

A Study on the Tax System, Administration, and Its Perception

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Abstract

This study is about the perception of the tax system and its administration based on primary data. The data were collected through a structured questionnaire provided to stakeholders i.e. taxpayers, tax employees, and experts of Siyari Rural Municipality and Siddhathnagar Municipality, Rupandehi. The objective of the study is to identify and analysis of the perception of the tax system and tax administration of Nepal. In this study, descriptive and convenience sampling method was used. In the study, respondents pointed out their views on the given question as the high level of dissatisfaction with the existing tax system and its administration. Problems like Tax evasion and low tax collection are the main root of the inappropriate tax system and administration based on respondent insight. Apt policies for human resource development i.e. training, motivation public relations, and other basic facilities for employees, and all-inclusive tax education for taxpayers are basic obligations to improve the acuity of the tax system and effective administration according to this study.

Keywords: Tax system, Tax administration, Evasion, Policies, Perception, Effectiveness.

Introduction

Tax administration is regarded as a tool for including some responsibilities for determining the policies and the programs of government related to tax. Especially it is the planning, organizing, directing, coordinating, and controlling of government organizations related to taxation. The shape of the tax system in practice is determined to a great extent by the way it is administered (Li and Weber; 2009: 662)

Efficient resource mobilization is indispensable for the economic development of a country. With an effective tax administration system, developed economies can significantly generate revenues needed for meeting their governmental expenditures. However, in developing economies like Nepal, a poor tax administration system has marred the much-needed resource mobilization for infrastructural development and the creation of public goods. Nepal has one of the lowest tax-to-GDP ratios in South Asia. And this is a testimony to its inefficient tax policy.

The country is enmeshed in a slow-paced economic growth rate. The growth rate has hovered around 3 to 4 percent for the past several years. To achieve the targeted economic growth rate, Nepal needs to prioritize its infrastructural development for an effective tax system. Being one of the least developed countries

in the world, Nepal significantly relies on foreign aid and loans to meet its expenditures. This reliance must be gradually phased out by improving its trade balance and reforming its tax policy. Although resource mobilization has increased over the years, this improvement needs to be further enhanced via an improved tax administration system.

Tax administrations in many low-income countries are weak, corrupt, and nontransparent. This inefficiency reflects both the mix of taxes and the faulty design of their structure and in their operational systems. The tax administration is also affected by policies relating to the salary, the audit, and the reward and punishment system of personnel. The tax administration in low-income countries is driven by detailed revenue targets and by tax laws and accounting records.

A well-designed set of tax policies cannot be implemented properly by a weak administration. The Nepalese tax administration fails to deliver professional services. It has been able to implement the tax laws and regulations properly, resulting in a huge gap between what the legal provisions say and their actual implementation. Although there has been considerable reform in tax policies in recent years, dissatisfaction with the tax system has been increasing rather than decreasing. Knowing the limitations of the tax administration, many taxpayers try to take full advantage of the situation. The government must not continue relying on foreign aid and loans to meet its developmental expenditures. This reliance is not a sustainable solution for the economic advancement of a country.

The main objective of the study is to analyze the Income Tax administration in Nepal. The other objectives of the study are to examine the perceptions of the income tax system and to analyze the performance of income tax administration in Nepal. The study was limited to the availability of data and sufficient literature. The reliability of the primary data depends absolutely on the opinions of the selected respondents. The interpretation presented on primary data analysis was inductive as completely deductive reasoning is somewhat not easy. The study was based on Siyari Rural Municipality and Siddharthnagar Municipality, Rupandehi.

