organized to investigate specific problems. This process of investigation which involves a series of the activities of gathering, recording, analyzing and interpreting the data for the purpose of finding solution to the problem.

The research has two important aspects. The first one is sufficiently broad requiring solving to a problem and secondly is to recognize the systematic natures of the research process which is gathered recorded, enclosed and interpret in orders manner.

Thus, research methodology is the process of bringing to the solving of the problems trough planning and systematic dealing with the collection, analysis and interpretation of the data. It reports to the various sequential steps to be adopted by a researcher, who observes problem with certain project in a view. The objective of the study is to analyze the tax planning and to analyses contribution of income tax from Nepal telecom to government revenue.

The study includes three types of research which are descriptive, analytical as well as empirical.

#### **a) Descriptive research**

Descriptive research studies involve the systemic collection and presentation of data to give a clear picture of a particular situation. These studies attempt to obtain a complete and accurate description of a situation. Descriptive research is fact-finding pertain searching for adequate information. It is a type of study, which is generally conducted to assess the opinions, behaviours, or characteristics of a given population and to describe the situation and events occurring at present. Descriptive research is a process of accumulation facts. This thesis includes survey and fact finding in varies of different kinds. The major purpose of descriptive research is the description of the state of affairs as it exists at present.

#### **b) An analytical research**

In analytical research, the research uses the facts and the information already available and analyzes to made a critical evaluation of the materials. Analytical research has been carried out terms of role of total contribution of NTC in form of income tax to the GON. This thesis has to use valuable factors or information and analyze these to make the critical evaluation of the material.

#### **c) The empirical**

Empirical investigation on has been conducted in respect of contribution of NTC in form of income tax to GON. This research relies on observation alone often without due requires for system and theory. It is data based on research coming up with conclusion, which is capable of being verified by observation.

### **3.2 Research Design**

Research design is an overall frame work or plan for the collection and analysis data. Research design that focuses of the data collection method, the research instruments utilized and the sampling plan to be followed. The research design is a planning and strategy for investigation of the data in order to achieve conclusions. In this study, primary & secondary data have also been used.

Hence, descriptive and analytical both the research design will be used to conquest the contribution pattern of income tax from various enterprises to public revenue of GON with special reference to NTC.

### **3.3 Sources of Data**

The origins from where the necessary data and required information are collected are called source of data. There are two sources of data:-primary sources of data and secondary sources of data. If the researcher has a plenty of time, s/he collects data from primary source for more accuracy. Further, if the researcher has limitation of time, s/he collects the required data form secondary data. Both primaries as well as secondary data have been collected in order to achieve real and fruitful result out of this research. All the possible and useful data have been collected. The major of data are as follows.

#### **■ Primary Source of Data.**

The data which is directly collected from respondents is said to primary data. It gives more accurate results but it long time for gathering data. However, the primary data has been collected for empirical study of contribution of NTC in form of income tax to GON. The major tool used for the collection of primary data is questionnaire. The information has been gathered from tax payers, tax administrations and tax experts. The questionnaire has been annexed in appendix.

#### **■ Secondary Source of Data**

The data which is collected from the data which was collected by others is known as secondary data. It is second hand data. It takes short time for collecting data but it is not much reliable. However, the secondary data has mostly been collected through books, articles, newspaper and reports. The major sources of secondary are follows.

- Economic surveys and budget speech of various years.
- Annual reports, news and record news and records of NTC.
- Publications of Inland Revenue Department.
- Books related to public enterprises.
- Reports and records of department of taxation, MOF.
- Books related to public enterprises.
- Dissertations related to taxation available at central library TU, and library of Hari Khetan Multiple Campus.

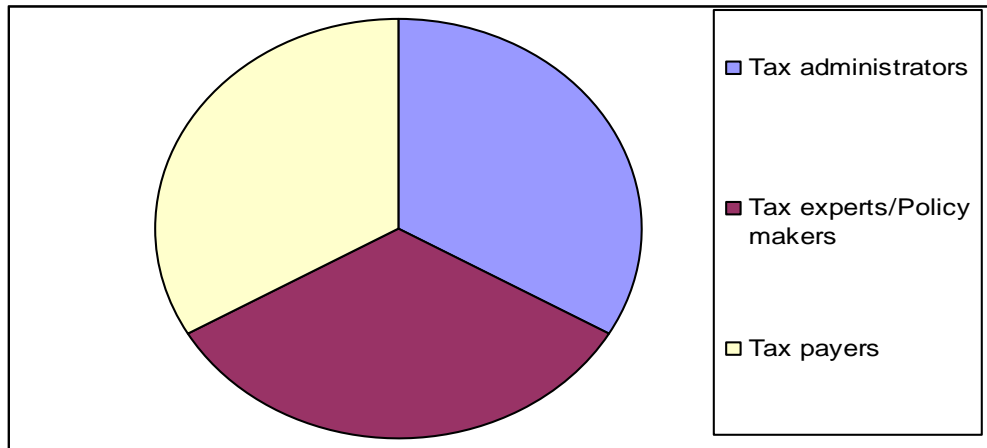
### 3.4 Population and Sample

Population indicates the set of all members of certain area of research whereas sample indicates short-listed members out of the population. The tax administrations, tax experts/policy maker and tax payers in Nepal were considered as total population. Out of them, the tax administrators, tax experts/policy maker and tax payers in Birgunj were considered as target sample. The denominations of the respondents have been presented in below tables.

**Table 3.1**  
**Group of respondents and sample size.**

I	Tax administrators	20
II	Tax experts/Policy makers	20
III	Tax payers	20
IV	Total	60

These data have been presented in pie-chart as follows:-



### 3.5 Data Gathering Procedure

The process how the data is collected is called data gathering procedure. As mentioned above, the study is based on primary as well as secondary data. The information of primary data has been collected through questionnaire and secondary data has been collected from the annual reports of NTC and other related organization etc.

### **3.6 Data Analysis Procedure**

Collected data from annual reports & articles remains in raw form. Firstly, they have been classified into related categories then after it has tabulated, re-tabulated and presented into graph in the required format. To get more reliable information using accounting principle, mathematical atrocities and legal provisions of ITA 2058 is taking in to consideration in data analysis procedure.

The information received in deferent aspects of taxation and tax planning from primary and secondary sources was firstly processed for tabulation and analysis. Generally sample is taken for the purpose of analysis.

- Average (Mean)
- Percentage (%)
- Graphs
- Standard Deviation (S.D.)
- Coefficient of Variance (C.V.)
- Hypothesis test (Chi-square test)

# **CHAPTER –4**

## **DATA PRESENTATION AND ANALYSIS**

### **4.1 Introduction**

The chapter deals with the presentation, analysis and interpretation with the help of statistical tools. The relevant data of contribution of NTC in form of income tax has been collected. Further, the data related to GDP, Revenue, Total Tax Revenue, Direct Tax Revenue, Total Income Tax and Corporate Income Tax have been collected for comparative analysis with income tax of NTC. These all data tries their best in order to fulfill the objectives of this study. To obtain best result, the data has been analyzed according to the research methodology as mentioned in third chapter like mean, percentage (%) standard deviation (S.D.), coefficient of variation (C.V.) and chi-square test. It is known that a report can be worthless if interpretation is faulty, even if valid and relevant data have been collected. That is why; analysis and interpretation have been done carefully to get good result.

The collected data helps to process and analyze in according to the outline of the research plan. The objectives of this chapter are to introduce to the mechanism of data analysis and interpretation. Data analysis is the relationship or difference supporting or conflicting with original. New hypothesis should be subjected to statistical test of significance to determine with what validity data can be served to indicate and conclusion.

### **4.2 Tax Structure of Nepal**

Modern economic planning of Nepal had commenced with the initiation of first economic planning in 1956, since then, taxes have been used for national economic goals. So, tax plays a pivotal role to the economic development of Nepal. Tax structure of any country comprises both direct and indirect taxes and so does Nepal.

#### **4.2.1 Structure of Income Tax Nepal**

Public enterprises, semi-public enterprises private corporate bodies, individuals, and tax on interest are the components of income tax structure of Nepal. These all data of income tax structure has tabulated in figure. (*Table 4.1*)

**Table No.:- 4.1**  
**Structure of Income Tax revenue (Rs. In million)**

Fiscal Year	Total Income Tax revenue	Public Enterprises		Semipublic Enterprises		Private Corporate Bodies		Individuals		Remunerations		Tax on Interest	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
2052/053	4123.4	1231.1	29.86	0	0	858.4	20.82	1711.4	41.5	168.1	4.08	154.4	3.74
2053/054	4898.1	1317.8	26.9	0	0	925.1	18.89	2120.8	43.3	322.2	6.58	212.12	4.331
2054/055	6170.2	1526.5	24.74	0	0	1155	18.72	2772.7	44.94	396.5	6.43	319.5	5.18
2055/056	7420.6	2198.8	29.63	0	0	1339.5	18.05	3016.4	40.65	451.5	6.08	414.4	5.58
2056/057	9114.0	2928	32.13	0	0	1924.3	21.11	3200.5	35.12	597.3	6.55	463.9	5.09
2057/058	8903.7	1769.3	19.87	0	0	1412.3	15.86	4419.1	49.63	835.6	9.38	467.7	5.25
2058/059	7966.2	1251	15.7	0	0	1236.3	15.52	3362.3	42.21	125.265	15.72	864	10.85
2059/060	9245.9	2056.6	22.24	0	0	1531.3	16.56	3533.4	38.22	139.12	15.05	733.4	7.93
2060/061	10159.4	1739.289	17.12	0	0	2063.3741	20.31	3926.3	38.65	167.59	16.5	757	7.45
2061/062	11205.3	1918.34	17.12	0	0	2478.61	22.12	4204.23	37.52	176.41	17.1	726.11	6.48
2062/063	12350.5	1904.44	15.42	0	0	3124.6765	25.3	4690.72	37.98	179.329	14.5	858.36	6.95
2063/064	13520.5	2071.33	15.32	0	0	3668.09	27.13	4883.59	36.12	204.294	15.1	946.43	7

*Source:- Economic Survey fiscal Year 2007/08*

The table presents that the total income tax has increased in every fiscal year except the FY 2057/058 and 2058/59. It is the year 2057/058; it was decreased to Rs. 8903.7 million and Rs 7966.2 million in FY 2058/059. But as a whole, it has increased from Rs. 4123.4 million in 2052/053 to Rs 13520.5 million in FY 2063/064.

The contribution of public enterprises also increased from Rs 1231.1 million to Rs 2928 million from fiscal year 1996/97 to 2000/01. Afterward, it started to decrease i.e. that is up to Rs 195.7 million in 2005/06.



### 4.3 Contribution of NTC in form of income tax to the GON

NTC contributes to the GON in different ways. One of them is income tax which is being paid to GON highly in comparison to other Sansthan. The income tax which contributed to GON has been taken for analysis from 2052/053 to 2064/065 fiscal year. It has been presented in following *Table no. 4.2*

**Table No.:- 4.2**  
**Computation Table for Mean and S.D. of Contribution of income Tax from NTC to GON** (Amount in million)

Fiscal Year	Income tax from NTC ( X )	$x = X - \bar{X}$	$x^2$
2052/053	701.92	-346.8	120256.37
2053/054	634	-414.7	171976.09
2054/055	650	-398.7	158961.69
2055/056	670	-378.7	143413.69
2056/057	702.08	-346.6	120145.424
2057/058	761.02	-287.7	82759.7824
2058/059	871.5	-177.2	31399.84
2059/060	1011.55	-37.15	1380.1225
2060/061	1175.33	126.63	16035.1569
2061/062	1379.6	330.9	109494.81
2062/063	1587.6	538.9	290413.21
2063/064	1699.8	651.1	423931.21
2064/065	1788.7	740	547600
<b>Total</b>	<b>X = 13633.1</b>		<b><math>x^2 = 120256.368</math></b>

No. of observations (N) = 13

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

$$\bar{X} = \frac{13633.1}{13} = 1048.7$$

$$\text{S.D. ( )} = \sqrt{\frac{\sum x^2}{N}} = \sqrt{\frac{120256.368}{13}}$$

$$= 96.179467$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\text{---}}{X} \times 100\%$$

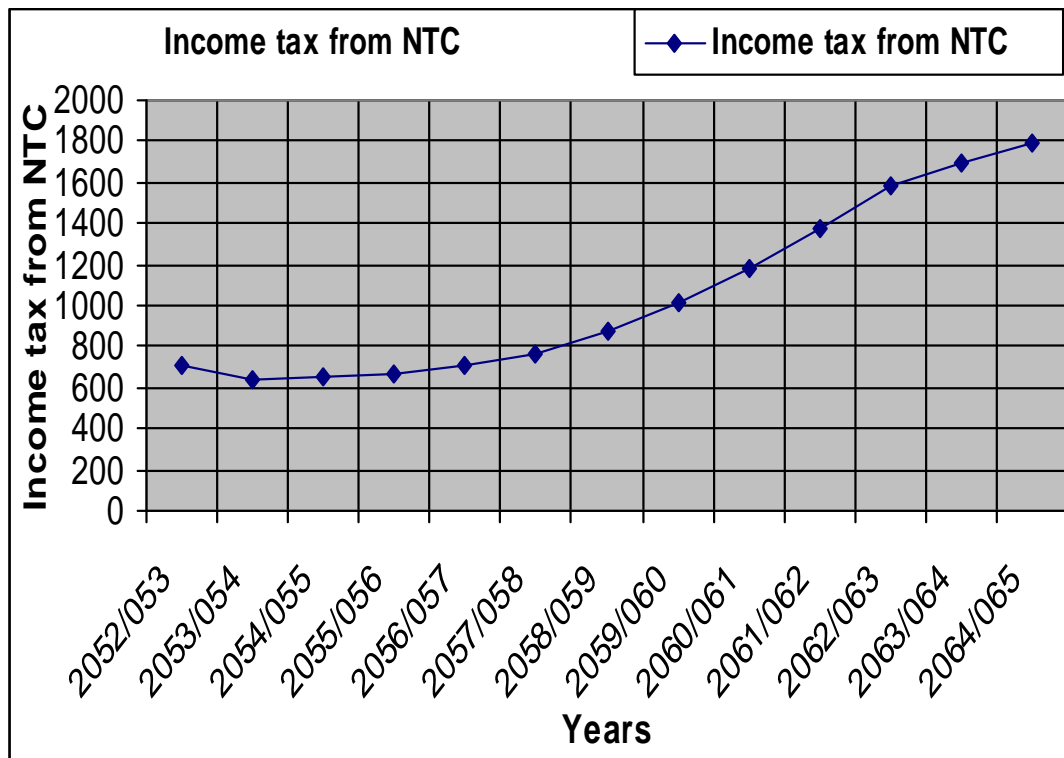
$$= \frac{96.179467}{1048.7} \times 100\%$$

$$\text{C.V.} = 9.17\%$$

From **Table No. 4.2**, the standard deviation ( ) of income tax of NTC is 96.179467 and its coefficient of variation (C.V.) is 9.17%. Since C.V. is very less, the income tax of NTC is more homogenous or more consistent or more uniform or more stable. It means income tax of NTC is not more fluctuating. It shows that rate of contributing income tax from NTC is not changing quickly, that is to say; not growing drastically. But, it should be more for increasing the contribution of income tax.

The contribution of NTC in form of income tax to the GON has also been presented in **Graph No. 4.1** from the **Table No. 4.2**

**Graph No.:- 4.1**  
**Income tax from NTC**



From the Graph No. 4.1, it is clear that the contribution of NTC in form of income tax to the GON was Rs 701.92 million in 2053/053 which decreased up to Rs 634 in 2053/054 then it slowly increasing year by year. The contribution of NTC in form of income tax to the GON has been Rs 1788.7 in 2064/065.

