

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 Background**

The Himalayan nation Nepal is sandwiched between two large countries, India and China. Thus the economic development of the country largely depends upon the attitude and behavior of the neighbor countries. Nepal is located three sides by the territories of India with open boarder. So the development strategies of Nepal are always influenced by the attitudes and behavior of India. The primary goal of any nation including Nepal is to embark upon the path of economic development by economic growth rate and developing all sectors of economy.

The government of a country requires sufficient revenues to carry out development plans, to operate daily administration, to maintain peace and security and to launch other public welfare activities. The government collects revenues from various sources such as tax, revenue from public enterprises, special assessment fees, fines, grants, assistance etc. Among them, tax is the main source of government revenue. The revenue which is collected by the government can be classified into two classes; one is revenue from the sources of non tax action and another is revenue from taxation. Among them in Nepal nearly 80 percent of revenue is collected from taxation and 20 percent non taxation.

In the process of long lasting reconstruction, the participation of the whole people is essential. Different countries' histories have proved that decentralization is their major motto. It is obviously clear. The discussion on its reconstruction has been raised from rustic people as well as the city people. The solution on state's reconstruction has been raised on the high level from different levels. Right after the people's movement that happened in 2062/063, it has been more valuable. Political parties, civil coordinator groups as well as other groups concerned to it, have been advocating for his content also. It has

been assigned in the peace talk between the government and the Nepal Communist Party (Maoist).

Since the unification of the country, Nepal has been centralized towards its unified form. The limited members of autocrats have reigned in the country. To make it independent reconstruction is most important.

To manage at the ground level in economic source, human resource, the decentralization is the most important. It was developed in France and in England in the year of 1950 and 1960 (20<sup>th</sup> century) by their capitalists to make it pragmatic.

After the restoration of democracy in 1990s the world restrictive policies of the government were replaced by more liberal, open and market oriented policies, based on the distinct feature of globalization, liberalization and privatization. Further, after the restoration of democracy in 1990. The government also embarked on development process based on decentralization and resource mobilization as the local level. If the development process is successfully realized, the local bodies such as municipalities, DDC, and VDC must be made financially capable to encounter the problem of resource constraints.

Decentralization means the process of delegating authority to all bodies. It is opposite of centralization. If the power is centralized, the performance is not effective. So, by the process of Decentralization local bodies should be made powerful. Decentralization is supposed to take decision of one's own life which affects in human beings. In modern political system the nation is divided into small political areas/units on the basis of geographical reasons. The small unit should get the authority to solve the problems of their reason/areas. That supposition is called decentralization.

Now the main source of revenue is in the hands of central government in Nepal. Customs, VAT, Income Tax and excise duty etc main taxes are all in the hand of central government LSG 2055. Some resources of revenue are given to the local bodies but they are not revenue productive.

Kathmandu is the capital of Nepal. It is only one metropolitan city among 57 other municipalities. Kathmandu metropolitan city has 35 wards. It is facing a great problem of managing waste products, drinking water, road lamps, electricity and maintenance of roads etc. It needs greater amount to fulfill its responsibilities. The main source of collecting revenue of local bodies like municipalities is only property tax.

Lalitpur Sub-Metropolitan City (LSMC), the beautiful medieval city of art and culture is situated in the southeast part of the magnificent Lalitpur valley. LSMC mentions, that is located between the latitudes 27° 32' 13" and 27° 49' 10" North and longitudes 85° 11' 31" and 85° 31' 38" East. The valley lies at a mean elevation of about 1350 m. above sea level.

The city spread over an area of 15.43 sq. km. (keep citation) and is politically divided into 22 wards. Of the twenty-two wards, area wise ward no 15 is the largest with an area of 2.43 sq. km. and with an area of 0.09 sq. km. ward no. 21 is the smallest.

The city is located over a plateau like area with its outer edges fanning out with gentle slopes towards the rivers that form its boundaries. This is in consonance with the traditional settlement planning philosophy where the settlements were located on relatively higher ground preserving the relatively fertile agricultural land that surrounded it. This judicious planning effort assured the optimization of the use of urban space and the farmlands that carried economical as well as environmental significance to the urban residents.

There are two major types of taxes that are: Direct and Indirect tax. The examples of direct tax are Income tax, Property (house and land) tax, Vehicle tax, Contract tax etc. Among these taxes house and land tax is one of the important taxes.

According to Oxford Advanced Learners Dictionary; Property refers to "a thing or things that are owned by some body. In other words any kind of assets

such as building, land, vehicle, silver, gold, jewelry, furniture, plant and machinery equipment etc owned by someone are Property". The property tax is the compulsory payment to the public authority, which is based on the capital value of property. In law, the courts define property as the right of possession, enjoyment and disposition of all things themselves which are the subject of ownership. The tax which is levied on some personal possession is known as a property tax. So the property tax has a great potentialities of source mobilization on the developing countries legally all property can be divided into two classes personal property and real property.

In Nepal property tax was performed in Fiscal Act 2017 B. S. At that time government had authority for collection of property tax. There were different rules for tax rate. But the property tax act revised in 2019 B.S. Since the period the property tax system has been implemented in urban houses and property. Property tax has become the most important single resource of revenues for nation and local governments. In Nepal government has started to implement of wealth tax in 16 urban areas of the kingdom from this fiscal year (Income act 2047). According to the tax office a list is being prepared for tax payers in the urban areas.

The person with less than 1 million (10 lakh) in assets are exempt from the wealth tax. Tax clearance papers from the tax office are required before properties in urban areas can be registered. Those on the wealth tax list have to get such clearance if they sell their land or house.

Property tax was introduced in European countries more than 100 years ago. Right now, property tax has been the major source of revenue in most of the countries of the world. In Nepalese context property taxes are named as house and land tax.

In Nepal, the first elected government introduced this tax. Property tax was introduced by financed act 1959 as a central tax. Due to ineffectiveness in collection revenue from property tax it was replaced by urban house and property tax in 1962 for the purpose of collecting revenue from urban house

and land property. Initially this tax was introduced in Kathmandu, Lalitpur, Bhaktapur, Biratnagar, Birgunj, Nepalgunj, Rajbiraj, Janakpur and Butwal. Later in 1963/64 it was extended to Bhadrapur and then to Dharan. In 1964/65 it was extend to Bhairawa, Pokhara, Palpa and Hetauda in 1973/74. The tax was introduced in Bharatpur in 1988/89. The interim government of 2047 again introduced the property tax in 1990 by the Finance act. It was again replaced by urban house and land tax in 1995/96.

After the introduction of local self government act in 1999 property tax is given to local bodies right now. There are two variant of property taxes house and land tax and unified property tax. Local bodies i.e. VDCS and municipalities have the right to collect property tax where as the right of collecting unified property tax is given to municipalities.

## **1.2 Statement of the Problem**

Nepal has been facing the most serious economic problem from the beginning of her developmental phase to present time. It needs huge amount of capital for economic development of Nepal. Despite the various measures adopted by the government to boost revenue collection there is still a substantial resource gap between expenditure and revenue. The rate of government expenditure is exceeding the rate of growth revenue almost every year. The budget deficit has been growing and this may have negative effect on the Economy. In this context, taxation can be taken as means for resolving this problem by mobilizing additional resource from the domestic sources, small part of total incomes under the purview of house and compound (property) tax.

Before local self government act 2055 all taxes were collected by the central government and only octroi duty was allowed to collect to local body. At present octroi duty is abolished and central government collects 1.5percent of custom duty for local development fees but this is not stable in future because the country has been entering into globalization and which deduct tax rate, in this condition only property tax increased to develop local level so, it is one of the problems.

Nepal has been facing various problems for the implementation of property taxation. In the under developed country like Nepal, Firstly the Government inefficiency of its dependent on the political pressure is far from expectation. In this condition specific statement of problems are as:

- ❖ □ What is the contribution of house and land tax on total revenue of Kathmandu Metropolitan City and Lalitpur Sub-Metropolitan City?
- ❖ □ What is the trend of house and land tax on Kathmandu Metropolitan City and Lalitpur Sub-Metropolitan city?
- ❖ What is the contribution of KMC & LSMC on total house & land tax revenue?

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

The main objectives of the study are as follows:

- a) To analyze the contribution of house & land tax on total revenue of Katmandu metropolitan city and lalitpur sub-metropolitan city.
- b) To examine the contribution of house and land tax (property tax) of Katmandu metropolitan city and lalitpur sub-metropolitan city on total tax revenue.
- c) To analyze the trend of house and land tax on Kathmandu Metropolitan City and Lalitpur Sub-Metropolitan City.
- d) To draw conclusion and provides suggestions and recommendation.

### **1.4 Significance of the Study:**

A country needs a lot of resources to implement plans or programs. Taxation is one of the means to mobilize domestic resources for economic development of a country. Taxation is not only the means for raising resources but it may bring about remarkable change in the social and economic structure of the economy as well as change in social attitude of the people.

The property tax helps government to raise revenue of local bodies. It also helps government to achieve the goals of growth, equality and stabilization of the economy. Through the instrument of property taxation the country can

encourage the growth of certain industries, restricts the conspicuous consumption of certain commodities, increases the rate of saving and regulates the price of commodity.

Revenue mobilization is the challenging task of the developing countries like Nepal. The responsibility of the developing countries is higher than the developed countries because more money is needed for economic development of a nation so, it is necessary to inquire different resources of taxes to fulfill such purposes. Property tax may help government to raise revenue of local bodies.

Property tax has been very essential to empower the local bodies. It is most necessary to empower first local body to empower central government. Before local self government act 2055 all taxes were collected by the central government and only octroi duty was allowed to collect to local body. In fact, it was not sufficient to develop local body. At present octroi duty is abolished and central government collects 1.5percent of customs duty for local development fees, but this is not certain in the future because the country has been entering into globalization and which deducts tax rate. In this condition only property tax can be one of the major sources to raise revenue to make empowerment local body.

This study has suggested measures to improve the revenue collection system in Kathmandu metropolitan city and Lalitpur sub-metropolitan city. Other municipalities also help to increase revenue mobilization from property tax.

### **1.5 Methodology Used in the Study**

The data used in the study are secondary. The secondary sources of data are books, journal, newspapers, reports, dissertations records of Revenue collection department of KMC and LSMC etc. The research design can be partly regarded as a historical research design. After collection of data the study tries to analyze its own procedure. Thus it follows analytical as well as descriptive research design.

## **1.6 Limitations of the Study**

In the field of the every study it has got some limitations.

This study also is not free from limitations. The main limitations are as follows.

- i. This study mainly based on secondary data so the reliability of the study depends largely upon the reliability and validity of the secondary data.
- ii. Limited statistical tools and techniques have been used.
- iii. The study has been done for the partial fulfillment of MBS degree in management. This is not a comprehensive study.
- iv. There are time and resource constraints.

## **1.7 Organization of the Study**

The research has been carried for the partial fulfillment of the requirements for the degree of master of Business studies (MBS). The research report is organized under the prescribed format by central department of management, Tribhuvan University. The study has been organized into the following five different chapters:

The first Chapter is the introduction. It includes Background, Statement of the Problem, Objective of the study, Significance of the study, Methodology used in the study, Limitation of the study and Organization of the study.

The second Chapter is the review of Literature. Some books, Dissertation, Reports and Articles have been reviewed in this Chapter. Introduction of Property Tax is also given in this Chapter.

The third Chapter is concerned with Research methodology, which includes Introduction, Research design, Nature and Sources of data, Method of data analysis and tools used for analysis of data.

The fourth Chapter is on the Presentation and Analysis of Data. This is the major part of the study. It aims of make clear understanding of contribution of property tax of Kathmandu Metropolitan City and Lalitpur Sub-Metropolitan City. The fifth Chapter is mainly concerned with Summary, Conclusion and Recommendation of the study.

Appendix and Bibliography have been presented in the last part of the Study.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

#### **2.1. Introduction**

This chapter is mainly divided into two parts– one is the conceptual part and the other is the review of the earlier studies which are described as follows:

##### **2.1.1. Meaning of Property**

In general sense property refers to car, farm, watch or any thing else owned by the people. Property also refers to any types of capital goods that are owned. For example: Machinery, raw materials, and finished products are property. There are two ways to classify property-real property including land and things permanently attached to it, such as building etc. and personal property including all other kinds of property, such as furniture, stock, and harvested crops. It is much easier to transfer personal property than real property. Real property must be transferred in writing but personal property may be transferred orally, when a man dies he heirs usually in real property. But personal property generally passes in to the hands of the estate administrator who sells it and divides the process among the next of kin, unless one makes other provisions for dispending it. In brief, real property consists of Immovable and personal property of movables.

##### **a) Real Property**

Real property consists mainly of land and buildings (or what are called improvements on the land). Land and improvements are very important in taxation. Land values and building values are subject to different conditions. Land may increase in value while the buildings on it are decreasing in value. Different methods are used in valuating the two kinds of property, for instance, depreciation must be considered in the case of buildings and but not for valuating land.

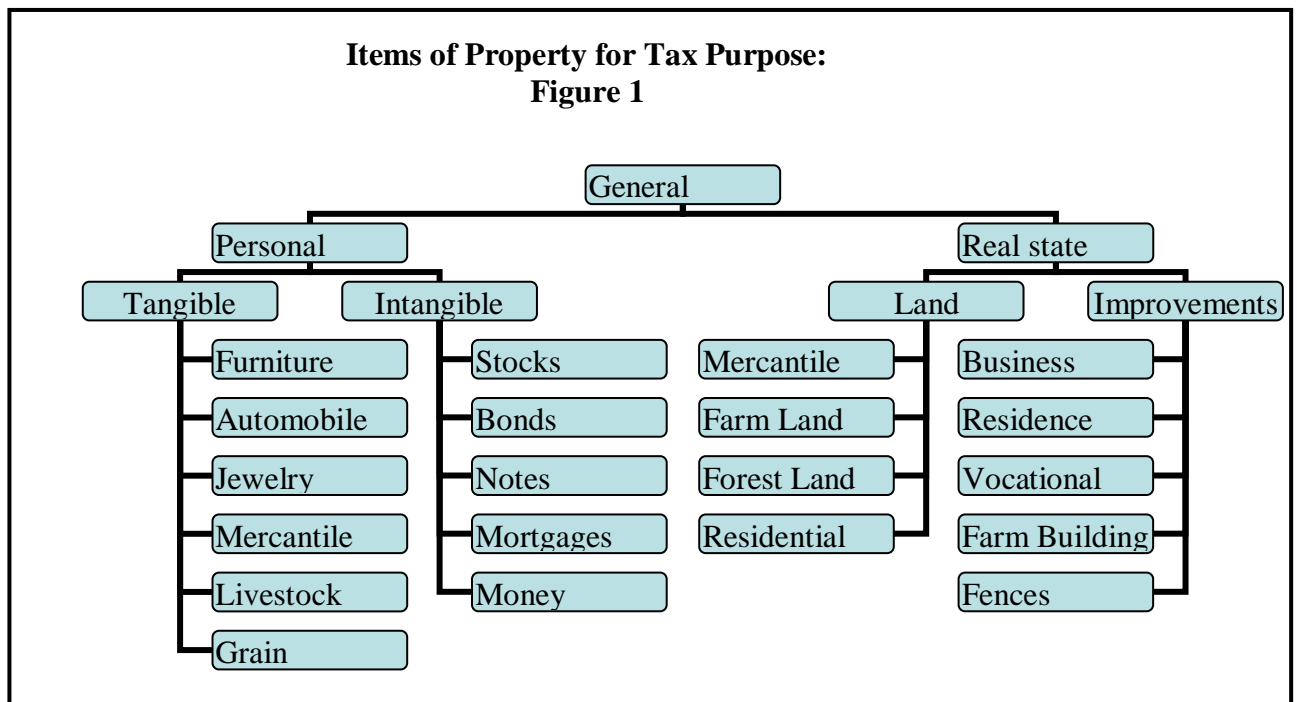
## b) Personal Property

Personal property is classified into tangible and intangible. Tangible personal property includes a great variety of goods: merchant's and manufacture's stocks (inventories), business furniture, fixtures and machinery, tool and pattern: rolling stock of rail way: from machinery; harvested crops; logs; household furniture, clothing, jewelry and other personal effects.

