

CHAPTER- I

INTRODUCTION

1.1 Background of the Study

Nepal is one of the least developed countries in the world. It is basically an agricultural, mountainous and landlocked state surrounding by two large, fast developing nations; China and India. About 80% of the total population is engaged in subsistence farming. Despite its large share in labor market, it, paradoxically contributes 33% of the total GDP. As most of the labor forces are unemployed, it is necessary to transform the huge labor force into industrialization sector. The economic development of Nepal is still in initial stage. For the economic growth and development, government has now initiated various economic policies such as industrial policy, foreign investment policy, privatization policy and trade & transit policy.

Nepal has adopted mixed and liberal economic policy with the implicit objective to help the state and the private sector. Especially, after restoration of the democracy, the concept of the liberalization policies has been incorporated as directive principle and state policies. This liberalization has helped in establishing many companies, banks, finance companies and manufacturing industries. Thus these establishments help the country for its development.

The history of the banking is not so long. In comparison with other developing or developed countries, the institutional development in banking system of Nepal is far behind. Even though the specific date of the beginning of money and banking deal in Nepal is not obvious, it is speculated that during the reign of the king Mandev the coin “Manak” and “Gunak” during the reign of the king Gunakamdev were in use. After the unification of Nepal, Prithvi Narayan Shah, the great king had used coin “Mohar” in his name. An institution called “Taksar” was established in 1989 and it was started to issue the coin scientifically. During the reign of Ranodip Singh an office named “Tejarat” was established in Kathmandu in 1993 B.S. It was used to provide loans to the government

officials and to the people against deposit of gold and silver. It had also extended its branches outside the Kathmandu valley for providing loan. But this office had no right to accept deposit of public and it had no characteristics of modern banks (Bhandari, 2009: 6-9).

After the establishment of Nepal Bank Limited on 30th Kartik, 1994 B.S., modern banking system has started in Nepal. Under the Nepal Rastra Bank Act 2012, Nepal Rastra Bank was established on 14th Baisakh, 2013 in Nepal. Rastriya Banijya Bank was established in government sector in 2022 and Agricultural Development Bank was established on 7th Magh, 2024. Nepal Arab Bank Limited is the first joint venture bank which was established in 2041 under the Commercial Bank Act 2031 and Companies Act 2021. Now there are 32 commercial banks in Nepal. There are 88 development banks. Then, in the chain, financial system covers 88 finance companies, 21 micro credit development banks, 16 savings and credit cooperatives, 45 NGO's licensed to perform limited banking functions under the supervision of NRB (Nepal Rastra Bank,2011).

The credit policy cannot be sound unless it is based on a clear knowledge of the cost of credit. This is determined by the quantity of credit sales, the average collection period and the opportunity cost of capital. Whilst a marginal costing approach should be used which takes only incremental cost into account, the full opportunity cost has to be considered. The overall cost of credit will also be affected by the expected rate of inflation. For foreign accurate assessment of the cost of capital, a discounting approach should be used. A credit package can be differentiated in various ways; by duration, by interest charge and by the interaction with the rest of the pricing mix.

1.1.1 Meaning of Commercial Bank

Commercial banks are the financial institutions which deal in accepting deposits from individuals and institutions. They provide interest, mobilize capitals and grant loans against securities that help to remove the deficiency of capital. They contribute

significantly information and mobilization of initial capital and development effort; they also furnish necessary working capital according to the requirements for trade, commerce, industry and even to agriculture sectors. They also perform agency function to make life easier and play important role in credit creation. Besides, they also provide technical and administrative assistance to industries, trades and business enterprises. So, they are being the means for the development of society. Their main objectives are to earn reasonable profit as reward for their service through proper mobilization of idle resources in productive sectors by collective them from different scattered sources. They help to reduce the probability of inflections by increasing the interest rate while economy is in boom period and reducing the interest rate so that investors are interested for investment in case of depression period. More specifically, they collect required capital through float of different types of securities, specially share and debentures.

“Commercial banks have been defined as a bank which operates currency exchanges transactions, accepts deposits, provides loan, performs dealing, relating to commerce except the banks which have been specified for the co-operative, agricultural, industry of similar other specific objectives”. (Nepal commercial Bank Act, 2031)

Commercial Banks are those banks, which perform all kinds of banking function as accepting deposits, advancing credits, credits creation and agency functions etc. They provide short-term credit, medium-term credit and long-term credit for trade and industry. They also operate off-balance sheet functions such as issuing guarantee, bonds, and letter of credit, etc.

In every country, outset of economic development is quite different but there is no debate about the significant role of banking sector for the economic development of the countries, as they are considered as the main source of finance.

Without the development of sound commercial banking, underdeveloped countries can not hope to join the ranks of advanced countries. If industrial development requires the use of capital, the use of capital equipment will not be possible without the existence of banks to provide the necessary capital. Industrial development will be impossible without

the existence of markets of the goods produced. On the other hand, the services of the commercial banks will help to extend the market. The commercial banks play an important role as follows:

Help in business expansion

Encouragement for the right type of industries

Necessary for trade and industry

Transfer of surplus funds to needy regions

1.1.2 Functions of Commercial Banks

Commercial banks have to perform various functions for overall development of trade, industry and agriculture including priority and deprived sectors. The growing banking needs and habits of people and competitive environment has made the banking sectors even more challenging therefore functions which they provide, cannot be under emphasized in present context of market globalization. Therefore, main functions of commercial bank are summarized as follows:

Commercial bank accepts various types of deposits from the public on the name of different types of accounts.

Commercial bank provides the required loan or credit to various sectors of the economy.

It also performs agency function for which its acts as an agent and claims for commissions. The commercial bank issues credit instruments like:

Letters of credit and traveler cheques

Remittance of money

Keeping valuable things in safe custody.

Collection of trade information and banking statistics.

Dealing in foreign exchange.

1.2 Statement of Problem

Nepal is one of the poorest countries of the world. Being a mixed economy, Nepal has suffered for several factors such as imperfect market structure, unbalanced mode of payments, lack of proper implementation of economic policies, every- prevailing hurdles in import and export of goods, the total revenue generated by government which does not meet the national expenses. It has trade deficit continuously from several years. The balance of payment is also negative in previous years. In every year, the deficit of government budget is financed through loans from foreign countries and institutions consequently the burden of loans to the Nepalese is increasing in each year.

Nepal is one of the least developed states among developing countries, lack of the implementation of many economic and fiscal policies in rational and efficient ways.

Government of Nepal is being unable to realize the expected income tax for personal as well as corporation. Most of the personal taxpayers does not report the income source even they earn significant money. They hardly keep the account similarly, and some companies have been practicing to evade the tax liabilities by hiding income's result. So, the actual collection of income tax is being very low. This problem has been stabled continuously due to corruption too. The income tax system in Nepal harasses to the taxpayers in the payment of tax and it causes to reduce the income tax revenue.

But in Nepal there is no proper supervision over the staff member of tax collecting department. Behaviors of tax officer's also are not satisfactory and corruption is the main problem of tax administration. There is also a problem related to tax awareness among general public. It seems that income tax has become more difficult. There is no reliable and sufficient data for tax purpose and there is lack of information and co-ordination between different department and Inland Revenue Department.

Commercial banks and finance companies are corporate bodies. They are profit-oriented organizations. They make profits from financial transaction by reducing services to the

public and business organizations and pay income tax to the government from their table income. There are also some problems in collecting of income tax from commercial banks and finance companies. Some of them have not yet got audited their accounts for five to six years. This practice should be eliminated for more generating of income tax. On the other hand, it seems that commercial banks have appealed to revenue tribunal time to time. It shows there are some weaknesses in tax assessment of such commercial banks and finance companies and vague law and regulation of income tax law and finance act. These are the main problems of this study to solve as far as possible to mobilize more resources through income tax from commercial banks and finance companies.

1.3 Objectives of the Study

The study has primarily focused on the tax collection and practices adopted by the samples of banks and finance companies with a view to provide workable suggestions which may be helpful to the formulation of optimal corporate tax collection and contribution of tax paid by banks and finance companies to the government revenue for development.

The main objective of this study is to gain an insight into the income tax collecting from commercial banks to give appropriate suggestions to improve the tax system so that the government can collect more revenues and use them in the process of national development. The study does not only help the government to collect more revenues but also make the concerned people aware about the exemption of income and deduction of expenses.

So, the specific objectives of the study are as follows:

-) To evaluate the contribution of corporate tax by commercial banks.
-) To identify the strength and weakness of income tax system.
-) To identify the problems of commercial banks relating to tax.
-) To provide suggestions and recommendations on the basis of above study.

1.4 Significance of the Study

Every year there is a need of mobilizing adequate resource for meeting the increasing financial expenditure which requires higher magnitude of financial resources for the development program. Domestic resources have more significant role than the external resources for the development program. Among the domestic resources, income tax plays a significant role and it seems to be one of the major potential sources of Nepal.

But it is matters of great unpleasant to quote that the contribution of income tax to the national revenue is very low in Nepal. To increase the contribution of income tax in the national revenue, as well as problems faced by the income tax system should be researched and analyzed objectively. But it is pity to say that the study and research works in the areas of income tax have been lacking in Nepal.

Commercial banks are also corporate taxpayers the problems they are facing in tax paying should be corrected so that they may contribute more corporate tax to nation as national as national receipt. Commercial banks are such institutions, which are directly linked with most other business activities, the condition of business trade and industries can be visualized through the analysis of activities of commercial banks. A tax collection analysis form commercial banks may help to locate potential new and hidden tax payers aside, this analysis may be useful to make new polices for granting various facilities to the commercial banks and finance companies for making more taxable income in the competitive environment and legal correction. Vague section of income tax can also be rectified from such analytical study. This study is concerned with their aspects and it tries to make commercial banks to collecting income tax from them.

Besides, this study will also helpful to the economists, planners, tax officers, tax administrators and government. This study will also be helpful to the students, teachers, researchers and other interested persons and this study will also be beneficial for bankers and people who are interested on it.

1.5 Limitation of the Study

This study is based on corporate tax collecting form banking sector in Nepalese income tax. It is not be a complete study of income tax seems in Nepal. No study can be free from its own limitation of the present study has also some limitations. Reliability of statically tools used and lack of research experience are the major limitations. Some other limitations can be enlisted as follows.

-) The study has covered a time period of last 10 years 2056/57 to 2066/67.
-) Out of 32 commercial banks only 10 commercial banks are selected.
-) The study is primarily based on primary data and secondary data, especially opinion survey, annual reports of concerned banks, along with other related journals, magazines, and books etc. have been taken.

1.6 Organization Structure of the Study

The present study is organized in such a way that the stated objectives can easily be fulfilled. The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters, which are as follows:

Chapter-I Introduction

This chapter describes the basic concept and background of the study. It has served orientation for readers to know about the basic information of the research area, various problems of the study, and objectives of the study. It is oriented for readers for reporting giving them the perspective which they need to understand the detailed information about coming chapter.

Chapter-II Review of Literature

The second chapter of the study assures readers that they are familiar with important research that has been carried out in similar areas, It also establishes that the study as a

link in a chain of research that is developing and emerging knowledge about concerned field.

Chapter-III Research Methodology

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. It describes about the various sources of data related with study and various tools and techniques are employed for presenting the data.

Chapter-IV Data Presentation and Analysis

This chapter analyses the data related with study and presents the finding of the study and also comments briefly on them.

Chapter-V Summary, Conclusion and Recommendations

On the basis of the results from data analysis, the researcher has concluded about the performance of the concerned organization in terms of credit management. It also gives important suggestions to the concerned organization for better improvement.

CHAPTER –II

REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 Meaning of Tax

Many tax experts have defined about tax in their own words. They are presented as follows;

According to the definition given by the Professor Seligman, "tax is compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred."(Dhakal: 2001)

According to the definition given by Taylor, "A tax is a compulsory payment to the government without expectation of direct benefit in return to the tax payer." (Amatya: 1996)

According to the definition given by Plehn, "taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the resident of the states" (Dhakal, 2001).

From the above mentioned definition, it is clear that any compulsory contribution made by public to the government without expectation of the corresponding benefit by the payer is tax.

Government could expend such amount in the regular expenditure such as its administration, peace and security etc. to establish the social moral as well as in the development expenditure in different projects to increase the economic status of the poor people of the nation. The person to whom the tax is imposed but don't pay the tax is subject to the punishment under the legal provision.

2.1.2 Objectives of Taxation

The government mobilizes its revenues through budget in development programme, daily administration, peace and security and public interests. Thus, good tax policies are considered as tools of social and economic revolution.

Therefore, the government collects tax to achieve the following objectives. (Dhakal: 2001)

To raise more revenue: The government needs revenues to perform development and welfare programmed of the nation. The government imposes taxes to raise more revenues.

To reduce economic inequalities: The government levies more tax upon high-income group and mobilizes it to improve the economic conditions of low-income group. As a result, the economic inequalities will be reduced.

To maintain the welfare state: The government must perform different welfare programmers, such as, education, health etc. and should maintain economic stability in the country. Thus, government collects taxes in order to perform such programs.

To encourage production of essential goods: tax policy provides incentives and facilities to the industry producing the essential goods so as to encourage their production.

To check the consumption of harmful goods: Higher tax rate will be levied to the industries producing luxurious and harmful goods so as to check their consumption.

To remove regional economic groupings: The government provides tax exemptions, rebates and concession to those industries which are operated in the backward and remote regions. As a result, the economic activities will be increased in these regions so as to remove the regional economic disparity.

In addition to these objectives, others objectives are:

Rapid economic growth

Increasing saving and investment

Reduction in unemployment

Removal of regional disparities

In conclusion, it can be said that the establishment of peace and welfare economic state is the major objective of taxation.

2.1.3 Canons or Principles of Taxation

A good tax system should have certain principles or canons. Different writers have their own opinion regarding the canons. Some major canons are presented here.

Canon of Equity: This canon emphasizes paying the tax on the basis of ability to pay. Tax should be levied on equal ground to all the taxpayers having equal incomes.

Canon of Certainty: As per canon of certainty the time, method, manner and quantity of the tax should be specific.

Canon of Convenience: The time, place and manner of tax payment should be convenient and the language of tax laws should not be complex.

Canon of Economy: The cost of the collection of tax should not be higher. There should be minimum difference between the amount that people are ready to pay tax and the amount that actually goes to the state treasury.

Canon of Productivity: Every tax system should be revenue productive, which means it should be taxed in that income which provides adequate revenue and the taxes that do not provide adequate revenue should be withdrawn.

Canon of Simplicity: Every tax system should be simple to understand and applicable in public life. Complexity in tax system creates unnecessary hassles. Simple tax system with higher tax rate induces the taxpayer to compliance whereas complex tax system having lower tax rate may not be complied.

Canon of Flexibility: tax system should be flexible enough as per the requirement of the economy of the country. Higher the economy higher will be the revenue and vice versa. Similarly, higher the requirement of the revenue higher rate should be charged and tax rate should be minimized to the industries of necessity.

Canon of Diversity: tax system should not depend on limited income sources. It should cover wide range of income sources. This principle says that tax should be levied on various stages and various sources.

Canon of Neutrality: Canon of neutrality says that the tax should not affect the economic sector of economy. Tax system should not be only focus on collecting more revenue but also take care the effect in the economy.

Canon of Coordination: In a democratic country central as well as local governments have right to raise revenue. Therefore, coordination between central and local level government is necessary.

2.1.4 Types of Tax

Tax may be of various types. The rate and nature of tax may be different as economists have classified the tax from different angles. They have given a very long list of the types of tax. But on the basis of impact and incidence the tax may be classified into two types:

- Direct tax
- Indirect tax

1. Direct Tax

A direct tax is really paid by the person to whom it is legally imposed. Direct taxes are levied on the income and property. The direct taxes have been used to bridge the gap of income and wealth inequality in the society.

2. Indirect Tax

An indirect tax is imposed to one person but paid partly or entirely by another. Indirect taxes are generally imposed on consumption of goods and service. The taxes on such goods and services are integrated with their price. Selling those goods and services on higher price, the tax payers easily transfer the burden on general consumers (Kandel, 2003).

2.1.5 Income Tax

Income tax is a direct tax that is imposed on the earning of individual and corporation. Actually, tax levied on the taxable income is known as the income tax. It is charged by the government on the income of the previous year at the rate prescribed each year by the finance act. From very earlier, income tax has always been regarded as a tax based on the canon of ability. The tax could be adjusted as to exempt the lowest income groups from the operation of the tax and make the richer groups bear the burden of tax according to their income. Tax economists have a view that an income tax is a levy which is imposed upon the income of an individual after the exemption limit. All incomes above the tax exemption level are subjected to income tax that is based on the income tax act of the concerned country.

