

# **CHAPTER - I**

## **INTRODUCTION**

### **1.1 Background**

It is necessary for the government to raise tax for the successful operation of different activities. The activities such as maintain daily administrative expenses, maintenance of welfare state, prevention of concentration of wealth in few hands, redistribution of wealth for the common goods, encouraging essential products production, rapid economic growth, enforcing government policy, increasing saving and investment, reduction in unemployment, removal of regional disparities etc. should be the targeted points of raising tax. The governments of the many nations are achieving these goals through effective implementation of proper tax system in their countries. The tax is main source of public revenue which is the main part of the budget is collected by imposing different laws, acts, rules and regulations from the government of the countries. For the economic growth of the country, large volume of investment and expenditures on economic activities are needed. Whether it is developed for developing economy, taxation is looked upon as the most powerful tool of the government for raising the ratio of savings and capital formation (Singh, 2002).

Taxation, in the modern world has been taken as the best effective tool for raising the ratio of savings to the national income." It is very useful to equalize the distribution of national economy and to reduce disparity in the distribution of wealth and income to maintain economic stability. In this modern age, government generates a huge amount of revenues in order to influence the macroeconomic performance of the economy of fiscal policy to carry out the functions of the government

such as national defense and to redistribute resource among individuals or classes in the population. In this context, a tax is a significant and inseparable source of state revenue of the government. According to its nature it is most reliable, certain, flexible and convenient to obtain the required amount. Therefore the government of any country may hold the main priority in tax revenue (Adhikari, 2003).

A tax is a compulsory levy paid or to be paid by a natural or an artificial person to the government without getting corresponding benefit of goods or services provided by the government. Tax revenue and non tax revenue comes under the internal source. Non tax revenue is conditional which includes grants, administrative income, business income, fees, fine and penalties, special assessment and gift etc. The other internal sources of the government revenue are the taxation, custom duties, value added tax, corporate and personal income tax, etc. These sources are contributing in national capital formation, and distribution of national income. It is not a price paid by one for goods and service for which he/she can claim benefits. The taxpayer does not have any right to receive the direct benefit from the tax paid. Mainly taxes can be classified into two categories. They are (i) Direct tax and (ii) Indirect tax. Income tax is one of the important forms of direct taxes. Beside property tax, expenditure tax, vehicle taxes are also forms of direct tax whereas sales taxes, entertainment tax passenger tax, hotel tax, import and export duties, excise duties are forms of indirect tax (Kandel, 2003).

Nepal government has initiated a system of establishment and functioning of public enterprises with huge investment for economic development. Public enterprises highly contribute in national exchequer by various ways i.e. direct participation in the production, distribution of goods and services and other income generation including income tax.

Today public enterprises encompass vast and varied range of activities. They can play a crucial role in achieving a reasonable self reliant and self generating economy. Nepal is one of the developing countries which is still in its crawling stage of industrial development. So in Nepal public enterprises are not matter of choice, rather, they are a mater of necessity.

In various sector of economy, where private sector has not come forward or has only in limited extent, the public sector has to come into existence. The area in which they operate, range from basic infrastructure, industrial estates, banking, trading and commercial sectors to a big and small public enterprises to create industrial base in the country to provide better goods/services to the people, to generate employment opportunities to mobilize the domestic resource in to best productive used and to fulfill the government plant and objectives. Public enterprises have helped to increase the standard of living, regional balance of development and have contributed through import substitution, export promoting and strengthening the revenue generation of country and save foreign currency by reducing import as well as to provide the consumable goods and service at a fair price.

Although being a public enterprise, Nepal Telecom is capable to establish itself as business firm. Financial position is also very appreciable. It could successively implement its objectives and plans. Among the government revenue contributors, Nepal Telecom has been taking top most places. Nepal telecom contributes to the government by various taxes e.g. income tax; value added tax, vehicle tax, ownership tax etc.

## **1.2 Statement of the Problem**

Government is responsible towards its people about the development and construction activities of the nation. In this modern age, expenditure of government is increasing day to day. Government needs funds for the operation of public welfare activities. It has to spend money on development activities such education health care, industrial development, transportation, communication, electrification etc. To achieve all these objectives, the government needs more funds. But the source of revenue is very limited.

The major source to cover expenditure of the government is tax revenue and non-tax revenue. At present Nepalese tax system are facing several problems such as tax evasion, poor tax administration and unsound income tax collection. Because of tax evasion habit of Nepalese people, role of public enterprises towards income tax revenue is not very justifiable. In public enterprises income tax should be adopted as a fiscal instrument in growing government revenue, which helps to achieve the goal of national development, but the majority of public enterprises have been unable to deliver their expected services; productivity and returns are very low. Public enterprises financial positions are unsatisfactory and they are likely to become extra burden on government. They can not even maintain their books of accounts and most of them have not audited regularly. Even profit making public enterprises are escaping from income tax because of not maintaining the books of accounts, non audited financial statement, intention to hide their inability, low level of morality and honesty.

Nepal telecom has greater role to play than any other public enterprises as all manufacturing and non-manufacturing industries depend

on the information supplied by it. Nepal telecom is successful public enterprises because it is operating in profit. Even the net profit of Nepal telecom is in increasing trend. The corporation has been able to generate significant income tax to the government revenues. In each financial year, it has been providing large amount as income tax and it is in increasing trend. Not only has income tax, Nepal telecom has been contributing considerable amount of other taxes and dividend to the government. Government also has invested the huge amount of capital in Nepal telecom. Government expenditure from Nepal telecom is primarily to provide the Tele-communication services to the common people and to get to sufficient amount of dividend to fulfill the desired resources, goals and to get other financial support for developmental activities. This study has been concentrated on the following issues:

1. What is the composition of income tax revenue in Nepal?
2. Are public enterprises contributing income tax revenue significantly?
3. Which are major income tax related problems as faced by the Nepalese tax payers?

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

The objectives of this study are as following:

- i. To analyze the composition of income tax revenue in Nepal.
- ii. To analyze the collection of corporate income tax revenue from public enterprises in Nepal.
- iii. To examine the major problems of income tax system in Nepal.

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

Nepal can fulfill its financial needs by increasing its revenue through income tax. But there are many problems associated with the income tax related with its management, administration as well as policies. Contribution of public enterprises towards the income tax revenue should be increased. Through income tax system adopted for more than four decades in Nepal, there is still a lower contribution of income tax to total revenue. It provides information about income tax revenue collection from public enterprises especially about Nepal telecom. This study is needed to examine the structure of income tax contribution from public enterprises to government revenue and various aspects of tax administration.

In view of the growing necessity of mobilization adequate resources for meeting the increasing financial requirement of government for development purpose income tax seems very important source. Even through it has direct impact of taxpayer and seems to be a potential source. Therefore, analysis of its structure and its contribution from public enterprises to government revenue has been undertaken for this study. Besides, this study will also useful for tax plan new banks, tax authorities and many others like teachers, students, further researchers and people who are interested on it. Moreover, it will be useful to government to formulate and amend the proper policy in compatible to attain the objectives of income tax.

#### **1.5 Limitations of the Study**

This study has also limitations. They are as follows.

- i. The study is based on the availability of information data and literature.
- ii. This study is based on primary and secondary data.
- iii. This study covers period from fiscal year 2003/04 to fiscal year 2011/12.
- iv. Secondary information will be collected from ministry of finance, land revenue department, Nepal Rastra Bank, Economic survey, finance Act and Budget Speeches.

## **1.6 Plan of the Study**

The research work has been designed into the following five chapters.

- i. Introduction
- ii. Review of Literature
- iii. Research Methodology
- iv. Presentation and Analysis of Data
- v. Summary, Conclusion and Recommendations.

The introduction chapter details the background information, statement of the problem, objective of the study, significance of the study, limitation of the study and plan of the study. The second chapter includes review of literature. This chapter is divided into two parts i.e. (i) Theoretical framework and (ii) Review of related studies. The third chapter, the research methodology is completely related with the data collection activities and about how the whole research work is completed. Next chapter is presentation and analysis of data. At last summary and conclusion of the study is done on the basis of conclusion drawn. Some suggestion are offered to solve the existing problem, thus the whole research work will be completed.

## **CHAPTER – II**

### **LITERATURE REVIEW**

#### **2.1 Conceptual Framework**

##### **2.1.1 Concept of Tax and Income Tax**

###### **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. Mainly, tax is classified in two groups they are direct and indirect tax.

Tax is any compulsory levy from individuals, households and firms to central or local government. It is simply and liability to pay an amount to the government. It is a compulsory contribution from the tax payers. Tax is computed and paid as prescribed in the law. According to economist Prof. Seligman "A tax is compulsory contribution from the person to the government to defray the expenses incurred in the common interest of all without reference to special benefits conferred."

According to the classical economist Dalton, "A tax is a compulsory contribution imposed by a public authority is irrespective of the exact amount of services rendered a penalty for any legal office."

According to classical economist Adam Smith "A tax is contribution from citizens for the support of state."

According to P.E. Taylor "A tax is a compulsory payment to government without expectation of direct expenses or direct return in benefit to the tax payer."

In classical economics, tax was taken as an extra burden to the people and the economists have in the favour of small government, which only had to maintain law and order in the state. But now time has changed and the government has to provide maximum social welfare to the people. Thus the government has to burden its revenues.

### **Concept of Income Tax**

In the modern world whether it is a developed or a developing country 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 a 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 a personal tax imposed on net income of individuals and corporations. In most of the countries especially the United States of America, Canada and other countries, the income tax i.e. defined in terms of the flow of wealth or receipt in money or goods from the taxpayer during the period. In the flow of wealth method, taxations are imposed on a realization rather than as an accrual basis and it applies only when a transaction occurs between the person and tax payers (Due, 1959: 125-126).

According to the economist, "An income tax is a levy imposed upon the income of individuals after the exemption limit. Income tax is direct tax based on the total income of the tax payer from all sources and is graduated on a special system of exemption and abatements" (Siwakoti, 1987:21).

Income tax is levied according to the ability to pay as the principle of taxation. There, the person who is liable to pay or who may be deemed to be liable to pay tax on income is called 'assesses.' In this case, a person implies individual firm, company corporation etc. which have liability of paying income tax. The tax payer whom the tax is imposed must bear the burden of tax.

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

Income tax can be classified into two types, personal/individual income tax and corporate income tax. Individual income tax is modern tax, which is measure of ability to pay of any individual. It is based on the progressive rates. Corporate income tax is 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 income tax.

### **2.1.2 Classification of Taxes**

There is variation in classification of taxes between economists and tax accounts. The major classification of tax may be direct taxes, indirect

taxes, progressive taxes, proportional taxes, regressive taxes, degenerative taxes, multiple taxes etc. However taxes are broadly classified into two groups: Direct tax and indirect tax.

### **Direct Tax**

Direct tax is a personal tax and both impacts an incidence of tax is borne by the taxpayer. There is no possibility of forward and backward shifting. So full burden of tax is borne by the same taxpayer. According to Dr. Dalton, "A direct tax is really paid by the person to whom it is legally imposed." In the world, most of developed countries generate 3/4<sup>th</sup> of their internal revenue from direct taxes and out of which income tax is the major component. Examples of direct taxes are income tax, gift tax, interest tax, property tax, vehicle tax, house and land tax etc. Direct tax is equitable, certain, elastic and economic also. Direct tax creates public awareness by inspiring to assess the utilization of revenue paid by them whether in productive sector or not. In another font, direct tax has some demerits as well. As the impact and incidence of direct tax is to be borne by some person may fill economic burden inspiring the possibility of tax evasion. As the taxpayers feel the burden of tax imposed by government directly there may be tax evading attempts. There may be lack of mass participation and it may discourage saving and investment in the economy.

### **Indirect Tax**

Indirect tax is the tax collects from other persons by transferring the tax liability, by taxpayer. The taxpayer transfers the burden of tax to other in the society partially or fully. It is imposed on one person but the incidence of the tax is borne by another person through backward and forward shifting processes. In the case of indirect tax, the person paying

the tax and the person bearing the burden of tax is different value added tax, house tax, entertainment tax excise duty, export and import duties etc. are the examples of indirect tax, Nepal is heavily relying on indirect tax revenue.