The second category of personal property is intangible property. This class consists; stocks, mortgages, deposits, money and book credit, copyrights and patents goodwill, franchise value. Intangible property can easily escape taxation whether by migration or by hiding. Many estates classify intangible separately and apply a low flat rate tax to them as a substitute for the general property tax.

### 2.1.2 General Property Tax

It is a tax on all wealth tangible and intangible which possesses exchange value. The chart is given below (Singh, 1991: 423).



### **2.1.3 Property Tax**

Government on owners of property levy property tax. This property includes real estate, such as homes, buildings and vacant land. It also includes personal property such as home, furnishings, stock and bonds and automobiles (World book, 1973: p.15).

Taxation is the compulsory payment to the government. The tax, which is imposed on personal possession, is known as property tax. Property taxation has a great potentiality of resources mobilization in the developing countries. In these countries the process of economic development tends to be accompanied by a boom in real state and investment in housing in urban areas. The property taxation is the compulsory payment to the public authority, which is based on the capital value of the property. In law the courts defined property tax as the right to possession, enjoyment and disposition of all things subject to ownership.

In the united state and Canada only provincial state and local government laid property taxes. The federal governments of the two countries do not use these types of tax. Since the early 1930's state have received less and less property taxes. But the tax continues to be an important source of revenue for local government.

The property tax rate varies depending on the tax revenue, needs of the governmental. The rate is usually based on the property's assessed valuation. This is a certain percent of the property's total value as determined by the government property is rarely taxed at it's full market value (World book, 1973: p.15)

It has come to notice that some person have been trying to avoid personal wealth tax, liability by forming closely held companies, to which they transfer many item of their wealth, particularly jewelry, bullion of real estate (Prasad, 2000, p.36).

As companies are not chargeable to wealth tax and the valuation of the shares of such companies does not also reflect the real work of the assets of the company.

Those who hold such on productive assets in closely held companies are able to successfully reduce their wealth tax liability to a substantial extent (Prasad, 1999-2000, pp.36). Tax may be levied on flows, Such as income and expenditure or on stocks such as wealth. Wealth taxes may be imposed on the holding of wealth or on transfer of assets and transfer by gift.

Wealth taxes occupy a dominant position in the tax, structure of local bodies. They are justified on two grounds benefits and ability to pay since property receives certain especial benefits from government it should be taxed for these benefits. Wealth taxes based on benefit consideration are in rare type property taxes while ability to pay consideration point to a personal tax on net wealth (Singh, 1991: pp. 210-220).

#### **2.1.4 Historical Background of Property Tax**

Property tax has its origins in early American history. Initially it was assessed in selected items of property such as land and cattle with different rates imposed on various categories. Thus classified property tax was the main source of revenue to the colonies. During the 18<sup>th</sup> and 19<sup>th</sup> centuries a greater variety of property emerged making it difficult to maintain such differentiation. Thus the tax developed into a general and uniform tax rate. The uniform tax was applied to property independent of form with total property viewed as a general measure of taxable capacity. This approach gave way under the increasing complexity of property forms. The growing importance of intangible property tax had been supplanted by a much narrower approach. It became a selective tax on real estate and business personality and has remained ever since. Tangible property other than real estate held by persons now largely escapes tax and to attempt is made to reach intangible property. While the share of the property tax in total tax revenue has declined from over 50 percent at the beginning of the century to around 10 percent at present property tax revenue as 1 percent of privately held wealth or as

one percent in G.N.P. has not changed greatly over the last century. It is estimated that the revenue wealth ratio has remained at about 1 percent. The share was lower however for municipalities 61 percent which are increasingly, developing additional revenue sources.

Right Now, property tax has been the major source of revenue of most of the cities of the world.

Property tax gained importance because of the population increase growing urbanization in 1990. By narrowing the tax base to those property, which could be easily discovered improving assessment providing better staff many countries, adopted, property tax in moderate form. At least in sun-urban area it is a fairly adequate surrogate for a local income tax since a high relationship has been found between property values and income level.

Property taxation has been the major fiscal resource of American local government since 17<sup>th</sup> century. In 1960 the selected Asian Nations likes: Indonesia, Republic of Korea, Laos and Thailand. Made only small use of urban property taxation, property taxes are most important in India where as in Malaysia, Pakistan and Philippines they yields less than 20 percent of local revenue.

Argentina local governments, levy earns in tax which applies to Urban and rural land and improvements on the official value. The general rate is 0.1 percent Buenos airs however applies progressive rate with a maximum of property and local taxes on acquisition. A low 0.3 percent tax applied to land in Korea.

Brazil has power to impose a tax on rural land to ensure uniformity through the country since local government tax urban land at rates that can vary from 0.5 percent to 10 percent Colombia by municipalities. There is a national surcharge of 10 percent of the municipal tax.

In Guatemala a municipal tax on urban property is based on actual or presumed income. There is also a national tax in real property levied on a personal basis on the total official value of the real property of each taxpayer. The rates range from 0.3 percent to 0.6 percent revenue from property tax in selected developing countries. Poland adopted an agricultural Property Tax in 1985 and real estate tax in 1986. Poland's property taxes are urban, agricultural and forest. Local government facing budget deficits are eager to increase property tax revenues and urban areas seeking more efficient land usage have supported conversion of the tax base to market value.

Estonia's land tax was introduced in 1993 as an integral part of both land and fiscal reforms. The tax on land levied on both public and private lands with few exemptions, was intended to stimulate the efficient use of land. Estonia local governments select a market value tax base. Recently the government has explored the possibility of adding buildings to the property tax base to expand revenues without increasing tax rates.

In the Czech Republic's fiscal reform, property tax revenues are assigned to local governments. Land and buildings are assessed separately and taxed on the basis of land area or building floor space. It has area based system based on information, market pricing for location and types of uses. Its strong real estate market, stable economy and administrative experience give the Czech Republic the foundation for a modern property tax system.

The Slovak Republic's fiscal system reflects taxes on land and on buildings governed by national law, although the revenues and some administrative tasks are assigned to localities. Land and building taxes are set per square meter.

The Russian tax system includes value added, corporate and personnel income taxes. The 1998 enactment retains taxes on land and property. Real state tax is based on market value is used to replace the taxes on land, on property (buildings) owned by individuals, and on property (assets, including equipment, inventory

and vehicles, as well as buildings) of enterprises. Property taxes are shared between regional and local governments.

In Armenia Local self-government, real property rights, and taxation were adopted in 1995. A tax on buildings was added to the excising tax on land. To encourage business activity, American officials are now considering methods of expanding local revenues from property based taxes.

Finally, the property tax is the most widely used municipal revenue source in the developing world. In large urban populations, some form of property tax is assigned to the support of local government. To increase expenditures on municipal services, local governments frequently look to the property tax as a property tax as a promising source of additional revenue.

### **2.1.5 The Role of Property Tax**

Land and property tax is an important source of local government. But property taxes are not always local taxes. Property taxes may depend upon environment in which they are levied and effective for equitable and efficient way to raise revenue. There is complex structure of property taxes around the world. In Germany, two variants of land tax are imposed on four different “base rates” by locally determined ‘leverage factor’.

In most countries, taxes on land property are among the oldest forms of all taxes. Central and Eastern Europe, Asia, Africa and Latin America have the potential contributions of the property tax to the revenue of urban and rural governments and to more efficient land use. The effort of any property tax depends upon the tax base, tax rates and administration. Land taxes can contribute to local government revenues and to more efficiency land use. Land and property taxes are among the tax base, the setting of tax rates and the ability to levy and collect the tax. In some countries one property tax covers all types of property. In others there are different taxes for different components of real property. Separate taxes

on land and buildings; separate taxes on residential and non-residential property etc. are imposed in real life (Slack, 2002:p.160).

Property tax has been different roles. They are:

**A) As a source of revenue:** The roles of the property tax as a revenue source are as follows:

- i. Taxes on land and property are at the best minor revenue sources in all countries.
- ii. Property taxes are important sources of sub national revenue in many countries and more so in developing than in developed or transition countries.
- iii. Property taxes are much more important in rich countries than in developing countries.

**B) As a Local Tax:**

The property tax has major part of local government's revenue source in many countries. The role of Land and Property tax as local revenue sources are as follows:

- i. Taxes are residential real property as essentially taxes on having services that property. Taxes are inherently regressive, since as a rule, housing constitutes a relatively larger share of consumption for poorer people.
- ii. Property taxes are essentially a tax on capital that such taxes are inherently progressive, since as a rule, income from capital constitutes a relatively higher share of income for richer people.
- iii. The portion of the tax that falls on land as beings paid out of economic rent often consider it to be inherently equitable to tax such "Unearned increments" often from public action.

### **2.1.6 Characteristics of Property Tax**

Property tax is a tax upon all wealth, tangible and intangible, that processes exchange value. It is levied according to exchange value, at last in theory, and at a

common rate for all property in the same district. It is levied upon property located and the tax is paid by the owner. Property tax is levied, and understanding of the nature of property is essential to understanding the tax (Jems p. Jensen, 1931 and Dick Netzer, 1966.) Characteristics of property tax are visibility and inelasticity. The property tax is the very visible tax. It is paid directly by taxpayers in periodic lump sum payments. The property tax finances service such as roads, garbage collection and neighborhood parks. Property taxes are considered to be a source of revenue for local government. Local property tax finances local services promoting public decisions, good schools, roads and transits etc. The other character of the property tax is:

- a) Local property taxes finance services which benefit property values.
- b) Tax rates and services levels are decided by local voters.
- c) Voters-impelled by their sensitivity to property values.
- d) Property taxes are based on market value.

Property taxes are levied by local governments. However, not all taxes on property are levied by local government. Local government can do following:

- i. Decide to levy the tax.
- ii. Determine the precise nature of the tax.
- iii. Establish the base on individual taxpayers.
- iv. Determine the tax rate and
- v. Enforce the tax.

Finally, property tax is characterized by:

- 1. Gross property base,
- 2. Value measure,
- 3. Uniformity,
- 4. Universality,
- 5. Impersonality,
- 6. Local collection.

These characters are discussed below:

- 1) **The gross property collection base:** - The property tax is based on gross wealth. Taxpayers can't as a rule offset debts against the value of his property.
- 2) **Value measurement:-** There are many kinds of value, but the property tax is concerned with economists exchange value.
- 3) **Uniformity:-** The uniformity characteristics of property tax was the erosions of time, generally they call for uniform treatment of taxable property. Uniformity of property taxation would ensure neutrality of treatment.
- 4) **Universality:-** Property tax has to include all wealth excluding only a few items that could qualify for specific exemption.
- 5) **Impersonality:-** It is impersonally levied upon things, business and transaction. A person's property shows his ability to pay.
- 6) **Local collection:-** Property tax is applicable to the local units of government. It means that local legislative bodies are frequently held responsible for a tax rate. This makes the property tax a much more strictly local concern and accounts in part for the generous grant of discretion to municipalities in selecting base improvements partly dated or fully taxed.

### **2.1.7 Criticism of Property Tax**

Criticism of property taxes fall into two classes- theory or conception and practical or administrative difficulties. It has been said that property tax has wrong in theory and does not work in practice. Theoretical and practical or administrative limitations or property tax are as follows:

#### **A. Theoretical Limitations:-**

Some theoretical limitations are given below:

i. **A poor measure of ability to pay:** - Ability to pay is related to an individual's income. Property tax related to an individual's housing consumption is likely to be related to ability to pay more closely than the tax levied on business.

ii. **A poor measure of benefits received:** - Benefits received may not always be a proper gauge for taxation. Property taxation gives no clear accounting of benefits that can be received. Property tax payment may not be the index of the benefit received. Plehn concluded from his observation of this system that the creditor regularly shifted all of his share of property taxes to the debtor through higher interest and that he added an extra charge for good measure.

iii. **Property taxation of personal abilities:** - Property tax failed one important kind of intangible assets that are personal in nature and not capable of exchange, except in person to levy every man according to his abilities what so ever.

iv. **Inconvenience of property tax:** - Property may go for long period without bringing the owner an income. Property that retains value and prospects of future income may go for several years without any net return. Governments must continue even though some property taxpayers have no ready cash. Income tax waits upon the taxpayer's convenience.

v. **Regressively:** - The property tax may be regressive in nature because the assessor may often assess property of high value at a lower ratio of assessed to true value than properties of lesser value. Regressively may appear because the owner of more valuable property is more influential in the community and with the assessor than poorer neighbors.

### **B. Practical and administrative limitations of property tax:**

Some practical and administrative limitations of property tax are as follows:

a) **Fractionalized assessments:** - Critics of the property tax is the statistics. The property tax base represents only a minor fraction of its total. Property is legally exempt from tax. The property tax base is narrow due to the deliberate practice of

under assessing all taxable property. This practice is contrary to all taxable property. This practice is contrary to statute.

b) **Inequalities:** - Taxes to be paid by each village town and city with its borders, great unfairness can arise from inequalities in district assessments.

c) **Competitive undervaluation:** - Frequency distributions of assessment ratios in one study shows rural properties within a country assessed at levels ranging from 5 percent to 50 percent of sales value. Proportional tax which are 10 times higher in some cases than in others.

d) **Evasion:** - The property tax universally have large amount of evasion. Intangible property, tangibles furniture and automobile etc avoid list.

e) **Avoidance by migration:** - Tangible property is less migratory than other tax bases and can't leave high tax districts for those with lower rates. Intangible property is highly migration. The property tax on bank deposits are difficult, to in base and real estate can be moved any with great difficult.

f) **Property tax is tolerated:-** According to professor Seligman: "Practically, the general property tax as actually administered is beyond all doubt on of the worst taxes known in the civilized world.

## **2.2 Property Tax in Nepal**

The history of property tax in Nepal is not so long. Finance act 2016 had empowered the government to levy property tax. Property tax act 2017 was enacted to collect tax from property. Urban house and land & foreign investment were taxed at the sane rates under property tax act 2017. Under the provision of property tax act, NG/Nepal framed property tax act 2019 was enforced and subsequently, house and land tax rules 2020 was then enacted which repeated the existing property tax act, 2017. Earlier central government of local self-governance act, 2055 local bodies (i.e. VDCs and Municipalities) impose property

taxes within their boundary. Currently house and land tax act 2019 property tax act 2047 and local self governance act 2055 have been implemented in the collection of property tax. Local bodies are levying property taxes under local self-governance act and rules.

### **2.2.1 Collection, Realization and Refund of Tax**

#### **A) Collection of Tax**

Local self-governance act 2055 has empowered VDC municipality and DDC to levy taxes. The VDCs and municipality in the form of land revenue, land, tax house and land tax, integrated property tax and vehicle tax levy the property taxes.

Since the integrated property tax and vehicle tax are not exclusively practiced in some municipalities, tax collection and realization with respect to the house and land tax and revenue or land tax are discussed hereunder.

