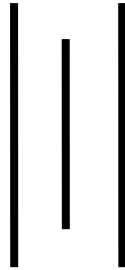


INCOME TAX COLLECTION FROM PUBLIC ENTERPRISES
(A Case Study of Nepal Telecom)



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*In partial fulfilment of the requirements for the **Master's Degree of
Business Studies (MBS)***

Kathmandu, Nepal

Jan, 2012

DECLARATION

I hereby declare that the work reported in this thesis “Income tax Collection from Public enterprises (A Case Study of Nepal Telecom)” submitted to, Patan Multiple Campus Faculty of Management, Tribhuwan University, is my original work done in the form of partial fulfilment of the requirement for the Master of Business Studies (M.B.S.). This is prepared under the supervision of Mr Dinesh Man Malego, lecture of Patan Multiple Campus.

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Date: 31/01/2012

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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

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“Income Tax Collection from Public Enterprises”

(A Case Study of Nepal Telecom)

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfilment of the requirement for Master’s Degree in Business Studies (M.B.S)

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ABBREVIATIONS

A.D.	: Anno Domini
AETR	: Average Effective Tax Rate
BBS	: Bachelor of Business Studies
BJM	: Birtanagar Jute Mill
BPM	: Bhrikuti Paper Mill
B.S.	: Bikram Sambat
BTI	: Balaju Textile Industry Limited
CBS	: Central Bureau of Statistics
CDMA	: Code Division Multiple Access
CEDA	: Center for Economic Development and Administration
CIT	: Corporate Income Tax
DT	: Direct Tax
DTR	: Direct Tax Revenue
F	: F statistics
FY	: Fiscal Year
GDP	: Gross Domestic Product
GSM	: Global System for Mobile
HBTF	: Harisidhi Bricks and Tile Factory
HMG/N	: His Majesty's Government of Nepal
IDT	: Indirect Tax
INGOs	: International Nongovernment Organization
ISDN	: Integrated Services Digital Network
ITA	: Income Tax Act
ITNTC	: Income Tax from Nepal Telecom
ITPEs	: Income Tax from Public Enterprises
MBA	: Master of Business Administration
MBS	: Master of Business Studies
METR	: Marginal Effective Tax Tate
MOF	: Ministry of Finance

MPA	: Master of Public Administration
NBBU	: Nepal Bitumen and Barrel Udhdyog
NAC	: Nepal Airlines Corporation
NBL	: Nepal Bank Limited
NDCL	: Nepal Doorsanchar Company Limited
NFDC	: Nepal Film Development Company
NFI	: Nepal Foundry Industry
NGO	: Non Government Organization
NIDC	: Nepal Industrial Development Corporation
NLO	: Nepal Lube Oil
NLSS-III	: Third National Living Standard Survey
NPC	: National Planning Commission
NT/NTC	: Nepal Telecom
NTDC	: Nepal Tea Development Corporation
PAN	: Permanent Account Number
P.E.	: Probable Error
PEs	: Public Enterprises
PSTN	: Public Switched Telephone Network
r	: Correlation coefficient
R ²	: R squared value
RHCDC	: Row Hide Collection and Development Corporation
SRJM	: Shree Ragupati Jute Mill
St. Error	: Standard Error
TDS	: Tax Deducted at Source
TIT	: Total Income Tax
TR	: Total Revenue
TTR	: Total Tax Revenue
TU	: Trivuwun University
VAT	: Value Added Tax

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

Hem Raj Rai

Entitled

“Income Tax Collection from Public Enterprises”

(A Case Study of Nepal Telecom)

has been prepared as approved by this department in the prescribed format of faculty of management. This thesis is forwarded for examination.

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CHAPTER: I

INTRODUCTION

1.1 Background of the Study

A nation requires sufficient funds to carry out development plans, handle day to day administration, maintain peace and security and launch other public welfare activities. So, economic development is the prime concern of every nation of the world. For the economic development, government has huge responsibilities towards the people. To fulfill the responsibilities, government needs revenue to operate different activities in a country. Such activities include general activities and developing activities. General activities incurred for the protection of common people and public administration while development activities incurred providing transportation, education, health and public utilities to facilitate the community.

Nepal is one of the poorest countries in the world with a per capita income of \$561 (Rs 40,027). Most of the people here are dependent on agriculture for their livelihood which is about 74 percent. Agriculture contributes more than 33 % of GDP. As a final result of the census (NPC, 2010).

Nepal is a developing country so to upgrade the living standard and to be self reliant economic system it needs a lot of fund. Fund can be collected from two sources i.e. internal and external sources. Developing country like Nepal has limited sources of internal fund so most of the development activities depend on the external sources. The external sources of finance are bilateral and multilateral grants, foreign aid; loans from foreign countries and fund from donor agencies. But these sources have been limited, inconvenient and not suitable to boost up the Nepalese economy due to the vested interest of the programs and policies of donor countries and agencies and need to pay high interest and acceptance of inappropriate condition to take the loan. So, government tries to finance from internal sources. The internal sources

constitute of tax and non tax revenue. It is very important for the country like Nepal to mobilize the internal resources, where adequate natural resources and low cost labor force are available.

Internal sources of public funds are important not only for necessary financing funds, but also for proper utilization of external funds. Based in nature of sources, public funds are also classified into revenue (Public income) and borrowing (could be external and internal). The public income or revenue includes taxes, revenue from government corporations and public enterprises, fees, special assessment, fines and penalties. Revenue is the main sources financing government expenditure which increase in Fiscal year 2007/2008 by 23.42% to the previous Fiscal year and stood at Rs. 107,622.48 millions of the total revenue collected in the fiscal year 2006/2007. In Nepal about 77% of total revenue comes from tax revenues and the rest 23% from non-tax revenue. (Amatya, Pokharel and Dahal, 2008 pg. 3).

For the economic growth of the country, huge volume of investment and expenditure on economic activities are needed. Taxation is looked upon as the most powerful tool of the government for raising the ratio of savings and capital formation. It plays a vital role for the development of nation. It is very useful to equalize the distribution of national economy and to reduce the disparity in the distribution of wealth and income to maintain economic stability.

Tax is any compulsory levy from individuals, households and firms to central or local government. It is simply a liability to pay an amount to the government. It is a compulsory contribution from the taxpayers. According to Prof. Seligman, "Tax is a compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred". The natural person or artificial

person (entity or corporate body) having tax liabilities pay taxes to the government.

The government imposes taxes on the people to repay the external debt as a consequence of which the capacity of people to work and to save declines (Vaish and Agrawal, 2008). Taxes may be categorized in direct and indirect tax. The tax directly paid by a person on whom it is legally imposed is known as a direct tax. Such taxes are income tax, property tax, vehicle tax, interest tax, gift tax etc. Indirect tax is a tax that is imposed on one person but partly or wholly paid by another. Example of indirect are VAT, sales tax, entertainment tax, hotel tax, excise duty etc. In Nepal direct tax contributes about 21% and indirect tax contributes about 79% in tax revenue of government. (Amatya, Pokharel and Dahal, 2008: pg. 3, 4).

Income tax is a kind of direct tax which is charged on person income according to the law of nation. It is defined as the tax levied on the net income derived after deducting all allowable deductions. It is levied on the income derived from business, profession, insurance, investment agencies and other remunerations such as salary, bonus, and other sources derived in cash or kinds (Dalton). Income tax is superior to indirect tax because it is imposed on the basis of paying capacity of the tax payer. People whose income is below the taxable income are free from the obligation of income tax. By imposing higher rate to those who are having high income and from that collected amount, providing necessary to the people with very poor economic condition in forms of different facilities may help to reduce the gaps in income. It may help to make equitable economic distribution in society. Balanced regional economic development is also possible through the provision of income tax by providing incentive and concessions in income tax for starting new industries in backward areas. Income tax holidays and incentives would help to develop the priority sector of a national economy. "Income tax has become an effective investment to ensure balanced socio- economic growth." (Mathew, 1975 and Musgrave, 1998)

Income tax plays an important role in the Nepalese economy. It is a major source of government revenue. It is recognized as a good financial tool to narrow inequality of income. It is an effective instrument to ensure balanced socio-economic growth (Sheresth, 2009). It also helps to increase the consciousness of people because the people who have paid the income tax are interested on public expenditure. Though they can't expect any direct benefit from by paying tax, they can observe the use of the collected fund. It is also useful for generating the concept of social responsibility towards the nation and keeps the people vigilant to see the public money may not be misused. Income tax is essential not only for collecting government revenue but also for controlling over consumption for promoting saving and for generating more employment. Nepal is still been unable to maximize the collection of income tax. In structure of total revenue, income tax contributes only 18.18% whereas 81.82% is collected from other sources. In total tax revenue, income tax contributes 22.40%.

The contribution of income based taxes is much smaller to the total revenue for developing countries in comparison to developed countries and is likely to remain same for some time to come despite the efforts over the years. There are mainly four reasons as why income tax yield is less in developing countries as compared to developed ones. They are: (i) Problems of defining income. (ii) Problems of assessing and measuring it. (iii) The choice of rates, allowance and deductions and (iv) Difficulties of tax collection. (NPC, report, 2010).

Being a developing country, sources of government revenue are very limited in Nepal. Revenue structure of Nepal mostly depends on the foreign assistance and loan but it is unfavorable to the country. Domestic resources are most reliable source to keep minimum dependency of foreign aid and loan. The role of income tax is notably significant in government revenue. It is useful to balance economic development. Nobody can doubt that, the equal distribution of income is also possible through progressive income tax. It is being realized that contribution of income tax to the revenue of government must be increased in Nepal. Nepal has adopted the income tax system for last five decades. But

Nepal's past experience shows that the government is unable to maximize the share of income tax to the public fund as per expectation.

The present study has been designed to study the contribution of income tax from public enterprises to public revenue of Nepal. PEs plays a catalytic role in social and economic development process of nation. In Nepal after the dawn of democracy in 1950 there emerged an environment in which the needs and aspirations of the people were given priority. Accordingly, Nepal government has initiated a system of establishment and functioning of PEs with huge investment for economic development. PEs highly contributes in national exchequer by various ways i.e. by direct participation in the production of goods and services for income generation including income taxAgrawal(2008).

The majority of PEs, where billions of rupees from the resources of a poor country Nepal, have been poured, has failed to deliver expected services. The productivity is low and the quality of their products is short of standard. The returns are negligible. PEs is becoming more and more burdensome and unable to shoulder their own burden.

Although being a public utility enterprise, NTC's capable to establish itself as a business firm. Financial position is also appreciable. It could successively implement its objectives and plans. Among the government revenue contributors, NTC has been taking top most places. NTC contribute to the government by various taxes such as income tax; value added tax, vehicle tax, ownership tax etc. Income tax from NTC is increasing every year with some slight fluctuation. (NTC, Bulletin, 2010)

1.2 Statement of the Problem:

The prime concern of every nation of the world is economic development. Underdeveloped countries are facing several problems in the process of economic development. Nepal is not an exception to this condition. The

majority of people have not been able to get basic facilities. The government also wants to fulfill the basic needs of people within a certain period. It needs huge amount of capital for the growing aspirations of people to be fulfilled. It is feasible only when the volume of resources could be matched with the requirements. Rate of government expenditure is exceeding than the rate of growth revenue amount every year from the beginning of its development phase. Being developing country, most of Nepalese people are below the poverty line. One fourth of the Nepalese (about 25.16%) are living below the poverty line as per the Third Nepal Living Standard Survey (NLSS-III). It was carried out by the Central Bureau of Statistics (CBS) in 2010 and 2011. The report of the Third Nepal Living Standard Survey (NLSS III) said Nepal recorded 5.7 percent decline in absolute poverty in between 2004 and 2010.

More than 50 percent of the Nepalese are receiving remittance, which has ensured better living standard,"said Jagadish Chandra Pokhrel, former vice-chairman of the National Planning Commission (NPC). According to the NLSS-III, 55.8 percent of the households receive remittance with each household receiving Rs. 80,436 a year. However, the worrying factor is that despite the high remittance, the money is not being used in the productive sector. A significant portion (78.9 percent) of the remittance is being used in daily consumption followed by loan repayment. Only 2.9 percent of the total remittance is used for capital formation(October 21, 2011/ The Kathmandu Post).And GDP per capita isUS\$ 556(According to MOF Report 2009/2010).It shows that it needs huge amount of capital for economic development of Nepal. It is possible only when the volume of resources could be match with the requirement.

Due to the growth in government expenditure outpace the growth rates in revenue and foreign resource mobilization, fiscal balance has not been maintained and budgetary deficit has increased. The mobilization of revenue has not increased. The mobilization of revenue has not increased to the level in which the level and speed of our expenditure is increasing. The development

expenditure is continuously rising due to our weakness in selecting development projects and regular expenditure is increasing due to the result of increasing burden of debt, servicing and salary as well as allowance. This is growing the difference between expenditure and revenue. In other word, financial resources gap is the major constraint of Nepalese economy. (MOF, Report, 2010)

To raise the government revenue, it is necessary to raise the sources of revenue, which helps to relieve from serious bottleneck of resource gap in the process of economic development program. The resource gap was Rs. 46,410.30 million in FY 2008/2009 and Rs. 56,410.70 in the FY 2009/2010 (Economic Survey, 2009/2010). Resource gap in Nepalese finance has occurred because the expenditure requirement is growing at faster rate than its ability to mobilize additional resource.

Without financial resources domestic resources cannot be mobilized because it puts a heavy break on the overall development. This problem is increasing very rapidly in Nepalese economy. So this problem can be solved by income tax and bridge the gap of resource mobilization. At present Nepalese tax system are facing several problems such as tax evasion, poor tax administration and unsound income tax collection. In Nepal only 0.50% of the total population pays the income tax (Economic Survey, 2005/06). Past experience shows that there is a poor taxpaying habit in Nepalese people. There are various problems about income tax administration like, proper record of number of income tax payers, defective selection of personnel, lack of training and education to tax payer and tax officers, undue delay in making assessment, lack of responsibilities of officials of their work, existence of corruption, and lack of motivation to concerned authorities etc. Because of the inefficiency of the administration and increasing corruption, people have no faith in the working of government and its organization. The discretionary power of the tax personal and the tax assessment procedure of the income tax system of Nepal harass the taxpayer in the payment of tax and cause to reduce the income tax revenue.

Because of tax evasion habit of Nepalese people, role of PEs towards income tax revenue is very justifiable. PEs income tax should be adopted as a fiscal instrument in government revenue, which helps to achieve the goal of national development. But the majority of PEs has been unable to deliver the expected services; productivity and returns are very poor. PEs financial positions are unsatisfactory and are likely to become an increasing burden on government. They cannot even maintain their books of accounts, unaudited financial statement, intention to hide their ability to pay tax, low level of morale and honesty are seen in them.

NTC has greater role to play than any other PEs as all manufacturing and non-manufacturing industries depend on the information supplied by it. NTC is successful PE because it is operating under net profit position. Even the net profit of NTC is in increasing trend. The corporation has been able to generate income tax to the government revenue. In each fiscal year, it has been increasing.

NTC has been contributing considerable amount of other taxes and dividend to the government along with income tax. Government also has invested the huge amount in NTC. Government's expectations from NTC are to provide telecommunication services to the common people and get sufficient amount of dividend to fulfill the national economic goal and to get other financial support for developmental activities.

The contribution of income tax to the national budget must be increased to achieve the goal of national development and equal economic distribution. To fulfill desired goal, existing shortcomings in income tax system must be avoided. So, this study has centered on the following problems as statement of the problems:

- i. What is the income tax structure of Nepal?

- ii. What is the contribution percentage of income tax of public enterprises to government revenue? Is it equally supporting to fulfill the resource gap?
- iii. What is the contribution percentage of income tax of NTC to government revenue? Is it supporting to fulfill the resources gap?
- iv. What is the resource gap pattern of Nepalese government?

1.3 Objectives of the Study

General objective of this study is to analyze the income tax collection from Nepal Telecom. The main objectives of the studies are as follows:

- i. To analyze the income tax structure of Nepal.
- ii. To analyze the contribution of income tax from public enterprises to government revenue.
- iii. To analyze the contribution of income tax of Nepal Tele-Corporation in Government revenue.
- iv. To put forward necessary suggestions and recommendations for income taxation with reference to NTC.

1.4 Scope of the Study

This study aims to find out the major problems, defects of income tax collections and assessment of income tax revenue from PEs, with special reference to NTC. In brief, the study mainly covers the following areas:

- i. Role of income tax in Nepal.
- ii. Role of income tax from PEs in public revenue.
- iii. Comparative study on role of income tax from PEs to total tax revenue.
- iv. Comparative study on role of income tax from NTC to total tax revenue.

1.5 Significance of the Study

Every year there is a need of mobilizing adequate resources for meeting the increasing financial requirement for Nepal development process. Thus, income tax seems to be one of the major potential resources for the mobilizing a huge

amount of financial resources in Nepal. Government should identify the potential taxpayer and should give more emphasize to collect more revenue from them

Income tax plays significant role in the overall economic development whether in developed or developing countries. Income tax occupies a very important role in overall tax structure. In the world economy, share of income tax in the overall tax structure is increasing because of its importance for the economic battlement of the country.

Nepal can fulfill its financial needs by increasing its revenue through income tax earnings. Contribution of PEs towards income tax revenue should be increased. This study provides information about income tax revenue collection from public enterprises and also provides information about income tax revenue collection from NTC.

This study wills importance for the following groups and individuals:

- i. Nepal Government board of director and management body of NTC.
- ii. Personnel and customer of NTC.
- iii. Further researcher.
- iv. University students who are new generation.
- v. NGO and INGOs.
- vi. All other interested individual and parties.

1.6 Organization of the Study

The entire study has been designed into five main chapters, each devoted to study the role of income tax. They are:

Chapter-1: Introduction:

It is an initial phase of the thesis (research), which has, incorporated background of the study, statement of the problem, objective of the study, scope of the study, significance of the study and limitation of the study.

Chapter-2: Review of Literature:

This chapter has included two main aspects: (i) Conceptual framework induce concept and development of taxation in Nepal. (ii) Review of related studies includes review of thesis, books, articles and reports with findings and recommendations.

Chapter-3: Research Methodology:

It reveals the methodology adopted in carrying out the research work. It includes research design, population and sampling, sources of data, procedure of data collection, data analysis procedure and uses of tools for analysis.

Chapter-4: Data presentation and Analysis

It is concerned with the presentation and analysis of data that has been collected through various sources. Various collected data tabulates in their sequential order and describe and analyze with statistical tool as well as general accounting and taxation principles and findings of the study.

Chapter-5: Summary, conclusion and Recommendations

The fifth chapter includes the summary, conclusions and recommendations of the study.

Besides this, Bibliography and Appendixes are attached at the end of the study.

CHAPTER: II

REVIEW OF LITERATURE

Review of literature is an essential part of all studies. It is a way to discover what other research in the area of our problem has uncovered. A critical review of the literature helps the researcher to develop a thorough understanding and insight into previous research works that relates to the present study. It is also a way to avoid investing problems that have already been definitely answered. Literature review is basically a "stock taking" of available literature in one's field of research.

The primary purpose of literature review is to learn, not to accumulate.

Thus, the purpose of literature review is to find out what research studies have been conducted in one's chosen field of study, and what remains to be done.

2.1 Conceptual Framework

Conceptual framework is the foundation on which the entire thesis is based. It is a logically developed, described, and elaborated network of associations among variables that have been identified through such processes as interviews, observations, and literature survey. These variables are deemed relevant to the problem situation (Sekaran, 1992).

2.1.1 Concept of Tax and Income Tax

Tax is a necessary payment to the government and income tax is imposed on net income of individual and corporation.

Concept of Tax

Tax is a necessary payment to the government. Tax is a compulsory payment to the government for the compensation of public expenditures. Tax payers do not get any direct benefit from the state by paying tax. Tax fulfills the needs of central or local government to spend for philanthropic work. Equal distribution of wealth and income is the main objective of tax.

Tax is compulsorily levied on individuals, firms, companies and other units for general government purposes. Government with authority assigned in different laws generates with compulsion, some funds from individuals, firms, companies and other units, which is generally termed as tax.

According to Prof. Seligman “A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefits concerned”.

According to Plehn “Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the residents of the states”.

According to Classical economist Dalton “A tax is a compulsory contribution imposed by a public authority irrespective of the exact amount of service rendered to the taxpayer in return and not imposed a penalty for any legal offence”.

In classical economics, tax was taken as an extra burden to people. But now time has changed and the government has to provide maximum social welfare to the people. Thus, the government has to broaden its revenue.

Taxes are broadly divided into two categories:

- a) Direct tax

b) Indirect tax

Direct tax:

If a person directly paid the tax liability to the government it is known as direct tax. It includes income tax, gift tax, interest tax, property tax, vehicle tax, house and land tax etc. The direct taxes have been used to bridge the gap of income and wealth inequality in the society.

Indirect tax:

It is levied on the person who does not bear it from her/his own income. Indirect taxes are imposed on the consumption of goods and services. It includes export/import duty, excise duty, sales tax, value added tax, entertainment tax, hotel tax etc.

Taxation is a major instrument of social and economic policy because:

- It reduces inequality of economic development by reallocation of resources.
- It transfers resources from the private to public sector.
- It is also useful for resource mobilization through capital formation.
- It promotes economic growth, stability and efficiency.

