CHAPTER I

INTRODUCTION

1.1 Background of the Study

Tax is the compulsory contribution to the government and made without reference to a particular benefit received by the tax payer. It is personal obligation to pay tax and there is no direct relationship among tax, benefit and individual tax payers.

Taxation is a major instrument of social and economic policy. It has three goals to transfer resource from the private to the public sector ,to distribute the cost of government fairly by income classes (vertical equity) and among people in approximately the same economic circumstance(horizontal equity) and to promote economic growth , stability and efficiency.These objectives are closely related to the economic development of a country so that prime concern of the developing country is the attainment of rapid economic development. The rapid economic development requires massive governmental participation, the method of obtaining revenue to meet with such activity. The role of taxation in this connection has increased very much in modern days.

The relation between taxation and economic development has long been a matter of concern to policy makers and general people. The classical economists devoted substantial efforts in analyzing the effects of taxation on growth and the distribution of factor incomes. With the rise of Keynesian economics, in the War Era, the effects of taxation on stability of the economy became an important issue. The classical and Keynesian ideas constituted prominent themes in early analysis of taxation in UDCs. In those days, the range of concern widened to include the effects of taxation not just on the rate of growth of national income but also on the distribution of income and on employment.

A rise in national and per capita output is implicit in economic growth. Larger savings, increased capital formation and technological development facilitate this improvement in income helps and in turn. Rise in the per capita availability of capital sources, improvement in skill, efficiency and earning power of labor, better organization of production ,greater leisure and increased recreation facilities and the widening of the mental horizon of the people, all these characterize economic growth. Therefore, the UDCs have to accelerate their economic growth rates. To achieve this goal; the government needs various types of resources and huge financial as well. Two types of resources are undertaken i.e. internal and external; both are mobilized by the government. However, the internal sources are more preferable to external one for sustainable development. Thus, tax revenue and non-tax revenue are the crucial revenue of the government. The tax revenue is received as compulsory payment whereas the remaining is conditional.The non-tax revenue includes duties and fees, penalty, fines and forfeitures, receipts from sales and rent of government property, principal repayment, donation and miscellaneous income. The tax revenue includes both direct tax and indirect tax such as income tax, sales tax, custom duty, excise duty, revenue from land registration etc. Of them tax revenue is major sources of the internal revenue as well as the macro-economic fiscal instrument of the government.

In the context of Nepal, the role of taxation has increased since initiation planning in1956 for the purpose of economic development. However, in the earlier period the drastic change needed in improving tax structure was not felt to the low magnitude of government expenditure. Today government expenditure has increased by greater amount than government revenue; the problem of bridging this gap has become the main issue regarding the fiscal affairs of Nepal.

Thus, there is a greater need of improving tax structure in Nepal. This need becomes more appreciable when we see the higher tax ratio to GDP in developed country. This has generated the strong believe among the economist that the present tax ratio in Nepal which is very low, can be increased substantially, which would be a solution of resource problem. However, how this ratio can be raised and in what magnitude the present tax structure is able in raising revenue becomes a subject matter of study.

Thus, the present study is also directed towards the impact analysis of government of Nepal’s tax reform and policy on the structure and trend of Nepalese tax system before and after restoration of democracy in 1990.

1.2 Statement of the Problem

It is possible to improve the revenue mobilization from the existing structure and Trend of Nepalese taxes system. So it is important to know the key issues that are the inherent problem in the Nepalese tax system they are:

World Development Indicator (2012) has disclosed that Nepal is a very low income economy per capital GNI was about $230 in 2002 where in 2003 increased by 4.3 percent accounting about $240, but in 2006 the GNI is $260. However, per capita GNI comparison with rest of the world economy shows that it is not only the lowest than the advance western country average of ($440). This clearly implies the scarcity of resources for the development process.

Tax structure of Nepal is massively dominated by indirect taxes. As it is said that, direct tax is more progressive than that of indirect tax, it has put more tax system regressive justify our tax structure equitable. According to Economic Survey (FY 2010/11) the share of indirect tax still covered 77.33 percent in FY 2014/15.It has been a problem to bridge the gap between the rich and poor, as Nepal is still dependent on direct taxes.

The tax administration in Nepal is very weak. There is a lack of specialized revenue services while a revenue group was created within the Nepal administration service in FY 1992/93, there is still a long way to go in order to develop a specialized revenue offices lack of physical facilities and incentives provided for revenue officials are limited .The situation of local tax administration is even worse.

The base of Nepalese tax system is very narrow, both legally as well as administratively for example: several goods and services, transaction in come sources and property are kept out of the net major exclusion include the exemption of necessities from various taxes the exemption of agricultural allowance, ranted to employees etc. In addition, several incentives for the industries in the form of tax holidays tax, rebates tax, tax credits addition expenses and depreciation. This means that statutory base is much smaller than the potential tax base.

Nepal is facing acute problem of surplus revenue for development expenditure the different periods, which has posed a serious threat of internal resource mobilization for development activities. Development activities in particular depend upon the extent of resource mobilization of the economy. Higher the revenue surplus, greater will be the possibility of building the infrastructure for developing nations

The consistently declining revenue surplus for development expenditure revealing a. serious threat for the Nepalese economy. The level of voluntary tax compliance is very low .The tax conscious has yet to be developed among the Nepalese. This may be due to the illiteracy complicated tax procedure the low cost of non-compliance, etc.

Some research questions are as follows:

1) How can the structure and trend of taxation in Nepal be examined?
2) How can the trend of major tax heads and other sub-heads tax be compared?
3) What are the problems in taxation and appropriate measures of tax yields?

1.3 Objectives of the Study

The general objective of this thesis is to analyze the structure and trend of taxation in Nepal.The specific objectives are as follows:

1. To examine the structure and trend of taxation in Nepal during period of FY 2001/02to FY 2014/15,
2. To compare the trend of major tax heads and other sub-head tax during the study period,
3. To identify the problems in taxation and suggest appropriate measures to overcome them.

1.4 Rationale of the Study

Many research and studies have been carried out taxation in Nepal. The main focus of the study is to analyze the contribution of government revenue, income tax, total tax revenue, direct tax and corporate tax.

1.5 Limitations of the Study

To make the research more specific, the study has been conducted with certain limitations. It has the following limitations:

a. The study is mainly based on secondary data. The reliability depends on it.
b. The result is fully based on the result of mathematical and statistical calculation.

1.6 Organization of the Study

The study has organized into five chapters. The first chapter is introduction. The second chapter deals with review of literature. The third chapter is about research methodology. Similarly, the fourth chapter presents the analysis of data and the fifth chapter draws the conclusion, summary and recommendations.

CHAPTER II

REVIEW OF LITERATURE

2.1 Theoretical Review

The relation between taxation and economic development has long been a matter of concern to policy makers and students of public policy alike. The classical economists devoted substantial efforts to analyzing the effects of taxation on growth and the related question of the distribution of factor incomes as witnessed by the full title of record's famous treatise; "Principles of Political Economy and Taxation". With the rise of the stability of the economy also became an important subject of analysis. These classical and Keynesian concerns constituted prominent themes in early analysis of taxation in UDCs (Heller, 1954, Kaldor, 1956, 1963, 1957 &Higgings, 1959). Subsequently, the range of concerns widened to include the effects of taxation not just on the rate of growth of national income but also on the distribution of that income by income size, class on employment, and on other objective of policy (Gillis, 1987), for example, lists the objectives of fiscal policy as the promotion of economic growth, the reduction of income disparities, use of transfer to others. Taxation not only restraints total spending between households and regions, the promotion of economic stability and economic efficiency, and the increasing of host country returns from natural resource endowments.

Goode(2008) has suggested that tax is defined as a compulsory contribution to the government made without reference to a particular benefit received by the taxpayer. The primary purpose of taxation is to divert control of economic resources from taxpayers to the state for its own by households and enterprises but influences the allocation of economic resources, recognizes social costs that are not reflected in market prices, and affects the distribution of income and wealth.

Shende (2010) has viewed that taxation is used as the main policy instrument for transferring resources to the public sector. It can also assist in creating an atmosphere within which the private sector operates in conformity with national objectives. From the efficiency viewpoint, it can be said that taxes provide the best means of financing the bulk of public expenditures.

2.1.1 Principles of Taxation

Taylor (2013)has compared that the principal necessary ingredient of a tax system designed to promote the required level of employment in a dynamic economy is flexibility, or ability to adjust quickly to changing requirements without violent overhaul.

Tripathy(2001) has explained that equity, efficiency, and administrative feasibility are the three major principles of tax design of any economy. For UDCs, the most important role of taxation is to mobilize the resources for development. As an instrument of resource mobilization, its principal function lies in raising the volume of public savings to be used for capital formation consistent with the growth of saving in the economy as a whole. The quantitative role of tax policy for the mobilization of development finance may be considered in two aspects: static and dynamic.

In the former case, the economy tends to stay at a stable level of under development equilibrium in which tax revenue is used mainly on the consumption purpose. In the later case, the role of tax policy consists in preventing the increment in output from being consumed by deliberately ploughing back an increasing proportion of it into the pool of ingestible resources of the public sector.

In order to assure the objective of ploughing back the increment in output, the UDCs have to develop a tax structure that should have a large element of built-in-flexibility. This means that the tax base must grow as income grows. Since the tax rates will only be a fraction of the base, the base must grow faster than total income in order to recapture a substantial part of the increment. Such a tax structure will be one in which the marginal effective rate of taxation in terms of national income must be high.

Although such a tax structure, would be ideally suited to plough back an increasingly larger proportion of the increment in output, it may create an adverse economic effect on incentives to resources the tax structure of the UDCs, should be sufficiently diversified and should have a coverage both ‘deep and wide’. Such a tax system will be able to mobilize and to tap the tax potentials of the different sectors created because of the accelerated process of economic development.

Buchanan(2006) hasrevealed that if political decisions are made by legislative majorities, a constitutional constraint requiring generality in the imposition of taxes will be economically efficient. In the absence of such a constraint, majorities will tend to impose differentially high taxes on members of political minorities, and such differentiation opens up several sources for resource waste. This argument lends support for a uniform proportional rate of tax on all incomes.

2.1.2 Horizontal Vs. Vertical Equality

Goode (2008) has explained while designing the tax policy, the widely accepted principle is the principle of equality. It implies that those with equal abilities to support government, should pay equal amounts and that those with unequal abilities, should pay different amounts bearing a reasonable relation to their abilities .The former aspect is often called horizontal equity, the later, vertical equity, The equality aspect of taxation is directly concerned with ability-to-pay principle, which is primarily a matter of economic capacity, that can be measured by income, wealth or consumption.

In favor of income as a sensible index of equity, it may be argued that a person's economic capacity, and hence his ability to contribute, depends upon his wealth and not upon the way he choose that income is the true index of that social philosophy may not change.

Nor it can be argued that income is the appropriate index for those, who desire progressive taxation and wish to reduce inequality, and that consumption is the appropriate index for those, who wish to impose regressive taxation, to increase inequality. As a matter of historical experience, we find that the income tax has been the vehicle of progressive taxation, and, that the major sources of sales and excise taxation have been regressive. At the same time, there is no logical necessity for this. Once the transaction is made from a tax on commodities to a personal tax on consumer expenditures, the spending tax may be applied with progressive rates, no less than the income tax.

2.1.3 Direct Vs. Indirect Taxation

Hicks (2012) has focused on these indices of ability; taxes can, most conveniently, be divided into two categories, direct and indirect. Direct being those levied immediately on the persons, who are to bear the burden, and indirect those which are not so levied.

Walker(2010) has focused the traditional language, if impact and incidence are upon the same person, the tax is said to be direct; if not, the burden is shifted, and the real income of someone else is affected (i.e., impact and incidence are upon different people) then the tax is indirect.