#### **In the case of Village Development Committee (VDC)**

According to section 55 of Local Self Governance act 2005, the VDC may levy the property taxes as follows in its area at the rate approved by the village council, not exceeding the prescribed rate:

- 1) House and land tax: On the basis of size, type, design and structure of the house within the area of VDC, it may impose annual house and land tax on each house and compound.
- 2) Land revenue (Malpot) or land tax: The VDC may levy land revenue or land tax on the land within its area. However 25 percent or revenue collected from land revenue or land tax has to be handed over to the District Development Committee (DDC).

The rate of taxes to be levied by a VDC within its area is prescribed in Annex-4 of Local self governance regulation, 2056.

**In the Case of Municipality** According to section 136 and 140 of Local Self-Governance act 2055, the municipalities levy the following property taxes within its jurisdictions:

1) House and land tax: On the basis of size, type, design and structure of the house, the municipality may levy annual house and land tax on each house and compound as approved by the municipal council.

2) Land revenue or land tax: The municipality may impose land revenue and land tax as prescribed on the land within the municipal area.

3) Integrated property tax: The municipality may levy an integrated property tax within its jurisdiction at the prescribed rate.

According to rule 140 of self local governance regulation 2056 the maximum and minimum limits of the rate of land revenue and of house and land tax that may be levied by a municipality within its area shall be as prescribed in annex-8 of the regulation. As per rule 144, the minimum and maximum rates of the integrated property tax that may be levied by a municipality within its area shall be as prescribed in annex-12 of the regulation.

#### **B) Recovery of Tax**

According to section 71 and 166, the fine and punishment imposed by the village development committee or by municipality are recovered by section 260. According to this process, if any person does not pay any tax, duty or charge levied or contracted or any other amount due and payable to the local body, the district administration office recovers it as government dues.

#### **C) Refund of Tax**

According to section 147 of LSG act 2055, the municipality is not entitled to collect any kinds of taxes contrary to the act or the rules. If the municipality

collects such taxes, Nepal's government may order to stop such collection and to refund the amount of taxes so collected to the connected person.

## **2.2.2 Penalties, Actions and Appeals**

### **A) Penalties and Actions**

Section 70 and 165 of Local self Governance act 2055 has made the provisions for find and penalties if anyone does not pay any taxes, fees, charges, duties, tariffs and any other amount due and payable under the act, the VDC and Municipality penalize the person.

#### **1) In the Case of VDC**

According to section 70.2 of local self governance act, if any person does not pay the taxes imposed or levied by the village development committee, it may punish such person with a fine of up a Rs.500 and may stop the service made available by the village development committee in regard to such person.

As per section 70.3 of the act, in case, any person commits any act in contravention of the act, of the rules, Bye-laws or Orders made under the act, such person shall be punished with punishment, if any prescribed elsewhere in the act; and if punishment is not so prescribed the village development committee may punish such person with a fine up to Rs.500.

According to section 70.4 if any person who has already been punished under this section, commits the same offence again, the village development committee may punish such person with two-fold punishment for each instance.

#### **2) In the Case of Municipality**

1) According to section 165.2 if any one does not pay the taxes imposed by the Municipality, it may take the following actions:

- ❖ □ If anyone does not pay the taxes, which may be collected under the act, the municipality may write to the concerned body to stop the transfer of ownership of the movable/immovable property of such person, may seal

or lock up the trade, profession, and withhold the transactions including export and import.

- ❖  If the amount which the municipality is entitled to collect under the act, could not be covered up even from the stoppage of the house, land, transaction or assets of the concerned person, the municipality may recover it by auctioning the person house, land or other assets, if any.

2) According to section 165.5 if any one does not pay any taxes under the act, the municipality may stop the service provided by it, in regard to such person.

3) If any one commits any action in contravention of the act or the rule bye-laws or orders made under the act, such person is punished with punishment, if any prescribed elsewhere in the act, and if punishment is not so prescribed the municipality may punish such a person with fine of up to Rs. 1000 (section 165.5).

4) As per section 165.6 if any who has already been punished under this section commits the same offence again. The municipality may punish such person with two-fold punishment for each instance.

### **B) Appeals**

In case any property holder is not satisfied with a punishment imposed by VDC or municipality the local self-governance act 2055 has made provisions of appeal against such punishment. As per section 70.5, any party who is not satisfied with the punishment imposed by the village development committee may appeal to the concerned district court within 35 days from the date of knowledge of such decision.

Similarly, according to section 165.7 any party who is not satisfied with the punishment imposed by the municipality may appeal to the concerned district court within 35 days of the knowledge of such a decision.

### 2.2.3 Property not included in valuation for tax purpose

The following properties are not included in valuation for tax purpose:-

1. **Growing crops:** - Grass or standing trees on agricultural band, the growing crops grass or standing trees are excluded from the purview of the term of assets.
2. **Animals:** - Any domestic animals such as buffaloes cows, oxen and others but the act does not clear the types of animals.
  - a) Any agricultural animals such as bullocks, cows and buffaloes
  - b) Any performing animals in circus such as chimpanzees, bears, lions, tigers.
  - c) Any drought or transport: Animals as males or horses.
3. **Amount deposited for life insurance:** - In Nepalese act, there is no certain information about insurance, according to Indian concept; it should be interested for an assessee in any policy of insurance in any policy.
4. **Patent or copy right:** - The patent or copyright is exempt from property tax. The patent or copyright is acquired by an assessee under a contract from the original author or the inventor or it is acquired by way or in heritage or otherwise no exemption is allowed in such cases.
5. Books and equipments for study.
6. Pots and equipments except valuable metals.
7. Wearing apparel provisions and other clothes for personal or household use of the assesses.
8. Furniture and equipments (except T.V., VCD, Deck, refrigerator, washing machines, camera etc.) They are exempted for developed countries like India. In the poor society, it is assumed highly luxury goods.
9. Tools, machinery and equipments used for professional works.
10. Simple equipments of decoration of house (except valuable metal equipments).
11. Singing and dance equipments for daily used.

12. Equipments for physical education.
13. Equipments and tools for first aid which are kept in houses.
14. Transportation equipments as cycle, riksa and other simple media.
15. Weapons and tools used for personal safety.
16. Equipments related to arts and photographs.

According to Local Self governance Act 055/56, the assets exempt form taxes are:

1. Gold 10 totals with jewelries
2. Silver 200 totals with jewelry
3. Stock in trade
4. Industrial mills, machinery tools and equipments building and ware houses of industrial areas.
5. Invested shares and debentures
6. Loan issued by NG which is declared exemption from these act,
7. Area for house of assesses 300 sq. ft. and ropanies of land.

Similarly, according to local self governance act 055/56 section 146, following rebates are:

- a. Goods and equipments for social welfare
- b. Land owned by farmers.
- c. The exemption limit for land are:
  - i. 10 Biga for terai area
  - ii. 20 ropanies for Kathmandu valley
  - iii. 60 ropanies for other hilly area.
- d) The land related to N.G.
- e) Land and building for hospital
- f) Educational institutions.
- g) Land related to non-profit making organization.
- h) Foreign agencies organization.
- i) Pound, Electricity House, Airport, Bus Park etc.

### **Types of Property Tax Exemptions:**

Property tax exemptions are exempt for social reasons such as homesteads, churches, lodges, private school some for developmental purposes such as new industries, some for fiscal or administrative reasons such as household furniture, some to avoid double taxation such as credits. The tax exempted intangibles and certain types of tangible property are as follows:

- ✓  Homestead exemption: homestead includes any dwelling occupied by the owner as a residence the site upon which the dwelling is located, and varying amounts of surrounding land. The exemption may include not only the land and improvements used as a place to live but also considerable property used to make a living. Homestead exemptions depend on a number of variables, such as the degree of home ownership, area and value of homesteads and the ration of residential property to total property.
- ✓  Exemption of property used for religious and philanthropic purpose: most of the governments exempt educational, charitable, benevolent and religious institutions from property taxation. In the case of religious organizations exemptions are church and a non-profit making organizations etc.
- ✓  Exemption to encourage economic activity: exemption to encourage economic activities are cash bonuses, loans, donations of site and building or their provision at nominal rentals, guarantees of favorable conditions and so on.
- ✓  Municipal exemption policies: municipality also provides exemption to individuals to attract the economic activity within the municipality.

#### **2.2.4 Rebates from Property Tax:**

From the property tax following incomes are rebated:

- ✓  Loan and debenture taken from registered institutions.
- ✓  Amount received from life insurance.
- ✓  Price received from social work.
- ✓ Amount received from provident fund.
- ✓  Amount received from citizen investment.
- ✓  Amount received from personal annuity.
- ✓  Profit or dividend received from kingdom's commercial institutions.
- ✓ Amount of debenture received from NG/N.
- ✓  Amount received from foreign government.

*(Source: Revenue department of KMC and LSMC).*

#### **2.2.5 Problems for Efficient Tax Administration:**

There exists a problem because of the poor taxpayer and lack of tax education. So the local government would make sure them by teaching tax education. There are other factors like, delay in assessment and collection, unnecessary outside pressure and lack of proper incentives to tax personnel's. A good tax system must have certain administrative qualities including certain rules, compliance and collection cost enforceability and acceptability. Although there has been significant progress in the area of improving the elasticity and efficiency of tax system still the major source of revenue collection is land based.

### **2.3 Current Provisions of House and Land Tax in Kathmandu**

#### **Metropolitan City and Lalitpur Sub -Metropolitan City**

The current provisions of house and land tax in Kathmandu Metropolitan City and Lalitpur sub-metropolitan City are as follows :-

### **2.3.1. Necessary Documents and Duties for Submitting Required Documents:-**

Following documents are required to submit house and land tax return in Kathmandu Metropolitan City and Lalitpur Sub-Metropolitan City:

- a) If any person has various land and houses in the Metropolitan area, statement should be submitted to related ward office of each land and houses.
- b) If any couple has separate land and house ownership, statement should be submitted jointly.
- c) If there are more than one own, statement should be submitted in the name of any one owner.
- d) People having liability to pay house and land property tax should submit the return as per Act.
- e) If there is any increase\decrease in house and land property, it should be reported to the ward office.
- f) Calculated tax as per submitted statement should be deposited in bank account of within 35 days.
- g) The necessary document are:-
  - ( i ) Copy of land ownership certificate-1
  - ( ii.) Copy of approval of house map-1
  - (iii) Copy of approval of new flat map if any -1
  - (iv) Field inspection report by technician for house constructed without approval before provision of Metropolitan system-1
  - (v) Copy of tax receipt if any submitted to tax office-1
- h) Tax officer holds right for following action if required :
  - Necessary examinations and review of statements by tax payer by issuing notice for filling and taking interview.
  - Field inspection.

*(Source: Revenue department of KMC and LSMC).*

### **2.3.2. Process of Tax Assessment**

Process of tax assessment covers the process as follows:

- 1) Necessary documents should be registered in house and land tax book,
- 2) House valuation is done on the basis of size of house, area of land and depreciation rate,
- 3) Different types of houses should be valued in different ways,
- 4) Tax assessment is done on the basis of house and land valuation,
- 5) After paying house and land tax, tax clearance certificate should be issued and keep the records,
- 6) If owners are multiple persons, tax assessment should be done in the name of multiple owners like flat owners.

### **2.3.3. Things to be considered in Process of Tax Assessment:**

Things to be considered in process of tax assessment are as follows:

- a. Finding out actual valuation by total area of house,
- b. Find taxable value on the basis of depreciation, types of house, total valuation, year and rate,
- c. If approval is not taken during house construction, she/he should deposit Rs. 10 per sq. ft.
- d. Name and types of road should be defined in the map.
- e. Finding out the area of land in ropani /hector.
- f. Actual valuations are done on the basis of types of road.

### **2.3.4. Mistake Corrections in the Process of Assessment (Corrective Measures)**

The processes for mistake corrections are as follows:

- a) If the tax payer complains about tax and valuation of house and land within two years, tax officer can again determine the tax and valuation

b) The administration should provide chance of revision about house and land tax if necessary.

### **2.3.5. Rebate for Tax Payers in Kathmandu Metropolitan City**

Rebate for tax payers are as follows:

1. 10percent discount for paying tax before last of Shrawan.
2. No penalty for paying tax till Ashwin last.

### **2.3.6. Penalty System of House and Land Tax**

Penalties provisions are as follows:

- If any person submits false document invoices or wrong documents till Ashwin or every year, the penalty is Rs. 5000
- If a person does not follow directions of tax officer penalty is Rs. 500
- If any person does not follow rules and regulations regarding paying tax the penalty is Rs. 1000
- If tax is not deposited within 35 days 15percent additional amount per annum shall be charged on assessed taxes.

### **2.3.7. Exemptions of House and Land Tax**

Exemptions of house and land tax in Katmandu Metropolitan City and Lalitpur sub metropolitan city are as follows;

- 1) House and Land owned by NG/Nepal.
- 2) House and Land owned by Municipalities and District Development Committee.
- 3) House and land related to Embassies Diplomatic Mission etc.,
- 4) Land related to crematorium, airport, stadium, garden, park etc.,
- 5) House and land related to not profit making educational institute and house and related to public enterprises.

### **2.3.8. Documents Required for Property Valuation in KMC and LSMC**

Documents required for property valuation in KMC and LSMC are as follows;

1. Application form-1
2. Copy of house and land tax clearance certificate-1
3. Bill of land tax clearance-1
4. Field inspection report of Ward office-1

*(Source: Revenue department of KMC and LSMC).*

### **2.3.9. Methods of Valuation in Kathmandu Metropolitan City and Lalitpur Sub- Metropolitan City**

Table 2.1 shows the Methods of valuation of house and land in Kathmandu Metropolitan City and Lalitpur sub-metropolitan city:

**Table 2.1**  
**Procedures of Valuation of Building in Kathmandu Metropolitan City and LSMC**

Classification of houses	Average cost per Sq. Ft. (in Rs)	Depreciation rate per year in percentage.	Total life in year
1. Green (Raw) bricks with mud-mortar	450	3	25
2. Kiln bricks (stones) with mud mortar	525	2	30
3. Kiln bricks (stones) with cement mortar.	575	1	70
4. R.C.C. frame structure	635	0.75	100

*Source: Working paper of Kathmandu Metropolitan City and LSMC.*

**Notes:**

- i. House and land of green (raw) brick with mud mortar and thatched roof or house made of bamboo or wood with thatched roof is not valued for the propose of house and land tax.
- ii. The main auditorium of cinema hall is valued by applying a 25 percent discount in aforesaid rates.
- iii. Classifications of house are Green (Raw) bricks with mud-mortar Kiln bricks (Stones) with mud mortar Kiln bricks (Stones) with cement mortar, R.C.C. frame structure.

**2.3.10. Rate of House and Land Tax in Kathmandu Metropolitan City and Lalitpur Sub-Metropolitan City.**

Table 2.2 shows the rate of house and land tax in KMC and LSMC

**Table 2.2**  
**Rate of House and Land Tax in KMC and LSMC**

Value of House and Land	Rate of Tax (in Rs. And percent)	Amount
First up to 10 Lakh	Nil	Nil
Next up to 10 Lakh	300	300
Next up to 30 Lakh	0.05 percent	1500
Next up to 50 Lakh	0.25 percent	12,500
Next up to 1 crore	0.5 percent	50,000
More than 1 crore	1.5 percent	-

*Source: Working paper of Kathmandu Metropolitan City and LSMC.*

In Table 2.2, rate of tax in Rs. And percentage and amount are shown in right side. Value of house and land is shown in the left side. If the value of house and land is up to 10 lakhs she/he should not have to pay tax. If one has value of house and land up to 20 lakhs she/he must pay Rs. 300. Similarly one she has value of

house and land next up to 1 crore after exemption of Rs. 10 lakhs, he/she should have to pay Rs. 50,000.

