

**CORPORATE INCOME TAX CONTRIBUTION OF SELECTED  
COMMERCIAL BANKS TO GOVERNMENT  
REVENUE OF NEPAL**

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Thesis

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### RECOMMENDATION

This is to certify that the thesis:

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CORPORATE INCOME TAX CONTRIBUTION OF SELECTED COMMERCIAL  
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Has been prepared as approved by this department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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## **DECLARATION**

I hereby declare that the work reported in this thesis entitled “Corporate Income Tax Contribution of Selected Commercial Banks to Government Revenue of Nepal” submitted to Central Department of management, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master of Business Studies under the supervision of Prof. Dr. Gopi Nath Regmi of Central Department of Management ,Tribhuvan University.

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## ABBREVIATIONS

%	: Percentage
A. D.	: Anno Domini (Christian era, in the year of lord)
A. M.	: Arithmetic Mean
AGM	: Annual General Meeting
ATM	: Automatic Teller Machine
B.S	: Bikram Sambat
BOD	: Board of Directors
C.V.	: Coefficient of Variance
CBs	: Commercial Banks
CEDA	: Centre for Economic Development and Administration
Co.	: Company
CT	: Corporate Tax
e.g.	: For example
EBL	: Everest Bank Limited
Etc.	: Etcetera
FY	: Fiscal year
GDP	: Gross Domestic Product
Govt.	: Government
HBL	: Himalayan Bank Limited
HMG	: His Majesty's Government
i.e.	: That is
IRD	: Inland Revenue Department
IRO	: Inland Revenue Offices
IROs	: Inland Revenue Officers
ITA	: Income Tax Act
KBL	: Kumari Bank Limited
Ktm	: Kathmandu
Ltd.	: Limited
MBL	: Machhapuchhre Bank Limited
MBS	: Master of Business Studies
MOF	: Ministry of Finance

NA	: Not Available
NABIL	: Nabil Bank Limited
NBA	: Non Banking Assets
NEPSE	: Nepal Stock Exchange
NIBL	: Nepal Investment Bank Limited
NGBL	: Nepal Grindlays Bank Limited
NPA	: Non-Performing Assets
NRB	: Nepal Rastra Bank
NSBI	: Nepal State Bank of India
PNB	: Punjab National Bank
S.D.	: Standard Deviation
SCBNL	: Standard Chartered Bank Nepal Limited
SEBO/N	: Security Board of Nepal
S.N	: Serial Number
SYD	: Sum of Years Digit
WWW	: World Wide Web

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Nepal is developing country of the world which lies in South Asia. In the process of development, Nepal has faced many problems. For the economic development of the country government has to spend huge amount of money. There are three types of expenditure which are incurred by the government i.e. protection, commercial and public expenditure. Now a days government expenditure is increasing due to the transition period of the country. To operate country smoothly it needs fund. The government of Nepal has less sufficient fund to spend in these expenses. So, it is being a serious problem in the process of economic development of developing countries like Nepal. It is necessary to have sufficient amount with government for the expenditure purpose. So, to raise government revenue, it is necessary to raise the source of revenue(Adhikari,2003).

The commercial banking is one of our oldest industries. The first bank was established in 1782BS before the adoption of our federal constitution and many of the banks that were organized in 1800s are still in operation(Agrawal,1978).

Commercial banks play a vital role in the national revenue and prosperity. These banks mobilize and transfer the funds among the people. Banks are still the principal means of making payments. They are also the principal channels for the government policy. So, banks remain major players for expediting financial activities in the society.

Commercial banks are very important for development of national economy. They accept public savings as deposits and advance them as loans to the persons, parties or business organizations that need capital. The saver is rewarded by the payment of interest on his saving which is safe and in highly liquid form. Their pooled fund is available to business persons who may use them for expansion of their productive capacity and to consumers for such items as housing and consumer goods. Therefore, their primary functions are accepting deposits from public and firms and to extend

credits to worthy borrowers. Bank lending is very important to the economy which opens up the possibility of financing in the sector of agriculture, commercial and industrial activities in the nation. Banks provide loans to manufacturers to make possible the purchase of raw materials and machinery and the employment of labor which can produce goods demanded by industry, government and the consumer in time. Comparative cost and national endowments have made trade imperatives within the country and around the globe. Since buyers and sellers cannot be aparted, neither the seller can dispatch the goods without obtaining money nor can buyer remit money without receipt of goods. Similarly, many big concerns have many branches in multiple countries around the world. That means the world is going to multinational trade. This is possible due to commercial bank's services in financing for foreign trade such as issue of letter of credit and exchanging foreign currencies.

Commercial banks are the main institutions which are meant to collect and utilize small and scattered savings of the people. Commercial banks utilize the collected resources by financing production contribution and consumption even to the need of the government. Commercial banks also invest in the priority sector to maintain the rules and regulations of the government.(Achrya,2008).

Due to unlimited and increasing human needs, many organizations and business houses are opened and competing to provide quality products and services to the customers. To produce goods and services, capital is one of four components of production (i.e. land, labor, capital and management). Capital formation was very difficult in those days when there were no formal institutions established for financing money. However, in the modern age, it has become easy due to establishment of many financial institutions.

Thus, a bank means a financial institution established for the transaction of money. It deals with money and credit activities. It accepts deposits from public and lends money to the borrower as a loan. It also creates credit and exchanges the foreign currencies. It is established to fulfill certain objectives such as to facilitate public economic interest, to advance loan for the development of agriculture, industries and trade and to provide banking services to the public.

Bank and Financial Institute Act 2063 of Nepal has defined commercial banks, as “A commercial bank is a bank which deals with money exchange, accepting deposit, advancing loan and commercial transaction except specific banking related to co-operative, agriculture, industry and other objectives”.

According to American Institute of Banking “Commercial bank is a corporation which accepts demand deposits subject to check and make short-term loans to business enterprises regardless of the scope of its other services.”

### **1.1.1 Commercial Banks in Nepal**

According to A. C. Hart, “A banker or bank is a person or company carrying on the business of receiving money and collecting drafts for customers subject to the obligation of honoring cheque drawn upon them from time by the customers to the extent of the amounts available in their current accounts.”(M. Radhashwani and S.V. Bashudevan, 1976:510)

Oxford Advanced Learners’ Dictionary of Current English defines that bank is established for keeping money and values safe, the money being paid or on the customers order (by means of cheques).

Similarly, a definition is given in Encyclopedia, the World Book, America, “A bank is a business organization that receives and holds deposits of funds from others and makes loans or extends credit and transfers funds by written orders of deposits.

Commercial bank is defined in the Bank and financial Institute Act 2063, as, “A commercial bank which deals in exchanging currency, accepting deposits, giving loans and doing commercial transactions”.

Thus, a bank means financial institution established for the transaction of money. It deals with public and lends money to the borrowers as a loan. It also creates credit and exchanges the foreign currency. It is established to fulfill certain objectives such as to facilitate public economics interest, to advance loans for the development of agriculture, industries and trade and to provide banking services to the public.

Commercial banks are very important for the development of national economy. They accept public savings as deposits and advance them as loans to the persons, business organizations and government when they require. The development of commercial banks is in increasing trend after the restoration of democracy in 1990 A.D. The first commercial bank of Nepal is Nepal Bank Limited (NBL) that was established on 30 Kartik 1994 B.S. (1937 A.D). And the second which is Rastriya Banijya Bank (RBB) established on 10<sup>th</sup> Magh/ 2022 B.S.

After a long period of establishment of these two banks, NABIL Bank is the first commercial bank from the private sector. This is also the first joint venture bank of Nepal. After that many other joint venture and non joint venture banks were set up under the Commercial Bank Act, 2031 and Company Act, 2053. Now, 28 Commercial banks are operating in the country. The door is opened now for the establishment of commercial banks with new policy relating to commercial bank issued by Nepal Rastra Bank considering that banking of entrance is not favorable in the liberal and market oriented economic environment and to create the competitive environment. Thus, it is expected that the numbers of commercial banks will be increased in future.

According to new policy issued by NRB, the paid up capital of new opening commercial bank at national level must be Rs. 8 Billion .

If the newly opened bank is joint venture with foreign bank or financial institution, is permitted to open new commercial banks with head office at Kathmandu valley contracting three years management with 67% investment of foreign such institution, the ratio of ownership of share will be 7:3 between founders and public respectively.

28 Commercial banks in Nepal are listed below:

**Table 1.1: Commercial Banks in Nepal**

S.N.	Name of Bank	Established Date	Head Office
1.	Nepal Bank Ltd.	1994/07/30	Kathmandu
2.	Rastriya Banijya Bank Ltd.	2022/10/10	Kathmandu
3.	Standard Chartered Bank Nepal Ltd.	2042/11/16	Kathmandu
4.	Nabil Bank Ltd.	2041/03/29	Kathmandu
5.	Himalayan Bank Ltd.	2049/10/05	Kathmandu
6.	Everest Bank Ltd.	2051/07/01	Kathmandu
7.	Nepal SBI Bank Ltd.	2050/03/23	Kathmandu
8.	Nepal Bangladesh Bank Ltd.	2050/02/23	Kathmandu
9.	Bank of Kathmandu Lumbini Ltd.	2063/03/27	Kathmandu
10.	Kumari Bank Ltd.	2056/08/24	Kathmandu
11.	Machhapuchhre Bank Ltd.	2057/06/17	Pokhara
12.	Siddhartha Bank Ltd.	2058/06/12	Kathmandu
13.	Laxmi Bank Ltd.	2058/06/11	Birjung
14.	NIC Asia Bank Ltd.	2070/3/28	Biratnagar
15.	NCC Bank Ltd.	2053/06/28	Siddharthanagar
16.	Nepal Investment Bank Ltd.	2042/11/16	Kathmandu
17.	Global IME Bank Ltd.	2064	Birjung
18.	Prime Commercial Bank Ltd.	2064/06/07	Kathmandu
29.	Citizens International Bank Ltd.	2064/01/07	Kathmandu
20.	Sunrise Bank Ltd.	2064/06/25	Kathmandu
21.	Agriculture Development Bank Ltd.	2062/03	Kathmandu
22.	NMB Bank Ltd.	2065/02	Kathmandu
23.	Kist Bank Ltd.	2060	Kathmandu
24.	Janata Bank Nepal Ltd.	2067	Kathmandu
25.	Mega Bank Nepal Ltd.	2067	Kathmandu
26.	Century Commercial Bank Ltd.	2067/10/09	Kathmandu
27.	Civil Bank Ltd.	2066/08/10	Kathmandu
28.	Sanima Bank Ltd.	2061	Kathmandu

Hence, These all Banks are profit oriented entities. They provide various types of services to public, business organization and government. They play a vital role in the development of national economy. The commercial banks are money trader, for which they should be careful about the risk of money market and liquidity.

The functions of commercial banks are briefly described below.

1. To accept deposits
2. To provide loans and advances
3. To carry out utility functions
4. To perform agency functions

Thus, commercial banks perform above mentioned functions. They are profit-oriented entities. They provide various services to public, business organizations and government. They must pay income tax out of their net profits. Therefore, any bank, which is established under the Bank and Financial Institute Act 2063 and Company Act, 2053, is the corporate taxpayer to the government.

## **1.2 Brief Introduction of Selected Banks**

In this study Ten sample banks are taken into consideration for the study on the basis of quota sampling among 28 commercial banks in Nepal. A brief introduction of the sample banks are given here to become familiar with the organizations' background and their performances:

### **1.2.1 Standard Chartered Bank Nepal Limited (SCBNL)**

Standard Chartered bank Nepal Limited was established in 2043 B.S. with the name of Nepal Grindlays Bank Ltd. (NGBL) under the company Act 2021 B.S. It is managed by Australian and NewZeland banking group (ANZ). Today the bank is an integral part of Standard Chartered Group having an ownership of 70.21% in the company with 29.79% shares owned by the nepalese people. The Bank enjoys the status of the largest international bank currently operating in Nepal. The Bank operates the objectives of providing full range of quality service to both the business community and general people at large. The bank has 12 branches 21 ATM counters and exchange counter in various parts of country. The branches within the valley

provide their services through additional counters and 24 hours service through ATM machine.

### **1.2.2 Nabil Bank Ltd.**

NABIL Bank Limited (NABIL) commenced operation on 12 July 1984 as the first joint venture bank in Nepal. Dubai Bank Limited, Dubai (later acquired by Emirates Bank International, Dubai) was the first joint venture partner of NABIL. Currently NB International Ltd., Ireland is the foreign partner.

NABIL Bank Ltd. has the official name Nepal Arab Bank Ltd., till 31 December 2001. NABIL is pioneer in introducing many innovative products and marketing concept in banking sector of Nepal with 62 branches and 113 ATM counters in all major cities. Also, the number of outlets in the country is the highest among the joint venture and private banks operating in Nepal and it paved the way for the banking establishment of many commercial banks and financial institutions.

NABIL Bank provides a full range of commercial banking services through its outlets spread across the nation and reputed correspondent banks across the globe. Moreover, NABIL has a good name in the market for its highly personalized services to the customers. “The Bank of the year 2004”.

### **1.2.3 Himalayan Bank Limited (HBL)**

Himalayan Bank Limited was established in 1992 by the distinguished business personalities of Nepal in partnership with Habib Bank Limited, one of the largest commercial Bank of Pakistan. Bank operation was commenced from January 1993. It was the first commercial bank of Nepal with maximum shareholding by the Nepalese private sector. Beside commercial activities, the bank also offers industrial and merchant banking services. Currently the bank has 43 branches. The bank’s policy is to extend quality and personalized services to its customers as promptly as possible. The bank, as far as possible, offers modern technological facilities to its clients, based on the unique needs and requirements, to extend more efficient services to its customers. Himalayan Bank Limited has been adopting innovative and latest banking

technology. This has not only helped the bank to constantly improve its services level but has also kept it prepared for future adoption of new technologies.

#### **1.2.4 Everest Bank Limited (EBL)**

Everest Bank Limited (EBL) started its operation in 1994 A.D. EBL is commercial bank of Nepal which is joint venture of Punjab National Bank, India holding 20% equity shares of bank. PNB and EBL have joined in 1997 A.D. After joining with PNB, EBL has been slowly grown in its size and operation and established itself as a lending private sector bank. At present EBL is providing its service through a wide network of 64 branches , 94 ATM counters and 26 collection counters. All the major branches of the bank are connected with Anywhere Branch Banking System (ABBS), facility which enables a customer to do banking transaction from any of the irrespective of their having account in other branches. Professionals from PNB currently manage the bank under Technical Services Agreement signed between the two institutions. EBL, thus, has the advantage of the banking expertise since the joining of PNB as partner in the bank. Looking into the shareholding participation, PNB holds 20% share, Nepalese promoter 50% and the residual are collected to general public.

#### **1.2.5 Nepal SBI Bank Limited (SBI)**

Nepal SBI Bank limited was registered under the company Act, 1964 in 28<sup>th</sup> April 1993. This is the joint venture bank with state bank of India and Nepalese promoters, a terms of professional deputed by SBZ under a technical services agreement managers and managing director is he chief executive officer deputed by SBI under this arrangement 55% of the total share capital of the Bank is held by the Employees Provident Fund and the balance is held by the general Public. 55 percent of the total share capital of the Bank is held by the State Bank of India. Now the bank has 68 branches in Nepal. The bank enjoys leading position in the country in terms of penetration of technology products, Mobile Banking, Internet Banking and card services. The bank is moving ahead in the Nepalese Banking Industry with significant growth in net profit with very nominal NPA .

### **1.2.6 Bank of Kathmandu Lumbini Bank**

Bank of Kathmandu Limited was incorporated in 1993, after the restoration of democracy in 1990 under the Company Act 1964. In very competitive and small market of Nepalese commercial bank, BOK is struggling for betterment. Bank of Kathmandu and Lumbini Bank have merged with each other and started operation with the name of Bank of Kathmandu Lumbini Ltd. Bank of Kathmandu Lumbini Limited has become a prominent name in the Nepalese banking sector. The bank is able to earn significant profit. This bank has leading number of shares traded in NEPSE. Now, the bank is operating in most of the towns of Nepal with 74 branches and 71 ATM counters with one head office.

### **1.2.7 Nepal Investment Bank Limited (NIBL)**

Nepal Investment Bank Nepal, previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world. With the decision of credit Agricole to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, acquired on April 2002 the 50% of shareholding of Credit Agricole Indosuez and named Nepal Indosuez Bank Ltd. The name of the bank has been changed to Nepal Investment Bank Limited, upon approval of banks Annual General Meeting, NRB and Company Registrar's Office with the following shareholding structure.

Now, the bank has 47 branches and 82 ATM counters. It was awarded by, Bank of the Year 2003, 2005 and 2008 respectively.

### **1.2.8 NICASIA Bank Limited**

NIC ASIA Bank was established on 21<sup>st</sup> July 1998. The bank was named as NIC ASIA Bank after the merging of NIC Bank with Bank of ASIA Nepal on 30<sup>th</sup> June 2013. This was a historical merge in the annals of Nepalese financial landscape as the first of this kind of merge between two successful commercial banks in the country. Today, NIC ASIA has established itself as one of the most successful commercial

banks in Nepal. NIC ASIA provides its services with 180 branches and more ATMs. NIC ASIA is one of the largest private sector commercial banks in the country.

The bank strongly believes in meritocracy, transparency, professionalism, team spirit and service excellence. These core values are internalized by all functions within the bank are reflected in all actions it takes during the course of its business. After the merge, NICASIA was recognized as "Bank of the year 2013 and 2007 Nepal" by the 'Banker Financial Times' UK.

### **1.2.9 Kumari Bank Limited (KBL)**

Kumari Bank Limited was established in April 03, 2001 as part of the policy of NRB's liberalization of the Nepalese banking Industry. It was been established with an objective of providing a complete banking solution to customers backed by its state of the art infrastructure. Apart fro its regular business loans, Kumari bank limited is gearing itself up to offer a wide range of consumer banking product and services like; vehicle loan, Education loan, Home loans etc. At present 29 branches including main branch (head Office) if Nepal. It was established fully investment made by Nepalese Investors and its 100% Equity is held by the Nepali Promoters and Public.

Kumari bank limited is providing following facilities and services to their customers;

- Internet Banking
- Electronic Bill Payment System
- Mobile Banking
- Debit Card, Credit Card
- 

### **1.2.10 Machhapuchhre Bank Limited (MBL)**

Machhapuchhre Bank Limited was registered in 1998 as a first Regional Commercial Bank to start banking business from the Western Region of Nepal with its head office in Pokhara. It is the first bank in Nepal to introduce centralized banking software named GLOBUS BANKING SYSTEM developed by Jemmenos NV, Switzerland. The bank provides modern banking facilities such as Any Branch Banking, Internet Banking and Mobile Banking to its valued customers.

It is one of the full fledged commercial banks operating in Nepal; and it ranks on the top most among the private commercial banks. At present, the bank has 62 branches and 86 ATM Counters including main branch (Head Office) in Pokhara. It was established with full investment made by Nepalese investors and its 100% equity is held by the Nepalese promoters and public.

### **1.3 Statement of the Problem**

Commercial banks are corporate bodies. They are profit-oriented organizations. They make profits from the financial transactions by rendering services to the public and business organizations and pay income tax to the government from their taxable income. In one hand, there are some problems in collection of income tax from commercial banks. Some commercial banks have not yet got audited their accounts for five to six years. This practice must be eliminated for the more generation in income tax. On the other hand, it is seen that commercial banks have appealed to revenue tribunal time to time. It shows there are some weaknesses in tax assessment such as, commercial banks and vague law and regulation of income tax and finance act etc. These are the main concentrated problems of this study to solve as far as possible to mobilize more resources through income tax from commercial banks.

28 commercial banks are rendering a wide range of services in Nepal. Commercial banks have opened their branches in urban areas but most of the people live in rural areas therefore people are not getting banking service facilities all over the country. The major statements of problem are:

1. Comparatively, which commercial banks contribute more income tax to government revenue?
2. What are the opinions and views of bankers regarding with corporate income tax revenue collection system of Nepal?
3. Which are the major problem faced by the commercial banks regarding in taxation of corporate income?.

