

**PROVISION OF CAPITAL GAIN TAX AND
IT'S IMPACT ON NEPALESE STOCK MARKET**

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RECOMMENDATION

This is to certify that the thesis

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IT'S IMPACT ON NEPALESE STOCK MARKET**

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DECLARATION

I hereby declare that the work reported in this thesis entitled “**Provision of Capital Gain Tax and it’s Impact on Nepalese Stock Market**” submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Prof. Dr. Kamal Deep Dhakal** and **Joginder Goet** of Shanker Dev Campus, T.U.

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ABBREVIATIONS

A.D.	:	After Death of Christ
ADB	:	Asian Development Bank
ATS	:	Automated Trading System
B.S.	:	Bikram Sambat
etc.	:	Etcetera
FY	:	Fiscal Year
GDP	:	Gross Domestic Product
i.e.	:	that is
IRD	:	Inland Revenue Department
IT Act	:	Income Tax Act
ITA	:	Income Tax Act
Ktm.	:	Kathmandu
Ltd.	:	Limited
MoF	:	Ministry of Finance
NCM	:	NIDC Capital Market
NEPSE	:	Nepal Stock Exchange
NG	:	Government of Nepal (Nepal Government)
no.	:	Number
NRB	:	Nepal Rastra Bank
NRN	:	Non-Resident Nepalese
OTC	:	Over the Counter Market
Rs.	:	Nepalese Rupees
S.N.	:	Serial Number
TDS	:	Tax Deduction at Source
TU	:	Tribhuvan University
VAT	:	Value Added Tax
Vol.	:	Volume

CHAPTER - I

INTRODUCTION

1.1 Background

Nepal is one of the emerging trends in developing country. Whereas huge number of the population is depending upon a traditional agriculture process. So, Nepalese economy is an agro-base developing economy. Instead, since some years ago, many different industries are being established with high intention of providing major contribution in development, utilizing the domestic resources and providing satisfactory employment opportunity to the skilled manpower and to other unemployed. As well as export & import and tourism, are also doing best in the economy. It contributes to enter foreign currency as remittance and promoting the domestic products in international market.

Indeed, our economic sector is almost depending upon agricultural production and distribution. But also the farmers are using traditional techniques and approaches to produce agro-products, even at now, compatible modern era. So that's why, day-to-day consuming foods could not supply as far as demand. The firms, companies, organizations, are unusually has been declared to abandon their productions and services randomly because of increasing political crisis uncertainly day after a day. Therefore, in huge number of Nepalese investors (i.e. small or large), multinational companies are migrating their capitals and livelihood to another country. Obviously, it is creating lack of employment opportunity to the whole nation. In such a way, Nepalese are also migrating in different foreign countries for the purpose of seeking jobs. As we know exporting helps to boost-up the economy but it depends upon some textile and agro-products goods almost. Such as pashmina, knit carpets, some valuable agro-products, garment textile products etc. but importing goods are vehicles, industrial heavy equipment, computers, construction equipment etc. whose costs are too much higher than our exporting goods. Therefore, it has huge gap between inflow and outflow of the capital. of course, it could create accidental economic crisis in future.

Therefore, to prevent such vandalism economical crisis in future, only the government could play essential and strong role to maintain prosperous in the country. Because the government is a huge union organization of the country, who develop different plans, procedures, policies, rules and regulations etc. to handle or to control the overall activities of citizen, non-citizen as well as to provide benefits to their citizen's welfare. And their responsibility is to

implement the table work into the field. Such as development plans, handle day to day administration, maintain peace & security and launch other public welfare activities etc., to accomplish such public welfare job onto the action requires sufficient resources. For those requirements, the government collects the sufficient resources mainly from the two sources, they are:

- Debts, and
- Revenue

The debts are collect from internal and external sources. Where as, the internal debts are collected by issuing Treasury Bills, Development Bond, Citizen Saving Debt Bond etc. are for native citizens only. The external debts are collected by taking loans from Asian development bank (ADB), World Bank, Foreign Aids, Grants and Loans from different sources etc. And the government collects revenues from the various sources such as tax, revenues from the public enterprises, special assessment, fees, fines, grants and assistance etc. Among them, tax is the main source of government revenue.

Let us, understand simply about tax and its sources;

In general, tax can be defined as levy or other type of financial changes or fee imposed by state or central government on legal entities or individuals. It is a compulsory levy from individuals, households and firms to central or local government. It is a kind on money of which it is the legal duty of entire citizen of the country to pay honestly. It may be levied on income, property and even at the time of purchasing a commodity. Tax is computed and paid as prescribed in the law. Taxation can be considered as a convenient method of raising revenue which in turn is linked with the welfare of their citizen directly or indirectly. Basically taxation is an approach to flow the messages of morality, honesty towards the citizen and to build up the nation progressively.

“A compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefits” (Bhattarai & Koirala, 2004:1.3).

“Taxes are general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefits upon the resident of the states” (Bhattari & Koirala, 2004:1.3).

From the above, identification and definitions, we can define tax as a compulsory contribution made by taxpayers to the government without having any direct personal benefits.

After identifying about tax clearly, let us find tax sources, they are as follows;

- Direct tax, and
- Indirect tax.

A direct tax is a tax paid by a person on whom it is legally imposed. In direct tax, the person paying and bearing tax is the same. Examples are: income tax, property tax, vehicle tax, interest tax, expenditure tax etc.

An indirect tax is a tax imposed on one person but partly or wholly paid by another. In indirect tax, the person paying and bearing the tax is different. Examples are: VAT, sales tax, entertainment tax, hotel tax, excise duty, import and export duty, etc.

1.2 Focus of the Study

Income tax is collected from various sources of profits incomes. Under the Income Tax Act 2058 many sources of governmental revenues are being defined properly such as revenue collected from public enterprise, semi-public enterprises, private corporate bodies, employees income tax, income tax on investment, etc. And they are contributing in developing the country according to plan and process. So far as the topic is concerned with the “Provisions of Capital Gains Tax”. But instead of different sources of income tax, capital gain tax is a part of it & comes under the title of income from investment and also has its own provisions and contribution into the country.

The Major focus of the study are as follows:

- Provisions of Capital gains tax which is provided by Income tax Act, and Nepalese stock market behavior & to know the impact of Provisions of Capital gains tax on it.

- Effective of Capital gains tax as being reliable instrument for economic development and growth of the country.
- Understanding views of investors, (i.e. Individual, Institutional), tax experts, brokers etc. towards the provisions of Capital gains tax, provided by Income tax act, 2058.
- Identifying some provisions that are beneficial to government and to investor too.
- Structure of government revenue in tax.
- Contribution of capital gains tax in the government's revenue collection.
- Strong, weakness and problems etc. of the regulations and legal & regulator gaps.

In contrast, this study is focus on analyzing the problems and finding measures to overcome the problems associated with capital gain tax. The problems which are making at trouble, to new comers to invest and suffering debate to invest at high amount and continuously, due to of miserable conditions of country.

Therefore, this study is focusing under the topic, the provision of capital gains tax. So, some meaning about capital gain tax and its provision are given below;

Generally, capital gains (losses) means any profits on gains (losses) arising from transfer of capital assets. It is a gain / loss arising from the disposal of capital assets. But actually, it is the difference between the purchase price (outgoings) and selling price (incomings) of capital assets.

Capital gains except from disposal of business assets of an individual not brought into tax net. In case of other taxpayer, capital gains has included under the heading of other source income. On the other hand, capital losses of similar nature not allowed for deduction. Such diverse treatment has avoided confusion. Income tax act, 2058 has avoided these confusions. The act has treated depreciable assets and non-business chargeable assets as capital assets and gains realized from disposal of such assets as capital gains.

1.2.1 Provisions of Capital Gain Tax

- The act has introduced capital gain tax. However, the Act does not cover all such gains i.e. only those gains, which are received from the disposal of business assets or liabilities and those from the disposal of non-business assets of an investment of a person, which are regarded as chargeable and will be taxed accordingly.

- Business assets comprise assets to the extent to which they are used in a business. Non-business chargeable assets mean securities or an interest in an institutional as well as land and buildings. Both definitions exclude depreciable assets or trading stock. Not included in non-business chargeable assets are also private residences of an individual owned and lived in continuously for 3 years or more if they are not disposed of for more than Rs.10 million. Since profits and gains are different bases of taxation they need to be calculated separately.
- The tax is imposed on the net gains, which are the total gains minus the total losses including unrelieved losses for the current income year and those from a previous income year, which thus can be carried forward forever. Gains and losses are defined as the difference between incoming and outgoing for the asset or liability.
- Assets which are classified under the provisions of capital gain tax, only Non-business chargeable asset is only the main function of this study. As well as under the classification of non- business chargeable assets, stock market (i.e. securities) is the main curriculum of this study.

1.2.1.1 Non-Business Chargeable Assets (Stock Market)

According to the section 2 (da) has defined non-business chargeable assets as land, building, interest in an entity and securities. So the inclusive list of non-business chargeable assets covers land, building, shares of a company, ownership of an entity, debenture, bonds, and other securities. So, net profit from the disposal of these assets is beyond the purview of income tax.