2.1.6 Administration

Certain established practices and techniques in society are recognized as constituting the field of administration. Those administrative practices and managerial techniques enable the various organizations of a society – its governments and business enterprises, its social clubs and labor unions to fulfill their responsibilities and to execute their programs. The majority of authors agree that administration plays an important role in society. But while they agree on the importance of administration, they assign to the subject different degrees of significance.

Henry Fayol believes that the administrative process is universal, that its existence is percentage wise the most element in particularly all vocations and professions. So, there is widespread need for the scientific study of administration While Paul Pigar feels that the main purpose of administration is to preserve the status in society. Brooks Adam regards administration as a more important, indeed as the most important human facility because its function is to facilitate social change and to cushion the stock of social revolution. James Burnham contends that the administrators or managers of society have

appropriated so much power that the decisive revolution has already arrived, neither fascistic nor communistic revolution, but managerial. Charles E. Marrian regards administration as the evolution of another human technology leading to man's adaptation to his complex environment. Charles A. Beard believes that administration is the key science of contemporary civilization.

2.1.7 Tax Administration

Tax administration is regarded as a tool for including some responsibilities for determining the policies and the programmes of government related to tax. Especially it is the planning, organizing, directing, coordinating and controlling of government organization related to taxation. The shape of tax system in practice is determined to a great extent by the way it is administered.

The main objectives of tax administration should be the efficient assessment, collection and enforcement of taxes legally due, without undue cost and harassment to the government or taxpayer in terms of money, time, inconvenience and mental worry. More specifically, the objectives of tax administration may be stated as follows:

- To assess and collect taxes in order to meet the revenue requirements of the country.
- To facilitate and encourage voluntary compliance by taxpayers.
- To deter tax evasion and avoidance.
- To maintain public confidence in the fairness and integrity of the tax system.
- To administer tax legislation fairly, uniformly, impartially with firmness.
- To keep high the morale and motivation of tax officials.
- To work efficiently in order to make the tax system effective.

2.1.8 Taxpayer Registration and Identification

A tax administration needs to take all feasible steps to ensure that all natural and legal persons liable to taxation are registered. However, given the limited resources of many

taxes administration and efforts to register new tax payers have to concentrate on areas which seem likely to yield significant revenue.

Upon registration, each tax payer is immediately be issued an identification number to ensure that documents and records in master files can easily be traced to a specific tax payer. Once, issued the identification number has not be duplicated, reissued or cancelled in the event of the tax payers' death or cessation of operation.

2.2 Collection

In developing countries as well as in industrialized countries – the tax collection function is guided by the need to maximize revenue. Collection at source and other current payment arrangements for direct taxes (personnel income tax, taxes based on accounts and records) has been strengthened and even extended. To that end, the tax administration is to be designed and implemented a monitoring system comparable to the credit control system used in private business.

In developing countries, where must tax payers either do not keep reliable records on manage not to reveal them the scarcity of administrative resources makes it highly desirable to use withholding as extensively as possible: third parties engaged in transaction with potential and actual tax payers is required to withhold appropriate amounts from payments. The amounts thus withheld by third parties on behalf of the tax administration is transmitted to official accounts as promptly as possible and credited against the tax liabilities of the appropriate tax payers.

A person is to be imposed if the tax payer underestimates by more than a given percentage (e.g. 25 or 30 percent) his or her liability, as opposed to the actual assessment made by the tax administration or if the tax payer fails to pay a tax installment within specified time period.

2.2.1 Assessment

For assessment, it has been followed where feasible and appropriate, that is called the conventional approach to assessment, which emphasis voluntary compliance through self assessment- backed by random but rigorous auditing and stringent penalties and the provision to taxpayers of outreach services, including technical advice on tax assessment obligations. In that connection, tax payers have been authorized to file and play in ways that minimize compliance cost.

On the other hand, when prevailing conditions make it necessary to rely primarily on administrative or official-assessment of all tax returns, the tax administration has to carry out economic or statistical studies where finding helps tax official to make 'best judgment assessment, when the information supplied by tax payers is deemed to be incomplete or inaccurate. To determine estimated income or value-added in the case of tax payers who cannot be counted on to maintain comprehensive accounts. "Best judgment' assessment would result from the application of the rule of thumb used by experienced tax officials and the judgmental guidelines formulated by many plausibility of the information supplied by tax payers.

2.2.2 Audit

Auditing is accurately focused and carried out with a high degree of supervision in order to ensure its effectiveness and integrity. Auditing is to be based on appropriate selection criteria: over-extensive auditing is impractical since any additional revenue raised is offset by increased administrative costs. A good information system, using computers where feasible and appropriate is to be facilitated rapid detection of non-filers, stop-filers. Taxpayers must be categorized according to type of tax, type of business, geographical location and potential contribution to revenue.'

2.4 Brief History of the Evolution of Banking in Nepal

The invention of money is a milestone in the history of economy and developing the banking as a habit people. It has made economic and business activity more precise and efficient. This gives the emergence of non-institutional banking activities. Merchants, Moneylenders and Goldsmith are the leader of such unorganized economic and financial transactions. Thus, the Merchants, Moneylender and Goldsmith are the ancestors of modern bankers. During the early periods although the banking business is mostly done by private individuals, many countries established public banks either for the purpose of facilitating commerce or to serve the government. The Bank of Venice was established in 1157 A.D., which was supposed to be the most ancient bank. Originally, it is not a bank in modern sense being simply an office for the transfer to the public debt.

During 1401, a public bank was established in Barcelona. It used to exchange money, receive deposits and discount bill on exchange, both for the citizen and foreigners. During 1407, The Bank of Geneva was established. In 1609, The Bank of Amsterdam was established. It was established to meet the needs of merchants of the city. The bank also adopted a plan by which depositors used to receive a kind of certificate entitling them to withdraw his/her deposit within six months. The most of the European banks now in existence are found on the model of the Bank of Amsterdam.

The evolution of the original banking system in Nepal has a more recent history than in other countries of the world. Before the establishment of “Tejarath Addha” during the period of the premier of Ranodip Singh, the unorganized sector i.e. Moneylenders, Goldsmiths, Landlords had their universal domination on the financial matter. They used to charge very high interest rates. The Addha was initiated to provide credit at a cheap rate against gold and silver. The area of its functioning was limited to Kathmandu valley and some urban areas of the Terai. “Tejarath Addha” may be regarded as the father of the modern banking institutions and for a long time it has rendered a good service to government servants as well as to general public by mobilizing scattered saving in the country and provide credit to the people at a cheaper rate.

The establishment of banking institutions depends upon the level of economic activities and monetary transactions. As a result of growing banking and business activities within the nation and the institutional progress in the neighboring countries, had forced Nepal to think of a new establishment of banking institutions. Consequently, Nepal Bank Limited was established in 1937 under the Nepal Bank Act 1936, having elementary function of a commercial bank. Later, in 1956, the first central bank, named as the “Nepal Rastra Bank” was set up under the Nepal Rastra Bank Act.1955, with an objective of supervising, protecting and directing functions of commercial banking activities. Another commercial bank fully owned by the government, named as the “Rastriya Banijya Bank” was established in 1966 A.D. to spread banking services to both the rural and urban areas. The subsequent tendency toward liberalization and need of revolutionary change in the financial sector allows the foreign banks to enter into the economy as “Joint Venture”. This entry of foreign bank is expected to develop the banking with pace of change and to attract the foreign investment and technology. The establishment of Nabil Bank Limited in the name of Nepal Arab Bank Limited in 1984 A.D. under the company act 1984 was a stride in the history of modern banking in Nepal. This was the first joint venture commercial bank established in collaboration with Emirates Bank International (Dubai). Following this, in 2042 B.S. Nepal Indo-Suez Bank Limited (name has been changed to Nepal Investment Bank Ltd.), in 2043 B.S. Nepal Grindlays Bank Limited (name has been changed to Standard Chartered Bank Ltd.), in 2049 B.S. Himalayan Bank Limited and in 2050 Nepal Bangladesh Bank Limited are established. Now there are more than a dozen commercial banks performing their operation.

This way, Nepalese banking has stepped a great stride in its development. However, Nepalese banking has not been succeeded in bringing change in the economy in society and in people. The large portion of national economy is still behind the touch of present banking system. The unorganized moneylender has been playing a monopoly role in granting the loan to public of remote economy and this monopoly results in excessively higher interest rate than that of institutional banker. Thus, the moneylenders are still exploiting the public of rural sector in the absence of easy access to banking activities.

Increasing the number of financial institutions has not proportionately increased the total banking behavior of people. This is because most of the financial institutions are situated in the urban area and rural economy has not been touched by this change in financial sector. Hence, in conclusion it can be summarized that the technical and quantitative development of the financial sector is found satisfactory but its qualitative impact on overall economy cannot be considered almost.

2.4 Review of Literature(Books and Thesis)

Agrawal (1978) on “Resource Mobilization for Development; The Reform of Income tax in Nepal”. It was identified that a substantial resource gap was found in revenue structure in Nepal. Tax administration is suffered from a number of interacting and interrelating problems which has badly affected its productivity. Dr. Agrawal conducted a primary research in various aspects of income tax and also explained mathematically the untouched side of elasticity of income tax and its future projection. The picture of resource gap in Nepalese finance has been identified in the first chapter of the report. The main reason for this resource gap has been identified as the low-sided growth of government revenue generation from domestic resources as compared to government expenditure. He has calculated the elasticity of major Nepalese taxes using the double log linear model. Projection of income tax and resource gap has been made using similar linear model. Though the study has been identified as the first comprehensive scientific study in the income tax in Nepal and useful for the research purpose from various aspects, they are partially irrelevant at least at present context.

Suwal (1981) has described and examined various problems in Nepalese tax system, importance of income tax in solving the financial problems in Nepal and economic effects of income tax on production and trend of income tax in her dissertation “Income tax system of Nepal”. The problems as noted by her are the absence of clear and comprehensive definition of income, low paying capacity and tax consciousness, high tax

rate corruption etc. Her suggestion is to establish some measures regarding tax administration for collection of income tax in Nepal.

Subedi (1982) has discussed the role, legal aspect, historical background and cost of collection of income tax in his dissertation 'An Analytical Study of Income Taxation in Nepal'. He has analyzed the contribution of income tax to total revenue, growth of income tax collection and its percentage from one prospective of tax administration.

Nepal (1983) has analyzed existing position, problems and prospects of income tax in her dissertation "A Study on Problems and Prospects of Income tax in Nepal". She has indicated the major problems in Nepalese tax system that are inefficient income tax administration, mass poverty, lack of tax co-operation between tax payers and tax administration, assessment deficiency etc. Her suggestion is towards the improvement on those specified problems.

Regmi (1986) has published a dissertation named "The Role of Income Tax in Nepal". His main suggestion is towards the control of evasion of tax.

Siwakoti (1987) has examined various factors related in the field of income tax in his dissertation 'An Analytical Study of Income Tax in Nepal'. The major problems identified by him are tax evasion, delay in assessment, and lack of public information, complicated acts and other defects in the income tax act. He has suggested for progressive, separate research units efficient administration, separate research units in tax offices and penalties to tax payers who do not maintain accounts.

Baral (1989) has studied "The Contribution of Income Tax in Tax Structure of Nepal". She has given some notable points of income tax evasion in Nepal. She has also blamed the inefficient tax administration as one of the main reason of evasion of tax in Nepal.

Poudyal and Timsina (1990) have published a book 'Income tax in Nepal'. It gives a thorough ideal of theoretical and practical ideas of income tax but it does not able to deal with major problems and defects of income tax system.

Khadka (1994) has written wrote a book entitled “Nepalese taxation: A Path for Reform”. It deals with national and local taxes and tax administration in Nepal. It traces the path of evolution of Nepalese tax system and present the tax system of that period. It appraises the Nepalese tax system on the basis of conventional, theoretical concepts and suggests measures of its improvement. It examines the structure and operation of the Nepalese tax system of that period in more detail.

Shrestha (1999) has presented a dissertation under heading “Revenue Collection form income tax in Nepal: Problems and Prospects”. She has cleared various aspects of income tax in their contribution for national economic development. Her finding has showed that there are many problems related to income tax for example one of the main problem as indicated by her is revenue collection form income tax is low. Again, she has concluded that Nepalese income tax law is inappropriate and the administration is worse. She has suggested that income tax laws and administration in Nepal are to be deeply scrutinized and properly implemented. Strong commitment, fair and uniform imposition is to be stored. Manpower development planning within the administration is desired for the efficiency of tax personnel side by side. Tax education packages are to be made and initiated.

Kandel(2000) also presented the Ph.D thesis entitled “Corporate Tax System and Investment Behavior in Nepal”. He undertook the research work to find out the problems relating to corporate tax which have blocked the development of private investments. The main objectives of the study were to evaluate the corporate tax system in general, to examine the sensitivity of certain policy like inflation, capital gain tax, dividend tax and interest tax etc. based on their impact on tax burden. He has shown the relationship of private investments with average effective tax rate. (AETR), marginal effective tax rate.(METR) and tax incentive in Nepal.. He has found that the METR for debt –financed project are almost negative (i.e. -1.7%) and positive for equity financed project and debt-equity ratio project by 27% and 19% respectively. He has also found that the impact of inflation to the METR. According to him the statutory tax rate deduction had impact private investments by 60% to 20%. In this regard he has shown the adjusted R^2 value

0.87at 5% level of significance. He has concluded that the statutory tax rate was in modern level under all financial options: debt, mix and equity i.e. it was not much distort.

Pant (2002) has tried to show the income tax system and its role in National economy in his dissertation “A Study on Identified Various Problems of Income Tax Management in Nepal” .He has shown the problem as lack of effective personnel management, lack of reward and punishment system, lack of managerial efficiency, poor income tax procedure, poor tax information system, lack of tax payer’s education etc.

Bhattarai (2003) has examined the effectiveness of corporate income tax in his dissertation “Effectiveness of Corporate Income tax in Nepal”. He has thoroughly studied government mechanism with special reference to tax administration in Nepal. He had concluded that there is a deep rooted corruption in income tax administration of Nepal where the tax officer is leader and both the tax payer officer is leader and both the tax payer and auditor are follows in the function of corruption. He has pointed out the major cause and regulations in theory and practice. He has shown the lack of balance between rights and duties of tax payers, balanced delegation of authority, responsibility and accountability, poor reward and punishment system and lack of systematic evaluation and control mechanism as the drawback of tax system.

Malik (2003) has published a book on Nepalese modern income tax system including changes brought by the income tax act 2058 and the recent development of income tax management in Nepal. The need and importance of modern income tax system is also discussed. He has also discussed on tax administration, assessment procedure, collection of tax review etc.

Shakya (2004) has studied about Income tax Act, 2002 in his dissertation “A study on ITA, 2002”. He has concluded that a commitment is must within tax payers and tax administration to make a fair and safe tax administration He has given emphasis to provide sufficient incentives and remuneration with its programme like promotion and motivation. His suggestions are for the improvement of tax administration after

implementing ITA, 2002, are: The tax act must be simple and understandable to tax payers and tax administrators; The emphasis is given to establish information center where tax payers can get information regarding tax law; The focus point must be provided sufficient incentive and remuneration to tax administrators to expect the full effort of tax administrators towards their duties and to conduct training programmes.

Ghimire (2004) has examined the contribution of income tax particularly focusing in Public Enterprises in his dissertation “Income tax in Nepal; Its Structure and Contribution from Public Enterprises to Government”. He had evaluated the performance of tax administration of Nepal, particularly after implementation of tax ITA, 2002. He had found that the tax administration of Nepal is inefficient due to mainly lack of trained and competent employees and complicated tax laws.

Bhattarai and Koirala (2004) jointly have presented a book named “Taxation in Nepal” specially designed for BBS third year as a reference. They have presented some theoretical aspects with numerical problems of taxation in Nepal that based on income tax act 2058. But the book does not able to give a direction to deal with problem of tax administration

Adhikari (2005) has written a book named “Public Finance in Nepal: Revenue and tax Policy, Administration and Organization in Nepali”. In his book, he has mainly focused on the administrative part of taxation in Nepal. He has described the structure of tax administration from about the administrative aspect regarding tax. Moreover, this book has given overall idea about tax administration in Nepal. However, the book is presented which is only descriptive manner, the new idea has generated after studying the book.

