

CHAPTER I

INTRODUCTION

1.1 Background of the study

Nepal's next door neighbors are china and India. Both these countries have achieved remarkable economic progress over the years. Nepal is surrounded by these two countries in west, south and east by India and in north by China. Economic activities of both the countries significantly influence the Nepalese economic activities.

Globalization is today's trend. Nepal also cannot remain isolated from the world economy and hence by global trends, Nepal being small country, globalization becomes even more important. Nepal has got membership of WTO on 23rd April 2004 as moving towards the system of world's globalization. However, Nepal is facing serious problem such as, Nepal is classified as a least developed country on account of a low per capita income of around US\$ 318, low contribution of manufacturing sector in GDP and low indices in the social indicators of development normally, a low ratio of revenue to total expenditure, low revenue to GDP ratio, low ratio of capital expenditure to total expenditure and high level of fiscal deficit are some of phenomenon of the Nepalese fiscal system. As government revenue is growing at a lesser rate than the growth in expenditures, the gap between revenue and expenditure is ever widening resulting higher level of budgetary deficit. Economic growth remained hobbled by the long-running insurgency and political instability. The peace process has rekindled hopes of economic revival in Nepal after Nepal becoming republic on May 28, 2008.

Financial institutions are viewed as catalyst in the process of economic growth. The mobilization of domestic resources, Capital formation and its proper utilization plays an important role in the development of a Country.

Financial Institution is composed of Banking and non Banking. Banking sector comprises Nepal Rastra Bank (NRB) and Commercial Banks whereas, Non Banking sector includes Development Banks, Micro-credit Development Banks, Finance Companies, Co-operative financial institutions, non government organizations (NGOs) performing limited Banking activities, Insurance companies. Especially, Finance Companies can operate only after the approval of NRB. Basically, they have to work under finance company Act 2042, company Act 2053 and other guideline issued by NRB to finance companies. Under, the present regulatory regime, the NRB's non banking operation unit supervises the finance company in the respect of their activities as deposit taker and lender.

The government needs huge amounts to achieve the maximum objective of the nation. To fulfill such objectives the government collects revenue from various sources for reducing budgetary deficit. The sources of government revenue are classified into external and internal sources. The external sources of government revenue are foreign loan, grants and assistance, external borrowings etc. External source of Government revenue are uncertain, inconvenient and not good for healthy development of Nation. Internal source of government revenue are tax fee, funds, revenue from public enterprises, special assessment, custom exercise, corporate and person income tax etc. In simple, tax is an obligation to pay sum of money by people according to value, income, purchase etc to the government for public purpose. In Nepal, the government is enacted income tax act 2058 from 19 Chaitra 2058 replacing the act 2031. The contribution from corporate bodies has great than others. Corporate bodies pay higher tax till now. That's why; the

government of Nepal should take corrective action for smooth running of corporate bodies. Finance companies are also corporate bodies. So its contribution is also helpful for reducing budgetary deficit.

1.2 Introduction of Financial Institutions

In general, financial institution refers an institution that mobilizes their fund wisely and chiefly to purchase financial assets (deposits, loans, and bonds) as opposed to tangible property. It can be categorized into two types a) banking and b) non banking. Banking can be defined as a profit oriented organization chartered by the state or federal government having such types of function (a) to receive demand and time deposits, honor instruments drawn against them and pay interest on them as prevailing law (b) to discount notes, make loans and invest in government and other securities (c) to collect and issue cheques, drafts notes etc. (d) to certify depositors cheque and so on. Similarly, Non banking financial institutions are defined as any institutions other than bank which provide financial services and make loans to business or individuals. Development banks, Insurance companies, saving and cooperatives, financial intermediately, non government organizations, finance companies etc.

According to Nepal Rastra Bank Act 2058 "Financial Institute means any financial institutions or any institutions specified by HMG/N as financial institution by publishing a notification in the Nepal Gazette, established with the objective to provide loan for agriculture, cooperative, industry or any other specific economic purpose or accepting deposits from the public, provided that, the terms does not denote the commercial bank."

We found a very strong unorganized financial market in Nepal due to the lack of banking habit and proper information. So, history of the Nepalese Organized

financial Market is not old. The first Bank in Nepal was established in 1994 B.S. (1937 AD) by the name of Nepal Bank Ltd. which carried out in addition to commercial banking function, a few function of central Bank like acting as banker, the agent and the adviser of the government, custodian of national reserve etc. The recently government of Nepal established a central bank by the name of Nepal Rastra bank under the Nepal Rastra Bank Act 2012 on Baishak 14th, 2013 B.S. (1956 AD) with a view to promote industrial growth in country. Nepal Industrial Development Corporation was established on Ashad 1st 2016 B.S. (1959 AD) to provide financial and technical assistance to industry under Nepal Industrial Development Corporation Act 2016 B.S. Rastrya Banijya Bank was established on 10th Magh 2022 B.S. (1965 AD) under the commercial Bank Act 2021. For the development of agriculture and farming a cooperative bank was established in 2020 B.S. which later in 2024 B.S. converted into Agriculture Development Banks. In 2031 B.S. (1974 AD), abolishing the previous commercial Bank Act 2021, new commercial banks Act 2031 enacted and all the commercial banks were brought under the purview of this act for smooth functioning. Later amendments in commercial Bank act 2031 passed in subsequent year to cope up with the modern trend and requirement of the commercial Banks.

His Majesty's Government (Now Nepal gov) allowed few foreign banks to operate in the country under joint venture with a view to bring latest technology and modern banking technical know how, to mobilize all scattered resources and to include healthy competition among banking sector. Nepal Arab Bank limited was established on 29th baishakh 2041 B.S. (1984 AD) with the issued capital of Rs 50 million of which 60% subscribed, Nepal Indosuez Bank (Nepal Investment Bank) was established in B.S 2042.10.21 (1986 AD) with an issued capital of 60 million of which 50% subscribed, and Nepal Grindlays Bank (Nepal Standard

Chartered Bank) was established in B.S. 2043.08.26 with issued capital of 50 million of which 60% subscribed. Few more joint venture and local commercial banks opened as a result the number of commercial banks has now gone up to 31 Numbers.

In the process of economic liberalization, the government introduced finance company act 2042 to attain economic growth in the nation by increasing non-banking activities. The rapid change in the financial system originates only after the government of Nepal imitated open the liberal economic policies to facilitate finance sectors and their activities. The economic liberalization policy of the government has encouraged the establishment and growth of finance companies in the country within short span of time. After 7 years from the enactment of this act, the government promoted the first finance company as Nepal Housing and Development finance Company Limited. Soon after this, Nepal finance and saving company limited came into operation as the first finance company from private sector in 2049 BS. NIDC also promoted finance company in private sector as NIDC capital Markets Ltd. Thereafter wave of establishing finance companies increased, as a consequence the number of Development Bank and Finance Companies increases 87 and 80 Respectively.

In the current fiscal year, though NRB decided not to accept applications for the establishment of 'A' to 'C' class Banks and Financial Institutions, Such Banks and Financial Institutions that had submitted their applications prior to this decision of NRB are coming into operation, During review period, Licenses were provided to 4 'A' Class Commercial banks namely Century commercial bank Ltd, Civil Bank Ltd, Megha Bank Ltd and Commerce and Trade Bank Ltd to carryout Banking transactions. In Development Banks a total of 10 Banks (national level-1, operating area of 3 districts-5 and operating area of 4 districts-1) have been granted license to conduct banking transactions during the same period. After the verdict of the

appellate court, lalitpur for the immediate dissolution of Nepal Development bank, the license to carry out banking transaction of this bank has been revoked. Likewise, during this period, 2 finance companies have been provided. Licenses to carry out banking transaction while Nepal Srilanka merchant Finance Company Ltd, has been merged in Nepal Bangladesh Bank. Similarly, Birgunj Finance Ltd and Himchuli Bikas Bank have been merged and provided approval in principle to become a national level development Bank.

Table 1.1: Number of Bank and Financial Institutions

Bank & Financial Institutions	Mid July 2008	Mid July 2009	Mid July 2010	Mid July 2011
Commercial Banks	25	26	27	31
Developments Banks	58	63	71	87
Finance Companies	78	77	79	80
Micro Finance Institutions	12	15	18	21
NRB Licensed Co-operative (Limited Banking Transaction)	12	15	18	21
NRB Licensed NGOS (Dealing in Micro Finance)	46	45	45	45
Insurance Companies	25	25	25	25

1.3 Development of Financial Companies in Nepal

In our country, the rapid change in the financial system originates only after the government initiated the open liberal economic policies for facilitating financial

sector and their activities. As a result, the finance company Act 2042 came out in 2042 BS. After 7 years from the enactment of this act, the government promoted the first finance company as Nepal Housing and Development finance company limited. Soon after this, Nepal Finance and saving company limited got licensed from NRB in 2049/09/22 putting its name as the first finance company to be operated from private sector. In initial phase the company was about to liquidate due to misunderstanding among its promoters and the case reached to the court even (Pradhan R. 2056: 60)

The development of financial institution in Nepal is the consequence of different reasons. In fact, behind the development of such institution there are many argumentative reasons among which growth of peoples' consciousness can be taken as a main reason. Another important reason that can be considered important is the influence of internationalization and liberalization in the financial sector./ Finance companies are the one type of financial institution in Nepal. Nepal is a developing country; its per capita income is not so high. Therefore the people are can not deposit proper money. Finance companies are the best for Nepal because it established capital is less than bank, dealing process with companies is less tedious than bank. On the basis of their capital Nepal Rastra Bank categories financial institution in four, out of them finance companies kept in category "C".

Financial Company Act 2042 (1985) was introduced in Nepal. This Act, has kept the provision that a financial company may be opened that can do banking business in private sector. After the introducing another act Cooperative Act 2048, the co-operative institutions were permitted to collecting the deposit and provide the loan among the members and slowly the financial institution came to

the established. As consequence the number of finance company increases to 80 till mid April 2011.

1.3.1 Objectives of finance company

According to the FC Act 2042, FCs is established with the following objectives.

-) To provide installment in hire-purchase credit/loans for the purchase of vehicles, machinery, tools, equipment, durable household good or other similar movable property.
-) To provide credit for the purchase or construction of residential houses or "go gowns" or the land for the constructions of the same.
-) To provide lease financing for vehicles, machinery, tools, equipment, durable household goods or other similar movable property.
-) To provide term-loans for operating any industrial, commercial or other enterprise, venture Capital, Bridge financing likely to promote economic development.
-) To sell and purchase the bonds issued by His Majesty's Government of Nepal (HMG/N) of securities issued by other companies or institutes, under write them, form syndicates for such purpose, or participate in such syndicates and functions as a broker according to the Securities Exchange Act 2040.
-) To collect deposits.
-) To perform functions relating to merchant banking with prior approval of the bank such as corporate counseling, loan syndication, issue management and underwriting, design and development of software package for finance companies and other activities like merger and acquisitions, financial engineering capital structure, restructuring the debt/equity ratio etc.

-) To perform other functions necessary and relevant to the implementation of the objective of the FC Act 2042.

1.3.2 Rules and Regulation of Finance Company

A number of rules have been promulgated regarding the establishment and operation of finance companies in Nepal under FC Act 2042. Following are the rules and regulations defined by the FC Rules 2049 and the directives issued by NRB to finance company 2058 (revised) regarding the establishment operations, management and share distribution, and monitoring and control measures.

-) FCs can be established to mobilize financial activities by issuing share,
-) The board should at least consist of five members, who are elected general meeting.
-) The chairperson of the board has to call the general meeting within one year of the company's establishment. After that the general meeting to be conducted once year, within six months of completion of the company's fiscal year.
-) The company has to have at least Rs. 2.5 million as the initial capital to establish the FC. But NRB is given the right to fix this amount looking at the size of the company and the number of branches the finance company has.
-) The company has to get prior approval from NRB to increase its authorized share capital. The finance companies are required to offer at least 40% of the authorized capital to general public. Whereas for the finance companies established under the collaboration of foreign or international finance company the percent of share to the public can be least 25%.

-) If the fund is inadequate for various activities, then the company has the provision to finance through debentures with the prior approval of NRB.
-) NRB has the authority to monitor and inspect on-site or off-site supervision the accounting process and other financial activities of the company at any time of the year.
-) NRB is given the responsibilities to direct the finance companies from time to time on various financial activities such as on the approval for loans, the interest rate on loans, the interest rates on loan and deposits, discount rates, commission rates and other fees.
-) At present, generally FCs are allowed to collect deposits equivalent to maximum amount of 10 times of their capital fund and also 12 times of capital fund can be mobilized if some criteria given in guideline is fulfilled. Also, they have to maintain the capital fund at least 12% of their Risk Weighted Assets from the F.Y. 2060/61 which consist at least 6% of core capital that includes paid up capital, share premium, non-redeemable Preference share, General Reserve and Retained Earnings/ loss and rest of capital fund can be maintained by the Supplementary Capital that includes loan loss provision for good or pass loan.
-) Company can not provide loan without collateral and total loan should be categorized into good loan, sub-standard loan, doubtful loan and bad loan for provisioning on regular basis. Company's single borrower limit is not exceeding than 25% of core capital on fund based and not exceed than 50% of core capital on non-fund based.
-) Company has to maintain at least 1% of total deposit at the current account at NRB and at least 7% of liquid funds of total deposit liabilities according to the rules of the NRB.

- J Company has to maintain a general reserve fund equivalent to 2 times of the paid up capital. Till the required amount in the fund is reached, they have to transfer at least 25% of net profit to the reserve fund each year.

1.4 Statement of problems

It is evident from the contraction in the economic growth rates in the recent past that the overall economic expansion has been affected adversely due to the slackness in the development activities. Therefore, to increase the developmental activities, the challenge is to mobilize revenue at least to the level that could meet the recurrent and principal repayment expenditures. Similarly there is a need to allocate best possible amount of resources through internal sources (such as tax, fee, funds, revenue from public enterprises, special assessment, custom exercise, corporate and personal income tax etc.) for the capital outlay and give special priority to control unproductive and wasteful expenses.

But indeed, Revenue Mobilization has been affected by these reasons such as; tax leakages, especially in VAT and income tax, the two major contributors of tax revenue, Services delivered by the tax administrator to the tax payers (Finance Companies) are not improved as per the need of time. Revenue leakages through the rampant and illegal use of the duty free goods are not controlled anatomization of tax administration; complicated income tax procedures and enhancing tax exemption; limit may also affect the government revenue Evading tax through transfer pricing etc. It is unequivocal that establishment of banks, financial institutions and insurance companies help develop innovation and entrepreneurship that support long term economy development with the development of the financial sector, the challenge is to promote financial stability and discipline. Currently, it has also become the matter of concern at the international level to ensure effectiveness, transparency and discipline in the

financial system. Given this, it is also a matter of interest and challenge to preserve financial stability in Nepal because financial institutions have become major contributor in government revenue.

1.5 Objectives of the Study

So far as my acquaintance regarding this topic is concerned, it is the back bone of this study. In Nepal finance companies can contribute for economic progress. So this study is a little effort to find out the contribution of finance company to government. This study was also providing the appropriate suggestion for the effectiveness of tax revenue from finance companies that help to collect more tax. So, that government will collect more revenue and use it in economic development of the country. This study, aims at fulfilling the following objectives:

1. To analyze the contribution of tax revenue from finance companies to government revenue in Nepal.
2. To help the tax policy makers to correct the tax polices for finance companies.
3. To examine effectives of tax revenue from finance companies in Nepal
4. To identify major problem facing by the finance companies in respect of income tax.
5. To find out growing trend of finance companies.

1.6 Significance of the Study

The significance of this study could be providing guidelines for government, finance companies researcher and other persons.

To Government: Nepal has been facing serious problem of resources gap and high dependency of foreign loan. Finance sector can help to fulfill the resource gap through income tax as government revenue.

To Finance companies: The study evaluates the contribution of tax paid by the finance companies to government. It is helpful to make better policy for finance business.

To Researcher: This study would be help for those researchers who are looking for to the impact of the contribution of tax in the government revenue.