## 4.4 The Comparative Analysis of Income Tax from NTC

The contribution of NTC in form of income tax to the GON has been compared with GDP of Nepal, the Revenue of GON, Total Tax Revenue of GON, Direct Revenue of GON, Total Income Tax and Corporate Income Tax in way of average, percentage, standard deviation, coefficient of variation, and as well as graph. These all related data have been presented in *Table 4.3*

**Table No.:- 4.3**

GDP, Revenue of GON, Total Tax Revenue, Direct Tax Revenue, Total Income Tax , Corporate Income Tax and income tax of NTC

Fiscal year Revenue of GON	GDP	Government Revenue	Total Tax Revenue	Direct Tax Revenue	Total Income Tax	Corporate Income Tax	Income Tax From NTC
052/053	239388	27893.1	21668	4655	3431.40	1708	701.9
053/054	269570	30373.5	24424.3	5540	4123.40	2089	634
054/055	289798	32973.9	25939.8	6187	4898.10	2242	650
055/056	330018	37251.0	28752.9	7516	6170.20	2681	670
056/057	366251	42893.8	33152.2	8951. 5	7420.60	3538	702.0
057/058	394052	48893.6	38869	10159 .4	9140.00	4852. 3	761.0 2
058/059	406138	50445.6	39330.6	10597 .5	8903.70	3183	871.5
059/060	437546	56229.8	42586.9	10105 .7	8131.90	2487. 3	1011. 55
060/061	474919	62331.0	48173	11912 .6	9513.50	3587. 9	1175. 33
061/062	508651	70122.7	54104.7	13071 .8	10466.1	3800. 2	1379. 6
062/063	521722	79778.8	61297.3	14175	11348.1	4260	1587
063/064	529203	84567.1	64386.3	14284 .0	11787.7	4332. 9	1699. 8
064/065	533940	87253.6	65281.0	14542 .2	12143.2	4349	1788. 7
Total	530119 6	711007.	547966. 08	13169 9.71	107478.0 5	43115 .3	13633 .1
Average/ Mean	407784	54692.9	42151.2	10130 .7	8267.54	3316. 5	1048. 7

From the *Table 4.3*, it is vividly seen that GDP is increasing slowly. The government revenue is increasing highly. Total tax revenue, Direct tax revenue, Total tax revenue, corporate tax revenue, and income tax from NTC is increasing slowly in comparison to total government revenue during the study period.

#### 4.4.1 Contribution of Income Tax from NTC to GDP of Nepal

The contribution of NTC in form of income tax and GDP of Nepal are in fluctuating trends. The contribution of NTC in form of income tax of NTC is less than in comparison to GDP in form of percentage. This is presented below in the *table 4.4*.

**Table No.:- 4.4**

Contribution of income tax from NTC to GDP (Rs in million)

Fiscal year	GDP	Income Tax From NTC	Income Tax From NTC as % of GDP
2052/053	239388	701.92	0.2932
2053/054	269570	634	0.2352
2054/055	289798	650	0.2243
2055/056	330018	670	0.203
2056/057	366251	702.08	0.1917
2057/058	394052	761.02	0.1931
2058/059	406138	871.5	0.2146
2059/060	437546	1011.55	0.2312
2060/061	474919	1175.33	0.2475
2061/062	508651	1379.6	0.2712
2062/063	521722	1587.6	0.3043
2063/064	529203	1699.8	0.3212
2064/065	533940	1788.7	0.335
Total	5301196	13633.1	3.2655
Average/Mean	407784	1048.7	0.2512

*Sources:- Economic Survey of Various Years, Ministry of Finance, Annual Report of NTC.*

The table explains the comparative relationship of income tax from NTC and GDP with the help of percentage. These show that the share of income tax from NTC lies between 0.193% and 0.335% during the study period. It was 0.193% in fiscal year 2056/057 and 0.335 in F.Y. 2064/065. It declined from 2052/053 to 2054/054 and then it slowly increased year by year. From table, it is clear that GON's revenue is increasing drastically whereas contribution of NTC is increasing in slow and soft manner. Further,

the average (mean) of GDP and income tax of NTC are 407784 and 1048.7 respectively during the study period.

**Table No.:- 4.5**  
**Computation Table for Mean and S.D. of G.D.P.**

Fiscal year	GDP ( X )	$x = X - \bar{X}$	$x^2$
2052/053	239388	-168396.31	28357316447
2053/054	269570	-138214.31	19103194853
2054/055	289798	-117986.31	13920768805
2055/056	330018	-77766.308	6047598613
2056/057	366251	-41533.308	1725015649
2057/058	394052	-13732.308	188576274.8
2058/059	406138	-1646.3077	2710329.043
2059/060	437546	29761.692	885758328.6
2060/061	474919	67134.692	4507066910
2061/062	508651	100866.69	10174089616
2062/063	521722	113937.69	12981797727
2063/064	529203	121418.69	14742498840
2064/065	533940	126155.69	15915258700
Total	<b>X=5301196</b>		$x^2=128551651092.443$

No. of observations (N) = 13

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

$$\bar{X} = \frac{5301196}{13} = 407784$$

$$\text{S.D. ( )} = \sqrt{\frac{\sum x^2}{N}} = \sqrt{\frac{128551651092.443}{13}}$$

$$= \sqrt{9888588546} = 99441.38246$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\text{S.D.}}{\bar{X}} \times 100\%$$

$$= \frac{99441.38246}{407784} \times 100\%$$

$$\text{C.V.} = 24.38579\%$$

### Interpretation Table No.:- 4.5.1

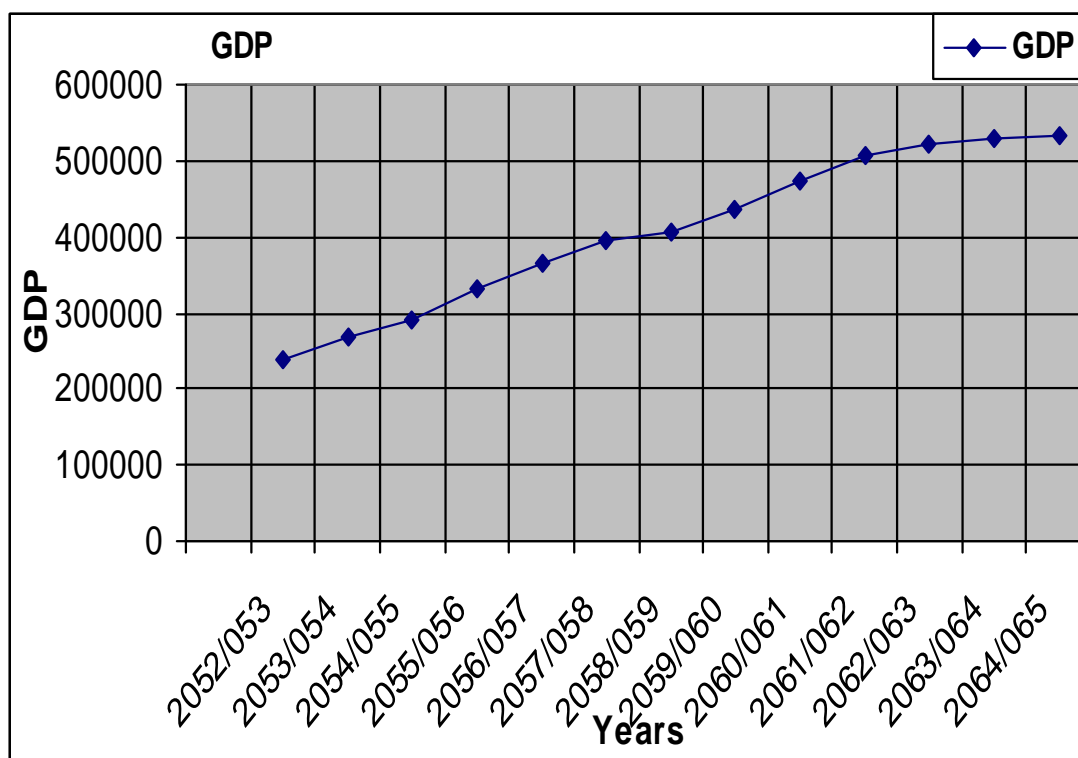
Computation	GDP to GON	Income tax from NTC
Average (Mean)	407784	13633.1
Standard Deviation (S.D.)	99441.38246	96.179467
Coefficient of Variation (C.V.)	24.38579%	9.17 %

From the interpretation table 4.5.1, the average contribution of GDP and NTC are 407784 and 13633.1 respectively. It shows that the contribution of NTC is very less in comparison to that of GDP. Further, the standard deviation ( ) of income tax of NTC and GDP are 96.179467 and 99441.38246 respectively. Further, the coefficient of variation (C.V.) of income tax of NTC and GDP are 9.17% and 24.38579% .The C.V. of income tax from NTC is very less in comparison to that of GDP, it shows that the income tax of NTC is more homogenous or more consistent or more uniform or more stable in comparison to GDP. It shows that rate of contributing income tax from NTC is not changing quickly whereas the GDP is increasing highly, that is to say; not growing drastically as the GDP. But, it should be more for increasing the contribution of income tax.

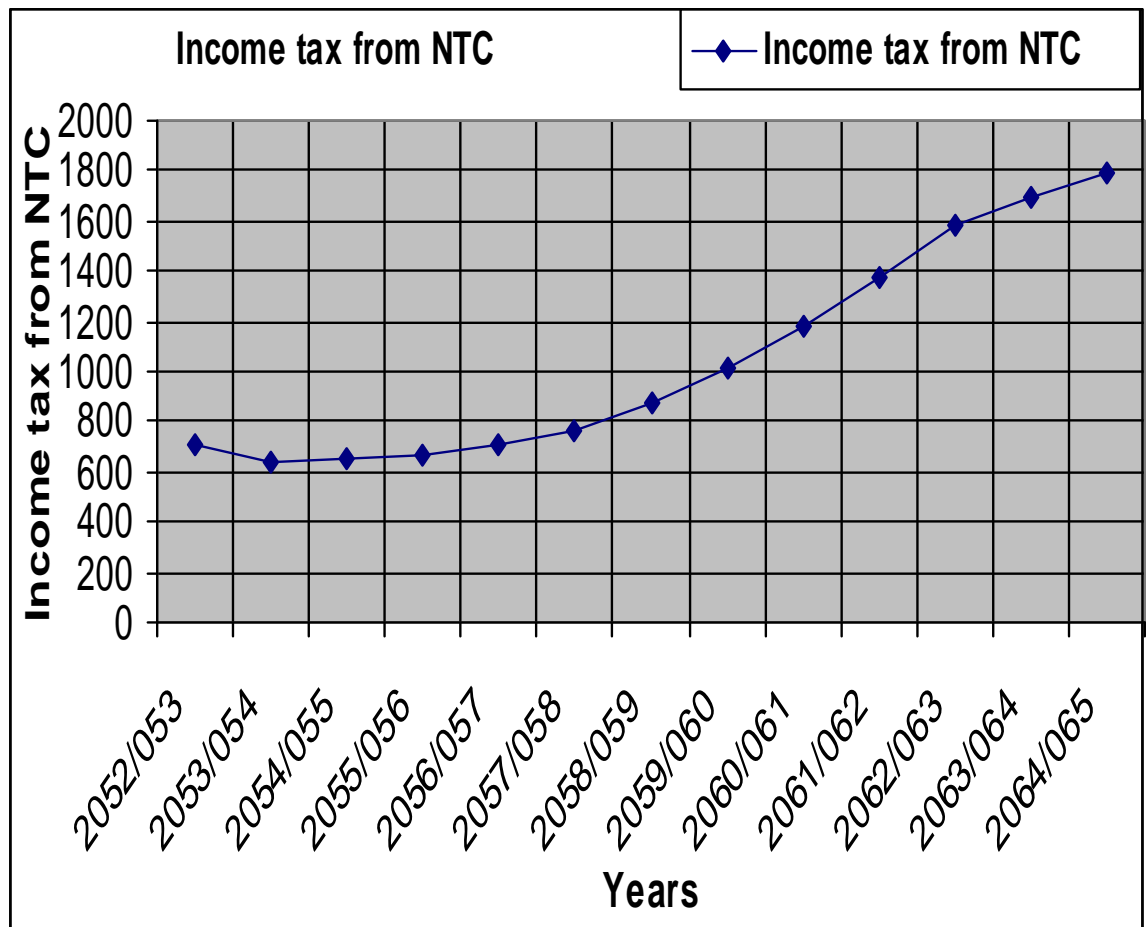
The GDP and Income tax from NTC have been shown in time-series or histogram as follows:-

### Graph No.:- 4.2

#### Gross Domestic Product (GDP)



**Graph No.:- 4.3**  
**Income Tax from NTC**



The time-series or histograms explain the relation of income tax from NTC and GDP. Income tax from NTC declined from 2052/053 to 2054/054 and then it slowly increased year by year. It is clear that GON's revenue is increasing drastically whereas contribution of NTC is increasing in slow and soft manner.

#### **4.4.2 Contribution of income Tax from NTC to the Revenue of GON.**

The trend of contribution of income tax from NTC to the revenue of GON is fluctuating. It has been shown in the following **Table No.:- 4.6.**

From **Table No.:- 4.6(presented below)** ,it is seen that the income tax from NTC in comparison to government revenue has been decreased to F.Y. 2057/58 then it has started to increase gradually from F.Y.2059/60 during the study, it is found that it lies between 2.52% and 1.56%. It was 2.52% in F.Y. 2052/53 and 1.56 in F.Y. 2057/58. It is vividly seen that the revenue of GON is increasing

drastically every year where contribution of NTC is increasing in soft and slow manner.

