

**AN ANALYTICAL STUDY OF SPECIAL PROVISION TO  
MANUFACTURING INDUSTRIES UNDER  
INCOME TAX ACT 2058**

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## **RECOMMENDATION**

This is to certify that the thesis

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## **DECLARATION**

I hereby declare that the work reported in this thesis entitled "**AN ANALYTICAL STUDY OF SPECIAL PROVISION TO MANUFACTURING INDUSTRIES UNDER INCOME TAX ACT 2058**" submitted to the Central Department of Management, Tribhuvan University, is my original work. It is done in the form of partial fulfillment of the requirements for the Master of Business Studies (MBS) under the supervision and guidance of Prof. Dr. Puspa Raj Kandel, Central Department of Management.

September, 2012

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## ABBREVIATIONS

CEDA	Center for Economic Development Association
FNCCI	Federation of Nepal Chamber of Commerce and Industry
GDP	Gross Domestic Product
IRD	Inland Revenue Department
ITA	Income Tax Act
Ltd.	Limited
MBS	Master of Business Studies
MOF	Ministry of Finance
NRB	Nepal Rastra Bank
NTC	Nepal Telecom
Pvt.	Private
SAARC	South Asian Association for Regional Cooperation
VAT	Value Added Tax

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

From ancient time to modern age, government fulfills its responsibility by spending a certain amount towards its people. In the ancient time government manage its fund by internal resources and spend in the war. Now the time has changed, from government to people all know their responsibility. Government is very careful towards its social responsibility and people themselves are too much concerned towards nation. They want to contribute a little amount of their income to the government and the government invests it for peace and security, education, development etc.

Today, to achieve the more demanding social welfare of its nation, the government must have sufficient fund. For this the government has two alternatives, one is internal and the other is external resources. Internal resources are convenient, certain and long different sources. In the word, most of the developing countries are well experienced regarding external sources and its negative impact to the economy. It is because nobody wants to invest a huge amount without benefit. So the best alternative for the nation is to mobilize internal sources that is certain, convenient and one should not beg its hand to other.

The main and reliable internal source is tax. Tax is compulsory contributed by a person without hoping personal benefit. According to Frindley Shirrag "Taxes are compulsory contribution to the public authorities to meet the general expenses of government which have been incurred for the public good and without reference to special benefits." The sources of government can be divided in to two parts, one internal sources and another external sources. Internal sources of funds are tax and non-tax revenue. Among them tax is the most important source of government revenue because it occupies largest part

of total revenue. Tax is not a fine. Government collects tax with the permission of legislature to fulfill financial needs of the state. It is a compulsory payment to government for the composition of public expenditures. Tax fulfills the needs of central or local government to spend for philanthropic work. The main objective of tax is to distribute wealth and income equally.

Tax is classified in two groups. They are direct and indirect tax. A direct tax is really paid by the same person on whom it is legally imposed. Tax payer cannot collect direct tax from other persons. Income tax, interest tax, contract tax, vehicle taxes are same examples of direct tax. Direct tax is paid according to the income or property earned by a person. An indirect tax is imposed on one person but paid partly or wholly by another person. Example of indirect taxes are customs, excise, hotel tax, value added tax etc. There is uncertainty about the collection of indirect tax. Every person either rich or poor pays equal amount of tax on receipt of goods or services. So, it seems as regretful for poor person.

Taxes can be classified into two types according to the firm. They are direct and indirect tax. Direct tax is a tax on income and property. The characteristics of a direct tax are equitable as per the property or income, certainty as per the process of payment to be paid, time of payment, elastic in nature etc. The examples of direct tax are income tax, property tax, vehicle tax and inheritance tax (Kandel, 2003: 8). Indirect taxes are those taxes, which are collected from the goods or services used. These taxes can be shifted by the tax-payer to some other persons or organizations. The examples of indirect taxes are VAT, sales tax, Excise duty, Entertainment tax etc.

The main objective of government of any developing country is to improve living standard of people through the development process. In order to achieve this objective every government launches different economic, social, cultural and other development activities. For this, government needed huge amount of financial resources. The funds required by the government are normally

collected from two sources: debt and revenues. The debt can be collected within the country is known as internal debt while the debt collected from outside the country is called external debt. The debt financing of the government is also known as efficient financing. The revenue of the government come basically form two sources: tax and non-tax. In Nepal around eighty percent of the government come from taxation. Hence, the tax is the major source of government revenue.

A government has to spend a lot of money to fulfill its responsibility towards its people. The responsibility may be either for security or for health or education or other development activities. Every nation wants to improve its current status through proper utilization of resources. Government receipts may be take a form of taxes, charges, as internal sources and borrowings, grants and loans as external sources. These collected huge amount of fund is spend in maintaining peace and security in the country. It includes purchase of arms ammunition, maintenance of army and police administration etc. The government also spends its funds for fulfilling the basic needs of the people. Such as health, education, communication, drinking water and other public utility and facilities etc. Similarly, government also has to spend on development of socio-economic infrastructure, which facilitates to promote the private sector. All-round prosperity of the nation, can be achieved through the equal participation of private sector in development activities, industry and commerce as well.

"A direct tax and indirect tax is that the where the person paying the tax and the person bearing the tax is different. As indirect tax is imposed on one person but paid partly or wholly by another custom, excise, value added tax, contract tax are example of indirect tax. A tax is a compulsory contribution imposed by a public authority, irrespective of exact amount of services rendered to the taxpayers in return and are imposed as a penalty for any legal offense" (Dalton, 1954: 12).

Tax is a compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred." Tax may be classified as direct tax and indirect tax on the basis of impact and incidence. Direct tax are those, which are imposed initially on the individual or household that is meant to bear the burden e.g. income tax, property tax, vehicle tax etc.

Tax on income may be levied on individual as well as business firm. The former is known as personal income tax and the later is known as corporation tax. A proper tax system should be able to generate the required amount of revenue.

Although Nepal has a long history of taxation, corporate tax was introduced in 1960 when the business profile and remuneration tax act, 1960 was enacted, at the beginning, it was not differentiated from the personal income tax. The same tax rate with progressively and exemption limit were prescribed by the finance act of 1960 to 1964 to all companies, private firms, individuals and families. From the financial year 1965/66, the tax exemption given to companies similar to personal tax payers was withdrawn. A separate tax system to companies was introduced by the finance act, 1976. Finance act, 1985 made a provision of giving 5% tax rebate from highest marginal rate of 55% to listed public companies and government enterprises. Financial year 1986/87 was the year when the corporate tax was really recognized by imposing a flat rate of 40% tax on taxable income of listed companies . By the same coin, finance act imposed tax on dividend also to be reconciled. But this dividend tax was changed exempting dividend to a level of 85% in 1987/88. Finance act, 1992/93 introduced compulsory self tax assessment system for public and private Ltd. Co. besides these changes, taxing corporate income act flat rate to the private limited company was enacted from the financial year 1994/95. This change at last ended the discrimination between private company and public company. The corporate sector has been classified into three groups are government sector, public sector and private sector, there are also special

industries according to nature and liability of paying tax, special sector's companies are levied 20% tax rate on the taxable income of the companies as per income tax act 2058. Normal industries including trading company and manufacturing industries have been taxed at 25% and 20% flat respectively and other industry at the rate of 25%. Banking and insurance industries have been taxed at the rate of 30% flat rate. The industries established in backward areas are provided certain facilities, concession, rebates and taxed holding as per ITA 2058 and industrial enterprises act, 2049. The special facilities provided to manufacturing industries other than liquor and tobacco by income tax 2058 is as follows:

- ) Manufacturing companies providing employment to 500 or more than 500 Nepali citizens in whole year get additional facilities of income tax rebate at the rate of 10%.
- ) If both exemption are available to the same industries for same income, only one exemption is available as per the selection made by the industry.
- ) Industries established in special economic zone or export processing zone are granted on income tax rebate at the rate of 50%.
- ) Depreciation of the depreciable assets are to be charged 1/3 rd additional for the manufacturing industries.
- ) Industries established in certain remote, undeveloped, underdeveloped areas are given rebates on income tax at the rate of 30%, 25% and 20% respectively.

## **1.2 Statement of the Problem**

Economic development is the prime concern of every nation of the world. Underdeveloped countries are facing serious problem in the process of economic development. Nepal is also not an exemption to this condition, the majority of people have not been able to get even basic facilities. The government wants to fulfill the basic needs of the people and accelerate development activities one at a time. Thus every nation of the world is

accomplishing various measure adopted by the government to boost revenue collection, there is still a substantial resource gap between expenditure is exceeding the rate of growth revenue almost every year. In other words, Nepal has been facing persistent budget deficit from the beginning of her development phase. External deficits, currency depreciation, inflationary pressure, rising interest rates which may cause crowding out effect and reduction in economic growth are the consequences of the budget deficits. The mobilization of revenue has not increased the level in which the level and speed of our expenditure is rising. Raising the government revenue helps to overcome from the serious bottleneck of resource gap in the process of economic development program by mobilizing additional resources from domestic sources.

The income tax act 2058 provides special facilities and incentives to the manufacturing industries in depreciation, income tax rate etc. It motivates the public to operate manufacturing industries which contributes in total tax revenue of the government. However, the contribution of manufacturing industries in the total revenue is still very low, thus it is needed to increase the income tax from the manufacturing sectors. Large taxpayers who are evading their income from the manufacturing sectors should be brought into tax bracket. So this study is related with the effectiveness of special facilities provided by the ITA 2058, analysis of the contribution of tax and non-tax revenue in total revenue and contribution of income tax in total revenue, tax revenue and direct tax.

- ) How is the structure of income tax in Nepal?
- ) What kind of provision of facility should be added?
- ) How much contribution has been made by income tax on GDP?
- ) Is the current exemption limit appropriate for manufacturing industries?
- ) How much rupee should be exemption limit for manufacturing industries?

### **1.3 Objectives of the Study**

The main objective of the study is to analyze the impact of special provisions in manufacturing industries provided by income tax act 2058. Following are the other objectives of the study.

- ) To examine the income tax structure of Nepal.
- ) To examine the contribution of direct and indirect tax to total revenue.
- ) To examine the contribution of income tax in GDP.
- ) To examine the impact of special facilities provided to manufacturing industries by ITA 2058.
- ) To provide appropriate suggestions and recommendations.

### **1.4 Significance of the Study**

Developing country like Nepal requires higher magnitude of financial resources for the development program. Nepal is an agro-based developing country with low speed in industrialization process. There are only a limited number of corporate bodies and their economic performance is very dismal. So there is need to growth and development of corporate sector in our nation. The government needs huge amount of funds to spend on daily expenses as well as development activities. Every year, Nepalese has been presenting deficit budget, there is increment in resource gap. Most of the activities depend on bilateral and multilateral grants and loans. The nation is hardly bearing the loan and internal source of revenue is not sufficient even to meet the ordinary expenses. In this context, the easy and long lasting way to increase revenue to strengthen the internal source is income tax. Thus, revenue collection form income tax form manufacturing industries by providing special facilities is carried out by ITA 2058 by eliminating the limitations of previous act.

The study is useful to economic, planner, tax administrators, government and other interested person about the revenue collection form manufacturing industries in Nepal and the problem of income tax collection from manufacturing industries. It also provides the information about trends and projection of income tax collection form the manufacturing sectors.

## 1.5 Limitations of the Study

The study has the following limitations:

- ) This study was done using primary data but was collected only from Kathmandu valley.
- ) The study is related only with the contribution of income tax in total government revenue, tax revenue and direct tax revenue.

## 1.6 Organization of the Study

This study is organized into five chapters. Each denote to some clearing and settlement system. The title of each of these chapter:

**Chapter One: Introduction:** This chapter consists of introduction part of the study. The chapter consists of background, statement of problem, objective of the study, need of the study, limitation of study and organization of study.

**Chapter Two: Review of Related Literature:** This chapter includes the brief review of available literature on related topic. It includes a discussion on the conceptual framework and review of major studies.

**Chapter Three: Research Methodology:** This chapter includes the research methodology applied in the study. This chapter deals with the nature of data, research design, population and sample, data collection procedure and method of analysis.

**Chapter Four: Data Presentation and Analysis:** This part deals with the presentation and analysis of relevant data with the help of various statistical tool and techniques employed .

**Chapter Five: Summary, Conclusion and Recommendations:** Chapter five incorporates summary, conclusion and recommendations of the study which are the important aspects to solve the problems associated to the present analysis and offers recommendation for the improvement in future.

Finally, bibliography and appendices has been incorporated.

## **CHAPTER-II**

### **REVIEW OF LITERATURE**

This chapter contains the review of the acts, review of dissertations, some books or ever newspaper and articles for the purpose of review of literature. The review of act simply is the review of the some features basically in business source of income under the acts. The review of dissertations, related with the topic of this study and available in the libraries is the main content of the thesis review. There were no detail studies made on the topic of income to manufacturing industries provided by ITA 2058. The books and dissertation which are mainly reviewed during the study are as follows:

#### **2.1 Conceptual Framework**

Great Britain is the first country in the world to introduce the modern income tax system. Income tax was introduced in 1799 in order to generate the revenue of finance the war fought against France.

While the history of income tax was not bright, the situation is different now, Income tax has been an important element of the modern tax system. All sorts of countries have been adopted this tax as an important instrument to generate revenue required to finance state activities. This Tax is also considered as fairest tax since it can be tied with the taxable capacity of the taxpayers.

The finance act annually prescribes tax rates classifies some of the procedures mentioned in the income tax act, whereas income tax act governs procedure, penalty and administration of taxes. Hence provisions and procedures of income tax can be analyzed only by the study of both the income tax exemption and deduction was started since the enactment of the first finance act in 1959A.D. since then the exemption limit deduction have been revised several times.

The major goal of income tax in Nepal is to generate more internal resources for public finance. Among them tax revenue is the major internal resources. For the economic and infrastructure development of a nation manufacturing industries plays a significant role. The tax collection from industries contributes a significant amount in total tax collection. The various policies of the government to collect tax and promote the industries has been initiated in order to initialize and promote the manufacturing industries government has provided special grants and provisions, thus this research attempts to find the impact on manufacturing by special provision provided under income tax act 2058.

### **2.1.1 Background**

The launching of all programs depends first and foremost on the treasury. Whether to pay salary to government employees or to do the developmental works, it needs huge amount of money called revenue. The government collects the revenue from different sources such as tax, remittance from public enterprises, fees, fines, grants and deficit financing. However, across all these sources of collecting the public revenue, taxation is the main source since it occupies the most important part of government treasury. Because of the importance of this sources in revenue mobilization of a country, some people like to say tax as the sinews of the state.

### **2.1.2 Meaning of Taxation**

Various people have defined taxation in different ways. In this respect, it would be better to take the definition given by Prof. Seligman. In his words, tax is the “compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit occurred”. From the definition given above, it can be said that:

- ) A tax is a compulsory levy and these who are taxed have to pay it without getting corresponding benefit of services or goods from the government. The tax payer do not have any right to receive the direct

benefits from the tax paid. Due to this compulsory nature, people have expressed different views in satirical way about taxation. In this respect, some say "nothing is certain in this world but death and tax". Some say "death means stopping to say tax". Here it should be noted that all compulsory payments are not taxes. For example, fines and fees are also compulsory payment without getting benefits but it is not tax because its objective is not to do collect revenue but to curb certain types of offences.