1.7 Limitations of the Study

This study basically focuses on the contribution of finance company towards the government revenue in Nepal. The study analyzes various aspects such as effect and implement of taxes from finance companies tax system and its procedure of payment. Used by finance companies etc. But this study is not complete study. It has been done in Simple way. This study has pointed out following limitations:

- a. This study directly focuses on primary and secondary source of data for getting the finding of study.
- b. Limitation of time and other resources affect the scope of study.
- c. The primary as well as secondary data are collected within tax offices and head office of finance companies of Kathmandu valley.
- d. All respondent may not response positively and they may also estimate over.
- e. This study has covered the data of last 8 years,(i.e.2003 to 2011) however, in some case; it has covered more than 8 years also.

1.8 Design of the Study:

This thesis has been divided into five chapters. They are as follow:

1st chapter: It comprises introduction, background of the study, statement of the problem, objectives of the study, significance of the study and limitation of the study.

2nd chapter: It focuses on review of literature. It will contain the conceptual framework and past research literature relevant to materials management and/or this study.

3rd chapter: The chapter comprises research design, population and sample, source of data, procedure of data collection, procedure data tabulation.

4th chapter: This chapter deals with presentation and analysis of data to make the result realistic and complete to the possible extent.

5th chapter: Finally, it covers summary, conclusions and recommendation.

CHAPTER II

REVIEW OF LITERATURE

The chapter is basically concerned with finding out the problem related to the study that has uncovered in the area of our research. So, this chapter contains the review of the taxation system of Nepal in past and present. Income Tax act, Tax regulations, Tax incentives, Tax administration etc. review of dissertations, some book or even news paper and article for the purpose of finding out uncovered area.

2.1 Conceptual framework

As we know, revenue mobilization is the major source of the Government expenditure, and Taxation play significance role for revenue mobilization. So, efforts have been exerted to know the contribution of finance companies towards the government revenue in Nepal. Corporate bodies are major contributor of government revenue. They pay highest tax than other till now finance companies are also a corporate body. Their contribution of not only for a form of tax but also for other services is important for the development of the nation. That's why, now day's finance company is the burning service business in Nepal and they are safeguarding the interest of people in Nepal.

2.2 Concept of Tax

Every Government of nation requires sufficient revenue for maintaining economic balance. Government should be responsible to carry out development plans, to handle day to day administration, to maintain peace and security, to lunch other public welfare activities. That's why, every government collects revenue from various sources such as external source or internal sources. External source are

grant, assistance, external borrowing etc. internal sources are taxes, fee, price, internal borrowing etc. Out of these sources, Tax play significant role. It may be direct tax or indirect. In general, Tax is an obligation to pay sum of money by people according to value, income, purchase etc. to the government for public purpose. It can be made clearer about the concept of tax from the following definition of the scholars.

"Tax as a 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." (Seligman.)

" Taxes are general contribution of wealth leived upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the residents of the state." plehn

"A tax is a compulsory payment to government without expectation of direct expenses of direct return in benefit to the taxpayer." (Tayler in cited in Bhattarai and Koirala, 2061).

From the above definition, tax can be concluded as follows:

1. It is a compulsory levy imposed by government.
2. Those who pay tax do not get corresponding benefit from the government.
3. It is spent by government for public purpose.
4. It is collected from haves and spent for the interest of have not in the society.
5. It is levied on person as per the prevailing law.

Hence, a tax is a financial charge or levy imposed on an individual or a legal entity by government for public purpose. It is also a medium of reducing gap between rich and poor. But only collecting tax is not all things, It is necessary to allocate best possible amount of resource and give special priority to control unproductive and wasteful expenses. Government of Nepal has enacted income

tax act 2058 from 19 Chaitra 2058 replacing the at 2031 for sound development of the nation.

2.3 Taxation System of Nepal in past & Present

Great Britain became the first country in the world to introduce the income tax in 1799. It imposed income tax in order to finance the war with France fought between 1793 and 1816, which was known as Napoleonic war. The income tax law was enacted on January 9, 1799; it came into force on April, 5 1799. Similarly, in U.S.A the first federal income tax was imposed in 1862 with the same objective i.e. to finance civil war. However in the beginning these countries imposed income tax as temporary until 1860. Thereafter, Since 1913 it was accepted as permanent tax. By 1939, it had become the most important source of revenue in most developed countries and had made appearance in \a number of developing nations, Agrawal, 1980). Thus, income tax was adopted by different countries gradually. Switzerland started in 1840, India in 1860, Italy started in 1864, New Zealand in 1891, Australia in 1915, Canada in 1917 and similarly Nepal in 1959.

2.3.1 Taxation in Ancient Nepal

Reliable records about taxation in Ancient Nepal are not available. However, It is believed that, In those days, tax was collected in the form of cash, kind and labour from the merchants, travelers and farmers. On some occasions gold and agricultural products were also paid as taxes; but the nature of these taxes was temporary. In the Lichhavis regime known as golden era. taxes were the main source of revenue. In that period, taxes were known as "Trikar" which meant three kinds of taxes viz. "Bhaga", "Bhoga" and "Kara". The Bhaga tax was levied on agriculture; the farmers had to pay tax on income from agriculture to the government in 1/6, 1/8 and 1/12 shares of production depending on the quality of

land possessed by them. Bhoga tax was imposed on animal and similarly Kara tax was on business income. These taxes were introduced as the direct tax for first time in Nepal.

2.3.2 Taxation in Unified Nepal (1768-1846 AD)

In this period, Expenses for administration, military and other operational activities were increased gradually due to unified Nepal. During that period, taxation had been taken as main source of revenue. That's why, in that period taxes were collected from 3 levels: Royal Palace, Central Government and Local Authorities. The royal palace levied taxes like Walak, Gaddmubark, Chumawan, Godhawa and Godan. The Government levied taxes like Darshan Bhet and Salams and the local authorities levied taxes on Forest and Water resources, commercial taxes like customs, transits and market duties, minds and mints, export of forest products like herbs, wax, drugs, wild animal and Judicial fines. Taxes from Land and business were types of direct tax among the different taxes during that period.

It is also believed that, King Pritivi Narayan Shah had introduced 'Pota' tax in 1772, which was regarded as a revolutionary measure in the fiscal system of Nepal. It was based on flat rate system and limited on small Birta owners. There was no taxation of income in the sense of modern income tax.

2.3.3 Taxation in Rana Regime (1846-1950 AD)

During the Rana regime, income were not taxed fiscal year raisins regular .revenue of the state treasury but/- for meeting specific expenditures of the Royal house hold or extra ordinary expenditures misstated by war or other emergencies. During 1855-56 Nepal-Tibet war, Jung Bahadur had imposed a tax on the incomes of selected groups. In 1891, Bir. Shamsheer imposed a levy 1 percent on the official value of 'Jagir' assignments of government

employees to finance transportation of water pipes supply in the capital. In 1882, Ranoddip singh imposed a 50% tax on income made by fishermen in Deukhuri in the western inner Terai from the sales of fish. Receipts from the state sector: The government got revenue from the state ownership of natural resources mainly agricultural land, mines and forests.

In these periods, Kausi Tosaknana had been established after political unification. Its main functions were to receive and disburse revenues: obtain, store and issue supplies required by the government and perform other general function related to fiscal administrations. In the Rana regime, Junga Bahadur created new development of treasury known as Sadar Mulukikhana to receive and account in government revenue.

2.3.4 Income tax in Modern Nepal

The concept of Income tax was brought only by the first budget in 2008 B.S. However it was in actual sense introduced only in 2017 B.S. When the finance act 2016 and Business profit and remuneration tax act 2017 were enacted.

In 1960 (2017 BS), the income tax act titled 'Business Profits and Remuneration Act, 2017"(BPRTA, 1960) was made with the provisions of finance ordinance 1959. This was the first income tax act, which had 22 sections. The BPRTA, 1960 define the terms business, profit, remuneration, company, firm, assessment, tax realization, tax exempt person, tax exempt area, taxable income, tax deduction at source, submission of income statement, right of the tax officer, method of assessment, payment of tax, fine and penalties, etc. But this act has found narrow, unclear and vague. So, it was replaced by the Income Tax Act 1962 (NITA, 2019 BS). This-act had all together 29 sections. It had defined nine heading of incomes. They were (1) Business (2) Remuneration (3) Profession and Vocation (4) House and Land Rent (5) Cash or Kind

investment, (6) Agriculture (7) Insurance Business (8) Agency Business (9) Others Sources etc. This act enforced for twelve years before the Income Tax Act. 1974 (203 1 BS) was come.

Likewise, Income tax act 1974 had been amended eight times in 1977, 1980, 1984, 1985, 1986, 1989 and 1992 respectively. However, it cannot meet the requirement. As a result, the Income Tax Act, 2002 (2058 BS) has come after replacing the old income tax act. This is the fourth income tax act of Nepal effective from April 1, 2002 (Chaitra 19, 2058). The Government of Nepal enacted Income Tax Rules 2002 (2059) in 2002 in accordance to the authority given under the ITA 2002. Income tax act 2058 B.S. has classified income into three headings: (i) Business (ii) Employment and (iii) investment. Income tax act 2002 B.S. has 134 sections. Finance ordinance 2059 and 2060 has amended income tax act 2002 first time: Amended income tax act 2002 has dismissed the section 66. There are various additional provisions in this act. Finance Ordinance is passing by the parliament every year. It fixes rates of income tax, provision for deduction of tax at source and method of payment of these taxes for respective year. It also introduces amendment of tax act to some extent.

2.4 Concept of income tax

In simple, tax impose on Income of people by government is known as income tax. But it is not sufficient of defining income tax, Income means people generate income from rendering various type of services like as selling goods/services, providing services etc. Therefore, income means the inflow of cash or other benefit to the person from other person for providing services or goods. In this way, the received incomes of the people are used for two purposes. Part of income is spent on consumption and part is saved. This can be expressed in the formula as follow:

Symbolically, $I = C + S$

Where,

I = Income

C = Consumption

S = Saving

According to income tax act 1974 (2031) "Income means the income earned or received in cash or kind from the source as besides employment and investment." In this act there were five heads of income tax. They were i) Agriculture ii) Industry, business, profession or vacation iii) Remuneration iv) House and land rent and v) Other sources.

The new income tax act 2002 (2058) was passed and implementation from 2058 Chaitra 19 (1st April 2002). This act has defined the terms as incomes of any person derive from employment, business, investment, and accumulated income calculating according this act. This act has classified the income into three different heads they are i) Business ii) Employment and iii) Investment.

In India, It is defined as sec. 2 of the India Income Tax Act 1961 keeps profits and gains, dividend, voluntary contributions received by charitable trust, value of any perquisite or profit on lieu of salary, any capital gain, winning from lotteries, cross world puzzles etc. under the head of income.

Similarly in, United State of America, Canada and other countries, the income tax i.e. defined in terms of the flow of wealth of receipt in money or goods from the taxpayer during the period. In flow of wealth method, taxations is imposed on a realization rather than as an accrual basis, and applies only when a transaction occurs between old person and taxpayers. (Due, 1959: 1251-126)

Thus, In Nepal income tax is defined as the tax levied on net income derived after deducting all allowable deductions and relieves from the total income. Income tax is levied on the income derived from business, employment and

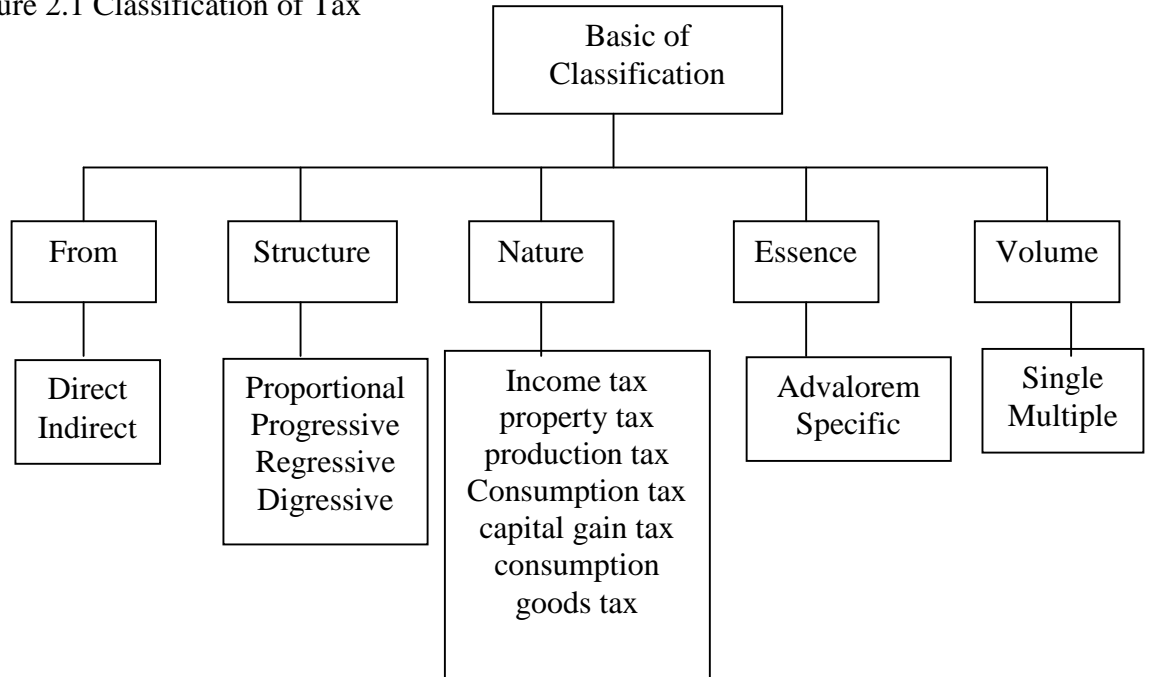
investment. Income tax is always levied on the net income i.e.; total income less the allowable deductions.

Income tax can be classified into two types; personal/individual income tax and corporate income tax.

2.5 Classification of Taxes

Taxes are compulsory payment made by people for public purpose and it reflects the life of people from birth to death. So, a human activity cannot be separated from taxes. It means there are many taxes and these are paid knowingly or unknowingly and directly or indirectly. In addition, these are impossible to signify individually. Various economists have classified a long list of different types of taxes into five classes. These may be grouped on the basis of its form, structure, nature, essence and volume.

Figure 2.1 Classification of Tax



Source; K. C. Jit Bahadur

2.5.1 Main Features/ Characteristics of income Tax Act 2058

To collect tax revenue a sound tax act is required. In Nepal Income Tax Act 2031 was active before the act 2058 which was not enough to meet the requirement and objective of revenue mobilization in 21st century and amendment was necessary. To meet that objective Income Tax Act 2058 is enacted from 19th Chaitra 2058 replacing the Act 2031. Income Tax Act 2058 has the following key features:

1. All tax related matters within one Act:

Various acts were in force to govern taxation under Income Tax Act 2031 and state of confusion while dealing some particular tax related matter was common. Income Tax Act 2058 has specified that all tax related matters would be governed by this act and it involves almost all required provision within the act.

2. Specification of tax rate:

Tax rate applicable for each category of assesses and income head are clearly specified within the act under ITA 2058 in Appendix- I but under ITA 203 1 tax rate was not mentioned. Tax rate for each year was specified by finance act of each year.

3. Specification of concessions, rebates and exemptions:

Under ITA 2031 tax related concession, rebate and exemption were deal by - different acts and laws which was. the main cause of being the past act inefficient but under ITA 2058 that are specified clearly within the act which has facilitated the current act to be an efficient tax system for the country.

4. Specification of depreciation calculation procedure:

ITA 2058 has clearly specified the procedure for calculating depreciation on fixed assets and intangible assets keeping the assets in a total of .5 pool (blocks) A, B, C, D and E. Rate of depreciation of each pool are specified. But under ITA 2031 the depreciation calculation procedure was tedious. Different methods and various rates were applied for different assets which were really confusing and was not harmonized.

5. Specification of stock valuation methods:

Under ITA 2058 stock valuation method for cash basis and accrual basis accounting are cleared. Two methods marginal costing and absorption costing are /recommended for stock valuation. But ITA 2031 was silent about stock Valuation method. It was mentioned that once adopted stock valuation method cannot be changed without the permission of concerned authority.

6. Liberal loss set off and carry forward and backward provisions:

ITA 2058 is loyal about the loss recovery provisions for each source of income. Clarification of loss set off, carries forward backward and inter- head adjustment provisions are mentioned. Under ITA 2031 only business loss can be carried forward up to next 3 year from same business.