Review of literature

Pradhan (2010), in his study, "Tax Administration and Income Tax System in Nepal", has the main objective to analyze the effectiveness of the income tax administration and system of Nepal. The specific objectives of the study are to examine the administrative aspects and system of income tax in Nepal, to examine the tax system in Nepal, to identify major problems related to tax administration in Nepal, and to provide appropriate suggestions and recommendations. Dahal (2011), in his article, "Taxation in Nepal: Structure, Issues and Reforms", stated that in developing economies, the resource gap is critical and widening resulting in huge fiscal and budgetary deficits. The growing resource gap is frequently by mobilizing internal and external borrowings and consequently shifting the burden

of debt to posterity. Therefore, revenue mobilization is a challenging proposition in an economy like Nepal where a majority of the people live in abject poverty and the people engaged in economic activities have extremely limited taxable capacity. In addition, the legal base of taxation is compressed with unlimited tax shelters and the tax administration lacks innovative mechanisms to identify new taxpayers and bring them into the tax net. In Nepal's tax structure revenues are buoyant but inadequate to supplement development activities. Interestingly, there was no adverse impact of conflict on internal revenues and, subsequently, the tax system suffers from structural constraints with tremendous administrative and procedural complexities envisaged in the existing Income Tax Act, which lacks simplicity and transparency. The major problems of taxation in Nepal include: (1) marginally high tax rates (2) limited tax base (3) low tax elasticity (4) poor voluntary compliance (4) leakages in tax collection (5) rigid Income Tax Act, 20(K) (6) inefficient, indifferent and corrupt tax administration, and (7) no consolidated record of property (land and building) with the Internal Revenue Department. The tax system in Nepal calls for periodic reforms to ensure growth, equity, and stability. The studies and reports on taxation exhibit that several reforms have been undertaken by the government in the past to simplify and modernize the tax system. These reforms were confined to improving tax structure by designing appropriate policy instruments. The reforms in taxation in Nepal consist of three types: (1) reforms in tax laws and regulations (2) reforms in the environment, and (3) reforms in tax administration.

Timilsina (2012), in her article, "Tax Elasticity and Buoyancy in Nepal: A Revisit", stated that a time series analysis of tax elasticity and buoyancy reveals an inelastic tax structure in Nepal. Taxes are not responsive to changes in income with most elasticity coefficients reporting below unity. The tax system is not progressive adequately in the case of proxy bases. A progressive tax system needs to have at least greater than the unitary value of the coefficient of elasticity. A higher degree of progressivity in the tax structure would result in elasticity greater than 2. The low built-in flexibility (elasticity) observed in the Nepalese tax system is explained through a variety of factors such as exemptions, tax incentives, duty waivers, low compliance, and the large sectors of the economy that are not subject to taxation. Therefore, the automatic response of tax to income is low. The targeted average revenue growth mentioned in the Second Interim Plan could be achieved only with the rigorous efforts of the fiscal authorities to improve the overall tax system as well as revenue administration. Gurung (2012), in his article, "Tax Administration Fails to be Assertive", stated that over the past few years, the success of the tax administration has been measured in terms of revenue collection figures which will have an adverse impact in Nepal's economic sector, according to experts. The tax administration has failed to intervene in a meaningful manner after the completion of the multi-billion Value Added Tax (VAT) fraud committed by certain businesses by producing fake invoices, adding that the Inland Revenue Department (IRD) has

been more focused on its target despite the provision of self-compliance in the country's tax regime.

The existing policy has envisaged the role of the tax administration as a facilitator in revenue mobilization rather than as a collector. However, the tax administration has merely been playing the role of a collector. He said that the tax administration has failed to intervene in areas of revenue leakages significantly. Private business firms have started evading their tax liabilities using highly intelligent approaches. However, the Revenue Administration has failed to empower its officials competently. Moreover, the virtual account system of businesses is another problem that the tax administration has failed to bring under its scanner. The trend of keeping account details in a foreign country has thrived in the country. The revenue administration has failed to control it. Khadka (2013), in his article, "Present Tax Administration: A Case for Reforms", stated that efficient resource mobilization is indispensable for the economic development of a country. With an effective tax administration system, developed economies can significantly generate revenues needed for meeting their governmental expenditures. However, in developing economies like Nepal, a poor tax administration system has marred the much-needed resource mobilization for infrastructural development and the creation of public goods. Nepal has one of the lowest tax-to-GDP ratios in South Asia. And this is a testimony to its inefficient tax policy.