Concept of Income Tax

After the great depression of 1930's the function of government has been increased considerably. Government has got various sources to collect government revenue. Among various sources of revenue, tax is found as a major source. Everybody to who is imposed must pay income tax. Income tax is regarded as the most important instrument for the internal source mobilization of the country. Income tax is the most important single source of revenue in developed country but contribution of income tax is low in

developing countries. The popularity of income tax is growing much more in developing countries.

Income tax is imposed on net income of individual and corporation. They must bear the burden of tax imposed on them. Generally income means the inflow of cash to the person. Income tax is levied on the income derived from business, employment and investment. Income tax is levied on the net income i.e. total income less the allowable deductions. It is a best measure of economic well being of a person as well as of nation. Higher income denotes the high living standard and lower income refers to the low living standards of people.

Economist defines the term “Income” in a broad sense. It is an economic gain or receipt to a person during a particular period by way of wages, interest, profits and rent.

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

Income tax can be classified into two types: personal/ individual income tax and corporate income tax. Individual income tax is a modern tax, which is measure of ability of any individual to pay. It is based on the progressive rate. Corporate income tax levied on business enterprises having a legal personality, distinct from their owners. Taxes on corporate ultimately come from the income or wealth of individuals. Generally, flat rate is applied to corporate tax.

2.1.2 Taxation in Ancient Nepal

Tax has been one of the major sources of national receipts for the ancient time in Nepal. In these days, tax was collected in the form of cash, kind and labor from the merchants, travelers and farmers. However the nature of tax levied by the government was temporary type in the old age. In the Lichhvi regime (known as Golden Era), taxes were the main source of revenue. During that

period, taxes were known as Trikar, which meant three kings of taxes viz. Bhaga, Bhoga and Kara. The Bhaga tax was levied on agriculture, Bhoga was on animal and Kara tax was business on business income. These taxes were introduced as direct taxes for the first time in Nepal. The farmers had to pay tax on income from agriculture to the government in 1/6, 1/8 and 1/12 shares of production depending on the quantity of the land possessed by them. All artists had to donate labor compulsory as the tax payment. (Poydyal and Timilsina, 2008)

2.1.3 Taxation in Unified Nepal (1768-1846)

After the unification of the Kingdom of Nepal, expenses for administration, Military and other operational activities were increased gradually. During that period, the taxation had been taken as main source of revenue and different types of taxes like land tax, transit tax, market duties, forest product tax and mining tax were levied. The main objective of imposing those taxes was to maximize the national revenue. In that period taxes were collected from three levels: Royal palace, Central government and local authorities. They collected cash or goods from taxpayers as taxes. Royal palace had levied taxes like Walak, Gaddimubarak, Chumawan and Goddhawa. Government had levied taxes like Darshan Bhet and Salami and local authorities had levied taxes on forest and water sources, commercial taxes like customs, transits and market duties, mines and mints, export of forest products like herbs, drugs, wild life birds, elephant and judicial fines. Taxes from land and business were type of direct tax among the all taxes during the period. (Dhakal, 2009)

Walak was collected from each family on a regular basis and in the period of national celebration of festivals or ceremonial occasion. Similarly, Gaddimubarak was collected in the time of coronation of new King. Chumawan and Goddhawa were collected to finance the sacred thread investiture and marriage ceremonies of Royal Prince and Princesses. Godan was levied to finance funeral expenses when a reigning king died. Darsanbhet

was collected from both civil and military employees at the time of their appointment and confirmation. Salami was a collection functionary in the Terai region as an annual payment.

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 flat rate system rather than progressive rate principle. It was limited on small Birta owners. Though taxation was started, there was no income taxation in the modern sense. (Regmi, 1971)

2.1.4 Taxation in Rana Regime (1846-1950)

During the Rana regime there was no provision of effective revenue administration. The main sources of revenue were land revenue, custom and export of wood, which was collected in the lump sum contract basis during that period and the salami was collected from government employees as a revenue income tax. Besides these taxes, small other taxes were also collected. In those days, taxes were collected at the time of requirement because there were no formal Tax Act and Finance Act.

Taxes were charged according to the will of the Rana Prime Minister. Both the incomes as well as expenditure of the government were confidential. In actual practice no difference existed between the private purse of the ruling minister and the government treasury. Therefore, income and expenditure of the state were not transparent because there was no practice of presenting the budget in the period.

Rana prime minister levied taxes for meting specific expenditure of the royal house land or extraordinary expenditure necessitated by war or other crises rather than regular mobilizing revenue in the nation. During Nepal Tibet war (1855/56), the first Rana Prime Minister Jung Bahadur Rana had imposed a tax on the income of selected groups. Similarly, Bir Shamsheer imposed a levy of

1% on the official value of Jagir assignment of government employee in 1891 to finance the transportation of water pipe supply in the capital. Another Rana Prime Minister, Ranoddip Shing imposes a 50% tax on the income made by fisherman in Deukhuri from the sale of fish in 1882 (Regmi, 1988).

2.1.5 Income Tax in Modern Nepal

After the independence of the country in 1951, the role of government has drastically changed. Government was enforced to perform development activities besides regular functions. So, it was realized to impose tax on basis of profit and remuneration. Consequently, “Finance Act 1959” was passed. In 1960 (2017), a formal “Income Tax Act” was enacted in accordance with the provision of Finance Act 1959 for the first time in Nepal. In three years experience “The Business Profit and Remuneration Act 1960” was found very narrow and vague and it was replaced by “The Nepal Income Tax Act 1962 (2019)”. “The Nepal Income Tax Act 1962” was also replaced by “The Income Tax Act 1974”.

The Income Tax Act (ITA) has relations with the constitution, Finance Act, Income Tax Rules and Decisions of the Supreme Court. These make clear the provisions in Income Tax Law. The development of ITA in Nepal is presented below:

2.1.5.1 Business Profit and Remuneration Tax Act 1960 (2017)

Income tax in Nepal was first introduced in the FY 1959/60. It was then known as “Business Profit and Remuneration Tax”. The imposition of tax was governed by “The Business Profit and Remuneration Tax Act 1960” and rules made there under. This act consisted 22 sections. The silent features of this act were as follows:

- a. The source of income for tax purpose was limited only to business and remuneration (Only two heads of income: business and remuneration.)

- b. Tax on remuneration was to be deducted at source but the specified deductions were not provided.
- c. Deductions of expenses were not specified for the calculating taxable income.
- d. Tax on remuneration was deducted at source. (TDS)
- e. The tax officer was empowered to assess tax on best judgment assessment.
- f. In case of default, fines up to Rs. 5,000 were prescribed.
- g. Profits from industries were granted a rebate of 25% and profit from small industries were granted a rebate of 50%.

This act was very narrow and vague, high discretionary power was granted to tax officer, many loopholes and inadequate provisions were there. So because of these reasons this act was replaced by “Income Tax Act 1962(2019)”.

2.1.5.2 Income Tax Act 1962 (2019)

This act was an extension of “The Business Profit and Remuneration Tax Act 1960 (2017)”. It had 29 sections. It was amended in 1972. The main features of the Act were as follows:

- a. Income tax was defined as all kinds of income such as profit from business, profession, remuneration and occupation, house and land rent, agriculture, insurance business, agency and any other sources.
- b. The basis of tax assessment was specified on the best judgment estimate of the tax officers.
- c. Provision was made for the installment basis of tax for the first time.
- d. Provision was made for reassessment of tax as well as rectification of arithmetical errors.
- e. Carry forward of losses was allowed for a period of two years.
- f. Provision was made for the exemption of income tax for industries for a period of not exceeding ten years.
- g. The residential status of the taxpayer for the purpose was defined.

- h. The act granted the power to constitute the income assessment committee.
- i. Deductible expenses as well as methods of calculation of taxable income were specified.

This Act had also some weaknesses. The changing socio-economic environment of the nation had forced to change the ITA. As a result, the ITA 1974 (2031) was made by abolishing the existing Act 1962.

2.1.5.3 Income Tax Act 1974 (2031)

The ITA 1974 can be said to be the refined form of the ITA 1962. It had 66 sections. This act was amended in 1977, 1979, 1980, 1984, 1985, 1986, 1989 and 1992 to make it more practical and to eliminate confusing terms. Some of the points of the act with amendment are as follows:

- a. This act had clarified the definitions about income tax, taxpayer and year of income, personal status of taxpayer, non-resident taxpayer, and net income and so on.
- b. Five sources of income had been specified. They were (i) Agriculture (ii) Industry, trade, profession or occupation (iii) Remuneration (iv) House and compound rents and (v) Others.
- c. Carry forward of losses was allowed within subsequent three years.
- d. It has made provision for self-assessment of tax for the first time in Nepal.
- e. Methods of computing the taxable income from each head had been specified with deductions allowable.
- f. Deduction was allowed for life insurance premium.
- g. Taxpayer was required to keep accounts and records of the income and to be preserved for six years.
- h. Provision was made to make agreement for avoidance of double taxation with foreign governments.

- i. Provision was made relating to reassessment or additional assessment of tax.
- j. Although ITA 1974 (2031) was far ahead than the previous acts, yet it had many deficiencies and weaknesses. It had used many vague or unclear words like “reasonable”, “appropriateness” etc. It had also provided high discretionary powers to the tax officer in the matter of tax assessment.

2.1.5.4 Income Tax Act 2002 (2058)

ITA 2002 has been implemented from 19/12/2058 B.S. This act has replaced the ITA 1974 (2031) and other act related to income tax. HMG enacted income tax rules 2059 B.S. in accordance with the authority given under section 138 ‘g’. ITA 2002 has 143 sections. Amended ITA 2002 has dismissed the section 66. The act was broad, scientific and international standard level. The differences of this act with previous act are made clear by its silent feature, which are given below:

- a. ITA 2058 B.S. has classified income into three headings. They are: (i) Business (ii) Investment and (iii) Employment.
- b. This act has included all the previous relating to income tax. It is a law of income tax code.
- c. Provision is made to impose tax to all income sources uniformly.
- d. Provision is made for the deduction of all expenses relating to income earnings.
- e. This act has given the option for husband and wife as a separate natural individual until they don’t accept as a couple.
- f. Provision has been made for the deduction of all expenses relating to each income in accumulation from taxpayer’s income.
- g. Carry forward of losses is allowed for the period of four subsequent years. This limit is extended up to five years for banking and insurance business.

- h. Provision of tax incentives has continued for infrastructure construction, Electricity projects and special industries and also carry forward of losses is allowed for the period of seven years to infrastructure and electricity project.
- i. It has clearly included the rights and duties of taxpayers.
- j. Provisions have been made to claim for deduction of pollution control expense, research and development expenses, repair or maintenance expenses and donation.
- k. It has classified the taxpayer into natural person and entity. Entity includes company, partnership firm, and trust and so on.
- l. The Inland Revenue Department is responsible for the implementation and imprisonment.
- m. This act has determined the rate of income tax itself for the first time, which was used to be determined by the Finance Acts in the previous years.
- n. A person has been defined as a resident whose place of abode is in Nepal and who lives in Nepal at any time or who lives in Nepal for 183 days or more within the income year or who is an employee of HMG posted abroad during the income year.
- o. The income of an approved retirement fund is free from tax. But retirement payments in the hands of employees are taxable.
- p. Donation amount can be deducted as a 5% of adjusted income or Rs. 100,000 or actual paid amount whichever is less.

2.2 Review of Related Studies

Since 1959/60, income tax was started in Nepal. After its establishment, many individuals and institutions have studied in this subject regarding legal aspect, administrative problems, historical aspect, trend of income tax and income tax structure etc. They have made appreciable efforts in the field of income tax.

Many dissertations, books, articles and newspaper were reviewed while preparing this thesis. Many books in this field are written to fulfill the course requirement of Tribhuvan University. An attempt is made here to review some of the books, thesis, articles and reports, which have been written, in field of income tax in Nepal.

2.2.1 Review of Books

Amatya (1965) wrote a book entitled “Nepalma Ayakar Byabashtha”. In his book, Mr. Amataya gave a sample description of “Nepal Income Tax Act 1962” with some examples how taxable incomes are derived from different sources of income. In his book, Amataya has analyzed, basically the legal aspect of the income tax. This book is 46 years old and all things mentioned in it are not suitable at present. It has become the historical document in the field of income tax.

Khadka (1974) wrote a book entitled “Nepalese Taxation: A path for reform”. Khadka dealt with both national and local taxes and tax administration in Nepal. This book traces the path of evolution of Nepalese tax system. It evaluates the Nepalese tax system on the basis of conventional, theoretical concepts and suggests measures for its improvement. Suggested measures are modest, in order to provide a feasible solution for the near future. The study is divided into seven chapters. Mr. Khadka has described general economic condition of Nepal and analysis of performance of Nepalese economy in recent years. He also concerned, respectively with commodity taxes, income and property taxes. He also traces the development of local taxation in Nepal and then examines its problem. Tax administration and the strategy for tax reform have also analyzed in his book.

Agrawal (1980) wrote a book entitled “Resource Mobilization in Nepal”. This book was published by CEDA, Kathmandu. Dr. Agrawal contributed towards the new dimension inside of Nepalese income taxation. Dr. Agrawal in his

book, explains about resource mobilization through income tax, Nepalese fiscal policy, effective tax system and tax policy, income tax system in Nepal, role of income tax in Nepalese tax structure, administrative and legal aspects of income tax in Nepal. The main contribution from his book is concerned to the empirical investigation of facts and figures about the income tax in Nepal. He also calculates the responsiveness and various projections for future about income.

The comprehensive study on the income tax of Nepal named “Resource mobilization for development” of Dr. Agrawal and published by CEDA Kathmandu is very helpful for the study of income tax system in Nepal. In his research, he has analyzed the legal aspect, administrative aspects and important facts of income tax in Nepal.

Poudel (1993) wrote a book entitled “Income tax laws and Practice”. Poudel has described the most of the related terms in respect with assessment of different income tax. This book has been divided in nine chapters. Mr. Poudel has described the meaning of tax, basic feature of income tax law, direct and indirect tax, brief history of income tax in Nepal, types of taxpayers, Industrial Enterprises Act 2049, and income from remuneration. Methods of computing net income from remuneration, industry, business, profession and vocation, tax deduction at source, income tax authorities, power of tax office, penalty and appeals, rights and duties of tax payer have also been described in this book.

Shakya (1994) has concentrated his study mainly on the contribution of the direct tax and indirect tax and on causes of government inefficiency in income tax administration. He found the ratio of income tax to GDP, total revenue and direct tax revenue was in increasing trend. He suggested for program oriented fiscal policy and recommended that VAT be major source of indirect tax in liberalized economy.

Shanu (1995) has found that only 0.35% of total population came under the categories of taxpayers during his study period. He also showed the contribution of income tax in the total tax revenue and total revenue was 9.95% and 7.94% respectively. Income tax had been gradually increasing except for 1990/91 and 1991/92 during his study period and income tax was in the fourth place in the tax structure. The individual taxpayers had higher contribution than the wage earners.

In the report “Review of Tax System” prepared and submitted by Dahal (2052) to MOF, H.M.G/N covered the various issues relating to tax such as low tax elasticity, higher burden of indirect tax to direct tax, lack of voluntary compliances, leakage etc. The exemption of income from agriculture sector, which contributed about 40% of total GDP, was marked as a main reason of narrow base. Including agriculture sector and electricity sector which contributed 52% to GDP were exempted from income tax and only large industries, mines, construction, trade, hotel and restaurant which contributed 48% income to GDP were under income tax. All the provision made the tax base very narrow. The tax rates were unnecessarily high. Only 73,000 taxpayers’ income was demarked, which was less than 1 percent of the economically active population. Real per capita income growth rate at that time was only 0.30%, which showed that low taxable capacity of people. This report suggested to increase the total number of taxpayers and to increase the per capita income.

This study further suggested about 40% extra resource mobilization if the proposed tax policy and program were in place. This recommended various practical ideas to widen income tax base like 20% exemption from total tax assessment might be given to make self-assessment effective. It suggested raising the exemption limit of income tax a person to Rs. 35,000 and the family to Rs. 50,000 and exemption should be based on inflation rate.

Thapa (2000) has described the various causes of poor resource mobilization in Nepal. The agricultural income which contributed about 40% income of GDP being tax free, about 50% of total population being below the poverty line, tax holiday for new industries, lack of political commitment were the major causes which he concerned in his writing. He identified that one of the main problems of revenue mobilization was the narrow base and decreasing tax rates. He suggested improving the whole economic situation and the political commitment to mobilize resource efficiently. Otherwise any tax measures would be worthless.

Kandel (2001) has criticized the income tax act 2001 on several grounds. Exemption of agricultural income from income tax, export duties levied on export, inequality between different capital earned income i.e. tax on interest, dividend and capital gain, withdrawal of the provision of exemption suddenly and no adjustment for inflation are the major issues that \raised in his article. He also said that tax regime created more burden than the former one.

Revenue consultation committee (2001) studied the overall taxation situation in depth. This report suggested widening the income tax base by including all kind of taxpayers and income. For this, report suggested to make the act more transparent and clear in order to attract foreign and domestic sector. This report suggested to implement account based VAT more effectively. For small taxpayer, sales turnover having up to Rs. 2 millions, tax collection should be based on their sale and purchase description. For income taxation, self-assessment was fully recommended. This report suggested bringing all potential payers into the tax net to widen the tax coverage including agriculture, electricity and other sectors. To increase the voluntary compliance this report highly emphasized to simplify the tax policy. Income tax exemption limit was suggested to increase taking into consideration the purchasing power and inflation. The report also certified Rs. 55,000 for individual and Rs. 75,000 for couples and family as an exemption limit. The report gave suggestion for

HMG to expand the permanent account number (PAN) outside the valley and reduce the land and house registration rate and to rationalize the tax deduction at source (TDS).

Adhikari (2007) wrote a book entitled, “Modern Taxation in Nepal”. Dr. Adhikari has described the provisions and laws related to income taxation in Nepal according to new ITA 2002. This book has been divided into five chapters. First chapter has described about theoretical concept of taxation. Second chapter has described about income tax system in Nepal. In this chapter, writer has described about head and sources of incomes, employment or remuneration income, tax on pension income, international taxation etc. VAT has been described in part three. Fourth part has been described about property tax, house and compound tax etc. Windfall gain tax and other provisions have been described in fifth chapter.

This book is written for students of TU, especially for BBS, MBS and MPA students. However, it is useful to taxpayer, tax administration and others.

Malik (2008) wrote a book entitled “Nepalko Adhunik Kar Parnali”. Mr. Malik has described about provision made under income tax law and method of income tax assessment. This book is divided into twenty five chapters. Mr. Mailk has described about development of income tax system in Nepal, computation of income, exempt amount, capital gain, special provision regarding natural person and entities, international tax, tax administration, payment of tax, tax on VAT, assessment of depreciation etc. His book is more helpful to know about general information and provision made under income tax act 2002.

Timilsina (2009) had concentrated his study mainly in the analysis of exemption and the deduction of income acts of Nepal. In his study he

recommended to increase the exemption limit for an individual to a minimum of Rs. 90,000 and for family exception based on the number of dependent children and parents. He further recommended levying income tax on agriculture, capital gains and other source to raise tax base. He emphasized on higher contribution of corporate income tax compared to individual income tax.

2.2.2 Review of Thesis

Baral (2010) has conducted a research entitled “Income Tax in Tax Structure of Nepal”. Her study basically analyzes the position of income tax structure and total revenue structure in Nepal. She states the problem of raising government revenue. Being the most important element in direct tax and equally significant for the government revenue in Nepal, it does not seem to have achieved its significance. It is due to exempt in the agriculture income. She also finds the income tax from individuals had the highest contribution in Nepalese income tax structure among the various sources of income tax.

Acharya (2009) has presented a dissertation entitled, “Income Taxation in Nepal”. A study of its structure of income tax is followed by Nepalese income tax system or not. He has computed the elasticity and buoyancy of the Nepalese income tax of longer duration i.e. 25 years. He has identified recent problems of income taxation in Nepal.

Panta (2008) has concluded a research entitled, “A Study of Income Tax Management in Nepal”. His study has tried to show the income tax system in Nepal and its role on national economy. He has identified various problems of income tax management in Nepal. Lack of managerial efficiency is one of the major problems of income tax in Nepal. Lack of effective personnel management, lack of reward and punishment system, poor income tax assessment procedure, poor tax information system, lack of taxpayer’s education, very narrow coverage of income tax is the major problems of income tax.

Shrestha (2007) had presented a master level thesis entitled “Income Tax in Nepal”. He has discussed about income tax act and rules, historical background and administrative aspects of income tax. In his research Shrestha has pointed out various recommendations. Some remarkable recommendations of the researcher were as follows:

- a. Income tax should be made more scientific, systematic and the social and economically justifiable.
- b. Exemption limit should be determined on the basis of member of the family.
- c. Tax should be charged on agriculture income.

Pandey (2007) had described the brief review of Nepalese economy, resource mobilization structure of income tax, role of income tax, problem of income taxation in Nepal. He had given more emphasis on tax structure in Nepal. His finding was that income tax played a significant role in economic development of Nepal. He also described the problems of income tax in Nepal. The problems were lack of record keeping, lack of maintaining account of taxpayer, lack of responsibility and honesty of tax offices, lack of co-ordination between various tax department and revenue department. Among them some problems are relevant at present also.