**Table No.:- 4.6**  
**Contribution of income Tax from NTC to the Revenue of GON**  
**(Rs in million)**

Fiscal Year	Government Revenue	Income Tax from NTC	Income Tax from NTC as % of Government revenue
2052/053	27893.10	701.92	2.52
2053/054	30373.50	634.00	2.09
2054/055	32973.90	650.00	1.97
2055/056	37251.00	670.00	1.80
2056/057	42893.80	702.08	1.64
2057/058	48893.60	761.02	1.56
2058/059	50445.60	871.50	1.73
2059/060	56229.80	1011.55	1.80
2060/061	62331.00	1175.33	1.89
2061/062	70122.70	1379.60	1.97
2062/063	79778.89	1587.60	1.99
2063/064	84567.16	1699.80	2.01
2064/065	87253.66	1788.70	2.05
<b>Total</b>	<b>711007.72</b>	<b>13633.10</b>	<b>25.02</b>
<b>Average/Mean</b>	<b>54692.90</b>	<b>1048.70</b>	<b>1.92</b>

*Sources:- Economic Survey of Various Years, Ministry of Finance, Annual Report*

**Table No.:- 4.7**  
**Computation Table of Government Revenue**

Fiscal Year	Government Revenue( X )	$x = X - \bar{X}$	$x^2$
2052/053	27893.1	-26799.80077	718229321.3
2053/054	30373.5	-24319.40077	591433253.8
2054/055	32973.9	-21719.00077	471714994.4
2055/056	37251	-17441.90077	304219902.5
2056/057	42893.8	-11799.10077	139218779
2057/058	48893.6	-5799.30077	33631889.42
2058/059	50445.6	-4247.30077	18039563.83
2059/060	56229.8	1536.89923	2362059.243
2060/061	62331	7638.09923	58340559.85
2061/062	70122.7	15429.79923	238078704.3
2062/063	79778.89	25085.98923	629306855.6
2063/064	84567.16	29874.25923	892471364.5
2064/065	87253.66	32560.75923	1060203042
<b>Total</b>	<b>X= 711007.71</b>		<b><math>x^2 = 5157250289</math></b>



No. of observations (n) = 13

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

$$\bar{X} = \frac{711007.71}{13} = 54692.90077$$

$$\text{S.D. ( )} = \sqrt{\frac{\sum x^2}{n}} = \sqrt{\frac{5157250289}{13}}$$

$$= \sqrt{396711560.7}$$

$$= 19917.61935$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\text{S.D.}}{\bar{X}} \times 100\%$$

$$= \frac{19917.61935}{54692.90077} \times 100\%$$

$$\text{C.V.} = 36.41719 \%$$

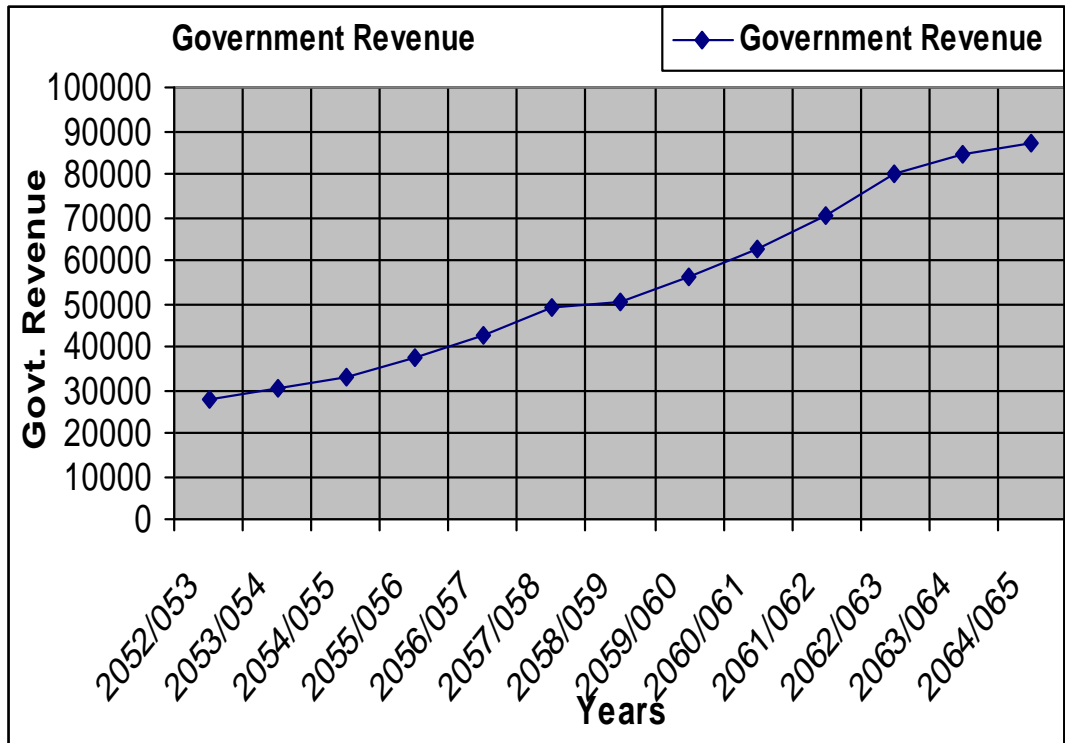
#### Interpretation Table No.:- 4.7.1

Computation	Government Revenue	Income tax from NTC
Average (Mean)	54692.90077	13633.1
Standard Deviation (S.D.)	19917.61935	96.179467
Coefficient of Variation (C.V.)	36.41719 %	9.17 %

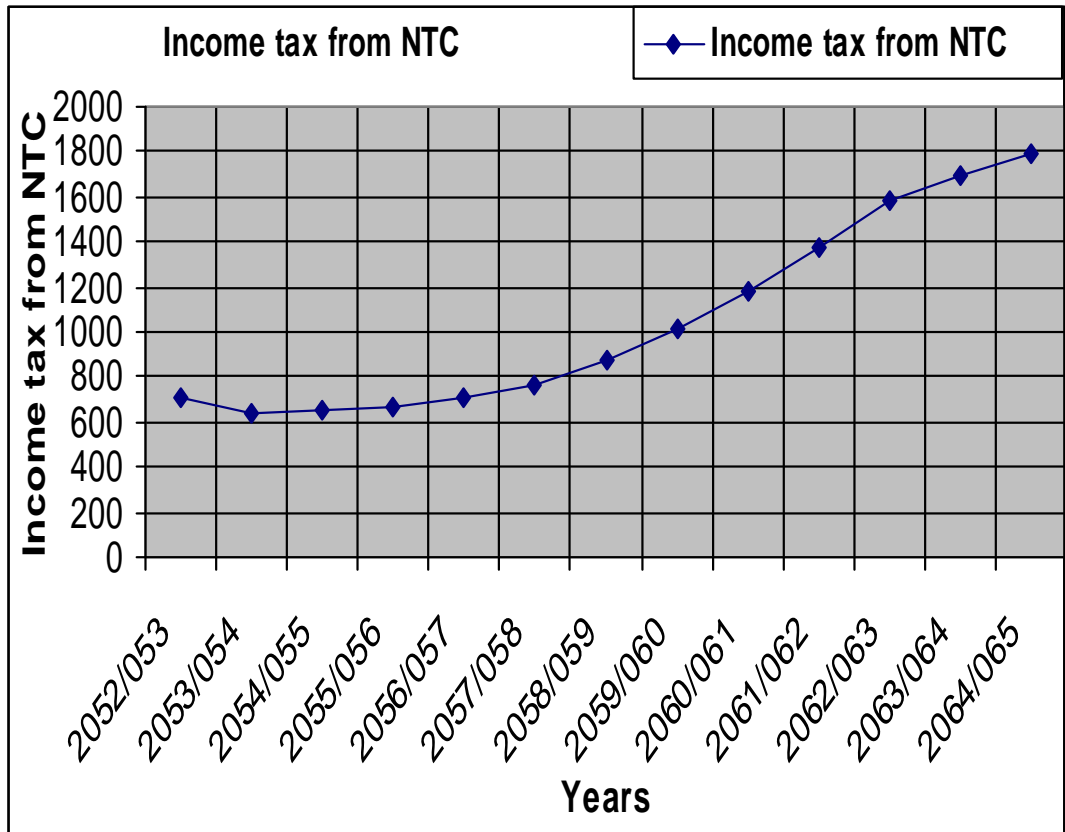
From the interpretation table 4.6.1, the average contribution of Government Revenue and NTC are 54692.90077 and 13633.1 respectively. It shows that the contribution of NTC is very less in comparison to Government Revenue. Further, the standard deviation ( ) of income tax of NTC and Government Revenue are 96.179467 and 19917.61935 respectively. Further, the coefficient of variation (C.V.) of income tax of NTC and Government Revenue are 9.17% and 36.41719 %. The C.V. of income tax from NTC is very less in comparison to that of Government Revenue, it shows that the income tax of NTC is more homogenous or more consistent or more uniform or more stable in comparison to that of Government Revenue. It shows that rate of contributing income tax from NTC is not changing quickly whereas the Government Revenue is increasing highly, that is to say; not growing drastically as the Government Revenue. But, it should be more for increasing the contribution of income tax.

The government revenue has been presented in following time-series or histogram.

**Graph No.:- 4.4  
Government Revenue**



**Graph No.:-4.5  
Income Tax from NTC**



From the graph, it is seen that the income tax from NTC in comparison to government revenue has been decreased to F.Y. 2057/58 then it has started to increase gradually from F.Y.2059/60 during the study. It is vividly seen that the revenue of GON is increasing drastically every year where contribution of NTC is increasing in soft and slow manner.

### 4.4.3 Contribution of income Tax from NTC to total Tax Revenue of GON.

The percentage of share of income tax from NTC in tax revenue of GON is slightly higher than the percentages contribution of GDP to revenue of GON. During the study period, it is found that it is fluctuating year by year. It has been presented in following table.

**Table No.:- 4.8**

**Contribution of income Tax from NTC to Total Tax Revenue of GON (Rs in million)**

<b>Fiscal Year</b>	<b>Total Tax Revenue</b>	<b>Income tax from NTC</b>	<b>Income tax from NTC as % of tax Revenue</b>
2052/053	21668	701.92	3.24
2053/054	24424.3	634	2.6
2054/055	25939.8	650	2.5
2055/056	28752.9	670	2.33
2056/057	33152.2	702.08	2.12
2057/058	38869	761.02	1.96
2058/059	39330.6	871.5	2.22
2059/060	42586.9	1011.55	2.38
2060/061	48173	1175.33	2.44
2061/062	54104.7	1379.6	2.55
2062/063	61297.3	1587.6	2.59
2063/064	64386.36	1699.8	2.64
2064/065	65281.02	1788.7	2.74
<b>Total</b>	<b>547966.08</b>	<b>13633.1</b>	<b>32.31</b>
<b>Average /Mean</b>	<b>42151.24</b>	<b>1048.7</b>	<b>2.49</b>
<i>Source:- Annual Report of NTC Economic Survey of various Years, Ministry of Finance.</i>			

The above table shows that the contribution of income tax from NTC in comparison to total tax revenue. NTC contributed 3.24 percent in F.Y. 2052/53. It has decreased from F.Y. 2053/54 to 2057/58 at the level of 1.96%. From F.Y. 2002/03, it is increasing.

These all trends show fluctuation in contribution of NTC during the study.

**Table No.:- 4.9**  
**Computation Table of Total Tax Revenue**

Fiscal Year	Total Tax Revenue (X)	$x = X - \bar{X}$	$x^2$
2052/053	21668	-20483.24	419563120.9
2053/054	24424.3	-17726.94	314244401.8
2054/055	25939.8	-16211.44	262810786.9
2055/056	28752.9	-13398.34	179515514.8
2056/057	33152.2	-8999.04	80982720.92
2057/058	38869	-3282.24	10773099.42
2058/059	39330.6	-2820.64	7956010.01
2059/060	42586.9	435.66	189799.6356
2060/061	48173	6021.76	36261593.5
2061/062	54104.7	11953.46	142885206
2062/063	61297.3	19146.06	366571613.5
2063/064	64386.36	22235.12	494400561.4
2064/065	65281.02	23129.78	534986722.8
<b>Total</b>	<b>X= 547966.08</b>		<b><math>x^2 = 2851141152</math></b>

No. of observations (n) = 13

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

$$\bar{X} = \frac{547966.08}{13} = 42151.24$$

$$\text{S.D. ( )} = \sqrt{\frac{\sum x^2}{N}} = \sqrt{\frac{2851141152}{13}}$$

$$= \sqrt{219318550.1} = 14809.4074$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\text{S.D.}}{\bar{X}} \times 100\%$$

$$= \frac{14809.40748}{42151.24} \times 100\%$$

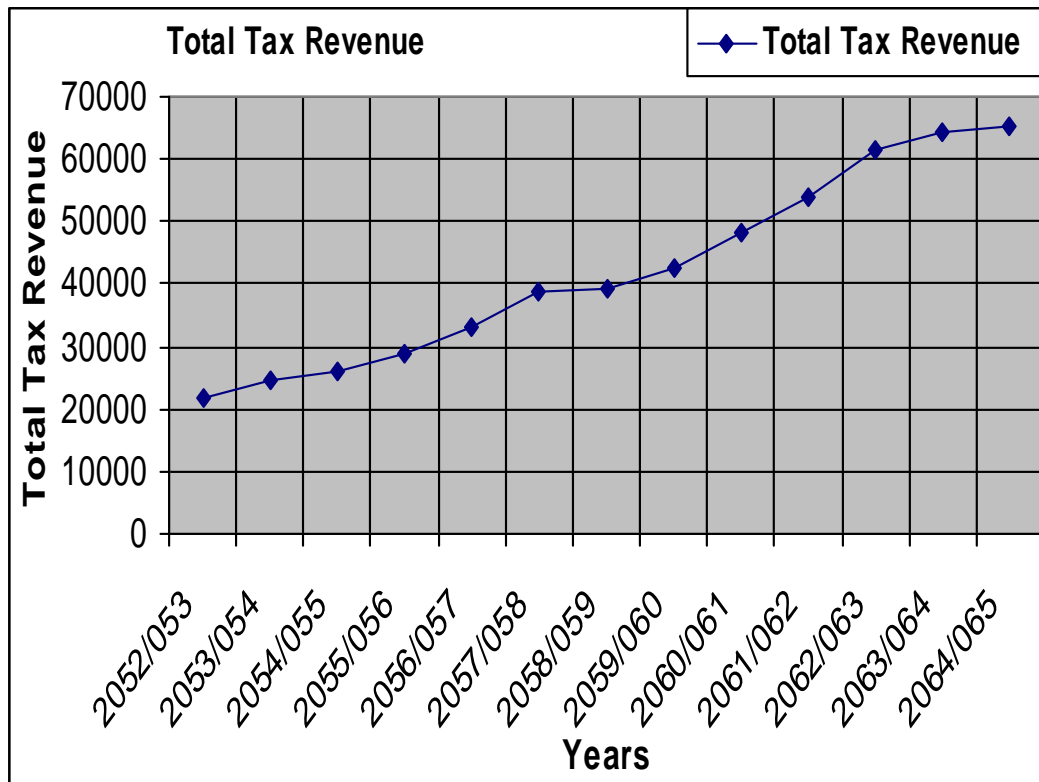
C.V. = 35.1339 %

**Interpretation Table No.:- 4.9.1**

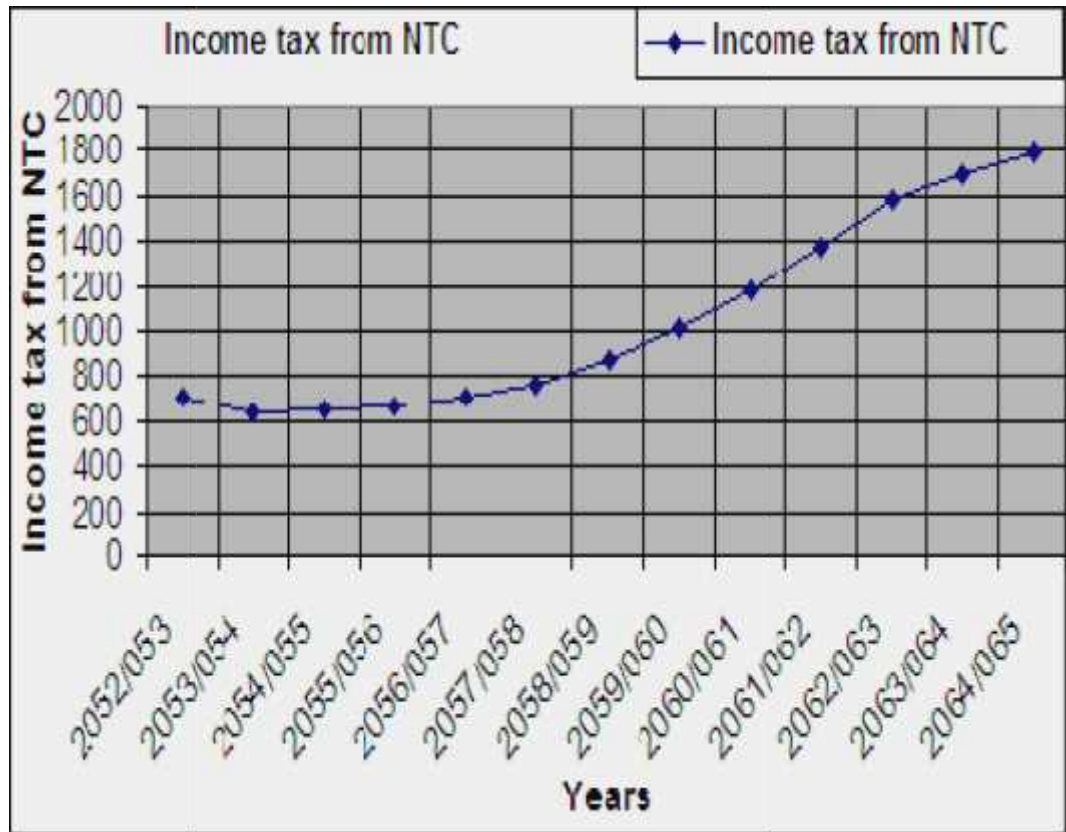
Computation	Total Tax Revenue	Income tax from NTC
Average (Mean)	42151.24	13633.1
Standard Deviation (S.D.)	14809.4074	96.179467
Coefficient of Variation (C.V.)	35.1339 %	9.17 %

From the interpretation table 4.9.1, the average contribution of income tax revenue and NTC are 42151.24 and 13633.1 respectively. It shows that the contribution of NTC is very less in comparison to income tax revenue. Further, the standard deviation ( ) of income tax of NTC and income tax revenue are 96.179467 and 14809.4074 respectively. Further, the coefficient of variation (C.V.) of income tax of NTC and income tax revenue are 9.17% and 35.1339 %. The C.V. of income tax from NTC is very less in comparison to that of income tax revenue, it shows that the income tax of NTC is more homogenous or more consistent or more uniform or more stable in comparison to that of income tax revenue. It shows that rate of contributing income tax from NTC is not changing quickly whereas the income tax revenue is increasing highly, that is to say; not growing drastically as the income tax revenue. But, it should be more for increasing the contribution of income tax.