Khadka(2005) has presented a book named “Modernizing tax Administration in Nepal”. It has really most useful book to conduct whole research. It has given through idea about tax administration in analytical way. The book has a nine chapters starting from development of tax administration to conclusions and recommendations. The writer has focused on the human resource development of tax administrators. He has also given

some new ideas on tax administration to reform it such as computerization and autonomous revenue improvement of tax administration in Nepal.

Dahal (2006) has submitted a dissertation with heading “Income tax Management in Nepal”. He has focused on many administrative aspects of income tax. He has concluded that the effectiveness of tax system depends that on the existing management and leadership. A vigilant and transparent tax administration and capability of timely reviews in policy back sliding the gains in the revenue front. He has suggested that, for the improvement of tax management is belonged to strong political commitment.

Pokhrel(2008) has submitted a dissertation with heading “Contribution of income tax from commercial banks and finance companies”. He has focused on many aspects of tax system in Nepal, like tax revenue collection, contribution of tax revenue to the government, tax collection procedures and difficulties, problems of tax payers etc. He has concluded that the effectiveness of tax system is not satisfactory.

Pokharel(2010) has submitted a dissertation with heading “contribution of joint venture banks to corporate tax of Nepal”. She has focused on corporate tax collection from joint venture banks and she has also focused on many aspects of tax system in Nepal and problem & prospects of joint venture banks.

In this way, various books, dissertations reports and articles have published in journals and newspapers these are reviewed while preparing this dissertation. Most of literatures are concentrated on administrative, legal and assessment procedure of income tax. Since, all of them have identified the main problem in this sector as poor performance of tax administration Although very few studies was concerned on focusing tax administration covering all sources of taxes in separate way. Setting the lack of study is mainly concentrated on covering all aspects of tax and focusing particularly income tax in more specific way.

2.5 Research Gap

The purpose of the research work is quite different from the studies made by the above person (related to selected ten commercial banks). The author has focused this study in contribution of income tax of commercial banks of Nepal in comprehensive manner considering the major items. The method of analysis is fully different. Financial tools and statistical tools are used in this study, like average, standard deviation and coefficient of variance.

This study is a little bit different than previous studies. It may be the first research study in the field of contribution of corporate tax taking the comparative study of selected ten commercial banks of Nepal. This study is also different from other previous studies because it also focuses on the problems of commercial bank, relating to tax and tax assessment.

CHAPTER – III

RESEARCH METHODOLOGY

3.1 Introduction

The different aspects of this thesis work regarding to income tax collection policy and practices at commercial banks that have been mentioned in the previous chapters. An introduction relation to this thesis work is made in the first chapter and relevant literatures are reviewed in the second chapter. The ‘research methodology’, which is used to analyze the collected data, is mentioned in this chapter.

This chapter highlights about the methodology adopted in the processes of present study. It also focuses about sources and limitations of the data, which are used in the present study. ‘Research Methodology’ is a way for systematically solving the research problem. In other words, research methodology indicates the methods and processes employed in the entire aspects of the study. So it is the methods, steps and guidelines, which are to be followed in analysis and it is a way of presenting the collected data with meaningful analysis.

3.2 Research Design

The research entitled “A Study on Corporate Tax Collection from Commercial Banks”. The concerned both number, past phenomena as well as opinions. The collected data and information are described and analyzed by using some statistical tools. Thus, the study followed the descriptive as well as analytical research design.

The research design is of both descriptive and prescriptive nature. For the analytical purpose, the annual reports published by the related banks and other publication of the related banks published by Nepal Rastra Bank, Nepal Stock Exchange Ltd, and other related agencies are collected for the year 2057/58 (2000/01) to 2067/68 (2009/10). Also

done survey through questionnaires distributed to various person to get their view over taxation.

3.3 Nature and Sources of Data Collection Procedure

The study is mainly based on secondary data as well as primary data, which are collected from their opinion survey, respective annual reports, especially from profit and loss accounts, balance sheet and other publications made by the banks. Likewise, some other related information is gathered from related banks and related agencies like Nepal Rastra Bank, Nepal Stock Exchange Limited, Ministry of Finance, National Planning Commission etc.

Numerical data and other information related to tax laws, development of taxation, administrative aspect and other tax figures are collected from secondary sources. The main sources of the secondary data are as follows:

Published documents and annual reports of Nepal Rastra Bank.

Published books, articles, unpublished thesis and dissertation on the concern subject area.

Annual reports and statistical abstracts of Inland Revenue Department.

Publication of Ministry of Finance i.e. Budget Speeches and Economic Surveys.

Annual reports of commercial banks from fiscal year 2057/58 (2000/01) to 2067/68 (2009/10).

3.4 Population and Sampling

At present, there are 32 commercial banks operating in Nepal. Due to time and resource factors, it was not possible to study all of them under this study. Therefore, sampling was made by selecting a few from the total populations. They are as follows:

Banks:

1. Standard Chartered Bank Nepal Ltd
2. Himamalayan Bank Limited Ltd
3. Nepal Investment Bank Limited
4. Everest Bank Limited

5. Laxmi Bank Limited
6. Nepal Industrial & Commercial Banks
7. Bank of Kathmandu Limited
8. Machhapuchhre Bank Limited
9. Nepal Bangladesh Bank Limited
10. Kumari Bank Limited

3.5 Method and Analysis

Some major statistical tools have been used to attain the objectives of this study. The pattern of available data is a major determinant to analyze the data. So analysis are done based on the pattern of available data. The available and attached data are properly tabulated, compared, analyzed and interpreted. In this study, the following statistical tools are used.

Mean or Average = (\bar{X})

Standard deviation (S.D.) = $\sqrt{\frac{\sum fA^2}{n}}$

Coefficient of Variation = (C.V)

(a) Arithmetic Mean or Average

An Average is a single value that represents a group of values. It shows the characteristic of the whole group. It is a representative of the entire mass of homogeneous data, its value lies somewhere in between the two extremes, i.e. the largest and the smallest items. It is obtained by dividing the sum of the quantities by the number of items.

Thus,

$$\text{Mean } (\bar{X}) = \frac{X_1 + X_2 + X_3 + \dots + X_n}{N}$$

$$\text{Or, } \bar{X} = \frac{\sum x}{N}$$

Where,

X = Sum of the size of the items, N = Number of items.

(b) Standard Deviation (S.D.)

Standard deviation is the positive square root of the arithmetic average of the series. It is independent of the position of the origin. Generally, it is denoted by small Greek letter (read as sigma) and is obtained as follows:

Thus,

$$\text{Standard Deviation (} \sigma \text{)} = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Where,

N = Number of items in the series

\bar{X} = Mean

X = Variable

The standard deviation measures the absolute dispersion or variability of a distribution, the greater the amount of dispersion or variability the greater the standard deviation, for the greater will be the magnitude of the deviations of the values from their mean. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series.

(c) Coefficient of Variation (C.V.)

Karl Pearson developed this measurement to measure the relative dispersion. It is used in such problems where we want to compare the variability of two or more series. The series (or group) for which the coefficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogeneous. On the contrary, that series for which the coefficient of variation is less is said to be less variable or more consistent, more uniform, more stable or more homogeneous. It is denoted by C.V. and is obtained by dividing the arithmetic mean to standard deviation.

Thus,

$$\begin{aligned} \text{Coefficient of variation (C.V.)} &= \frac{S.D.}{\text{Mean}} \times 100 \\ &= \frac{\dagger}{\bar{X}} \times 100 \end{aligned}$$

Where, † = Standard Deviation, \bar{X} = Mean

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

This chapter is concerned with the presentation and analysis of secondary data related to different variables using statistical tools which are explained in third chapter “Research Methodology”. The basic objective of this chapter is to achieve the objectives, which are set in first chapter “Introduction”. In order to achieve these objectives, gathered data have been presented, compared and analyzed with the help of different tools. So it is the focal part of the study to analyze the comparative income tax collection from commercial banks and finance companies or income tax contribution to government revenue for economic development.

4.1 Structure of Nepalese Government Revenue

The government of any country of the world needs adequate budget for the development activities, operation of administration, maintaining peace and security and for other public welfare activities. The required budget is collected from various sources. Generally, the revenue collected by the government from various source is known as public revenue or national revenue.

Nepal collects its revenue from different sources. The structure of the government revenue in Nepal is the composition of tax revenue and non-tax revenue. Tax revenue includes direct taxes as well as in direct taxes. A direct tax includes income tax, property tax, land revenue and others. An indirect tax comprised the customs, excise, sales tax/VAT and others. On the other hand non-tax revenue is the composition of various kinds of receipts from foreign governments and international entities. The government revenue is therefore the combination of tax revenue and non-tax revenue consists of various sources.

Major sources of income of the government are custom duty, excise duty and sales tax or VAT under indirect tax group. Custom duties consist of export duty, import duty as well as excise, refund from government of Indian and other miscellaneous incomes. The

excise duty is the imposition of tax on the country's production which consists of liquor, tobacco and other industrial products. The other indirect taxes, which contribute a significant share in government revenue, are contract tax, hotel tax, entertainment tax and air flight tax. Land revenue is the type of direct tax, which includes development and land tax. The income tax is directly imposed upon the individuals and organizations' income or profit. Income tax is the composition of direct tax revenue that is levied upon net of income or profit earned by the public enterprises, semi-public enterprises, private corporate bodies, self-employed, individuals and employed persons. The house and land registration is also the part of direct tax.

Non-tax revenue of the government includes various registration fees, income received from sale of government services and products, dividend received, royalties, principle and interest received and miscellaneous incomes. The registration fees include firm registration vehicle registration and license registration etc. Water charges, telephone charges, postal service charges, revenue received from education and institutions, income from agriculture product, income from supply of product and incomes generate from transportation services are the major sources of revenue. Government receives dividends from financial institution, trading companies, industrial enterprises and service-oriented organizations run by the government under special public enterprises act. Similarly, royally from mine is also the non-tax revenue of the government.

Thus the tax revenue is the highly contributing source of total government revenue. But non-tax revenue has been also contributing in considerable rates among the other individual revenue items.

4.2 Contribution of Tax Revenue to the Total Revenue

National revenue is the composition of tax revenue and non-tax revenue. Tax revenue has also direct and indirect taxes. Customs, excise duty, sales tax/VAT and other miscellaneous incomes the main revenue items of indirect-tax revenue. Direct tax however is the composition of income tax, land tax, property tax, interest tax and other

direct taxes. Not-tax revenue of the government is also important revenue source that includes different types of fees, charges, dividend, royally and principle with interest from companies and co-operation, Sales of fixed assets and main are also component of non-tax revenue. Table 4.1 shows the comparison between tax revenue and non-tax revenue collection.

Table 4.1
Contribution of Tax Revenue & Non-tax Revenue to the Total Revenue

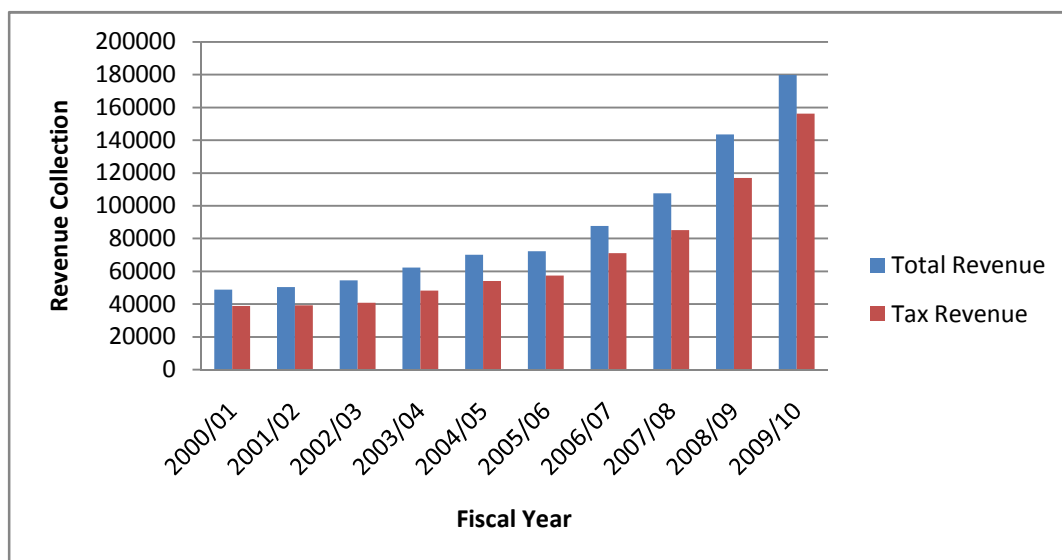
(In million rupees)

Fiscal Year	Total Revenue	Tax Revenue	% of Tax Revenue on Total Revenue	Non-Tax Revenue	% of Non-Tax Revenue on Total Revenue
2000/01	48893.80	38865.00	79.49	10028.80	20.51
2001/02	50446.60	39330.60	77.96	11116.00	22.04
2002/03	54538.90	40896.00	74.99	13642.90	25.01
2003/04	62331.00	48173.00	77.29	14158.00	22.71
2004/05	70122.70	54104.70	77.16	16018.00	22.84
2005/06	72281.90	57430.40	79.45	14851.50	20.55
2006/07	87712.10	71126.70	81.09	16585.40	18.91
2007/08	107622.50	85155.50	79.12	22467.00	20.88
2008/09	143474.50	117051.90	81.58	26422.60	18.42
2009/10	179945.80	156294.90	86.86	23650.90	13.14

Source: Ministry of Finance, Annual Reports, 2009/10

Figure 4.1

Contribution of Tax Revenue to the Total Revenue



From the above table, it is clear that, the share of tax revenue is always greater than the share of non-tax revenue. Contribution from tax revenue is 75% to 86% and from non-tax revenue is 13% to 25%. Hence contribution to income tax from tax revenue is greater by 60% in an average. In the fiscal year 2000/01, the share of total revenue was 79.49 % and share of non-tax revenue was 20.51%. Likewise, in fiscal year 2001/02 the contribution of tax revenue was 77.96 percent where as non-tax revenue was 22.04 percent. The tax revenue was 74.99 percent and non-tax revenue was 25.01 percent in the fiscal year 2002/03. In the fiscal year 2003/04 the share of total tax revenue was 77.29 percent and share of non-tax revenue was 22.71 percentages. But the share of total tax revenue was sharply reduced which was 77.16 percent and the share of non-tax revenue was 22.84 percent in the fiscal year 2004/05. The percentage of tax revenue on total revenue was 79.45 and percentage of non-tax revenue on total tax revenue was 20.55 percentages in 2005/06. Likewise, the percentage of tax revenue on total revenue was 81.09percentage and non-tax revenue on total revenue was 18.42 percentages in 2006/07. The percentage of tax revenue on total revenue was 81.58 and non-tax revenue on total revenue was 18.42 in the fiscal year 2008/09. At last fiscal year of the study i.e 2009/10, the percentage of tax revenue was 86.86 and non-tax revenue was 13.14 on total revenue. From above table we can conclude that the contribution of tax revenue on total revenue is higher in the fiscal year 2009/10 and lower in fiscal year 2002/03. The contribution of non-tax revenue on total revenue is higher in the fiscal year 2002/03 and lower in the fiscal year 2009/10. It proves that tax revenue contributes as about three-quarters of total revenue.

During the study period, we can conclude that the tax revenue and non-tax revenue was increasing trend but sometimes it was fluctuated.

4.3 Contribution of Direct Tax to Total Tax Revenue and Total Revenue

Tax revenue is divided into two classes; one is direct tax and other is indirect tax. A direct tax is such type of tax, which is imposed on a person out of his income or property. A direct tax is really paid by the person on whom it is legally imposed. This type of tax

cannot be realized by the tax payer from other persons. He most pays it from his own pocket. Income tax, property tax, expenditure tax, gift tax, death tax, contract tax, vehicle tax and others are the best examples of direct taxes. On the other hand, an indirect tax is such type of tax, which is imposed to any person without direct collecting from him. An indirect tax is imposed to any person without direct collecting from him. An indirect tax is imposed on one person but paid partly or wholly by another. Value Added tax, entertainment tax, customs, excise duty are the good examples of this tax. Thus direct tax is any tax which is imposed to a person who bears its economic impact by himself. Indirect tax, like VAT is imposed on goods sold, but the amount of VAT is collected from customers. Here tax is imposed to sales man however, the buyer pays tax indirectly.