- ) Taxpayers can not receive any direct benefits from the payment of tax. The tax payer does not receive equivalent benefit from the government. In case of tax, it is not a price paid by one for which he can claim for the goods and services by public authority is not a tax.
- ) The tax is paid to the government for running it.
- ) In case of tax, the amount is spent for common interest of the people. The tax is collected from haves and basically, spent for the interest of have-nots in the society.
- ) A natural or a artificial person pays the tax.

In conclusion, it can be said that a tax is a liability to pay an amount to the state on account of the fact that the assessor have income of a minimum amount from certain specified sources or that they own certain tangible or intangible property or that they carry on certain economic activities which have been chosen from taxation.

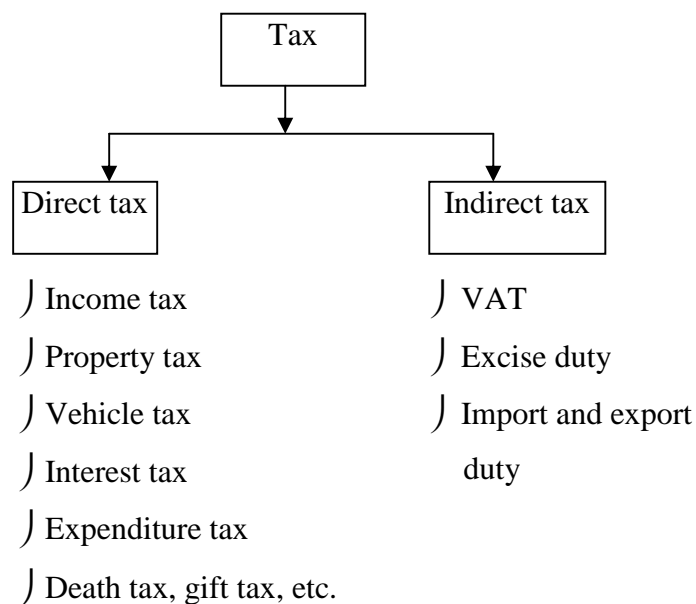
### **2.1.3 Objective of Taxation**

Taxation has been very essential element of the government from the very beginning of the state system. However, the objective of taxation has been different for different epochs. In ancient times, the objective of taxation was strengthening the muscle of the state by providing the resources. Till the time of Adam Smith, the objective of the revenue was:

- ) to provide resources to the government for paying security to an individual and society from violence, invasion, injustice and maintaining public institutions which can never be for the interest of an individual.
- ) To shift from security perception to the economic development, and
- ) The modern objective of the taxation is raising revenue to have encouragement in production of certain products; encouragement in employment, saving and investment removal of regional investment removal of regional imbalances and enforcement of government policy.

### 2.1.4 Classification of Taxes

On the basis of shifting of burden tax can be classified into two broad categories; direct and indirect tax. This is most common and popular classified of tax.



#### a) Direct Tax

A direct tax is a form of tax paid by a person on whom it is legally imposed . It is collected directly by the government from the person who bears the tax burden. Tax payers need to file tax returns directly to the government. Therefore, direct tax can not be shifted. The impact or the money burden and the incidence are on the one and the same person pays and bears the tax burden.

It is the tax on income and property. Examples include income tax, property tax, vehicle tax, interest tax, expenditure tax, death tax, gift tax etc.

## **b) Indirect Tax**

An indirect tax is a form of tax imposed on one person but partly or wholly paid by another. It is collected by mediators who transfer the taxes to the government and also perform functions associated with filing tax, the impact and incidence of tax are on different persons . In other words the person paying and bearing the tax is different. It is the tax on consumption or expenditure. Example include vat, excise duty, import and export duty etc.

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

Income Tax was first introduced in Great Britain in 1799 to finance wars with France. Only after 1880, it was accepted as a permanent tax. In United States of America, first federal income tax was imposed in 1862 to finance civil war expenditure. However it becomes a permanent only in 1913 after 16<sup>th</sup> amendment to U.S. constitution. In neighbor country India, first income tax was introduced in 1860. After introducing 'Income tax Act 1886' in 1886, it was imposed as a permanent. Italy adopted income tax in 1864, New Zealand in 1881, Australia in 1911 and in Canada in 1917. After First World War, the income tax became an important source of tax revenue in many developed countries. By 1939, it has become the most important source of revenue in most developed countries and had made appearance in a number of developing nations. (Agrawal, 1978: 13).

From the First World War decade, income tax shown as an important source of revenue in developed country. In the beginning of introducing time, it was generally levied at flat rate. Only after 1909, the principle of progression was introduced from the UK and New Zealand.

## **2.1.6 The History of Income Tax in Nepal**

Nepalese tax system was based on Vedas, Smritis and Purans. Directives propounded by Menu, Yagnabalka, Chanakya etc. guided the taxation system. At that time, the principle of collecting tax from the people was imposition of tax without harming the activities of people.

Although there was tax system in Nepal in ancient time also, the concept of income tax was brought only by the first budget. The budget introduced in B.S. 2008(1951 A.D.) stated about the introduction of income tax system in Nepal. However, it was actually introduced only in B.S. 2017(1960A.D.) when the Finance Act, 2016 and Business Profit and Remuneration Tax Act, 2017 were enacted. The marginal rate of taxation prescribed by these acts was 25 percent. Since, the income tax was imposed only on income from business profit and remuneration, the tax act could not cover all the source of income and so was replaced by the income Tax Act, 2019 in 2019 B.S. ( 1962 A.D. ). Income Tax Act, 2019 with 29 sections divided the heads of income into 9 parts covering business, profession and occupation, remuneration, house and land rent, cash and kind investment, agriculture, insurance business, agency business and other sources. The act was amended in 2029 extensively. However, considering this act incapable of fulfilling the time was replaced in 2031 B.S. ( 1974 A.D. ) by another act.

As already stated, Income Tax Act, 2031 replaced Income Tax Act, 2017 in B.S. 2031 (1974 A.D.). This act having 66 sections classified the sources of income into 5 heads namely (1) Agriculture, (2) Industry, Business, Profession or Vocation, (3) Remuneration, (4) House Rent and (5) Other sources. However, agriculture income was kept outside the tax net except few years through the finance Acts. This Act was amended for eight times and existed for a period of 28 years.

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation, and to amend and

integrate the laws relating to income tax, the parliament of Nepal enacted Income Tax Act, 2058 ( 2002 A.D. ). This Act became effective since Chaitra 19, 2058 ( 01, April 2002). The Act governs all income tax matters. Likewise, this Act is applicable throughout the kingdom of Nepal. It is also applicable to residents residing wherever outside Nepal.

### **2.1.7 The Features of Income Tax Act, 2058 ( 2002 A.D.)**

Tax system is the sub-system of the total economy. Tax policy is changed with the change in the economic policy of the country. Change in word economic policy and advancement in information technology has a vast impact on Nepalese economy too. Small economics like Nepal have to adopt the economic policy followed by world Bank, International Monetary Fund , Asian Development Bank and other International Agencies. Especially other 1990s, there is re-emergence of the Liberalization, Globalization and Privatization system that focuses on the minimum intervention of the state on private economic matters. Nepal also is not an exception in this respect and Nepalese administrators and policy makers too have tried to change the tax policy of the country, ITA, 2058 is the result of the change in all these matters. The following are the features of the ITA 2058.

#### **a) All Tax related matters within one Act**

Before the introduction of ITA,2058; there were almost one and half dozen acts related to income taxation. ITA, 2058 has abolished all tax-related laws given in other acts and embraced all income tax related matters within it.

#### **b) Specification of Tax Rates**

Earlier, the tax act had not dealt with rates. Finance Act of each year used to deal with the rates. However, ITA, 2058 has embraced the tax rates applicable to all the sources of income.

### **c) Abolishing of Various Tax Related Concessions, Rebates and Exemptions**

Most of the facilities provided by the government in past to taxpayers were used for tax evasion. ITA, 2058 has abolished most of the facilities given by earlier Acts and introduced a fair system of taxation.

### **d) Specification of Stock Valuation Methods**

ITA, 2031 was silent about the method of stock valuation for taxation purpose. However, ITA, 2058 has made a provision of valuing the stocks of goods for tax purpose.

### **e) Simplification of Depreciation Related Provisions**

ITA, 2031 had complicated provisions related to depreciations. The types of assets categorized for depreciation purpose were around 3 dozens. Different rates were allocated to different types of assets. However, ITA, 2058 has specified diminishing balance method based on pool system with only 5 categories of assets.

### **f) Tax on Capital Gains and Dividends**

ITA,2031 had not the provisions of taxing capital gains and dividends. But ITA, 2058 in contrast has made legal provisions of taxing these items. A rate of taxes for dividend is laid as 10Percent where as the capital gain is taxed ordinary income of business.

### **g) Liberal Loss Set off and Carry-Forward Provisions**

ITA, 2031 had made the provisions of setting off and carry forwarding of business losses only for three years from the same source of income. That is inter head provision only. But ITA, 2058 has made provisions of inter-head adjustment for one year and intra-head adjustment for four years. For financial

sector and long-term contract the provisions more liberal are providing the facility of recovering the losses from previous profit also.

#### **h) Provision of International Taxation**

Due to closed economy concept, international taxation was not felt necessary and hence there was not such tax provision in ITA 2031. But now this concept is introduced in the credit, double taxation agreement etc.

#### **i) Strict Fine and Penalty Provisions**

The fines and penalties for the defaulter in old Act were not as severe as in new tax Act. But ITA, 2058 has made the provision of fine and penalty more stringent.

#### **j) Submission of Income Statement**

This Act has made a provision of Relaxing the submission of income statement by a person who does not have taxable income or who has the income only from remuneration.

### **2.1.8 Legal Provision of Income Taxation**

The function of revenue collection has remained one of key activities of the government from ancient time in Nepal. During that time, very few economic activities were operated on the country. Hence, government could not collect huge amount of money in the form of taxation. At that time, taxes were levied to the merchant, travelers and farmers in the form of cash, kind or labor. In some occasion gold and agriculture products were also paid as taxes but the nature of these were temporary and taxes were raised for special purposes (Regmi, 1971:55 )

In the Lichhavis regime, income taxes from agriculture income and business were introduced as a direct tax for the first time in Nepal. Tax on agriculture income was called “bhog” and tax on business was called “Kara”. Irrigation

Tax and Monuments Preservation Tax also existed at the time of the Anubhuma of Nepal. During the period of 1768-1846 A.D., different types of taxes were levied to generate maximum revenue. The major sources of revenue were: Birat and Kipat, taxes on land, monopolies customs, transit and market duties, mines and mints and the export of forest products, birds, animals and various levies and fines. Taxes were collected at three levels: Royal palace levies, government levies and local levies. The various taxes levied during the period were narrow in base and were imposed primarily on occupation and economic activities, not in income or property. There was no taxation of income in the modern sense of income tax.

During the period of Rana Regime, there was no formal provision for imposition and collection of taxes. Taxes were imposed according to the objective, needs and whims of the ruling the Prime Minister. There was no provision of separating the personal income of Prime Minister and State Treasury. There was no system of preparing government budget. The surplus revenue over expenditure was considered the personal income of Rana Prime Minister.

The major source of revenue in Nepal till 1951, were land tax, custom and excise duties in the form of lump sum contracts, royalties on forest, royalty on supply of porters and soldiers, entertainment tax and few other minor taxes. Incomes were not taxed for rising regular revenues of the state treasury but for meeting specific expenditure of the household of extra ordinary expenditure necessitate by war or other emergencies.

There was no direct tax in the country except land tax collected on a contractual basis and "Salani" which the government employers used to pay out of their salaries at a very small percentage. The Salami was abolished in 1951. The Rana Rulers did not think of development of effective revenue administrative system, after the advent of democracy in country in 1951, "No taxes are levied and collected in Nepal except in accordance with law".

### **2.1.9 Source of Income**

Income is an accretion of wealth or purchasing capacity of a person or entity. According to the Income Tax Act, 2058, it is the term used to define income derived from employment, business, and investment. It is a gross income less deduction allowed under the Act. This means, the Income Tax Act 2058 has specified sources of income into three heads named

- ) Income from a business (section 7)
- ) Income from an employment (section 8)
- ) Income from an Investment (section 9)

Section 6 of the Act specifies that the assessable income includes income earned from any country of the world in case of a resident and income earned in Nepal in case of a non-resident.

### **2.1.10 Exemption in income Tax Act, 2058**

An amount of income allowed by law as tax-free is an exempt amount of income. Such amount of income is not included in total income while calculating the net income of a person. The expenditure related to such income is also not deducted while calculating the assessable income of a person (sec.21(1)). Accordingly, no amount is deducted at source while making the payment of such amount.

### **2.1.11 Types of Industries**

The industries operating in Nepal are broadly classified as under:-

#### **1. Manufacturing Industries**

The industries which produce goods by utilizing or processing raw materials, semi-processed materials by products or waste products or any other goods are called manufacturing industries.

## **2. Energy Industries**

Industries generating energy from water resources and wind, solar, coal natural oil and gas, biogas or any other sources are energy industries.

Agro and Forest- Based Industries Business mainly based on agriculture or forest products such as integrated sericulture and skilled production, horticulture and fruit and processing animal husbandry, dairy industry, poultry farming, fishery, tea gardening and processing, coffee farming and processing, horticulture and herb processing, vegetable seed farming, mushroom, vegetable farming or vegetable processing, tissue culture, green house, bee-keeping, honey production, rubber farming, floriculture and production, and forestry related businesses such as lease – hold forests, agro forestry etc .

## **3. Mineral Industries**

The industries that operates by exploiting or extraction of natural resources for industrial purpose .

## **4. Tourism Industries**

Tourism lodging, motel, hotel, resort, travel agency, skiing, gliding, water rafting, cable car complex, pony – trekking ,trekking , hot air ballooning, para sailing, golf – course, polo, horse – riding etc .

## **5. Service Industries**

Workshop, printing press, consultancy service, ginning and baling business, cinematography, construction business, public transportation business, photography, hospital, nursing home, educational and training institution, laboratory, air services, cold storage etc.

## **6. Construction Industries**

Road, bridge, ropeway, railway, trolley bus, tunnel, flying bridge and industrial commercial and residential complex construction and operation.

## **7. Small Industries**

Industries with a fixed asset between thirty million rupees and one hundred million rupees shall be named as medium industries .

## **8. Large Industries**

Industries with a fixed assets of more one hundred million rupees shall named as large industries .

### **Provision and Concession Provided to Industries (SEC-11)**

- ) No income tax in excess of twenty percent shall be levied on the income derived from any industries other the ones producing cigarettes, bidi, cigar, chewing tobacco, khaini and industries producing other goods of a similar nature utilizing tobacco as their basic raw materials and alcohol or beer predicting industries.
- ) Except of cigarettes , bidi ,cigar chewing tobacco , khaini , industries and industries producing other goods of similar nature utilizing tobacco as their basic raw material . Industries producing alcohol or beer and sawmill and catechus industries any other industry using eighty or more eighty percent of indigenous raw materials in it products and supplying all its manpower from among Nepali citizens shall be granted a rebate at the rate of 10 percent of the income.
- ) Any national priority industry which constructs and operates road, bridge, tunnel, ropeway, flying bridge, and manufacturing and operates trolley bus and tram shall be granted a rebate of fifty percent of the income tax on their income for a period of ten years from the date of operation and other industries as enlisted there in shall be granted a rebate of fifty percent of the income tax on their income for a period of seven years from the date of operation.
- ) Any industry established in any remote, undeveloped and underdeveloped areas other than cigarettes, bidi, cigar, chewing tobacco, khaini industries producing other goods of a similar nature utilizing

tobacco as their basic raw materials and industries producing alcohol or beer, shall be granted a rebate of 30%,25% and 20% of the income tax respectively and 35%,25%and 15%of the excise duty respectively for a period of ten years from the date of operation.