7. Provision of International Taxation:

In the modern time the economic activity are not limited within the boundary of country. Nepal is now a member of WTO. In this respect provision for international taxation is required which is fulfilled by ITA 2058. Provisions related to international taxation are double taxation avoidance agreement, transfer pricing and foreign tax credit but Income tax act 2031 was silent about this provision.

8. Introduction of capital gain tax:

ITA 2058 has introduced capital gain tax. Capital gain of an individual is taxed of 10% flat rate but in case of an entity it is taxed at entity's rate but ITA 203 1 did not taxed capital gains,

9. Tax on dividend:

Dividend income of assessee was tax free income under ITA 2031 but it is taxable at 5% under ITA 2058.

10. Provision of Retirement fund:

Deduction of retirement contribution has been increased for employed person further the act has also provided the facility to self employed person.

11. Provision of medical Tax credit:

Resident natured person can claimed medical treatment expenses as medical tax credit which was not allowed under ITA 2031.

2.6 Corporate tax in Nepal

Generally, cooperation means the act of working together to active a common goal. Activities of cooperation are much older than the man himself. Cooperate body or company is an artificial person created by law. Corporate bodies conduct business and make a profit. A certain part of corporate profit is paid to the government by the corporate company is known as corporate tax.

United state of America was the first country in the world to introduce corporate tax in 1909. USA had enforced 1% excise on corporation. The statutory rate percent, however, was very low in its initial period; increased vehemently later on

after first world war (1914 – 1918) and again started to be down turn since 1980s (Kandel 2000 p. 28).

Similarly, In Nepal corporate tax was introduced only after the enactment of Business Profit and Remuneration tax Act 1960 in 1960. In beginning, it was not differentiated from personal income tax. That's why, in fiscal year 1965/66 corporate tax was made in regard with some specific area. The main characteristic was tax exemption limit given to the companies.

In 1986/87, a flat rate corporate tax was introduced for government corporations and public limited corporations listed with the security exchange center. Corporate tax was extended to private limited companies in 1993/94 and partnership firm in 1995/96 (Khadka, 2006, P.5)

The third income tax act was introduced in 1974 with some changes and new provisions than old one. The finance act of 1976 under this act introduced a separate tax for companies. Similarly, the Finance Act, 1985 made a provision of giving 5 percent tax rebate from highest marginal rate of 55 percent to listed public companies and government enterprise. The fiscal year 1986/87 changes the nature of tax rate to the corporate bodies (companies) from progressive tax rate to the flat tax rate. In this time the tax rate was 40 percent flat rate to all listed companies. The same finance act imposed tax on dividend also to be deducted at source at rate of 20 percent. But the dividend tax system was changed exempting dividend to a level of 85 percent in 1987/88 and 90 percent in 1990/91. Compulsory self-tax assessment system for public and private limited companies was introduced in the Finance Act, 1992. The additional charge was made that taxing corporate income at flat rate to the private limited companies was enacted from the financial year 1994/95. This charge abolished the, discrimination between private company and public company. Another major charge carried out in the fiscal year 1998/99 was the inclusion of dividend of non-industrial companies within the tax net.

In beginning, corporate income tax rate was 25% (i.e. in 1960-61). Then it was increased 60% of total rate in the fiscal year 1975-76. But this rate was so high, the govt. had taken decision against the rate and it cut off 50% rate in FY 1979-80 and continued until 1981-82. In FY 1982-83 the rate increased up to 55% of total rate and it was also continued for 3 years. And again government decreased the highest rate in two time (i.e. 40% & 30% gradually). And now this rate is 20% for special industry and 25% for general industry and 30% for bank and finance companies.

2.7 Role of taxation in Economic Development

Every nation are loyal to develop its economy through high and sustainable economic growth. Economic Development can make the country strong. Without economic development country can't meet social and economic objective what's why every country of the world are engaged for accelerating their economic condition. Nepal also is in the same line.

Tax is considered as a vital medium for generating revenue for a government. Today, Taxation has played significant role. Which can be listed as follows?

1. To Raise More Revenue:

The government requires carrying out various development and welfare activities in the country. For this, it needs a huge amount of funds: The government collects funds by imposing taxes. So, raising more and more revenues has been an important objective of tax.

2 To Prevent Concentration of Wealth in a Few Hands:

Tax is imposed on persons according to their income level. High earners are imposed on high tax through progressive tax system. This prevents wealth being concentrated in a few hands of the rich. So, narrowing the gap between the rich and the poor is another objective of tax.

3. To Redistribute Wealth for the Common Good:

Tax collected by the government is expended for carrying out various welfare activities. In this way, the wealth of the rich in redistributed to whole community. Tax helps in redistributing wealth in the country.

4. To Boost up the Economy:

Tax serves as an instrument for promoting economic growth, stability and efficiency. The government controls or expands the economic activities of the country by providing various concessions, rebates and other facilities. The effective tax system can boost up the economy.

5. To Reduce Unemployment;

The government can reduce the unemployment problem in the country by promoting various employment generating activities. Industries established in remote parts or industries providing more employment are given more facilities. As a result, the unemployment problem can be reduced to a great extent through liberal tax policy.

6. To Remove Regional Disparities:

Regional disparity has been a chronic problem to the developing countries like Nepal. Tax is one of the ways through which regional disparities can be minimized. The government provides tax exemptions or concessions for industries established or activities carried out in backward areas. This will help increase economic activities in those areas and ultimately regional disparity reduces to minimum.

2.8 Special provision for Banking and Financial Institution

The format of calculating assessable income from different sources is different from the general business income. Such as income from banking business, income from general insurance, income from special industry, income from foreign sources or repatriated income of controlled foreign entity is calculated in separate format. This is to say that Income tax act 2002 has made special provision for banking business (section 59). According to this section provision given to that sector are as follows:

a) Prime introduction:

- i. Banking business refers to the banking transaction of affiliated bank and financial institution in accordance with prevailing law account to income tax act 2002.
- ii. Banking transaction refers accepting deposit for making loan and investment paying bank it at the time of demand by saver account to Commercial Bank Act 2031.

b) Provision for risk bearing fund:

Any provision debited in the profit and loss account is not deductible according to the income tax act 2002. However, the financial ordinance 2059 has amended it and provision has been made to claim for deduction of risk bearing fund up to 5 percent of outstanding loans that was only 3 percent according to income tax act 1974 (2031).

c) Provision for written off loan loss:

Loan loss of banks can be written off in compliance with NRB guidelines and it can be treated in the debit side of profit and loss account as expenditure if this amount has already deducted from income or risk bearing fund.

d) Provision for carry back of loss:

Loss of banking and general insurance (non-life insurance) business should be recovered from contingency reserve (risk bearing fund) at first and then should be carried back ward upto previous five year and if there is remaining loss then that loss should be carried forward upto next four years. Tax is refunded by the tax authority as per the tax rate of relevant year on carried backward loss amount less any tax liability payable by the assessee.

e) Provision for interest suspense account:

As per direction by NRB to the banking no interest can be treated as income on the accrual basis. Interest suspense account should be opened if the interest earned but not received in cash within one month. This type of income is given tax exemption by the income tax act 2031 and it is continued by this act issuing the finance ordinance 2059.

2.9 Tax incentive in Nepal

The industrial enterprises Act 1992 has provided a number of facilities and concessions to the industries. They are as follows:

- a. The government will not impose a sales tax, excise duty and income tax on the cottage industries sec. 15 (a).

- b. No income tax will be levied on the profits earned through experts, sec. 15 (t).
- c. No income tax will be imposing on the earnings derived from agriculture except registered agriculture firms.
- d. Income derived from such industries which are registered under co operative act 2048 B.S. is completely, tax exempted. In addition, dividend received from such industries is tax- free.
- e. Fruit based and fruit processing industries and cider wine industries with a fixed asset up to twenty five hundred thousand rupees and established in remote area shall be entitled to an excise duty and sales tax exemption for a period of 10 years.
- f. Any national priority industry counteracting and operating road, bridge, flying bridge, tunnel, ropeway and manufacturing and operating trolley bus and tram shall be granted a rebate of 50% of the income tax for a period often years. Other industries are granted a rebate of 50% of income tax for 7 years.
- g. Except for cigarette. bidi. cigar, chewing tobacco, khaini industries and industries producing other goods of a similar nature utilizing tobacco as their basic raw materials and industries producing alcohol or beer, saw mill, catechu industries and any other industries using 80% or more than 80% of indigenous raw materials in its products and applying all its manpower from among Nepali citizens shall be granted an extra rebate of 10% of income tax.
- h. If any industries provide direct employment to six hundred or more than six hundred Nepali citizens around the year, it will be, in addition to the other facilities, granted an extra rebate of 10% of income tax for that year.
- i. Industries donating up to 5% of its net income or Rs. One lakha to any institution, which is acknowledge tax- free institution by Inland Revenue

Department may get such amounts deducted from its taxable income.

- j. Industry investing its money on process or equipment for the purpose of controlling industrial pollution or having minimum effect on environment may be permitted to deduct 50% of investment in computation of taxable income in same year or with 3 years and remaining is permitted to be capitalized. Later the finance act granted the deductions of 50% whole expenditure in two years' equal intervals.
- k. No industry will be imposed more than 20% tax on its income. The provision, however, is not applicable to the industries producing cigarette, bidi, cigar, chewing tobacco, khani and other goods of a similar nature utilizing tobacco as their basic raw material and those' industries producing alcohol and beer.
- l. 10% gross profit can be deducted in case of expenses made in technology and product development and efficiency increase after industry operation.
- m. 40% of additional fixed asset (Investment) can be deducted from net income in case, an industry diversifies or increases its capacity by 25% or more, or modernizes its technology or develops subsidiary industries. This deduction is allowed at lump sum in the same year or within three years.
- n. No income tax is imposed on the dividend from investment in an industry.
- o. An industry can deducted the expenses spent for residence, life insurance, health facilities, education, training and long-term benefits of labours and workers.
- p. An industry can deducted 5% of gross income for distribution extension. service promotion, advertisement, hospitality and similar expenses.

2.10 Tax Administration in Nepal

In Nepal, the highest authority of tax administration is Nepal Government. Revenue Department of Ministry of Finance formulates the programmes and

policies related to tax. Under ITA 2058, Inland Revenue Department (IRD) is the body under Nepal Government that administrates the taxation. IRD is the combined from of Department of Income Tax and Department of Value Added Tax. IRD was established at first in Baishak, 2058 merging tax department, value added tax department. 40 offices under tax department and 17 offices under value added tax department were also merged. Now there are 22 Inland Revenue Offices all over the kingdom. The staff structure of IRD is:

-) Direct General
-) Deputy Director General
-) Chief Tax Administrators
-) Directors
-) Chief Tax officers
-) Tax officers
-) Other officers
-) Other staffs

2.10.1 Power (Right) of Nepal Government

It is the highest authority of formulating policies and programmes related to tax administration. ITA 2058 has specified the following rights of Nepal Government:

1. Nepal Government has right to establish and remove tax office, delegate powers and appoint tax officers.
2. Nepal Government has a right to issue notification through Gazette to allow unlimited amount of donation to any tax exempt organization.
3. Nepal Government has a right to make double taxation avoidance agreement with foreign countries.
4. Nepal government has a right to remit (rebate) fully or partly of any tax

payable, interest or fine payable by an assessee if it is declared that tax cannot be collected.

5. Nepal Government has a right to give an order or direction to IRD to make tax administration effective.
6. Nepal Government has a right to make rules in respect of taxation to meet the objective of the tax act.
7. Nepal Government has a right to change in schedules of tax act except than schedule-1.

2.10.2. Power (Rights) of Director General (DG) and Officers

Director General (DG) of IRD is a gazetted first class officer who exercises all power granted to IRD by ITA 2058. DG appoints the required personnel and delegates power to them.

The special right which can exercise only by DG as per section 72(6) of the ITA 2058 is as follows:

- a. appoint officers under sub section (3) (c)
- b. issue public circular under section 75
- c. prescribe documents under section 77,
- d. affecting a reviewable decision under section 115(5)
- e. affecting an objection decision under section 116 (4)
- f. Compounding an offence under section 129.

The DG of IRD can exercise all powers provided to IRD by IT A 2058.

The power available to IRD are also the power for Deputy Director General, Chief Tax Administrator, Director, Chief Tax officer, Tax officer appointed as the chief of a tax officer. These powers available to IRD are as follows:

- a. Taking official action against its employees (sec. 133)
- b. Exercising powers equal to the court (sec.135)

- c. Developing and issuing directives (sec. 139)
- d. Ordering for payment of penalty amount (sec. 129)
- e. Deciding to exempt tax (Rule 3 and 4)
- f. Specifying accounting technique (Rule 8)
- g. Specifying about the long term contract (Rule 12)
- h. Characterizing the amount in advance on the basis or arm's length principle (Rule 15)
- i. Given PAN and amending it as per request (Rule 23)
- j. Given tax clearance certificate and tax exemption certificate (Rule 27 and 28)
- k. Approving the retirement fund (Rule 20)
- l. Specifying the tax payers that do not need to submit return (Rule 33)
- m. Specifying the place of action (Rule 35)

2.10.3 Right of Taxpayers/Assessee:

Right given by IT A 2058 under section 74 to the tax payer are as follows:

- a. Right to get good response from tax administration
- b. Right to get information about tax related matters.
- c. Right to get chance for submitting proof in own favour.
- d. Right to appoint auditor and lawyer for own defense.
- e. Right of maintaining secrecy about his statement related to tax matters.
- f. Right to get refund of excess tax paid.
- g. Right to study (get) public circular.
- h. Right to appeal to review the assessment
- i. Right to get clarification regarding personal ruling.

2.10.4 Duties of Tax payer/Assessee

TTA 2058 has not specified the duties of assessee but to exercise any right sum duties must be-fulfill. The general duties of assessee may be listed as below:

- a. Registering and getting permanent account number (PAN)
- b. Deducting tax at source and submit duly to tax authority.
- c. Submission of income return & tax within specified period
- d. Providing information asked by the authority.
- e. Not opposing the tax officials in per forming their duty.
- f. Following accounting methods prescribed by the act
- g. Attending the tax office if he is ordered to attend.
- h. Maintaining books of account and documents properly.

2.11 Returns of Income and Tax Assessment system in Nepal

As per ITA 2058, every taxpayer should file their return within three months of completion of financial year (section 96). No return of income should be submitted unless requested by IRD if a person who has no tax payable for the year. This facility is available only for a resident natural person who earns income from employment with source in Nepal, from only one resident employer and does not claim for deduction of gifts and donation to exempt organization and medical tax credit (section 97).

Tax Assessment means procedure of determining the taxable income, tax liability, interest and penalty of a taxpayer. There are tree types of tax assessment methods prescribed in ITA 2058.

2.11.1 Self Assessment (Section 99)

Self-assessment of tax means determining the taxable income and tax liability by the taxpayers themselves. It is compulsory under ITA 2058 because every taxpayer should assess and submit their return with in 3 months of completion of fiscal year.

Every assessment will be treated as self-assessment when a person files a return of income for an income year with in due date under ITA 2058. Taxpayer should mention the following particulars while submitting their income return:

- i) The person's assessable income for the year for each source e.g. employment, business and investment.
- ii) The person's taxable income for the year and the tax payable with respect to that income.
- iii) In the case of foreign permanent establishment of a non- resident person situated in Nepal, the foreign permanent establishment's repatriated income for the year and the tax payable with respect to that income.
- iv) Any tax paid by the person for the year by withholding, installment or assessment for which a tax credit is available.
- v) The amount of tax still to be paid after deducting the tax already payable.
- vi) Any other information prescribed by IRD.

2.11.2 Jeopardy Assessment (Section 100)

Jeopardy assessment is a special assessment done by IRD. This assessment is done when the person becomes bankrupt, goes into liquidation, the person is about to leave Nepal indefinitely, the person is otherwise about to cease (close) activity in Nepal or IRD considers it is required for a tax payer. If jeopardy assessment is for one income year, the tax payer should not file return for the year but if it is for less than one year the assessee should file his return for the year. When IRD decides to make a jeopardy assessment on a tax payer it should notice the assessee including the following information:

- i) Total tax payable
- ii) The tax still to be paid
- iii) The manner in which the assessment is made.
- iv) The reasons why IRD has made the assessment.

- v) The date on which the tax still to be paid on the assessment.
- vi) The time place and manner of objecting to the assessment.