The country is enmeshed in a slow-paced economic growth rate. The growth rate has hovered around 3 to 4 percent for the past several years. To achieve the targeted economic growth rate, Nepal needs to prioritize its infrastructural development and enhance the existing foundations of basic amenities like health, education, and drinking water among others. In a nutshell, Nepal needs an efficient and fairer tax policy. The country's main sources of tax revenue are income tax, VAT, customs, and excise duties. While the contribution of customs duties and import-related revenues is approximately much higher. This mode of revenue generation is not a sustainable one. This is mainly because Nepalese import has surged with increased consumption over the years, and the growth in consumerism has been fueled primarily by increased remittances. But with growing financial instabilities in developed economies, there will be a crunch in remittance inflows to Nepal. Moreover, with increased trade liberalization, import-based revenues tend to decline. While some tax regulations are good for the economy, others may not be that fitting when considered in the long run. For example, the Government of Nepal gives incentives to investors to start businesses/industries in underdeveloped and remote areas of Nepal. The government must not continue relying on foreign aid and loans to meet its developmental expenditures. This reliance is not a sustainable solution for the economic advancement of a country.

Significance of Tax Administration

Tax evasion and tax avoidance, whether at the national or international level, violate the principle of fiscal equity and undermine the concept of voluntary tax

compliance, that is, the timely filing and reporting of required tax information, correct self-assessment of taxes due, and their timely payment without resource enforcement action (Yetman; 2008: 302).

Tax evasion is normally considered to occur when noncompliance is the result of a willful and conscious failure to notify the taxing authorities of taxable assets or income activities giving rise to taxable income, a deliberate failure to pay taxes legally owed, or use of fraud to conceal the existence of taxable income and or obtain allowances or the repayment of taxes. Tax avoidance, on the other hand, a less precise concept, is generally in such a way as to take advantage of weaknesses or ambiguities in the tax law to reduce the tax payable below. What it could otherwise be, without actually breaking the law (Ghimire, 2005 p. 39).

Tax avoidance techniques, although legal that is, in conformity with the letter of the law- nevertheless achieve the reduction or elimination of tax liability in circumstances where it is the underlying intention of the law, that tax should be charged. Although tax avoidance may be regarded as immoral, the techniques employed are legal and the tax conduct involved is not fraudulent. It has shown that there are multiple motives for both compliance and non-compliance with the tax laws. About compliance; it gives the meaning of self-motivation to pay tax. Taxpayers who obey may be motivated by a sense of civic responsibility or social justice or by a fear of sanctions that some cases by fear of the loss of social acceptance if their delinquency should ever become public knowledge.

Tax evasion and avoidance also increase the desire for taxpayers to ignore the tax laws or seek artificial ways around them. To offset the revenue losses this occurs, the government may have to levy new taxes: increase tax rates, and eliminate exemptions, thereby imposing an unfair burden on honest taxpayers. The impact of this is perceived to be high taxes, which are not returned with services or other identifiable benefits (Ivkovich, Poterba, and Weisbenner, 2005 p. 1608). They are accompanied by criticism of the size and inefficiency of the government.

In the circumstances described above, the ability of tax administrations to enforce compliance and thus minimize the disparity between taxable capacity and tax effort levels becomes a matter of honest priority. The challenge faced by many developing countries is thus to overhead their tax administrators to enhance their overall performance. A tax administration of high quality can help not only to meet of achieving revenue requirements but can also constitute a means of achieving greater financial self-reliance, since external financial assistance, even when forthcoming can be no more than an adjustment to domestic financial resources (Wolfe, 2006 p. 611). Moreover, any existing or new foreign borrowing will have to be serviced within the limits of two degrees, the ability to develop countries to attain sustainable administration with great integrity capable of collecting revenue as specified in the tax legislation and at the same time of providing taxpayers with better service.