Table 4.2
Contribution of Direct Tax to Total Tax Revenue and Total Revenue

(In million rupees)

Fiscal Year	Total Revenue	Total Tax Revenue	Direct Tax	% of Direct Tax on Total Revenue	% of Direct Tax on Total Tax Revenue
2000/01	48893.80	38865.00	10159.40	20.78	26.14
2001/02	50446.60	39330.60	10597.50	21.01	26.94
2002/03	54538.90	40896.00	10881.90	19.95	26.61
2003/04	62331.00	48173.00	11912.60	19.11	24.73
2004/05	70122.70	54104.70	13071.80	18.64	24.16
2005/06	72281.90	57430.40	13968.10	19.32	24.32
2006/07	87712.10	71126.70	18980.30	21.64	26.69
2007/08	107622.50	85155.50	23087.70	21.45	27.11
2008/09	143474.50	117051.90	34320.70	23.92	29.32
2009/10	179945.80	156294.90	41750.00	23.20	26.71

Source: Ministry of Finance, Annual Reports, 2009/10

Figure 4.2

Contribution of Direct Tax to Total Tax Revenue and Total Revenue

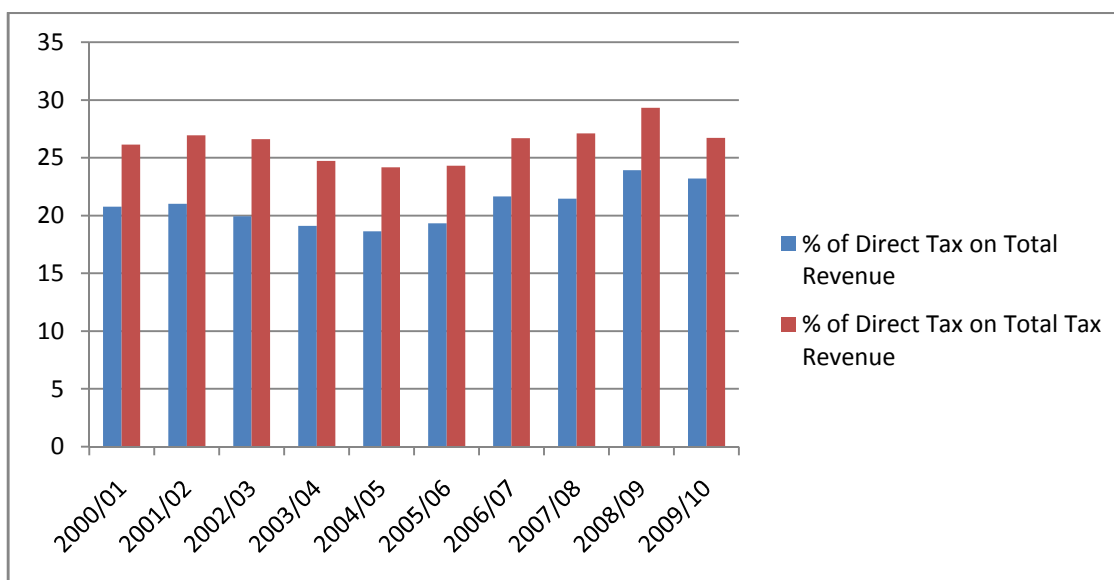


Table 4.2 shows the contribution of direct tax on tax revenue and total revenue of the government. This relationship is also presented in the figure No. 4.2. The initial share of direct tax on total revenue was 20.78 percent which was 26.14 percent on total tax revenue in the fiscal year 2000/01, in that year Rs. 10159.4 million was collected from the direct tax. Then after contribution percentage has been fluctuating order. In the fiscal year 2001/02, the share of direct tax on total revenue was 21.01 percent whereas it was 26.94 percent on total tax revenue. Similarly, it slightly went down to 19.95 percentages in the fiscal year 2002/03 in addition once again it decreased to 19.11 percent in the fiscal year 2003/04. The contribution of direct tax on total tax revenue, the corresponding years are 26.61 percent and 24.73 percent. After that it was gradually decreased which was 18.64 percent in the fiscal year 2004/05 whereas percent of direct tax on total tax revenue was 24.16 percent. After that it was gradually increased up to the fiscal year 2009/10. The contribution of direct tax on total revenue after fiscal year 2004/05 were 19.32 in 2005/06, 21.64 percent in 2006/07, 21.45 percent in 2007/08, 23.92 percent in 2008/09 and 23.20 percent in 2009/10. Whereas the contribution of direct tax on total tax revenue

in corresponding years were 24.32 percent, 26.69 percent, 27.11 percent, 29.32 percent and 26.71 percent respectively.

Thus, the interpretation shows that the trend of direct tax collection is positive i.e. it is increasing order although it decreased in the middle few years. The reason behind of increasing was the increment of income tax collection and other direct taxes. The income tax collection has been increasing due to increasing number of tax-payers and their taxable revenue and profit. In conclusion, it can be said that the positive trend of direct tax denotes economic improvement of the nation even.

4.4 Structure of Income Tax Revenue in Nepal

Income tax is levied on net taxable income. This means that not all income accrued from source brought to the income tax are net taxable. Individual as well as organization having taxable income pay income tax. Both are persons as mentioned by income tax Act 2002. The tax levied upon individual is known as personal income tax where as income tax levied to organization is called corporate tax. The government, therefore, imposes income tax upon the person (individuals, firms and companies) earning taxable incomes, without direct benefit to them.

Income tax Act 2002 has clearly defined the related rules and areas of tax. It has defined the tax head for computation of tax liabilities. According to this law, three income headings including various receipts are mentioned as follows:

1. Income from Business: This head of income includes income and profit from industry, business and from other business transactions, professional fees, service fees, sales proceeds of business stocks, amount received from disposal of depreciable assets business gifts, receipts from business restriction and receipts of amount from directly related to business.

2. Income for Employment: This head of income includes various receipts. They are wages, salaries, allowances, fees, commission, award, gift, bonus and other facilities. The other facilities include additional payments for Dashain, housing facility, vehicle facility

and telephone facility and so on. Similarly, dearness allowance, house rent, entertainment, transportation and cost of living expenses are also the remuneration such as retirement contribution and other amount prescribed by income tax Act are the subject to tax.

3. Income from Investment: The third head of income is investment income which includes various incomes received by investing assets in any business sector. They are dividend, interest, rent receipts, receipts from investment insurance, gain from unrecognized retirement fund. It also includes proceeds from sale of non-business assets. Capital gains from disposal of depreciable assets, gifts received in relation with investment, amount received in the acceptance of restriction of investment and others.

Thus, taxable income is the composition of above mentioned various income sources. Income tax is divided in into two types in broad since Viz. personal income tax and corporate income tax. Both have different income sources. Corporate tax is a composition of three tax payers. They are government enterprises, public limited company and private limited company. Individual income tax includes income tax from remuneration, industries trade and profession of individual. Besides these, rent and interest taxes are also includes in income tax.

4.5 Role of Corporate Tax in Nepal

Corporate tax a part of total income tax, is also very important in the developing countries .People of such countries are not capable to pay individual income tax due to being less income earners .In this situation income tax from corporate bodies plays vital role in resources mobilization in the nation, if there are more industries are in operating . The other positive points of corporate tax are that they are easily identifiable and keep accounts in proper way. They do not escape from tax liability and practice tax evasion that is done by individual tax payers, but unfortunately, Nepal is not able to increase industries in the country. Some government enterprises are privatized. Out of them, most are not in operation and private Ltd. May practice of tax to the government .There are only limited numbers of corporate bodies in the country .Their economics performance is also very low because of these two reasons the contributions of corporate tax to the

government treasury is not much satisfactory in Nepal even though its contribution percentage is high in total income in Nepal.

Table 4.3
Contribution to Corporate Tax in Total Income Tax

(In million rupees)

Fiscal Year	Total Income Tax	Corporate Tax	% of Total Corporate Tax On Total Income Tax
2000/01	8650.01	5449.60	63.00
2001/02	8436.00	4016.90	47.62
2002/03	8811.80	5449.60	61.84
2003/04	8512.50	4979.10	58.49
2004/05	9402.40	5467.10	58.15
2005/06	9598.80	5364.10	55.88
2006/07	13979.10	8744.70	62.56
2007/08	16223.30	9842.10	60.67
2008/09	23457.30	13579.80	57.89
2009/10	28819.20	17779.30	61.69

Source: Ministry of Finance, Annual Reports, 2009/10

Figure 4.3
Contribution to Corporate Tax in Total Income Tax

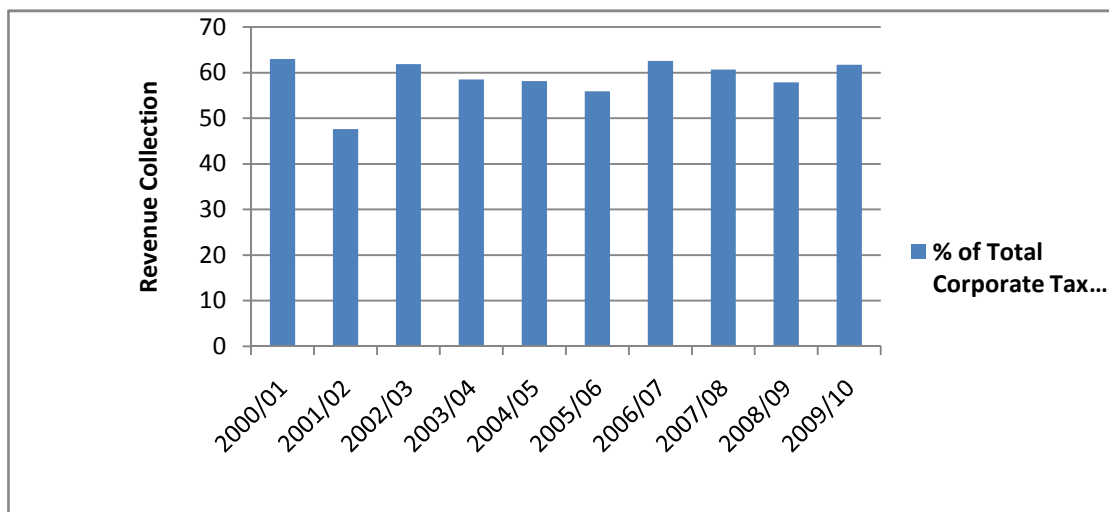


Table 4.3 shows the contribution of corporate tax on total income tax in the fiscal year 2000/01 which was 63 percent. Then after Contribution to Corporate tax in Total Income Tax is fluctuation trend.

4.6 Corporate Tax on Government Revenue

Resource mobilization through income tax is very important instrument in Nepal. There are existing trade deficit and resource gap each year, that's way government has to borrow foreign loans. For the improvements of these constraints, the government must be able to increase its internal resources. Income tax as the component of internal resources has been contributing in the government revenue in the increasing trend. But it is also not as improved as expected due to various reasons; such as weakness on income tax administration, lack of tax morality in taxpayers, defects in income tax provisions and illegal business activities are primarily responsible for insufficient realization of income tax revenue in Nepal.

Corporate tax, the part of income structure, is also very important resource of revenue in developing countries like Nepal. Corporate bodies do not escape from tax liabilities in general. They maintain the books of accounts in accepted formats, audited their accounts and pay taxes in due date. However, in Nepal most of government enterprises manipulate the accounts; their financial performances are also bad. On the other hand, family managed private companies practice tax evasion. These are the drawbacks of corporate practices tax realization in Nepal. It has many problems relating to income tax collection. The corporate tax has been contributing 7.86 percent of total government service in an average. In fiscal year 2000/01, the contribution of corporate tax in government revenue reached to 11.15 percent. But in the fiscal year 2001/02, it decreased to 7.96 percent from the previous rate of 11.15 percent. It again increased to 9.99 percent in the fiscal year 2002/03, but it again decreased in the fiscal year 2003/04 and 2004/05 to 7.99 and 7.80 respectively. Finally, it was sharply reduced to 7.42 percent in the fiscal year 2005/06. Then after, it was again in the increasing trend up to the fiscal year 2009/10. This is clearly showed in table No. 4.4 below

Table 4.4
Corporate Tax on Government Revenue

(In million rupees)

Fiscal Year	Total Revenue	Corporate Tax	Corporate Tax as Percent of Govt. Rev
2000/01	48893.80	5449.60	11.15
2001/02	50446.60	4016.90	7.96
2002/03	54538.90	5449.60	9.99
2003/04	62331.00	4979.10	7.99
2004/05	70122.70	5467.10	7.80
2005/06	72281.90	5364.10	7.42
2006/07	87712.10	8744.70	9.97
2007/08	107622.50	9842.10	9.15
2008/09	143474.50	13579.80	9.46
2009/10	179945.80	17779.30	9.88

Source: Ministry of Finance, Annual Reports, 2009/10

Nepal has only limited number of corporate bodies. The increment of corporation is very low. In the other bend, the government enterprises have been privatizing from the year 1993. Twenty four enterprises had been privatizing during 14 years as the prime function of economic liberalization policy of the government. Out of these some enterprises are overshadow. This causes the decrease the number of corporate taxpayers. Similarly, the increment of public limited companies also is not satisfactory. But in summary, we can conclude that the contribution of corporate tax in total government revenue is in increasing trend and this is the positive sign for the nation's economy.

4.7 Corporate Tax Collection from Commercial Banks

Commercial banks are public limited companies, which are established under commercial bank act – 1974 and company Act – 1996. Before 1986 AD, there were only two commercial banks; such as Nepal Bank Ltd. and Rastriya Banijya Ltd. in the country.

The first joint venture bank named Nepal Arab Bank Ltd. was established and now there are 32 commercial banks in operation in the nation. They deal monetary and credit activities; accept deposits and lend loan create credit and exchanges the foreign currencies and provide many other services. By performing these activities, they make profits. They pay taxes from profit. Since they are profit according to income tax Act.

The table 4.5 is the list of corporate tax paid by various commercial banks for the last 10 years (i.e. from the fiscal year 2000/01 to 2009/10) According to this table; Standard Chartered Bank Ltd. is a high corporate tax paying commercial bank. The average tax paid by this bank is Rs. 296.86 million. Most of commercial banks listed in the table have been paying corporate tax in increasing order. In the beginning year i.e. 2000/01 about Rs. 530.24 million taxes was collected from commercial banks. In that year, Standard Chartered Bank Nepal Ltd. was in the first position and Himalyan Bank Ltd. was stood in the second position. In the same year, the Laxmi Bank Ltd had contributed very low share i.e. Rs. 3.49 million where as Kumari Bank Ltd. had paid Rs. 10.89 million and Machhapuchhre Bank Ltd had paid Rs. 14.50 million. Standard Chartered Bank Nepal Ltd. was in the first position in corporate tax paying from the fiscal year 2000/01 to 2009/010. In the fiscal year 2000/01, it has contributed tax Rs. 164.23 Million and in 2001/02 it was Rs 194.65 million. In fiscal year 2002/03, it had contributed high corporate tax collection from that sector about Rs. 208.22 million. In the fiscal year 2003/04, it had contributed higher corporate tax collection than that first, second and third fiscal year that was 235.71 million. In that way, Standard Chartered Bank contributed more and more corporate tax to the government revenue. It contributed 481.70 million in the fiscal year 2009/10, which was also the highest corporate tax collected among all commercial banks.

The fiscal year 2004/05 was a good year to all economic sectors. In that year, the type of tax collection was increased than the previous years. As the same case, all commercial banks have paid high corporate tax than in previous years. In that year, Rs. 1030.05 million taxes were collected from commercial banks. After the fiscal year 2003/04 it had been in increasing order for the three years. In the fiscal year 2005/06, it increased to Rs.

1142.03 million. In that year, Standard Chartered Bank Nepal Ltd. was in the first position, Himalayan bank Ltd. was in the second position and Nepal Bangladesh Bank Ltd. was the third position amounting Rs. 265.50 million, Rs 230.79 million and Rs 148.26 million respectively. In the fiscal year 2006/07, corporate tax collection, highly increased to Rs. 1405.42 million. In that year also Standard Chartered Bank Nepal Ltd. was in the first position, Nepal Investment Bank Ltd. was stood in the second position and Himalayan Bank Ltd. was in third position which are Rs. 330.02 million, Rs. 231 million and Rs. 197.81 million respectively. In the fiscal year 2007/08 to 2009/10, total corporate tax collections from commercial banks were 1810.6 million, 2212.23million and 2559.17 millions. In fiscal year 2009/10 Nepal Investment Bank became the highest corporate tax payer. Whereas Standard Chartered Bank Nepal ltd and Everest bank Ltd were in the second and third position. The amounts paid of respective banks were 543.36 millions, 481.07 million and 378.67 million respectively. Himalayan Bank Ltd lost the position of highest tax payer. From table 4.5, the least corporate tax payer banks were Macchapuchhre Bank Ltd., Laxmi Bank Ltd and kumari Bank Ltd, but these banks are also in increasing trend. The detailed information about corporate tax collection behavior of selected commercial banks is presented in table 4.5.