2.11.3 Amended Assessment (Section 101)/ Best Judgment Assessment

Reassessment of an assessment by IRD which is already assessed by the assessee is amended assessment. IRD may amend an assessment made by the tax payer to adjust the assessed person's liability to tax in such manner as according to the Department's best judgment is consistent with the intention of ITA 2058. IRD may amend any assessment within four years as many times as it thinks appropriate if the assessment is found inaccurate by reason of fraud or negligence of the assessee. However, IRD may not amend an assessment if the assessment has been " amended or reduced pursuant to an order of the Revenue Tribunal or a court of competent jurisdiction except where the order is reopened.

2.12 Different Technique of Minimizing Tax Liability

Taxes are compulsory payment made by people for public purpose and it reflects the life of people from birth to death. Tax is a compulsory contribution by a person. It is an economic burden and painful for a taxpayer. Since it is an economic burden and painful for taxpayer so he / she wants to minimize the tax liability as far as possible. people can use the following type of technique for reducing tax burden which are as follows:

2.12.1 Tax Evasion

Reduction or elimination of tax liability through contrary to law avoiding tax by adopting dishonest means illegal means is known as Tax Evasion. It is done through concealment of a source of income misrepresentation of facts and information maintaining multiple set of accounts over reporting of expense non reporting or under reporting of incomes, artificial contracts- Fictitious transactions etc.

2.12.2 Tax avoidance

Reduction of tax taking advantages of loopholes and weaknesses in tax laws without breaking the laws immoral/unethical practice is known as tax avoidance. It is done by applying this methods i.e. payment of salaries, interest and other benefits to family members- changing the name of the firm-Formation of trust which are exempt for tax but whose benefits are derived by the member of the family-filling case to delay the payment of tax.

2.12.3 Tax delinquency

Tax delinquency is also a way of minimizing tax liability. In this way the tax liability is reduced in present values by differing the payment. Although tax delinquency means the failure to pay tax due to lack of sufficient fund, it also covers non payments of tax at the time of having fund. It is not a permanent escape of tax but a temporary delivery of tax.

2.12.4 Tax Planning

Tax planning means doing planning in effective way so as to reduce tax liability. It is legal activities to reduce tax liability. Tax planning is the art and science of an arrangement of a person's business and or private affairs in order to minimized tax liability. Specially it deals and minimized the tax liability with the helps of various concessions, allowances and relief provided for in the tax laws. It is a future related activity. The objective of tax planning is reducing tax liability minimization of litigation, productive investment, healthy growth of economy and economic stability. It is universal in nature, in other words the entire person use tax planning to reduce tax liability.

2.13 Reviews of Previous Studies:

In 2005 Poonam Nepal had conducted a research in topic "Comparative Study on income tax collection from Commercial Banks and Finance companies." Mrs. nepal focused her study to analyze the contribution on of income tax from commercial banks and finance companies to government total revenue. She was covered six year from FY 2000/01- 2004/05. But she had used only secondary data. Mrs. Nepal had found the following results from her study.

- a) The taxation system for the small taxpayer is good. That's why they have to pay Rs 2000 per year.
- b) The share of direct tax revenue was more than that of non tax revenue. Among the direct taxes the contribution of customs duty was in the first position.
- c) Income tax revenue was increasing trend as well as contribution of corporate tax was highest among other tax revenue. And the government enterprises were more payer than others.
- d) There was highly fluctuation in contribution of corporate tax. Growth rate showed increasing order after sometimes it seems to be negatively and again increased somehow.
- e) The contribution of tax collection from commercial banks and finance companies on total corporate tax was very low. The percentage of total income tax from commercial banks seemed to be in satisfactory position whereas the percentage on total income tax from finance companies was in nominal position.
- f) The ratio of income tax paid by the finance companies to total government revenue and total tax revenue was very low due to it was increasing trend
- g) Tax collection is not sound due to tax administrators are not performing their job in effective way.

Hari Prasad Neupane had conducted a research in topic "An Analysis of Income

Tax Collection from finance Companies” in June, 2006. In his study, the time period covered by 5 years from fiscal year 1998/99 to fiscal year 2003/04. The data and other necessary information were collected by using primary as well as secondary sources. His study is mainly concerned with income tax collection from five selected companies of Nepal. And his findings are described as follow:

- a) In an average, tax revenue contributes 78% and non-tax revenue contributes 22%. In this way, corporate bodies contribute more than others.
- b) The tax collection process, procedure and system should be simple clear and scientific rule. Peace environment should be maintained in the country for raising the economic development.
- c) Government should be able to maintain peaceful environment for smooth running of financial institutions for this they have to take corrective actions.
- d) Self assessment of tax should be effective as well as tax rate should be decrease to control the tax evasion and tax avoidance. (Neupane, 2006:85-89)

In December 2007 Min Prasad Gautam had conducted a research in topic “Contribution of Income Tax from Finance companies to the government Revenue in Nepal” Mr. Guatam focused his study to analyze the contribution of Income tax from finance companies to government in Nepal. The time period covered by this study was five year from fiscal year 2001/02 to 2005/06. The data and other necessary information were collected by using primary as well as secondary source. In his research, Mr. Gautam has pointed out various findings and recommendations which are described as follows:

- a. The Government should be responsible for maintaining peace, security

and stability of political situation for the growth & development of finance companies

- b. The Government should keep sound tax management by establishing research & intelligence centre in each office for proper planning & gathering the information related to income tax evaders potential tax payers and non residents who have conduct business without registration.
- c. Finance companies should be inspected, supervised and monitor effectively in time by NRB, finance company association Office of the company register and Inland Revenue development (IRD) should give reasonable direction to the finance company.
- d. The government should encourage more & more for the establishment of finance company by providing special facilities and security to their Investment.
- e. Income tax act, rules and regulation should be clear and simple for all the tax payer as well as tax administration of Nepal take benefit for the contribution of economic

In July 2008, Bishal Adhikari had conducted a research in topic “contribution of Income Tax Collection from listed financial institution” Mr. Adhikari his study Analysis the contribution of income tax from listed financial institution.

The time period covered by the study was 5 year from 2002/03 to 2006/07 the data collected by using secondary as well as primary sources of data his major finding in his study was:

- a. Corporate sector are the major profit earning sector, their contribution to TR is in increasing trend.
- b. The contribution of corporate tax to GDP is not so high. The maximum contribution has been 2.25% in FY 2006/07 which should be increased for

the economic development of the country.

- c. It is hard to determine what provision of which law are currently application. So it all income tax laws would be contained in only one law, it is transparent and understandable to the concerned parties.
- d. Financial institution should be inspected supervised and more tired effectively in time for the better results.
- e. Government should reduce resource gap by increasing internal and subsidies

2.14 Review of Books:

A research entitled "Resource Mobilization for development; the return of income tax in Nepal" had done by Agarwal in 1978. Which was published by (CEDA) Kathmandu in July 1987. In his research work, he analyzed various aspects of income tax system in Nepal, their contribution to- words accelerating economic development and problem facing by tax administration in regard of delaying in tax assessment. Failure to maintain proper account by tax payers, unfavour behavior of tax official, etc. Agrawal has conducted this research for the empirical investigation, of facts and figures about the income tax in Nepal as well as finding out the new dimension inside Nepalese income tax system.

Kandel did PhD thesis entitled "corporate tax system and investment behavior in Nepal" in 2000. The main objectives of his 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 as tax burden. In this research he had focused the relationship of private investments with average effective tax rate (AETR) marginal effective tax rate trend tax incentives in Nepal. He had found that 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 percent and 19 percent respectively and the impact of inflation to METR. He had finalized that

statutory tax rate was in moderate level under all financing options: debt, mix and equity (i.e. it was not much distractive) as well as the relationship between inflation rate and effective tax in Nepal was not good (i.e. negative)

Amatya, Pokharel and Dahal (2004) wrote a book entitled "Taxation in Nepal" This book has been written to fulfill the course requirements for BBS, MBS as well as bachelor & master of Law of T.U. This book is informative rather than analytical. This book consists of 31 chapters. These chapters are basically described on income tax and its development in Nepal, tax accounting, quantification, allocation and characterization of amounts, exemptions concession, facilities and tax rates etc. It is also useful to all the interested law students for sharpening their ability in law.

Dhakal (2001) wrote a book entitled " Income tax and house and compound tax law and practice " before the readers. This book has been designed strictly as per the syllabus of BBS and MBS level It is useful for information but it has not analyzed the role of income tax, income tax structure etc. The provisions have been described with numerical examples but have not been analyzed in critically. He has described the various provisions under income tax act 1974. This book contains into four parts: it has described about tax, income tax in Nepal, house and compound tax and value added tax etc.

Khadka (1974) presented a book entitled "Nepalese taxation, a path for reform." before reader in 1974. Mr. Khadka had dealt with both national and local taxes and tax administration in Nepal. This book traces the path of evaluation of Nepalese tax system. It evaluates the Nepalese tax system on the basis of conventional, theoretical concepts and suggests measures for its improvement. Suggested measures are modest, in order to provide a feasible solution for the near future.

K.C. (2007) wrote a book entitled "Tax Laws and Tax planning: Theory and practice." This book has especially been written for the students of MBS second year, Tribhuvan University. However, this book can be useful to all the interested law

students for sharpening their ability in law. This book consists of 21 chapters. In his book, he has described all things as per the need of M.B.S. syllabus such as concept of tax, its history & development, income tax, corporate tax, Investment tax, employment tax, tax structure, tax administrations, concessions, assessment, tax planning etc. His book is informative rather than analytical. Importance of income tax problems and defaults of Nepalese income tax system has not analyzed in his book. Nevertheless, it is useful for the readers.

2.15 Review of Articles

Thapa (2001) presented an article entitled "practical issues in income taxation" in Rajeswa before the reader in 2001. He analyses and explains the theoretical basis to settle the issue related with tax such as defining taxable income and tax paying units determining appropriate rate structure and methods of tax assessment etc. In his article, he has focused the importance of income tax in Government revenue. Mr. Thapa has written this article for effectiveness of income tax and role of its.

Kandel (2001) wrote an article entitled "Draft of income tax act 2001 critical analysis" in Rajaswa before reader in 2001. In his article he has criticized the income tax act 2002 on several grounds such as exemption of agricultural income from income tax, expert duties levied on export, inequality between different capital earned incomes (i.e. tax on interest, dividend and capital gain), with drawl of the provision of exemption suddenly and no adjustment for inflation. He has further criticized the act for the provision of income tax for export as 0.5 percent of total export because it is not a good choice of income base. He has made his effort to make tax system in practical as well as effective. (Kandel, 2001: 65-73)

CHAPTER –III

RESEARCH METHODOLOGY

In common parlance, research methodology implies a process of getting solution of the research problem. Research methodology describes the effective methodology and procedure, which are applied for getting results of the study. This study will be under taken to analyze the contribution from finance companies in Nepal. In this chapter, research design, population and sample, sampling procedure, nature and sources of data, data collection procedure, and data processing procedure and analysis tools are described.

3.1 Research Design

Generally, a research design is the conceptual structure within which the research process is performed. Design sets up the framework for adequate tests of the relations among variables. It is the plan, structure and strategy of investigation conceived, so as to obtain answers to research questions and to control variance. Hence, Research design constitutes the blueprint for collection, measurement and analysis of data.

3.2 Population and Sample

General public, tax export/policy makers and taxpayers are considered as the total population. Out of them 12 General Public, 20 policy makers/tax experts and 25 taxpayers (finance companies) considered as the target sample for the study. In order to benefit this study, 57 sample size selected from Kathmandu valley. The respondent was divided into three groups. The following table shows the groups of respondents and the size of sample.

Table 3.1: Group of Respondents and Size of Sample from Each Group:

S. N.	Group of respondents	Sample size
1.	General Public	12
2.	Income tax experts/policy makers	20
3.	Income tax payers (Finance Companies)	25
	Total	57

3.3 Types and Sources of Data

In order to get the objective of the study, primary as well as secondary sources of data are use:

- a. Primary data are collected from the responses of persons representing from various sector through structure questionnaire. The same questionnaires distributed to three group i.e. General Public, tax experts/policy makers, and taxpayers (Finance Companies).
- b. The secondary sources of data are collected from books, journals, newspapers, reports and thesis etc. The major sources of secondary data were as follows :
 - 1) Economic Surveys and Budget Speeches of Ministry of Finance.
 - 2) Reports and records of Inland Revenue Department, Ministry of Finance.
 - 3) Thesis and Dissertation reports related to income tax available at Central Library, Tribhuvan University.
 - 4) Annual reports have Nepal Rastra Bank and Finance companies.
 - 5) Various books written by tax officers and scholars to income tax.

- 6) National newspapers, journals, souvenirs and magazines.
- 7) Various Websites related to this study.
- 8) Other relevant records to this study.

3.4 Data Gathering Procedure

The information and data required for the study collected by visiting Inland Revenue Office, interactions with concerned and responsible persons, visiting central library consulting with research advisers and others, and so information were also collected form the published and unpublished articles, leaflets, reports, thesis, magazines, books etc.

3.5 Procedure of Data Analysis

Collected data from primary as well as secondary sources were firstly tabulated into separated format systematically. The data were tabulated into various tables according to the subject in order. Then simple statistical analysis such as hypothesis, average and percentage, were calculated where necessary and they are presented and analysis in descriptive way. Graphs and charts have been presented and interpreted visually for the comfortable study of readers.

The major findings have been collected from various sectors that pay the highest amount of tax. The conclusion of analysis of data is to recommend for the improvement of present income tax act and utilization of income tax in increasing Gross Domestic products (G.D.P).

3.6 Analytical Tools

Information and data will be collected from questionnaire were in raw from. They will be classified and tabulated in the required. Data analysis had made by applying different tools like simple percentage, simple average, correlation coefficient, graphs and charts presented and interpret the data.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

In this chapter, the collected data will be accordingly and the result of the each data will be coded. The coded data will be analyzed, interpreted and presented descriptively and comparatively with the help of statistical computation, tables and diagrams to make the result realistic & complete to the possible extent. This chapter is also called the central nervous system which helps to provide conclusion after detailed analysis, so that proper recommendation can be given at end of the study.

4.1 Compositions of Nepalese Government revenue as a form of tax

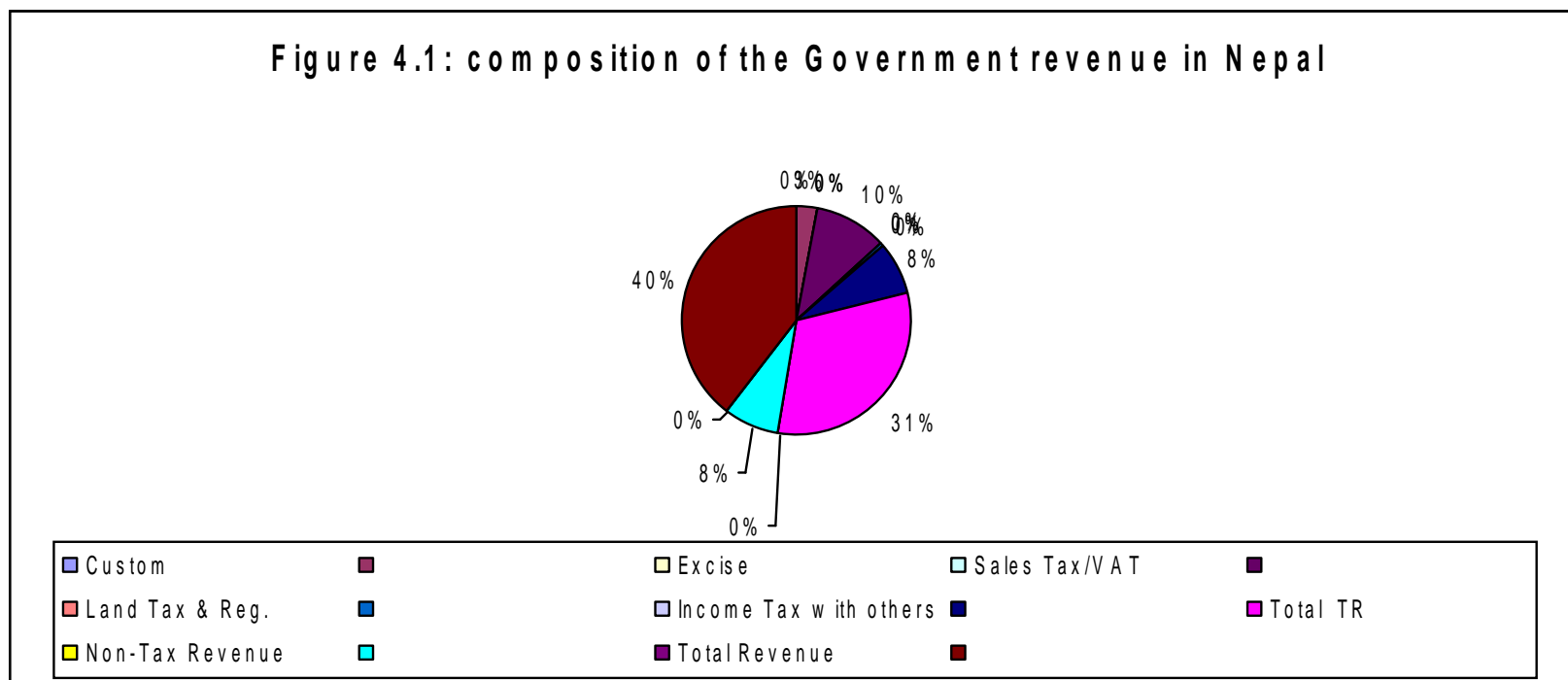
The sources of government revenue classified in to external and internal sources. The external sources of government revenue are foreign loan grants and assistance external borrowing etc. External source of government revenue are uncertain, inconvenient and not good for healthy development of Nation. Internal sources of government revenue are tax fee, funds revenue from public enterprises, special assessment, custom excise, corporate and person income tax etc. Government collects revenue through taxation is main sources of government revenue. Since it occupies the most important place in the government treasury. The composition of tax revenue and non- tax revenue is the structure of government revenue in Nepal. Tax revenue consists of direct taxes and indirect taxes income tax property tax land revenue and others are direct taxes similarly customs excise sales tax / Vat and others are indirect taxes. Out of them custom duty excise duty and sales tax or vat are major sources of government revenue.