1.3 Statement of the Problem

Financial status of each and every country affects by the economical policy & strategy and its implementation program of the national government. Due to of effective implementation towards act, it could be possible to grab the opportunity of developing the country. At first tax and non-tax revenue, collection would constitute to the country's welfare. Many sources of collecting revenues are including under the national total revenue. Instead of many sources, capital gain tax (10%) has playing essential role to arise the national revenue every year, due to of increasing public desire to invest in equity assets to gain huge amount of return from the market.

Therefore, people are highly enthusiastic to invest for the high return, such as in stock market, land and building, debentures, bonds, and other securities. So that's why, in the fiscal year 2008/09, the NEPSE index raised around 1200 point, which is highest recorded ever in Nepalese stock market history. Similarly, the capital of Nepalese market also rising highly. Fruitfully, the government is also able to collect huge amount of revenue as capital gain tax. It shows that people are highly motivated to invest their limited capital for the high return.

In contrast, it is good of increasing the governmental revenue but the government could not provide any alert-intention and serious towards the stock market development. Government of Nepal has not deliberating positive role to develop the area of stock market. Because this market is largely depend upon the government's positive co-operation and co-ordination too. For example in Fiscal Year 2008/09, government has introduced new capital gains tax (i.e. 15%), which is 50% higher rate than of previous year's. Similarly, unstable political crisis such as, bandha, chakka-jam, major parties' national strikes and other unusual activists etc. are major causes that affect at Nepalese stock market, which creates the doubts in the economic stability.

Provisions that are available or introduced in the Income Tax Act, 2058 are not sufficient. Because it could not meet the global standard, where it does not attract the foreign investment and internal investors' are not willing to invest in the stock market. So, some provisions such as Short-term & Long-term capital gains tax provision, exempt or deduction on the behalf of individual or institutional investors respectively on the different circumstances as well as there is no any clarity regarding the write off of Capital losses incurred. Therefore, the attractive provisions should be introduced recently, to change the economical position of our country.

Monetary policy also has direct influence into the security market, so it cannot be deny or separate. Because monetary policy plays a decisive controlling function to avoid artificial rigging in stock prices to save investors from the of gambling-tendency speculators. But due to the lack of effective regulation, supervision, and implementation and due to changes of policy every time period, it has been causing negative influence to investors.

Therefore, governmental policy and strategy should be stable and hygienic. Government's job is not always to collect revenue by increasing the taxes rate changing the policy but also to

solve the problems and to implement the act effectively into the field to manage the economical activities in the country. And government have to launch many different new and scientific provisions that could attract foreign investment and internal investment into the country's welfare. Government have to play positive supportive role for the development of stock market because without the support of governmental hand there is no any simple possibility on the economic growth of the country and of stock market too. Again, I want to enforce that, government should implement the act effectively and have to play supportive role, then only it could bring good results in future and vise-versa.

1.4 Objectives of the Study

According to the Income Tax Act 2058, the taxes are collected under the different sources by government. And they have their own scope of objectives. So, the objectives of capital gain tax has also it's own identity into the national welfare.

Therefore, the main objectives of the study are as follows;

- To review and analyze the Provisions of Capital gains tax which are provided by the Income Tax Act 2058.
- To analyze the contribution of capital gain tax to National revenue.
- To find out the impact of capital gain tax on stock behaviour of Nepal.
- To support and recommend the study.

1.5 Limitations of the Study

The limitations of this study, which can be outlined below;

- Most of the data, information and findings used in this study are based on secondary sources.
- This study has been limited by the non-availability of the data.
- Reliability of the secondary data has not been tested.
- Tax planning and tax avoidance are not taken in to consideration in this study.
- This study is based in capital gain tax but the main research is deal with stock market of Nepal and its related norms.
- It has been concentrated only on the investors who do involve into the stock market and contributed in national income by paying tax as a capital gain tax.

1.6 Organization of the Study

The whole study has organized into five chapters which are:

Chapter I- Introduction

In the first chapter of the study contains, Background information, Focus of the study, Statement of problem, Objectives of the study, Limitations of the study and Organization of the study.

Chapter II- Review of Literature

The second chapter will be about the review of the literature; Review of related books, Review of reports & articles, Preview of research works have been viewed for this study and Research gap of this study has to be concluded in this study.

Chapter III- Research Methodology

The third chapter will be about research methodology. In this chapter, research design, population and sample, nature and sample of data, data gathering procedure, data processing procedure and analysis of data, weight of choice and weight of respondent have been described.

Chapter IV- Presentation and Data Analysis

The fourth chapter is major part of the study that will be of presentation and data analysis. This chapter consist, analysis of secondary data and analysis of primary data (i.e. Opinion Survey) for the purpose of finding main result of the study; so it is the main part of the research. Therefore, in this chapter we can find, Revenue Structure of Nepal, Structure of Tax Revenue in the Nepal, Structure of Capital Gains Tax, Contribution of Capital Gains Tax into the Different head of Revenue Collection in Nepal, Comparative Summary Sheet of Securities Transaction with Previous Years and Empirical Investigation. And Major Findings is the overall findings of the study. Such as Major Findings on the basis of Secondary Data Analysis and Major Findings from Empirical Investigation.

Chapter V- Summary, Conclusions and Recommendations

The last chapter; fifth chapter will be concerned with findings, summary, conclusions and recommendations.

Appendix and bibliography will be presented in the last part of the study.

CHAPTER - II

REVIEW OF LITERATURE

The review of literature is to study the related books and other materials concerning with research's topic. It helps to research, to know what has been found about the topic and what new contribution can be made. Review of Literature is important because it provides the foundation for developing a comprehensive theoretical framework from which hypothesis can be developed for testing.

2.1 Conceptual Framework

Money is very much essential to runs government bodies and money that activates the unit of organization. Government collects money as revenue from different sources like incomes tax, price of goods and services provided by government revenue can divided into two part i.e. tax and non-tax.

Tax is major sources covering most part of the government revenue. It is a type of money paid by every citizen of the nation. Almost all the economists agree that tax is a compulsory duty to pay to the government without any expectation of some specified return.

2.1.1 Concept of Tax

The government of any country needs sufficient money to lunch the development programs, to handle the daily administration, to keep peace and security and to lunch other welfare programs. When there is no money; no departments or lower level offices of the government work as the parts of the body stop working when there is no blood circulation. The government collects revenue from different sources like tax, price of goods or services provided by the government, receipt from public enterprises, fees, fines, grants etc. In short, all the sources of the government revenue can be divided into two parts- tax and non-tax. Tax is the major source covering most part of the government revenue.

Tax is a compulsory payment to the government. Taxpayers do not get any direct benefit from the state by paying tax. Tax is not a fine. Government collects tax with the permission of legislature to fulfill financial needs of the state. Tax is a compulsory payment to government for the compensation of public expenditures.

Tax fulfills the needs of central work. The main objective of tax is to distribute wealth and income equally. Mainly, tax is classified in two groups. They are direct and indirect tax respectively.

Tax is a kind of money of which it is the legal duty of every citizen of a country to pay honesty. Many economists are of the view that the tax is a compulsory payment to the government by taxpayer without any expectation of some specified return.

"Tax is general contribution of wealth levied upon persons, natural or corporate to defray expenses incurred in conferring common benefit upon the residents of the states" (Dhakal, 2002:2).

"A compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all without reference to special benefit conferred"(Bhattarai & Koirala, 2004:1.3).

"A tax is compulsory payment to the government without expectation of direct benefit in written to the tax payers" (Pokharel, et al., 2004:3).

"Tax is compulsory contribution to public authorities to meet the general expenses of the government which have been incurred for the public good and without reference to special benefits" (Lekhi, 2001:46).

From the definitions given above, it is clear that a tax is a compulsory levy and those who are taxed has to pay it without getting corresponding benefit of services or goods from the government. Taxpayer does not have any right to receive direct benefit from the tax paid. The taxpayer cannot receive equivalent benefit from the government. Amount collected through taxation is spends for common interest of the people and it is collect from natural and artificial person.

Many economists have classified taxes into several categories but the major categories of taxes may be direct and indirect taxes. If a person has to pay directly the tax liability to the government, such tax is known as direct tax. A direct tax is really paid by the person on

whom it is legally imposed. The taxpayer cannot collect tax from other persons. Income tax, Gift tax, interest tax, property tax, vehicle tax, house and land tax, and contract tax are some example of direct tax. Direct tax is paid according to the income or property earned by a person. So it is found equal with and property. Direct tax has a quality of certainty, the taxpayers are informed about the amount, time and procedure of payment. Taxpayer can easily estimate his tax liability. The government can easily increase or decrease according to proper economic situation of the country. Taxpayers pay tax from their own property, so they conscious about their contribution.

An indirect tax is imposed on one person but paid partly or wholly by another. The examples of indirect taxes are customs, exercise, value added tax etc. indirect tax is transferable. People pay tax when they receive or consumed goods or services. Therefore they don't feel burden to pay lump sum. There is mass participation because every person who receipt goods and services, pay tax Indirect tax is flexible. Indirect tax rate can be change at higher percent to discourage the harmful goods.