### **2.1.3 Historical Perspective of Income Tax on International Context**

If we seek the history of income tax it goes back to the ancient world. According to Manu taxes should be laid on the basis of Shastra. The word 'tax' has been used in Mahabharata, Bible etc. Manu, Yagnablka, Chanakya etc. had guided taxation system by their respective directives.

Great Britain is the first country in the world to introduce the modern income tax. It introduced income tax in 17996 to finance the war with France, USA introduced income tax in 1862 to generate revenue to finance civil war. In India, while income tax in its modern form was adopted in 1860 to 1866 and finally the systematic income tax legislation was enacted in 1886.

Income taxes received to its developed stage during and after the world war. Today, the personal income tax raise substantial amount of revenue in all industrialized countries of the free world and is employed although to a lesser extent in most developed countries. Today the income tax has become the "Sheet anchor" of the revenue system in the most advanced countries.

Now a day, every country of the world has income tax. Income tax was introduced due to the cause of war and national emergencies. Thus, the second name of the war, the tax war named as income tax, now a day, it has been important against poverty and equality.

#### **2.1.4 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 ages. In the Lichhavi Era (known as Golden Era) tax were the main sources of revenue. In that period, tax is known as "Trikar" which meant three kinds of taxes viz. "Bhaga", "Bhoga" and "Kara". The "Bhaga" tax was levied on agriculture, "Bhoga" was an animal and "Kara" tax was 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 agricultural to the government in 1/6, 1/8 and 1/12 shares of production depending on the quality of the land possessed by them. All artists had to donate labor compulsory as the tax payment.

#### **2.1.5 Taxation in Unified Nepal (1776-1846)**

Taxation had a broad sense in the united Nepal. During this period, certain improvement was made in the taxation system. Revenue maximization was only the main objective of tax policy, land tenure system was divided into five main forms: Raikar, Birta, Guthi, Seva and Kipat. The major source of revenue were: Birata and Kipat taxes as land, Royal place levies nalak, gadimubrale, chumawan, godan, government levies like darshan bhet, salawi, local levies on forest and nature sources, commercial taxes like customs, transit and market duties; mines and mints, export of forest products the wild life, hobs, drags, wax, birds, elephants and judicial fines. Taxes were collected at three levels, royal place levies, government levies and local levies.

'Walak' was collected from each family on a regular basis and in period of national celebration of festival a ceremonial accession. 'Gadimubarak' was collected to finance of coronation ceremony of a new king. 'Chuman and Goddhaao' was collected to finance the sacred collect investiture and marriage ceremonies of royal princess and princesses. 'Godan' was lived to finance timeral expenses when a reigning king died. 'Darshanbhet' was collected from both civil and military employers at the time of their appointment and confirmation; 'Salami' was collected from local revenue collection functions in the Tarai 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 principal. It was limited on small Birta owners. Through taxation was started, there was no income taxation in the modern sense (Regmi, 1971).

#### **2.1.6 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 called in the lump sum contract basis during the period and the salami, was collected from government employee 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 changed according to the will of the Rana prime minister. Both the incomes as well as expenditure of the government were confidential. In actual practice to 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 too in the period.

Rana prime minister levied taxes for meeting 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<sup>st</sup>, on the official value of Jaair assessment of official employee in 1891 to finance the transportation of water pipe supply in the capital. Another Rana Prime minister Ranodip Singh imposes a 5 percent tax on the income made by fisherman in Deukhuri from the sale of fish in 19882 (Remi, 1988).

### **2.1.7 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 function. So, it was realized to impose tax on business profit and remuneration. Consequently, finance act 1959, was passed. In 1960 (2017), a formal income tax act was enacted in accordance with the provision in 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 income tax act 1962 remained till 1974 and income tax act 1974, also replaced it. Income tax act 2002 also replaced the income tax act 1974.

“No tax shall be levied and collected except in according with law” (Continuation of Kingdome of Nepal 2047, Sec 73-1). The income tax

law at present in the force in Nepal is income tax act 2002 (2050) and income tax rule 2002 (2050) made there under. Finance act is passed every year to translate the economic policy contained in the budget speech into law. It generally process the rates and exemptions limit fur tax purpose and may delete, add or modify the provision contained in the income tax act. Decisions of supreme-court in Nepal also act as procedures for income tax law purposes. The notification in Nepal Gazette or circular by in land revenue department classifies and complements as the legal provisions.

The legal aspects of inc owe tax therefore, consist of provisions in the contribution, income tax act, finance act, income tax rules and decisions of supreme-court. Together, they make up income tax law in Nepal. Historical development tax income tax law in Nepal is given below:

#### **2.1.7.1 Business Profit and Remuneration Tax Act 1960 (2017)**

Income tax in Nepal was first introduced in the FY 1959/60. It was taken 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 considered 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.
- b) The basis for calculating tax liability for remuneration was the income of the current year, and for business profit, it was the profit of the preceding fiscal year.
- c) Tax on remuneration was to be deducted at source but the specified deduction was not provided.

- d) Deductions of expenses were not specified for the calculating taxable income.
- e) Salary of any diplomatic representative, foreign citizen, dividend in shareholders, profit to be spend on religious or public welfare activity, profits of local autonomous organization, allowances granted by HMG to ministers, assistant ministers, speakers, deputy speakers, chairman, government chief whip and leaders of opposition, crop from own land, money drawn from provident or saving fund were exempted from tax.
- f) The tax officer was empowered to assess tax on best judgement assessment.
- g) In case of default, fines up to Rs. 5000 were prescribed.
- h) Profit from industries were granted a rabbet of 25 percent and profit from industries were granted a rebate of 50 percent.

This act was narrow and vague, high discretionary power was granted to tax officer, many loopholes and inadequate provision. So, there reasons this act was replaced by ITA 1962 (2019).

#### **2.1.7.2 Income Tax Act 1962 (2019 B.S.)**

This act was on 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 kind of income such as profit from business, profession, remuneration and occupation, house and land rate, agriculture, insurance business, agency and any other sources.
- b) The basis was specified for assessing tax on the best judgement 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 arithmetical errors.
- e) Carry forward of losses was allowed for the period of two year.
- f) Provision was made for the exemption of income tax industries for a period of not exceeding ten years.
- g) Agriculture income was brought under the scope of income tax for the first time.
- h) The act granted the power to constitute the income assessment committee.
- i) The residential status of the taxpayers for the tax purpose was defined.
- j) Deductible expenses as well as method of calculation of taxable income were specified.

This act had also some weakness. 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.

### **2.1.7.3 Income Tax 1974 (2031 B.S.)**

The ITA 1974 can be said to be the refined from the ITA, 1962. It had 60 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. In this act, certain provisions were added and some provisions were amended from time to tome so, the income tax act 1974 had become more scientific and better organized with the progress of time. His majesty's government enacted the income tax rules 1982 (2039) in accordance with sections 65 of income tax act 2031. Besides this act and

the rules, the current act was also equally applicable for the proper administration of income in Nepal. Some of the silent features of this act 1974 as amended are as follows:

- a) This act had made provision for self assessment of tax for the first time in Nepal.
- b) There was additional provision exemption from income tax such as income of Guthi, compensation for the life insurance or after the expiry of the life insurance policy.
- c) Carry forward of loss was allowed for subsequent three year.
- d) 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
- e) Method of computing net income form each source including the deductions allowable had been specified.
- f) Taxpayer was required to keep accounts and records of the income and to be preserved for six year.
- g) Provision was made to make agreement for avoidance of double taxation with foreign governments.
- h) Provision was making relating to assessment or additional assessment of tax.
- i) Although ITA. 1974 (2031) was far ahead than the prevails act, yet it had many deficiencies and weakness. 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.

#### **2.1.7.4 Income Tax Act 2002 (2058 B.S)**

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. Nepal government enacted income tax rules 2059 B.S in accordance with the authority given under section 138 'g' ITA 2002 B.S. has 143 sections. Amended ITA 2002 has dismissed the section 66. The act is broad, scientific and international standard level. The differences of this act with previous act are made clearly by its salient features, which are given below:

- a) Income tax act 2058 B.S has classified income into three headings
  - i) Business
  - ii) Employment and
  - iii) Investment.
- b) This act has determined the rate of income tax itself for the first time, which used to be determined by the finance acts in the previous years.
- c) This act has given the opinion for husband and wife as a separate natural individual until they don't accept as couple.
- d) It has clearly included the rights and duties of taxpayers
- e) This act has included all the previous relating to income tax. It is a law of income tax of income tax code.
- f) Provision has made to impose tax to all income sources uniformly.
- g) Provision has been made for the deduction of all expenses relating to income earnings.
- h) Provision has been made for the deduction of all expenses relating each income in accumulation form taxpayer's income.
- i) Provision of tax incentives has continued for infrastructure instruction. Electricity projects and special industries and also carry

forward losses are allowed for the period of seven years to infrastructure and electricity project.

- j) Carry forward of losses is allowed for the period of four subsequent years. This limit is extended up to five years for years for banking and insurance business.
- k) Provisions have made to claim for deduction of pollution control device, research and development expenses, repair and maintenance expenses and donation.
- l) It has classified into natural person and entity. Entity includes company. Partnership form, trust and so on.
- m) The IRD is responsible for the implementation and administration of this act.
- 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 Nepal government 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) The act had adopted a pooled system of depreciation in which assets are probably classified into five categories. The depreciation rates are 5%, 25%, 20%, 15% of class A.B.C and D respectively which are based on diminishing balance method of depreciation and for class E the rate is based on straight line method.
- q) 7% of depreciation base amount of end of the year can be deducted as a repair and maintenance cost and unrelated amount can be capitalized. Excess repaired and maintenance expenses can be added to depreciation base amount of coming income year.

- r) A person can deduct pollution control expenses and research and development cost up to maximum limit 50% of adjusted taxable income of total business run by him.
- s) Donation can be deducted as a 5% adjusted income or Rs. 1000000 whichever is less.
- t) Capital gains are taxed explicitly under this act after four decades of the introduction of income tax. In case of business capital gains, gains on the disposition of business property are taxed as ordinary income and in case of non business capital gains, only the gains from the casual sales of real property (Land and Building) and securities are subject to capital gains tax at flat rate 10%. There is also a clear provision for adjusting net loss during the fiscal year.
- u) The government allowances to widows, elder citizens or disabled individuals gift, bequest, inheritance, scholarship, income of foreign officials, government bodies and non-profit making organizations have been exempted from the income tax net amount of person privileged under bilateral or multilateral treaty, an agricultural income, income of co-operate societies based on agricultural products and dividend of such society etc. also exempted from income tax.

## **2.2 Review of Related Studies**

There is no long history of income tax in Nepal, 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 aspects, trend of income tax, income tax system, income tax structure etc, they have made appreciable effects in the field of income tax.

Several books, dissertations, research papers, reports and articles published journals and newspapers are reviewed while preparing this thesis, most of the books are found to be descriptive rather than analytical. Many books, in this field are written to fulfill the course requirements of Tribhuvan University. An attempt i.e. made have to review some of books, thesis, research papers, reports and articles which have been written in the field of income tax in Nepal.

### **2.2.1 Review of Books**

Agrawal (1980) wrote a book entitled "Resource mobilization in Nepal" which was published by CEDA Kathmandu, Dr. Agrawal contributed towards the new dimension inside Nepalese income taxation. He analyzed various aspects of income tax system of Nepal such as role of income tax, legal aspect of income tax and administrative aspect of taxation in Nepal. Dr. Agrawal, in this book detailed explain about resource mobilization through income tax. His main contribution from this book is concerned to empirical investigation of facts and figures about the income tax in Nepal. He also calculates the responsiveness and various projections for future about income tax. He also showed the causes of problem facing by tax authorities in the tax administration in his report. As per his study the main cause of administrative problem were under delay in tax assessment, failure to maintain proper account by taxpayers, failure to locate new taxpayers, failure to maintain proper records by tax offices, unfriendly behavior of tax officials to the taxpayers etc.

Paudyal, (1993) wrote a book entitled "Income tax law and practice" Poudyal has described the must of related terms in respect with assessment of different income tax. This book has been divided in nine

chapters. Mr. Poudyal has described the must of the related terms in respect with the assessment of different income tax. Mr. Pudyal has also 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 enterprise Act 2049, income from remuneration, methods of computing net income from remuneration, industry, business, profession and vocation, tax deduction at sources, income tax authorities, power of tax office, penalty and appeals, rights and duties of tax payers have also been described in this book.