Contract tax hotel tax entertainment tax and air flight tax are other format entertainment indirect taxes. Income tax is also the major contributor to the government revenue tax impose on income or profit of public enterprises, semi public enterprises, private corporate bodies as income tax as per income tax defined whereas, non tax revenue of the government are charges fee fines and forfeiture receipts from sales of commodities, dividend royalty and sale of fixed assets, principal and interest payment and miscellaneous items. The structure of Nepalese Government revenue are shown in table no 4.1

Table No: 4.1 Composition of the Nepalese Government Revenue as a form of Tax.

Fiscal Year	2000/01		2001/02		2002/03		2003/04		2004/05		2005/06		2006/07		2007/08		2008/09		2009/10		2010/11	
	Rs	%	Rs	%	Rs	%	Rs	%	Rs	%	Rs	%	Rs	%	Rs	%	Rs	%	Rs	%	Rs	%
Revenue																						
Custom	12552.10	25.67	12658.80	25.25	14236.40	25.32	15554.80	24.96	12552.10	25.67	12658.80	25.25	14236.40	25.32	15554.80	24.96	29426.61	20.51	35946.58	20.11	36241.08	20.14
Excise	3771.20	7.71	3807.00	7.59	4785.10	8.51	6226.70	9.99	3771.20	7.71	3807.00	7.59	4785.10	8.51	6226.70	9.99	12998.78	9.06	14425.11	8.07	16339.08	9.08
Sales Tax/VA T	12382.40	25.33	11964.00	23.86	13459.70	23.94	14478.90	23.23	12382.40	25.33	11964.00	23.86	13459.70	23.94	14478.90	23.23			47633.53	33.2	57736.18	32.3
Land Tax & Reg.	612.90	1.25	1131.80	2.26	1414.30	2.52	1697.50	2.72	612.90	1.25	1131.80	2.26	1414.30	2.52	1697.50	2.72			8226.52	5.73	8472.74	4.74
Income Tax with others	9546.50	19.52	9465.70	18.88	8691.40	15.46	10215.10	16.39	9546.50	19.52	9465.70	18.88	8691.40	15.46	10215.10	16.39			18766.46	13.08	39718.20	22.22
Total TR	38865.10	79.49	39027.30	77.83	42586.90	75.74	48173.00	77.29	38865.10	79.49	39027.30	77.83	42586.90	75.74	48173.00	77.29			117051.9	81.58	156290.6	87.44
Non-Tax Revenue	10028.80	20.51	11115.00	22.17	13642.70	24.26	14158.00	22.71	10028.80	20.51	11115.00	22.17	13642.70	24.26	14158.00	22.71			26422.6	18.42	22459.2	12.56
Total Revenue	48893.90	100.00	50142.30	100.00	56229.60	100.00	62331.00	100.00	48893.90	100.00	50142.30	100.00	56229.60	100.00	62331.00	100.00			143474.5	100.00	178749.8	100.00

Figure 4.1: composition of the Government revenue in Nepal



Note:

1. Custom Duties include = Import + Indian excise refunds + others.
2. Excise Duties include = Duties on industrial production + liquor contract.
3. Income tax include = Income tax from (public + semi-public enterprises + private corporate bodies + individuals + remuneration invest tax and others.)
4. Other include = entertainment tax + hotel tax + air flight tax + contract tax + road and bridges maintenance tax.

From the above table 4.1, it shows that the tax revenue is the major part of government revenue. Out of total tax revenue, customs has been covering a major place in the indirect tax as well as whole items of government revenue. In the FY 2000/01, the share of total tax revenue was 79.49 percent of total government revenue. Then it decreased to 77.8 percent in the FY 2001/02. Similarly, in fiscal year 2002/03 to 2010/11, it was 75.74%, 77.29%, 77.16%, 79.45%, 81.09%, 79.12%, 81.58%, 87.44% and 86.9% respectively. On the other hand, non-tax revenue in fiscal year 2000/01 was 20.51%. Similarly, in fiscal year 2001/02 to 2010/11, the non-tax revenue was 22.17%, 24.17%, 24.26%, 22.71%, 22.84%, 20.55%, 18.91%, 20.88%, 18.42%, 12.56% and 13.1% respectively.

Therefore, the tax revenue is the highly contributing source of total government revenue. However, non-tax revenue has been also contributing in a considerable rate among the other individual revenue items. It has captured second and third position in the different FYs when comparison is made among all revenue items individually.

In conclusion, the composition of government revenue includes different types of tax and non-tax revenue items. The income tax is in increasing order from the beginning of analysis and it seems to be progressive in the future. This is denoted by a higher growth rate of revenue.

4.2 Share of Tax Revenue and Non-Tax Revenue on the Total Revenue in Nepal.

Of the total revenue, the shares of tax revenue and non-tax revenue are used as fiscal instruments to fund government expenditure. Tax revenue includes customs (i.e. imports, exports, Indian excise refund, other), tax on consumption and product of goods and services, rent revenue and registration, tax on property, profit & income. Out of them, tax on property, profit & income of public enterprises, semi-public enterprises, private corporate bodies,

FY	Revenue (In Million)				
	Total	Taxable	%	Non-taxable	%
1996/97	29022.90	23073.70	79.50	5949.20	20.50
1997/98	31696.60	24698.50	77.92	6998.10	22.08
1998/99	36367.60	27869.20	76.63	8498.40	23.37
1999/00	42528.60	32787.00	77.09	9741.60	22.91

individual and remuneration have been great help government expenditure. Similarly non tax revenue includes charges fees, fines and forfeiture, receipts from sale of commodities and service, dividend, royalty and sale of fixed assets, principal and interest payment and miscellaneous item.

Table 4.2: Share of Tax Revenue and Non Tax Revenue on the Total

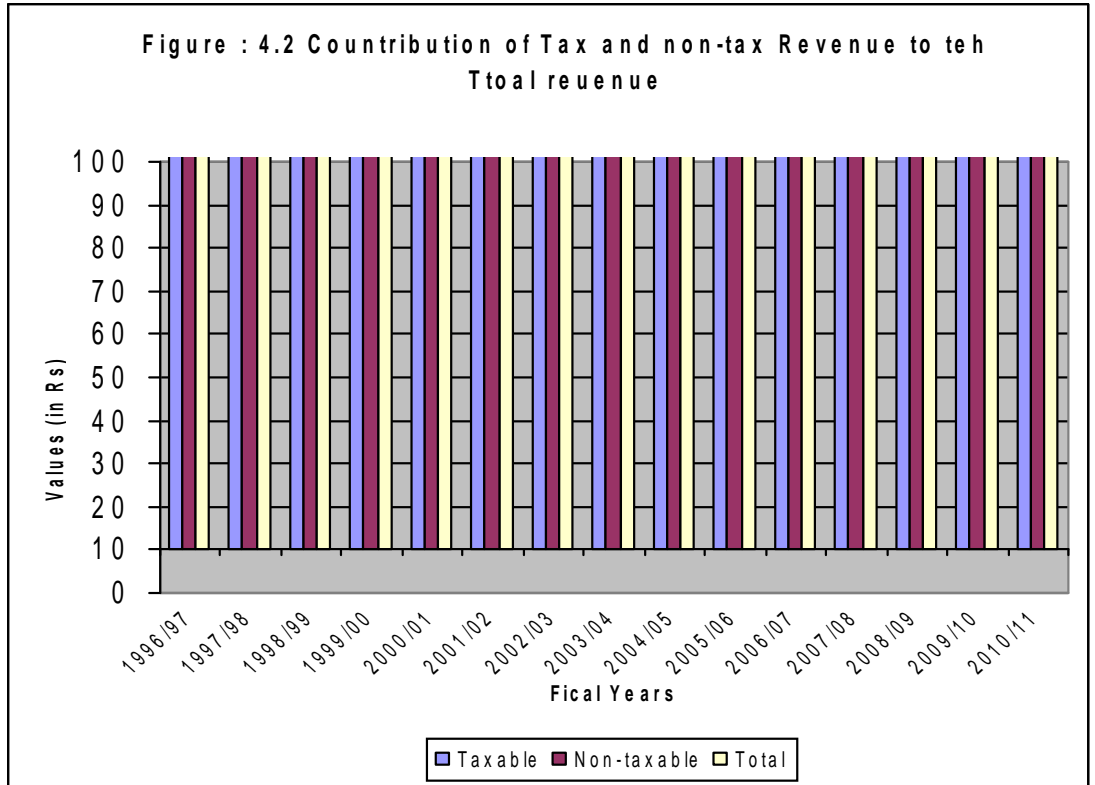
2000/01	48893.80	38865.00	79.49	10028.80	20.51
2001/02	50445.90	93330.60	77.97	11115.00	22.03
2002/03	56229.90	42587.00	75.74	13642.70	24.26
2003/04	62331.00	48173.00	77.29	14158.00	22.71
2004/05	70122.70	54104.70	77.16	16018.00	22.84
2005/06	72282.00	57430.40	79.45	14851.60	20.55
2006/07	87712.2	71126.7	81.09	16585.5	18.91
2007/08	107622.48	85155.46	79.12	22467.02	20.88
2008/09	14347.5	117051.9	81.58	26422.6	18.42
2009/10	178749.8	156290.6	87.44	22459.2	12.56
2010/11	179945.82	156294.92	86.9	23650.89	13.1

Source: Economic survey of (FY 1996 to 2011) MOF. Government of Nepal.

From the above table 4.2, it is shown that the tax revenue is contributed more than 75.74 percent in the total revenue realization in this FY. In the FY 1996/97, tax revenue contributed 97.50 percent. In that year the tax revenue was realized up to Rs 23073.7 million out of total revenue of Rs 29022.9 million. The ratio of non tax revenue collection in the FYs 1996/97 was and 20.50 percent, which was relatively very low than tax revenue realization. The share of tax revenue was decreased in the FY 1997/98 up to 77.92 than after also decrease up to FY 1998/99 and the ratio of tax revenue decrease to up 76.63, the rate of tax revenue contribution showed slightly up and down each year from 1999/00 to FY 2007/08. It was 79.12 percent in the FY 2007/08. Similarly, in fiscal year 08/09, 09/10 and 10/11. the ratio of taxable income were 81.58, 87.44 and 86.9 and their non taxable income were 18.42, 12.56 and 13.1 respectively. Any way, taxable revenue has been contribution the major part of total government revenue till now.

figure4.2 Share of Tax and Non Tax revenue to the total revenue.

Figure : 4.2 Contribution of Tax and non-tax Revenue to the Total revenue



4.3 Compositions and Share of Direct Tax on Total Tax and Total Revenue in Nepalese Tax Structure.

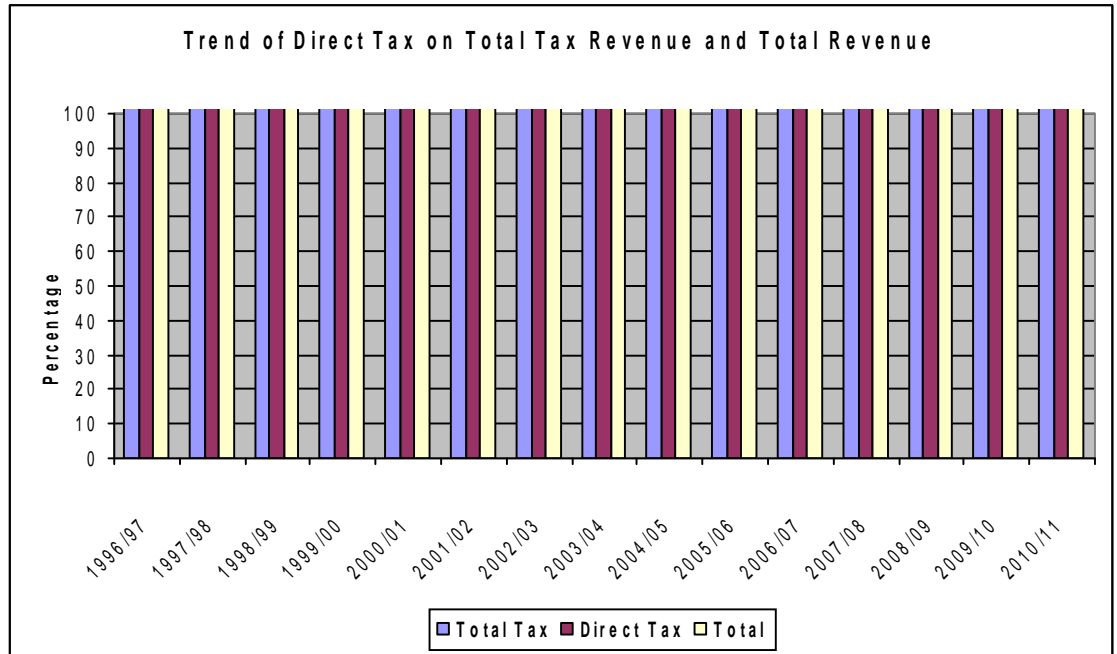
Direct taxes the parts of Tax revenue. Direct taxes include Tax on property, profit and Income, Land & Building Registrations., vehicle Tax and others. Tax on Income in include Income from public enterprises, income from semi-public enterprises, income from private corporate bodies, income from individuals and income tax from remunerations etc. Whereas, Indirect taxes include customs (i.e. imports, exports, Indian excise refund and other), Tax on consumption and product of goods and services (i.e. excise on industry product and VAT) etc. VAT includes sales tax, entertainment Tax, Hotel tax, Air flight Tax and contract Tax.

Table 4.3 Share of direct Tax on Total Tax & Total Revenue in Nepalese Tax Structure

FY	Revenue			% of Direct Tax on Total	% of Direct Tax on Total Tax
	Total	Total Tax	Direct Tax		
1996/97	29022.90	23073.70	5340.00	18.40	23.14
1997/98	31696.60	24698.50	6187.90	19.52	25.05
1998/99	36367.60	27869.20	7516.10	20.67	26.97
1999/00	42528.60	32787.00	8951.50	21.05	27.30
2000/01	48893.80	38865.00	10195.50	20.85	26.23
2001/02	50445.60	39330.60	10597.50	21.01	26.94
2002/03	56229.90	42587.00	10105.70	17.97	23.73
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	72282.00	57430.40	13968.10	19.32	24.32
2006/07	87712.2	71126.7	18980.3	21.64	26.68
2007/08	107622.48	85155.46	23087.8	21.45	27.11
2008/09	143474.5	117051.9	29097.4	20.28	24.85
2009/10	178749.8	156290.6	41760.5	23.36	26.71
2010/11	179945.82	156294.92	41750.17	23.20	26.71

sources: Economic sources [since 2000/01 to 2010/11 FY MOF.