**Graph No.:- 4.6**  
**Total Tax Revenue**



**Graph No.:- 4.7**  
**Income Tax from NTC**



The above time-series or histogram shows that the contribution of income tax from NTC in comparison to total tax revenue. NTC contributed 3.24 percent in F.Y. 2052/53. It has decreased from F.Y. 2053/54 to 2057/58 at the level of 1.96%. From F.Y. 2002/03, it is increasing. These all trends show fluctuation in contribution of NTC during the study.

#### **4.4.4 Contribution of Income Tax from NTC to Direct Revenue of GON**

In Nepal, indirect tax has dominated the direct tax. Direct tax cannot contribute more revenue because of the low level of income and living standard. The contribution of income tax from NTC in direct tax revenue is presented in the following *Table 4.10*.

According to the analysis of *Table 4.10 (presented below)*, the average contribution of income from NTC is 10.40%. The trend of these contributions is in a fluctuating situation. It decreased in FY 7.49% afterward it started increasing gradually. The contribution of income tax from NTC is significant because it lies between the range 7.49% and 15.07% during the study.

**Table No.:- 4.10**  
**Contribution of Income Tax from NTC to Direct Revenue of GON**

Fiscal Year	Direct Tax Revenue	Income tax from NTC	Income tax from NTC as % of direct tax revenue
2052/053	4655.9	701.92	15.07
2053/054	5540	634	11.4
2054/055	6187.9	650	10.5
2055/056	7516.1	670	8.91
2056/057	8951.5	702.08	7.84
2057/058	10159.4	761.02	7.49
2058/059	10597.5	871.5	8.22
2059/060	10105.7	1011.55	10
2060/061	11912.6	1175.33	9.87
2061/062	13071.8	1379.6	10.54
2062/063	14175	1587.6	11.2
2063/064	14284.03	1699.8	11.9
2064/065	14542.28	1788.7	12.3
Total	131699.71	13633.1	135.24
Average/Mean	10130.75	1048.7	10.4

*Sources: Economic Survey of Various Years, MoF, GON, Annual report of NTC*

**Table No.:- 4.11**  
**Computation Table of Direct Tax Revenue**

Fiscal Year	Direct Tax Revenue (X)	$x = x - \bar{x}$	$x^2$
2052/053	4655.9	-5474.85	29973982.52
2053/054	5540	-4590.75	21074985.56
2054/055	6187.9	-3942.85	15546066.12
2055/056	7516.1	-2614.65	6836394.623
2056/057	8951.5	-1179.25	1390630.563
2057/058	10159.4	28.65	820.8225
2058/059	10597.5	466.75	217855.5625
2059/060	10105.7	-25.05	627.5025
2060/061	11912.6	1781.85	3174989.423
2061/062	13071.8	2941.05	8649775.103
2062/063	14175	4044.25	16355958.06
2063/064	14284.03	4153.28	17249734.76
2064/065	14542.28	4411.53	19461596.94
Total	X= 131699.71		$x^2 = 39933417.6$

No. of observations (n) = 13

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

$$\bar{X} = \frac{131699.71}{13} = 10130.75$$

$$\text{S.D. ( )} = \sqrt{\frac{\sum x^2}{N}} = \sqrt{\frac{39933417.6}{13}}$$

$$= \sqrt{10764109.04} = 3280.87016$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\text{S.D.}}{\bar{X}} \times 100\%$$

$$= \frac{3280.87016}{10130.75} \times 100\%$$

$$\text{C.V.} = 32.38526\%$$

**Interpretation Table No.:- 4.11.1**

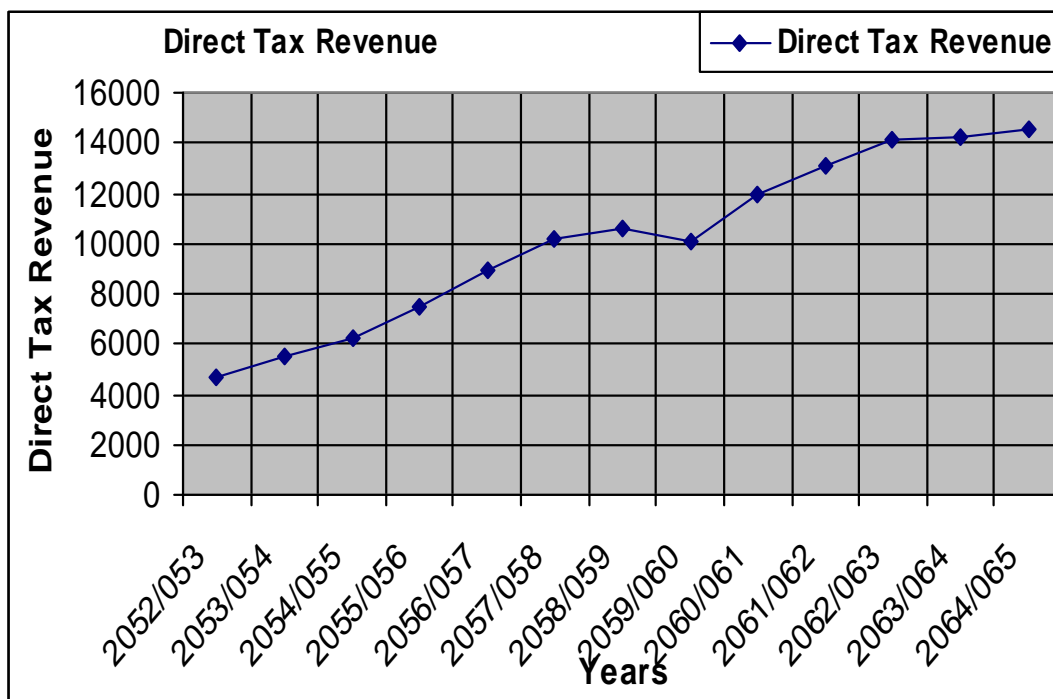
Computation	Direct Tax Revenue	Income tax from NTC
Average (Mean)	<b>10130.75</b>	13633.1
Standard Deviation (S.D.)	3280.87016	96.179467
Coefficient of Variation (C.V.)	32.38526%	9.17 %

From the interpretation table 4.11.1, the average contribution of Direct tax revenue and NTC are 10130.75 and 13633.1 respectively. It shows that the contribution of NTC is very less in comparison to Direct tax revenue. Further, the standard deviation ( ) of income tax of NTC and Direct tax revenue are 96.179467 and 3280.87016 respectively. Further, the coefficient of variation (C.V.) of income tax of NTC and Direct tax revenue are 9.17% and 32.38526%. The C.V. of income tax from NTC is very less in comparison to that of Direct tax revenue, it shows that the income tax of NTC is more homogenous or more consistent or more uniform or more stable in comparison to that of Direct tax revenue. It shows that rate of contributing income tax from NTC is not changing quickly whereas the Direct tax revenue is increasing highly, that is to say; not growing drastically as the Direct tax revenue. But, it should be more for increasing the contribution of income tax.

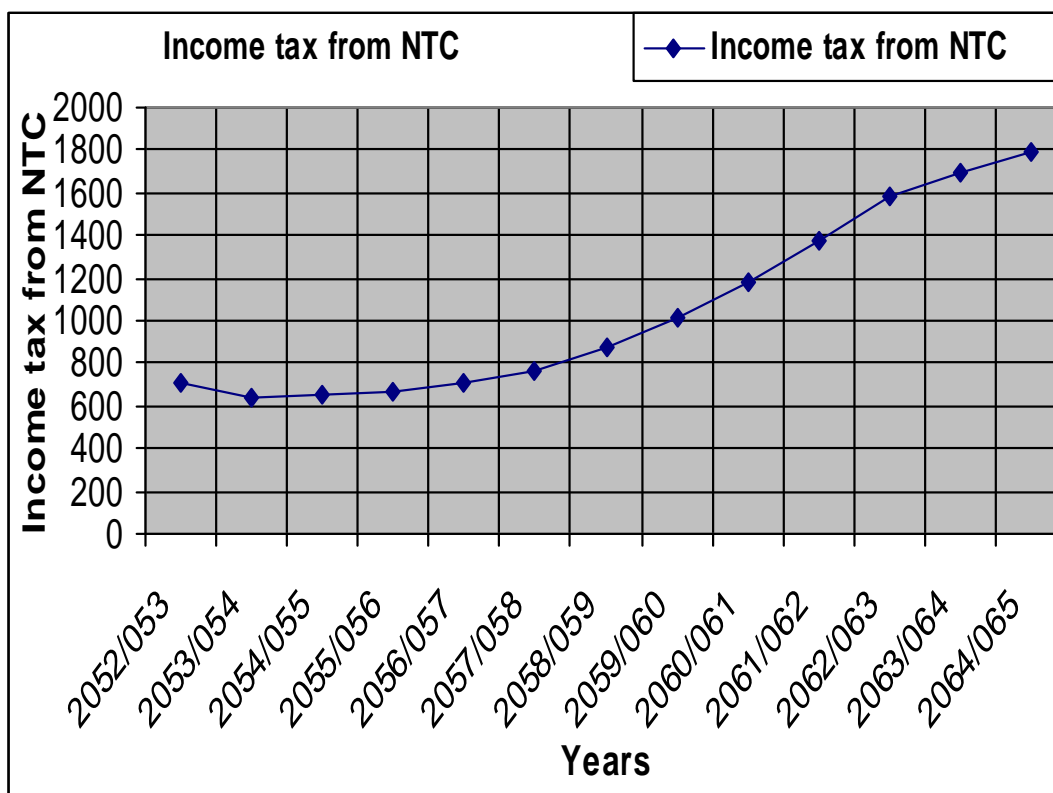
The direct tax revenue and Income Tax from NTC have been shown in the following histograms.



**Graph No.:- 4.8**  
**Direct Tax Revenue**



**Graph No.:- 4.9**  
**Income Tax from NTC**



According to the analysis of histograms, the average contribution of income from NTC is 10.40%. The trend of these contributions is in a fluctuating situation. It decreased in FY 7.49%

afterward it started increasing gradually. The contribution of income tax from NTC is significant because it lies between the range 7.49% and 15.07% during the study.

#### 4.4.5 Contribution of income tax from NTC to Total Income Tax

The role of income tax in our country is increasing every year. The continuous improvement and the trend of revenue from income tax are increasing. The share of corporate income tax to total tax revenue is presented below in *Table 4.12*.

**Table No.:- 4.12**

**Contribution of income tax from NTC to Total income Tax (Rs in million)**

Fiscal Year	Total Income Tax	Income Tax from NTC	Tax from NTC as % of Total Income Tax
2052/053	3431.40	701.92	20.46
2053/054	4123.40	634.00	15.38
2054/055	4898.10	650.00	13.17
2055/056	6170.20	670.00	10.86
2056/057	7420.60	702.08	9.46
2057/058	9140.00	761.02	8.32
2058/059	8903.70	871.50	9.79
2059/060	8131.90	1011.55	12.44
2060/061	9513.50	1175.33	12.36
2061/062	10466.10	1379.60	13.17
2062/063	11348.11	1587.60	13.99
2063/064	11787.79	1699.80	14.12
2064/065	12143.25	1788.70	14.43
Total	107478.05	13633.10	167.95
Average	8267.54	1048.70	12.92

*Sources: Economic Survey of Various Years, Ministry of finance, GON*

These histograms show that the contribution of income tax from NTC to total tax revenue lies between 8.32% and 20.46% during the study. It was 8.32% in FY 2057/58 whereas 20.46% in FY 2052/53. The trend shows in decreasing way the increasing way. The average contribution of income tax from NTC to total tax revenue is 12.92%.

