

TAXATION UNDER BUSINESS INCOME IN NEPAL: PAST & PRESENT

By:

JAGAT NARAYAN PRASAD KUSHAWAHA
THAKUR RAM MULTIPLE CAMPUS

T.U. Registration No 7-3-15-2136-2006

Campus Roll No...081/063

A Thesis Submitted to:

Office of the Dean
Faculty of Management
Tribhuvan University

In partial fulfillment of the requirements for the degree of
Master of Business Studies (M.B.S.)

Birgunj, Nepal
August, 2010

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis

Submitted by:
Jagat Narayan Prasad Kushawaha

Entitled
TAXATION UNDER BUSINESS INCOME IN NEPAL:
PAST AND PRESENT

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as the partial fulfillment of the requirements for

Master's Degree in Business Studies (M.B.S.).

Viva-Voce Committee

Head, Research Committee:.....

Member (Thesis Supervisor):.....

Member (External Expert):.....

Date:-

RECOMMENDATION

This is to certify that the Thesis

Submitted by:
Jagat Narayan Prasad Kushwaha

Entitled

TAXATION UNDER BUSINESS INCOME IN NEPAL: PAST AND PRESENT

Has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This thesis is forwarded for examination.

.....
Thesis Supervisor
Dr. Dipak Shakya
T.R.M. Campus, Birgunj

.....
Dr. Dipak Shakya
Head, Research Committee
T.R.M. Campus, Birgunj

.....
Campus Chief
T.R.M. Campus, Birgunj

Date:-

ACKNOWLEDGEMENT

This study entitled “Taxation Under Business Income in Nepal : Past & Present” is essentially an output of partial requirement for the degree of Master in Business Studies, Tribhuwan University prepared under the supervision of Dr. Deepak shakya prof. of Thakur Ram multiple Campus, Birgunj .

In this study, effort has been made to bring two acts, the present income tax act, 2058 and previous income tax act, 2031, at a place and the differences in the provisions have been tried to locate in phone particular part of the whole act. This study has not happened over day or night; it is indebted to many benevolent creditors who sacrificed their precious time willingly in guiding me, in providing information imperative to study.

I am in truth indebted to respected sir Mr.Rajendra Lal Das who not only guided me but also directly involved in the subject matter as if he is the researcher of this study. I would like to express my sincere gratitude to Mr. Abhinash Pd. Singh for his valuable guidelines and suggestions in queries made during the study

I would like to express my sincere gratitude to all those respondents related to the different organizations and bodies as tax payers, tax administrators and tax experts who have considerably helped by one or another means in preparing this dissertation

My friends Mr. jay Prakash Narayan Yadav, Mr Dhirendra Yadav, Mr Hridaya Narayan Kushwaha, Mrs. Chandrawati Kushwaha, Rupshi Mehta deserve much of the credits as they have made tremendous effort in favour of this study in different ways. I must thank to all those gentlemen who have been input to my thesis work either by writing or publishing books, research works etc. or by providing needed materials at different time and lace for research purpose.

In spite of genuine efforts made during the preparation period, probability of sampling and human error is always there so may have in this thesis. And I am the person who is solely responsible for this omission if any.

Jagat Narayan pd.Kushawaha
August, 2010

DECLARATION

I hereby declare that the work reported in this thesis entitled “Taxation Under Business Income in Nepal: Past & Present” submitted to ThakurRamMultiple Campus, Faculty of Management, Tribhuwan University, is my original work done in the form of partial fulfillment of the requirements for the Master’s Degree in Business Studies (M.B.S.) under the supervision of Dr. Deepak Shakya Prof. of Thakur Ram Multiple Campus .

Sincerely,

.....

Jagat Narayan Prasad Kushwaha

(Researcher)

Thakur RamMultiple Campus

T.U.Registration No. 7-3-15-2136-2006

Roll No:-081/063

Date:.....

TABLE OF CONTENTS

Recommendation	i
Viva-Voce Sheet	ii
Declaration	iii
Acknowledgement	iv
Table of Contents	v
List of Tables	ix
Acronyms	x

Title: **Page No.**

CHAPTER I: INTRODUCTION

1.1 General Background	1
1.2 Statement of the problem	7
1.3 Objectives of the Study	9
1.4 Hypothesis	10
1.5 Focus of the study	11
1.6 Rational of the study	11
1.7 Limitation of the study	12
1.8 Organization of the study	12

CHAPTER II: REVIEW OF LITERATURE **14**

Part A: Review of Act	14
2.1 Introduction	14
2.1.1 Historic Background of Income Tax	14
2.1.2 Meaning and Nature of Business Taxation	16
2.1.3 Definition and Sources of Income	17

2.2 An Overview of Income Tax Act, 2058 (2002)	18
2.2.1 Defects of Income tax act, 2031	19
2.2.2 Objectives of income tax act, 2058	19
2.2.3 Features of income tax act, 2058	20
2.2.4 Definition of Related terms	20
2.2.5 Heads of Income	23
2.2.6 Income from Business	23
2.2.7 Inclusions in calculating Income from Business	24
2.2.8 Deductible Expenses	25
2.2.9 Business Exemptions, Exempt Amounts and other Concessions	
2.2.10 Other Provisions Regarding the Business Exemption	30
2.2.11 Common Deductions	30
2.2.12 Provisions of Losses from Business	31
2.2.13 Expenses Not Allowed for Deduction	31
2.2.14 Tax Accounting and Timing	33
2.2.15 Quantification, Allocation and Characterization of Amounts	33
2.2.16 Information about Tax Deduction and Payment	34
2.2.17 International Taxation	35
2.3 An Overview of Income Tax act, 2031	35
2.3.1 Taxable Income under ITA, 2031	36
2.3.2 Non-Taxable Income under ITA, 2031	37
2.3.3 Allowable Deduction	37
2.3.4 Expenses not allowed for Deduction	38
2.3.5 Some other Provisions of the Act	39
Part B: Thesis & Book Review	39
Resource Gap	41