Figure 4.3 Trend of Direct Tax on Total Tax Revenue and Total Revenue.



From the above table 4.3. It is shown that the contribution ratio of direct tax on the total tax revenue and total revenue of the Government. This relationship is also presented in the figure 4.3 in the beginning of the year of the study, the share of the direct tax on the revenue was 18.40 percent. Which was 23.14 percent on total tax revenue in the FY 1996/97. the ratio of direct tax on total revenue tax were 19.52, 20.67, 21.05, 20.85, 21.01, 17.97, 19.11, 18.64, 19.32, 21.64, 21.45, 20.28, 23.26 And 23.20 percent for the Fiscal year 1997/98, 1998/99, 1999/00, 2000/01, 2001/02, 2002/03, 2003/04, 2004/05, 2005/06, 2006/07, 2007/08, 2008/09, 2009/10 and 2010/11 Respectively. Similarly the contribution nation of direct tax on total tax revenue in the corresponding year were 25.05 percent, 26.97 percent, 27.30 percent, 26.23 percent, 26.94 percent, 23.73 percent, 24.73 percent 24.16 percent, 24.32 percent, 26.68 percent and 27.11 percent 24.85 percent, 26.71 percent and 26.71 percent respectively from FY 1997/98 to 2010/11.

4.4 Ratio of corporate Tax on Total Income Tax for Enhancing Economic Growth

Cooperation is a form of organization wherein persons voluntarily associate together as human beings on a basis of equality for the promotion of economic interest of themselves. Levy of tax upon Co-operative varies among the nature of business, some Co-operative business are exempted from payment of tax now, corporate income tax is a composition of three tax payers. They are Government enterprises, public limited company and private limited company. Corporate body are backbone of every countries. The developing country like Nepal can also get benefit from corporate body to reduce gap between expenditure and revenue for fiscal stability. Therefore, corporate bodies and their contribution toward Got revenue should be increased.

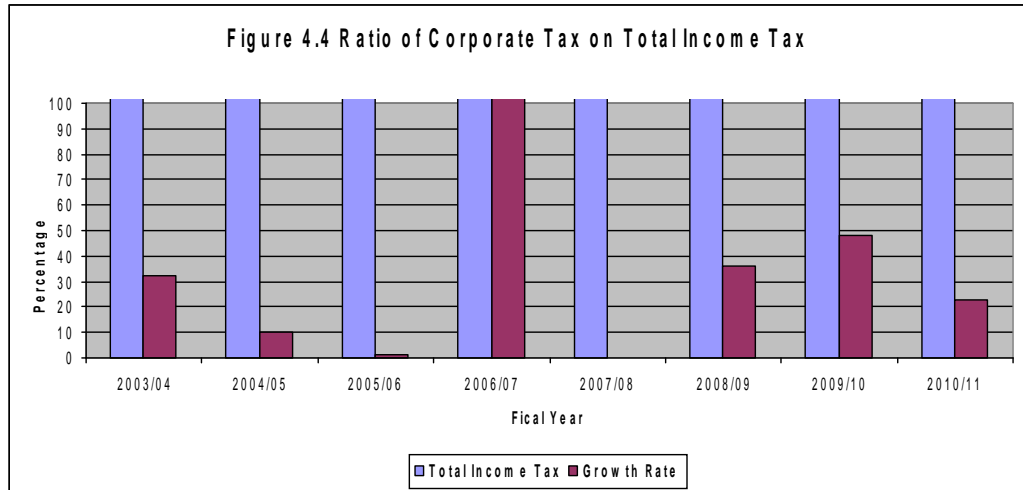
Table 4.4 Ratio of corporate tax on total Income tax

FY	Total Income Tax	Corporate Tax	% on Total Income Tax	Growth Rate
2003/04	9514.78	4838.69	50.85	32.36
2004/05	10452.64	5327.32	50.97	10.1
2005/06	10896.45	5395.7	49.52	1.28
2006/07	15621.43	11515.83	73.72	113.43
2007/08	17327.92	9767.74	56.36	-15.18
2008/09	19077.81	13268.7	69.55	35.84
2009/10	27246.43	19624.7	72.0	47.9
2010/11	33811.89	24040.4	71.10	22.50

The above table 4.4 showed the contribution of corporate tax on tax income tax with its growth rate during fiscal year 2003/04 to 2010/11 FY 2003/04, Rs. 4838.69 million was collected which was 50.85 of total income tax collection. In FY 2004/05 to 2010/11. The contribution of corporate tax were Rest.

5327.32 million Rest 5395.7 Million, Rs 11515.38 Million and Rs 9767.74 Million 13268.7 million, 19624.7 million and 24040.4 million respectively. Similarly percentage of corporate tax on total income tax were 50.97 percent 49.52 percent, 73.72 percent, 56.36 percent 69.55 percent, 72.0 percent 71.10 percent and from FY 2004/05 to 2010/11 respectively. In fiscal year 2006/07, the contributed of corporate tax was highest among other year and which growth rate was 113.43 percent.

Figure 4.4 Ratio of Corporate Tax on Total Income Tax



The above figure 4.4 showed that the trend of corporate tax collection. The corporate income tax collection has been increasing due to increasing no. of corporate bodies and awareness about income tax on people. Income tax act 2058 bring the concept of self assessment system is also helps to collect the tax in Nepal.

In conclusion, it can be said that the positive trend of corporate income tax denotes economic improvement of the nation even though the nation is in deep trouble in these days due to political crisis.

4.5 Contribution of Finance Companies as a form of Corporate tax on total Tax revenue and revenue of Government

The Government of Nepal introduced Finance Company Act 2042 to attain economic growth in the nation by increasing non banking activities in first time. The no. of Finance companies are increasing nowadays. Now the total no. of finance companies operating in our countries are 80 till mid April 2011. They are also corporate bodies. Their contributions are also considerable because they provide services to the general people one hand other hand they

also contribute to wards the Government revenue for public purpose. Their contribution are remarkable for developing economic growth. It is unequivocal that establishment of finance companies help develop innovation and entrepreneurship that support long - term economic development.

Table 4.5 Contribution of Finance Companies as form of Corporate tax on Total tax Revenue and Revenue of Government

FY	Total Govt. Revenue	Corporate Tax from Finance	Corporate Tax % on Govt.
2003/04	62331.00	146.82	0.24
2004/05	70122.7	223.84	0.32
2005/06	72282.00	269.73	0.3
2006/07	87712.2	260.73	0.37
2007/08	107622.48	525.3	0.49
2008/09	143474.5	609.3	0.42
2009/10	178749.8	681.4	0.38
2010/11	179945.82	789.08	0.43

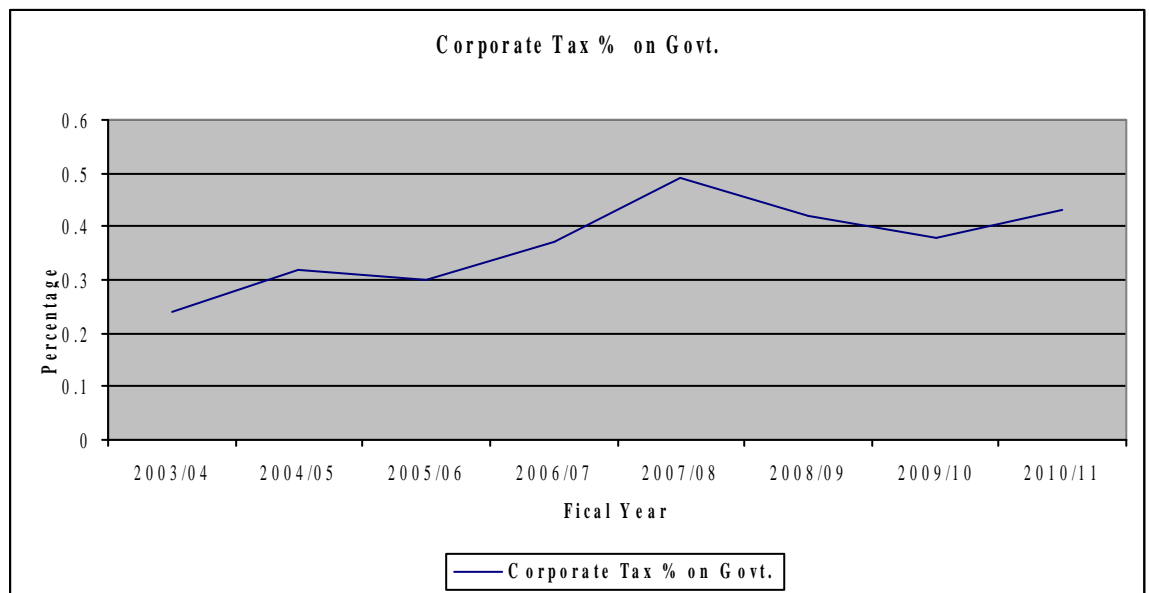
Source:

1. Quarterly Economic Bulletin (2011)
2. Economic Surveys M of
3. Annual Report of IRD (2010/11)

Nepal has only limited number of corporate bodies. Out of them Finance companies are the most important corporate bodies to developing countries like Nepal. These companies have to play significant role to realized income tax in Nepal. The above table (4.5) showed the contribution of income tax from Finance companies to total government revenue. In FY 2003/04 to 2010/11the percentages of corporate tax from finance on total government

revenue were 0.24 percent, 0.32 percent, 0.37 percent, 0.30 percent and 0.49 percent 0.42 percent 0.38 percent and 0.43 percent respectively. In Fiscal year 2010/11 the contribution of corporate tax was Rs 789.08 million which was also the highest figure still now.

Figure 4.5 Percentage Ration of Income Tax From Finance Companies in Nepal



Source: Table no 4.5

The trend line of income tax percentage collection from finance companies in different FY has been showed in figure 4.5. The percentage of income tax form finance companies is increasing trend. Thus we conclude that the development and finance condition of finance companies has been improving. The economic condition of the nation has been going to be improving and favorable condition to the finance companies going to be improving.

4.6 Comparative analysis of Total Corporate tax from Corporate bodies as a whole and income tax from finance Companies as on total tax revenue

The portion of corporate tax and income tax from finance companies on total tax is presented in Table 4.6. This table comparatively evaluates the portion of corporate tax and income tax from finance companies on total tax revenue. Corporate tax includes incomer tax from government enterprises public limited companies & private limited companies.

Table 4.6 Comparative Analysis of Total Corporate tax from Corporate bodies as a whole and Income tax from Finance Companies as on Total tax revenue

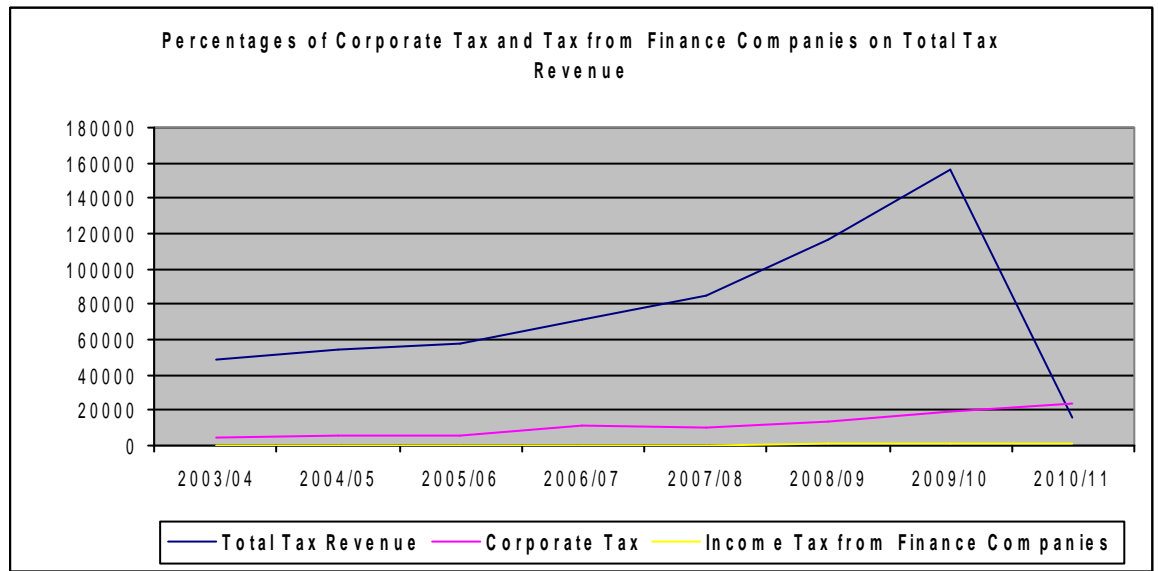
FY	Total Tax Revenue	Corporate Tax	Income Tax from Finance Companies	% of Corporate Tax on total Tax	% of Income Tax from Finance co. on Total Tax Revenue
2003/04	48173	4838.69	146.82	10.04	0.30
2004/05	54104.7	5327.32	223.84	9.85	0.41
2005/06	57430.4	5395.7	269.73	9.4	0.46
2006/07	71126.7	11515.83	260.3	16.19	0.37
2007/08	85155.46	9767.74	525.9	11.47	0.61
2008/09	117051.9	13268.7	609.3	11.33	0.52
2009/10	156290.6	19624.7	681.4	12.55	0.43
2010/11	15694.92	24040.4	789.08	15.38	0.50

Sources:

1. Economic survey of various year MOF N/G
2. Annual report of IRD
3. Quarterly Economic Bulletin NRB

The above table 4.6 showed that the ratio of corporate tax on total tax and ratio of income tax from finance co. on total tax revenue. The portion corporate tax on total tax revenue was 10.04 percent in FY 2003/04 whereas, ratio of income tax from finance co. on total TR was 0.30 percent during the same year. The ratio of corporate tax on total tax revenue were different in different year. Out of the ratio 16.19 percent was highest than others FY. Similarly, The ratio 15.38% was occurred in FY 2010/11. On other hand, the table show, The ratio of income tax from finance Co, on total TR were 0.41%, 0.46%, 0.37%, 0.61% 0521%, 0.43% 40.50% in FY 2004/05, to 2010/11Respectively. The figure in FY 2007/08 was highest among others figure. It is good sign for Banking & finance sector.

Figure 4.6 Percentages of Corporate Tax and Tax from Finance Companies on Total Tax Revenue.



Source: Table 4.6

The above figure 4.6 also depicted the trend line of corporate tax and income tax from finance companies on total tax revenue. The trend line of corporate tax slope down ward until 2005/06. and then, slop upward in 2006/07 FY. After that it was again in decreasing trend but income tax from finance companies slightly decreasing in FY 2006/07 then after it has increasing trend. In conclusion, the decreasing trend of corporate trend of corporate tax due to corporate in public enterprises instability as government. But increasing trend of tax from finance companies due to awareness of saving of people & increasing investment of finance companies.

4.7 Nature and Structure of Corporate tax rate in Nepal

Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the residents of the state. Corporate tax is imposed on corporate bodies corporate

bodies are profit oriented so the Government can impose tax on them for their contribution towards making country's economic strong. Corporate tax enacted after the business profit & remuneration tax Act was introduced in 1960. The initial corporate tax rate was 25% and it was levied on progressive way.

Figure 4.7 Nature and Structure of corporate tax rate in Nepal

FY	Maximum Marginal Tax rate		Nature of Tax Rate
	Pvt. Company	Public Company	
1974/75	55	55	Progressive
1975/76	60	60	Progressive
1976/77-1975/79	51	51	Progressive
1979/08-1980/81	50	50	Progressive
1982/83-1983/84	55p	55F	Progressive & Flat
1985/86	55p	55F	Progressive & Flat
1986/87-1987/88	55p	55F	Progressive & Flat
1988/89-1989/90	55p	50F	Progressive & Flat
1990/91-1991/92	40p	40F	Progressive & Flat
1992/93-1994/95	35P	35f	Progressive & Flat
1995/96	33	33	Flat
1996/97	30	33	Flat
1998/99-2002/03	20-25 & 30	20-25 & 30	Flat

Source:

1. Kandel P.R (2000) corporate tax system and investment Behaviors in Nepal
2. Budget speeches, 2001/02 & 2002/01.
3. Finance acts.