A tax administration that operates with maximum efficiency and effectiveness helps to mobilize more revenue, thereby enabling governments to achieve greater financial reliance and facilitating the pursuit of growth-oriented structural adjustment programs, the provisions of requisite infrastructure for economic and social development, and the creation of a more hospitable environment for private foreign investment. In addition to forecasting a more attractive environment for foreign investment, a smoothly functioning tax administration yields other benefits including the following:

It enhances the ability of the government to efficiently enforce tax with potentially high revenue yields (such as income tax and excess profit tax) which requires precise and sophisticated applications. It obviates the need to broaden the tax base, i.e. to levy new taxes and or raise tax rates, and may make it possible to eliminate or reduce burdensome taxes, grant more tax exemptions, and enlarge income tax brackets without reducing tax revenue, and It may take it possible to successfully tax the agricultural sector, which in many countries remains largely untaxed despite its inherent potential as a significant source of revenue (Scholes and Wolfson, 1992 p. 186).

In a broader context, an efficient and effective tax administration will help developing countries take advantage of economic recovery elsewhere in the world by including their determination to undertake necessary reforms. Thus, bolstering their ability to attract a greater share of foreign direct investment, bring back home resources lost to capital flight, and come to grips with their external debt servicing burden through negotiations with their creditors. It might even help these countries to qualify for more official development assistance for the financing of needed infrastructure (Ghimire, 2005 p. 66).

After reviewing the various books, dissertations, reports, articles, and research, simply on tax administration topics found that income tax is administered directly by the Inland Revenue Department. It is responsible for the implementation and administration of the Act. The government of Nepal is the highest authority of the tax administration. Most of the literature is concentrated on administrative, legal, and assessment procedures of income tax. All of them have identified the main problem in this sector as poor performance of tax administration. However, very few studies were concerned with on focusing tax administration covering all sources of taxes in separate ways. Thus, this study mainly concentrates on covering all aspects of tax and focusing particularly on income tax in a more specific way.

Research Methodology

Research design is a plan structure and strategy of investigation conceived to obtain answers to research questions and to control variances. The study aimed to portray the income tax administration of Nepal. The research design followed for this study was empirical and descriptive-cum-analytical. This study was conducted

based on primary data relating to income tax administration. For the primary data collection, a set of questionnaires was prepared and requested to the taxpayers, tax experts; auditors, and tax employees to provide their best answers. This research study included a sample size of 75 respondents representing 25 taxpayers, 25 experts, and 25 tax employees. The collected data were classified and tabulated for the presentation of data various tables were presented for data analysis and presentation.

Data presentation and analysis

The analysis was based on the information collected from primary sources i.e., through questionnaires. The questionnaire was distributed to the employees of the tax office, tax experts (i.e. Auditors, lecturers, and Lawyers), and taxpayers. The responses received from various respondents were arranged, tabulated, and analyzed to facilitate the descriptive analysis of the study.

Results and Discussion

Attitude toward Tax Education

To know the response's attitude towards tax education, a question was asked: “Do you think that people are well informed about the tax system in Nepal”? The responses have been tabulated below:

Table 1

People’s Understanding of Tax System

Respondents	Yes		No		Total	
	No	%	No	%	No	%
Tax Employees	2	8	23	92	25	100
Tax Experts	5	20	20	80	25	100
Taxpayers	10	40	15	60	25	100
Total	17	22.67	58	77.33	75	100

(Source: Opinion Survey, 2023)

From the above table, it is clear that 77.33% of the respondents were against the question “Do you think that people are well-informed about the tax system in Nepal?” It can be concluded that tax education is most necessary in Nepal to increase the tax consciousness of taxpayers.