**Table No.:- 4.13**  
**Computation Table of Total Income Tax**

Fiscal Year	Total Income Tax (X)	$x = X - \bar{X}$	$x^2$
2052/053	3431.4	-4836.14	23388250.1
2053/054	4123.4	-4144.14	17173896.34
2054/055	4898.1	-3369.44	11353125.91
2055/056	6170.2	-2097.34	4398835.076
2056/057	7420.6	-846.94	717307.3636
2057/058	9140	872.46	761186.4516
2058/059	8903.7	636.16	404699.5456
2059/060	8131.9	-135.64	18398.2096
2060/061	9513.5	1245.96	1552416.322
2061/062	10466.1	2198.56	4833666.074
2062/063	11348.11	3080.57	9489911.525
2063/064	11787.79	3520.25	12392160.06
2064/065	12143.25	3875.71	15021128
<b>Total</b>	<b>X = 107478.05</b>		<b><math>x^2 = 101504981</math></b>

No. of observations (N) = 13

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

$$\begin{aligned} \bar{X} &= \frac{107478.05}{13} \\ &= 8267.54 \end{aligned}$$

$$\begin{aligned} \text{S.D. ( )} &= \sqrt{\frac{\sum x^2}{N}} = \sqrt{\frac{101504981}{13}} \\ &= \sqrt{7808075.46} \\ &= 2794.29337 \end{aligned}$$

$$\begin{aligned} \text{Coefficient of Variation (C.V.)} &= \frac{\text{---}}{\text{X}} \times 100\% \\ &= \frac{2794.29337}{8267.54} \times 100\% \end{aligned}$$

$$\text{C.V.} = 33.798 \%$$

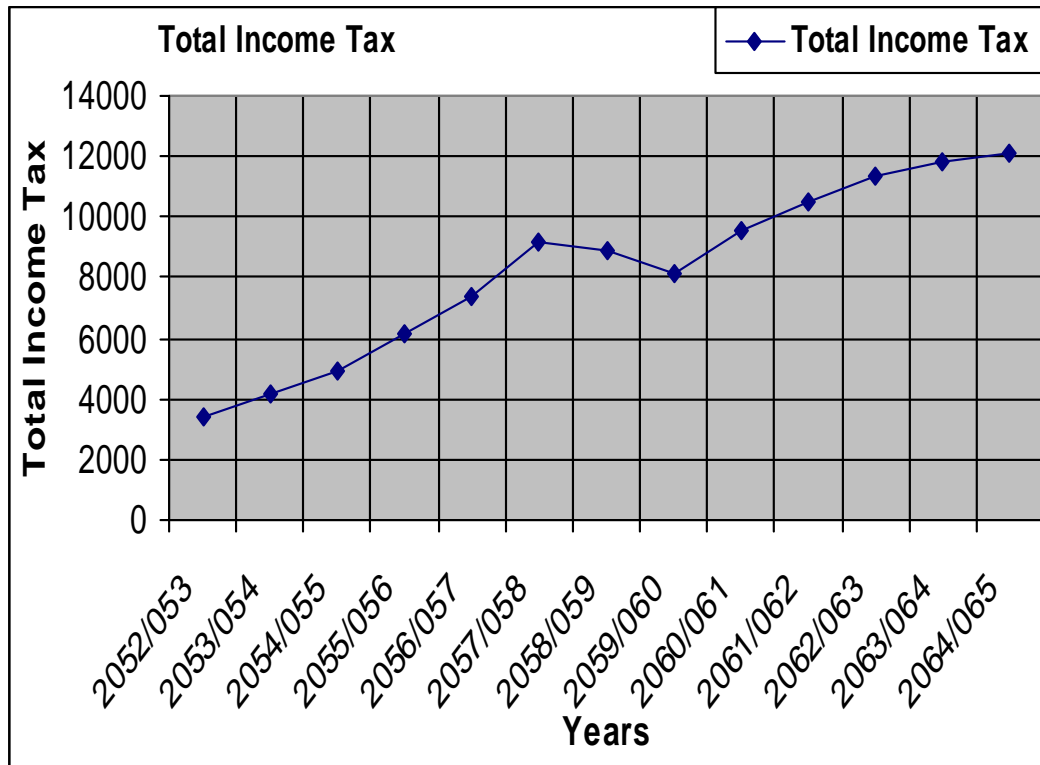
### Interpretation Table No.:- 4.13.1

Computation	Total Income Tax	Income tax from NTC
Average (Mean)	8267.54	13633.1
Standard Deviation (S.D.)	2794.29337	96.179467
Coefficient of Variation (C.V.)	33.798 %	9.17 %

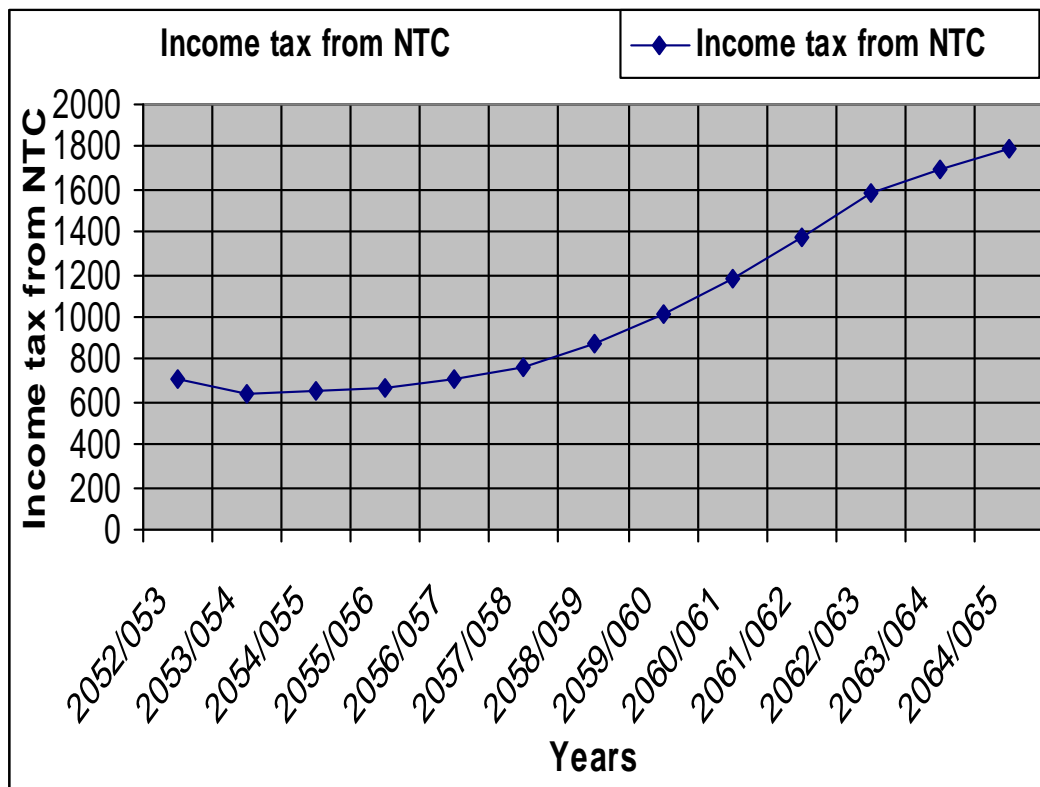
From the interpretation table 4.12.1, the average contribution of Total income tax and NTC are 8267.54 and 13633.1 respectively. It shows that the contribution of NTC is very less in comparison to Total income tax. Further, the standard deviation ( ) of income tax of NTC and Total income tax are 96.179467 and 2794.29337 respectively. Further, the coefficient of variation (C.V.) of income tax of NTC and Total income tax are 9.17% and 33.798 %. The C.V. of income tax from NTC is very less in comparison to that of Total income tax, it shows that the income tax of NTC is more homogenous or more consistent or more uniform or more stable in comparison to that of Total income tax. It shows that rate of contributing income tax from NTC is not changing quickly whereas the Total income tax is increasing highly, that is to say; not growing drastically as the Total income tax. But, it should be more for increasing the contribution of income tax.

From these histograms **Graph No.:- 4.10 Graph and No.:- 4.11(presented below)** show that the contribution of income tax from NTC to total tax revenue lies between 8.32% and 20.46% during the study. It was 8.32% in FY 2057/58 whereas 20.46% in FY 2052/53. The trend shows in decreasing way the increasing way. The average contribution of income tax from NTC to total tax revenue is 12.92%.

**Graph No.:- 4.10  
Total Income Tax**



**Graph No.:- 4.11  
Income Tax from NTC**



## 4.4.6 Contribution of income tax from NTC to Corporate Income Tax

Corporate income tax is a major part of income tax. Contribution of income tax from NTC to corporate income tax is presented in table no. 4.8.

**Table No.:- 4.14**

### **Contribution of income tax from NTC to Corporate Income Tax (Rs in million)**

Fiscal Year	Corporate Income Tax	Income Tax from NTC	Income Tax from NTC as % of Corporate Income Tax
2052/053	1708.40	701.92	41.09
2053/054	2089.50	634.00	30.34
2054/055	2242.90	650.00	28.98
2055/056	2681.50	670.00	24.99
2056/057	3538.30	702.08	19.84
2057/058	4852.30	761.02	15.68
2058/059	3183.30	871.50	27.39
2059/060	2487.30	1011.55	40.67
2060/061	3587.90	1175.33	32.76
2061/062	3800.20	1379.60	36.29
2062/063	4260.87	1587.60	37.26
2063/064	4332.91	1699.80	39.23
2064/065	4349.95	1788.70	41.12
Total	43115.33	13633.10	415.64
Average/ Mean	3316.56	1048.70	31.97

Sources: Economic Survey of Various Years, Ministry of Finance, Annual report of NTC

This above table shows the contribution of income tax from NTC to corporate income tax is in fluctuating trend but its percentage of contribution is very significant because it lies between 15.68% and 41.09%. The average (mean) contribution from NTC is 31.97%.

**Table No.:- 4.15**  
**Computation Table of Corporate Income Tax**

Fiscal Year	Corporate Income Tax (X)	$x = X - \bar{X}$	$x^2$
2052/053	1708.4	-1608.16	2586178.586
2053/054	2089.5	-1227.06	1505676.244
2054/055	2242.9	-1073.66	1152745.796
2055/056	2681.5	-635.06	403301.2036
2056/057	3538.3	221.74	49168.6276
2057/058	4852.3	1535.74	2358497.348
2058/059	3183.3	-133.26	17758.2276
2059/060	2487.3	-829.26	687672.1476
2060/061	3587.9	271.34	73625.3956
2061/062	3800.2	483.64	233907.6496
2062/063	4260.87	944.31	891721.3761
2063/064	4332.91	1016.35	1032967.323
2064/065	4349.95	1033.39	1067894.892
<b>Total</b>	<b>X= 43115.33</b>		<b><math>x^2 = 12061114.81</math></b>

No. of observations (n) = 13

$$\text{Mean } (\bar{X}) = \frac{\sum X}{N}$$

$$\bar{X} = \frac{43115.33}{13} = 3316.56$$

$$\text{S.D. ( )} = \sqrt{\frac{\sum x^2}{N}} = \sqrt{\frac{12061114.81}{13}}$$

$$= \sqrt{927778.0627} = 963.212366$$

$$\text{Coefficient of Variation (C.V.)} = \frac{\text{S.D.}}{\bar{X}} \times 100\%$$

$$= \frac{963.212366}{3316.56} \times 100\%$$

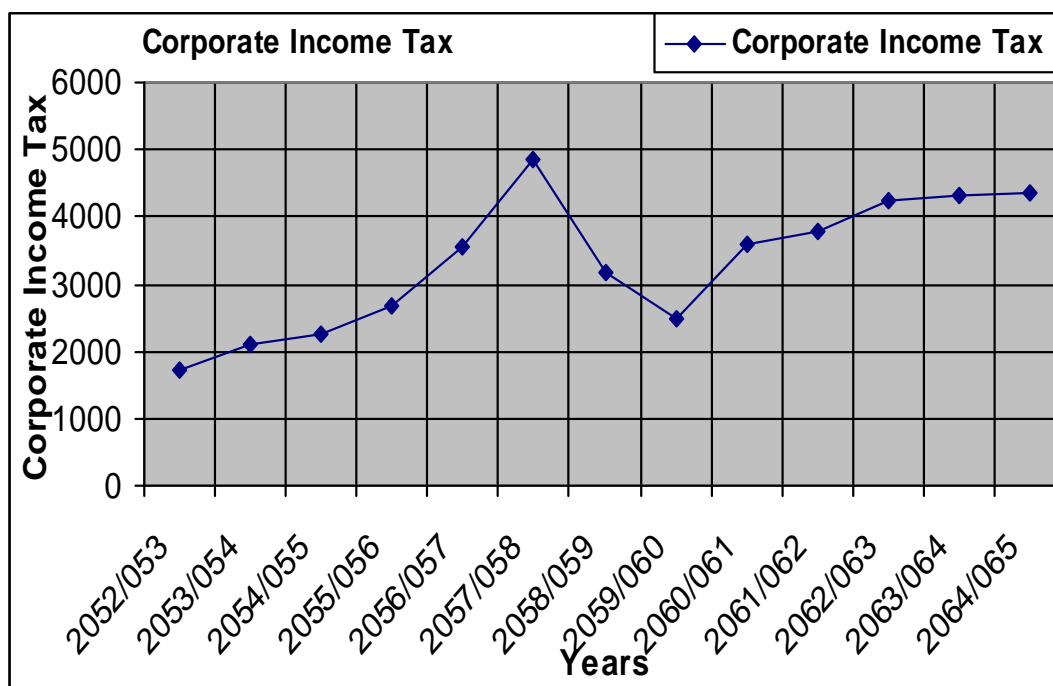
$$\text{C.V.} = 29.0425 \%$$

**Interpretation Table No.:- 4.15.1**

Computation	Corporate Income Tax	Income tax from NTC
Average (Mean)	3316.56	13633.1
Standard Deviation (S.D.)	963.212366	96.179467
Coefficient of Variation (C.V.)	29.0425 %	9.17 %

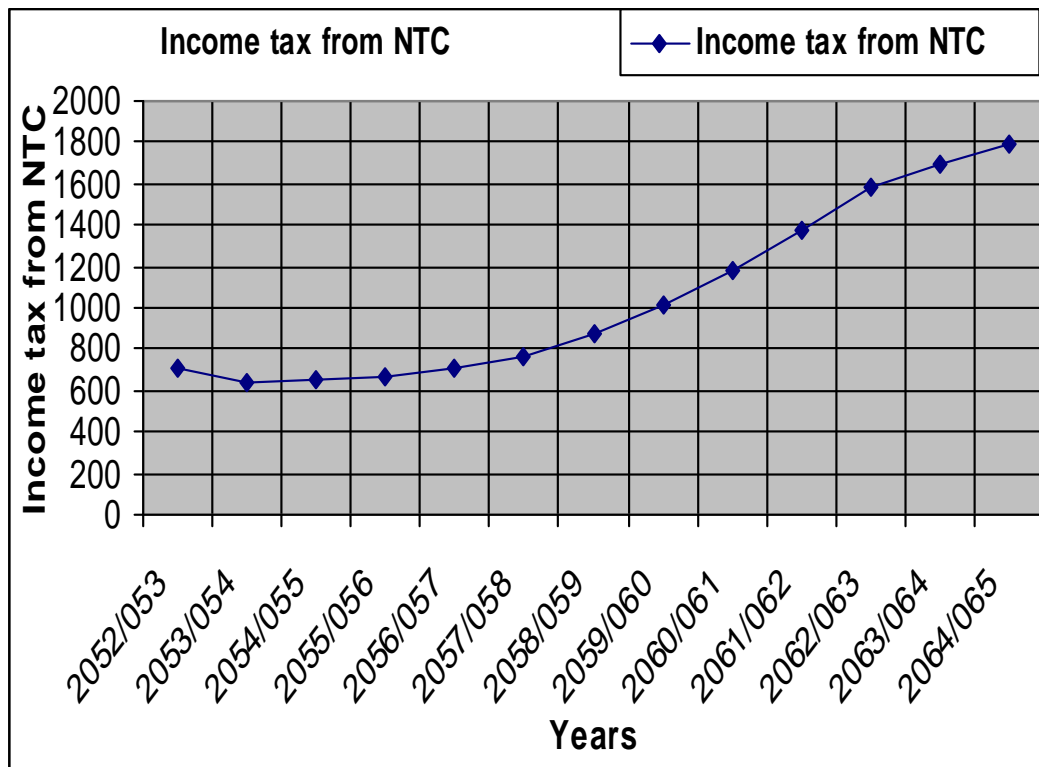
From the interpretation table 4.15.1, the average contribution of corporate income tax and NTC are 3316.56 and 13633.1 respectively. It shows that the contribution of NTC is very less in comparison to corporate income tax. Further, the standard deviation ( ) of income tax of NTC and corporate income tax are 96.179467 and 963.212366 respectively. Further, the coefficient of variation (C.V.) of income tax of NTC and corporate income tax are 9.17% and 29.0425 %. The C.V. of income tax from NTC is very less in comparison to that of corporate income tax, it shows that the income tax of NTC is more homogenous or more consistent or more uniform or more stable in comparison to that of corporate income tax. It shows that rate of contributing income tax from NTC is not changing quickly whereas the corporate income tax is increasing highly, that is to say; not growing drastically as the corporate income tax. But, it should be more for increasing the contribution of income tax.

**Graph No.:- 4.12  
Corporate Income Tax**





**Graph No.:- 4.13**  
**Income Tax from NTC**



These histograms show the contribution of income tax from NTC to corporate income tax is in fluctuating trend but its percentage of contribution is very significant because it lies between 15.68% and 41.09%. The average (mean) contribution from NTC is 31.97%.

