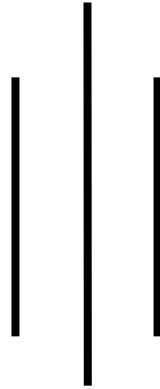
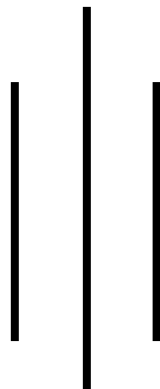


A Study About Governmental Revenue Collection From Income Tax with Special Reference of Nepal Telecom



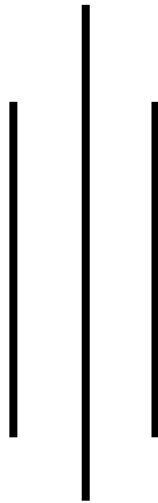
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A thesis Submitted to:
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Recommendation

This is to certify that the thesis



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written according to prescribed format. We recommend the thesis
is to be accepted as partial fulfillment of the requirement for the
Master Degree in Business Studies (M.B.S.)

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External Expert:

DECLARATION

I hereby declare that the work performed in this thesis entitled " A Study About Governmental Revenue Collection From Income Tax with Special Reference of Nepal Telecom" have to Faculty of Management, Tribhuwan University is my original work. It is done in the form of partial fulfillment for the Master of Business studies (MBS) under the supervision & guidance of keshev Raj Bhatta Reader of Kailali multiple Campus, Dhangadhi, Kailali.

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ABBREVIATION

& :	And
@:	at the rate of
AETR:	Average effective tax rate
BBS:	Bachelor of Business Studies
CA:	Charter Accountant
CT:	Column Total
CEDA:	Center of Economic Development & Administration
DF:	Degree of Freedom
DTR:	Direct Tax Revenue
Dr:	Doctor
Fys:	Fiscal Years
GDP:	Gross Domestic Production
GON:	Government of Nepal
Govn:	Government
ITR:	Indirect Tax Revenue
IT:	Information Technology
ITA:	Income Tax Act
IRD:	In land Revenue Department
KTM:	Kathmandu
MBS:	Master of Business Studies
METR:	Marginal Effective tax rate
MPA:	Master in Public Administration

No:	Number
NRB:	Nepal Rastra Bank
NTC:	Nepal Telecom
PAN:	Permanent Account Number
P/L,A/C:	Profit & Loss Account
%:	Percentage
RT:	Row Total
R&D:	Research & Development
Rs:	Rupees
Sec:	Section
SEZ:	Special Economic Zone
TTR:	Total Tax Revenue
TR:	Total Revenue
TDS:	Tax Deducted at source
TU:	Tribhuvan University
V.D.C.:	Village Developmental Committee
VAT:	Value Added Tax
x^2 :	Ki-square/chi-square that is

CHAPTER-I

Introduction

1.1 General Background

Nepal is agrarian Country. Agriculture sector plays vital role in Nepalese economy as this sector still contributes more than on third to Nepal's GDP and more than two third of it's population depend on it for their employment & livelihood. Therefore Nepalese peoples are very poor. They are not able to fulfill their subsistence level and their condition is becoming weak day by day. Unfavorable balance of import & export is next problem of Nepalese economy. Therefore there is large expenditure then it's revenue. The industrial sector is not flourished yet because lack of heavy investment.

For the economic development of Nepal government should have take some responsibility to it's public. To develop the public to alleviate the poverty government required more sources of revenue. Government has to develop education, communication, transportation, drinking water, health facilities etc. to uplift the living standard of people. Government makes two types expenditure i.e. regular & developmental expenditure. To fulfill the budget government collects revenue from internal as well as external source. Tax, price, fee, fines and penalties, special assessment are the source of internal source of revenue collection, where foreign aid, gifts, grants & external borrowings are the external source of revenue collection. These sources help to meet financial deficit.

Not only by itself it has to develop social economic factors & private sectors also.

To fulfill the need of large amount from external source is not dependable & convenient because of high interest rate charged by the donor countries & agencies to develop the economy. On the other hand for this government has to accept unequal negotiation with lenders. Therefore Nepal is exploited by the donor countries & agencies.

Because of so many demerits of external source government tries to collect it's revenue through taxation with in the country. Tax is the certain percent of income or property or consumed product levied by government toward it's people. It is necessary payment by tax payers according to rules made by the government for the purpose of collect revenue from peoples government may promotes by providing various facilities. Therefore taxation is very important source of revenue collection of Nepal, it increases the revenue of Nepal. So that any government of developing country must be encourage for the mobilization of resources of country so that the private & public sector may develop. Mobilization of more resources helps to provide employment, alleviate poverty, capital formation, growth in economy & living standard of peoples through taxation.

Tax may be increased through income either by increasing tax rates or by reducing tax evasion for the mobilization of resources with in the country. Increasing in income tax rate is not suitable & permanent remedial measure. Therefore reducing tax evasion & increase in income should be done by government. "The taxable capacity of Nepalese people very low, in such a situation the government should be to cautions before imposing a new tax raising the taxes rates a existing taxes in the country" (Koldor, 1967:68)

Borrowing from external source is not god for the economic development of country. The government has to impose higher tax to repay the interest & borrowed sum too. Generally speaking resources, resource of public revenue

taxes are better than borrowing because it is merely transferring of funds to public treasuries. (Plant 1970:112)

There is no direct relation between the tax payers & benefits of tax payment. Because the expenditure of government is not made only for individual tax payers. Because of utilization of domestic resources government has to charge tax to the individual.

"Taxes are compulsory levied on individuals, firms, companies and other units it generate governmental purpose". (Poudyal 1993:21)

Both individual and companies were taxed in similarly way during the traditional period but later as companies were levied with a fixed rate and individuals with progressive rates. England was the first country that introduces modern income tax in 1799 to collect revenue. The U.S.A. introduced income tax for the civil war. The federated corporation income tax was introduced in 1909. In India modern income tax was adopted in 1960. In Nepal income tax was introduced in 1959.

This study is concerned with the collection of income tax from NTC to the government revenue. Being developing country Nepal is mostly depending upon foreign loans and assistance to provide revenue & less depend upon the internal sources. Increasing tax revenue from income tax may reduce the foreign dependency. Unfavorable condition may be minimized by collecting more public as well as private income tax or corporate income tax.

Therefore following are the main element that are studying in this thesis,

- Real position of revenue in which the share of income tax in governmental revenue.
- Income tax structure Income tax Act
- Governmental revenue collected from NTC.

1.2 Brief Introduction of NTC

In Nepal, operating any form of telecommunication service dates back to 94 years in B.S. 1970. But formally telecom service was provided mainly after the establishment of MOHAN AKASHWANI in B.S. 2005. Later as per the plan formulated in First National Five year plan (2012-2017); Telecommunication Department was established in B.S.2016. To modernize the telecommunications services and to expand the services, during third five-year plan (2023-2028), Telecommunication Department was converted into Telecommunications Development Board in B.S.2026. After the enactment of Communications Corporation Act 2028, it was formally established as fully owned Government Corporation called Nepal Telecommunications Corporation in B.S. 2032 for the purpose of providing telecommunications services to Nepalese People. After serving the nation for 29 years with great pride and a sense of accomplishment, Nepal Telecommunication Corporation was transformed into Nepal Doorsanchar Company Limited from Baisakh 1, 2061. Nepal Doorsanchar company Limited is a company registered under the companies Act 2053. However the company is known to the general public by the brand name Nepal Telecom as registered trademark.

Nepal Telecom has always put its endeavors in providing its valued customers a quality service since its inception. To achieve this goal, technologies best meeting the interest of its customers has always been selected. The nationwide reach of the organization, from urban areas to the economically non- viable most remote locations, is the result of all these efforts that makes this organization different from others.

Definitely Nepal Telecom's widespread reach will assist in the socio-economic development of the urban as well as rural areas, as telecommunications is one of the most important infrastructures required for

development. Accordingly in the era of globalization, it is felt that milestones and achievements of the past are not adequate enough to catch up with the global trend in the development of telecommunication sector and the growth of telecommunication services in the country will be guided by Technology, Declining equipment prices, market growth due to increase in standard of life and finally by healthy competition. Converting NT from government owned Monopoly Company to private owned, business oriented, customer focused company in a competitive environment, Nepal Telecom invites its all-probable shareholders in the sacred work of nation building. (Annual Report)

1.3 Problems of statement

The developing country Nepal has poor economic position. Its regular as well as developmental expenditure are increasing with the every fiscal year. Therefore it has more expenditure than its revenue. So to meet the financial deficit it is depending upon debt financing. The government should try to bridge the resource gap in economy by making more investment in selected programmes. Taxation is selected programme. Taxation is major source to fulfill the needed revenue. In this study income tax is contributing remarkable portion on tax collection of government. NTC is taken as reference for the research propose National developmental programmes are implemented through the governmental bodies in which income tax is major component as fiscal instrument. Nepalese income tax is facing so many problems. Those problems are solved by controlling tax evasion. The given problems are showing in the study.

- i) In Nepal, what types of income tax structure is formulated?
- ii) What is the share of income tax of NTC on governmental revenue, tax revenue, direct & indirect tax revenue, corporate income tax revenue? It is support the mobilizing resources?

- iii) What are the major elements of effectiveness of income tax?
- iv) What are the major problems of adopting tax planning instrument?

1.4 Objectives of the Study

Every study should have objectives with out the objectives research may not be complicated. Therefore this study is mainly focusing structures of income tax collection with analysis of effectiveness of income tax. Following are the main objectives of this research.

- To analyze the income tax structure in Nepal.
- To analyze the governmental revenue collection from the income tax of NTC.
- To analyze the effectiveness of income tax collection from NTC
- To search the elements of effectiveness of income tax in Nepal
- To provide recommendation

1.5 Limitation of the Study

Every law, rules & study has their own limitation. Similarly this research study is also not free from it's limitations. However many efforts are made to make this study more true, useful and informational for all the interested parties. This study has following limitations:

- This study is based on data provided by ministry of finance & NTC and with enough literature.
- This study is using more secondary data with few support of primary data.
- The finding may or may not be match with other public enterprises because NTC is taken as reference.
- The study has been resulting with in a year.

- The study is mainly done for partial fulfillment of Master's Degree (MBS) of TU.

1.6 Significance of the Study

Tax provides more revenue for overall economic development of developing as well as developed country. Every country are able to collected increasing sufficient revenue from income tax. It is because establishment of more public enterprises & private corporate bodies are contributing more income tax revenue to government. Therefore the financial requirement is fulfilled by it. structure of income tax is shown in this study therefore the study provides information relating to collection of income tax from public enterprise with special reference to NTC.

- This study is significant for the following persons, parties & groups.
- It provides information to the future researcher who are interested to study in related field.
- It provides information to the staff, customer & management of NTC.
- It shows the difficulties & feasibility of the NTC.
- It examines the application of tax planning in Nepal.
- In nutshell this thesis report provide sufficient information and knowledge of tax planning system in Nepal.

1.7 Organization of the Study

This study is divided into five chapters following are the chapters of this report.

Chapter –I Introduction

The first chapter includes general background, objectives, Significance & statement of problems with certain limitations.

Chapter –II Conceptual Framework and Review of literature

The second chapter is about the conceptual framework with rules regarding the tax & review of articles, books & thesis.

Chapter III Research Methodology

The third chapter examines about the methodologies used in data collection, presentation & analysis, Research design, sources of data, population & samples & techniques used in the thesis report are presented in this part.

Chapter- IV Presentation & Analysis of Data

The 4th chapter deals about the realistic presentation, analysis & application of data with statistical & mathematical tools & techniques, according to the objectives of this report.

Finally Bibliography, Appendix & other necessary required documentary were presented with research report.

CHAPTER-II

Conceptual frame-work & Review of Literature

2.1 Introduction

Literature review is the study conducted with the previous studies. Literature review fulfils the gap between two research period of the related area. For every research work literature review provides information guidance and suggestions for further study. Their objectives finding and recommendations are deeply studied under the task. The continuity is given to the research title by making link with previous research reports. The main purpose of the literature review is developing or searching new methods idea or information that are not concluded by the past researcher and give support by analyzing new data.

2.2. Theoretical Concept

2.2.1. Concept of Tax.

Tax is amount paid by the individuals, firm & other household to the government. Tax is compulsory payment from the tax payers. The person, public enterprises firm or other tax payers are subject of punishment if they not ready to pay tax to the government according to the law. There are different laws & acts are male by the government according to the law. There are different laws & acts are male by the government for the tax payers. Within a boundary of rules tax payers has responsibility to pay the tax. Government collects tax as income tax, property tax, corporate tax, VAT, Excise duty, custom duty, octopi etc. Following are the main objectives of collecting tax form different source.

- i) Because of source of income Government develops the public infrastructure like, Communication on, Education, health etc.
- ii) To Reduce the Gap between rich person & poor person.
- iii) To encourage the national industries or goods & discourage the foreign product.
- iv) Boosting up the economy by providing concessions, rebates & other facilities.

Therefore main source of given income is tax. Similarly tax is collected from haves & spent for the have not's in the society.

According to Adam Smith- "A contribution from citizens for the support of the state.

According to plehn - There are general contribution of wealth levied upon persons natural or corporate to defray expenses incurred in conferring command benefits upon the residents of the states. (Bhattari & koirala)

Therefore tax is collection of amount of money from the source of divot or indirect tax within the limit of law.

In the present situation tax is main means of internal source of income. Government collects income from internal & external source out of the internal source of income tax is levied on any individual or enterprise. In the traditional society imposing tax is considered as an secondary collection but the modern time is inverse of that. It means the tax is given primary priority for collection. Now Nepal is example of that because tax revenue is increasing per year in amount & percentage compared with past. So that the popularity of tax is increasing in developing countries like Nepal, Pakistan, Bangladesh etc the rising interest of government on tax helps to develop the society & other industrial dynamics in the country. Unemployment problem also solved from the proper utilize & collection of tax.

In Nepal income tax is imposed on income from business, investment & employment after subtracting allowable deductions. And income tax is also levied on casual gain without any deduction. e

According to Seligman – A compulsory contribution from person to government to defray the expenses incurred in the common interest of all without reference to special benefit conferred.

Tax is divided on two types. Individual tax & corporate tax. Tax collected by government from the ability of individual or person is individual tax & collected from government from business enterprise or organized. Based on their profit is known as corporate tax. Generally flat rate is charged for it.

2.3 Historical Background of Taxation in Nepal.

England was the first Country which introduced the modern tax. But tax was charged in Nepal in ancient period also. 'Licchivikal' is the one of the excellent examples of tax. There was 'kuthar' (which is the name of tax office of that period). Public finance, malpot & Land tax has been collected by the kuthar. Name of the other types of taxes are Trikar (Bhag, Bhog & Kar), Tialkar oiltax, Chalkar (Clothes tax), sinkar (wood tax) are the examples of taxes in that period.

2.3.1 Modern Income Tax in Nepal.

The history of modern tax is not very old in Nepal. The income tax was started from the 1950s A.D. after the multiparty democratic political system. First Finance Minister declared his first speech in Budget of Income tax. Income tax with 10000 basic allowance & progressive taxes ranging from (S-25)% was proposed in 1954. Due to the political instability it could not be introduced until 1958 A.D. After that in 1959 A.D. first elected government introduced Business profits & salaries Tax acts 1960 in Nepal. After three years government replaced

the providing law of tax by income tax act 1974 (2013 B.S.) was enacted. The parliament enacted the law 2058 B.S. & integrate the laws relating to income tax. Now the government of Nepal framed income tax rules 2059. There are some changes for different fiscal years compared to past years in income tax act 2058. (Bhattraï & Koriala. 2067)

2.3.2. Taxation in Unified Nepal Through Board:

The founder of modern Nepal, King prithivi Narayan shah had introduced "pota" tax in 1772, which was regarded as revolutionary measure in fiscal system of Nepal. It was based on the flat rate system rather than progressive rate principal. It was limited of small Birta owners. Through taxation was started, there was no income taxation in the modern sense. (Aryal & Paudel 2003,145)

In the period taxations was collected from three levels: Royal palace, central government & local authorities. Royal places had levied taxes. Government had levied taxes like Dharsan Bhet & sami and local Authorities has imposed taxed on forest & water sources, commercial taxes like customs, transit and market duties, mines and mints, expert of forest product like herbs, drugs, wild life birds, elephant & judicable fines. Taxes from land & business were type of direct tax among the all taxes the period. They collected cash or goods from tax payers as taxes. Land tenure system was divided into five main forms: Raiker, Birta, Guithi, Seva & kalpat. In that period revenue maximization was the main objective of tax policy. (Bhandari 1994)

2.3.3. Taxation system of Regime of Rana.

During the rana regime there was no provision of effective revenue administration. The main source of revenue were land revenue, custom & expert of wood, which was collected in the lumsum contrast basic during that period. And the salami, was collected from government employers as a revenue income

tax. Besides these taxes, smaller other taxes were also collected. There were no formal tax act & finance act therefore taxes were collected at the line of requirement, Taxes were imposed according to the willingness of Rana priminister. Both the income & expenditures of the government more confidential in actual practice no difference existed between the private purpose of the ruling minister & government treasury. Rana priminister imposed taxes for meeting specific expenditure of the royal house land or extra ordinary expenditure necessitated by war of other crises rather than regular mobilizing revenue in the nation. During Nepal Tibet war (1855-1856), the first rana Priminister Jung Belr Rana had charged a tax on the income of selected groups. Similar Bir Smasher imposed a levy of 1 % on the official value of Jigar assignment of government employee in 1891 to finance the transportation of water pipe supply in the income made by fisherman in deckchair from the sale of fish in 1982. (Bhandari : 1994)

2.3.4. Business Profit & Remuneration Tax Act 1960 (2017)

Firstly income tax act in Nepal was made on Fy 1959-1960: It was known as "Business profit & Remuneration Tax." The imposition of tax governed by the Business profit & Remuneration tax act 1960 and many rules prepared under the act. 22 section acts has following main features.

- i) Deduction expenses was not specified for the calculating taxable income.
The tax officer was empowered to assess tax on best judgment assessment.
- ii) Tax on remuneration was to be deducted at source but the specified were granted a rebate of 25% & profit from small industries were granted a rebate of 50%.
- iii) The source of income tax purpose was limited only to business & remuneration i.e. income from business & income from remuneration.

In case of default, fines up to 5000 were prescribed. Tax on remuneration was deducted at source (TDS). This act was very narrow & vague, high discretionary power was granted to tax officer, many loopholes & in adulate provisions. so these reasons this act was replaced by ITA (1962) (Aryar & paudel: 2003)

2.3.4.1. Income Tax Act 1962 (2019)

This tax was on extension of two business profit & remuneration tax act 2017. It has 29 sections. It was amended in 1972. The main features of act were as follows.

- i) Basis of tax assessment was specified on the best judgment estimate of the tax officers.
- ii) Provision was made for the installment basis of tax for the first time.
- iii) Income tax was defined all kinds of income such as profit from business, profession, remuneration and occupation, house and land rent, agriculture, insurance business agency and any other source.
- iv) Provision was made for the exemption of income tax industries for a period of not exceeding ten years.
- v) Carry forward of losses was allowed for a period of two years.
- vi) The act granted the power to constitute the income assessment committee.
- vii) The residual status of tax payers for the tax pursues was defined.
 - Provision was made for the reassessment of tax as well as ratification of arithmetical errors.
 - Deducible expenses as well as method of calculation of taxable income were specified.

This act has also some weakness. The changing socio-economic environment of the nation had forced to changed the ITA as a result, the ITA, 1974(2013), was made by abolishing the existing act 1962. (Kandel: 2006)

2.3.4.2. Income Tax Act 1974 (2013)

Income tax act 2013 was amended in many years. This act has bee also some weakness which are government below.

- i) ITA 2013 has narrow tax base Global incomes of residents were not brought into tax net. Only the incomes originated in Nepal were taxed.
- ii) Income tax related matters were governed by various acts. Disperpersion of tax related Acts had arisen confusion in the effective implementation of the act.
- iii) There were no clear provisions regarding taxation of capital gains. The act was also silent with regard to international taxation.
- iv) The terminology and provisions in the act were in adguate many important provisions required to be in modern taxation system were lacking.
- v) The fine and penalty imposed by the act were very low. As a result the level of voluntary compliance had decreased substantially.
- vi) There was a weak mechanism to control the tax avoidance scheme of tax payers. The tax payers used to evade tax through transfer pricing splitting of income etc. The tax office had not free access to information.
- vii) Tax accounting method was not prescribed in the act. Despite the provision of self-assessment in the act it had not been implemented properly. The self assessment was m ore in name than in practice.