2.1.4 Interventionist Vs. Reductionist Approach

Bird &Oldman (2009) has explained shaping developing tax policy, there are mainly two approaches: The interventionist and the reductionism. The interventionist tradition was represented in the early postwar period by such prominent analysts as Heller (1954), Kaldor (1965), achievement of a variety of policy objectives through the tax system, but it should do so .The reductionism tradition, harking of Bauer (1957) but was recently secured a wider consistency, for reasons noted above : government not only cannot achieve many of the policy goals earlier postulated but it should not or as the*public choice*school would have it, will not have it, will not try to do so.

A central concern of tax policy makers in UDCs is how best to produce adequate revenues to finance public sector activities without unduly discouraging the private sector's essential contribution growth. In this respect, traditional interventionist approach to taxation is replaced by reductionist approach, which is generally termed as supply-side taxations shows clearly that in the context of UDCs the general direction and strategy of this approach is both widely acceptable and workable. This approach is mainly based on the idea that widespread tax evasion in UDCs can be controlled by broadening tax bases and lowering tax rates, where the marginal rate of personal income tax is excessive. Plausible though it may appear, however, it is well – established in principle that there is no reason to expect lower tax rates in themselves to reduce evasion. In this connection the following argument is important: If evasion is cost-less, that is, the probability of detection and penalization is infinitely small as is the case in all too many countries then the mere reduction of the nominal tax rate will have no effect at all on evasion.

2.1.5 Appropriate Tax Policy for UDCs

What then are the most important specific changes to be considered in the tax system of market oriented developing economy like Nepal? Some economists may want to base their policy advice on sophisticated calculations of optimal tariffs, tax and subsidies. The literature on optimum income taxation has, for example, given precision to the old idea that marginal tax rates should be higher the smaller the elasticity effort with respect to rewards is, ceteris paribus.

Gandhi (2011) has expressed that equity, growth, efficiency, and stability are major objectives of tax policy, which are conflicting each other. A tax system based solely on efficiency grounds is unrealistic, while that designed solely for equity purposes cannot be justified on allocative grounds. The degree of progressively will, in practice, continue to be dictated by political and social consensus rather than by the optimizing formulae of tax economists. However, it is accepted that high tax rates and narrow and selective tax bases can create distortions, encourage unproductive activities, erode the revenue base and lower the effective tax rates below the intended nominal tax rates. Tax cuts without reforms in the tax base can introduce more distortions of efficiency and equity than they correct, especially, if they result in inflationary finance.

Lindbeck (2012) has suggested that the literature on optimum commodity taxation has formalized old views among economists about how to make a compromise between the allocative efficiency of consumption and concern for the distribution of income. While in the interest of economic efficiency, tax rates should be relatively high on goods and services for which the demand and supply elasticity are small. For distributional reasons, the rates should be high on goods and services that play a relatively important part in the consumption pattern of high-income earners. Taxes should, ceteris paribus, also be high on goods and services, which are close complements, for the consumers of untaxed or indeed un-taxable goods and services like leisure. Quite complex formulae have in fact been derived to strike a balance between these different often-conflicting aspects, using a social welfare function as the criterion for the trade-off.

But these actual policy advices are based on different assumptions such as, identical preferences of all individuals, special forms of the production functions, such as Cobb-Douglas function which demand massive statistical information and administrative competence, but instead more ambitious with respect to basic insights about the functioning of the political process, for political behavior is important to implement and policies into action.

Prest (2007) has discussed that public financial policy can in principle take two different forms. At one end of the scale, one can attempt to draw up a blueprint for the overall reform of the revenue and expenditure system. Any such blueprint must consider the relative importance of the various ends served by the revenue-expenditure system, the way in which individual taxes and expenditures contribute to these ends and the co-ordination of these individual contributory elements. The other extreme is to discuss the reform of individual taxes or expenditures without reference to one another, without necessarily attempting to cover the whole field and without much consideration of the overall effect on the economic system.

The concept of “elasticity” and “buoyancy” of taxes are often used to examine the Trend of tax collection to variation in national income. In other words, measuring Trend of taxes in a tax system “elasticity and buoyancy” are two popular concepts frequently referred as automatic stabilizer. It provide vital base to analyze the system of taxation and evaluation of the tax performance. If tax system is elastic; than the functioning of the economic system needs no decelerate or discretionary action of any external authority. Elasticity or built-in- flexibility; which measures the Trend of particular tax system is also know as “stabilized coefficient” which is the static concept, would indicate what size and magnitude of tax would have been over a period of time when there would be no change on the tax rate and legal base" (Dahal,1988).The Trend of tax revenue to changes in national income as measured in terms of elasticity, is of great interest to policy maker and research because elasticity is measured with reference to the given tax structure. Thus, it provides real or stabilized value of taxes. In a way, this can be considered as a partial account of tax Trend to change in the national income.

In 1948, Musgrave and Miller developed another method i.e. built-in-flexibility to know the strength of taxation to act as an automatic stabilizer. Their approach starts with sensitivity formula, which they called “Income Elasticity”

$$E = \frac{(\Delta T).Y_1}{(\Delta Y).T_1}$$

This means, income elasticity (E) of the tax yield (T) is the ratio of the percentage change in tax yield to a given percentage change in income(Y) Then they defined built-in-flexibility as

$$\sim =1-\frac{\Delta Y}{\Delta Y_a}$$

Where, ΔY stands for the change in income in the particular tax system and ΔY_a refers to a system where (E) is the equal to zero. The ratio $\frac{\Delta Y}{\Delta Y_a}$ refers to the ratio of change in income in a particular tax system to the change in income of the tax system had zero. Income elasticity if $\sim =0$. Then there is no built in flexibility. If ~ =1 then there is perfect i.e. total income remain unchanged.

Chen (1960) has said that the change in tax liabilities (T) associated with the change in adjusted gross income on taxable returns (AGI) holding constant the legal provision or exemption deduction.

Lusher (2002) has told that a more general definition of built-in-flexibility, encompassing tax and expenditure component has been suggested. "Built-in-flexibility is the amount of induced absolute dollar change in given revenue or expenditure program following an absolute dollar change in some external variable".

The built-in-flexibility can be expressed in marginal term = $\frac{\Delta A_i}{\Delta Y}$

Where A_i = is a budget component

Y = an economic variable such as national income or,

And in terms of elasticity = $\frac{\Delta A_i}{A_i}.\frac{Y}{\Delta Y}$

Mathematically, these two measure are related ,income elasticity is the ratio of the marginal tax rate to average tax rate .If therefore exceeds unit whenever the average tax rate is less than marginal tax rate. Thus, in conceptual term one may not justify preference for one to another .But there exist some situation where a choice between two measures is important for the analysis. The marginal tax rate is particular useful if one is examining change in real taxes and income during a period of inflation or is interested in examining the regulatory effect of the taxes. In the context of revenue income elasticity comparison the elasticity coefficient is the better indicator since it abstracts from existing level of usage (by incorporating average tax rate) and compares relative Trend with and income change.

Following mostly the tax elasticity approach the Trend of tax system is often calculated as a single number by relating the changes in aggregate tax revenue to changes in national income. The elasticity so measured by constructing a hypothetical series of tax revenue of with adjusted data.

Similarly, the term "buoyancy" or "sensitivity" or "exploitation coefficient" is the increases that took place in the result of change in the rate and structure of tax system involving widening and deepening of tax bases additional to the number of taxes and increase in rate of taxation is termed as buoyancy. Buoyancy, which is considered as a dynamic function for, it measures the growth of revenue adjusted for any estimates what actually happens. This measure provides a "floating value" or "face value" of taxes. The buoyancy includes automatic growth and discretionary changes which reflects the influence of such factors as sensitivity of the tax –base to growth in GNP, the progressively of the rate structure, the nature and frequency of discretionary action and change in prices .Thus, it can be viewed as a total account of the tax Trend to change in the national income. The buoyancy can be expressed as symbolically; $\frac{\Delta T}{\Delta Y}.\frac{Y}{T}$

Where, T=Tax yield

Y=national income

Δ =change in respective variable.

The first economist to define sensitivity is Bretherton in 1937. Bretherton (1937) has explained that sensitivity of the tax system can be defined as a proportionate change in national income with given tax rate and coverage of tax base.

In brief, various economists have defined elasticity and buoyancy of the tax system in their own ways. However, they indicate a same thing that is; buoyancy is nothing but a traditional income elasticity, which can be defined as the relative change in actual tax receipt due to the relative change in national income or GDP. On other hand, elasticity can be defined as the relative change in net or adjusted tax receipt due to the relative change in national income or GDP. Similarly, the elasticity can be decomposed into tax to base and base to income elasticity.

Mansfield (2006) has explained that the term “discretionary” changes are defined as legal change in tax rates or in the tax base, the introduction of new taxes, and certain administrative efforts or the change in the yield of taxes and which is to separate “automatic growth” of revenue from gross or unadjusted historical revenue series by eliminating discretionary change.

Chaudhary (2008) has suggested that the method of adjustment depends on the available data on such changes and on the type and frequency of those changes. A complete adjustment of historical revenue series is not possible in any of the major existing methods,

Dahal(2000) has exploredthat the term “automatic effect” is the total tax increase in any given period minus the increase due to discretionary action .Tax yield are often arbitrary legislative change is base in the budgetary estimate each year.

a) Constant Rate Structure Method

b) Proportional Adjustment Method

c) Dummy Variable Method

d) DivisiaIndex Method

Above two(c) and (d) method is no need to begin by first “purging” the revenue series of the effect of discretionary action before elasticity estimate are undertaken.

2.2 Empirical Review

Review of empirical literature can be referred under the following sub-headings:

2.2.1 International Review

Mansfield (2006) has studied for the period 1962 to1970 an era of conscious tax reform by examining two major problem (a) what was the elasticity of the system and its components and how is the size of the elasticity coefficient explained? And (b) what was the buoyancy of the system relative its elasticity? He found the elasticity coefficient of total tax system was 1.14 and elasticity of different tax head such as import duties 7.21,stamp tax, another import tax had an elasticity of 1.34,income tax 1.08,wealth taxes 1.52 and export taxes had a low elasticity of 0.06.Whereas the buoyancy coefficient had measured 1.69 which implies that 1 percent change in GDP will bring out 1.14 percent change in total tax and remaining 0.55 percent change in total revenue due to discretionary changes.

There have been few empirical studies done on estimating the buoyancy and elasticity of Barbados's tax system. However, scholars such as Williams (2001), Howard (1992 and 1979) have included estimates of buoyancy and elasticity in their treaties of the Barbados's tax system and public finance.

Williams (2001) has estimated that the average tax buoyancy and the tax elasticity to be 1.14 for the period 1976 to 1990. She also observed that indirect tax component such as stamp duties levies and consumption taxes were the major determinants of the buoyancy rate. It employed standard method to calculate tax elasticity. This involve cleaning the series of discretionary change ,and regression tax on GDP using single equation ordinary least square (OLS).Additionally, total tax elasticity was disaggregated into levies ,direct taxes and stamps duty elasticity. She concluded that direct taxes had greater tax elasticity than indirect taxes because there were subject to less discretionary change between1978 to 1986.

Howard (2009) has projected that Barbados's tax buoyancy to be 0.68 for the period 1974 to 1984. It employed the following simple linear regressing model $\log T_c = \log a + b \log Y$

Where, T_c is tax category, b is the buoyancy coefficient and Y is the GDP. The buoyancy coefficient is statistically significant and the R^2 value exceeded 95 percentage.It attributed the low tax buoyancy to structural and administrative factor .It also suggested the growth of an underground economy might have reduced the revenue productivity of the base, thereby lowering the tax buoyancy.