Table 4.5
Corporate Tax Collection from Selected Commercial Banks

(In million rupees)

S.N.	Commercial Banks	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
1	Nepal Investment Bank Limited	37.44	32.05	59.24	83.80	107.98	141.24	231.00	297.50	375.36	543.36
2	Himalayan Bank Limited	138.06	124.02	158.40	187.50	211.04	230.79	197.81	299.30	352.98	275.17
3	Nepal Bangladesh Bank Limited	58.11	69.54	92.00	106.53	138.08	148.26	158.07	178.52	192.07	217.15
4	Everest Bank Limited	32.37	42.76	41.71	67.55	95.23	120.40	140.55	191.05	297.47	378.67
5	Bank of Kathmandu Limited	39.04	44.12	48.61	57.17	69.76	86.00	117.60	150.50	197.47	222.00
6	Standard Chartered Bank Nepal Ltd.	164.23	194.65	208.22	235.71	262.50	265.50	330.02	385.04	440.91	481.70
7	Kumari Bank Limited	10.89	14.62	18.69	20.94	40.64	43.45	78.30	82.51	98.77	140.94
8	Laxmi Bank Limited	3.49	3.87	6.86	8.60	10.66	16.85	38.64	55.50	75.77	85.26
9	NIC Bank Limited	32.11	36.02	40.67	44.54	50.97	40.84	70.40	100.00	140.98	172.80
10	Machhapuchhre Bank Limited	14.50	20.68	23.94	29.55	43.19	48.70	43.03	70.68	40.45	44.11
Total		530.24	582.33	698.35	841.89	1030.05	1142.03	1405.42	1810.6	2212.23	2559.17

Source: Annual Reports of relevant commercial banks (2000/01 to 2009/10)

Note:

- i. Tax amount = Tax Provision from P/L Account + Tax Adjustment of Last Year
- ii. Income tax payment(Cash Flow Statement)

Table 4.6
Average Corporate Tax Collection from Selected Commercial Banks (with
Standard Deviation and Coefficient of Variation)

S.N.	Commercial Banks	Mean Payment of Corporate Tax	Standard Deviation of Payment	Coefficient of Variation
1	Nepal Investment Bank Limited	190.90	160.67	84.16%
2	Himalayan Bank Limited	217.51	69.58	31.99%
3	Nepal Bangladesh Bank Limited	135.83	50.46	37.15%
4	Everest Bank Limited	140.67	110.89	78.83%
5	Bank of Kathmandu Limited	103.21	62.91	60.95%
6	Standard Chartered Bank Limited	296.86	102.57	34.61%
7	Kumara Bank Limited	54.98	41.22	74.98%
8	Laxmi Bank Limited	30.55	29.66	97.09%
9	NIC Bank Limited	72.99	46.57	63.80%
10	Machhapuchre Bank Limited	37.88	15.49	40.89%

Source: Appendix II of this report

Table 4.6 shows the average corporate tax payments made by selected commercial banks with standard deviation and coefficient of variation of tax payments. As shown by this table, Standard Chartered Bank Nepal Ltd. and Himalayan Bank Ltd. are top two corporate taxpayers in commercial Banks. The coefficient of variation demonstrates the variation of paying of corporate tax from the central tendency i.e. mean payment. As per the same table, the Himalayan Bank Ltd. has less C.V. i.e. 31.99 percent. It means that its corporate tax paying trend was very close to the average payment than others. Laxmi

Bank Ltd has highest C.V. i.e. 97.07 percent that's why it has high volatile in income taxpaying.

In conclusion, the corporate tax collection from commercial banks is also in the increasing order. The Himalayan Bank Ltd. has been contribution higher tax but the C.V. of this bank is very low than others. It means that its payment is closed to average payments.

4.8 Contribution of Corporate Tax Collection from Commercial Banks to Total Tax Revenue and Revenue of Government

The table 4.7 is presented below which shows the contribution percentage of corporate tax collected from commercial banks in total tax revenue and in total government revenue for the last ten years. According to the table, the contribution of corporate tax collected from commercial banks was between 1.08 percent to 1.68 percent and 1.34 percent to 2.13 percent on total government revenue and total tax revenue respectively.

Table 4.7

Contribution of Corporate Tax Paid by Commercial Banks to Total Govt. Revenue and Total Tax Revenue

(In million rupees)

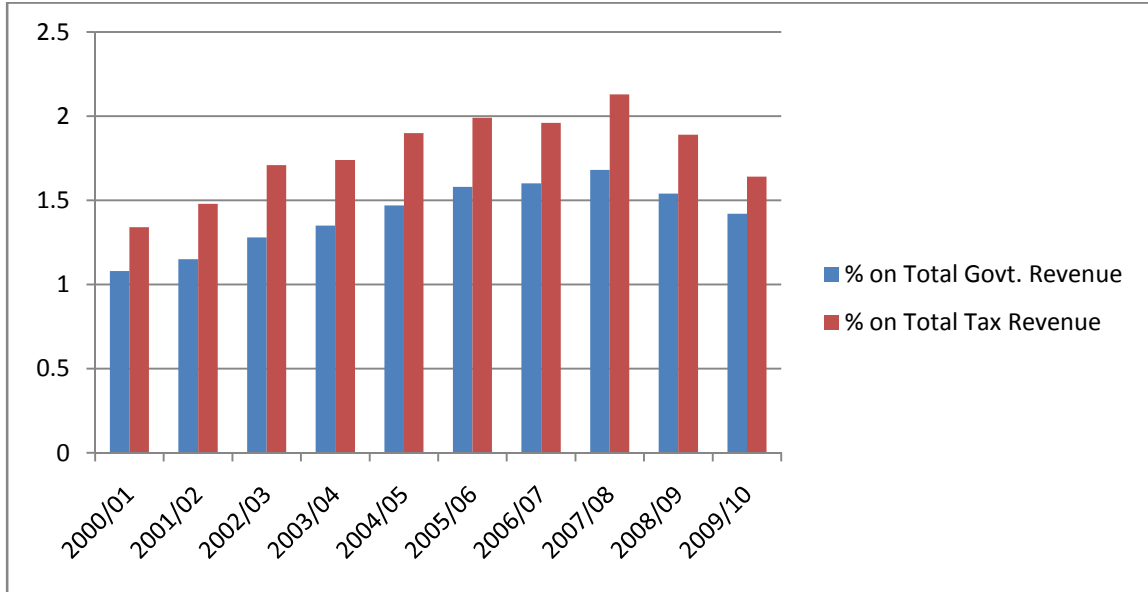
Fiscal Year	Total Govt. Revenue	Total Tax Revenue	Corporate Tax Collected from C.B.	% on Total Govt. Revenue	% on Total Tax Revenue
2000/01	48893.80	38865.00	530.24	1.08	1.34
2001/02	50446.60	39330.60	582.33	1.15	1.48
2002/03	54538.90	40896.00	698.35	1.28	1.71
2003/04	62331.00	48173.00	841.89	1.35	1.74
2004/05	70122.70	54104.70	1030.05	1.47	1.90
2005/06	72281.90	57430.40	1142.03	1.58	1.99
2006/07	87712.10	71126.70	1405.42	1.60	1.96
2007/08	107622.50	85155.50	1810.60	1.68	2.13
2008/09	143474.50	117051.90	2212.25	1.54	1.89
2009/10	179945.80	156294.90	2559.17	1.42	1.64

Source: Ministry of Finance, Annual Reports, 2009/10,

Annual reports of commercial banks from 200/01 to 2009/10

Figure 4.4

Contribution of Income Tax Paid by Commercial Banks to Total Govt. Revenue and Total Tax Revenue



From the same table, it can be said that the contribution percentage of tax payment made by commercial banks has been increasing. It was 1.08 percent in the total revenue and 1.34 percent in total tax revenue in the beginning (i.e. in the fiscal year 2000/01) and continuously increased up to 1.15 percent and 1.48 percent in the same base in fiscal year 2001/02. From above table the trend of contribution of corporate tax in government revenue and total tax revenue is increasing. The reasons behind the increasing contribution of banking sector to tax is increasing loans, advances and overdraft and commercial banks, more profits and branch extension in the different parts of Nepal. However, in the fiscal year 2002/03, the economic situation was adversely affected due to the state of emergency in the country and political instability. That is the reason the commercial banks paid low corporate tax than preceding years. In the fiscal year 2003/04, it slightly increased to reach 1.28 percent and 1.71 percent in the total revenue and total tax revenue respectively. Then, it again increased to 1.47 percent and 1.90 percent in the fiscal year 2004/05. Due to the favorable economic situation in the fiscal year 2005/06 the contribution percentage has been again increased to 1.58 percent and 1.99 percent in the total revenue and total tax revenue respectively. In fiscal year, the

percentage on total government revenue was 1.68 and percentage on total tax revenue was 2.13 respectively in the fiscal year 2007/08. Which is the highest corporate tax collected year of the study. Then after, the contribution of corporate tax is slightly decreasing in the fiscal year 2008/09 and 2009/10. In the last fiscal year of the study, the percentage of contribution of corporate tax collected from commercial banks to total government revenue and total tax revenue is 1.42 and 1.64. It means the corporate bodies are not able to do vital role to the government revenue or to the national economy.

4.9 Contribution of Corporate Tax Collection from Commercial Banks in Corporate Tax and Total Income Tax

This part of analysis also shows the contribution percentage of the corporate tax collected from commercial banks in total corporate tax and in total income tax realized. Table 4.8 and chart 4.5 express this percentage. According to this table and chart, the contribution of corporate tax collected from commercial banks to total income tax and total corporate tax was 6.30 percent and 9.73 percent in the fiscal year 2000/01. In that year about Rs. 530.24 million was collected as corporate tax from commercial banks. It was increased up to 6.90 percent and 14.50 percent from 6.30 percent and 9.73 percentage in the fiscal year 2001/02 in total income tax and total corporate tax respectively. Then after, these percentages slightly came up to 7.93 percent on total income tax and 12.81 percent on corporate tax in the fiscal year 2002/03. However, the corporate tax from commercial banks in total income tax increased to 11.89 percent in the fiscal year 2005/06. During the same year, it was 21.89 percent in total corporate tax was increased than previous year. That was the year of highest corporate tax collection from commercial banks. Then after in fiscal year 2006/07 it slightly decreased to 10.05 percent on total income tax and 16.07 percent on total corporate tax. Again in 2007/08 it slightly increased up to 11.16 percent and 18.4 percent. After the fiscal year 2007/08, it again started to decreasing trend. It declined to 9.43 percent and 16.29 percent on total income tax and total corporate tax respectively in 2008/09. In fiscal year 2009/10, it again declined to 8.88 percent on total income tax and 14.39 percent in total corporate tax. It means corporate tax paying behavior from commercial banks is not increasing as compared to the

increasing trend of income tax and corporate tax. There should be the increasing participation on collection of corporate tax of the commercial banks

Table: 4.8

Contribution of Corporate Tax Collection from Commercial Banks to the Total Income Tax and Corporate Tax

(In million rupees)

Fiscal Year	Total Income Tax	Corporate Tax	Corporate Tax Collected from C.B.	% on Total Income Tax	% on Total Corporate Tax
2000/01	8650.01	5449.60	530.24	6.30	9.73
2001/02	8436.00	4016.90	582.33	6.90	14.50
2002/03	8811.80	5449.60	698.35	7.93	12.81
2003/04	8512.50	4979.10	841.89	9.89	16.91
2004/05	9402.40	5467.10	1030.05	10.96	18.84
2005/06	9598.80	5364.10	1142.03	11.89	21.29
2006/07	13979.10	8744.70	1405.42	10.05	16.07
2007/08	16223.30	9842.10	1810.60	11.16	18.40
2008/09	23457.30	13579.80	2212.23	9.43	16.29
2009/10	28819.20	17779.30	2559.17	8.88	14.39

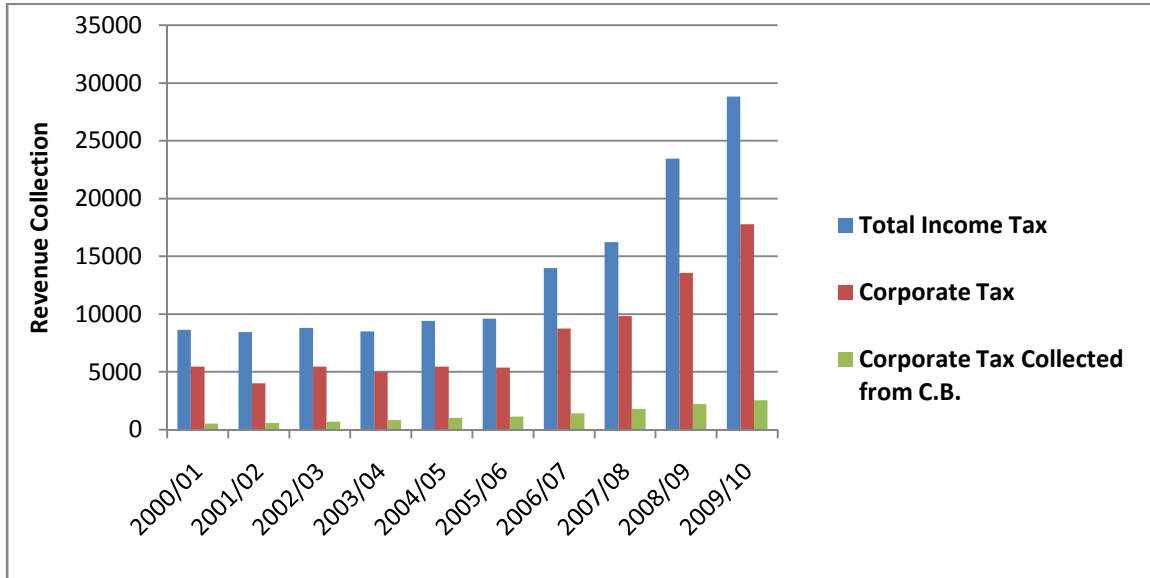
Source: Ministry of Finance, Annual Reports, 2009/10,

Annual reports of Commercial Banks (2000/01 to 2009/10)

Thus, as shown by table, the contribution percentage of corporate tax from commercial banks was increasing order, although it was slightly decreased in the fiscal year 2006/07. But from fiscal year 2008/09 it is sharply decreasing. However, percentages of total income tax and corporate tax was sometimes increased and sometimes slightly decreased during past ten years but they are also in increasing order. Non-auditing of accounts and failure to make profits by some commercial banks are responsible for less realization of corporate tax from that sector during the study period. Other major factors are instability of government and political conflict in the country that directly affected the economic environment of the nation. Although there are many obstacles but corporate tax seemed to be increasing order.

Figure 4.5

Contribution of Corporate Tax Collection form Commercial Banks to the Total Income Tax and Corporate Tax



4.10 Relationship of Corporate Tax and Tax Collected from Commercial Banks With Gross Domestic Product

The corporate tax and tax collected from finance companies to GDP are shown in the table 4.9. Gross domestic product (GDP) means the value of goods and services produced within the nation. If it is represented in the incomes of the factor of production, it is known as GPD at factor cost, where as it is known as GDP at market price of goods and services are charged at ruling prices. Prices include all taxes on expenditure subsidies being regarded as negative taxes. For the analysis, GDP at market prices is taken as base. As shown by table 4.9, the contribution percentage of these two taxes has been very low in GDP both have been increasing.