There is uncertainty above the collection of indirect tax. Every person either rich or poor pays equal amount of tax on receipt of goods or services. Therefore, it seems as regretful for poor person. If tax imposed on higher rate, consumption reduces and also effects badly on production and employment.

In classical economics, tax was taken as an extra burden to the people and the economists were in the fervor 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 revenue. Income tax is a direct tax. In case of Nepal, income tax is the major source of direct tax revenue.

2.1.2 Classification of Tax

There are mainly two types of tax, they are given below, as follows;

- Direct tax, and
- Indirect tax.

2.1.2.1 Direct Tax

The direct tax on whom it is legally imposed cannot be transferred to others i.e. in direct tax the person paying and bearing the tax is same."A direct tax is really paid by the person on whom it is legally imposed" (Amatya, 2060:2).

Some of the examples of direct taxes are as follows:

- Income tax,
- Property tax,
- Vehicle tax,
- Interest tax,
- Expenditure tax,
- Death tax,
- Gift tax, etc.

Advantage of Direct Tax

The advantages of direct tax are as follows:

- In the direct tax, contribution in tax on the basis of his earning so it is certain
- Since the tax payers know his contribution in the tax his consciousness increases to the expenditure of the government.
- Tax rates are classic and can be adjusted as per the fiscal requirement of the country when there is need of more revenue government can impose high is low the tax rate can be minimized.

Disadvantage of Direct Tax

The disadvantages of direct tax are as follows:

- Mental pinch to the tax payers due to curtail down of their incomes and properties.
- Taxes should be paid in advance on the estimation of the future income. Tax rate is also higher than indirect tax so tax payers feel inconvenient
- The tendency of the tax evasion increase in the direct tax system because no one want to cut down his or her incomes without the corresponding benefit
- The tax payers are limited in direct tax so the direct tax lacks mass participation.
- Most of the earning have to pay to government in the form of the direct tax. So, it discourages saving and investment.

2.1.2.2 Indirect Tax

The indirect tax on which it is legally imposed can be transferred to other, which means in direct tax the person paying and bearing tax is same.

"An indirect tax is imposed on one person but paid partly or wholly by another" (Amatya, 2065).

Some of the examples of indirect taxes are:

- Sales tax,
- Entertainment tax (Vat),
- Value added tax (Vat),
- Excise duty,
- Hotel tax,
- Export and import duties, etc.

Advantages of Indirect Tax

The advantages of indirect tax are as follows;

- Indirect tax is convenient to pay. It is charged services consumed by the consumers taxes are included in the price of goods and services so the tax payers do not feel that they are paying taxes.
- Each and every consumer has to pay taxes while consuming the goods and services. So, there is mass participation of the tax payers in the indirect tax system.
- Indirect tax is important tool for the checking of the consumption of the harmful goods and services by imposing the higher tax in the consumption of the harmful products like liquor, tobacco etc. can be reduced.
- In the direct tax the change of the tax exaction is very much lower in compare to the direct tax because even the tax payer does not feel that he is paying tax.
- Indirect tax is elastic in nature. In is an important tool of the government to apply its fiscal policy.

Disadvantage of the Indirect Tax

The disadvantages of the indirect tax are as follows;

- There is uncertainty of government revenue from indirect tax variation of demand in goods and services differ the government revenue.
- It is not equitable to leave taxes on basic goods because the haves are not able to pay taxes in comparison to have-nots.
- Indirect taxes have bad effect on consumption, production and employment because higher tax increases the cost of goods and services. As a result, consumption decreases and industries slowly begin to decline, employment decreases and ultimately the economy of country declines.
- Consumers do not know that they are paying taxes. So, they lack consciousness regarding the use of the public revenue.
- The agent may not be loyal to the government. Thus, there may be the change of consumer exploitation.

2.1.3 Objectives of Tax

Tax is the major source of revenue of government. Today, in every developed and developing country government should be required large amount of fund for public expenditure. Public expenditure is accelerating due to the following reasons:

- To meet the requirements of their increasing population.
- To take up development work in addition to their traditional work administration and defense.
- To pay the increased price of commodities.
- To maintain security internally and externally.
- To provide large variety of services and facilities to the public.
- To provide social insurance, unemployment relief, free medical aid, subsidized food and housing, free education etc.

The expenditure of the government differs with the situation of a given country. A developing country like Nepal spends most of its revenue in the creation of basic infrastructure of economic development whereas an affluent nation like USA spends in research and development. As the public expenditure increases the revenue of government must be increased in order to balance the economy.

The expenditure is divided mainly regular budget and development budget. The development budget is related to the development work, i.e. building infrastructure in the country while the regular budget is related to the civil administration and the defense of the country.

We have already stated that government revenue includes different tax revenue and non-tax revenue. Under tax revenue income tax is a major part of direct tax. In ancient times, the major objective of taxation was strengthening the muscle of the state by providing the resources. Till to the time of Adam Smith, the chief motive of collecting the revenue was to provide resources to the government for providing security to an individual and society against violence, invasion and injustice and maintaining public institutions.

The main objectives of tax are:

To raise more Revenue

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

To prevent Concentration of wealth in a few hands

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

To reduce Economic Inequalities

The government levies tax on have and spends or mobilize it to improve the economic condition of have not. From which the economic inequalities will be reduced.

To boost up the Economy

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

To Encourage Production of Essential Goods

Tax policies provide different special provisions and incentives and facilities to the entity and the natural person producing the essential goods so as to encourage their production.

To reduce Unemployment

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

To Remove Regional Disparities

The government provides tax exemptions, rebates and concessions to those industries which are operated in the backward and remote areas. As a result, the person attracts to perform economic activities in these areas. The infrastructure which is needed to perform business activities gradually arises. Regional residences become employment. Thus, regional imbalance will be removed.

2.1.4 Canons of Tax

a) Canon of Equality or Equity

This canon says that high earners should be imposed higher tax and low earners imposed low tax rate. Tax policy should not be discriminating the persons having equal income.

b) Canon of Certainty

Taxpayers should feel certainty regarding time, place, tax amount and procedure for payments of taxes.

c) Canon of Convenience

Tax system should be simple so that ordinary people can easily understand and follow it. Time, procedure and place of tax should be convenient to the taxpayers.

d) Canon of Economy

Collection amount of tax should be higher than the expenses to collect tax. The entire amount collected from tax should be used for the welfare of people.

e) Canon of Productivity

Amount collected from tax should be utilized by the government in productive sector of the economy so that the taxpayers can see the utilization of their hard earned money as taxes.

f) Canon of Elasticity

Tax rate can be easily changed by the government as requirement. Instead of being rigid, tax rates should be made flexible as per the changes in taxpayers' income, properties, and transactions.

g) Canon of Diversity

Tax rate should be diversified in different area. Tax should not be depending on single tax.

h) Canon of Simplicity

Tax system should be easily understood by general people. The tax payment procedure should not be too lengthy.

i) Canon of Neutrality

It means the tax should not affect the economic sector of economy. Tax system should not only focus on collecting more revenue but also take care the effect in the economy.

2.1.5 Historical Development of Income Tax Laws in Nepal

Great Britain is the first country in the world to introduce modern income tax. The objective of imposing income tax is to fight with France. Britain introduced income tax in 1799 A.D. USA also introduced income tax in 1862 A.D. to generate revenue to finance civil war. On the beginning, income tax was levied as per the need but since 1860 and 1913 taxes were collected regularly. Income tax Act was published in 1886 A.D. and this tax was collected regularly since then. Italy and New Zealand introduced income tax since 1864 and 1891 respectively. In India, while income tax in its modern form was adopted in 1860, several experiments were made from 1860 to 1866 and finally the systematic income tax legislation was enacted in 1886.

Since World War first, the developed countries of the world had adopted income tax as a major source of public revenue. In the beginning period, income tax was collected at a flat rate. But after 1909, progressive rate was adopted. In today's world, progressive rate is preferred to flat rate.

The practice of modern income tax in Nepal is not very long. The idea of introducing income tax in Nepal originated in 2007 B.S. when a multi-party democratic political system was introduced. The then Financial Minister in his budget speech declared the intention of the government to levy an income tax. His Majesty's Government issued Finance Act, 2016 so as to levy income tax on business profits and remuneration incomes. For the assessment and collection of taxes, „Business, profit and Remuneration Tax Ordinance, 2016 was issued. In 2017 B.S., „Business, Profit and Remuneration Act, 2017 was enacted. This was first income tax act in Nepal. This act was not broad and detail. There were only 22 sections in the act and the provisions of taxation of business incomes and remuneration income were only included. There was no provision of deduction for expenses by taxpayers. Income tax was assessed on the basis of tax officers’ estimation. Government employees were the main income taxpayers. This act was replaced by „Income Tax Act, 2019“. There were 29 sections in the act. For the effective implementation of income tax act's objectives, NG enforced “Income Tax Rules, 2020”.