#### **1.4 Objective of the Study**

The main objective of the study is to analyze the income tax collection from commercial banks. Other objectives of the study are as follows:

1. To analyze the contribution of commercial bank to total corporate tax revenue, total income tax revenue and total tax revenue.
2. To analyze relevant opinions and views of bankers regarding income tax.
3. To identify the major taxation problems faced by commercial banks.

#### **1.5 Significance of the Study**

Commercial Banks are always guided by the objective of profitability. All financial decisions of commercial banks are for the betterment of shareholders' wealth. There should be an effective system of funds allocation in order to safeguard the banks from the danger of liquidity. An appropriate level must be achieved between them. The study ponders to find out whether commercial banks are alert or not in this regard and possible situations where the banks need additional liquid funds.

A few studies have been made on the liquidity management in commercial banks. Most of the studies made up to present on capital market are related to financial performance, investment, capital structure analyses, dividend policy, risk and return etc. But none of the researches have yet been made on the core perspective of the liquidity and its management. So, the present study is substantial importance for investors, planners, researchers, professionals, executives and students to meet their personal and organization of idle capital of average Nepalese in productive sectors to accelerate the economic growth and to reduce dependency on foreign assistance and loan.

This study helps regulatory authority to find out liquidity management of the commercial banks. It is a reference to the concerned personnel and researchers. This study also shows and suggests the available investment opportunities satisfying both objectives (liquidity and profitability) of commercial banks.

## **1.6 Focus of the Study**

Trading on money is very risky and challenging. On one hand, commercial banks should keep plenty of liquid funds to fulfill their customer's demand and on the other hand; there will be equal chance of being idle of the liquid fund. So, it is very important thing to manage liquidity with balancing demand and supply. The main focus of the study is comparative analysis of managing liquidity in Nepalese commercial banks by taking 10 Sample banks out of 28.

This study has also attempted to analyze the methods of liquidity management in various commercial banks in existing practice and new methodologies in this technical era. This study is also concentrated on whether the theories on liquidity management founded by various economist and bankers match in Nepalese context or not. After The 1995, there is a rumour that the Nepalese banks are full of high liquidity and they are not being able to manage it. Thus this study has also focused to analyze whether it is true or allegedy aired.

Thus, the main focus of the study is to find out how the liquid assets influence the liquidity management of the bank and the real solution can be suggested.

## **1.7 Limitation of the Study**

All the research studies are made to solve a particular research problem. They require various kinds of data, material and other relevant information, which may not be sufficient to the researcher. This study also can not escape from that type of limitation.

Following are the some limitation:

- ) This study conducted to fulfill the requirement of Master of Business Studies (MBS). So the study can not cover all the dimension of subject matters.
- ) Simple statistical techniques followed by financial models have been used in the analysis.
- ) Absence of required data concerned with commercial banks limits to detail study.
- ) The study has covered only the data of past seven years

- ) Due to small sample size it may not fully represent Nepal as a whole.
- ) The study lacks in time and other resources as well.

## **1.8 Plan of the Study**

This study is divided in five chapters. Prior to the body of the thesis several pages or preliminary materials such as title page, viva voce-sheet, recommendation, acknowledgements, table of contents, list of figures, list of tables, abbreviations used etc. have been presented.

### **Chapter I : Introduction**

Chapter one is the introduction that includes the background of the study brief description about Nepalese commercial banks. This chapter comprises of focus, significance, objectives of the study, statement of the problem, a brief description of sample banks and limitations of the study.

### **Chapter II : Conceptual Framework and Review of Literature**

The second chapter is the review of literature. This chapter views the relevant previous studies made on the taxation. This chapter includes the theoretical review, policy review and review of previous studies.

### **Chapter III : Research Methodology**

The third chapter is the research methodology. This chapter includes the detail framework of the study, such as population and sample, variable, research design, data collection, presentation and analysis, tools and techniques etc.

### **Chapter IV : Presentation and Analysis of Data**

The fourth chapter of this research is presentation and analysis of data. In this chapter, the primary and secondary data collected from different sources are presented in systematic format, such as tables, charts, and figures. And these data have been analyzed using different statistical and financial analytical tools. In addition to that, the major findings of the study are drawn out.

## **Chapter V : Summary, Conclusion and Recommendations**

The last and the fifth chapter include summary, conclusion and recommendations. This chapter consists of summary of the major findings of this thesis report and concludes the reports with the major recommendations and suggestions to the Nepalese commercial banks, banking professionals and government. This study is expected to be a reference to the executives, students, researchers and other professionals in the field of banking man.

## **CHAPTER-II**

### **CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE**

#### **2.1 Conceptual Framework**

##### **2.1.1 Concept of Tax**

Tax is an important source of revenue for government. It is compulsory provision to citizen imposed by law to pay as monetary term to government without any expectation of some specified returns. Economist and Scholars have expressed their view in tax as follows.

“A Tax is a compulsory contribution of wealth of a person for body of person or the service of public powers.”-Bastable.

“A Tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the taxpayer in return and not imposed as penalty for legal offence”-Dalton.

“Tax is compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefits”. - Findlays Shirras (Lekhi, 2000:146).

“A Tax is compulsory contribution payment to government without expectation of direct expenses of indirect return in benefit to the taxpayer.” - P.E. Taylor

“Taxes are general contribution of wealth levied up to persons, natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the states”- Plehn (Dhakal, 1998:2).

“Tax is a compulsory contribution from a person to the government to defray the expenses inquired in the common interests of all without reference to special benefits conferred”- Professor Seligman (Lekhi, 2000: 146).

Among above, the first three states that the tax is compulsory levy and the taxpayer does not have any right to receive direct benefits from tax paid. The remaining definitions also clear about the expense of collected tax in common interests of residents of nation.

According to their definitions tax has major three characteristics.

- 1) It is compulsory monetary contribution.
- 2) Tax payer should not expect special treatment as return of tax.
- 3) An amount collected from tax should be expended for public of whole nation.  
Taxes are levied primarily to raise revenue for the government expenditure, although they raise other purpose as well.

The tax can be classified into direct and indirect tax.

## **1. Direct Tax**

If a person has to pay directly the tax liability to the government, such tax is known as direct tax. Tax liability of direct tax cannot be transferred to others and must be paid by the person to whom it is legally imposed; the impact of direct tax is limited with the taxpayer who is liable to pay such tax. For example, income tax, house and land tax, interest tax, vehicle tax, property tax etc.

## **2. Indirect Tax**

Indirect tax is the tax that is collected from others by transferring the tax liability. It is levied on one person who does not bear it from own income. Collecting it from customers and adding it to the price of goods or services transfer the tax liability. So the government realized indirect tax from general public. Examples of indirect tax are sales tax, entertainment tax, excise duty, custom duty, value added tax (VAT), hotel tax and passenger tax.

### **2.1.2 Concept of Income Tax**

The word “Tax” was derived from the Latin word “Taxore” or “Taxo” which means estimation, appreciation or value. Income, as the economic gain received by the

person during the particular period, is most satisfactory defined by Henry Simons as the algebraic sum of two items.

- A. The person's consumption during the period and
- B. The net increase in the individual's personal wealth during the period.

Symbolically,  $Y=C+W$

Here, Y, C and W refer income, consumption and change in wealth respectively.

Generally, income tax is imposed on net income which comes after deduction the cost of production from gross income. Net income may be real income and is more comprehensive and includes not only money income but also other incidental advantages. Real income is therefore, the true index of ability to pay. (Dhakal, 2004:6). Income tax greatly helps redistribution of economic means by the transformation of wealth from persons with lower economic level, which will result in the minimization of gap between "Haves and have not". It is a direct tax whose contribution is higher in the government revenue.

According to Income Tax Act 2008, sec 2(h), income means "A person's income from any employment, business or investment and the total of that or income as calculated in accordance with this act". This act has defined as a person as an individual or entity. According to section 5 of the act, the taxable income of a person for as "Income year" is equal to the amount as calculated by subtracting reduction, if any, claim for the year under this act is made from the total person's assessable income from each of the following heads.

- a. Business
- b. Employment
- c. Investment

### **2.1.3 Concept of Corporate Tax**

Corporate bodies conduct their business with the profit earning motive. Tax levied on corporate bodies under their corporate profit is known as corporate tax. Therefore,

corporate tax is a tax levied on companies or corporate bodies in contrast to unincorporated enterprises.

A Corporate body of company is an artificial person created by law. A company is a legal person just as much as individual. It is separate and distinct from its individual members. A company like a natural person can do everything. It can conduct a lawful business and enter into contracts with others in its own name. Corporate bodies conduct business and make profits. Tax levied on corporate profit is known corporate tax. Therefore, corporate tax is a tax levied on companies or corporate bodies in contrast to unincorporated enterprises. The history of this tax was started from 1909 in USA when 1 percent excise was levied on corporations i. e. companies on the ground of the privilege they enjoy. Since then corporate tax is contributing a substantial amount of revenue to the state treasury of most of the developed and developing countries. The statutory rate percent, however, was very low in its initial period, increased vehemently later on after First World War (1914-1918) and again started down turn since 1980s. Taxations of Corporate Profit are so far the most common form of corporate taxation. Almost all countries of the world have adopted this system.

Corporate tax was introduced in Nepal only in 1960, with the enactment of the “Business Profits and Remuneration Tax Act, 1960’ for the first time. In the initial practice, it was not differentiated from personal income tax. All the taxpayers’ persons, companies and private firms were imposed at the same rate with progressive taxation and exemption limit prescribed by Finance Act; 1960. The marginal tax rate prescribed by this Act was 25%. The exemption limit given to the companies same as the personal taxpayers was implemented in the fiscal years 1965/66. Since then, income tax was imposed only on the income from Business profits and Remuneration. The same tax rate structure was designed for corporate income and other incomes for many years. In 1986/87, a flat rate corporate tax was introduced for government corporations and public limited corporations listed with the security exchange center corporate tax was extended to private limited companies in 1993/94 and partnership firm in 1995/96.

The corporate tax is based upon net income after various deductions and exclusions from gross income corporate body either claims not to have record or are beginning to

maintain two sets of records, one for tax authorities and other for personal purpose since the tax is based upon gross income less certain deductions, if the amount is under stated the net taxable income becomes a type of guessing game.

Compulsory self-tax assessment system for public and private limited companies was introduced by the finance ordinance 1992. The additional change was made for taxing corporate at flat rate to private companies was enacted from the fiscal year 1994/95. These changes abolish the discrimination between private and public companies.

The corporate Tax rate prescribed by the Finance Act, 1960 was 25%. It was increased to 60% in the fiscal year 1975/76 and again dropped to 50% in 1979/80 and once again tax rate was increased to 55% in the fiscal year 1982/83. Again it was decreased to 40% and 30% in the fiscal year 1991/92 and now prevailing corporate tax rate is 20% for special industry, 25% for general industry/Company and 30% for banking business. No exemption limit is provided to corporate bodies.

#### **2.1.4 Corporate Tax Base in Nepal**

Corporate Tax is called income based or bet profit basis when income is taken as base of taxation, under the basis the computation rule of tax is adding up all the taxable incomes and deducting expenses incurred in earning the revenue or allowed expenses by income tax act. This is also known as profit based tax. However, due to some difficulties in finding out taxable income under this basis the economists and tax experts are in favor of replacing it with alternative of the cash flow base. It denotes taxing of net cash flow received from business activities without discriminating the income or capital.

In Nepal, corporations are using net income base for taxation. Under the current Income Act, tax is levied on the total expected income of current year of a corporation. Total income falls mainly under two heads i.e. business and investment. Profit represents net income, i.e. total revenue less total cost.

Until fiscal year 1997/98, income tax was assessed on the income of previous year. The concept of levying income tax on the current year's income was introduced in fiscal year 2002/03. Under this system taxpayers are required to pay income tax in

three installments on the basis of latest tax returns or the estimated income of current year whichever is higher. Initially income tax was assessed under the official assessment. In the fiscal year 1991/92, a self- assessment system was introduced for registered public limited companies and firms. It was also applied to industry trade and professional firms who had their accounts audited by recognized auditors. Income Tax Act, 2002 has made a provision of purely self-assessment system and tax officials will make only an amended assessment.

### **2.1.5 Income Tax in International Context**

The first country to enact a general income tax was Great Britain in 1799 to finance the Anglo Napoleonic war (Chamber Encyclopedia, vol. 7, 1974:415).The British Government taxed income of citizens to collect expenditure for revolutionary war with France. The main reason for the introduction of this tax was that it was preferable as a substitute of customs and excise duties in raising revenue. It remained more or less a temporary tax unit 1860 when it was accepted as a permanent tax (Agrawal, 1978:113).

As income tax was first levied in the United States of America in 1862 to Finance civil war expenses. However it became permanent feature only in 1913 after the 16<sup>th</sup> amendment to the U.S. constitution .Several German state introduce this tax during 1840. In 1891 the income tax was used as an effective fiscal instrument in those states. Until 1920, German income tax was exclusively state tax which became federal tax from 1920 to 1945. After World War II it again became state tax and is now regulated by federal law.

Income tax system was originated in 1864 in Italy. In France, income tax was enacted in 1870. New Zealand, Australia and Canada adopted income tax in 1891, 1915 and 1917 respectively. After world war 1<sup>st</sup>, income tax became important source of tax revenue in many developed countries. Income tax was introduced in India in 1860 by Sir James Wilson to meet the financial stringency caused by the muting of 1857. The tax was discontinued in 1865 and was reintroduced in 1869. It was put on permanent footing in 1886.

Today, it is hard to find countries without income tax. Indeed, it is deeply entrenched in the fiscal system of most of the countries in the world. Income tax developed rather slowly, with many ups and downs. The growth in revenue is needed, particularly during the war and national emergencies, and increasing acceptance of the fiscal power of the government gives impetus to the income tax movement. In the earlier period, income tax was levied at a flat rate. But later, the principle of progressive income tax has also been introduced.

“The story of income tax, therefore, is the story of wars, and the story of war taxes being retained even after the end of the war. Today, taxes are looked upon as important policy instruments for waging new form of war, the war against poverty and inequality” (Agrawal, 1978:114). At present there is no any country in the world which does not have income tax system and equity might be different depending upon the level of their economic development political will and administrative competence.

#### **2.1.6 Origin and Development of Income Tax in Nepal**

In ancient Nepal, taxes were levied in the form of kind, cash and labors, on merchants, travelers and farmers. Specific portions of agricultural product were payable to the king as Tax. On some occasions compulsory manual work as well as gold were a common way of paying taxes for special purposes, but the nature of these taxes were temporary (Regmi, 1971:55).

Therefore, Tax has been one of the major sources of government revenue since ancient Nepal. In the Lichhavi rule, income tax from agriculture and business were introduced as direct tax for the first time before unification of Nepal. Although land revenue was the major source of revenue in ancient Nepal, there did exist irrigation tax, religious monuments preservation tax at the time of king Amsuverma. There was tax for purification of castes as well as cremation of the dead. During Lichhavi rule the tax levied on agriculture was called “Bhagn” and tax levied on business income was called “Kara”. The farmers were supposed to pay agricultural income tax to the government in  $\frac{1}{6}$ ,  $\frac{1}{8}$  and  $\frac{1}{12}$  share of their total production, depending on the quality of the land that they owned (Bajracharya, 1979:79).

### **2.1.7 Taxation in the Unified Nepal (1768-1846)**

The state expenditure increased after unification of Nepal and different types of tax were imposed the amount of tax depended on the interest of people. The tax was not compulsory; it was voluntary to the government. The government followed a liberal taxation policy. The Royal place, Central Government and local administration were entitled to collect tax in the country. Local administrators were directed “to take whatever is paid willingly by the people” (Agrawal, 1978:116).

During this period maximization of revenue collection was the main objective of the tax policies. The major source of revenue were land and homestead taxes, transit and market duties, miner and mints, the export of forest product and various levies and fines. Jewelers, textiles, falcons, horses, elephants, homespun cloth, yarn, blankets, borax, copper, iron, paper, herbs, drugs, cotton, salt, Yak’s tail, musk, sheep and goats, were taxed at specific rates in some parts of Terai collections of customs, transit, market and excise duties was given on contract (Regmi, 1971, 55-74).

“Various taxes levied during the period were narrow in base and were imposed primarily on occupations and economic activities not an income of property. The system of direct taxation was very much confined to land tax and special levies like ‘Darsan Bhet’, ‘Salami’, ‘Walak’, etc. There was no taxation of income in the modern sense of income tax” (Agrawal, 1978:117).

### **2.1.8 Taxation in Rana Regime (1846-1950)**

During 1846-1950, there was no formal provision for taxation. There was no government budget preparation system; taxes were charged according to the will of the Rana Prime Minister. Since there were no development activities in the country and the surplus of revenue over expenditure were considered the personal income of Rana Prime Minister, government never worried about the mobilization of financial resources.

There was no direct tax in the country except land tax collected on a contractual basis and “Salami” paid by the employees to the government out of their salaries at a very small percentage. The major source of revenue during the year where land tax,

customs and excise duties in the form of lump sum contracts, royalties on felling of trees, royalties on supply of porters and soldiers, entertainment tax and few other minor taxes.

“Taxes were collected under the middleman system until the 1950s. Although several revenue offices viz Mal Adda with regards to land revenue, Bazaar Adda with respect to customs duties and Rakambadobasta Adda in relation to excises, did not exist during the Rana Regime. These offices were involved in collecting revenue through the middleman. Land revenue was collected through Mukhiya and Zimwal in the hilly areas and through Patwari and Jamindar in the Tarai Region. The middleman maintain records of land holdings in their respective areas, collected land revenue, from the landholders every year and deposited it into the treasury unlike the hereditary middleman system of collecting land revenue a licensee for the collection of customs duties and excises in a particular area was generally granted by auction to the highest bidder for a specified period of time. In the case of custom duties, the value of the contract appears to have been based on such factors as the size of the market of a particular area, the expected volume of trade and the number of export and import points. As in the case of land revenue, the contractors were given in addition to the exclusive right to collect customs revenue, positions such as Dittha, Laptan, Subba, and Subedar etc. Consequently, businessman used to be involved in such contract even if the contract did not appear to be profitable” (Khadka, 1994:191-192). The Rana regime was overthrown in 1951. The regime passed without any improvement in the modern sense of income tax system.

### **2.1.9 Income Tax in Modern Nepal**

Income tax is comparatively new in the Nepalese tax system. After the independence of the country from Rana Rule in 1951, the government was bound to operate development activities besides performing the regular functions of maintenance of law and order. In order to raise excess government revenue, for the implementation of development activities, the idea of introducing income tax in Nepal originated only in the early 1950s. The Finance Minister, in his 1951 budget speech (the first budget speech of Nepal) said “A Proposal to levy an Income tax including tax on agricultural income is under consideration. The tax however will not fetch much revenue in the coming two or three years. Initially, the tax will be used to familiarize people with

this tax rather than as revenue earner. As the tax develops, it will be a major source of revenue” (Budget speech 1951, Khadka, 1994:105).

Income tax was finally introduced by a first elected government in the fiscal year 1959/60. It was known as Business Profit and Remuneration Tax. Business and Remuneration ordinances 2016 B.S. were issued to expedite the provisions made in the Finance Act. The imposition of the tax was government by Business Profit and Remuneration Tax Act, 1960(2017 B.S.) and the rules were made under it. According to the Act only business profit and remuneration income were subject to tax but the revenue from their taxes could not be collected properly according to original estimate. The tax was introduced on an experimental basis on business and salaries, which are easier to assess than other form of income such as agricultural income.

#### **2.1.10 Income Tax Act, 1962 (2019 B.S)**

After about three year of experience, ‘Business Profit and Remuneration Tax Act, 1960’ was found to be very narrow and vague so it was replaced by Nepal Income Tax Act, 1962 (2019).The objectives of this Act were to reduce unequal distribution of wealth with social justices and develop taxpaying habit in people. This Act was an extension of the previous Act. It has 29 sections where as the previous Act had 22 sections only. Income Tax Rules were laid down and implemented in 1963(2020 B.S) according to the right provided by Nepal Income Tax Act 1962(2019). Income Tax Act 1962, which was amended in 1972(2029) remained in practice till 1974.