Note: 20% tax rate for special industries, 25% tax rate for general industries producing cigarette, bidi, liquor product and industries uses these as raw material. 30% tax rate for non industries for banking, financial organization and insurance business.

In the beginning the corporate tax rate was increased up to 60% for both private and public company in FY 1975/76. After FY 1975/76 tax rate was decreased up to 51% and 50% this rate was again increased to 55% and remains continued from FY 1982/83, to till 1987/88. In the year 1987/88 the listed public limited companies were levied 10% less than the others. After FY 1987/88, the tax rate was continuously decreasing. Now it is 20% to industry (except cigarette and alcohol) 25% to general companies and 30% to banks & finance companies special fee 3% of taxable income was levied to all corporate bodies. Now it is decreased to 1.5%.

Corporate tax rate in the beginning to FY 1994/95 was progressive nature. For the promotion of industries in Nepal the government was make the policy for the concession of tax rate. To promote the established the industries in remote area (except Alcohol & tobacco industries) government categorized special industry and tax levied 20% on income.

4.8 Relationship between Increasing No of finance companies & Total profit before Tax.

Finance companies are profit oriented organization. They are engaged in yielding profit by providing non - banking services to the people. Their contribution towards Government revenue is remarkable for maintaining fiscal stability. Nowadays 80 finance companies are operating in our country. The increasing ratio of no. of finance companies and their profit is satisfied. It proves that by the correlation between number of finance companies and profit before Tax as shown Table no: 4.8

Table 4.8 Relation between Increasing no. of finance companies & Total profit before tax.

FY	No. of finance co.	Profit before Tax (million)	Growth rate of PBT	Growth rate of No. of co.
2003/04	60	50.51	33.62	3.04
2004/05	68	65.76	30.19	13.03
2005/06	73	76.87	16.89	7.35
2006/07	74	86.76	12.87	1.37
2007/08	78	175.3	102.05	5.13
2008/09	78	186.7	6.50	0
2009/10	79	204.8	9.69	1.28
2010/11	80	288.97	41.098	1.26
Correlation=0.80				

Source: - Appendix -3

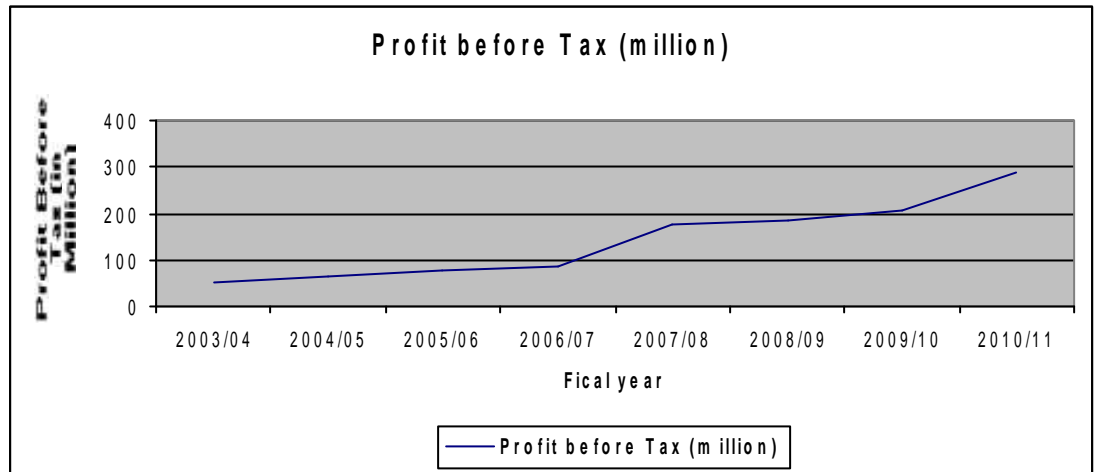
No. finance co. & its PBT are 58 & Rs.37.8 million respectively in FY 2002/03.

The above table shows that relationship between increasing No. of finance companies & their total profit before tax. In FY 2003/04 the increment rate of No of finance companies was 3.4% but profit before tax is 33.62 percent. In the FY 2004/05 and 2005/06 increment trade of No of finance company were 13.3 and 7.35 percent but profit before tax was 30.19 and 16.89 respectively. The increment rate of profit before tax was decreasing trend and it was up to 16.89 percent in FY 2005/06 but no of finance company up to 7.35 percent in same FY. In FY 2006/07 & 2010/11 increment rate of no of finance co. were & 1.37 & 5.13, 0,1.28 and 1.26 and their growth rate were 12.87, 102.05, 6.50, 9.69 and 41.098 respectively. Thus we conclude that increasing no of finance

company and their earning total profit was not so satisfied. It was due to the instability of government and their poor performance. But now days finance companies have higher PBT than earlier.

The correlation between no of finance company and their total profit before tax was 0.80. The value of r is 0.80 which means there is positive relationship between increasing tendency of NBFY and profit earned by them

Figure 4.8 Trend Line of Profit before tax



In the conclusion, trend line also has proved profit of NBFIs has been increased with according to growth no of finance company.

4.9 Analysis of Empirical Study

4.9.1 Introduction

An empirical investigation has been conducted to find out different aspects of Nepalese income tax and public enterprises income tax imposition in Nepal. The major tool used in primary data collection was an opinion questionnaire. Tax experts, tax payers (finance companies), general public were taken as respondents the major tool used in survey research was an opinion questionnaire which was distributed to 65 persons. A total of 57 filled questionnaires were received. Among these 20 were tax experts, 25 tax payers and 12 were general public.

The respondents were asked either to response yes/ no or tick the best answer on e or to write their opinion. Some of the respondents have chosen more than respondents was tabulated into the separate table formal and they were presented in percentage of total number or point and analyzed into a descriptive way. The respondents were selected three denominations and code was used to present each denomination in order to make easy the analysis. The following table shows denomination of respondents and code used to represent them

Table 4.9 Denominations of Respondents and Code

S.N.	Denominations of Respondents	Code Used
1.	Income Tax Experts	E
2.	Tax Payers Finance Co. Officials	P
3.	General Public	G

4.9.2 Attitude towards Income Tax as a Suitable Means of Raising Domestic Resources

In order to know whether income tax as suitable means of raising domestics resources a question was asked, “in your opinion whether the income tax is a suitable means for raising domestic resources in Nepal” the response received from respondents are tabulated as follows:

Table 4.10 Income Taxes as a Suitable Means of Raising Domestic Resources

Respondent Response	E	P	G	Total	Percentage
Yes	20	22	9	51	89.47
No	0	3	3	6	10.51
Total	20	25	12	57	100

Source: Opinion Survey

The question was received from all respondents 89.47 of total respondents accept the income tax as a suitable means of domestic resources and 10.53 of total respondents do not recognize income tax a suitable means domestic resources mobilization. Thus the conclusion can be drawn that the income tax is a suitable means of raising government revenue.

4.9.3 Attitude towards Tax Payment procedure should be simple to encourage Taxpayers

Regarding the question whether tax payment procedure should be simpler asked to respondents, the response received from respondents is tabulated as follows:

Table 4.11 Tax Payment Procedure should be simple to Encourage Taxpayers

Respondent Response	E	P	G	Total	Percentage
Yes	16	25	12	53	92.9
No	4	0	0	4	7.01
Total	20	25	12	57	100

Source: Opinion Survey

By observing the response of people regarding the above question, it is found that 92.9% of the respondents were agreed with the statement that the tax payment procedure should be simple to encourage tax payers. Only 7.01% disagree with the statement which shows that the majority has the positive response regarding the statement.

4.9.4 Attitude towards Contribution of Corporate Tax to Government Revenue is Satisfactory

Regarding this question was asked to the respondents; “in your opinion, whether contribution of corporate tax to government revenue is at satisfactory level?” the responses of respondents have been presented in the following table

Table 4.12 Contribution of Corporate Tax to Government Revenue

Respondent Response	E	P	G	Total	Percentage
Yes	13	20	9	42	73.67
No	7	5	3	15	26.31
Total	20	25	12	57	100

Sources: Opinion Survey

In the opinion survey 73.67% of the respondents expressed that the contribution of corporate tax to government revenue is at satisfactory level and 26.31% of the respondents express not satisfactory. The minority of the respondents thought that the corporate tax contribution can be increased for more revenue collection.

4.9.5 Attitude towards contribution of Income Tax from Finance Companies to tax Revenue in Nepal

The question asked regarding this was “in your opinion whether contribution of income tax from finance companies to tax revenue in Nepal is satisfactory”. The response of respondents is shown in the table below:

Table 4.13 Contribution of income Tax from Finance Companies to Tax Revenue in Nepal

Respondent Response	E	P	G	Total	Percentage
Yes	12	20	8	40	70.17
No	8	5	4	17	29.83

Total	20	25	12	57	100
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In the opinion survey 70.17% of the respondents expressed that the contribution of income tax from financial institution to government revenue is at satisfactory level and 29.83% of the respondents express not satisfactory. The most of the respondents thought that although their contributions at satisfactory level but more tax revenue can be generated from them.

4.9.6 Attitude towards finance companies are Loyal to Tax Payment

The response received regarding this question is shown in table below:

Table 4.14 Financial Institutions are Loyal to Tax Payment

Respondent Response	E	P	G	Total	Percentage
Yes	14	25	10	49	85.96
No	6	0	2	8	14.04
Total	20	25	12	57	100

Sources: Opinion Survey

By the response received from respondents it is seen that 85.96% of respondents agree that the financial institution are loyal regarding tax payment. Whereas 14.04% believe that they are not as loyal regarding tax payment. The majority shown that they are loyal regarding tax payment.

4.9.7 Attitude Towards Finance Companies Requires Tax Rebates facilities as Other Industries

The responses of the respondents for the question, finance company needs tax rebate facilities as other industries, do you agree” the response of the respondents have been presented below

Table 4.15 Finance Company Requires Tax Rebates Facilities as Other Industries

S.N	Response	No.	Cum No.	%	Cum %
1.	Strongly Agree	25	43	43.85	75.43
2.	Relatively Agree	10		17.54	
3.	Agree	8		14.04	
4.	Disagree	7	14	12.28	24.57
5.	Relatively Disagree	5		8.79	
6	Strongly Disagree	2		3.5	
	Total	57	57	100	100

Source: Opinion Survey

In the opinion survey 75.43% of respondents response that the Finance companies need tax rebate facilities as others do. Finance company is basically a service business and this business growing up in our country and can contribute more to tax revenue. So the government should give chance to progress and expand to this business. Hence it can be said that Finance Company needs tax rebate facilities as other business.

4.9.8 Attitude Toward Tax Rate Charged to Finance Company is Sound

The following table is related to the responses of respondents for the question “are the existing tax rates charged to the Finance Company sound”

Table 4.16 Tax Rate Charged to Finance Company is Sound

S.N	Response	No.	Cum No.	%	Cum %
1.	Strongly Agree	8	24	14.03	42.1
2.	Relatively Agree	6		10.53	
3.	Agree	10		17.54	

4.	Disagree	13	33	22.8	57.9
5.	Relatively Disagree	8		14.03	
6	Strongly Disagree	12		21.05	
	Total	57	57	100	100

In the opinion survey, the table shows that 42.1% respondents accepted tax rates charge (30%) applicable for financial institution however 57.9% respondents did not accept the existing tax rate charge. The majority believe that tax rate to domestic base company should be lower compare to non resident company.

Therefore tax rate charged to non-resident company should be higher so that more revenue can be generated as well it also helps domestic company to compete.

4.9.9 Attitudes towards Major Problems Faced by Finance company Regarding Income Tax System

In order to know the major problems faced by financial institutions regarding income tax system a question was asked, “What are the major problems faced by Finance Company regarding income tax system?” the respondents were requested to rank the problem from 1 to 4 according to preferences. The responses are tabulated in table below:

Table 4.17 Major Problems Faced by Finance Company Regarding Income Tax System

S.N	Response	Points				%	Rank
		E	P	G	Total		
1	Inefficient tax administration	36	68	31	135	31.34	1

2	High discretionary Power of income tax officers	30	28	37	95	22.04	3
3	Lengthy income tax assessment process	49	38	20	107	24.82	2
4	Vague provision of tax laws	36	42	16	94	21.8	4
	Total	151	176	104	431	100	

Source: Opinion Survey (Here. Each rank 1-4 gets 4-1 points respectively)

From the above table, the major problems facing by finance company regarding income tax system are ranked as follows:

- (1) Inefficient tax administration
- (2) Lengthy income tax assessment process
- (3) High discretionary tax power tax officers
- (4) Vague provision of tax laws

4.10 Major Finding of the Study

Major finding of the study are summarized bellow:

4.10.1 Finding from the Study of Secondary Data.

1. The study shows the share of tax revenue is about 86.9% and that of non tax revenue was about 13.1% in fiscal year 2010/11. The obtained percent shows that tax revenue is major tool of resource mobilization.
2. The contribution of direct tax revenue to total revenue is 23.20%. which is satisfactory level. But the government should take action against who are not paid tax for more revenue.
3. Income tax revenue is the composition of corporate income tax, individual income tax. House and land compound tax and interest tax

were 56.36%, 34.47%, 3.62% and 5.55% respectively. It shows that corporate income tax has major share for accelerating economic growth.

4. The share of corporate tax on total income tax was decreased from last year Due to the political instability and long run insurgency. However, the corporate tax share is in satisfactory level.
5. In Nepal, at initial stage corporate tax was progressive Nature. Now days corporate tax is flat rate which is 30% for financial institutions. (i.e. Banks and Finance companies)
6. At the analysis of five year the contribution of corporate tax from financial companies to government revenue was increasing trend. The contribution ratio was 0.61% in fiscal year 2007/08.
7. There are altogether 80 finance companies in Nepal till mid July, 2010/11. Most of them, located in Kathmandu city.
8. In Nepal, with economic liberalization policy the Financial Company Act 2024 comes out on 2042 B.S. Then after first finance company to register in company office was a completely government owned company. Which was Nepal Housing and Finance company? Which was came in to operation on 2049 B.S.
9. In Nepal, Bank and financial institutions are categorized on the base of their capital by the Nepal Rasta Bank. Nepal Rasta Bank categorized financial institution in four (i.e. A B C and D), out of them financial companies kept in category 'C'. The finance companies are also called Non Banking financial institution.
10. Out of financial institution in Nepal, the contribution of income tax from finance companies to government revenue was found low. But the growth and development of finance companies is gradually growing and its contribution is increasing to government revenue. The prospect of finance companies is emerging in Nepal.

4.10.2 Findings from the study of primary data

To reach at conclusion of the research, the primary data has been collected and analyze to know the role and effectiveness of income tax administration in Nepal. For this, opinion survey with tax export/ policy makers, tax payers (finance companies), & general public was done. As a results, the following findings have been drawn.

1. Nepalese Government has to able for mobilizing of domestic resources if domestic resources are utilized proper it may contributed economic domestic resource. Income tax is a suitable source of mobilizing of domestic resources. Income tax is the major source of government revenue.
2. To generate more revenue the government of Nepal should be considered simplest way for tax payment procedure that may help to encourage tax payers (i.e. finance company)
3. The contribution of Income tax from finance company to Government revenue is considered satisfactory habit of tax evasion inefficient income tax administration, weakness of Government economic policy and instability of government are the major reason for the low contribution of income tax to government revenue.
4. Other industries get more tax rebates and facilities as Compared to Commercial banks, insurance and Finance Companies. In other to Private these sectors and to create Competitive environment these sector also requires certain rebates and facilities as other sector.
5. Heavy Fine and penalties slow tax assessment process by the tax office. High dictionary power of tax officer lack of clean about provision and rules in income tax act payer faced by tax payer (finance company) in Nepal. So that tax payer always discourages to pay tax and try may to hide income of the government.

6. Effective rules and regulations, effective tax administration system. are the most important instruments for effectiveness of income taxation in Nepal.
7. As we know, Income tax can be the major source of government revenue. The contribution of tax revenue would be effective if the collection process was made properly. The present system of tax in Nepal is not efficient because the tax office does not impose same rule for all kinds of tax payers.