2.2.2 Nepalese Review

Rijal (1976)hasfound that the elasticity and buoyancy coefficient for the total tax revenue1.82 and 2.18 respectively in that study period by using proportional adjustment method of SAHOTA. This study has indicated that the Nepalese tax structure as whole is elastic. This study found income tax elasticity as high as 4.39 among the different tax head. The buoyancy of income tax for the study period was 3.13.The different between buoyancy and elasticity coefficient of income tax for the period was (-1.26).The tax system as a whole had buoyancy of 2.18 compare to an elasticity of 1.28 which indicates the positive impact of legislative change on the revenue productivity of the tax system.

Agrawal (1978) has stated that with the necessity of resource mobilization of Nepal through the reform of income tax. It showed the growing resource gap since FY

1951/52 onward and sought the way for filling it up. For this they calculated elasticties and buoyancies for major Nepalese taxes with base GDP, using the series of different tax revenues from FY 1967/68 to FY 1975/76 for measuring their productivities. The values of buoyancy and elasticity for income tax being highest 2.18 and 2.01 respectively and differences also being high, they recommended income tax for the objective concerned. This study has also projected the amount of income tax that can be mobilized in future under contemporary situation. This report has projected the amount of income tax for 15 years from FY 1975/76 to FY 1990/91 under the assumption of the growth rate of 21.6 percent will hold well in future years and amount of income reaches to Rs. 1638.27 in FY 1990/91 from Rs. 87.17 in FY1975/76.

This report suggests income taxhas become a very important source in filling the resource gap but the reforms in the field of technical and administrative is very much essential. Low tax base, inefficient administration and corrupted bureaucracy are the major sectors to be reformed.

IDS (1978) has reported that the elasticity of the Nepalese tax system extremely low in comparison with the buoyancy for the period FY 1974/75 to FY 1984/85. This report has indicated that the government had concentrated only introducing various discretionary measures rather than broadening the tax base. This study showed the elasticity of tax revenues 0.86 and buoyancy 1.35.Similarly the report found the elasticity of direct tax and indirect tax to be 0.66 and 0.93 respectively. Within these taxes, the elasticity of sales tax excise duty, import duty, export duty and income tax were reported at 1.007, -0.33, 0.56, 0.66 and 1.06 respectively. Among them, elasticity of the indirect tax was more than the direct tax and among all taxes; income tax had highest elasticity which was around unitary elasticity. Besides income tax and sales tax, other taxes were inelastic in nature. The buoyancy coefficient of dole tax was highest (1.75), import duty (1.24), export duties (-0.035). Except sales and income taxes, the elasticity of remaining taxes below either unity or negative whereas the buoyancy of all taxes except export duty was unitary

Agrawal (1980) has made an extensive study of Nepalese taxation covering the period of 16 year FY 1962/63 to FY 1977/78. He found the elasticity and buoyancy coefficient of different tax heads with respect to GDP. For the period FY 1967-68 &FY 1975-76, excise tax has the highest value for buoyancy of (2.24) followed by sales tax (2.20),income tax (2.18),custom duties (1.18) and land tax (.0.17). Similarly income tax has the highest elasticity of 2.18 followed by sales tax (1.74) excise tax(1.287),custom duties (0.086) and land tax (0.12).since both the elasticity and buoyancy coefficient of income tax are greater than unity .Which implies that the income tax of Nepal is positively responsive to change in GDP. The coefficient of the buoyancy was 2.18 and the difference between buoyancy and elasticity of income tax is only 0.17 which implies that the 1 percent change in GDP will bring about 2.01percent change in total revenue due to discretionary measures.

Dhungana (1980) has studied that basically covered main component of indirect taxation .The study had used double log linear function to measure the relationship between income and tax revenue and net series have been arrived by using proportional adjustment method of Chadn and Chelliach. He found the elasticity coefficient for total tax revenue are 1.24 buoyancy coefficient is 1.73.This study indicates that the Nepalese tax structure of fairly progressive but is not enough to meet the growing public expenditure.

Subedi (1982)has analyzed the importance of income tax in Nepal. The main objective of his study is to examine the contribution of income tax to total revenue, the growth of income tax collection, its ratio to GDP and to calculate its elasticity. According to him, the tax structure was diversified to tap resources in FY 1959/60. A reform was made in FY 1962/63 introducing the comprehensive income tax with a long term motive. The share of income tax to total revenue is increasing but it covers a small portion only. The role of income tax in Nepalese tax structure is rising constantly in absolute terms. Income tax is very important for economic development though it is unable to fulfill the objective because it plays very minor role in total tax revenue.

Tax administration in Nepal suffers from a number of interacting and interrelated problems which have badly affected its productivity. The study has found the taxation system highly elastic i.e. the elasticity of income tax in the period FY 1965/66 & FY 1979/80 is 1.76.He has identified various challenges in the income tax system of Nepal and suggested that these challenges can be converted into meaningful opportunities through timely reform. For this, law of income tax system should be clear, precise and the terms must be well defined and there must be wealth tax supplemented for income tax. Taxpaying procedure should be made easy; tax payer should be well informed about the procedure and law.

Dahal (1984) has studied various aspect of Nepalese tax structure for the period FY 1952/53 to FY 1981/82 in general and FY 1964/65 to FY 1981/82 in particular. In this period the over all elasticity of the total revenue equals almost unity (1.01), for indirect, it is marginally higher than unity (1.02) compared with the elasticity of direct tax (0.68) and the elasticity of tax revenue is 0.92 reflecting the tax system less responsive to change in income. But the buoyancy coefficients for the same time period are 1.54 for total revenue, 1.52 for the tax revenue, 1.63 for indirect taxes and 1.23 for direct taxes.

Among the individual taxes the elasticity of sales tax is highest (1.96) followed by income tax (1.38), import duties (1.05), export duties (0.77), and land tax (-0.04). The buoyancy coefficient for sales tax is again highest (2.56) followed by the excise duties (2.23), income tax (1.86), import duties (1.79), export duties (1.14) and land tax (0.31) .These figures imply that the inelasticity of taxes in the tax structure of Nepal is primarily concentrated on land tax, export duty, import duty, excise duty and to some extent on income tax.

Pant (1991) has studied structural change in revenue administration of Nepal after the restoration of multiparty democracy. The author has measured tax elasticity as 0.495 for the period FY1974/75 to FY 1983/84 and on the other hand tax buoyancy has declined to 1.28 in the period FY1974/75to FY 1988/89 from 1.37 in FY1974/75to FY 1984/85.During the period elasticity of customs,excise, sales, and import have improved but elasticity of income contract and hotel tax has declined indicating that efforts to rise revenue through discretionary measure is unproductive.

Guru Gharana (1993) has found that the elasticity coefficient of total revenue is 0.495 for the period FY 1974/75 to FY 1983/84 and 0.581 for the period FY 1974/75 to FY 1988/89. For the same period, buoyancy coefficients are 1.365 and 1.281 respectively. Except for contract tax (1.898) and sales tax (1.053) the elasticity of remaining taxes i.e. customs, excise, income, hotel, entertainment, land revenue etc. are either extremely low (far below unity) or negative where as the buoyancy of all taxes except land revenue are above unity. This high buoyancy but low elasticity shows that the government is engaged in imposing high rates on a few taxed commodities and regressive nature of the tax system.

Acharya (1994) has analyzed that the structure of Nepalese income, examined the productivity of income tax revenue and assesses the existing problems and future prospects of income taxation in Nepal. This paper was prepared considering the secondary data of the period FY1964/65 to FY 1989/90. This study shows that the income tax revenue in Nepal rose from 0.09 percent to 1.02 percent of GDP during the FY1964/65 to FY 1989/90 with slight fluctuations. During the same period of time it increases from 3.52 percent to 12.8 percent of the total tax revenue and from 10.21 percent to 64.95 percent of the total direct tax revenue with slight ups and downs. The relative share of individuals in total income tax revenue is not less than 50 percent since the FY 1977/78 onwards. During the study period the elasticity and buoyancy of Nepalese income tax revenue seem to be 0.84 and 1.80 respectively with base GDP. R2 values in the both cases are high (0.80 and 0.92 respectively). T and F statistics are significant at 1 percent le

Paudel (2002) has focused that the study on describing the structure of income tax in Nepal and estimating the elasticity and buoyancy of income tax in Nepal for the period of 25 years from 1975 to 2000. The study has shown that Nepal has been heavily relying on the external and internal debt to meet the budget deficit because of low revenue collection compared to the total expenditure. The dependence is increasing, which is not desirable for any economy. Thus, it is more essential to mobilize the internal revenue to the optimum level. The trend of overall revenue in Nepal shows the continuous increasing over the study period with an average annual growth 16 percent. In the composition of revenue, share of tax revenue is significantly higher than non-tax revenue within the tax revenue the contribution of indirect tax decreases from 74 percent in FY 1975/76to 73 percent in FY 1999/00.

Similarly, within the direct tax, income tax was the largest source which contributed more than 86 percent in FY 1999/00. The elasticity and buoyancy coefficient of income tax have been found to be 0.61 and 1.36 respectively during the period under review. This shows that Nepalese income tax is very inelastic. The difference (0.75) between buoyancy and elasticity coefficients shows that there are minimum chances for further discretionary changes. She has also evaluated the success of the voluntary disclosure of income scheme (VDIS) program.

At last, the study said that the Nepalese tax administration has been attempting to modify itself to meet the pressing challenges brought about by change in technology and economic policies. However, still its working procedures are traditional and the cost administration has not brought to the satisfactory level.

Nepal (2002) hassuggested that thestructure of exemption riddled with loopholes, inequalities and arbitrary expenditure? If it is so, then to what extent, they have eaten into the potentialities of revenue raising components of income tax.

The study period cover from FY1980/81 to FY 1998/99. Revenue yield from personal income tax as percentage of GDP has gone up from 0.37 to 0.75 during period starting from FY 1980/81 to 1988/89 but there after it, as percentage of GDP, has gone down continuously and reached a low level of 0.39 in the year FY1995/96.Although it registered advance after FY 1995/96 and reached a level of 0.67 in the year FY1998/99. The overall elasticity of Nepalese income tax for the period of FY1980/81 to 1996/97 works out to 0.53. This shows that the structure of income tax in Nepal is not much responsive. It also shows elasticity coefficients before the restoration of democracy of Nepal was 0.35 (FY 1980/81 to FY 1989/90) but rose to 1.21 after the restoration to multiparty democracy in Nepal.

Shakya (2005) has studied the during the period from FY 1976/77 to FY 2002/03, further this whole sample period was divided into two sub period (i) from 1976/77 to FY 9190/91 and (ii) FY 1991/92 to FY 2002/03.An important objective to compare the Trend and productivity of Nepalese tax system before and after the restoration of democracy .Using SAHOTA method for data adjustment. The study found the elasticity coefficient of total tax revenue of whole period is 0.618 and period (i) 0.587 and period (ii) 0.669.At the same time the buoyancy coefficient of the whole period is 1.140 and period (i) 1.148 and period (ii)1.128.

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

Nepal (2008) has emphasized on fiscal system of Nepal, origin, meaning, existing position, role, problem and future perspective of income tax in Nepal. The major problems existing in Nepalese income tax system, identified by her are the insufficient income tax administration, mass poverty, lack of tax consciousness, low number of tax payers, lack of cooperation between tax payers and departments, narrow coverage, assessment deficiency etc. The study has suggested that if these problems can be solved and resources are effectively utilized the future income tax would be bright. The study suggests that exemption limit should be separate to couple and family and the tax rate & exemption limit should be elastic & progressive.

Regmi (2009) has studied the trend and share of income tax in total tax revenue and in GDP of Nepal. The study has described the growth, objectives and stabilization of income tax. The study has found out that income tax can check the inflationary trend within the country as well as it direct the flow of resources of the economy into useful and productive channels and increase the productive capacity of the economy. He has suggested that the practice of evasion of the tax must be checked to contribute taxes to the economy growth of Nepal. The study further suggests for widening tax coverage, application of scientific assessment method, simple and easy procedure of tax payment and establishment of research unit. The study has not included the comprehensive aspect of income tax.