### **2.3.11. Property Tax Administration**

In this part Steps in Property Tax Administration, Functions of Property Tax Administration, Assessments of Property Tax, and Method of Valuation of Buildings are included.

### **2.3.12. Steps in Property Tax Administration**

In property tax administration: discovery, valuation, billing and collection lies with municipal officials. Properties are recorded on tax maps for purposes of permanent identification. Values are calculated on the basis of objective physical characteristics and standard unit cost factors of complete and up-to-date set of all the documents required to administer the property tax. Some points are:

- a. An updated municipal tax code.
- b. An updated tax map.
- c. A new set of property records.
- d. New unit cost tables.
- e. Current market prices.
- f. A new assessment roll.
- g. Property and its current tax liability.
- h. A complete set of tax bills.
- i. A ledger for recording payments against outstanding liabilities (William Dillinger, 1988:p.43-48).

“Tax administration is tax policy” in developing and transitional countries, so property tax has not only impacts on their revenue but also effects their equity and efficiency. In many countries, poor tax administration is an impediment to implementing the property tax. Often local authority does not have the capacity to administer the tax. Many administrative functions are performed manually rather

than being computerized. The result is that the revenue base does not include all taxable properties, collection rates are low, and enforcement is almost not extent.

Good property tax administrations have following features:

### **1. Property Identification:**

The first step in levying a property tax is to identify the property, to determine the owner and the value of land and improvements. Cadastral maps are an essential element of property identification. Information needs to be collected for each property identification. Information needs to be collected for each property includes: assessment roll number of the property, the address the owner of the property the area in square meters and the age of the unit.

The process of property identification is more difficult in developing countries due to:

- a) Revenue base information is neither up to date nor complete.
- b) It is too expensive for the local government to keep a good record of property identification data. Taxes are not collected on all properties within each jurisdiction.
- c) In many countries, property records are not computerized.

### **2. Assessments and appeals: -**

Property taxes have to be based on assessment. The assessment function seems to be essentially local in about half the cases and the central, or regional the others. The detailed assessment methodology is established by the central government even when assessment is a local function. Property identification, the problems encountered with assessment and reassessment often stem from lack of resources and expertise. Assessment suffers from a lack of technically qualified staff and assessment tools. Problem with keeping assessment up to date in many countries, a building permit is issued again the recording office should send notification to the office responsible for maintaining the property tax roll, such process do not work well. Tax payers have an opportunity to appeal their assessment, if they

think it is wrong, to correct factual errors and differences in views of the assessed value. In some countries taxpayers can appeal the decision of the valuation review board to a specialized tax court. Appeal system is desirable and necessary in practice, in many countries; there may be an appeal system in law.

### 3. Tax collection and arrears:-

Tax collection is usually a local government function of the property tax. If it is not paid within a time period, then interest and a late fee are generally charged. In most countries, property transfers are not permitted unless property taxes are paid. Tax arrears for those countries for which the information is available, tax arrears, as a proportion of taxes collectible are low in most developed countries. Finally the main steps in administration are as follows:

- a) Selecting the levy
- b) Original assessment of property
- c) Review of the original assessment
- d) Central assessment or equalization
- e) Tax rates
- f) Procedure of collection
- g) Collection of delinquent taxes
- h) Appeals to some judicial

- **Selecting the levy:** The levy consists of a legislative enactment to the effect that a certain specified amount shall be raised from the property tax.

- **Original assessment of property:** Evaluate the property by the local assessor.

- **Review of original assessment:** Every taxpayer is given the right to a hearing before the tax becomes final. This hearing may be before the original assessing agency. Few states have established administrative agencies to hear protesting taxpayers and to check and double check the work of the local assessor.

- **Central assessment of equalization:-** Adjustments made by central units to facilitate the equitable distribution of overhead taxes among districts is called equalization.
- **Tax rates collection:** The town village or city clerk calculations the tax rate for the district.
- **Collection of delinquent taxes:** Real property taxes are not paid before a certain time, the county treasurer must offer the taxes for sale; it has obtained the required number of successive tax claims for any parcel of property.
- **Appeals to some judicial:** Court of first resort for the taxpayer who is dissatisfied with his assessment. The taxpayer is frequently given an additional appeal to the state tax department and a final appeal to the courts.

### **2.3.13. Functions of Property Tax Administration**

Government tax department is a very important element in efficient property tax administration. Its principal functions are as follows:

1. Supervision of local assessment
2. Central assessment of districts
3. Direct assessment and local assessment
4. An administrative “Court of appeals” for aggrieved property owners and districts.

The quality of property tax administration is corresponding quite regularly with the alertness and adequacy of the government tax department or that of some corresponding state agency. Good supervision and intelligent central assessment, it is possible to administer the general property tax with a high degree of efficiency and success, even with a locally elected assessor.

### **2.3.14. Assessments of Property Tax**

Some methods of valuation of property taxes are as follows:

#### **1. Area based assessment**

A charge is levied per square meter of land area and per square meter of building. The assessment of property is the sum of an assessment rate per square meter multiplied by the size of the land parcel and an assessment rate per square meter multiplied by the size of the building. The assessment rates may be the same for land and buildings. With unit value assessment, the assessment rate per square foot is adjusted to reflect location and quality of the structure. Market value has an indirect influence on the assessment base. Properties in different zones will have different values. The municipalities apply tax according to the availability of the services like garbage collection, street lighting covered road covered side walk, sanitary sewers and rain water sewers. The tax rate is set 8 percent to 14percent according to quality of services. The value of agriculture land often seems, like other presumptive tax base.

#### **2. Market value assessment**

Market value is defined as the price that would be struck between a willing buyer and a willing seller in an arms length transaction. The following methods are used to estimate market value:

- a. The comparable sales approach is used when the market is active and similar properties are being sold.
- b. The depreciated cost approach is used when the property is relatively new, there are no comparable sales and the improvements are relatively unique and industrial properties.
- c. Under the income approach, income is converted to a capital value using a capitalization rate for properties with actual rental income.

Market value assessment is used in all the OECD countries, Indonesia, Philippine, South Africa, Latvia, Argentina and Mexico.

### **3. Rental value assessment**

Under the rental value approach, property is assets approach according to estimated rental value or net rent. There should be no difference between a tax on market value and a tax on rental value.

### **4. Area based vs. Market based assessment**

Market value has the advantage of capturing the amenities of the neighborhood, amenities that have often being created by government expenditures and policies. Area based assessments are unlike to capture these amenities because they do not take into account of difference in neither the quality of buildings nor their location. Unit value assessment trained to be less volatile than under market value assessment. Unit value assessment is easier to understand and cheaper to administer than market value based assessment. Unit value may be easier to administer for single family residential properties. It is difficult to use for multi residential rental condominium commercial and industrial properties etc.

### **5. Self Assessment:-**

The current local tax system is based on principle of self assessment. Under this method, the responsibility lies on property holder itself. Properties are assessed at market value. Under self assessment in some countries, people have the right to buy the property at the assessed value. It do not required expert assessment staff and it is appears to be easy to implement. According to the case study in bird and slack 2002, self assessment appears to have significantly increased revenues (Richard, M Bird and Enid Slack, 2002).

### **2.3.15. Methods of Valuation of Buildings**

There are some methods of valuation of buildings which are as follows:

- 1) Rental method
- 2) Direct comparison with the capitalized value
- 3) Valuation based on profit
- 4) Valuation based on cost
- 5) Development method of valuation
- 6) Depreciation method of valuation
- 7) Cost by detailed measurement.

#### **1) Rental Method**

In this method, the net income from rent is found by deducting all outgoing money from the rent. A suitable rate of interest, as prevailing in the market is assumed and the year's purchase is calculated. The net income multiplied by the year's purchase, gives the capitalized value of the property. The method is useful in those properties which are rented and where the net rent is known. It is difficult to discover the actual net rent because the property owners seldom declare the true amount. There would be the problem of fixing a rental rate for each house (Dhugana, Pradhan and Shah, 1974).

#### **2) Direct Comparison with the Capitalization Value**

The second method is adopted when the rental value is not available from the property concerned. In such cases the capitalized value of the property is fixed by direct comparison with the capitalized value of similar property in the locality. This method can be used only in conjunction with some other method where the basis of valuation is already known. It is difficult to find two or more similar properties in the locality.

### **3) Valuation Based on Profit**

This third method is suitable for building like hotels, cinema halls theaters etc for which the capitalized value depends on the profits.

### **4) Valuation Based on Cost**

In the valuation based on cost method the actual cost incurred in constructing the building, is taken as the basis for determining the value of the property.

### **5) Development Method of Valuation**

This method is used for those properties in either an undeveloped stage. It is used only in specific cases, e.g. half completed houses.

### **6) Depreciation Method of Valuation**

This method is the depreciation method of valuation. According to this method, one needs to have information on i) Walls ii) Roofs iii) Floors iv) Doors v) Windows etc. This method is the best as far as accuracy is concerned. But general public is not having a consciousness or understanding of the implication of such taxation, so it is not applicable (Dhugana, Pradhan and Shah, 1974).

## **2.3.16. House and Land Tax Calculation Related to KMC and LSMC**

In Nepal local self-government act 2055 has been applicable in calculating property tax the example of calculation are shown in appendix-I.

## **2.4. Review of Earlier Studies**

Property tax plays a vital role in many countries. Nowadays, it is more important all over the world. The purpose of this review is to bring in light in brief the important work done on property taxation in Nepal. So some of the literature related to property tax has been reviewed in the following paragraph.

Dhungana and Pradhan (1973) of an institution center for economic development and administration (CEDA) surveyed the property taxes for the first time and performed a general account on the revenue potentiality, assessment

administrative mechanism of law, Administrative loopholes, problems and suggestions have made for the prospects and future score for the development and had proposed for improvement and implementation procedure of property taxation. The report published as the title of "Evaluation of urban property (1<sup>st</sup> phase Kathmandu)". The report consists of various aspects of urban property tax in Nepal. It also deals with housing trained and revenue potentiality of Kathmandu.

The report points out that in the fiscal year 2027/28 and 2028/29 the total amount of tax raised from the urban property was Rs. 5.87 and 6.00 lakh out of which Rs. 2.25 and Rs. 2.43 lakh were raised from Kathmandu alone. Thus the total share of Kathmandu is about 40 percent of the total property tax. The survey also shows that only about 4percent of houses are paying taxes.

They have also reported that with the existing tax rates NG can very well raise up to Rs. 10.67 lakh of revenue from Kathmandu alone and with necessary change it will be increased to Rs.15.243 lakhs. They have also suggested of setting up a separate tax administration unit which can fetch quite substantial revenue to the government.

They have studied various forms of property taxes levied in Nepal. They suggest that urban property tax is one of the most negligent taxes in Nepal both from the view point of government administration and the tax payer. Property tax is problematic tax because it is based on valuation.

Poudel (1993) suggested the rate of property tax is low, so it should be increased. The weakness is that tax payer's escape from paying tax.

Shah, Kayastha and Rai (1974) have analyzed the property tax of five districts in the report entitled "Evaluation of urban property". The five districts are Biratnagar, Birgunj, Nepalgunj, Bhairawa and Janakpur.

In this report they have analyzed the revenue generation from these district they have also deal with housing trend revenue potentiality valuation procedure of land, per area rate and building categorization etc.

Devkota (1980) has analyzed urban house and land tax entitled "Nepalma Sahari Ghar Jagga Kar Eak Bisleshan". He analyzed property tax legal aspect, evaluation procedure house and land, collection of house and land tax, tax base, structure of tax rate, revenue potentiality, historical aspect, and property tax is different nations along with international aspect.

In this report he finds out that the revenue from property tax has not been mobilized that much, it has low revenue productivity and contribution from this tax to total revenue is insignificant he find assessment ratio is also very poor. And at last he has forwarded some suggestion from the improvement the property tax he also suggests for the more elastic property tax.

Bhandari (1978) has attempted to focus on those problem areas issue of policy making that are remaining on central concern. He also points out problem regarding property tax and has suggested overcoming and uplifting it share on the revenue side along social betterment as it being a tax on the social sector.

Thakur (1979) studied the urban property taxation in Nepal and tried to shows its role in bringing about development with social justice in the economy.

Pyakurel (1981) shows the insignificant revenue generation from urban house and land tax and shows serious weaknesses regarding the administration method of assessment and evaluation procedure of this tax for the effective implementation and improvement of the property tax. He has forwarded some suggestions.

Poudel (1993) shows the implementation procedure of property system, rate and structure of (progressive) property tax and shows the problems of property tax system for the effective implementation and improvement of the property tax, he has forwarded some suggestions.

Adhikari (2005) has analyzed house and compound tax has been consider as the suitable source for the mobilizing internal resources. It can used as a positive instrument to boost government revenue collection, to develop the economic condition of Nepalese people and promote distributive justice and to cure resource gap problem.

Chhetri (2006) has analyzed the successful property tax must adopt good policies and administrative procedure. Countries face a number of operational difficulties in the administration of property tax. In addition he expresses about the property tax, Nepalese property taxes are based on market value, so he suggest to reform property tax.

Basnet (2007) has analyzed property tax must adopt good policies. Central level has assist to the local level to make empowerment, act and rule must be improved and consider time value of money, new valuation of house and land and tax rate.

Local self government act 2055, local self governance regulation rule 2056 focused on fiscal power granted to the local bodies. As per these legal provisions, municipalities can collect service charge and fee related to approval of building design. As per the regulation the main source of revenue given to municipality is the property tax like house and land tax and unified property tax.

Kathmandu metropolitan city and Lalitpur sub metropolitan city has prepared a working paper relating to the implementation of property tax. The paper says that valuation of house and land is based on actual market price and actual blue print map. The paper has suggested punishing person or tax payer who gives wrong information and who does not follow metropolitan city regulation.

## **2.5 Conclusion**

There is gap between this research and the previous research most of the previous researches have focused the contribution of house & land tax on total revenue of KMC or LSMC or Total national revenue separately. There is some research works carried out on house and land tax concentrating mostly on the administrative, legal, assessment procedure of tax revenue in Nepal, historical aspects. Very few studies and publications have included role of house & land tax in descriptive way and study on the house& land tax in separate way. The present study mainly concentrates on the contribution of house & land tax on total revenue of KMC & LSMC & also study in summery about contribution to national tax revenue.

Most of the researchers have suggested improving the tax administration increasing the contribution of house & land tax in resource mobilization and winding the tax coverage.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

#### **3.1. Introduction**

All data are collected from secondary sources; secondary sources of data are collected in order to fulfill the objective of study. To achieve objectives of the studies analysis of contribution of house and land tax in KMC and LSMC is done in this chapter. The methodology, which has been followed in the study of research design, nature and sources of data, method of data analysis tools used for analysis of data etc. Which are as:

#### **3.2. Research Design:**

Most of the data and information of the study were concerned with past phenomenon of the performance either they were numerical or opinions so it can be regarded as historical research design too. After the collection of past data and experiences, this study analyzed and described its own procedure. Thus, this study also followed an analytical as well as descriptive research design.