Adhikari (2003) wrote a book entitled, "modern taxation of Nepal" Dr. Adhikari has described the provisions lows related to income taxation of Nepal according to new ITA 2002. This book has been divided into five chapters. Fist 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 third chapter. Fourth chapter has described about property tax house and compound tax etc, windfall gain tax and other provisions have described in last chapter.

This book is written for students of T.U. especially for BBS, MBS and MPA students. However, it is useful to taxpayers, tax administrations and others.

Amatya, Pokharel and Dahal, (2004) wrote a book entitled "Taxation in Nepal". Dr. Amatya, Pokharel and Dahal, has described the provisions made under income tax laws. This book is divided in 31 chapters. In their book Mr. Amatya, Pokharel and described about income tax and its development in Nepal. Tax accounting, qualification, allocation and characterization of amounts, exemptions, concession,

facilities and tax rates, expenditure expressly disallowed for deduction, capital or revenue income and expenditures taxpayer, special provision for natural person and entity, income heads and sources, income from employment, income from business, set-off, long back and carry forward of losses, income from investment, net gain from disposal of assets and liabilities, capital gain taxation, Total assessable income taxable income and tax liability , international taxation, form of documentation, PAN and maintenance of documents, income return and tax assessment, payment, collection and refund of tax administration, rights and duties of taxpayers and other persons penal provisions, appeal, property tax in Nepal, value added tax in Nepal right and duties of taxpayers etc.

This book has been written to fulfill the course requirement of T.U. it is based on the syllabus of bachelor level of management, law and CA and it is also for master level of management and law. Mr. Amatya, Pokharel and Dahal's book is informative rather than analytical. They have also included numerical problems in regard to income tax assessment. The student of bachelor and masters can get assessment system but this book has not analyzed the importance of income tax problems and defects in Nepalese income tax system.

Dhakal (2002) published book named "Income tax and house and compound tax law and practice with VAT." He has described the legal provision of income tax act 2031 in detail. The process, provisions and methods to assess the income tax from various sources such as remuneration, profession, business and other sources have been illustrated with numerical examples. The book was based on the syllabus of BBS and MBS as prescribed by Tribhuvan University. His book was informative rather than analytical. But the book ignored critical analysis.

Mallik (2003) wrote a book entitled "Nepalko Aadhunik Dar Parnali." Mr. Mallik has described about provision made under income tax law and methods of income tax assessment. This book has divided into twenty five chapters. Mr. Mallik 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, VAT, assessment of depreciation etc.

Some books have been written and published on new income tax act 2002 (2058). Income tax law: "Then and now" and been written in Nepali by Bishwo Dip Adhikari in 2002. "Nepalko Aadhunik Aayakar Parnali" has been written in Nepali by Bidhyadhr Mallik in 2003. These book are useful to understand the laws provisions of new income tax act. 2002. In these books, the respective authors have tried to describe the laws and provision in descriptive manner with example: numerical examples are given to understand the treatment of special provisions in tax assessment process. These books have also included the evaluation of income tax system in Nepal.

### **2.2.2 Thesis**

Shrestha (1979) has presented a master level thesis entitled "Income Tax in Nepal." and discussed about income tax act and rules, historical background and administrative aspects of income tax. In his research Mr.Shrestha has pointed out various recommendations. Some remarkable recommendations of the researcher were as follows:

- a) Income tax should be more scientific systematic and the social and economic justifiable.
- b) Income from agriculture should be taxed.

- c) exemption limit should be determined on the basis of member of the family
- d) Expenses related to income from remuneration should be deducted (Shrestha, 1967:20-23).

Shrestha (1977) has written a dissertation named "A case study of income tax in Nepal." Time covered by this research was eleven years from FY 1964/65 to FY 1974/75. It has concentrated to analyze the legal aspect, role, objective and assessment procedure of income tax. Mr. Shrestha found the following matter.

- a) Low tax-paying capacity and tax-consciousness of Nepalese people.
- b) Lack of Public information about income tax.
- c) Lack of linkage between tax department and other government office with which taxpayers have transactions are the main reason of tax evasion in Nepal (Shrestha 1987:80-85).

Suwal, (1981) had conducted a research in the topic "Income tax system in Nepal". Miss suwal conducted this study with objective of (i) to show the problems and importance of income tax in solving the financial resources problem in Nepal, (ii) to show the rate and per capita burden of income tax in Nepal. (iii) to show the trend of income tax and economic effect of income tax on production in Nepal. Some remarkable findings of the research were as follows:

- i) Income tax is paying less significant role in the tax structure of Nepal.
- ii) The potential use of income tax in Nepal requires many reforms.

- iii) The method of accounting assessment and collection are very crude and unscientific because of the lack of proper records of taxable individuals and their transactions (Suwal, 1981:127-435).

Timilsina (1987) and conducted a research in topic "Income tax evasion in Nepal." Mr. Timilsina conducted this study with objectives of (i) to analyze the structure of income tax in Nepal, (ii) To examine the income tax evasion tendency in Nepal. (iii) to observe the general option about income tax evasion in Nepal. (iv) to estimate the volume of income tax evasion in Nepal.

The time period covered by this study was 25 years from fiscal year 1962/63 to fiscal year 1986/87. The data and other necessary information were collected by using primary as well as secondary sources. This study also followed an analytical as well as descriptive research design. This study is mainly concerned with income tax evasion in Nepal. Mr. Timilsina, in his study has pointed out various findings and recommendations. Some remarkable findings of research were as follows:

- i) The composition of tax and non-tax revenue is still less satisfactory in Nepal there were 79.14% tax and 20.89% non-tax contribution is supposed to be appropriate where in Nepal.
- ii) The share of direct tax has been decreasing and indirect tax had been increase in Nepal. The contribution of direct and indirect tax were 55.49%, and 45.51% during 1963/64. Where as it becomes 18.44% an 81.56%, during 1985/86. It shows that indirect taxes have dominant role in comparison with direct tax in Nepal.
- iii) The main reason of least contribution by direct taxation is due to the high practices of tax evasion (Timilsina. 1987:109-119).

Acharya (1994) has conducted a research in topic "Income taxation in Nepal: A study of its structure productivity and problems." The main objectives of this study were: (i) to analyze the structure of Nepalese income tax. (ii) to examine the productivity of income tax revenue in Nepal, (iii) to assess the existing problems and future prospects of income taxation in Nepal.

The time covered by his study was 10 years from FY 1964/65 to 1993/94/. The data and other necessary information were collected by using primary sources of data. Mr. Acharya in this study found that income tax revenue in Nepal rose from 0.09% to 1.02% GDP during the fiscal year 1964/65 to 1989/90. He also found that the relative shares of individuals in total income tax revenue are not less than 50% since fiscal years 1977/78 onward. Mr. Acharya recommended that the tax department should develop effective information network among the tax offices. train adequately its employees and publish tax journals at regular interval time. (Acharya, 1994:64-66).

Panta (1996) had conducted a research entitled "A study on income tax management in Nepal." He conducted this study with objectives of (i) to find out the share of income tax to government revenue. (ii) to examine the assessment process of income tax, (iii) to identify the problems of income tax management (iv) to review the income tax system of Nepal.

The time period covered by this study has twenty two years from FY 1974/75 to 1995/96. The date and other necessary information were collected by using primary as well as secondary sources of data. Mr. Panta's study was mainly concerned to analyze the system of income tax in Nepal. Mr. Panta. In this study has pointed out various findings and

recommendations. Some remarkable findings of the researcher were as follows:

- i) Lack of management efficiency is one of the major problems of income tax in Nepal.
- ii) Lack of sufficient resources is the major constraint of economic development in developing countries like Nepal.
- iii) The problems of fiscal deficit can be solved only when internal resources are mobilized properly (Panta, 1996:84-88).

Pradhan (2001) had conducted a research in the topic "Contribution of Income tax from public enterprises to public revenue of Nepal, with reference to Nepal telecommunication corporation." Miss Pradhan conducted this study with objectives, (i) to analyze the contribution of income tax from public enterprises to government revenue of Nepal, (ii) to examine the effectiveness of income tax revenue collection from public enterprises, (iii) to show the contribution of income tax from Nepal telecom to total tax and total income tax to Nepal.

The time period covered by this study was ten years from EY 1989/90 to 1999/2000. The data and other necessary information were collected by using primary as well as secondary sources of data. Miss Pradhan, in this study has found that income tax was a suitable source of mobilizing internal resource. Contribution of tax from public enterprises in Nepal was not significant during the study period due to poor achievement, weakness in government economic policy and deficiency in legislation. She also found that public enterprises share has covered more than 50% corporate tax in the earlier stages, public enterprises contributed almost total share of corporate income tax. In

fiscal year 1989/90 the share of income taxes from public enterprises was 99%. But its share decreased to 58% in the fiscal year 1999/2000.

Miss. Pradhan also found that NTC showed 44% share of total income tax revenue from, which was 84%, in 1993/94. Except in the fiscal year 1991/92 and public enterprises 1996/97. The collection of income tax from NTC has been increasing gradually from NTC has been increasing gradually from NTC has been increasing gradually from NTC has been increasing gradually during the study period (Pradhan 2001:96-100).

Kandel (2000) also presented Dh. D thesis entitled "Corporate Tax System an investment Behaviour 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 (i) to evaluate corporate tax system in general (ii) to examine of sensitivity of certain policy like inflation capital gain dividend tax and interest tax etc, based on their impact on tax burden. He showed the relationship of private investment with average effective tax rate (AETR), marginal effective tax rate (METR) and tax incentive of Nepal.

Bhattarai (2009) had conducted a research in the topic "Contribution of income Tax from public Enterprises to Government Revenue in Nepal." Mr. Bhattarai conducted this study with objectives of (to analyze the structure of income tax in Nepal, (i) to analyze the contribution of income tax from public enterprises to government revenue of Nepal. (ii) to analyze the contribution of income tax from public enterprises to government of Nepal and (iii) to evaluate the administrative aspect of income tax in Nepal.

The time period covered by this study was 14 years from FY 1988/89 to 2003/04. The data and other necessary information were collected by using primary as well as secondary sources. This study also followed an analytical as well as descriptive research design. Mr. Bhattacharai has pointed out various findings and recommendations. Some remarkable findings of the research were as follows:

- i) The study shows the contribution of tax revenue is about 75.74% and that non-tax revenue was about 24.26 in 2005/06 which is still less satisfactory in Nepal.
- ii) The income tax forms public enterprises to income tax and income tax from public enterprises to corporate income tax ratio were 15.70% and 50-30% respectively in 2003/04.
- iii) Public enterprises are facing various problems regarding to income tax system. Due to the lack of clean act, rules and regulations, inefficient tax administration and heavy fine and penalty (Bhattacharai, 2009:146-151).

Shrestha (2012) studied on contribution of income tax to government revenue. By analyzing the macro level time series data, this study concluded that custom duty is the most significant component of indirect tax and income tax is the most significant component of direct tax in Nepal on the basis of the revenue yielding potentiality. This study also found that the attitude of tax payers is not positive toward the duty of taxpayers for making the payment of tax sincerely.

### **2.2.3 Articles**

Kandel (2001) wrote an article entitled "Draft of income Tax Act 2001 Critical analysis" In Rajesa, Kandel has criticized the income tax act

2002 on several grounds exemption of agricultural income from income tax, export duties. Levied on export inequality between different capital earn income (i.e. tax on interest, dividend and capital gain). With drawl of the provision of exemption suddenly and no adjustment for inflation are the major issues he raised in his article. He also said criticized tax regime creates more tax burden then the former one. He further criticized the act for the provision of income tax from export as 0.5% of total export because it is not a good choice of income base (Kandel , 2001: 65-736).

Thapa (2010) wrote an article entitled "Business Ago" he had described the tax system features of tax and causes of reform the tax. He had defined the areas for the reform of tax system in Nepal. They were low rates on broad base simplicity and neutrality, gradual abolition of exemption deduction and holidays to broad tax base few rates or single rat, few taxes with high revenue productivity, emphasis on tax compliance rather than coercive enforcement. incentives to brewing and investment, conversion of sales and service taxes into VAT. Excise duty on cigarette, tobacco, alcohol, automobiles petroleum and abolition of surcharge and additional duty system to make the tax system making tax system internationally compatible to attract foreign investment.