### **4.5 Empirical Study**

An empirical analysis has been conducted in order to find out various aspects of income tax from the experience of real life situations. The major tools used for this purpose are in opinion questionnaire. Questionnaires were distributed to tax administrators, tax experts, policy makers and tax payers. The responses received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study. (See the appendix)

The questionnaire either asked for Yes/No response or asked for ranking of choices according to number of alternatives where the first choice was most important and last choice least important. For purpose; choices were assigned weight according to number of alternatives. If the number of alternatives is “5”, then the first preference choice got “5” points and last preferred choice got “1” point. Any alternative, which was not ranked, did not get nay point. The total points available to choices were converted into percentage

of references to the total points available for all choices. The choice with the highest score of percentage was ranked as last choice.

The following table shows the group of respondents.

**Table No.:- 4.16**

**Group of Respondents and Code used**

S.N.	Group of respondents	Sample Size	Code
1	Tax administration	20	I
2	Tax experts	20	II
3	Tax Payers	20	III
4	Total	60	
<i>Source: Result of Empirical Investigation</i>			

### 4.5.1 Income Tax as a Suitable Means of collecting government revenue

To know whether income tax as a suitable means of collecting government revenue in Nepal. The question “Do you think that income tax is a suitable means of collection government revenue?” was asked. The responses received from the respondents are tabulated as follows.

**Table No.:- 4.17**

**Income Tax as a Suitable Means of Collecting Government Revenue**

Respondents	Yes		No		Total	
	Nos.	%	Nos.	%	Nos.	%
Tax administration [I]	16	80	4	20	20	100
Tax experts [II]	20	100	-	-	20	100
Tax Payers [III]	18	90	2	10	20	100
Total	54		6	10	60	100
<i>Source: Opinion Survey</i>						

Form the above opinion survey, it was found that 80% tax administrators all (cent percent) tax experts (policy maker) and 90% tax payers recognized income tax as a suitable means of collecting government revenue. Only 20% tax administrators and 10% tax payers did not recognized income tax as a suitable means of collecting government revenue in Nepal. Thus, it is conducted that income tax is a suitable means of collection government revenue.

To know whether there is significant difference between the above views of tax administrators and tax payers by keeping the views of tax experts/policy makers constant, it is tested by chi-square ( $X^2$ -test).

**Table No.:- 4.17.1**  
**Test of Hypothesis for Income Tax as a Suitable Means of Collecting Government Revenue**

Respondents	Yes	No	Row Total
Tax administration [I]	16	4	20
Tax Payers [III]	18	2	20
Column Total	34	6	40

Null Hypothesis, H<sub>0</sub>: there is no significant difference in tax administrators and tax payers views regarding the income tax is suitable means of collecting government revenue.

Alternative Hypothesis, H<sub>1</sub>: there is significant difference in tax administrators and tax payers views regarding the income tax is not a suitable means of collecting government revenue.

**Test Statistic: under H<sub>0</sub>, the test Statistic is**

$$X^2 = \frac{(F_o - F_e)^2}{F_e}$$

Where, F<sub>o</sub> = Observed Frequency

Row total x Column total

F<sub>e</sub>: (Expected frequency) =  $\frac{\text{Row total} \times \text{Column total}}{\text{Grand total}}$

**Table No.:- 4.18**

**Calculation of X<sup>2</sup> for Test of Hypothesis for Income Tax as a Suitable Means of Collecting Government Revenue**

Row, Column	F <sub>o</sub>	F <sub>e</sub>	F <sub>o</sub> -F <sub>e</sub>	(F <sub>o</sub> -F <sub>e</sub> ) <sup>2</sup>	(F <sub>o</sub> -F <sub>e</sub> ) <sup>2</sup> /F <sub>e</sub>
1,1	16	(20x34)/40=17	-1	1	0.0588235
1,2	4	(20x6)/40=3	1	1	0.333
2,1	18	(20x34)/40=17	1	1	0.0588235
2,2	2	(20x6)/40=3	-1	1	0.333
					(F <sub>o</sub> -F <sub>e</sub> ) <sup>2</sup> /F <sub>e</sub> =0.784314

$$\text{Calculated, } X^2 = \frac{(F_o - F_e)^2}{F_e} = 0.784314$$

$$\text{Degree of freedom} = (r-1)(c-1) = (2-1)(2-1) = 1$$

Level of significance  $\alpha = 5\%$

Tabulated X<sup>2</sup> 0.05(1) = 3.8441

**Conclusion**

Since calculated  $X^2$  is less than tabulated  $X^2$ . It is not significant and  $H_0$  is accepted which means that there is no significant difference in tax administrators and tax payers views regarding the income tax and income tax is a suitable means of collecting government revenue.

## 4.5.2 Opinion towards Contribution of Indirect Tax

In order to know whether indirect tax is contributing the total revenue is effective or not, a question asked to the respondents was “In your opinion, is indirect tax contributing revenue effective to the total revenue?”

**Table No.:- 4.19**  
**Opinion towards Contribution of Indirect Tax**

Respondents	Yes		No		Total	
	Nos	%	Nos	%	Nos	%
Tax administration [I]	17	85	3	15	20	100
Tax experts [II]	20	100	-	-	20	100
Tax Payers [III]	16	80	4	20	20	100
Total	53	88.33	7	11.67	60	100

Source: Opinion Survey

The above table shows that about 88.33 % of respondents approved that contribution of indirect tax to total revenue is effective 100% tax experts recognize the contribution of indirect tax to total revenue is effective. From this opinion, it can be concluded that the contribution of indirect tax to total revenue is effective.

To know whether there is significant difference or not between the views of tax administrators and tax payers by keeping the views of tax experts constant, chi-square ( $X^2$ -test) is used for testing.

### Table No.:- 4.19.1

**Test of Hypothesis for Opinion towards Contribution of Indirect Tax**

Respondents	Yes	No	Row Total (RT)
Tax administration [I]	17	3	20
Tax Payers [III]	16	4	20
Column total (CT)	33	7	40

Null Hypothesis,  $H_0$ : there is no significance difference between tax administrators and taxpayer’s views regarding contribution of indirect tax to total revenue that it is effective.

Alternative, Hypothesis,  $H_1$ : there is significance difference between tax administrators and taxpayer’s views regarding contribution of indirect tax to total revenue that it is not effective.

**Test Statistic: under H0, the test statistic is**

$$X^2 = \frac{(F_o - F_e)^2}{F_e}$$

Where,  $F_o$  = Observed Frequency

Row total x Column total

$$F_e: \text{ (Expected frequency)} = \frac{\text{Row total} \times \text{Column total}}{\text{Grand total}}$$

**Table No.:- 4.20**

**Calculation of  $X^2$  Test of Hypothesis for Opinion towards Contribution of Indirect Tax**

Row, Column	$F_o$	$F_e$	$F_o - F_e$	$(F_o - F_e)^2$	$(F_o - F_e)^2 / F_e$
1,1	17	$(20 \times 33) / 40 = 16.5$	0.5	0.25	0.0151
1,2	3	$(20 \times 7) / 40 = 3.5$	-0.5	0.25	0.0714
2,1	16	$(20 \times 33) / 40 = 16.5$	-0.5	0.25	0.0151
2,2	4	$(20 \times 7) / 40 = 3.5$	0.5	0.25	0.0714
					$(F_o - F_e)^2 / F_e = 0.173$

$$\begin{aligned} \text{Calculated, } X^2 &= \frac{(F_o - F_e)^2}{F_e} \\ &= 0.784314 \end{aligned}$$

$$\begin{aligned} \text{Degree of freedom} &= (r-1)(c-1) = (2-1)(2-1) \\ &= 1 \end{aligned}$$

Level of significance  $\alpha = 5\%$

Tabulated  $X^2_{0.05(1)} = 3.8441$

### **Conclusion**

Since calculated  $X^2$  is less than tabulated  $X^2$ . It is not significant and  $H_0$  is accepted which means that there is no significant difference in tax administrators and tax payers views regarding contribution of indirect tax to total revenue that it is effective.

### **4.5.3 Most Important factors for effectiveness of income tax.**

The respondents were requested to rank their choice from 1 to 5 accordingly to their preference to know the opinion of the respondents in view regarding to important factors for effectiveness of income tax in Nepal. A question was, "In your opinion, what is the most important factor for effectiveness of income tax in Nepal to raise government revenue?" was asked. The responses are summarized in the table as below.

**Table No.:- 4.21**

**Most Important factors for effectiveness of income tax**

S N	Objectives	Group			Total	%	Rank
		I	II	III			
1	Clear Act rules & regulation	98	85	89	272	31.30	1
2	Conscious & tax payers	44	60	52	156	17.95	3
3	Honest tax officers	39	52	44	135	15.53	4
4	Effective tax administration	68	63	48	179	20.59	2
5	Political non-interruption	41	36	50	127	14.69	5
	Total	290	296	283	869	100	

The most important factors for effectiveness of income tax in Nepal according to the preference of the respondents were as follows:

1. Clear act rules and regulations
2. Effective ax administration
3. Conscious and honest tax payers
4. Honest tax officers
5. Political and non-interruption
6. Attitude towards income tax administrators

**4.5.4 Attitude towards Income Tax Administration in Nepal**

**Table No.:- 4.22**

**Attitude towards Income Tax Administration in Nepal**

Respondents	Yes		No		Total	
	Nos	%	Nos	%	Nos	%
Tax administration [I]	4	20	16	80	20	100
Tax experts [II]	3	15	17	85	20	100
Tax payers [III]	2	10	18	90	20	100
Total	9	15	51	85	60	100

Source: Opinion Survey

Form the above table; it has become clear that Nepalese income tax administration is not effective. Most of the respondents i.e. 85 % of respondents recognized it ineffective, just 15% respondents approved Nepalese income tax administration is effective. To know, whether there is significant relationship or not between the above views of tax administrators and tax payers by keeping tax experts constant, chi-square ( $X^2$ -test) is used for testing.

**Table No.:- 4.22.1**

**Test of Hypothesis for Attitude towards Income Tax Administration in Nepal**

Respondents	Yes	No	Row Total (RT)
Tax administration [I]	4	16	20
Tax Payers [III]	2	18	20
Column Total (CT)	6	34	40

Null Hypothesis, H0: there is no significant difference in tax administrators and tax payer's views regarding the effectiveness of Nepalese income tax administrator.

Alternative Hypothesis, H1: there is significant difference in tax administrators and tax payer's views regarding the effectiveness of Nepalese income tax administrator.

**Test Statistic: under H0, the test statistic is**

$$X^2 = \frac{(F_o - F_e)^2}{F_e}$$

Where,  $F_o$  = Observed Frequency

$$\text{Row total} \times \text{Column total}$$

$F_e$ : (Expected frequency) =  $\frac{\text{Row total} \times \text{Column total}}{\text{Grand total}}$

Grand total

**Table No.:- 4.23**

**Calculation of  $X^2$  for Test of Hypothesis Attitude towards Income Tax Administration in Nepal**

Row, Column	$F_o$	$F_e$	$F_o - F_e$	$(F_o - F_e)^2$	$(F_o - F_e)^2 / F_e$
1,1	4	$(20 \times 6) / 40 = 3$	1	1	0.333
1,2	16	$(20 \times 34) / 40 = 17$	-1	1	0.0588235
2,1	2	$(20 \times 6) / 40 = 3$	-1	1	0.333
2,2	18	$(20 \times 34) / 40 = 17$	1	1	0.0588235
					$(F_o - F_e)^2 / F_e = 0.782$

$$\text{Calculated, } X^2 = \frac{(F_o - F_e)^2}{F_e} = 0.782$$

$$\text{Degree of freedom} = (r-1)(c-1) = (2-1)(2-1) = 1$$

Level of significance  $\alpha = 5\%$

Tabulated  $X^2_{0.05(1)} = 3.8441$

**Conclusion**

Since calculated  $X^2$  is less than tabulated  $X^2$ . It is not significant and H0 is accepted which means that there is no

significant difference in tax administrators and tax payers views regarding the effectiveness of Nepalese income tax administrator.

#### 4.5.5 Attitude towards Income Tax System in Nepal

Income tax system of Nepal has been blamed that it has many problem. To know whether income tax system of Nepal has problem or not a question was asked “Do you think that there are problems in income tax system of Nepal?” the responses received from respondents ate tabulated as follows.

**Table No.:- 4.24**

##### Attitude towards Income Tax System in Nepal

Respondents	Yes		No		Total	
	Nos	%	Nos	%	Nos	%
Tax administration [I]	16	80	4	20	20	100
Tax experts[II]	18	10	2	10	20	100
Tax payers[III]	15	75	5	25	20	100
Total	49	81.67	11	18.33	60	100

Source: Opinion Survey

From the above table, it has become clear that there has problem in Nepal i.e. 81.67% though that there were problems in Nepalese income tax system.

In order to know the problem of income tax system of Nepal the next question was asked “If yes, what are the majour problems in income tax system of Nepal?” The respondent were request to choice “one” specific objective among the five available alternatives below presented table given a breakdown of response.

**Table No.:- 4.25**

##### Attitude towards Income Tax System in Nepal

S. N.	Objectives	Group			Total points	%	Rank
		I	II	III			
1	Complexity in income tax act rules & regulations	6	7	7	20	33.3	1
2	Inadequate economic policy	2	1	4	7	11.6	4
3	Inefficient income tax administration	4	3	5	12	20	3
4	Lack of consciousness of tax payers	7	5	3	15	25	2
5	Increasing habit of tax evasion	1	4	1	6	10	5
	Total	20	20	20	60		

Source: Opinion Survey



Form the above table the majour problem of income tax system of Nepal were ranked in order of the preference of the respondents as follows.

- a) complexity in income tax Act rules and regulation
- b) lack of consciousness of tax payers
- c) inefficient income tax administration
- d) inadequate economic policy
- e) increasing habit of tax evasion

From the above table, it can be conclude that the opinion of respondents, there are problem in income tax system in Nepal. Basically due to the complexity in income tax act rules and regulation, lack of consciousness of tax payer and inefficient income tax administration were the majour problem.

The other causes response by the respondents was lack of consumer awareness.

#### **4.5.6 Attitudes towards Poor Tax Habit among Nepalese People**

It is said that tax paying habit among Nepalese people is poor. To know whether the tax paying habit among Nepalese people is poor or not a question was asked “Do you think that there is poor tax paying habit among Nepalese people?” The responses received from the various respondents are tabulated as follows.

**Table No.:- 4.26**

##### **Majour causes of Poor Tax Habit among Nepalese People**

S. N.	Majour causes	Group			Total points	%	Rank
		I	II	III			
1	Poverties of tax payers	32	20	28	80	9.06	5
2	Little knowledge of tax payers and its benefits	87	53	65	175	19.82	4
3	Defective administration system	60	81	74	215	24.35	3
4	Complexity of tax laws and policies	81	59	50	190	21.52	2
5	Lack of incentives for regular tax	7	78	75	223	25.25	1
	Total						

Source: Opinion Survey

Majour causes of poor tax paying habit among Nepalese people were ranked in order to know preference of respondents as follows.

- a) Lack of incentives for regular tax payers

- b) Defective tax administration system
- c) Complexity of tax laws and policies
- d) Little knowledge of tax and its benefits
- e) Poverty of tax payers

It can be concluded that the above tabulated results that in the opinion of respondents, there is poor tax paying habit among Nepalese people due to lack of incentives for regular tax payers, defective tax administration system and complexity of the laws and policies.

The other causes are less transparency and accountability of the Nepalese people.

