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CONTRIBUTION OF TAX REVENUE TO NATIONAL REVENUE OF NEPAL

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Nepal is one of the least developed countries in the world with low per capita income. Its economic growth rate is major and 23.8% of the total population is lying below the poverty line. Nepalese economy is highly dependent on external loans and internal loans, which is considered undesirable for the economy. Among internal sources, taxation is a prime factor. It is the pillar of the fiscal policy. Regarding the fact, the present study entitled "Contribution of Income Tax to National Revenue of Nepal" had been done. In this study, income tax contribution to direct tax, GDP ratio, etc. was studied.

The practical part deals with the presentation and analysis of data through quantitative research methodology. Also, the practical part deals with the collected data shown in the forms of chart and graph with detailed description. The theoretical chapter deals with the review of the concepts relating to the study topic in a more detailed and descriptive manner. For this purpose, various books, and journals were reviewed. This study examined the available international literature as well as national literature. Different books, reports, journals, and research studies published by various institutions have been studied.

This thesis is conducted to examine the trend of income tax in Nepal and the contribution of income tax in the total revenue of Nepal. The result also shows that the tax revenue has the highest percentage of contribution towards government income of Nepal which was 89.97% in the year 2073/74. In Nepalese government income structure, tax revenue has always been greater than seven times of non-tax revenue.

**Key words**
Economic development, Government, Income tax, Revenue, Tax, Tax revenue.
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CONCEPT DEFINITIONS

ADB- Asian Development Bank
FY- Fiscal year
IRD- Inland Revenue Department
IT- Income tax
Ltd- Limited
NRs- Nepalese Rupees
B.S- Bikram Sambat (Nepali Calendar)
A.D- Anno Domini (International Calendar)
MOF- Ministry of Finance
1 INTRODUCTION

Nepal is an underdeveloped and one of the poorest countries in the world. It has low per capita income, and more than one-third of the nation lives under the poverty line. Economic development and prosperity are deficient. Foreign dependency and internal leakages have made the government think for another option, which expects to increase the revenue. Moreover, fiscal deficit has been growing due to the continuously rising expenditure and the low revenue performance in Nepal. Nepal has also been facing the increasing burden of foreign loans. (Khadka 2005, 3.)

The resource gap of Nepal's government has been increasing at a further rate. Government manages its funds from internal and external sources for the growing national expenditure. Thus, to raise government revenue, it is necessary to raise its internal sources of revenue. There is no agreement regarding the use of tax method of taxing corporation method and rate of depreciation, use of an appropriate type of tax incentive, and treatment of tax on inflation. So, it is really a problem for the overall nation. (Khadka 2005, 3.) More specifically, this study expects to examine the actual contribution of tax revenue in revenue collection.

Economic development has been one of the most popular slogans in almost all the developing countries all over the world. Correspondingly, the accomplishment of a high rate of the financial development rate, a decrease of salary differences and poverty, and improvement of living standards of individuals are some advanced techniques towards which most government activities coordinate in developing nations.

The government needs more revenue mobilization for general economic development. Besides this, to meet every day and future expenditure, the government needs more income sources, which is called revenue. Revenue plays a vital role in the development of the country. The government needs to mobilize its internal sources to fulfil its responsibility towards its nation and people. In a developing country like Nepal, it is indispensable to raise many funds for the development and administration expenses.
The revenue collection is a challenging task which demands an increasing necessity of regular expenditure in general and development expenditure. Be that as it may, asset activation is deficient, convincing the legislature to depend intensely on foreign assistance. The growing consumptions has led to a general need of foreign aid. Foreign aid is uncertain, precarious, inconvenient, and not conducive to the healthy and overall development should there be heavy dependence on it. The foreign aids are not bad for the economic advancement of the country. Yet, most of the developing nations' experience demonstrates that there are negative impacts of expanding worldwide gives and credits to back the open advancement exercises. Subsequently, the government ought to rely upon its assets for creating income to finance these routine and advancement exercises.

Nepal still has not been able to boost the gathering of in-come assessment. At present, the commitment of the payment charge is inconsequential. To accomplish monetary advancement, government accounts duties towards their nationals, such as security, well-being, and training, decrease social imbalances, and other advancement exercises. It needs to accumulate a massive amount of revenue. The government spends a considerable portion of its yearly budget to maintain peace and security for its people and create various socio-economic infrastructures like transportation, drinking water, electricity, communication, health, education, and so on. To meet the country's growing consumption, the government must think about different sources to collect funds. (Devkota 2011, 5.) This study aims at gathering more knowledge on the contribution of income tax to Nepal's national revenue.

This study's main objective is to study and analyse the contribution of income tax in national revenue. The study has a multidimensional significance: This study would be beneficial for the private sectors, people in business and the consumers as well as who are still lost amid the confusion about the proper implication of Nepal's tax revenue. The findings of this study would help the tax officers in IRD formulating strategies and making tax administration more transparent and public-oriented. This research will deliver various information about the contribution of tax revenue to the National Revenue of Nepal, which helps them carry out their research about tax revenue.