#### **3.3. Nature and Sources of Data:**

This study is based on secondary data, which are collected from published as well as unpublished reports, circular and records of property tax, revenue collection department of Kathmandu Metropolitan City, Bagdarbar and Lalitpur sub-metropolitan city, Pulchowk. Some of these data are published documents of National Planning Commission, Ministry of Finance income and expenditure budget and working paper of Kathmandu Metropolitan City and Lalitpur sub-metropolitan city. Similarly 58 Municipalities survey program, a cooperation programmed of Ministry of local development NG and Deutche Zusammenarbeit of Federal Republic of Germany ( GTZ). World Bank Report, thesis and other

books from Saraswoti Multiple Campus Library, T.U. Central Library and Centre for Economic Development (CEDA).

### **3.4. Method of Data Analysis:**

Data, valuable information and other things collected from different sources in raw form and in the initial stage is judging independently do not help for decision but proper arrangement of them is essential. Thus the collected information and facts have been properly processed, tabulated, for the purpose of analysis and analyzed using relevant financial and statistical tools to achieve the objective.

### **3.5. Tools Used for Analysis of Data:**

In order to analyze and interpret the collective data after necessary adjustments various financial as well as statistical tools have been used. Brief explanations of such tools have been presented below:

#### **Statistical tools:**

- i. Simple percentage
- ii. Simple average
- iii. Graphs, charts, and diagrams
- iv. Regression Methods

## **CHAPTER-IV**

### **PRESENTATION AND ANALYSIS OF DATA**

#### **4.1 Introduction**

Data presentation and Analysis of House and Land (property) tax of Kathmandu Metropolitan City and Lalitpur Sub-Metropolitan City has been done in this chapter. This is the major part of the study. It aims to make clear understanding contribution of property tax in Kathmandu Metropolitan City and Lalitpur Sub-Metropolitan City which is presented in this chapter.

##### **4.1.1. Comparison between Revenue and Expense of KMC, LSMC and Remaining 56 Municipalities:**

All over Nepal, there are 58 municipalities among them Kathmandu is only one metropolitan city. Kathmandu metropolitan city has 35 wards. Among 4 sub-metropolitan City Lalitpur Sub-Metropolitan City is one. It Sub-Metropolitan City has 22 wards. Comparison between Kathmandu Metropolitan City and Lalitpur Sub-Metropolitan City and total 58 municipalities of fiscal year 065/066 Total revenue, total expenditure capital investment no. of employee is shown in right side.

**Table 4.1**  
**Comparison between**  
**Revenue and expenditure of KMC & LSMC and 56 Municipalities**

Particular	Total revenue (in Rs.)	Total expenditure (in Rs.)	Capital expenditure (in Rs.)	Non-capital expenditure (in Rs.)	No. of employee
Total 58 municipalities	3105538488	2726127766	1531916706	1194211060	8734
Kathmandu metropolitan city	958188495	824540936	535617183	288923753	2238
Lalitpur sub-metropolitan city	138720727	114792553	42419376	72373177	555
percent of total 56 municipalities	64.68	65.54	62.27	3.27	68.03
Percentage of KMC covered	30.85	30.25	34.96	4.71	25.62
percent of LSMC covered	4.47	4.21	2.77	1.44	6.35

*(Source: A cooperation programme of ministry of Local Development, NG of Nepal and Deutsche Gesellschaft for Technique Zusammenarbeit (GTZ), Republic of Germany.)*

Above Table no. 4.1 shown that total 56 municipalities have covered 64.68 percent of total revenue; 30.85 percent of total revenue is covered by Kathmandu metropolitan city and 4.47 percent of total revenue covered by LSMC. KTM has covered 30.25 percent of total expenditure and LSMC has covered 4.21 percent and remaining 56 municipalities are covered 65.54 percent. Similarly, total 56 municipalities have covered 62.27 percent of capital investment whereas Kathmandu metropolitan city is covered 34.96 percent and LSMC is covered 2.77 percent. Kathmandu metropolitan city has covered 25.62 percent of no. of employee and LSMC has covered 6.35 percent, remaining 56 municipality are

covered 68.03 percent no. of employee. Capital expenditure is more than non-capital expenditure, which is the better for future.

#### **4.1.2. Structure of Total income from Tax and Other sources of KMC**

The structure of total income from tax and other sources of KMC shown in the below table no 4.2. The structure consists of all the public revenue and other income like own private income of KMC it included the income incurred by over head bridge, Sub ways, bus park's markets etc. And this also included fine and penalties, internal and external aid and other income which are shown in following table.

**Table 4.2**  
**Structure of Total Income from Tax and Other Sources of KMC**  
**ESTIMATED INCOME OF KMC for last 6 years**

<b>REVENUE</b>	<b>061/62</b>	<b>062/63</b>	<b>063/64</b>	<b>064/65</b>	<b>065/66</b>
Malpot Kar.	4,500,000	5,000,000	5,000,000	5,000,000	4,500,000
House and land tax	110,375,000	140,000,000	150,000,000	200,000,000	180,000,000
Rent tax	0	2,500,000	5,000,000	5,000,000	15,000,000
Transportation Tax	7,012,000	10,012,000	10,000,000	7,510,000	7,500,000
Entertainment Tax	250,000	1,500,000	1,600,000	1,500,000	1,200,000
Advertisement Tax	13,700,000	18,000,000	15,776,000	10,000,000	14,000,000
Business Tax	35,000,000	22,500,000	26,746,000	20,500,000	25,000,000
<b>A. Tax Revenue</b>	<b>170,837,000</b>	<b>199,512,000</b>	<b>214,122,000</b>	<b>249,510,000</b>	<b>247,200,000</b>
Income fees	192,265,000	181,968,000	123,154,000	133,110,000	149,410,000
Income from own assets	37,181,368	43,624,000	28,495,000	25,876,000	31,795,000
Income from fees, sales and penalty	81,940,000	148,690,000	61,999,000	89,033,000	100,670,000
local development fees	259,600,000	240,000,000	237,576,000	237,576,000	280,000,000
Investment return and interest income	40,000,000	29,500,000	10,000,000	21,000,000	45,000,000
<b>B. Non tax revenue</b>	<b>610,986,368</b>	<b>643,782,000</b>	<b>461,224,000</b>	<b>506,595,000</b>	<b>606,875,000</b>
<b>C. last year revenue</b>	<b>1,350,000</b>	<b>31,700,000</b>	<b>33,000,000</b>	<b>33,000,000</b>	<b>22,000,000</b>
<b>Total internal income {A+B+C}</b>	<b>783,173,368</b>	<b>874,994,000</b>	<b>708,346,000</b>	<b>789,105,000</b>	<b>876,075,000</b>
Grant from Nepal Gov	186,300,000	253,397,200	239,200,000	365,600,000	313,625,000
Grant from consumer group, private sector and other sectors	409,953,967	259,580,000	337,553,000	208,333,000	155,622,000
Other national and international grant	85,673,476	114,913,800	20,390,000	11,000,000	17,000,000
loan	45,000,000	20,000,000	70,300,000	28,235,000	65,480,000
<b>Income from other source</b>	<b>726,927,443</b>	<b>647,891,000</b>	<b>667,443,000</b>	<b>613,168,000</b>	<b>551,727,000</b>
<b>Total revenue</b>	<b>1,510,100,811</b>	<b>1,522,885,000</b>	<b>1,375,789,000</b>	<b>1,402,273,000</b>	<b>1,427,802,000</b>

*{Source: budget sheet of KMC}*

Above table showed the detail structure of various taxes and other estimated income of KMC in various Fiscal Years. Total income Rs. 1,510,100,811 of KMC

in fiscal year 061/062. Total income Rs. 1,522,885,000 of KMC s in fiscal year 062/063. Total income Rs. 1,375,789,000 of KMC in fiscal year 063/064. Total income Rs. 1,402,273,000 of KMC in fiscal year 064/065. Total income Rs. 1,427,802,000 of KMC in fiscal year 065/066. Hence, this showed total incomes of different fiscal year fluctuating every year of KMC.

**Table 4.3**  
**Actual Budget of KMC for last six years.**

<b>REVENUE</b>	<b>061/62</b>	<b>062/63</b>	<b>063/64</b>	<b>064/65</b>	<b>065/66</b>
Malpot kar	4,388,535	3,593,183	3,885,485	4,421,269	5,377,149
House and land tax	122,344,464	92,248,996	115,550,804	145,197,400	230,477,605
Rent tax	0	640,206	2,683,536	7,164,869	9,696,657
Transportation Tax	7,170,565	5,851,260	5,122,074	6,173,907	6,480,800
Entertainment Tax	63,727	1,515,068	1,229,655	1,139,132	1,006,077
Advertisement Tax	7,906,309	6,311,239	5,826,857	11,977,454	15,364,780
Business Tax	21,792,541	16,226,064	13,399,972	20,308,217	26,483,833
<b>A. Tax Revenue</b>	<b>163,666,141</b>	<b>126,386,016</b>	<b>147,698,383</b>	<b>196,382,248</b>	<b>294,886,901</b>
Income fees	140,972,640	109,655,802	118,088,546	136,588,610	160,877,408
Income from own assets	16,271,693	10,372,141	5,799,187	19,592,892	12,236,566
Income from fees, sales and penalty	56,336,088	42,527,845	49,777,506	53,817,281	32,281,346
local development fees	237,576,000	237,589,600	237,576,000	237,576,000	416,036,000
Investment return and interest income	0	347,792	507,876	4,793,549	
<b>B. Non tax revenue</b>	<b>451,156,421</b>	<b>400,493,180</b>	<b>411,749,115</b>	<b>452,368,332</b>	<b>621,431,320</b>
<b>C. last year revenue</b>	<b>5,994,628</b>	<b>26,610,244</b>	<b>51,969,020</b>	<b>18,229,160</b>	<b>1,155,616</b>
<b>Total internal income {ABC}</b>	<b>620,817,190</b>	<b>553,489,440</b>	<b>611,416,518</b>	<b>666,979,740</b>	<b>917,473,837</b>
Grant from Nepal government	1,092,900	71,739,925	194,805,200	174,516,400	28,490,300
Grant from consumer group, private sector and other sectors	16,629,000	27,996,457	115,089,605	50,570,416	65,910,135
Other national and international grant	8,977,628	59,453,848	8,582,875	1,181,912	1,185,389
loan	0	0	0	0	0
<b>Income from other source</b>	<b>26,699,528</b>	<b>159,190,230</b>	<b>318,477,680</b>	<b>226,268,728</b>	<b>95,585,824</b>
<b>Total revenue</b>	<b>647,516,718</b>	<b>712,679,670</b>	<b>929,894,198</b>	<b>893,248,468</b>	<b>1,013,059,661</b>

{Source: Budget sheet of KMC.}

Above table showed the detail structure of various taxes and other estimated income of KMC in various Fiscal Years. Total income Rs. 647,516,718 of KMC

in fiscal year 061/062. Total income Rs. 712,679,670 of KMC in fiscal year 062/063. Total income Rs. 929,894,198 of KMC in fiscal year 063/064. Total income Rs. 893,248,468 of KMC in fiscal year 064/065. Total income Rs. 1,013,059,661 of KMC in fiscal year 065/066. Hence, this showed total incomes of different fiscal year fluctuating every year of KMC.

#### **4.1.3. Structure of Total Income from Tax and Other Sources of LSMC**

The structure of total income from tax and other sources of LSMC presented in table 4.4 from the fiscal year 055/056 to 062/063. The table shows that the public revenue in LSMC is by different taxes such as service charge, fine and penalties, fees, aid and other income which are shown in following table.

**Table 4.4:****Structure of Total Income from Tax and Other Sources of LSMC 'in 000'**

<b>Particular</b>	<b>060/061</b>	<b>061/062</b>	<b>062/063</b>	<b>063/064</b>	<b>064/065</b>	<b>065/066</b>
1. Malpot kar	1426	1743	1513	1527	1984	2200
2. House and land tax	10248	11779	14540	26325	18984	35000
3. House rent tax	1327	997	1956	3272	3982	5500
4. Birautikar	179	144	169	23	1	0
5. Business tax	1639	2054	2748	2732	3466	6500
6. Vehicle tax	835	2712	2327	1752	1935	2000
7. Entertainment tax	477	423	304	-	405	1000
8. Advertising tax	105	774	867	1320	1868	4600
9. Service charge	71947	61106	62652	66061	69250	75841
10. Income Fees	17530	20421	19128	26158	28447	31100
11. Sales	-	1220	1355	1783	1882	2300
12. Income investment	379	185	-	-	45	0
13. Other income	7385	10814	13303	12644	14472	15637
14. Internal aid	2147	4992	11903	56674	29001	48182
15. External aid	-	-	7495	24088	1281	26014
16. Other aid		425	89	184	600	37968
17. last year surplus	271	112	383		51496	60281
<b>Total Revenue</b>	<b>115895</b>	<b>119901</b>	<b>140732</b>	<b>233422</b>	<b>231314</b>	<b>340486</b>

{Source: budget sheet of LSMC}

Table 4.4 shows the total income from tax and other sources of Lalitpur Sub-Metropolitan City in different fiscal year. Actual amount are shown in table. Total income Rs. 115895824.42 of LSMC was in fiscal year 060/61. Total income Rs. 119901000 of LSMC was in fiscal year 061/62. Total income Rs. 140732000 of LSMC was in fiscal year 062/63. Total income Rs. 229608000 of LSMC was in fiscal year 063/64. Total income Rs. 312808000 of LSMC was in fiscal year 064/65. Total income Rs. 340486000 of LSMC was in fiscal year 065/66. Hence, total incomes of different fiscal year were fluctuating every year of LSMC.

#### 4.1.4. Structure of Total income from Tax Revenue.

The structure of total income from tax of National Income shown in the below table no 4.5. The structure consists of all the Tax revenue like Malpot, Garjagga kar, Nikasi, Paithari etc and other income which are shown in following table.

**Table no 4.5**

#### Structure of Total income from Tax Revenue. (In Crore)

Particular	060/061	061/062	062/063	063/064	064/065	065/066
<b>1.Bhansar Mahasul</b>	<b>1524.4</b>	<b>1670.76</b>	<b>2106.3</b>	<b>1020.5</b>	<b>1403.3</b>	<b>1540.4</b>
Paithari	1174.46	1362.61	1712.8	810.72	1126.5	1277.4
Nikasi	62.56	70.87	44.56	50.26	26.72	52.84
Bharatiya Anta sulka Firta	231.44	189.65	299.71	131.27	215.16	166.48
Other	65.94	47.63	49.16	28.23	34.99	43.67
<b>2. Bastu Tatha Sewako Upavogma lagne kar</b>	<b>2811.83</b>	<b>3543.88</b>	<b>4100.5</b>	<b>2094.2</b>	<b>2418.2</b>	<b>3296.2</b>
Waudhyogik Utpadanma AntaSulk	650.76	934.32	1119	521.36	646.2	922.13
Mulya Avibridi Kar	2161.07	2609.56	2981.6	1572.9	1772	2374.1
<b>Malpot Tatha Registration</b>	<b>218.11</b>	<b>225.35</b>	<b>294.07</b>	<b>111.13</b>	<b>134.81</b>	<b>272.27</b>
Malpot	0	0	0	0	0	0
Ghar Jagga Registration dastur	218.11	225.35	2981.6	111.13	134.81	272.27
<b>Aya Nafha Ra Sampati Kar</b>	<b>1178.7</b>	<b>1672.68</b>	<b>2014.7</b>	<b>829.2</b>	<b>1133.5</b>	<b>1699.2</b>
Ayakar (sarakari chhetra)	19.57	101.97	20.46	33.19	13.73	48.14
Aya kar (ardha sarakari Chhetra)	0	0	0	0	0	0
Ayakar (sarwajanik Chhetra)	340.43	571.71	718.65	220.02	364.56	506.29
Ayakar (Niji chhetra)	423.47	523.44	638.12	271.7	339.31	573.91
Aya kar (Parisramik	176.41	200.79	245.1	114.49	142.84	180.64
Sahari chhetra Ghar jagga kar	0	0	0	0	0	0
Sawari sadan kar	84.76	99.5	106.92	76.23	87.72	125.64
Byaj kar	77.49	105.49	108.79	69.39	75.15	118.89
anya karharu	56.57	69.78	176.66	44.18	110.14	145.64
<b>Total</b>	<b>5743.04</b>	<b>7112.6</b>	<b>8515.6</b>	<b>4055</b>	<b>5089.9</b>	<b>6808</b>

(Source: www.mof.ird.gov.np)

Above table showed the detail structure of various taxes income on total National Revenue in various Fiscal Years. Total Tax income Rs. 5743.04 crore in 060/061. Total income Rs. 7112.6 crore in fiscal year 061/062. Total income Rs. 8515.6 crore in fiscal year 062/063 Total income Rs 4055 crore in fiscal year 063/064. Total income Rs. 5089.9 crore in fiscal year 064/065. Total income Rs 6808 crore in fiscal year 065/066. Hence, this showed total tax income of different fiscal year fluctuating every year.