- viii) The act had not distinguished civil liabilities of the tax payers from criminal liabilities. The tax authorities were empowered to act as a court.
- ix) There were double appeal systems in the act. The tax payers were allowed to lodge an objection against assessment with the Revenue Tribunal or the Director General. The director General was empowered to act as a court & there were complaints that he used to make decisions in favors of tax officers. There were no provisions for administrative review. (Bhattraï & Koirala:2067)

2.3.4.3. Income Tax Act 2002(2058)

Income tax act 2058 has been enacted with wide a perspective. Various new concepts have been introduced in this act as compared to Income Tax Act 2013. Many of the concepts introduced in this Act were not prevailed in previous tax laws. This tax contains 143 sections. This act was made changes in differently 066/067, 067/068 etc. This act has made special provisions for international tax action. Foreign tax credit has been introduced for the first time. This act has introduced capital gains for first time. Therefore this act has been made super in regard to all income tax matters. (Bhattraï & Koirala 2067)

2.4. Definition of Related terms used in Income Tax Act.

2.4.1. Income (see 2 ja)

Income means a "persons" income from any employment, business, investment or causal gain and the total of that investment or causal gain and the total of that income as calculated in accordance with this "Act". It includes all sorts of income received for the provision of labours or capital or both of whatever from or nature in the taxable income.

2.4.2. Income Year (see 2 sha)

Income year means the period from the first day of shrawan of a year to the end of Ashad of the following year. Income Tax Act 2058 has regarded Nepalese fiscal year as an income year.

2.4.3. Company (sec 2 Da)

Company means a company incorporated under the company laws in force. The following insttion will also be treated as company for the purpose of tax.

- Any corporate body establish under the laws in force.
- Any unincorporated union, board, association or society or group of persons other than a partnership or a proprietorship firm whether or not registered or a trust.
- A partnership firm (whether or not registered under the laws for the time being in force) that has 20 or more partners, a retirement fund, a cooperative, a unit trust a joint venture.
- Foreign Company
- Any foreign instruction prescribed by the director general.

2.4.4. Individual (sec. 2 Wa)

Individual means a natural person and a proprietorship firm whether registered or un-registered owned by the person and a couple making and election as single natural person under sec. 50.

2.4.5. Entity:

Entity means following institution or organization.

- A partnership, trust or company

- V.D.C./Municipality/ D.D.C
- Government of Nepal
- A foreign government. or political sub-division of the foreign government. or a public international organization establish under a treaty and
- A permanent establishment (men-tioned above) of an organization or a body that is not situated in the country in which it is a resident.

2.4.6. Resident Person:

- a. In respect of an individual
 - Whose normal place of abode is in Nepal.
 - Who has resident in Nepal for 183 days or more during continuous period of 365 days or
 - Who is deputed by Government of Nepal to a foreign country in any time of the income year.
- b. A partnership firm.
- c. In respect of a trust, such trust
 - Which is established in Nepal.
 - The trustee of which is a resident person in an income year, or
- d. In respect of a company, such company:
 - Which is in corporate under the laws of Nepal or
 - Management of which is effective in Nepal in any income year.
- e. Government of Nepal.
- f. D.V.C/Municipality /D.D.C.
- g. In respect of an entity of any foreign government or provincial and local government under the government such entity.
 - Which is established under the government of Nepal.
 - Management of which is effective in Nepal in any income year.
- h. An organization or entity established under any treaty or agreement and.

- i. A foreign permanent establishment of a non-resident person is considered as a non resident.

2.4.7. Partnership (sec. 2 Ka. Pa.)

Partnership means a firm (whether or not registered) that has a fewer than 20 partners. However the term does not include a proprietorship firm (whether or not registered) or a joint venture.

2.4.8. Exempt organization (sec. 2 Dha)

Exempt organization means the following entities:

- A social, religious, educational or charitable organizations of public character registered without having a profit motive.
- An amateur sporting association formed for the purpose of promoting social or sporting amenities not involving the acquisition of gain by it or by its member.
- a political party registered with the Election Commission.
- A VDC/Municipality or DDC.

However any benefits acquired by any person out of the assets of and amounts derived by the entity except in pursuit of the entities function or as payment for assets or services rendered to the entity by person is not exempt from tax.

2.4.9. Retirement Fund (Sec. 2 Gha)

Retirement Fund means any entity established and maintained only for the purpose of accepting and investing retirement fund contributions in order to provide retirement fund payment to individuals who are beneficiaries of the entity or a dependent of such an individual.

2.4.10. Retirement Payment (sec2 Nga)

Retirement payment means a payment to

- An individual in the event of the individuals retirements or
- A dependent of an individual in the event of the individual's death.

2.4.11. Retirement Contribution (sec. 2 cha)

Retirement contribution means a payment made to a retirement fund for the provision or future provision of retirement payments.

2.4.12. Business (sec. 2 Fa)

Business means an industry, a trade, a profession or the like isolated transaction with a business character and includes a past, present or prospective business. However the act of holding non- business chargeable assets is considered as an investment.

2.4.13. Investment (Sec. 2 Kha)

Investment means an act of processing or investing one or more assets. But the term excludes act of holding assets for personal use by the person owing the assets and employment and business. However the act of holding non-business chargeable assets is considered as an investment.

2.4.14. Employment (Sec. 2 Jha)

Employment includes a past, present or prospective employment. It is the return for the provision of labour.

2.4.15. Assets (Sec. 2 Ka. Dha)

Assets means a tangible or intangible asset. It includes currency, goodwill, know- how, property and an owner's interest or ownership in foreign

branch, a right to receive income whether present or future and part of such asset.

2.4.16. Tax (Sec. 2 Dha)

Tax means income tax imposed under this Act and includes following payments.

- Expenses incurred in the process of creating charge and performing auction of the property of tax creditor by the department.
- Amount payable by a with -holding agent or with holder or amount payable by an installment payer and on assessment.
- Amount payable to the Department in respect of a tax liability of a third party.
- Amount payable by way of interest and natives.
- Amounts payable by way of fines in order of the department.

2.4.17. Trading Stock (Sec. 2 ka. yna)

Trading stock means assets owned by a person that are intended to be sold in the ordinary course of business conducted by the person, work, in-progress on such assets and inventories of materials to be incorporated into such assets. However the term does not include a foreign currency asset. Motor cars of an automobile dealer are trading stocks, for examples.

2.4.18. Business Assets (Sec. 2 Ka. Ta.)

Business asset means an asset to the extent to which it is used in a business. However it excludes trading stock and a depreciable asset of business. A piece of land used in business in an example of a business asset.

2.4.19. Non- Business chargeable Asset (Sec 2 Aa)

Non business chargeable asset means securities or an interest in an entity as well as land and buildings. However, it excludes the following assets.

- Business assets or trading stock
- A private residential house of an individual that has been owned continuously for at least ten years and resided for a total period of at least ten years either continuously or intermittently.
- Interest in a retirement fund of a beneficiary.
- A private residential house and land of an individual that is disposed in less than five million (Fifty lakh) rupee. or,
- Assets of an individual that is disposed of by way of any type of transfer other than sales and purchase made within three generation.

2.4.20. Depreciable Assets (Sec. 12 Ka. Ra.)

Depreciable asset means an asset to the extent to which it is used in the production of Income, from a business or a Investment and that is likely to lose value because of wear & tear, obsolescence or the passing of time. However the term does not include trading stock.

2.4.21. Associated Person (Sec. 2 ka. Na.)

Associated person means two or more persons where one may reasonably be expected to act in accordance with the intentions of the other it includes.

- An individual and relative of the individual or an individual and a partner of the individual.
- A foreign permanent establishment and it's owner and

- An entity and a person who either along or together with an associate or associate controls or may benefit from so percent or more of the rights to income, capital or voting power of the entity as the case required /s., either directly or through one or more interposed entities; or a person who is an associate of such person.

However the term does not include employee and persons prescribed by the department as not being associate person.

2.4.22. Long term Contract (Sec 2 Pha)

Long term contract means such contract, the term of which exceeds 12 months.

2.4.23. With holding Agent (Sec. 2 ka)

With holding agent means a person required to with hold tax at the time of payment for employment, investment return, service fees or contract.

2.4.24. Final Withholding Payments (Sec 2 Ja)

Final with holding payment means a payment of dividend, rent, gains, interest and payment made to a non resident person to be made after withholding final tax.

2.4.25. Withholder (Sec. 2 Na)

Withholder means a person receiving or entitled to recite a payment for employment, investment return, service fee and contract from which tax is required to be withheld.

2.4.26. Lease (Sec 2 La)

Lease means a temporary right of one person in respect of an asset of another person, other than money. It includes a license, options, rental agreement or tenancy.

2.4.27. Natural Resource Payment (Sec. 2 Sa)

Natural resource payment means amounts of any of the following payments.

- Amount received for the right to take water, minerals or other living or non living re-source from the land or
- Amounts as calculated in whole or part by reference to the quantity for value of water, minerals or a living or non living re-source taken from the land.

2.4.28. Rent (Sec 2 ka ka)

Rent means all payments under a lease of an intangible asset. It includes any payments made for:

- The use of or the right to use a copy right patent, design, mode, plan secret, formula or process or trademark.
- The supply to know- how.
- The use of or right to use, a cinematography film, video tape, sound recording or any other like medium and the supply information concerning industrial, commercial, or scientific experience.
- The supply of assistance ancillary to a matter referred to above.
- A total or particular forbearance with respect to a matter referred to above.

- A total or particular forbearance, with respect to matter referred to above.

However the term does not include a natural resource payment.

2.4.29. Service fee (Sec. 2 ka ma.)

Service fee means any fee paid to a person based on market values, for service rendered by the person. It includes a commission or a meeting, management or technical service fee.

2.4.30. Permanent Establishment (Sec. 2 Ka Da)

Permanent establishment a place where a person. Wholly or partly carries on a business and includes the following places.

- A place where a person wholly or partly carries on a business through an agent, other than general agent of independent status acting in the ordinary course of business as such;
- A place where a person has is using or is installing substantial equipment or substantial machinery;
- One or more places with in a country where a person furnishes (whether through employees or otherwise) related services (concluding technical, professional or consultancy services) for a period or periods aggregating more than 90 days within any 12 month period or
- A place where a person is engaged in a construction, assembly or installation project for go days or more, including a place where a person is conducting supervisory activities in relation to such a project.

2.4.31. Gift (Sec 2 yna)

Gift means a payment that is without consideration or a payment with consideration to the extent the market value of the payments exceeds the market value of the consideration.

2.4.32. Turnover (Sec 2 Ta 1)

Turnover is defined as a total of the inclusions calculated for the purpose of computing income from employment (sec. 8), business (sec 7) or investment (sec 9)

2.4.33. Adjusted Taxable Income (sec 2 Na 1)

Adjusted taxable income of a person for an income year is the taxable income without reducing donation (sec 12) and without deduction of pollution control cost (sec 17), R&D cost (sec-18) and excess interest expenses paid by an exempt-controlled resident entity to controlling entity or related parties [(sec. 14(2)]

2.4.34. Relative (Sec 2 Bs)

Relative means a spouse, children (including adopted children), parent, grandparent, sibling, aunt, uncle, nephew, niece, grandchild, granddaughter, brother in laws, sister in laws, Father in laws and mother in laws of an individual.

2.4.35. Interest (Sec 2 ka Jha)

Interest means the following payments or gains.

- Payment made or incurred under a debt obligation that is not a repayment of capital.
- Any gain realized by way of a discount, premium, swap payment or similar payment and

- The person which is treated as interest in the payments made to a person under an annuity or by a person acquiring an asset under an installment sale or the use of an asset under a finance lease.

2.4.36. General Interest Rate (sec. Ka Ba)

General interest rate means the rate of interest by ten percent per annum.

2.4.37. Tax exempt organizations (sec 10)

Income Tax Act 2058 has exempted following amounts from the Income Tax.

- i. Amounts received by the person entitled to tax exemption privileges under a bilateral or a multilateral treaty, concluded between the government of Nepal and a foreign country or an international country.
- ii. Amount received by an individual from employment in the public service of the government of the individual.
- iii. Amount derived by an individual, who is not a citizen of Nepal from employment at the government of Nepal's service on terms of tax exemption.
- iv. Amounts paid by the government of Nepal to widow, elder citizen or disabled individual.
- v. Amount received from gift, bequest, inheritance or scholarship except as required to be included in calculating income from business, employment or investment.
- vi. Amount received from gift, bequest, inheritance or scholarship except as required to be included in calculating income from business, employment or investment.
- vii. Amount received by an exempt organization from:

- Donation and gifts
- Any other contribution than directly related to the example organization's functions, whether or not the contribution is made in return for consideration or
- Amount received by Nepal Rastriya Bank as per it's objectives.

viii. Pension received by a Nepali citizen retired from the army or police service of foreign country.

ix. Any kinds of incomes of government of Nepal.

2.4.38. Business Exemption and Concessions: (Sec-11)

ITA 2058 has provided following business Exemption & concessions:

a- Agricultural income received by an individual holding land with in the ceiling prescribed in land Act, 2021 is exempt from tax.

But the income from agriculture business derived by a registered firm, company, partnership corporate body and land above the holding ceiling as prescribed in the Land Act 2021 are not tax exempted.

b- Incomes derived by co-operative societies registered and functioning under co-operative. Act 2048 from agriculture or forest based industries are exempt from tax. similarly divided distributed by such industries are exempt from tax.

c- Income of a special industry & IT industry of a person for an income year is taxed as under:

- If the industry provides direct employment to 300 or more Nepalese citizens throughout the income year are tax at 90% of applicable tax rate on that years income.
- If the industry provides direct employment 1200 or more Nepalese citizens throughout the year is taxed at 80% of applicable tax rate.

- If the industry provides direct employment more than 100 Nepalese citizens including at least 33% women, downtrodden (dalit) or the handicapped (apanga) throughout the year is taxed at 80% of applicable tax rate on that years income.
 - If the industry operating remote, undeveloped & under developed area is tax at 90%,70% &75% of the applicable tax rate on it's income respectively up to 10 years.
- d. Income of industry established in special Economic zone(SEZ) and dividend distributed by such industry are given following exemption:
- If the industry established mountain (SEZ) exempt from income tax for first 10 years and taxed at 50% of tax rate the after.
 - If the industry established SEZ other than area specified is exempt from tax for the first five years and then after 50% tax rate.
 - Dividend distributed by industry established in SEZ is exempt from taxed for first five years & taxed at 50% tax rate for next 3 years.
 - Royalty, foreign technology or management service fees earned by a foreign investor of an industry operating SEZ are taxed at 50% of the income tax rate.
- e. Income of industry established in remote area is exempt from income tax for the first ten years of it's operation.
- f. Income of IT industry established in IT park specified by government of Nepal by publishing a notice in Nepal gazeeta is exempt of 25% of tax rate.
- g. Entities having license for electricity generation, transmission and distribution shall have tax holiday for first 7 years and 50% tax rebate there after for 3 years.

2.4.39. Special Provision for Entities: (Sec-52 to 58)

ITA 2058 has introduced some paramount principals for taxation for entities these principles are out lined below:

- Any entity is liable to tax separately from it's beneficiaries.
- Distribution of entities (i.e. dividends) will be taxed to beneficiaries in the form of final withholding payments.
- Amount derived and expensed incurred by a entity is treated as owned or owed by entity not any other person.)
- Assets owned liabilities owed by an entity is treated as owned owed by the entity and not any other person.
- Foreign income tax paid with respect to the income of an entity, whether paid by manager, beneficiary or the entity, is treated as paid by the entity.
- Transactions between an entity and it's manager and beneficiaries are recognized.
- A distribution of an entity includes a payment made by the entity to any if it's beneficiaries, in any capacity or any capitalization of profit.
- Dividend distributed by a resident entity will be treated as follows:
 - ❖ Dividend distributed by company to it's share holders will be taxed 5% in the form of a final with holding tax.
 - ❖ If distributed by other entity is exempt from tax.
 - ❖ If the dividend of a non resident entity are distributed to the resident beneficiary, the dividend amount will be included in the income of the beneficiary.
 - ❖ Dividend re-distributed are out of dividends taxed earlier, such dividends are exempt from tax.

- ❖ Finally this provision is regarded to the liquidation of an entity, dealing between an entity and a Beneficiary, changes.
- Assets owned liabilities owed by an entity is treated as owned owed by the entity and not any other person.
- Foreign income tax paid with respect to the income of an entity, whether paid by manager, beneficiary or the entity, is treated as paid by the entity.
- Transactions between an entity and it's manager and beneficiaries are recognized.
- A distribution of an entity includes a payment made by the entity to any of it's beneficiaries, in any capacity or any of it's beneficiaries, in any capacity or any capitalization of profit.
- Dividend distributed by a resident entity will be treated as follows:
 - ❖ Dividend distributed by company to its' share holders will be taxed 5% in the form of a final withholding tax.
 - ❖ If distributed by other entity is exempt from tax.
 - ❖ If the dividend of a non resident entity are distributed to the resident beneficiary, the dividend amount will be included in the income of the beneficiary.
 - ❖ Dividend re-distributed are out of dividends taxed earlier, such dividends are exempt from tax.
 - ❖ Finally this provision is regarded to this liquidation of an entity, dealing between an entity and beneficiary, changes in control & dividend stripping.

2.4.40. Special Provision for Individual (Sec 50 &51)

ITA 2058 provided following special provision to the individual.

Couples (Sec 50)

A residential natural person and a resident spouse of the person may elect to be treated as a single individual for this they have to notify IRD in writing. In this case both are jointly or separately liable for any tax payable by the couple for the year.

Medical Tax Credit (Sec. 51)

A resident individual may claim a medical tax credit for an income year for any approved medical costs paid by the individual himself or through others during the year. The maximum amount that can be claimed will not exceed 15% of approved medical costs or Rs. 750. Any excess amount due to limitation or lack of tax payable can be carried forward and added to the amount for the next income year.

Approved medical cost includes health insurance premium and the expense a per bills for treatment by recognized hospital, nursing home, health care or a doctor. However approved medical cost exclude expenses incurred on cosmetic surgery and medical expenses compensated by insurance company on account of health insurance.

2.4.41. Special Provisions for Retirement Saving (Sec 63)

Retirement contributions constitute to provided fund, gratuity, fund, citizen investment fund or any periodic amounts payable on retirement or on leaving of the service.

a- Retirement Contribution to an approved fund:

An individual may claim a reduction for retirement contributions made to an approved fund in an income year not exceeding Rs 300000 or 1/3of the assessable income.

b- Retirement Contribution to an Approved Fund:

Contribution to an unapproved fund are not eligible for reduction for income tax purpose.

2.4.42. International Taxation

- For taxation purposes, all payments and gains need to be considered on the basis of the source country of the payment. Details of the circumstances under which the source rules are defined are given in the act.
- Tax is imposed on the repatriated income of a foreign permanent establishment of a non resident person situated in Nepal.
- A non resident person carrying on a business of character or air transfer operator are boxed are a flat rate on their amounts derived from carriage of passengers, mail or goods which embark in Nepal.
- A tax credit may be claimed for and foreign income tax paid with respect to foreign source income. The tax credit are calculated separately for assessable foreign income sourced in each country and will not exceed the average rate of Nepal tax applied to the assessable foreign income.

2.4.43. Sources of Income

This act imposes tax on those activities contributing toward the creation of wealth or income following are the source of income.

a) Income Form Employment:

All the payments or benefits received in respect of employment including past or future employment are made taxable. For example, payments relating to the change of terms of employment, fringe benefits, various types of

allowances, salaries, wages, payments received through third parties etc are included in employment income.

b) Income Form Business:

Profits and gains from conducting the business are considered as business income for the purpose of income tax. This type of income may include service fees, amount derived from the disposal of trading stocks, net gains from disposal of business assets (liabilities) gifts relating to business and other amounts.

c) Income from Investment:

Profits & gains from conducting an investment are considered as investment income. All types investment income including dividend, interest, natural resource payment, rent, royalty, gain from investment insurance, gain from an unapproved retirement fund are included in investment income.

d) Causal Gain:

Causal gain refers to lottery, gift, prize, winnings (Baksis, Jitauri) and other gains received casually.

2.4.44. Deductions

Basically all actual costs to the extent incurred in generation income from the business or investment are deducted while calculating a person's income. This generalization, however are taken into consideration in conjunction with the special provisions made in act. For example, interest paid by exempt controlled entity to the parent in the course of conducting a business or investment are deductive with some limitations. Other costs such as cost of trading stock, repair and improvement cost of owned and used depreciable asset,

pollution control, re-search and development are also deductible with some limitation.

- Depreciation allowances are granted for depreciable assets which are categorized in 5 classes. The classes are based upon the average useful life of the assets, belonging to alone class. The assets to each class are placed in a pool and a depreciation rate applies to each pool.
- Allowable limit for repair & improvement cost of owned & used depreciable asset is raised to &% of depreciation base.
- No deductions are granted for the expenses that are of a domestic personal nature, income tax, government penalties cost in deriving exempt amounts or final with holding payment, dividend distributed by an entity, cost of a capital nature and cash payment above Rs 50000 under prescribed conditions.

2.4.45. Tax Rates

ITA 2058 has specified tax rate applicable to different tax payers.