Shakya (2015)has studied income Tax Act 2058 the researcher that tax evasion and avoidance are the major constraints for effectively mobilize the income taxation. According to his study the reason for tax evasion and avoidance are inefficient tax administration, poor tax morality and tax payers compliance, inadequate audition and investigation, reluctance of taxpayers' to maintain account, poor enforcement of fine and penalties, inappropriate tax act and laws and etc.

2.3 Research Gap

The conclusion that can be derived from the review of Nepalese empirical study is that various studies have found the heterogeneous Trend of the particular tax system to the GDP. This may be due to change made by tax authority in the fiscal policy over study period. Moreover, different value of elasticity and buoyancy coefficient estimated by above discussed studies might be due to the choice of the base year, time interval and choice of proxy variable. However, this review disclose the fact that there has been no research which compares the structure and Trend of Nepalese tax system after restoration of democracy in 1990, under the assumption that structure changes may have occurred in the revenue generation due to the different policies adopted by GoN. During the study periods, hence, an attempt is made in the present study to address the issues as what is the structure and Trend of Nepalese tax system after the restoration of democracy in 1990.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

The research methodology followed in this study can be termed as analytical as well as descriptive research design. Descriptive research includes fact-finding. The major purpose of descriptive search in this Study is to describe the status of the position of the income tax revenue. Furthermore. Analytical research indicate the evaluation of the fact or available data. Here, in this study available data and fact regarding the income tax revenue, total direct tax revenue, total indirect tax revenue, total government revenue, etc. have been analyzed and evaluated.

Thus, this research study is based on descriptive as well as analytical research design.

3.2Nature and Sources of Data

This study is based on secondary sources of data information. In order to get the fact full result all the possible and useful data as far available have been collected. The major sources of data collection are as follows.

- Various issues of economic survey published by MoF.
- Annual report of IRD/N of different years.
- Various publication of NRB
- Budget Speech of various years
- Newspaper, magazines, thesis, studies and books, etc.

3.3 Data Collection Procedures

Date processing is one of the important stages of research. Processing means a series of operations on data in a research so as to obtain desired objective. Analysis means categorizing, manipulating and summarizing of data to obtain answers of research questions. Different statistical tools and techniques are included to craft the collected data into published form so as to obtain desired objectives tools for analysis of data. The research covers the study from FY 2004/05 to 2013/14.

3.4 Tools of Data Analysis

All the data are presented and analyzed to fulfill the objectives developed in introduction chapter to illustrate the research. Table's figures, charts diagrams, time series analysis, and correlation analysis have been used for the data presentation to evaluate contribution of the income tax to national economy. For the purpose of data analysis, broadly two kinds of tools: financial and statical have been used. But among these two tools, financial tool is the major tool to analyze the data and on the basis of which interpretation has been made.

CHAPTER IV

ANALYSIS AND PRESENTATION OF DATA

This chapter deals with comparative analysis and presentation of available data as mentioned in the research methodology. The analysis of data consists of organizing, tabulating and assessing statistical and financial results from different tables and figures, which are drawn to make the result more and understandable.

Presentation is the act of introducing and appearing or giving a particular impression for any cause of a problem or problems. It means the researcher shows the found impression formally at related area or ceremony where as analysis is a method of studying specific content and analyzing communications materials in a systematic, objective and quantitative manner to measure variables. The communication materials may be newspaper articles, editorials, T.V. programmers, letters, diaries, ethnographic materials, minutes of meeting, etc.

Every government is responsible to perform numerous functions for the betterment of the people in the country. A government needs huge volume of income to fulfill different type of expenditures. For this purpose, government collects revenue from different sources like taxes, borrowings, fees, donations etc. are called public revenue. Those expenditures and revenues should be presented formally to perform the numbers of functions in a public arena so that the presentation and analysis of data can be done properly. The presentation and analysis of data can be described as in the following topics:

4.1 Analysis of Data

This chapter focuses on the presentation and analysis of secondary data. The secondary data have been obtained from economic survey, budget speech, IRD yearly Report and other related newspapers. The available data related to the study have been tabulated, presented and analyzed and interpreted to reach at some findings. The data collected from economic survey and other related newspapers have been analyzed by dividing into various sub-headings.

4.1.1Revenue Collection from Tax

The main source of revenue collection of government is tax revenue the revenue collection from tax is in increasing trend. The revenue collection from tax in FY

2009/10 is Rs 156295.00 million but in FY 2014/15 the revenue collection is Rs.355955.77 million it shows the revenue collection from tax is increasing trend. Following table shows the revenue collection from tax in different year. Tax revenue includes tax on income & gain, tax on Property, tax on goods and services, tax on international trade and other tax. The total tax collection during the six year is as follows:-

Table 4.1

Revenue Collection from Tax

(Rs. in million)

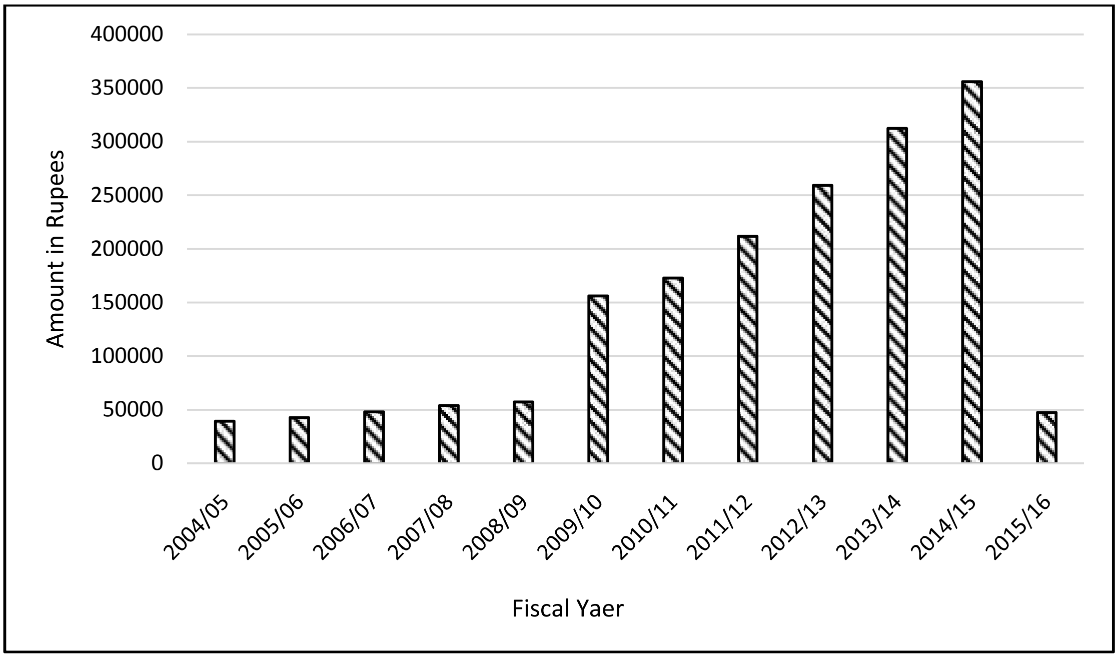
FY	Tax Revenue
2004/05	39330.64
2005/06	42586.92
2006/07	48173.00
2007/08	54104.70
2008/09	57430.40
2009/10	156295.00
2010/11	172778.00
2011/12	211722.61
2012/13	259214.94
2013/14	312441.26
2014/15	355955.77
2015/16	47501.14

Source: Economic Survey, FY 2015/16, MoF,GoN, 2016.

Table 4.1and figure 4.1 deal thatthe revenue collection from tax was increased from FY 2005/6 to FY 2015/16. In the FY 2004/05, the tax revenue was 39330.64. In 2014 /15 the tax revenue was 355955.77 but it was 47501.14 in 2015/016. Then FY 2015/16 the above explanation can be shown in following figure.

Figure 4.1

Revenue Collection from Tax



Source: Based on the Table 4.1

4.1.2 Composition of the Tax Revenue

Tax revenue is composed of direct and indirect tax. The structure of Nepalese tax revenue can be presented in terms of consumption income and capital based tax. Taxes on consumption are known as direct taxes. Custom duties, excise VAT, Entertainment tax, Hotel tax, Air flight tax, Road and bridge maintenance tax, Vehicle tax and contract tax are included in the indirect tax. Similarly, income tax, interest tax, wealth tax and other tax as are included in direct tax. The composition of Nepalese tax revenue is presented in the table 4.1 in terms of direct and indirect tax revenue from FY 2005/06 to FY 2015/016

Table4.2

Contribution of Direct and Indirect Tax on Total Tax Revenue from FY 2005/6 - FY 2014/2015

(Rs. in million)

FY	Total Tax Revenue	Total Direct Tax	% Share of Direct Tax to Total Tax	Total Indirect Tax	% Share of Indirect Tax to Total Tax Revenue
2005/06	25939.8	6013	23.18	19926.8	76.82
2006/07	28534.3	7297.5	25.57	21236.8	74.43
2007/08	32756.6	8556	26.12	24200.6	73.88
2008/09	38865.1	10159.4	26.14	28705.7	73.86
2009/10	156294.9	41750.2	27.9	114544.8	73.06
2010/11	172777.9	48655.3	28.16	124122.6	71.84
2011/12	211722.6	69870.1	33.1	141852.5	66.9
2012/13	259214.9	85235.4	32.88	173979.6	67.12
2013/14	312441.3	101798.9	32.58	210642.4	67.42
2014/15	355955.8	119370.3	33.54	236585.5	66.46

Source: Government Finance Statistics, NRB, FY 2015

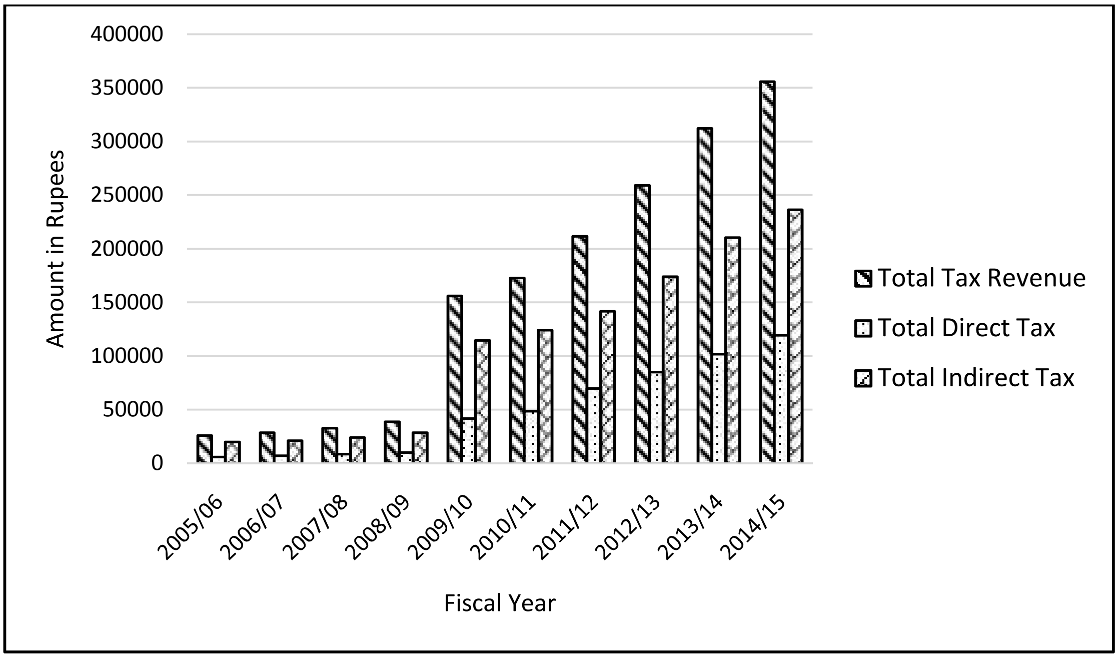
Table 4.2 and figure 4.2 show that the simultaneous increase in direct, indirect tax and total tax revenue in absolute terms In FY 2007/08, these amount were Rs. 8556.5 million, Rs 10159.4 million and Rs. 41750.2 million respectively and after five years these amount became Rs 259214.9 million, Rs 312441.3 million and Rs 355955.8 million respectively.