- J Fruit based fruit processing and cider and wine industries with a fixed asset of up to ten million established in Mugu, Humla, Jumla, Dolpa, Kalikot, Bajura, Darchula, Bajhang, Achham, Mustang, Manang, Solukhumbu, Sankhuwasabha and Taplejung districts shall be entitled to an excise duty exemption for a period of ten years and fruit based alcohol industries shall be entitled to excise duty exemption period of five years. On completion of such exemption period, Government of Nepal may grant excise duty exemption to the fruit based alcohol industries for up to an additional period of three years.
- J While calculating depreciation on the fixed assets, industries shall be entitled to add one third to the rate of depreciation allowed under the existing income tax laws.
- J If an industry diversifies itself through reinvestment in the same or any other industry, or expand its installed capacity by 25 percent or more, modernizes its technology or develops ancillary industries, it shall be entitled to a deduction of 40 percent of new additional fixed assets from its taxable income. Such remission may be deducted on a lump sum or on an installment basis within a period of three years.
- J Permission shall be granted for a reduction of up to 50 percent from the taxable income for the investment of any industry on process or equipment, which was the objective of controlling population or which may have a minimum effects on the environment. Such remission may be deducted on a lump sum or non installment basis within a period of three years.

- ) Pre-operation costs incurred by any industry in connection with skill development training shall be allowed to be capitalized.
- ) After an industry comes into operation, 10 percent of the gross profit shall be allowed as a deduction against taxable income because of expenses related with technology, product development and efficiency improvement.
- ) An industry donating the amount of up to 5 percent of its gross income to any school, college, university, hospital, religious place and in social activities shall be entitled to be a deduction of such donated amount in course of assessing the taxable income.
- ) If any industry provide direct employment to five hundred or more than five hundred Nepali citizens through out the whole years, it will be, in addition to other facilities, granted an additional income tax rebate at the rate of ten percent for that years.
- ) If any other industries utilizes locally available raw materials, chemicals and packing materials, etc. on which excise duty is already imposed, the excise duty shall be reimbursed to the industry utilizing such raw materials chemicals and packing materials. The amount to be so reimbursed shall be refunded within sixty days after an application to that effect has been duly submitted.
- ) The customs duty and excise duty on raw materials and auxiliary raw materials, etc. utilized by any industry in connection with its products during its production shall be reimbursed based on the quantity of the export.
- ) In cases where any industry sells its products in the Exports Promotion House, the customs duties levied on the raw materials in imported for producing the products so sold as well as the excise duty levied on the

products so produced shall be reimbursed to the concerned industry based on the quantity of sale and export.

- ) If any industry sells its product within the Kingdom in any foreign currency, the excise duty and custom duty on such product and custom duty, excise duty levied on the raw materials and auxiliary raw materials, etc. utilized in such products shall be reimbursed.
- ) The customs duties and excise duties on the production materials of intermediate goods to be utilized for the production of exportable industrial goods and excise duty levied on the products shall be reimbursed to the concerned industry producing the intermediate goods, based on the quantity of export.
- ) No tax, fee or charge of any kinds shall be levied on the machine, tool, equipment, machinery and raw material to be employed by and export promotion industry as well as on the products of such industry. Provided that if, for any reason, any products of such industry is required to be sold within the country, tax, fee or charge thereof shall be required to be paid on the bases of the quantity of sale.
- ) Any industry will be entitled, for the purpose of the income tax to deduct the amount of express incurred by it for the long-term benefit provided to its workers and employees including housing, life insurance, health facilities, education and training.
- ) The rate of customs to be levied on the basis of raw materials which are not products in Nepal and are required for the production of industrial machinery or of any other goods may not be more the rate of import duty that may be levied on the import of industrial machinery or ready made goods as is produced with the use of such raw materials.
- ) If any industry producing intermediate goods sells its products to any other industry producing finished goods, the custom duty and excise

duty to be levied on such products will be allowed to be adjusted based on the quantity utilized by the industry producing the finished goods. If such a finished goods, producing industry shall be required to have been registered for the purpose of excise duty.

- ) Forest based industry may be made available any forest on a leasehold basis.
- ) No royalty shall be imposed if any industry generates electricity for its use.
- ) Nepal government may, notification published In the Nepal Gazette, grant additional facilities to the Export Promotion Industry, and prescribed industries established in the Export Processing Zone and In the government or non government industrial estate.
- ) On the recommendation of the land with the decision of the Council of Ministers, and by notification published in the Nepal Gazette, additional facilities may be granted to any National Priority Industry or any industry established in Nepal by the way of invention therein.

### **Cottage Industries**

With the exception of cigarettes, bidi, cigar, chewing tobacco, khaini industries and industries producing other goods of similar nature utilizing tobacco as the basis raw material, alcohol and beer producing industries, handloom, Pedal Loom and Semiautomatic loom. Warping, dyeing and printing, tailoring (Other Readymade Garments), Knitting, hand woollen mat and blanket (Radi, Pakhi), woollen Graments, Carpentry, Wooden Artistic Product, Cane and Bamboo Works, Natural Fiber Products including Silver, Brass, Copper Precious and Semiprecious Stones, Ornaments, Sculptures and Pottery, Honey, Chyuri, Cardamom Processing, Clay or Ceramic Pottery, Leather cutting and Tanning, Rural Tanning and Leather Goods Producing Works, Jute, Sabai Grass, Babio, Choya, Cotton Thread Products, Artistic Products made up of Bones and

Horns, Stone Carving, Ceramic Fine Arts, Pauwa, Boutique, Incense Stick ( Dhup), Dolls and Toys Industries and cottage industries with the fixed asset of up to two hundred thousand rupees.

Note:

- ) Unless other mentioned specifically, machines of the above mentioned industries should not employ through electric motors of diesel or petrol or crude oil engine more a total of five kilowatt. Power looms shall not be included under Cottage Industries.
- ) Permission shall be required for the establishment of mechanized woolen spinning and mechanized woolen carpet manufacturing.

### **2.1.12 National Priority Industries**

- ) Agro and forestry- based industries.
- ) Engineering industry ( Producing agricultural and industrial machine).
- ) Industry manufacturing fuel saving or pollution control devices .
- ) Solid waste processing industry .
- ) Road, bridge, tunnel, ropeway and flying bridge constructing and operating industry and trolley bus and tram manufacturing and operating industry.
- ) Hospital and nursing home (only outside the Kathmandu valley ).
- ) Industries producing ayurvedic, homoeopathic and other traditional medicine and industries producing crutch ,seat belt , wheel chair , stretcher and stick and so on to be used in aid of the disabled and orthopedic .
- ) cold storage installed for the storage of fruits and vegetables .

### **2.1.13 Classification of Districts On The Basis Of Industrialization**

#### **Remote Area**

1.Darchula	2. Bajhang	3. Bajura	4.Humla
5. Sankhuwasabha	6. Jumla	7. Kalikot	8. Dolpa
9. Mustang	10. Manang	11. Solukhumbu	12.Mugu
13. Khotang	14. Bhojpur	15. Achham	16. Dailekh
17. jajarkot	18. Rukum	19. Myagdi	
20. Okhaldhunga	21. Terhathum	22. Ramechhap	

## Undeveloped Area

- |                      |            |                |             |
|----------------------|------------|----------------|-------------|
| 1. Taplejung         | 2. Rolpa   | 3. Baitadi     | 4. Rasuwa   |
| 5. Gulmi             | 6. Parwat  | 7. Dadeldhunga | 8. Pyuthan  |
| 9. Doti              | 10. Salyan | 11. Panchthar  | 12. Baglung |
| 13. Sindhupalanchowk |            |                |             |

## Under Developed Area

- |             |                     |                 |              |
|-------------|---------------------|-----------------|--------------|
| 1. Kailali  | 2. Surkhet          | 3. Arghakhanchi | 4. Palpa     |
| 5. Syanga   | 6. Dhading          | 7. Lamjung      | 8. Tanhu     |
| 9. Gorkha   | 10. Sinhdhuli       | 11. Udayapur    | 12. Dhankutt |
| 13. Ilam    | 14. Kanchpur        | 15. Bardia      | 16. Dang     |
| 17. Nuwakot | 18. Kavrepalanchowk |                 | 19. Dolkha   |

## 2.2 Review of Related Studies

Income tax was imposed in Nepal by the first parliamentary Government in 1959. Then after, various studies were made and researches are conducted by different individuals and institutions concerning with various aspects of this act such as the structure, role, productivity, legal and administrative framework etc. Some of books, reports and dissertations that are reviewed during this study are as follows.

### 2.2.1 Review of Research Report and Articles

**United Nation (1997)** published a journal on public finance entitled, "Guidelines for Improving Tax Administration in Developing Countries". The study was divided into four separate parts. Among them reforming the structural organization of the tax administration and explained in two separate sub topics i.e. guidelines for appropriate initiatives and underlying consideration and explanatory. Function of tax administration are identification and registration of tax payer's education, information provider and assistance

etc. The study had explained these two functions and the study had recommended some valuable suggestion to the developing countries.

**Pant (2004)** wrote a article entitled, "Problem in Tax Administration and Their Remedies" published in journal of finance and development 'Rajaswa, 2004, April Vol.1. He had comprehensively explained about the problem and their remedies related with tax revenue and major types of practical problems and challenges, in tax administration. He had maintained in his article where showing limited amount of transaction showing low selling price, less of issuing in taking bills, lack of showing the real factory cost, commercial fraud, lack of co-operation in tax auditing, legal ambiguity and complicity in implementation and lack of co-ordination between inland revenue department and revenue investigation unit. Meanwhile, he had recommended some valuable suggestion to solve the problems and to overcome the challenges. They were statistical and information system should be properly managed, fixed norms and standards should be used to assess selling price and factory cost, the billing system should be made compulsory, co-ordination between Inland Revenue office with various entities of HMG, revenue investigation and its related unit should play the important role.

**Koirala (2004)** has studied entitled "Contribution of Employment Income to Income Tax Revenue of Nepal". Mainly he has focused on the income of employment. Problem he has defined in collecting tax are rules and regulation of the income tax is complicated, employees faced problem of negligence of administrators mental pinch, unnecessary delays and harassment for getting tax clearance certificate, not well response etc. he recommends that resources mobilization through direct taxation. TDS helps to increase income tax share in tax and direct tax revenue providing knowledge to employees about taxation there should be standard deduction such as transport expenses, house rent, education expenses etc. For allowed exemption limit on individual and couple, behaviors make to collect more tax revenue from employees.

As per the empirical studies done in various countries the conclusion that among different type of tax incentives investment allowance or investment tax credit and accumulated depreciation superior to other types of tax incentives , tax holiday is the most inferior type of tax incentives which causes revenue loss without enhancing the investment environment . Meanwhile ,most of the researchers has opposed the tax holiday system both within Nepal and outside Nepal.

He further added that the survey of the studies indicate that accelerated depreciation system has positive impact on investment. The work of reducing tax rate, specially system followed after 1990's to such lowest rate was not a proper decision. That is why if Nepal wants to go tax incentives again, she should adopt investment allowance or investment tax credit not the full tax holiday in future.

Revenue consultation report has studied the overall taxation situation in depth. It highly emphasized to simplify the tax policy to increase voluntary compliance. This report recommended for written communication between taxpayers and tax administration rather than the informal relation. This report suggested to widen the income tax base by including all kind of taxpayers and income and to find out the taxpayers of new sector. For this the report to make the not more transparent and dear in order to attract foreign a domestic investors. It was further suggested to increase income tax exemption limit with considering purchasing power and inflation rate.

### **2.2.2 Review of Theses**

**Pant (1996)** had presented the thesis entitled, "A study on Income Tax Management in Nepal". His main objectives of research were to find out the share of income tax to government revenue.

**His main objectives are:**

) to review the income tax system in Nepal,

) to identify the problem of income tax management.

His research was best upon secondary as well as primary data. The primary data was collected within Kathmandu through interview, questionnaire etc.

**His major findings are as follows:**

) He had concluded that income was the major source of internal source mobilization, the income tax system was not efficient and income tax assessment was not efficient.

) Evasion of income tax was major constraint for research mobilization.

) He also added that corporate tax was found high and exemption limit was not sufficient.

) Finally he had recommended that income tax net should be widened assessment procedure must be improved and income from agriculture and capital gain should be taxed.

**Poudyal (1998)** had submitted a Ph. D. thesis entitled "Corporate Tax Planning in Nepal." This thesis report was aimed to examine the implications of tax factors in strategic planning, project planning and operational planning in Nepalese companies.

**His main objective is:**

) to examine the sensitivity of certain policy like inflation, capital gain tax, dividend tax and interest tax etc. based on their impact on tax burden.

**His major findings are follows:**

) He had found that majority (90%) of the companies (sample size of the study) considered tax factors while selecting the limit of business.

) He also found the positive correlation (+0.8) between tax rate and the debt equity ratio because of interest paid on debt is a tax deductible item.

- ) Similarly, the correlation coefficient between average fixed assets and corporate tax was (0.75) in large company and (+0.12) in medium size companies.
- ) As against this, in large companies, there was a negative correlation (-0.2), which shows that increase in fixed assets in large companies resulted in decrease in the corporate tax.
- ) He addressed that the tax planning should be considered while making corporate planning and so company should set up separate tax section to get maximum benefit of provisions, provided by tax law.
- ) However tax assessment under the best judgment blocked the application of tax planning in corporate planning. He had recommended that tax incentives should be given to non industrial companies too and tax rate should be differentiated of resident and nonresident companies.

**Kandel (2000)** also presented the thesis entitle, “Corporate Tax System and Investment Behavior in Nepal”. He undertook the research work to find out the problems relating to corporate tax, which blocks the development of the private investments. The main objective of the study were to evaluate the corporate tax system in general.

**His main objective is:**

- ) to examine the sensitivity of certain policy like inflation, capital gain tax, dividend tax and interest tax etc. based on their impact on tax burden.

**His major findings are as follows:**

- ) He showed the relationship of private investment with average effective tax rate, marginal effective tax rate and tax incentives in Nepal.
- ) He found that it’s for debt financed project are almost negative i.e.-17% and positive for equity financed project and debt equity project by 27% and 19% respectively.

- ) He had also found the impact of inflation. According to him ,the statutory tax rate deduction had impact on private investments by 60% to 20%. In this regard, he had showed the adjusted value 0.87 at 5% level of significance.
- ) He had concluded that the statutory tax rate was in moderate level under the financing between inflation rate and effective tax burden in Nepal was negative.

**Lamsal (2005)** has also presented a thesis entitled, “A Study on Contribution of Income Tax Government Revenue”. His research had mainly focused on the removing and controlling income tax evasion for better source mobilization. Mr. Lamsal conducted that research following analytical as well as descriptive research design. Most of the data were from secondary sources and some were from primary sources. Primary data were collected through opinion survey, field visit interviews. Simple statistical analysis such as average and percentage were used as for data analyzing, tools, graphs, charts and table were use to interpret visually the finding of the research. As his main objective was to analyze the impact of income tax evasion in government revenue of Nepal.