#### **4.1.5. Property Tax in KMC and LSMC**

Kathmandu Metropolitan city has been collecting property tax since 2057 and Lalitpur Su-metropolitan City collecting this tax since 2055/056. It is known as house and land tax. This tax is playing major role in KMC and LSMC. Most of the people who live in KMC and LSMC are paying house and land tax.

KMC has estimated that around 2 lakh 50 thousand property tax payers in Metropolitan city but due the lack of filing and recording system does not show any sound data for regular tax payers. And absent of proper recording system only 50 percentage tax payer pay regularly. Among them most of the tax payers are corporate office like Nepal electricity Authority, Nepal Telecom Corporation etc. Which pay 40 to 42 lakhs annually? Where as least paying tax are those individuals. Most of people own property less than 10 lakhs which are not in the tax brackets. They pay only house and land tax in the name of "Service Charge" Rs. 200 annually. In 2019 there was provision of sending bill to the individuals for the payment of house and land tax but it could not come to practice. Since it was only limited in the provision there is not any measures take by KMC for taking any action like fine and penalty for not paying tax.

Tax planning and tax evasion is another factor which hindrance in collection for house and land tax. People reduce their responsibilities of paying tax by splitting

the whole property to small valuation property to pay tax little or none. Some people have more than one house in same name which also lead to evasion simply pay for only one house. For all this reason contribution of house and land tax seems less than in the comparison to other taxes.

As for as concerned of completion of tax payers the Government's rules and regulations on them is major focused. Nevertheless, the people of KMC and LSMC could pay the whole tax when they need recommendation or permission from municipality to use of the property as collateral, bones etc. from the financial institute and other similar firms. Therefore it is clear that the tax payer pay the whole tax to clear the transaction. But this would be continued one after another until the Government prepares the rule concerning this aspect on each fiscal year.

#### **4.1.6. Total Tax Income from Property and Other Taxes KMC**

Table 4.6 shows total tax income form property and other tax of Katmandu metropolitan city in fiscal year 065/66. Total tax income house and land tax, percentage of property tax other taxes and percentage of other taxes are shown below.

**Table 4.6**  
**Katmandu Metropolitan City**  
**Total Tax Income from Property and Other Taxes**

Particular	060/061 Actual	061/062 Actual	062/063 Actual	063/064 Actual	064/065 Actual	065/066 Actual
Total tax income (in Rs.)	553526050	163,666,141	126,386,016	147,698,383	196,382,248	294,886,901
Property tax (house and land) (in Rs.)	59183903.95	122,344,464	92,248,996	115,550,804	145,197,400	230,477,605
percentage of property tax	10.69	74.75	72.98	78.23	73.93	78.15
Other taxes *(in Rs)	494342146.05	41,321,677	34,137,020	32,147,597	51,184,848	64,409,296
percentage of other taxes*	89.31	25.24	27.01	21.7	26.06	21.84

*(Source: Income and expenditure budget of Katmandu metropolitan city, FY 062/63) \*Vehicle, Malpot, Business, advertisement, entertainment etc.*

Table 4.6 showed the total income from property tax and other sources of tax of Kathmandu Metropolitan city in different fiscal year. Actual amount were shown in table. Total income Rs. 553526050 of KMC was in F/Y 060/061. Total income Rs. 163,666,141 of KMC was in F/Y 061/062. Total income Rs. 126,386,016 of KMC was in F/Y 062/063 Total income Rs. 147,698,383 of KMC was in F/Y 063/064. Total income Rs. 196,382,248 of KMC was in F/Y 064/065. Total income Rs. 294,886,901 of KMC was in F/Y 065/066. Hence, total incomes of different fiscal year were fluctuating every year of KMC.

#### 4.1.7. Total Income from Property and Other Taxes LSMC

Table 4.5 showed that the percentage contribution of property tax (house and land) and other taxes to total revenue. The contribution of property tax was very low comparison to the other taxes in LSMC. However, the presented data showed that the percentage of property tax was increasing in ending fiscal years. So it can be said that the percentage contribution of property tax will be grown up in the future.

**Table 4.7**

**Total Income from Property Tax and Other Taxes of LSMC In '000'**

<b>Particular</b>	<b>FY</b>	<b>FY</b>	<b>FY</b>	<b>FY</b>	<b>FY</b>	<b>FY</b>
	<b>060/061</b>	<b>061/062</b>	<b>062/063</b>	<b>063/064</b>	<b>064/065</b>	<b>065/066</b>
Total tax income (in Rs.)	16236	20626	24424	36951	45300	56800
house and land tax (in Rs.)	10248	11779	14540	26325	30000	35000
percentage of property tax	63.11	57.10	59.53	71.24	66.22	61.61
Others taxes and income (in Rs.)	5988	8847	9884	10626	15300	21800
percentage of Other tax income	36.88	42.89	40.46	28.75	33.77	38.38

*(Source: Income and expenditure budget of LSMC)*

Table 4.5 showed total tax income from property and other tax of LSMC for the last 6 fiscal years. Total tax income house and land tax, percentage of property tax and percentage of other taxes and income are shown in above table. Total tax income was Rs. 16236, which consisted 63.11 percent from property tax and 36.88 percent from other taxes and income in fiscal year 060/061. Total tax income was Rs20626, which consisted 57.10 percent from property tax and 42.89 percent from other taxes and income in fiscal year 061/062. Total tax income was Rs. 24424, which consisted 59.53 percent from property tax and 40.46 percent from other taxes and income in fiscal year 062/063. Total tax income was Rs. 36951. which consisted 71.24 percent from property tax and 28.75 percent from

other taxes and income in fiscal year 063/064. Total tax income was Rs45300, which consisted 66.22 percent from property tax and 33.77 percent from other taxes and income in fiscal year 064/065. Total tax income was Rs. 56800, which consisted 61.61 percent from property tax and 38.38 percent from other taxes and income of LSMC in fiscal year 065/066. Therefore, property tax decreased fiscal year 061/062 and increase in fiscal year 063/064 .

#### **4.1.8. Budgeted and Actual House and Land Tax of KMC**

Every success any organization is depended upon the correct budgeted and it's correct implementation. So here presented the table 4.6 to know the budgeted of property tax prepared by the KMC and succeeded to collect actual in different fiscal years.

**Table no 4.8**  
**Budgeted and Actual House and Land Tax of KMC**

FY	Income Revenue		Collection Efficiency in (percent)
	Budgeted	Actual	
060/061	10000000	59183903.95	59.18
061/062	110,375,000	122,344,464	110.84
062/063	140,000,000	92,248,996	65.89
063/064	150,000,000	115,550,804	77.03
064/065	200,000,000	145,197,400	72.59
065/066	180,000,000	230,477,605	128.04

*(Source: Income and expenditure budget of KMC.)*

From the above table 4.8 showed that the revenue from house and land tax was fluctuating over the last 6 years. Collection efficiency of house and land tax was around 59.18 percent in the first fiscal year. It had been increased in the fiscal year 061/062. Similarly it had been decreased in fiscal year 062/063. This was not better performance of KMC because of the decreased in budgeted amount.

Collection efficiency of fiscal year 064/065 decreased due to change in budgeted revenue. From the above data it can be said the poor calculation of budgeted and recovery of tax was not satisfied.

#### **4.1.9. Budgeted and Actual House and Land Tax of LSMC**

Every success any organization is depended upon the correct budgeted and it's correct implementation. So here presented the table 4.9 to know the budgeted of property tax prepared by the LSMC and succeeded to collect actual in different fiscal years.

**Table 4.9**  
**Budgeted and Actual House and Land Tax of LSMC**

FY	Income Revenue		Collection Efficiency in (percent)
	Budgeted	Actual	
060/061	9000000	10248903.97	113.88
061/062	15000000	11779393.87	78.53
062/063	12000000	14539856.07	121.17
063/064	26500000	26325147.89	99.34
064/065	30,000,000	18984330.65	63.28
065/066	35000000	31575211.23	90.21

*(Source: Income and expenditure budget of LSMC)*

From the above table 4.9 showed that the revenue from house and land tax was fluctuating over the last 8 years. Collection efficiency of house and land tax was around 113.88 percent in the first fiscal year. It had been decreased in the fiscal year 061/062. This was not better performance of LSMC because of the decreased in budgeted amount. Collection efficiency of fiscal year 062/063 Increased due to change in budgeted revenue. Similarly it was decreased in fiscal year

065/066. From the above data it can be said the poor calculation of budgeted and recovery of tax was not satisfied.

#### **4.1.10. Study about composition of House and Land Tax by Ward**

Since 061/062 the house and land tax has been collected in ward wise in KMC. Like wise KMC, LMC does not collect house and land tax in ward wise. All tax is collected by LSMC itself.

**Table 4.10  
Composition of House and Land Tax Status Ward Wise  
FY 064/065 and 065/066**

<b>Ward</b>	<b>FY 064/065</b>	<b>Percentage</b>	<b>FY 065/066</b>	<b>Percentage</b>
1	20100000.00	9.66	10962655.65	10.94
2	6000000.00	2.88	2156687.63	2.15
3	10000000.00	4.81	4613284.42	4.60
4	4000000.00	4.81	5933660.82	5.92
5	10000000.00	1.92	1197465.67	1.19
6	7200000.00	4.81	4202309.72	4.19
7	700000.00	3.46	2809982.15	2.80
8	6500000.00	0.34	537484.76	0.05
9	10000000.00	3.12	3905333.57	3.91
10	12500000.00	4.81	676510.50	6.75
11	1050000.00	6.01	7065962.67	7.05
12	10000000.00	0.50	2074901.96	2.07
13	10000000.00	4.81	3466828.32	3.46
14	5000000.00	4.81	2483355.99	2.48
15	10000000.00	2.40	3024601.53	3.02
16	5000000.00	4.81	5290240.31	5.28
17	1000000.00	2.40	1370705.14	1.37
18	1200000.00	0.48	352893.01	0.35
19	500000.00	0.58	189435.08	0.19
20	400000.00	0.24	304473.09	0.30
21	4000000.00	0.19	576040.75	0.57
22	800000.00	1.92	925947.56	0.92

23	1200000.00	0.38	734642.48	0.73
24	2500000.00	0.58	668140.65	0.07
25	200000.00	1.20	2168800.58	2.16
26	126000.00	0.10	76811.43	0.08
27	370000.00	0.06	170850.09	0.17
28	10000000.00	0.18	130616.63	0.13
29	4850000.00	4.81	2698783.00	2.69
30	10000000.00	2.33	2076345.50	2.07
31	6000000.00	4.81	6548503.12	6.53
32	6500000.00	2.88	2036680.69	2.03
33	12000000.00	3.12	5769554.25	5.76
34	8400000.00	5.77	4134313.05	4.12
35	208096000.00	4.04	2806382.84	2.80
<b>Total</b>	<b>208096000.00</b>	<b>100percent</b>	<b>100229769.61</b>	<b>100percent</b>

*(Source: Katmandu metropolitan city, revenue department)*

Table 4.10 shows that house and land tax ward-wise status of Katmandu metropolitan city in fiscal year 064/065 and 064/065 house and land tax and percentage of house and land tax are shown in right side. Wards are shown in left side. Collection of property tax is 9.66 percent and 10.94 percent in ward no. 1 in fiscal year 064/065 and fiscal year 065/066 respectively which is the highest percentage. Similarly, the lowest percentage of property tax collection is 0.06 percent in ward no. 27 fiscal year 064/065 and 0.05 percent in ward no. 8 fiscal year 065/066. This ward has low collection of property tax. It means this ward's tax payers have not good knowledge about property tax and tax paying habit. Katmandu metropolitan city has collected Rs. 20809000 as a total property tax from all wards in fiscal year 064/065 and it collect Rs. 100229769 as a total property tax form all wards in fiscal year 065/066.

The percentage of house and land tax fiscal year 064/065 and 065/066 shown as pie diagram.

Figure - 2

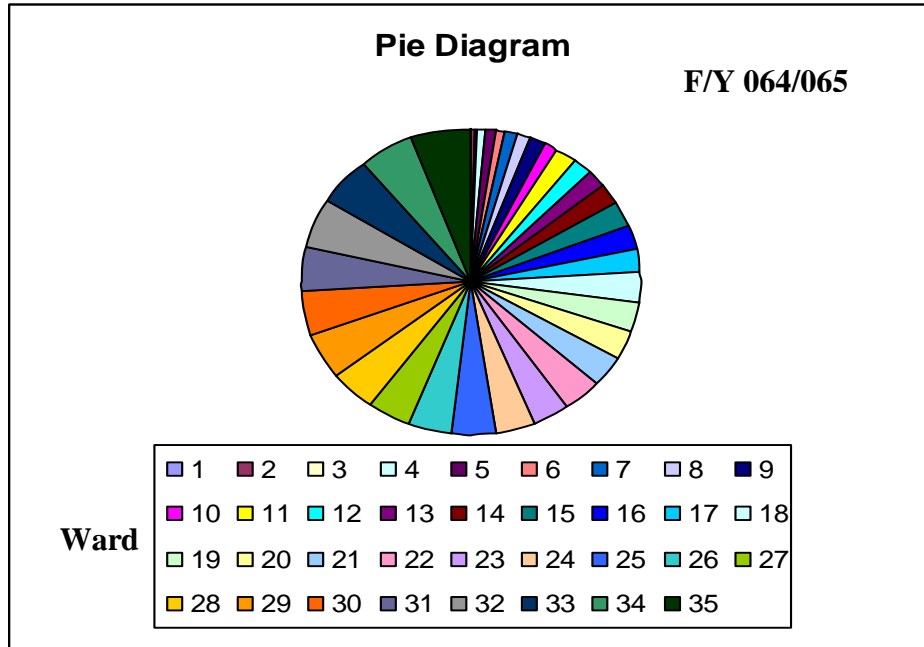
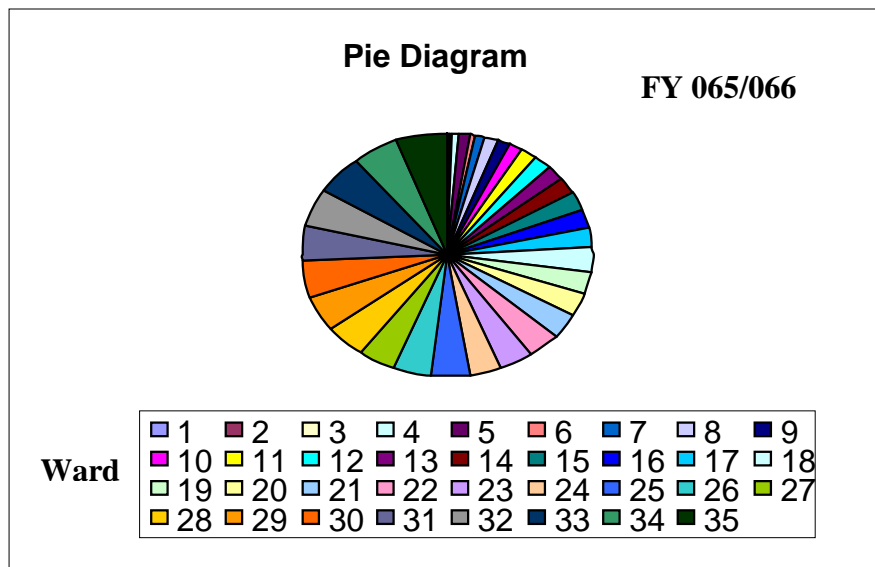