Nepal Income Tax Act, 1962 (2019 B.S) was wider than “Business Profit and Remuneration Tax Act”. This Act has allowed to make agreements with foreign governments to avoid double taxation, but it is replaced by Income Tax Act, 1974(2031 B.S.).

#### **2.1.11 Income Tax Act, 1974 (2031 B.S.)**

Income Tax Act 1962 as amended in 1972 was replaced by ‘Income Tax Act, 1974 (2031B.S.)’ in order to keep the law in tune with the changes in the socio-economic environment of the country. It was more specified tax law having 66 sections. Its basic framework was derived from Nepal Income Tax Act, 1961. This Act was

amended eight times to make it more practical and effective. Classification of income and expenditure; provisions for submissions of income statement, deduction of losses, maintenance of accounts, deduction of tax at source, formation of income tax committee, computation of net income by agreement in special case were the major features of this Act.

In addition, there were other features such as departmental action in case of negligence, rectification of errors, provision to inspect and search premises of taxpayers, deduction of life insurance premium and specification of form, provision of reward for correct information about the evasion of tax and provision relating to action on the auditor.

The Act was also bound with some limitations, for instance, narrow tax base, dispersion of tax related acts and rules, ambiguity, unscientific presentation, right of best judgment to tax officer, disparity in computation of taxable income from fringe benefits, dual appellate system and inadequate measure for controlling tax evasion were the weakness of the Act.

#### **2.1.12 Income Tax Act, 2002 (2058 B.S.)**

Tax policy is changed with the change in the economic policy of a country. Change in the world economic policy and advancement in information technology play a vast impact on the Nepalese economy too. Especially after 1990s there is reemergence of the liberalization, globalization and privatization systems that focus on the minimum intervention of the state in private economic matters. The 1950s concept of 'high incentive, high tax rate' is changed to the concept of 'low rate wide net'. This trend in tax system is followed by most countries of the world. Nepal is also not an exception in this respect, and the Nepalese administrators and policymakers too have tried to change the tax policy of the country. Income Tax Act, 2002 is the result of this change (Kandel, 2004:12).

To avoid the defects of Income Tax Act, 1974 (2031 B.S.), since 1<sup>st</sup> April, 2002 (19<sup>th</sup> Chaitra 2058), Income Tax Act, 2002 has been introduced. It is the existing law related to the taxation of income. It consists of 143 sections divided in various 24

chapters. Income Tax Rules, 2002 (2059 B.S.) also has been framed under the provision of this Act.

Provision of set off and carry forward of losses, classification and pooling of depreciable assets, tax on capital gain, international taxation as well as provisions for medical tax credit, withholding payment and quantification, allocation and characterization of the amounts are the main features of this Act.

Income Tax Act 2002 has integrated all the laws relation to income tax. The tax has been divided all the sources of income into three categories, i.e. Employment, Business and Investment. The Act has guaranteed the rights of taxpayers in respect of secretly respectful behavior receiving tax related information and appointing lawyers and auditors for deference. Special incentives and rebate have been provided to the special industries by the Act.

### **2.1.13 Element of Income Tax Management**

In the income tax management in Nepal, four elements are involved. They are very important in the management process of income tax system. They are performing their respective jobs for the fulfillment of desired goals in well manner. These four elements are described below;

#### **a. Ministry of Finance (MOF)**

Nepal government is the highest authority of the tax Management. The Ministry of Finance (MOF), exercise the management function of tax administration by carrying out the functions such as planning, directing, coordinating and controlling of the government organizations related to taxation. Further more, the division departments, centre and office under the MOF. Revenue investigation Administration and Revenue Administration Training Centre are also involved in the tax management of income tax. The revenue division of the Ministry formulates tax policies and programmers' of the government. The divisions coordinate the activities of all revenue authorities. The revenue Administration training Centre conducts training workshops and seminar for the officials. Ministry of Finance concerns with the total revenue and expenditure of

the government, manage to borrow internal as well as external debts as demanded as budget.

**b. Inland Revenue Department (IRD)**

Inland Revenue Department (IRD) launches various plans, programs and policies related with the implementation of income tax management. It took over both tax and non- tax revenue. Tax management has become challenging and more complicated with the changing environment of tax system. Inland Revenue Department has taken the responsibility of management of income tax. Although it is the organization of taxation, it is not directly associated with assessment and collection of taxes. It manages personnel and implements various policies relating to income taxes and other taxes as well as non-tax revenue. It also organizes the structure of taxation, manages personnel, improves the system and controls the systems defectives and personnel as well. It constitutes law, policy, appeal, Audit, investigation and review, tax exemption and static section. This department is situated at Lazimpat, Kathmandu.

**c. Parliament**

No tax levied and collected except and accordance with law. Different types of Acts and supported laws are provided by parliament. The government can only impose any tax with sufficient legal support. Legal support is necessary to impose income tax too. Parliament is not directly associated with day-to-day operation of income tax management.

**d. Inland Revenue Offices(IRO)**

Inland Revenue Offices are realized and directly performed the implementation programme of income tax and other tax policies and programs. They maintain public relation, collect information, identify tax payers and assess their feedback on the basis of information to make corrective action for existing policies and programme to the top- level management.

#### **2.1.14 Some Special provision for Banking Business**

Income Tax Act, 2002 has some made special provision to banking and insurance business under section-59. For the purpose of this section banking business means a business that is approved to carryout banking transactions, carryout by financial institution as per the prevailing laws for bank or financial institution. The special provisions facilities, concessions and rebates provided by this Act are:

##### **2.1.14.1 Written of Loan Loss**

Loan loss of banks can be written off on compliance with NRB guidelines and it can be treated in the debit side of profit and loss amount of expenditure for carry back of losses but it is not allowed if this amount has already deducted from income as a contingency fund.

##### **2.1.14.2 Carry Back of Loss**

The loss from banking business can be carried backward for five years. However, contingency fund is utilized to show as expenditure; the carry backward facility is not allowed.

##### **2.1.14.3 Provision for Contingency Fund**

As described section-59, the person running the banking business would be provided at the most five percent of the contingency amount as expenditure. If such expenditure is shown bad debts cannot be shown in profit and loss amount as expenditure. If the amount in contingency fund is capitalized or dividend is distributed, it should be shown as income in the year of capitalization.

##### **2.1.14.4 Interest Suspense**

According to direction of NRB to the banking business, no interest can be treated as income on the accrual basis. Interest Suspense amount should be opened if the interest is earned but not received in cash within one month. This type of income is given tax exemption by the Income Tax Act, 1974 and it is continued by Income Tax Act 2002 by issuing the Finance Ordinance 2003.

## **2.2 Review of Previous Study**

### **2.2.1 Review of Books**

**Khadka (1994)**, had published a book named “Nepalese Taxation path for Reform”. He had described Nepalese Economic Policy, Vat as a long term tax source (revenue source) for Nepal, income tax from a rough to refined system, property tax as the main source of internal revenue, improving tax administration, strategy for reform and so on. He had presented the composition of tax revenue from the Fiscal year 1950/51 to 1991/92.

About the income tax he had described the introduction, development, existing structure, main problems, and possible directions of reform. His book was presented as an analytical study of income tax. He had identified the major problems of income tax like narrow coverage unscientific tax assessment deviation from basic principle of income taxation, defectiveness for the perspectives of international taxation. He had also recommended the possible directions for reform, extension of coverage improvement in tax assessment, use of presumptive method, extension of withholding tax, inflation adjustment, introduction of current year payment basis and tax treaties with major trading countries of Nepal.

He had also identified the major problems associated with Nepalese tax administration, Which were weak administration inadequate training to tax officers, imbalance and inadequate organizational pattern, pre-dominance of low- level non-technical posts, inadequate physical and other facilities debatable scope of revenue investigation department, lack of adequate information system and lack of coherent tax policy. He had suggested to administrative reforms to strengthen the revenue service, provision existing tax training, reorganization and expansion develop and integrated information system and research on taxation.

His book was very useful to gain various knowledge's about income tax, but he had not presented any numerical illustrations and legal provisions relating to income tax. His book was more analytical rather than descriptive.

**Mallik (2003)** had published book name “Nepalese Modern income Tax system”. He had described historical aspects of income tax and legal provisions relating to income tax with numerical examples. This book is very useful to know the general information and legal provision of Income Tax Act 2002. His book was informative rather than analytical. He had not analyzed the role of income tax, structure of income tax in Nepal (Mallik, 2003).

**Khadka (2001)**, has published a book named “Income Taxation in Nepal. Retrospect and prospect”. This book has complete information of Nepalese income taxation. From the income tax around world to the draft Income Tax Act 2001(Later it became Income Tax Act 2002), all the information and major provisions regarding the matter are mentioned in the book. Besides these, Income Tax Act 1960, 1962 and 1974 in detail are also presented in the book. He has described what is the practice in the world, what was the practice in Nepal and at present, the all terms relating to the tax. The book is a knowledgeable for all of them those who are concerned about income tax such as CA, Auditor, Administrator, Policy-Maker, Teachers, Students etc(Khadka,2001).

**Dhakal (1998)** Published a modified edition of book named “Income Tax and house and compound Tax law and practice with VAT”. He has described historical aspects and legal provisions related to income tax and presented methods of income tax assessment with numerical examples. This book was fully based on the syllabus of BBS third year and MBS second year and was published before coming new Income Tax Act 2002. This book is very useful to know the general information and legal provision of Income Tax Act 1974. His book is informative rather than analytical (Dhakal, 1998).

### **2.2.2 Review of Reports and Articles**

**Agrawal (1978)**, presented the research report entitled “Resources Mobilization for Development: The reform of income tax in Nepal” which was published by CEDA Kathmandu in July, 1978. This research work was the first comprehensive study on the income tax in Nepal. In the research work, he analyzed various aspects of income tax system of Nepal such as role of income tax, legal aspect of income tax and administrative aspect of taxation in Nepal. He showed the causes of problems facing

by the tax authorities and the tax administration in his report. As per this study, the main causes of administrative problems were undue delay in tax assessment, failure to maintain proper account by taxpayers, failure to locate new taxpayers, failure to maintain proper record by tax officers, unfriendly behavior of tax officials to the tax payers, assessment under the best judgment basis etc. He also showed the main reasons of assessment delays in Nepal. As mentioned by him delays in filling of returns of income, delay in settlement of appeal defective assessment procedure, lack of proper accounts and records by taxpayer/tax offices. He also found the buoyancy of income tax with respect to GDP for the period 1967/68 to 1975/76 and elasticity of income tax. He showed about 2.18 buoyancy and 2.01 elasticity of income tax.

**Dhakal (2004)**, Study on “Income Tax administration in Nepal: Areas for Reform” analyzed historical prospective on income tax in Nepal, tax structure in Nepal, administrative aspect of income tax in Nepal, the ways and means for increasing tax consciousness in the public, and he has conducted an empirical investigation regarding the problems on various aspect of income tax administration system of Nepal. His study emphasized on drawing a clear sketch of income tax administration system of Nepal and its problems. He also gave recommendation for the improvement of income tax administration in Nepal. According to him the tax administration in Nepal is facing the problems of failure to locate new taxpayers, poor-record keeping system of taxpayer’s weak tax administration, poor training opportunities and lack of motivation in tax personnel (Dhakal, 2004).

**Dhakal (2008)**, had written an article entitle " Historical Perspective on Income Tax in Nepal." this article has describe previous income tax act and shown main fatigue of income tax act 2058 are as follows :

- ) Provision of set and carry forward of losses .
- ) Classification and pooling of depreciable Assets .
- ) Tax on capital gain .
- ) International taxation .
- ) Medical tax credit .
- ) Withholding payment and quantification allocation and characterization of the amounts .

### **2.2.3 Review of Thesis**

**Ghimire (2008)**, Thesis entitle "A Study on Contribution of Income tax to Government Revenue of Nepal." From the study following objectives and major findings of the study had been drawn out .

#### **The Specific Objectives of the Study were :**

- ) To study the structure and trend of income tax in Nepal .
- ) To analyze the contribution of income tax to national income of Nepal .
- ) To know the composition of direct tax and indirect tax .
- ) To find out most importance factors for effective collection of income tax .
- ) To provide suggestion for improvement of income tax system of Nepal .

#### **Her major findings are as follows :**

- ) The average contribution of tax on consumption and product of goods and services over the ten years period is 34.28% of the total revenue of Nepal .
- ) The average contribution of custom, tax on property, profit and income tax and non tax revenue has 24.03%, 17.33% and 21.80% respectively. Land and registration has the lowest average contribution percent in total revenue of Nepal .
- ) Contribution of income tax has been in increasing trend. The mean contribution of income tax during the ten years period was 80.55%, 16%, 20.47% in direct tax revenue, total revenue and total tax revenue respectively

#### **Her main Recommendation were :**

- ) Nepalese tax revenue is heavily dominated by indirect tax revenue. Only one faith of tax revenue has been contributed by direct tax revenue. It is necessary to increase the share of direct tax revenue. So, as to direct the economy towards the channel of development. Resources mobilization through direct taxation should be focused.
- ) There are various types of problems that the taxpayers face while paying income tax. So, the problems and troubles should be minimized as far as

possible. Tax administrator should be made more responsible, tax clearance certificates should be provide to the tax payers while paying income tax, taxation knowledge to the employee should be provided, refund of tax should be made without delay.

- ) The provision of fines, penalties and punishment should be implemented effectively for income tax evaders.
- ) Effective public participation is necessary to minimize the income tax evasion. Continuous effort should be done tax authority to build the taxpayer's positive attitude towards taxation.
- ) Government should provide sufficient remuneration to collect more tax revenue, it should be transparent to collect more tax revenue and every sector.
- ) The staffs of tax office should develop working culture. When the taxpayer visits the office, they should be provided with respect and co-operation. Due respect should be given to the taxpayers when they visit the office.

**Humagain (2008)**, Thesis entitle " Contribution of Income Tax on National Revenue of Nepal." She has mentioned about conceptual framework, contribution of income tax to government revenue of Nepal, contribution of employmet tax to revenue, total tax revenue, direct tax revenue and income tax revenue of Nepal. From the study following objectives and major findings of the study had been drawn out .

**The specific objectives of the study were :**

- ) To appraise the share of income tax on GDP .
- ) To scrutinize the contribution of direct tax in total tax revenue .
- ) To scan the existing income tax revenue collection method in Nepal .
- ) To provide valuable suggestion and proposition for improvement, enhancement and upgrading in the existing of the income tax collection .

**Her major findings are as follows :**

- ) Resources gap in Nepal is inclining trend. Thus, this increasing resources gap indicates that it is necessary to mobilize additional domestic resources .
- ) Nepalese tax revenue is the composition of direct and indirect tax. there is dominant role of indirect tax revenue in Nepalese tax revenue.

- ) Direct tax is classified into two categories such as land and registration and tax on property, profit and income. Land and registration is further classified into land revenue and house and land registration fees.
- ) The contribution of income tax to the direct tax revenue in Nepal was studied carefully. Income tax has dominated role I the direct tax revenue.
- ) The contribution of income tax from public in comparision to private corporate bodies is not satisfactory. the main reason for unsatisfactory contribution of income tax from public enterprises were poor performance of public enterprises, weekness in Governments economic policy, defective income tax etc.

**Her main Recommendation were :**

- ) Tax ratio should be increased gradually on long run basis to fulfill the deficit in budget. For this, the tax base should be widened. The principle of ability to pay should completely adopted.
- ) Income tax policy should be formulated according to the economic policy, it should be revised timely and should be formulated on the basis of critical analysis of existing situation.
- ) Income tax rules and regulation should be clear and simple for all taxpayers as well as for tax administrators. Following recommendations are made in income tax law relating provisions.
- ) The assessment and tax collection provisions should be clear and simple so that taxpayers would be encourage to pay income tax.
- ) The definitions made in Income Tax Act should be further clarified and well defined.

**Neupane (2008)**, Entitled " A Comparative Study on Contribution of Direct Tax and Indirect Tax to National Revenue of Nepal." He studied the contribution of direct and indirect tax to the national revenue of Nepal comparatively.

**The specific objectives of the study were :**

- ) To find the contribution of direct and indirect tax to national revenue in Nepal

- ) To analyze the structure of direct and indirect tax .
- ) To analyze the contribution of corporate tax to national revenue of Nepal .
- ) To find out the most important factor for effectiveness of income tax in Nepal
- ) Provide suggestion for effective collection of direct and indirect tax in Nepal .

**His major findings are as follows :**

- ) The resource gap seems to be increasing every year .
- ) The contribution of CITR to government revenue, total tax revenue, total direct tax revenue during the study period seems to be increasing .
- ) Unclear vision of government to corporate sector frequent changes rules and regulation and unstable political economic environment of Nepal have sharply damaged the corporate sector, presently income tax revenue is collection in accordance to the income tax act, 2058 .

**His main Recommendation were :**

- ) Government should make a clear cut distinction between the role of public and private sector. It should take and endeavor to motivate, facilitate and regulate to accelerate the private sector .
- ) There should be efficient and effective monitoring system to utilize government resource property .
- ) Proper tax incentive should be given for revival of sick industrial unit provision should be made under the income tax act for carry forward and set off a accumulated losses and unabsorbed depreciation of sick units it is amalgamated with another company .

**Parajuli (2010)**, had studied on the topic "A study on Revenue Collection from Value Added Tax (VAT)." Mr. Parajuli had concerned his study to examine the collection of revenue from VAT in Nepal.

**The specific objectives of the study were :**

- ) To examine the administrative system and legislative part of VAT in Nepal .

- ) To explore the practice scenario of VAT in Nepal .
- ) To find out the tax revenue structure in Nepal .
- ) To find out the contribution of VAT in GDP, total revenue and tax revenue .
- ) To forecast the VAT revenue and GDP for future five years based on the time series analysis.

**His major findings are as follows :**

- ) In nepalese the amount of tax revenue is higher than non tax revenue.
- ) The contribution of direct tax revenue on total tax revenue is very low than the contribution of indirect tax.
- ) The trend of non filling the tax returns is fluctuating nature.
- ) The trend of credit return is higher than the debit return.
- ) The share of VAT return from import is far higher than the VAT revenue from domestic product.

**His main Recommendation were :**

- ) Existing threshold and tax refund is two possible gates for tax evasion. It seems that existing exemption has a broad coverage. However, some exemption are unavoidable due to administrative complexity and epuity. So, exemption should be minimized gradually.
- ) On the various issues, such as the effect of VAT on price, economic growth, investment and measures for solving conducted by the expert group. VAT law needs to be reviewed on the basis of experience gained so far.
- ) The legal requirements are not sufficient to meet all the provisions. There is needs of amendment on the VAT act and VAT rules.
- ) VAT collection on import is remarkably higher than domestic production. Government should take effective steps to encourage domestic production.
- ) VAT should also be levied on agriculture sector with sufficient exception tor increasing VAT/GDP ratio.

**Tiwari (2011)**, Thesis entitle “Contribution of custom duty in Government Revenue” From the study following objectives and major findings of the study had been drawn out:

**The specific objectives of the study were:**

- ) To study the structure and trend of custom duty in Nepal .
- ) To analyze the contribution of custom duty to national income of Nepal.
- ) To find out most importance factors for effective collection of custom duty.
- ) To provide suggestion for improvement of custom duty system of Nepal.

**His major findings are as follows :**

- ) Resources gap in Nepal is inclining trend. Thus, this increasing resources gap indicates that it is necessary to mobilize additional domestic resources .
- ) Custom Duty can be taken as a better sources of government revenue. To develop the economic condition of Nepal and promote distributive justice and to came resources gap problem.
- ) The resource gap seems to be increasing every year.
- ) The trend of non filling the tax returns is fluctuating nature.
- ) The trend of credit return is higher than the debit return.