Table 4.9
Relationship of Corporate Tax Collected from Commercial Banks with Gross Domestic Product

(In million rupees)

Fiscal Year	GDP	Corporate Tax	Corporate Tax Collected from C.B.	Corporate Tax as Percent of GDP	Corporate Tax from C.B. as Percent of GDP
2000/01	441519	5449.60	530.24	1.23	0.12
2001/02	459443	4016.90	582.33	0.87	0.13
2002/03	492231	5449.60	698.35	1.11	0.14
2003/04	536749	4979.10	841.89	0.93	0.16
2004/05	589412	5467.10	1030.05	0.93	0.17
2005/06	654084	5364.10	1142.03	0.82	0.18
2006/07	728827	8744.70	1405.42	1.20	0.19
2007/08	815658	9842.10	1810.60	1.21	0.22
2008/09	988053	13579.80	2212.23	1.37	0.22
2009/10	1171905	17779.30	2559.17	1.52	0.22

Source: Ministry of Finance, Annual Reports, 2009/10,

Annual Reports of Commercial Banks (2000/01 to 2009/10)

In the fiscal year 2000/01 the GDP was Rs. 441519 million. The shares of corporate tax and corporate tax collected from commercial banks to the GDP are only 1.23 percent and 0.12 percent respectively in the same year. In fiscal year 2000/01, the share of corporate tax on GDP was reduced to 0.87 but the share of corporate tax collected from commercial bank went up to 0.13 percent. By this way the share of corporate tax on GDP was volatile, sometimes it went up and sometimes it went down. But the share of corporate tax collected from commercial banks was always in increasing trend. It means the contribution of corporate tax from commercial banks is increasing day by day as well as the significance of corporate body like: commercial banks. As the growth of GDP arises the contribution from corporate bodies also arises. In fiscal year 2009/10, the percentage of corporate tax to GDP was 1.52 and the contribution of corporate tax collection from commercial banks was 0.22. The percentage of corporate tax collection from commercial banks from fiscal year 2007/08 to 2009/10 was in constant rate of 0.22. It means the role of corporate bodies is insignificant to the growth of GDP.

4.11 Analysis of Empirical Study

One of the sources of government revenue is taxation. The government collects revenues from various sources such as taxes, revenues from public enterprises, special assessment, fees, fines, grants and assistance etc. Among them, tax is the main source of government revenue. Tax is playing a vital role in the economic development of the country. The main objective of taxation has been shifted from security perception to economic development. The modern objective of taxation is not only to maintain peace and security but also conduct development activities.

In this context, a research study is conducted to explore the contribution of corporate tax collection from commercial banks and problems of commercial banks relating to tax through a questionnaire. Data are collected from 45 respondents i.e. 15 from tax experts, 15 from tax officers and rest 15 are from banking and financial sectors. Data are analyzed using descriptive like percentage, mean and standard deviation.

The questionnaires are focused on the present income tax rules, tax structure and the opinions of the taxpayers regarding income tax system and administration. The results obtained from the opinion survey are analyzed separately according to these questions.

4.12 Background of Responses

There are all altogether 50 questionnaires are distributed on three branches like tax expert, tax officer and Banking and financial staffs. Among them, only 45 respondents are filling up their questionnaires and rests are no answer. The questions and responses are presented below.

4.12.1 Effectiveness of Income Tax System of Nepal

Table 4.10

Effectiveness of Income Tax System in Nepal

Respondent	Yes		No		I don't know		Total Respondents
	No.	Percentage	No	Percentage	No	Percentage	
Tax experts	5	11.11	8	17.78	2	4.43	15
Tax officer	6	13.33	9	20.00	0		15
Bankers	8	17.78	6	13.33	1	2.22	15
Total	19	42.22	23	51.11	3	6.67	75

Source: Opinion Survey, 2011

In the opinion survey, 42.22 Percentage of total responded are in favor of the questions and 51.11 percentages of the total respondents are in against of it, whereas 6.67 percentages had no idea about tax system. The majority of the respondents through this table, the income tax system of Nepal are not effective.

4.12.2 Causes of Effectiveness of Income Tax System of Nepal

Table 4.11

Causes of Effectiveness of Income Tax System of Nepal

S.N	Alternatives	Tax Expert	Tax Officer	Bankers	Total no of Points	Percentage	Rank
1	Applicable method of tax assessment	15	15	15	45	20.00	2
2	Provision of carry forward of losses	10	10	10	30	13.33	4
3	Sufficient exemption limit	30	35	25	90	40.00	1
4	Sufficient collection of revenue	10	10	20	40	17.78	3
5.	Other	10	5	5	20	8.89	5
	Total	75	75	75	225	100	

Source: Opinion Survey, 2011

Most of the respondents argue that it is not effective of the exemption limit now. According to the preference of scale their reasons are ranked as follows:

Rank:

- i. Application method of tax assessment 2
- ii. Provision of carry forward of losses 4
- iii. Sufficient exemption limit 1

- iv. Sufficient collection of revenue 3
- v. Other 5

Nepali tax system is sufficient because of the following reasons, such as sufficient exemption limit, application method of tax assessment, sufficient collection of revenue and provisions of carry, forward of losses.

4.12.3 Causes of Non- Effectiveness of Income Tax System of Nepal

Table 4.12

Cause of Non- Effectiveness of Income Tax System of Nepal

S.N	Alternatives	Tax Expert	Tax Officer	Bankers	Total	Percentage	Rank
1	Political instability	15	10	25	50	22.22	3
2	Lack of awareness of tax payers	20	15	20	55	24.44	2
3	Ineffective tax policy	20	25	15	60	26.67	1
4	Much confusion on tax laws	10	10	10	30	13.33	4
5.	Misuse of collected revenue	5	10	5	20	8.89	5
6	Other	5	5	0	10	4.44	6
	Total	75	75	75	225	100	-

Source: Opinion Survey, 2011

Most of the respondent argues that income tax system is not effective. Their reasons according to preference of scale are ranked as follows:

Rank

- i. Political instability 3
- ii. Lack of awareness of tax payers 2
- iii. Ineffective tax policy 1

iv. Much confusion on tax laws	4
v. Misuse of collected revenue	5
vi. Other	6

Most of the respondents think that the income tax system of Nepal is not effective because there are much confusion of tax laws and no utilization of paid money in the proper place. Some of the respondent feels that income tax system of Nepal is effective because now-a-days tax offices follow the computerization method and they are able to collect sufficient revenue in terms of VAT, excise duties, custom duties, income tax and house rent etc.

4.12.4 Soundness of Tax Administration in Nepal

Table 4.13

Soundness of Tax Administration in Nepal

Respondent	Yes		No		Total Respondents
	No.	Percentage	No	Percentage	
Tax Experts	5	11.11	10	22.22	15
Tax Officer	7	15.56	8	17.78	15
Bankers	6	13.33	9	20.00	15
Total	18	40.00	27	60.00	45

Source: Opinion Survey, 2011

In this question, total of 40 percentage respondents are viewed in favor of the question. Their opinions show that the income tax system is sound in Nepal because now-a-days tax offices collect government revenue through VAT, custom duties and excise duties.

The majority of respondents are not in favor of the question in total of 60 percentage respondents' shows that Nepal has many effective policies but these policies are not implemented in the practice. The income tax administration of Nepal is not sound in the view of taxpayers and others because of the lack of trained employee, defective income tax act and lack of public participation.

4.12.5 The Responsible Causes for the Creation of Unsound Tax Administration of Nepal

Table 4.14

The responsible causes for the Creation of Unsound Tax Administration of Nepal

S.N	Alternatives	Tax Expert	Tax Officer	Bankers	Total	Percentage	Rank
1	Defective income tax act	20	15	10	45	20.00	3
2	Lack of public participation	15	25	25	65	28.89	1
3	Lack of trained employee	20	15	20	55	24.44	2
4	Faulty organization structure of tax administration	5	10	10	25	11.11	4
5.	Weakness of government's economic policy	10	5	5	20	8.89	5
6	Other	5	5	5	15	6.67	6
	Total	75	75	75	225	100	-

Source: Opinion Survey, 2011

Because of the unsound tax system, the entire Nepali tax system has become less effective. Lack of training to the tax payers, escaped mentality from the circle of tax and weak government policies are the main causes of unsuitable way of tax system. Government makes policies but they are not put into practice. Thus, income tax administration percentage of Nepal is not sound in the view of taxpayers and others because of lack of trained employees, defective income tax act, lack of public participation, faulty organization structure of tax administration and weakness of government's economic policy.

Rank

i. Defective income tax act

3

ii. Lack of public participation	1
iii. Lack of trained employees	2
iv. Faulty organization structure of tax administration percentage	4
v. Weakness of government's economic policy	5
vi. Others	6

4.12.6 Opinions about the Current Income Tax Rate

Table 4.15
Options about the Current Income Tax Rate

Respondent	High		Medium		Low		Respondents
	No.	Percentage	No	Percentage	No	Percentage	
Tax Experts	3	6.67	10	22.22	2	4.44	15
Tax Officer	5	11.11	8	17.78	2	4.44	15
Bankers	4	8.89	6	13.33	5	11.11	15
Total	12	26.67	24	53.34	9	19.99	45

Source: Opinion Survey, 2011

from the above data information it is clear that 53.34 percentage of total respondents argued that current rate income tax rate is medium. Only 26.67 percentage argue that it is high and the rest 19.99 percent say that it is low.

4.12.7 Sufficiency of Exemptions items of Income Specified in the Act

Table 4.16
Sufficiency of Exemptions Items of Income Specified in the Act

Respondent	Yes		No		Total Respondents
	No.	Percentage	No	Percentage	
Tax Experts	6	13.33	9	20.00	15
Tax Officer	9	20.00	6	13.33	15
Bankers	3	6.67	12	26.67	15
Total	18	40.00	27	60.00	45

Source: Opinion Survey, 2011

In the opinion survey, 40.00 percentage of total responds are in favor of the question. The exempted items are sufficient for the taxpayer and 60.00 percentage of respondents are in against of it. The majority of the respondents consider that the exempted items of income are not sufficient because of the cases like less consciousness of taxpayers, lack of training facility to employee, lengthy process of income tax assessment, increasing habit to tax deceit, misuse of power by tax administration percentage and misuse of tax paid money.

The main problem, of tax management is the proper utilization of tax paid money. All the taxpayers need to know about where the tax paid money is used by the government. There is no facility of asking question to tax officials as they are not helpful. The taxpayers are dull about the paid money. So they donot want to pay tax. There is no any facility to the taxpayers. The second problem is the less consciousness of taxpayers it is because when the taxpayers become conscious about taxation, then they will be ready to pay the actual amount. It helps to manage tax structure properly.

Another major problem of income tax management is its lengthy process of income tax assessment. Taxpayers never want the lengthy and time consuming process of assessment. The next problem of income tax management is increasing habit of tax deceit. Most of the taxpayers donot want to pay the actual amount of tax. In Nepal nowadays, there is the misuse of power and authority in every field. The tax administrators promote the illegal process of tax deceiving to get personal benefit from the large taxpayers. Lack of training facilities to the employee is another major problem of tax management in Nepal. The taxpayers feel difficulties as well.

4.12.8 Improvements in Exemption Limits for Income Tax in Nepal

Table 4.17

Improvements of Exemption Limits for Income Tax in Nepal

S.N	Alternatives	Tax Expert	tax officer	Banking and Finance	Total	Percentage	Rank
1	Exemption Limits should be increased	25	25	20	70	31.11	1
2	Pension income should be exempted	15	20	15	50	22.22	3
3	Life insurance premium should be increased	10	10	5	25	11.11	4
4	Exemption for remote area should be increased	20	15	25	60	26.67	2
5.	Other	5	5	10	20	8.89	5
		75	75	75	225	100	

Source: Opinion Survey, 2011

Most of the respondents argue that it is not sufficient of the exemption limit. Their reasons according to preference of scale are ranked as follows:

Rank:

- i. Exemption limit should be increased 1
- ii. Pension income should be fully exempted 3
- iii. Life Insurance Premium should be increased 4
- iv. Exemption for remote area should be increase. 2
- v. Other 5

4.12.9 Necessary steps of Facilities should be Taken by Government for Banks.

Tax is the main source of income of the government. The government may collect more income tax if it reward to the tax payers who pay the tax in time, flexible economic laws and policies, as well as reducing current tax rate.

Table 4.18

Necessary steps of Facilities should be taken by Government for Banks

S · N	Alternatives	Tax Expert	Tax Officer	Bankers	Total	Percentage	Rank
1	Reward to the timely tax payers	15	20	25	60	26.67	2
2	Flexible economic laws and policies	20	30	25	75	33.33	1
3	Reducing current tax rate	10	10	15	35	15.56	4
4	Others	30	15	10	55	24.44	3
		75	75	75	225	100	

Source: Opinion Survey, 2011

The tax experts, tax officers and banking and financial staffs are asked whether Banks and finance companies effort or not for generating more income tax to the government.

The reasons according to preference of scale are ranked as follows:

- i. Rewarded to the timely tax payers 2
- ii. Flexible economic laws and policies 1
- iii. Reducing current tax rate 4
- iv. Other 3

4.12.10 Available Tax Concession for the Selected Commercial Banks in Nepal

Income tax plays the major role in the GDP. That's why; the government should give them some special provision to the Bank and the financial institutions. It should be tax holiday, investment credit, carry forward of loss, lowering tax rate and so on. These provisions are emphasized to incorporate more and more bank and financial institutions.

Table 4.19

Available Tax Concession for the Selected Commercial Banks in Nepal

S. N	Alternatives	Tax Expert	Tax Officer	Bankers	Total	Percentage	Rank
1	tax holiday	15	20	15	50	22.22	3
2.	Investment credit	25	20	25	70	31.11	1
3	Carry forward of losses up to 10 years	20	20	15	55	24.44	2
4	Lowering tax rate	10	10	10	30	13.33	4
5.	Other	5	5	10	20	8.89	5
		75	75	75	225	100	-

Source: Opinion Survey, 2011

The tax officials and experts say that no tax concession facilities should be given to the commercial banks and finance companies, because there is the facility of carry forward and backward of loss already.

These question are asked to the tax expert, tax officer and Banking and financial staffs. Their reasons according to preference of scale are ranked as follows:

Rank:

- i. Tax holiday 3
- ii. Investment credit 1
- iii. Carry forward of losses up to 10 years 2
- iv. Lowering tax rate 4
- v. Other 5

4.12.11 Steps that should be Considered to Generate More Revenue from Commercial Banks

Table 4.20

Steps that should be Considered to Generate more Revenue from Commercial Banks

S.N	Alternatives	Tax Expert	Tax Officer	Banking and Finance	Total	Percentage	Rank
1	Strict supervision should be done by Nepal Rastra Bank	25	25	20	70	31.11	1
2	Audit should be done regularly	20	20	20	60	26.67	2
3	They should be given tax exemption for more years, if they're established in rural areas	15	15	25	55	24.44	3
4	Should be given more facilities and concessions	10	10	5	25	11.11	4
5.	Other	5	5	5	15	6.67	5
		75	75	75	225	100	-

Source: Opinion Survey, 2011

The respondents have given their opinion that the government should not give only facilities and concession to banks for generating more corporate tax because income tax act 2058 has provided a lot of facilities to banks and finance companies i.e. loss carry forward and loss backward policy. So the present facilities given are sufficient. Strict supervision should be done by the professional auditor. But if the commercial banks are to be established in rural areas, then they should be given tax exemption for some years.

The government should give different facilities to banks and finance companies for generating more income tax. Their suggestions according to preference of scale are given below.

Rank:

- | | | |
|------|---|---|
| i. | Strict supervision should be done by Nepal Rastra Bank. | 1 |
| ii. | Audit should be done regularly | 2 |
| iii. | They should be given tax exemption for some years. | |
| iv. | If they are established in rural areas should be given more facilities and concessions. | 4 |
| v. | Others, | 5 |

4.12.12 View about the Current Corporate Tax Rate

Tax policy plays the vital role in the revenue collection in Nepal. If more or less tax rate imposes to the public it may imbalance to the economic development. That's why tax rate should be reasonable.

Table 4.21**View about the Current Corporate Tax Rate**

Respondent	High		Medium		Low		Total Respondent
	No.	Percentage	No	Percentage	No	Percentage	
Tax Expert	6	13.33	6	13.33	3	6.67	15
Tax Officer	2	4.44	12	26.67	1	2.22	15
Banking Sector	7	15.56	7	15.56	1	2.22	15
Total	15	33.33	25	55.56	5	11.11	45

Source: Opinion Survey, 2011

Some of the officials and experts say that current corporate tax rate is low in comparison to the corporate tax rate of other countries. Whereas some of them consider that the current corporate tax rate is higher than income. Generally, majority of experts has considered it is a medium.

4.12.13 Effectiveness of Corporate Tax in Nepal to Raise Government Revenue

The respondents are requested to rank their choice from 1 to 5 according to their preference to know the opinion of the respondents regarding the important factors for the effectiveness of income tax in Nepal. A question is asked; "In your opinion, what is the most important

factor for effectiveness of income tax in Nepal to raise government revenue”. Their responses are summarized in the table as below.