The upcoming theoretical chapter describes the basic concept and background of the historical development of income tax acts and laws. A Comparison of Nepal’s tax acts and laws in international and national level is included. It has serves as an orientation for readers to know about the research area's
necessary information, various problems of the study, research methodology and limitation of the study. The practical part deals with the presentation and analysis of data through quantitative research methodology. The research chapter is the analysis of collected data through different statistical and financial tools. And finally, the conclusion summarizes and concludes the whole study. Also, the main aim of this thesis is to find the contribution of income tax in national revenue of Nepal and the aim is to find this answer through the quantitative research method.
2 MEANING OF INCOME TAX

Income means the inflow of cash to a person or firm. It includes income from employment, business, and investment. Tax is a contribution from citizens for the support of the nation. An income tax is a direct tax charged upon the incomes of an individual and corporation. Income tax refers to the tax levied on a person's income and profits for a specific period, particularly one year. Income tax imposes on payment of a person or a company after deducting allowable expenses. Accounting profits may differ from taxable profits. The computation of taxable income generally adds the revenues minus expenses and losses, which are deductible under the provision of the income tax act subtract. Then tax-free incomes allowances and ordinary expenses are also deducted to get taxable income. After giving the exemption limit as per law, the tax amount to be levied on this computed income is the income tax. (Khadka 2005.)

Income tax levied imposed on individuals (or family units) and corporations. Individual income tax is computed on the basis of income received. It is usually classified as a direct tax because the burden is presumably on the individuals who pay it. Corporate income tax is imposed on net profits, computed as the excess of receipts over allowable costs. (Goode 1965).

2.1 Classification of tax

Tax is the crucial source for revenue generation and mobilization. In a country, all people have defined taxation in different ways. In this respect, it would be better to take the definition given by Prof. Seligman. In his words, “Taxes are principal fiscal policy instruments, and essential government policy tools have a crucial role in increasing the rate of capital formation” (Seligman 1896). Thereby a high percentage of economic growth can be achieved. Taxation may also play a dual role. (Karki 2010, 21).

On the one hand, taxation is used to make the maximum volume of resources available to the public sector. On the other hand, taxation uses to promote sound investment in the private sector and prevent the resources from being dissipated over speculative and unproductive investment and lavish and luxurious consumption. Thus, taxes in developing countries serve as means of raising revenue. Therefore, the government may utilize taxation as a useful tool for giving incentives to the proper growth of saving, investment, and gross domestic product. But, in Nepal, the tax policy is mostly guided towards
revenue generation. Depending on the payment methods, taxes are classified into two significant
categories: viz direct taxes and indirect taxes. (Khadka 2005.)

Direct tax is collected directly by the government from the person who bears the tax burden. The impact
and the incident are on the same person. In other words, the same person pays and bears the tax burden.
The following taxes remain under the direct tax: income tax, property tax, interest tax, capital gain tax,
vehicle tax, gift tax, and expenditure tax. (Khadka 2005.)

Indirect tax is charged to a person, but partly or wholly paid by another. The indirect tax imposed and
incident of tax are on different persons. In other words, the person paying and bearing the tax is different.
Following tariffs remains under indirect taxation, Value Added Tax (VAT), excise duty, sales tax, import
and export duties, entertainment tax, hotel tax. (Khadka 2005.)

2.2 Inland Revenue Department of Nepal (IRD)

The IRD is the authority of Value Added Tax, Income Tax, and Excise Duty. Their motto is service, and
the goal is to optimize its use through a fair, efficient, and effective tax system. Maximizing voluntary
tax compliance and providing taxpayer-friendly services are their standing objectives. They provide their
services by 49 field offices (22 IROs, 26 TSOs) and a larger Taxpayer office. A systematic organization
for internal revenue mobilization, professional services, innovation, and economic growth are the visions
of IRD. Their missions are guaranteeing quality service for tax compliance and applying implementation
with fairness. In comparison, efficiency and effectiveness in the tax system are the goals made by the
department. Tax administration, revenue mobilization, tax reform, advice on tax policies, taxpayer
service and education, research & development, organization & human resources management are the
directive set by the IRD for a smooth operation. (Ministry of Finance 2 2020)
3 HISTORICAL DEVELOPMENT OF INCOME TAX IN NEPAL

Great Britain is the first country to introduce the Income Tax Act in the world. The British government introduced the Income Tax Act in 1799 to generate revenue to finance the war against France. The Income Tax Acts introduced in the USA in 1862, Italy in 1862, India in 1886, Switzerland in 1869, and in Nepal in 1959. The idea of introducing Income Tax Act in Nepal originated along with the first 'Budget' on Magh 21, 2008 B.S. (1952). In the first budget speech, the finance minister said, 'a proposal to levy an income tax including the tax on agriculture income is under consideration.' Several attempts were made to introduce income tax in the subsequent years. However, it was not submitted until 2016 B.S. (1960) due to political instability. For the first time, the Finance Act 2016 had imposed a tax on business profit and employment in Nepal (Bhattarai & Koirala 2011, 13.)

In 2017 B.S. (1960), the "Business Profit and Remuneration Act 2017" was enacted. That was the first income tax act in Nepal. This Act was not broad and detailed. There were only 22 sections. The following were the main features of this Act: Deductions were not specified for the purpose of calculating the taxable income, the cases of default fines were prescribing, a government employer was a primary income taxpayer. The experience of three years indicated that this Act was narrow. So, it was replaced by the Income Tax Act 2019 (1962.) (Bhattarai & Koirala 2011, 13.)