- i) The taxable income of a resident individual having taxable income from employment for an income year 2066/067 will be taxed at the following rates. Up to Rs. 160000 -1%
from 160000-up to Rs 260000-@15% plus Rs 1600
Above Rs 260000-@25% plus 16600.
- ii) Taxable income of a couple having taxable income from employment, if they choose to be treated as a couple will be taxed at the following taxes.
up to Rs 200000 1%
From Rs 200000-up to Rs. 300000-@15% plus Rs. 2000
Above Rs 300000-@25% plus Rs 17000

- iii) The business person who have registered own proprietary firm should not pay above 1% tax.
- iv) Any individual or couple having person income can enjoy 25% of the normal exemption limit as an additional basic exemption.
- v) Any individual working in prescribed remote area is entitled to deduct prescribed amount as remote area allowance from taxable income.
- vi) Any individual is entitled to deduct the following amount from taxable amount, if he is having investment insurance policy. "Rs 20000 amount or the actual premium paid, which ever is less."
- vii) For the purpose of act, net gains from the disposal of non business chargeable assets will be taxed at the rate of 10%
- viii) The presumptive tax for individuals conducting small business (who have a turnover of Rs 2 million or an income of Rs 200000) in the metropolitan or sub metropolitans, municipalities and any wherelese in Nepal amounts to Rs 5000, Rs 2500 & Rs 1500 respectively.
- ix) Taxable income of a non-resident individuals is taxed at the rate of 25% unless prescribed otherwise.
- x) The taxable income of a bank or financial instruction or general insurance business or an entity conducting petroleum work under petroleum Act, 2040 for an income year is taxed at the rate of 30%.
- xi) Gain from lumpsum retirement payment made y an approved retirement fund or gain is taxed at the rate of 5% as a final withholding tax. Gain is calculated by deducting 50% of the payment or Rs 50000 whichever is higher from the total lumpsum payment.

- xii) The taxable income derived by an entity engaged in a industrial enterprise or expert business or derived from operating any road, bridge, tunnel, ropeway or flying bridge. Construction business or any trolley baser or tram manufacturing business is taxed at the rate of 20%
- xiii) The taxable income of an entity engaged in power generation, transmission or distribution is taxed at the taxes of 20%
- xiv) The taxable income of an estate of a deceased resident individual or trust of an incapacitated resident individual will be taxed at the normal tax rate as through the estate or trust was a resident individual.
- xv) The repatriated income of a foreign permanent establishment of a non resident person situated in Nepal will be taxed at the rate of 5%.
- xvi) The taxable income of a non-resident person deriving income from providing shipping, air transport or tell communication services in Nepal will be taxed at the rate of 5%. However 2% tax is applied if these services are provided with in the boundary of Nepal.
- xvii) Taxable income of an entity wholly engaged in the projects conducted by an entity so as to built public infrastructure, own operate and transfer it to the government is bower generation, transmission, or distribution for an income year shall be taxed at the rate of 20%.

2.4.46. Set off Carry Forward & Carry Backward of Losses.

- Losses are in principle deductible but are treated differently depending on whether thy result from conducting a business or an investment and whether they are of domestic or foreign nature.

Losses from a domestic business can be offset against all types and sources of income, whereas losses from a domestic investment can be offset only against any type of income. Foreign business losses can be offset against foreign business income or investment. Losses from foreign investment can only be offset against foreign investment income.

- Unretired business or investment losses of previous 7 years are allowed to carry forward.
- In case of electricity projects involving in building power station, generating and transmitting electricity and the projects conducted by an entity so as to build public infrastructure, own, operate, and transfer to the government, any un-relieved loss of the previous twelve years are allowed to carry forward.
- Social provisions exist in the act on how to deal with losses incurred in conducting a business of global long term contract.

2.5. Theoretical Framework of Tax Planning

Planning is an improved tool for every business enterprises whether big or small, old or new, private or public, planning regards corporate planning as- "A formal and systematic managerial process organized by responsibility lines & information to ensure that operational Planning, project planning & strategic planning are carried out regularly to future of an enterprise." Operational planning refers to the future planning of existing operations in existing operations in existing markets with existing customers. Project planning includes the general appraisal & working out the detail of collection (project) outside the scope of existing operation strategic planning is the process of formulation of long-run objectives and deciding on the resources for achieving them. Corporate planning, this includes operational planning, project planning & strategic planning.

Basically there are two ways of minimizing tax liability i.e. tax evasion, tax avoidance, tax delinquency and tax planning (Kandel: 2006)

2.5.1. Tax Delinquency

The meaning of tax delinquency is dealing in paying taxes. The delinquency is also one way of reducing tax liabilities. In this case the liability is reduced in respect value by defaming the payment. Although the tax delinquency means the failure to pay tax due to lack of sufficient fund. It also covers nonpayment at the time of having fund. It is temporary deceiving of tax by the tax payers although he cannot escape in long term (Kandel: 2006)

2.5.2. Tax Avoidance

"Tax avoidance is there of doing tax without actually breaking the law." It is method of reducing tax liabilities by taking advantages of certain loopholes in the tax laws. Whatcroft analysis tax avoidance as a transaction which would be adopted if the tax saving element's were absent; Therefore tax avoidance involves a) A transaction interred into avoid tax and with full legal backing and b) a transaction which the legislature wouldn't intend to engorge. The following are the criteria used by English and Indian court to find out of tax avoidance

- Use of colorable devices
- Twisting of taxts
- Taking only strict spirits of law and suppressing the legislative intend.

Tax avoidance is the reduction of tax liability through the manipulation of existing law. It is legally permissible but unethical. Sec 35 of the income Tax act 2008 has defined tax avoidance any means or arrangement, one of the main purpose of which it the avoidance or reduction of tax liability. (Kandel:2006)

2.5.3. Tax Planning

Tax planning is the art and science of planning the company's operations in such a way as to attract the minimum liability to tax with the help of various concessions allowances and relief's provided for in the tax laws. As such the basic purpose of corporate tax planning is to reduce or postpone the overall tax burden in the present and foreseeable future. Tax planning is a discipline and an attitude toward solving the corporate problems in a methodical way from a long run point of view.

The tax planning is scientific planning of company operations. It is the use of various intensive, concerns, allowances, rebates etc. and it is an activity related to future. It has the objective of

- a) Reduction of tax liability b) minimization of litigation
- c) Productive investment d) Healthy growth of the economy
- e) Economic stability (kandel: 2006)

2.5.3.1. Features and Importance of Tax Planning

Features:

- It is the genuine use of the facilities provided by the government.
- It is entrance economic environment of the country.
- It reduces tax liability.
- It is the universal in nature. It means all the business organizations use tax planning.
- It is a use of expertise to get consciously given facilities.
- It is related to future activities.

Importance:

- Tax planning saves tax and increases profitability.
- It avoids unnecessary worries, tensions and administrative hassles.
- It helps in using the facilities provided by the government.
- It helps in analysis of risk.
- It creates good business environment.
- It helps in development of manpower (Kandel:2006)

2.5.4. Tax Evasion

Tax evasion is an unethical, illegal and uneconomic way of reducing tax liability. Reason for tax evasion can be attributed to various tax and non tax factors. Tax factor may include tax rate, tax base, tax structure, fine and penalty system etc. Whereas non tax factors may include economic policy, government rules and regulations, level of literacy etc.

Tax evasion can be several types:

- Unilateral: It is an evasion of tax by tax payer himself.
- Bilateral: It is an evasion of tax with the assistance of tax officials.
- Trilateral : It is an evasion of tax from the collusion of tax auditors and tax payers.
- Multilateral: It is an evasion of tax from all related parties involved from tax officials to taxpayers.

Tax evasion is, thus, an illegal way of minimizing tax liability. Tax evasion is a more serious problem in developing countries than in developed countries. (Bhattraï & Koirala-2007)

2.6. Review of Related Studies

In the course of the study, various books, articles, discretions and other reference materials were reviewed. Some of them are presented below;

2.6.1. Review of Books

Dhakal (2010) : Had presented his enlarged and modified edition of his book " inducing VAT". This book was presented by Tu syllabus of BBS and MBS. He had described the legal provision relating to income tax with numerical examples. His book was informative rather than analytical. He had not analyzed the role of income tax, tax structure and problem and weaknesses of income tax.

Kandel (2008) : had wrote book named "Tax law and tax planning in Nepal" which was based upon government regulation. Therefore it is very lamely work and extremely helpful for students of master level & bachelor level of Business students. The second edition has attached unofficial translation of the tax laws both acts and rules related to VAT and income tax appendices. But he had not analyzed the role of income tax, tax structure,& problem of income tax.

K.C. (2006) : Wrote book named "Tax laws & tax planning" for MBS students based on TU syllabus. This book was presented with practical & theoretical aspects on taxation.

Bhattarai & Koirala (2004): had presented "Taxation in Nepal" entitled book. This book was for MBS/CA students, based on TU syllabus. They had described about the theoretical & practical aspect of income tax with related provisions. But they were unable to describe the problem & structure of income tax system.

Aryal and poudel (2003): wrote a book entities "Taxation in Nepal." This book is based of ITA 2002. This book is divided in three parts. He had described

about tax features about of ITA 2058; capital receipt or revenue receipt, special provision for entities and retirement saving, classification of tax payers and sources of income, assessment collection and recovery, tax authorities and their powers, rights and audits etc.

This book also based on BBS level method of income tax has been dealt with numerical illustration. This book is useful for acoelemic purpose practical point of view.

Adhikari (2003) : had presented book "modern taxation in Nepal. Dr. Adaikari had examine that haws & prevision to the income taxation of Nepal according to new ITA-2002. This book had been classified in following five chapters:

- Theoretical concept of taxation
- Income Tax system in Nepal

In this chapter he had described about sources & head of incomes, remuneration or employment income tax on person income, international taxation etc.

- VAT
- Property tax house & Compound tax
- Wind fall gain & other provision.

This book is useful to tax payers, tax administration or others. However this book was written for BBS, MBS & MPA students based on TU syllabus.

Jyanti Poudel (2002) : Fourd with in the direct tax has increased significantly since it's introduction, which contributes more than 88% it terms that composition of income tax the share of corporate income tax was 59.8% and that of individual income tax was 31.2% in 1999/2000. She had hoped that the

coverage of income tax would be widened after the implementation of income tax act 2001.

She had added that the Nepalese tax administration had been attempting to modify. It self to meet the pressing challenge brought about by change in technology and economic policy. However, still it's working are traditional and the cast of administration has been brought to the satisfactory level.

2.6.2. Review of Articles:

Many articles are written regarding the tax some of them are mentioned as below:

Thapa & Subedi (16/Aug/012): Both Ashok Thapa & Bibek Subedi published their article on kantipur post named income Tax: service sector pays more." In this article they wrote the service sector pays more tax to government. In that fiscal year even as the manufacturing sector have been reeling due to infrastructure and labour related problems out of service sector Bank & telephone operations paid largest income tax to government. Among the Bank ADB, Nabil, investment, stander chartered, Himalyan Bank of KTM & Nepal Telecom & Ncell were telecom operations paying highest income tax. surya Nepal is also in the list of top 10 tax payers Rs 120 million income tax was paid.

Dr. Sumshere Ashok JBR (2010) : Dr. Sums here wrote an article "Tax system issues problems & option" in 2010. Firstly he had wrote about the background of tax that is developed after 1980s. With it's problems & changes made by government. Than after performance of Nepalese tax system in terms of responsiveness, productivity, efficiency & equity. After the tax reforms, there has been a desperate attempt to improve resource mobilization, reduce fiscal deficit through broadening tax base, rationalizing tax structure & strengthening revenue administration from the late 1980s & 1990s.

He had wrote problem's of Nepalese tax system. In the absence of long term revenue policy tax measures are adopted annually on an ad hoc basis. And he had conclude that direct tax has small elasticity income perision to indirect taxes. There is an urgent need to support man power development through training to staff, concerned as regards tax lauts. auditing & accounts.

Dahal Madan Kumar (2009) : had wrote article entitled "Taxation in Nepal structure issue & Reforms". In his article he wrote that because of re-soured gap & widening there is fiscal & Budgetary deficit. In Nepal many of the people are living under the poverty & engaged economic activities are limited taxable capacity legal base of taxation is taxation is compressed with unlimited tax shelters & tax administration lacks innovate mechanism to identify new tax payers & bring them into tax net. The tar of or tax burden ration is estimated to be 15.7% GDP in fy 2008/09. following are the major problems in Dahal's article;

- i) Marginally light tax Rates
- ii) Limited tax Rates
- iii) Low tax elasticity
- iv) Leakages in tax collection
- v) Rigid ITa 20(k)
- vi) Inefficient, indifferent & corrupt tax administration
- vii) No consolidated record of property (Land & Bulding) with the IRD.

The articles wrote that reforms were confined to improving tax stricture by designing appropriate policy instruments.

Kharel Rameshor (27/05/011): had wrote his article in Himalyan News services. He had shown the percentage & amount collected from the tax sources of fiscal year. According to him following are the source of tax.

- VAT

- Income Tax
- Customs
- Non- tax Revenue

First source is VAT, 2nd income tax third is customs & last largest one is non tax revenue. Similarly he had conclude that the there was 14.7% increment compared to last fiscal year. The first revenue secretary khalal had started e-PAN, e-filing of returns and c-filing of with holding tax to boost the revenue mobilization that has shown result now.

6.2.3. Review of Thesis

Kandel (2011): had wrote a thesis "A Study on Contribution of tax revenue to government treasury with reference to Nepal Telecom Limited." Following are the main objectives & major finds:

Objectives:

- To analyze the income tax structure of Nepal.
- To analyze the contribution of income tax from Nepal Telecom Limited to government revenue.
- To fine out the major factors for effectiveness of income tax.

Findings

- Contribution of telecom income to income tax revenue has been found satisfactory.
- Telecom is facing various problems requiring to income tax system, due to the lack of clear act, rules & regulations, inefficient tax administration and heavy fine and penalty.
- Nepalese tax revenue is the composition of direct & indirect tax revenue is 24.36% and 75.68% during the fy 2000/2001 to fy 2009/2010

Lamichhane (2010): had also wrote thesis report entitled to "A comparative study on contribution of direct tax and indirect tax to national revenue of Nepal ."

Main objectives

- To analyze the contribution of direct tax and indirect tax to national revenue in Nepal.
- To analyze the structure of direct & indirect tax.
- To analyze the contribution of corporate tax to national revenue of Nepal.
- To identify the most important factors inflectional on the effectiveness of income in Nepal.

Major findings

- Tax education is most necessary in Nepal to increase the tax consciousness of tax payers.
- Income tax evasion is the major problem of Nepal for income tax generation.
- Main reason for tax generation.
- Main reason for tax evasion is due to defective tax administration, unwillingness of tax payers to pay tax and corruption in tax.
- Income tax administration is not efficient to collect tax.

Rijal (2008) : had also wrote thesis report "A study on Application of Best Judgment of income tax assessment with reference to ITA 1974"

His main objectives

- To analyze the need provision and role of best judgment in income tax assessment.

- To analyze the assessment necessary natural justice and best judgment.
- To analyze the income tax assessment.

His Major findings

- In Nepal Income Tax Assessment are mainly preformed by committee.
- The data shows that above 70% of the total income tax assessment are finalized by committee. He also found that only 9.01% of the total income tax assessments were performed on the basis of account in 1990/91, which was 10.49% of income tax assessment.
- Income tax assessment of Nepal, basis of assessment necessary condition for the best judgment assessment natural justice and best judgment etc.

Adhikari (2009): had presented thesis "Income tax in Nepal." following were the major objectives & finding;

Objectives

- To reduce inequality of income distribution
- To collect more government revenue
- To check infection

Major findings

- Explain the provisions relating to income tax.
- Productivity and problem had describes that structure of income tax.
- Presented some numerical and diagrams of structure & productivity of income tax. He had not explained the provisions relating to income tax, his study about income tax was not so detailed.

Paudel (2006): had wrote thesis named "income tax as a source of revenue" had basically, concerned with origin, definition, concept, historical background, role, objectives and structure of income tax she has also described per capital burden of income tax in Nepal.

Her main objects

- To analyze the source of national revenue
- To analyze the effectiveness of income tax to government revenue.
- To analyze the tax administrations are efficient or not.

Her major findings

- The evasion of tax is a serious problem of tax
- The tax administrative is not efficient
- The reason of tax evasion more tow taxpaying capacity of opepalese people, high tax rate, corruption, lack of system of heavy punishment widespread illegal business activities etc.

Bhatirai (2003): had wrote thesis report "effectiveness of corporate income tax in Nepal." He had described the classification of tax, base of income or expenditure tax, base of tax in Nepal, procedure of computing net income, weakness of tradition accounting system, classification of tax rate, income tax in Nepal, contribution of tax income to national revenue errors of past provision, some steps of administrative improvement etc.

His main objectives:

- Classification of tax
- Classification of tax rate in Nepal
- Noticed some errors of provision relating to income tax

His major findings

- Tax covers very low portion of total revenue because of no taxation in agriculture income, narrow base of income of retail business, high exemption limit on remuneration income etc.
- They were provision of income assessment committee flat rate of tax to small tax payer's establishment of tax office etc.
- Suggest some step of administrative improvement.

Shrestha (2004): had wrote a thesis entitled "Revenue collection from income tax in Nepal, problem and prospect."

His main objectives

- To analyse conceptual frame work & legal provisions, structure of income tax Nepal, income tax administration in Nepal.
- To analyse an empirical investigation and problems & prospects of income tax in Nepal.
- To analyse the effectiveness the income tax in Nepal Revenue.

His major findings

- The major problems of Nepalese income tax were mass poverty of Nepalese people, lack of the consciousness of tax payers unscientific tax assessment procedure, widespread evasion & avoidance of income tax, inefficient tax administration instability in government the decreasing trend.
- The dominant share of tax revenue in Nepalese government revenue and the contributing of tax revenue showed the decreasing trend.
- Suggest about the income tax system like extension of tax coverage, minimizing the problem and weakness of tax

administration, tax consciousness to the people, she had taken any investigation about the provision of fine and penalties.

Kandel (2000): wrote P.H.D. thesis entitled "corporate Tax system and investment behavior in Nepal."

His main objectives;

- To evaluate the corporate tax system in general
- To examine of sensitivity of certain policy inflection capital gain.
- To examine of curtain policy dividend tax and interest tax.

His Findings;

- The problem relate to corporate tax
- Showed the relationship of private investment with average effective rate (AETR), marginal effective tax rate(METR) and tax incentives of Nepal.

2.6.4. Research Gap:

This research thesis is prepared for the objective of partial fulfillment of master's degree. Many don research reports are made before this. However the data's are presented from 10 years fy 2001/2002 to 2010/2011. All the on secondary data's are used to obtained the research objectives. Therefore, there may be any errors with primary data's. The thesis report is about contribution given by tax to the government revenue A case study of Nepal Telecom. But the thesis report is helpful to any interested presents, parties, students, teachers even for the government as policy perspectives. This report is useful for further study.

CHAPTER-III

RE-SEARCH METHODOLOGY

This chapter is devoted to the re-search methodology applied in the study, and secondary data are used in the study. Opinion survey technique was adopted while collecting primary data. Questionnaires were distributed to income tax experts, administrators & tax payers so as to know their opinion towards various aspects of income from resident person. Economic survey is was used as the major source of secondary data. For the analysis of data's different statistical tool, mathematics are used use to analysis the data's. out of different techniques average, percentage correlation & chi-square lest of hypothesis are used for analysis the data's.

The re-search methodology is the process of bringing to the solving of the problems through planning and systematic dealings with the collection, analysis and interpretation of the facts and figures. It reports to the various sequential step to be adopted by a re-searcher, who is staring problem with contain object in a view the objective of the study is to analysis the tax planning and to analysis contribution of tax re-venial from Nepal Telecom to government revenue.

3.1. Re-search Design

When a particular re-search area has been identified, re-search problem defined and the related literature in the area have been reviewed; the next step is to construct the re-search design choosing an appropriate re-search design is crucially important to the success of re-searcher make at this tag of the re-search process that untimely determines the quality of the re-search result. Most of the

material of this study was concerned with past phenomena of the performance in numerical or theoretical items.

Hence descriptive re-search design is use to congest the contribution pattern of income tax from various enterprises to public revenue of Nepal with special reference to NTC.

3.2. Nature & Sources of Data.

Both primary as secondary data have been collected in order to achieve the real & fateful result out of this study. All the possible & useful data as far as possible have been collected. The major source of data are as follows:

Primary source of Data:

The major tools used for the collection of primary data are the questionnaire to the responsible person. A set of questionnaires are developed & distributed to the selected respondents in order to get accurate & active information the object. The primary data's are collected from the following respondents.

- Tax administrators
- Tax experts/policy makers
- Tax payers

Secondary source of Data:

The secondary source of data has mostly has been collected through book, articles, newspapers and reports. The major source of secondary descript analysis data.