The contribution of direct tax revenue is very low in Nepal, because being an under development country, the people of Nepal live in subsistence level, and all of their income is spent on consumption. As a result direct tax cannot produce more revenue than indirect tax.

Despite of absolute increment of direct tax, its contribution to total tax revenue in FY 2005/06 was 23.18 percent which increased up to 29.57 percent in the FY 2005/06. But the direct tax contribution percentage to total tax revenue was decreased down to 32.88 percent in FY 2012/13 and it increased up to 33.54 percent in the FY 2014/15. The contribution of indirect tax in FY 2005/06 was 76.82 percent and it was gradually decreased down to 73.88 percent in FY 2007/08. After that, it increased to 73.86 percent in FY 2008/09 and remained 66.46 percent in FY 2014/15.

Figure 4.2

Contribution of Direct and Indirect Tax on Total Tax Revenue



Source: Based on the Table 4.2

4.1.3 Composition of Tax Revenue and Non- Tax Revenue

Tax revenue includes tax from customs, tax on consumption and product of goods and services land revenue and registration and tax on property, profit and incomes. Non tax revenue includes charges. Fees, fines and forfeiture, receipts from sale of commodities and services dividend, Royalty and sales of fixed assets, principal and interest payment and miscellaneous. The composition of tax revenue and non-tax revenue of government in different year in given in following table:

Table 4.3

Composition of Tax Revenuaeand Non -Tax Revenue

(Rs. in million)

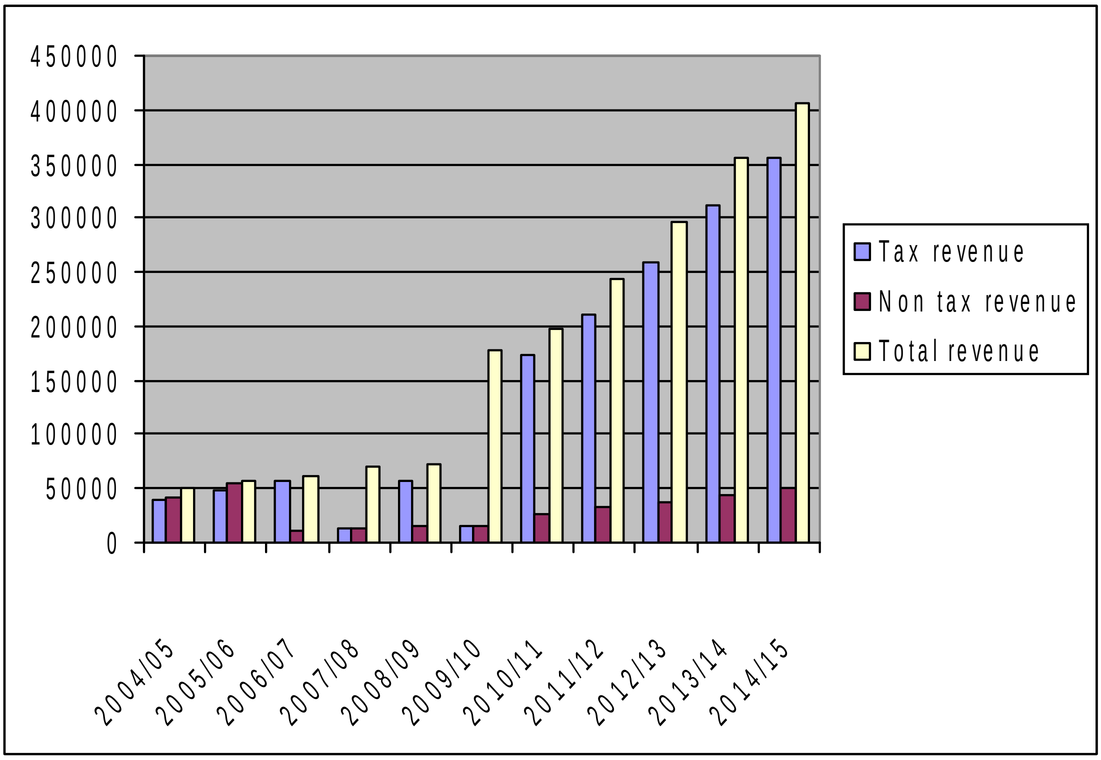
FY	Tax Revenue	Non Tax Revenue	Total Revenue
2004/05	39330.64	42586.92	81917.56
2005/06	48173.00	54104.70	102277.70
2006/07	57430.40	11114.90	68545.30
2007/08	13642.86	14158.00	27800.86
2008/09	57430.40	14851.60	72282.00
2009/10	16018.00	14851.60	30869.60
2010/11	172778	25598	198376
2011/12	211721.8	32651.1	244372.90
2012/13	259214.90	36806.20	296021.10
2013/14	312441.33	44179.50	356620.83
2014/15	355955.71	49910.71	405866.42

Sources: Economic survey, FY 2015/16, MoF.

Table 4.3 and figure 4.3 show that the major of part of total revenue is tax revenue. The revenue from tax in FY 2009/10 was Rs.16018.00 million. Similarly the revenue from tax in FY 2010/11, FY 2011/12, FY 2012/13, FY 2013/14 and FY 2014/15 were Rs. 172778 Rs. 211721.8, Rs. 259214.90, Rs. 312441.33, and Rs.355955.71 million respectively. Similarly revenue collection from non-tax were in FY 2009/10, FY 2010/11, FY 2011/12, FY 2012/13, FY 2013/14 and FY 2014/15 were Rs. 14851.60 million, Rs. 25598 million, Rs. 32651.1 million, Rs. 36806.20 million, Rs. 44179.50 million and Rs. 49910.7 million respectively. This explanation can be shown in following figure:

Figure 4.3

Composition of Tax and Non- Tax Revenue



Source: Based on the Table 4.3

4.1.4 Revenue Collection from Income Tax

Income tax is the main source of revenue for the government. Income tax includes corporate tax, Individual tax and Interest tax. Corporate tax includes Income tax from Public Enterprises, Income tax from Semi-public Enterprises and Income tax from Private Corporate bodies. Individual tax includes income tax from Individual and Income tax from remuneration, Interest tax includes tax related to Interest Income.

In FY 2009/10, revenue collection from Income tax was Rs. 33822 Millions and in FY 2014/15 revenue from Income tax is increased to Rs. 86165.66 Millions. The following table shows the revenue collection from income tax in different year (Table 4.4).

Table 4.4

Revenue Collection from Income Tax

(Rs. in million)

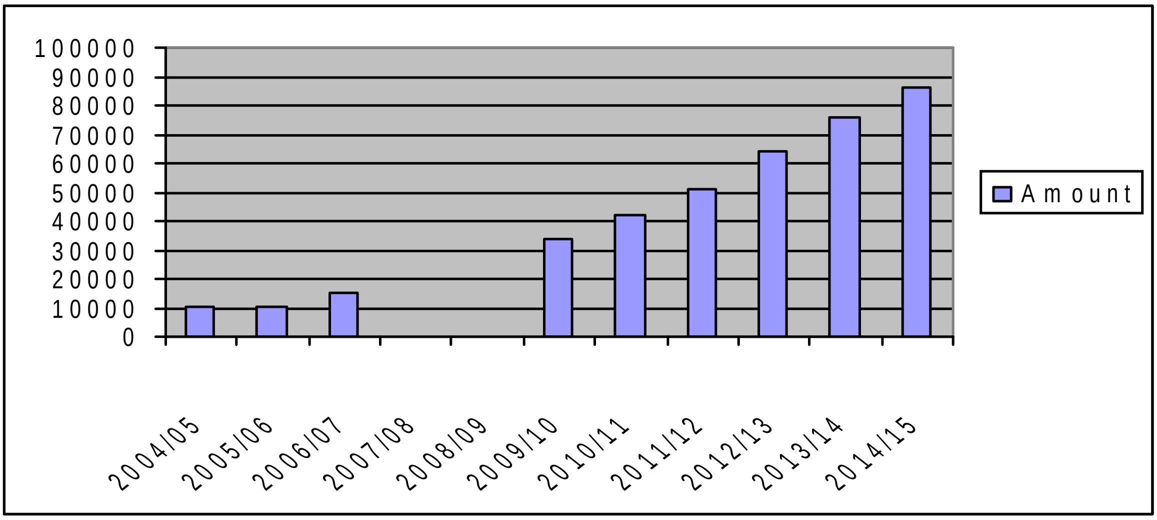
FY	Amount
2004/05	10159.4
2005/06	10373.7
2006/07	15034
2007/08	17.062
2008/09	18.093
2009/10	33822
2010/11	42060
2011/12	51303.23
2012/13	64186.69
2013/14	75613.64
2014/15	86165.66

Source: Economic Survey, FY 2015/16, MoF, GoN, 2016.

In FY 2004/05 the amount of revenue collection was 10159.4. But it was 86165.66 in FY 2014/15. The trend of revenue collection from Income tax can be shown in following figure 4.4.

Figure 4.4

Revenue Collection from Income Tax



Source: Based on the Table 4.4

4.1.5 Contribution of Income Tax to Total Revenue

The government total revenue includes Tax revenue and Non-tax revenue. Tax revenue includes Tax from customs, Tax on consumption and products of Goods and Services, Tax from Land revenue and registration, Tax on property profit & Incomes. Similarly Non tax revenue includes charges, fees, fines and Forfeiture, Received from sales of commodities and Services, Dividend, Royalty and sales of Fixed assets, Principle and Interest payment and Miscellaneous items. Income tax is one part of Total revenue. The contribution of Income tax on the Total revenue in different year is given below:

Table 4.5

Contribution of Income Tax to Total Revenue

(Rs. in million)

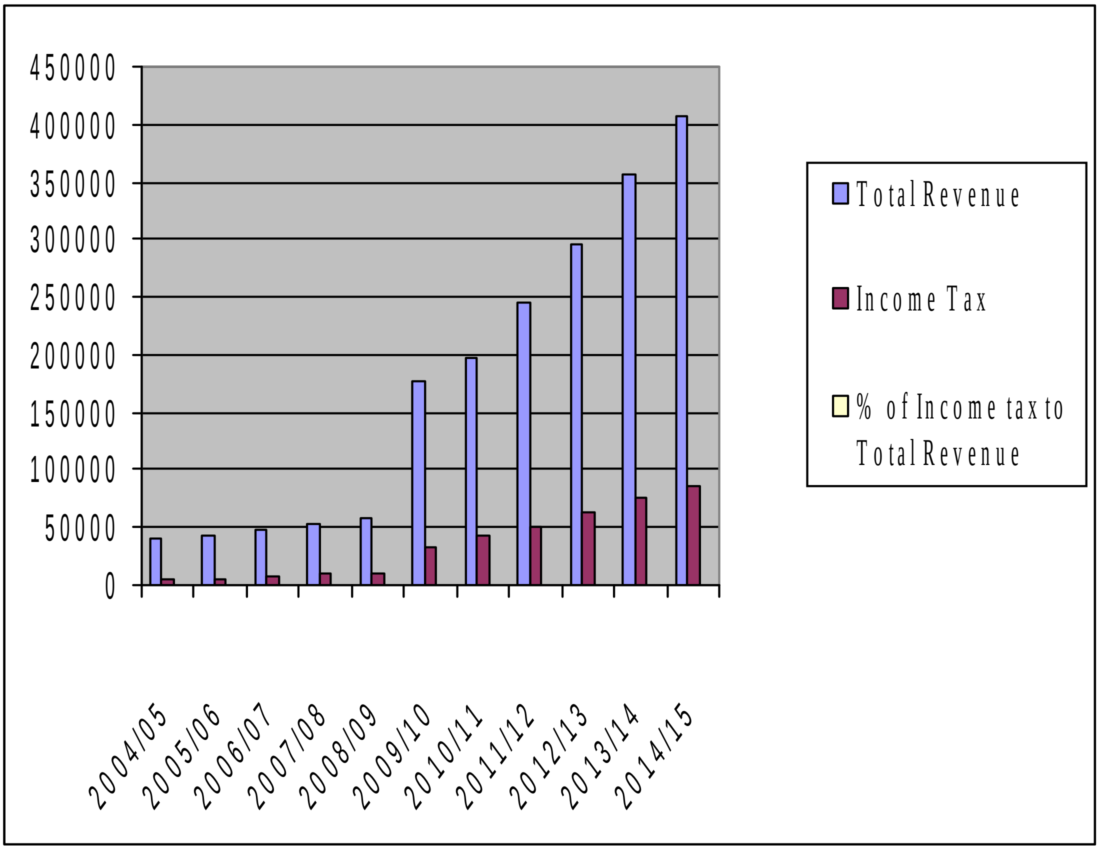
FY	Total Revenue	Income Tax	% of Income Tax to Total Revenue
2004/05	39330.64	4898.1	12.45
2005/06	42586.92	6170.2	14.48
2006/07	48173.00	7420.6	15.40
2007/08	54104.70	9114	16.84
2008/09	57430.40	8903.7	15.5
2009/10	177992	33821.00	19.00
2010/11	198378	42060.00	21.20
2011/12	244374.10	51303.23	20.99
2012/13	296021.15	64186.69	21.68
2013/14	356620.78	75613.64	21.20
2014/15	405866.51	86165.66	16.80