In 2058 B.S, the Income Tax Act 2058 B.S (2002 A.D) was enacted by the parliament by replacing the existing Act. This act is broad compared to the previous act and made according to the global standards. ITA 2059 B.S was framed by the Government of Nepal (so-called HMG/N during that period) to clarify the Act's provisions. Finance ordinances have been making slight amendments in the Act every year. This Act has classified the heads of income into three categories VIZ, employment, business, and investment. The main objective of this Act is as follows: To bring all income-generating activities into the tax net, to widen the tax base, to harmonize tax rates and concessions on equity grounds, to make income related provision clear and transparent, to minimize tax avoidance and tax evasion, to interlink the Nepalese tax system with the tax system of foreign countries, to reduce the scope of discretionary interpretation of tax authorities, to confine all the income-related matters within the Act, to make income
tax elastic and revenue productive, to make taxpayers more responsible by enforcing the self-assessment system, to make tax system based on account. (Wasti 2010,14).

The differences of this Act and the previous other Act are made clear by its key features, and they are as follows. This Act has first introduced capital gains; the Act has provided liberal loss set-off and carry forward/backward provisions. Interned adjustments of losses have been specified. Such provision made from an international perspective; global incomes of a resident are made taxable. Non-residents are also taxed on their incomes with sources in Nepal. The Act has made provision for international taxation. (Wasti 2010,14).

3.2 Income Tax Act 2019 (1962)

The main aim of Income Tax Act 2019 B.S (1962) was not only to collect government revenue but also to reduce inequality in the distribution of income and wealth with social justice. Creating a taxpaying habit of the taxpayers, is furthermore the purpose of this Act. There were 29 sections in the Act. It was amended in 2029 (1973). The main features of this Act are: Income tax is defined as all kinds of income such as profits from business, profession, occupation, house and land rent, agriculture, insurance agency and other sources of payments in addition to business profit and employment incomes. Also, tax assessment was specified based on best judgment estimate to tax officers. For the first time, provision made for the instalment basis of tax and agriculture income was brought under the scope of income tax, the Finance Act 2023 B.S. made provision that income from agriculture was entirely exempted from the income act. Again, the Finance Act 2030 made agriculture income taxable. Taxable income calculation method and deductible expenses were specific. This Act has some weaknesses, so; this Act was replaced by "Income tax act 2031 (1974)" to cope with the country's changing needs. (Mallik 2003, 9.)

Income Tax Act of 2031 had 66 sections. It was amended eight times to make it more practical and to eliminate confusing terms. The key features of this Act were that is clarified definition relating to tax such as assessment of tax, income year personal status of the taxpayer, non-resident persons, firm, company, family, etc. Head and sources of income were classified into five categories for the income tax assessment: agriculture, industry, trade, profession or occupation, remuneration, house and compound rent, and other sources. This Act has identified the chargeable income and allowable expenses of each source of income, provision of self- assessment, small taxpayers tax assessment, adequate/penalty appeal, tax deduction at source, tax refund, avoidance of double taxation, etc. (Mallik 2003, 10.)
4 ANALYSIS OF TAX ACTS AND TAX SYSTEM ON INTERNATIONAL AND NATIONAL LEVEL

This chapter deals with the analysis and discussion of the income tax acts and laws of Nepal by international and national level by different writers as well as organization who have broad knowledge. This chapter is made to reveal the analysis made by international and national level writers as well as organizations having broad knowledge and capacity to point out advantages and drawbacks of tax acts and system of Nepal. Some of the writers have compared between the existing laws of Nepal and their home country.

4.1 Analysis on an international level

Agriculture development bank ADB (2009) has concluded that Nepal's strong revenue growth has come mostly from increased income tax collection, which has now exceeded custom revenue for the first time. The significant strides made in revenue collection largely attribute to the introduction of essential tax reforms and tax administration improvement. Including implementing a performance-based incentive for tax offices/officers, they are strengthening the larger taxpayer office with information technology-based tax return filing and payment system and overall maintaining the tax money and audit system. The new one-off voluntary declaration of income source (VDIS) campaign and reduction in the property rent tax rate have also helped improve revenue mobilization.

McGee (2008) has studied interested-adjusted income tax and Interest adjusted profit tax. He further states that Croatia was the first country in the world to fully accept the consumption in the field of direct taxes in the alternative form of the interest-adjusted income tax and interest-adjusted profit tax. Advocates of consumption have the rightful claim that income as a tax base discriminates saving, which is taxed twice, first as being part of the income that is taxed by income tax and second as capital income that is the part of the comprehensive income of the next period. Saving and investment escape of this double taxation in consumption-based income and profit taxes, where the METR (marginal effective tax rate) is zero.
Goode (1986) has studied the importance of taxation and has explained that taxation diverts taxpayers' economic resources to the state for its use. Taxation not only restraints total spending by households and individuals but influences the allocation and affect the distribution of income and wealth. The level of taxation of a country measures the ratio of tax revenue to GDP, which is determined by the demand for government expenditure, the availability and willingness to use nontax source of finance, including borrowing and money creation and taxable capacity. The taxable capacity primarily depends on the per capita income above the subsistence level and the government's ability to collect taxes depending on administrative effectiveness. The actual tax ratio reflects both taxable capacity and tax efforts.