Income Tax Act, 2019 also has encompassed profession, business, house and land rent, investment, insurance and other sources of incomes in addition to business profits and remuneration incomes. It also made the provisions for rectifying arithmetic errors by taxpayers and tax payments in installments. Agricultural income was also made taxable in the act. Finance act, 2023 made agricultural income exempted. Again Finance Act, 2030 made agricultural income taxable. 'Income tax Act, 2019' was amended first in 2029. The Act was replaced by 'Income Tax Act, 2031' so as to cope with the changing needs of the country. This act was also called a modified form of the previous act. Most of the provisions of previous act were kept as it is and others were changed. This act lasted for about 28 years.

The act remunerated income sources into five groups:

- Agriculture
- Industry, Trade, Profession or Occupation
- Remuneration
- House and compound Rents
- Other Sources.

However, agricultural income was kept outside the tax net except few years through the Finance acts.

In 2058, 'Income Tax Act, 2058' was enacted by the parliament by replacing the 'Income Tax Act, 2031'. This act is broad as compared to the previous act. This act has been made in accordance with the global standard. 'Income Tax Rule, 2059' was framed NG to clarify some provisions of the Act. Finance ordinances have been making slight amendments in the act every year.

2.1.6 Income Tax in Modern Nepal

After the independence of the country in 1951, the role of government has changed. Since the government was enforced to operate development activities, besides governing the regular function of maintaining law and order and the collection of revenue (Bhatta and Shrestha, 1981: 3). A sound and efficient income tax system is necessary to maximize the revenue collection from income tax. Whole income tax system is made of three sub systems i.e. income tax policy, income tax laws and income tax administration. Income tax policy is determined by the government itself though ministry of finance. Income tax policy should be such that the main objectives of the income tax can be attained.

Parliament makes the laws to implement the various policies. The government levies and collects the income tax in accordance with law. The constitution of the kingdom of Nepal, 1990 has made the clear provision about it no taxes shall be levied and collected except in accordance with law (Constitution of kingdom of Nepal, 1990). Present legal provision of income tax is associated with constitution of the kingdom of Nepal, 1990; income tax act 2058; income tax Rules 2058; finance act of concerned financial year etc.

2.1.7 Legal Provisions of Income Taxation in Nepal

The collection of income tax was the key element of the government. During that time, very few economic activities were operated on the country. The government could not collect the targeted money. At that time, taxes were levied to the merchant, travelers and farmers in the form of cash, Kind of labor. In some occasion, gold and agricultural products were also paid as taxes but the nature of these taxes were temporary and taxes were raised for special purposes (Regmi, 1971: 55).

In the Lichavis regime, income taxes from agriculture income and business were introduced as direct tax for the first time in Nepal. Tax on agriculture income was collected "Kara". Irrigation tax and religious monuments preservation taxes also existed at the time of King Anshuman of Nepal. During the period of 1768-1846 AD, different types of taxes were levied to generate maximum revenue. The major sources of revenue were: Birta and Kipat, taxes on land, monopolies customs, transit and market duties and the export of forest products, birds, and animals and various levies and fines. Taxes were collected at three levels: Royal palace levies, government levies and local levies. The various taxes levied during that period were narrow in base and were imposed primarily on occupations and economic activities, not in income or property. There was no taxation of income in the modern sense of income tax.

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

The major source of revenue in Nepal till 1951, were land tax, custom and excise duties in the form of lump sum contracts, royalties on forest, royalty on supply of porters and soldiers, entertainment tax and a few other minor taxes.

Incomes were not taxed for raising regular revenues of the state treasury but for meeting specific expenditure of the household or extraordinary expenditure necessitated by war or other emergencies. There was no direct tax in the country except land tax collected on a contractual basis and 'Salmi' which the government employees used to pay out of their salaries at a very small percentage. The salami was abolished in 1951. The Rana rulers did not think of development of effective revenue administrative system. After the advent of democracy in the country in 1951, no taxes are levied and collected in Nepal except in accordance with law.

2.1.8 Importance of Income Tax

Taxes on income are the most important single source of revenue for governments of developed countries though they at present produce for less revenue in most developing countries than custom duties and taxes on internal transaction (Singh, 1985: 208).

Thus from the above lines it is clear that taxes on income are the most important sources of government revenue in developed countries. But in the context of developing countries income tax can not produce more revenue because the people of developing countries are poor as a result income tax cannot produce more revenue as in developed countries.

In very poor countries income taxes contributes between one sixth and one fifth of total tax revenue, which they are the source of about one half of total tax revenue in the United States (Singh, 1985: 208). Like other developing countries Nepal is not an exception from the serious problem of domestic resource mobilization. There is also lack of saving and investments for economic development. To mobilize resources taxation can be used as positive instrument, in most of developing countries indirect taxes play important role than direct taxes on the overall tax structure, for a rapid growth it is essential to increase investment.

Therefore, to fulfill the required capital for investment taxation can play an important role. Income tax is a modern tax for Nepal. This is built a scale system, and on the size of the family. Among the different component of income tax individuals' contribution is the highest with increasing ratio. In our tax structure custom duty, value added taxes excise duties are major source of revenue, in come tax also contributes some portion for capital formation. The history of income tax revenue has been increasing in every year; more over it can certainly develop into a useful form of taxation in the future.

The income tax also helps to direct the flow of resource of the economy into useful and productive channel and also increases the productive capacity of the economy of income tax is properly used it can make significant contribution to other tax revenue income tax has an increasing trends. It can influence on the distribution of income and is regarded as an important instrument of growth and social justice in Nepal.

2.2 Income Tax Act, 2002 (2058 BS)

Income tax is levied on consideration payment made for the provisions of labor (employment income) or capital (investment income) or combination of both (business income). Income Tax Act, 2058 (2002) has excluded casual receipts such as prizes, lotteries etc. (except those receive in connection with employment, business of investment) from the definition of income for the purpose of income tax. Income Tax Act, 2058 has been implemented from 19/12/2058 BS. This act has replaced the Income Tax Act, 2031 (1974), and other acts related to income tax. Nepal government enacted income tax rules 2959 BS in accordance with the authority given under section 138 of Income Tax Act, 2058 has dismissed the section 66. There are various additional provisions in this act.

Income Tax Act, 2058 has been enacted with wide perspective. Various new concepts are introduced in this act as compared to Income Tax Act, 2031 many of the concepts put forward in this act were not prevailing at Nepalese tax culture.

2.2.1 The key features of Income Tax Act , 2002 (2058 BS)

The key features of Income Tax Act, 2058 are as follows:

- The act has broadened the base. Unlike previous tax act, rates are spelled out in the act, the tax rates and concessions are harmonized on equity grounds.
- Income Tax Act, 2058 has classified income into three headings (a) business (b) employment and (c) investment.
- All income tax related matters are confined within the act by abolishing all tax related concessions, rebates and exemption from the income tax net.
- The act has introduced a pool system of charging depreciation; a provision has also made for depreciating intangible assets. Assets are broadly classified into five categories. The depreciation rates are 5 percent, 25 percent 15 percent, for pool a, b, c, and d respectively which are based on diminishing balance method of depreciation, for e, the rate is based on straight-line method.
- The act has provided liberal loss set-off and carry forward/backward provisions. Inter-head adjustments of losses are clearly specified. Such provisions have been made from international perspective.
- The act has separated administrative and judicial responsibility by distinguishing civil liabilities of the taxpayer from criminal liabilities. This act has introduced the concept

of administrative review to correct the administrative mistakes. The Inland Revenue department does not give its decision within the given time limit; the taxpayer may appeal to the revenue tribunal.

- The act has first introduced the taxation of capital gains. Capital gains are taxed explicitly under act after four decades of the introduction of income tax. In case capital gains; only the gains from the causal sales of real property (land and building) and securities are subject to capital gains tax at a flat rate of 10 percent. There is also a clear provision for adjusting net loss during the fiscal year.
- The act has made provision for a stringent fine and penalty for the defaults. There have been made provisions the punishment in the up to Rs. 300,000 and imprisonment on conviction up to 3 years.
- Global income of a resident are made taxable. Non resident whose place of abroad is in Nepal and who lives in Nepal at any time or who lives Nepal for 183 days or more within the income year or who is an employee of NG posted abroad during the income year.
- This act has given the option for husband and wife as a separate natural individual until they don't accept as a couple.
- The Inland Revenue department is responsible for the implementation and administration of this act.
- This act focuses on the self-assessment system and every assessment in treated as a self-assessment. The tax officer can determine only the amended tax assessment within 4 years. The Jeopardy assessment is essential when a person becomes bankrupt is about to leave Nepal forever or to close down activity in any department of in Nepal.
- The act has first introduced a provision for administrative review to allow the tax administration to correct mistakes made by the tax administrators internally.
- List of expenses are includes. All expense relating to income have been made admissible.
- The Act has made provision for international taxation. Foreign tax credit had been introduced for the first time.
- This act has introduced the concept of medical tax credit under which resident individuals may claim a medical credit or 15percent of the amount of approved medical cost.