### **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 majority 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.

Public enterprises are the backbone of the economy contribution of income tax from public enterprises play vital role in the economy. Here Nepal telecom is the main enterprises contribute of income tax from public enterprises with reference to Nepal telecom. Besides these contribution of income tax from public enterprises with reference to Nepal telecom, to government revenue has also been outdone analytically likewise, structure of public revenue, contribution of public enterprises to public revenue or contribution of Nepal telecom to public revenue has been studied analytically.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

Research methodology is a way to solve the research problem systematically. In other words, research methodology describes the process applied in the entire aspect of study. This chapter described research design, population and sampling, source of data analysis procedure and analysis of tools.

#### **3.1 Research Design**

Research design is a plan structure and strategy of the investigation so as to obtain and answer to research questions. A research is an arrangement of conditions for collection and analysis of data aims to combine relevance to research purpose with economy in procedure. This research attempted to analyze the primary as well as secondary data. Hence, descriptive and analytical both research designs have been used to analyze the contribution pattern of income tax from public enterprises to government revenue.

#### **3.2 Population and Sampling**

To obtain desired objectives of the study opinions of various respondents associated with direct denominations i.e. tax administration, tax experts. Tax payers and Nepal Telecom officials were collected through structured questionnaire. The following table shows the groups of respondents and the size of sample.

**Table 3.1**

**Group of Respondents and Size of Sample from Each Group**

S.N	Group of respondents	Sample size
1	Income tax administrators	30
2	Income tax experts/policy makers	30
3	Income tax payers	40
	Total	100

### **3.3 Nature and Sources of Data**

To meet the objective of the study primary as well as secondary sources of data were used.

- a) Primary data were collected from the responses of persons representing from various sector through structure questionnaire. The same questionnaires were distributed to three group i.e. tax administrators, tax experts/policy makers, and taxpayers.
- b) Secondary sources of data were the information receives from books, journals, newspapers, reports and thesis etc. The major sources of secondary data were as follows:
  - Economic survey and budget speech of various years from ministry of Finance.
  - Publication of CEDA (Tribhuvan University) Reports and records of department of Inland Revenue (Taxation), ministry of Finance
  - Books related to income tax.
  - Books related to public Finance and public enterprises.

- National news paper, journals, souvenir and news magazines.
- Various annual reports, records of Nepal Telecom.
- Unpublished dissertation.

**Table 3.2**

**Number of Questionnaires Distributed and Collected**

S. N.	Group of respondents	No. of questionnaires distributed	No. of questionnaires collected	Percentage of collection
1	Income tax administrators	30	20	66.66
2	Income tax expert/policy markers	30	25	66.66
3	Income tax payers	40		62.50

Out of questionnaires distributed to tax administrator, tax experts/policy markers and tax payers, only 66.66%, 66.66% and 62.50% of them have returned the questionnaire respectively.

### **3.4 Procedure of Data Collection**

For primary data, information was collected by developing a schedule of three distinct types of respondents. Distribution was done through personal field visit to get accurate and actual information in time.

For secondary data, information was collected from central library of T.U. library of NTC (Bhadrakali), internal revenue department (Lazimpat) and other public libraries.

### **3.5 Data Analysis Procedure and Analysis Tools**

It is observed that the collected data does not depict the result itself. To draw the required conclusion from the collected data are classified, tabulated and analyzed in descriptive and analytical way. Likewise, the required accounting principle mathematical approaches and legal provision of ITA 2058 are taken in to consideration in data analysis procedure.

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. Simple percentage
- ii. Simple Average.
- iii. Graph chart and diagram
- iv. Regression analysis
- v. Correlation analysis

## **CHAPTER - IV**

### **DATA PRESENTATION AND ANALYSIS**

#### **1.1 Tax Structure of Nepal**

Nepal has been collecting its revenue from different sources. The structure of government revenue in Nepal is the composition of tax revenue and non-tax revenue. Tax revenue includes various direct taxes as well as indirect taxes. A direct tax includes income tax, property tax land revenue and others. An indirect tax is the composition of customs duties, excise duties, sales tax/value added tax and others. On the other hand, non-tax revenue is the composition of various receipts from different government entities. The government revenue is the mix of tax revenue and non-tax revenue consist various sources. Mostly, income of the government is custom duty, excise duty and sales tax or value added tax of indirect group. Custom duties consist of export, import, Indian excise refund and miscellaneous. The excise duty is the imposition of tax on liquor production, tobacco production and other industrial production. The other indirect taxes, which are also important in government revenue, contract tax, hotel tax, entertainment tax and air flight tax. Land revenue is the type of direct tax, which includes development and land tax. The income tax is directly imposed upon the individuals and organizations income or profit. Income tax is the composition of income or profit or public enterprises, semi-public enterprises, private corporate bodies, individual and remuneration. The house and land registration is also the cost of direct tax.

Non-tax revenue of the government includes various registration fee income from sale of government services and products, dividend received, royalties, principal and interest received and miscellaneous. The registration, water charge, electricity charge, telephone charge, post service, income from education, income food, agriculture and income from transportation are the major factors of sales of government services and products. Government received dividend from financial institutions, trading companies, industrial enterprises and service oriented organizations, similarly royalty from mine is also the non-tax revenue of the government.

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

Total revenue in Nepal is composed of both tax revenue and non-tax revenue. When the government of Nepal presented first national budget in 1951/52 the tax revenue includes both direct tax and indirect taxes. The direct taxes includes income tax, land tax, house and land registration tax etc. Indirect tax includes custom duties, excise duties, sales tax/value added tax, contract, vehicle tax and others.

Table 4.1.1 shows the composition of total revenue of government, which includes tax and non-tax revenue from FY 2003/04 to 2011/12. It seems that the share of tax revenue has always been greater than the share of non-tax revenue. In FY 2011/12, the share of tax revenue and non-tax revenue was 81.32% and 18.68% respectively as compared with 77.19% and 22.81% in the FY 2003/04. This includes that the role of tax revenue is very much important in revenue mobilization of Nepal and to meet the increasing government expenditure. The tax has been placed as a major source of government revenue in Nepal.

The composition of total revenue from the fiscal year 2003/04 to 2010/11 is given below.

**Table 4.1.1**  
**Contributions of Tax and Non-Tax Revenue on Total Revenue from**  
**FY 2003/04 to 2011/12**

*(Rs. in Million)*

Fiscal Year	Total Revenue	Tax Revenue	Tax revenue as % of total revenue	Non-tax revenue	Non-tax revenue as % of total revenue
2003/04	37251	28752.9	77.19	8498.1	22.81
2004/05	42893.8	33152.2	77.29	9741.6	22.71
2005/06	48893.6	38865	79.49	10028.6	20.51
2006/07	50445.5	39330.6	77.97	11114.9	22.03
2007/08	56229.8	42586.9	75.74	13642.9	24.26
2008/09	62331.1	48173.27	77.29	14157.83	22.71
2009/10	70122.7	54104.7	77.16	16018	22.84
2010/11	72282	57430.4	79.45	14851.6	20.55
2011/12	86135	70046	81.32	16089	18.68
Average	58509.39	45826.89	78.32	12682.5	21.68

Source: Economic Survey of Various Years, MOF Nepal.

The above table reflects that the tax revenue was gradually increasing in every year since 2003/04 amounting Rs. 28752.9 million and 70046 million in the year 2011/12. But the percentage contribution of tax revenue on the government revenue was found fluctuating in different year. The contribution of tax revenue to total revenue was maximum 81.32 percent in FY 2011/12 and minimum was 75.74 percent in FY

2007/08 during the study period and the average contribution was 78.32 percent. The non-tax revenue collection was also in the increasing trend in those nine years i.e. Rs. 8498.1 million in 2003/04 to Rs. 10689 million in 2011/12. The contribution portion of non-tax revenue to government revenue was also fluctuating during the study period. It seems that the percentage contribution of non-tax revenue was maximum 24.26 percent in FY 2007/08 and minimum was 18.68 percent in FY 2011/12 during the study period.

#### **4.1.2 Composition of Direct and Indirect Tax on 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. Similarly, income tax, land tax urban house and land tax, vehicle tax, interest, wealth tax and other taxes are included in direct tax. The structure of Nepalese tax revenue is presented in Table 4.1.2 in terms of direct and indirect tax revenue from FY 2003/04 to 2011/12. From the table No. 4.1.2 it is clear that the whole Nepalese tax structure is dominated by indirect tax revenue. The average share of direct tax revenue in total tax revenue for the period 2011/12 is 24.28 percent and the share of indirect tax revenue is 75.72 percent.

**Table 4.1.2**  
**Contributions of Direct and Indirect Tax on Total Revenue**

*(Rs. in Million)*

Fiscal Year	Total tax revenue	Total direct tax revenue	% share of direct tax on total tax revenue	Total indirect tax revenue	% share of indirect tax on total tax revenue
2003/04	28752.9	7296.7	25.38	21456.2	74.62
2004/05	33152.2	8555	25.81	24597.2	74.19
2005/06	38865.0	9729.8	25.03	29135.2	74.37
2006/07	39330.6	10037.8	25.52	29292.8	74.48
2007/08	42586.9	9546.2	22.42	33040.7	77.58
2008/09	48173.27	11212.27	23.27	36961	76.73
2009/10	54104.7	12265.36	22.67	41839.4	77.33
2010/11	57430.4	13120.5	22.84	44309.9	77.16
2011/12	70046	18393.8	26.26	51652.2	73.74
Average	45826.89	11128.60	24.28	34698.29	75.72

Source: Economic Survey of Various Years, MOF Nepal.

From the above table we can find out that there has been simultaneous increase in total direct tax, indirect tax and total tax revenue. In 2003/04 the total direct tax was Rs. 7296.7 million and indirect tax was Rs. 21456.2 million. Which has been increased to Rs. 18393.8 million as direct tax and Rs. 51652.2 million as indirect tax in 2011/12.

Though direct tax and indirect tax amount are gradually increasing their contribution percentage was fluctuating during the period. In FY 2003/04 direct tax contribution percentage in total tax revenue was 25.38 percent whereas indirect tax was 74.62 percent. The percentage share of direct tax on total tax revenue had been decreasing gradually except the

year 2011/12. Likewise the percentage share of indirect tax to total tax had been increasing gradually except the year 2011/12. The increasing percentage share of indirect tax was due to the effectiveness of VAT.

Comparison of direct and indirect tax reveals the heavy reliance of economy on indirect taxation. 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.

#### **4.1.3 Tax/GDP Ratio in Nepal**

Nepal is one of the lowest taxed economy in the world. The moderate tax-GDP ratio ranged from 15 to 18 percent in other developing countries (World Bank, 1991) but in Nepal, it is observed from the fact that tax-GDP ratio never exceeded 11 percent and average tax-GDP ratio was 9.91 percent in study period. Table 4.1.3 shows that the scenario of tax-GDP ratio for reference period 2003/04 to 2011/12.

The table 4.1.3 reflects that the tax revenue percentage in GDP was gradually increasing in every year since 2003/04, 8.71 percent to 9.88 percent in the year 2005/06 that it decreases 9.70 percent in 2003/04 than again it was increasing trend till 2009/10. But the GDP contribution of 2011/12 was 10.44 percent and the average contribution percentage of total tax to GDP is only 9.91 percent.

**Table 4.1.3**

**Tax Revenue as Percentage of GDP from the FY 2003/04 to 2011/12**

*(Rs. in Million)*

Fiscal Year	GDP	Tax Revenue	Tax Revenue as % of GDP
2003/04	330018	28752.9	8.71
2004/05	366251	33152.2	9.05
2005/06	393566	38865	9.88
2006/07	405632	39330.6	9.70
2007/08	435531	42586.9	9.78
2008/09	472424	48173.27	10.20
2009/10	504101	54104.7	10.73
2010/11	582950	57430.4	9.85
2011/12	670589	70046	10.44
Average	462340	45826.88	9.91

Source: Economic Survey of Various Years, MOF Nepal.