Okafor (2012) has explored that the impact of income tax revenue on Nigeria's economic growth as proxies by the gross domestic product (GDP). The researcher adopted the ordinary least square regression method to explore the relationship between GDP as a proxy for economic growth and a set of the federal government of income tax revenue heads from 1981 to 2007. However, the researcher found a positive relationship between tax revenue and economic development in Nigeria and a significant relationship between income tax revenue and money supply.

Schmidt (1959) has explained about the relationship between federal income tax collection with money supply and inflation separately using the ADF test for stationary and AEDL tests for co-integration. He concluded a complex and intricate significance relationship between the studied variables in the long run.

Sophia & Gamboa (2001) have focused on Ireland's corporation income tax and individual income tax responsiveness towards GDP and interest rate. They found that there is a highly sensitive relation of income tax to interest rate and GDP by a 2,5% to 1% ratio with GDP and 0,014 percent to 1 percent ratio with interest rate.

Zeitlhofer (1999) has analysed the macroeconomic relation between Australian income tax collection and interest rate in the Australian economy from 1982 to 2002 using Dicky-Fuller test and distributed tag model and tested for the causal relationship between income tax and interest rate using the Granger-Causality test and concluded that interest rate Granger causes income tax in the long run.
Khetan & Poddar (1976) have analysed the measurement of income tax progression in a growing economy: the Canadian experience concerning the Canadian personal income tax. This study found that over the period 1961-1971 the average amount of private income tax collection regressed with the price level changes and different income heads using indexing factor. The indexing factor was for income tax was calculated from the consumer price index data by income tax regulations. This model estimated income tax revenue with a very high degree of accuracy and examined how these effects altered by indexing the tax for changes in the price level using CPI.

4.2 Analysis on a national level

Shrestha (2012) has identified economic problems and causes of low tax collections. His primary objectives are to review the tax collection system findings and determine the contribution of tax to national revenue to find out the problems in the tax collection system. Following are the main findings made by the study and these are that income tax is the suitable means of raising government revenue, public awareness program is necessary to increase tax consciousness and raising the government revenue. Similarly, this study shows that mass poverty and low-income level, the increasing habit of tax evasion, inefficient income tax administrations, etc are the major reasons for the low contribution of income tax to national revenue and lengthy process, a vague provision in income tax laws, unnecessary time, etc. These are the major problems facing the taxpayer while paying the tax.

Karki (2010) has found that tax education is most necessary in Nepal to increase the tax consciousness of taxpayers. The self-assessment method is appropriate for Nepal while assessing income tax. Similarly, income tax evasion is the major problem of Nepal for the income tax generation, and income tax administration is not efficient for tax collection. He recommended there should be respected behaviour for taxpayers, and quality service should be maintained to increase the contribution of income tax to Inland Revenue of Nepal. Training and career development should be provided to the tax personal time to time and tax administration should be free from political pressure.
Wasti (2010) has found that the income tax system of Nepal is not sound and efficient because of inefficient tax administration, the practice of tax evasion, and lack of awareness of taxpayers. Tax education is most necessary to increase the tax consciousness of taxpayers and honest tax officers. It is essential to make the tax act clearer so that taxpayers and tax officers do not get confused. Similarly, rules and regulations are the most crucial factor for the effectiveness of income tax in Nepal. A lack of trained and competent tax personnel, complicated tax law, and undue delay in making assessments are the most important causes of the Nepalese tax administration's ineffectiveness.

Mallik (2003) has explained the Income Tax Act, 2002, with explanations wherever necessary. The author has presented the complex Act simply and lucidly so that it will be easy to understand the Act. He has shared his expertise in his book. His book is descriptive and analytical. All the provisions in the Act are clarified in simple language. The author has also explained why some tax-exempted amounts have been brought into the tax net by the new Act. In some cases, he has also compared the provision of the old Act and the new Act.

Bhattrai & Koirala (2011) have presented the description of tax laws and tax planning. A simplified version of the income tax act 2058 and Value Added Tax Act 2052 is given in a summarized form at the end of part A and part C. He has presented theoretical as well as practical aspects of taxation in this book. This book is useful to anyone interested in the subject of taxation. This book is helpful in research work. Writing of this book aims to provide the readers with basic knowledge of general principles and practices of tax law in Nepal and develop the necessary skills to handle the tax matter in the text. It is presented effortlessly and clearly for a better understanding of the law.

Dahal (2013) has conducted that exemption and rebates announced by the government annually through the Finance Act have created difficulties for tax administration to implement the income tax law effectively. High earning groups are in one way or another using such provisions to reduce their tax liability. Weak tax administration and improper PFM are significant causes of low tax compliance. Corruption has discouraged people from paying tax, resulting in a further deterioration of non-state agents through tax evasion. Forms to be filled out by taxpayers are not as simple as needed. They have resulted in the requirement of using a middleman, resulting in more transaction costs. Through IRD,
since its establishment in 2002 different campaigns have been undertaken to increase tax compliance but it has not led to good results out of its efforts.