Specific Objective of Income Tax in Nepal

To know the specific objectives of income tax in Nepal, respondents were requested to rank their responsibilities. The question was asked, “What should be the specific objective of income tax in Nepal?” Table 2 gives the breakdown of responses:

Table 2

Opinion towards Objectives of Income Tax

Response	Employees	Experts	Taxpayers	Total	%	Rank
To enhance the revenue of the government	7	6	7	20	26.67	1
To meet the government expenditure	5	5	3	13	17.33	4
To narrow the income gap between rich and poor	5	4	6	15	20	3
To achieve the goals of national development and equal economic distribution	6	6	6	18	24	2
To check inflation	2	4	3	9	12	5
Total	25	25	25	75	100	

(Source: Opinion Survey, 2023)

Most of the respondents support the objectives of enhancing the revenue of the government. 26.67% are in favor of the objective of enhancing the revenue of the government. 24% of them chose the objective of national development and equal economic distribution, another 20% chose the objective of narrowing the income gap between rich and poor, 17.33% of them chose to meet the government expenditure and 12% of them gave to check inflation. Overall, enhancing the revenue of the government has been ranked 1, achieving the goals of national development and equal economic distribution has been ranked 2, narrowing the income gap between rich and poor has been ranked 3, meeting the income government expenditure has been ranked 4 and to check the inflation has been ranked 5 as the specific objective of income tax.

Satisfaction towards Income Tax System in Nepal

To know whether the income tax system of Nepal is sound and efficient or not a question was asked. "Are you satisfied with the existing income tax system of Nepal?" The responses received from the various respondents are tabulated below.

Table 3

Satisfaction towards Existing Income Tax System

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax Employees	2	8	23	92	25	100
Tax Experts	-	-	25	100	25	100
Tax Experts	2	8	23	92	25	100
Total	4	5.33	71	94.67	75	100

(Source: Opinion Survey, 2023)

From the above table, it has been clear that most of the respondents i.e. 94.67% of respondents are not satisfied with the existing income tax system of Nepal. More precisely, 92% of the surveyed tax employees, cent percent of the surveyed tax experts, and 92% of the surveyed taxpayers showed dissatisfaction with the existing income tax system and thus urged for a prompt amendment. They further revealed that the complicated income tax act, rules and regulations, lack of education and awareness to taxpayers, lack of training and sufficient incentives to tax employees, lack of expertise in administration practice of tax evasion, and others are making the income tax system ineffective. It can be concluded from the above results that in the opinion of respondents, the income tax system of Nepal is not sound and efficient.

Appropriate Method while Assessing the Income Tax in Nepal

The Method of income tax assessment is very important in the assessment of income tax sound and appropriate assessment procedure is essential for the collection of large amounts in the form of income tax. It is very important in managing the income tax because the amount of income tax is realized through the assessment finding out an appropriate method of income tax assessment a question to the respondents asked: “What method is more appropriate in Nepal while assessing the income tax?” The responses received are tabulated below:

Table 4

Appropriate method while assessing the Income tax in Nepal

Methods	Group			Total	
	Employees	Experts	Taxpayers	No	%
Assessment based on the account submitted	4	6	4	14	18.67
Self-assessment	18	12	15	45	60
Assessment by the committee	3	7	6	16	21.33
Total	25	25	25	75	

(Source: Opinion Survey, 2023)

From the opinion survey, it has been clear that self- assessment method is more appropriate for Nepal while assessing income tax 60% of respondents have a positive opinion about self-assessment followed by 21.33% of respondents about the assessment by the committee. If each group is reviewed, 18 out of 25 surveyed tax employees, 12 out of 25 surveyed tax experts, and 15 out of 25 surveyed taxpayers have supported the self-assessment program.

Tax- Evasion in Nepal

To find out whether income tax evasion is practiced in Nepal or not, the question was asked” In your opinion is there a major problem of tax evasion in Nepal? The responses of respondents were tabulated below.

Table 5

Income Tax Evasion in Nepal

Response	Employees	Experts	Taxpayers	Total	%
Yes	20	23	21	64	85.33
No	5	2	4	11	14.67
Total	25	25	25	75	100

(Source: *Opinion Survey, 2023*)

The above table reveals, that 85.33 respondents supported tax evasion as a major problem of income tax evasion in Nepal. The remaining 14.67 % was again above the view. It can be noted that almost all the people with high denominates were in favor of the question.