Although he had explained various aspects of income tax in Nepal, he had not mentioned the legal provision relating to income tax and empirical investigation.

Singh (2002) had conducted a research entitled, “A study on Application of Best Judgment of Income Tax Assessment with Reference to ITA, 1974”. Need, provision and role of best judgment in income tax assessment are the objectives of the study. In this study he found that in Nepal, income tax assessments are mainly performed by committee. He also found that only 9.01% of the total income tax assessment was performed on the basis of

account in 1990/91, which was 10.49% in 1991/92. Its share remained only 3.89% of income tax assessment. He also discussed on the income tax assessment of Nepal, basis of assessment, necessary conditions for best judgment assessment, natural justice and best judgment etc. in this study.

Kandel (2000) also presented Ph. D thesis entitled “Corporate Tax System and Investment Behavior in Nepal”. He undertook the research work to find out the problems relating to corporate tax, which blocks the development of private investments. The main objectives of this study were to evaluate corporate tax system in general, to examine sensitivity of certain policy like inflation, capital gain, dividend tax and interest tax etc. based on their impacts of tax burden. He showed the relationship of private investment with Average Effective Tax Rate (AETR), Marginal Effective Tax Rate (METR) and tax incentives of Nepal.

Shiwakoti (1987) has presented a dissertation named “Analytical Study of Income Tax in Nepal regarding Income Tax”. His study has mainly focused on the role of income tax in Nepal, structure of income tax, income tax rate, personnel management aspect of tax department, and legal aspect of ITA 1974. He recommended that tax must be introduced to collect the additional fund to meet the growing need of resources for development program.

2.2.3 Review of Reports

Agrawal, a senior research officer of CEDA, had conducted a research on a topic, “Resource Mobilization for Development: The Reform of Income Tax in Nepal”. CEDA Kathmandu published this report in 1978. This study focused the various aspects of income tax in Nepal. Some of the important objectives of this study were as follows:

- a. To examine the problem of growing resource gap in Nepalese finance in the context of the role of income tax.

- b. To examine the buoyancy and elasticity of income tax in Nepal including projection of income tax.
- c. To examine the ways and means for increasing tax consciousness in the Nepalese public.

Some remarkable findings and recommendations of the reports were as follows:

Findings:

- a. Needs for additional resource mobilizations were growing by 85 times in Nepal and he was experiencing a serious and growing problem of resource gap.
- b. Income tax has been a fast growing category of tax revenue in Nepal.
- c. The individual taxpayers contributed more than 50% of the total income tax revenue.
- d. Buoyancy of income tax with respect to GDP for period 1967/68 to 1975/76 was 2.18 and elasticity was 2.01.

Recommendations:

- a. Additional domestic resource should be mobilized through taxation.
- b. Tax structure of Nepal needs to be redesigned in order to increase the role of direct tax.
- c. Income tax should be reformed in Nepal. (Agrawal, 1978)

Revenue consultation committee has studied the overall taxation situation in 2001. This report suggested widening the income tax base by including all kinds of taxpayers and find out the taxpayers of new sector. The report suggested making the act more transparent and clear in order to attract foreign and domestic investors. This report suggested to implement account based VAT more effectively. For small taxpayers having up to Rs. 2 million, tax collection should be based on sale and purchase description. For income taxation, self-assessment was fully recommended. Income tax exemption limit was suggested to increase taking into consideration the purchasing power and inflation. This report also certified Rs. 55,000/- for individual and Rs. 75,000/- for couple and family as exemption limit. The report gave suggestion for Nepal Government to expand the Permanent Account Number (PAN) outside the

valley and reduce the land house registration rate and to rationalize the tax deduction at source. (TDS)

2.2.4 Review of Articles

Kandel (2004) wrote an article entitled “Draft of Income Tax Act 2001: Critical Analysis” in Rajaswa. Kandel has criticized the ITA 2002 on several grounds. Exemption of agriculture income from income tax, export duties levied on export, inequality between different capital earned income (i.e. interest, dividend and capital gain) withdrawal of the provision of exemption suddenly and no adjustment for inflation are the major issues, he wrote in his article. He also said that the tax regime creates more burden than the former one.

2.3 Research Gap

All the research studies mentioned above are concerned with study of laws, provisions, administrative aspects and structure of tax. Most of them have indicated the inefficiency of tax administration. But major were based on theoretical facts of tax administration. They have identified the problem of income tax evaluation at high level and suggested for its control.

PEs are the backbone of the economy. Contributions of income tax from PEs play a vital role in the economy. Here, NTC is the main enterprise to contribute revenue for government. Most of the previous researcher did not study about contribution of income tax from PEs with reference to NTC.

Besides these, contribution of income tax from PEs with reference to NTC, to government revenue has also been outdone analytically. Likewise, structure of public revenue, contribution of PEs to public revenue or contribution of NTC to public revenue has been studied analytically and intensively.

CHAPTER: III

RESEARCH METHODOLOGY

Research methodology is the systematic way of solving research problems. Research methodology refers to the overall research process, which a researcher conducts during his/ her study period (Kothari, 2009).

It reveals the methodology adopted in carrying out the research work. It includes research design, population and sampling, sources of data, procedure of data collection, data analysis procedure and uses of tools for analysis.

3.1 Research Design

It is an overall framework of plan study for the collection and analysis of data. It is an integrated system that guides the researcher in formulating, implementing and controlling the study. This research attempts to analyze the secondary data. Hence, descriptive and analytical both the research designs have been used to analyze the contribution pattern of income tax from PEs to public revenue of Nepal with reference to NTC.

3.2 Populations and Sampling

The present public enterprises are the population of the study and NTC is selected as sample for the evaluation. Similarly income tax of 10 years (beginning from Fiscal Year 2000/01 to 2009/10) is selected as samples for the purpose of the research.

3.3 Source of Data

Most of the data were collected from secondary sources. The major sources of data are as follows:

- a. Economic surveys and Budget speeches of various years, MOF.
- b. Publication CEDA, TU (Tribhuvan University).
- c. Reports and records of Department of Taxation, MOF.
- d. Annual reports, news and records of NTC.
- e. Books related to Public Finance.
- f. Books related to Income Tax.
- g. Books related to Public Enterprises.
- h. National newspapers, Journals, Souvenir and News magazines.
- i. Unpublished dissertation.
- j. Extensive library research at Tribhuvan University, Central library and CEDA library etc.
- k. Various websites.

3.4 Procedure of Data Collection

This study is mainly based on secondary data, obtained from various sources mentioned above. Besides, a detailed view of literature had been conducted in order to collect relevant data and information. Such view materials are mainly collected from central library of TU, Library of Central Department of Management, NTC library (Bhadrakali), Internal Revenue Department (Lazimpat) and other public libraries.

3.5 Data Analysis Procedure

It is observed that collected data does not depict the result itself. The data are thus transformed into information. This process of transforming data is called data analysis. It consists of organizing, tabulating, performing statistical analysis and drawing inferences. Likewise, the required accounting principle

mathematical approaches and legal provision of ITA 2058 are taken into consideration in data analysis procedure.

3.6 Uses of Tools for Analysis

The different tools are required for the analysis. These tools and techniques depend upon the nature of study.

The following tools are applied for the purpose of analysis:

- | | |
|--------------------------|------------------------------|
| I) Average | IV) Column/Line diagram |
| II) Percentage | V) Hypothesis (i.e. F- Test) |
| III) Regression Analysis | |

3.7 Limitations of the Study:

The study has the following limitations:

- ii. This study is mainly based on secondary data.
- iii. This study covers the period from FY 2001 to 2010
- iv. This study is only a case study. Thus, the result may not be applicable to other enterprises thoroughly.
- v. This study has been conducted to fulfill the requirement of the MBS Programs of T.U. for the prescribed time not for generalizations purpose.
- vi. Since the study has been conducted in a year, there is limitation of time.

CHAPTER: IV

DATA PRESENTATION AND ANALYSIS

The presentation of data is the basic organization and classification of the data for analysis. After data collection is completed, the data will be in what researchers call “the raw form”. It is necessary to arrange the data so that it makes some sense to the researcher and so that it can later be presented to the readers of the thesis.

Different types of data require different methods of summary and presentation. Data analysis process consists of editing, coding, classification, and tabulation of information (Sekaran, 1992)

It is concerned with the presentation and analysis of data that has been collected through various sources. Various collected data tabulates in their sequential order and describe and analyze with statistical tool as well as general accounting and taxation principles and findings of the study.

4.1 Income Tax Structure

The income tax structure of Nepal is the composition of tax from PEs, Semi PEs, Private Corporate bodies, Individuals, remuneration and tax on interest. Here PEs consists of 100% government ownership, Semi PEs include 51% government ownership. Private corporate bodies mean public limited companies. Individual denote sole traders, partnership, and private limited

companies. Remuneration refers to salaries earned from government and non-government sectors.

4.1.1 Government (Tax and Non- Tax Revenue)

The sources of government revenue are divided into tax revenue and non- tax revenue. The tax revenue is a composition of custom duty, excise duties, VAT, and land revenue, registration, income tax and other taxes. But non-tax revenue is composition of revenue from forest, dividend, royalty, sales of fixed assets, civil administration etc.

When the HMG of Nepal presented first budget in 1951/ 52, the revenue structure was typically that traditional economy with 73 percent of government receipts coming from non-tax structures and land tax.

Table 4.1.1 shows the composition of the total revenue of Government, which constitutes tax, and non-tax revenue from FY 2000/2001 to FY 2009/2010. The share of tax revenue has always been greater than the share of non-tax revenue. The average share of tax revenue for the period 2000/01 to 2009/10 was 78.53 percent and average share of non-tax revenue was 21.47 percent. This indicates that the role of tax revenue is very much important in revenue mobilization of Nepal and to meet the increasing government expenditure. Tax revenues have been placed as a major source to government revenue in Nepal.

Table: 4.1.1
Contribution of Tax and Non-Tax Revenue to Total Revenue of
Nepal from the FY2000/1to 2009/10

Rs. in millions

Fiscal Year	Total Revenue	Tax Revenue	Non-Tax Revenue	Tax Revenue as % of Total Revenue	Non-Tax Revenue as % of Total Revenue
2000/1	37,247.30	28,752.90	8,494.40	77.19	22.81
2001/2	42,893.70	33,152.10	9,741.60	77.29	22.71
2002/3	48,893.90	38,865.10	10,028.80	79.49	20.51

2003/4	50,445.60	39,330.60	11,115.00	77.97	22.03
2004/5	56,229.90	42,586.90	13,643.00	75.74	24.26
2005/6	62,331.10	48,173.30	14,157.80	77.29	22.71
2006/7	70,122.70	54,104.70	16,018.00	77.16	22.84
2007/8	72,282.00	57,430.40	14,851.60	79.45	20.55
2008/9	87,199.70	71,973.40	15,226.30	82.54	17.46
2009/10	104,939.30	85,155.46	19,783.84	81.15	18.85

Sources: Economic Survey of Various years, MOF

From FY 2000/2001 the amount of tax revenue found increasing every year with the average amount of Rs. 6266.95 millions. It reached to Rs. 85155.46 millions in FY 2009/10. But the figure in percentage of tax revenue in the total government revenue has been found fluctuating in different years. The trend of non-tax revenue collection was also increased during the study period.

The percentage contribution of non-tax revenue to total revenue was in fluctuating trend during the study period. It decreased to 17.46% in FY 2008/09 and increased to 24.26% in FY 2004/05.

4.1.2 Tax/GDP Ratio in Nepal

Nepal is one of the lowest taxed economies in the world. The moderate tax-GDP ratio ranged from 15 to 18 percent in other developing countries. But in Nepal, it is obvious from the fact that tax-GDP ratio never exceeded 10% except from FY 2005/2006.

Table: 4.1.2

Tax Revenue as percentage of GDP from the FY 2000/2001 to 2009/2010

Rs. in millions

Fiscal Year	GDP	Tax Revenue	Tax Revenue as % of GDP
2000/1	330,018.00	28,752.90	8.71
2001/2	366,251.00	33,152.10	9.05
2002/3	393,566.00	38,865.10	9.88
2003/4	405,632.00	39,330.60	9.70
2004/5	435,531.00	42,586.90	9.78

2005/6	472,424.00	48,173.30	10.20
2006/7	504,101.00	54,104.70	10.73
2007/8	582,950.00	57,430.40	9.85
2008/9	670,588.00	71,973.40	10.73
2009/10	820,814.00	85,155.46	10.37

Source: Economic Survey, 2010

If the share of tax revenue over GDP is considered, it is not found satisfactory. There is a continuous fluctuation in the percentage of tax revenue of GDP. Some year it is increasing and in some year it is decreasing. The tax revenue percent of GDP in Nepal was maximum to 10.73% in the FY 2006/07 and 2008/09. The minimum tax revenue percent of GDP was 8.71% in the FY 2000/01.

4.1.3 Composition of Direct and Indirect Tax in Nepalese Tax Revenue

The structure of Nepalese tax revenue can be presented in terms of consumption, income and capital based tax. Taxes on consumption are known as indirect tax and taxes on income as well as capital are known as direct taxes. Custom duties, excise, VAT, entertainment tax, hotel tax, air flight tax and road and bridge maintenance tax are included in indirect tax. On the other hand, income tax, land tax, urban house and land tax, vehicle tax, interest tax, wealth tax and other taxes are included in direct tax. The structure of Nepalese tax revenue is presented in table 4.1.3 in terms of direct and indirect tax revenue from FY 2000/01 to 2009/10. From the table no. 4.1.3, it is clear that the whole Nepalese tax structure is dominated by indirect tax revenue.

Table: 4.1.3
Contribution of Direct and Indirect Tax to Total Tax Revenue
From FY 2000/01 to 2009/10.

Rs. in millions

Fiscal Year	Total Tax Revenue	Direct Tax Revenue	Indirect Tax Revenue	% of Direct tax in Total Tax Revenue	% of Indirect Tax in Total Tax Revenue
2000/1	28,752.90	7,516.10	21,236.80	26.14	73.86
2001/2	33,152.10	8,551.50	24,600.60	25.79	74.21

2002/3	38,865.10	10,159.40	28,705.70	26.14	73.86
2003/4	39,330.60	10,597.50	28,733.10	26.94	73.06
2004/5	42,586.90	10,105.70	32,481.20	23.73	76.27
2005/6	48,173.30	11,212.30	36,961.00	23.27	76.73
2006/7	54,104.70	13,071.09	41,033.61	24.16	75.84
2007/8	57,430.40	13,858.10	43,572.30	24.13	75.87
2008/9	71,973.40	18,980.30	52,993.10	26.37	73.63
2009/10	85,155.46	23,087.80	62,067.66	27.11	72.89

Source: Economic Survey, 2010

Direct tax increased up to Rs. 23,087.80 millions in FY 2009/10 from Rs.7,516.10 in FY 2000/01. Similarly, indirect tax is also in increasing trend. If we see the percentage contribution of both direct and indirect taxes to total tax revenue, there are lots of fluctuations in various years. The percentage contribution of direct tax to total tax revenue was highest in the FY 2009/10 i.e. 27.11%. Direct and indirect tax reveals that heavy reliance of economy on indirect taxation. Government has poor performance in collecting direct tax. To divert the economy in the channel of development, it is necessary to increase the share of direct tax, ultimately decreasing the share of indirect tax. Therefore, the attention should be focused on the sufficient resource mobilization through direct taxation.

4.1.4 Contribution of Various Taxes as Percentage to GDP

Table 4.1.4 shows the contribution of various taxes as percent of GDP. During the study period, the contribution of tax revenue increased from 8.71% in FY 2000/01 to 10.37% in FY 2009/10, which was increasing at a slower rate.

Table: 4.1.4
Contribution of Various Taxes as Percentage to GDP
From the FY 2000/1-2009/10

Rs. in millions

Fiscal Year	Tax Revenue as % of GDP	Direct Tax as % of GDP	Indirect Tax as % of GDP	Custom Duties as % of GDP	Excise Duty as % of GDP	Sales Tax/VAT as % of GDP	Land Revenue & Registration as % of GDP	Income Tax as % of GDP	Misc. as % of GDP
2000/1	8.71	2.28	6.44	2.88	0.89	2.39	0.3	1.91	0.37

2001/2	9.05	2.33	6.72	2.95	0.85	2.69	0.28	2.06	0.25
2002/3	9.88	2.58	7.29	3.19	0.96	3.06	0.16	2.32	0.19
2003/4	9.70	2.61	7.08	3.12	0.94	2.95	0.28	2.2	0.21
2004/5	9.78	2.32	7.46	3.27	1.10	3.09	0.33	1.83	0.17
2005/6	10.20	2.37	7.82	3.29	1.32	3.06	0.36	1.86	0.15
2006/7	10.73	2.59	8.14	3.11	1.28	3.75	0.36	2.24	0.18
2007/8	9.85	2.38	7.47	2.63	1.12	3.71	0.37	2.02	0.13
2008/9	10.73	2.83	7.90	2.49	1.38	3.96	0.43	2.48	0.19
2009/10	10.37	2.81	7.56	2.57	1.36	3.63	0.36	2.32	0.65

Source: Economic Survey, 2010

- I) Customs include: Imports + Exports + Indian Excise Fund + Others.
- II) Excise includes: Industrial Production + Liquor Contract
- III) Income tax includes: Income tax from Public Enterprises + Semi Public Enterprises + Private Corporate Bodies + Individual + Remunerations + Tax on Investment.
- IV) Miscellaneous includes: Entertainment tax + Hotel tax + Air Flight Tax + Contract Tax + Road and Bridges Maintenance Tax and Others + Urban house and land tax + Vehicle Tax + Other Taxes.

Contribution of Sales tax/VAT has occupied the highest position. Custom has occupied second position among the revenues. Contribution of custom to GDP varied from year to year. Percentage contribution of excise to GDP increased from 0.89% in FY 2000/01 to 1.36% in FY 2009/10. The percentage contribution of excise to GDP is in fluctuating trend.

4.1.5 Composition of Indirect Tax

The whole Nepalese tax structure is dominated by indirect tax revenue. Indirect tax includes sales tax, customs, excise, and entertainment tax. Nepalese tax revenue is dependent mainly on taxes on international trade and sales tax on goods and services supplemented by taxes on income and property to some extent. Nepalese tax structure is heavily dependent on indirect taxes, which contributed 72.89% of total revenue in FY 2009/10.

Table: 4.1.5
Major Sources of Indirect Tax and their Relative Percentage to Indirect Tax from the FY 2000/1-2009/10

Rs. in millions

Fiscal Year	Indirect Tax Revenue	Total %	Custom	As % of IDT	Excise	As % of IDT	Sales Tax/VAT	As % of IDT	Contract Tax	As % of IDT	Other Indirect Tax	As % of IDT
2000/1	21236.80	100	9517.70	44.82	2953.20	13.91	7888.20	37.14	618.00	2.91	265.90	1.25
2001/2	24600.60	100	10813.00	43.95	3127.60	12.71	9854.90	40.06	374.50	1.52	30.30	0.12
2002/3	28705.70	100	12552.00	43.73	3771.20	13.14	12048.00	41.97	304.00	1.06	30.60	0.11
2003/4	28733.10	100	12658.00	44.05	3807.00	13.25	11964.00	41.64	301.20	1.05	2.10	0.01
2004/5	32481.20	100	14236.00	43.83	4785.10	14.73	13460.00	41.44	-	-	165.80	0.51
2005/6	36961.00	100	15554.00	42.08	6226.70	16.85	14479.00	39.17	-	-	700.60	1.90
2006/7	41033.61	100	15701.60	38.27	6445.90	15.71	18885.40	46.02	-	-	0.71	0.00
2007/8	43572.30	100	15344.00	35.22	6507.60	14.94	21610.70	49.60	-	-	110.00	0.25
2008/9	52993.10	100	16707.10	31.53	9243.40	17.44	26558.90	50.12	-	-	483.70	0.91
2009/10	62067.66	100	21062.42	33.93	11189.56	18.03	29815.10	48.04	-	-	0.58	-

Source: Economic Survey, 2010

Note:

- I) Custom includes: Imports + Exports + Indian Excise Refund + Others.
- II) Excise includes Industrial Production + Liquor Contract.
- III) Other Indirect tax includes: Entertainment Tax + Hotel Tax + Air Flight Tax + Road and Bridge Maintenance tax and others.

The average percentage contribution of custom duties to indirect tax was 40.14% during the study period. The sales tax / VAT have become an important source of overall tax revenue with increasing trend, which contributed about 48.04% to indirect tax in FY 2009/10. The contribution of contract tax to indirect tax is almost same in most of the years with slight fluctuations. In the last few years there is no contract tax at all.

4.1.6 Contribution of Direct tax as percentage to GDP, Total Revenue and Total Tax Revenue

Table 4.1.6 shows the contribution of direct tax as percent of GDP, total revenue and total tax revenue from FY2000/1 to FY 2009/10. Direct tax includes income tax, land revenue and registration tax, urban house and land tax, property tax, vehicle tax, house and land rent tax.