Devkota (2011) has conducted that mass poverty and low-income level, increasing tax evasion habits, and inefficient tax administrations are the significant reasons for the low contribution of income tax to national revenue. A clear Act, rules and regulation, and tax administration effectiveness are the essential instruments for the effectiveness of income tax in Nepal. The progressive tax rate is considered a suitable means of taxation and lengthy process, the vague provision in income tax laws and unnecessary time is the taxpayers' major problems while paying the tax in Nepal.

Jabara (2010) has written that the significant constraints existing in the tax system are lacks simplicity and transparency. With a minimal tax base, low tax elasticity, relatively high tax rates, poor voluntary compliance, inefficient tax administration, rigid and incomprehensive tax laws, and regulations are the drawbacks of the Income Acts of Nepal as well as the lack of strong political commitments, administrative capability, and recording are the sign of failure from the law makers.

Kadel & Lamsal (2012) have explained about covering the problems related to resident and non-resident added as per the teacher's and students' demand. It is updated as per the finance act, 2067. They have described the historical background, income tax act, rules and administrative aspects, house, and land tax but has not shown the income tax problems. Due to numerous changes and not the availability of amended acts in English, the book's current edition has not been able to update the Act, and so it is dropped out.

Khadka (2005) has focused on the human resources development of tax administrators. He also gives new tax administration ideas to reform it, such as computerization and autonomous revenue improvement of tax administration in Nepal.

Neupane (2007) has shown that the contribution of income tax to total tax revenue has decreased from 23.93% to 20.83% in the FY056/57 to 061/62. It may be due to the collection of the property tax by municipalities. But it is not only the cause; the emphasis should be given to the income tax collection.
The Inland Revenue Department has implemented e-tabs, e-pans, and e-filing for better tax compliance to facilitate tax collection. There is a provision of tax plate also. But the frequent changes in the Act decreases tax compliance which is a significant drawback of unstable political condition.
5 RESEARCH METHODOLOGY

A research methodology is a simple way to solve research problems systematically. In other words, research methodology aims to achieve the fundamental objective of the research work. (Shuttleworth Martyn, 2008). In this chapter, the method employed to gather data and the tools used in its interpretation is described.

5.1 Research design

Research design means a definite procedure and technique which guides the study and propounds ways for doing research. (Shuttleworth Martyn, 2008). For the analysis of the contribution of tax revenue to the National Revenue of Nepal, a descriptive and analytical research design will be followed.

For this study, an economic survey and budget speeches of the ministry of finance of Nepal Government, reports and records of the Inland Revenue Department, etc., will be taken as a sample. To evaluate the income tax structure, the data from the ministry of finance from the year B.S 2069/70 to 2073/74 taken into consideration. The official website of Finance Ministry of Nepal is taken as the source of data for the research part. (Ministry of Finance 1 2020). This study has analysed the form of income tax in Nepal using the quantitative research method to describe the data, illustrating the data in tables, graphs, and charts to clarify the available data and information.

This study will be done based on the secondary data for the character study of the annual report of the contribution of tax revenue to the National Revenue of Nepal. As this study is based on the secondary data, the needed information collected through the annual report of IRD and economy survey of MoF, Various journals are also reviewed. Secondary sources consist of Economic surveys of various years of the Ministry of Finance (MoF), Official website of Inland Revenue Department, Official website of Ministry of Finance. (Ministry of Finance 2 2020)
5.2 Data Analysis

Firstly, the data gathered from various sources is verified and simplified for analysis. The available data is tabulated into separated tables and formats as per the subject matter requirements and analysed with supporting interpretation. The collected information is computed and analysed, using various tools and techniques. The following tools used for data analysis which are trend analysis and percentage.

To analyse the trend of income tax in Nepal, the trend line will be explored. It is useful to highlight the income tax in the different fiscal years under the study period. For the relationship between income tax and total revenue, a scatter diagram is used. This diagram will help show the relationship between two variables: income tax and total revenue. Similarly, different statistical tools such as diagrams, graphs, charts, trend lines will be used and the mean, percentage, etc. will also validate the study.

5.3 Limitation of the study

This study is simply a study for a BBA degree, which must be completed within a short period. It is not far from several limitations, which weakens the objective of the course. Some of the restrictions are the study based on secondary data. So, the result depends on the availability and reliability of the secondary data—the data used in this study modified as per the study's needs. The errors consisted of secondary sources may be perceived in this research. By nature of research, all the factors of tax and nontax could not be explored in detail. A certain period of data is taken for the study.
6 ANALYSIS AND PRESENTATION OF DATA

This part deals with the analysis and interpretation of the trend and structure of income tax. The data analysis is carried out by organizing and assessing statistical results from different figures, tables, and charts. In this part, the data and information connected with the taxation in Nepal is presented and analysed, which is already published and trying to find out the trend and contribution of income tax to government revenue.

6.1 Income tax rate and tax exemption limit in Nepal

The income tax rate has been changing continuously since its introduction in the year 1959/60 to the present time. Every year, the Finance act prescribes the exemption limit for individuals, families, and couples.