**4.1.4 Contribution of Direct Tax as Percentage to GDP and Total Revenue**

Table 4.1.4 shows that contribution of direct tax as percentage of GDP and total revenue from FY 2003/04 to FY 2011/12. 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 4.1.4**  
**Contributions of Direct Tax as Percentage of GDP and Total Revenue**

*(Rs. in Million)*

Fiscal Year	GDP	Total Revenue	Direct Tax Revenue	Direct tax as % of GDP	Direct Tax as % of Total Revenue
2003/04	330018	37251	7296.7	2.21	19.59
2004/05	366251	42893.8	8555	2.34	19.94
2005/06	393566	48893.6	9729.8	2.47	19.90
2006/07	405632	50445.5	10037.8	2.47	19.90
2007/08	435531	56229.8	9546.2	2.19	16.98
2008/09	472424	62331.1	11212.27	2.37	17.99
2009/10	504101	70122.7	12265.36	2.43	17.49
2010/11	582950	72282	13120.5	2.25	18.15
2011/12	670589	86135	18393.8	2.74	21.35
Average	462340	58509.39	11128.60	2.41	19.02

Source: Economic Survey of Various Years, MOF Nepal.

From the table 4.1.4, direct tax contribution to GDP and total revenue in FY 2003/04 was 2.21 percent and 19.59 percent respectively. The direct tax percentage to GDP and total revenue was found in increasing trend up to FY 2003/04. But it was decreased in the next following year. Then after, its percentage to GDP and total revenue was increased, except the year 2010/11. Direct tax contribution to GDP and total revenue in the year 2011/12 was found 2.74 percent and 21.35 percent respectively and average contribution to GDP and total revenue was 2.41 percent and 19.02 percent respectively. This contribution of direct tax to GDP of average 2.41 percent is found to be lower than the standard form. The projected data also shows that positive trend. Direct

tax percentage to GDP will slightly increase in future but percentage to total revenue will be constant as average contribution.

#### **4.1.5 Contribution of Income Tax to GDP, Total Revenue and Total Tax Revenue**

Like other developing country, in Nepal more financial resources are needed to meet the increasing expenditure for regulation and development activities. The objective of revenue collection is not only to finance growing expenditure but also to achieve other objectives like social justice, regional development, distributive justice etc. For these national goals, the direct tax basically income tax is assumed as a best weapon. We can see the contribution of income tax in following table.

**Table 4.1.5**

##### **Contributions of Direct Tax as Percentage of GDP and Total Revenue**

*(Rs. in Million)*

Fiscal Year	GDP	Total Revenue	Total Tax Revenue	Income Tax Revenue	% of it on GDP	% of it on TR	% of It on TTR
2003/04	330018	37251	28752.9	6170.3	1.87	16.56	21.46
2004/05	366251	42893.8	33152.2	7420.6	2.03	17.30	22.38
2005/06	393566	48893.6	38865.0	9114	2.32	18.64	23.45
2006/07	405632	50445.5	39330.6	8903.7	2.19	17.65	22.64
2007/08	435531	56229.8	42586.9	8131.9	1.87	14.46	19.09
2008/09	472424	62331.1	48173.27	9514.77	2.01	15.26	19.75
2009/10	504101	70122.7	54104.7	10466.1	2.08	14.92	19.34
2010/11	582950	72282	57490.4	10939.1	1.88	15.13	19.05
2011/12	670589	86135	70046	14607.5	2.18	16.96	20.85
Average	462340	58509.39	45826.88	9474.25	2.05	16.19	20.89

Source: Economic Survey of Various Years, MOF Nepal.

#### **4.1.5.1 Income Tax on the Gross Domestic Production (GDP)**

The percentage contribution of income tax in GDP is presented in Table 4.1.5. The average income tax percentage to GDP during the period was 2.05 percent. But the contribution of income tax on GDP was maximum representing 2.32 percent in the year 2005/06 which was minimum in the year 2007/08 respectively 1.87 percent. Figure 4.1.3 shows relation of income tax to GDP.

#### **4.1.5.2 Income Tax on Total Revenue**

Table 4.1.5 shows that the percentage contribution of income tax to total revenue. It was maximum 18.64 percent in the year 2005/06 and which was minimum in the year 2007/08 representing 14.46 percent. But the average contribution percentage of income tax on total revenue was 16.19 percent. Figure 4.1.4 shows the relation of income tax in total tax revenue.

#### **4.1.5.3 Income Tax on Total Tax Revenue**

Table 4.1.5 shows the average income tax contribution to total tax revenue was 20.89 percent. It's contribution on fiscal year 2003/04 was 21.46 percent and 20.85 percent in fiscal year 2011/12. It was maximum 23.45 percent in the year 2005/06 and which was minimum in the year 2010/11 representing 19.05 percent. Figure 4.1.5 shows that relation on income tax on total tax revenue.

#### **4.1.6 Contribution of Corporate Income Tax on GDP and Total Revenue**

Income tax is a instrument to narrow the income gap between rich and poor people as well as economic development of the nation. But

being a developing country, in Nepal source of the government revenue are very limited.

Contribution of corporate income tax which is desired from public enterprises, public limited companies and private corporate bodies are as follows:

**Table 4.1.6**  
**Contributions of Corporate Income Tax on GDP and Total Revenue**  
*(Rs. in Million)*

Fiscal Year	GDP	Total Revenue	Corporate tax	Corporate tax as % to GDP	Corporate tax as % of total revenue
2003/04	330018	37251	3461.5	1.05	9.29
2004/05	366251	42893.8	4438.3	1.18	10.35
2005/06	393566	48893.6	5982.3	1.52	12.23
2006/07	405632	50445.5	4351.95	1.07	8.63
2007/08	435531	56229.8	3655.3	0.84	6.50
2008/09	472424	62331.1	4838.68	1.02	7.76
2009/10	504101	70122.7	5327.32	1.06	7.60
2010/11	582950	72282	5395.70	0.94	7.46
2011/12	670589	86135	7015.20	1.05	8.14
Average	462340	58509.39	4940.69	1.05	8.14

Source: Economic Survey of Various Years, MOF Nepal.

From the table 4.1.6, we can see that the contribution of corporate income tax to GDP was fluctuating during the study period. Corporate tax contribution to GDP is 1.05 percent in 2003/04 which had increased to 1.52 percent in 2005/06 and decreased to 0.84 percent in 2004/05. Then after, its contribution to GDP seems to be increasing in the consequent

years except 2010/11 having 0.94 percent. The average contribution of corporate, income tax to GDP is 1.07 percent 9 years period.

The average corporate tax percentage to total revenue during the period was 8.44 percent. It is also fluctuating during the study period. It was maximum 12.23 percent in the year 2005/06 and 6.50 percent in the year 2004/05.

#### **4.1.7 Structure of Income Tax in Nepal**

Income tax revenue was divided into corporate tax individual income tax and remuneration tax until 1993/94. After 1993/94, the income tax was divided into four group's i.e. corporate income tax, individual income tax, house and land tax and interest tax. Corporate tax is collected from Government Corporation, public and private limited companies and partnership firms. Individual income tax is collected from remuneration and industry, business profession or vocation. Interest tax is paid from banks and financial institution that pay interest for all type of deposits and the house rent tax is levied on income obtained from renting house and land in urban areas.

**Table 4.1.7**  
**Contributions of Direct and Indirect Tax on Total Revenue**

*(Rs. in Million)*

Fiscal Year	Corporate Income Tax						Total corporate tax 5=2+3+4	%	Industry Business profession vocation 6	%	Remune Ratio 7	%	Total individual tax 8=6+7	%	Interest tax 9	%	House & land rent tax 10	%	Income Tax 11-5+8+9+10	%	Growth Rate %
	Govt. Sector 2	%	Public Sector 3	%	Private sector 4	%															
2003/04	1526.5	24.74	1155	18.72	780	12.64	3461.5	56.1	1788.6	28.99	396.5	6.43	2185.1	35.41	319.5	5.18	204.2	3.31	6170.3	100	
2004/05	2198.8	29.63	1339.5	18.05	900	12.13	4438.3	59.81	1865.1	25.13	451.5	6.08	2316.6	31.22	414.5	5.58	251.2	3.38	7420.6	100	20.26
2005/06	2928	32.13	1924.3	21.11	1130	12.40	5982.3	65.64	1810.5	19.87	597.3	6.55	2407.8	26.41	463.9	5.09	260	2.85	9114	100	22.82
2006/07	1760.3	19.87	1412	15.85	1170.65	13.15	4351.95	48.88	2899.95	32.57	835.6	9.38	3735.55	41.96	467.7	5.25	348.5	3.91	8903.7	100	2.31
2007/08	1051	15.38	1236.3	15.20	1168	14.36	3653.3	44.93	1978.3	24.33	1252.6	15.40	3230.91	39.73	864	10.63	381.7	4.67	8131.9	100	8.67
2008/09	2056.63	21.61	1531.27	16.09	1250.78	13.15	4838.68	50.85	2148.59	22.58	1391.5	14.62	3540.09	37.21	733	7.70	403	4.23	9514.77	100	14.53
2009/10	1332.4	12.73	2467.8	23.58	1527.12	14.59	5327.32	50.90	2209.88	21.11	1675.9	16.01	3885.78	37.13	757	7.23	496	4.74	10466.1	100	9.10
2010/11	195.7	1.79	3404.3	31.42	1795.7	16.44	5395.70	49.32	2495.70	22.81	1764.1	16.13	4259.8	38.94	774.9	7.08	509	4.65	10939.4	100	4.33
2011/12	664.5	4.55	4382.6	30.00	1968.1	13.47	7015.20	48.02	3338.57	22.86	2162.8	14.81	5501.37	37.66	1360.03	9.31	730.9	5.00	14607.5	100	25.15
Average	1516.98	16.33	2094.79	32.11	1298.93	13.71	4940.47	52.15	2281.69	24.08	169.77	12.35	3451.44	36.42	683.84	7.22	398.28	4.20	9474.25	100	

Source: Economic Survey of Various Years, MOF Nepal.

The trend of income tax is shown in table 4.1.7 for the last nine years. According to the above data total income tax realized in the fiscal year 2003/04 was Rs. 6170 million and Rs. 14607.5 million for 2011/12. The average contribution of income tax from government sector, public sector and private sector was 16.33 percent, 22.11 percent and 13.71 percent respectively and total corporate tax 52.15 percent. Similarly, average contribution from profession, remuneration and total individual tax was 24.08 percent, 12.35 percent and 36.42 percent respectively. Likewise, the average contribution from interest tax and house and land tax was 7.22 percent and 4.20 percent respectively. The income tax contribution of individual's tax has occupied first position in total income tax of Nepal. In fiscal year 2003/04 was Rs. 2185.1 million which was increased to Rs. 5501.37 million for the year 2010/11. The percentage contribution to income tax revenue was found fluctuating during the year. The percentage contribution was 35.41 percent on 2003/04 which was decreased to 26.41 percent on 2005/06 and increased to 41.96 percent in 2003/04. Then after, it has been gradually decreased to 37.66 percent in the year 2011/12. The forecasted data also shows that the percentage contribution will also increase in the future.

Income tax from public sector has occupied second position regarding its contribution in total income tax revenue of Nepal. In fiscal year 2003/04, out of total income tax revenue of Rs. 6170.3 million, Rs. 1155 million has been contributed by public sector, which was 18.72 percent. It has been fluctuating in different years. Income tax from public sector had decreased to Rs. 1236.3 million in FY 2004/05. Then after, it has been gradually increased to Rs. 4382.6 million in 2011/12 which was 30 percent of total income tax revenue. This huge amount of contribution

was due to the increment in banks profit and privatization on public participation of government enterprise.

Government sector has occupied the third position. In FY 2003/04 government bodies paid Rs. 1526.5 million as income tax, which was 24.74 percent. The government sector tax collection was found heavily fluctuated during the period. It was due to the unstable political situation, stride and insecurity in the country. The government tax in FY 2009/10 was Rs. 1332.4 million and Rs. 195.7 million in 2010/11. This huge amount of decrement in tax was due to privatization of profitable government enterprises like Nepal Telecom. The forecasted data shows that the government sector income tax will decrease in the future.

Income tax from private sector has occupied fourth position in total income tax revenue of Nepal. In fiscal year 2003/04 private sector paid Rs. 780 million which 12.64 percent to the total income tax. Income tax from private sector was found gradually increasing during the period. It has been increased to Rs. 1968.1 million in 2011/12 which was 13.47 percent of the total income tax revenue.