- Economic source k& budget speech of various years
- Annual reports, news & records of NTC
- Books related to public enterprises

- Reports & records to public enterprises
- Internet

Dissertation related to taxation available at central library TU and library of Kailali Multiple Campus.

3.3. Population & Sample

A sample is collection of items or elements from a population & universe. Hence a sample is only a portion or subset of the universe or population. It comprises some observations selected from the population (H.K/&P.R.2005:161). Here sample are taken randomly from infinite population.

S.N.	Denomination of the respondent	Sample
1	Tax administrator	30
2	Tax Experts/ Policy makers	30
3	Tax payers	30
Total		90

The tax administrator, tax experts/ policy makers & tax payers in Nepal were considered as total population out of them the tax administrator, tax experts/ policy makers tax payers from Kailali district & KTM district were considered as target sample. The denomination of the respondent have been presented in above table by random sampling method.

3.4. Data Collection Procedure:

As mentioned above, the study is be so on primary as well as secondary data. The information of primary data was collected by developing a set of questionnaire and distribute to the selected respondents in order to get actual

and accurate information. Distribution works as done personally rather than sending by any other means.

3.5. Data Analysis Procedure

Collected data from questionnaire was in raw in nature. Firstly data have been classified into related groups then after it has been tabulated, re-tabulated & presented into graph in the required format to get more reliable information using accounting principle, mathematical at recites & legal provisions if ITA 2058 is taken into consideration in data analysis procedure.

The information received indifferent aspect of taxation & tax planning from primary and secondary sources was first processed for tabulation & generally simple statistical tools have been used which are as follows:

- Average
- Percentage
- Pie-chart
- Test of Hypothesis

Chi- square test (X^2 -test)

where

O= observed Frequency

E= Expected Frequency

Test of Hypothesis

In the case of using hypothesis test ki-square test of hypothesis is used here. Ki-square(x^2)- test is a non parametric test because it depend only on the set of observed & expected frequencies & degree of freedom. It describes the magnitude of discrepancy between theory and observation. It defines as

$\chi^2 =$

where;

O=observed frequencies

E= Expected frequencies

To make re-search analytical the binomial distribution, χ^2 -test is used for analysis qualitative variables i.e. opinion survey.

For the application of ki-square distribution ki-square test for goodness of fit is applied. If we are give set of observed frequencies obtained from respondent and we are interested in knowing whether the experimental results support a particular theory or hypothesis, then test is said to be ki-square test for goodness of fit which describes the magnitude of the discrepancy between observed value and the expected value under some hypothesis.

If the observed values are close to the expected values under a hypothesis, the fit is said to be good. If, however the differences between the two set of figures are found to be significant, the fit is not good.

Similarly the further computation is made with (r-1) (c-1) degree of freedom. Level of significance () is assumed 5%.

Sharma P.K. & Chaudhary A.K.(2009).

Average:

For the computation of average amount and average percent& column total is divided by the 10Fys. i.e.

$$\frac{2001/2002+\dots\dots\dots+2010/2011.}{10}$$

Trend Line

For the using of trend line, Fys are shown in the horizontal axis & GDP, revenue and other taxes are shown in the vertical axis. Then the co-ordinates are plotted on the graph as (Fy, Revenue). Prepared figures are described to identify re-search objectives.

Pie-chart

Pie-chart refers the circle. The collected data are shown in the pie-chart according to numerical values of revenue. A single circle is divided in no of parts for their values. Higher the value/ percent large is the area divided to the values. Pie-chart is one of the statistical measure that provides information clearly to the interested people.

CHAPTER-IV

Data Analysis and Presentation

This chapter deals with the presentation, analysis and interpretation of the relevant data of taxation in order to full fill the objective of the study. To obtain the best result the data has been analyzed according to the re-search methodology as mentioned in third chapter. A report can be worthless if interpretation is faulty even if valid and relevant data have been collected (plant: 1998)

The data after collecting help to processed and analysis in according with the outline lay down of the purpose at the time of developing the re-search plan. The purpose of this chapter is to introduce to the mechanics of data analysis and interpretation. Giles studies cost cities in kothari 2004) explores that data analysis is the relationship of different supporting or conflicting with original or new hypothesis should be subjected to statistical test of significant to determine with validity data can be served to indicate and conclusion.

4.1. Tax structure of Nepal

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

4.4.1 Composition of Total Revenue

Total revenue in Nepal is composed of both tax revenue & non tax revenue when the government of Nepal presented first national budget in the 1951/1952.

Table 4.1.1 Composition of Total Revenue

(Amount in ten million)

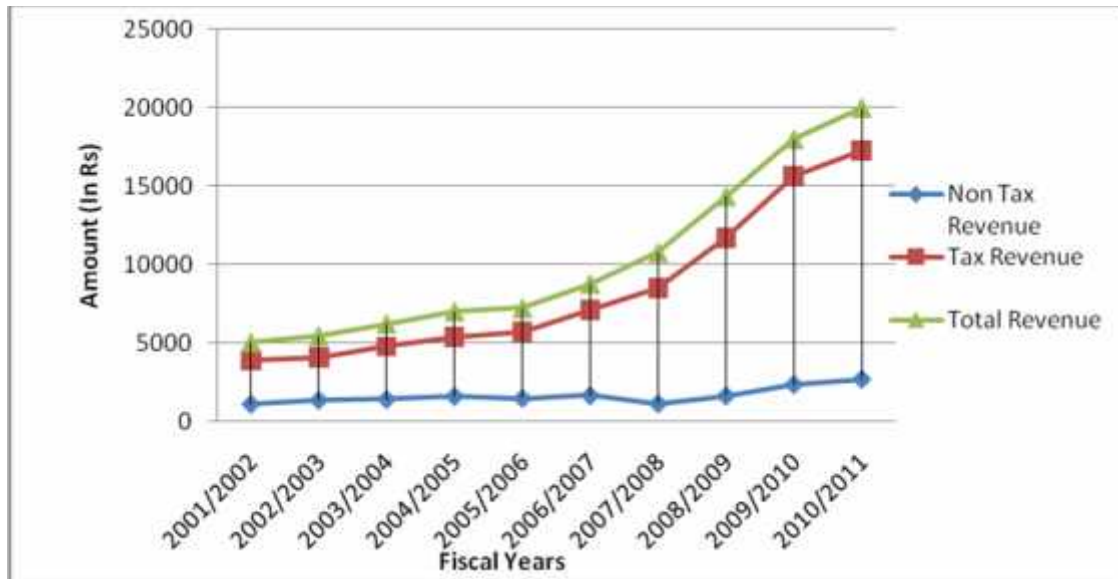
Fiscal Year	Total Revenue	Tax Revenue		Non-Tax Revenue	
		Amount	Percentage	Amounts	Percentage
2001/2002	5044.66	3933.06	77.97	1111.60	22.03
2002/2003	5453.89	4089.60	75	1364.29	25
2003/2004	6233.10	4817.30	77.30	1415.80	22.70
2004/2005	7012.27	5410.47	77.16	1601.80	22.84
2005/2006	7229.19	5743.04	79.45	1485.15	20.55
2006/2007	8771.21	7112.67	81.09	1658.54	18.91
2007/2008	10763.25	8515.55	79.12	1146.70	20.88
2008/2009	14347.79	11705.19	81.58	1642.60	18.42
2009/2010	17994.58	15629.49	86.86	2365.09	13.14
2010/2011	19981.87	17277.76	86.47	2704.11	13.53
Total	102829.81	84234.13	802	18595.68	198
Average	10282.98	8423.41	80.20	1859.57	19.80

Source: Economic Survey of Various Years, Ministry of Finance, GON 2011/2012

In the above table non-tax revenue is dominated by tax revenue. However the tax revenue & non tax revenues are fluctuating in different Fys. In Fy 2001/2002 tax & non tax revenues are Rs 3933.06 (i.e. 77.97%) & 1111.60 million (i.e. 22.03%) respectively. But it is fluctuating by small percent. Finally the share of tax revenue is increased & reached 86.47% (i.e. 1727.76 million) where the share of non tax revenue is decreased & reached 13.53% (i.e.2704.11 million). Percentage of both tax & non-tax revenue is fluctuating but the amount of direct tax revenue is increasing every year. But the amount of indirect tax is also fluctuating in Fy 2005/2006 & 2009/2010 Total revenue.

Figure 4.1.1

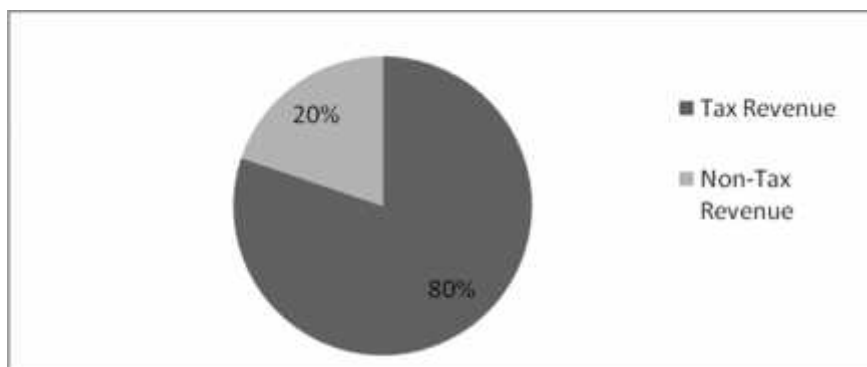
Trend Line Showing Composition of Total Revenue



In the given Diagram total revenue, tax revenue and non tax revenue are shown. TR is sum of both tax revenue and non tax revenue. Therefore TR curve lies above the both tax revenue and non tax revenue. In the given diagram non tax revenue curve & tax revenue are in increasing trend from Fy 2001/2002 to 2010/2011.

Pie-chart 4.1.1

Pie-Chart Showing Composition of Total Revenue



In the above Pie-Chart average tax revenue and the average non tax revenue are including 80% and 20% of total revenue, during the period of ten fiscal years.

4.1.2. Composition of Tax Revenue

Tax revenue is the composition of direct & indirect tax. A direct tax is a tax paid by a person on whom it is legally imposed. Indirect tax is collected through goods & services. Direct tax includes land revenue & registration. Tax on property, profit and income where as indirect tax includes customs, tax on consumption & product of goods & services.

Table 4.1.2

Composition of Total Tax Revenue

(Amounts in ten million)

Fiscal Year	Total tax Revenue	Direct tax Revenue		Indirect tax Revenue	
		Amount	Percentage	Amounts	Percentage
2001/2002	3933.06	1059.75	26.95	2872.43	73.05
2002/2003	4089.60	1088.19	26.61	3001.43	73.39
2003/2004	4817.30	1191.26	24.73	3626.04	75.27
2004/2005	5410.47	1307.18	24.16	4103.29	75.84
2005/2006	5743.04	1396.81	24.32	4346.23	75.68
2006/2007	7112.67	1898.03	26.69	5214.46	73.31
2007/2008	8515.55	2308.77	27.11	6206.77	72.89
2008/2009	11705.19	3432.07	29.32	8273.12	70.68
2009/2010	15629.49	4175	26.71	11454.49	73.29
2010/2011	17277.76	4865.51	28.16	12412.26	71.84
Total	84254.13	236322.57	264.76	107336.54	735.24
Average	8423.41	23632.26	26.48	10736.35	73.52

Source: Economic Survey of Various Years, Ministry of Finance, GON 2011/2012

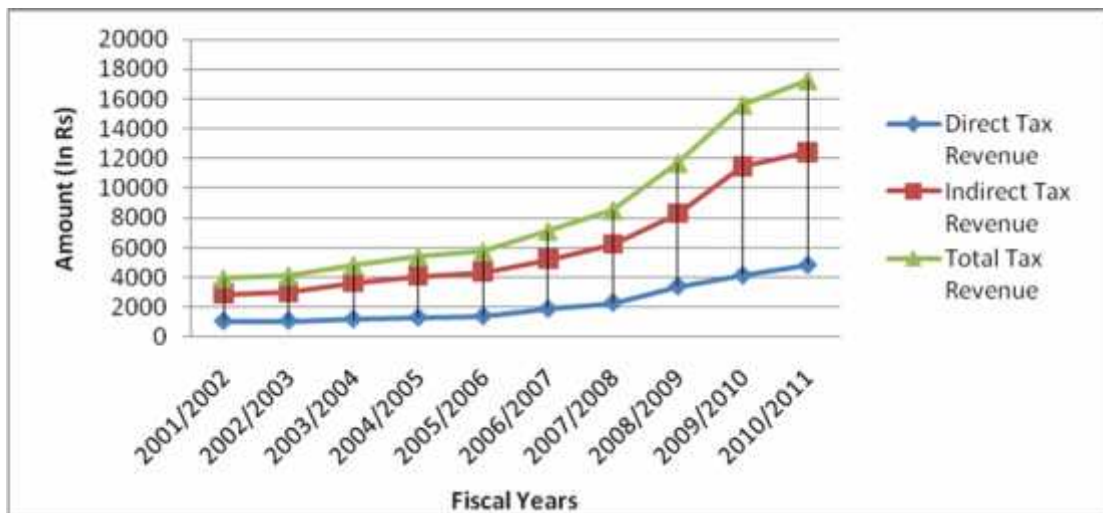
In the above table direct tax revenue is always dominated by indirect tax revenue. The amount of TTR, DTR & ITR are increasing every year, from Fy 2000/2001 to 2010/2011. The amounts are 3933.06 ten million, 1059.75 ten million & 2872.43 ten million of TTR, DTR & ITR respectively in Fy

2000/2001. Then all revenues are starts to increase of finally reached 17277.76 ten million, 4865.51 ten million and 12412.26 ten million of TR, DTR & ITR in fy 2010/2011 respectively.

However the percentage of DTR & ITR is fluctuating in many Fys. There is small fluctuating in DTR for first 3 Fys. It was 26.14% in Fy 2000/2001. Then after it is decreased by more then 2% for next 3 Fys & finally it reached 28.16% in Fy 2010/2011. Share of DTR is largest in Fy 2008/2009 i.e. 29.32% on the other hand ITR is also fluctuating in different Fys. It was 73.86% in Fy 2000/2001 & decreased to 71.84% in Fy 2010/2011.

In an average 26.45% Contribution of DTR and 73.52% of ITR in total revenue in an average amount of TR is 842.34 ten million. Where 2363.23 ten million is contribution of DTR and 1073.64 ten million is contribution of ITR

Figure 4.1.2
Trend Line Showing Composition of Total Tax Revenue Amounts in ten million

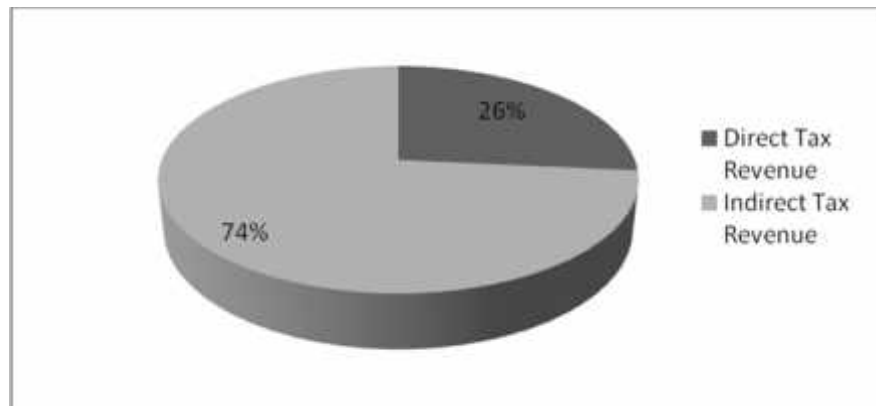


In the above diagram both direct tax revenue and indirect tax revenue are increasing trend. Therefore total tax revenue curve also increasing trend from Fy 2001/2002 to 2010/2011. It is because total revenue is sum of direct tax

revenue and indirect tax revenue. Amount of all revenue with Fys is shown in the figure.

Pie-Chart 4.1.2

Pie-Chart Showing Composition of Total Tax Revenue Amounts in ten million



In the given pie-chart average revenue is shown. Which is collected from 26% is average direct tax revenue and 74% is collect from average indirect tax revenue during the study period.

4.1.3. Composition of Indirect Tax

The tax structure of Nepal is mainly depending upon indirect taxes, which contributes more then direct tax. Nepalese tax is mainly depend upon customs, tax on consumption and product of goods & services, land revenue and registration and tax on property, profit and income.

Customs and tax on consumption and product of goods and services are the component of indirect tax. Customs is collected through imparts, exports, Indian excise refund and others. Where tax on consumption and product of goods and services includes excise on industrial products, VAT and other taxes.

Table 4.1.3 Composition of Indirect tax Revenue

(Amount in ten million)

Fiscal Years	Total Indirect Tax	Customs		Tax on Consumption and of goods and services					
		Amount	%	VAT		Excise		Others	
				Amount	%	Amount	%	Amount	%
2001/2002	2872.43	1265	44.04	1226.73	42.71	380.70	13.25	0.00	
2002/2003	3001.41	1278.32	42.60	1345.97	44.85	377.12	12.57	0.00	
2003/2004	3626.04	1555.48	42.90	1447.89	39.93	622.67	17.17	0.00	
2004/2005	4103.29	1570.16	38.27	1888.54	46.03	644.59	15.71	0.00	
2005/2006	4346.23	1534.40	37.39	2161.07	52.67	650.76	15.86	0.00	
2006/2007	5214.64	1670.76	32.72	2609.56	50.00	934.32	18.00	0.00	
2007/2008	6206.77	2106.24	33.94	2981.57	48.04	1118.96	18.03	0.00	
2008/2009	8273.12	2679.29	32.39	3970.09	47.99	1622.09	19.61	1.65	0.02
2009/2010	11454.49	3515.08	30.69	5492.09	47.95	2430.61	21.22	16.71	0.15
2010/2011	12412.26	3571.16	28.77	6166.36	49.69	2654.29	21.38	20.45	0.17
Average	6151.068	2074.59	37.30	2928.98	47.28	1143.61	17.26	38.81	0.034

Source: Economic Survey of Various Years, Ministry of Finance, GON 2011/2012

ITR is increasing every fys. It was 2872.43 ten million in fy 2001/2002 & reached 12412.26 in Fy 2010/2011. The contribution of custom is increasing in amount in every Fys except Fy 2005/2006. However the % of custom on ITR is 2001/2002 is 44.04%. Then it started to decrease & finally it reached to 28.77%. Therefore there is continuous fall in share of custom.

The share of VAT is fluctuating in % of many Fys. It was 42.71% in Fy 2001/2002 becomes largest in Fy 2006/2007 is 63.60 & finally decreased to 49.68% in Fy 2010. But the amount of VAT is increasing every Fys. That is increased to 6166.36 ten million in Fy 2010/2011 Contribution of excise also fluctuating in different Fys. It was 13.25% in Fy 2001/2002 & reached 21.38% in Fys 2010/2011. The largest share of excise is 22.38% in Fys 2010/2011. The

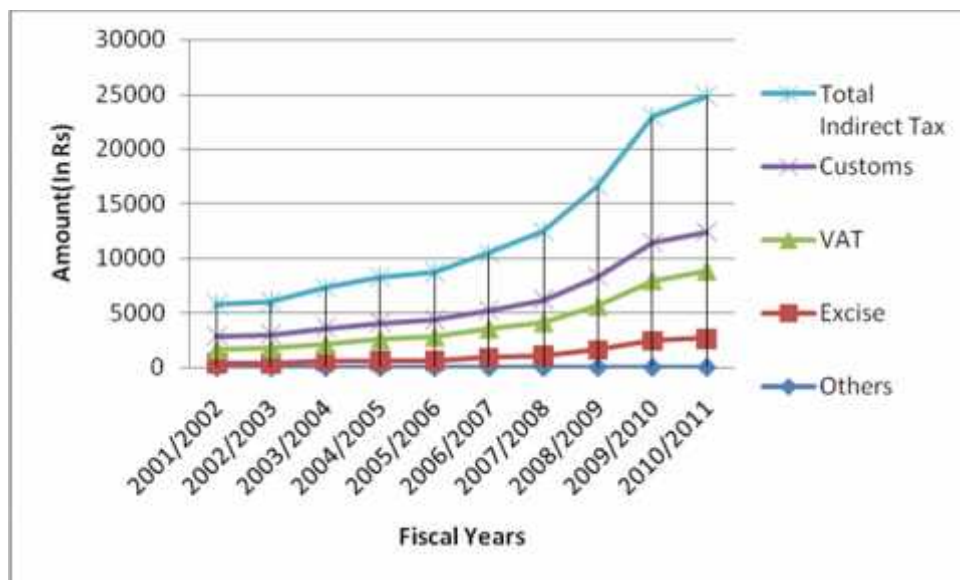
amount of excise is fluctuating in first two years then it is increasing and finally reached to Rs. 2654.29 ten million in Fy 2010/2011.