Figure-3



#### 4.2.1. Study about Contributions of House and Land Tax in Total Revenue of Katmandu Metropolitan City.

Katmandu metropolitan city has been collective property tax since 2057. It is known as house & land tax. This tax is playing vital role in Katmandu metropolitan city. It contributes of house and land tax in total revenue of Katmandu metropolitan city can be shown in table 4.11

**Table 4.11**  
**Contribution of House and Land Tax of KMC**

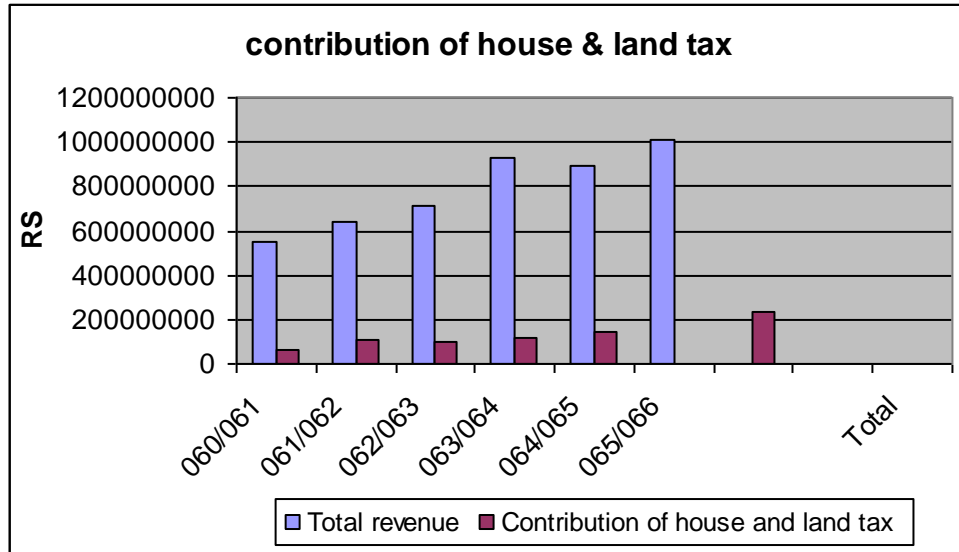
Year	Total revenue	Contribution of house and land tax	Percentage
060/061	553526050	59183903.95	10.69
061/062	640084736.45	103954366.65	21.77
062/063	712679670	100229769.61	14.06
063/064	929,894,198	115,550,804	12.42
064/065	893,248,468	145,197,400	16.25
065/066	1,01,30,59,661	23,04,77,605	22.75
Total			97.94
Average of average			16.32

*(Source: Katmandu metropolitan city, revenue department)*

From the table 4.11 it is clear to see that average contribution of house and land tax on total revenue is 16.32 percent. Percentage share contribution of house and land tax on total revenue can observed highest i.e. 22.75 percent in f/y 065/066 and lowest i.e. 10.69 percent in F/Y 060/061. This must significant indicator to examine increasing reliance on contribution of house and land tax. This table can be shown in graph as:

**Figure - 4**

**Contribution of House and Land Tax on Total Revenue of KMC**



**4.2.2. Study about Contributions of House and Land Tax in Total Revenue of LSMC**

LSMC has been collective property tax since 2057. It is known as house & land tax. This tax is playing vital role in LSMC. It contributes of house and land tax in total revenue of LSMC can be shown in table 4.12

**Table 4.12**  
**Contribution of House and Land Tax of LSMC**

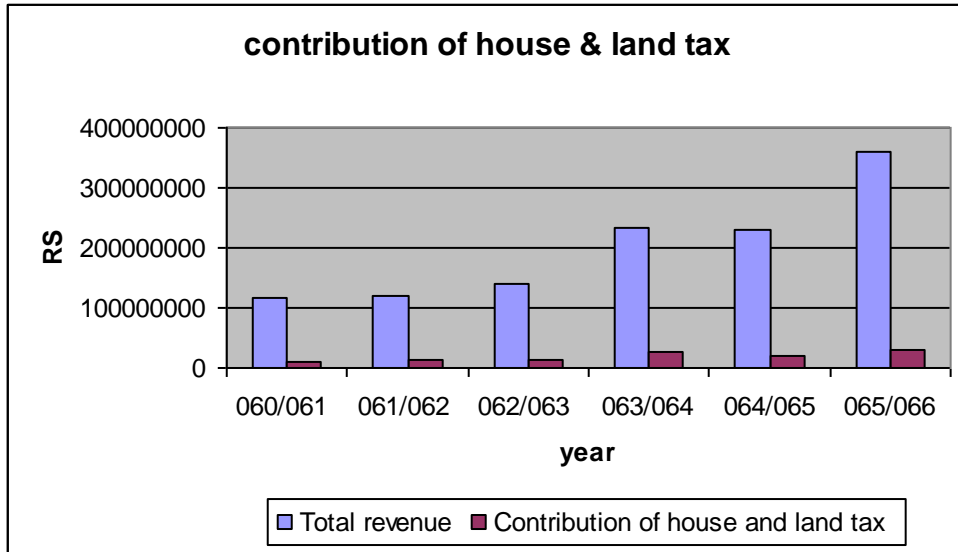
Year	Total revenue	Contribution of house and land tax	Percent
060/061	115895824.42	10248903.97	8.84
061/062	119901836.02	11779393.87	9.82
062/063	140732264.14	14539856.07	10.33
063/064	233422005.46	26325147.89	11.27
064/065	231314632.6	18984330.65	8.20
065/066	358895000	31575211.23	8.79
Total			57.25
Average of average			9.54

*(Source: LSMC, revenue department)*

From the table 4.12 it cleared to see that average contribution of house and land tax on total revenue is 9.54 percent. Percentage share contribution of house and land tax on total revenue can observed highest i.e.

**Figure-5**

**Contribution of House and Land Tax as Total Revenue of LSMC**



**4.2.3 Contribution of house & Land Tax from KMC and LSMC on Total Tax Revenue**

Katmandu metropolitan & Lalitpur Sub- Metropolitan city has been collective property tax since 2057 &. It is known as house & land tax. This tax is playing vital role in the national revenue not only for the revenue of KMC & LSMC. It contributes on total tax revenue of the nation can be shown in table 4.13 and 4.14

**4.2.4. Contribution of house & Land Tax from KMC on Total Tax Revenue**

Table 4.13 shows total income form tax on National Revenue for last six year. Total tax income, house and land tax of Kathmandu metropolitan city, percentage of property tax of total taxes revenue are shown as below.

**Table 4.13**

**Contribution of house & Land Tax from KMC on Total Tax Revenue**

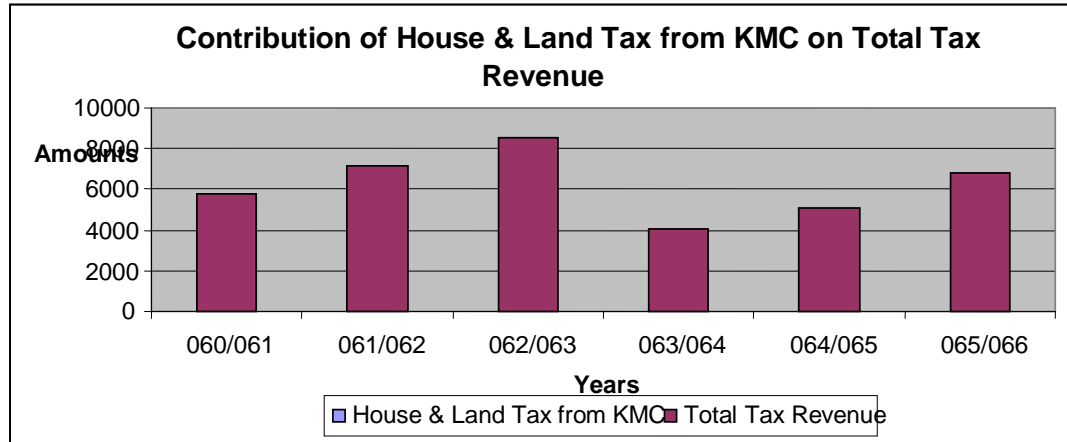
<b>Particulars</b>	<b>060/061</b>	<b>061/062</b>	<b>062/063</b>	<b>063/064</b>	<b>064/065</b>	<b>065/066</b>
House & Land Tax from KMC	5.918	10.395	10.022	11.555	14.519	23.047
Total Tax Revenue	<b>5743.04</b>	<b>7112.67</b>	<b>8515.55</b>	<b>4055.03</b>	<b>5089.88</b>	<b>6808.02</b>
Percentage	0.103	0.146	0.117	0.284	0.285	0.338

(Source: *www.mof.ird.gov.np* & *income and expenditure of KMC*)

From the table 4.13 it is clear to see that average contribution of house and land tax of KMC total tax revenue is 1.275 percent during six year. Percentage share contribution of house and land tax on total tax revenue can observed highest i.e. 0.3380.103 percent in F/Y 065/066 and lowest i.e. 2.64 percent in F/Y 060/061. This must significant indicator to examine fluctuating reliance on contribution of house and land tax on total tax revenue. This table can be shown in graph as:

**Figure - 6**

**Contribution of House & Land Tax from KMC on Total Tax**



#### 4.2.5 Contribution of house & Land Tax from LSMC on total Tax Revenue

Table 4.14 shows total income form tax on National Revenue for last six year. Total tax income, house and land tax of Lalitpur Sub-metropolitan city , percentage of property tax of total taxes revenue are shown as below.

**Table-4.14**

##### **Contribution of house & Land Tax from LSMC on Total Tax Revenue**

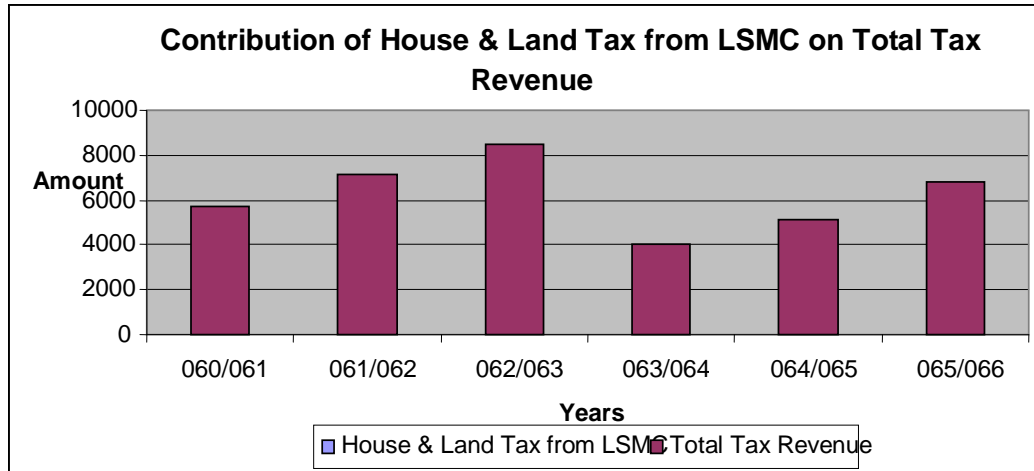
<b>Particulars</b>	<b>060/061</b>	<b>061/062</b>	<b>062/063</b>	<b>063/064</b>	<b>064/065</b>	<b>065/066</b>
House & Land Tax from LSMC	1.024	1.177	1.453	2.632	1.898	3.157
Total Tax Revenue	<b>5743.04</b>	<b>7112.67</b>	<b>8515.55</b>	<b>4055.03</b>	<b>5089.88</b>	<b>6808.02</b>
Percentage	0.017	0.016	0.017	0.064	0.037	0.046

(Source: [www.mof.ird.gov.np](http://www.mof.ird.gov.np) and income and expenditure of LSMC)

From the table 4.14 it is clear to see that average contribution of house and land tax of LMC total tax revenue is 0.200 percent. Percentage share contribution of house and land tax on total tax revenue can observed highest i.e. 0.064 percent in F/Y 063/064 and lowest i.e. 0.016 percent in F/Y 061/062. This must significant indicator to examine fluctuating reliance on contribution of house and land tax on total tax revenue. This table can be shown in graph as:

**Figure - 7**

**Contribution of House & Land Tax from LSMC on Total Tax Revenue**



**4.2.6. Study about Trend of House and Land Tax of KMC**

The trend of house and land tax of KMC calculated on the basis of house and land tax revenue of last 6 years. Table 4.15 shows the trend of house and land tax of KMC

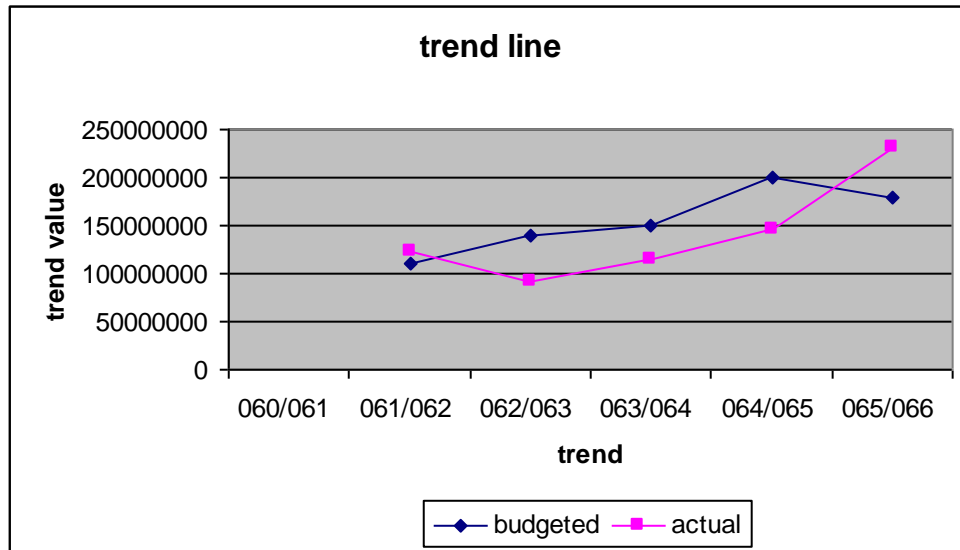
**Table 4.15**

**Trend of House and Land Tax of KMC**

year	T	X=T-3.5	X <sup>2</sup>	H&L tax (Y)	Xy	Y=a+bx
060/061	1	-2.5	6.25	59.18	-147.95	59.76
061/062	2	-1.5	2.25	122.34	-183.51	86.85
062/063	3	-0.5	0.25	92.24	-46.12	113.94
063/064	4	0.5	0.25	115.55	57.775	141.03
064/065	5	1.5	2.25	145.19	217.785	168.12
065/066	6	2.5	6.25	230.47	576.175	195.21

From the above table 4.15 shows actual House and Land Tax is maximum in fiscal year 065/066 and low in 060/061 but estimated House and Land Tax shown in slowly increasing. Where  $a=127.49$ ,  $b=27.09$  and estimated  $y=127.49+27.09X$  which clearly shown in Trend Chart below.