**His main objectives are:**

- ) to identify the ways and causes of income tax evasion,
- ) to estimate the volume and tendency of income tax evasion in small trade sector and to examine the role of income tax in utilizing the resources in Nepal.

**His major findings are as follows:**

- ) From the research, he had concluded that there was wide spread evasion of income tax in Nepal and income tax is a suitable means for raising domestic resources.

- ) Controlling tax evasion by controlling illegal business activities increasing penalties and fines to tax evaders, compulsory maintenance of accounts etc .

**Pradhan (2006)**, has conducted a thesis entitled “Contribution of Income Tax on Total Revenue.” His study was basically concerned with historical background, contribution of income tax to the public revenue.

**His main objectives are as follows:**

- ) Contribution of income tax to the public revenue,
- ) Contribution of Nepal Telecommunication (NTC) to income tax,
- ) Effectiveness of income tax collection. Especially, her study had focused on the study on Nepal Telecommunication Corporation.

**His major findings are as follows:**

- ) She had found the contribution of income tax from public enterprises in Nepal was not significance due to poor achievement, weakness in government’s economic policy and deficiency in legislation. NTC had been contributing effectively to total tax revenue.
- ) Contribution of tax revenue on GDP of Nepal was lower than other SAARC countries except Bangladesh.
- ) Average contribution of income tax from NTC to total tax revenue, total income tax revenue and total government revenue were 2.37 percent, 15.60 percent and 1.93 percent in her study period. Her suggestions about income tax system were clear cut provisions, discretionary power of tax officers should curtailed, assessment and collection provision, should be made clear and simple, provision of reward, prize, incentives should introduce to encourage taxpayers today voluntarily, compulsory provision of auditing etc. for the improvement for the improvement of income tax administration in Nepal.

) Promotion and reward to active efficient and honest tax preserved, tax education to taxpayers, strict acting against corruption, reduction of delays in tax assessment.

### **2.3 Research Gap**

All the researches studies mentioned above are concerned with study of laws, provisions, administration aspects and structure of tax. Most of them have indicated the efficiency of tax administration, widespread tax evasion. No attention is paid on a particular problem and reforms provided under Income Tax Act 2058. Many of them have various problem as their research objectives and no thoroughly study on a particular subject problem is done except few of the research work. I have found no more study done in the impact of the special provision to manufacturing industries under ITA 2058. So this study has been undertaken analytically and intensively to analyze the impact on industries and the change in pattern of revenue collection after the involvement of the act.

## **CHAPTER -III**

### **RESEARCH METHODOLOGY**

Research methodology is a way to systematically solve the research problem. In other words, research methodology describes the methods and process applied in the entire aspect of the study. This chapter describes research design, population and sample, sampling procedure, nature and sources of data, data collection procedure, data processing procedure and analysis tools. The related topics are discussed separately as follows:

#### **3.1 Research Design**

Research design is a plan, structure and strategy of investigation so as to obtain answer to research questions. It is a methodological arrangement of all conditions for collection and analysis of data, which provides relevancy in research purpose. In this research primary as well as secondary data are used. Questionnaires are used for primary data and for secondary data publication was used hence descriptions as well as analytical research design are used for research purpose.

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

Tax administrator, tax experts and taxpayers were considered as the total population out of them 20 of tax administrators and tax experts and 20 of tax payers have been requested to fill the questionnaire for this 20 each has been used as sample size. The total respondents have been divided into three different groups. The group of respondents and sample size has been shown in the following table.

**Table 3.1**  
**Group of Respondent and Sample Size**

S.N.	Group of Respondents	Sample Size
1	Tax Administrator	20
2	Tax Expert	20
3	Tax Payers	20
Total		60

### **3.3 Sampling Procedures**

Random sampling methods have been used to select the target and sample population, tax administrators. Tax experts and taxpayers have been selected on the basis stratified random sampling.

### **3.4 Nature and Sources of Data**

Both primary and Secondary data have used in the study . To achieve the possible and useful data as for available have been collected .The major source of are as follows.

#### **a) Primary data**

These data have been collected with in Kathmandu valley from those respondents who are representing as employees . Tax experts and tax administrators in different sectors. To know the opinion of respondents a structured questionnaire have been distributed and information have been collected through self structured questionnaire information dialogue discussion and direct .

#### **b) Secondary data**

The secondary data have been collected from books, journals, newspaper, report etc. The major source of secondary data have taken as follows;

1. Official website of Inland Revenue Department . [www.ird.gov.np](http://www.ird.gov.np)
2. Official website of Ministry of Finance. [www.mof.gov.np](http://www.mof.gov.np).
3. Annual report of Inland Revenue Department ,Ministry Finance
4. Economic surveys and budget speeches ministry of Finance.
5. Publication of CEDA TU.
6. Book related to income tax .
7. Various magazines, newspaper, Journals etc.

### **3.5 Data Collection Procedure**

Various numerical data and information have been collected as per the objectives of the study and research question, firstly laws, rules, regulations and policies related to the provisional for mfg. industries have been studied to get more information. Secondly different libraries such as FNCCI, NRB were consulted. Thirdly, the numerical data have been collected for the publication of annual reports of inland revenue department of Nepal, Economic Bulletin of NRB economic survey of ministry of finance, publication of security boards have been also been consulted. For secondary data published reports of organization have been mainly used.

### **3.6 Data processing, procedure and Analysis Tools**

Information collected through the questionnaire was on raw form. To meet the objective of this study, they are checked, rechecked, edited and tabulated for computation.

According to the nature of data, they have been inserted in meaningful tables, which have been shown in annexes. Homogenous data are sorted in one table and various tables are prepared in under stable manner. Data have been analyzed and interpreted by using different types of analytical tools.

### **3.7 Weight of Choice**

The questionnaire was in the form of yes/no response. The selected population was asked for ranking of choices according to number of alternatives where first choice was the most important and last was least. For analysis purpose choice were assigned weight according to number of alternatives. If the number of alternatives was 8 than the first preferred choice was assigned 8 points and last alternatives was assigned 1 point, If the alternatives were not ranked no points were assigned. Total points available to each choice have been converted into percentage in reference to total points available for all choices. The choice with the highest score of percentage has been ranked as most important choices and last is the least.

## **CHAPTER-IV**

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

This chapter is devoted to the presentation and analysis of the income tax structure and impacts of “Special Provision to manufacturing industries under ITA 2058”. To achieve the stated objectives of the study and also to make easier to understand the findings, qualitative as well as quantitative data and information have been analyzed. To meet the desired objective, this data presentation and analysis chapter deals with the presentation and analysis of data collected from the primary as well as secondary sources. Primary data collection has been conducted by the means of scheduled questionnaires and economic survey has been the main sources of secondary data. The response found from the respondents has been tabulated first and analysed according to objectives. Test of hypothesis, rank correlation, simple average and simple percentage method have been used as statistical tools to analyze the data.

#### **4.1 Tax Structure of Nepal**

Modern economic planning of Nepal had started with the initiation of first economic planning of 1956. Since then, taxes have been used for the achievement of national economic goals. So, tax play vital role to the economic development of Nepal. Tax structure of any country comprises both direct and indirect taxes.

##### **4.1.1 Composition of Total Revenue**

Total revenue of Nepal is composed of both tax revenue and non-tax revenue when the HMG of Nepal presented first national budget in the 1951/52.

**Table: 4.1**  
**Composition of Total Revenue**

(Amount in Million)

Fiscal Year	Total Revenue	Tax Revenue		Non Tax Revenue	
		Amount	Percentage	Amount	Percentage
2000/01	48893.8	38865	79.49	10628.8	20.51
2001/02	50446.6	39330.6	77.97	11116	22.03
2002/03	54538.9	40896	74.97	13642.9	25.01
2003/04	62331	48173	77.29	14158	22.71
2004/05	70122.7	54104.7	77.16	16018	22.84
2005/06	72282	57430.4	79.46	14851.6	20.55
2006/07	87712.2	71126.7	81.11	16585.5	18.90
2007/08	107622.5	85155.5	79.12	22467	20.88
2008/09	143474.5	117051.9	81.58	26422.6	18.42
2009/10	158196.45	139620.75	88.26	18575.7	11.74
Total	855620.65	691754.55		163866.1	
<b>Average</b>	<b>85562.07</b>	<b>69175.46</b>	<b>79.64</b>	<b>16386.61</b>	<b>20.36</b>

*Source: Economic Survey, Fiscal Year, 2010/11.*

From the above table, the tax revenue is Rs 38865 million in the fiscal year 2000/01 which is the base year for the research. The contribution of tax revenue to the total revenue is 79.49%. In the fiscal year 2009/10, tax revenue is Rs 139620.75 million which is 3.59 times higher than that of tax revenue in the fiscal year 2000/01. Average tax revenue for 10 years is Rs. 88562.07 million that occupies on average 79.64% share of total revenue. The table indicates that the tax revenue is gradually increasing in every fiscal year 2000/01 to 2009/10 amounting Rs. 38865 million to Rs. 139620.75 million. But the percentage contribution of tax revenue is fluctuating every year. The contribution of tax revenue is highest 88.26% in the fiscal year 2009/10 and lowest 74.97% in the fiscal year 2002/03.

Non- tax revenue is Rs. 10028.8 million in the fiscal year 2000/01 which is 20.51% of total revenue. It increased to Rs. 11116 million representing 22.03% of total revenue in the fiscal year 2001/02. In next year non-tax revenue amount

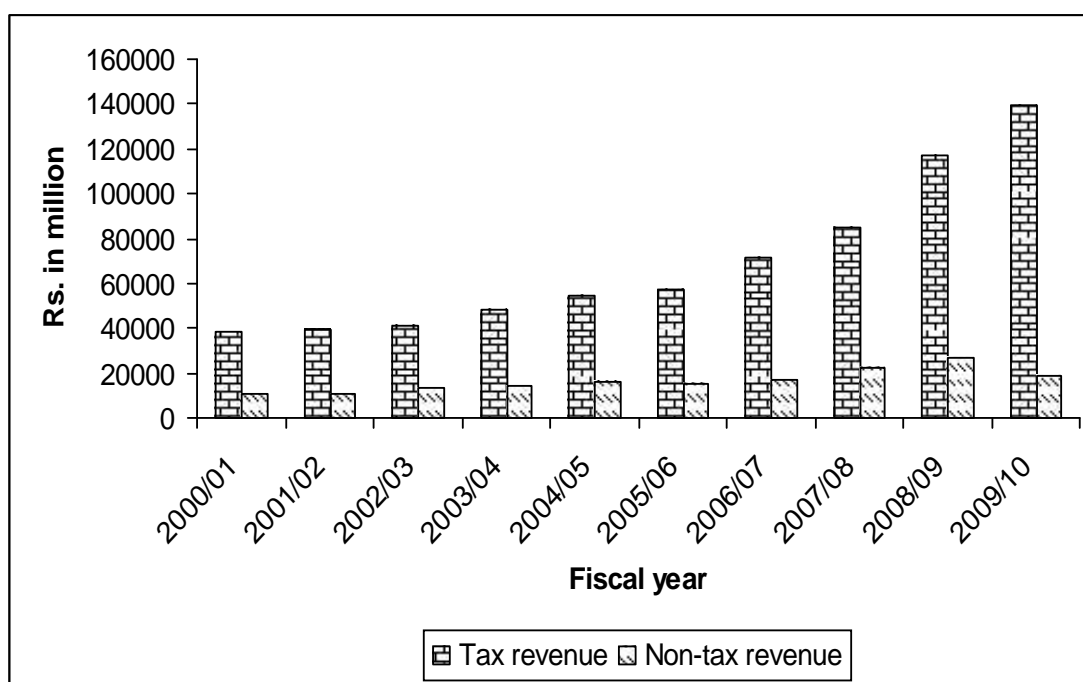
of Rs. 13642.9 million and 25.01% of total revenue in the fiscal year 2002/03. In next year non tax revenue amount of Rs. 16018 million and 22.84% of total revenue in the fiscal year 2004/05. But it decreases to Rs. 14851.6 million and 20.55% of total revenue in the fiscal year 2005/06 and then increase to Rs. 26422.6 million and 18.42% of total revenue in the fiscal year 2008/09. Again decrease to Rs. 18575.7 million and 11.74% of total revenue in the fiscal year 2009/10. The average non tax revenue is Rs. 16386.61 million and 20.36%.

The revenue collection is in increasing trend. It is Rs. 48893.8 million in the fiscal year 2000/01 and reached Rs. 158196.45 million in the fiscal year 2009/10. The total revenue collection in the last 10 years is Rs. 85562.07 million. Total revenue includes both tax revenue and non-tax revenue. The average tax revenue is Rs. 69175.46 million and non-tax revenue is Rs. 16386.61.

The contribution of tax revenue and non-tax revenue in total tax revenue is shown in the following figure:

**Figure: 4.1**

**Chart Showing Contribution of Total Revenue**



### 4.1.2 Composition of Total Tax Revenue

Tax revenue is the combination of direct and indirect tax. Direct tax is the tax paid by a person on whom it is legally imposed. Direct tax includes land revenue and registration, tax on property, taxes on profit and income whereas indirect tax includes customs on export and import, excise on industrial products, VAT, entertainment tax, hotel tax, air, freight tax, contract tax etc. The composition of Nepalese tax revenue is presented in the table 4.2. In terms of direct and indirect tax revenue. The composition of tax revenue has been shown below:

**Table: 4.2**  
**Composition of Total Revenue**

Fiscal Year	Total Tax Revenue	Direct Tax Revenue		Indirect Tax Revenue	
		Amount	Percentage	Amount	Percentage
2000/01	38865	10159.40	26.14	28705.7	73.86
2001/02	39330.6	10597.50	26.94	28733.1	73.06
2002/03	40896	10881.9	26.61	30014.1	73.39
2003/04	48173	11912.60	24.73	36260.4	75.27
2004/05	54104.7	13071.80	24.16	41032.9	75.84
2005/06	57430.4	13968.10	24.32	43462.3	75.68
2006/07	71126.7	18980.3	26.69	52146.4	73.31
2007/08	85155.5	23087.7	27.11	62068.8	72.89
2008/09	117051.9	34320.7	29.32	82731.2	70.68
2009/10	139620.75	33918.3	24.29	105702.45	75.71
Total	691754.55	180898.3	26.31	510856.35	73.69
<b>Average</b>	<b>69175.46</b>	<b>18089.83</b>	<b>26.03</b>	<b>51085.64</b>	<b>73.97</b>

*Source: Economic Survey Fiscal Year 2010/11.*

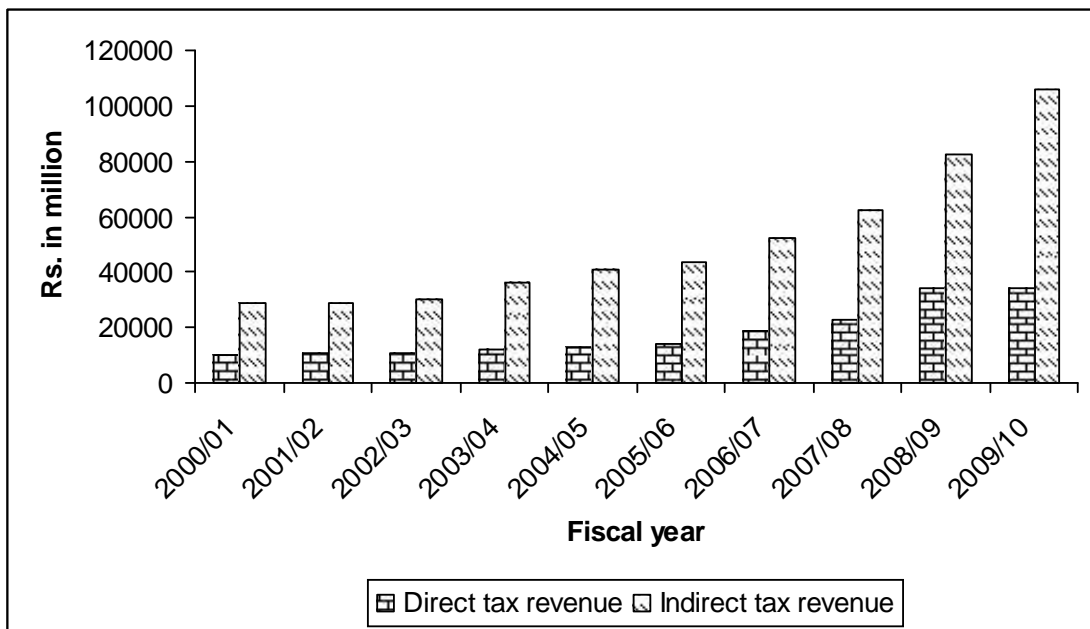
Analyzing the table presented above it becomes clear that the whole Nepalese tax structure is dominated by indirect tax. The average contribution of direct tax revenue in total tax revenue for the period of last ten years is 26.03% and

the average contribution of indirect tax revenue is 73.97% according to the above table, total tax revenue, direct tax revenue and indirect tax revenue are in increasing trend. The average contribution of direct tax is Rs. 18089.83 million and the indirect tax is Rs. 51085.64 million for the period of last ten years. The amount of direct tax is Rs. 10159.40 million in the fiscal year 2000/01. It increased each year and reached to Rs. 33918.3 million in fiscal year 2009/10. The contribution of direct tax on total tax revenue is 26.03% in average.