Source: Economic Survey, FY 2015/16, MoF, GoN, 2016.

In FY 2009/10, the contribution of Income tax to total revenue was 19 percent. Similarly in FY 2010/11; FY 2011/12; FY 2012/13; FY 2013/14 and FY 2014/15 were 21.20 percent, 20.99 percent, 21.68 percent, 21.20 percent and 16.80 percent respectively. Above table shows in an aggregate the contribution of Income tax on total revenue is 16.95 percent. The explanation can be shown in following figure:

Figure 4.5

Contribution of Income Tax to Total Revenue



Source: Based on Table 4.5.

4.1.6Contribution of Income Tax to Direct Tax Revenue

Direct tax revenue includes Tax from Land revenue, House and Land Registration Fees and Tax on property, Profit & Incomes. So, Income tax is one of the components of Direct tax revenue. The contribution of Income tax on the Direct tax revenue is in average 80.20 percent. The following table shows the contribution of Income tax to total tax revenue in different year.

Table 4.6

Contribution of Income Tax to Direct Tax Revenue

(Rs. in million)

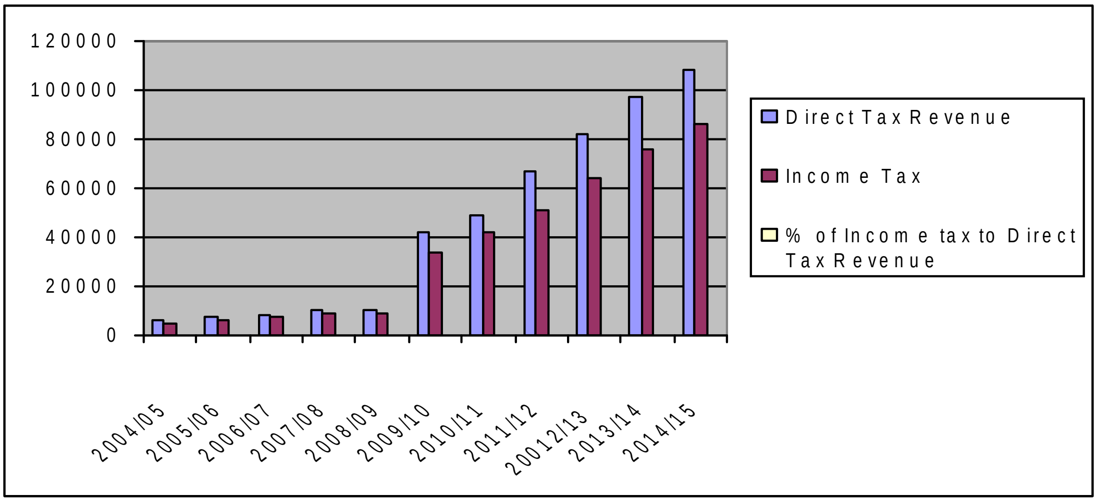
FY	Direct Tax Revenue	Income Tax	% of Income Tax to Direct Tax Revenue
2004/05	6013	4898.1	81.45
2005/06	7297.5	6170.2	84.55
2006/07	8556	7420.6	86.72
2007/08	10159.4	9114	89.71
2008/09	10597.5	8903.7	84.01
2009/10	41750.17	33821	81.00
2010/11	48655.33	42060	86.44
2011/12	66906.70	51303.23	76.68
20012/13	81937.50	64186.69	78.34
2013/14	97065.41	75613.64	77.90
2014/15	108302.50	86165.66	79.56

Source: Economic Survey, FY 2015/16, MoF, GoN, 2016.

In FY 2009/10, the contribution of Income tax to Direct tax revenue was 81 percent. Similarly in FY 2010/11; FY 2011/12; FY 2012/13; FY 2013/14; FY 2014/15 were 81 percent, 86.44 percent, 76.68 percent, 78.34 percent, 77.90 percent and 79.56 percent respectively. Above table shows in an aggregate the contribution of Income tax on total tax revenue is 79.99 percent. The explanation can be shown in following figure.

Figure 4.6

Contribution of Income Tax to Direct Tax Revenue



Source: Based on the Table 4.6

4.1.7 Government Expenditure

Government expenditure includes the recurrent expenditure, capital expenditure and principal payment. In the FY 2009/10 the total government expenditure is Rs. 259680 million which includes recurrent expenditure Rs. 151019 million, Capital expenditure is Rs.90238 million and principal payment is Rs. 18432 million. In FY 2014/15 the government expenditure is Rs. 531558.36 million, which includes recurrent expenditure Rs. 339407.60 million, capital expenditure Rs. 88843.51 million and principal payment Rs. 103307.25 million. The following table shows the government expenditure in different FY.

Table 4.7

Government Expenditure

(Rs. in million)

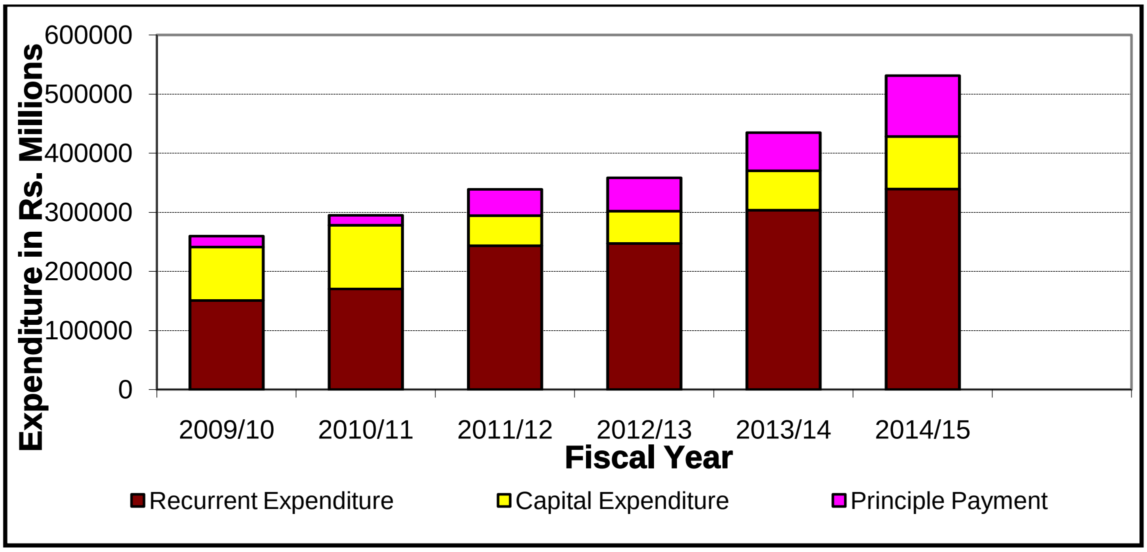
FY	Government Expenditure			Total
	Recurrent Expenditure	Capital Expenditure	Principal Payment	
2009/10	151019	90238	18432	259680
2010/11	170295	107848	17220	295363
2011/12	243460	51390.72	44316.76	339167.48
2012/13	247455.47	54598.43	56584.08	358637.98
2013/14	303531.75	66694.73	64825.81	435052.29
2014/15	339407.60	88843.51	103307.25	531558.36

Source: Economic Survey, FY 2015/16, MoF, GoN, 2016.

The above explanation can be shown in following figure:

Figure No. 4.7

Government Expenditure



Source: Based on the Table 4.7.

4.1.8 Government Receipts

Government receipts include the total tax and non-tax revenue and foreign grants. The main source of government receipts is revenue. Total government receipts in FY 2009/10 was Rs. 218486.4 million which includes Rs. 179940.4 million from revenue and Rs. 38546 million from grants. Similarly total government receipts in different FY and its composition is given in following tables.

Table 4.8

Government Receipts

(Rs. in million)

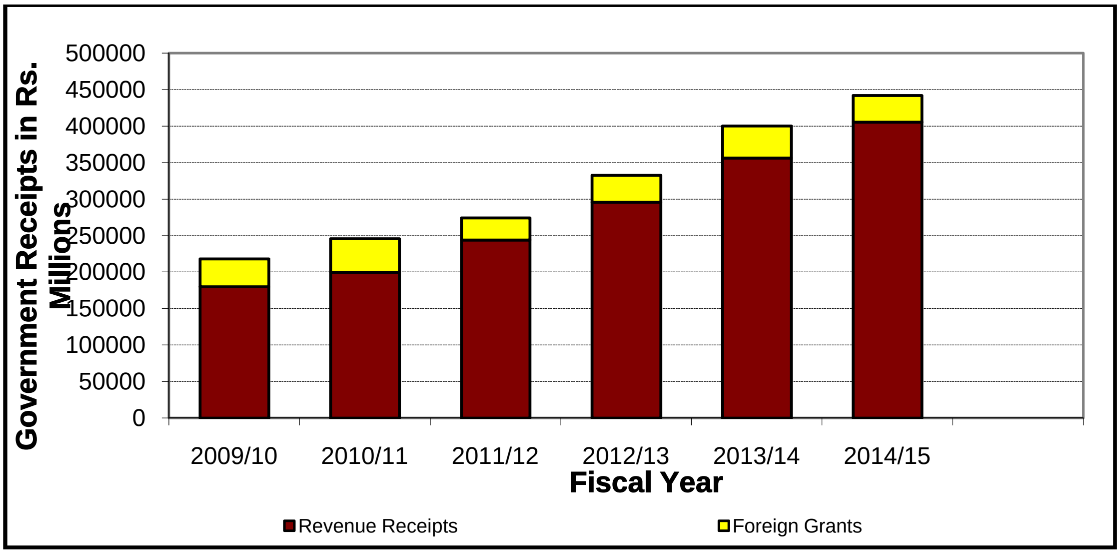
FY	Revenue Receipts	Foreign Grants	Total Receipts
2009/10	179940.4	38546	218486.4
2010/11	199819	45922	245741
2011/12	244374.10	29976.81	274350.91
2012/13	296021.15	36713.76	332734.91
2013/14	356620.78	43683.02	400303.80
2014/15	405866.51	36374.23	442240.74

Source: Economic Survey, 2014/15, MoF, GoN, 2016.