<table>
<thead>
<tr>
<th>For Individual</th>
<th>For Couple</th>
<th>Tax Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to NRs. 3,50,000</td>
<td>Up to NRs. 4,00,000</td>
<td>1</td>
</tr>
<tr>
<td>Next NRs. 1,00,000</td>
<td>Next NRs. 1,00,000</td>
<td>15</td>
</tr>
<tr>
<td>Balance exceeding NRs. 4,50,000</td>
<td>Balance exceeding NRs. 5,00,000 to NRs. 25,00,000</td>
<td>25</td>
</tr>
<tr>
<td>Balance exceeding N.R.s. 25,00,000</td>
<td>Balance exceeding N.R.s. 25,00,000</td>
<td>35</td>
</tr>
</tbody>
</table>

TABLE 1: Individual or a couple having taxable income from employment. (Government of Nepal, Budget Speech 2074.)

Table 1 shows the income tax rate and tax exemption limit for individual and couple in Nepal. The tax rate has been continuously changing in Nepal. At the current time the exemption limit for individual who earn up to NRs. 3,50,000 is 1 % and the tax rate 1% for couples who earn up to NRs. 4,00,000.
Likewise, for individual earnings exceeding NRs. 25,00,000 is 35% of the tax rate and the same tax rate for couples exceeding the same earnings.

6.2 Trend analysis of revenue from income tax in Nepal

The trend of income tax in the different fiscal year under this study shown in Table 2 below:

In the tables and graphs below the Fiscal years are written in B.S (Bikram Sambat) Nepalese calendar format.

TABLE 2: Trend of income tax in Nepal. (Government of Nepal, Budget Speech 2069-2074 B.S)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Revenue (T.R.)</th>
<th>Income Tax (I.T.)</th>
<th>Income Tax at % of Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2069/2070</td>
<td>296.02</td>
<td>67.016</td>
<td>22.64</td>
</tr>
<tr>
<td>2070/2071</td>
<td>356.62</td>
<td>77.93</td>
<td>21.85</td>
</tr>
<tr>
<td>2071/2072</td>
<td>405.86</td>
<td>88.5</td>
<td>21.81</td>
</tr>
<tr>
<td>2072/2073</td>
<td>481.96</td>
<td>117.13</td>
<td>24</td>
</tr>
<tr>
<td>2073/2074</td>
<td>609.18</td>
<td>148.23</td>
<td>24.33</td>
</tr>
</tbody>
</table>

(N.R.s. In billion)

Table 2 shows the trend of revenue from income tax in Nepal. The amount of income tax in the year 2069/70 was NRs. 67.016 billion out of the total revenue that amounts to NRs. 296.02 billion. That means income tax contributes 22.64% in the total revenue of Nepal. Likewise, in the year 2073/74 the amount of income tax was NRs. 148.23 billion out of the total revenue that amounts to NRs. 609.18 billion, which is 24.33%. This table clearly shows that the revenue from income tax is increasing sharply which is a good trend for Nepal.
Figure 1 shows that the trend of income tax is increasing every year during the last five years. The amount of income tax is N.R.s. 67.016 billion in the year 2069/70. From the year 2069/70, income tax is increasing each year and has reached to N.R.s. 148.23 billion in the year 2073/74. It shows that nowadays, the trend of income tax in Nepal is in a positive or growing situation, which is the right trend for Nepal.
6.3 Composition of total revenue

TABLE 3: Composition of total revenue. (Government of Nepal, Budget Speech 2069- 2074.)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Revenue</th>
<th>Tax Revenue</th>
<th>Non-Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
</tr>
<tr>
<td>2069/2070</td>
<td>296.02</td>
<td>259.215</td>
<td>36.805</td>
</tr>
<tr>
<td>2070/2071</td>
<td>356.62</td>
<td>312.44</td>
<td>44.1795</td>
</tr>
<tr>
<td>2071/2072</td>
<td>405.86</td>
<td>355.95</td>
<td>49.91</td>
</tr>
<tr>
<td>2072/2073</td>
<td>481.96</td>
<td>421.09</td>
<td>60.87</td>
</tr>
<tr>
<td>2073/2074</td>
<td>609.17</td>
<td>547.48</td>
<td>61.69</td>
</tr>
</tbody>
</table>

(N.R.s. In billion)

Table 3 shows the composition of total revenue. This table shows how many percentages of revenue came from tax revenue and non-tax revenue out of total revenue. In the year 2069/70 the total revenue amounts to NRs. 296.02 billion. The tax revenue amounts to NRs. 259.215 billion which contributes 87.56% to the total revenue and non-tax revenue contributes only 12.43% to the total revenue. Likewise, in the year 2073/74 total revenue amounts to NRs. 609.17 billion and tax revenue contributes 89.87% and non-tax revenue contributes 10.13% to the total revenue. This shows that the revenue from tax is increasing year by year.
Figure 2: Composition of total revenue. (Government of Nepal, Budget Speech 2069-2074.)