CHAPTER – v

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Globalization is today's trend. Nepal also can not remain isolated from the World economy and hence by global trends. Nepal being small country, Globalization becomes even more important. Nepal has got membership of WTO on 23rd April (2004 as moving towards the system of world's globalization. However, Nepal is facing various serious problem regarding the political crisis and instability, unemployment, budget deficit, unproductive expenditure of government revenue, lack of capital, mass poverty etc. The gap between the expenditure and revenue must be lowered for fiscal stability. Since there is a mismatch between the two, the gap has not reduced. In this context, the effort must be given to increase revenue. The sources of Government revenue are foreign aid, foreign loan, domestic loan, tax fines, fees, royalties etc. Out of them tax has played significant role for healthy economic growth. Tax is main medium of Government revenue for spending fir public purpose. Tax revenue as classified as tax revenue and non - tax revenue tax revenue includes customs (i.e. imports, exports, Indian excise refund, others), tax on consumption and product of goods and services, land revenue and registration, Tax on property profit & income, other taxes etc. whereas, Non -tax revenue includes charges, fees, fine and forfeiture, receipts from sales of commodities and services, dividend, royalty and sale of fixed assets. Principal and interest payment and miscellaneous items etc. Tax revenue is further classified direct tax and indirect tax, direct tax includes income tax (i.e. income tax on Govt. corporation, public corporation, private ltd. Corporation, income tax on individual, trade etc.) indirect tax includes customs, Tax on consumptions and products of goods and services etc. In

fiscal year 2010/11 the tax revenue is 86.9% and non - tax revenue is 13.1% as well as out of them corporate tax has been occupied the significant place in Government revenue. Government of Nepal introduced finance company Act, 2042 for enhancing finance company as per need of healthy economic growth. Nepal housing development finance company limited became the first finance company in Nepal and The no. of finance company are 80 till now. The correlation between no. of finance company and their total profit before tax is 0.80, which is positive sign for enhancing economic growth. For this study, both primary as well as secondary data are used for getting adequate results.

5.2 Conclusion

Nepal is classified as a least developed country on account of a low per capita income of around US\$318, low contribution of manufacturing sector in GDP (less than 10%) and low indices in the social indicators of development. The Government expresses a strong commitment to reduce the poverty by achieving optimum growth of national production. But it is not implemented in effective way. Normally, a low ratio of revenue to total expenditure and high level of fiscal deficit are some of the phenomenon of the Nepalese fiscal system. As government revenue is growing at a lesser rate than the growth in expenditure, the gap between revenue and expenditure is ever widening resulting higher level of budgetary deficit. For the sustainable development of the economic condition internal resource are play vital role in every country. But Nepal has been found itself unable for proper mobilization for internal resources. Thus fiscal deficit of Nepal has been increasing. The gap between the expenditure and revenue must be lowered for fiscal stability. Since there is a mismatch between the two, the gap has not been reduced, In this context the effort must be given to increase revenue by imposing effective corporate tax on total tax is usually very high. In FY 2010/11, 71.10% of total tax are collected as a corporate tax. So, the corporate bodies are major contributor for the Govt. of Nepal should pay attention towards the development of finance

company and make adjustment of tax rates as per effective manner rather than vague. Similarly, expansion of tax base and change in tax rates should be reviewed, revised and implemented them. As the revenue mobilization is based on the efficiency of tax administration, effectiveness and professionalism, imparting the training for the human resources to effect structural changes in the tax administration seems inevitable.

5.3 Recommendations

On the basis of findings of the study, some recommendations are explained below for enhancing the contribution of finance company towards tax revenue in Nepal as well as making amendment of effective income tax imposition system for better result. They are:

- a. It has been seen that the firms registered in income tax are showing artificial losses to evade income tax and some persons are evading tax through transfers pricing in the same business group in the basis of involvement in various activities that attract different tax rate. Controlling such tax leakages the Government should make corrective action against them by implementing special rule.
- b. Revenue mobilization remained satisfactory in the last two years. To give continuity to this, the challenges is to control tax leakages after identifying the possible leakage areas especially in vat and income tax the two major contributors of tax revenue. Areas such as the expansion of tax implemented them in addition to developing programs related to tax education and tax awareness so as to increase revenue mobilization.
- c. The service delivery by the tax administration to the tax payers needs to be improved as per the need of the time. Revenue leakages through the rampant and illegal use of the duty free goods need to be controlled. Effort should be made towards full atomization of tax

administration simplifying income tax procedures and reducing tax exemption limit.

- d. As the revenue mobilization is based on the efficiency of tax administration, effectiveness and professionalism, imparting the training for the human resources to effect structural changes in the tax administration seems inevitable.
- e. A research and intelligence centre should be established in each office for proper planning and to collect the information regarding income tax evaders, potential tax payers and non residents who have conducted business without registration.
- f. For the growth and development of finance companies in Nepal, first the government should pay great attention for maintaining peace, security and stability of political situation and give incentive and facilities to business for smooth running.
- g. NRB has been placed more emphasis on effective implementation of the inspection process and provisions have been made to create a separate inspection committee for detail inspection and supervision of financial institutions that are in trouble.
- h. It is unequivocal that establishment of banks, financial institutions and insurance companies help develop innovation and entrepreneurship that support long term economic development with the development of the financial sector, It is essential to promoter financial stability and discipline.

In Nepal, Income tax system is facing a lot of problems. If above mention suggestion and recommendation are manage in time and implemented properly, the problem can be solve in some extent and the income tax will lead to substantial increase revenue. If the actual fact came out by the researcher every people aware about tax system and will be more efficient and effective.

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Appendix 1

QUESTIONNAIRES.

1. In your opinion, whether the income tax is suitable means of raising domestic resources in Nepal? Yes [] or No []
2. Do you think whether tax payment procedure should be simple?
Yes [] or No []
3. In your opinion, whether contribution of corporate tax to government revenue is at satisfactory level? Yes [] or No []
4. In your opinion, whether contribution of income tax from finance companies to government revenue is satisfactory? Yes [] or No []
5. In your opinion, whether finance companies are loyal to tax payment? Yes [] or No []
6. Finance companies need tax rebate facilities as other industries, do you agree?
(a) Strongly agree [] (b) Relative agree []
(c) Agree [] (d) Disagree []
(e) Relatively disagree [] (f) strongly disagree []
7. In your opinion, are the exiting tax rates charged to Finance Company sound? Yes [] or No []
8. What are the Major problems faced by Finance company regarding income tax system?
(a) Inefficient tax administration. []

- (b) High discretionary power of income tax officer. []
- (c) Lengthy income tax assessment process. []
- (d) Vague provision of tax laws. []

Thank you for warm-co-operation.

Appendix 2

Name of Finance companies

S.No.	Names	Operation Date (A.D.)	Head office	Paid up Capital (Rs. In million)
1	Nepal Housing Development Finance Co. Ltd.	1992/03/08	Naya Baneshwor Katmandu	123.6
2	Nepal Finance Co. Ltd.	1993/01/06	Kamaladi, Kathmandu	67.5
3	NIDC Capital Markets Ltd.	1993/03/11	Kamaladi, Kathmandu	101.2
4	National Finance Co. Ltd.	1993/05/07	Pako newroad, Katmandu	156.9
5	Annapurna Finance Co. Ltd.	1993/09/30	Chopedhunga, Pokhara	262.1
6	Nepal Share Markets and Finance Ltd	1993/10/19	Ramshahapath, Kathmandu	432.0
7	Peoples Finance Ltd	1993/04/15	Trpureshwor, Kathmandu	84.0
8	Mercantile Finance Co.Ltd	1994/11/10	Birgunj, Parsa	18.0
9	Katmandu Finance Ltd	1994/11/10	Putalisadak, Kathmandu	75.9
10	Himalaya Finance & Saving Co. Ltd	1993/11/11	Sundhara, Kathmandu	48.0
11	Union Finance Ltd	1995/12/12	Ganeshwor, Kathmandu	72.5
12	Narayani Finance Ltd	1995/03/08	Barayangadh, Chitwan	213.7
13	Gorkha Finance Ltd	1995/03/12	Hattisar, Kathmandu	59.6
14	Paschhimanchal Finance Co. Ltd	1995/04/09	Butawal, Rupendehi	100.0
15	Nepal Housing & Merchant Finance Co. Ltd	1995/04/11	Dillibazar, Kathmandu	160.7
16	Universal Finance Co. Ltd	1995/04/27	Kantipath, Kathmandu	60.2
17	Samjhana Finance Co. Ltd	1995/05/03	Banepa, Kavre	61.7
18	Goodwill Finance Ltd	1995/05/16	Dillibazar, Kathmandu	105.0
19	Siddhartha Finance Co. Ltd	1995/05/25	Siddarthanagar, Rupendehi	67.7
20	Shree Investment & Finance Co.	1995/06/01	Dillibazar, Kathmandu	100.8

	Ltd			
21	Lumbini Finance & Leasing Co. Ltd	1995/06/26	Thamel, Kathmandu	1200.0
22	Inbesta Finance Ltd	1995/07/17	Birgunj, Parsa	24.0
23	Yeti Finance Co. Ltd	1995/07/23	Hetauda, Makawanpur	62.5
24	Standard Finance Ltd	1995/07/23	Pautalisadak, Ktm	144.8
25	International Leasing & Finance Co. Ltd	1995/10/31	Naya Baneshwor, Ktm	144.0
26	Mahalaxmi Finance Co. Ltd	1995/11/26	Birgunj, Parsa	80.0
27	Lalitpur finance Co. Ltd.	1995/12/12	Lalitpur,	75.9
28	Bhajuratna Finance & Saving Co. Ltd	1996/01/09	Kantipath, Kathmandu	38.5
29	United Finance Ltd	1996/01/25	Kamaladi, Kathmandu	149.8
30	General Finance Ltd	1996/02/02	Chabahil, Kathmandu	24.2
31	Nepal Shreelanka Merchant Bank	1996/02/04	Kamaladi, Kathmandu	100.0
32	Merchant Finance Co. Ltd	1996/01/02	Kathmandu	33.4
33	Alpic Everest Finance Ltd	1996/07/16	Baghbazar, Kathmandu	78.0
34	Nava Durga Finance Co. Ltd	1997/02/09	Itachhe, Bhaktapur	45.6
35	Janaki Finance Ltd	1997/03/07	Janakpurdham, Dhanusha	40.0
36	Pokhara Finance Ltd	1997/03/16	Pokhara, Kaski	60.0
37	Central Finance Co Ltd	1997/04/14	Kupondole, Lalitpur	72.0
38	Premier Finance Co. Ltd	1997/05/08	Manbhavan, Lalitpur	28.8
39	Arun Finance & Saving Co. Ltd	1997/08/17	Dharan, Sunsari	11.0
40	Multipurpose Finance Co. Ltd	1998/03/25	Rajbiraj, Saptari	3.0
41	Butwal Finance Co. Ltd.	1998/06/21	Butwal, Rupendehi	82.7
42	Shrijana Finance Ltd	1999/12/14	Rajbiraj, Sunsari	14.0
43	Om Finance Ltd	2000/09/17	Lal Durbar Marg, Ktm	84.0
44	Cosmic Merchant Banking & Finance Ltd	2000/11/20	Hetauda, Makawanpur	75.1
45	World Merchant Banking & Finance Ltd.	2001/08/10	Battisputali, Kathmandu	72.1
46	Capital Merchant Banking & Finance Ltd.	2002/02/01	Battisputali, Kathmandu	346.2
47	Crystal Finance Ltd	2002/02/13	Bag Durbar, Kathmandu	49.2

48	Royal Merchant Banking & Finance Ltd.	2002/02/14	Durbarmarg, Katmandu	134.3
49	Guheshworil Merchant Banking & Finance Ltd	2002/06/13	Jawalakhel, Lalitpur	109.8
50	Patan finance Ltd	2002/06/23	Man Bhawan, Lalitpur	50.0
51	Kist Merchant Banking & Finance Ltd.	2003/02/21	Kamalpokhari, Kathmandu	2000.0
52	Fewa Finance Ltd	2003/04/30	Pokhara, Kaski	91.0
53	Everest Finance Co. Ltd	2003/07/02	Bhairahawa, Rupendehi	20.0
54	Birgunj Finance Ltd.	2003/09/28	Birgunj, Parsa	85.3
55	Prudential Bittiya Sanstha Ltd.	2003/06/06	Dillibazar, Kathmandu	100.0
56	ICFC Bittiya Santa Ltd	2003/06/15	Bhatbhateni, Kathmandu	299.4
57	IME Financial Institution Ltd	2005/08/01	Kantipath, Kathmandu	125.0
58	Sagarmatha Merchant Banking and finance Co. Ltd.	2005/08/29	Man bhawan, Lalitpur	50.0
59	Shikher Bittiya Sanstha Ltd.	2005/09/15	Thapathali, Kathmandu	50.0
60	Civil Merchant Bittiya Sanstha Ltd.	2005/09/18	Kuleshwor, Kathmandu	80.0
61	Prabhu Finance Co. Ltd.	2006/02/16	Kantipath, Kathmandu	160.0
62	Imperial Finance Institution Ltd	2006/03/08	Putalisadak, Katmandu	50.0
63	Kuber merchant Bittiya sanstha Ltd	2006/03/24	Putalisadak, Katmandu	50.0
64	Nepal Express Finance Ltd.	2006/05/04	Butawal, Rupandehi	80.0
65	Valley Finance Ltd.	2006/05/11	Maharajganj, Katmandu	27.5
66	Seti Bittiya Finance Ltd.	2006/06/07	Tikapur, Kailai	5.2
67	Hama Financial Institution Ltd.	2006/06/16	Tripureshwor, Katmandu	31.5
68	Reliable Investment Bittiya sanstha Ltd.	2006/09/06	Sundhara, Katmandu	82.5
69	Loard Buddha Financial Institutions Ltd.	2006/11/19	Newroad, Katmandu	51.6
70	Api financial Institution Ltd.	2007/04/25	Lekhanath Chock, Kaski	42.0
71	Namaste Bittiya Sanstha Limited.	2007/07/07	Ghirai, Dang	10.1
72	Kaski Finance Limited	2007/07/30	Pokhara, Kaski	50.0
73	Suryadarsan Financial Institution	2007/0730	Baneshwor, Katmandu	30.0

	Ltd.			
74	Zenieth Merchant Financial Institution Ltd.	2007/10/08	Newroad, Kathmandu	63.0
75	Unique Financial Institution Ltd.	2007/10/12	Putalisadak, Katmandu	30.0
76	Manjushree Financial Institution Ltd	2007/10/15	New Baneshwor, Kathmandu	70.0
77	Swostic Merchant Finance Company Ltd	2007/10/16	Kichapokhari, Kathmandu	31.8
78	Subhalaxmi Finance Ltd.	2007/11/11	Naxal, Kathmandu	70.0

Appendix 3

Relationship between No of Finance Companies & PBT

Year	X	Y(000000)	X=X-78	Y=Y-1573	X ²	Y ²	XY
2003/04	60	505	-18	-1068	324	1140624	19224
2004/05	68	658	-10	-915	100	837225	3150
2005/06	73	769	-5	-804	25	646416	4020
2006/07	74	867	-4	-706	16	498436	2824
2007/08	78	1753	0	0	0	0	0
2008/09	78	1867	0	294	0	86436	0
2009/10	79	2048	1	475	1	225625	475
2010/11	80	2889	2	1316	4	1731856	2632
Total			-34	-1408	470	5166618	38325

Where, X= No. of Finance Companies

Y= Total Profit Before Tax (TPB) (IN 000,000)

X= X-Mid Value (78)

Y= Y- mid value (1573)

N= Number of observation.

To find the relationship between increasing trend of finance companies in Nepal and profit Before Tax (PBT) generated by them, we have,

$$r = \frac{n \sum xy - \sum x \cdot \sum y}{\sqrt{n \sum x^2 - (\sum x)^2} \cdot \sqrt{n \sum y^2 - (\sum y)^2}}$$

$$r = \frac{8 \cdot 38325 - 34 \cdot 1408}{\sqrt{8 \cdot 470 - 34^2} \cdot \sqrt{8 \cdot 5166618 - 1408^2}}$$

$$r = \frac{258728}{320110}$$

$$r = 0.80$$

The value of 'r' is 0.80 which means there is positive relationship between tendency of NBFIs and profit before tax (PBT).