Government receipts from revenue and foreign grants in different year can be shown in figure. Following figure shows the total receipts from revenue and foreign grants in different fiscal year.

Figure 4.8

Government Receipts



Source: Based on the Table 4.8.

4.1.9 Comparative Study of Government Receipts and Expenditure

Government collect's revenue from different sources; they are tax revenue, non-tax revenue and foreign grants. Government expenditure head mainly are recurrent expenditure, capital expenditure and principal repayment. Government collects revenue and grants and expenses in different heads. If receipt is more than expenditure there is surplus, if expense is more than revenue there is deficit. Following table shows the government receipts, expenditure and surplus & deficit relation.

Table 4.9

Comparative Study of Government Receipts and Expenditure

(Rs. in million)

FY	Expenditure	Receipts	Surplus (+) / deficit (-)
2009/10	259680	218486.4	-41193.6
2010/11	295363	245741	-49622
2011/12	339167.48	274350.91	-64816.57
2012/13	358637.98	332734.91	-25903.07
2013/14	435052.29	400303.80	-34748.49
2014/15	531558.36	442240.74	-89317.62

Source: Economic Survey, FY 2015/16, MoF, GoN, 2016.

Table 4.9 shows that the relation between government expenditure and government revenue. The table clearly shows the government expenditure is more than government receipts in and every year. Every year is deficit because expenditure is more than receipts. The deficit in FY 2009/10, FY 2010/11, FY 2011/12, FY 2012/13, FY 2013/14, and FY 2014/15 was Rs. 41193.6 million, Rs. 49622 million, Rs .64816.57 million, Rs. 25903.07 million, Rs. 34748.49 million and Rs. 89317.62 million respectively.

4.1.10 Major Weakness of Taxation in Nepal

It's an open-ended question asked what the Major weakness of taxation in Nepal? with the tax administrators, tax expert and tax payers respectively. The responses received are differences point of view as below.

Point of View of Tax Administrators

- Computer is not aware of tax administrators and lack of this system tax is avoidance and leakage of tax is not controlled well.
- Lake of tax payer's education, less training to tax officer, implementation of tax laws is not effective and expected.
- Non register in tax, billing problem (especially in VAT), under billing and less awareness in tax payers.
- Impact in political parties manifesto and narrow range.

Point of View of Tax Experts

- Lake of training to employer and complicated rule procedure.
- The major weakness of income tax is valuation of stock.
- Lake of efficiency.

Point of View of Tax Payers

- There is no equality for all the tax payers and no social awareness is given by the authorized is the major weakness in Nepal.
- Some provisions are appropriate with urban areas tax payer's only not rural tax payers.
- It's not practical; it's only a policy and process basis.
- People are not well inform about the tax ret system in Nepal.
- It's only based on administrative process, tax payers are not satisfied tax policy, system and administrative process.
- The tax collection centers, payment time, schedule and amount are not appropriate place.

4.1.11 Positive Aspects of Income Tax 2001

What is the positive aspect of income tax act 2058? It's an open-ended question asked with the tax administrators, tax expert and tax payers respectively. The responses received are differences point of view as below.

Point of View of Tax Administrators

- Tax administration is facilitator almost all provisions is relevant.
- Voluntary tax compliance.
- Based on account, adapted global tax system and follows assessment system.
- Broad based international standard covers all kind of income and allows all expended incurred during income generation.

Point of View of Tax Expert

- Its follows modern rules and regulation than the old.
- More practical and systematic.
- Clear cut, right and duties of stakeholders

Point of View of Tax Payers

- The main reasons for that the act is improved and has well the details about the direct taxes.
- It is the international standardization and related with mixed economic.
- Progressive tax system and computerized system.
- Current tax act is the board and progressive nature.

4.1.12Appropriateness of Exemption and Deduction

Adequate exemption and deduction is necessary to promote the business enterprises. Many exemption and deduction are provided by "Industrial Enterprises Act, 1992" and "Income Tax Act, 2001". The question "The exemption limits specified in rule of income tax act 2058 are sufficient?" was asked to find out the opinion of the respondent regarding the exemption and deduction. Opinion result is summarized in the table.

Table 4.10

Appropriateness of Exemption and Deduction

S.N.	Methods	Tax Administrator	Tax Expert	Tax Payer	Total	Percent
1	Strongly disagree	1	1	8	10	25.00
2	disagree	2	1	4	7	17.50
3	Neutral	2	1	4	7	17.50
4	Agree	2	2	3	7	17.50
5	Strongly Agree	3	-	6	9	22.50
	Total	10	5	25	40	100.00

Source: Field Survey, 2016.

From the opinion survey, it is found that 22.50 percent of respondent strongly agree 17.50 percent respondent are agree 17.50 percent are neutral 17.50 percent are disagree and 25 percent are strongly disagree. So exemption limits of taxation are not satisfactory. Some correction and improvement are needed to it.

CHAPTER V

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

1. Government expenditure is in increasing trend. In FY 2009/10 total expenditure of government was Rs.259680.0 million, in FY 2010/11 the total expenditure Rs.295368.0 million similarly in FY 2014/15 the total government expenditure was Rs.531558.36 million. It shows the government expenditure is increasing each and every year.

2. Government expenditure includes recurrent expenditure, capital expenditure and principal payment. And government receipts include revenue and foreign grants. If government expenditure is equal to government received that is balance budget. If receipts is more than expenditure that is surplus budget. And if receipts is less than expenditure that is deficit budget. In Nepal, each and every year's expenditure is more than revenue. That is deficit budget.

3. Government receipts include revenue and foreign grants. The main source of receipts is revenue which is more than 80% in total receipts.

4. Total receipts in FY 2009/10 was Rs. 218486.4 million similarly in FY 2010/11, FY 2011/12, FY 2012/13, FY 2013/14 and FY 2014/15 was Rs. 245741.0 million, Rs.274350.91 million, Rs. 332734.91 million, Rs. 400303.80 million andRs.442240.74 million respectively.

5. In Nepal the government expenditure is more than government revenue so there is deficit budget the deficit amount of different fiscal FY 2009/10 was Rs. 41193.6 million and in FY 2010/11 Rs. 49622 million, in FY 2011/12 was Rs. 64816.57 million in FY 2012/13 was Rs. 25903.07 million similarly in FY 2013/14 and FY 2014/15 was Rs. 34748.49 million and Rs. 89317.62 million respectively.

6. The deficit budget does not play important role in the economy so the government should increase the receipts. To increase the total receipts the government should collect more revenue from tax because foreign grants is not good way to raise the revenue.

7. Nepalese government revenue is the composition of direct tax revenue and indirect tax revenue the direct tax revenue is in decreasing trend the indirect tax revenue play the dominant role in the economy.
8. The main sources of tax revenue is tax from customs, tax on consumption and product of goods and services, land revenue and registration and tax on property, profit and income.
9. Total tax collection in FY 2009/10 Rs. 177992 million, in FY 2010/11 Rs. 198376 million in FY 2011/12 Rs 244374.11 million, in FY 2012/13 Rs. 296021.15 million, similarly in FY 2013/14 and FY 2014/15 was Rs. 356620.78 million and 405866.51 million respectively.
10. Tax collection from income profit and gain in FY 2009/10 was Rs. 33821 million, similarly in FY 2010/11, FY 2011/12, FY 2012/13, FY 2013/14 and FY 2014/15 were Rs. 42060 million, Rs. 51303.23 million, Rs. 64186.69 million, Rs. 75613.69 million and Rs. 86165.66 million respectively.
11. Tax collection from property in FY 2009/10 to FY 20114/15 were Rs 5511 million, Rs. 3572 million, Rs. 3588.46, Rs. 5340.38, Rs. 6671.10 million, and Rs. 9399.41 million respectively
12. The tax collection from Goods and services in FY 2009/10 was Rs. 79227 million in FY 2010/11 was Rs. 88207 million in FY 2011/12 was Rs. 110561.21 million similarly in FY 2012/13 FY 2013/14 and FY 2014/15 were Rs. 129270.48 million, Rs. 157718.39 million and Rs. 180025.21 million respectively.
13. Tax collection from international trade and other tax plays an important role in government revenue. In FY 2009/10 was Rs. 33736. Similarly FY 2010/11, FY 2011/12, FY 2012/13, FY 2013/14 and FY 2014/15 were Rs. 38939, Rs.46269.71, Rs. 60417.39, Rs. 72438.13 and Rs. 80365.49 respectively.
14. Increment in the number of taxpayers is very much essential in order to broaden the tax base. Number of registered income taxpayers in Nepal for the FY has reached while it's in the previous year.

Major Findings:

In our country, there is lack of the financial resources and a lot of funds are required to do the development activities. Nepal has been suffering from the shortage of capital to accelerate the economic growth. There is so much resource gap, so in order to fulfill the shortage, government in depending on the foreign grants and loans. So, to fulfill the resource gap income tax, a direct tax is most important sources of internal revenue. Due to the low economic activities and lesser development of the corporate sectors, the contribution of income tax to the total revenue is very low.

Being landlocked, developing and mountainous country, Nepal has to cope with the various kinds of difficulties such as economic, social, demographic, culture, political, development and diplomatic etc. The nation requires sufficient fund to fulfill its responsibility towards its people and territory while coping with the difficulties. The basic needs like food, health, education, securities are to be provided and other needs like administration, social welfare and foreign trade etc. are to be raised from internal and external sources of income.

External sources of fund are foreign grants and loans which are received from foreign countries and international organizations and internal sources of fund are tax sources and non-tax sources which are received by the government from the people and their activities handled by them out of their income. Tax sources are made up of direct and indirect taxes where income tax is one of the most important components of direct tax.

The composition of the government revenue is internal revenue is internal revenue and external revenue. Internal revenue includes both tax revenue and non-tax revenue consists of corporate income tax, individual income tax and investment income tax. Corporate income tax is collected from government corporations, public limited companies, partnership firms and private limited companies. Individual tax is collected from remuneration, industry and business profession etc. and investment tax is collected from divided tax, interest tax, royalty, rent tax etc. All incomes generated by an individual are not taxable income because the minimum cost expenses required for living can't be taxed. So from the commencement of income tax in Nepal, some extents of amounts are exempted from income tax. The extent is known as exemption limit. Income tax exemption limit in Nepal has been changing on the basis of time and condition. From the empirical studies, respondents have suggested to change exemption limit according to the inflationary situation of the country.

In Nepal, the coverage of income tax base is low. Agricultural income is exempted from income tax. Exclusion of agriculture income from the tax net alone cuts out about half of the GDP. On the other hand, employment income is taxed more heavily than the capital income. Retirement amount received by Nepalese people being retired from the service by army or police of foreign country is also exempted from income tax. Such provision provided loopholes from tax evasion. Some exemptions granted to achieve certain objectives are not effective. Tax incentive is none of the examples.

Public awareness programmed is necessary in Nepal for making people well informed about income tax system. Among the various methods for the effective implementation of self-assessment of income tax in Nepal, income tax education to the tax payers should be given because this became the most important method or factor. The most important factor was chosen for effectiveness of self-assessment of income tax in Nepal is to have clear Act, rules and regulations. After the merging of VAT and Tax office there are so many taxpayers, it has created the difficulty in the tax administration, so it is also weakness of income tax Act, 2058.

From the opinion survey the most important tax officers and second most important cause is complicated trained and competent tax laws. Other opinions chosen by the respondents are lack of coordination among the tax related departments, lack of proper direction, lack of erective communication and unnecessary outside pressure respectively. Encouragement to the taxpayers, public awareness programmers, proper checking system to stop the hiding of income, tax clear certificate system, simplicity & transparent in tax system, coordination among tax related departments, training programmers to the tax personnel, formulation of clear Acts, rules of regulation and their implementation, reward & punishment system, prevention of corruptions in the field of tax, supervisions, inspections, suggestions, directions and instructions facilities should be maintained for achieving effectiveness of self-assessment of income tax in Nepal.