Table: 4.1.6

Contribution of Direct Tax as Percentage of GDP, Total Revenue and Total Tax Revenue of Nepal from the FY2000/1 to 2009/10

Rs. in millions

Fiscal Year	Direct Tax Revenue	GDP	Total Revenue	Total Tax Revenue	Direct Tax as % of GDP	Direct Tax as % of Total Revenue	Direct Tax as % of Total Tax Revenue
2000/1	7,516.10	330,018.00	37,247.30	28,752.90	2.28	20.18	26.14
2001/2	8,551.50	366,251.00	42,893.70	33,152.10	2.33	19.94	25.79
2002/3	10,159.40	393,566.00	48,893.90	38,865.10	2.58	20.78	26.14
2003/4	10,597.50	405,632.00	50,445.60	39,330.60	2.61	21.01	26.94
2004/5	10,105.70	435,531.00	56,229.90	42,586.90	2.32	17.97	23.73
2005/6	11,212.30	472,424.00	62,331.10	48,173.30	2.37	17.99	23.27
2006/7	13,071.09	504,101.00	70,122.70	54,104.70	2.59	18.64	24.16
2007/8	13,858.10	582,950.00	72,282.00	57,430.40	2.38	19.17	24.13
2008/9	18,980.30	670,588.00	87,199.70	71,973.40	2.83	21.77	26.37
2009/10	23,087.80	820,814.00	104,939.30	85,155.46	2.81	22.00	27.11

Source: Economic Survey, 2010

Table: 4.1.6 shows the contribution of direct tax as percent to GDP, total revenue and total tax revenue from FY2000/1 to 2009/10. Direct tax includes income tax, land revenue and registration, urban house and land tax, property tax, vehicle tax, house and land rent tax. The percentage contribution of direct tax to GDP is fluctuating during study period. The average contribution of direct tax to GDP was 2.51% during the study period.

The percentage contributions of direct tax to total revenue are fluctuating during the study period. The average contribution of direct tax to total revenue is 19.95% during the study period. The average contribution of direct tax to total tax revenue is 25.38%. The percentage of direct tax to total tax revenue is also in fluctuating trend.

4.1.7 Composition of Direct Tax

Table 4.1.7 shows that the compositions of direct tax from FY FY2000/1 to FY 2009/10, the major components of direct tax are income tax, land revenue, house and land registration. The contribution of income tax has been larger than the other component of direct tax.

Table: 4.1.7
Components of Direct Tax and their Percentage Share from
FY2000/01 to2009/10

Rs. in millions

Fiscal Year	Direct Tax Revenue	Total %	Income Tax	% of Direct Tax	Land Revenue	% of Direct Tax	House & Land Registration Tax	% of Direct Tax	Others	% of Direct Tax
2000/1	7516.10	100	6293.50	83.73	1.40	0.02	1001.80	13.33	219.40	2.92
2001/2	8551.50	100	7539.10	88.16	4.60	0.05	1011.30	11.83	396.50	4.64
2002/3	10159.40	100	9116.90	89.74	5.10	0.05	607.80	5.98	429.60	4.23
2003/4	10597.50	100	8906.00	84.04	0.80	0.01	1131.00	10.67	559.70	5.28
2004/5	10105.70	100	7966.20	78.83	-	0.00	1414.30	14.00	725.30	7.18
2005/6	11212.30	100	8805.30	78.53	-	0.00	1697.50	15.14	709.40	6.33

2006/7	13071.09	100	11272.60	86.24	-	0.00	1798.20	13.76	-	0.00
2007/8	13858.10	100	11787.00	85.05	-	0.00	2070.00	14.94	-	0.00
2008/9	18980.30	100	16608.10	87.50	-	0.00	2355.00	12.41	-	0.00
2009/10	23087.80	100	19077.81	82.63	-	0.00	2940.74	12.74	-	0.00

Source: Economic Survey, 2010

Note:

- I) Income tax includes income tax from: Public Enterprises + Semi Public Enterprises + Private Corporate Bodies + Individual + Remuneration + Tax on Interest.
- II) Other includes: Urban house and land tax + Vehicle tax + other taxes.

4.1.8 Structure of Income Tax in Nepal

The income tax structure of Nepal is the composition of tax from PEs, Semi PEs, Private Corporate bodies, Individuals, remuneration and tax on interest. Here PEs consists of 100% government ownership, Semi PEs include 51% government ownership. Private corporate bodies mean public limited companies. Individual denote sole traders, partnership, and private limited companies. Remuneration refers to salaries earned from government and non-government sectors. Structure of income tax in Nepal is presented below:

Table: 4.1.8

Structure of Income Tax in Nepal from FY 2000/1 to 2009/10

Rs. in millions

Fiscal Year	Income Tax	Total %	PEs Tax	As % of IT	Semi PEs	As % of IT	Pvt. Corporate Bodies Tax	As % of IT	Individual Tax	As % of IT	Remuneration	As % of IT	Tax on Interest	As % of IT
2000/1	6293.50	100	1526.50	24.26	-	-	1155.00	18.35	2772.70	44.06	393.50	6.25	319.50	5.08
2001/2	7539.10	100	2198.80	29.17	-	-	1339.50	17.77	3016.40	40.01	451.50	5.99	414.40	5.50
2002/3	9116.90	100	2928.00	32.12	-	-	1924.30	21.11	3201.86	35.12	597.30	6.55	463.90	5.09

2003/4	8906.00	100	1769.30	19.87	-	-	1412.00	15.85	4412.10	49.54	825.70	9.27	467.70	5.25
2004/5	7966.20	100	1251.10	15.71	-	-	1,236.30	15.52	3,362.30	42.21	1252.60	15.72	864.00	10.85
2005/6	8805.30	100	2056.60	23.36	-	-	1,531.30	17.39	3,533.40	40.13	1391.20	15.80	733.40	8.33
2006/7	11272.60	100	1331.56	11.81	-	-	2,467.62	21.89	3,871.68	34.35	1676.98	14.88	757.33	6.72
2007/8	11787.00	100	1858.88	15.77	-	-	3,537.45	30.01	4,234.65	35.93	1751.51	14.86	757.03	6.42
2008/9	16608.10	100	1018.32	6.13	-	-	5,711.30	34.39	2,028.86	12.22	2028.86	12.22	996.15	6.00
2009/10	19077.81	100	1839.29	9.64	-	-	7,110.48	37.27	5,971.20	31.30	2294.55	12.03	961.70	5.04

Sources: Economic Survey of Various years, MoF

Table 4.1.8 shows the structure of income tax in Nepal which presents that the total income tax increased in every year. The percentage contribution of income tax from PEs to total income tax revenue is in almost decreasing trend. The maximum contribution percentage was 32.12% in FY 2002/03 and the minimum contribution percentage was 6.13% in FY 2008/09. The income tax from Semi PEs is not presented. The contribution from Pvt. Corporate bodies to income tax is almost in increasing trend. The contribution of income tax from individual to total tax revenue in FY 2009/10 had increased by Rs. 3942.34 million as compared to previous FY 2008/09. The contribution of income tax from remuneration is in fluctuating trend. The maximum contribution was Rs. 2,294.55 millions in FY 2009/10. The contribution of income tax from tax on interest to total income tax revenue is in increasing trend during the study period.

4.1.9 Contribution of Income Tax to GDP, Total Revenue, Total Tax Revenue and Direct Tax Revenue

Contribution of income tax to GDP, total revenue, total tax revenue and direct tax revenue is presented in table 4.1.9:

Table: 4.1.9

Contribution of income tax to GDP, total revenue, total tax revenue and direct tax revenue from FY2000/1 to2009/10

Rs. in millions

Fiscal Year	GDP	Total Revenue	Total Tax Revenue	Direct Tax Revenue	Income Tax Revenue	% of IT on GDP	% of IT on TR	% of IT on TTR	% of IT on DTR
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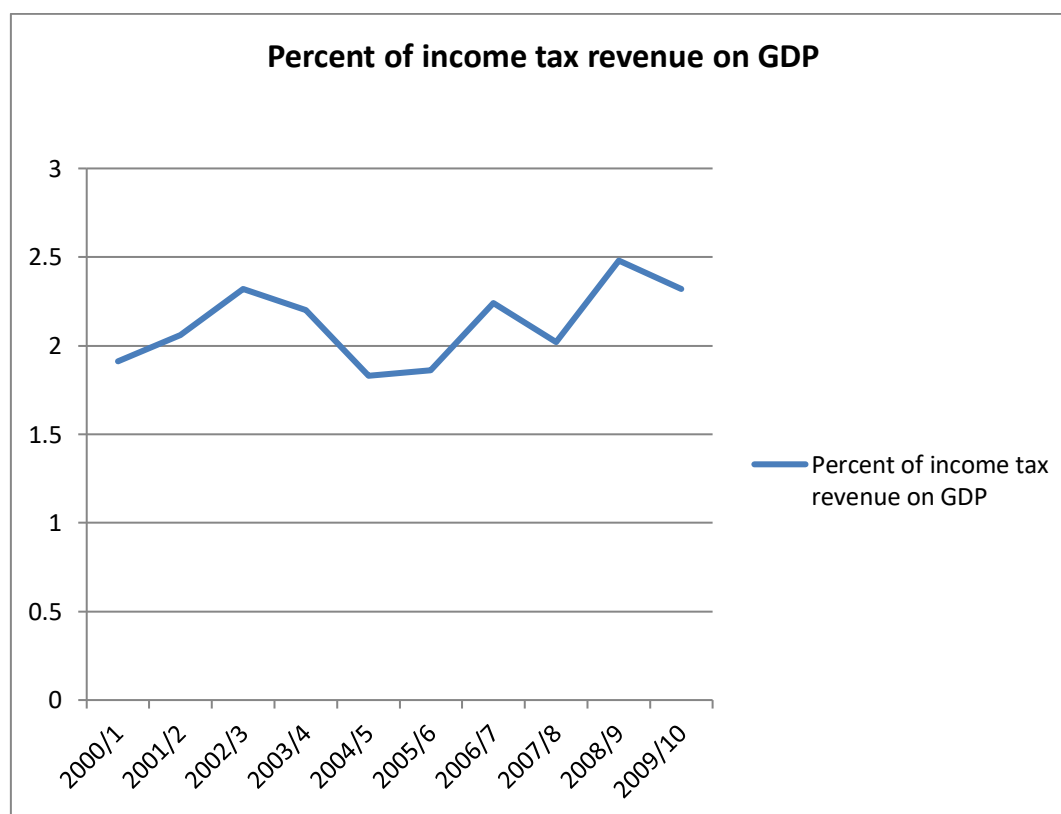
2000/1	330,018	37247.30	28,752.90	7,516.10	6293.50	1.91	16.90	21.89	83.73
2001/2	366,251	42893.70	33,152.10	8,551.50	7539.10	2.06	17.58	22.74	88.16
2002/3	393,566	48893.90	38,865.10	10,159.40	9116.90	2.32	18.65	23.46	89.74
2003/4	405,632	50445.60	39,330.60	10,597.50	8906.00	2.20	17.65	22.64	84.04
2004/5	435,531	56229.90	42,586.90	10,105.70	7966.20	1.83	14.17	18.71	78.83
2005/6	472,424	62331.10	48,173.30	11,212.30	8805.30	1.86	14.13	18.28	78.53
2006/7	504,101	70122.70	54,104.70	13,071.09	11272.60	2.24	16.08	20.83	86.24
2007/8	582,950	72282.00	57,430.40	13,858.10	11787.00	2.02	16.31	20.52	85.05
2008/9	670,588	87199.70	71,973.40	18,980.30	16608.10	2.48	19.05	23.08	87.50
2009/10	820,814	104939.30	85,155.46	23,087.80	19077.81	2.32	18.18	22.40	82.63

Source: Economic Survey, 2010

4.1.9.1 Income Tax on Gross Domestic Product (GDP)

The percentage contribution of income tax in comparison with GDP is presented in Table 4.1.9. The share of income tax in the GDP of Nepal is very low. It was 2.32% in FY 2009/10. Figure 4.1.1 shows relation of Income Tax to GDP.

Figure: 4.1.1
Trend of Income Tax as Percentage of GDP
From FY2000/1 to2009/10

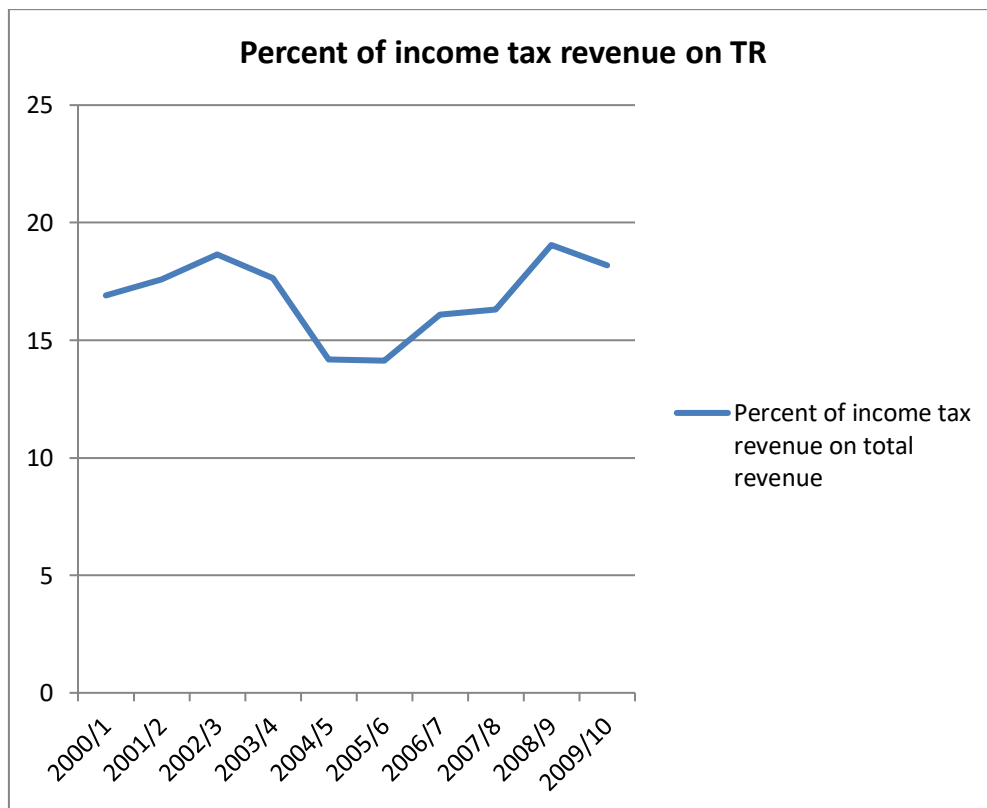


The trend of income tax as percentage of GDP during the FY 2000/01 to 2009/10 is illustrated in the graph. From the graph, it is generally obvious that the contribution pattern is in fluctuating trend. The contribution is in its maximum around 2.48 percent in FY 2008/09, and its minimum around 1.83 percent in FY 2004/05.

4.1.9.2 Income Tax on Total Revenue

Table 4.1.9 shows the percentage contribution of income tax to total revenue is in fluctuating trend. Figure 4.1.2 shows the relation of income tax to total tax revenue.

Figure:4.1.2
Trend of Income Tax as Percentage of TR
From FY2000/1 to2009/10

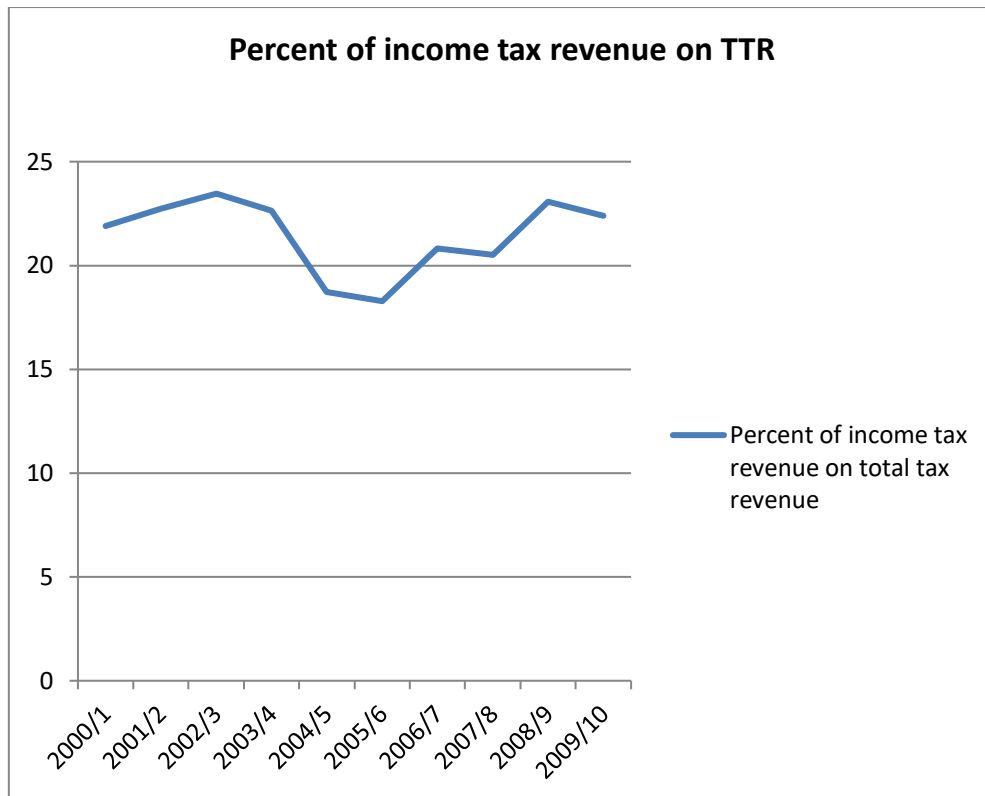


The percent of income tax revenue on total revenue between FY 2000/01 and FY 2009/010 is illustrated in the graph. There has been a slight increase in the percentage contribution from income tax in the first two years and fell rapidly to 14.13 percent in FY2005/06. Then after, it has increased gradually up to 19.05 percent. But there is a fall again in last year.

4.1.9.3 Income Tax on Total Tax Revenue

The percentage contribution of income tax to total tax revenue is presented in table 4.1.9. Contribution of income tax to total tax revenue is not equally changed in the study period. The contribution percentage was 21.89% in FY 2000/01. It was 22.40% in FY 2009/10. Figure 4.1.3 shows the relation of income tax on total tax revenue.

Figure: 4.1.3
Trend of Income Tax as Percentage of TTR
From FY2000/1 to2009/10



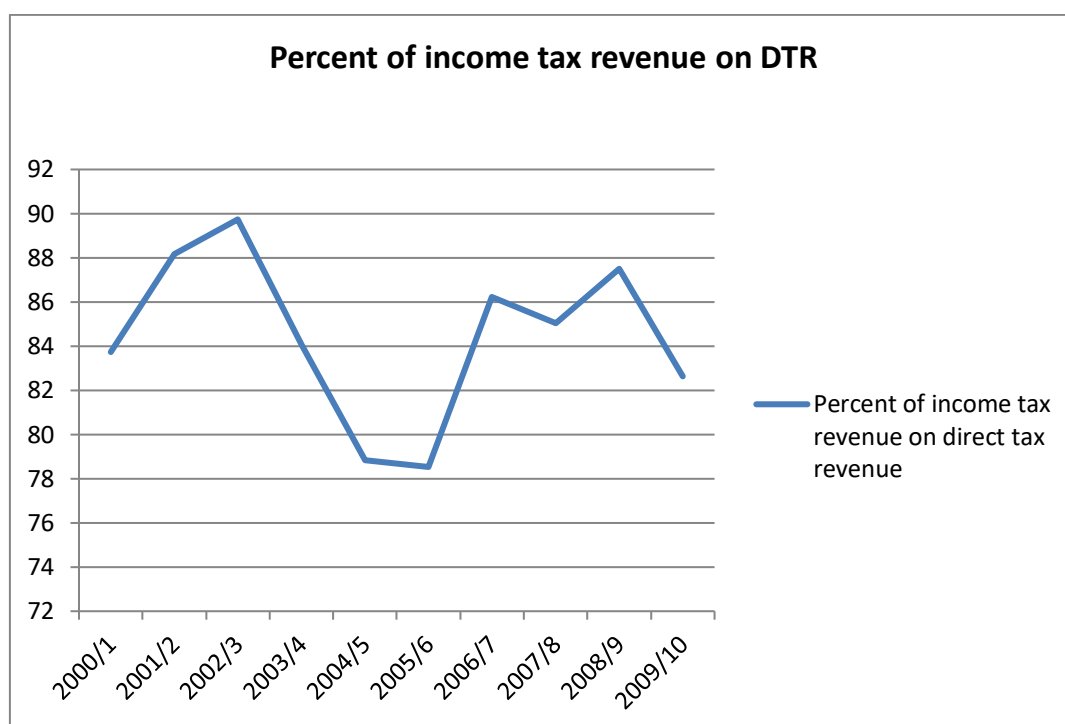
The graph illustrates the percentage of income tax on total tax revenue. The trend of the percentage has almost remained stable and dropped to 18.28 percent in FY 2005/06. And then after, there is a gradual increment up to 23.08 percent in FY 2008/09. There is a slight reduction in FY 2009/010 again.

4.1.9.4 Income Tax on Direct Tax Revenue

Table 4.1.9 shows that there is immense contribution of income tax to direct tax revenue in our economy. Income tax revenue is the major sources of direct tax revenue. The minimum contribution was 78.53% in FY 2005/06 whereas the maximum contribution was 89.74% in FY 2002/03. It was 82.63% in FY 2009/10. Figure 4.1.4 shows the relation of income tax with direct tax revenue.