**His main Recommendation were:**

- ) Government should make a clear cut distinction between the role of public and private sector. It should take and endeavor to motive, facilitate and regulate to accelerate the private sector .
- ) There should be efficient and effective monitoring system to utilize government resource property.
- ) People should be encouraged to pay tax voluntarily. A system should be introduced the tax paying citizens is entitled to received more incentives than non taxpaying citizens.

**Shrestha (2012)** conducted study on entitled "*Contribution of income tax from selected commercial bank to total revenue of Nepal*" he had studied the contribution of income tax from commercial bank to total revenue of Nepal. It was submitted to *Shanker Dev Campus, TU Kathmandu*.

**The specific objectives of the study were:**

- ) To analyze the contribution of commercial bank to total tax revenue, total income tax and total corporate tax.
- ) To analyze relevant opinions and views of bankers regarding income tax.
- ) To provide necessary suggestions and recommendations.

**His major findings are as follows:**

- ) From this analysis, it is found that about 86% of total revenue comes from tax revenue and rest 14% of total revenue comes from non-tax revenue.
- ) Income tax revenue consists of corporate tax, individual income tax and interest tax among these three sources, corporate tax is highly contributing source to total income tax.
- ) From the analysis of tax payers corporate bodies it is found that no. of private limited companies are more than public limited companies.
- ) In order to get rid of the discrimination between domestic and foreign investment, the prevailing identical tax rate system for commercial bank is favorable.
- ) To collect more government revenue and to motivate tax payers to pay tax, tax payment procedure should be simplified.

**His main Recommendation were:**

- ) Income tax policy should be formulated according to the economic policy, it should be revised timely and should be formulated on the basis of critical analysis of existing situation.
- ) Income tax rules and regulation should be clear and simple for all taxpayers as well as for tax administrators. Following recommendations are made in income tax law relating provisions.
- ) The assessment and tax collection provisions should be clear and simple so that taxpayers would be encourage to pay income tax.
- ) The definitions made in Income Tax Act should be further clarified and well defined.

**Limbu(2013)**,had studied on the topic “Study on Contribution of Corporate Tax to National Revenue of Nepal” Mr. Limbu had concerned his study to examine the contribution of corporate Tax to National Revenue. From the study following objectives and major findings of the study had been drawn out:

**The Specific Objectives of the study were:**

- ) To study the structure and trend of income tax in Nepal .
- ) To analyze the contribution of income tax to national income of Nepal .
- ) To know the composition of direct tax and indirect tax .
- ) To find out most importance factors for effective collection of income tax .

**His Major Findings are as follows:**

- ) The resource gap seems to be increasing every year.
- ) The contribution of CITR to government revenue, total tax revenue, total direct tax revenue and total direct tax revenue during the study period seems to be increasing.
- ) Income tax composed of corporate income tax, hous and land rent tax and vehicle tax. All those taxes contribution were in increasing trend except house and land tax.

**His main Recommendations were:**

- ) There are various types of problems that the taxpayers face while paying income tax. So, the problems and troubles should be minimized as far as possible. Tax administrator should be made more responsible, tax clearance certificates should be provide to the tax payers while paying income tax, taxation knowledge to the employee should be provided, refund of tax should be made without delay.
- ) The staffs of tax office should develop working culture. When the taxpayer visits the office, they should be provided with respect and co-operation. Due respect should be given to the taxpayers when they visit the office.

- ) Income tax rules and regulation should be clear and simple for all taxpayers as well as for tax administrators. Following recommendations are made in income tax law relating provisions.
- ) The assessment and tax collection provisions should be clear and simple so that taxpayers would be encourage to pay income tax.

**Dhimal(2016)**, had studied on the topic “Study on Contribution of Corporate Tax to National Revenue of Nepal” Mr. Dhimal had concerned his study to examine the contribution of corporate Tax to National Revenue.It was submitted to Shanker Dev Campus,TU Kathmandu.

**The Specific Objectives of the study were:**

- ) To study the structure and trend of income tax in Nepal .
- ) To analyze the contribution of income tax to national income of Nepal .
- ) To know the composition of direct tax and indirect tax .
- ) To find out most importance factors for effective collection of income tax .
- ) To provide necessary suggestions and recommendations.

**His major findings are as follows:**

- ) The resource gap seems to be increasing every year.
- ) The contribution of CITR to government revenue, total tax revenue, total direct tax revenue and total direct tax revenue during the study period seems to be increasing.
- ) Income tax composed of corporate income tax, hous and land rent tax and vehicle tax. All those taxes contribution were in increasing trend except house and land tax.

**His main Recommendations were:**

Government should make a clear cut distinction between the role of public and private sector. It should take and endearor to motive, facilitate and regulate to accelerate the private sector.

- ) There are various types of problems that the taxpayers face while paying income tax. So, the problems and troubles should be minimized as far as possible. Tax administrator should be made more responsible, tax clearance certificates should be provide to the tax payers while paying income tax, taxation knowledge to the employee should be provided, refund of tax should be made without delay.
- ) The staffs of tax office should develop working culture. When the taxpayer visits the office, they should be provided with respect and co-operation. Due respect should be given to the taxpayers when they visit the office.
- ) Income tax rules and regulation should be clear and simple for all taxpayers as well as for tax administrators. Following recommendations are made in income tax law relating provisions.
- ) The assessment and tax collection provisions should be clear and simple so that taxpayers would be encourage to pay income tax.

#### **2.2.4 Research Gap**

The rate of government expenditure is exceeding the rate of government revenue almost every year. Nepal has been facing persistent budget deficit from the beginning of her development phase. Mobilization of internal resources through income taxation is one of the vital solutions for collecting revenue. In this regard, contribution of income tax to government revenue of Nepal is conducted.

Nepalese income taxation has been playing a significant role in government revenue. Contribution of income tax is increasing every year but it is not satisfactory to meet the budget deficit. Tax evasion and inefficient administration are found to be the major causes for low income tax collection. So, this study has been undertaken intensively to analyze the contribution of income tax from selected commercial bank to government revenue considering tax evasion in Nepal. Projections of future trend of income tax and empirical analysis of primary data have been done. This research will be equally beneficial to the policy maker, planners, tax administration researchers, students and the persons interested in income tax of Nepal.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

This study includes descriptive, and empirical research. To achieve the stated objective of study, the opinion of various respondent associated with tax i.e. tax administrator, taxpayers were collected through structured questionnaire. The structures include role of commercial banks to collect income tax in total revenue. Similarly various information published by organizations about income tax is used for this study. In this way, the research designs of the study are descriptive and empirical. This chapter contains the research design, sample size, sample selection procedure, data collection and processing techniques.

#### **3.1 Research Design**

The research design is a plan, structure and strategy of investigation conceived as to obtain answers to research questions and to control variance. This research study is concerned with past phenomena both numerical as well as opinions. This study is based on descriptive research method. The collected data and information were described and analyzed by using simple ratio and some statistical tools. To identify the quantitative factors affecting corporate tax, descriptive research design was adopted. Thus, the study has followed descriptive as well as empirical research method.

#### **3.2 Population and Sample**

In order to fulfill the objectives of the study ten samples were taken on the basis of quota as well as convenience sampling from different types of bank.

In general, the population refers to organization of the same nature on its services and products. This research study was intended to analyze the income tax contribution of commercial banks in Nepal. So, the population of the study is all commercial banks in Nepal.

Out of 28 commercial banks, the following 10 commercial banks were selected by considering the income tax paid by these banks to the government.

1. Standard Chartered Bank Nepal Limited
2. Nabil Bank Limited
3. Everest Bank Limited
4. Himalayan Bank Limited
5. Nepal SBI Bank Limited
6. Bank of Kathmandu Lumbini Limited
7. Nepal Investment Bank Limited
8. Kumari Bank Limited
9. NICASIA Bank Limited
10. Machhapuchhre Bank Limited

The sample covers 31.25% of total population.

For the analysis of primary data, research questionnaire was prepared and opinion was collected by filling questionnaire under the direct supervision of the researcher. Then, in order to meet the research objectives, the previous studies with the same issue have been collected and studied. The sample respondents were taken by assuming that it represents all population within the targeted group.

While collecting the primary data ten banks were taken as sample banks for the study. The questionnaire was given to 9 bankers of Machhapuchhre Bank Limited and 12 bankers of other rest 9 banks. The study was limited inside the Kathmandu valley, 20 branches of these 10 banks were visited while collecting the primary data.

### **3.3 Nature of Source of Data**

Data which is essential to describe this study were collected from two sources; primary and secondary sources. Secondary source was used to analyze the simple ratios and trend values. The primary source was used to analyze the qualitative factors affecting income tax collection from Nepalese commercial banks. Primary data were collected by questionnaire and information received from the respondent. Secondary data were collected from AGM reports of commercial banks, annual reports of IRD, quarterly economic bulletin of NRB, websites of IRD, NRB and CBs, bulletins and publications of authorities, researcher, unpublished thesis reports etc.

### **3.4 Data Collection Procedures**

Data of this study were collected from two sources. Primary data were collected by using questionnaire. Secondary data were collected from published reports of various spots.

#### **3.4.1 Secondary Data**

To collect the secondary data, published materials were collected from various spots, books published by different authors, unpublished thesis reports, journals, magazines, websites, annual report of IRD, AGM report of commercial banks, bulletins of NRB, economic survey and budget speech of various years were taken as main sources. To collect these secondary data, the researcher visited T.U. Central Library, SDC Library, SEBON Library and NRB Library.

#### **3.4.2 Primary Data**

Primary data were collected through scheduled questionnaire (Annex-III). Questionnaire was filled up by meeting the respondents(Bankers).Opinions obtained during the personal meeting with the respondents have been incorporated in this research study which is not included into the scheduled questionnaire.

### **3.5 Data Processing and Analysis Procedure**

The collected data (both from primary and secondary sources) were tabulated and presented to make those data clear and more informative. Such data have been presented in figure like bar diagram, trend line and pie chart, whichever is relevant to explain the data effectively, on the basis of the nature of data. After presenting, these data were analyzed by using various statistical and mathematical tools and techniques.

### **3.6 Statistical Tools**

The primary and secondary data collected form various sources lead to the logical conclusion, only if the appropriate tools and techniques were adopted to analyze them. To analyze collected data some statistical tools were used. Statistical tools were the instruments to analyze the data. In statistics, there were numerous statistical tools to

analyze the data of various natures. For making analysis and interpretation of collected data from primary sources as well as secondary sources table charts and diagrams were used along with simple percentage as demanded by subject matters. The following statistical tools were used to analyze these data.

### 3.6.1 Mean (Average)

The average is a simple value related from a group of values, which is supposed to stand for whole group of which it is a part, a typical all the values in the group. There are various types of average. Arithmetic mean (AM simple and weighted), median, mode, geometric mean, harmonic mean, are the major types of average. The most popular and widely used measure representing the entire data one value is AM. The value of AM is obtained by adding together all the items and dividing the sum by the member of observations.

Mathematically,

Arithmetic mean is given by,

$$\bar{X} = \frac{Sx}{N}$$

Where,

$$\bar{X} = \text{Arithmetic mean}$$

$$Sx = \text{Sum of all the values of variable X}$$

$$N = \text{No. of observations}$$

### 3.6.2 Standard Deviation

The standard deviation measures the absolute dispersion. Greater the standard deviation, greater will be the magnitude of the deviation of values from their mean. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series and vice versa.

Mathematically,

$$\text{Standard Deviation ( )} = \sqrt{\frac{1}{N} S (x - \bar{X})^2}$$

### 3.6.3 Co-efficient of Variation

The Standard deviation is the absolute measure of dispersion, where as the C.V. is relative measure of dispersion. To compare the variability between two or more series C.V. is more appropriate statistical tool.

Mathematically,

$$\text{Coefficient of Variation (C.V.)} = \frac{S}{X} \times 100$$

## **CHAPTER-IV**

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

#### **4.1 Presentation and Analysis of Secondary Data**

This chapter includes the presentation and analysis of secondary data. It is the main analytical part of this research work.

##### **4.1.1 Composition of Total Revenue in Nepal**

Government of any country of the world needs adequate budget for the development activities, operation of administration, maintaining peace and security and launches many other public welfare programmes. The government collects the required revenue from different sources. The principal sources of Nepalese government revenues are classified into two sources, namely tax revenue and non-tax revenues. Revenues collected by the government from various sources are also known as national revenue, national receipts and public revenue. The revenues are collected from different taxpayers and spent for the welfare of all people.

The Nepalese government revenue structure is a composition of tax and non-tax revenues. Tax revenues include direct taxes as well as indirect taxes.

Direct tax includes income tax, house hold tax and land registration fees, property tax and other miscellaneous direct taxes, which are directly paid by the persons to whom they are legally imposed. Similarly, indirect tax includes customs; value added tax, excise duties, vehicle tax and other miscellaneous indirect taxes. Non-tax revenue is a part of government revenue, which is not related to tax. It includes various receipts from government entities such as duties and fees, fines, dividend, interest, royalty, sale of government properties, principal repayments and other sundry receipts.

Customs duties are realized form exports, imports, Indian excise refunds, agricultural reforms duties and other miscellaneous receipts are included into the indirect tax revenues. Value added tax includes indirect tax revenues and it is imposed on production, imports, selling, distribution and other services. Excise duty is an indirect tax that is realized from the business of cigarettes, biddies, liquor, beer, other industries production and excise on imports.

Direct tax is the tax which is payable by the person to whom it is legally imposed. Income tax, corporate tax, interest tax, and property tax are the example of direct taxes. Income tax is a direct tax that includes corporate income tax, remuneration income tax, investment income tax and tax on other incomes. Income tax is directly imposed on the gain or net profit of individuals and organizations. Income tax is also a composition of tax on profit of income of public limited companies, private limited companies and remuneration of individuals. The structure of government revenue in Nepal is presented in table 4.1 .

**Table 4.1**  
**Composition of Total Revenue in Nepal**

(Rupees in million)

Fiscal year	2007/08		2008/09		2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16	
Revenue head	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
-Customs	14236.4	25.32	15554.8	24.95	15702	22.39	15344	21.23	16707.6	19.05	21062.4	19.57	26792.9	18.67	35150.8	19.53	35711.6	17.87
-Excise	4785.1	8.51	6226.7	9.99	6445.9	9.19	6507.6	9	9343.2	10.65	11189.6	10.40	16220.9	11.31	24306.1	13.51	26542.9	13.28
-Sales Tax/VAT	13459.7	23.94	14478.9	23.23	18885	26.93	21611	29.9	26095.6	29.75	29815.7	27.70	39700.9	27.67	54920.9	30.52	61663.6	30.86
-Other Taxes	0		0		0		0		0		0		16.5	0.01	167.1	0.09	204.5	0.10
<b>Total indirect taxes (a)</b>	<b>32481.2</b>		<b>36260.4</b>		<b>41033</b>		<b>43462</b>		<b>52145.8</b>		<b>62067.7</b>		<b>82731.2</b>		<b>114544.9</b>		<b>124122.6</b>	
-Land tax and registration	1414.3	2.51	1697.5	2.72	1799.2	2.57	2181.1	3.01	2253.5	2.57	2940.7	2.73	5223.3	3.64	5511.1	3.06	3572.5	1.79
-Income tax with other direct taxes	8691.5	15.46	10215.1	16.39	11273	16.08	11787	16.31	16726.8	19.07	20147	18.72	29097.4	20.28	36238.9	20.14	45082.6	22.56
<b>Total Direct Tax (b)</b>	<b>10105.8</b>		<b>11912.6</b>		<b>13072</b>		<b>13968</b>		<b>18980.3</b>		<b>23087.7</b>		<b>34320.7</b>		<b>41750</b>		<b>48655.1</b>	
Total Tax Revenue (A)= (a+b)	42587	75.74	48173	77.28	54105	77.16	57430	79.45	71126.7	81.09	85155.4	79.12	117052	81.58	156294.9	86.86	172777.7	86.47
Non-tax revenue (B)	13642.7	24.26	14159	22.72	16018	22.84	14852	20.55	16585.5	18.91	22467	20.88	26422.6	18.42	23650.9	13.14	27041.11	13.53
<b>Total Government Revenue (A+B)</b>	<b>56229.7</b>	<b>100</b>	<b>62332</b>	<b>100</b>	<b>70123</b>	<b>100</b>	<b>72282</b>	<b>100</b>	<b>87712.2</b>	<b>100</b>	<b>107622.4</b>	<b>100</b>	<b>143474.6</b>	<b>100</b>	<b>179945.8</b>	<b>100</b>	<b>199818.81</b>	<b>100</b>

Source: Economic Survey (2015/16 and 2016/17), Ministry of Finance.

The Table 4.1 shows the composition of Nepalese government revenue from the fiscal year 2007/08 to the fiscal year 2015/16. In the fiscal year 2007/08, custom duty to total government revenue was 25.32%. It was slightly decreased to 24.95% in next year, i.e. the fiscal year 2008/09. Customs duty had taken highest ratio of government revenue at that time. In the fiscal year 2009/10, the realization of customs of duty was 22.39%, which was slightly decreased. In the fiscal year 2010/11, customs duty was decreased i.e. 21.23% and also in coming year again slightly increased to 19.05%, i.e. in the fiscal year 2011/12. The percentage of customs duty to total revenue was again decreased to 19.57% in the fiscal year 2012/13 and it was also decreased to 18.67% in the fiscal year 2013/14. The trend of realization of custom duty is not so volatile from beginning to till now but it is in decreasing trend. Custom duty realization was increased to 19.53 in the fiscal year 2014/15, which was 0.86% higher than the previous fiscal year. And again the percentage of customs duty to total revenue was decreased to 17.87% in the fiscal year 2015/16.

Excise is another source of government revenue. It has been fluctuating trend from the beginning to till now. In the fiscal year 2007/08, the share of excise duty to total revenue was 8.51% and it was increased to 9.99%, in the fiscal year 2008/09. And then it was decreased to 9.19% in the fiscal year 2009/10 and again slightly decreased to 9.00% in the fiscal year 2010/11. In the fiscal year 2011/12 it was increased to 10.65%. In the fiscal year 2012/13, it was decreased to 10.40% . It was increased by 0.91 percentage points and reached to 11.31% in the fiscal year 2013/14 and also it was increased to 13.51% in the fiscal year 2014/15. In The fiscal year 2015/16, it was decreased to 13.28%, which was 0.23% lower then previous year. The realization of excise duty was in increasing trend from the fiscal year 2011/12 to the fiscal year 2014/15. In overall, the realization of excise duty was slightly fluctuated.

The Value Added Tax (VAT) (i.e. Sales Tax) with other indirect tax has been slightly fluctuating over the study period. In the fiscal year 2007/08, sales tax (VAT) has contributed 23.94% to the total government revenue. In the fiscal year 2008/09 it was decrease to 23.23%. In the fiscal year 2009/10, it was increased to 26.93% . In the fiscal year 2010/11, it was increased to 29.90%. The ratio of sales Tax (VAT) was slightly decreased and reached 29.75%, 27.70% and 27.67%. In the fiscal year 2011/12, 2012/13 and 2013/14 respectively. It was increased by 2.85% and reached to

30.52% in the fiscal year 2014/15. It was also increased and reached to 30.86% in the fiscal year 2015/16. In the analysis period it was fluctuated.

Other tax also part of government revenue, it contribute from fiscal year 2013/14. In the fiscal year 2013/14 other tax has contributed 0.01%. In the fiscal year 2014/15 and 2015/16 it was increased to 0.09 and 0.10% respectively.

The next part of the government revenue is land tax and registration, which is also a direct tax. It includes land tax and land registration fees. Land tax and registration fees have also been volatile over the study period. The share of this tax was 2.51% in the fiscal year 2007/08. In the fiscal year 2008/09, it was increased and reached 2.72% . It was collected 2.57% of government revenue in the fiscal year 2009/10. In The fiscal year 2010/11, it was inceased to 3.01%. In the fiscal year 2011/12 , it was decrease to 2.57% . In the fiscal year 2012/13 and 2013/14, it was increased to 2.73% and 3.64% respectively. It was collected 3.06% tax revenue in the fiscal year 2014/15. The lowest share percent of land revenue and registration was 1.79%, which was collected in the fiscal year 2015/16.