- When Income Tax Act, 1974 (2031) was in practice, there were several exemptions and deductions provided by the act and other related acts. But now, there is no more exemption and deductions except the ones provided for the by the act.
- Presumptive x is limited to the small taxpayers whose annual net income is up to Rs. 120,000 or annual turnover is up to Rs. 1200,000 and are subject to flat annual taxes.
- The act has based on global income tax principle and as brought all sources of income into the tax net and has related in an equal manner, this act has abandoned the itemized system of deduction and expenses are taken into account on a global manner not on a line-by-line basis.
- The penalties are divided into two parts. The tax office can levy only fines and interest and the court can levy penalties as imprisonment.
- The income of an approved retirement fund is free from tax. But retirement payments in the hands of employees are taxable.
- Investment insurance premium can be deducted as 7 percent insurance policy amount or Rs, 10,000 whichever is less.
- 7 percent of depreciation based amount of end of the year can be deducted as a repair and maintenance expenses and unreduced amount can be capitalized or excess repair and maintenance expenses can be added to depreciation based amount of coming income year.
- Donation amount can be deducted as a 5 percent of adjusted income or Rs. 100,000 whichever is less.
- A person can deduct pollution control expenses and research and development expenses up to maximum 50 percent of adjusted taxable income of total business run by him.
- A resident person may claim a foreign tax credit for any income year for any foreign income tax paid by the person to the extent to which it is paid with respect to person's assessable income for that year.
- 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 year.

2.2.2 Objectives of Income Tax Act, 2058

In many country the government collects its revenues through different sources. Out of which taxes contribute a significant amount in the public revenues. The government mobilizes its

revenue through budget in development programs, daily administration, peace and security and public interest. Thus, the good tax policies are considered as tools of social and economic revolution. The main objectives of Income Tax Act, 2058 are as follows: (Income Tax Act, 2058: of Nepal Government)

- To confine all the income tax related matters within the act.
- To develop a tax payer-friendly-taxation system by making it clear and transparent
- To bring all income generating activities into tax net.
- To integrate Nepalese tax system with the tax system of foreign countries.
- To reduce the scope of discretionary interpretation of the tax authorities.
- To harmonize tax rates and concessions on equity grounds.
- To make income tax elastic and revenue productive.
- To minimize tax avoidance and tax evasion.
- To widen the tax base.
- To make taxpayers more responsible by enforcing the self-assessment system.
- To maintain the welfare state.

2.2.3 The Needs of Income Tax Act, 2058 (2002 AD)

In development country, capital formation stands as the basic need to exploit the available natural resources, which enable the countries to run on the path of economic development. In the context of Nepal, the capital formation has become the vital requirement for its economic development. So the government has to emphasize on sound capital formation policy, income tax has been playing a significant role in the economic development of a country. Apart from foreign trade, to break out the vicious circle of poverty and strengthen the economy there is need of vigorous taxation. Income tax is regarded as a positive instrument of resource mobilization for the development plans of the public sector and principal function of taxation lies in raising the volume of public savings, which used for capital formation.

Income Tax Act, 2031 (1974) had a narrow tax base. Global incomes of residents were not brought into tax net. Only the incomes organized in Nepal were taxed. It was also considered that Income Tax Act, 2031 is in appropriate and adequate in the present context. That act was based on several traditional contexts. For example, it was based on the official's assessment system. It specified deductible expenses, it adopted itemized depreciation method, and it followed previous year basis. It did not cover many aspects of a modern income tax system.

That law did not make adequate provision regarding the capital gains and losses, transfer pricing this capitalization, retirement fund. Merger and double appeal systems in the Income Tax Act, 2031. The taxpayers were allowed to lodge an objection against assessment with the Revenue Tribunal or the Director General. The director General was empowered to act as a court and there were complaints that he used to make decisions in favor of tax officers. There were no provisions for administrative review. The accounting method was not prescribed in the Act. Despite the provision of self-assessment in the act, it had not been implemented properly. The self-assessment was more in name than in practice.

The government needs revenue to perform development welfare programs of the nation. The previous Income Tax Act also lacked precision and clarity. Further, several provision were introduced through restricted departmental circulars. Taxpayer did not know about them. Many issues were not clear, which related conflict between taxpayers legislation, including the Finance Act, the industrial Enterprises Act, the petroleum Act. The employees Provident fund Act, the Citizen Investment Fund Act, Nepal Rastra Bank Act. The structure of the previous Income Tax Act was also defective as well. All relevant procedures relating to a particular aspect were not put together. They were scattered through out the act.

The previous Income Tax Act made provision for tax deduction method while tax treaties follow the tax credit system. Under the former system, foreign tax is deducted from taxable income while under the latter system foreign tax is deducted from the tax liability. Similarly, the act adopted previous basis, itemized deduction and depreciation methods. All these aspects were needed to be changed to streamline the income tax system. Besides, it was necessary to introduce many new provisions to match the Income Tax Act more than the amendment of the act.

Laws are not static. They must always move with the need of society. In order to improve many shortfalls of previous tax laws, the government has felt the need of effective and generic tax system. The new Income Tax Act is introduced to mobilized and reform tax system in Nepal, the purpose of bringing new tax law while replacing old one is to widen tax base in order to raise government revenue and lowering tax rates on one hand and to incorporate new taxation theory and system on other hand thereby making tax system more systematic and modern.

The new Income Tax Act, 2058 B.S. has intended to modernize tax system by adopting new and global concept in it. It has defined the tax net in clear way thereby bringing many types of investment income and fringe benefits with the net of taxable income. It has scientifically classified the assessable tax income in three categories such as income generated through Business activities, employment and Investment. It has incorporated the concept of capital gain as taxable income, which was not being tax under previous tax law.

2.2.4 Legal Provision of Income Tax Act, 2058

Income Tax Act, 2058 has replaced the previous Act, 2031, which was carried for twenty eight years. The act 20 Act, 2058 has replaced the previous Act, 2031, which was carried for twenty eight years. The act 2058 has 24 chapters and 143 sections plus schedules. In the Act, there are so many types of additional and new provisions have been made which can not found in previous act, 2031.

Change in world economic policy and advancement in information technology has a vast impact on Nepalese economy too. Small economics like Nepal have to adopt the economic policy followed by World Bank, International Money Fund, Asian Development bank and other international agencies. Especially, after 1990s there is re-emergence of the liberalization, globalization and privatization system that focuses on the minimum intervention of the state no private economic matters.

The 1950's concept of high tax rate is changed to the concept of low rate, wide net. This trend in tax system is followed by most of the counties of the world. Nepal also is not an exception in this respect and Nepalese administrators and policy makers too have tries to change the tax policy of the country. Income Tax Act, 2058 is the result of the change in all these matters.

2.2.5 Meaning of Basic Terms Used in Income Tax Act, 2058

1. Income

Income means a person's income form any employment, Business, or investment and the total of that income calculated in accordance with this Act.

2. Income-Year

Income year means the period from the 1st of Shrawan of a year to the end of Ashadh of the following year.

3. Assessment

Assessment is the process of ascertaining the tax liability. It is the process and art of checking the documents in which the details of calculation of income and tax are recorded.

As per the tax law, it includes:

- Compulsory assessment that an assessee should make each year under section 99,
- Jeopardy assessment under section 100,
- Amended assessment under section 101 and
- Assessment of interest and fees under section 122.

4. Assessment Year

Assessment year denotes the year in which the tax is assessed. According to Nepali calendar, it starts from 1st Shrawan and ends on the last Ashadh of the next year. The income of the previous year is taxed in this year as per the rate given in the Finance Act of that year.

5. Business

The term business includes an industry, a trade, a profession, a vocation, an office, and an isolated transaction with a business character or a past. Present or prospective business and the conduct of electronic commerce the law has classified that business does not include employment. It also includes the service industry.

6. Tax

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

- As mentioned in Clause 104 (8) sub clause (a); the expense incurred in relation to claims or performing auction of the property of a tax creditor by the Department.
- Amount payable by a withholding agent or withholder under Clause 90, or amount payable by an installment payer under clause 94 or the amount payable as per tax assessment under clause 99, 100 and 101.
- Amount payable to the Department in respect of a tax liability of a third party under clause 107 (2), 108 (3), or (4), 109 (1) and 110 (1).

- Amount payable by way of interest and fees under chapter 22 and
- As per clause 129, amount payable by way of fines as per the order of the department.

7. Final Withholding Payment

Final withholding payment means a payment of Dividend, Rent, Gains, Interest and Payment made to a non-resident person on which tax deduction has to be made as per clause 92.

8. Retirement Fund

Retirement Fund means any entity established and maintained solely for the purpose of accepting and investing retirement fund contribution in order to provide retirement fund payments to individuals who are beneficiaries of the entity or development of such and individual.

9. Company

Company means a company established under the prevailing company law and the following institution shall also be related as company for tax purpose:

- Corporate body established under the prevailing law, any unincorporated association, committee, institution, society, or registered and non-registered proprietorship firm and other than partnership all individuals groups or trust,
- A partnership firm (whether or not registered under the prevailing laws) that has 20 or more partners a retirement fund, a co-operative, a unit trust, or a joint venture,
- Foreign company, and
- Any foreign institution prescribed by the Director-General.

10. Tax Assessment

Tax assessment means an assessment of tax to be made per this Act and it includes an assessment of interest and fees made under clause 122 of this Act. But the term does not include the regular tax assessment that has been replaced by the amended assessment under clause 101.

11. Non-Resident Person

Not resident person means a person who is not resident.