#### **4.5.7 Opinion towards Contribution of NTC Income to Revenue of Nepal**

In order to know whether NTC income is contributing the income tax revenue or not, a question asked to the respondents was “In your opinion, is NTC contributing income tax significantly to the income tax revenue of Nepal?” The question was intended to know the respondents opinion towards the role of NTC income in the income tax revenue. The responses received from respondents have been tabulated below.

**Table No.:- 4.27**

#### **Opinion towards Contribution of NTC Income to Revenue of Nepal**

Respondents	Yes		No		Total	
	Nos	%	Nos	%	Nos	%
Tax administration [I]	13	65	7	35	20	100
Tax experts [II]	16	80	4	20	20	100
Tax Payers [III]	11	55	9	45	20	100
Total	40	66.67	20	33.33	60	100
Source: Opinion Survey						

The above table showed that 66.67 of the respondents showed their satisfaction regarding the contribution of income tax from NTC to income tax revenue of Nepal and about 33.37% of the respondent showed dissatisfactory regarding the contribution of income tax from NTC to income tax revenue of Nepal.

To know whether there is significant difference or not between the views of tax administrators and tax payers by keeping the views of tax experts constant, chi-square ( $X^2$ -test) is used for testing.

**Table No.:- 4.27.1**

**Test of Hypothesis for Opinion towards Contribution of NTC Income to Revenue of Nepal**

Respondents	Yes	No	Row Total
Tax administration [I]	13	7	20
Tax Payers [III]	11	9	20
Column total	24	16	40

Null Hypothesis, H0: there is no significance difference between tax administrators and taxpayer’s views regarding contribution of income tax from NTC to income tax revenue of Nepal that it is effective.

Alternative, Hypothesis, H1: there is significance difference between tax administrators and taxpayer’s views regarding contribution of income tax from NTC to income tax revenue of Nepal that it is not effective.

**Test Statistic: under H0, the test statistic is**

$$X^2 = \frac{(Fo - Fe)^2}{Fe}$$

Where, Fo = Observed Frequency

$$Fe: \text{(Expected frequency)} = \frac{\text{Row total} \times \text{Column total}}{\text{Grand total}}$$

**Table No.:- 4.28**

**Calculation of  $X^2$  for Test of Hypothesis for Opinion towards Contribution of NTC Income to Revenue of Nepal**

Row, Column	Fo	Fe	Fo-Fe	$(Fo-Fe)^2$	$(Fo-Fe)^2 / Fe$
1,1	13	$(20 \times 24) / 40 = 12$	1	1	0.083
1,2	7	$(20 \times 16) / 40 = 8$	-1	1	0.125
2,1	11	$(20 \times 24) / 40 = 12$	-1	1	0.083
2,2	9	$(20 \times 16) / 40 = 8$	1	1	0.125
					$(Fo-Fe)^2 / Fe = 0.416$

**Calculated,  $X^2 = \frac{(Fo - Fe)^2}{Fe}$**   
 $= 0.416$

Degree of freedom =  $(r-1)(c-1) = (2-1)(2-1)$   
 $= 1$

Level of significance  $\alpha = 5\%$

Tabulated  $X^2_{0.05(1)} = 3.8441$

## Conclusion

Since calculated  $X^2$  is less than tabulated  $X^2$ . It is not significant and  $H_0$  is accepted which means that there is no significant difference in tax administrators and tax payers views regarding contribution of income tax from NTC to income tax revenue of Nepal that it is effective.

### 4.5.8 Problem Faced by Nepal Telecom Regarding Income Tax System

It has been blamed that telecom is facing various problems regarding to income tax system. To know the fact question was asked, "In your opinion, what are the problems faced by telecom regarding to income tax system?" The respondent was requested to choose one alternative from the available alternatives. Below presented table gives breakdown of responses.

**Table No.:- 4.29**

#### Problem Faced by Nepal Telecom Regarding Income Tax System

S. N.	Major Problems	Group			Total points	%	Rank
		I	II	III			
1	Inefficient tax administration	4	7	6	17	28.33	2
2	Heavy fine and penalty	4	3	5	12	20	3
3	High discretionary power of income tax officer	-	-	1	1	1.67	5
4	Lack of clear act news and regarding	7	7	6	20	33.33	1
5	Slow income tax assessment process	5	3	2	10	16.67	4
	Total	20	20	20	60	100	

Source: Opinion Survey

The major problem faced by NTC regarding to income tax system tax system were ranked percentage in order to know the preference of the responded as follows

- a) Lack of clear Act rules and regulation
- b) Inefficient tax administration
- c) Heavy fine and penalty
- d) Slow income tax assessment process
- e) High discretionary power of income tax officer

Lack of responsibility and accountability are other problem faced by the telecom regarding income tax system.

It can be concluded that telecom are facing various problem regarding to income tax system basically due to the lack of clear Act,

rules and regulations, inefficient tax administration and fine and penalty attitude towards income tax system in Nepal.

## 4.6 Major Findings

This section includes major results of the data which have been critically discussed and analysed throughout this chapter.

### 4.6.1 Findings of the Secondary Data

The major findings of the study are pointed out as follows.

- ☞ Tax plays a pivotal role to the economic development of Nepal. Tax structure of any country comprises both direct and indirect taxes and so does Nepal.
- ☞ Total income tax has increased in every fiscal year except the FY 2057/058 and 2058/59. It is the year 2057/058; it was decreased to Rs. 8903.7 million and Rs 7966.2 million in FY 2058/059. But as a whole, it has increased from Rs. 4123.4 million in 2052/053 to Rs 13520.5 million in FY 2063/064.
- ☞ The contribution of public enterprises also increased from Rs 1231.1 million to Rs 2928 million from fiscal year 1996/97 to 2000/01. Afterward, it started to decrease i.e. that is up to Rs 195.7 million in 2005/06.
- ☞ It is clear that the contribution of NTC in form of income tax to the GON was Rs 701.92 million in 2053/053 which decreased up to Rs 634 in 2053/054 then it slowly increasing year by year. The contribution of NTC in form of income tax to the GON has been Rs 1788.7 million in 2064/065.
- ☞ The share of income tax from NTC in GDP lies between 0.193% and 0.335% during the study period. It was 0.193% in fiscal year 2056/057 and 0.335 in F.Y. 2064/065. It declined from 2052/053 to 2054/054 and then it slowly increased year by year. It is clear that GON's revenue is increasing drastically whereas contribution of NTC is increasing in slow and soft manner. Further, the average (mean) of GDP and income tax of NTC are 407784 and 1048.7 respectively during the study period.
- ☞ The average contribution of GDP and NTC are 407784 and 13633.1 respectively to the revenue of GON. It shows that the contribution of NTC is very less in comparison to that of GDP. The coefficient of variation (C.V.) of income tax of NTC and GDP are 9.17% and 24.38579% .The C.V. of income tax from NTC is very less in comparison to that of GDP, it shows that the income tax of NTC is more consistent or more uniform or more stable in comparison to GDP. It shows that rate of contributing income tax from NTC is not changing quickly whereas the GDP is increasing highly, that is to say; not growing drastically as the GDP.

- ☞ It is seen that the income tax from NTC in comparison to government revenue has been decreased to F.Y. 2057/58 then it has started to increase gradually from F.Y.2059/60 during the study, it is found that it lies between 2.52% and 1.56%. It was 2.52% in F.Y. 2052/53 and 1.56 in F.Y. 2057/58. It is vividly seen that the revenue of GON is increasing drastically every year where contribution of NTC is increasing in soft and slow manner.
- ☞ The average contribution of Government Revenue and NTC are 54692.90077 and 13633.1 respectively. It shows that the contribution of NTC is very less to Government Revenue. Further, the coefficient of variation (C.V.) of income tax of NTC and Government Revenue are 9.17% and 36.41719 %. The C.V. of income tax from NTC is very less in comparison to that of Government Revenue; it shows that the income tax of NTC is more homogenous in comparison to that of Government Revenue. It shows that rate of contributing income tax from NTC is not changing quickly whereas the Government Revenue is increasing highly.
- ☞ The contribution of income tax from NTC to total tax revenue is 3.24 percent in F.Y. 2052/53. It has decreased from F.Y. 2053/54 to 2057/58 at the level of 1.96%. From F.Y. 2002/03, it is increasing. These all trends show fluctuation in contribution of NTC during the study.
- ☞ The average contribution of income tax revenue and NTC are 42151.24 and 13633.1 respectively to the revenue of GON. It shows that the contribution of NTC is very less in comparison to income tax revenue. Further, the coefficient of variation (C.V.) of income tax of NTC and income tax revenue are 9.17% and 35.1339 %. The C.V. of income tax from NTC is very less in comparison to that of income tax revenue; it shows that the income tax of NTC is more homogenous in comparison to that of income tax revenue. It shows that rate of contributing income tax from NTC is not changing quickly whereas the income tax revenue is increasing highly.
- ☞ The average contribution of income from NTC is 10.40% to the direct tax revenue. The trend of these contributions is in fluctuating situation. It decreased in FY 7.49%, afterward; it started increasing gradually. The contribution of income tax from NTC is significant because it lies between the range 7.49% and 15.07% during the study.
- ☞ The average contribution of Direct tax revenue and NTC are 10130.75 and 13633.1 respectively the revenue of GON. It shows that the contribution of NTC is very less in comparison to Direct

tax revenue. Further, the coefficient of variation (C.V.) of income tax of NTC and Direct tax revenue are 9.17% and 32.38526%. The C.V. of income tax from NTC is very less in comparison to that of Direct tax revenue; it shows that the income tax of NTC is more consistent in comparison to that of Direct tax revenue. It shows that rate of contribution of income tax from NTC is not changing quickly whereas the Direct tax revenue is growing drastically.

☞ The contribution of income tax from NTC to total tax revenue lies between 8.32% and 20.46% during the study. It was 8.32% in FY 2057/58 whereas 20.46% in FY 2052/053. The trend shows in decreasing way the increasing way. The average contribution of income tax from NTC to total tax revenue is 12.92% to total tax revenue.

☞ The average contribution of Total income tax and income tax from NTC are 8267.54 and 13633.1 respectively to the revenue of GON. It shows that the contribution of NTC is very less in comparison to Total income tax. Further, the coefficient of variation (C.V.) of income tax of NTC and Total income tax are 9.17% and 33.798 % respectively. The C.V. of income tax from NTC is very less in comparison to that of Total income tax; it shows that the income tax of NTC is more uniform or more stable in comparison to that of Total income tax. It shows that rate of contributing income tax from NTC is not changing quickly whereas the Total income tax is increasing highly.

☞ The contribution of income tax from NTC to corporate income tax is in fluctuating trend but its percentage of contribution is very significant because it lies between 15.68% and 41.09%. The average (mean) contribution from NTC is 31.97%.

☞ The average contribution of corporate income tax and NTC are 3316.56 and 13633.1 respectively to the revenue of GON. It shows that the contribution of NTC is very less in comparison to corporate income tax. Further, the coefficient of variation (C.V.) of income tax of NTC and corporate income tax are 9.17% and 29.0425 % respectively. The C.V. of income tax from NTC is very less in comparison to that of corporate income tax, it shows that the income tax of NTC is more homogenous or more consistent or more uniform or more stable in comparison to that of corporate income tax. It shows that rate of contributing income tax from NTC is not changing quickly whereas the corporate income tax is increasing highly.

☞ The summary and conclusion of all interpretation has been presented in **Table No. 4.30**.

**Table No.:- 4.30**  
**Conclusion Table of all computations**

S.N.	Computation	Average (Mean)	Standard Deviation (S.D.)	Coefficient of Variation (C.V.)
1	<b>Income Tax From NTC</b>	13633.1	96.179467	9.17 %
2	<b>GDP to GON</b>	407784	99441.38246	24.38579%
3	<b>Government Revenue</b>	54692.90077	19917.61935	36.41719 %
4	<b>Total Tax Revenue</b>	42151.24	14809.4074	35.1339 %
5	<b>Direct Tax Revenue</b>	10130.75	3280.87016	32.38526%
6	<b>Total Income Tax</b>	8267.54	2794.29337	33.798 %
7	<b>Corporate Income Tax</b>	3316.56	963.212366	29.0425 %

### 4.6.1 Findings of the Primary Data

- ☞ Income tax is the suitable means of raising government revenue.
- ☞ Contribution of indirect tax to total revenue is effective than direct tax.
- ☞ Clear Act rules and regulation, effective tax administration, conscious and honest tax payers, honest tax officers, political and non interruption are the most important instruments for effectiveness and income taxation in Nepal.
- ☞ There are problem in income n income tax system in Nepal. Due to the complexity in income tax act, rules and regulation, lack of consciousness of tax payers, inefficient income tax administration inadequate economic policy and increasing habit of tax evasion.
- ☞ Nepalese income tax administration is ineffective.
- ☞ There is poor tax paying habit among Nepalese people basically due to the lack of incentives for regulation tax payer's defective tax administration system and complexity of tax laws and policies.
- ☞ Contribution of NTC to income tax revenue has been found satisfactory.
- ☞ NTC is facing various problems requiring to income tax system, due to the lack of clear act, rules and regulation, inefficient tax administration and heavy fine and penalty.



## Chapter-V

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Summary

Nepal is an agro-based developing country. The economic status of Nepalese people is very poor. The per capita income is approximately 250 dollars which is lowest among the SAARC countries and almost lower in comparison in world. One of the main objectives of each and every country is to raise the living standard of the people through economic development activities. To launch these activities, government needs various resources like money, man, materials, and machine. Nepalese economy is facing a lot of problem of resources gap i.e. revenue collection by the government is internal sufficient to meet the administrative cost but the revenue surplus is not adequate for the development activities. That is why, Nepal has been dependent on foreign aids and loans which is not good for a country in long-term.

Government of Nepal (GON) can use internal and external resources. Internal resources are preferable for sustainable economic development Nepal has been unable to mobilize the internal resources. Thus, fiscal deficit of Nepal has been increasing. To solve these problems, income tax can play an important role in Nepal but income tax has not been mobilized properly as well.

The present study entitled “contribution of NTC inform of income tax to GON” covers role of income tax of NTC inform of income tax with respect to corporate income tax, total income tax, total tax revenue , direct tax revenue, government revenue, GDP and structure of income tax revenue .

In the second chapter, review of literature had been made through the study of various books, articles, dissertation and other reference materials, various concepts of taxation have been discussed in the study. This chapter has also included sources of government revenue, meaning and classification of tax, objectives of taxation, historical background of income tax, heads of income and its classification.

In the third chapter, various aspect of research methodology such as data collection procedure, population and sample size, nature and source of data etc. have been discussed.

Chapter four has presented secondary data and analysed then to get the meaningful result. It has specially focused the data of NTC.

The main objectives of the present study to analyse the structure of income tax and contribution of NTC inform of income tax to GON.

## **5.2 Conclusions**

Structure of revenue of Nepal is composed of tax and non-tax revenue. Tax revenue has the largest share of contribution in total revenue i.e. 78% in average of total revenue which has been contributed by tax revenue in total revenue from the FY 1996/97 to FY 2005/06.

Tax revenue has consisted direct and indirect tax from FY 1996/97 to 2005/06 average contribution of indirect tax revenue has been found to be 75.09% in tax revenue and rest percentage for direct tax. Income tax has highest contribution among direct tax.