**Fig - 8**



#### **4.2.7. Study about Trend of House and Land Tax of LSMC**

The trend of house and land tax of LSMC calculated on the basis of house and land tax revenue of last 6 years. Table 4.16 shows the trend of house and land tax of LSMC.

**Table 4.16**

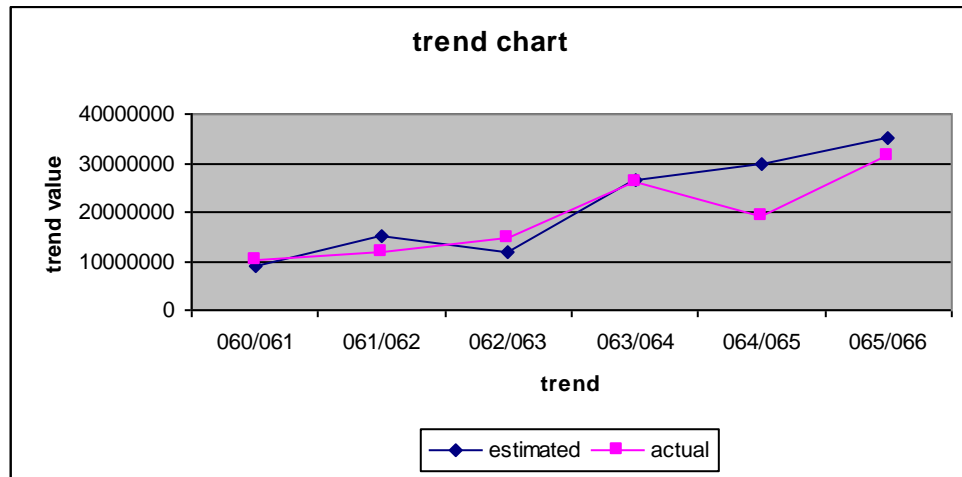
**Trend of House and Land Tax of LSMC**

Year	T	X=T-3.5	X <sup>2</sup>	H&L tax	Xy	Y=a+bx
060/061	1	-2.5	6.25	102.48	-256.2	89.08
061/062	2	-1.5	2.25	117.797	-176.696	129.08
062/063	3	-0.5	0.25	145.39	-72.695	169.08
063/064	4	0.5	0.25	263.25	131.625	209.08
064/065	5	1.5	2.25	189.84	284.76	249.08
065/066	6	2.5	6.25	315.75	789.375	289.08

From the above table 4.16 shows actual House and Land Tax is maximum in fiscal year 065/066 and low in 060/061 but estimated House and Land Tax shown in slowly increasing. Where  $a=189.08$ ,  $b=40$  and estimated  $y=189.08+40X$  which clearly shown in Trend Chart below.

**Figure-9**

**Trend of House and Land Tax of LSMC**



#### **4.2.8. Major Finding of the Study**

The study has focused the role of property tax revenue structure, contribution, trend and composition of house and land tax of KMC and LSMC. Katmandu is the capital city of Nepal. All over Nepal there are 58 municipality among them Katmandu is metropolitan city; Katmandu Metropolitan City has 35 wards. The highest contribution of property tax revenue is 22.65 percent in FY 065/066 and lowest contribution 10.69 percent in 060/061. The trend is estimated slowly growing. Composition of house and land tax percentages sharing of collection of property tax is 9.66 and 10.94 in FY 064/065 and FY 065/066 respectively. Similarly the lowest percentage of property tax collection is 0.06 percent in ward no. 27 and 0.05 percent in ward no. 8 in FY 064/065 and 065/066 respectively. Lalitpur sub-Metropolitan City has 22 wards. It's revenue collection from only municipality. The highest contribution of property tax revenue is 11.27 percent in fiscal year 063/064 and lowest contribution is 8.20 percent in fiscal year 064/065. Similarly, house and land tax has highest contributed 0.338 percent and 0.064 percent on total tax revenue from kathmandu metropolitan city in fiscal year 065/066 and from Lalitpur sub-metropolitan city in fiscal year 063/064 respectively.

On the ground of this study as per objectives of this study is as follow.

- KMC and LSMC collect property tax LSG Act 2055 and rules 2056 from Income Year 2057/058 and Income year 2055/056.
- 78.15 percent and 61.61 percent of total tax revenue is collected from property tax and 21.84 percent and 38.38 percent is from other taxes of Katmandu Metropolitan City and Lalitpur Sub Metropolitan city in fiscal year 065/066.

- The highest percentage of house and land tax collected is from ward no. 1 are 9.66 and 1.94 in fiscal year 064/065 and 065/066 respectively. Similarly, the lowest percentages of property tax collection are 0.06 percent and 0.05 percent in ward no.8 in FY 064 /065and 065/066 respectively and highest contribution of property tax revenue in LSMC is 11.27 percent in fiscal year 063/064 and lowest contribution is 8.20 percent in fiscal year 064/065.
- House and Land tax has highest contributed 0.338 percent on total tax revenue from kathmandu metropolitan city in fiscal year 065/066.
- House and Land tax has highest contributed 0.064 percent on total tax revenue from Lalitpur sub-metropolitan city in fiscal year 063/064 .
- Analysis of trend value of house and land (property) tax show huge fluctuation and have potential growth rate if it is consider well in implementation.
- The valuation rate of house is same in irrespective of location of house like commercial, industrial or residential.
- House and land (property) tax has been considered as suitable source for the mobilizing internal resources. It can be used as a positive instrument to boost government revenue collection, to develop the economic conditions of Nepalese people and promote distributive justice and to cure resources gap problem.

- Property tax has been considered as a suitable resource for the collection of public revenue and mobilizing internal resources.
- Being lack of regular information tax paying habit of people is poor.
- By giving the information about property tax by effective media large volume of revenue can be collected.
- Effective fine and penalties system can help to increase the tax paying habit of people.
- Inefficient tax administration, lack of consciousness of taxpayers, increasing habit of tax evasion etc. are the major problems of the property tax system in Nepal.
- Clear act, rules and regulations are the most important instrument for effectiveness of property tax in Nepal.
- House and land tax should be applied to reduce the gap between rich and poor people.

## **CHAPTER - V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1. Summary**

Nepal is one of the least developed Countries. It is suffering from economic disaster. To increase the government revenue Nepalese government is trying to extract money or valuable contribution from people through taxation. Urban house and land (property) tax is the important resource of government revenue.

In Nepal, property tax was introduced by finance act, 1959 A.D. It was implemented under property tax Act in 1960 A.D. Due to ineffectiveness in collecting revenue. It was replaced by urban house and property tax later. Urban house and land tax was introduced in 1962 A.D. for the purpose of collecting revenue from urban house and land property. Initially, this tax was introduced in Katmandu, Lalitpur, Bhaktapur Biratnagar, Birgunj, Nepalgunj, Rajbiraj Janakpur and Butwal. Later in 1963/64 it was introduced to Bhadrapur and Dharan in 1964/65 and Bhairwa, pokhara, Palpa and Hetauda in 1973/74 A.D. The interim government of 2047 B.S. again introduced property tax in 1990 A.D. by the finance act in beginning and by property tax act 1990. After the introduction of local self-government act in 1999, property tax is given to local bodies.

Property taxes are generally mobilized for the benefits of public in the local community. There are basically two types of property taxes given to VDC's and municipalities. House and land tax and unified property tax. Property taxes are based on market value. Different countries has a used a reformed property tax. Some property tax assets are rebated.

The study has focused the role of property tax revenue structure, contribution, trend and composition of house and land tax of Kathmandu metropolitan city and Lalitpur sub-metropolitan city.

Kathmandu is the capital city of Nepal. All over Nepal there are 58 municipalities among them Kathmandu is metropolitan city; Kathmandu metropolitan city has 35 wards. Total population of Kathmandu metropolitan city is 25-30 lakh. Total 58 municipalities have covered 64.68 percent of total revenue; Kathmandu metropolitan city has covered 30.85 percent. And LSMC covered 4.47 percent of total revenue. The highest contribution of property tax revenue is 22.65 percent in FY 065/066 and lowest contribution 10.69 percent in 060/061. The trend is estimated slowly growing. Composition of house and land tax percentages sharing of collection of property tax is 9.66 and 10.94 in FY 064/065 and FY 065/066 respectively. Similarly the lowest percentage of property tax collection is 0.06 percent in ward no. 27 and 0.05 percent in ward no. 8 in FY 064/065 and 065/066 respectively.

Lalitpur Sub-metropolitan city has 22 wards. Total population of Lalitpur Sub-metropolitan city is 9515321. Total tax income is Rs.56800000.00, which consists 38.38 percent from property tax and 61.61 percent from other taxes of Lalitpur Sub-Metropolitan city in fiscal year 065/066. The highest contribution of property tax revenue is 11.27 percent in FY 063/064 and lowest contribution in FY 064/065

## **5.2. Conclusion**

Nepal is one of the lowest taxed economies in the world. It has been suffering from social and economic problems. The government of Nepal is not being able to collect necessary government revenue to cure such problems. Due to poor performance on internal revenue collection and mobilization, the Government of Nepal has still depended on foreign grants and loans. The dependence is increasing which is not desirable for any economy. Thus remedy should be made in due time by the country to run in the path of economic development.

Its contribution to government revenue is not regarded satisfactory comparison to other taxes of Nepal government. Its contribution to the revenue structure of the country is negligible due to various reasons as mention below.

- □ Most of the Nepalese people are not aware of property tax. Due to lack of tax education property holder are deprived from right of paying tax. If they are informed effectively about the property tax can expect the increase in tax volume as well as paying house and land tax timely.
- In the administrative aspect there are a lot of weakness for efficient administration, and collection of this tax. There must be high degree of honesty and morality.

This available resources in the country, which are collected through the foreign and domestic sources and large profit margins in the urban areas is diverted and invested towards real state and luxury housing in Nepal. As stated above the investment in such sector creates a boom in the economy. Consumption of luxury goods may increase because of which the economy is pushed into high inflation. Therefore, in this respect proportional tax on property (house and land tax) in an equitable and justifiable manner will help, discourage the investment in real estate and reduce the consumption of luxury goods as well. Such reduction of investment an unproductive sector of the available resources will tend to diversify into productive sector of an economy. The revenue administration in Nepal is weak because of lack of the tax policies with a clear direction and consistency in a long run perspective lack of information and records, lack of trained staff and heavy dependence on non-technical staff, lack of proper accounting and auditing system in general for business firms. However, house and land tax laws and administration in Nepal are to be deeply scrutinized but not properly

implemented. Manpower development planning within the administration is desired for the efficiency of tax personnel side by side. Tax education packages are to be made and initiated hence tax administration and tax compliance could be improved.

Due to various problems related to property tax, revenue collection from property tax is relatively low in KMC and LSMC. For economic development of Nepal, the problems relating to property tax system in Nepal should be solved and resources should be effectively utilized.

### **5.3. Recommendation**

Property tax has been accepted as an important source of government revenue of Nepal. The growing need of resource for the development of Nepalese economy can be met through effective large volume of property tax. Though there are number of problems, the contribution of property tax is likely to be significant in the future. In the light of findings of the present study, the following specific suggestions have been recommended for the sound and effective property tax system.

- 1) House and land tax rate, discount rate, prize and other motivating factor should be advertised by newspaper, TV, Radio etc. to attract and motivate tax payers in KMC and LSMC.
- 2) KMC and LSMC should organize seminar and meeting of house and land tax for improvement and training.
- 3) Municipality should mobilize its resources properly for the welfare of the local people.

- 4) Local people of KMC and LSMC, some of them are not educated and doesn't have the understanding about the house and land tax. So KMC & LSMC should provide informative knowledge to the local people regarding house and land tax.
- 5) Appeal and penalty system of house and land tax should be used in practice not only in legal provision.
- 6) KMC and LSMC should give detail information about current house and land tax to tax collector and tax payer.
- 7) KMC and LSMC should motivate the people to house and land tax payers by offering discount, prizes etc.
- 8) In the absence of proper record keeping system of tax the government do not look and determined about the status of revenue so, it is necessary attention should be focus on proper accounting system (i.e. computerized billing system)
- 9) In local tax authorities should made the provision of tax policy as to provide incentive, reward and prize who pay tax as regularly barriers and whose contribution has highest in the composition of portfolio of taxpayers.
- 10) Local property tax should be guided as per market based as well as the use basis by taxpayer.

- 11) Local people are not satisfied with the administration, so they should provide door service.
- 12) Their should be the record and inquire of suspected house and land tax payers
- 13) Field visit should be done to collect actual information of house and land tax.

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## APPENDIX - I

### Example:-

Mr. Rammani danuwar following details of his house located Lalitpur Sub-Metropolitan City.

Mode of construction	Kiln bricks with mud and mortar
Total area of house	8000 sq. feet
Land and compound	4 ropani
Year of construction	2052 B.S.
Government valuation of land	Rs.5, 00,000 per ropani

### Solutions:

Valuations of house and land

Area of house = 8000 sq. feet

Type of house = kiln bricks with mud mortar

Valuation rate per sq. feet = 525

Total valuation of house =  $525 \times 8000 = 42,00,000$

Year of construction = 2052 Ashad = 2053 Counted

Year for Dep<sup>n</sup> 2065-52 = 13 years

Dep<sup>n</sup> rate = 1% year to taken = 13

Dep<sup>n</sup> amount =  $1\% \times 42,00,000 \times 13 = 546000$

Valuation of house after dep<sup>n</sup> =  $5460000 - 546000 = 54054000$

Area of land = 4 ropani

Valuation of land = 500000

Total value of land =  $4 \times 500000 = 20,00,000$

Total value of land and house =  $20,00,000 + 54054000 = 56054000$

**Tax liability**

Slab	Tax rate	Tax amount
First 10,00,000	0	0
Next 10,00,000	-	Rs. 300
Next up to 30 lac	0.05%	Rs. 1,500
Next up to 50 Lac	0.25%	Rs 12,500
next up to Rs 1 crore	0.50%	Rs 50,000
next Rs 3,60,54,000	1.50%	Rs 5,40,810
Total tax liability		Rs 6,05,110

Here, total valuation of house & land = 5, 60, 54,000

Total tax liability = 6, 05,110

**APPENDIX – II**

$$a = \frac{\sum y}{N} = \frac{764.97}{6} = 127.49$$

$$b = \frac{n\sum xy - (\sum x)(\sum y)}{n\sum x^2 - (\sum x)^2}$$

$$\frac{6 * 474.15 - 0 * 764.97}{6 * 17.5 - (0)^2}$$

$$\frac{2844.9 - 0}{105 - 0}$$

$$\frac{2844.9}{105}$$

$$= 27.09$$

$$Y = a + bx$$

$$= 127.49 + 27.09X (-3.5)$$