Figure: 4.1.4
Trend of Income Tax as Percentage of DTR

From FY2000/1 to2009/10



The above diagram illustrates the trend of percent of income tax revenue on direct tax revenue. It is in fluctuating trend during the study period. In the first two years, there has been a dramatic increase in the percentage of income tax on DTR from 83.73 percent to 89.74 percent. But it fell rapidly to 78.53 percent in FY 2005/06. Then after, it has been changing its direction each year.

4.2 Contribution of Income Tax from PEs to Total Revenue

The share of income tax from PEs in total revenue is very low. These percentages contributions are in fluctuating trend during the study period.

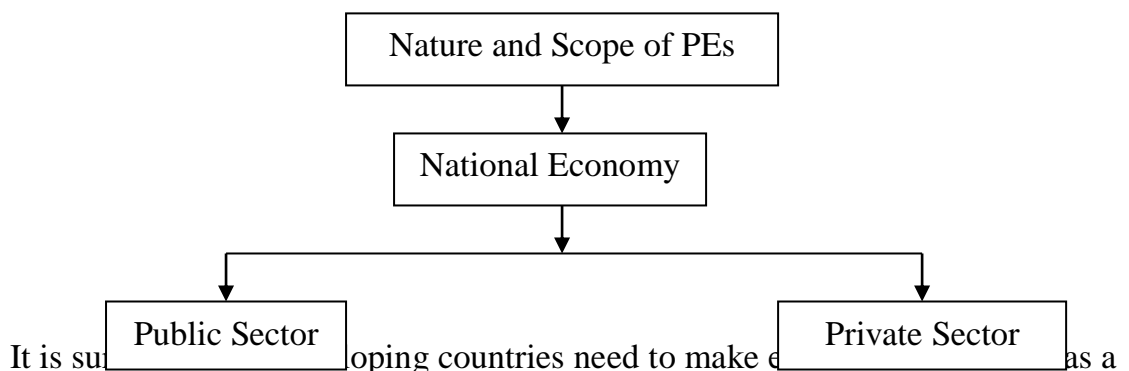
4.2.1 Introduction of PEs

United Nations has defined PEs as, “those organization, namely government enterprises and public corporation which are entirely or mainly owned and /or controlled by the authorities consisting of establishments which by virtue of their kind of activities, technology and made of operation are classified as industries” (Profile of PEs in Nepal, 1978).

PEs are established in order to prepare infrastructure services to produce the require goods in the economy and to help in controlling the price situation, to create opportunities for employment, to increase government revenues and to contribute significantly in the national development as well as to assist in the country's economic advancement.

PEs is autonomous bodies, which are owned and managed by the government and which provide goods or services for a price. The ownership with the government should be 51% or more to make an entity

A public authority holds thus in PEs more than 50% of outstanding equity either directly or indirectly. Government has power to involve in the management of the enterprises through the appointment of top management members of the Board of Directors and the Chief Executives.



as a catalytic agent in the process of moving towards development oriented economy at a certain stage in the development process. PEs have assumed significant role in almost every country of the world. Soon after the achievement of political independence in most of the countries of the third world, their national government realized that their national economics had to encounter grim circumstances of mass poverty, unemployment problems. They were further complicated by the existence of great disparity in income and

wealth distribution, regional imbalance and last but not the least evils of over population.

4.2.2 Role of PEs in Nepalese Economy

PEs has become both necessary and useful as vehicles for development in developing nations. They are being loaded upon as an effective instrument of program implementation of accomplishing the desired national growth goals. PEs constitutes a large and rapidly growing sector of the economy in the majority of countries in the world today, including Nepal.

The economy of Nepal is basically a mixed economy, where the public and private sector freely operate in the business environment except in the case of defense, which is not open to private sector. There is co-existence of both the public and private sectors in Nepal for the overall development of the country.

PEs plays a major role in achieving a twin objectives of social and economic development envisaged in the national policy. The role of PEs in stimulating and augmenting the people in economic growth in Nepal can be hardly underestimated.

PEs enjoys a strategic and crucial position in our mixed economy. They have been established in many sectors for the overall development of the country with different goal and objectives. Consequently, they are dominant in the production and supply of sugar, cement, cigarettes, leather, agricultural tools, petroleum products and all public utilities. Nepal tried to develop public institution after the advent of democracy in 1951 A.D. The first enterprise to be turned in public sector was “Nepal Bank Limited” established in 1938 A.D. with government and private shareholding.

Nepal started its planned economic development since 1956 A.D. with the lurching of first five years plan. Since then, the number of public enterprises

has increased substantially in the various field of national economy. The PEs is categorized in the various field of national economy. The PEs is categorized as follows:

a. Statutory Corporation:

These types of PEs are established under special act. RNAC, NIDC, NEA, NTC are some of the statutory corporation.

b. Companies:

Some PEs were established under “The Company Act 1964 A.D.” At present they are being governed by “Company Act 1996 A.D.” They are mostly manufacturing and trading concern. These companies are either fully owned or majority of equity is held by Nepal Government. Herbs Production and Processing Company Ltd, Royal Drugs Ltd, Udaypur Cement Industries Ltd, Nepal Oil Corporation Ltd, are the companies. It’s sure that Nepal needs to make fairly extensive use of PEs as a catalytic agent in the process of moving towards development oriented economy at a certain stage in the development process.

4.2.3 Sector Details of Privatized/ Liquidated PEs

Table: 4.2.1

List of Privatized/Liquidated PEs

S.N.	PEs Name	The Year of Privatization/ Dissolve(A.D.)	Privatization Mode	Lump sumShare Sold(%)	Received amount (Rs.'000')
1.	Bhrikuti Paper Mills (BPM)	1992	Assets and Business Sales		2,29,800
2.	Harisidhi Brick & Tile Factory (HBTF)	1992	Assets and Business Sales		2,14,830
3.	Bansbari Leather and Shoe Factory	1992	Assets and Business Sales		29,854
4.	Nepal Film Development Company (NFDC)	1993	Share Sale	51	64,662

5.	Balaju Textiles Industries Ltd. (BTI)	1993	Share Sale	70	17,716
6.	Raw Hide Collection & Development Corp. Ltd.(RHCDC)	1993	Share Sale	100	3,990
7.	Nepal Bitumen & Barrel Udhyog Ltd. (NBBU)	1994	Share Sale	65	13,127
8.	Nepal Lube Oil Ltd. (NLO)	1994	Share Sale	40	31,057
9.	Nepal Jute Trade & Development Co.	1993	Liquidation	-	-
10.	Tobacco Development Co.	1994	Liquidation	-	-
11.	Nepal Foundry Industries (NFI)	1996	Share Sale	51	14,473
12.	Shree Raghupati Jute Mills (SRJM)	1996	Share Sale	65	82,204
13.	Biratnagar Jute Mills. (BJM)	2002	Management contract	-	-
14.	Nepal Bank Ltd. (NBL)	1997	Share Sale	10	1,25,140
15.	Nepal Tea Development Corporation (NTDC)	2000	Share Sale and lease	65	2,67,105
16.	Agriculture Service Center	2001	Liquidation	-	-
17.	Cottage & Handicraft Emporium	2002	Liquidation	-	-
18.	Nepal Coal Ltd.	2002	Liquidation	-	-
19.	Hetauda Textile Industry	2002	Liquidation	-	-
20.	Nepal Transport Corporation	2002	Liquidation	-	-
21.	Butwal Power Co.	2003	Share sale	75	874,200+ USD 1 million
22.	Birgunj Sugar Factory Ltd.	2003	Liquidation	-	-
23.	Agriculture Tools Factory Ltd.	2003	Liquidation	-	-
24.	Bhaktapur Brick Factory	2004	Assets sell and Rent	-	14,500 (Assets sell 31900) 10 years rent.
25.	Himal Cement Industries Ltd.	2002	Liquidation	-	-
26.	Lumbini Sugar Factory	2006	Assets sell and Rent	-	78,600 (Assets sell 4,212) rent per year
27.	Nepal Rosin & Turpentine Ltd.	2006	Assets sell and Rent	-	110100 (Assets sell 3,012) rent per year

Sources: Ministry of Finance, Privatization Cell

Note:

- 1) Management contract done by Company Management
- 2) Nepal Government sold only 10% of the share.

4.2.4 Performance of PEs

Performance of PEs in Nepal has remained poor. It is seen that continued inefficiency and ineffectiveness of PEs have a profound negative impact on the economy particularly on the issues of sustainability and their overwhelming demand on government researches.

Table: 4.2.2

Performance of PEs from FY 2000/1 to 2009/10

Rs. in millions

Fiscal Year	Gross Profit	Capital Employed	Gross Profit as % of Capital Employed
2000/1	2,903.30	83,685.60	3.47
2001/2	2,404.40	83,420.60	2.88
2002/3	-13,311.10	82,910.00	-16.05
2003/4	-5,475.30	150,088.20	-3.65
2004/5	-1,614.40	97,232.00	-1.66
2005/6	-2,524.10	112,944.30	-2.23
2006/7	2,130.30	176,673.80	1.21
2007/8	1,688.70	188,464.20	0.90
2008/9	8,902.40	162,994.60	5.46
2009/10	2,222.50	188,980.30	1.18
Total	-2,673.30	1327,393.60	
Average	-267.33	132,739.30	-0.85

Source: Economic Survey, 2010

Gross profit of PEs is in fluctuating trend during the study period. In the last 4 years of our study period the gross profit of PEs is positive (i.e. in profit). The highest gross profit is in the FY 2008/09 (i.e. Rs. 8,902.40 millions). The average gross profit amount of PEs was in negative (i.e. profit of Rs. -267.33million) during the period of 10 years.

Capital employed of PEs is also in fluctuating trend. Gross profit percentage of capital employed is in fluctuating trend during the study period. It was positive for the first two years then it was negative for four years. It was positive for the last four years again.

4.2.5 Contribution of Income Tax from PEs to GDP of Nepal

Table:4.2.3

Contribution of Income Tax from PEs to GDP of Nepal

From FY 2000/1 to 2009/10

Rs. in millions

Fiscal Year	GDP	Income Tax from PEs	Income Tax from PEs as % of GDP
2000/1	330,018.00	1,526.50	0.46
2001/2	366,251.00	2,198.80	0.60
2002/3	393,566.00	2,928.00	0.74
2003/4	405,632.00	1,769.30	0.44
2004/5	435,531.00	1,251.00	0.29
2005/6	472,424.00	2,056.60	0.44
2006/7	504,101.00	1,331.56	0.26
2007/8	582,950.00	1,858.88	0.32
2008/9	670,588.00	1,018.32	0.15
2009/10	820,814.00	1,839.28	0.22
Total	4,981,875.00	17,778.24	
Average	498,187.50	1,777.82	0.39

Source: Economic Survey, 2010

The contribution of income tax from PEs in GDP is presented in Table 4.2.3. The share of income tax from PEs in the GDP of Nepal is very low. The share of income tax from PEs in GDP lies between 0.15 percent and 0.74 percent during the study period. The contribution of income tax from PEs to GDP is in fluctuating trend. Its average contribution to GDP was Rs. 1777.82 million and average contribution percent to GDP was 0.39 percent during the study period.

4.2.6 Contribution of Income Tax from PEs to Total Revenue of Nepal

The contribution of income tax from PEs total revenue is presented in Table 4.2.4. The share of income tax from PEs in total revenue is very low. The maximum and minimum contribution percentage of income tax from PEs to total revenue is 5.99% and 1.17% in FY 2002/03 and FY 2008/09 respectively. These percentages contributions are in fluctuating trend during the study period. The percentage contributions are almost equal in the first six years.

The contribution percentages for last three years are found in fluctuating trend. Its average contribution to total revenue was Rs. 1777.82 million and average contribution percentage to total revenue was 3.16 percent during the period of 10 years.

Table: 4.2.4
Contribution of Income Tax from PEs to Total Revenue of Nepal
From FY 2000/1 to 2009/10

Rs. in millions

Fiscal Year	Total Revenue	Income Tax from PEs	Income Tax from PEs as % of Gov. Revenue
2000/1	37,247.30	1,526.50	4.10
2001/2	42,893.70	2,198.80	5.13
2002/3	48,893.90	2,928.00	5.99
2003/4	50,445.60	1,769.30	3.51
2004/5	56,229.90	1,251.00	2.22
2005/6	62,331.10	2,056.60	3.30
2006/7	70,122.70	1,331.56	1.90
2007/8	72,282.00	1,858.88	2.57
2008/9	87,199.70	1,018.32	1.17
2009/10	104,939.30	1,839.28	1.75
Total	632,585.20	17,778.24	
Average	63,258.52	1,777.82	3.16

Source: Economic Survey, 2010

4.2.7 Contribution of Income Tax from PEs to Tax Revenue of Nepal

The contribution of Income Tax from PEs to tax revenue of Nepal is presented in Table 4.2.5. The percentage share of income tax from PEs in tax revenue of Nepal is slightly higher than the percentage contribution to GDP and tax revenue, which are shown in the table below:

Table:4.2.5

Contribution of Income Tax from PEs to Tax Revenue of Nepal
From FY 2000/1 to 2009/10

Rs. in millions

Fiscal Year	Tax Revenue	Income Tax from PEs	Income Tax from PEs as % of Tax Revenue
2000/1	28,752.90	1,526.50	5.31
2001/2	33,152.10	2,198.80	6.63
2002/3	38,865.10	2,928.00	7.53
2003/4	39,330.60	1,769.30	4.50
2004/5	42,586.90	1,251.00	2.94
2005/6	48,173.30	2,056.60	4.27
2006/7	54,104.70	1,331.56	2.46
2007/8	57,430.40	1,858.88	3.24
2008/9	71,973.40	1,018.32	1.41
2009/10	85,155.46	1,839.28	2.16
Total	499,524.86	17,778.24	
Average	49,952.49	1,777.82	4.05

Source: Economic Survey, 2010

The percentage contribution lies between 1.41 percent and 7.53 percent during the study period. Its contribution percent to tax revenue is in increasing trend for the first three years. After that it is in fluctuating trend. The average percentage contribution of income tax from PEs in tax revenue found 4.05 percent and average income tax from PEs was Rs. 1777.82 million during the study period of 10 years.

4.2.8 Contribution of Income Tax from PEs to Direct Tax Revenue of Nepal

The contribution of income tax from PEs to direct tax revenue is higher than the percentage contribution to GDP, total revenue and tax revenue. It lies between 5.37 percent and 28.82 percent during the study period, which is presented in the table No: 4.2.6 below:

Table: 4.2.6

Contribution of Income Tax from PEs to Direct Tax Revenue
From FY 2000/1 to 2009/10

Rs. in millions

Fiscal Year	Direct Tax Revenue	Income Tax from PEs	Income Tax from PEs as % of Direct Tax Revenue
2000/1	7,516.10	1,526.50	20.31
2001/2	8,551.50	2,198.80	25.71
2002/3	10,159.40	2,928.00	28.82
2003/4	10,597.50	1,769.30	16.70
2004/5	10,105.70	1,251.00	12.38
2005/6	11,212.30	2,056.60	18.34
2006/7	13,071.09	1,331.56	10.19
2007/8	13,858.10	1,858.88	13.41
2008/9	18,980.30	1,018.32	5.37
2009/10	23,087.80	1,839.28	7.97
Total	127139.79	17,778.24	
Average	12713.98	1,777.82	15.92

Source: Economic Survey, 2010

The percentage contribution of income tax from PEs to direct tax revenue is in fluctuating trend. The analysis depicts the increasing trend in direct tax revenue and almost constant trend in income tax from PEs except in the FY 2001/02, 2002/03 and FY 2005/06.

4.2.9 Contribution of Income Tax from PEs to Total Income Tax

The contribution of income tax from PEs to income tax revenue is higher than the percentage share in GDP, total revenue, tax revenue and direct tax revenue. That is presented in table No: 4.2.7.

Table: 4.2.7
Contribution of Income Tax from PEs to Total Income Tax from
FY 2000/1 to 2009/10

Rs. in millions

Fiscal Year	Total Income Tax	Income Tax from PEs	Income Tax from PEs as % of Total Tax
2000/1	6,293.50	1,526.50	24.26
2001/2	7,539.10	2,198.80	29.17
2002/3	9,116.90	2,928.00	32.12
2003/4	8,906.00	1,769.30	19.87
2004/5	7,966.20	1,251.00	15.70
2005/6	8,805.30	2,056.60	23.36
2006/7	11,272.60	1,331.56	11.81
2007/8	11,787.00	1,858.88	15.77
2008/9	16,608.10	1,018.32	6.13
2009/10	19,077.81	1,839.28	9.64
Total	107,372.51	17,778.24	
Average	10,737.25	1,777.82	18.78

Source: Economic Survey, 2010

The table above shows that the income tax contribution percentage of PEs to total income tax revenue is in fluctuating trend. It lies between 6.13 percent and 32.12 percent during the study period. In FY 2009/10 it was 9.64 percent. The average contribution of income tax from PEs to total income tax is 18.78 percent in our study period.

4.2.10 Contribution of Income Tax from PEs to Corporate Income Tax

The contribution percentage share of income tax from PEs in corporate income tax is higher than the contribution percentage share in GDP, total revenue, tax revenue, direct tax revenue and total income tax. The percentage contribution of income tax from PEs to corporate income tax is in fluctuating trend. That is presented in the table No. 4.2.8.

Table: 4.2.8

**Contribution of Income Tax from PEs to Corporate Income Tax
From FY 2000/1 to 2009/10**

Rs. in millions

Fiscal Year	Corporate Income Tax	Income Tax from PEs	Income Tax from PEs as % of Corporate Income Tax
2000/1	3,460.00	1,526.50	44.12
2001/2	4,440.00	2,198.80	49.52
2002/3	5,990.00	2,928.00	48.88
2003/4	4,371.00	1,769.30	40.48
2004/5	3,656.00	1,251.00	34.22
2005/6	4,839.00	2,056.60	42.50
2006/7	5,327.32	1,331.56	24.99
2007/8	5,395.70	1,858.88	34.45
2008/9	11,515.84	1,018.32	8.84
2009/10	9,767.75	1,839.28	18.83
Total	58,762.61	17,778.24	
Average	5,876.26	1,777.82	34.68

Source: Economic Survey, 2010

Note:

- Corporate Tax includes (Income Tax from PEs, Semi- PEs and Private Corporate Body).

Table shows that contribution percentage was moreover in decreasing trend from the very beginning to end of the study period. Average percentage contribution of income tax from PEs in corporate income tax was 34.68 percent during the study period.

4.2.11 Contribution of Income Tax from PEs in Revenue from PEs to Nepal Government

The percentage contribution of income tax from PEs in total revenue from PEs to Nepal Government is in fluctuating trend. The percentage of income tax from PEs in total revenue from PEs to Nepal Government is presented in Table No. 4.2.9.

Table: 4.2.9

**Contribution of Income Tax from PEs in Revenue from PEs to Nepal
Government
From FY 2000/1-2009/10**

Rs. in millions

Fiscal Year	Revenue from PEs to Nepal Government	Income Tax from PEs	Income Tax from PEs as % of Revenue from PEs to Nepal Government
2000/1	4,590.00	1,526.50	33.26
2001/2	6,381.20	2,198.80	34.46
2002/3	6,727.30	2,928.00	43.52
2003/4	7,231.60	1,769.30	24.47
2004/5	4,675.60	1,251.00	26.76
2005/6	6,322.40	2,056.60	32.53
2006/7	7,380.10	1,331.56	18.04
2007/8	5,324.93	1,858.88	34.91
2008/9	7,003.60	1,018.32	14.54
2009/10	5,976.80	1,839.28	30.77
Total	61,613.53	17,778.24	
Average	6,161.35	1,777.82	29.33

Source: Economic Survey, 2010

Note:

- Revenue from PEs to Nepal Government includes indirect tax, income tax, dividend and interest. But it is not included payment of principle.

Table No 4.2.9 shows that minimum and maximum percentage contribution was 14.54 percent and 43.52 percent. Contribution percentage for first year of study period was 33.26 percent and it was decreased and reached to 14.54 percent in FY 2008/09. After then, it reached to 30.77 percent in FY 2009/10

4.3 Contribution of Income Tax from NTC to Government Revenue

The government revenue is increaisng drastically every year whereas income tax revenue from NTC is increasing soft and slow manner. The contribution of

income tax from NTC in total government revenue is only 2.03 percent and other tax and non tax revenue is 97.97 percent.

4.3.1 Introduction of NTC

Communication is one of the basic infrastructures of national development, which helps to make people sensitive, active, enthusiastic and skillful.