Figure 2 shows that tax revenue's role is significant in revenue mobilization of Nepal to meet government expenditure. In the year 2069/70, the government revenue mobilization has stood at N.R.s. 296.02 billion out of which N.R.s. 259.215 billion (87.56 percent) mobilized from tax revenue sources. In the year 2073/74, government revenue increased to N.R.s. 609.17 billion with the contribution of tax revenue being 89.87 percent. The share of the revenue from the nontax source decreased to 10.13 percent. The highest contribution of tax revenue to total revenue is 89.87 percent during the study period. This shows that the government's tax revenue is very high compared to nontax revenue and total revenue is in increasing trend.

6.4 Contribution of income tax

The contribution of income tax to gross domestic product (GDP), total revenue, and total tax revenue in Nepal shown in Table 4 that follows:
TABLE 4: Contribution of income tax. (Government of Nepal, Budget Speech 2069-2074.)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Income Tax Amount</th>
<th>GDP Basic Price</th>
<th>Total Revenue Amount</th>
<th>Tax Revenue Amount</th>
<th>Income Tax as % of GDP</th>
<th>Income Tax as % of T.R.</th>
<th>Income tax as % of Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2069/70</td>
<td>67.016</td>
<td>638</td>
<td>296.02</td>
<td>259.215</td>
<td>10.51</td>
<td>22.64</td>
<td>25.85</td>
</tr>
<tr>
<td>2070/71</td>
<td>77.93</td>
<td>674</td>
<td>356.42</td>
<td>312.44</td>
<td>11.56</td>
<td>21.85</td>
<td>24.94</td>
</tr>
<tr>
<td>2071/72</td>
<td>88.5</td>
<td>694</td>
<td>405.86</td>
<td>355.95</td>
<td>12.75</td>
<td>21.81</td>
<td>24.86</td>
</tr>
<tr>
<td>2072/73</td>
<td>117.13</td>
<td>694</td>
<td>481.96</td>
<td>421.09</td>
<td>16.87</td>
<td>24</td>
<td>27.82</td>
</tr>
<tr>
<td>2073/74</td>
<td>148.23</td>
<td>743</td>
<td>609.18</td>
<td>547.48</td>
<td>19.95</td>
<td>24.37</td>
<td>27.07</td>
</tr>
</tbody>
</table>

(N.R.s. in billion)

Table 4 shows the contribution of income tax to the gross domestic product, total revenue and total tax revenue in Nepal. In the year 2069/70 income tax amounted to NRs. 67.016 billion, contributing 10.51% to the gross domestic product and 22.64% to the total revenue as well as income tax contributed 25.85% to the total tax revenue of Nepal. Likewise, in the year 2073/74 income tax amounts to NRs. 148.23 billion that contributed 19.95% to the gross domestic product of Nepal. Also, income tax contributed 24.37% to the total revenue and 27.07% to the total tax revenue of Nepal in the year 2073/74. It shows that the contribution of income tax in gross domestic product of Nepal is increasing.
Figure 3 shows the contribution of income tax to GDP over the study period of 5 years. The maximum contribution of income tax to GDP was 19.95 percent in the year 2069/70. Overall, the contribution of income tax to GDP is increasing.
Figure 4 shows the contribution of income tax to total revenue over the study period of 5 years. The maximum contribution of income tax to total revenue was 24.37 percent in the year 2073/74, while the minimum donation stood at 21.81 percent in the year 2071/72. Overall, the contribution of income tax to total revenue is increasing. Still, there is a slight decrease in income tax contribution to gain at the year 2070/71 and 2071/72, which is 21.85 and 21.81 percent, respectively.
FIGURE 5: Percentage of income tax in total tax revenue (Government of Nepal, Budget Speech 2069-2074.)

Figure 5 shows the contribution of income tax to total tax revenue over the study period of 5 years. The maximum contribution of income tax to total tax revenue was 27.82 percent in the year 2072/73. In overall the contribution of income tax to total revenue is in a fluctuating trend.
7 MAJOR FINDINGS OF THE STUDY

The following conclusions have been drawn from the secondary data analysis. Tax Revenue has the highest percentage of contribution towards the total government income of Nepal. The gift of tax revenue to government revenue was 87.56% in the year 2069/70, 87.61% in 2070/71, 87.7% in 2071/72, and 87.37% 2072/73 and 89.97% in 2073/74. In the Nepalese government income structure, tax revenue has always been greater than seven times of nontax revenue. In the year 2069/70, out of the total income of Rs. 296.02 billion, 259.215 billion has been contributed by tax revenue, and the rest contributes by nontax revenue, foreign grants, and other income. Similarly, in the year 2073/74 out of Rs. 609.17 billion, Rs. 547.48 billion generated from tax revenue. Contribution of income tax to total revenue computed 22.64% of the total revenue in 2069/70, 21.85% in the year 2070/71, 21.81% in 2071/72, 24% in 2072/73 and 24.33% in the year 2073/74 respectively. The income tax / GDP ratio was 10.51% in the year 2069/70, 11.56% in 2070/71, 12.75% in 2071/72, 16.87% in 2072/73 and 19.95% in the year 2073/74.

The income tax revenue is a slowly increasing trend. The resource gap of Nepal is fluctuating during the study period. The structure of direct tax revenue is the composition of income tax, property tax, and other direct taxes. Among direct tax revenues, income tax revenue has occupied the largest share. The contribution of income tax has been on an increase. The gift of income tax to tax revenue has been 25.85% in 2069/70, 24.94% in 2070/71, 24.86% in 2071/72, 27.82% in 2072/73, and 27.07% in the year 2073/74 respectively.