There is small contribution of other taxes on ITR in last 3 Fys. But the share of other taxes is Zero in other Fys from Fy 2001/2002 to 2007/2008. However the contribution of other taxes is increasing in amount as well as percent.

In an average VAT includes largest percent of ITR i.e. 48.43

Figure 4.1.3

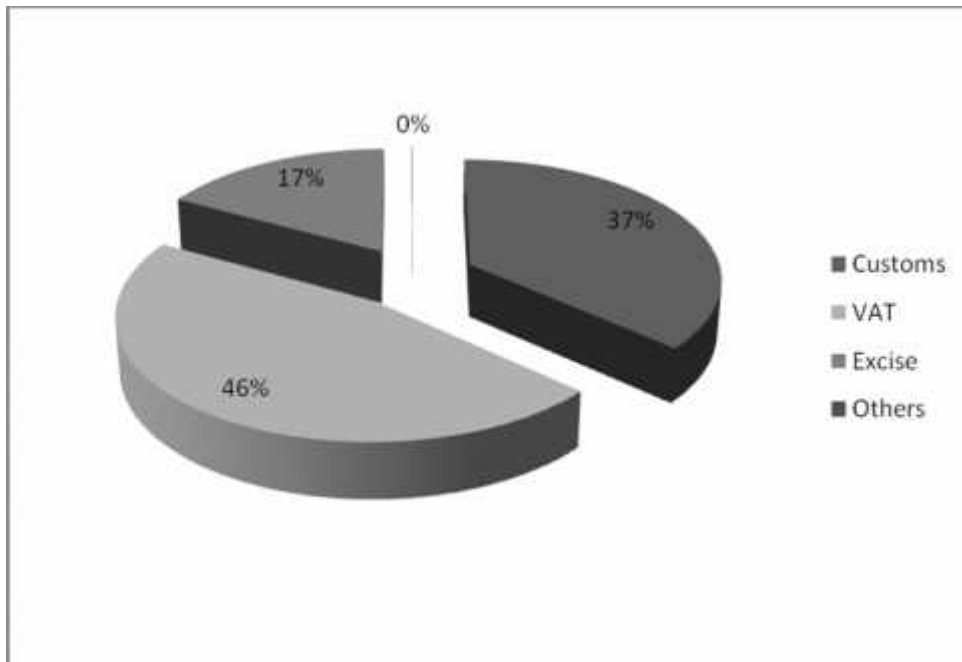
Trend Line Showing Composition of Indirect tax Revenue



In the above diagram all the revenue are increasing trend. But the customs curve is fluctuating in Fy 2003/2004 to 2004/2005 and excise curve is fluctuating in Fy 2001/2002 to 2002/2003. Therefore total indirect tax curve lies above the all other curves because it is the sum of all revenue amounts.

Pie-Chart 4.1.3

Pie-Chart Showing Composition of Indirect tax Revenue



In the given pie-chart composition of indirect tax is shown. In which 46%, 37%, 17% and 0% contribution is made by average VAT, customs, excise and others indirect tax respectively in ten Fys from Fy 2001/2002 to 2010/2011.

4.1.4. Composition of Direct Tax

Land revenue and registration and Tax on property, profit and Income are the major component of Direct tax land revenue & registration includes land revenue and house and land registration. Tax on property, profit and income includes income tax, urban house and land tax vehicle tax, Tax on interest & other taxes. Following table shows the composition of direct tax from

Fy 2000/2001 to Fy 2010/2011.

Table 4.1.4 Composition of Direct tax

(Amount in ten million)

Fiscal Years	Total Direct Tax	Land revenue and registrations				Tax on property, profit and Income						
		Land revenue	House and Land registration	Total	% of Direct tax	Income tax	urban house & land tax	Vehicle tax	Tax on Interest	other taxes	Total	% of Direct tax
2001/2002	1059.75	0.08	113.10	113.18	10.68	843.60	0.23	55.97	46.77	0.00	946.57	89.32
2002/2003	1088.19	-	60.78	60.78	5.59	881.15	0.29	42.96	86.40	16.58	1027.41	94.41
2003/2004	1191.26	-	169.75	169.75	14.25	851.25	-	70.06	73.34	26.86	1021.51	85.75
2004/2005	1307.18	-	179.92	179.92	13.76	940.24	-	80.65	75.70	30.67	1127.26	86.24
2005/2006	1396.81	-	2118.11	218.11	15.62	959.88	-	84.76	77.49	56.57	1178.70	84.39
2006/2007	1898.03	-	225.35	225.35	11.87	1397.91	-	99.50	105.49	69.78	1672.68	88.13
2007/2008	2308.77	-	294.07	294.07	12.74	1622.33	-	106.92	108.79	176.66	2014.70	87.26
2008/2009	3432.07	-	522.33	522.33	15.22	2345.73	-	185	168.51	210.50	2909.74	84.73
209/2010	4175	-	551.11	551.11	13.20	2881.92	-	214.79	246.64	253.50	3623.89	86.80
2010/2011	4865.51	-	357.25	357.25	7.34	3473.80	-	302.26	413.05	319.16	4508.26	92.66
Total	722.50			2691.85	120.27	16187.81					20030.72	879.74
Average	7272.26			269.19	12.03	1619.78					200.30	87.97

Source: Economic Survey of Various Years, Ministry of Finance, GON 2011/2012

The contribution of tax on property, profit & income is always higher than land revenue & registration. Income tax is most important component of Direct tax. It is 843.60 ten million in Fy 2001/2002 & increased to 17062.82 ten million. But amount of income tax is fluctuating in many Fys up to Fy 2004/2005. There is highest incensement in Fy 2009/2010 to 2010/2011. There is small difference between the contribution of vehicle tax and tax on interest contribution of vehicle tax & tax on interest is Rs 55.97 ten million 46.77 ten million in Fy 2001/2002 & increased to 302.26 ten million & 413.05 ten million respectively in Fy 2010/2011. However the amount of both vehicle tax & interest tax are fluctuation in many middle Fys. Other taxes are zero in first Fys for Fy 2001/2002 then it is 16.58 ten million & finally reached 319.16 ten million in Fy 2010/2011.

Tax on property profit & income is fluctuating in different Fys. It is 89.34 in Fy 2001/2002 & decreased to 92.66% in fy 2010/2011. But it includes always higher share of DTR.

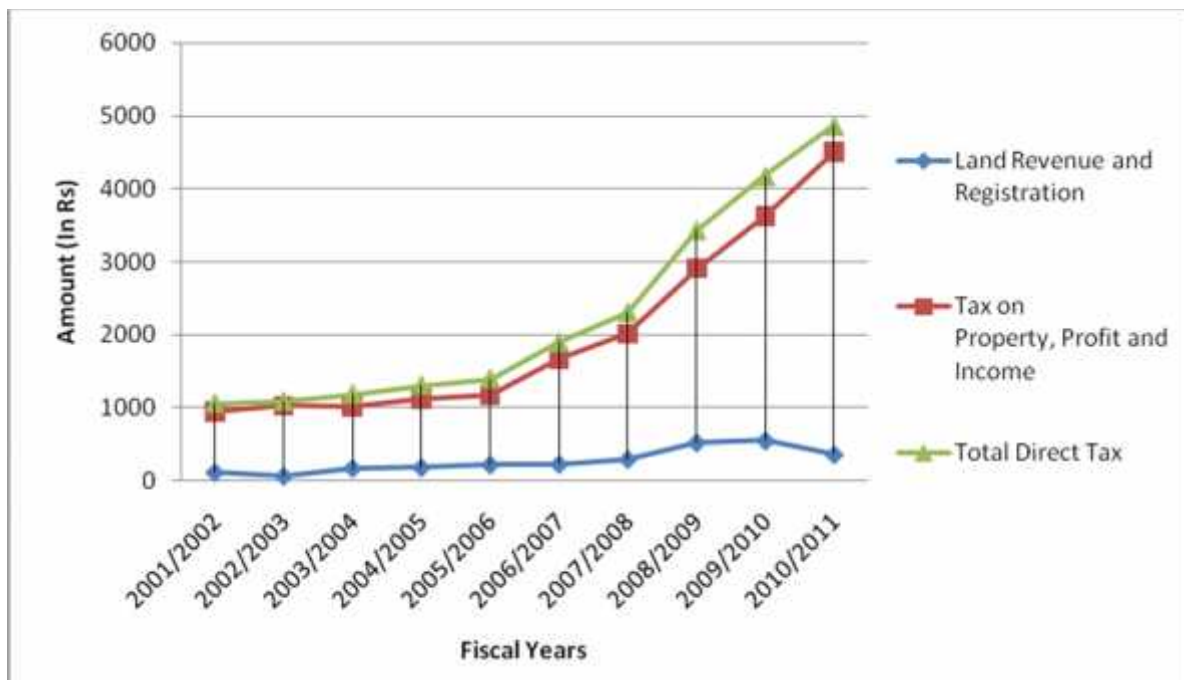
Land revenue and registration is next competent of Total Direct tax contribution of land revenue & registration is 10.68 in Fy 2001/2002 & degreased to 7.34% in Fy 2010/2011. But in the middle Fys it is fluctuating & becomes largest in Fy 2005/2006 is 15.62% But the amount of land revenue & registration is increasing in all the Fy except Fy 2002/2003 and Fy 2010/2011. It is 113.18 ten million in Fy 2001/2002 & increased to 2753.14 in Fy 2010/2011. There is largest incensement in Fy 2009/2010.

House and land registration contributes more then land revenue. Land revenue contributes small amount in Fy 2001/2002 by 0.08 ten million. Then there is no contribution made by land revenue in any Fy house and land registration is increasing except Fy 2002/2003 & Fy 2010/2011. Therefore there is no any difference between total land revenue & registration and land revenue.

In an average 87.97% contribution is made by tax on property, profit and income & 12.03% contribution is made by land revenue & registration. Therefore there is higher share of tax on property, profit & income in total direct tax.

Figure 4.1.4

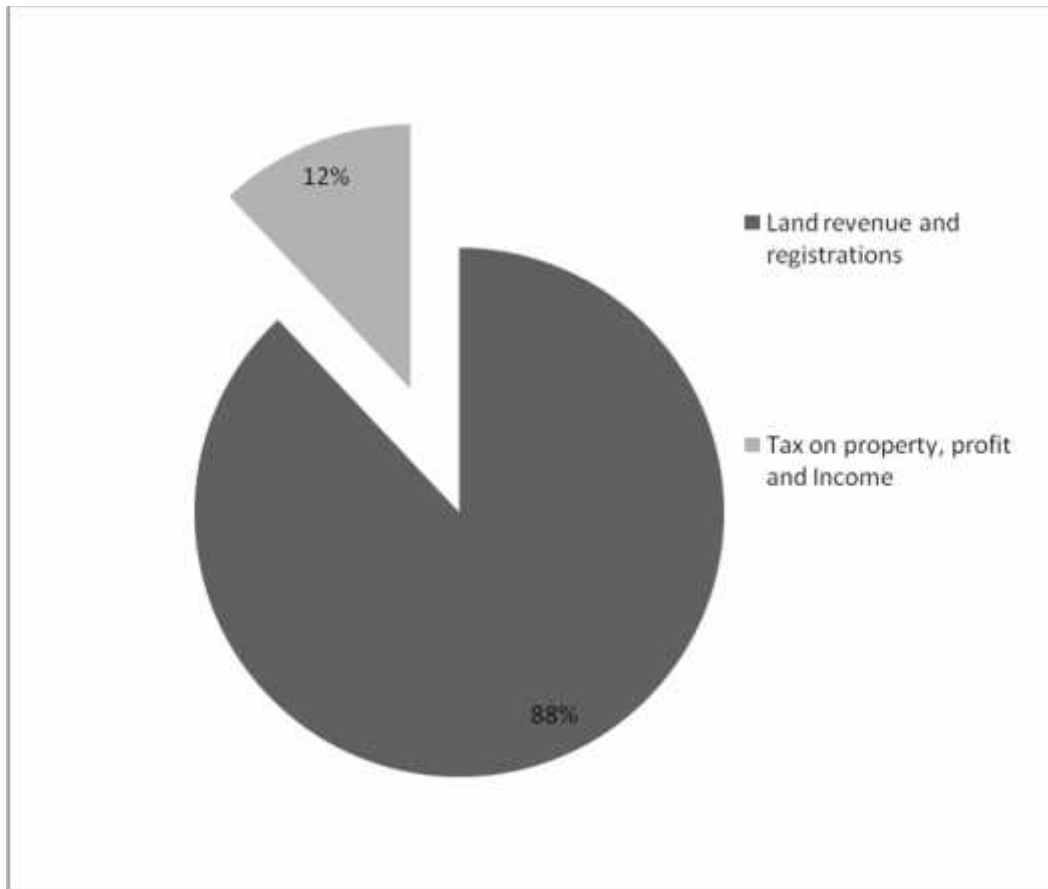
Trend Line Showing Composition of DTR



In the above figure tax on property, profit and income tax curve is in fluctuating in different Fys and finally increased to Rs 4508.26 ten million in Fy 2010/2011. But tax on land revenue and registration curve is fluctuating in different Fys and finally decreased to Rs 357.25 ten million. But total direct tax curve is increasing trend because it is the sum of land revenue and registration and tax on property, profit and income tax.

Pie-Chart 4.1.4

Pie-Chart Showing Composition of DTR



Given pie-chart show the average direct tax. In which 12% average contribution is made by land revenue tax and 88% average contribution is made by tax on property, profit and income in Fy 2001/2002 to 2010/2011.

4.1.5. Contribution on GDP from Revenue.

Total Tax Revenue, Direct Tax Revenue and Indirect Tax Revenue

Table 4.1.5**TR, TTR, DTR & ITR as a percentage of Gross Domestic product at producer's price.**

(Amount in ten million)

Fiscal Year	GDP at producer's	Total Revenue		Tax Revenue		Direct Tax revenue		Indirect tax revenue	
		Amount	%	Amount	%	Amount	%	Amount	%
2001/2002	45944.30	5044.66	10.98	3933.06	8.56	1059.75	2.31	2872.43	6.25
2002/2003	49223.10	5453.89	11.08	4089.60	8.31	1088.19	2.21	3001.43	6.10
2003/2004	53674.90	6233.10	11.61	4817.30	8.98	1191.26	2.22	3626.04	6.76
2004/2005	58941.20	7012.27	11.90	5410.47	9.18	1307.18	2.22	4103.29	6.97
2005/2006	65408.40	7228.19	11.05	5743.04	8.78	1396.81	2.14	4346.23	6.65
2006/2007	72782.70	8771.21	12.05	7112.67	9.77	1898.09	2.61	5214.64	7.17
2007/2008	81565.80	10762.25	13.20	8515.55	10.44	2308.77	2.83	6206.77	7.61
2008/2009	98805.30	14347.79	14.52	11705.19	11.85	3432.07	3.47	8273.12	8.37
209/2010	117190.50	17994.58	15.36	15629.49	13.34	4175	3.56	11454.49	9.77
2010/2011	136943.	19981.87	14.59	17277.76	12.34	4865.51	3.55	12412.26	9.06
Total	18744790.2	984298.1	126.34	842.34	9.71	62722.57	29.49	641510.7	74.71
Average	183447.90	9842.98	12.36	8423.41	9.71	6272.26	2.95	64151.07	7.77

Source: Economic Survey of Various Year Ministry of Finance, Government 2011/2012

In the above table GDP itself is increasing from Fy 2001/2002 to Fy 2010/2011. It is 45944.30 ten million in Fy 2001/2002 & increased to 136943 ten million in Fy 2010/2011. Contribution of TR on GDP is fluctuating between 10.98%-14.59% (i.e. 5044.66 ten million to 19981.87 ten million) from Fy 2001/2002 to 2010/2011 TR itself is increasing every Fys. Next component of GDP is tax revenue. Tax revenue itself is increasing in every Fys. It is Rs 3933.06 ten million in Fy 2001/2002 & increased to 17277.76 ten million in Fy 2010/2011. But the percent of tax revenue is fluctuating between 8.56% to 12.62% from Fy 2000/2001 to 2010/2011.

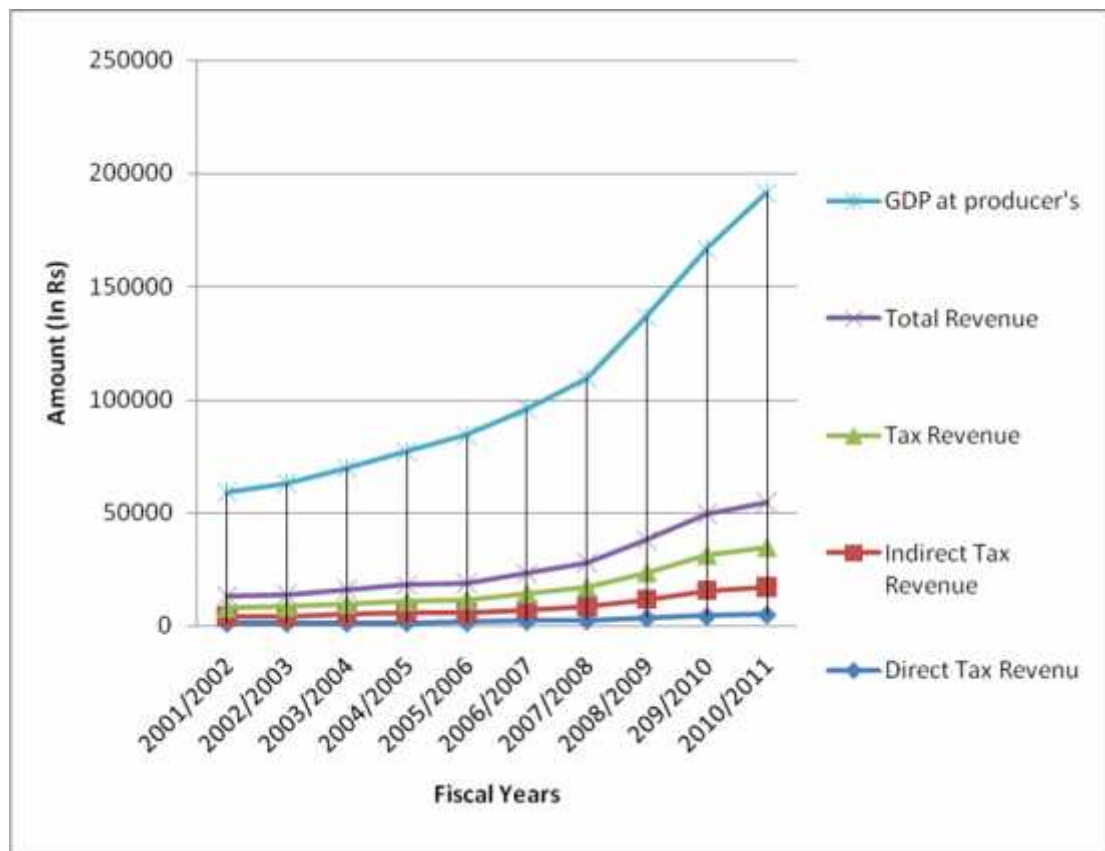
Contribution of direct tax is 23% in Fy 2001/2002 & increased to 3.55% in Fy 2010/2011. The direct tax is fluctuating in different middle Fys.

Finally the next component indirect tax revenue has contribution of 6.250% & 9.06% in Fy 2001/2002 & 2010/2011 respectively. It is also fluctuating in middle Fys & becomes largest in Fy 2009/2010. Therefore the indirect tax revenue has also largest contribution on GDP.

The average contribution of total revenue, tax revenue, direct tax revenue & indirect tax revenue is 12.63%, 9.14%, 2.95% & 7.47% respectively.