Interest tax has occupied the fifth position in income tax revenue. The income tax from interest was Rs. 319.5 million on FY 2003/04, which was 5.18 percent of income tax revenue. The interest tax was seemed to be gradually increasing during the period. It has been increased to Rs. 1968.1 million in 2011/12 which was 9.31 percent of total income tax. The forecasted data also shows that the interest tax will increase in future.

The house and land rent was Rs. 204.2 million in 2003/04 which was 3.31 percent of total income tax. Its contribution was gradually

increased in the period. It was Rs. 730.9 million, which was 5 percent of the total income tax in 2011/12.

## **4.2 Corporate Income Tax Revenue from Public Enterprises**

### **4.2.1 Introduction of Public Enterprises**

Public enterprises have assumed significant role in almost every countries of the world. The term 'Public Enterprises' has been defined differently by different agencies and government to suit their own respective situation. UN has defined public enterprises as "Those organization namely government enterprises and public corporations which are entirely or mainly owned and controlled by the public authorities consisting of establishment which by virtue of their kind of activities technology and mode of operation are classified industries" (Profile of Public Enterprises in Nepal, 1978:1).

According to Laxmi Narayan, "Public enterprises are autonomous bodies which are owned and Managed by the government and which provide goods and services for a price. The ownership with the government should be 51 percent or more to make an entity public enterprise."

According to Friedman, "Public enterprises is an institution operating a service of an economic as social character as belief of the government, but as independent legal entity, largely autonomous in its management, through responsible to the public, through government and parliament and subject to some direction by the government equipped as the other hand will independent and separate funds of its own legal and commercial attributer of a commercial enterprise."

A public authority holds more than 50 percent of outstanding equity either directly or indirectly. Government has power to involve in the management of the enterprises through the appointment of to management members of the board of directors and the chief executives. It is sure that most developing countries need to make extensive use of public enterprises as a catalytic agent in the process of moving toward development oriented economy at a certain stage in the development process public enterprises have assumed significant role in almost every country of the world. 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 were further complicated by the existence of great disparity in income and wealth distribution, regional imbalance and last but no the least evils of over population.

#### **4.2.2 Public Enterprises in Nepal**

Nepal started its planned economic development in 1956 with launching of first five years plan. Since, then the number of public enterprises has been increased substantially in the various field of national economy. There are 62 public enterprises before privatization of HMG and now there are 38 public enterprises. Some of them are in privatization process. Public enterprise can be classified as follows:

- i. Manufacturing Enterprises
- ii. Commercial Enterprises
- iii. Financial Enterprises
- iv. Public Enterprises
- v. Development or Services in Enterprises

### **4.2.3 Role of Public Enterprises in Nepalese Economy**

Public enterprises have become both necessary and useful as vehicles for development in developing nation. They are being laded upon as effective instrument of program implementation of accomplishing the desired national development goals public enterprises constitutes a large and rapidly growing sector of the economy in his majority of countries in the world. 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 lose of defense, which is not open to private sector. There is coexistence of both private and public sectors in Nepal for the overall development of the country.

Nepal is one of the developing countries which is still in its crawling state of industrial development. So, in Nepal public enterprises is not matter of choice, rather, they are a matter of necessity. Public enterprises play vital oral to develop the overall economy of the country. The main role are as follows:

- a) Development of infrastructure
- b) Success of economic planning
- c) Regional and balanced development
- d) Supply of essential commodity
- e) Contribution to national fund
- f) Generation employment opportunities
- g) Attaining social justice and social welfare
- h) Strengthening and maintaining economic stability
- h) Accelerating the rate of economic growth.

#### 4.2.4 Sectrol Details of Privatized/Liquidated Public Enterprises

**Table 4.2.1**

**List of Privatized/Liquidated Public Enterprises**

S.N.	Name of Company	Year of privatization	Methods of privatization
1.	Bhrikuti Paper Miles (BPM)	1992	Assets of Business sales
2.	Harisidhi Brick and Tile Factory (HBTF)	1992	Assets of Business sales
3.	Bansbari Leather and Shoe Factory	1992	Assets of Business sales
4.	Nepal Film Development Company (NFDC)	1993	Share Sale
5.	Balaju Textile Industries Ltd. (BTI)	1993	Share Sale
6.	Raw Hide Collection and Development Corp. Ltd. (RHDCD)	1994	Share Sale
7.	Nepal Bitumeni and Barred Udhyog (NBBU)	1994	Share Sale
8.	Nepal Lube Oil Ltd. (NLO)	1994	Share Sale
9.	Nepal Jute Trade and Development Co.	1994	Liquidation
10.	Tobacco Development Co.	1996	Liquidation
11.	Nepal Foundry Industry (NFI)	1996	Share sale
12.	Shree Raghupati Jute Mills (SRJM)	2002	Share sale
13.	Biratnagar Jute Mills (BJM)	1997	Lease
14.	Nepal Bank Ltd. (NBL)	2000	Share sale
15.	Nepal Tea Development Corporation (NTDC)	2001	Shares sales & Lease
16.	Agriculture Service Center	2002	Liquidation
17.	Cottage & Handicraft Emporium	2002	Liquidation
18.	Coal Ltd.	2002	Liquidation
19.	Hetuada Textile Industry	2002	Liquidation
20.	Nepal Transport Corporation	2002	Dissolved
21.	Butwal Power Co.	2003	Share sale
22.	Birgani Sugar Factory Ltd.	2003	Dissolution
23.	Agriculture Tolls Factory Ltd.	2003	Dissolution
24.	Bhaktapur Brick Factory	2004	Assets & Business Sales
25.	Lumbini Sugar Factory	2006	Assets & Business Sales
26.	Nepal Rosin and Turpentine Ltd.	2006	Assets & Business Sales

Source: Economic Survey, 2010/11 MOF/Nepal.

#### 4.2.5 Performance of Public Enterprises

Performance of public enterprises in Nepal is presented in table 4.2.1 performance of public enterprises in Nepal is remained poor. It is seen that continued inefficiency and ineffective of public enterprises have has a profound negative impact on the economy particularly on the issues of sustainability and their overwhelming demand of government resources. Large amount of sources are interested in public enterprises by Nepal government.

**Table 4.2.2**

**Performance of Public Enterprises from FY 2003/04 to 2011/12**

*(Rs. in Million)*

Fiscal Year	Gross Profit	Capital employed	Gross profit as % of capital employed
2003/04	2903.30	83680.80	3.47
2004/05	2404.40	83420.60	2.88
2005/06	-1353.20	82910.50	-1.63
2006/07	-5475.30	150088.20	-3.65
2007/08	-1614.40	97232.00	-1.66
2008/09	-2524.10	96904.00	-2.61
2009/10	2130.30	176673.80	1.21
2010/11	1688.70	188464.20	0.90
2011/12	9867.30	196671.80	5.01

Source: Economic Survey, 2010/11 MOF/Nepal.

During the study period gross profit of public enterprises was in fluctuating trend. It was Rs. 2903.30 million in 2003/04. Then it started to decrease and become -2524.10 million in 2005/06. Again it started to increase and reached to Rs. 9867.30 million in FY 2011/12. The

maximum gross profit was Rs. 9867.30 million in 2011/12 and the minimum gross profit was Rs. 9867.30 million in 2011/12 and the minimum was Rs. -5475.30 million in FY 2003/04.

Capital employed of public enterprises was in increasing trend during the study period. It was Rs. 83680.80 million in year 2003/04 and Rs. 196671.80 million in 2011/12.

The gross profit as a percentage of capital employed was in fluctuating trend during the study period. It was 3.47 percent in 2003/04. Then it started to decreased and reached to -2.61 percent in year 2005/06. Again it started to increase and reached 5.01 in year 2011/12.

#### **4.2.6 Contribution of Corporate Income Tax from Public Enterprises to GDP of Nepal**

The contribution of tax from public enterprises in GDP is presented in table 4.2.6. The score of income tax from public enterprises is the GDP of Nepal is very low. The score of income tax from public enterprises in GDP lies between 0.03 to 0.74 percent during the study period. The average contribution of income tax from public enterprises is 1546.98 million and the average contribution on GDP is 0.37 percent. During the study period the overall contribution from public enterprises to government revenue was fluctuating. The minimum contribution was 0.03 percent in fiscal year 2010/11 and maximum was 0.74 percent in fiscal year 2005/06. We can see the clear picture of contribution of income tax from public enterprises to GDP in following table.

**Table 4.2.3**  
**Contribution of Corporate Income Tax from Public Enterprises to**  
**GDP of Nepal from FY 2003/04 to 2011/12**

*(Rs. in Million)*

Fiscal Year	GDP	Income tax from PES	Income tax from PES % of GDP
2003/04	3300.08	1526.5	0.46
2004/05	366251	2198.8	0.60
2005/06	393566	2928	0.74
2006/07	405632	1769.3	0.44
2007/08	435531	1251	0.29
2008/09	472424	2056.63	0.44
2009/10	1332.4	1332.4	0.26
2010/11	582950	195.7	0.03
2011/12	670589	664.5	0.10
Average	462340	1546.98	0.37

Source: Economic Survey, 2010/11 MOF/Nepal.

#### **4.2.7 Contribution of Corporate Income Tax from Public Enterprise to Government Revenue of Nepal**

The contribution of income tax from public enterprises in government revenue is presented in table 4.2.7. The share of income tax from public enterprises in government revenue lies between 0.27 percent and 5.99 percent. In 2003/04 it was 4.10 percent and started to increase and reached 5.99 percent in 2005/06. Again it started to decrease and reached 2.22 percent in 2004/05. In 2005/06 its contribution was 3.30 percent and again it started to decrease and reached 0.27 percent in

2010/11. Therefore we can say that the overall contribution was in fluctuating trend. At last in FY 2011/12 it was 0.77 percent.

**Table 4.2.4**  
**Contribution of Corporate Income Tax from Public Enterprises to Government Revenue of Nepal from FY 2003/04 to 2011/12**

*(Rs. in Million)*

Fiscal Year	Government	Income tax from PES	Income tax from PES % of Government revenue
2003/04	37251	1526.5	4.10
2004/05	42893.80	2198.8	5.13
2005/06	48893.60	2928	5.99
2006/07	50445.50	1769.3	3.51
2007/08	56229.80	1251	2.22
2008/09	6233.1	2056.63	3.30
2009/10	70122.7	1332.4	1.90
2010/11	72282	195.7	0.27
2011/12	86135	664.5	0.77
Average	58504.34	1546.98	3.02

Source: Economic Survey, 2010/11 MOF/Nepal.

#### **4.2.8 Contribution of Corporate Income Tax from Public Enterprises in Tax Revenue of Nepal**

The contribution of income tax from public enterprises in tax revenue of Nepal is presented in table 4.2.8. The percentage share of income tax from public enterprises in tax revenue of Nepal is slightly higher than the percentage contribution to GDP and total tax revenue. It lies between 0.34 percent and 7.53 percent during the 9 years of study period.

The percentage contribution of income tax from public enterprises in tax revenue was in fluctuating during the period. It was highest 7.53 percent in FY 2005/06 and lowest 0.34 percent in FY 2010/11 but the average contribution was 3.88 percent during the 9 year period.

**Table 4.2.5**  
**Contribution of Corporate Income Tax from Public Enterprises to Tax Revenue of Nepal**

*(Rs. in Million)*

Fiscal Year	Tax revenue	Income tax from PES	Income tax from PES % of Government T.R.
2003/04	28752.90	1526.5	5.31
2004/05	33152.20	2198.8	6.63
2005/06	38865.00	2928	7.53
2006/07	39330.60	1769.3	4.50
2007/08	42586.90	1251	2.94
2008/09	48173.27	2056.63	4.27
2009/10	54104.70	1332.4	2.46
2010/11	57430.40	195.7	0.34
2011/12	70046.00	664.5	0.95
Average	45826.89	1546.98	3.88

Source: Economic Survey, 2010/11 MOF/Nepal.

#### **4.2.9 Contribution of Corporate Income Tax from Public Enterprises to Total Income Tax**

Table 4.2.9 shows the contribution of income tax from public enterprises to total tax for the last 9 years.

The contribution of income tax from public enterprises was found fluctuating during the study period. Its contribution was maximum 29.63 percent in the FY 2004/05 and minimum 1.79 percent in the FY 2011/129 but the average contribution was 18.08 percent.