Factors Responsible for Tax Evasion

There may be many responses to widespread tax evasion. To know the main reason for tax evasion, the respondents were provided eight reasons and were provide eight reasons and were requested to rank them. The response received is tabulated below.

Table 6

Factors Responsible for Tax Evasion

Factors	Employees	Experts	Taxpayers	Total	%	Rank
Defective tax administration	2	5	7			
Inefficient income tax policy	3	3	1	7	11	5
The inappropriate Income tax rate	1	1	1	3	4	8
Loopholes in Income Tax Act.	2	1	1	4	6	7
The unwillingness of taxpayers to pay tax	2	4	6	12	19	2
Lack of consciousness among taxpayers	4	4	1	9	14	4
Corruption in tax authority	5	2	3	10	16	3
Lack of political commitment	1	3	1	5	8	6
Total	20	23	21	64	100	

(Source: *Opinion Survey, 2023*)

The major reason for evasion of income tax from the above table according to the respondent's performance is the defective tax administration, as it has been ranked 1. Next to it is the unwillingness of the tax authority, which is ranked 2. Similarly, the corruption in taxpayers to pay tax has been ranked 3, the lack of consciousness in taxpayers has been ranked 4, the inappropriate income tax policy has been ranked 5, the lack of political commitment has been ranked 6, the loopholes in income tax act has been ranked 7 and the inappropriate income tax act has been ranked 8. The other factors stated by respondents are the widespread

practice of illegal business inadequate auditing and investigation and poor development of the corporate system.

Attitude toward provisions of fees, fines, and penalties

The income tax system of Nepal has provisions of fees, fines, and penalties for the regulation of law to find out the reasonability of these provisions, a question was asked, “Are penalties under the income tax system reasonable?” the response is tabulated as below:

Table 7

Attitude towards Reasonability of Existing Provisions of Fees, Fines and Penalties

Group	Yes		No		Total	
	No	%	No	%	No	%
Tax Employees	19	76	6	24	25	100
Tax Experts	20	80	5	20	25	100
Taxpayers	14	56	11	44	25	100
Total	53	70.67	22	29.33	75	100

(Source: Opinion Survey, 2023)

The table shows that near about 70% of respondents have expressed the provisions of fines and penalties are reasonable and nearly 30% of respondents have not taken the provision of fees, fines, and penalties as reasonable. The respondents, who were against provisions of fees, fines, and penalties stated either to increase or decrease the amount of fees, fines, and penalties.

Effectiveness of Income Tax Administration in Nepal

To find out the effectiveness of income tax administration, a question was asked “What do you feel about the current income tax administration of Nepal? The respondents who do you agree on the effectiveness, have got alternative to choose about the position of income tax administration. The responses received from respondents are as follows:

Table 8

Effectiveness of Income Tax Administration

Response	Employees	Experts	Taxpayers	Total	%
Efficient	5	3	4		
Inefficient	13	19	18	50	66.67
Satisfactory	7	3	3	13	17.33
Total	25	25	25	75	100

(Source: Opinion Survey, 2023)

From the above table, it is clear that income tax administration is not efficient in collecting taxes and has got a majority percentage from the respondent i.e. 66.67%. This group said that the lack of trained and competent tax employees,

complicated tax laws, lack of proper communication, lack of voluntary compliance by taxpayers, and undue delay in the assessment are making the tax administration inefficient.

Most Important Factors for the Effectiveness of Income Tax in Nepal

To know the most important factor for the effectiveness of income tax in Nepal respondents were requested to rank their responses on given choices.