12. Non Business Chargeable Asset

Non-business taxable asset means securities or interest of an entity as well as land and building but excludes the following assets:

- Business assets, depreciable assets, or trading stock,
- A private residence of an individual that has been
- Owned continuously for three years or more and
- Lived in by the individual continuously or intermittently for a total of three years or more.

13. Tax Exempt Organization

Tax Exempt organization means the following entities:

- Following organizations that are registered in Inland Revenue Department as tax exempt organizations:
 - A social religious, educational, or a charitable organization of a public character registered without a profit motive,
 - An amateur sporting association formed for the purpose of promotion social or sporting facilities not involving the acquisition of gain,
- A political party registered with the Election Commission,
- A Village development committee, municipality or district development committee,
- Nepal Rastra Bank,
- Nepal Government, etc.

14. Trust

Trust means provision, under which a trustee holds assets, but this term does not include a partnership, a corporate body, or an entity of the type of referred to in sub clause (3) section (m).

15. Assets

An asset is an item of useful or valuable property. The tax law defines assets as a tangible or intangible asset that includes currency, goodwill, know how property, and an owner's interest in a foreign branch, a right to income or further income and a part of an asset.

Income Tax Act, 2058 has made the provisions of four types of assets.

Namely: Trading stock, Depreciable assets, Business assets, Non-business chargeable assets and other assets.

16. Relative

Relative implies a spouse, children (including adopted children parent's grandparents, siblings, aunts, uncles, nephews, nieces, grand children, brother in laws, and sister in laws and mother in laws of an individual.

17. Lease

Lease means a temporary right of one person in relation to the asset of another person. Other than money and this includes license, option, and rental agreement royalty agreement or tenancy rights.

18. Disposal

Disposal means disposal of an asset or liability including sale or transfer as per clause 40.

19. Entity

Entity implies the following institutions or organizations:

- Partnership, trust or company;
- Village development committee, municipality or district development committee;
- His Majesty's Government;
- A foreign or politics subdivision of the foreign government or a public international organization established on the basis of a treaty;
- A permanent establishment as per sub clauses (1), (2), (3) and (4) that is now suited in the country in which the individual is resident.

20. Payment

Payment means the following transactions:

- The transfer by one person of money or an asset to another person or transfer by one person of a liability to another person;
- The asset created by one person if on creation is owned by another person or when the liability of one person is borne by another person;
- The provision by one person of services to another person; and

- The use or availability for us of an asset owned by one person to another person to another person.

21. Employment

Employment denotes past, present or prospective employment.

22. Investment

Investment means an act of holding or investing one or more assets excludes the following:

- The act of holding assets for personal use by the person owing the asset or investing amount on such assets, or
- Employment or business, but the act of holding non-business taxable asset is taken as investment.

23. Dividend

Dividend means distribution made by an entity;

24. Resident Person

Resident person denotes the following persons with respect to an income-year:

- In the case of an individual,
 - An individual whose normal place of abode is in Nepal;
 - Who is present in Nepal for 183 days or more in the 365 consecutive days; or
 - An individual who is posted abroad at any time during the income year by Nepal Government;
- Any partnership Firm;
- In the case of the trust, a trust that:
 - It established in Nepal;
 - Has a trust that is a resident person for the income year or
 - Is controlled directly by a resident person for the income year or through one more interposed entities of a group of persons one of whom is himself/herself.
- In the case of a company, a company that:
 - Is incorporated or established under the laws of Nepal; or
 - Has an effective management in Nepal during any income year;
- Nepal Government.

- Village development committee, municipality or district development committee,
- In the case of a foreign government or a political subdivision of the foreign government, such an entity:
 - If it is established under the laws of Nepal; or
 - Has had an effective management in Nepal during any income year.
- Any institution or an entity established under any treaty or agreement.
- A foreign permanent establishment situated in Nepal or a non-resident person

25. Person

Person means as individual or an entity

26. Interest

Interest is the return for loan or investment. As per the new Income Tax Act, interest means the following, payments or gains:

- A payment made under a debt obligation. But the repayment of capital is not interest;
- Any gain by way of a discount, premium, swap payment, or other similar mediums falling under debt liability; and
- The portion which is treated as interest in the payment made to person under an annuity or installment sale finance lease.

27. Adjusted Taxable Income

Adjusted taxable income means the taxable income before deduction of permitted amount for donation under Sec. 12, providing for expenses on interest as per Sec. 14 (2), pollution control cost under Sec. 17, and research and development expense under Sec.

18.

28. Partnership

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

29. Retirement Contribution

Retirement contribution means the payment or for the future provision of retirement payments.

30. Individual

Individual means a natural person together with any proprietorship with any firm (whether registered or unregistered) owned by the person, if any, and a couple making an election under section 50 (AC), i.e. opting to file a joint return by the couple where both of them earn income through remuneration.

2.2.6 Classification and Status of Assesses

2.2.6.1 Resident and Non-Resident

Income Tax Act, 2058 has given definition related to residency of individual and includes partnership, trust, company, government local entities and foreign permanent establishment of non-resident. The following points depict the conditions required for being a resident in Nepal as per new act.

- 1) An individual
 - Whose normal place of abode is in Nepal?
 - Who is present in Nepal at any time during the income-year or who is present in Nepal for more than 182 days in any period of 365 consecutive days of which 183 days fall within the income-year.
 - An employee or an official of Nepal Government abroad at any time during the income-year.
- 2) A Partnership Firm
- 3) A Trust
 - If it is established in Nepal.
 - It has trustee is a resident person of Nepal for the income-year.
 - If it is controlled or through one or more interposed entities by a person or person's one of whom is a resident person for the income-year.
 - A company
 - If it is incorporated under Nepal law,
 - If its management was effective in Nepal during the year.
- 4) A village development committee or municipality or district development committee.
- 5) A foreign government or a political subdivision of the foreign government,
 - If it is established under the laws of Nepal; or
 - If it has had an effective management in Nepal during any income-year;
- 6) An institution or an entity established under any treaty or agreement a

- 7) A foreign permanent establishment situated in Nepal of non-resident person.
As per the act, all the taxpayers other than resident are non-resident.

2.2.6.2 Entity and Individual

Income Tax Act, 2058 has divided taxpayers or assesses on the basis of entity and individual. However, both of the taxpayers – individual and entity – come within the definition of person. Sec. 2 (AP) of the act says “person means an individual or an entity”. Within the definition of person, individual means natural person i.e. human beings. According to Sec. (AC) of the act, individual means a natural person. It also denotes any proprietorship form, whether registered or unregistered, owned by the person, and a couple eligible as a single natural person to file joint return. In contrast, entity means legal or artificial person. As per Sec. 2 (x) of the act, entity implies the following institutions or organizations:

- Partnership, trust, or company;
- Village development committee, municipality or district development committee;
- His Majesty’s Government;
- A foreign government of a political subdivision of the foreign government or a public international organization established on the basis of a treaty;
- A permanent established of non-resident company that is not situated in the country in which the individual is resident

Here we should remember that partnership according to Income Tax Act, 2058 is that partnership firm has 19 or less than 19 partners.

Entity includes the company and trust too. Here a company as per the Sec. 2 (M) means a company established under the prevailing company law. It also included following institutions within the category of company:

- Corporate body established under the prevailing law;
- Any unincorporated association, committee, institution, society, or registered and non-registered proprietorship firm and other than partnership all individual’ groups or trust;
- A partnership firm (whether or not registered under the prevailing laws) that has 20 or more partners, a retirement fund, a co-operative, a unit trust, or a joint venture;
- Foreign company; and
Any foreign institution prescribed by the Director-General.

2.3 Source of Income Tax

An income can be earned by different ways. It may be by using labour or capital or combination of both labour and capital. The income earned by using labour is called remuneration income the examples of such income are salary, bonus, allowance, gratuity, pension, etc. The income earned from the use of capital is known as investment income. The examples of investment incomes are interest, rent, royalty, dividend, etc. According to the combined form is business income. Business income includes income from trade, business, manufacturing, industry, service industry, etc. All these organization points of incomes are called sources of income. They are also known as heads of income. Income Tax Act, 2031 and classified these heads of income into five consisting agricultures; remuneration, business, profession or vocation; house and land rent and other sources.

Income tax act 2058 has classified the sources of income for the purpose of assessment under the following heads:

- Income from Business
- Income from Investment
- Income from Employment

2.3.1 Income from Business

Business means use of capital and labour to earn income. It is the mix of capital and labour. It includes trade, manufacturing industry and service industry. It is equivalent to the industry, business, profession or vocation defined by Income Tax Act, 2031. Income Tax Act, 2058 defines business as the business transactions related to industry, trade, profession or any other similar types of activities,. According to the act, it encompasses above stated activities conducted in past, present or future. It covers the business activities done without registering and doing illegally also. Some characteristics of business are that it cannot be done with one oneself, there uses to be goods or services, there must be two parties and the consideration should be given in kind of cash.