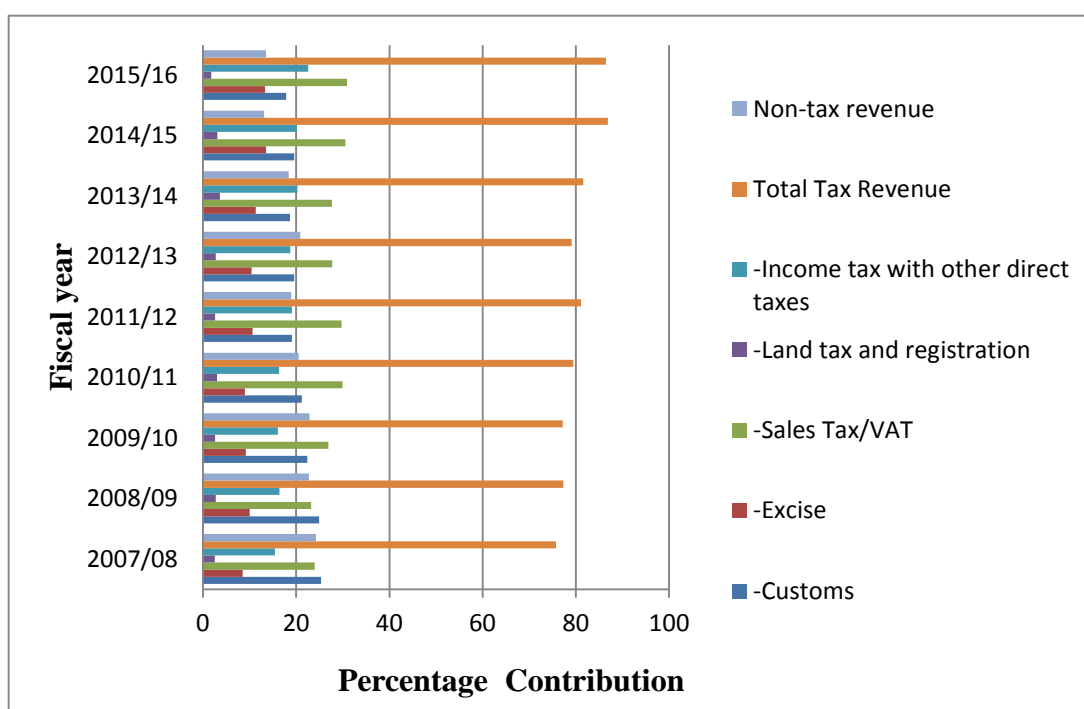
The trend of income tax with other direct taxes has been in fluctuating trend. The realization ratio of income tax with other taxes was 15.46% and 16.39% in the fiscal year 2007/08 and 2008/09 respectively, which was in increasing order. In the fiscal year 2009/10, it was decreased by 0.31% than the previous year. It was collected 16.31% and 19.07% in the fiscal year 2010/11 and 2011/12 respectively, which was in increasing order. Again, in the fiscal year 2012/13, it was decreased to 18.72%. In the fiscal year 2013/14 it was increase by 1.56% than the previous year. In the fiscal year 2014/15 and 2015/16 it was increased, which was 20.14% and 22.56% respectively. From the fiscal year 2007/08 to 2010/11, it was decreased and fluctuated up to the fiscal year 2015/16.

In the fiscal year 2007/08 to 2011/12, total tax revenue was collected in increasing order, which was 75.74%, 77.28%, 77.16%, 79.45% and 81.09% respectively of total government revenue. It was decreased and reached to 79.12% in the fiscal year 2012/13. It was increased to 81.58% and 86.86% in the fiscal year 2013/14 and 2014/15 respectively. But in the fiscal year 2015/16, it was decreased and reached to 86.47%.

From the beginning, more than 82% (in an average) revenue was collected from tax revenue and only remaining portion i.e. around 18% revenue was collected from non-tax revenue sources.

The above analysis is presented in percentage bar diagram below in figure.

**Figure 4.1**  
**Percentage bar Diagram of Composition of Total Revenue in Nepal**



Source : Table 4.1

From the above analysis and figure, it seems that about 82% of total government revenue is collected from tax revenues and about 18% of total government revenue is collected from non-tax revenue in average. Tax revenue is a major source of Nepalese government revenue and non-tax revenue has also contributing considerable amount as compared to other individual tax revenue items. It takes second to third position if all individual comparison is made. Among all the individual revenue heads excise duty has been contributing comparatively more amount and other indirect taxes have been contributing comparatively least amount to Nepalese government revenue.

#### 4.1.2 Contribution of Tax Revenue and Non-Tax revenue to Total Revenue

Nepalese Government revenue is collected from two sources, which are tax and non-tax sources. It is already analyzed that government revenue is a mix up of tax and non-tax revenue. Revenue collected from tax and non-tax sources are presented separately in the table 4.2 below.

**Table 4.2**  
**Contribution of Tax Revenue and Non-Tax revenue to Total Revenue**

(Rupees in million)

Fiscal Year	Total Revenue	Tax Revenue	% of Tax Revenue to Total Revenue	Non-Tax Revenue	% of Non-Tax Revenue to Total Revenue
2007/08	56229.70	42587	75.74	13642.70	24.26
2008/09	62332	48173	77.28	14159	22.72
2009/10	70123	54105	77.16	16018	22.84
2010/11	72282	57430	79.45	14852	20.55
2011/12	87712.2	71126.7	81.09	16585.5	18.91
2012/13	107622.4	85155.4	79.12	22467	20.88
2013/14	143474.6	117052	81.58	26422.6	18.42
2014/15	179945.8	156294.9	86.86	23650.9	13.14
2015/16	199818.8	172777.7	86.47	27041.11	13.53
Average Collection			82		18

Source: Economic Survey (2015/16 and 2016/17), Ministry of Finance.

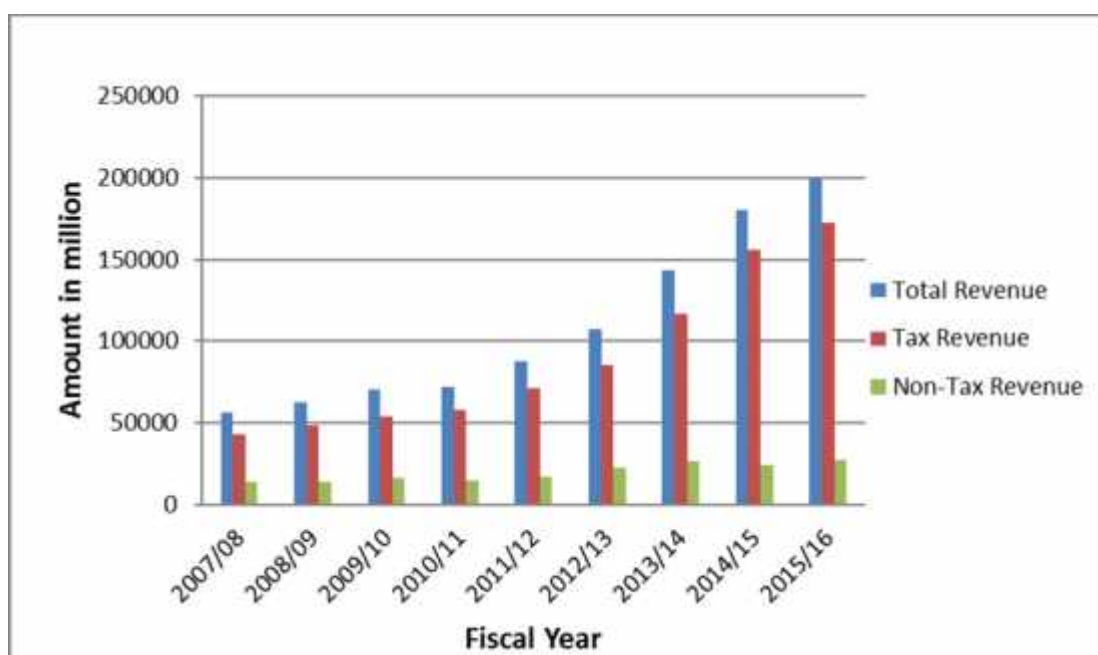
The table 4.2 shows the contribution made by tax revenue and non-tax revenue to total government revenue (i.e. total revenue). In the fiscal year 2007/08, tax revenue was realized 75.74% of total revenue. It was increased slightly and reached to 77.28% in the fiscal year 2008/09. Again the ratio was decreased to 77.16% in the fiscal year 2009/10. It was increased slightly and reached to 79.45% and 81.09% in the fiscal year 2010/11 and 2011/12 respectively. It was dropped to 79.12% in the fiscal year 2012/13, which was 1.97% lower than the previous year 2011/12. Again, it was increased to 81.58% and 86.86% in the fiscal year 2013/14 and 2014/15. It was decreased in the fiscal year 2015/16 by 0.39% and reached to 86.47%. In the fiscal

year 2007/08, the lowest ratio was realized from tax revenue as compared to whole study period.

Non-tax revenue and tax revenue realization rate has an inverse relation. That means when highest ratio from tax revenue realized, lowest ratio of non-tax revenue. In the fiscal year, 2007/08 the ratio of non-tax revenue to total revenue was 24.26%. In the fiscal year 2008/09 , it was increased to 22.72% . Again it start to increased 22.84% in the fiscal year 2009/10. Again it was decreased to 20.55% in the fiscal year 2010/11 and decreased to 18.91% in the fiscal year 2011/12. In the fiscal year 2012/13, it was increased by 1.97% from the previous fiscal year. In the fiscal year 2013/14 and 2014/15, the ratio of non-tax revenue to total revenue was 18.42% and 13.14% respectively. In the fiscal year 2015/16 it was slightly increased and reached to 13.53%. Contribution made by non-tax revenue was highest in the fiscal year 2007/08.

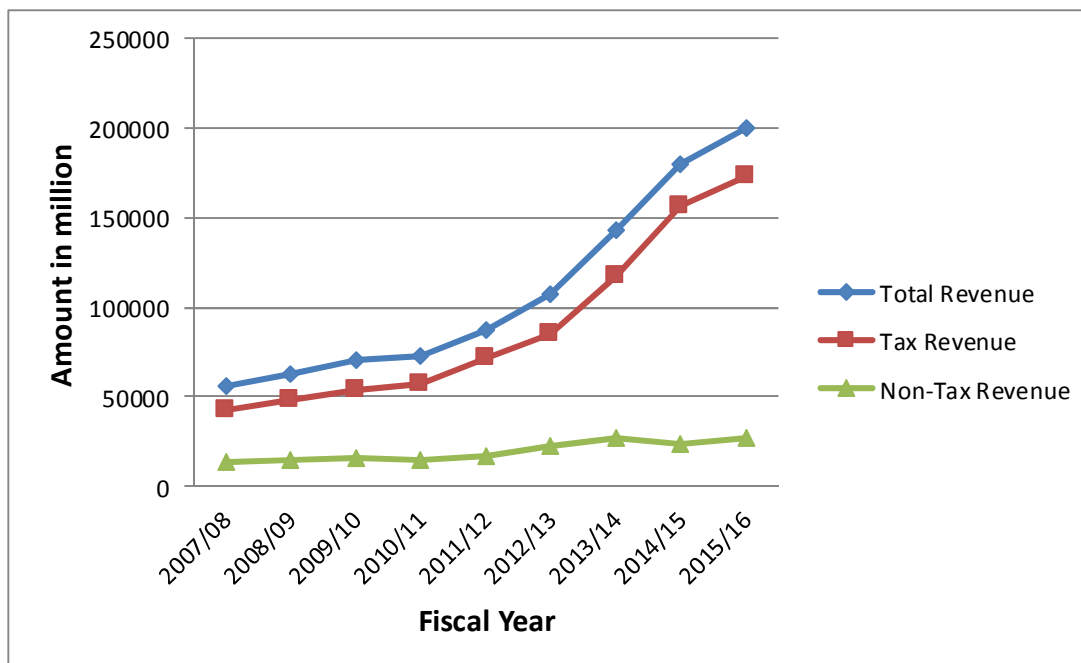
The data are presented by a multi-bar diagram below in figure 4.2 and trend line in figure 4.3.

**Figure 4.2**  
**Multiple-Bar Diagram of Contribution of Tax Revenue and Non-Tax Revenue to Total Revenue**



Source : Table 4.2

**Figure 4.3**  
**Trend Line of contribution of Tax Revenue and Non-tax Revenue to Total Revenue**



Source : Table 4.2

The above analysis shows that major part of Nepalese government revenue is collected from tax revenue. Tax revenue occupies 82.00% of total revenue in average. Tax revenue is slightly fluctuating from the beginning to till now. When non-tax revenue ratios decrease, tax revenue ratio increase and vice versa. In average, non- tax revenue has contributed 18.00% to total revenue.

#### **4.1.3 Contribution of Direct Tax to Total Revenue and Total Tax Revenue**

Tax revenue is a composition of direct tax revenue and indirect tax revenue. Amount contributed by direct taxes to total government revenue and total tax revenue is presented in table 4.1.3 below.

**Table 4.3**  
**Contribution of Direct Tax on Total Revenue and Total Tax Revenue**

(Rupees in million)

Fiscal Year	Total Revenue	Tax Revenue	Direct Tax	% of Direct Tax on Total Revenue	% of Direct Tax on Total Tax Revenue
2007/08	56229.70	42587.00	10105.80	17.97	23.73
2008/09	62332.00	48173.00	11912.60	19.11	24.73
2009/10	70123.00	54105.00	13072.00	18.64	24.16
2010/11	72282.00	57430.00	13968.00	19.32	24.32
2011/12	87712.2	71126.70	18980.30	21.64	26.68
2012/13	107622.40	85155.40	23087.70	21.45	27.11
2013/14	143474.60	117052.00	34320.70	23.92	29.32
2014/15	179945.80	156294.90	41750.00	23.20	26.71
2015/16	199818.81	172777.70	48655.10	24.35	28.16
Average				21.07	26.10

Source: Economic Survey (2015/16 and 2016/17), Ministry of Finance.

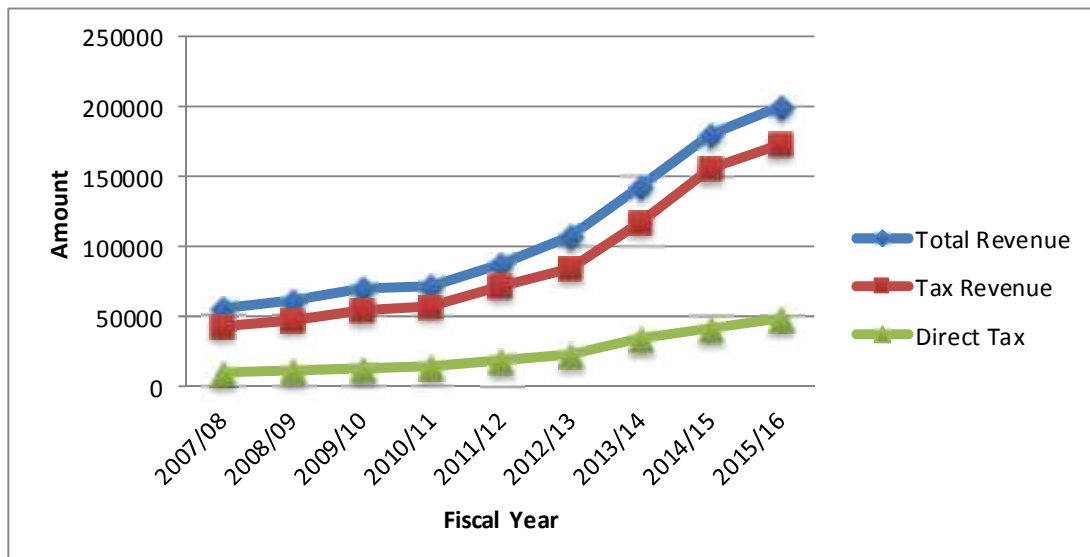
The data indicates the ratio of direct tax to total revenue and total tax revenue from the fiscal year 2007/08 to the fiscal year 2015/16. In the fiscal year 2007/08, ratio of direct tax to total revenue was 17.97% and the ratio of direct tax to total tax revenue was 23.73%. The ratio of direct tax to total revenue was increased to 1.14% and the ratio of direct tax to total tax revenue was increased to 1.00% in the fiscal year 2008/09. The realization ratio of direct tax to total revenue was slightly decreased to 0.47% in the fiscal year 2009/10 and the ratio of direct tax to total tax revenue was decreased to 0.57% in the same fiscal year.

The realization rate of direct tax was in increasing trend from the fiscal year 2007/08 to the year 2015/16. This ratio was 17.97% in the fiscal year 2007/08, 19.11% in the fiscal year 2008/09 and 18.64% in the fiscal year 2009/10. This ratio was suddenly increased by 0.68% and reached 19.32% in the fiscal year 2010/11. Again it was

increased to 21.64% in the fiscal year 2011/12, which was decreased to 21.45% in the fiscal year 2012/13. Again the contribution of direct tax to total revenue increased and reached to 23.92% in the fiscal year 2013/14. In the fiscal year 2014/15 and 2015/16 was increasing trend and reach to 23.20% and 24.35% respectively.

As the ratio of direct tax to total revenue, ratio direct tax to total tax revenue has been following the same trend. In the fiscal year 2008/09 the realization rate of realization of direct tax to total tax revenue was increased to 24.73%, which was 1.00% percentage points more than the previous fiscal year. Again, it was decreased to 24.16% in the fiscal year 2009/10 and increased to 24.32% in the fiscal year 2010/11. The contribution of direct tax to total tax revenue was increased to 26.68%, 27.11% and 24.73% in the fiscal years 2011/12, 2012/13 and 2013/14 respectively. It was decreased to 26.71% In the fiscal year 2014/15 and again increased to 28.16% in the fiscal year 2015/16.

**Figure 4.4**  
**Contribution of Direct Tax on Total Revenue and Total Tax Revenue**



Source : Table 4.3

From the above analysis, it is concluded that ratio of direct tax to total revenue has a fluctuating trend and the ratio of direct tax to total tax revenue has also following the same trend line. These two ratios have a positive relation. It means, when amount of

direct tax increased the percentages contribution to total revenue and total tax revenue have also been increase and vice versa.

#### **4.1.4 Composition of Income Tax Revenue in Nepal**

Income tax is levies on profit or net income of organization and individuals. Income tax is a composition of corporate tax individual income tax and interest tax. Corporate tax includes tax paid by public limited companies and private limited companies. Individual income tax includes income from remuneration or employment, industries, trade and profession of individuals. Besides, interest tax is also included in income tax. Income tax structure of Nepalese tax revenue is presented in the table and diagram in the presented in the table and diagram in the next page below;

**Table 4.4**  
**Composition of Income Tax Revenue in Nepal**

Fiscal Year	2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16	
Particular	Rs.	%	Rs	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
<b>1. Corporate Income Tax</b>	<b>3800.2</b>	<b>37.41</b>	<b>3600</b>	<b>34.70</b>	<b>6736.8</b>	<b>44.81</b>	<b>7391.1</b>	<b>42.7</b>	<b>10384.2</b>	<b>41.30</b>	<b>13366.2</b>	<b>42.73</b>	<b>15247.3</b>	<b>39.23</b>
-Public Ltd. Company	1332.4	13.12	195.7	1.89	1019.7	6.78	204.6	1.18	959.1	3.81	1131.8	3.62	1281.8	3.30
-Private Ltd. Company	2467.8	24.29	3404.3	32.81	5717.1	38.03	7186.5	41.52	9425.1	37.49	12234.4	39.11	13965.5	35.93
<b>2. Individual Income Tax</b>	<b>5602.2</b>	<b>55.14</b>	<b>5998.8</b>	<b>57.83</b>	<b>7242.3</b>	<b>48.17</b>	<b>8832.2</b>	<b>51.02</b>	<b>13073.1</b>	<b>52.00</b>	<b>15453</b>	<b>49.39</b>	<b>19490.7</b>	<b>50.14</b>
-Remuneration	1675.9	16.5	1764.1	17.01	2007.9	13.35	2451	14.16	3195.6	12.71	4413.1	14.11	5863.3	15.08
-Industry, business profession invocation	3926.3	38.64	4234.7	40.82	5234.4	34.82	6381.2	36.86	9877.5	39.29	11039.9	35.28	13627.4	35.06
<b>3. Interest Tax</b>	<b>757</b>	<b>7.45</b>	<b>774.9</b>	<b>7.47</b>	<b>1054.9</b>	<b>7.02</b>	<b>1087.9</b>	<b>6.28</b>	<b>1685.1</b>	<b>6.70</b>	<b>2466.4</b>	<b>7.88</b>	<b>4130.5</b>	<b>10.63</b>
<b>Total(1+2+3)</b>	<b>10159.7</b>		<b>10373.7</b>		<b>15034</b>		<b>17311.2</b>		<b>25142.4</b>		<b>31285.6</b>		<b>38868.5</b>	

(Rupees in million)

Source: Economic Surveys 20015/16 and 2016/17, Ministry of Finance.