Similarly, the amount of indirect tax is Rs. 28705.7 in the fiscal year 2000/01. It increased each year and reached to Rs. 105702.45 million in the fiscal year 2009/10. Percentage contribution of indirect tax to total tax revenue is highest 75.68% in the fiscal year 2005/06 and lowest 70.68% in the fiscal year 2008/09. The contribution of indirect tax on total tax revenue is 73.97% on average. The contribution of direct tax and indirect tax revenue on total tax revenue is presented in the following trend line.

**Figure: 4.2**

**Contribution of Direct and Indirect Tax on Total Tax Revenue**



### 4.1.3 Composition of Indirect Tax Revenue

The major components of indirect tax in Nepalese tax structure constitutes customs duties, tax on consumption and production of goods and services. Customs duty has been classified mainly into import duty and export duty. Other components of indirect tax are entertainment tax, hotel tax, freight tax etc. contribution of such taxes to total revenue is less than 1% (nominal). Following table shows the composition of indirect tax:

**Table: 4.3**  
**Composition of Indirect Tax Revenue**

(Rs. in Million)

Fiscal Year	Total Indirect Tax	Custom Duties		Tax on Consumption and Product of Goods and Services			
		Amount	%	Value Added Tax		Excise on Industrial Products	
		Amount	%	Amount	%	Amount	%
2000/01	28705.7	12552.1	43.73	12382.4	43.14	3771.2	13.14
2001/02	28733.1	12650	44.02	12267.3	42.69	3807	13.25
2002/03	30014.1	12783.2	42.59	13459.7	44.85	3771.2	12.56
2003/04	36260.4	15554.8	42.90	14478.9	39.93	6226.7	17.17
2004/05	41032.9	15701.6	38.27	18885.4	46.02	6445.9	15.71
2005/06	43462.3	15344	35.30	21610.7	49.03	6507.6	14.98
2006/07	52146.4	16707.6	32.03	26095.6	50.04	9343.2	17.91
2007/08	62068.8	21062.5	33.93	29815.7	48.04	11189.6	18.03
2008/09	82731.2	26792.9	32.39	39700.9	47.99	16220.9	19.61
2009/10	105702.45	32524.63	30.77	50557.48	47.83	22620.32	21.4
Total	510856.35	181673.33	375.93	239254.08	459.56	89903.62	163.76
<b>Average</b>	<b>51085.64</b>	<b>18167.33</b>	<b>37.59</b>	<b>23925.41</b>	<b>45.96</b>	<b>8990.36</b>	<b>16.38</b>

Source: Economic Survey Fiscal Year 2010/11

The above table 4.3 shows that the customs duty and VAT occupies major portion in indirect tax. In the fiscal year 2000/01 the contribution of customs duty is 43.73% which fluctuated between 43.73% to 30.77% in the fiscal year

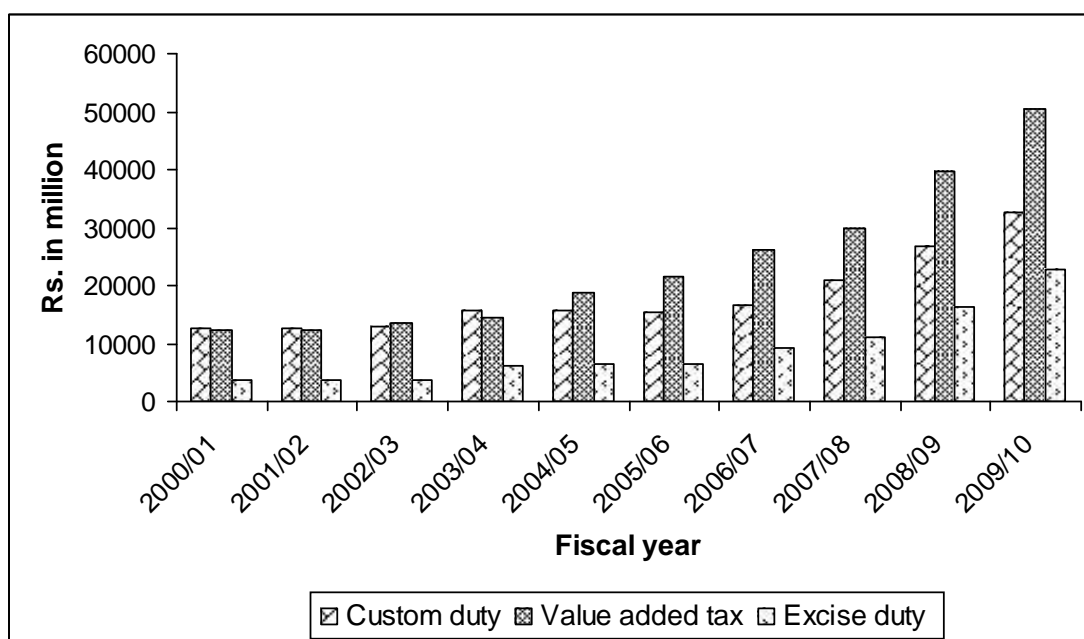
2009/10. Then after the average percentage contribution of customs duty to indirect tax is 37.59% during the study period.

Nepalese tax revenue is mainly dependent on indirect taxes, which constituted 75.71% of total tax revenue in 2009/10. Nepalese tax revenue it depends mainly on international trade and sales/VAT on goods and services supplemented by taxes on income and property to some extent.

Average share of VAT to indirect tax is 45.96%. Amount of VAT in the fiscal year 2000/01 is Rs. 12382.4 million and reached to Rs. 50557.48 million in the fiscal year 2009/10. Similarly, the amount of excise on industrial products is increasing each year but percentage is fluctuating. In average its contribution of excise on industrial products on total indirect tax is 8990.36 million and 16.38% for the period of last 10 years. Which can show in following figure.

**Figure: 4.3**

**Composition of Indirect Tax Revenue**



**4.1.4 Composition of Direct Tax Revenue**

Direct tax refers to such tax whose burden can not be shifted to others . If the person paying and bearing the tax is same, it is called direct tax. The major components of direct tax are income tax, house and land registration fee, land

revenue, tax on property etc. The major components of direct tax are given in table No. 4.4.

**Table: 4.4**  
**Composition of Direct Tax Revenue**

**Amount in million**

Fiscal Year	Total Direct Tax	Land Revenue and Registration				Tax on property, Profit and Income				
		Land Revenue	House and land Reg. Fees	Total	% of Total Direct Tax	Income Tax	Tax on Property	Other Tax	Total	% of Total Direct Tax
2000/01	10159.40	5.1	612.9	618	6.08	9114	432.5	0	9546.5	93.97
2001/02	10597.50	0.8	1131.8	1132.6	10.68	8903.7	562	0	9465.7	89.32
2002/03	10881.9	0	607.8	607.8	5.59	9675.8	432.5	165.8	10274.1	94.41
2003/04	11912.60	0	1697.5	1697.5	14.25	9245.9	700.6	268.6	10215.1	85.75
2004/05	13071.80	0	1792.2	1792.2	13.76	10159.4	806.5	306.7	11272.6	86.24
2005/06	13968.10	0	2181.1	2181.1	15.61	10373.7	847.6	565.7	11787	84.39
2006/07	18980.30	0	2253.5	2253.5	11.88	15034.2	995	697.8	16726.8	88.12
2007/08	23087.7	0	2940.7	2940.7	12.74	17311.2	1069.2	1766.6	20147	87.26
2008/09	34320.7	0	5223.3	5223.3	15.22	25142.4	1850	2105.0	29097.4	84.78
2009/10	33918.3	0	4770.45	4770.45	14.06	23596.44	2685.6	2865.75	29147.79	85.94
Total	180898.3	5.9	23211.25	23217.15		138556.74	10381.5	8741.95	157679.99	
<b>Average</b>	<b>18089.83</b>	<b>0.59</b>	<b>2321.13</b>	<b>2321.72</b>	<b>11.99</b>	<b>13855.67</b>	<b>1038.15</b>	<b>874.2</b>	<b>15767.99</b>	<b>88.02</b>

*Source: Economic Survey Fiscal Year 2010/11*

From the above table, it becomes clear that direct tax is classified into land revenue, registration fee and tax on property, profit and income. The contribution of land revenue and registration fee is Rs. 612.9 million in the fiscal year 2000/01. But it is decreased in the Fy 2002/03. After then it is in increasing trend. In the fiscal year 2009/10 it reached to Rs. 4770.45 million. The average of land revenue and registration is Rs. 2321.13 million period of last 10 years. In case of percentage contribution the highest percentage contribution is 15.61% in the Fy 2005/06 and lowest is 5.59% in the fiscal year

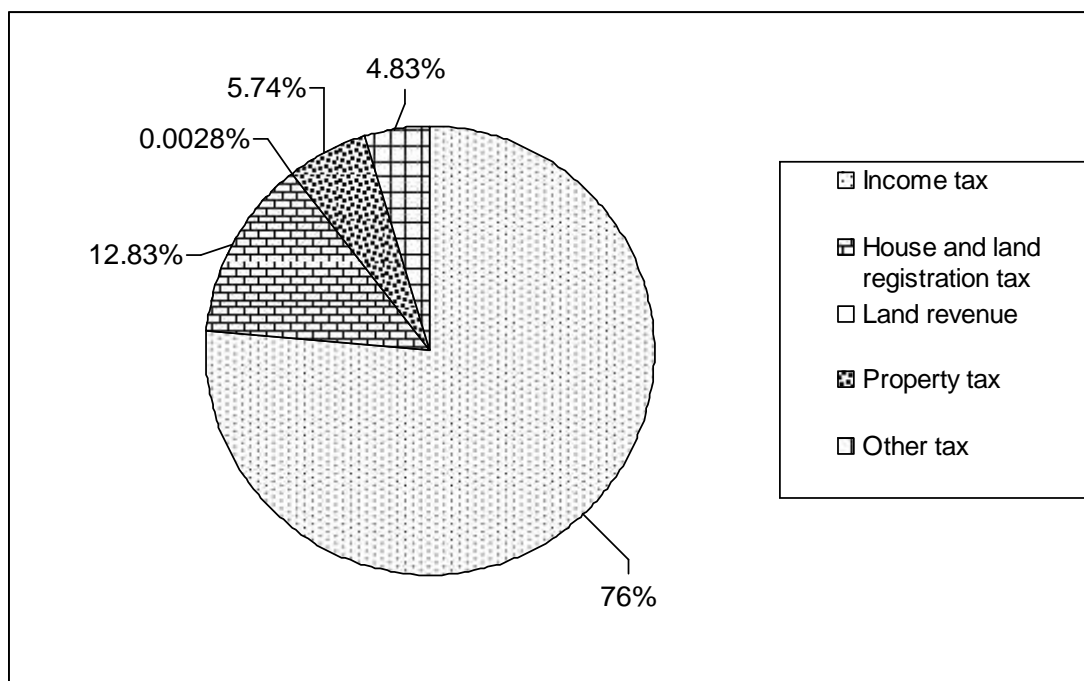
2002/03. In average land revenue and registration has covered 11.99% the total direct tax revenue.

Another significant source of direct tax revenue is tax on property, profit and income. It can be classified in income tax, tax on property, and other taxes. Income tax includes income tax from public enterprises, semi-public enterprises, private corporate bodies, individual remuneration and tax on interest. Similarly, tax on property includes urban house, land tax and vehicle tax. The share of tax on property, profit and income is 9546.5 million in the Fy 2000/01. It is in increasing trend and reached to Rs. 29147.79 million in the Fy 2009/10. Average contribution of tax on property, profit and income is Rs. 15767.99 million in the period of last 10 years. In case of percentage contribution the highest percentage contribution is 94.41% in the Fy 2002/03 and lowest is Rs. 84.39% in the Fy 2005/06.

The following pie-chart shows the average contribution of income tax, house and land registration fee, land revenue, tax on property and other tax on total direct tax revenue in the study period.