Inclusions of Business Income (Sec.7)

- Service fees
- Amount derived from disposal of trading stock
- Gain from sale of business assets and liabilities
- Gain from disposal of depreciable assets used in business
- Bad debts recovered

- Amount received after the cessation of business
- Compensation received against loss of stock or profit
- Gift received from parties related to business
- Exchange gain
- Under payment of interest (interest subsidy)
- Income from investment related to business
- Deducted expenditure which is not so expended
- Any benefits/perquisites
- Compensation received in restriction of business
- Amount required to be included due to change in accounting system
- Amount derived according to the percentage of contract completed during the year under long-term contract
- Other incomes: sundry income, miscellaneous income etc.

Non-Taxable Income/ Tax Free Incomes (Sec.11)

The following incomes are exempt from income tax:

Income from agriculture (exempt received by organized agriculture firm) Income from co-operatives societies registered under cooperative Act, 2048 from business based on forest and agricultural product rural community saving and credit cooperative.

Section 10

- Tax exempted remuneration from bilateral/multilateral agreement with foreign government or international organization
- Remuneration received under public services of a foreign government
- Allowances provided by NG to widow senior citizen and disable person
- Gifts, request, inheritance and scholarship except under Sec 7, 8 and 9
- Pension received by Nepalese army/police from public fund of a foreign government etc.

Final withholding payment (Sec. 92)

- The following payments are treated as final withholding payments:-
- Dividend from resident company
- Rent from house, and furniture received by natural person (not related to business)

- Interest received by a natural person from bank or financial institute (not related to business)
- Meeting fees
- Examination remuneration
- Income from writing articles
- Part time teaching remuneration
- Amount received from accumulated house/sick leave
- Amount received from approved retirement fund
- Income from investment on insurance policy
- Casual income etc.

Non final withholding Payment (Sec. – 88)

- Royalty
- Rent from vehicle
- Interest
- Consultant's fees etc.

Admissible expenses (deduction from business incomes)

The following costs and expenses allowed for deduction while computing persons Income from business:

- Manufacturing expenses
- Administrative expenses
- Sales and distribution expenses
- Interest (Sec. 14)
- Cost of stock (Sec. – 15)
- Repairs and improvement expenses (Sec – 16)
- Pollution control cost (Sec. – 17)
- Expenses for Research and Development (Sec – 18)
- Depreciation (Sec. – 19)
- Loss relating to previous year (Sec. – 20)
- Bad debts
- Tax paid under law except income tax
- Other real expenses:

- Legal charge (except income tax appeal)
- Insurance premium
- Pension, Grants, preliminary expenses and entertainment expense etc.

Common expenses (Deduction form Assessable income)

The followed expenses are allowed to deduct form assessable income:

Common expenses are as follows:

- Amount given to tax exempt organization (Sec. 12)
- Amount deposited to the Retirement fund

Inadmissible expenses not allowed for deduction (Sec. 21)

Although Income Tax Act, 2058 has allowed certain expenditures to be deducted while calculating taxable income of business or investment; the following expenditures are onto allowed for deductions:

- Any personal or domestic expenses
- Income tax, fine and penalty
- Distribution of profit or dividend
- Preserve, provision or fund

Emergency fund – not allowed

Provident fund

Retirement fund allowed

- Expense for earning not taxable income as well as final withholding income
- Expenses not related to business/income
- Amount paid to the government’s corporation, bank and financial institute
- Where there is no banking facility within surrounding of 10 km.
- At the time of bank holidays
- Amount paid to a farmer for agriculture product
- Retirement payments

Capital expenditure: Capital nature expenditures or foreign income tax, not that capital expenditure include expenditures incurred in respect of natural resource prospecting, exploration and development; expenditures incurred in the acquisition of an assets with a useful life exceeding 12 months; or expenditures incurred on the disposal of a liability.

2.3.2 Income from Investment (Sec. 9)

Investment income means income generated from the use of capital. Investment means use of capital for the purpose of getting income. According to Income Tax Act, 2058 Sec. 2 (a), investment means an act of holding or investing one or more assets of similar nature that are used in an integrated fashion. However, it excludes the following:

- The act of holding assets, other than non-business taxable assets for personal use by the person owning the asset or investing amount on such assets, or
- Employment or business

The assets under property include current, fixed or intangibles like patent right, copy right, a lease hold right etc.

For the purpose of being investment, the asset should not be used by other owner. In case of investment, a person has the legal ownership, the owner transfers the right of using and certain consideration is taken against such property. If assets are held, it should not be used by owner for personal use or business use. It should be for investment use.

Inclusions of Investment Income

Section 9 of the act has shown the incomes that are to be included within the head investment. This section defines the investment income as the profit or gain from conducting the investments for the year. It includes the holding of non-business chargeable assets. For the purpose of calculating the profits or gains from the investment, the following items are included:

- Dividend (from non resident company)
- Rent (except house rent)
- Interest
- Gifts from investment activities
- Income from natural resources
- Income from royalty
- Recovery of bad debts of investment under sec 25 (1)
- Under payment of interest
- Compensation under investment activities
- Income from disposal of fixed assets

- Exchange gain
- Income from restriction of investment
- Amount to be including in income due changing in accounting system
- Amount directly paid to 3rd person on behalf of actual payee (investor)
- Others investment related incomes.

Admissible Expenses

Deductable expenses: the following cost and expenses are allowed for deduction while computing person's income from investment.

- Interest sec. 14
- Loss from investment sec. 20 or current loss of investment as well as business
- Depreciation se. 19
- Related expenses under sec. 13
- Repair and improvement expenses sec. 16
- Donation sec. 12
- Loss of business relating to previous year

Other Provision Relating to Investment Income

While calculating the income from investment, the following amounts are excluded:

- Amounts exempted under section 10 and dividends as per sec. 54 and 69 and final withholding payments; and
- Amounts those are included in calculating the person's income for many employment or business.

2.3.3 Income from Employment (Sec. 8)

Remuneration means amount given for providing services. In case of remuneration, there uses to be one person getting services and other person providing services. Oxford Dictionary defines employment as the act of employing. The person getting service is called employer and the person providing service is employee.

Inclusions of Employment Income

Income Tax Act, 2058 has specified the income from Employment. As per the act, any type of remuneration from any employment is taxable income. According to sec.8 of the act, the

remuneration received by a person from the employment is the following payments made by the employer:

- Payments of wages, salary, leave pay, overtime pay, fees, commissions, prizes, gifts, bonuses, and other facilities;
- Payments of any personal allowance including any cost of living, subsistence, rent, entertainment, and transportation allowance.
- Payments providing any discharge or reimbursement of costs incurred by the individual or an associate of the individual. It includes the payment of the recovery of the expenses, which is to be made by the employer himself.
- However, the reimbursed expense is made for employee's purpose such as business tour, the reimbursement amount is not included in the reimbursement of the employee. If employee is daily allowance in the addition to cost of expenses, it is included in the remuneration of the employee.
- Payments for that agreement to any conditions of the employment. If any other payments are made for extra conditions of the employment, it is also added to the total remuneration.
- Payments for termination or loss of service or compulsory retirement. It includes amount received for loss of employment or redundancy.
- Retirement contributions, including those paid by the employer to a recognized retirement fund in respect of the employee, and retirement payments. For this purpose, recognized retirement fund means retirement fund.
- Other payment made in respect of the employment;
- In case of foreign allowance given to employees of NG working in foreign embassies, 75 percent is exempted and the remaining amount is added to the income.
- Other amounts as given in chapter 6 of the act, i.e. perquisites and any gains due to change in tax accounting required to be included.

In addition to above stated items of remuneration, the following types of perquisites are included in remuneration of a person.

- Prizes and gifts.
- Other payments made in respects of employment.
- The amount of difference of the interest on loan paid by employer lower rate than the market rate.

- Market value to assets in case of the transfer of the assets.
- For the payment other than stated above, the value of benefit of the payment to third person.

Excludable Amount in the Employment Income were as follows:

While computation the net income from employment of natural person the following amounts are excluded on employments income.

- Amounts exempt under section 10 and final withholding payments
- Meals or refreshment provided in premises by or behalf of an employer to the employer's employees that are to the employer's employees that are available to all the employees in similar terms.
- Payments of prescribed small amounts, which are so small and thus unreasonable or administratively impractical to made accounting for them.
- Any discharge or reimbursement of cost incurred by the individual cost.
- That serves the proper business purpose of the employer business purpose of the employer.
- That would otherwise be deductible in calculating the individual income from any business or investment.

2.4 Capital Gains Tax

2.4.1 Meaning of Capital Gains

Capital gain (loss) is defined as a gain (loss) realized from the disposal of capital assets by a taxpayer. It is the difference between the purchase price (outgoings) and selling price (incoming) of capital assets. Earlier, income tax law had not made any specific provision regarding taxation of capital gains (losses). As a result, items of similar nature were treated differently. Capital gains except from disposal of business assets of and individual were not brought into tax bracket. In case of other taxpayer, capital gains were included under the heading of other source income. On the other hand, capital losses of similar nature were not allowed for deduction. Such diverse treatments has arisen confusion .Income Tax Act 2058 has avoided these too much confusion. However the act does not provide the definition of capital gains.

The act has treated depreciable assets, business assets and non business chargeable assets as capital assets and gains realized from disposal of such assets as capital gains.