The table 4.4 shows the trend of income tax realization from various sources for the last seven years. The data reveals that the total income tax realized in the fiscal year 2009/10 was amounting to Rs. 10159.7 million out of which 13.12% was realized from public enterprises and 24.29% was realized from private limited companies. In the same fiscal year 16.50% of income tax was realized from remuneration income and 38.64% was realized from industry, trade and profession. The contribution of interest tax was 7.45%.

Public enterprises are corporate taxpayers. In the fiscal year 2009/10, public enterprises contribute 13.12% of total income tax. It was contribute 1.89% and 6.78% in the fiscal year 2010/11 and 2011/12 respectively. In the fiscal year 2012/13 it was decreased to 1.18%. In the fiscal year 2013/14 it was increase to 3.81% and again starts to decreasing trend, which was 3.62% and 3.30% in the fiscal year 2014/15 and 2015/16 respectively. In the fiscal year 2009/10, public enterprises contribute the higher amount of income tax but after that period it was lowest amount, which was 1.18% in the fiscal year 2012/13.

Private limited companies are the minority share contributor of income tax revenue. The corporate tax paid by private limited companies was 24.29% in the fiscal year 2009/10, which was increased to 32.81%, 38.03% and 41.52% in the fiscal year 2010/11, 2011/12 and 2012/13 respectively. Again, it was slightly decreased and reached to 37.49% in the fiscal year 2013/14. It was 1.62% points increased in the fiscal year 2014/15, which was 39.11% and also it was decreased and reached 35.93% in the fiscal year 2015/16. In the overall study period, private limited companies contribute the income tax in increasing order, which was 24.29% to 35.93% in the fiscal year 2009/10 to 2015/16 respectively. Remuneration income has been contributing 16.50% of total income tax in the fiscal year 2009/10. It was increased to 17.01% in the fiscal year 2010/11. In the fiscal year 2011/12, it was slightly decreased and reached to 13.35%. It was 14.16% in the fiscal year 2012/13. It was increase and reached to 12.71%, 14.11% and 15.08% in the fiscal year 2013/14, 2014/15 and 2015/16. In overall, remuneration income was increasing trend to the study period.

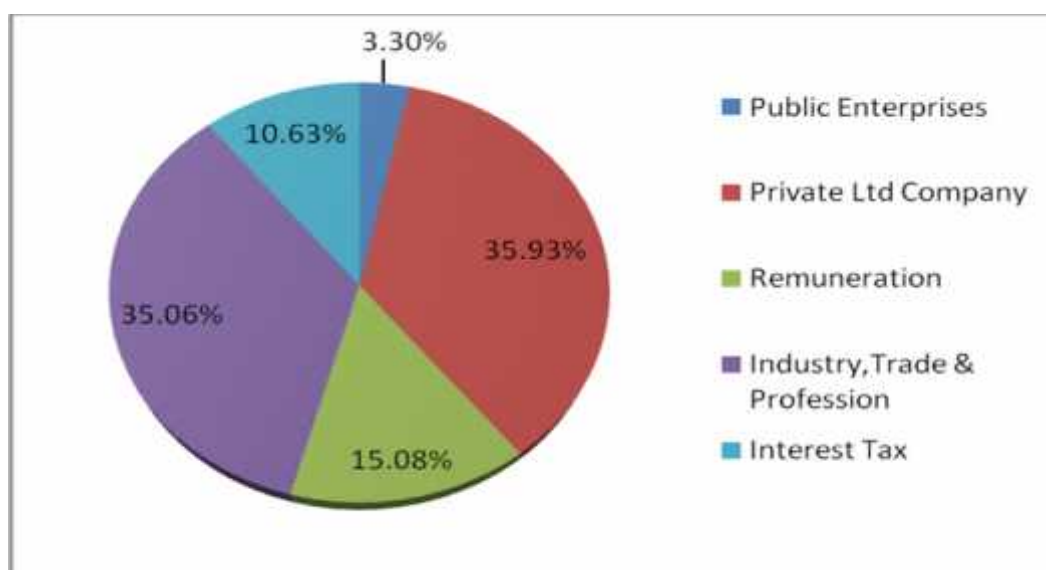
Industry, trade and profession contribute the highest amount of income tax. They are contributed at least 82% amount to total income tax each year. In the fiscal year 2009/10, its contribution was 38.64%, and increased to 40.82% in the fiscal year

2010/11. Again it was decreased to 34.82% and slightly increased to 36.86% and 39.29% in the fiscal year 2011/12, 2012/13 and 2013/14 respectively. But it was suddenly decreased and reached to 35.28% and 35.06% in the fiscal year 2014/15 and 2015/16.

Interest tax also includes in income tax. It was contributed 6.28% to 10.63% amount to the total income tax within the whole study period. The at least amount, 6.28% was contributed in the fiscal year 2012/13 and the highest amount, 10.63% was realized in the fiscal year 2015/16.

The Nepalese tax structure for the year 2015/16 is presented below by a pie chart in figure 4.5.

**Figure 4.5**  
**Pie chart of Income Tax Structure for the year 2015/16**



Source : Table 4.4

The above analysis shows that income tax has been collected from various sources. Some of them have shown slightly up and down. Public enterprises were the highest amount contributor before some years but day- by-day their contribution is in decreasing trend. The reason may be the privatization trend of public enterprises. Remuneration income tax has been in increasing trend.

#### 4.1.5 Corporate Tax in Nepal

Tax paid by corporate bodies on their corporate profit is known as corporate tax. Public enterprises and private limited companies are the main sources of corporate tax in Nepal.

##### 4.1.5.1 Contribution of Corporate Tax to Total Revenue

Nepalese government revenue is a composition of tax and non-tax revenue, income tax falls under the tax revenue and corporate tax is a main part of tax revenue as well as total revenue. Contribution made by corporate tax to total revenue is presented in table 4.5

**Table 4.5**  
**Contribution of Corporate Tax to Total Revenue**

(Rupees in million)

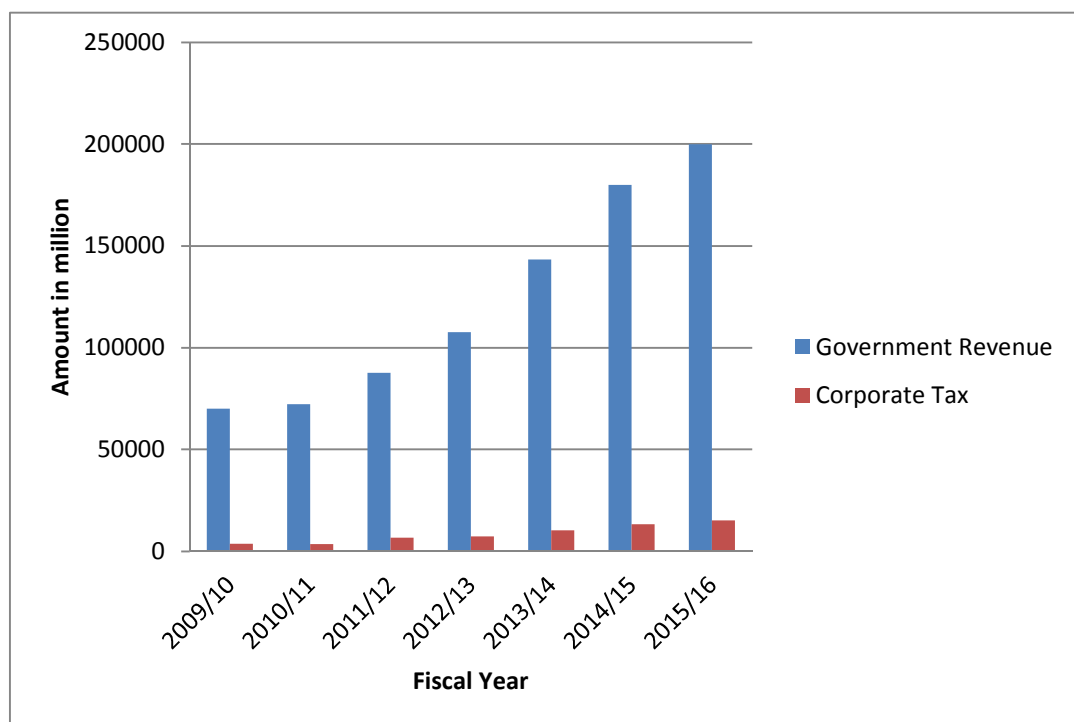
Fiscal Year	Government Revenue	Corporate Tax	Corporate Tax as % of Gov Revenue
2009/10	70123	3800.2	5.42
2010/11	72282	3600	4.98
2011/12	87712.2	6736.8	7.68
2012/13	107622.4	7391.1	6.87
2013/14	143474.6	10384.2	7.24
2014/15	179945.8	13366.2	7.43
2015/16	199818.81	15247.3	7.63
Average Contribution			6.75

Source: Economic Survey (2015/16 and 2016/17), Ministry of Finance.

The table 4.5 reveals the ratio of corporate tax to total government revenue for the past seven years. The ratio of corporate tax to total revenue has been in increasing trend . In the fiscal year 2009/10, the ratio of corporate tax to total revenue was 5.42%, which was decreased and reached to 4.98% in the fiscal year 2010/11. It was increased to 7.68% in the fiscal year 2011/12.and slightly decreased to 6.87% in the

fiscal year 2012/13. Again, it was increased and reached to 7.24%, 7.43% and 7.63% in the fiscal year 2013/14, 2014/15 and 2012/13 respectively. It has remained fluctuating over the study period. The main reasons for fluctuating may be the limited numbers of corporate bodies, overshadowed enterprises and the decreasing numbers of Taxpayers Corporation. In average, it has contributing 6.75% of total government revenue. It is clearly presented by the following figure.

**Figure 4.6**  
**Contribution of Corporate Tax to Total Revenue**



Source : Table 4.5

#### **4.1.5.2 Contribution of Corporate Tax to Total Income Tax**

Corporate tax is a direct tax, which is paid by the public enterprises and private limited companies. It is one of vital source of national revenue that can be mobilized in the country to get the fruit of development. It is justifiable to increase the internal resource mobilization due to its nature. Increment of tax rate on indirect tax make heavy burden to local public because all indirect taxes are being shifted to the customers indirectly. But, direct tax rate can be increased to minimize the effect

which arise in case of indirect taxes. Direct tax is levied on the income generator without transferring tax liability to others. People will be motivated to work hard and increase their economic status.

Table 4.6 shows the amount contributed by corporate tax to total income tax for the last seven years.

**Table 4.6**  
**Contribution of Corporate Tax on Total Income Tax**

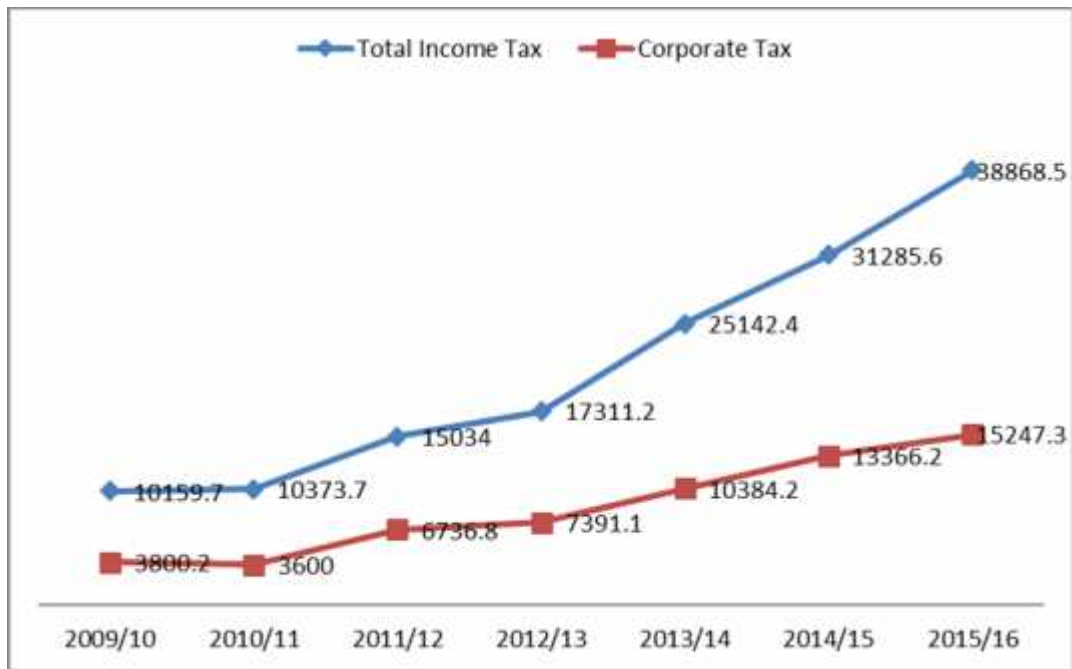
(Rupees in million)

Fiscal Year	Total Income Tax	Corporate Tax	% of Corporate Tax on Total income Tax	Growth Rate (%)
2009/10	10159.7	3800.2	37.40	–
2010/11	10373.7	3600	34.70	-5.27
2011/12	15034	6736.8	44.81	87.13
2012/13	17311.2	7391.1	42.70	8.64
2013/14	25142.4	10384.2	41.30	40.50
2014/15	31285.6	13366.2	42.72	28.72
2015/16	38868.5	15247.3	39.23	14.07
Average			40.40	24.82

Source: Economic Survey (2015/16 and 2016/17), Ministry of Finance.

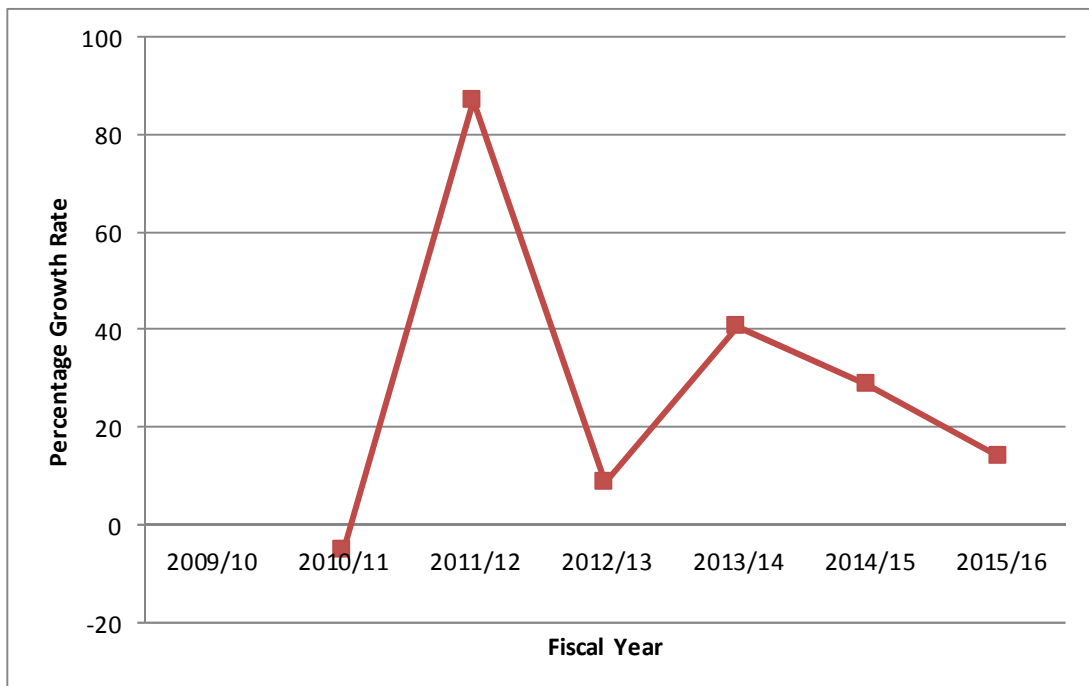
The table is presented by a trend line below in figure 4.7

**Figure 4.7**  
**Trend Line of Ratio of Corporate Tax on Total Income Tax**



Source : Table 4.6

**Figure 4.8**  
**Growth Rate of Corporate Tax on Total Income Tax**



Source : Table 4.6

The Table 4.6 reveals that, in the fiscal year 2009/10, income tax was realized Rs. 10159.7 million and about this Rs. 3800.2 million was realized from corporate taxes. In other words, 37.41% of total income tax realized from corporate tax in the fiscal year 2009/10. In the fiscal year 2010/11 the realization ratio was decreased to 30.70% which was 6.71 percentage point lower than the previous fiscal year. The ratio of corporate tax to total income tax was increased to 44.81% in the fiscal year 2011/12. It was steeply decreased to 42.70% in the fiscal year 2012/13 and again decreased to 41.30% in the fiscal year 2013/14. It was realized 42.72% and 39.23% of total income tax in the fiscal year 2014/15 and 2015/16 respectively. The highest realization ratio over the study period was 44.81%, which was contribution to the total income tax in the fiscal year 2011/12.

The growth rate trend line shows that it was negatively growth rate to -5.27% in the fiscal year 2010/11. Again positive growth rate appeared in the fiscal year 2011/12 to 2015/16. Growth rate has also a highly fluctuating trend over the study period.

#### **4.1.5.3 Corporate Tax Contribution from Commercial Banks**

Commercial banks are public limited companies. They pay tax on their corporate profit. For the purpose of the study out of 28 banks, 10 banks are taken as sample. They are SCBNL, NABIL, HBL, EBL, NSBI, BOKL, NIBL NICASIA, KBL and MBL respectively. The table 4.7 shows the data in detail:

**Table 4.7**  
**Corporate Tax Contribution from Commercial Banks**

(Rupees in million)

Fiscal year	2009/10		2010/11		2011/12		2012/13		2013/14		2014/15		2015/16	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
SCBNL	258.94	22.52	280.62	20.86	324.43	19.80	374.45	17.78	442.09	17.74	450.50	16.19	479.15	15.38
NABIL	237.76	20.67	262.74	19.53	321.08	19.59	342.52	16.27	447.61	17.96	458.91	16.50	572.39	18.38
HBL	214.26	18.64	214.94	15.98	225.58	13.76	312.97	14.86	313.77	12.59	246.93	8.88	344.62	11.06
EBL	81.91	7.12	108.31	8.05	144.37	8.81	216.91	10.30	276.86	11.11	357.02	12.83	427.53	13.73
SBI	67.81	5.90	82.70	6.15	89.68	5.47	100.26	4.76	126.66	5.08	146.62	5.27	188.90	6.06
BOKLB	64.67	5.63	98.76	7.34	121.02	7.38	166.40	7.90	199.53	8.01	222.61	8.00	259.90	8.34
NIBL	101.53	8.83	154.38	11.48	221.98	13.55	323.23	15.35	389.58	15.63	532.90	19.16	500.36	16.06
NICASIA	50.97	4.43	40.80	3.03	72.43	4.42	112.13	5.33	137.20	5.51	194.87	7.01	212.07	6.81
KBL	40.87	3.55	43.45	3.23	78.30	4.78	82.51	3.92	105.59	4.24	140.94	5.07	101.23	3.25
MBL	30.94	2.69	58.30	4.33	39.94	2.44	74.21	3.52	53.02	2.13	30.49	1.10	28.69	0.92
<b>Grand Total</b>	<b>1149.66</b>	<b>100</b>	<b>1345.00</b>	<b>100</b>	<b>1638.81</b>	<b>100</b>	<b>2105.59</b>	<b>100</b>	<b>2491.91</b>	<b>100</b>	<b>2781.79</b>	<b>100</b>	<b>3114.84</b>	<b>100</b>

Source: Annual Reports of Commercial Banks

The table 4.7 shows the corporate tax collection from selected commercial banks. The table shows the individual contribution of each selected commercial bank.