Telecommunication service is a vital medium of communication in the world. In Nepal the slogan of “communication for development” has become a catchword for all those involved in the development of various means of communication services. Development of telecommunication services has received a place of importance in the development plans of our country. The development function was transferred to a board, which was known as NTC Board in 1969, and its resources base considerably strengthened in terms of its ability to bundle modern telecommunication facilities in Nepal. Later in 1975 the telecommunication was converted into the public corporation, which was aimed to be 51% share to HMG, 25% share to staff of NTC and 24% ordinary share to public respectively according to Communication Corporation Act 1971. But it was fated to implement. From the date of 15 June 1975, Government has run it in cent percent ownerships under the Communication Corporation Act 1971

Nepal Telecom or Nepal Telecommunications Corporation (NT/NTC) is the leading and the largest government owned Telecommunication Company of Nepal. It is also known as Nepal Doorsanchar Company Limited (NDCL). A former government monopoly, it was converted into a Public Limited Company on April 14, 2004. NT has sold around 10% of its share to local market and company's employees in 2008. Nepal Telecom was the only provider of basic telephony services in Nepal until United Telecom Limited started providing services in 2003.

The Central Office of Nepal Telecom is located at Bhadrakali, Kathmandu. It has branches, exchanges and other offices in 184 locations within the country.

It is the sole provider of PSTN, ISDN and Leased-Line services in Nepal. Following the entry of [Ncell] into Nepal's telecommunications industry in 2005, it is no longer the only provider of GSM service. With around 6,500 employees, it is one of the largest corporations of Nepal. It has a total of 243 telephone exchanges in various part of the country serving 559,380 PSTN lines, more than 4.5 million GSM cellular phones and 1 million CDMA phone line as of July 2011. According to recent data,[1] there are about 6 million users of NTC including all those of GSM, CDMA and PSTN.

Most of the PEs in Nepal are suffering from the loss situation. NTC is only such of PEs which is operating under the net profit position in every FY from establishment. NTC is the top most income tax payer enterprise in Nepal. In FY 2009/10 NTC paid Rs. 2780.74 million in the form of income tax. Thus it is a symbol of excellence that it is providing modern telecommunication service to the country and other it is operating in profit contributing in the government revenue by various ways.

4.3.2 Role of NTC

Telecommunication is one of the quickest, cheapest and scientific means of communication in the modern world. The government cannot run the economic and development activities without the facility of telecommunication. Other means of communication such as postal service, transportation etc. slower, expensive and less convenient but telecommunication is reliable means of communication. It brings co-ordination among different government entities, which ultimately promotes administrative efficiency. The increase in

administrative efficiency can be expected to enhance the productivity of government decision and a better utilization of society and resources as well as mobilization of labor force for the achievement of national goals. Telecommunication links to overseas countries, which helps in the development of tourist industries, main sources of foreign exchange earnings. Not only it contributes in national economy, but also helps to bring national unity among the national and international people creating a brotherhood relationship among the people. Telecommunication has also contributed a lot for development of social condition of the country because it is a means of the social condition of the accumulation, exchange and transfer of knowledge between peoples.

In the developing country like Nepal, without contributions of telecommunication the development of the country cannot be imagined. In Nepal, there is no sector where telecommunication has not played a role in development. The effects of telecommunication on the rural areas and their contribution to rural development are potentially extremely important, yet rather different to urban. NTC has played an important role in agriculture sector also by providing information on prices and market situations. Therefore, telecommunication has played a wonderful role in developing and developed countries to develop and to attain national objectives.

4.3.3 Contribution of Income Tax from NTC to GDP of Nepal

The contribution of income tax from NTC to GDP is in fluctuating trend. It is known that the percentage contribution of NTC in GDP is less than in comparison to percentage contribution of PEs to GDP. Percentage contribution of NTC to GDP is very small but it is not small in comparison to other PEs contribution to GDP. This is presented in the table 4.3.1:

Table: 4.3.1

Contribution of Income Tax from NTC to GDP of Nepal
From FY 2000/1 to 2009/10

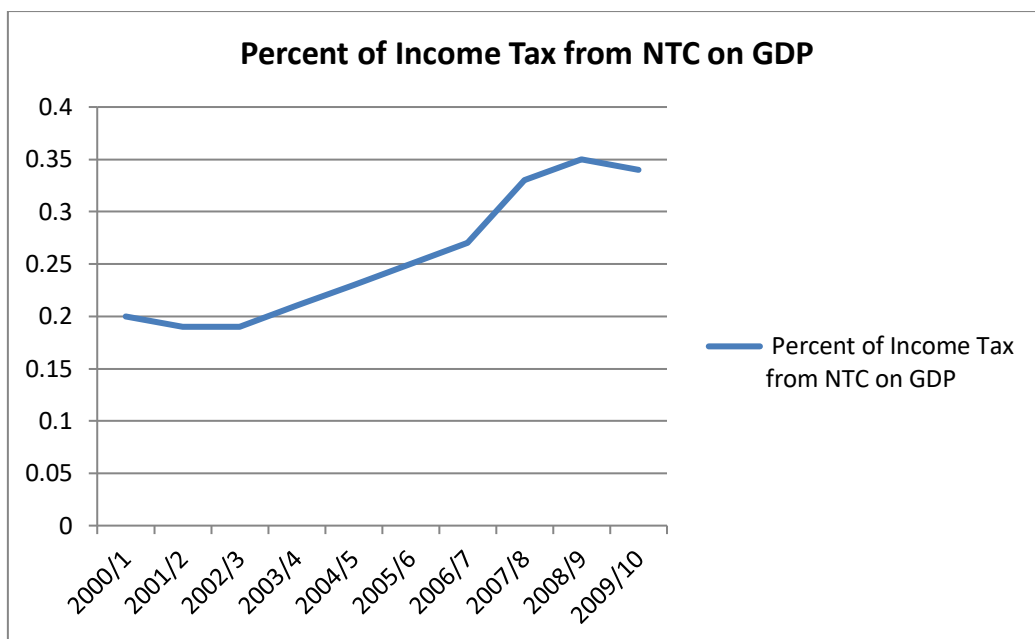
Rs. in millions

Fiscal Year	GDP	Income Tax from NTC	Income Tax from NTC as % of GDP
2000/1	330,018.00	670.00	0.20
2001/2	366,251.00	702.08	0.19
2002/3	393,566.00	761.02	0.19
2003/4	405,632.00	871.50	0.21
2004/5	435,531.00	1,011.55	0.23
2005/6	472,424.00	1,175.33	0.25
2006/7	504,101.00	1,379.07	0.27
2007/8	582,950.00	1,907.08	0.33
2008/9	670,588.00	2,330.63	0.35
2009/10	820,814.00	2,780.74	0.34
Total	4,981,875.00	13,589.00	
Average	498,187.50	1,358.90	0.26

Sources: Economic Survey of various years, MOF

Table shows that the share of income tax from NTC in GDP lies from 0.19 percent to 0.35 percent during the study period. Its contribution to GDP is in fluctuating trend. Its contribution to GDP was decrease for next two years and again increases.

Figure: 4.3.1
Trend of Income Tax from NTC as Percentage of GDP
From FY 2000/1 to 2009/10



The above diagram shows the contribution of income tax from NTC to GDP of Nepal. The contribution trend is slightly decreasing for the first two years. Then after, it is in increasing trend except in the last FY 2009/10.

Relationship between GDP and Income Tax Revenue from NTC

GDP Linear Regression Model is estimated to examine the relationship between GDP and Income Tax from NTC. The following equation verifies the effects on GDP due to the change in income tax from NTC:

$$(i) \text{ GDP} = 219,486.66 + 205.09 * \text{ITNTC}$$

St. Error (21,731.15)

Correlation coefficient (r) = 0.99

$R^2 = 0.982$

F=438.409

The equation shows that there is a positive relationship between change in income tax from NTC and change value of GDP. The sign of correlation coefficient is positive as expected and highly significant. Meaning that, income tax from NTC significantly affects the GDP. The R squared value lying around

0.98 reveal that 98% variable in GDP can be explained by income tax from NTC. F statistics also signifies overall fitness of the model which is about 438.409.

4.3.4 Contribution of Income Tax from NTC to Total Revenue of Nepal

The contribution of income tax from NTC to total revenue is increasing every year. The share of income tax from NTC in total revenue lies between 1.56 and 2.67 percent during the study period. That is shown in the following table:

Table: 4.3.2
Contribution of Income Tax from NTC to Total Revenue of Nepal
From FY 2000/1 to 2009/10

Rs. in millions

Fiscal Year	Total Revenue	Income Tax from NTC	Income Tax from NTC as % of Total Revenue
2000/1	37,247.30	670.00	1.80
2001/2	42,893.70	702.08	1.64
2002/3	48,893.90	761.02	1.56
2003/4	50,445.60	871.50	1.73
2004/5	56,229.90	1,011.55	1.80
2005/6	62,331.10	1,175.33	1.89
2006/7	70,122.70	1,379.07	1.97
2007/8	72,282.00	1,907.08	2.64
2008/9	87,199.70	2,330.63	2.67
2009/10	104,939.30	2,780.74	2.65
Total	632,585.20	13,589.00	
Average	63,258.52	1,358.90	2.03

Field report, NTC, 2010

The maximum contribution percent is 2.67% in FY 2008/09 and the minimum was 1.56 percent in FY 2002/03. The contribution of income tax from NTC in total revenue is only 2.03 percent and other tax and non-tax revenue is 97.97 percent. This is calculated from average percentage. Total revenue is increasing

drastically every year whereas income tax from NTC is increasing soft and slow manner.

Figure: 4.3.2
Trend of Income Tax from NTC as Percentage of TR
From FY 2000/1 to 2009/10

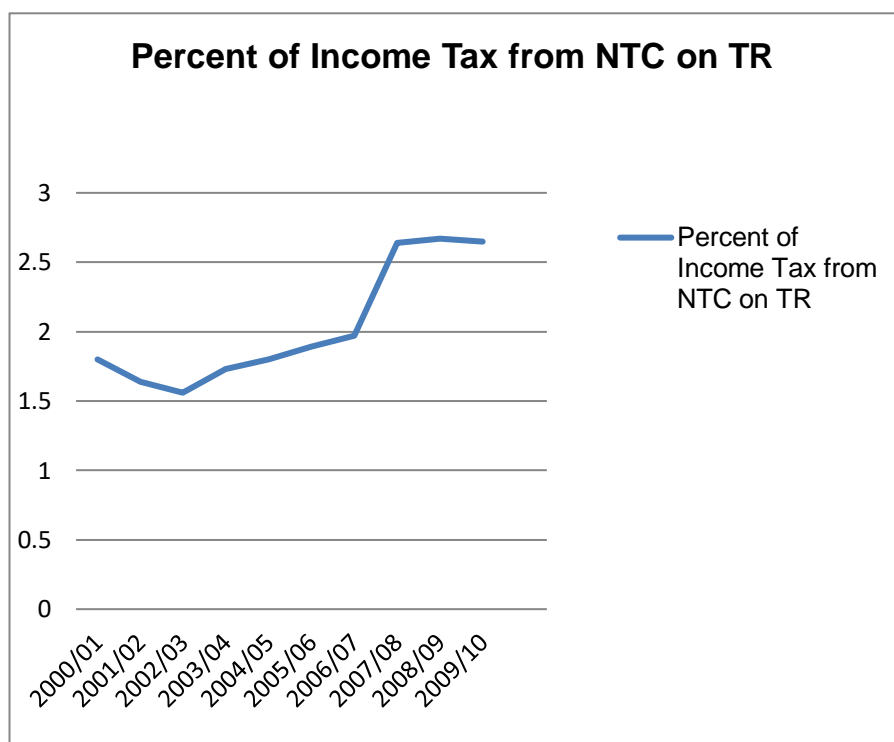


Figure No 4.3.2 illustrates the clear contribution trend of income tax from NTC to total revenue. It is in decreasing trend for the first two years and then after it is in increasing trend.

To examine the relationship between total revenue and income tax from NTC, total revenue linear regression model is estimated. The following equations verify the effect on total revenue due to change in income tax from NTC:

$$(ii) TR=25,614.52+27.70*ITNTC$$

Correlation coefficient (r) = 0.98

St. Error (4,661.95)

$$R^2=0.956$$

$$F=173.77$$

The equation shows that there is a positive relationship between change in income tax from NTC and change value of total revenue. The sign of correlation co-efficient is positive as expected and highly significant. Meaning that, income tax from NTC significantly affects the total revenue. The R squared value lying around 0.95 reveal that 95% variable in total revenue can be explained by income tax from NTC. F statistics also signifies overall fitness of the model which is about 173.77.

4.3.5 Contribution of Income Tax from NTC to Total Tax Revenue of Nepal

The percentage share of income tax from NTC in total tax revenue of Nepal is slightly higher than the percentage contribution to GDP and total revenue. It lies between 2.24 percent and 4.06 percent during the study period. The percentage contribution of income tax from NTC is in fluctuating trend, which is illustrated by the table No: 4.3.3.

Table:4.3.3

Contribution of Income Tax from NTC to Tax Revenue of Nepal

From Fiscal Year 2000/1 to 2009/10

Rs. in millions

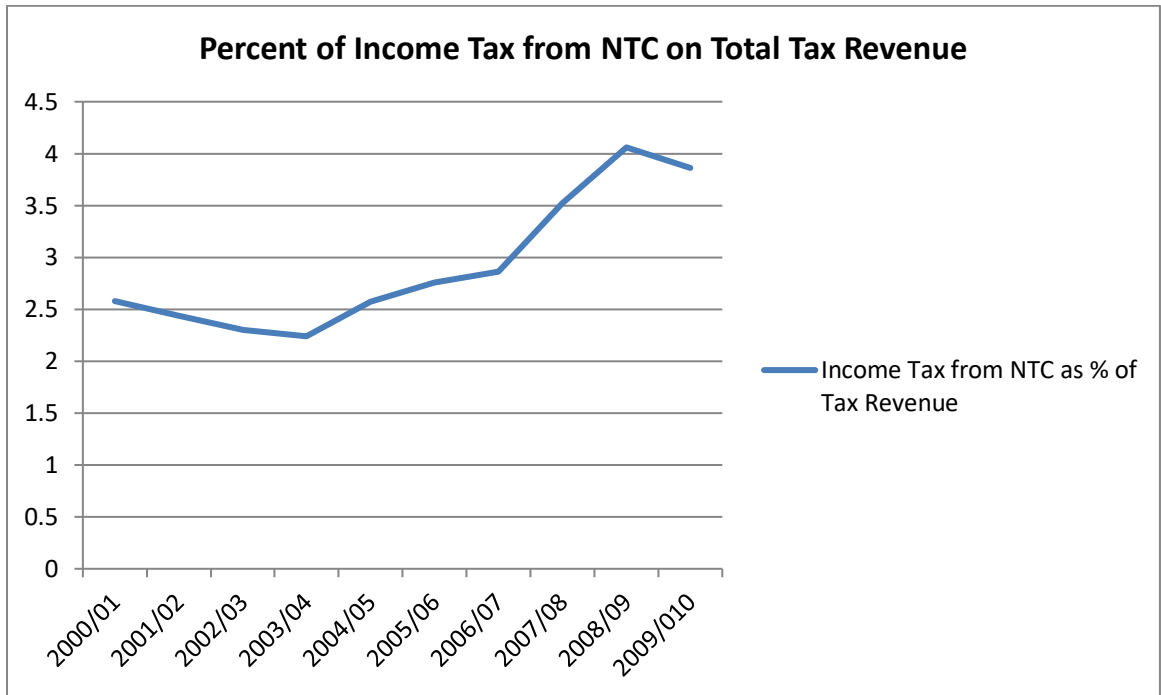
Fiscal Year	Total Tax Revenue	Income Tax from NTC	Income Tax from NTC as % of Tax Revenue
2000/1	25,939.80	670.00	2.58
2001/2	28,752.90	702.08	2.44
2002/3	33,152.10	761.02	2.30
2003/4	38,865.10	871.50	2.24
2004/5	39,330.60	1,011.55	2.57
2005/6	42,586.90	1,175.33	2.76
2006/7	48,173.30	1,379.07	2.86
2007/8	54,104.70	1,907.08	3.52
2008/9	57,430.40	2,330.63	4.06
2009/10	71,973.40	2,780.74	3.86
Total	440,309.20	13,589.00	
Average	44,030.92	1,358.90	2.92

Sources: Economic Survey of Various years, MoF

The above table determines the share of income tax from NTC in total tax revenue of Nepal. The share of income tax from NTC was recorded 2.58 percent in FY 2000/01. The percentage contribution of income tax from NTC does not show any definite trend of increase or decrease but it is in fluctuating trend within the range of 2.24 to 4.06 percent. The percentage contribution by NTC is almost same in the first seven years and increased to 3.52 percent and 4.06 percent in FY 2008/09 and 2009/10 respectively. It decreased to 3.86 percent in FY 2009/10.

Figure: 4.3.3

**Trend of Income Tax from NTC as Percentage of TTR
From FY 2000/1 to 2009/10**



The above diagram discloses the contribution trend of NTC to tax revenue. The contribution is in decreasing trend for the first three years and it is in rising trend except in the last FY 2009/10

Relationship between Total Tax Revenue and Tax Revenue from NTC

To examine the relationship between TTR and Income tax from NTC, TTR linear regression model is estimated. The following equation verifies the effect on TTR due to the change in income tax from NTC:

$$(iii) \quad TTR = 18,694.18 + 18.65 * ITNTC$$

St. Error (3,495.73)

Correlation coefficient (r) = 0.97

$R^2 = 0.946$

F=140.099

The equation shows that there is a positive relationship between change in income tax from NTC and change in value of TTR. The sign of correlation of co-efficient is positive as expected and highly significant. Meaning that, income tax from NTC significantly affects the TTR. The R squared value lying around 0.94 reveal that 94% variable in TTR can be explained by income tax from NTC. F statistics also signifies overall fitness of the model, which is about 140.099.

4.3.6 Contribution of Income Tax from NTC to Direct Tax Revenue

In developing countries like Nepal, direct tax cannot contribute significantly. Indirect tax has dominated the direct tax. Direct tax cannot produce more revenue because of low level of income and low standard of living in the country. There is substantial contribution of income tax in direct tax of Nepal. The contribution of income tax from NTC in direct tax revenue of Nepal is presented in the table no. 4.3.4.

Table: 4.3.4

**Contribution of Income Tax from NTC to Direct Tax Revenue of Nepal
From FY 2000/1 to 2009/10**

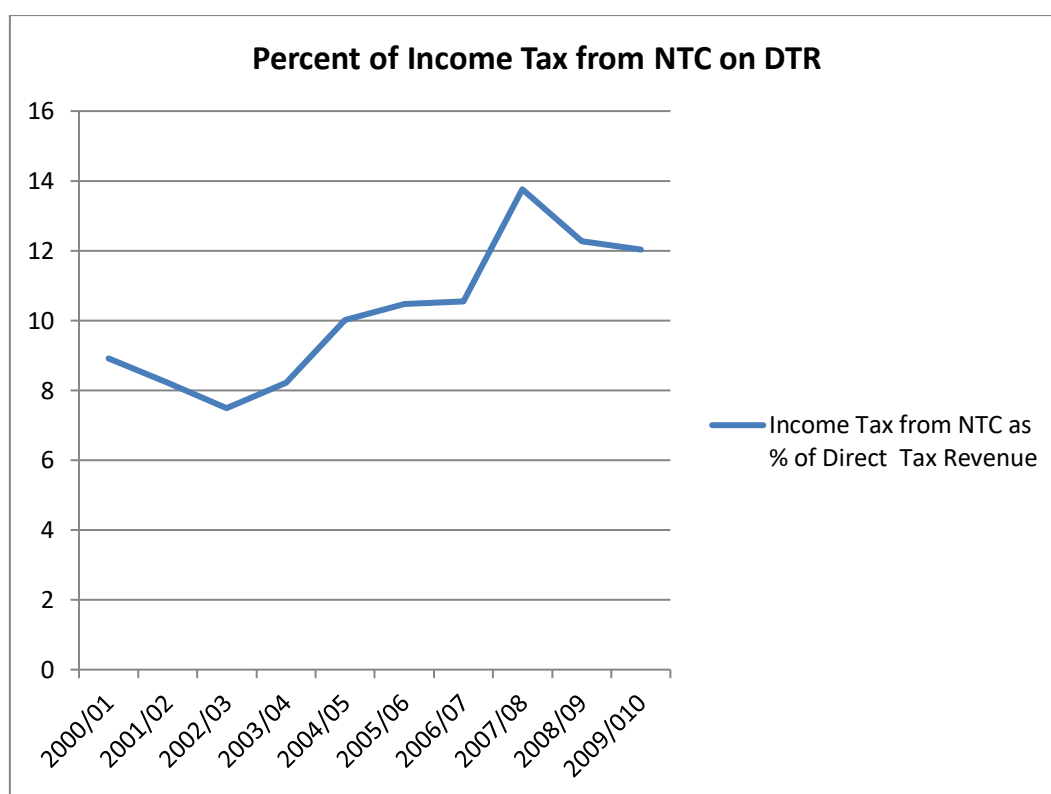
Rs. in millions

Fiscal Year	Direct Tax Revenue	Income Tax from NTC	Income Tax from NTC as % of Direct Tax Revenue
2000/1	7,516.10	670.00	8.91
2001/2	8,551.50	702.08	8.21
2002/3	10,159.40	761.02	7.49
2003/4	10,597.50	871.50	8.22
2004/5	10,105.70	1,011.55	10.01
2005/6	11,212.30	1,175.33	10.48
2006/7	13,071.09	1,379.07	10.55
2007/8	13,858.10	1,907.08	13.76
2008/9	18,980.30	2,330.63	12.28
2009/10	23,087.80	2,780.74	12.04
Total	127,139.79	13,589.00	
Average	12,713.98	1,358.90	10.20

Sources: Economic Survey of Various years, MOF

The table shows the position of income tax from NTC in direct tax revenue of Nepal. The mean contribution of income tax from NTC is 10.20 percent in our study period. The percentage contribution by income tax from NTC in total direct tax revenue is fluctuating within the range between 7.49 and 13.76 percent. The figure No: 4.3.4 shows that the income tax from NTC has a significant contribution to direct tax revenue.