Figure 4.1.5

Trend Line Showing TR, TTR, DTR & ITR as a percentage of Gross Domestic product at producer's price

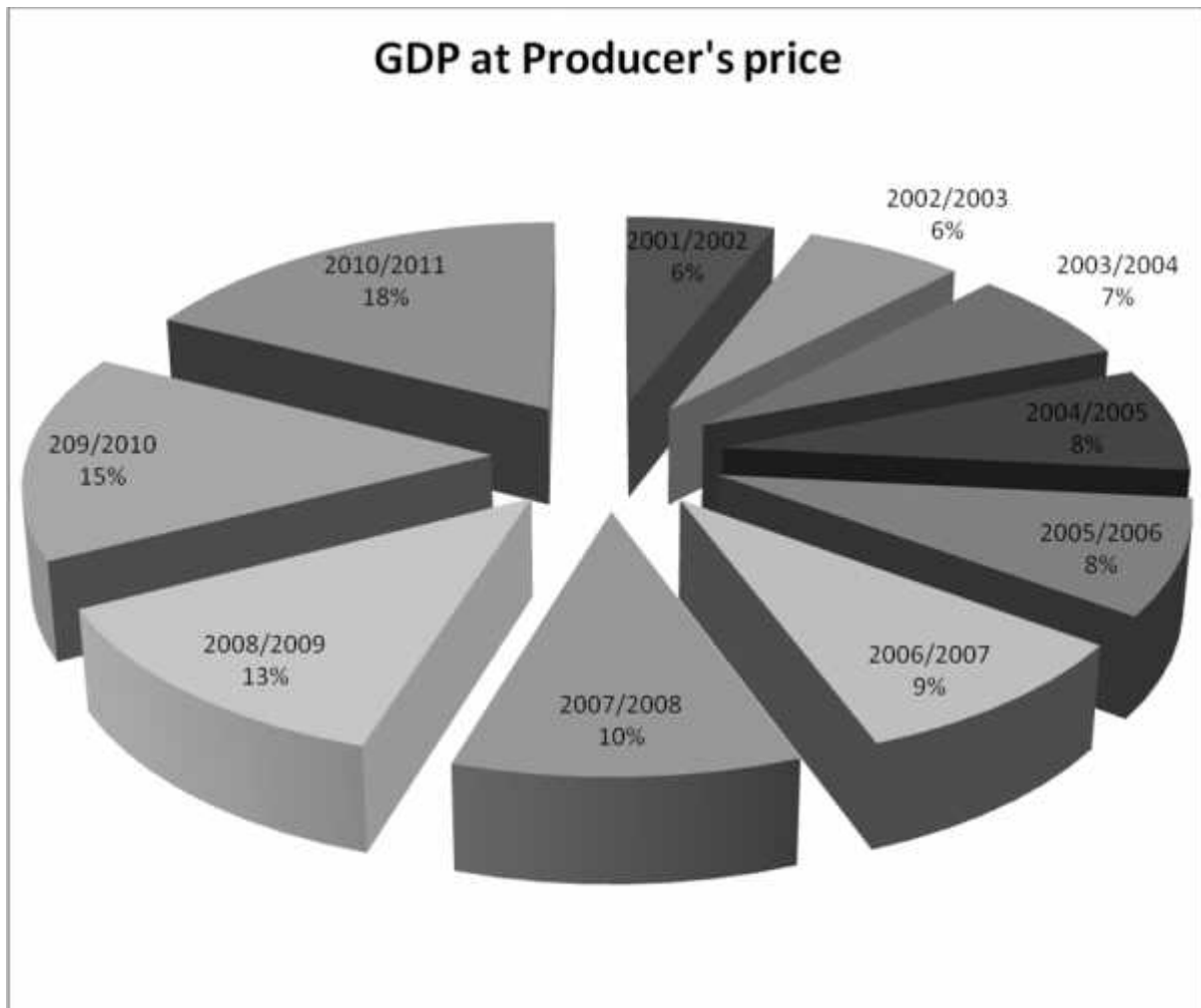


Above figure shows all the curves are increasing trend form Fy 2001/2002 to 2010/2011. It means GDP, Total revenue, Total tax revenue,

Direct tax revenue and Indirect tax revenue are increasing in amount. The revenue which has low share lies below and which has high share lies above in diagram.

Pie-Chart 4.1.5

Pie-Chart Showing GDP at Producer's Price



Given Pie-chart shows collection of GDP in different Fys. In Fy 2001/2002 it is 6% and in Fy 2010/2011 it is 18% which is largest in this Fy. Therefore GDP is increasing in every Fys.

4.1.6 Structure of Income Tax in Nepal

In Nepal income tax is collected from public enterprise, semi-public enterprises, private corporate bodies, Individuals, remuneration and tax on interest. Following table shows the structure of income tax in Nepal.

Table 4.1.6 Structure of Income tax in Nepal

(Amount in ten million)

Fiscal Years	Total income Tax	Public Enterprise		Semi-public Enterprises		Private Corporate bodies		Individuals		Remuneration		Tax on Interest	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
2001/2002	890.37	176.93	19.87	-	-	141.20	15.86	441.91	49.64	83.56	9.39	46.77	5.26
2002/2003	967.58	292.80	30.26	-	-	192.43	19.89	336.22	34.75	59.73	6.17	86.40	8.93
2003/2004	924.59	205.66	22.24	-	-	153.13	16.56	353.34	38.22	139.12	15.05	73.34	7.93
2004/2005	1015.94	133.24	13.12	-	-	246.78	24.29	392.63	38.65	167.59	16.50	75.70	7.45
2005/2006	1037.37	19.57	1.90	-	-	340.43	32.82	423.47	40.83	176.41	17.00	77.49	7.47
2006/2007	1503.40	101.97	6.78	-	-	571.71	38.03	523.44	34.82	200.79	13.36	105.49	7.02
2007/2008	1730.82	20.46	1.18	-	-	718.65	41.52	638.12	36.87	245.10	14.16	108.49	6.27
2008/2009	2514.40	95.91	3.81	-	-	942.51	37.49	987.75	39.28	319.56	12.71	168.51	6.71
209/2010	3128.56	113.18	3.62	-	-	1223.44	39.12	1103.99	35.29	411.31	14.11	246.64	7.88
2010/2011	3886.85	128.18	3.30	-	-	1396.55	35.93	1362.74	35.06	586.33	15.09	413.05	10.63
Total	1799.88	1287.9	86.21	-	-	5926.83	301.51	6563.61	383.41	2419.5	133.54	1401.88	67.62
Average	1759.99	128.79	8.62	-	-	592.68	30.15	656.36	38.34	241.95	13.35	140.19	6.76

Source: Economic Survey of Various Year Ministry of Finance, Government 2011/2012

In the above 4.1.6 table total income tax is Rs 890.37 ten million in Fy 2001/2002 & increased to Rs. 3886.85 ten million in Fy 2010/2011. There is changes in Income tax. It means income tax is fluctuating only up to first 2 Fys up to Fy 2003/2004.

Public enterprise contributes largest share in Fy 2001/2002 is 19.87 ten million & it is decreased to 3.30% in Fy 2010/2011 & it is least in Fy 2007/2008 is 1.18% similarly the amount of public enterprise also fluctuating in different middle years & finally it decreased to 128.18 ten million in Fy 2010/2011.

There is no contribution made by the semi-public enterprise on total income tax private corporate bodies contribution is increased from 15.86% to 35.93% from Fy 2001/2002 to 2010/2011. But the percentage contribution of private corporate bodies is also fluctuating in middle Fy. But the amount of private corporate bodies is changing from Fy 2001/2002 to Fy 2003/2004. Then it start to increase & becomes Rs 1396.55 ten million in Fy 2010/2011.

Income from individuals also contributes between 441.91 ten million & 1362.74 ten million from Fy 2001/2002 to Fy 2010/2011. Individual income tax is fluctuating only from Fy 2001/2002 to Fy 2004/2005. Then it starts to increase. Percentage of individual income tax is fluctuating between 49.64% to 35.06% It is largest in fy 2001/2002 is 49.64. Income tax from remuneration is also in increasing from Fy 2003/2004 to Fy 2010/2011 i.e. 139-12 ten million to Rs 586.33 ten million. In first year it is 83.56 ten million then it is decreased 59.73 ten million in Fy 2002/2003. But the percentage contribution remuneration is fluctuating between 9.39% to 15.09% from Fy 2001/2002 to Fy 2010/2011. Largest percentage contribution in Fy 2005/2006 is 17%.

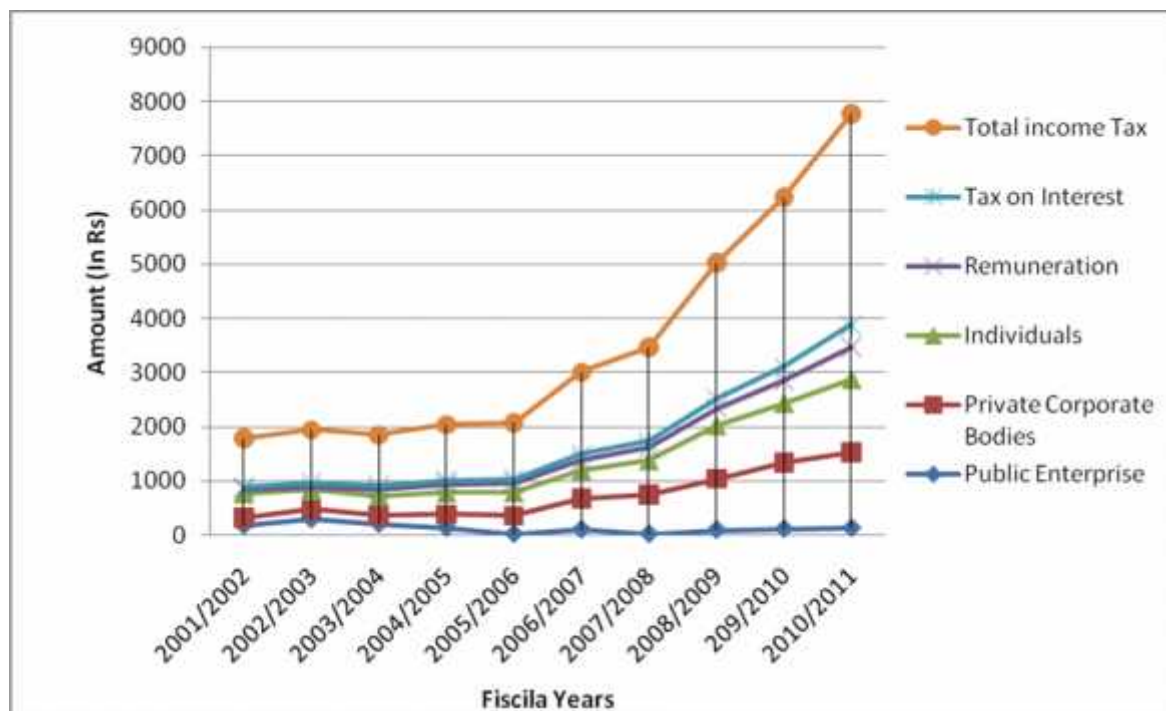
Percentage Contribution of tax on interest also increase from Fy 2001/2002 to Fy 2010/2011, i.e. 5.26% to 10.63%.But it is also fluctuating in different middle

Fys. In amount contribution of tax on interest is 46.77 ten million if Fy 2001/2002 & increased to Rs 413.05 ten million in Fy 2010/2011. Amount of tax on interest is decreased in only one time. That is decreased from Rs86.40 ten million to 73.34 ten million from Fy 2003/2004 to Fy 2010/2011.

Largest average contribution on total income tax is made by individual income tax is 38.34% Average contribution of 8.62, 30.15, 13.35 & 6.76% made by public enterprise, private corporate bodies, remuneration & tax on interest respectively.

Figure 4.1.6

Trend Line Showing Structure of Income tax in Nepal

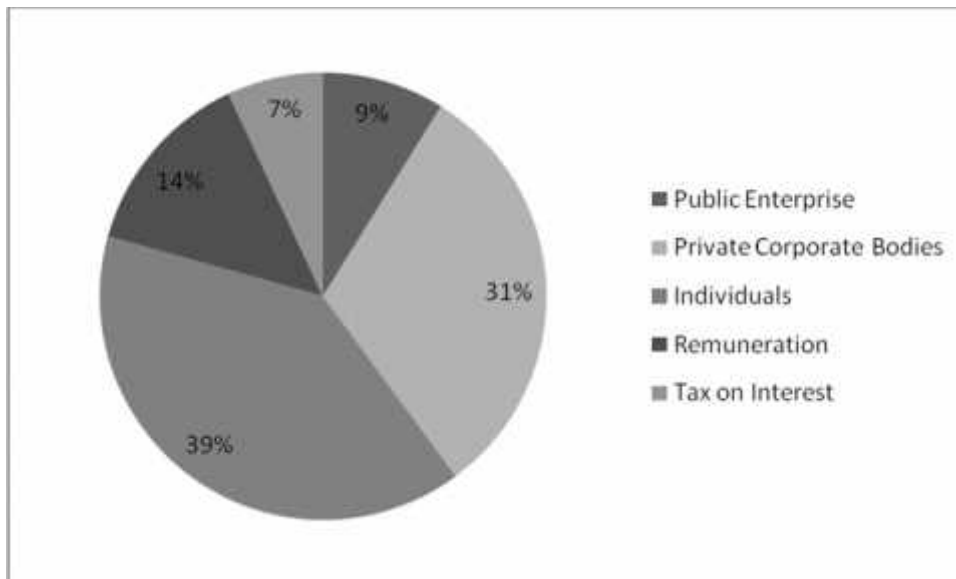


In the given figure total income tax is increasing trend up to Fy 2004/2005. Then after it start to increase by large amount from Fy 2005/2006 to Fy 2010/2011. Public enterprise curve is fluctuating different Fys. Private corporate bodies curve is fluctuating up to Fy 2003/2004 and then after it is increasing trend. Individuals curve is also fluctuating up to Fy 2004/2005 and

then it is also increasing trend. But the remuneration curve is fluctuating in Fy 2002/2003 and then after it is in increasing trend. Finally tax on interest curve is increasing from Fy 2001/2002 to 2010/2011.

Pie-Chart 4.1.6

Pie-Chart Showing Structure of Income tax in Nepal



Above pie-chart shows average income tax collected in Fy 2001/2002 to 2010/2011. In which 39% average contribution is made by individual tax, 31% average contribution is made by private corporate bodies, 14% average contribution is made by remuneration, 7% average contribution is from tax on interest and average contribution of 9% is made by public enterprise.

4.2 Government Revenue Collection from Income tax of NTC

4.2.1 Role of NTC

Telecommunication is the one of the most fastest and scientific modern means of communication. Therefore it helps to the government as well as individuals to exchange their news, attitude and view with each other. With the

help of telecommunication it is easier to the government to operate economic and social work with in the country. There are other means of communication also like postal service. Transportation, Radio, TV etc. Out of them radio & TV are one way communicating but the postal services and transportation are more expensive and inconvenient then the telecommunication. With help of telephone different plans, policies and directions are sent to the department or branch to do the work in right time. It helps to increase productivity. Therefore Telecommunication has greater role in the country to utilize the resources available in the country.

Not only for the domestic purpose but international activities are also performed with the help of telecommunication. It makes link between neighbour country and overseas countries. Therefore there is good relation between foreign and tourism increase in our country for different purpose. Similarly telephone helps to talk between the Nepalese workers who are working out of out country.

Because of telephone peoples activities are also increase in rural & urban areas. Business activities are completely depend upon telephone. Living standard of people in rural area also rising & they are feeling some easier in their life. Their agricultural productivity also searching market for sales. As a whole their life start to become standard. Therefore telecom has vital role in the developing country Nepal.

4.2.2. An Introductory Profile of Nepal Telecom

Mission

"Nepal Telecom as a progressive, customer spirited and consumer responsive Entity is committed to provide nation-wide reliable telecommunication service to serve as an impetus to the social, political and economic development of the Country"

Vision

"Vision of Nepal Telecom is to remain a dominant player in telecommunication sector in the Country while also extending reliable and cost effective services to all"

Goal

"Goal of Nepal Telecom is to provide cost effective telecommunication services to every nook and corner of country"

4.2.3. Service Provided by NTC

PSTN Service

- J Local calls
- J National Trunk Calls
- J International Trunk Calls
- J International Telegram
- J Domestic Telex
- J International Telex
- J Leased Lines
- J Operator -Assisted Int'l Telephone
- J Packet Switching Data Communication
- J ISDN (Integrated services Digital Network)
- J Pay Phone
- J Intelligent Network Services
- J PCC Easy Call Service
- J HCD Service
- J AFS Advanced Free phone Service
- J Universal Access Number service
- J PSTN credit Limit service

CDMA

- J Fixed Postpaid.
- J Fixed Prepaid.
- J SKY phone.

Mobile

- J Postpaid
- J Prepaid
- J Roaming (Incoming & Outgoing)
- J SMS
- J 3G Service
- J VAS Services

Internet and E-mail.

- J Dial -up Internet /Email Access
- J PSTN Dial-up
- J Fixed hour package
- J Night Surfing Package
- J Fixed hour / month package
- J Unlimited Single User Package
- J PSTN Bills in the Internet
- J Post-Paid Mobile Bills
- J Telephone Inquiry
- J ISDN dialup
- J Leased Line Connectivity (n*64kbps)
- J Web SMS

4.2.4. Share on corporate Income tax from Income Tax of NTC

Corporate Income tax is collected from public enterprise & private corporate bodies. The contribution made by income tax of NTC to corporate income is shown in the following table.

Following table shows the NTC is important source of income tax of Government.

Table 4.2.4

Share on corporate Income tax from Income Tax of NTC

(Amount in ten million)

Fiscal Year	Corporate Income tax	Income tax from NTC	Income tax from NTC as % of corporate Income tax
2001/2002	318.13	85.2133	26.79
2002/2003	485.23	100.5337	20.72
2003/2004	358.79	126.0550	35.13
2004/2005	380.02	137.9068	36.30
2005/2006	360.0	190.7080	52.97
2006/2007	673.68	233.0633	34.60
2007/2008	739.11	313.0319	42.35
2008/2009	1038.42	364.2589	35.08
209/2010	1336.62	446.7920	33.43
2010/2011	1524.73	492.7428	32.32
Total	7214.73	2490.3057	349.69
Average	721.47	249.03	34.97

Source: Economic Survey of Various Year Ministry of Finance, Government 2011/2012 & Annual Reports of NTC (P/L A/C)

In the above table corporate income tax is Rs 318.13 ten million in Fy 2001/2002 & it reached to Rs 1524.73 ten million in Fy 2010/2011. It seems to be increased. But the it went up & down up to Fy 2005/2006, then it is increasing.

Income tax from NTC in Fy 2001/2002 is 85.2133 ten million & increased to Rs 492.7428 ten million in Fy 2010/2011. The income tax paid by NTC is increasing every year in amount.

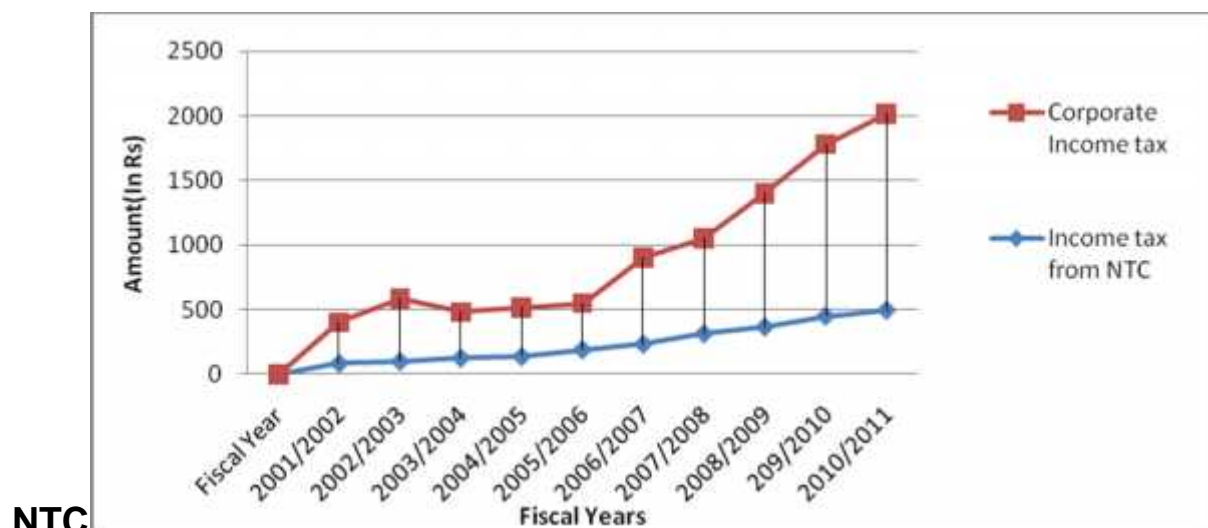
However the percentage contribution on corporate income tax by NTC is fluctuation in different Fys. It is contributing between 26.79% to 32.32% it has highest contribution in Fy 2005/2006 is 52.97%.

In an average Rs 721.47 ten million is corporate income tax collected by government where the share of NTC income tax in amount is Rs 249.03 ten million & 34.97 percent. There NTC has great share on corporate income tax.

The contribution of NTC income tax on corporate income tax is shown in the following figure also.