**Figure: 4.4**

**Pie Chart Showing Average Amount of Component of Direct Tax**



#### 4.1.5 Contribution of Total Revenue, Total Tax Revenue, Direct Tax Revenue and Indirect Tax Revenue on GDP

Table: 4.5

#### Contribution of Total Revenue, Total Tax Revenue, Direct Tax Revenue and Indirect Tax Revenue on GDP

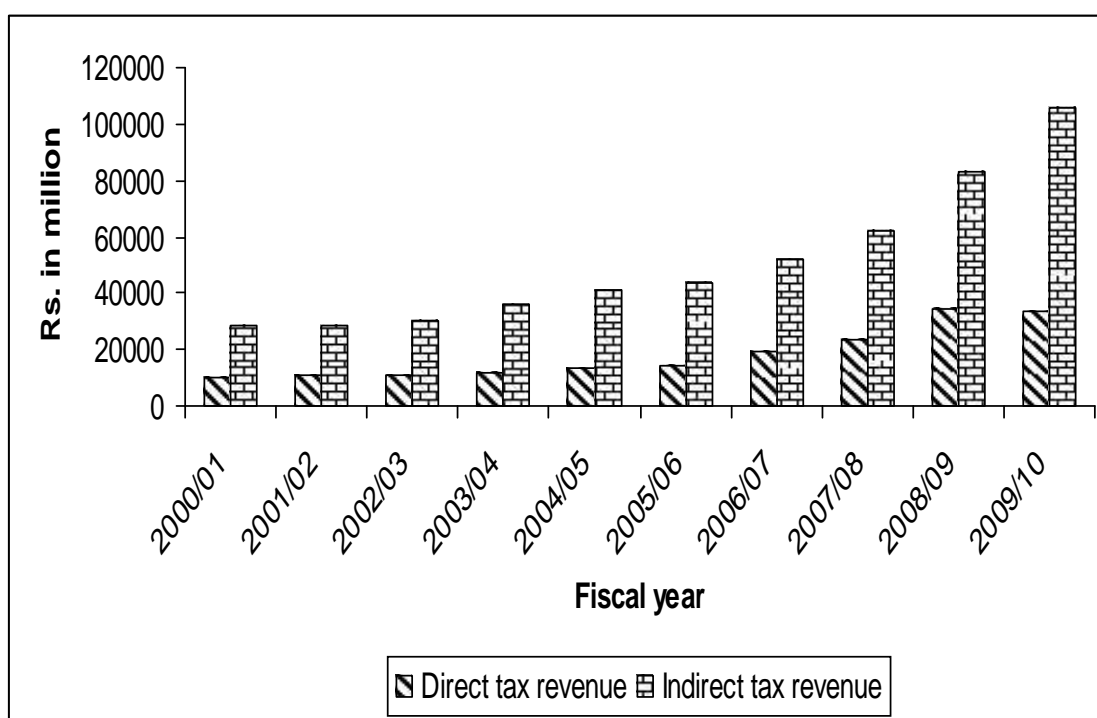
Fy	GDP	Total revenue		Total tax revenue		Direct tax revenue		Indirect tax revenue	
		Amt.	% on GDP	Amt.	% on GDP	Amt.	% on GDP	Amt.	% on GDP
2000/01	413429	48893.8	11.83	38865.10	9.40	10159.40	2.46	28705.7	6.94
2001/02	430397	50445.6	11.72	39330.6	9.14	10597.5	2.46	28733.1	6.68
2002/03	460325	54538.9	11.85	40896	8.88	10881.9	2.36	30014.1	6.52
2003/04	500699	62331	12.45	48173	9.62	11912.6	2.38	36260.4	7.24
2004/05	548485	70122.7	12.78	54104.7	9.86	13071.80	2.38	41032.9	7.48
2005/06	611118	72282	11.83	57430.40	9.51	13968.10	2.29	43462.3	7.11
2006/07	675859	87712.2	12.98	71126.7	10.52	18980.3	2.80	52146.4	7.72
2007/08	755262	107622.5	14.25	85155.5	11.28	23087.7	3.06	62068.8	8.22
2008/09	910160	143474.5	15.76	117051.9	12.86	34320.7	3.77	82731.2	9.09
2009/10	1075143	158196.45	14.71	139620.75	12.98	33918.3	3.15	105702.45	9.83

Source:- Economic Survey fiscal year 2010/11.

The above table shows that the contribution of total revenue on GDP is in increasing trend which is 11.83% in the Fy 2000/01 amounting Rs. 413429 million. Which is gradually increased and reached to 15.76% amount Rs. 143474.5 million in the Fy 2008/09. But it has decreased to 14.71% in the Fy 2009/10. The contribution of total tax on GDP was fluctuating in the past ten years. It is 9.40% and amount Rs. 38865.10 million in the fiscal year 2000/01 and fiscal year 2009/10 it reached to Rs. 139620.75 which contributes 12.98%. Indirect tax plays significant role in the tax structure of Nepal, which has contributes about three times more than the direct tax. In the Fy 2000/01, the contribution of indirect tax and direct tax on GDP are 6.94% and 2.46%

amount Rs. 28705.7 million and 10159.40 million and 9.83% and 3.15% amount Rs. 105702.45 and Rs. 33918.3 million respectively in the fiscal year 2009/10.

**Figure: 4.5**  
**Contribution of Total Revenue, Total Tax Revenue, Direct Tax Revenue**  
**and Indirect Tax Revenue on GDP**



#### 4.1.6 Structure of Income Tax in Nepal

The income table structure of Nepal is the composition of tax from public enterprises, semi-public enterprises, private corporate bodies, individuals remunerations and tax on interest. Income tax structure of Nepal is presented in the following table:

**Table: 4.6**  
**Income Tax Structure**

Fiscal Year	Total Income Tax Revenue	Public Enterprises		Private Corporate Bodies		Individual		Remuneration		Tax on interest	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
2000/01	9114	2928	32.13	1924.3	21.11	3200.5	35.12	597.3	6.55	463.9	5.09
2001/02	8903.7	1769.3	19.87	1412	15.86	4419.1	49.63	835.6	9.38	467.7	5.25
2002/03	9675.8	2928	30.26	1924.3	19.89	3362.2	34.75	597.3	6.17	864	8.93
2003/04	9245.9	2056.6	22.74	1531.3	16.56	3533.4	38.22	1391.2	15.05	733.4	7.93
2004/05	10159.4	1332.4	13.11	2467.8	24.29	3926.3	38.65	1675.9	16.50	757	7.45
2005/06	10373.7	195.7	1.89	3404.3	32.82	4234.7	40.82	1764.1	17.01	774.9	7.47
2006/07	15034.2	1019.7	6.78	5717.1	38.03	5234.4	34.82	2007.9	13.35	1054.9	7.02
2007/08	17311.2	204.6	1.18	7186.5	41.51	6381.2	36.86	2451	14.16	1087.9	6.28
2008/09	25142.4	959.1	3.81	9425.1	37.49	9877.5	39.29	3195.6	12.71	1685.1	6.7
2009/10	23596.44	348	1.47	8775.15	37.19	8190.45	34.71	3796.2	16.08	2486.7	10.54
Total	138556.74	13741.4	133.24	43767.85	284.75	52359.75	382.87	18312.1	126.96	10375.5	72.66
Average	<b>13855.67</b>	<b>1374.14</b>	<b>13.32</b>	<b>4376.78</b>	<b>28.48</b>	<b>5235.98</b>	<b>38.29</b>	<b>1831.21</b>	<b>12.69</b>	<b>1037.55</b>	<b>7.27</b>

*Source: Economic Survey Fiscal Year 2010/11*

The table presents the structure of income tax in Nepal which shows that the total income tax has increased in every fiscal year except in the Fy 2001/02, 2003/04 and 2009/10. It increased from Rs. 9114 million in 2000/01 to Rs. 25142.4 million in the fiscal year 2008/09. In the Fy 2001/02 it is decreased to Rs. 8903.7 million from Rs. 9114 million of Fy 2000/01 and in the Fy 2003/04 it is Rs. 9245.9 million then again it started to increase in each year till Fy 2008/09. But in 2009/10, it is increased to Rs. 23596.44 million.

The contribution of public enterprises decreased from Rs. 2928 to Rs. 195.7 from fiscal year 2000/01 to 2009/10. The average of public enterprise is Rs. 1374.14 million and 13.32% of total income tax.

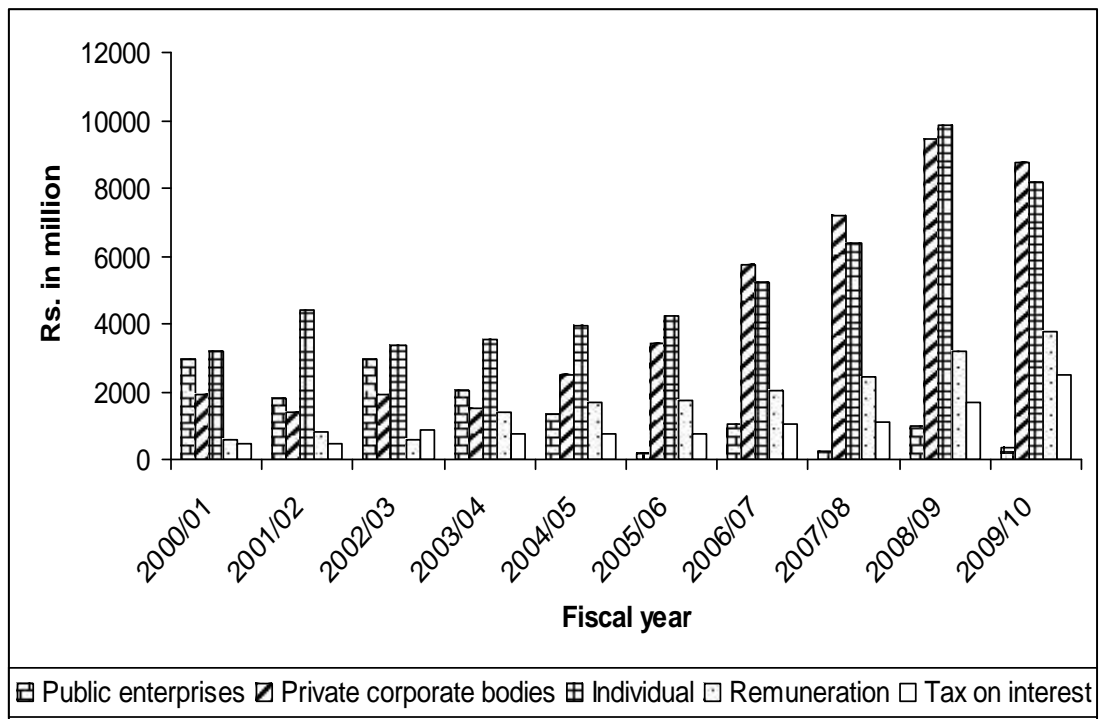
Total tax from private corporate bodies has increased every year except 2001/02, 2002/03 and 2003/04. In the Fy 2000/01 the amount is Rs. 1924.3

million its contribution is 21.11% to Rs. 8775.15 million in the Fy 2009/10 and its contribution is 13.63% in total income tax revenue. The average of private corporate bodies is Rs. 4376.78 million and its average contribution is 28.48%.

The contribution from individual to income tax revenue is greater in every fiscal year. The revenue from individual taxpayers increased Rs. 3200.5 million in Fy 2000/01 to Rs. 9877.5 million in the Fy 2008/09. But in 2009/10 it decreased to Rs. 8190.45. The average contribution of individual tax is 38.29%. The collection of income tax from remuneration has been increasing. It is Rs. 597.3 million in the fiscal year 2000/01 to Rs. 3796.2 million in the fiscal year 2009/10. Income tax from interest is in increasing trend from Fy 2000/01 to Fy 2009/10 it is increased to Rs. 463.9 million, Fy 2000/01 from Rs. 2486.7 million in the Fy 2009/10 and its contribution is 16.08%. The average tax on interest is Rs. 1037.55 million and average contribution is 7.27%.

**Figure: 4.6**

**Structure of Income Tax Revenue**



## 4.2 Result of Empirical Investigation

On the opinion survey, research has conducted to find the different aspects towards the ITA 2058 and its special provision for the manufacturing industries. Scheduled questionnaire has been distributed and collected the opinion of respondents. The view of the 60 respondents associated with tax administrators, tax experts and tax payers has been analyzed. The questionnaire has focused on special facilities on manufacturing industries under ITA 2058, necessity of facilities and needs of its increment, impacts of ITA 2058 on the manufacturing sector, rebate rate and its suitability provision of excess depreciation facility, accountability of tax payers, contribution of income tax on government revenue etc.

The respondents have divided into three groups. Following table shows the groups and number of respondents:

**Table: 4.7**  
**Group of Respondents and Number from Each Group**

S.N.	Group of respondents	Sample size
1	Tax administrator	20
2	Tax expert	20
3	Tax payers	20
	Total	60

*Source: Opinion Survey, 2068.*

The questionnaire was either asked for yes/no response or asked for ranking of choice according to their preference. Their first choice is most important and last is least important. Weight is assigned according to number of alternatives to their choice for analysis purpose. The choice with highest score of preference is ranked as the most important choice and vice versa.

The finding form this survey has been analyzed below:

#### 4.2.1 Income Tax as an Important Source of Government Revenue

To know the view of respondents whether the income tax is an important source of government revenue a question was asked, “Do you think that the income tax is an important source of collecting government revenue.” The responses found towards the question are tabulated as follows:

**Table: 4.8**

#### **Tax as an Important Source of Government Revenue**

<b>Response</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Tax administrators	19	95	1	5	20	100
Tax experts	20	100	0	0	20	100
Tax payers	20	100	0	0	20	100
Total	59	98	1	2	60	100

*Source: Opinion Survey, 2068.*

From this opinion survey, it has found that 95% of tax administrators and 100% tax experts and tax payers are in favour of the income tax is an important sources of government revenue. Only 5% tax administrators are not agreed with this. In total 98% of respondents have supported this view, only 2% are not supported this view.

From this, conclusion makes that income tax is one of the most important source of government income.

#### 4.2.2 Contribution of Special Facilities in Collection of Income Tax

To know the view of respondents whether the special facilities helps in income tax collection or not a question was asked “In your opinion, does a special facilities help in income tax revenue collection?” The findings are presented in the following table:

**Table: 4.9**

**Contribution of Special Facilities in Collection of Income Tax**

<b>Response</b> <b>respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Tax administrators	18	90	2	10	20	100
Tax experts	14	70	6	30	20	100
Tax payers	14	70	6	30	20	100
Total	46	77	14	23	60	100

*Source: Opinion Survey, 2068.*

From this opinion survey, it is found that 90% of tax administrators and 70% tax experts and tax payers are in favor of the view. Only 10% tax administrators and 30% tax experts and tax payers have not agreed with this. In total 77% are supported in this view and only 23% has not supported in the view.

After this another question was asked, “How does the special facilities help in collection of income tax revenue?” They are requested for ranking according to their choice.

The respondents prioritized their preferences as in following order:

- ) Less burden to tax payment
- ) Timely payment of tax
- ) Easy to collect tax amount

It shows that taxpayers feel fewer burdens in tax payments by getting special facilities, which certainly reduces the tax liabilities.

**Hypothesis testing:**

H<sub>0</sub>: There is no significant difference among the view of respondents on the contribution of special facilities in collection of income tax.

H<sub>1</sub>: There is significant difference among the view of respondents on the contribution of special facilities in collection of income tax.

Considering chi-square test, since calculated value of  $\chi^2$  is greater than tabulated value of  $\chi^2$  the null hypothesis  $H_0$  is rejected and the alternative hypothesis is accepted. Therefore we conclude that there is significant difference among the view of respondents on the contribution of special facilities in collection of income tax (Source: Appendix-II).

#### 4.2.3 Necessity of Special Facilities for Manufacturing Industry

To know the view of respondents whether it is needed the special facilities to manufacturing industries or not a question was asked, “Is the special facilities to manufacturing industries are needed?” The opinion result is summarized in the following table:

**Table: 4.10**

**Necessity of Special Facilities for Manufacturing Industries**

Response respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax administrators	14	70	6	30	20	100
Tax experts	13	65	7	35	20	100
Tax payers	19	95	1	5	20	100
Total	46	77	14	23	60	100

*Source: Opinion Survey, 2068.*

From this opinion survey, it has found that 70% of tax administrators, 65% of tax experts and 95% taxpayers have in favour of the view. Only 30% of tax administrators, 35% of tax experts and 5% of taxpayers have not agreed with this view. In total 77% have supported in this view and only 23% have not supported in the view.

After this an additional question was asked, ‘Why the special facilities are needed.’ They have requested to rank according to their preference. They ranked as follows:

- ) To promote industries
- ) To promote industries in backward area

) To increase in tax revenue

It shows that special facilities help to promote the industries.