**Table 4.2.6**  
**Contribution of Corporate Income Tax from Public Enterprises to Total Income Tax from Fiscal Year 2003/04 to 2011/12**

*(Rs. in Million)*

Fiscal Year	Total Income Tax	Income tax from PES	Income tax from PEs % of Total I.T.
2003/04	6170.3	1526.5	24.74
2004/05	7420.6	2198.8	29.63
2005/06	9114	2928	32.13
2006/07	8903.7	1769.3	19.87
2007/08	8131.9	1251	15.70
2008/09	9514.77	2056.63	21.61
2009/10	10466.1	1332.4	12.73
2010/11	10939.4	195.7	1.79
2011/12	14607.5	664.5	4.55
Average	9474.25	1546.98	18.08

Source: Economic Survey, 2010/11 MOF/Nepal.

#### **4.2.10 Contribution of Income Tax from Public Enterprises to Corporate Tax**

Public enterprises are fully owned by government but in semi public enterprises owns by major portion (51% or more), the public limited companies which are fully managed or operated by general public and private companies is established and managed by one or more

owners. Tax collection from these sectors is known as corporate income tax. The share by public enterprises in total income tax revenue has second position and it has top most position of total corporate income tax.

Income tax from public enterprises on corporate income tax was found to be fluctuating during the study period. It was 44.10 percent in 2003/04 and in next year it was 49.54 percent than after it started to decreased unto 3.62 percent in the year 2010/11 and in final year 2011/12 it increase at 9.47 percent. But the average contribution was 33.22 percent.

**Table 4.2.7**  
**Contribution of Income Tax from Public Enterprises to Corporate Tax**

*(Rs. in Million)*

Fiscal Year	Corporate Tax	Income tax from PEs	Income tax from PEs as % of Total I.T.
2003/04	3461.5	1526.5	44.10
2004/05	4438.3	2198.8	49.54
2005/06	5982.3	2928	49.00
2006/07	4351.95	1769.3	40.65
2007/08	3653.3	1251	34.24
2008/09	4838.68	2056.63	42.50
2009/10	5327.32	1332.4	25.00
2010/11	5395.70	195.7	3.62
2011/12	7015.20	664.5	9.47
Average	4940.47	1546.98	33.12

Source: Economic Survey, 2010/11 MOF/Nepal.

## **4.4 Empirical Study**

### **4.4.1 Introduction**

An empirical investigation has been conducted in order to find out various aspects of income tax for the experience of real life situation. The major tools used for this is questionnaire. Questionnaire was distributed to tax administrator tax experts/policy makers and tax payers. The responses received from various respondents have been arranged, tabulated and analyzed in order to facilitate the descriptive analysis of the study.

The questionnaire either asked for a yes/no response or asked for ranking of choices according to number of alternatives where the first choice was most important and last choice least important. For analysis purpose choices were assigned weight according to number of alternatives. If the number of alternatives were 5 than the first preferred choice got 5 points and last preferred choice got one points and last preferred choice got one point.

**Table 4.4.1**  
**Group of Respondents and Code Used**

S.N.	Group of respondents	Sample	Code
1.	Tax administrators	20	I
2.	Tax experts/policy makers	20	II
3.	Tax payers	25	III
	Total	65	-

#### 4.4.2 Attitude Towards Income Tax as Suitable Means of Rising Government Revenue

In order to know whether income tax is suitable means of raising government revenue a question was asked “Do you think that income tax as suitable means of rising government revenue? The respondents received from respondents are tabulated as follows.

**Table 4.4.2**  
**Income Tax as a Suitable Means of Rising Government Revenue**

Respondents	Yes		No		Total	
	No	%	No	%	No	%
I	20	100	0	0	20	100
II	20	100	0	0	20	100
III	20	80	5	20	25	100
Total	60	92.31	5	7.69	65	100

Source: Opinion Survey, 2012

From the above table it has become clear that income tax was suitable means of rising government revenue. Where 92.31 percent of respondents have found income tax as a suitable mean of rising government revenue but 7.69 percent respondents are unsatisfied.

#### 4.4.3 Public Awareness Programs for Rising Government Revenue

It is said that the government revenue of Nepal is not efficient. To know how the government revenue will be increased a question was asked, "Do you think that public awareness program is necessary in Nepal for rising government revenue ? The responses received from various respondents are tabulated as follows:

**Table 4.4.3****Public Awareness Program for Rising Government Revenue**

Respondents	Yes		No		Total	
	No	%	No	%	No	%
I	20	100	0	0	20	100
II	20	100	0	0	20	100
III	20	80	5	20	25	100
Total	60	92.31	3	4.62	65	100

Source: Opinion Survey,2012

From the above table it is clear that the public awareness program is effective for rising government revenue.

**4.4.4 Attitude Towards Income Tax System in Nepal**

Income tax system of Nepal has been blamed that it has many problems. To know, whether the income tax system of Nepal has problem or not, a question was asked. "Do you think that there are problems in income tax system of Nepal? The responses received from respondents are tabulated as follows:

**Table 4.4.4****Attitude Towards the Income Tax System**

Respondents	Yes		No		Total	
	No	%	No	%	No	%
I	18	90	2	10	20	100
II	20	100	0	0	20	100
III	24	96	1	4	25	100
Total	62	95.38	3	4.62	65	100

Source: Opinion Survey,2012

From the above table it has become clear that there has problem in Nepalese income tax system. Most of the respondents i.e. 95.38 percent thought that three were problem in Nepalese income tax system.

In order to know the problems of income tax system of Nepal then next question was asked. "If yes, what are the major problems in income tax system of Nepal" The respondents' were request to rank their answer from 1 to 5 scales, Table 4.4.5 gives the breakdown of responses.

**Table 4.4.5**  
**Major Problem of Nepalese Income Tax System**

S. N.	Major problems	Respondents			Total points	%	Rank
		I	II	III			
1.	Complexity in income tax act rules and regulations	62	90	98	250	28.12	1
2.	Inadequate economic policy	38	19	41	98	11.03	5
3.	Inefficient income tax administration	47	57	75	179	20.13	3
4.	Lack of consciousness of tax payers	71	60	64	192	21.60	2
5.	Increasing habit of tax evasion	62	47	64	170	19.60	4
	Total					889	100

Source: Opinion Survey,2012

The major problems of the income tax system of Nepal were ranked in order of the preferable of the respondents as follows.

1. Complexity in income tax act, rules and regulation.
2. Lack of consciousness of tax payers.
3. Inefficient income tax administration.
4. Increasing habit of tax evasion.
5. Inadequate economic policy.

From the above table it can be concluded that in the opinion of respondents, there are problems in income tax system in Nepal. Basically due to the complexity in income tax acts, rules and regulation, lack of consciousness of tax payers and inefficient income tax administration were the major problems.

#### **4.4.5 Specific Objectives of Income Tax Imposition for Public Enterprises**

In order to know the specific objectives of income tax imposition for public enterprises in Nepal. a question was asked, "What should be the specific objective of income tax imposition for public enterprises in Nepal ? (Tick one) Table 4.4.6 shows the breakdown of responses.

**Table 4.4.6**

#### **Specific Objectives of Income Tax Imposition for Public Enterprises**

S. N.	Objectives	Respondents			Total points	%	Rank
		I	II	III			
1.	To meet the revenue requirement of government	10	10	7	27	41.5	41
2.	To promote the regional development	3	4	2	9	13.85	4
3.	To reduce the gap between poor and richer people through employment	4	2	9	15	23.08	2
4.	To redistribute the national income	3	4	7	14	21.53	3
	Total	20	20	25	65	100.0	

Source: Opinion Survey,2012

The specific objectives of income tax imposition for public enterprises were tabulated in Table 4.4.6. The above table gives the objectives in this rank.

1. To meet the revenue requirement of government
2. To reduce the gap between poor and richer people through employment.
3. To redistribute the national income.
4. To promote the regional development of Nepal.

#### **4.4.6 Contribution of Income Tax form Public Enterprises to Governments Revenue**

Public enterprises are most essential for the development of a country especially under developed and developing countries like Nepal. Public enterprises are not only responsible for social activities. These public enterprises generate income through utilization of resource of the country and government lives taxes.

It is said that the contribution of income tax from public enterprises to government revenue is not satisfactory level. To know the fact, a question was asked, "Do you think that the contribution of income tax from public enterprises to government revenue is satisfactory level ? The responses received from the various respondents are tabulated as follows:

**Table 4.4.7**  
**Attitude Towards Satisfactory Contribution of Income Tax form PEs to Government Revenue**

S.N.	Respondents	Yes		No		Total	
		No	%	No	%	No	%
1.	Tax administration	2	10	18	90	20	100
2.	Tax expert/policy makers	4	20	16	80	20	100
3.	Tax payers	8	32	17	68	25	100
	Total	14	21.54	61	78.46	65	100

Source: Opinion Survey, 2012

From the above table it was been clear that contributes of income tax from public enterprises to government revenue is not satisfactory. Most of the respondents (about 78.46%) though that it was not satisfactory.

In order to know the reasons of unsatisfactory contribution of income tax from public enterprises to government revenue, another questions was asked, "If no, what are the causes of unsatisfactory contribution of income tax from public enterprises to government's revenue ? The respondents were requested to rank 1 to 5 scale of their answer, Table 4.4.8 gives a breakdown of responses.

**Table 4.4.8**  
**Causes of Unsatisfactory Contribution on Income Tax from PEs to Government Revenue**

S. N.	Objectives	Respondents			Total points	%	Rank
		I	II	III			
1.	Defective income tax	19	24	24	67	10.58	5
2.	Poor performance of PEs	70	50	50	170	26.86	1
3.	High corruption in PEs	39	40	65	144	22.75	3
4.	Over staffing and political pressure	63	56	42	161	25.43	2
5.	Weakness of government economic policies	37	20	34	91	14.30	4
	Total				633	100.0	

Source: Opinion Survey,2012

The major causes of unsatisfactory contribution of income tax from public enterprises to government revenue can be ranked in order to preference of the respondents as follows:

1. Poor performance of PEs.
2. Over staffing and political pressure.
3. High corruption in PEs.
4. Weakness of government economic policies.
5. Defective income tax.

It can be concluded that poor performance of public enterprises, overstaffing and political pressure and high corruption in public enterprises are the most important cause of unsatisfactory contribution of income tax from public enterprises to government revenue.

#### **4.4.7 Contribution of Income Tax from Nepal Telecom to Government Revenue**

To know the satisfactory condition of income tax from Nepal telecom to government revenue a question was asked, "Do you think that the contribution of income tax from Nepal telecom to government revenue is satisfactory ? The responses received from the various respondents are tabulated as follows:

**Table 4.4.9**  
**Attitude Towards Satisfactory Contribution of Income Tax form**  
**Nepal Telecom to Government Revenue**

S.N.	Respondents	Yes		No		Total	
		No	%	No	%	No	%
1.	Tax administration	18	90	2	10	20	100
2.	Tax expert/policy makers	17	85	3	15	20	100
3.	Tax payers	18	72	7	28	25	100
	Total	53	81.54	12	18.46	65	100

Source: Opinion Survey,2012

From the above table it is clear that the 81.54 percent of respondents were in favor of question therefore the contribution of income tax from Nepal telecom to government revenue is satisfactory.

#### **4.4.8 Attitude Towards Income Tax Administration of Nepal**

It is said that income tax administration of Nepal is not efficient. To know whether the tax administration of Nepal is efficient or not, a question was asked. "Do you think that income tax administration of Nepal is inefficient ?" The responses received from various respondents are tabulated as follows.

**Table 4.4.10**

#### **Attitude Towards Efficiency of Income Tax Administration of Nepal**

S.N.	Respondents	Yes		No		Total	
		No	%	No	%	No	%
1.	Tax administration	15	75	5	25	20	100
2.	Tax expert/policy makers	18	90	2	10	20	100
3.	Tax payers	20	80	5	20	25	100
	Total	53	81.54	12	18.46	65	100

Source: Opinion Survey, 2012

From the above table it is clear that income tax administration of Nepal is efficient most of the respondents (i.e. 81.54%) though tax administration of Nepal is inefficient.

In order to know the causes of inefficient income tax administration of Nepal, the next question was asked, "What are the causes for inefficient income tax administration of Nepal ?" The respondents were requested to rank their answers from 1 to 7 scales, Table 4.4.111 gives a breakdown of responses.