Table 4.22
Effectiveness of Corporate Tax in Nepal to Raise Government Revenue

S. N	Alternatives	Tax Expert	Tax Officer	Bankers	Total	Percentage	Rank
1	Clear acts, rules and regulations	25	20	25	70	31.11	1
2	Conscious and honest tax payers	15	25	10	50	22.22	3
3	Honest tax officers	10	5	5	20	8.89	5
4	Effective tax administration	20	15	20	55	24.44	2
5.	A political system	5	10	15	30	13.33	4
		75	75	75	225	100	

Source: Opinion Survey, 2011

The questions are asked to the tax expert, tax officer and Banking and financial staffs.

Their views according to preference of scale are ranked as follows:

Rank:

- | | |
|---|---|
| i. Clear act, rules and regulations | 1 |
| ii. Conscious and honest tax payers | 3 |
| iii. Honest tax officers | 5 |
| iv. Effective tax administration percentage | 2 |
| v. A political system | 4 |

4.12.14 Adequate Contribution of Corporate Tax from Banking Sector

The questions are asked to the tax expert, tax officer and banking and financial sector that tax collections from banks are satisfactory or not. Their clear views are as follow:

Table 4.23
Adequate Contribution of Corporate Tax from Banking Sector

Respondent	No		Yes		Total Respondent
	No.	Percentage	No	Percentage	
Tax Expert	10	22.22	5	11.11	15
Tax Officer	12	26.67	3	6.67	15
Bankers	8	17.79	7	15.57	15
Total	30	66.68	15	33.34	45

Source: Opinion Survey, 2011

From the above information, it is clear that contribution of income tax from banking companies is not adequate because more than 66.68percent respondents support their negative views, but only 33.34percent respondents argue that it is not adequate. That way, it is concluded that income tax from banking companies is not adequate.

4.12.15 Causes of Inadequacies Contribution of Corporate Tax from Banking Sector

There are many reasons behind the inadequate corporate tax from banking and financial companies. They are defective income tax policy, rules and regulations, inadequate government economic policy, poor performance of Banking or financial companies, lack of stable political conditions and so on.

Table 4.24
Causes of Inadequacies Contribution of Corporate Tax from Banking Sector

S.N	Alternatives	Tax Expert	Tax Officer	Bankers	Total	Percentage	Rank
1	Defective income tax policy, rules & regulations	25	25	20	70	31.11	1
2	Inadequate government	20	20	25	65	28.89	2

	economic policy						
3	Poor performance of Banking	15	10	15	40	17.78	3
4	Lack of stable political condition	10	15	10	35	15.56	4
5.	Other	5	5	5	15	6.66	5
	Total	75	75	75	225	100	

Source: Opinion Survey, 2011

The question “Causes of inadequate of corporate tax” is asked to the tax expert, tax officer and banking and financial staffs. Their reasons according to preference of scale are ranked as follows:

Rank:

- i. Defective income tax policy, rules & regulations 1
- ii. Inadequate government economic policy 2
- iii. Poor performance of banking or financial companies 3
- iv. Lack of stable political condition 4
- v. Other 5

4.12.16 Suggestion for Increasing Contribution of Corporate Tax to National Revenue from Banking Sector

Table 4.25

Suggestion for Increasing Contribution of Corporate Tax to National Revenue from Banking Sector

S.N	Alternatives	Tax Expert	Tax Officer	Bankers	Total	Percentage	Rank
1	Increasing managerial efficiency	25	20	20	65	28.89	2
2	Reform the income tax policy, rules and regulation	25	25	20	70	31.11	1

3	Effective imposition of fine and penalty system	10	15	15	40	17.78	3
4	Effective tax administration percentage system	10	10	15	35	15.56	4
5.	Other	5	5	5	15	6.67	5
		75	75	75	225	100	-

Source: Opinion Survey, 2011

The question, that the “Factor that should be initiated to increase the contribution of income tax from banking and financial institution?” are asked to the tax expert, tax officer and Banking and financial staffs. Their reasons according to preference of scale are ranked as follows:

Rank

- | | | |
|------|--|---|
| i. | Increase of managerial efficiency | 2 |
| ii. | Reform the income tax policy, rules and regulation | 1 |
| iii. | Effective imposition of fine and penalty system | 3 |
| iv. | Effective tax administration percentage system | 4 |
| v. | Other | 5 |

4.12.17 Effectiveness of Contribution of Corporate Tax to National Revenue from Banking Sector

Table 4.26

Effectiveness of Contribution of Corporate Tax to National Revenue from Banking Sector

Respondent	Yes		No		Total Respondents
	No.	Percentage	No	Percentage	
Tax Experts	7	15.56	8	17.78	15
Tax Officer	6	13.33	9	20.00	15
Bankers	8	17.78	7	15.56	15
Total	21	46.67	24	53.34	45

Source: Opinion Survey, 2011

From the above survey, 46.67percent respondents argue that it is effective and satisfactory and the rest 53.34percent respondents argue that it is not satisfactory and not effective. Thus, the contribution of income tax from banking sector to national revenue is not effective and satisfactory.

4.12.18 Some Particular Suggestions to Increase Corporate Tax from Banking Sector

Table 4.27

Some Particular Suggestions to Increase Corporate Tax from Banking Sector

Respondent	Yes		No		Total Respondents
	No.	Percentage	No	Percentage	
Tax Experts	10	22.22	5	11.11	15
Tax Officer	8	17.78	7	15.56	15
Bankers	7	15.56	8	17.78	15
Total	25	55.56	20	44.44	45

Source: Opinion Survey, 2011

According to the survey, it is concluded that 55.56percent of the total are in favor of this question and the rest 44.44percent of the total are in against of it. That's why, it is necessary to take particular suggestions to increase income tax from banking sector.

Particular Suggestions and Recommendations about Income Tax in Nepal

It is necessary to increase the internal revenue in order to operate nation and develop the economy and to decrease the dependency on foreign assistance. Income tax is the best and researchable source of national revenue in the developing countries like Nepal. The trend of income tax realization and associated problems should be studied frequently to find out the proper solution and the corporate taxpayers to the nation. The study of banking and non-banking finance in respect tax payment may be based for investigation of potential tax source. As a result, the nation can expand the scope of tax net having positive impact on income tax collection.

It is necessary to pay income tax for all the banking sectors, financial institutions and other organizations. But some few areas in which tax must be free from the state.

- a) Educational sector must be totally free from the circle of tax.
- b) All the non trading concerns like hospitals, nursing homes and public health care centers should be tax free.
- c) All types of national production and for their export.
- d) Development of the holy places.

All the above sectors should be tax free in state.

For Tax Expert Only

4.12.19 Existences Complain for Banking and Financial Companies

Table 4.28

Complain of Banking and Financial Companies

S.N	Alternatives	Tax Expert	Total	Percentage	Rank
1	About tax assessment	35	35	46.67	1
2	About fines and penalties	15	15	20.00	3
3	Other	20	25	33.33	2
		75	75	100	-

Source: Opinion Survey, 2011

The questions are asked to the tax expert only. Their views are presented according to preference. These are as follows;

Rank:

- i. About tax assessment 1
- ii. About fines and penalties 3
- iii. Other 2

For Bankers

4.12.20 Existences Trouble for Paying Corporate Tax

Table 4.29

Existences Trouble for Paying Corporate Tax

Respondent	Yes		No		Total
	No.	Percentage	No	Percentage	Respondents
Bankers	11	73.33	4	26.67	15

Total	11	73.33	4	26.67	15
-------	----	-------	---	-------	----

Most of the respondents argue that it is difficult to the paying corporate tax.

4.12.21 Existences problem faces by Banking and financial companies

Table 4.30

Existences problems faces by Banking and Financial Companies

S.N	Alternatives	Banking and Finance	Total	Percentage	Rank
1	Consuming unnecessary time	25	25	33.33	1
2	Illegal incentives by tax personnel	10	10	13.33	4
3	Vague provisions in income tax laws.	20	20	26.67	2
4	Lengthy and unnecessary process	15	15	20.00	3
5.	Lack of co-operation by tax administrator	5	5	6.67	5
		125	125	100	-

Rank:

The question are asked to the tax expert, tax officer and Banking and financial staffs.

Their reasons according to preference of scale are ranked as follows:

- i. Consuming unnecessary time 1
- ii. Illegal incentives by tax personnel 4
- iii. Vague provisions in income tax laws 2
- iv. Lengthy and unnecessary process 3
- v. Lack of co-operation by tax administrator 5

4.13 Major Finding of the Study

1. The present system of taxation for the small taxpayers is good. Because they do not have to maintain the proper account. On the other hand, it is not efficient, because the tax office does not impose same rule for all kinds of tax payers. It is

seen that due to the assessment delays, the income tax has made the provision of self assessment since the early 1990s. All the commercial Banks and finance companies have been computing their tax liabilities under this system. But this assessment made under this system which has not been fully accepted by tax officers. Self assessment system is also lengthy process and demand many documents.

Negative attitude and unfriendly behaviors of tax authorities to the tax payers are also the problems. They donot allowed to deduct some expenses even tax law has made provision of deduction. They do not accept self- assessed returns easily and make delays in issuance of tax clearance.

2. Income tax revenue is also in the also increasing trend. The contribution of corporate tax is highest among other tax revenues. Under corporate tax, the government enterprises are paying more tax then others. Second position is taken by industries, trade and profession under individual income tax. There is highly fluctuation in the contribution of corporate tax. Growth rate has showed increasing order and after sometime it is seemed to be negative and again it is increased somehow.
3. There is high fluctuation in contribution of corporate tax. Growth rate has showed increasing and decreasing order randomly. Standard Chartered Bank Nepal Ltd. has paid higher tax. Total tax paid by commercial banks is seemed to be increasing order till 2009/10 fiscal year.
4. The contribution of tax collection from commercial banks and finance companies on total corporate tax is very low. There is less contribution of tax collection from commercial banks on government revenue. The percentage on corporate income tax of commercial banks has seemed to be satisfactory. It is because working area of commercial banks is widely spread.

5. The contribution percentage of corporate tax paid by commercial banks to total government revenue and total tax revenue has seemed very low. The contribution to total income tax is not satisfied but contribution to corporate tax is satisfied.
6. The percentage on total income tax of commercial banks has covered the satisfactory position. It is because working area of commercial banks is very bigger than that of other financial institutions. The percentage on total tax revenue of commercial banks is low. The contribution of tax collection from commercial banks and other financial institutions on revenue of government seems very low.
7. Income tax is a major source of government revenue. The contribution of tax revenue will be effective if the collection process was made properly. And the collection must be used in proper place. The present system of tax in Nepal is not efficient because the tax office does not impose same rule to all kinds of taxpayers. The Inland Revenue Department of tax has collected more tax from the small taxpayers and less from others.
8. The problem related to tax management was found less consciousness for taxpayers and legal consideration i.e. the law should be very clear and understandable to the people, increasing habit of tax deceit, remove its lengthy process of income tax assessment, the problem of the lack of identical accounting system, remove the misuse of power and authorities and to fulfill lack of training facilities to the employees.
9. The main problem faced by commercial banks and finance companies in paying corporate tax is assessment delay. The income tax law was made provision of the self-assessment since the early 1990s. All the commercial banks and finance companies have been assessing their tax liabilities under this system but the assessment made under this system is not fully accepted by tax officers. They demand many documents for the process of self-assessment

10. Negative attitude and unfriendly behavior of tax authorities to the taxpayers are also the problems to the bankers and finance companies. They are not seen like civil servants. They do not allow to deduct some expenses even tax law has made provision of deductions. They do not accept self-assessment easily return and make delay in issuance of tax clearance certificate.

From Primary Data:

1. The income tax system of Nepal is efficient because of application method of tax assessment for Nepali. tax system is sufficient because of the following reason such as sufficient exemption limit, application method of tax assessment, sufficient collection of revenue & provision of carry forward of losses etcetra.
2. Most of the respondents have thought that the income tax system of Nepal is not efficient because there are more confusion of tax laws and not proper utilization of paid money in the proper place. Some of the respondents feel that income tax system of Nepal is efficient because now-a-days tax offices follow the computerization method and they are able to collect sufficient revenue in terms of VAT, excise duties, custom duties and income tax house rent etc.
3. The reasons of efficient of income tax are, application method of tax assessment, provision of carry forward of loss, sufficient exemption limit and sufficient collection of revenue.
4. The reasons for insufficient are, political instability, lack of awareness of tax payers, ineffective tax policy, much confusion on tax laws and misuse of collected revenue.
5. The income tax administration in Nepal is not Sound. The reason for insufficiency are: defective income tax act, lack of public participation, lack of trained employee, faulty organization structure of tax administration, weakness in government's economic policy.

6. The current income tax rate is medium and the exempted items of income specified in the act are sufficient.
7. The following facilities should be provided to the bank and financial institution for generating more income like rewarding to the timely tax payers, flexible economic laws and policies and reducing current tax rate etc.
8. The following facilities should be given to the commercial banks and finance companies such as tax holiday, investment credit, carry forward of losses up to 10 years and lowering tax rate etc.
9. Suggestions to increase the tax paying habit of Nepalese people are various such as educating tax payers, simplify tax laws, timely assessment of taxpayers, incentives to regular payers, imposing fines and penalties etcetera.
10. The government should consider the following steps to generate more revenue from banks such as strict supervision should be done by Nepal Rastra Bank, audit should be done regularly, they should be given tax exemption for some years and if they are established in rural areas and they should be given more facilities and concessions etcetera.
11. The following tax assessment method is more appropriate in Nepal due to proper self-assessment, assessment on the best judgment and tax Settlement Commission etcetera.
12. The most important factor for effectiveness of income tax in Nepal to raise government revenue are: clear act, rules and regulation, conscious and honest tax payers, honest tax officers, effective tax administration, political non interruption.

13. The contribution of income tax from Banking is not satisfactory. The reasons are defective income tax policy, rules & regulations, inadequate government economic policy, poor performance of Banking or financial companies, lack of stable political condition etcetera.
14. The factor initiated to increase the contribution of income tax from banking and financial institution are increasing of managerial efficiency, reform the income tax policy, rules and regulations, effective imposition of fine and penalty system and effective tax administration system.
15. Contribution of income tax from Banking to national revenue is not effective and satisfactory.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

In each and every country, a lot of fund is spent by the public authority for the protection of the people, command people and for the creation of various socioeconomic infrastructures. Protection expenditure includes the purchase of arms and ammunitions, army and police expenses and administration of jails. The government expenditures are increasing day by day because of demand of time, increasing price and national income and government needs more money to run it successfully. The government collects revenues from various sources such as tax, revenues from public enterprises, special assessment, fees fines grants and assistance etc. among which tax is the main source of government revenue.

5.1 Summary

Commercial banks are the financial institutions which deal in accepting deposits from individuals and institution. They provide interest, mobilize capitals and grant loans against securities that help to remove the deficiency of capital. They also furnish necessary working capital according to the requirements for trade, commerce, industry as well as agriculture sectors and create credit. So, they are being the means for the development of the society. Their main objectives are to earn reasonable profit as reward for their service through proper mobilization of idle resources in productive sector by collecting them from different scattered sources. They help to reduce the probability of inflations by increasing the interest rate while economy is interested for investment in case of depression period.

The development of banking sector is not so long in Nepal. In comparison with other developing or developed countries, the institutional development in banking system in Nepal is far behind. Nepal has to wait for a long time to come to this present banking position.

This study was totally focused on following objectives:-

-) To evaluate the contribution of corporate tax by commercial banks.
-) To identify the strength and weakness of income tax system.
-) To identify the problems of commercial banks relating to tax.
-) To provide suggestions and recommendations on the basis of above study.

For above objectives, research work was done. From annual report of different commercial banks, the necessary data were taken as secondary data. An opinion survey was conducted for primary data collection to the tax experts, tax officer and banking professional. Surfing of different websites related to tax, revenue department and Nepal Rastra Bank were done to achieve necessary data. Review of literature, journals and articles to get insight knowledge were done.

Commercial banks are corporate bodies which are profit-oriented organizations. They make profits from financial transactions by rendering services to the public and business organization and pay income tax to the government from their taxable income. There are also problems in collection of income tax from commercial banks and finance companies. Some of them have not yet got audited their accounts for five to six years. This practice should be eliminated to generate more income tax. On the other hand, it seems that commercial banks have appealed to revenue tribunal time to time. It shows that there are some weaknesses in tax assessment of such commercial banks and finance companies and vague law and regulation of income tax Law and Finance Act. These are the main problems to be solved as far as possible to mobilize more resources through income tax from commercial banks and finance companies.