#### 4.2.4 Attitudes Towards the Need of Increasing the Special Facilities

To know the view of respondents towards the special facilities provided by ITA 2058 are enough or to be increased a question was asked, "Is it necessary to increase the special facilities to manufacturing industries?" The views of respondents are summarized in the following table:

**Table: 4.11**

**Attitudes Towards the Need of Increasing the Special Facilities**

Response respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax administrators	9	45	11	55	20	100
Tax experts	9	45	11	55	20	100
Tax payers	17	85	3	15	20	100
Total	35	58	25	42	60	100

*Source: Opinion Survey, 2068.*

This table shows only 45% of tax administrators, tax experts are supported to increase the special facilities and 55% of tax administrators and tax experts were suggested that there is no need of increasing special facilities. They viewed that the infrastructure is most important than increasing the facilities. Therefore, the government should make the fair business environment instead of increasing the facilities. However, the majority of taxpayers are in increasing the special facilities that encourage them.

#### 4.2.5 Effective Implementation of Special Facilities

To know the view about the implementation of special facilities providing by the ITA 2058, a question asked, "Are the special facilities provided by ITA 2058 are implemented effectively in manufacturing industries?" The views of respondents are summarized in below table:

**Table: 4.12****Effective Implementation of Special Facilities**

Response respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax administrators	16	80	4	20	20	100
Tax experts	11	55	9	45	20	100
Tax payers	11	55	9	45	20	100
Total	38	63	22	37	60	100

Source: *Opinion Survey, 2068.*

From the sample survey of tax administrators, tax experts and tax payers, on the view of special facilities provided by ITA 2058 are effectively implemented or not. Most of respondents argued that there has effective implementation of the act in manufacturing industries. However, the 37% of respondents are not agreed.

**4.2.6 Impacts of the ITA 2058**

In order to know the view about the impact of the act 2058 on manufacturing industries, a question is developed and asked, "Is there any impacts of the act 2058 on manufacturing industries?" The view of respondents are summarized in below table.

**Table: 4.13****Impact of ITA 2058 on Manufacturing Industries**

Response respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax administrators	8	40	12	60	20	100
Tax experts	7	35	13	65	20	100
Tax payers	13	65	7	35	20	100
Total	28	47	32	53	60	100

Source: *Opinion Survey, 2068.*

From this opinion survey, it is found that 60%, 65% and 35% of tax administrator, tax experts and tax payers argued that there is no any impact of act in manufacturing sectors. However the 47% of respondents are agreed in

the view of there is impact on manufacturing industries of the act. After this a question was asked, 'What are the impact of the act?' Their opinions are ranked according to their priority as follows:

- ) Timely payment of tax,
- ) Increment in the number of industries
- ) Timely reporting and recording
- ) Timely registration, renewals of industries

In conclusion, there has been less impacts of the act in manufacturing sector.

**Hypothesis testing:**

H<sub>0</sub>: There is no significant difference among the views of respondents on the impacts of the act 2058 on manufacturing industries.

H<sub>1</sub>: There is significant difference among the views of respondents on the impact of the act 2058 on manufacturing industries.

Considering chi-square test, since the calculated value of  $\chi^2$  is less than tabulated value, the null hypothesis H<sub>0</sub> is accepted. Therefore we conclude that there is no significant difference among the view of respondents on the impact of the act 2058 on manufacturing industries (Source: Appendix-III).

Considering rank correlation, indicates there is high degree of negative correlation between tax administrators and tax payers ranking regarding the impacts of act 2058 on manufacturing industries (Source: Appendix-IV).

**4.2.7 Classification of Total Area for Tax Purpose**

ITA 2058 has classified the total area into remote, undeveloped and underdeveloped for tax purpose. To know the opinion of respondents whether it helps to collect the tax or not a question was asked, "ITA 2058 has classified the total area into remote, undeveloped and underdeveloped for tax purpose is it help to collect the tax?" The opinion of respondents are summarized in the following table:

**Table: 4.14**

**Classification of Total Area for Tax Purpose**

<b>Response</b> <b>respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Tax administrators	10	50	10	50	20	100
Tax experts	9	45	11	55	20	100
Tax payers	14	70	6	30	20	100
Total	33	55	27	45	60	100

*Source: Opinion Survey, 2068.*

From the sample survey of tax administrators, tax experts and tax payers, on the view of classification of total area for tax purpose. Among the respondents 50% of tax administrators, 45% of tax experts and 70% of tax payers have said classification of total area for tax purpose is helpful in tax collection. However, among the respondents 50% of tax administrators, 55% of tax experts and 30% of tax payers were said classification of total area for tax purpose is not help in tax collection.

After this an additional question was asked, "How does it help to collect the tax revenue?" The priorities given by the respondents are as follows:

- ) To promote trade and industry
- ) Easy to promoting to established industry,
- ) Easy to collect tax revenue

It makes the conclusion, the classification of areas encourage the entrepreneurs to establish the industries.

**Hypothesis testing:**

$H_0$  = There is no significant difference among the views of respondents on the classification made by the act to collect the tax revenue.

$H_1$ : There is significant difference among the views of respondents on the classification made by the act helps to collect the tax revenues.

Considering chi-square test, since the calculated value of  $\chi^2$  is less than tabulated value, the null hypothesis  $H_0$  is accepted. Therefore we conclude that there is no significant difference among the view of respondents on the classification made by the act helps to collect the tax revenues (Source: Appendix-V).

#### 4.2.8 Attitudes Towards Rebate Rate

ITA 2058 has prescribed 30%, 25% and 20% rebate for the remote, undeveloped and underdeveloped respectively. To know whether it is satisfactory or not a question was asked, "ITA 2058 has provided the rebate of 30%, 25% and 20% for the remote, underdeveloped and undeveloped area respectively, is it satisfactory?" Response of respondents are summarized in the following table:

**Table: 4.15**  
**Satisfactory Towards Rebate Rate**

Response	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax administrators	15	75	5	25	20	100
Tax experts	16	80	4	20	20	100
Tax payers	15	75	5	25	20	100
Total	46	77	14	23	60	100

*Source: Opinion Survey, 2068.*

From the sample survey of tax administrators, tax experts and tax payers, on the view of attitudes towards rebate rate. Among the respondents 75% of tax administrators, 80% of tax experts and 75% of tax payers are satisfied. However, among respondents 25% of tax administrators, 20% of tax experts and 25% of taxpayers are not satisfied. The respondents who are not satisfied are suggested for 50% rebate to remote area.

#### 4.2.9 Excess Depreciation for Special Industry/Entity

In the opinion collection one-third plus depreciation on special industry from respondents as question was asked, "In your opinion, is it justifiable to providing one-third plus depreciation in special industry?" response of respondents are summarized in the following table:

**Table: 4.16**

#### **Appropriateness of Excess Depreciation for Special Industry/Entity**

<b>Response</b> <b>respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Tax administrators	19	95	1	5	20	100
Tax experts	15	75	5	25	20	100
Tax payers	15	75	5	25	20	100
<b>Total</b>	<b>49</b>	<b>82</b>	<b>11</b>	<b>18</b>	<b>60</b>	<b>100</b>

*Source: Opinion Survey, 2068.*

From the sample survey of tax administer, tax experts and tax payers, on the interview of one-third plus depreciation to the special industry, 82% respondents are in favour of needs of one-third plus depreciation and remaining 18% are on aligned width of needs of one-third plus depreciation.

Most of the respondents viewed that this additional facility encouraged to establish the industries which helps to grow the national economy by utilizing the resources but those respondents who are no satisfied of providing one-third more depreciation to the industries viewed that it just increase the tax evasion practice and they also viewed that the government should make the fair environment to operate the industries of providing this additional facility.

#### 4.2.10 Necessity of One-Third More Depreciation for Natural Person

ITA 2058 has provided one-third depreciation for an entity only. To know the views towards the necessity of this facility to natural person a question was

asked, "Is it necessary to provide one-third depreciation more to natural person too?" Response of respondents are summarized in the following table:

**Table: 4.17**

**Necessity of One-Third More Depreciation for Natural Person**

Response respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax administrators	2	10	18	90	20	100
Tax experts	1	5	19	98	20	100
Tax payers	9	45	11	55	20	100
Total	12	20	48	80	60	100

*Source: Opinion Survey, 2068.*

From the sample survey of tax administrators, tax experts and tax payers on the view of necessity of one third more depreciation for natural person 90% of tax administrators, 98% tax experts and 55% of tax payers are not agreed with this view. They viewed that the excess facilities creates unfair competition. In total 20% of respondents recognized that this facility helps to promote the industries and this excess facility should be provided to natural person too. However, the act 2058 does not allow the natural person for this facility.

From this conclusion makes that the excess depreciation facility does not need for natural person. It makes unhealthy business environment.

**4.2.11 Accountability on Duties and Rights by Tax Payers**

In the opinion collection on duties and rights by taxpayers a question was asked, "Are the industrial taxpayers responding their rights and duties sincerely in computation of taxable income?" Response of respondents are presented in the following table:

**Table: 4.18**

**Accountability on Duties and Rights by Tax Payers**

<b>Response</b> <b>respondents</b>	<b>Yes</b>		<b>No</b>		<b>Total</b>	
	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>	<b>No.</b>	<b>%</b>
Tax administrators	14	70	6	30	20	100
Tax experts	6	30	14	70	20	100
Tax payers	12	60	8	40	20	100
Total	32	53	28	47	60	100

*Source: Opinion Survey, 2068.*

From the opinion survey of tax administrators, tax experts and taxpayers. On the view of accountability on duties and rights by tax payers 70% of tax administrators, 30% of tax experts and 60% of tax payers were fully supported that they were responding their rights and duties but 30% of tax administrators, 70% of tax experts and 40% of tax payers said that tax payers are responding on their rights and duties on computation of taxable income.

After this in order to know the reasons, an additional question was asked, "Why the industrial tax payers not responding their duties in computation of taxable income sincerely?" Respondents are requested to rank with their preference from 1-4. They prioritized the reasons as follows:

- ) Lack of tax education.
- ) Lack of information .
- ) Legalization problems
- ) Poor enforcement of fine and penalty.

It shows providing tax education is the solution of this problem.

**Hypothesis testing:**

$H_0$  = There is no significant difference among the views of respondents on the accountability on duties and right by taxpayers.

$H_1$ : There is significant difference among the views of respondents on the accountability on duties and right by taxpayers.

Considering chi-square test, since the calculated value of  $\chi^2$  is less than tabulated value, the null hypothesis  $H_0$  is accepted. Therefore we conclude that there is no significant difference among the view of respondents on the accountability on duties and rights by taxpayers (Source: Appendix-VI).

Considering rank correlation, this indicates there is high degree of positive correlation between tax administrators and tax payers ranking regarding the accountability on duties and rights by tax payers (Appendix-VII).

#### 4.2.12 Concession Providing by the Act

To know whether the concession rate provided by the ITA, is justifiable or not a question was developed, "Is the concession rate provided by ITA 2058 is justifiable" the response found is summarized in following table:

**Table: 4.19**

**Accountability of Concession Providing by the Act**

Response respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Tax administrators	17	85	3	15	20	100
Tax experts	17	85	3	15	20	100
Tax payers	13	65	7	35	20	100
Total	47	78	13	22	60	100

*Source: Opinion Survey, 2068.*

From this table, tax administrators, tax experts and taxpayers on the view of concession providing by the act 85% of tax administrators and tax experts, 65% of tax payers have recognized that the concession rate provided by ITA 2058 is appropriate but 15% tax administrators, 15% of tax experts and 35% of tax payers have said they are not satisfied on the concession rate provided by ITA 2058.

The respondents who are not satisfied with this rate viewed that the classification of total area into remote, undeveloped and underdeveloped is not

justifiable on its, so the concession rate provided according to these classification is not justifiable. They have viewed manufacturing industries should be provided 50% concession.

### **4.3 Major Findings**

On the basis of preceding chapters and data presentation and analysis some major findings can be drawn. The major findings of this study are summarized below:

#### **4.3.1 Findings of the Secondary Data**

- ) The Nepalese government revenue is the composition of tax and non-tax revenue. There is dominant share of tax revenue in Nepalese government revenue. The tax revenue collection has seen to be in the gradually increasing trend from Fy 2000/01 to 2009/10.
- ) Nepalese tax revenue is the composition of direct and indirect tax revenue. There is dominant role of indirect tax revenue in Nepalese tax revenue. The contribution of direct and indirect tax on total tax revenue are 26.14 and 73.86 become 24.29 and 75.71 percent in Fy 2009/10. However, the share of indirect tax in Nepalese tax revenue is increasing trend, still it is dominating direct tax revenue. Income tax is the major source of direct tax revenue and widespread evasion of income tax may be the major reason for the low contribution of direct tax.
- ) The contribution of total revenue on GDP is in increasing trend. This is 11.83% in Fy 2000/01 and 14.71% in Fy 2009/10. The contribution of total tax revenue on GDP nearly remained constant during the study period. It is 9.40% in Fy 2000/01 and 12.98% in Fy 2009/10. The contributing direct and indirect tax on GDP are 2.46% and 6.94% in Fy 2000/01 and 3.15% and 9.83% in Fy 2009/10 respectively. The contribution of total revenue, total tax revenue, direct tax revenue and indirect tax revenue on GDP are not satisfactory.

- ) There is a clear indication of the serious and growing financial resource problem in Nepal. The increasing magnitude of resource gap clearly indicates that there is an urgent need for mobilizing additional resources. Income tax has appeared one of the most effective fiscal policy instrument to mobilize additional resources and for achieving the desired developmental objective of Nepal.
- ) There are no provisions of excess of depreciation facility for the natural person under the ITA 2058. In the view of necessity of this facility, most of respondents review. Recently there is no need of this facility because whatever is granted is not fully utilized yet.

#### **4.3.2 Findings of the Primary Data**

- ) As per opinion survey, most of the respondents have suggested to increase the facilities. It helps to increase number of industries and employment opportunities, which reduces the dependency. On the other side, 42% of respondents are not ready to accept the view of increasing the facilities. However, the majority of taxpayers are favour of increasing the facilities.
- ) Lack of tax education, lack of tax planning system, lack of skilled labour and negligence of tax administrators are the main reasons of poor implementation of the act in manufacturing sector.
- ) Increment in the number of industries, timely reporting and recording, timely registration and renewal and timely payment of tax are the positive impacts of the act.
- ) The classification made and the facilities provided by the act may encourage the entrepreneur to operate industries in backward area and helps to raise the economy of this area as well as nation.
- ) In the opinion survey, most of the respondents have been satisfied with the concession rate provided by the act. However, some respondents suggest for increasing this rate to 50% for remote area.

- ) The provision of the excess depreciation facility to special industry is justifiable that reduces the tax liabilities.
- ) In some cases, the taxpayer are not responding their duties in computation of taxable income. Lack of tax information and poor enforcement of fine and penalties are the cause of this. To get the expected results effective fine and penalty system to be enforced.

## **CHAPTER-V**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Summary**

In developing countries like Nepal, lack of sufficient financial resources is the main constraint for national economic development. A lot of fund is required to meet the additional financial requirements for the development activities of the country. Nepal has been suffering from capital shortage to accelerate the economic growth. The expenditure of Nepalese government is increasing year by year. To meet the additional capital requirements Nepalese government has been using external and internal resources. Internal resources are preferable for sustainable economic development. Nepal has been unable for proper mobilization of internal resources. Thus, fiscal deficit and resources gap of Nepal have been increasing every year.