**Table 4.4.11**  
**Causes of Inefficient Income Tax Administration of Nepal**

S.N	Major Cause	Group			Total points	%	Rank
		I	II	III			
1	Lack of trained and competent personnel	68	92	73	233	16.77	1
2	Complicated tax laws and policies	55	84	87	226	16.27	2
3	Lack of proper communication and direction	64	88	75	224	16.13	3
4	Lack of coordination with in the tax department	51	68	59	178	12.81	6
5	corruption	43	86	89	218	15.69	4
6	Lack of public participation	70	42	80	192	13.82	5
7	Unnecessary political pressure	47	36	35	118	8.50	7
Total					1339	100	

Source: Opinion Survey,2012

The major causes of inefficient income tax administration of Nepal were ranked in order 0 the preference of respondents as follows:

1. Lack of trained and competent personal.
2. Complicated tax laws and policies.
3. Lack of proper communication direction.
4. Corruption
5. Lack of public participation
6. Lack of coordination with in the tax department
7. Unnecessary political pressure.

#### **4.4.9 Major Findings of the Study**

1. The major causes of inefficient income tax administration in Nepal were lack of trend and competent personal, complicated tax law and lack of proper communication.
2. On the basis of attitude or respondents, the income tax in Nepal is efficient.
3. The contribution of tax and non tax revenue to total revenue were 78.32 percent and 21.68 percent respectively.
4. The contribution of direct and indirect tax revenues to total revenue of Nepalese government were 24.28 percent and 79.72 percent respectively.
5. The percentage contribution of tax revenue to GDP during study period was 9.91 percent.
6. The contribution of corporate income tax to GDP and total revenue were 1.05 percent and 8.14 percent respectively.
7. The contribution of corporate income tax revenue from public enterprises to GDP and total government revenue were 0.37 percent and 3.02 percent respectively.

## **CHAPTER - V**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Summary**

Every government requires sufficient revenue to carry out development plans, handle day to day administration, maintain peace and securities and lunch other public welfare activities. In each country, a lot of fund is spent by public authority or the protection of common people and creation of various socio-economic infrastructures, protection expenditure includes the purchases of arms and immunities, army and police expenses and administration of jails. The government activities are increasing day by day because of demand of time, increasing price and national income. The government collects revenue from various sources such as tax revenue from public enterprises, social assessment, fees, fine, grants and assistance, income tax from other sources etc. Among them, tax in the main source of government revenue.

Nepal has been suffering from capital shortage to accelerate the economic growth. The expenditure of Nepalese government is increasing year by year. To meet the additional capital requirements, Nepalese government can use internal and external resources. Internal resources are preferable for sustainable economic development; Nepal has been unable for proper mobilization of internal sources. Therefore, fiscal deficit of Nepal has been increasing.

Income tax should play important role to solve the problem of fiscal deficit. But, in Nepal actual collection of revenue through income tax is lower then its estimated forgets. It is so because of the poor tax paying habit of Nepalese taxpayers, poor tax administration system and

wide spread evasion of income tax. Income tax is a direct tax. It is annual tax charged by the government at the rate prescribed in income tax Act.

In Nepal, income tax appeared only 1959/060 in the form of business profit and remuneration tax. Income tax act intruded a comprehensive income tax 1962. TA 2002 also replaced the 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 an income tax from investment.

In the fiscal year 2003/04, contribution of income tax from public enterprises to government revenue was 4.10 percent. In year 2011/12. It was 0.77 percent similarly, in corporate tax, public enterprises has covered average 33.12% in their year 2003/04, the share of corporate income tax from public enterprises was 44.10 percent and its share has decreased to 9.47 percent in FY 2011/12.

In total income tax revenue from public enterprises, Nepal Telecom has contributed highest. Nepal Telecom has covered 43.90 percent share of total income tax revenue from public enterprises in FY 2003/04.

The main objective of the present research is to study the structure of income tax and its contribution from public enterprises to government revenue of Nepal with reference to Nepal Telecom. As per the nature of the study secondary as well as primary data were collected, tabulated and analyzed. Descriptive and analytical research designs have been followed in this study.

## 5.2 Conclusions

Data of MOF/ Nepal shows that the deficit is increasing which is not desirable for an economy. Thus, it is more essential to mobilize the internal revenue to the optimum level. The study shows the contribution of tax revenue is about 75.72% and non tax revenue was about 24.28% in the study period.

The government revenue is the compulsion of internal and external revenue. Internal revenue includes both tax revenue and non tax revenue. Among tax and non tax revenue, there is dominant share of tax revenue in Nepalese total government revenue; its contribution to total revenue was 77.19% in 2011/12. It shows the contribution of tax revenue is in increasing trend.

Total tax revenue is the composition of direct tax and indirect tax. The contribution of indirect tax revenue to total tax revenue was 74.62% in 2003/04 and it was 73.74% in 2011/12. But the contribution to direct tax was 25.38% in 2003/04 and it was 26.26% in 2011/12. The share of direct tax is in increasing trend but not in satisfactory level.

In fiscal year 2003/04, the total tax to GDP ratio was 8.11% and it was 10.44% in 2010/11. Though tax revenue share in GDP is increasing, the rate of growth is not significant.

The contribution of income tax/GDP, income tax/total revenue and income tax/total tax revenue ratios were 1.87% 16.56% and 21.46% respectively in FY 2003/04 and these were 2.18%, 16.46% and 20.25% in FY 2011/12. It shows that the income tax revenue is in increasing trend.

The contribution of income tax from public enterprises to GDP government revenue, total tax revenue, total income tax and corporate tax were 0.46%, 4.10%, 5.31%, 24.74% and 44.10% in FY 2003/04 and these were 0.10%, 0.77%, 0.59%, 4.55% and 9.17% in Fy 2011/12 it shows the decreasing trend of income tax from public enterprises.

There are problems in income tax system in Nepal, due to the complexity in income tax act, rules and regulations lack of consciousness of tax system in Nepal. Due to the complexity in income tax act, rules and regulations lack of consciousness of taxpayer, inefficient income tax administration, increasing habit of tax evasion and inadequate economic policy.

There are problems in income tax system in Nepal, due to the complexity in income tax act rules and regulations lack of consciousness of tax system in Nepal. Due to the complexity in income tax act, rules and regulations lack of consciousness of taxpayer, inefficient income tax administration, increasing habit of tax evasion and inadequate economic policy.

There is also the problem of tax administration. It is because of lack of trained and competent personnel, complicated tax laws and policies lack of proper communication and direction, corruption, lack of public participation, lack of coordination with the revenue department.

### **5.3 Recommendations**

Based on the major conclusion in this study some recommendations are explained below:

1. The government should provide incentives for regular taxpayers and they should be awarded. The regular taxpayer should get benefit from government.
2. The tax system should be practical and effective. It should match the national economic condition. It would be equally beneficial to the people.
3. Income tax management has lengthy process of income tax assessment. The taxpayer never wants lengthy and time consuming process of assessment. That is why; management has tried to make it faster a short process of income tax assessment.
4. The government should increase the base of tax but not tax rate to increase the government revenue.
5. For the conveniences of taxpayer the existing exemption limit should be adjusted according to inflationary situation of the economy.
6. To solve the problem existed in Nepalese income tax system, following recommendations are made:
  - ) Income tax act, rules regulation should be clear and simple for all the taxpayers as well as for tax officers and tax inspectors.
  - ) There should be appropriate, adequate economic policy an efficient income tax administration.
  - ) The tax evasion should be minimized and government should reduce the poverty.
  - ) The assessment and collection provision should be made clear and simple.
  - ) There should compulsory provision of audition.

- ) Training management development programs should be conducted regulatory the personnel should get incentives.
- 7. The following recommendation are made to improve income tax administration.
  - ) The assessment should be made easier and faster.
  - ) Personnel management should make easier and faster.
  - ) Proper direction and communication should be provided to taxpayer and officers.
  - ) Corruption should be minimized and department should be free from political pressure.
- 8. The following recommendations are made to make satisfactory condition of income tax from PEs
  - ) There should be proper responsibility and accountability.
  - ) The management team should be appointed among the professional but not from political persons.
  - ) They should be free from political pressure to make the decision.
  - ) There should be better performance of PEs.
  - ) Weaknesses of government economic policy should be avoided
  - ) Corruption should be minimized in PEs.
- 9. To fulfill the resource gap of economy, income tax must be imposed to land owners and property owners who have high-income.

In Nepal, income tax system is facing a lot of problems. It above mentioned suggestions are recommendation are managed in time and

implemented properly, the problems can be solved in some extent and the income tax will lead to substantial increase revenue.

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## APPENDIX - I

### QUESTIONNAIRE

Name :

Position :

Name of the office :

Dear Sir/Madam,

Please tick ( ) the answer of your choice or wherever appropriate put in order of preference from 1 to last number on the basis of number of alternative. Number 1 stands for the most important and the last number for the least. I assure you that this information furnished by you will be used only for the their work.

1. Do you think that the income tax as suitable means of rising government revenue ?  
Yes  No
2. Do you think that public awareness program is necessary in Nepal for rising government revenue ?  
Yes  No
3. Do you think that there are problems in income tax system of Nepal ?  
Yes  No
4. If yes, what are the major problems in income tax system of Nepal?  
(Please rank 1-5)
  - i) Complexity in income tax act rules regulations.
  - ii) Inadequate economic policy.
  - iii) Inefficient income tax administration.
  - iv) Lack of consciousness of tax payers.
  - v) Increasing habit of tax evasion.

5. What should be the specific objective of income tax imposition for public enterprises in Nepal ? (Tick one)
- i) Top meet the revenue requirement of government.
  - ii) To promote the regional development.
  - iii) To reduce the gap between poor and richer people through employment.
  - iv) To redistribute the national income.
6. Do you think that the contribution of income tax from public enterprises to government revenue is in satisfactory level ?
- Yes  No
7. If no, what are the causes of unsatisfactory contribution of income tax from PEs to government revenue ? (Please rank 1-5)
- i) Defective income tax.
  - ii) Poor performance of public enterprises.
  - iii) High corruption in public enterprises.
  - iv) Over staffing and political pressure.
  - v) Weakness of government economic policy.
  - vi) If others, please specify.
8. Do you think that contribution of income tax from Nepal Telecom to government revenue is satisfactory ?
- Yes  No
9. Do you think that income tax administration of Nepal is inefficient?
- Yes  No
10. What are the causes for inefficient income tax administration of Nepal ? (Please rank 1 to 7)
- i) Lack of trained and competent personnel.
  - ii) Complicated tax laws and policies.
  - iii) Lack of proper communication and direction.

- iv) Lack of coordination with the tax department.
- v) Corruption.
- vi) Lack of public participation.
- vii) Unnecessary political pressure.

11. If any comment and suggestion.

Please specify

.....

.....

.....

.....

.....

Thank you for your kind co-operation

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## Appendix - II

### Forecasted value of Tax Revenue Calculated by using Least Square Method of Time Series

Here actual Tax Revenue Time is Expressed by  $Y = a + bx$  Expected

Where, Y = Expected Tax Revenue

X =- Time (year)

Fitting straight line trend by using least square method from 2003/04 to 2011/12.

Fiscal Year	Tax Revenue (y)	X = (x - mid value as year or 5)	X <sup>2</sup>	XY
2003/04	28752.9			
2004/05	33152.2			
2005/06	38865			
2006/07	39330.6			
2007/08	42586.9			
2008/09	48173.27			
2009/10	54104.7			
2010/11	57430.4			
2011/12	70046			
	$\phi Y =$ 412442.01	$\phi X = 0$	$\phi X^2 = 60$	$\phi xy =$ 277329.07

Substituting the value in Trend line equation.

$$Y = a + bx$$

Where,

$$A = \frac{\phi Y}{N} = \frac{412442.61}{9} = 45826.89$$

$$B = \frac{\phi XY}{\phi X} = \frac{277329.07}{60} = 4622.15$$

### APPENDIX - III

For showing the relationship between two variable, simple correlation model is used, which is mentioned below:

Let two variables  $x_1$  and  $x_2$ ,

Then,

$$\text{Correlation (r)} = \frac{n\sum x_1x_2 - \sum x_1\sum x_2}{\sqrt{n\sum x_1^2 - (\sum x_1)^2} \sqrt{n\sum x_2^2 - (\sum x_2)^2}}$$

Where, n = number of years