The income tax is a vital source of the government revenue. There is no obligation to the third parties by mobilizing resource through taxation. Two types of income tax are applied i.e. personal income tax and corporate income tax. However, individuals become dishonest and suspend the real income. They enjoy the weaknesses of tax law and escape from tax administration. There are some corrupt staffs in Inland Revenue Department and Offices, who encourage the taxpayers to evade tax liabilities. Similarly, the Department cannot find out the actual number of income taxpayers.

There is no proper supervision over the staff member of tax collection department in Nepal. Behavior of tax offices is also not satisfactory. Corruption is the main problem of tax administration. There is also a problem related to tax awareness among general public. It seems that income tax is becoming more difficult. There is no reliable and sufficient data for tax purpose and there is lack of information and co-ordination between different Departments and Inland Revenue Department.

5.2 Conclusion

The primarily study has focused on the tax collection and practice adopted by the sample banks with a view to provide valuable suggestions which may be helpful to the formulation of optimal corporate tax collection and contribution of tax paid by banks to the government revenue for the development. The main objective of the study is to gain an insight into the corporate tax collection from commercial banks and give appropriate suggestions to improve the tax system so that the government can collect more revenues and use them in the process of nation development. The study will not only help the government to collect more revenue but also make the concerned people aware of the exemption of income and deduction of expenses.

Income tax has becoming most important source of the nation revenue for the economical and social development of the country, which requires huge amount. Any progressive activities should be taken each year to give minimum requirements of people. Proper management is required to collect the targeted revenue. Therefore, income tax management also should be sound for the planning, directing and collection of income tax either personal income tax or corporate tax. Collection of income tax is difficult task and the objective of income tax management is also the achievement of the goal of income taxation system. Income tax management also needs to recognize its taxpayers, and their net income. It needs to plan and anticipate the income tax collection in future, to make implement the policy formulated by the tax department and needs to control the defects of policy formed for correction.

Only tax policies and programs are not successful devices for achieving the ultimate goal of an organization. For the achievement of targeted goals, the policies and plans must be implemented in deficient and effective manner. Tax administration is an important sub system of taxation system, which is needed for successful implementation of tax policies and laws. Policy making is relatively easy but more difficult to administer. Policies are formulated by top level while the lower level tax offices implement them.

The success and failure of any policy depend upon the efficiency and effectiveness of the tax administration. Income tax is administered directly by the Inland Revenue Department, Ministry of Finance. Other administration such as customs administration, revenue investigation administration and revenue administration and training centers are also involved in the income tax administration. The revenue division of this Ministry of Finance is responsible for formulating tax policy and setting up appropriate administration to implement the tax policy. The revenue investigation administration investigates the revenue leakages made by officers and taxpayers for their mutual benefits. The revenue administration training center performs training, workshops and seminars for the tax officials.

Nepal has been collecting its revenue from different sources. The structure of the government revenue in Nepal is the composition of tax revenue and non-tax revenue. The government revenue is the mix (contribution) of tax revenue and non-tax revenue which consist of various sources.

National exchequer is the composition of tax revenue and non-tax revenue. Tax revenue includes direct and indirect taxes. Non-tax revenue of the government is also important revenue source that includes different types of fees, charges, dividend, royalty and principle with interest from companies and corporation. Sale of fixed assets and mint are also components of non-tax revenue. The tax revenue is more contributing than that of non-tax revenue.

The trend of direct tax collection is positive i.e. it is increasing in order but it decrease in the recent year. The reason behind of increasing is the increment of income tax collection and other direct taxes. The income tax collection has been increasing due to increasing number of tax payers and that taxable revenue and profit. It can be said that the positive trend of direct tax denotes economic improvement of the nation even though the nation is in mess in these days due to political crisis.

Resource mobilization through income tax is very important instrument in Nepal. There are existing trend deficit and resource gap each year. That's why; the government has to borrow foreign loans. For the improvement of these constraints, the government must be able to increase its internal resources. Income tax as the component of internal resources has been contributing in the government revenue in the increasing trend. But it is also not improved as expected due to various reasons like weakness in income tax administration, lack of tax morality in taxpayers, defectors in income tax provisions and illegal business activities are primarily responsible for insufficient realization of income tax revenue in Nepal. The corporate bodies do not escape from tax liabilities in general. They maintain the books of accounts in accepted formats, audited their accounts and pay taxes in due date. However, most of government enterprises manipulate the accounts, and their financial performances are also bad. On the other hand, family managed private companies' practices tax evasion. These are the drawbacks in corporate tax realization in Nepal. It has many problems relating to income tax collection.

Standard Chartered Bank Nepal limited and Himalayan Bank Limited are top two corporate tax payers in commercial banking. The coefficient of variation demonstrates the variation of corporate tax from the central tendency i.e. mean payment. Himalayan Bank Limited is less C.V. it means that is corporate tax paying is very close to the average payment then others. Laxmi Bank Ltd. has highest C.V. That is why it has a volatile in income tax paying. The corporate tax collection from commercial banks is also in the increasing order. The Himalayan Bank Ltd. has been contributing higher tax but the C.V. of this bank is very low than others, it means that its loan and payment is closed to average payment.

The contribution percentage of tax payment made by commercial banks has been increasing. The reasons behind the increasing contribution of banking sector to tax are increasing loans, advances and overdraft of commercial banks, more profit, and branch extension in the kingdom of Nepal. However, in the fiscal year 2002/03 the economic situation was adversely affected due to the state of emergency in the country and political instability. That is the reason the commercial banks paid low corporate tax then preceding years. In the fiscal year 2003/04 is slightly increased in the total revenue and total tax revenue respectively. Being the favorable economic situation, the contribution percentage has been increased continuously till the fiscal year 2009/10.

The tax collection from commercial bank is in increasing order, which indicates the development of banking and finance sector. It is positive indication for the economy of country. The contribution of commercial banks on total income tax is increasing order. The corporate tax collection from commercial bank is in growing order, which indicate that, the development of country. The tax collection from commercial banks on total tax revenue is instable. The contribution on total tax revenue is in fluctuation.

Tax rate should not be so high only for maximum revenue realization but should be activated for the private investment. Developing countries like Nepal needs to boost of their economic condition by developing industry and trade within the country. Imposition of tax on corporate profit was started with the enactment of the business profit and Remuneration tax Act, 1960. The starting corporate tax rate is 25 percent and it is levied on progressive way.

5.3 Recommendations

Based on the major findings in this study, some recommendations are explained below. This recommendation will certainly be proved as the milestone to overcome existing issues in this field. This thesis topic left open to an all furtherer researcher. The researcher is able to gain lots of experience through this thesis. This type of thesis helps to build the confidence of researcher. The researcher is endowed with opportunities to expose her or him various interacting activities.

The tax payers should be highly literate which helps them to understand the tax law and act. The tax payers should not try to deceive the tax. The national wide campaign should be launched to inform and explain tax laws. Tax programmed and tax benefits with the view of simulating dynamic participation of the public to pay tax through the media of radio, television, news paper and speech programmed in the educational institution. Income tax management has its lengthy process of income tax assessment. tax payers never want the lengthy and time consuming of assessment. That is why, the management has to try to make it faster and short process of income tax assessment. The development of manager and human resources professionals in tax administration as a priority in an effort to motivate to staff at all levels to participate in shaping and managing in an increasingly decentralized, local, knowledge-base network. In the case of low-income developing countries like, the reactive tax administration must be reformed drastically in order to translate tax theory into practice. It is necessary to implement computerization in order to establish and information the based tax system. The following measures are recommendation for the modernization of a tax administration of or low income developing country like Nepal.

- i) Unified functional organization,
- ii) Human resource development
- iii) Modern administrative technique
- iv) Computerization
- v) Tax payer education program
- vi) Efficient system of appeals

Accounting records should be maintained honestly and they should be reliable. They must be honest and paid tax in time as per rules. Commercial banks have many drawbacks and delays in paying tax.

- i. Auditing of accounts of banks and finance companies are not done in time. One of the problems to collect the tax from these sectors is non-auditing of accounts.
- ii. Account record by these sectors is not reliable

The government and political conflict in the country should be stopped. Peace should be maintained for the better economic development of the country.

The government is vital in all sorts of economic system. It is a very powerful institution which can create a favorable business environment. The government should play the vital role in economic growth, social obligation, control monopoly, providing patent and stimulate private sector. The government should regulate and promote to the economic activities of private sector. The government should give exemption on introducing new technology, fair economic environment and development product of the part of national economic developments. Government should give banks and finance companies and environment of free competition, should process of load and watch the activities of banks and finance companies for generating more income tax. And make effective policy to reward them. They should have given full authorities and monitored frequently by NRB.

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APPENDIX-I

QUESTIONNAIRE

Dear respondents,

I will be extremely obliged if you kindly help me to fulfill my objective of undertaking the research on "A Study on Corporate Tax Collection from Commercial Banks" by answering the following set of questions for dissertation required to the MBS course to be submitted to the Tribhuvan University. To analyze this research objective, I have enclosed here with some questions, which are related with Tax. Your answers will be kept strictly confidential and will be used for academic purpose.

Thank You!

Sincerely

Yours'

Name:.....

Position:.....

1. Do you think present tax system in Nepal is effective?
A) Yes B) No C) I don't know

2. What are the causes of effectiveness of income tax system in Nepal? (Please Rank)
A) Applicable method of tax assessment.
B) Provision of carry forward of losses.
C) Sufficient exemption limit
D) Sufficient collection of revenue
E) Other

3. What are the causes of non-effectiveness of income tax system of Nepal? (Please Rank)
A) Political instability.
B) Lack of awareness of tax payers.
C) Ineffective tax policy.

- D) Much confusion on tax laws.
 - E) Misuse of collected revenue.
 - F) Other
4. Do you think present tax administration in Nepal is sound?
- A) Yes
 - B) No
5. What are the causes for the creation of unsound tax administration of Nepal?
(Please Rank)
- A) Defective income tax act.
 - B) Lack of trained employee.
 - C) Lack of trained employee.
 - D) Faulty organization structure of tax administration.
 - E) Weakness of government's economic policy.
 - F) Other
6. Your opinion about the present income tax rate?
- A) High
 - B) Medium
 - C) Low
7. What do you think exemptions items of income specified in the act are sufficient?
- A) Yes
 - B) No
8. Any improvements in exemption limits for income tax in Nepal? (Please Rank)
- A) Exemption limits should be increased.
 - B) Pension income should be exempted.
 - C) Life insurance premium should be increased.
 - D) Exemption for remote area should be increased.
 - E) Other
9. What are the necessary steps of facilities that should be taken by government for banks? (Please Rank)
- A) Reward to the timely tax payers.
 - B) Flexible economic laws and policies.
 - C) Reducing the current tax rate.
 - D) Others

10. Among available tax concession for commercial banks, which one is the best?
(Please Rank)
- A) Tax holiday.
 - B) Investment credit.
 - C) Carry forward of losses up to 10 years.
 - D) Lowering tax rate
 - E) Other
11. Necessary steps that should be considered to generate more revenue from commercial bank? (Please Rank)
- A) Strict supervision of Nepal Rastra Bank.
 - B) Audit should be done regularly.
 - C) They should be given tax exemption for more years, if they're established in rural areas.
 - D) Should be given more facilities and concessions.
 - E) Other
12. Opinions about the present corporate tax rate?
- A) High B) Medium C) Low
13. In your opinion what is the most important factor for effectiveness of corporate tax in Nepal to raise government revenue? (Please Rank)
- A) Clear acts, rules and regulations.
 - B) Conscious and honest tax payers.
 - C) Honest tax officers.
 - D) Effective tax administration
 - E) A political system.
14. Do you think contribution of corporate tax from banking sector is adequate?
- A) Yes B) No
15. What are the major causes of inadequate contribution of corporate tax from banking sector? (Please Rank)
- A) Defective tax policy, rules and regulations.
 - B) Inadequate government economic policy.
 - C) Poor performance of banking.
 - D) Lack of stable political condition.
 - E) Other

16. Suggestions for increasing contribution of corporate tax to national revenue from banking sector, rank from 1 to 5?
- A) Increasing managerial efficiency.
 - B) Reforming the income tax policy, rules and regulations.
 - C) Effective imposition of fine and penalty system.
 - D) Other
17. Do you think the contribution of corporate tax from banking sector to government revenue is effective?
- A) Yes B) No
18. Is there need of any particular suggestions to increase corporate tax from banking sector?
- A) Yes B) No
19. Rank the existences problems faces by banking and financial companies?
- A) Consuming unnecessary time.
 - B) Illegal incentives by tax personnel.
 - C) Vague provisions in income tax laws.
 - D) Lengthy and unnecessary process.
 - E) Lack of co-operation by tax administrater.

APPENDIX-II

List of Class A Licensed Commercial Banks (Mid-feb 2012)

Names	Operation Date (B.S.)	Head Office
1. Nepal Bank Limited	1994/07/30	Dharmapath, Ktm.
2. Rastriya Banijya Bank	2022/10/10	Singhdarbarplaza, Ktm
3. Agriculture Development Bank	2024/11/7	Ram Shah Path, Ktm
4. NABIL Bank Limited	2041/03/29	Kantipath, Kathmandu
5. Nepal Investment Bank Ltd.	2042/11/26	Darbar Marg, Ktm.
6. Standard Chartered Bank Nepal Ltd.	2043/10/12	Naya Baneshwor, Ktm
7. Himalayan Bank Limited	2049/10/05	Thamel, Kathmandu
8. Nepal SBI Bank Limited	2050/03/23	Hattisar, Kathmandu
9. Nepal Bangladesh Bank Limited	2050/02/23	Naya Baneshwor, Ktm
10. Everest Bank Limited	2051/07/01	Lazimpat, Kathmandu
11. Bank of Kathmandu Limited	2051/11/28	Kamaladi, Ktm
12. Nepal Credit & Commerce Bank Ltd.	2053/06/28	Siddharthenagar, Rupandehi
13. Lumbini Bank Limited	2055/04/01	Narayanghat, Chitawan
14. Nepal Industrial & Commercial Bank Ltd.	2055/04/05	Biratnagar, Morang
15. Machhapuchhre Bank Limited	2057/06/17	PrithiviChowke, Pokhara
16. Kumari Bank Limited	2057/12/21	Putalisadak, Ktm
17. Laxmi Bank Limited	2058/12/21	Adarshanagar, Birgunj
18. Siddhartha Bank Limited	2059/09/09	Kamaladi, Ktm.
19. Global Bank Limited	2063/09/18	Birgunj, Parsa
20. Citizen bank Limited	2064/01/07	Kamaladi, Ktm
21. Sunrise Bank Limited	2064/06/25	Gauridhara, Ktm
22. Prime Commercial Bank Limited	2064/06/07	Nayasadak, Ktm
23. Bank of Asia Nepal Limited	2064/06/25	Tripureswor, Ktm
24. DCBL Bank Limited	2065/02/12	Kamaladi, Ktm
25. NMB Bank Limited	2065/02/20	Babarmahal, Ktm

26.Kist Bank Limited	2066/01/24	Anamnagar, Ktm
27.Janata Bank Limited	2067/01/15	Nayabaneswor, Ktm
28.Mega Bank Limited	2067/06/12	Kantipath , Ktm
29.Commerz & Trust Bank Limited	2067/06/04`	Kamaladi, Ktm
30.Civil Bank Limited	2067/08/29	Kamaladi, Ktm
31.Century Commercial Bank Limited	2067	Putalisadak, Ktm
32.Sanima Bank Limited	2068	Kathmandu

Source: Banking and Financial Statistics-48, a journal of Bank & Financial Institutions Regulation Department, NRB, 2011, p. 35

Banks & Financial Institutions in Nepal

Bank & Financial institutions	2065/03/30	2066/03/30	2067/03/30	2068/03/30
Commercial Banks	25	26	27	32
Development Banks	58	63	71	88
Finance Companies	78	77	71	88
Micro Finances	12	15	18	21
Co-operatives under NRB	16	16	15	16
NGO'S under NRB	46	45	45	45
Life Insurance	25	25	25	25
Citizen Investment Trust	1	1	1	1
Employees Provident Fund	1	1	1	1
Postal Saving Bank	1	1	1	1
Total	263	270	283	308

Source: Economic Review 2068 page:45