SCBNL has contributed comparatively second highest amount to the total contribution made by commercial banks. In the fiscal year 2009/10, SCBNL's contribution was 22.52%, which was decreased to 20.86% in the fiscal year 2010/11. Again it was decreased and reached to 19.80% in the fiscal year 2011/12. The decreasing ratio was again increased and reached to 17.78%, 17.74%, 16.19% and 15.38% in the fiscal years 2012/13, 2013/14, 2014/15 and 2015/16 respectively. SCBNL's highest contribution was 22.52% in the fiscal year 2009/10 and lowest contribution was 15.38% in the fiscal year 2015/16.

NABIL has contributed comparatively highest amount to the total contribution made by the commercial banks. In the fiscal year 2009/10, NABIL banks contribution was 20.67% to total corporate tax from sampled commercial banks. It was decreased to 19.53% in the next fiscal year i.e. the fiscal year 2010/11. It was increased by 0.06 percentage points in the fiscal year 2011/12. Again the realization rate was decreased to 16.27% in the fiscal year 2012/13. Again, it was increased to 17.96% in the fiscal year 2013/14, which was 1.69 percentage points higher than previous fiscal year. In the fiscal year 2014/15, it was decreased and reached to 16.50%. In the fiscal year 2015/16 it was increased and reached to 18.38%. Contribution ratio of NABIL was slightly decreasing order.

HBL's contribution ratio was 18.64% in the fiscal year 2009/10, which was decreased and reached to 15.98% and 13.76% in the fiscal year 2010/11 and 2011/12 respectively. Again the realization ratio was slightly increased to 14.86%, which was 1.10 percentage points higher than the previous fiscal year. Again it was decreased to 12.59% in the fiscal year 2013/14. The contribution was decreased by 3.71% and reached to 8.88% in the fiscal years 2014/15. In the fiscal year 2015/16 the contribution of HBL was increased, which was 11.06%. Contribution of HBL was slightly decreasing order.

EBL has contributed the medium amount among these sampled commercial banks. The contribution made by EBL was 7.12% in the fiscal year 2009/10, which was increased to 8.05% in the fiscal year 2010/11. The realization rate was steeply

decreased to 8.81% in the fiscal year 2011/12 and again increased to 10.30% in the fiscal year 2012/13. Again the realization ratio was slightly increased and reached to 11.11% in the fiscal year 2013/14, which were increased 1.72 percentage points in the fiscal year 2014/15. In the fiscal year 2015/16, the contribution of EBL was also increased and reached to 13.73%, which was the highest contribution within the seven years study period.

The contribution of SBI bank was remained fluctuating within the study period. In the fiscal year 2009/10, the realization ratio was 5.90%, which was increased to 6.15% in the fiscal year 2010/11. Then, it was decreasing order in the fiscal year 2011/12 and 2012/13, which was 5.47% and 4.76% respectively. It was increased to 5.08% in the fiscal year 2013/14. Again it was increased and reached to 5.27% and 6.06% in the fiscal year 2014/15 and 2015/16 respectively. From the beginning period, the realization of SBI was in decreasing trend up to the fiscal year 2012/13. After this fiscal year the realization trend was increasing. The highest realization of SBI was 6.06% in the fiscal year 2015/16 and the lowest realization was 4.76% in the fiscal year 2012/13.

BOKL's contribution was also considerable within the study period. The realization was 5.63% in the fiscal year 2009/10. The ratio was slightly increased and reached to 7.34%, 7.38%, 7.90% and 8.01% in the fiscal year 2010/11, 2011/12, 2012/13 and 2013/14 respectively. It was slightly decreased to 8.00% in the fiscal year 2014/15. Again, it was 0.34 percentage points increasing and reached to 8.34% in the fiscal year 2015/16. From the beginning period, the realization ratio was in slightly increasing order. The highest realization of BOKL was 8.34% in the fiscal year 2015/16 and the lowest realization was 5.63% in the fiscal year 2009/10.

NIBL has contributed the medium amount among these sampled commercial banks. The contribution made by NIBL was 8.83% in the fiscal year 2009/10, which was increased to 11.48% in the fiscal year 2010/11. The realization rate was steeply increased to 13.55%, 15.35% and 15.63% in the fiscal year 2011/12, 2012/13 and 2013/14 respectively. Again, it was increased to 19.16% in the fiscal year 2014/15. Which was 3.10 percentage point decrease and reached to 16.06% in the fiscal year 2015/16. The lowest realization rate of NIBL was 8.83% in the fiscal year 2009/10 and the highest realization rate was 19.16% in the fiscal year 2014/15. Contribution of NIBL was remained highly increasing trend over the study period.

NICABL's contribution was 4.43% in the fiscal year 2009/10. It was decreased to 3.03% in the fiscal year 2010/11. Again it was increased to 4.42%, 5.33%, 5.51% and 7.01% in the fiscal year 2011/12, 2012/13, 2013/14 and 2014/15 respectively. Again it was decreased to 6.81% in the fiscal year 2015/16. The highest contribution of NICASIA was remained only 7.01% in the fiscal year 2014/15.

There was contribution made by KBL in the fiscal year 2009/10 the realization was 3.55%. In the fiscal years 2010/11 and 2011/12, its contribution rate was 3.23% and 4.78% respectively. It was decreased to 3.92% in the fiscal year 2012/13. The realization rate was increasing order and reached to 4.24% and 5.07% in the fiscal year 2013/14 and 2014/15 respectively, which was slightly decreased to 3.25% in the fiscal year 2015/16. The highest contribution rate of KBL's over the study period was 5.07% in the fiscal year 2014/15.

MBL has contributed the less amount among these sampled commercial bank. The contributed made by MBL was 2.69% In the fiscal year 2009/10, which was increased and reached to 4.33% in the fiscal year 2010/11. In the fiscal year 2011/12, it was decreased to 2.44%. It was increased to 3.52% in the fiscal year 2012/13. It was slightly decreased and reached to 2.13%, 1.10% and 0.92% in the fiscal year 2013/14, 2014/15 and 2015/16 respectively. The highest contribution rate of MBL was 4.33%, which was in the fiscal year 2010/11 and the lowest contribution ratio was 0.92% in the fiscal year 2015/16.

In conclusion, the highest contribution was made by NABIL, each year. If sampled banks were divided into three categories, SCBNL NABIL and HBL have come to the highest contributor's rank. EBL, NSBI, BOKL and NIBL banks has contributed also a considerable amount in corporate tax. These banks were felled into the medium categories. In the third group or the lowest contributor become KBL, NICAL and MBL. The highest contribution was contributed by NABIL in the fiscal year 2015/16. The total contribution made by sampled commercial banks was Rs. 14627.60 million. The highest contribution amount was contribute in the fiscal year 2015/16, which was Rs. 3114.84 million, and the lowest contribution amount was contributed in the fiscal year 2009/10, which was Rs. 1149.66 million only.

#### 4.1.5.4 Average Corporate Tax Contribution from Commercial Banks with Mean, Standard Deviation and Co-efficient of Variation.

The table 4.8 shows the average corporate tax payment made by commercial banks with standard deviation and co-efficient of variation of tax payment. As shown by this table, SCBL, NABIL and HBL are the top three corporate taxpayers in commercial banking sector. The detail data is presented below in table 4.8 .

**Table 4.8**  
**Average Corporate Tax Contribution from Commercial Banks with Mean, Standard Deviation and Co-efficient of Variation.**

(Rupees in million)

Name of Bank	Mean Payment of Corporate Tax (X)	Standard Deviation of Payment (S.D.)	Coefficient of Variation (CV)
SCBL	372.88	81.02	21.73
NABIL	377.56	111.26	29.47
HBL	267.58	50.62	18.92
EBL	230.42	120.47	52.28
SBI	114.66	39.14	34.14
BOKL	161.85	65.27	40.33
NIBL	317.71	154.66	48.68
NICABL	117.21	62.89	53.66
KBL	84.70	32.84	38.77
MBL	45.08	16.01	35.51

Source: Appendix-I

The table 4.8 shows that among the sampled commercial banks, HBL has the lowest co-efficient of variation i.e. 18.92%. The lowest CV indicates that corporate tax payment of HBL was very close to average payment than other. SCBL has CV of 21.73%, which was greater than HBL. NABIL has CV of 29.47%, which was 7.74 percentage points more than SCBL. Among the sampled commercial banks, NICABL, EBL and NIBL bank have highest CV which was 53.66%, 52.28% and 48.68% respectively, that means corporate tax payment of NICABL, EBL and NIBL has highly volatile than other commercial banks.

From the above analysis, the highest contributed amount to corporate tax every year has three banks i.e. NABIL, SCBL and HBL. As the value of CV, there is low volatile in tax payment in SCBL, NABIL, HBL and SBI during the study period. Tax payment of NICABL, EBL, NIBL, BOKL, KBL and MBL has remained highly volatile within the study period, which was presented by highest CV among sample banks. Other banks payment remained in moderate situation.

In conclusion, average tax payment of NABIL is higher than other sampled commercial banks. NABIL has also a lower CV which represents that NABIL's corporate tax payment was very close to the average than other commercial banks.

#### **4.1.5.5 Contribution of Corporate Tax from Commercial Banks to Total Revenue**

The ratio of corporate tax contribution from commercial banks to total revenue is presented below in table.

**Table 4.9**  
**Contribution of Corporate Tax From Commercial Banks to Total Revenue**

(Rupees in million)

Fiscal Year	Government Revenue	Corporate Tax from Commercial banks	% on Total Revenue
2009/10	70123.00	1149.66	1.64
2010/11	72282.00	1345.00	1.86
2011/12	87712.20	1638.81	1.87
2012/13	107622.40	2105.59	1.96
2013/14	143474.60	2491.91	1.76
2014/15	179945.80	2781.79	1.55
2015/16	199818.81	3114.84	1.56
Total	860978.81	14627.6	12.2
Average	122996.97	2089.66	1.74

Source: Economic Survey (2015/16 and 2016/17), Ministry of Finance.

The table 4.9 shows the corporate tax contribution from commercial banks to government revenue for the last seven years. This table shows that the contribution made by sampled commercial banks to total revenue was 1.64% in the fiscal year 2009/10. It was increased to 1.86% in the fiscal year 2010/11, which was 0.22 percentage point higher than the previous fiscal year. In the fiscal year 2011/12 and 2012/13, the contribution was again increased and realized 1.87% and 1.96% respectively. In the fiscal year 2013/14 and 2014/15, the contribution was decreased and realized 1.76% and 1.55% respectively. It was increased to 1.56% in the fiscal year 2015/16.

In the whole study period, the contribution made by commercial banks to the total revenue was in increasing and decreasing trend. The highest contribution made by sampled commercial banks to the total revenue was 1.96% in the fiscal year 2012/13. The lowest contribution was only 1.55% in the fiscal year 2014/15. In average, it has contributing 1.74% of Total Tax Revenue. The above analysis shows the same output, which was obtained from the table no. 4.7 .

#### **4.1.5.6 Contribution of Corporate Tax from Commercial Banks to Total Tax Revenue**

The table 4.10 shows the corporate tax contribution form commercial banks to total tax revenue for the last seven years. This table shows that contribution made by commercial banks was 1.78% to 2.47% within the last seven years period.

**Table 4.10****Contribution of Corporate Tax from Commercial Banks to Total Tax Revenue**

(Rupees in million)

Fiscal Year	Total Tax Revenue	Corporate Tax From CBs	% on Total Tax Revenue
2009/10	54105.00	1149.66	2.12
2010/11	57430.00	1345.00	2.34
2011/12	71126.70	1638.81	2.30
2012/13	85155.40	2105.59	2.47
2013/14	117052.00	2491.91	2.13
2014/15	156294.90	2781.79	1.78
2015/16	172777.70	3114.84	1.80
Total	713941.7	14627.60	14.94
Average	101991.68	2089.66	2.13

Source: 1) Economic Survey (2015/16 and 2016/17), Ministry of Finance.

## 2) Table 4.7

The Table 4.10 reveals the same output, which was found from the table 4.1.5.6. In the fiscal year 2009/10, commercial banks' contribution was 2.12% to total tax revenue. In the fiscal year 2010/11, commercial banks' contribution was increased to 2.34%. In the fiscal year 2011/12 and 2012/13, commercial bank's contribution was 2.30% and 2.47% respectively. Again, the contribution of commercial banks' was in decreasing trend i.e. 2.13%, 1.78% and 1.80% In the fiscal year 2013/14, 2014/15 and 2015/16 respectively.

The contribution made by commercial banks to the total tax revenue was in increasing trend but in the fiscal year 2014/15, it was decreased, which was the lowest contribution ratio. The highest contribution was 2.47% in the fiscal year 2012/13. In average, it has contributing 2.13% of Total Tax Revenue.

#### 4.1.5.7 Contribution of Corporate Tax from Commercial Banks to Income Tax

The ratio of corporate tax contribution for commercial banks to total income tax is presented below in table 4.11.

**Table 4.11**  
**Contribution of Corporate Tax from Commercial Banks to Income Tax**

(Rupees in million)

Fiscal Year	Total Income Tax	Corporate Tax from CBs	% on Total Income Tax
2009/10	10159.70	1149.66	11.32
2010/11	10373.70	1345.00	12.97
2011/12	15034.00	1638.81	10.90
2012/13	17311.20	2105.59	12.16
2013/14	25142.40	2491.91	9.91
2015/15	31285.60	2781.79	8.89
2015/16	38868.50	3114.84	8.01
Average	21167.87	2089.66	10.60

Source: 1) Economic Survey (2015/16 and 2016/17), Ministry of Finance

2) Table 4.7

The Table 4.11 reveals that the past seven years total income tax ratio of sampled commercial banks. In the fiscal year 2009/10, Rs. 10159.70 million income taxes was collected from which Rs. 1149.66 million was collected from sampled CBs and which was about 11.32% of total income tax revenue. In the fiscal year 2010/11, 12.97% of income tax were collected from CBs. In the fiscal year 2011/12 and 2012/13 the contribution was in increasing order and realized 10.90% and 12.16% respectively. In the fiscal year 2013/14, 2014/15 and 2015/16 the ratio was slightly decreased and reached to 9.91%, 8.89% and 8.01% respectively. The lowest contribution has been made by commercial banks was 8.01% in the fiscal year 2015/16 and the highest contribution was 12.97% in the fiscal year 2010/11. In Average, it has contributing 10.60% of Total Income Tax.

#### 4.1.5.8 Ratio of Corporate Tax from Commercial Banks to Total Corporate Tax

The table no. 4.12 shows the ratio of corporate tax from commercial banks to total corporate tax for the last seven years. This table shows that commercial banks contribution was 20.43% to 37.36% to the total corporate tax. Within the seven years study period, the contribution from commercial banks is presented below in the table 4.12.

**Table 4.12**  
**Ratio of Corporate Tax from Commercial Banks to Total Corporate Tax**

(Rupees in million)

Fiscal Year	Total Corporate Tax Revenue	Corporate Tax from CBs	% on Total Corporate Tax Revenue
2009/10	3800.20	1149.66	30.25
2010/11	3600.00	1345.00	37.36
2011/12	6736.80	1638.81	24.33
2012/13	7391.10	2105.59	28.49
2013/14	10384.20	2491.91	24.00
2014/15	13366.20	2781.79	20.81
2015/16	15247.30	3114.84	20.43
Average			26.52

Source: 1) Economic Survey (2015/16 and 2016/17), Ministry of Finance.

2) Table 4.7

The Table 4.12 reveals that, in the fiscal year 2009/10 about Rs. 3800.20 million amounts of corporate tax was collected from which Rs. 1149.66 million was collected from sampled CBs. Percentage contribution from CBs was slightly increased and reached to 37.36% in the fiscal year 2010/11 and highly decreased and reached to 24.33% in the fiscal year 2011/12. But, in the fiscal year 2012/13, it was 4.16 percentage points increased. Again, the contribution ratio was decreased and reached to 24.00%, 20.81% and 20.43% in the fiscal year 2013/14, 2014/15 and 2015/16 respectively.

Table 4.12 also shows the same output, which was obtained in the table 4.7 . It means the highest contribution made by commercial banks was 37.36% in the fiscal year 2010/11 and the lowest contribution was 20.43% in the fiscal year 2015/16. The realization ratio was remained fluctuating within the whole study period.

#### 4.1.6 Relationship between Corporate Tax and GDP

Gross Domestic Product indicates the value of goods and services produced within the nation. If it is represented in the incomes of factor of production, it is known as GDP at factor cost and it is known as GDP at market price if goods and services rate charged at ruling price. For the purpose of analysis, gross domestic product at current market price is taken as a base. The relationship between GDP and corporate tax is presented below in table 4.13

**Table 4.13**  
**Relationship between Corporate Tax and GDP**

(Rupees in million)

Fiscal year	GDP	Growth Rate (%)	Corporate Tax	As % to GDP
2009/10	504101	–	3800.20	0.75
2010/11	582590	15.57	3600.00	0.62
2011/12	670588.7	15.10	6736.80	1.00
2012/13	820814	22.40	7391.10	0.90
2013/14	992012	20.86	10384.20	1.05
2014/15	1182680	19.22	13366.20	1.13
2015/16	1374870	17.00	15247.30	1.10
Average	875379.39			0.93

Source: 1) Economic Survey (2015/16 and 2016/17), Ministry of Finance.

2) Annual Report of IRD, 2015/16 and 2016/17.

The Table 4.13 shows that the contribution ratio to total Gross Domestic Product was in decreasing order. The data shows that in the fiscal year 2009/10, the contribution of corporate tax to total GDP was 0.75% which was decreased to 0.62% in the fiscal

year 2010/11. It was increased to 1.00% in the fiscal year 2011/12 and 0.10 percentage points decreased in the fiscal year 2012/13. Again, it was increased to 1.05% and 1.13% in the fiscal year 2013/14 and 2014/15 respectively. The lowest contribution ratio within the seven years study period was 0.62% in the fiscal year 2010/11 and the highest contribution was 1.13% in the fiscal year 2014/15.

The GDP Growth Rate was remained volatile within the seven years study period. Growth rate on GDP was 15.57% in the fiscal year 2010/11 and it was decreased to 15.10% in the fiscal year 2011/12. In the fiscal year 2012/13, it was increased and reached to 22.40%, which was the highest Growth Rate within the whole seven years study period. It was decreased to 20.86% and 19.22% in the fiscal year 2013/14 and 2014/15 respectively. In the fiscal year 2015/16, the contribution was slightly decreased and reached to 17.00%.

The contribution ratio of corporate tax to total GDP was remaining fluctuating to the whole seven years study period. The amount of GDP was increasing order from the beginning to till now and it has also a positive growth rate in six years study period.

#### **4.2 Analysis of Primary Data**

For the fulfillment of the objective of this study, primary informational also collected through a scheduled questionnaire and practice of them 8 questions were six-degree Likert-type scale and rest is ordinal type.

First five questions were developed to get response about present tax payment system and procedure. Second three questions were prepared to study the soundness of existing tax rate for commercial banking sector. One of each question was generated to analyze the preference of customers, facilities concessions and rebates, income tax administration and reason for low contribution. As per the scientific questionnaire rule, cross-questions were also formulated to minimize the false and fake information.