- ⇒ It shows that tax and GDP ratio of Nepal is not good.
- ⇒ Contribution of income tax is in increasing trends in total revenue.
- ⇒ It has been observed the contribution of NTC inform of income tax is fluctuating. It has significant affect.
- ⇒ Income tax from NTC to total tax revenue is in increasing trend.
- ⇒ Direct tax does not contribute significantly well.
- ⇒ The contribution percentage of income tax from NTC to total revenue is in increasing trend.
- ⇒ The success of effectiveness of income tax system entirely depends upon the implementation of provision which is the major responsibility of income tax administration.
- ⇒ There is poor tax paying habit among Nepalese people.
- ⇒ Contribution of NTC inform of income tax revenue has been found satisfactory.
- ⇒ NTC is facing various problems regarding to income tax system due to lack of clear act, rules & regulations.

## **5.3 Recommendations**

During the research period, man defectives were found, some recommendations are provided as per analysis of above data.

- It is seen that Nepalese tax revenue is heavily dominated by indirect tax revenue. Direct tax only contribute 24.01% that' why, resource mobilization through direct tax should be focused.

- Formally, 15% to 18%, tax & GDP ratio is regarded as moderate standard but Nepalese highest such ratio is found be 11%. So, the GON should make appropriate the provisions to increase the ratio.
- Tax system ought to be practical and effective. It should match the national beneficial to the people.
- A national wide campaign should be launched to explain laws of tax and benefits of tax with a view of stimulating participation of the public in order to pay taxes through media of radio television, newspapers and speech programmers' in the educational institutions and society.
- NTC should give high priority to increase the amount of revenue so that contribution to GON should prepare and implement profit planning and control concept effectively.
- Contribution of income tax from NTC to corporate income tax was decreasing during the study period though the amount of contribution is increasing. So, NTC should defect and invest in sufficient income generating section.
- Government should increase the amount of investment in NTC to render services to the customer and generate more revenue from NTC. To increase investment, NTC should modernize its existing service rendering system in town areas and extend its coverage if service in deprived cores of the country, which is supported to increase the ratio of direct tax revenue and total tax revenue.
- To fulfill resource gap of economy, income tax must be imposed to land owners and property owners who have high income and government should apply appropriate measures to reduce the high resource gap.
- Income tax of NTC is highly supporting to GDP, DTR, ITR and CIT. Thus the government should impose appropriate tax rate considering profitability of NTC.
- The staffs of NTC are main focus to utilize the corporation's assets more effectively through which NTC can increase its profit earning capacity. The corporation must prepare the highly qualified, dynamic and energetic personal.
- NTC's management should feel responsibility to contribute the state. The staff involved in tax realization should be sincere, loyal, dedicated in implementing its

area of trade to increase its contribution towards government revenue.

- NTC should have an efficient management system to control over costing. It should apply standard costing system and should establish a cost control centre.
- The following recommendation is made for improvement of income tax administration.
  - (a) Delay in assessment should be reduced as possible.
  - (b) Unnecessary outside pressure should be avoided.
  - (c) Proper direction and communications should be made more effective.
  - (d) Computerized information system is necessary to keep up to date records of income tax.
  - (e) Proper tax educational should be provided to tax officials as well as tax payer's regularity.
- The following recommendations are made to solve the problems faced by telecom regarding income tax system.
  - ★ Income tax administration should be efficient.
  - ★ Income tax act rules and regulations should be made clear and simple.
  - ★ Income tax assessment process should be made easy and fast.

In Nepal, income tax system is facing a lot of problems. If above mentioned suggestions and recommendations are managed in time and implemented properly, the problems can be solved in some extent and the income tax will lead to substantial increase revenue.

# **BIBLIOGRAPHY**

## **BOOKS**

Aryal, K.P. and Paudel, Surya Prasad (2007), **Taxation in Nepal**, Kathmandu, Bhudipurani Prakashan.

Bhattarai, Ishwor and Koirala, Girija Prasad (2007) **Tax Laws and Tax Planning** Putalisadak, Kathmandu, Asmitia Books and stationeries.

Dhakal, Kamali Deep (2001). **Income Tax and House and Compound Tax Law and Practice**. Kathmandu, Kamal Prakashan

Gupta, S.C. (1999). **Fundamental of Statistics**. New Delhi, Himalayan Publishing House.

Wolff, Howard K. and Pant, Prem R.(2005) **Social Science Research and Thesis Writing**. Buddha Academic Publishers and Distributors Pvt. Ltd. Kathmandu, Nepal

## **GOVERNMENT PUBLICATIONS**

Government of Nepal, Ministry of finance, *Economic Survey*

Ministry of finance, **Annual Report** (Various Years). Inland Revenue department, Ministry of Finance GON, Nepal

Ministry of finance, **Economic Survey** (Various Years). Inland revenue department, Ministry of Finance GON, Nepal.

## **ARTICLES AND JOURNALS**

Agrawal, Gobinda Ram (1980).Resource Mobilization in Nepal. Kathmandu, CEDA, T.U.

Kandel, Puspa Raj (2001). Draft of Income Tax Act 2001: Critical Analysis. Rajaswa, Vol.1, RATC.

## **THESIS**

Acharya, Sanjay (1994) "Income Taxation in Nepal"; Master's Thesis. Central Department of Management, Tribhuvan University.

Ghimire, Bamshidar (1993) "Principle of Direct Tax and Provision for Direct Tax Rajsaw"

Kandel, Puspa Raj (2000) “Corporate Tax System and Investment Behavior in Nepal”

Pandey, Kedar Bilas (1978) “Income Taxation in Nepal”

Shrestha, Binita (2004) “Revenue collection from Income Tax in Nepal, Problem and Prospects.”

Singh, Basant Kumar (2006) A study on Application of Best judgment in Income Tax assessment with reference to ITA, 1974”

**Appendix I**  
**GDP, GDP Growth Rate, Deflators and**  
**Composition by Broad Industry Group(Rs. In Million)**

Fiscal Year	2000/0 1	2001/0 2	2002/0 3	2003/0 4	2004/0 5	2005/0 6 R	2006/0 7 P
<b><i>GDP at basic prices (current)</i></b>	413429	43397	460325	500699	548485	603673	67089
Primary Sector	157442	168239	175113	188632	202116	214071	231983
Secondary Sector	71744	75742	81228	86902	94311	101781	109603
Territory Sector	196269	200101	217205	242460	270152	307233	349973
FISM	12026	13655	13221	17294	18094	19412	20971
<b><i>GDP at basic prices (constant)</i></b>	413429	414091	429699	448654	461452	475953	486842
Primary Sector	157442	162398	167801	175765	181979	81003	185475
Secondary Sector	71744	72220	74452	75557	77756	184145	82671
Territory Sector	196269	192782	199874	213504	218896	229236	238608
FISM	12026	13309	12428	16173	17180	18431	19912
<b>Annual growth Rates of GDP (in %)</b>		0.16	3.77	4.41	2085	3.14	2.29
Primary Sector		3.15	3.33	4.75	3.54	1.19	0.72
Secondary Sector		0.66	3.09	1.48	2.91	4.18	2.06
Territory Sector		-1.78	3.68	6.82	2.53	4.72	4.09
<b><i>Implicit GDP Deflator</i></b>	100.00	103.94	107.13	111.60	118.86	126.86	137.74
Primary Sector	100.00	103.60	104.36	107.32	111.07	116.25	125.08
Secondary Sector	100.00	104.83	109.10	115.02	121.29	125.65	132.58
Territory Sector	100.00	103.80	108.67	113.56	123.42	134.02	146.67
<b><i>Composition of GDP (in %)</i></b>							
Primary Sector	37.01	37.89	39.98	36.42	35.67	34.35	32.19
Secondary Sector	16.86	17.05	17.15	16.78	16.65	16.35	16.09
Territory Sector	46.13	45.06	45.87	46.78	47.68	49.30	51.71
FISM	-2.91	-3.17	-2.87	-3.45	-3.30	-3.22	-3.13
P=Preliminary, R=Revised				Source: Central Bureau of Statistics			

**Appendix-II**  
**Tax Revenue** (Rs in Million)

Headings	19998/99	1999/00	2000/01	2001/02	2002/03	003/04	004/05	005/06
Customs	9517.7	10813.3	12552.1	12658.8	14236.4	15554.8	15701.6	15344
Imports	7698.3	8959.9	10391.9	9678.4	10567.7	10666.9	12299.1	11744.6
Exports	378	432.5	492.6	917.4	855.6	527.1	697.9	625.6
Indian Excise Refund	1206	1331.7	1456.2	1700.9	2370.6	3882.7	2188.3	2314.4
Others	235.4	89.2	211.4	362.1	442.5	478.1	516.3	659.4
Tax on Consumption & Product of goods & Services	11719.1	13387.3	16153.6	16074.3	18244.8	20705.6	25331.3	28118.3
Excise on industrial products	2953.2	3127.6	3771.2	3807	4785.1	6226.7	6445.9	6507.6
Value Added Tax	8765.9	10259.7	12382.4	12267.3	13459.7	14478.9	18885.4	21610.7
Land Revenue & Registration	1003.1	1015.9	612.9	1131.8	1414.3	1697.5	1799.2	2181.1
Land Revenue	1.3	4.6	5.1	0.8	0	0	0	0
House & Land Registration Fees	1001.8	1011.3	607.8	1131	1414.3	1697.5	1799.2	2181.1
Tax on Property, Profit & Income	6513	7935.6	9546.5	9465.7	8691.5	10215.1	11272.6	11787
Income tax from Public Enterprises	1526.5	2198.8	2928	1769.3	1251	2056.6	1332.4	195.7
Income tax from Semi- Public Enterprises	0	0	0	0	0	0	0	0
Income tax from Private corporate bodies	1155	1339.5	1924.3	1412	1236.3	1531.3	2467.8	3404.3
Income tax from Individuals	2772.7	3016.4	3200.5	4419.1	3362.3	3533.4	3926.3	4234.7
Income tax from Remuneration	396.5	451.5	597.3	835.6	1252.6	1391.2	1675.9	1764.1
Urban House and Land Tax	1123.3	118.5	2.9	2.3	0	0	0	0
Vehicle Tax	219.4	396.5	429.6	55.7	559.5	700.6	8806.5	847.6
Tax on Interest	319.5	414.4	463.9	467.7	864	733.4	757	774.9
Other Taxes	0	0	0	0	165.8	268.6	306.7	565.7
<b>Total</b>	<b>28752.9</b>	<b>33152.1</b>	<b>38865.1</b>	<b>39330.6</b>	<b>42587</b>	<b>48173</b>	<b>54104</b>	<b>57430</b>

Sources: Financial Comptroller General Office

Note:-Value Added Tax includes Sales Tax, Entertainment Tax, Hotel Tax , Air Flight Tax, and Contract Tax



**Appendix-III**  
**Summary of Revenue Collection**

(Rs. In '000')

Code No.	Heads	Actual 2005/06	Revised Estimate 006/07
1.1.01.00	Commodity Tax based on Foreign Trade	15343676	13574999
1.1.01.10	Import Duties	11744519	2176100
1.1.01.30	Indian Excise Refund	2314432	692816
1.1.01.40	Export Duties	625174	0
1.1.01.50	Export Service Charge	110	62688
1.1.01.60	Other Income of Customs	120479	404586
1.1.01.70	Agriculture Improvement Duties	538762	0
1.1.01.90	Other Duties	200	16911189
1.1.02.00	Internal Commodity Tax based	28121843	34741209
1.1.02.10	Value Added Tax	21613043	26055001
1.1.02.11	Production	2899862	3257795
1.1.02.12	Import	13462541	16286983
1.1.02.13	Sales and Distribution	1357367	1669009
1.1.02.14	Contract and Consultancy	450880	1276201
1.1.02.15	Tourism industry	2275546	556848
1.1.02.19	Other services	22755446	3008165
1.1.02.20	Excise duty	6506940	8686208
1.1.02.21	Cigarettes	2405394	2740730
1.1.02.22	Bidi	3679	1695
1.1.02.23	Liquor	1626982	1784647
1.1.02.25	Beer	1050344	1382674
1.1.02.26	Other industrial production	330220	926361
1.1.02.27	Excise on import	1089831	1745519
1.1.02.28	Foreign employment service fee	490	38330
1.1.02.29	Health service	0	66252
1.1.02.70	Air flight tax	1860	0
1.1.02.71	Internal air flight tax	1860	0
<b>Indirect Tax Total</b>		<b>136641480</b>	<b>138046005</b>
1.1.03.00	Income Tax	10933520	14607448
1.1.03.10	Corporate income tax	7576530	9722312
1.1.03.11	Government corporations	195774	664487
1.1.03.12	Public limited companies	3405582	4382619
1.1.03.13	Private limited companies	1703027	1968090
1.1.03.14	Personal or sole trading firm	1958791	2499127
1.1.03.19	Other institutions	313356	207989
1.1.03.20	Remuneration	1771129	2162854
1.1.03.50	Income tax on investment	1546555	2692390
1.1.03.51	Lease or rent	528457	730908
1.1.03.52	Interest	774820	1360391
1.1.03.53	Capital	657	95
1.1.03.54	Dividends	242585	600455
1.1.03.59	Other income from investment	36	541
1.1.03.60	Tax on windfall gain	8810	9963
1.1.03.90	Others	30496	19929
1.1.04.00	Tax on house, land & other property	3027956	2863537
1.1.04.30	House and land registration	2180312	0
1.1.04.40	House ad land tax	4	922802
1.1.04.50	Vehicle Tax	847640	3786339
<b>Direct Tax Revenue Total</b>		<b>37046037</b>	<b>49202276</b>
<b>Tax Revenue Total</b>		<b>173687517</b>	<b>187248281</b>

Source: Budget Speech, 2064

**Appendix-IV**  
**Tribhuvan University**  
**Hari Khetan Multiple Campus, Birgung**  
**Faculty of Management**  
**A Personal Questionnaire**  
**For a study on**  
**CONTRIBUTION OF NEPAL TELICOM (NTC) IN FORM OF**  
**INCOME TAX TO THE GOVERNMENT OF NEPAL (GON)**

**Name of interviewee:- .....****Sex:-.....** **Age:-.....**  
**Language:-.....** **Religion:-.....** **Districts:-.....**

(1).What is your occupation?

Ans:-.....

(2) How long have you been joining the job/ business?

Answer: .....Years.

(3) In which group do you keep yourself?

Answer: [a] Tax expert [b] Tax administration [c] Tax payer [d]  
None of above

(4) Do you think that income tax is a suitable means of collection government revenue?

Answers: [a] Yes [b] No

(5) In your opinion, is indirect tax contributing revenue effective to the total revenue?

Answers: [a] Yes [b] No

(6) In your opinion, what is the most important factor for effectiveness of income tax in Nepal to raise government revenue?

Answers:

S.N.	The most important factors	Remarks
1	Clear Act rules & regulation	
2	Conscious & tax payers	
3	Honest tax officers	
4	Effective tax administration	
5	Political non-interruption	

(7) Do you think that there are problems in income tax system of Nepal?

Answers: [a] Yes [b] No

(8) If yes, what are the majour problems in income tax system of Nepal? Please tick one of the following.

Answers:

S.N.	Majour Problems	Remarks
1	Complexity in income tax act rules & regulations	
2	Inadequate economic policy	
3	Inefficient income tax administration	
4	Lack of consciousness of tax payers	
5	Increasing habit of tax evasion	

(9) Do you think that there is poor tax paying habit among Nepalese people?

Answers: [a] Yes [b] No

(10) In your opinion, is NTC contributing income tax significantly to the income tax revenue of Nepal?

Answers: [a] Yes [b] No

(11) In your opinion, what are the problems faced by telecom regarding to income tax system? Please tick one of the following.

Answers:

S.N.	Majour Problems	Remarks
1	Inefficient tax administration	
2	Heavy fine and penalty	
3	High discretionary power of income tax officer	
4	Lack of clear act news and regarding	
5	Slow income tax assessment process	