Figure: 4.3.4
Trend of Income Tax from NTC as Percentage of DTR
From FY 2000/1 to 2009/10



The above diagram presents the contribution trend of NTC to direct tax revenue. The contribution percent of NTC is in decreasing trend for the first two years. And then after, it is in increasing trend for the

five years. But it is in decreasing trend for last two years.

Relationship between DTR and Income Tax Revenue from NTC

To examine the relationship between direct tax revenue (DTR) and income tax from NTC, DTR linear regression model is estimated. The following equation verifies the effect on DT due to the change in income tax from NTC.

$$(iv) \quad DTR = 4,009.56 + 6.41 * ITNTC$$

Correlation coefficient (r) = 0.97

St. Error (1,160.28)

$R^2 = 0.949$

F=149.48

The equation shows that there is a positive relationship between change in income tax from NTC and change value of direct tax revenue (DTR). The sign of correlation of co-efficient is positive as expected and highly significant. It means DTR is significantly affected by the income tax from NTC. The R squared value lying around 0.94 reveal that 94% variable in DTR can be explained by income tax from NTC. F statistics also signifies overall fitness of the model which is about 149.48

4.3.7 Contribution of Income Tax from NTC to Income Tax Revenue

The role of income tax in our country is increasing almost every year. The continuous improvement and the trend of revenue from income tax are increasing. In our total income tax structure, individual occupies the highest position among the different type of income tax. Thus, the share of corporate income tax is required to increase. Income tax from NTC in total tax revenue is presented in the table 4.3.5.

Table: 4.3.5
Contribution of Income Tax from NTC to Total Income Tax
From FY2000/01 to 2009/ 10

Rs. in millions

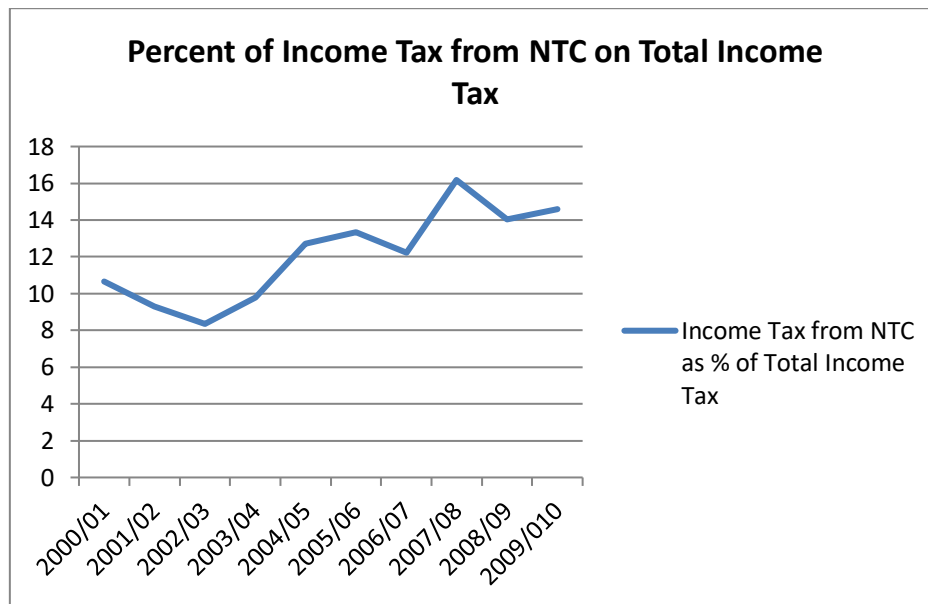
Fiscal Year	Total Income Tax	Income Tax from NTC	Income Tax from NTC as % of Total Income Tax
2000/1	6,293.50	670.00	10.65
2001/2	7,539.10	702.08	9.31
2002/3	9,116.90	761.02	8.35
2003/4	8,906.00	871.50	9.79
2004/5	7,966.20	1,011.55	12.70
2005/6	8,805.30	1,175.33	13.35
2006/7	11,272.60	1,379.07	12.23
2007/8	11,787.00	1,907.08	16.18
2008/9	16,608.10	2,330.63	14.03
2009/10	19,077.81	2,780.74	14.58
Total	107,372.51	13,589.00	
Average	10,737.25	1,358.90	12.12

Sources: Economic Survey of Various years, MOF

The table shows that the contribution of income tax from NTC to total income tax of Nepal. The percentage contribution of NTC to total income tax is in fluctuating trend. It was 16.18 percent in FY 2007/08. If we calculate the average of last 10 years the percentage contribution of income tax from NTC to total income tax is 12.12 percent.

Figure: 4.3.5

**Trend of Income Tax from NTC as Percentage of Total Income Tax
From FY 2000/1 to 2009/10**



The above diagram illustrates the contribution pattern of NTC to total income tax. In the beginning of the two years, it is in decreasing trend and then after it is in increasing trend. After that, there is a slight reduction. It has peaked at 16.18 percent in FY 2007/08. To sum up, the contribution pattern of NTC to total income tax is in fluctuating trend.

Relationship between Total Income Tax and Income Tax from NTC

To examine the relationship between Total Income Tax (TIT) and Income tax from NTC, TIT linear regression model is estimated. The following equation verifies the effect on TIT due to the change in income tax from NTC:

(v) $TIT = 3,423.81 + 5.38 * IT_{NTC}$

St Error (1,130.12)

Correlation coefficient (r) = 0.97

R²=0.933

F=111.55

The equation define that there is a positive relationship between change in income tax form NTC and change value of TIT. The sign of correlation of coefficient is positive as expected and highly significant. It means, income tax from NTC significantly affects the TIT. The R squared value lying around 0.93 reveal that 93% variable in TIT can be explained by income tax from NTC. F statistics also signifies overall fitness of the model, which is about 111.55.

4.3.8 Contribution of Income Tax from NTC to Corporate Income Tax

Corporate Income Tax is a major part of income tax. It is important for socio economic development of the nation. The contribution percentage of income tax from NTC to corporate income tax is in fluctuating trend but its percentage is very significant. Its contribution is between 12.70 and 35.34 percent. The average contribution percentage share of corporate income tax is 22.97 percent. Contribution of income tax from NTC to corporate income tax is shown in the table 4.3.6.

Table:4.3.6

Contribution of Income Tax from NTC to Corporate Income Tax of Nepal From Fiscal Year 2000/1 to 2009/10

Rs. in millions

Fiscal Year	Corporate Income Tax	Income Tax from NTC	Income Tax from NTC as % of Corporate Income Tax
2000/1	3,460.00	670.00	19.36
2001/2	4,440.00	702.08	15.81
2002/3	5,990.00	761.02	12.70
2003/4	4,371.00	871.50	19.94
2004/5	3,656.00	1,011.55	27.67
2005/6	4,839.00	1,175.33	24.29
2006/7	5,327.32	1,379.07	25.89
2007/8	5,395.70	1,907.08	35.34
2008/9	11,515.84	2,330.63	20.24
2009/10	9,767.75	2,780.74	28.47

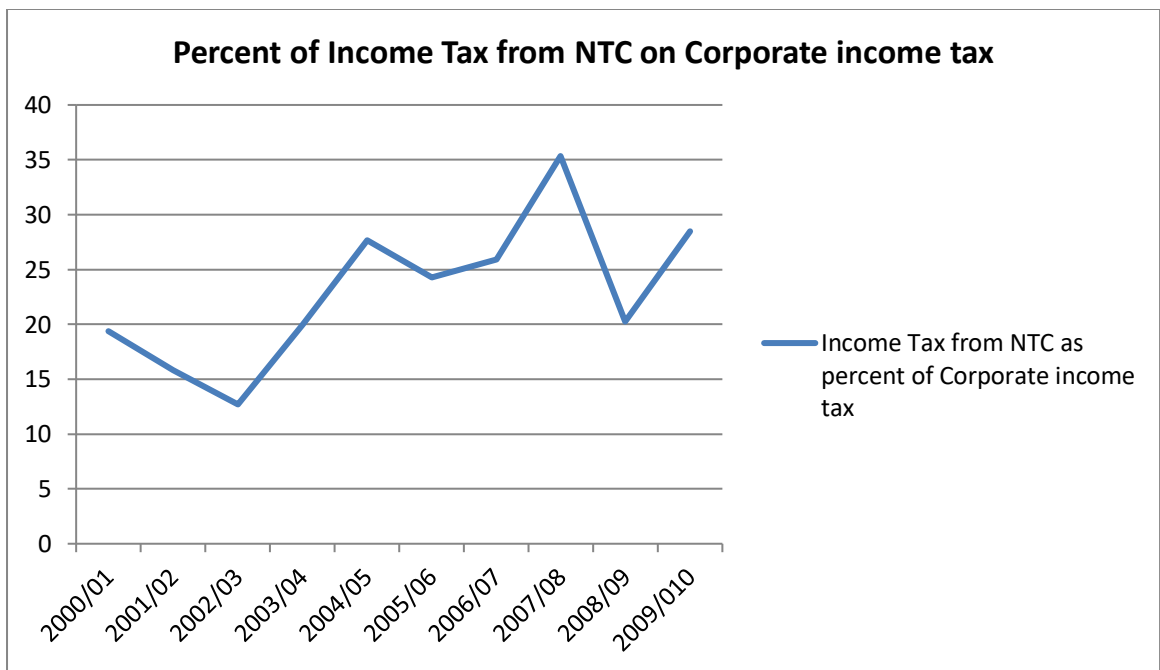
Total	58,762.61	13,589.00	
Average	5,876.26	1,358.90	22.97

Sources: Economic Survey of Various years, MOF

The table shows the percentage contribution pattern. It shows a fluctuating trend with very high differences in various years. This shows an irregular pattern of increase and decrease percentage contribution.

Figure: 4.3.6

**Trend of Income Tax from NTC as Percentage of Corporate Income Tax
From FY 2000/1 to 2009/10**



The above diagram illustrates the contribution pattern of NTC to corporate income tax. From the study of above diagram, we can conclude that the contribution pattern is in fluctuating trend. For the first two years, it has reduced to 12.70 percent from 19.36 percent. But there is a rise in the percentage of income tax from NTC for two years. And then after, it remains

almost stable for next two years. It has climbed to 35.34 percent in FY 2007/08 and dropped sharply to 20.24 percent in FY 2008/09. It is in increasing trend for the last FY 2009/10.

Relationship between Corporate Income Tax and Income Tax from NTC

To examine the relationship between corporate income tax and income tax from NTC, CIT liner regression model is estimated. The following equation verifies the effect on corporate income tax (CIT) due to the change in income tax from NTC:

$$(vi) \text{ CIT} = 1,742.29 + 3.04 * \text{ITNTC}$$

Correlation coefficient (r) = 0.85

St. Error (1,504.72)

R²=0.715

F=20.091

The equation shows that there is a positive relationship between change in income tax from NTC and change value of CIT. The sign of correlation coefficient is positive as expected and highly significant. It means, income tax from NTC significantly affects the CIT. The R squared value lying around 0.715 reveal that 71% variable in CIT can be explained by income tax from NTC. F statistics also signifies overall fitness of the model, which is about 20.091.

4.3.9 Contribution of Income Tax from NTC to PEs Income Tax

PEs was established with the objective of contributing toward fulfilling the government's responsibility in the newly emerging socio-economic content. NTC is one public utility enterprises, which is a leading enterprise in telecommunication sector. The amount of income tax, which was paid to the government, was found increasing in every fiscal year. The following table shows the place of NTC on income tax from PEs:

Table: 4.3.7
Contribution of Income Tax from NTC to PEs Income Tax
From FY 2000/1 to 2009/10

Rs. in millions

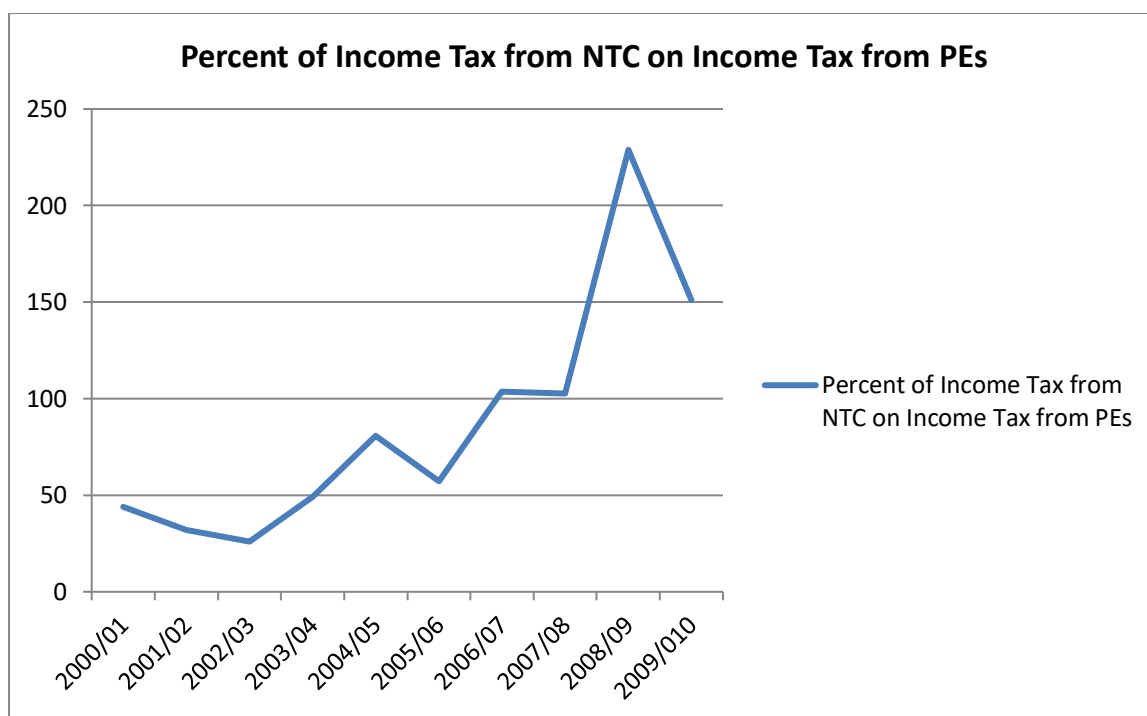
Fiscal Year	Income Tax from PEs	Income Tax from NTC	Income Tax from NTC as % of PEs Income Tax
2000/1	1,526.50	670.00	43.89
2001/2	2,198.80	702.08	31.93
2002/3	2,928.00	761.02	25.99
2003/4	1,769.30	871.50	49.26
2004/5	1,251.00	1,011.55	80.86
2005/6	2,056.60	1,175.33	57.15
2006/7	1,331.56	1,379.07	103.57
2007/8	1,858.88	1,907.08	102.59
2008/9	1,018.32	2,330.63	228.87
2009/10	1,839.28	2,780.74	151.19
Total	17,778.24	13,589.00	
Average	1,777.82	1,358.90	87.53

Table No. 4.3.7 presents the contribution percent of income tax from NTC on total income tax from PEs during the FY 2000/01 to 2009/10. The contribution of NTC to total income tax from PEs was highest in FY 2008/09. The percentage contribution of income tax from NTC to income tax from PEs has increased drastically from FY 2006/07.

If we analyze the amount of income tax collection from NTC it has done a great deal.

Figure: 4.3.7

**Trend of Income Tax from NTC as Percentage of Income Tax from PEs
From FY 2000/1 to 2009/10**



The above diagram illustrates the contribution pattern of NTC to income tax from PEs. The contribution pattern is in decreasing trend for the first two years and then after it is in increasing trend except slight decreased in the FY 2005/06 and FY 2009/10. The income tax from NTC as percent of PEs has peaked at 228.87 percent in FY 2008/09.

Relationship between Income Tax from PEs and Income Tax from NTC

To examine the relationship between income tax from PEs and Income Tax from NTC, ITPEs linear regression model is estimated. The following equation verifies the effect on income tax from PEs (ITPEs) due to the change value of income tax from NTC.

$$(vii) \text{ ITPEs} = 2,128.52 + b (-0.26) * \text{ITNT}$$

$$\text{Correlation coefficient } (r) = -0.35$$

$$\text{P.E. } (r) = 0.277$$

$$\text{St. Error } (545.12)$$

$$R^2 = 0.121$$

$$F = 1.12$$

The above equation defines that there is low degree of negative relationship between changes in income tax from NTC on change value of ITPEs. Since the calculated value of correlation coefficient is less than P.E. (r) (i.e. $-0.35 < 0.277$), r is not significant. It means that, income tax from NTC insignificantly affects the income tax from PEs. The R square value lying around 0.12 reveals that 12% variable in ITPEs can be explained by Income tax from NTC. F test is not significant. In other words, there is no linear relationship between the dependent variable ITPEs and independent variable income tax from NTC.

4.4 Resource Gap Pattern of Nepalese Government

Resource gap is a major problem of economic development of Nepal. Revenue structure of Nepal mostly depends on the foreign assistance and loan. Domestic resources are the most reliable source to keep minimum dependency on foreign aid and loan. Additional domestic resource should be mobilized through taxation. Without financial resource domestic resources cannot be mobilized. So this problem can be solved by income taxation.

4.4.1 Resource Gap in Nepal

Nepal has been facing a serious resource gap problem in her finances from the beginning of her development phase to the present time. To fulfill his growing resource gap a large amount of external aid loan and internal loan was borrowed but scarcity of resources seems to be never ending problem for Nepal. Resource gap pattern Nepal is presented in the table No: 4.4.1.

Table:4.4.1
Resource Gap of Nepal from the FY 2000/1 to 2009/10

Rs. in millions

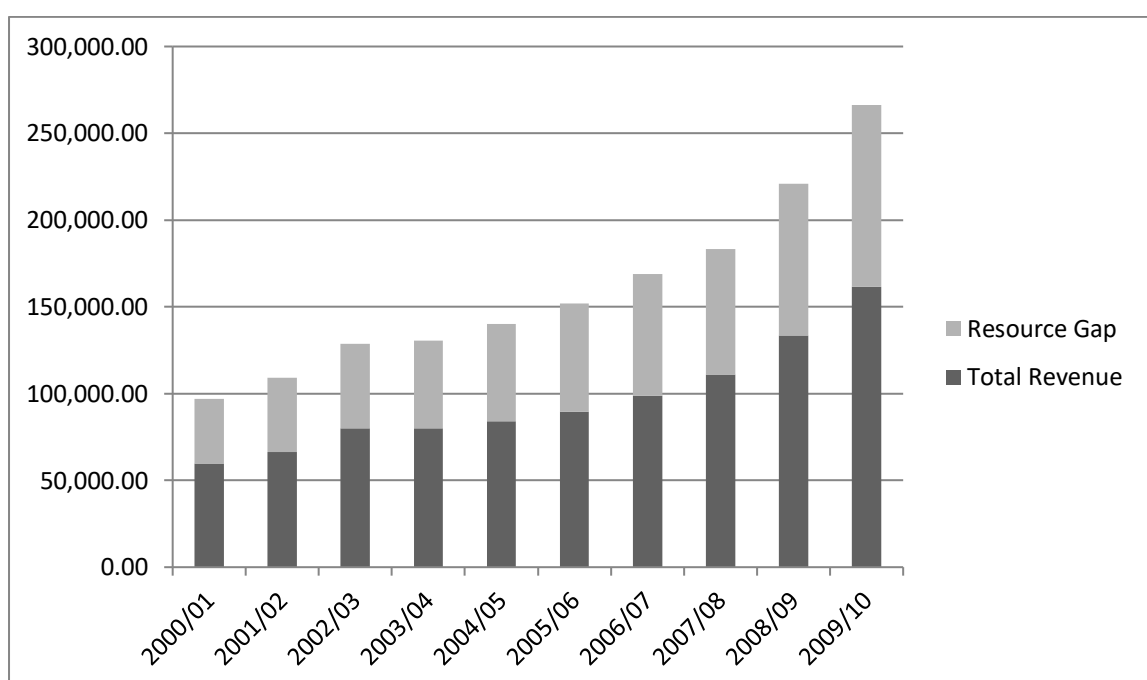
Fiscal Year	Total Expenditure (A)	Total Revenue (B)	Resource Gap (A-B)
2000/1	59,579.00	37,247.30	22331.70
2001/2	66,272.50	42,893.70	23378.80
2002/3	79,835.10	48,893.90	30941.20
2003/4	80,072.20	50,445.60	29626.60
2004/5	84,006.10	56,229.90	27776.20
2005/6	89,442.60	62,331.10	27111.50
2006/7	98,698.65	70,122.70	28575.95
2007/8	110,880.00	72,282.00	38598.00
2008/9	133,610.00	87,199.70	46410.30
2009/10	161,350.00	104,939.30	56410.70

Sources: Economic Survey of Various years, MOF

The value of resource gap is also in fluctuating trend. Some years the resource gap has increased and in some years it has decreased. Resource gap is the internal deficit of the country. Increasing trend in resource gap in the country is not good for nation.