Summary of respondents' responses for each of the identified factors are presented in this section independently. All the necessary information and calculation are presented in appendices with the help of SPSS data analysis software.

#### 4.2.1 Self -tax Assessment Procedure is Preferable for the Taxpayers

The responses of the respondents for this question were found as shown in table 4.14.

**Table 4.14**  
**Self Tax Assessment Procedure is Preferable for the Taxpayers**

S.N.	Responses	No. of Respondent	Cum No.	Percentage	Cum%
1	Strongly Agree	16	66	13.68	56.41
2	Relatively Agree	24		20.51	
3	Agree	26		22.22	
4	Disagree	18	51	15.39	43.59
5	Relatively Disagree	20		17.09	
6	Strongly Disagree	13		11.11	
	Total	117	117	100	100

#### Appendix-II

From the primary response, it is identified that 56.41% of the respondents were agreed that the self-tax assessment procedure is preferable for the taxpayers. Only minority respondents, that's 43.59% of the respondents were found disagree with this statement. Thus, from this data it is revealed that self-tax assessment procedure is preferable for the taxpayers.

#### 4.2.2 Self -tax Assessment is Superior to Raise Government Revenue

The responses of the respondents for this question were found as shown in table 4.15.

**Table 4.15**  
**Self Tax Assessment is Superior to Raise Government Revenue**

S.N.	Responses	No. of Respondent	Cum No.	Percentage	Cum%
1	Strongly Agree	19	78	16.24	66.67
2	Relatively Agree	38		32.48	
3	Agree	21		17.95	
4	Disagree	9	39	7.69	33.33
5	Relatively Disagree	25		21.37	
6	Strongly Disagree	5		4.27	
	Total	117	117	100	100

#### Appendix-II

By analyzing primary response of the respondents, it is found that 66.67% of the respondents were agreed with the statement that self-tax assessment is better option to raise the government revenue. Only 33.33% of the total respondents were found disagree with this statement. So, this data reveals that self-tax assessment is better to increase the government revenue. The statement is focused on self-motivation of taxpayers.

#### **4.2.3 Installment Tax Payment System is Favorable to the Taxpayers**

The responses of the respondents for this question were found as shown in table 4.16.

**Table 4.16**  
**Installment Tax Payment System is Favorable to the Taxpayers**

S.N.	Responses	No. of Respondent	Cum No.	Percentage	Cum%
1	Strongly Agree	17	76	15.53	64.96
2	Relatively Agree	43		36.75	
3	Agree	16		13.68	
4	Disagree	7	41	5.98	35.04
5	Relatively Disagree	28		23.93	
6	Strongly Disagree	6		5.13	
	Total	117	117	100	100

#### Appendix-II

By analyzing primary response of the respondents, it is found that 64.96% of the respondents were agreed that the installment tax payment system is favorable to the taxpayers. Only 35.04% of respondents were found disagree with this statement. Therefore, it is revealed the fact that installment tax payment system is favorable to the taxpayers.

#### **4.2.4 Tax Payment Procedure should be Simple to Encourage Taxpayers**

The responses of the respondents for this question were found as shown in table 4.17.

**Table 4.17**  
**Tax Payment Procedure should be Simple to Encourage Taxpayers**

S.N.	Responses	No. of Respondent	Cum No.	Percentage	Cum%
1	Strongly Agree	42	103	35.9	88.04
2	Relatively Agree	33		28.21	
3	Agree	28		23.93	
4	Disagree	5	14	4.27	11.96
5	Relatively Disagree	7		5.98	
6	Strongly Disagree	2		1.71	
	Total	117	117	100	100

#### Appendix-II

By observing the primary response of the respondents, it is found that 88.04% of the respondents were agreed with the statement that tax payment procedure should be simple to encourage taxpayers. Only, 11.96% of respondents were found disagree with this statements. The data reveals the fact that the tax payment procedure should be simple to encourage taxpayers.

#### **4.2.5 Tax Rate should be Identical to the Banks and other Business**

The responses of the respondents for this question were found as shown in table 4.18.

**Table 4.18**  
**Tax Rate should be Identical to the Banks and other Business**

S.N.	Responses	No. of Respondent	Cum No.	Percentage	Cum%
1	Strongly Agree	7	40	5.98	34.19
2	Relatively Agree	13		11.11	
3	Agree	20		17.1	
4	Disagree	28	77	23.93	65.81
5	Relatively Disagree	31		26.5	
6	Strongly Disagree	18		15.38	
	Total	117	117	100	100

#### Appendix-II

From the response of the respondents it is found that only 34.19% of respondent were agreed that the tax rate should be identical to the banking business and other business. The majority respondents that are 65.81% respondents were against to this statement. The data shows the fact that the tax rate should be different as per the nature of business.

#### **4.2.6 Banking Sector requires Tax Rebate Facilities as other Industries**

The responses of the respondents for this question were found as shown in table 4.19.

**Table 4.19**

**Banking Sector requires Tax Rebate Facilities as other Industries**

S.N.	Responses	No. of Respondent	Cum No.	Percentage	Cum%
1	Strongly Agree	28	79	23.93	67.52
2	Relatively Agree	33		28.21	
3	Agree	18		15.38	
4	Disagree	9	38	7.69	32.48
5	Relatively Disagree	19		16.24	
6	Strongly Disagree	10		8.55	
	Total	117	117	100	100

**Appendix-II**

From the primary responses, it is found that 67.52% of the respondents were agreed that banking sector requires tax rebate facilities other industries. It shows that only 32.48% of respondents were found as disagree with this statement. It shows that only less than average respondents were satisfied with the tax facilities and rebate provided to commercial banking sector.

**4.2.7 Commercial Banks are Loyal to Tax Payment.**

The responses of the respondents for this question were found as shown in table 4.20.

**Table 4.20**  
**Commercial Banks are to Loyal to Tax Payment.**

S.N.	Responses	No. of Respondent	Cum No.	Percentage	Cum%
1	Strongly Agree	28	77	23.93	65.81
2	Relatively Agree	31		26.5	
3	Agree	18		15.38	
4	Disagree	9	40	7.69	34.19
5	Relatively Disagree	21		17.95	
6	Strongly Disagree	10		8.55	
	Total	117	117	100	100

#### Appendix-II

From the primary responses, it is released that 65.81% of the respondents were agreed that commercial banks are loyal to tax payment. It shows that only 34.19% of respondents were found as disagree with this statement. It shows the fact that commercial banks are loyal to tax payment.

#### **4.2.8 Commercial Banks are Bigger Tax Payers to the Total Revenue**

The responses of the respondents for this question were found as shown in table 4.21.

**Table 4.21**  
**Commercial banks are Bigger Tax Payers to the Total Revenue**

S.N.	Responses	No. of Respondent	Cum No.	Percentage	Cum%
1	Strongly Agree	28	77	23.93	65.81
2	Relatively Agree	31		26.5	
3	Agree	18		15.38	
4	Disagree	9	40	7.69	34.19
5	Relatively Disagree	21		17.95	
6	Strongly Disagree	10		8.55	
	Total	117	117	100	100

#### Appendix-II

By the primary responses, it is found that 65.81% of the respondents were agreed that commercial banks are bigger tax payers to the total revenue. It reveals that only 34.19% of respondents were found as disagree with this statement. It shows that only less than average respondents were satisfied with the commercial banks bigger tax payers to the total revenue.

#### **4.2.9 Types of Tax Concession Facilities and Incentives to be given to the Commercial Banks**

This type has to give suggestion and recommendations to the government for providing additional facilities to the commercial banks.

**Table 4.22**

**Types of Tax Concession Facilities and Incentives to be given to the Commercial Banks**

S.N.	Responses	No. of Respondent	Percentage
1	Investment Tax Credit	51	43.59
2	Tax rate deduction	25	21.37
3	Carry forward/backward of losses	14	11.96
4	Tax holidays	16	13.68
5	Accelerated depreciation	11	9.4
	Total	117	100

Appendix-II

**4.3 Major Findings of the Study**

Finding is the summary of data presentation and analysis. Finding appeared both from secondary data and primary data analysis is presented separately.

**4.3.1 Finding from Secondary Data Analysis**

All the secondary data has been presented and analyzed by using financial and statistical tools. This topic focused on the major findings from the secondary data analysis, which are derived form the comparative study on income tax collection from JV and NJV commercial banks in Nepal. The major findings drawn from the secondary data presentation and analysis of sampled commercial banks are represented below.

1. To fulfill the objectives of this research study, Nepalese government revenue structure has been analyzed. From this analysis, it is found that about 86.47% of total revenue comes from tax revenue and rest 13.53% of total revenue comes from non-tax revenue in 2015/16. Among the heads of tax revenue, other indirect

tax has contributed the highest tax amount and excise duty has contributed second highest amount of tax.

2. The highest percentage of total revenue is collected from tax sources was 86.86% in the fiscal year 2014/15 and lowest percentage of amount collected from the same source was 75.74% in the fiscal year 2007/08. In the above stated fiscal years, non-tax revenue was collected lowest and highest percentage respectively.
3. From the ratio analysis of direct tax to total revenue and total tax revenue, it is found that direct taxes contribute a considerable amount total revenue and total tax revenue . In average 21.07% of total revenue and 26.10% of total tax revenue were collected form direct taxes within the whole study period. Highest contribution made by direct tax to total revenue and total tax revenue was 24.35% and 29.32% in the fiscal year 2015/16 and 2013/14 respectively. The realization rate of direct tax was remained fluctuating over the study period.
4. Income tax revenue consists of corporate income tax, individual income tax and interest tax. Among these three sources, corporate income tax is a highly contributing source to total income tax. It has contributed average 39.23% amount to total income tax within the study period. Corporate tax has a fluctuating growth rate for the whole study period.
5. The average contribution made by corporate tax to total revenue is 6.75%. It has contributed from 4.98% to 7.68% amount to total revenue within the seven years study period.
6. From the analysis of tax payer corporate bodies it is found that no. of private limited companies are more than public limited companies. Numbers of tax payer of private limited companies were in increasing trend from the fiscal year 2009/10 to 2012/13 and it was slightly decreasing in the fiscal year 2013/14 to 2015/16. Numbers of tax payer of public limited companies was also in decreasing trend from the beginning and it was steeply decreased in the fiscal year 2015/16.
7. Among the sampled commercial banks, income tax contribution made by Nabil Bank is higher then others and among the sampled non joint venture commercial banks. The lowest contributors among these are SBI, MBL, KBL and NICASIA respectively. EBL, BOKL, SCBL, HBL and NIBL have made a moderate contributor. SCBL and NIBL are seemed as a second and third highest corporate taxpayer among all the sampled commercial banks.

8. The ratio of corporate tax contribution from sampled CBs to GDP was remained in between 0.62% to 1.13%. It was remained highly fluctuating within the seven years study period.
9. HBL has the lowest CV of 18.92% which indicates that the corporate tax payment of HBL was very close to average payment. Average tax payment of NICABL was very low and it has a highest CV too. It indicates that NICABL has contributed the lowest amount of tax and payment has high volatility than others. Average tax payment of MBL was very lower than other sample banks.
10. From the comparative ratio analysis of corporate tax from commercial banks to total revenue, income tax revenue and corporate tax, it is found that better amount has contributed by commercial banks as compare to other sector .

#### **4.3.2 Finding from Primary Data Analysis**

The primary data analysis regarding comparative study on income tax collection from commercial banks the following major findings.

In order to study period(Table 4.18) it is found that only 34.19% of bankers are agreed that the tax rate should be identical to the banking business and other business and majority bankers are 65.81% against to this statement. Thus,the tax rate should be different as per the nature of business.From the primary responses, it is found that 67.52% of the respondents are agreed that banking sector requires tax rebate facilities other industries and only 32.48% are disagree with this statement. In order to promote the banking business and to create competitive environment, banking sector also requires tax incentives, rebates and facilities as other sector.It is found that 64.96% of the bankers are agreed that the instalment tax payment system is favourable to the taxpayers and only 35.04% of bankers are found disagree with this statement.To collect more government revenue and to motivate tax payers to pay tax, tax payment procedure should be simple.

It is identified that 56.41% of the bankers are agreed this statement that the self-tax assessment procedure is preferable for the taxpayers and rest minority 43.59% of the bankers are disagree.Taxpayers. It motivates taxpayers to pay tax amount in time and it will be helpful to increase government revenue.

By the primary responses, it is found that 65.81% of the respondents are agreed that commercial banks are loyal to tax payment and only 34.19% of respondents are found disagree with this statement.

To improve the profitability ratio of each commercial banking sector, they need tax concession facilities and incentives such investment tax credit. Carry forward of losses and carry back ward of losses facility, tax holidays, reduction of tax rate facility and accelerated depreciation facility.

## **CHAPTER –V**

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

#### **5.1 Summary**

The government requires sufficient revenue for the economic development as well as to handle day to day administration to perform activities like maintaining peace and security, lunching other public welfare and developing activities. To perform such activities, the government collects revenue from various sources such as tax revenue from public enterprises, special assessment, fees, fines, grants and assistance etc. Among them, revenue collected from tax plays a vital role in state economy. The main philosophy behind taxation is that every individual should contribute towards the expenses of the government.

This research study has focused on the comparative study on income tax collection from commercial banks in Nepal. In order to study Ten commercial banks were taken as sample, i.e. SCBNL, NABIL, HBL, EBL, NSBI, BOKL, NIBL NICABL, KBL, MBL. Analysis is made comparatively on income tax contribution made by them for the past seven year's period. The main objective of this study is to make comparative analysis on contribution of income tax from commercial banks to total revenue in Nepal. To accomplish the specific objectives, the following supporting objectives were formulated which are as follows:

1. To analyze the contribution of commercial banks to corporate tax revenue, total income tax and total tax revenue.
2. To analyze relevant opinions and views of bankers regarding income tax.
3. To point out the mJOR income tax related problems faced by commercial banks.

For the achievement of these objectives, this research study is divided into five chapters specifically introduction, review of literature, research methodology, data presentation and analysis and summary, conclusion and recommendations.

The first chapter is about introduction, this includes a brief introduction of commercial banks, statement of the problems, significance, objectives, and

organizations under study, scheme of the study and limitations acquaintances with this research report are presented.

In the second chapter, theoretical review has been made. Introduction of income, introduction of income tax, development and evolution of income tax, special provisions, regarding banking business, method of income assessment, penal provisions, income tax management, tax administration and review of some related studies are presented. Related previous studies, websites, reports and dissertations are viewed and meeting has been made with professionals for necessary qualitative and quantitative analysis .It also incorporates some related study, which has been done by the further researchers.

Research design, population and sample, variables, data collection procedures, presentation and analysis tools are described in third chapter. The framework of data presentation and analysis is determined by research methodologies.

The fourth chapter, which is recognized as body of the research study, includes various data presentation and analysis. Both secondary and primary data are presented and analyzed by using appropriate financial and statistical tools to make the data presentation and analysis effective. Ratio analysis, mean, standard deviation and coefficient of variance have been calculated as per the nature and needs of data analysis and presentation.

In the fifth chapter summary, conclusion and recommendations are drawn our Summary and conclusions of the study are presented and necessary suggestion and recommendations are provided to the concerned tax authorities like commercial banks, IRD, Government and NRB for the further betterment.

This research study is not far away from different limitations. It has considered only ten sample banks from different sectors. Time and resource are the constraints of the study. Therefore, the study may not be generalized in all cases. Accuracy depends upon the collected and provided data from various organizations and respondents.

## 5.2 Conclusion

From the data presentation and analysis, the study of structure of Nepalese government revenue, it is revealed that Nepalese government revenue is a composition of tax and non-tax revenue. More than three fourth portion of Nepalese government revenue is collected from tax sources and Only one fourth portion is collected from non-tax sources. Tax revenue consists of both direct and indirect taxes. Direct tax is collected 21.07% of total revenue in average per year and it contributes average 26.10% amount to total tax revenue.

From the income tax structure analysis, it is seen that Nepalese income tax structure is a composition of corporate income tax, individual income tax, house and compound tax and interest tax. From the analysis of ratio of corporate tax to total revenue, it is depicted that corporate tax occupies a significant portion of total revenue. In average 6.75% of total revenue is collected from corporate taxes. Corporate tax contributes more than 50% amount to total income tax per year and it has become the highest contributing source of income tax revenue.

From the average of mean analysis it is found that, mean payment of NABIL BANK is the highest among all sampled commercial banks. SCBL has got second position and NIBL has got third position in corporate tax payment. Among sampled commercial banks, MBL has the lowest mean. KBL has the second lowest mean among sampled commercial banks; it denotes the second lowest contribution. To find out the uniformity of corporate tax payment CV is calculated on the basis of mean and standard deviation. From the analysis it is found that, HBL Bank has the lowest CV among sampled commercial banks. SCBL, NABIL and SBIBL have a moderate CV which is slightly greater than the CV of HBL. NICASIA has the highest CV among all sampled commercial banks. The lowest CV of HBL indicates the annual corporate tax payment of HBL is closed to average payment and vice versa. NICASIA, EBL and NIBL have the highest CV among sampled commercial banks. It means that average corporate tax payment of NICASIA, EBL and NIBL has a high fluctuation. Commercial banks pay tax on their corporate profit as per the prevailing laws. According to the Income Tax Act 2002, Nepalese commercial banks are liable to pay tax at thirty percent on their income from business and investment plus charge or special fees of 1.5%.

Corporate Tax collection from each sector will be maximized by providing additional facilities and incentives to the commercial banking sector. Rate of income tax should be differentiated according to the nature of business. Problems facing by commercial banks while paying corporate tax are vague provision of tax laws and order of tax assessment by tax authorities. To collect more government revenue, taxpayers should be motivated to pay tax on their income. Self-tax assessment procedure is suitable to motivate taxpayers. Persons are conscious about tax planning and they pay tax by hoping that tax amount which is paid by them through their income should be utilized in a better way.

From the primary data analysis regarding comparative study on income tax collection from commercial banks, the conclusions are drawn out. In order to overcome the discrimination between domestic and foreign investment, the prevailing identical tax rate system for commercial banks is favorable. Other industries may get more tax rebates and other facilities and compare to banking business. In order to promote the banking business and to create competitive environment, banking sector also requires tax incentives, rebates and facilities as other sectors. To collect more government revenue and to motivate tax payers to pay tax, tax payment procedure should be simple. Installment tax payment system is favorable for taxpayers and it is proficient to minimize the tax burden. Taxpayers determine their tax liability oneself under self tax assessment procedure. It motivates taxpayers to pay tax amount in time and it will be helpful to increase government revenue. To improve the profitability ratio of each commercial banking sector, they need tax concession facilities and incentives such investment tax credit. Carry forward of losses and carry backward of losses facility, tax holidays, reduction of tax rate facility and accelerated depreciation facility.

### **5.3 Recommendation**

Recommendation is the output of the whole study. It helps to take the constructive action in their further activities. Various analyses are made to arrive at this step. On the basis of data presentation, analysis and findings, the following suggestions and recommendations may be referred to overcome weakness and inefficiency relating to income tax collection from commercial banks and taking corrective actions to the concerned authorities.

All level customers should be covered to retain at comparative position in market. Level of non-performing assets should be controlled. Market extension strategy should be followed to introduce the frame. Launch effective and competitive programs to get market coverage. Quality service should be provided to attract the customers. Annual revenue should be increased to attract new investor and customers. Ratio of corporate tax payment to TR, TTR, TIT, CT and GDP should be maximized.

NRB is the regulatory body of all commercial banks, which makes rules and regulation and gives direction to commercial banks for their effective implementations. As a central bank and bank of all banks NRB is recommended as a regulatory body, NRB should direct to arrange the AGM and sent the record to NRB in time. For the non-managed bank, facilities and incentives should be deducted. Regular monitoring and evaluation should be made for the effective profitability management of commercial banks. Find out the strength and weakness of commercial banks and suggest them to follow corrective actions in their further activities.