CHAPTER III: RESEARCH METHODOLOGY	43
3.1 Research Design	43
3.2 Populations and Sampling	45
3.3 Sources and Data Collection Procedures	45
3.4 Method of Analysis & Presentation	46
3.5 Tools and Techniques of Analysis	46
3.6 Research Variables	46
3.7 Weight of the Choice	46
3.8 Respondents' Profile	47
CHAPTER IV: PRESENTATION & ANALYSIS DATA	
4.1 PRESENTATION AND ANALYSIS OF SECONDARY DATA	48
4.1.1 Target and collection of income tax (comparative study for 8 years)	48
4.1.2 Internal revenue collection in FY 2065/066	51
4.1.3 Tax/GDP ratio	52
4.1.4 Findings	53
4.2 COMPARATIVE STUDY	54
4.2.1 Background	54
4.2.2 Comparison in Expenses	55
4.2.3 Comparison in Income	60
4.2.4 Comparison between Tax Rates	60
4.2.5 Computation of Income from Business as per ITA, 2058	61
4.2.6 Computation of Income from Business as per ITA, 2031	62
4.2.7 Findings	73
4.3 EMPIRICAL INVESTIGATION	74
4.3.1 Presentations and Analysis of Opinion Survey	75
4.3.1.1 Acquaintance with Business provisions of New Act	76

4.3.1.2 Opinion on the appropriateness of capital gain taxation and its process Of taxation	77
4.3.1.3 Opinions of appropriateness of taxing foreign income of resident under New act	79
4.3.1.4 Opinions on the appropriateness new provision on interest expenses	79
4.3.1.5 Opinions on whether pollution control cost and research and Development cost have benefited the Organization	80
4.3.1.6 Opinions regarding the pool system of depreciation	82
4.3.1.7 Opinions in the provision of separation of offences from penalty	83
4.3.1.8 Opinions on carry forward of losses of Business globally	83
4.3.1.9 Opinions on whether the business exemption, rebate and concessions Given in the act are enough	84
4.3.1.10 Opinions on whether the present tax structure is appropriate	87
4.3.1.11 Opinions on the appropriateness on new income tax act, 2058 for Effective taxation system in Nepal	87
4.3.2 Findings on opinion survey	89

CHAPTER V: SUMMARY, CONCLUSION & RECOMMENDATIONS	91
5.1 Summary	91
5.2 Conclusion	93
5.3 Recommendation	95
5.4 Further Area of Research	97
Bibliography	99
Appendix	101

LIST OF TABLES

Topics	Page No.
2.1 Depreciable Assets and rate of depreciation	27
2.2 Nature of payment and rate of withholding tax	34
3.1 Group of respondents and sample size	45
3.2 Respondents' profile	47
4.1.1 Comparative study of income tax structure and its collection for 8 years	49
4.1.2 Internal revenue collection for fiscal year 2065/66	51
4.1.3 Contribution of tax revenue and income tax revenue in GDP of Nepal	52
4.3.1(a) Group of the respondents	75
4.3.1(b) Respondents' Profile	75
4.3.1.1 Acquaintance with business provision of new act	76
4.3.1.2 Appropriateness of capital gain taxation and its process of assessment	77
4.3.1.4 Appropriateness of new provision of interest expenses	80
4.3.1.5(a) Provision of pollution control cost and R & D cost and its benefit	80
4.3.1.5(b) Reason of not taking advantage of PC and R & D facility	81
4.3.1.6 Views in the pool system of depreciation	82
4.3.1.7 Appropriateness of decision of separating offences from penalty	83
4.3.1.8 Appropriateness of global carry forward of business loss	84
4.3.1.9 Opinions on business exemptions and concession given in the act	85
4.3.1.10 Opinions on tax structure under new act	87
4.3.1.11 Opinions in the income tax act, 2058	88

ACCRONYMS USED

AC	Absorption Costing
BBS	Bachelor of Business studies
BTP	Big Tax payer
CA	Chartered Accountant
CEDA	Center for economic development & administration
CIT	Citizen Investment trust
CT	Column total
CTO	chief tax officer
DBM	Diminishing balance method
FIFO	First in first out
FY	Fiscal year
GDP	Gross Domestic Product
IY	Income year
IRD	Inland revenue department
ITA	Income tax act
MBA	Master of Business Administration
MBS	Master Business Study
MOF	Ministry of Finance
NAS	Nepal accounting standard
NRB	Nepal Rastra Bank
OUP	Oxford University
PCC	Pollution Control Cost
TRMC	Thakur Ram Multiple Campus
R & D	Research & Development
RT	Row Total
SLM	Straight Line Method
TDS	Tax Deduction at Source
TR	Tax Revenue/Total Revenue
TU	Tribhuvan University
VAT	Value Added Tax
VC	Variable Costing
WDV	Written Down Value
WTO	World Trade Organization