Within the income tax systems, exemptions, deductions and self-assessment are more important to understand about income tax. Income tax has many phenomena but this research study, role played by exemptions, deductions and self-assessment for the contribution of income tax and their effects have been considered. Exemption of incomes, deductions of expenses and rates the income tax should be determined on the basis of income level people & different sectors, number of dependents and inflationary situation of the country. Income tax administration should be able to motivate the taxpayers to make their self-assessment of their incomes according to the government economic policy. For those regular supervisions, inspections, checking, auditing, updating new technology, standing accounting system encouragement, simplification of technical and vague languages etc. are necessary.

Income tax system of Nepal has been blamed as being inefficient system. Being various problems relating to income tax revenue collection from income tax is low as compared to other countries but while analyzing data relating to it, it is found neither bad nor worse because it is being improved continuously. However income tax laws and administration in Nepal are to be deploying scrutinized and properly implemented. If the problems relating to income tax system in the country can be solved and resources are effectively utilized then only the prospects of revenue through income tax will be effective and bright so that economic development of Nepal will be achieved.

At last reduction the prevalent problems in income tax system in Nepal relating to exemptions, deductions and self-assessment, the possible and suitable alternatives should be adopted, followed and implemented for positive result in the future, which are recommended in this research study.

5.2 Conclusion

Developing countries like Nepal is facing serious problems since the process of economic development. Lack of sufficient financial resource and its efficiency is the main constraints for the economic development of Nepal. Sufficient funds are required to meet the objectives of economic development. But, Nepal has not been able to collect necessary funds or revenues. Due to poor performance on internal revenue collection and its mobilization, Nepal has been heavily relying on foreign loans and grants. Thus, it is the most necessary activity to mobilize the internal fund or revenue to the optimum level.

To increase the government internal revenue, Nepalese government is trying to extract money from people through taxation. Within tax, income tax is the most important source of government revenue which is considered as a good remedy to cure growing resource gap in Nepal. In the country, the history of income tax is not so long. It was started only on late fifties. The income tax was introduced as train on business profit and the remuneration, income. The first elected government believed on the first income tax and no specific Act was made to define and treat income tax. The first income Tax was introduced in 1959/60. Since then four income tax Acts have been implemented. From the very beginning, the concept of exemptions, deductions and other forms of tax relief in income tax have emerged in Nepal. All income of an individual can't be taxable income because the minimum cost required for subsistence can't be taxed. The exemptions, deductions and other form of tax relief are essential to encourage an individual to work more. The tax relief works as an incentive to an individual. So the concept of exemption, deduction and other tax relief are emerged in the country from the very beginning of income tax.

Exemption limit and the rate of the income tax is determined according to the income level and sector wise but has not been adjusted according to the inflationary situation of the country and number of dependents. Income tax system of Nepal has been blamed as being inefficient system. Being various problems relating to income tax, revenue collection form income tax is low as compared to other developing countries like India, Sri Lanka, Pakistan etc. nevertheless, if the data are analyzed relating to it. It is found that it is neither bad nor worse because it is being improved continuously. However income tax laws and administration in Nepal are to be deeply scrutinized and properly implemented. The provisions made on the Act have to be mentioned clearly and language has to be made clear and some reforms in tax administration system are needed.

The economy of nation largely depends on the well-developed private sector. The private sector can be developed through corporate friendly laws, rules and regulations as well as the process on industrialization. A good corporate culture is very important to develop corporate sector. As Nepal is adopting the mixed economy for last five decades and have been liberalized form 1990s. By constitution, Nepal has encouraged the foreign investments. Various corporate friendly, laws rules has been formulated. Many public enterprises have been private and liquidated; some are in the process of privatization. Nepal has entered to WTO from 23rd April 2004 and has given emphasis to foreign trade and foreign trade and foreign direct investments. Also the rate of custom duties has been lowered and relief in other trade barriers. Due to liberalized/economy number of multinational companies has been established. Through there is establishment of multinational companies, there are facing various challenges. The challenges are open boarder, smuggling of goods and services, improper billing, tax evasion, political instability, strike, insecurity and unhealthy relation between labor union and the management. So, business environment should be improved and mass media should be used for the public awareness about the income tax system. Income tax is very important sources of tax for the generation revenue from internal source. We can see the status of a country with the contribution of income tax to national revenue. If the ratio of contribution is high then the status of development is more.

So, in developed countries the contribution from income tax to national revenue is very high. In order to increase the contribution from income tax, Nepal has adopted the new income tax act 2058 BS. from the 19^{th} chaitra, 2058 B.S. this act has been formulated so as to encourage the foreign investors. Especially the self assessment of income tax system has been introduced with the broad tax base to collect the more internal revenue and the facilities of exemptions and deductions have been provided. The income tax act 2058 has encouraged developing the corporate culture in the country. The strengths of the act are broad base, appropriate rate of tax, appropriate method of calculation of depreciation provision for loss carry forward for consecutive year, provision of installment and use of the information technology.

Though the acts have good aspects, in the implementation there are following challenges, the acts, rules and regulation are not consistent, the tax education part is very poor, and tax payers evade the tax by showing less transaction. Also there is smuggling of goods due to the open boarder and inefficiency of the administration. There is no proper effective program for the tax payers to motivate for the paying of income tax. There should be introduced motivation program to the tax payers to pay tax by giving them extra facilities such as unemployment allowance, medical facilities, education facilities to the children of the tax payer etc. If the problems relating to income tax system in Nepal can be solved and resources are effectively utilized then only the prospects of revenue through income tax will be more effective and birth and the economic development of Nepal will be achieved.

5.3 Recommendations

There are various problems regarding to income tax of Nepal. The existing tax assessment procedure is also unsound and inefficient. The major causes of being unsound and inefficient tax assessment procedure are weakness in government's economic policy, lack of public participation, complicated tax laws and provisions, lack of trained and competent employees etc. in the opinion survey, it was noticed that most of the respondents were dissatisfied with the government economic policy, complicated tax laws and provisions and lack of public participation. The research study mostly focused into the problems that are related to exemption of incomes, dedication of expenses and self-assessment of filling a return of income for an income year by a person in income tax system in Nepal. SO, the recommendations made for other than exemptions, deductions and self-assessment of income tax system of Nepal may be considered as the general recommendations. Hence, on the basis of this study, following recommendations are recommended by the researcher in order to increase the contributing of income tax through exemption of incomes, deduction of expenses and self-assessment in government revenue collection as well as for the effectiveness of self-assessment of income tax in Nepal.

A. Exemption of Income

1. To increase the income tax revenue, the present tax base must be widened by including the incomes form tourism sector; retirement among received by Nepalese people being retired from the service or army or police of foreign country and currently exempted other sources of income.
2. The present provision of an individual and a family exemption are not appropriate. It should be raised to minimum of Rs. 300000 for individual and Rs. 400000 for a couple or a family.
3. The exemption limit should be adjusted according to the inflationary situation of the country of yearly basis.
4. There are many provisions relating tax exemption and concessions. Some concessions granted to achieve certain objectives are not effective. Tax concessions encourage the establishment of industries in certain area but they vanish or change their names, owners or place of the business when the concession facilities expire. Thus proper investigation, inspection and

supervision are to be taken place in time to time. The incentives provided to special industries are not effective. Such kinds of concessions do not encourage opening the industries in remote area, for that purpose special package should be introduced.

5. Little percentage of tax rebates should be provided to the tax payers who submit true income statement within the specified period of time.
6. Income tax on total export amount is not appropriate because income tax should be based on income not on the total amount. So, the provision of taxing on expert income should be introduced. Similarly, export fee on export transaction should be eliminated or exempted.
7. Double taxation on divided should be eliminated.
8. Retirement contributions are nothing else than the product of sacrifice of present earning. Those are the bases for living standard of oldness of employees. So, they should be excluded from income tax.

B. Deduction of Expenses

1. Donation given to a political parties registered with the election commission is allowed for deductions. But it has not been able to solve the voice of the people of 'transparency of donation amount given to political parties by the businessmen'. So, donation amount given to political parties should be transparent through any media or by the related authority.
2. Deductions allowed from an employment income are not sufficient. Thus, the following deductions should be provided to the taxpayers whose source of income is only the remuneration.
   a) Medical expenses made by tax payers
   b) Expenses made for house rent.
   c) Educational expenses for tax payers himself/herself if he/she is still studying in an educational institution.
   d) Life insurance premium.
   e) Pregnant delivery expenses for certain limit.

3. Deductions allowed from business or investment incomes are not sufficient. So, the following deductions should be provided to the taxpayers whose source of income is business or investment.

   a. In the case of controlled resident entity, full deductions of interest expenses is not allowed , it is not lawful stem to businessmen who operate the business with loan or debt amount. So, it should be fully allowed for deductions within an income year.

   b. To control pollution and protection of environment, environmental protection is more essential and should be expended on it and expenses made on it should be approved and should be fully allowed for deduction within an income year.

   c. For successful industrial development, research and development is more essential and should be expended on it. Expenses made on it should be approved and fully allowed for deduction within an income year.

   d. Carry forward of looses for 4 years is not sufficient as compared to other developing countries and developed nations. SO, it should be extended up to 5 to 6 years.

   e. Besides these recommendations, the following recommendations are made to compensate the loss of revenue due to the provision of additional exemptions and deductions recommended by the research.

1. The members involved in formulating income tax policies must have deep research about income tax.

2. Timely revision and adjustment should be made in the matter of income tax policy.

3. Income tax policy should be formulated so as to satisfy the following criteria.

   i) It should be progressive ensuring social justice.

   ii) It should be consistent with tax administration capacity

   iii) It should not be used against national priority and efficient resource use.

4. The success of effectiveness of any system entirely depends upon implementation of provision which is the major responsibility or

administration. In Nepal, one of the most important reasons for becoming unsound income tax system is inefficient and unscientific income tax administration. Thus, the following recommendations are made for the improvement of income tax administration in Nepal.

a. All the tax personnel should be given comprehensive training on various aspects or taxation on regular basis. For this, a separate training section within tax department should be established.

b. Effective reward and punishment system should be established.

c. The administration should try to increase effective public participation to minimize the income tax evasion.

d. Income tax experts/professional should be increased in tax administration.

e. The cost of revenue collection is one of the departments of administrative efficiency. So, the concerned authority should pay due attention on it.

5. Laws relating to income tax should be clear, simple and comprehensive and it should not contain loopholes. The following recommendations made for the information of existing tax law in Nepal are as follows:

    a. The definition made in Income tax act should be further clarified and well defined.

    b. The language should be simple and clear instead of using the vague meaningful words, and clear cut provision should be undertaken.

    c. The provisions for fines, penalties and punishment should be made clear and simple.

6. The reward, prize, incentives provisions should be introduced in the act to encourage the taxpayers to pay tax voluntarily rather than coercive measures.

7. There should be compulsory provision of auditing.

8. Unnecessary political and outsiders pressure should be avoided.

C. Self-Assessment of Income Tax

1. Direct tax as percentage of total tax is very low, so, it should be increased by applying self-assessment of income tax with doing promotional activities and awareness program to the general tax payers through mass media, such as Newspaper, using telephones, internet, fax TV, Radio etc.

2. To increase the indirect tax especially the VAT the government should encourage the entrepreneurs to join VAT, take PAN and sympathize the custom duty.
3. Tax education especially the self-assessment education should be given to general public. For this purpose tax education should be included in the syllabus of secondary level education in school.
4. Highest tax paying person should be motivated by giving different facilities and by honoring him/her.
5. The income tax act should be very simply and easily understood by the general public. It should not be very vague and so large.
6. Need to improve information technology to provide better effective service to those tax payers at the least cost and time.
7. Provision of reward, prize and incentives should be introduced to encourage the tax payers to pay tax voluntarily rather than through coercive measures.

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