The resource gap of Nepal Government is illustrated in column diagram below:

Figure: 4.3.8
Resource Gap Pattern of Nepalese Government
From the FY 2000/1 to 2009/10



The above chart clearly illustrates the resource gap pattern of Nepal Government. The white part on the top of each column represents the resource gap in different fiscal years. And the black part of each column represents the total revenue of the Nepal Government. The total revenue of Nepal Government is in increasing trend. On the other hand the trend of resource gap is also in increasing trend.

4.4.2 Contribution of PEs and NTC to Fulfill Resource Gap

The value of resource gap is increasing every fiscal year except few years. The value of income tax from PEs and NTC is also increasing in the study period, which is presented in the table 4.4.2.

Table: 4.4.2
Contribution of PEs and NTC to Fulfill Resource Gap
From the FY 2000/1 to 2009/10

Rs. in millions

Fiscal Year	Resource Gap	Income Tax from PEs	Income Tax from PEs as % of RG	Income Tax from NTC	Income Tax from NTC as % of RG
2000/1	22,331.70	1,526.50	6.84	670.00	3.00
2001/2	23,378.80	2,198.80	9.41	702.08	3.00
2002/3	30,941.20	2,928.00	9.46	761.02	2.46
2003/4	29,626.60	1,769.30	5.97	871.50	2.94
2004/5	27,776.20	1,251.00	4.50	1,011.55	3.64
2005/6	27,111.50	2,056.60	7.59	1,175.33	4.34
2006/7	28575.95	1,331.56	4.66	1,379.07	4.83
2007/8	38598.00	1,858.88	4.82	1,907.08	4.94
2008/9	46410.30	1,018.32	2.19	2,330.63	5.02
2009/10	56410.70	1,839.28	3.26	2,780.74	4.93

Sources: Economic Survey of Various years, MoF

Income tax from PEs as a percentage of resource gap is in fluctuating trend. The resource gap percentage of income tax from PEs to resource gap lies between 1.19% and 9.46%. Income tax from NTC as a percentage of resource gap is also in fluctuating trend. It was 4.93% in last year of our study i.e. in FY 2009/10.

4.5 Findings

On the basis of data presentation and analysis some important findings of this study are summarized below:

1. The contribution of income tax from PEs, Semi PEs, Private corporate bodies, individuals tax, remuneration, tax on interest to total income tax were 9.64%, - %, 37.27%, 31.30%, 12.03% and 5.04% in FY 2009/10 respectively. Major source of income tax is income tax from private corporate bodies.
2. The Income Tax/GDP, income tax/total revenue, income tax/total tax revenue, income tax/direct tax revenue ratios were 2.32%, 18.18%, 22.40% and 82.63% respectively in FY 2009/10.
3. Income tax from PEs/GDP was 0.22% in FY 2009/10. Its average contribution to GDP was 0.39% and its minimum and maximum percentage of contribution to GDP was 0.15% and 0.74% respectively.
4. Income tax from PEs/total revenue was 1.75% in FY 2009/10. Its average contribution to total revenue was 3.16% and its minimum and maximum percentage of contribution to total revenue was 1.17% and 5.99% respectively.
5. Income tax from PEs/Total tax revenue was 2.16% in FY 2009/10. Its average contribution to total tax revenue was 4.05% and its minimum and maximum percent of contribution to total revenue was 1.41% and 7.53% respectively.
6. Income tax from PEs/Direct tax revenue was 7.97% in FY 2009/10. Its mean contribution to Direct tax revenue was 15.92% and its minimum and maximum percentage of contribution to direct tax revenue was 5.37% and 28.82% respectively.
7. Income tax from PEs/Total income tax was 9.64% in FY 2009/10. Its mean contribution to total income tax revenue was 18.78% and its minimum and maximum percentage of contribution to total income tax revenue was 6.13% and 32.12% respectively.

8. Income tax from PEs/Corporate Income Tax was 18.83% in FY 2009/10. Its average contribution to revenue from PEs to Corporate income tax was 34.68%. Its minimum and maximum percentage contribution to corporate income tax was 8.84% and 49.52% respectively.
9. Income tax from PEs/Revenue from PEs to Nepal Government was 30.77% in FY 2009/10. Its average contribution to revenue from PEs to Nepal Government was 29.33%. Its minimum and maximum percentage contribution to revenue from PEs was 14.54% and 43.52% respectively.
10. The share of income tax from NTC to GDP of Nepal is in fluctuating trend. Its contribution to GDP was 0.34% in the FY 2009/10. Its average contribution to GDP was 0.26% in the study period. Income tax from NTC has a significant effect on the GDP. The R squared value lying around 0.98 reveal that 98% variable in GDP can be explained by income tax from NTC. F statistics also signifies overall fitness of the model which is about 438.409.
11. It has been observed that the contribution to total revenue from income tax from NTC is 2.65% in FY 2009/10. Its average contribution to total revenue was 2.03%. Income tax from NTC significantly affects the total revenue. The R squared value lying around 0.95 reveal that 95% variable in total revenue can be explained by income tax from NTC. F statistics also signifies overall fitness of the model which is about 173.77.
12. The contribution of income tax from NTC to TTR was 3.86 in FY 2009/10. Its average contribution to TTR is 2.92% for the study period. Income tax from NTC significantly affects the TTR. The R squared values lying around 0.94 reveal that 94% variable in TTR can be explained by income tax from NTC. F statistics also signifies overall fitness of the model which is about 140.099.
13. In developing countries like Nepal, direct tax cannot contribute significantly. Indirect tax has dominated the direct tax. Direct tax cannot

produce more revenue because of low level of income and low standard of living in the country. There is substantial contribution of income tax. The average share of income tax from NTC significantly affects the direct tax. The R squared value lying around 0.94 reveal that 94% variable in DTR can be explained by income tax from NTC. F statistics also signifies overall fitness of the model which is about 149.48.

14. The contribution percentage of income tax from NTC and Total Income Tax was 14.58% in FY 2009/10. Its average contribution was 12.12% for the period of study years. Income tax from NTC significantly affects the Total Income Tax. The R squared value lying around 0.93 reveal that 93% variable in TIT can be explained by income tax from NTC. F statistics also signifies overall fitness of the model which is about 111.55.
15. The share percentage of income tax from NTC on corporate income tax was 28.47% in FY 2009/10. Its average contribution is 22.97% for the study period. Income tax from NTC significantly affects the corporate income tax. The R squared value lying around 0.715 reveal that 71% variable in CIT can be explained by income tax from NTC. F statistics also signifies overall fitness of the model which is about 20.091.
16. The contribution percentage of income tax from NTC on income tax from PEs was 151.19% in FY 2009/10. Average contribution percentage for the study period is 87.53%. Income tax from NTC insignificantly affects the income tax from PEs. The R square value lying around 0.12 reveal that 12% variable in ITPEs can be explained by Income tax from NTC. F test is not significant. In other words, there is no linear relationship between the dependent variable ITPEs and independent variable income tax from NTC.
17. The value of research gap is in increasing trend except in few years. Research gap in FY 2009/10 was 56,410.70 million.

18. Income tax from PEs as a percentage of resource gap is in fluctuating trend. Its minimum and maximum percentage contribution is 2.19% and 9.46% respectively.

CHAPTER: V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

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

To solve the problem of fiscal deficit, income tax should play important role. But in Nepal, income tax has not been seen mobilized properly.

In Nepal, income tax appeared only in FY 1959/60 in the form of business profit and remuneration tax. The ITA introduced a comprehensive income tax 1962. ITA 2002 also replaced this act. The ITA 2002, and income tax rules 2002(2059) are the existing law relating to income tax administration. Currently, income tax system encompasses three taxes. These are income tax from employment, income tax from business and income tax from investment.

In the year 2009/10, income tax from PEs to total revenue covered 1.75 percent of share. Similarly, in corporate tax, PEs share has covered 18.83 percent of share. In initial stages, PEs contributed almost 50 percent share of corporate income tax. In total income tax revenue from PEs, NTC has contributed highest. NTC had 43.89 percent share of total income tax revenue from PEs in the FY 2000/2001. In FY 2009/10 it has contributed about 151.19%.

Income tax played a significant role in economic development of Nepal. Income tax system has started for last five decades. But government is unable to maximize the share of income tax to the public funds as per expectation. From the past experience, we can conclude that there is poor taxpaying habit. There are various problems about income tax administration like proper record of number of income tax payers, defective selection of personnel, lack of training and education to tax payers and tax officers, corruption and lack of motivation to concerned authorities etc.

Government cannot able to widen the tax coverage as expected. New sources of tax revenue have not been searched properly. Nepalese tax structure is heavily dependent on indirect taxes, which contributed 72.89 percent. Government has poor performance in collecting direct tax. To divert the economy in the channel of development, it is necessary to increase the share of direct tax.

On the other hand, the majority of public enterprise has failed to deliver expected results in Nepal. The productivity and performance of PEs are very poor. The contribution from PEs to total revenue seems to be stable for last four years. It has not increased as expected.

Financial resource gap is the major constraint of Nepalese economy. According to NLSS-III Nepal recorded 5.7 percent decline in absolute poverty in between FY 2003/4 and FY 2009/10. Remittance has played a major role in increasing the living standard of Nepalese people. But only 2.9 percent of the total remittance is used for capital formation. GDP per capital is also \$556. It shows that it needs huge amount of capital for economic development of Nepal. Being a developing country, sources of government revenue are very limited in Nepal. Revenue structure of Nepal mostly depends on the foreign assistance and loan. Domestic resources are not mobilized properly to minimize the dependency of foreign assistance and loan. Without financial resource domestic resources cannot be mobilized because it puts heavy break on the overall development of the nation. This problem is increasing very rapidly in Nepalese economy. So this problem can be solved by income taxation. It helps to minimize the gap of resource mobilization.

The mobilization of revenue has not increased to the level in which the level and speed of our expenditure is increasing. Economic development is possible only when the volume of resources could be matched with the requirement.

Nepal Telecomm is the leading and the largest government owned Telecommunication Company of Nepal. A former government monopoly, it was converted into Public Limited Company on April 14, 2004. NTC has sold around 10 % of its share to local market and company's employees in 2008. NTC was the only provider of basic telephony services in Nepal until United Telecom Limited started providing services in 2003. With around 6,500 employees, it is one of the largest corporations of Nepal. According to recent

data, there are about 6 million users of NTC including all those of GSM, CDMA and PSTN.

NTC is the top most income tax payer public enterprise in Nepal. So, the objective of this study is; to analyze the income tax structure of Nepal; to analyze the contribution of income tax from public enterprises to government revenue; to analyze the contribution of income tax from Nepal Telecom to government revenue and to put forward necessary suggestion and recommendation for income taxation with reference to NTC.

Hence, an effort has been made in this chapter is to present major findings of the study beginning with finding in income tax structure of Nepal, then proceeding through contribution of income tax from PEs to total revenue and finally contribution of income tax from NTC. Then after, in the same pattern 'recommendation' have been stated. Likewise; 'conclusions' have been drawn at the end of the chapter.

5.2 Conclusion

The main objective of the present research was to study the structure of income tax and its contribution from PEs to total revenue of Nepal with reference to NTC. As per the nature of the study, secondary information were collected, tabulated and analyzed. Descriptive and analytical research designs have been followed in this study.

In conclusion, it can be said that income tax structure of Nepal is not balanced properly. The contribution of income based tax is much smaller to the total revenue for the study period. Being developing country, sources of government revenue are very limited in Nepal. Revenue structure mostly depends on the foreign assistance and loan.

On the other hand, public enterprises should play the important role in enhancing national economy. But in Nepal, the majority of public enterprises, where billions of rupees have been poured, have failed to deliver expected results. The productivity is low and the quality of their products is short of standard. They cannot even maintain their books of accounts. Unedited financial statement, intention to hide their ability to pay tax, low level of moral and honesty are seen in them.

Performance of PEs in Nepal has remained poor. It is seen that continued inefficiency and ineffectiveness of PEs have a profound negative impact on the economy particularly on the issues of sustainability and their overwhelming demand on government researches.

PEs gross profit percentage of capital employed is in almost negative. It cannot exceed more than 5.46% and income tax from PEs as percent on GDP cannot exceed from 0.74%. Income tax from PEs is almost in stable trend from last four years.

Although being a public utility enterprise, NTC is capable to establish itself as a business firm. Financial position is also appreciable. It could successively implement its objectives and plans. Among the government revenue contributors, NTC has been taking top most places. Not only income tax but also value added tax, vehicle tax, ownership tax is collected from NTC. Income tax from NTC is in increasing every year.

Financial resource gap is the major constraint of Nepalese economy. The mobilization of revenue has not increased to the level in which the level and speed of our expenditure is increasing. It needs huge amount of capital for economic development of Nepal. It is possible only when the volume of resources could be matched with the requirement.

From the research on the following topic, the following conclusion had been drawn:

- The study showed the contribution of tax revenue had occupied major portion in comparison to non-tax revenue in the total tax revenue of Nepal. It showed that tax has been a major source of revenue mobilization.
- The study showed that the contribution of tax revenues is not in highly fluctuating trend. Tax revenue is the composition of direct and indirect tax in the Nepalese tax revenue. The contribution of indirect tax on total tax revenue had occupied major portion in comparison to direct tax.
- The study showed that sales tax/VAT is increasing and custom duty, excise duty, contract tax and other tax are decreasing.
- In the composition of direct tax, income tax and other tax percentage are increasing whereas the percentage of land revenue tax, house and land registration tax are decreasing during the study period.
- It shows that the Tax/GDP ratio of Nepal is not good. The study showed the lower contribution of tax revenue to GDP.
- The contribution of indirect tax to GDP is minimal and need to increase indirect tax.
- Major source of corporate income tax is income tax from PEs.
- Income tax from PEs to total revenue showed almost decreasing trend.
- Income tax from PEs to total tax revenue showed almost decreasing trend.
- Income tax from PEs to corporate income tax showed the decreasing trend.
- Income tax from PEs to Direct Tax Revenue showed the increasing trend but in the last year of our study it decreased by considerable percentage.
- Income tax from PEs to total income tax showed the decreasing trend.
- The share of income tax from NTC to GDP of Nepal is in increasing trend. Income tax from NTC significantly affects to GDP. The R

squared value lying around 0.98 reveals that 98% variable in GDP can be explained by income tax from NTC. F statistics also signifies overall fitness of the model, which are about 438.409.

- It has been observed that contribution of income tax from NTC to total revenue had increased. Income tax from NTC significantly affects the total revenue. The R squared value lying around 0.98 reveal that 98% variable in total revenue can be explained by income tax from NTC. F statistics also signifies overall fitness of the model.
- Income tax from NTC significantly affects the TTR. The R squared value lying around 0.97 reveal that 97% variable in TTR can be explained by income tax from NTC. F statistics are also significant and overall fitness of the model.
- In developing countries like Nepal, direct tax cannot contribute significantly. Indirect tax has dominated the direct tax. Direct tax cannot produce more revenue because of low level and standard of living in the country. There is substantial contribution of income tax. Income tax from NTC is significantly affects the DTR. The R squared value lying around 0.97 reveal that 97% variable in DTR can be explained by income tax from NTC. F statistics is also significant and overall fitness of the model.
- Income tax from NTC significantly affects the TIT. The R squared value lying around 0.93 reveal that 93% variable in TIT can be explained by income tax from NTC. F statistics also significant and overall fitness of the model.
- Income tax from NTC significantly affects the CIT. The R squared values lying around 0.72 reveal that 72% variable in CIT can be explained by income tax from NTC. F test is also significant and overall fitness of model.
- Income tax from NTC insignificantly affects the income tax from PEs. The R squared value lying around 0.12 reveal that 12% variable in ITPEs can be explained by income tax from NTC. F test is not

significant. In other words, there is no linear relationship between the dependent variable (ITPEs) and independent variable (income tax from NTC).

- The value of research gap is in increasing trend.

5.3 Recommendation

In the light of finding of the study, the following recommendations are made:

1. The tax structure of Nepal should be redesigned. The role of direct tax should be increased in income tax. Nepalese tax structure is heavily dependent on indirect taxes, which contributed 72.89% of total revenue in FY 2009/10. VAT has become important contributors to indirect tax. 48.04% of indirect tax is collected as VAT in FY 2009/10. Government has poor performance in collecting direct tax. To divert the economy in the channel of development, it is necessary to increase the share of direct tax, ultimately decreasing the share of indirect tax.
2. The base of income based tax should be increased. The contribution of income based tax is much smaller to the total revenue for the study period. Government should identify the potential tax payer and should give more emphasis to collect more revenue from them. Income based tax can be increased by including all kinds of tax payers and find out the tax payers of new sector.
3. Revenue structure of Nepal mostly depends on foreign assistance and loan. Domestic resources are most reliable source to keep minimum dependency of foreign aid and loan. Additional domestic resource should be mobilized through taxation. Without financial resource domestic resources cannot be mobilized. So this problem can be solved by income taxation.
4. For development of national economy, equal distribution of income is essential. People cannot be happy if there is discrimination on distribution of income. It is an optimum situation for the growth of

economic institution. This situation can be obtained through progressive income tax.

5. From the past experience, it is showed that there is a poor taxpaying habit in Nepalese people. To raise the total revenue of the Nepal Government, it is necessary to raise the sources of revenue, which helps to relieve form serious bottleneck of resource gap in the process of economic development program. Resource gap in Nepalese finance has occurred because the expenditure requirement is growing at faster rate than its ability to mobilize additional resources.
6. Because of the inefficiency of the administration and increasing corruption, people have no faith in the working of government and its organization. PEs performance is poor. Because of tax evasion habit of Nepalese people, role of PEs towards income tax revenue is very justifiable. PEs income tax should be adopted as a fiscal instrument in government revenue, which helps to achieve the goal of the nation. Not only technology but also management team should be adopted for the enhancement of the PEs performance.
7. More than 50 percent of the Nepalese are receiving remittance, which has ensured better living standard. 55.8 percent of the households receive remittance with each house hold receiving Rs. 80,436 a year. But only 2.9 percent of the total remittance is used for capital formation. It shows that it needs huge amount of capital for economic development of Nepal. So, it is essential to use the remittance on productive sector to minimize the resource gap of the nation.
8. The mobilization of revenue has not increased to the level in which the level and speed of our expenditure is increasing. The development expenditure is continuously rising due to our weakness in selecting development projects. And regular expenditure is increasing due to the result of increasing burden of debt servicing and salary as well as allowance. It helps to create more resource gap in national economy. To minimize the resource gap it is recommended to finance in only

optimum developing projects and to avoid the problem of over staffing in PEs.

9. Formally 15% to 18% Tax GDP ratio is regarded as moderate standard but Nepalese Tax GDP ratio does not maintain it. The highest ratio of it is not exceeding 10.73% during the study period. So, the government should make appropriate measures to meet the standard. For that, the government should increase the proportion/percentage of direct tax because its ratio is very low during the study period and the increment of this ratio or percentage is regarded as better than indirect tax proportion.
10. The analysis shows that contribution percentage of income tax from NTC to total revenue is in increasing trend during the study period. So, NTC should give high priority to increase the amount of revenue so that the contribution to total revenue would be increased. For that, NTC should prepare and implement profit planning and control concept effectively.
11. Contribution percentage of direct tax revenue on total tax revenue is very low. Corporate sector's income tax is a main source of direct tax revenue and PEs income tax is included in the corporate income tax. So, government should increase the income tax from PEs to increase the direct tax revenue.
12. Main contribution of corporate income tax is Income Tax from NTC but other PEs income tax contribution is very low, so other PEs income tax should be increased by effective implementation of the PEs management.
13. The contribution of income tax from NTC to corporate income tax was 28.47% in FY 2009/10. During the study period, it is cleared that the contribution of income tax from NTC to corporate income tax is in fluctuating trend with very high difference in various years. So, NTC should detect and invest in sufficient income generating sectors.
14. The mismanagement of PEs provided increasingly burdensome to the treasury, as a large portion of the taxpayers, money required to be

siphoned off to give new lease of life to such badly managed and overly politicized enterprises. So, PEs should be managed properly, PEs, which have the poor performance and near the bankruptcy situation, should be restructured or privatized. It helps to run it with business principle and generate income.

15. The income tax needs to be strengthened both for revenue and socio-economic purposes. It is to be raised through broadening the base, an effective enforcement and better tax compliances.
16. Income tax from PEs as percentage of GDP is very fluctuating. It indicates the poor performance of PEs. So, PEs should avoid such fluctuation by improving performance.
17. The study reflects the decreasing trend of income tax from PEs as percentage of total revenue in the succeeding year of the study period. So, PEs should increase it to meet the economic objective of the government.
18. Government should increase the amount of investment on NTC to render services to the customer and generate more revenue from NTC. To increase investment, NTC should modernize its existing service rendering system in town areas and extend its coverage of services in deprived areas of the country, which is supported to increase the ratio of direct tax revenue and total tax revenue.
19. To fulfill the resource gap of economy, income tax must be imposed to land owners and property owners who have high incomes.
20. Government should apply appropriate measures to reduce the high resource gap.

According to our analysis, income tax from NTC has high contribution to GDP, GR, TTR, DTR, CIT and IT from PEs. Thus the government should impose appropriate tax rate considering profitability.

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