Figure 4.2.4

Trend Line showing Share on corporate Income tax from Income Tax of

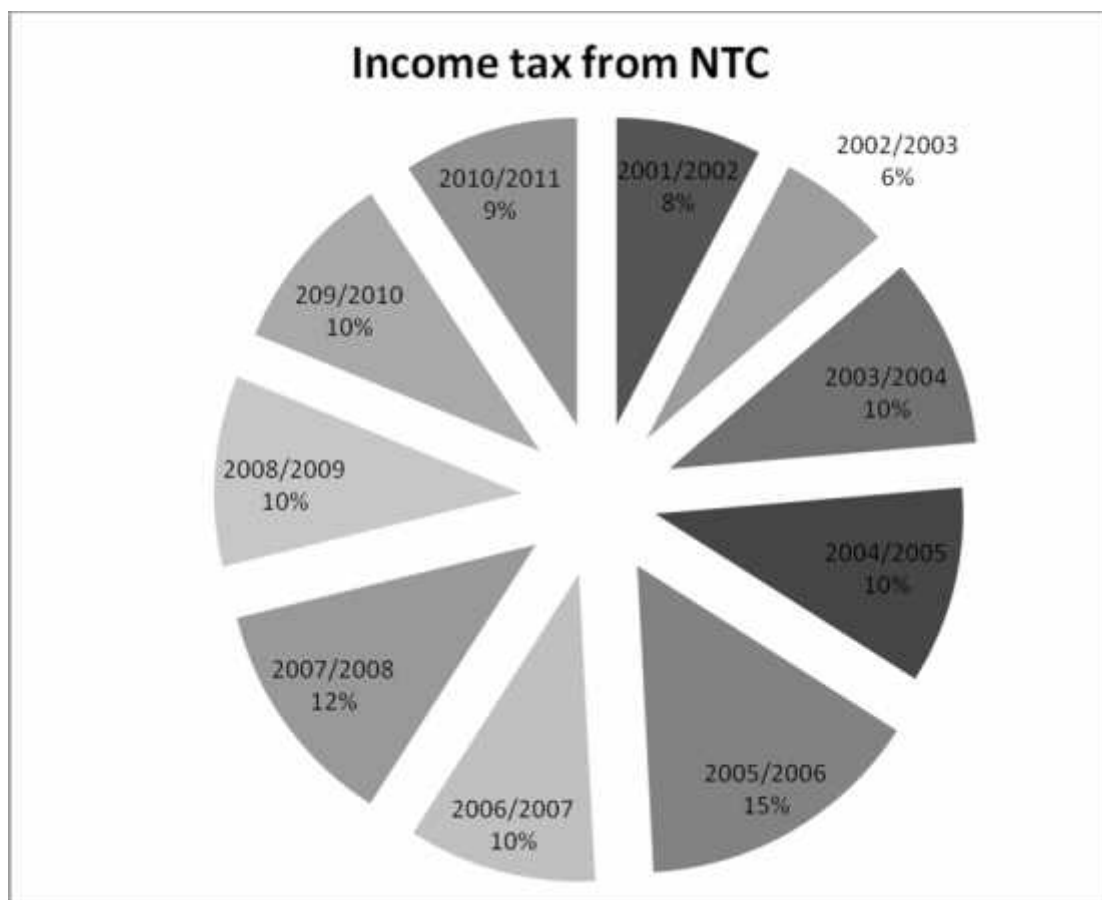


NTC

In the above diagram corporate income tax is increasing of to Fy 2002/2003. And then it is fluctuating up to Fy 2005/2006, and then it is in increasing trend. But the income tax from NTC curve is increasing trend from Fy 2001/2002 to 2010/2011.

Pie-Chart 4.2.4

Pie-Chart Showing Share on corporate Income tax from Income Tax of NTC



In the given pie-chart income tax from NTC is shown. Which is collected from Fy 2001/2002 to 2010/2011. The largest income tax from NTC is collected in Fy 2005/2006 is 15%. And smallest income tax is collected in Fy 2002/2003 is 6%.

4.2.5. Share on Direct tax revenue from income tax of NTC.

Following table shows contribution on Direct tax from income tax of NTC

Table 4.2.5

Share on Direct tax revenue from income tax of NTC.

(Amount in ten million)

Fiscal Year	Direct tax Revenue	Income tax from NTC	Income tax from NTC as % of Direct Tax Revenue
2001/2002	1059.75	85.2133	8.04
2002/2003	1088.19	100.5337	9.24
2003/2004	1191.26	126.0550	10.58
2004/2005	1307.18	137.9068	10.55
2005/2006	1396.81	190.7080	13.65
2006/2007	1898.09	233.0633	12.28
2007/2008	2308.77	313.0319	13.56
2008/2009	3432.07	364.2589	10.61
2009/2010	4175.00	446.7920	10.72
2010/2011	4865.51	492.7428	10.13
Total	22722.63	2490.3057	109.36
Average	2272.26	249.03	10.94

Source: Economic Survey of Various Year Ministry of Finance, Government 2011/2012 & Annual Reports of NTC (P/L A/C)

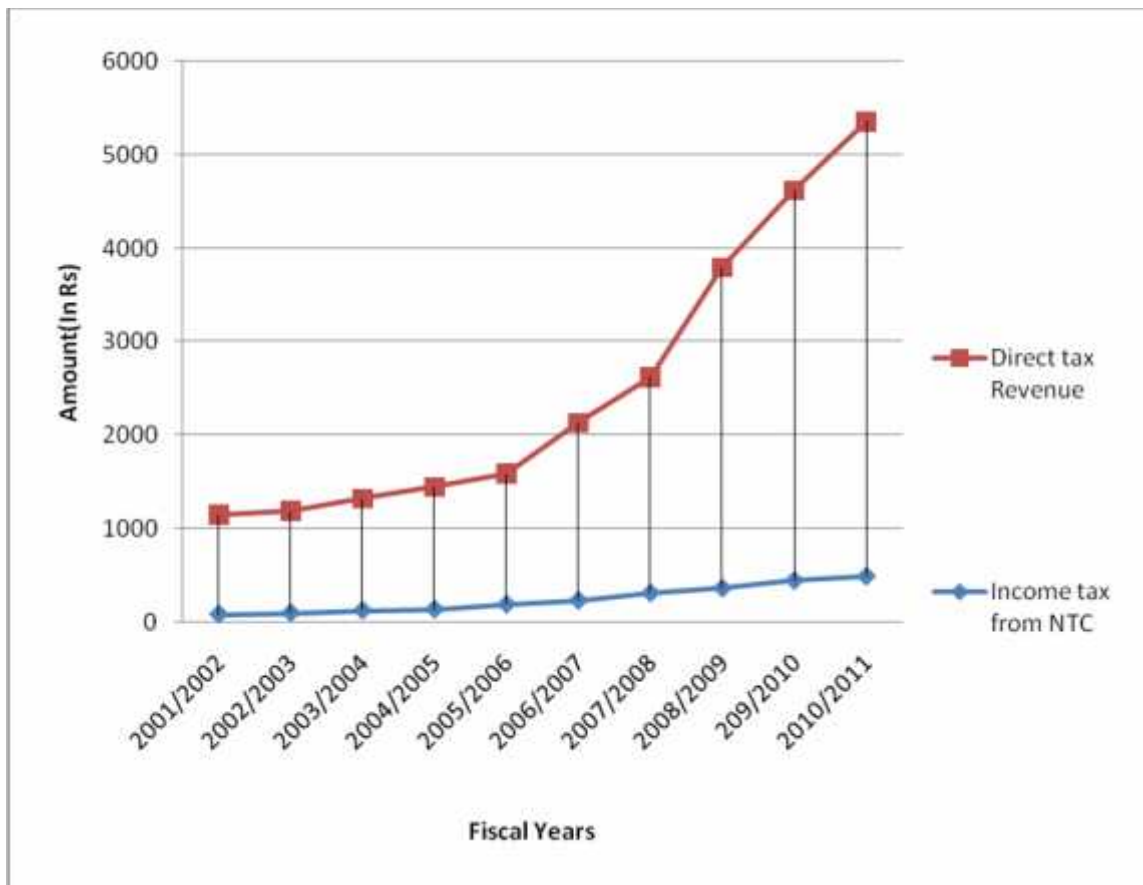
The share of income tax from NTC on Direct tax revenue is also greater in percent, where the count of income tax from NTC is not changed. Percentage contribution made by NTC is 8.04% in Fy 2001/2002 & increased to 10.13% in Fy 2010/2011. It is increased by 2.09%. But it went up & down in the middle

Fys. Because increasing rate of Direct Tax Revenue is less then the increasing rate of income tax paid by NTC.

In an average 10.94% contribution is made by NTC on direct tax revenue in 10 Fys. Following figure shows the contribution made by NTC on direct tax revenue.

Figure 4.2.5

Trend Line Showing Share on Direct tax revenue from income tax of NTC.



In the above figure both direct tax revenue curve and income tax form NTC curves are increasing trend from Fy 2001/2002 to 2010/2011. It means NTC contributes in direct tax revenue is increasing in different Fys.

4.2.6. Share on Total Tax Revenue from Income tax of NTC

Following table shows the share on total tax revenue from income tax of NTC tax revenue from income tax of NTC

Table 4.2.6

Share on Total Tax Revenue from Income tax of NTC

(Amount in ten million)

Fiscal Year	Tax revenue	Income tax from NTC	Income tax from NTC as % of Tax revenue
2001/2002	3933.06	85.2133	2.18
2002/2003	4089.60	100.5337	2.46
2003/2004	4817.30	126.0550	2.62
2004/2005	5410.47	137.9068	2.55
2005/2006	5743.04	190.7080	3.32
2006/2007	7112.67	233.0633	3.28
2007/2008	8515.55	313.0319	3.68
2008/2009	11705.19	364.2589	3.11
2009/2010	15629.49	446.7920	2.86
2010/2011	17277.70	492.7428	2.85
Total	84234.07	2490.3057	28.91
Average	8423.41	249.03	2.89

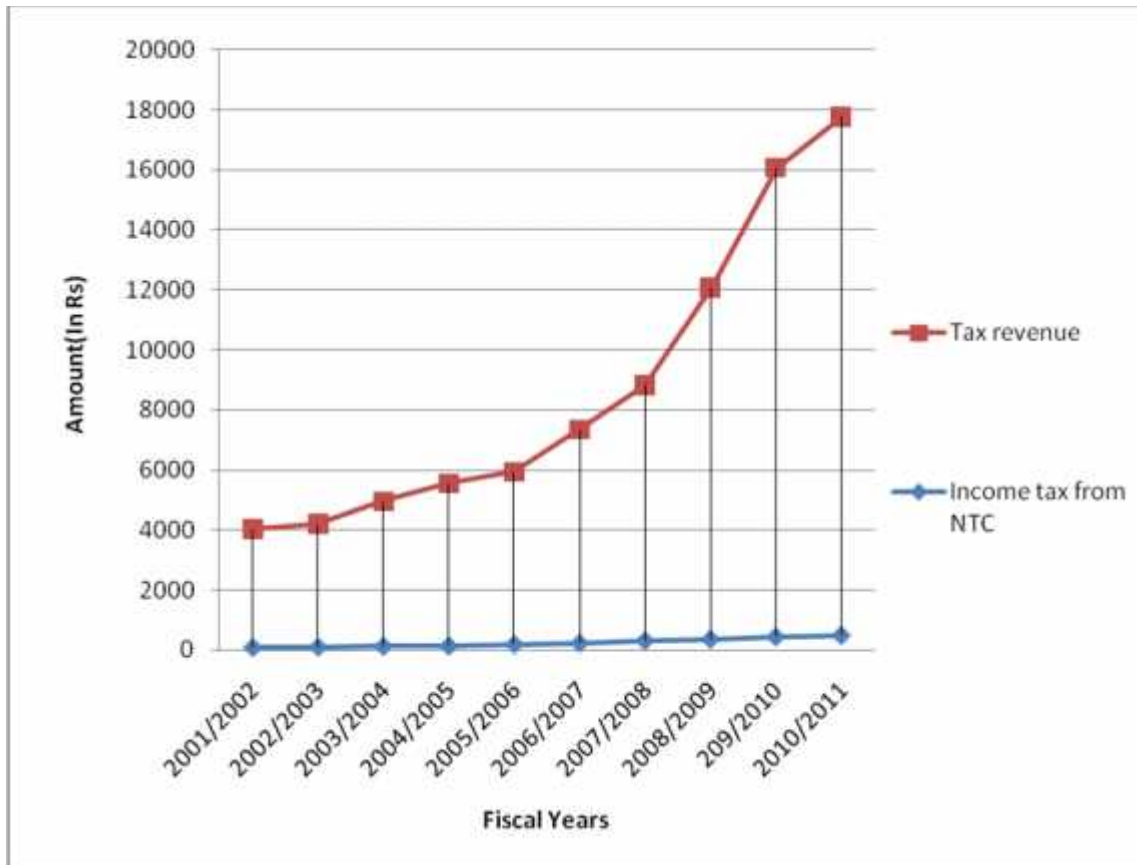
Source: Economic Survey of Various Year Ministry of Finance, Government 2011/2012 & Annual Reports of NTC (P/L A/C)

In the above table contribution made by NTC income tax on tax revenue is fluctuating in different Fys. It is 2.18% in Fy 2001/2002 & reached 2.85% in Fy 2010/2011. But there is 3.68% largest share in Fy 2007/2008.

But in an average 2.89% contribution is made by NTC on tax revenue. But the contribution in amount is constant i.e. Rs 249.031 ten million.

Figure 4.2.6

Trend Line Showing Share on Total Tax Revenue from Income tax of NTC



In the above figure tax revenue and income tax from NTC are increasing trend from Fy 2001/2002 to 2010/2011. The gap between tax revenue curve and income tax from NTC curve is large. It means the income tax of NTC contributes by small percent then the contribution made on direct tax revenue.

4.2.7. Share on Total Revenue of Government from Income tax of NTC.

Following table shows the contribution from NTC to government revenue.

Table 4.2.7**Share on Total Revenue of Government from Income tax of NTC.**

(Amount in ten million)

Fiscal Year	Total Revenue	Income tax from NTC	Income tax from NTC as % of Total Revenue
2001/2002	5044.66	85.2133	1.69
2002/2003	5453.89	100.5337	1.84
2003/2004	6233.10	126.0550	2.02
2004/2005	7012.27	137.9068	1.97
2005/2006	7228.19	190.7080	2.64
2006/2007	8771.21	233.0633	2.66
2007/2008	10762.25	313.0319	2.91
2008/2009	14347.79	364.2589	2.54
2009/2010	17994.58	446.7920	2.48
2010/2011	19981.87	492.7428	2.47
Total	4243.13	2490.3057	23.22
Average	8423.41	249.03	2.32

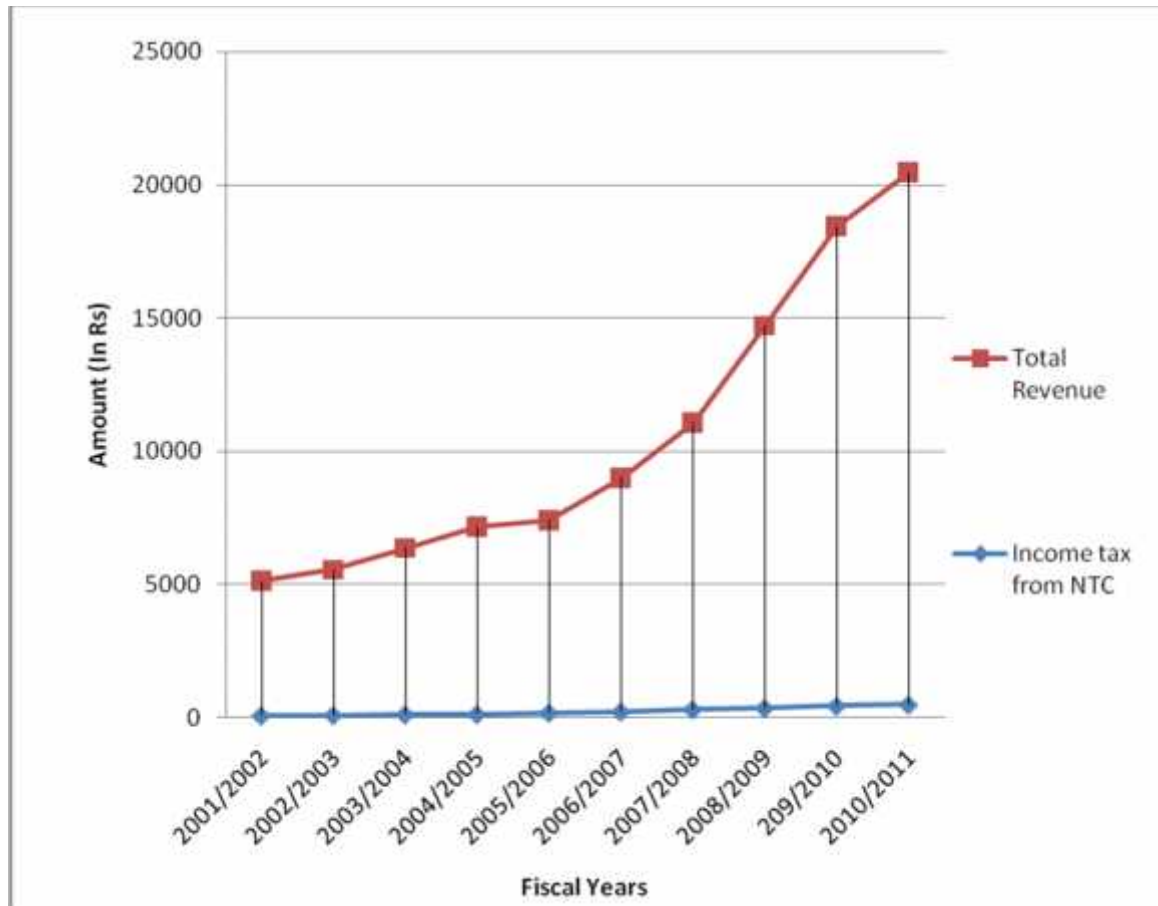
Source: Economic Survey of Various Year Ministry of Finance, Government 2011/2012 & Annual Reports of NTC (P/L A/C)

In the above table share of NTC income tax on Total Revenue is 1.69% in Fy 2001/2002 & it increased to 2.47% in Fy 2010/2011. But the % contribution of NTC income tax is fluctuating in middle Fys. Similarly average share of Rs 249.031 ten million in Total Revenue of Government. Therefore the contribution made by NTC on total revenue is also important.

The share of NTC income tax on Total Revenue is shown in the following Figure also

Figure 4.2.7

**Trend Line Showing Share on Total Revenue of Government from
Income tax of NTC.**



In the above figure contribution of income tax from NTC is small then contribution made on tax revenue. Total revenue is increasing trend and income tax from NTC is also increasing trend. But the contribution of NTC on total revenue is by small percent in different Fys. It is because total revenue is the sum of tax and non tax revenue.

4.2.8. Share on GDP of Nepal from Income Tax of NTC

Income tax of NTC Contributes on GDP as follows.

Table 4.2.8**Share on GDP of Nepal from Income Tax of NTC.**

(Amount in ten million)

Fiscal Year	GDP	Income tax from NTC	Income tax from NTC as % of GDP
2001/2002	45944.30	85.2133	0.012
2002/2003	49223.10	100.5337	0.204
2003/2004	53674.90	126.0550	0.235
2004/2005	58941.20	137.9068	0.234
2005/2006	65408.40	190.7080	0.292
2006/2007	72782.70	233.0633	0.839
2007/2008	81565.80	313.0319	0.384
2008/2009	98805.30	364.2589	0.369
2009/2010	117190.50	446.7920	0.381
2010/2011	136943.0	492.7428	0.360
Total	187374.72	2490.3057	3.331
Average	187374.172	249.03	0.331

Source: Economic Survey of Various Year Ministry of Finance, Government 2011/2012 & Annual Reports of NTC (P/L A/C)

In the above table percentage contribution made by NTC income tax on GDP is 0.012% in Fy 2001/2002 & it becomes 0.360% in Fy 2010/2011. It is fluctuating in the middle Fys. Average percent of NTC income tax 0.331% of GDP. NTC has great share on GDP because GDP is collected from many source as follows, Agriculture & forestry Fishing

Mining & Quarrying

Manufacturing

Electricity goal and water

Contribution

Whole sale and retail trade

Hotel & restaurants

Transport, storage & communication etc

Financial intermedial

Realestate renting & business activities

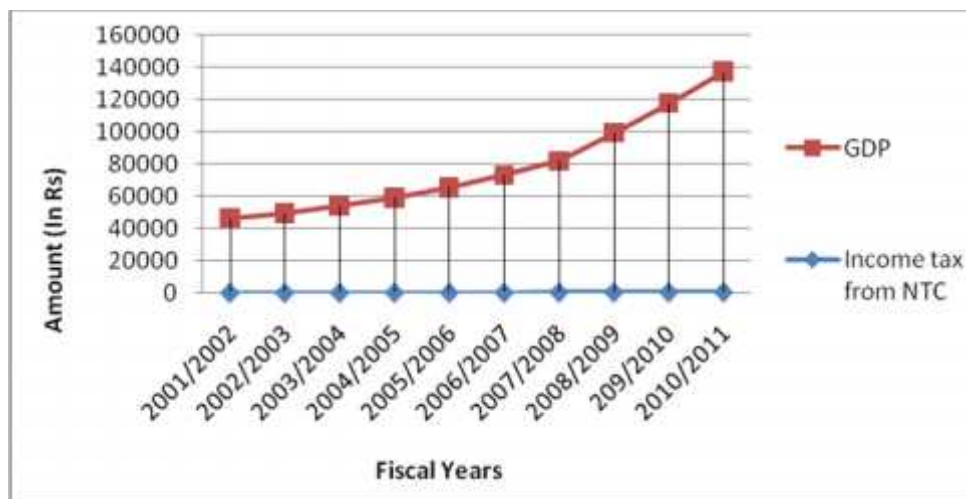
Public Administration & defense

Education

Health & Social work

Figure 4.2.8

Trend Line Showing Share on GDP of Nepal from Income Tax of NTC



In the above figure both GDP and income tax form NTC are increasing trend from Fy 2001/2002 to 2010/2011. The contribution of NTC is increased by small amount by the GDP is increasing by large amount. It is because GDP is collected from other sources also but the share of income tax from NTC is

very small on GDP. Therefore there is GDP curve lies above income tax from NTC by large distance.