Table 9

Important Factors for the Effectiveness of Income Tax in Nepal

Response	Employees	Experts	Taxpayers	Total	%	Rank
Honest tax officers	7	7	7			1
Honest taxpayer	5	6	7	18	24	3
Clear acts, rules, and regulation	7	6	6	19	25.33	2
Effective administration	6	6	5	17	22.67	4
Total	25	25	25	75	100	

(Source: Opinion Survey, 2023)

The most important factor for the effectiveness of income tax is the honesty of the tax officers in their jobs, as it has been ranked 1. Next to it is the clear act, rules, and regulation, which has been ranked 2. Only then, the honest taxpayers, who are ranked 3, are responsible for making the tax administration effective, and finally, the effective administration, which is ranked 4, is responsible for making the whole income tax system effective.

Findings

Tax education is most necessary in Nepal to increase the tax consciousness of taxpayers, as 77.33% of the respondents said that people are not well informed about the tax system. The major objective of the income tax in Nepal is to enhance the revenue of the government, as per the opinion of 26.67% of the respondents to achieve the goals of National Development and equal economic distribution, and to narrow the gap between rich and poor; stated by the 24% of the surveyed respondents. 94.67% of the respondents said that the Income-tax system of Nepal is not sound and efficient basically due to inefficient tax evasion and lack of awareness of taxpayers. A self-assessment method is more appropriate for Nepal while assessing income tax. This suggestion is made by 60% of the total surveyed respondents 85.33% of the respondents said that Income tax evasion is the major problem in Nepal for income tax generation 22% of the respondents said that the main reason for tax evasion is due to defective tax administration, while 19% of the respondents claimed that the unwillingness of taxpayers to pay tax, and the other 16% of the respondents said that the corruption in tax authority is the main reasons behind tax evasion. 66.67% of the respondents said that the Income-tax administration is not efficient in collecting taxes. Lack of trained and competent tax

personnel, complicated tax laws, and undue delay in making assessments are the most important causes of the ineffectiveness of Nepalese tax administration. 28% of the respondents said that the honest tax officer and the other 25.33% of respondents stated that the clear act, rules, and regulations are the most important factors for the effectiveness of income tax in Nepal.

Conclusion and recommendations

From the primary data analysis, it can be concluded that the effort of the government to aware the people about the benefits of tax payments in the form of the development of basic infrastructures and the opportunities for employment and economic benefits is not sufficient. Moreover, it can be said that the Income-tax system is not sound and efficient basically due to inefficient tax evasion and lack of awareness of taxpayers. Although the self-assessment method is appropriate while assessing the income tax, it would be appropriate in the initial operation year of the company, and in other periods, the assessment of the account by the tax official would be better to avoid tax evasion by the taxpayers. The main reason for tax evasion is due to defective tax administration, unwillingness of taxpayers to pay taxes, and corruption in the tax authority. Finally, it can be said that to make the tax administration much more effective, the efforts of all the stakeholders; the government, the taxpayers, the tax office, and others, are equally significant.

Finally, the tax administration can be structured by type of tax or by the function of tax administration. The tax office is advised to follow the unified functional system, under this system, a tax officer is made responsible for the administration of every aspect, including the registration, assessment, and collection of specific taxes in a particular area. Personnel development is one of the major problems for the inefficiency of the income tax administration. So the tax office is recommended to pay concern to human resource development. A specialized group should be created for administrating taxes with special rules relating to recruitment, transfer, training, promotion, salary, and so on. The Office should contrive to change the attitude of the tax officials, if necessary, to make them more service-minded. In Nepal, tax administrations use traditional techniques and procedures, which are far from desirable. The traditional excise tax mentality guides tax administrators. A computerized and modern administrative technique needs to be adopted by the tax office of Nepal. One of the important functions of the modern income tax administration is to raise the level of voluntary tax compliance. To encourage this, the tax administration needs to carry out an extensive taxpayer education program. Simple and transparent tax provisions enhance compliance with the law, while consistently applied penal provisions discourage noncompliance. Therefore, along with the simple and transparent provisions, uniformly enforced penal provisions also form the basis of the effective income tax administration. It is necessary to establish an appeal system that is independent and impartial. At the same time, there must be specific rules and time requirements to maintain revenue levels. The appeals system should be structured to balance several interests.

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