In Nepalese income tax system was introduced in 1959 (2016). The elected government levied the first income tax and so specific act was made to define and to treat income tax. Since than four income tax acts have been implemented. The present study entitled "Special provisions to industries under income tax act 2058" is related to the income tax collection and its efficiency and increment in total collection after the implication of the act.

This study entitled "Impact of Special provisions to manufacturing industries under ITA 2058" is concerned with the provisions and facilities to manufacturing industries. In this study, contribution of tax and non-tax revenue in total revenue has been analyzed. This study covers the important of income tax in government revenue, provisions and facilities i.e. concession rate, excess rate of depreciation facilities etc. for the industrial development, implementation of the act in manufacturing sectors and its impact etc.

Different books, articles, thesis and others related reference material are studied during the course of this study. This study is unique among the thesis and books because no one has been conducted the research on this specific topic. All thesis has been found written on various aspects of income in taxation. Books has found based mainly on the syllabus of universities. Classification of the manufacturing industries, facilities and concessions to manufacturing industries, national priorities industries and classification of district on the basis of industrialization has shown in conceptual framework of this study.

Primary as well as secondary data are used in this study. Economic survey has been used as major sources of secondary data. A schedule of questionnaire has been used to collect the opinion of respondents. It has distributed to the three distinct groups of respondents i.e. tax experts, tax administrators and tax payers. Tax experts consist of government tax officer's teachers, professor and charter accountant. Tax administrators consists of government tax officers and taxpayers consists of taxpayers of government organization, trading company, finance company etc. The 95 sets of question was distributed among them 60 respondents is return the response that has been 20 in each group. Statistical analysis has been done to analyze the data, simple average, correlation for test of beauty of common approach, chi-square test hypothesis has been tested on the view of respondents has similar or not. Major findings from primary data as well as secondary data analysis have put in the end of the chapter four. Conclusion and some recommendations have given on the end of study. In this way, this study has been completed with fulfillment of stated objectives.

## **5.2 Conclusions**

In the context of Nepal, it has been adopting the mixed and dual economy in the last many decades. The economy has been liberalized after the restoration of democracy in 1990. Numbers of public enterprises have been privatized in this period and some of them have been either liquidated or merged. Likewise Nepal has entered in WTO mainstream of trade in 23<sup>rd</sup> April 2004, which has

given the potentiality to increase foreign direct investment and access of Nepal to international market. But in reality, it has strongly challenged the Nepalese small entrepreneurs and the corporate house too in the side of quality and price and it has also increased the possibility of Nepal being as a dumping side of giant multinational companies. So, Nepalese corporate sector has been facing serious challenges. The main reasons are significant expansion of regular government activities, increasing cost of maintenance, increasing debt servicing charges etc.

Resource gap in Nepal has been increasing every year. The internal revenue is sometimes insufficient even to meet regular expenditure and most of the development activities depend on foreign aid where Nepal has been compelled to harmonize the donor. The major problems of domestic resource mobilization are poor utilization of the natural resource base, small and fragmented industrial sector, poor performance of public sector enterprises, poor economic growth and inadequate tax efforts etc. So, in this context, revenue generation from internal sources is very important in which income tax is one of the major sources and it is considered as a good remedy to cure growing resource gap problem in Nepal. Income tax is introduced in the fiscal year 1959/60 and the percentage share of income tax to government revenue is in increasing trend at present but it is not regarded satisfactory in comparison to other developing countries.

Revenue from income tax in Nepal is collected through five different sectors. Among them contribution from industrial sector is significant. The provisions provided to industrial sector is aiding to promote industries. The impacts of ITA 2058 in manufacturing sectors has positively influenced by the manufacturing sectors with the increment in number of industries, timely reporting and recording, registration and renewals, apart from this excess depreciation facilities for special industries have promoted the growth of industrial sectors which ultimately have contributed in increasing tax revenue.

However, due to the various problems related to income tax, revenue collection from industrial sectors isn't to the potential. Nevertheless, income tax laws and administration in Nepal are to be deeply scrutinized and properly implemented. Act itself is not bad, some provisions would have to be mentioned clearly. Strong commitment, fair and uniformly imposition are to be stored and revitalized. Manpower development planning within the administration is desired for the efficiency of tax personnel side by side, tax education packages are to be made and initiated, hence tax administration and tax compliance could be improved.

If the problem relating to income tax system in Nepal can be solved and resources are effectively utilized then only the prospects of revenue collection form industrial sector will be bright.

### **5.3 Recommendations**

On the basis of the study on the special provisions provided to manufacturing industries under income tax act 2058 following recommendation are offered.

- ) Income tax is consider as an important source of collecting government revenue from internal sources, so increase the income from this sources, new industrial tax payers should bring into the tax brackets.
- ) The provision of special facilities to manufacturing industries are clear in the act, but there is loose interpretation in implementing side. There should be uniformity.
- ) As per the income tax act 2058, the flat rate is levied both to resident and non-resident companies in Nepal. In many countries like India, Belgium, Germany, Indonesia and New Zealand foreign companies are taxed at the higher rate than domestic companies. I feel in Nepal also tax rate should be higher say 40% in case of foreign companies as against 20% to 25% in case of domestic companies.
- ) The members involved in formulating income tax policies must have deep knowledge about income tax. The income tax policy maker have to

see the income tax policies of other developing countries as well as other related developed countries for the improvement of policies.

- ) The rate of fines and penalties should be increased. The provision of fines, penalties and punishment should be made at higher rate for income tax evaders.
- ) Efficiency of revenue collection from income tax depends upon the income tax administration. Administration depends upon the quality and efficiency of the personnel. To reform the income tax administration, personnel management system must be improved.
- ) Special provision have been provided to manufacturing industries, by ITA 2058 but the result of this sector has not been researched, it is advisable to renew the arrangement as far as the result of survey.
- ) The harmonization is necessary for industrial growth and facilities other than tax such as infrastructure should be provided.
- ) Government should focus to manufacturing industries to diversity their branch in remote area for balanced economic growth.
- ) Delays in assessment should be reduced as possible.
- ) Personnel management system should be made more effective.
- ) Computerized information system is necessary to keep up to date records of income tax.
- ) Proper education should be provided to tax officials as well as tax payers regularly.
- ) Unnecessary outside pressure should be avoided.
- ) Provisions of simplified forms and formats to be used by taxpayers.
- ) “Income of paying tax” type of taxation should be encouraged through strong political commitment and tax evasion should be minimized.
- ) Tax personnel should be encouraged, punished and transferred on the basis of their work and experience. Regular and effective training system, reward, prize and punishment system should be established for the effective personnel management. Clear provision should be made in case of deduction. All the items of deduction should be clearly defines in the act. Income tax assessment procedure must be improved to increase the income tax revenue.

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6. Is there any impact of the act 2058 on manufacturing industries?

a. Yes b. No

If yes, (please rank)

- a. Increment in the number of industries
- b. Timely reporting and recording
- c. Timely registration and renewal of industries
- d. Timely payment of tax
- e. Others (please specify)

7. ITA 2058 has classified the total area into remote, undeveloped, underdeveloped for tax purpose, does it helps to collect the tax?

If yes, (please rank)

- a. Easy to collect tax revenue
- b. To promote the industry
- c. Easy to promote to establish the industry
- d. Others (please specify)

8. ITA 2058 has provided the rebate of 30%, 25%, 20% of the income tax for the industries operating in remote, undeveloped and underdeveloped respectively, is it satisfactory?

a. Yes b. No

If yes, please specify the reasons.

.....

If no, please specify the reason

.....

10. Is it necessary to provide 1/3 rd depreciation more to natural person too?

a. Yes b. No

11. Are the industrial tax payers responding their duties and rights sincerely in computation of taxable income?

a. Yes            b. No

If no, what should be the reasons (please rank)

- a. Lack of information
- b. Legalization problems
- c. Lack of tax education
- d. Poor enforcement of fine and penalty
- e. Others (please specify).....

12. Is concession provided by ITA 2058 satisfactory?

- a. Yes b. No

If yes, please specify

.....

If no, please specify

.....

13. Would you please state any comments/suggestions regarding the facilities provided to manufacturing industries by ITA 2058?

.....

.....

## Appendix-II

### Computation of Expected Frequencies under Chi-Square ( $t^2$ )

$H_0$ : There is no significant difference among the view of respondents on the contribution of special facilities in collection of income tax.

$H_1$ : There is significant difference among the view of respondents on the contribution of special facilities in collection of income tax.

$$\text{Expected frequency (E)} = \frac{O}{n} \times \frac{60}{6} = 10$$

### Computation of Expected Frequencies under Chi-Square ( $t^2$ )

Observed frequency (O)	Expected frequency (E)	$(O-E)^2$	$\frac{(O-E)^2}{E}$
18	10	64	6.4
2	10	64	6.4
14	10	16	1.6
6	10	16	1.6
14	10	16	1.6
6	10	16	1.6
$\phi O = 60$	$\phi E = 60$		19.2

Degree of freedom =  $n - 1 = 6 - 1 = 5$

Level of significance is 5% (assume)

Critical value: The tabulated value of  $\chi^2$  at 5% level of significance for 5 d.f. is 11.07.

### Appendix-III

#### Computation of Expected Frequencies Under Chi-Square ( $t^2$ )

$H_0$ : There is no significant difference among the views of respondents on the impacts of the act 2058 on manufacturing industries.

$H_1$ : There is significant difference among the views of respondents on the impact of the act 2058 on manufacturing industries.

$$\text{Expected frequency (E)} = \frac{O}{n} \times \frac{60}{6} = 10$$

Statistically test,

#### Computation of Expected Frequencies Under Chi-Square ( $t^2$ )

Observation frequency (O)	Expected frequency (E)	$(O-E)^2$	$\frac{(O-E)^2}{E}$
8	10	4	0.4
12	10	4	0.4
7	10	9	0.9
13	10	9	0.9
13	10	9	0.9
7	10	9	0.9
$\phi O = 60$	$\phi E = 60$		$\phi(O-E)^2/E = 4.4$

Test of statistics,

$$\mathfrak{K}^2 = \frac{(O-ZE)^2}{E} = 4.4$$

Degree of freedom =  $n - 1 = 6 - 1 = 5$

Level of significance is 5% (Assume)

Critical value: The tabulated value of  $\mathfrak{K}^2$  at 5% level of significance for 5 d.f. is 11.07.

## Appendix-IV

### Calculation of Correlation

Let, the variable x, y, z denotes the view of tax administrators, tax experts and taxpayers respectively.

### Calculation of Correlation

Reason	x	y	z	R <sub>1</sub>	R <sub>2</sub>	R <sub>3</sub>	d <sub>1</sub> (R <sub>1</sub> - R <sub>2</sub> )	d <sub>2</sub> (R <sub>2</sub> - R <sub>3</sub> )	d <sub>3</sub> (R <sub>3</sub> - R <sub>1</sub> )	d <sub>12</sub> <sup>2</sup>	d <sub>23</sub> <sup>2</sup>	d <sub>31</sub> <sup>2</sup>
1	18	16	35	3	3	2	0	1	-1	0	1	0
2	21	15	26	2	4	4	-2	0	-2	0	16	4
3	15	18	33	4	2	3	2	-1	-1	4	1	4
4	26	21	38	1	1	1	0	0	0	0	0	0
Total										4	18	8

$$R_{12} = 1 - \frac{6}{n(n^2 - 1)} \sum d_{12}^2 = 1 - \frac{6 \mid 4}{4(4^2 - 1)} = 0.6$$

$$R_{23} = 1 - \frac{6}{n(n^2 - 1)} \sum d_{23}^2 = 1 - \frac{6 \mid 18}{4(4^2 - 1)} = -0.8$$

$$R_{13} = 1 - \frac{6}{n(n^2 - 1)} \sum d_{13}^2 = 1 - \frac{6 \mid 8}{4(4^2 - 1)} = 0.2$$

## Appendix-V

### Computation of Expected Frequency Under Chi-Square ( $t^2$ )

$H_0$  = There is no significant difference among the views of respondents on the classification made by the act to collect the tax revenue.

$H_1$ : There is significant difference among the views of respondents on the classification made by the act helps to collect the tax revenues.

Statistically test,

### Computation of Expected Frequency Under Chi-Square ( $t^2$ )

Observation frequency (O)	Expected frequency (E)	$(O-E)^2$	$\frac{(O-E)^2}{E}$
10	10	0	0
10	10	0	0
9	10	1	0.1
11	10	1	0.1
14	10	16	1.6
6	10	16	1.6
$\phi O = 60$	$\phi E = 60$		$\phi(O-E)^2/E = 3.4$

Test of statistics,

$$\mathfrak{R}^2 = \frac{(O-E)^2}{E} = 3.4$$

Degree of freedom =  $n - 1 = 6 - 1 = 5$

Level of significance is 5% (Assume)

Critical value: The tabulated value of  $\mathfrak{R}^2$  at 5% level of significance for 5 d.f. is 11.7.

## Appendix-VI

### Computation of Expected Frequency Under Chi-Square ( $t^2$ )

$H_0$  = There is no significant difference among the views of respondents on the accountability on duties and right by taxpayers.

$H_1$ : There is significant difference among the views of respondents on the accountability on duties and right by taxpayers.

Statistically test,

### Computation of Expected Frequency Under Chi-Square ( $t^2$ )

Observation frequency (O)	Expected frequency (E)	(O-E) <sup>2</sup>	$\frac{(O-E)^2}{E}$
14	10	16	1.6
6	10	16	1.6
6	10	16	1.6
14	10	16	1.6
12	10	4	0.4
8	10	4	0.4
$\phi O = 60$	$\phi E = 60$		$\phi(O-E)^2/E = 7.2$

Test of statistics,

$$\mathfrak{X}^2 = \frac{(O-E)^2}{E} = 7.2$$

Degree of freedom =  $n - 1 = 6 - 1 = 5$

Level of significance is 5% (Assume)

Critical value: The tabulated value of  $\mathfrak{X}^2$  at 5% level of significance for 5 d.f. is 11.7.

## Appendix-VII

### Computing Correlation

Let, the variable x, y, z denotes the view of tax administrators, tax experts and tax payers respectively.

Reason	x	y	z	R <sub>1</sub>	R <sub>2</sub>	R <sub>3</sub>	d <sub>1</sub> (R <sub>1</sub> - R <sub>2</sub> )	d <sub>2</sub> (R <sub>2</sub> - R <sub>3</sub> )	d <sub>3</sub> (R <sub>3</sub> - R <sub>1</sub> )	d <sub>12</sub> <sup>2</sup>	d <sub>23</sub> <sup>2</sup>	d <sub>31</sub> <sup>2</sup>
1	14	27	27	1	1	1	0	0	0	0	0	0
2	8	20	20	4	3	3	1	0	1	0	0	1
3	10	24	19	3	2	4	1	-2	1	4	0	1
4	11	18	24	2	4	2	-2	2	0	16	0	0
Total										20	0	2

$$R_{12} = 1 - \frac{6 d_{12}^2}{n(n^2 - Z_1)} = 1 - \frac{6 \times 20}{4(4^2 - Z_1)} = 1$$

$$R_{23} = 1 - \frac{6 d_{23}^2}{n(n^2 - Z_1)} = 1 - \frac{6 \times 0}{4(4^2 - Z_1)} = 1$$

$$R_{13} = 1 - \frac{6 d_{13}^2}{n(n^2 - Z_1)} = 1 - \frac{6 \times 2}{4(4^2 - Z_1)} = 0.8$$