4.3. Empirical Study

Empirical analysis is related with the investigation of income tax situation income of Nepal really. For the study opinion survey is performed set of questionnaire is distributed among the administrator, tax expert, tax payers and policy makers. Then their collected opinion is arranged, classified, tuba and used as identify the re-search objective.

List of questionnaire are prepared to give answer yes or no or multiple choice question. Highest choice answer gets high rank and least choice gets low rank rank is given between 1-5. Then the no of respondent are converted into percentage and used as hypothesis test whether the response is significant or not given table shows the respond don't nature as follows.

Table 4.3.1

Number group and code used of respondent

S. No.	Group of Respondent	Sample size	Code
1	Tax administration	30	I
2	Tax Expert/policy makers	30	II
3	Tax payers	30	III

Source: Result of Empirical Re-search

4.3.1 Corporate income tax is important for GDP

To know whether the corporate income tax is important component of GDP. The yes/No question "Do you think corporate, income tax is major component of GDP?" was asked. Following answer is found from respondent.

Table 4.3.2

Corporate Income tax is a major component of GDP

Respondent	Yes		No		Total	
	No	%	No	%	No	%
I	27	90	3	10	30	100
II	29	97	1	3	30	100
III	28	93	2	7	30	100

Source: Opinion survey

From the above opinion survey most of respondent have given yes. I, II & III groups opinion is 90%, 97% & 93% respectively is yes. Therefore corporate income tax is major source of GDP.

To know whether there is the significant difference between the view of tax expert & tax payers the ki-square test of hypothesis is used and view of tax administration is assumed constant.

Test of Ki-square

Respondent	Yes	No	Row total
II	29	1	30
III	28	2	30
Column Total	57	3	60

Step-I setting of Hypothesis

Null Hypothesis (H_0): There is no significant different between tax expert and tax payers view regarding the corporate income tax is major component of GDP.

Alternative Hypothesis (H_1): There is significant difference between the tax expert and tax payers view regarding the corporate income tax is major component of GDP.

Step-II Computation of test statistics

$$\chi^2 = \frac{\sum(O-E)^2}{E}$$

where; O= observed Frequency

E= Expected frequency

$$= \frac{RT \times CT}{Grand\ Total}$$

Row Column	O	E	(O-E)	(O-E) ²	$\frac{(O-E)^2}{E}$
1,1	29	$(30 \times 75)/60 = 28.5$	0.5	0.25	0.0088
1,2	1	$(30 \times 3)/60 = 1.5$	0.5	0.25	0.1667
2,2	28	$(30 \times 57)/60 = 28.5$	0.5	0.25	0.008
2,2	2	$(30 \times 3)/60 = 1.5$	0.5	0.25	0.1667
$\frac{\sum (O-E)^2}{E} = 0.351$					

Computation of degree of freedom & determination of level of significance

$$d.f. = (r-1), (c-1) = (2-1)(2-1) = 1$$

level of significance = 5%

Tabulated $\chi^2_{0.05(1)} = 3.841$

Step –IV Decision;

The calculated value of $\chi^2 <$ the tabulated value of χ^2 . Therefore null hypothesis (Ho) is accepted.

It means there is no significant difference between the tax expert and tax payers view regarding the corporate income tax is major component of GDP.

4.3.2 View regarding the share of indirect tax compared with direct tax on total revenue of Government.

To know the opinion regarding direct and indirect tax on tax revenue. A question "whether the indirect tax contributes more then direct tax for the tax revenue of Government?" was asked then the collected response is collected classified and tabulated as follows.

Table 4.3.4

Indirect tax is more important then direct tax on Tax revenue

Respondent	Yes		No		Total	
	No	%	No	%	No	%
I	28	93	2	7	30	100
II	29	97	1	3	30	100
III	27	90	3	10	30	100

Source: Opinion Survey.

In the above table 93% tax administration give yes answer and only 7% tax administration give no answer. Similarly 97% and 90% yes answer is given by tax expert/policy makers and tax payers.

To know whether there is the significant difference between the view of tax administration and policy makers (assumed tax payers constant) the ki-square of hypothesis test is made as under.

Test of ki-square (χ^2)

Respondent	Yes	No	Row total
I	28	2	30
II	29	1	30
Column Total	57	3	60

Step-I setting of Hypothesis

Null Hypothesis (Ho)= There is no significant difference between the view of tax administration and policy makers regarding the share of indirect tax compared with direct tax on tax revenue of government.

Alternative Hypothesis(H1); There is significant difference between the view of tax administration & policy makers regarding the share of indirect tax compared with direct tax on the tax revenue of government.

Step-II Computation of test statistics

Under Ho test statistics is;

$$\chi^2 = \frac{\sum(O-E)^2}{E}$$

where; O=observed Frequency

E= Expected frequency

$$= \frac{RT \times CT}{Grand\ Total}$$

Row Column	0	E	(O-E)	$\frac{(O-E)^2}{E}$
1,1	28	$(75 \times 30) / 60 = 28.5$	0.5	0.0088
1,2	2	$(3 \times 30) / 60 = 1.5$	0.5	0.1667
2,2	29	$(57 \times 30) / 60 = 28.5$	0.5	0.008
2,2	1	$(3 \times 30) / 60 = 1.5$	0.5	0.1667

$$\frac{\sum (O-E)^2}{E} = 0.351$$

Step-III Computation of degree of freedom & determination of level of significance $d.f. = (r-1)(c-1) = (2-1)(2-1) = 1$

Level of significance = 5%

Tabulated value $\chi^2_{0.05 (1)} = 3.841$

Step-IV Decision:

The calculated value of $\chi^2 <$ tabulated value of χ^2 (i.e. $3.351 < 3.841$). Therefore null hypothesis (H_0) is accepted.

It means there is no significant difference between the view of tax administrator & policy makers regarding the share of indirect tax compared with direct tax on tax revenue of government.

4.3.3 Problem faced by NTC

The respondent were asked to give their rank regarding the problem from 1 to 5. A question was asked which problems are more prior then other." The respondent answer is as follows.

Table 4.3.5

S. No	Problems	Group			Total	%	Rank
		I	II	III	Number		
1	Modern technologies	15	17	12	44	48.90	1
2	Rules & Regulation	8	3	4	15	16.67	3
3	Competitors	1	1	2	4	4.40	5
4	Growth in the quality of Service	5	6	10	21	23.30	2
5	Performance of employees	30	30	30	90	100	

Sources: Opinion Survey

According to opinion survey following are the main problems faced by NTC

- 1- Modern technologies
- 2- Growth in quality of services
- 3- Rules & Regulation
- 4- Performance of employees
- 5- Competitors

4.3.4 Attitude toward benefits of in income tax.

Yes or No question was asked to the respondent whether it is beneficial to public. The question is that "is the income tax paid to government is beneficial for public?" The opinion of respondent is presented in the following table.

Table 4.3.6

Attitudes of respondent

S. No	respondent	Yes		No		Total	%
		No	%	%	No		
1	Tax Administrator	25	93.33	25	6.67	30	100
2	Policy Makers	25	83.33	5	16.67	30	100
3	Tax payers	20	66.67	10	33.33	30	100
	Total	73	81.11	17	18.89	90	100

Source: Opinion survey

From the above table it is found that most of respondent has given view regarding the favor of yes 81.11 percent respondent has give yes answer and only 18.89% respondent has give view regarding no. Therefore tax paid to government is beneficial for public. The know the main benefits a question is asked to respondent is 11 what are the main merits paying of tax to the government?. The rank given by respondent is summarized as follows.

Table 4.3.7

Benefits of tax paying

S. No	Benefits	Group			Total Number	Rank
		I	II	III		
1	Because it makes public in fracture	4	3	1	9	5
2	It increases the livings standard	6	11	7	24	2
3	Increases economic	12	8	6	26	1
4	Reduces poverty	7	6	9	22	2
5	Makes regular expenditure	1	2	7	10	4
	Total	30	30	30	90	

Source: Opinion Survey

- 1- Increases economic growth
- 2- It increases the living standard.
- 3- Reduces poverty
- 4- Makes regular expenditure
- 5- Because it makes public in fracture.

4.3.5. Problems of Nepalese income tax system

Income tax is a major component of Nepalese GDP. Therefore collection of income tax is necessary for government as well as public. Therefore to

identify the problems of Nepalese income tax a question "what are the major problems of Nepalese income tax system?" was asked to respondent to rank for different problems. Their opinion is tabulated as follows.

S. No	Benefits	Group			Total	Rank
		I	II	III		
1	Lack of rules & regulation	10	9	7	26	2
2	Massive Poverty	2	3	6	11	5
3	Lack of literate tax payers	2	5	5	12	4
4	Lack of modern technology	4	6	4	14	3
5	Lack of access with tax payers	12	7	8	27	1
	Total	30	30	30	90	

Source: Opinion Survey

According to above table respondents view is collected. Then the following main problems of income tax collection is identified.

- 1- Lack of access with tax payers
- 2- Lack of rules & regulation
- 3- Lack of modern technology
- 4- Lack of literate tax payers
- 5- Massive poverty.

These factors are also considered factors for effectiveness of income tax system in Nepalese prospective.

CHAPTER-V

Summary, Conclusion & Recommendation

5.1 Summary

Nepal is agricultural based developing country. According to nearly percent Nepalese are involving in agriculture occupation. The number of people involving in farm are decreasing due to different drawbacks of country. With the development of industries, factories, corporation & many other organizations, people are looking for their easy life.

Standard quality life is requirement for every Nepalese people. This objectives is fulfilled when they are benefited from public infrastacture are communication, electricity, transportation, education, health, drinking water etc. The development of public utility takes place only the increasement of governmental revenue.

Government collects revenue from both internal & external source of income external course consists foreign aid & foreign loan from international institution or foreign countries where the internal source consists the collection of revenue from tax, fee, price, loan from public or organization with in the boundary of country, fines & penalty, gifts etc. Then the government meets it's regular as well as developmental expenditure. Therefore tax is main component to meet the financial deficit of government.

Collection of tax amount is very difficult criteria because of clear rules, law, knowledge, administration, classification, mechanism etc. Even the tax source is purifying requirement of governmental expenditure.

In the context of this thesis report chapter-I describes about the objectives, limitation, & classification of thesis report with introduction of NTC.

Chapter –II describes about the meaning of tax, rules regarding tax, classification & background of tax, provision & rates about tax, further. with this chapter includes review of previously written books, articles of thesis report regarding the tax.

Chapter-III is the description about the methodology used in analysis report in chapter IV. Averages, percentage, pie chart, hypothesis test are major statistical tools used in analyzing data. Sources of primary and secondary data are also described in this chapter.

Fourth chapter is analyzing of required presented data of tax structures of Nepal government. GDP, revenue, tax revenue, non-tax revenues, tax paid by NTC are presented, analyzed & showing in the trend line.

Therefore there is significant effect on governmental revenue, collection by NTC. NTC is bearing too much part of government expenditure. Not only as a means of revenue but it helps for the social welfare of the country by providing economic aid to education, social development, health & human, community development, sports & others.

Tax payment made by the NTC is increasing trend even the percentage of tax paid by NTC is fluctuating according to the comparison with the different revenue. Continuously increment & expansion of NTC will return to the government more in the future because of past trend.

5.2 Conclusion

According to research data following are the conclusions.

5.2.1 Conclusion of Primary data

-) Income tax and corporate income tax are major component of GDP
-) Indirect tax's share is more than direct tax's share on Tax revenue.

-) Modern technologies, growth in quality of service, rules and regulation, performance of employees and competitors are the major problems of NTC.
-) Income tax paid to government is beneficial for the public.
-) Economic growth, increasing living standard, reduces poverty, regular expenditure & building of infra are the benefits of income tax.
-) Lack of access with fax payer, lack if rules & regulation, lack of modern technology, lack of literate tax payer and massive poverty are the major problems of effectiveness of income tax.
-) Telecom plays vital role to increase the government revenue.

5.2.2 Conclusion of Secondary data

-) Tax is leaved by the government to the tax payers for the purpose of taxation different laws, rules & regulation are prepared by the government even there was tax system from ancient period. For an example business profit and Remuneration Act 1960(2017), Income tax Act 1962 income tax Act (2031) etc.
-) Different terms are defined by income tax act 2058. Such as income in come year, partnership etc. And different types of discount, rebate and concession are provided by income tax act 2058.
-) Tax revenue has higher share on total revenue of government and is in increasing trend. It is increased by Rs 13344.70 ten million (i.e.8.5%) from fy 2001/2002 to 2010/2011. Where the share of tax revenue is increased by Rs 1592.51 ten million but percentage. Share of non-tax revenue is decreased by 8.5% from fy 2001/2002 to 2010/2011. In an average 80% contribution of non tax revenue.
-) Direct tax revenue is heavily dominated by indirect tax revenue. Share of direct tax revenue is increased by 1.2% from fy 2001/2002 to Fy

2010/2011 where the share of indirect tax revenue is debased by 1.21% from Fy 2001/2002 to 2010/2011 on tax revenue of government. But amount of both direct & indirect tax is increasing trend. In an average 74% and 26% contribution is made by indirect and direct tax respectively on tax revenue of government.

-) Share of custom duties is decreased from 44.04% to 28.77% from Fy 2001/2002 to 2010/2011, share of VAT is increased from 42.7% to 49.69% from Fy 2001/2002 to 2010/2011. And share of excise is increased from 13.25% to 21.38% from Fy 2001/2002 to 2010/2011.
-) In an average tax on consumption of goods and services has greater share then customs on total indirect tax.
-) Direct tax revenue comprises land revenue and registration and tax on property, profit and income. Share of land revenue and registration is decreased by 3.34% and tax on property, profit and income is increased by 3.34% from Fy 2001/2002 to 2010/2011. On an average 88% contribution is made by tax on property, profit and income and only 12% contribution is made by land revenue and registration on total direct tax of government.
-) In an average share of total revenue, tax revenue direct tax revenue and indirect tax revenue is 12%, 9.7%, 2.95% and 7.77% respectively on GDP. The share of total revenue is increased by 3.61%, share of tax revenue is increased by 3.78%, share of direct tax revenue is increased by 1.24 and share of indirect tax revenue is increased by 2.81% from Fy 2001/2002 to 2010/2011. On GDP amounts of all revenue is in increasing trend.
-) GDP itself is increasing trend in amount and percent. It is increase from 6% to 18% from Fy 2001/2002 to 2010/2011.

-) The share of public enterprise is decreasing from 19.87% to 3.30% from Fy 2001/2002 to 2010/2011, no contribution is made by semi public enterprise, share of private corporate bodies is increased from 15.86% to 35.93%, share of individuals is decreased from 49.64% to 35.06%, share of remuneration is increased from 9.39% to 15.09%, share of tax on interest is increased from 5.29% to 10.63% from Fy 2001/2002 to 2010/2011. But the amount of all component is fluctuating in different Fys, on total income tax.
-) In an average contribution is made by public enterprise, private corporate bodies, individuals, remuneration and tax on interest is 9%, 31%, 39%, 14% and 7% respectively.
-) Amount of income tax is increasing trend. In an average 34.97% contribution is made by income tax from NTC on corporate income tax. It is increased by 5.53% from Fy 2001/2002 to 2010/2011.
-) The share of income tax of NTC on direct tax revenue in different Fys. Average contribution of 10.94% is made on direct tax revenue. Income tax from NTC as percentage of direct tax revenue is increased by 209% (i.e.8.04% to 10.13%) during research period.
-) Income tax from NTC as percentage of tax revenue is increased by small 0.67% from Fy 2001/2002 to 2010/2011. In an average 2.89% contribution is made by income tax from NTC to tax revenue.
-) In an average income tax from NTC as percentage of total revenue is 2.32%. It is fluctuating in different Fys. Finally increased from 1.69% to 2.47% from Fy 2001/2002 to 2010/2011.
-) There is small contribution made by income tax of NTC on GDP. It is increased from 0.012% to 0.36% from Fy 2001/2002 to 2010/2011. In an average 0.33% contribution is made by income tax from NTC to GDP of Nepal.

5.3 Recommendation

Following are the recommendation drawn according to above research analysis.

- 1- Rules & regulation should be modified according to change in time and need for collection of tax revenue.
- 2- Direct tax revenue has low share than indirect tax revenue. Therefore efforts should be taken by government to increase the share of direct tax revenue so that the total tax revenue may increase.
- 3- Custom duty must be increased by making effective administration. Therefore the total indirect tax revenue will have more share on revenue of government.
- 4- Resources should be mobilized effectively to increase revenue from component of direct tax because revenue collection from land revenue & registration and tax on property, profit & income is fluctuating in different Fys.
- 5- Normally 15% to 18% tax to GDP ratio is considered better. But tax to GDP ratio is 9.7% during research period. Therefore tax to GDP ratio should be increased largely to maintain the normal share.
- 6- To increase income tax government should try to establish more public enterprise as well as semipublic enterprises. Therefore the tax collection from income tax may increase.
- 7- Government should try to make efforts to encourage NTC for making large investment on income providing services. Therefore the corporate income tax will increase.
- 8- NTC should have provide good quality services. Therefore the customer will increase and will use more service. This effort may increase the income tax collection of government from NTC.

- 9- During the period of ten years tax revenue collected from NTC has small increasment by 0.67%. Therefore it is necessary to increase share of NTC on tax revenue.
- 10- By changing rules and regulation government has to impose high tax rate to the owners of large property to full fill resource gap on economy.
- 11- NTC should have expand it's tours and branches of office for providing large service to general public. Only service in urban area may not increase the more revenue for NTC and government.
- 12- Large advertisement is required through radio, TV, magazine & newspapers to waken the tax payers about tax. Similarly NTC as well as government must be try to make more advertisement to increase revenue and services provided by NTC.
- 13- Plans and programs should by formulated only after the market research by NTC Training to staffs. Modernizing in technologies may increase the revenue of NTC.

Nepal is facing so many problems regarding the income tax. Therefore above recommendation should be formulated & implemented by the government. NTC properly may increase the income tax revenue of government if problems must be minimized & encouragement in different area must be needed by the government.

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Appendix-1

Respected sir/Madam

I would like to introduce myself as a student of Kailali Multiple Camus, TU, MBS Final year. In the course of Fulfill the partial requirement of master Degree in Business Studies of Tribhuwan University of Nepal. I'm involving the research work entitled "A Study About Governmental Revenue Collection from Income Tax with Special Reference of Nepal Telecom"

I have formulated same list of questionnaire to express your opinions, advice and information regarding this research work. The task may be more supported if your are able to provide your view.

I'm always thankful for your consultancy.

Yours Obedient

Padam Raj Pant

Appendix-2

Format used for opinion survey

S.N.	Respondents	Yes		No		Total	
		No.	%	No.	%	No.	%
I	Tax Administration	XX	X	XX	X	XX	X
II	Tax Expert/Policy Makers	XX	X	XX	X	XX	X
III	Tax payers	XX	X	XX	X	XX	X
	Total	XXX	XX	XXX	XX	XXX	XX

Set of Questionnaire

Tick any option from the following. Whether yes or no or give preferences rank from 1 to 5 for the following questions.

i) Do you think corporate income tax is major component of GDP?

a. Yes () b. No ()

2) Whether the indirect tax contributes more then direct tax for the tax revenue of government?

a. Yes () b. No ()

3) Is there any problems faced by NTC?

a. Yes () b. No ()

4) Which problems are more prior than other? Give rank from 1 to 5.

- a. Competitor
- b. Rules & Regulation
- c. Growth in the Quality of Service
- d. Modern technology
- e. Performance of employees.

5) What are the major problems of Nepalese income tax system?

- a. Lack of Rules & Regulation
- b. Massive poverty
- c. Lack of literate Tax payers.
- d. Lack of modern technology to control illegal activities.
- e. Lack of access with tax payers.

6) Is the income tax paid to government is beneficial for public.

- a. Yes ()
- b. No ()

7) What are the main merits paying of tax to the government?

- a. Because it makes public in fracture.
- b. It makes expenditure for increasing living standard.
- c. It increases economic growth
- d. It reduces the poverty.
- e) It makes regular expenditure to operate day to day activities of country.