7.1 Analysis and Discussion

Income tax is one of the most necessary and suitable means of raising government revenue. The contribution of income tax to government revenue is not satisfactory. In other words, the Nepalese income tax system is not efficient because various problems existed in the income tax. These are an increasing habit of tax evasion, defective income tax law, lack of experts in tax administration, lack of awareness of taxpayers, etc. Tax ratio should be increased gradually on a long run basis to meet the government expenditure. For this, the tax basis should be widened.
The current Nepalese income tax administration is not active and efficient. The effectiveness of income tax entirely depends upon the implementation of income tax laws and provisions, which are the significant responsibilities of income tax administration. The public awareness program is necessary for raising government revenue. Tax evasion is the primary reason for the unsatisfactory contribution of income tax to government revenue. The provision of fines, penalties, and punishment should be made higher for income tax evaders. The self-assessment method is more appropriate to increase the income tax to government revenue while assuming income tax. The progressive tax rate is suitable for Nepal.

One of the significant problems is that there is a lengthy process while paying taxes. There is a possibility to make the current provision of fines and penalties reasonable by increasing them. Explicit acts, rules, and regulations are the most critical factors for the effectiveness of Nepal's income tax for raising government revenue. There should be an established coordination between tax policy transparent and careful enforcement for existing provisions. So, efforts must be made in this regard. Current fines and penalties are reasonable, and we should implement it properly to bring the tax evaders into the tax net. The role of income tax is critical in Nepal's revenue mobilization to meet the government expenditure, and there is a vital role of income tax to fulfil the resource gap problem of Nepal. There is a necessity of a Public awareness program for raising government revenue. It is necessary to increase the share of direct tax in total tax revenue through an effective and efficient taxation system.

The terms and procedures under the income tax act should be simplified to be understood by all citizens. The contribution of income tax to total revenue, direct tax revenue, and total tax revenue should increase by making practical tax policy changes, rules and regulations bringing new taxpayers into the tax net and providing incentive programs with sound tax planning. The provision of reward, prize, and incentives should be introduced in the Act to encourage the taxpayers to pay taxes voluntarily rather than through coercive measures. The percentage of direct tax to total tax can increase by applying self-assessment of income tax and promotional activities and awareness programs.
8 CONCLUSION

Nepal is one of the least developed countries in the world with low per capita income. Its economic growth rate is not good, and 23.8% of the total population is lying below the poverty line. The financial resource gap is a major constraint in the Nepalese economy. Due to the increasing gap between the expenditure incurred and revenue collection, Nepal has heavily depended on both external and internal debt to meet the budget deficit. The Nepalese economy is highly dependent on external loans and internal loans, which is considered undesirable for the economy.

Among internal sources, taxation is a prime factor. It is the pillar of the fiscal policy. Based on research, the present study entitled "Contribution of Income Tax to National Revenue of Nepal" had been done. In this study, income tax contribution to direct tax, tax/GDP ratio, etc. is studied. Various books, articles, and other relevant materials were covered during the study. Various concepts of taxation are discussed in the study. Sources of government revenue, the meaning of tax, tax classification, historical background of income tax, heads of income, etc. have been taken into consideration.

Every nation's government requires enough revenue to represent the development programs, handle day-to-day operations, keep peace and security, and launch other public welfare programs. Government revenue should be increased to fulfil the financial resource gap. Income tax is one of the powerful instruments to fulfil the gap. The government collects revenue from various sources such as taxes, fees, fines, and penalties, etc. Among them, taxation is the primary source of managing public payments because it occupies the most important part of government revenues.

There is a dominant share of tax revenue in the Nepalese total government revenue. The contribution of tax revenue shows a fluctuating trend as it has contributed 87.56 percent in the year 2069/70 on the total revenue but increased to 89.87 percent in the year 2073/74. The contribution of income tax to government revenue has been fluctuating, which justifies the need to focus on appropriate implementation of income tax acts for a better revenue generation. The tax exemption limit in Nepal has continuously increased to N.R.s. 3,50,000 for an individual, N.R.s. 4,00,000 for couples and families during the year 2073/74.
Corporate income tax, individual income tax, and investment income tax are the major income tax types in Nepal. Corporate income tax collected from government corporations, Public Limited Companies, partnership firms, and private limited companies. An individual tax collected from remuneration, industry and business profession, etc. and investment tax collected from dividend tax, interest tax, royalty, and rent tax. The share of income tax as a percentage of GDP increased from 10.51 percent in the year 2069/70 to 19.95 percent at the end of the study period, 2073/74. This shows the share of income tax as a percentage of GDP is increasing.

The main aim of this thesis is to find the contribution of income tax to national revenue of Nepal and this study also shows that the tax Revenue has the highest percentage of contribution towards the total government income of Nepal. In the Nepalese government income structure, tax revenue has always been greater than seven times of nontax revenue. Among direct tax revenues, income tax revenue has occupied the largest share. The contribution of income tax has been on the increase.
REFERENCES