2.4.2 Classification of Assets

Income Tax Act, 2058 has classified assets into five categories.

They are as follows:

- Trading stock,
- Depreciation Assets,
- Business assets,
- Non-business chargeable assets, and
- Other Assets.

Basically, there are two types of rates used in different countries of the world for taxing the capital gain. Some favor taxing capital gain at special tax rate, where as others favor ordinary treatment. Note that ordinary treatment means taxing the capital gain at normal rate.

In Nepal, capital gain tax as such was introduced only from the budget of 2058/59. The capital gain tax rate is charged 10 % as per the act. Chapter 8 of this act has made detailed.

2.4.2.1 Stock

Trading stock means assets owned by a person, that are intended to be sold in the ordinary course of a business conducted by the person, work-in-progress on such assets, and inventories of materials to be incorporated into such assets.

2.4.2.2 Depreciable Assets

Depreciable asset means an asset to the extent to which it is used in the production of income from a business or investment and that is likely to lose value because of wear and tear, obsolescence or the passing of the time. However, the term does not include trading stock. In above example, the automobile used by the automobile dealer for its own purpose is a depreciable asset.

2.4.2.3 Business Assets

Business asset means an asset to the extent to which it is used in a business. However, the term does not include trading stock or a depreciable asset of a business. A piece of land used in business is an example of a business asset. The term itself suggests that only a business firm will have business assets.

2.4.2.4 Non-Business Chargeable Assets

Section 2 (da) has defined non-business chargeable assets as land, building, interest in an entity, and securities. So the inclusive list of non-business-chargeable assets covers land and building, shares of a company, ownership of an entity, debenture, bonds, and other securities. It is clear from the definition that personal vehicle, ornaments, furniture, kitchen equipment, etc owned by an individual do not come under non-business-chargeable assets, and so net profit from the disposal of these assets is beyond the purview of income tax.

'Non-business-chargeable assets' is a combination of two compounds: non-business-chargeable assets and chargeable assets. Some of the non-business-chargeable assets, because gains from the disposal of those assets are not chargeable to income tax. So, non-business-chargeable assets (mean those non-business-assets when disposal of gains from the disposal) are subject to income tax.

An individual or an entity may own non-business- chargeable assets. An assets held by an entity not for its business use in a non-business-chargeable asset for it. Suppose a bank has acquired a land and a building in settlement of a loan given to a company. Of the bank puts the property in its use either by opening its office or by letting it out, the land is classified as business asset and the building is classified as depreciable asset. But if the land and building are not in use of the bank and it has a plan to sell them, the property is classified as non-

business-chargeable asset, and in the terminology of banking business, such property is called, 'Non-Business Chargeable Assets' (NBA).

Business assets and depreciable assets are excluded from the definition of non-business-chargeable assets owned by an individual or an entity.

For an entity all the non-business assets are non-business chargeable assets. But in the case of an individual, the following assets are also excluded from the definition of non-business-chargeable assets:

- A private residence owned continuously for three years or more; and lived in continuously or intermittently for a total period of three years or more.
- An interest of a beneficiary in a retirement fund.
- A private building and a piece of land which is disposed of for less than Rs. Ten millions.
- An assets that is disposal of by way of any type of transfer other than sales and purchases made within three generations.

An income from the disposal of an asset, which is not included in the definition of non-business-chargeable assets, business assets or depreciable assets, is free from income tax.

2.4.2.5 Non-taxable Assets

Assets other than above are non-taxable assets and include private properties such as vehicles, jewelries, precious and non-precious metal, stones, gain on foreign exchange, household goods, and personal assets. Gain from such assets in exempt from tax.

It is clear from the above explanation that,

- Trading stock and business assets are concerned with business only,
- Non-business chargeable assets are concerned with investment only, and
- Depreciable assets may be of business or investment.

2.4.3 Disposal of an Assets or a Liability

Real Disposal and Deemed Disposal

The Act has assumed two types of disposal: real disposal and deemed disposal. When a person transfer a property with due consideration to another person, the sale constitutes a real disposal. A sale on installments is also an example of a real disposal, because the ownership

is transferred immediately. The chapter “ Sales of Goods” under Contract Act governs such disposals.

In the same way, when a person parts with the obligation to pay a liability, the liability is supposed to be disposed of. The disposal of a liability may also be real or deemed. If a liability becomes not-payable without making any payment either in cash or in kind, it is a deemed disposal and the total amount of the liability is deemed to be received from the disposal for the purpose of income tax.

2.4.4 Net gains from Assets and Liabilities

2.4.4.1 Net gains from Business Assets or Liabilities

According to section 36(1), net gain from the disposal of business assets or liabilities of a business of a person for an income year is calculated as follows:

Table: 2.1

Calculation of Net Gains from Assets and Liabilities

Particulars	Amount
Total of all gains from the disposal of business assets or liabilities of the business during the year.	xxx
Less: total of all losses suffered from the disposal of business assets or liabilities of the business during the year.	xxx
Less: any unrelieved net loss out of any other business losses of the person for the year	xxx
Less: any unrelieved net loss for a previous year out of the losses of the business or any other business of the person	xxx
= Net gain from disposal of business assets or liabilities	xxx

The balance of net gain after the last step is taken to income from business as per section 7(2).

2.4.4.2 Net Gains from Non-Business Chargeable Assets

According to section 36(2), net gain from the disposal of non-business chargeable assets of the investment of a person for an income year is calculated as follows:

Table: 2.2

Calculation of Net Gains from Non-Business Chargeable Assets

Particulars	Amount
Total of all gains from the disposal of non-business chargeable assets of the investment during the year	xxx
Less: total of all losses suffered from the disposal of non-business assets of the investment during the year	xxx
Less: any unrelieved net loss out of any losses of business or investment of the person for the year	xxx
Less: any unrelieved net loss for a previous year out of the losses of the investment, any business, or other investment of the person	xxx
= Net gain from disposal of non-business assets	xxx

The balance of net gain after the last step is taken to income from investment as per section 9(2).

2.4.5 Net Profit from the Disposal of an Asset or a Liability

Section 37 has given a formula to calculate gain or loss from the disposal of an asset or a liability. The formula is:

Net gain or loss from an asset = Sum of incomings during the disposal of an asset – sum of outgoings for the acquisition of the asset. If the result is positive it is a gain otherwise it is a loss.

Net gain or loss from a liability = Sum of incomings for the acquisition of a liability – sum of outgoings during the disposal of the liability. if the result is positive it is a gain otherwise it is a loss.

2.4.5.1 Incomings or Net Incomings

a) For an Asset (S 39)

An amount received or receivable on the disposal of an asset is said to be an incoming. A consideration receivable for the sale of an asset, an insurance amount received from an

insurance company, compensation received from the government for expropriation, etc are examples of incomings.

Section 39 provides that with regard to the calculation of net incomings, the cumulative incomings should be considered. Cumulative incoming stands for a sum of the amount received or received during the period of ownership by a person. It does not mean that the rent received or receivable from a house property is also to be included in cumulative incomings. So the section says that an amount received as a tax free receipt, an amount subject to final withholding tax, and an amount included in calculating the income of a person are not included in the cumulative incomings from the asset.

In case of the disposal of an asset in parts, whenever the cumulative incomings increase the outgoings on the total assets, the excess amount should be included in the taxable income of the person during the year.

b) For a Liability

An incoming for a liability means an amount received in terms of returnable to the giver at a stipulated time with or without consideration in terms of interests. Any addition to the liability until the total liability is disposal of is considered as a part of the liability, and at a given time a cumulative total is taken as the net incoming.

2.4.5.2 Outgoings or Net Outgoings

a) For an Asset (S 38)

Expenditures incurred to purchase, alter, add, or to develop, an asset or directly attributed to the purchase of assets are called outgoings for acquiring the assets. Net outgoings for an asset on a given day are cumulative total of the expenditures made on the asset from the day of acquiring the asset. Purchase price, registration expenses, brokerage or commission paid for the purchases, cost of construction, cost of alteration, cost of developments, cost of repairs, etc are components of the cost of an asset. Expenses incurred to dispose of the asset are also included in the cumulative total of the outgoings for the asset.

But those expenditures that are considered for the calculation of taxable income of the owner are not included in the net outgoings for the asset.

b) For a Liability

Net outgoing for a liability is the amount that is paid for the complete settlement of the obligation. Whatever amount is paid in return for the principal or in return for other amount that is taken in computing cumulative incomings for the liability, is treated as an outgoing.

An amount in excess of cumulative incomings over cumulative outgoings will be treated as a gain and an amount in excess of cumulative outgoings over cumulative incomings of the liability is treated as a loss.

2.4.6 Conditions of Deemed Disposal

According to section 40(3) the following are the specific conditions in which an asset or a liability is supposed to be disposal of:

a) Expiry of an Individual {sec.40 (3) ka}

In case an individual holding an asset or a liability dies, the asset or the liability is supposed to have been disposed of immediately before he is expired. The asset and the liability of the deceased are transferred to his legal successor.

b) Total Incomings Exceed total Outgoings {sec.40 (3)kha}

When total incomings for an asset exceed the total of its outgoings, the asset is treated as disposal of.

c) Disclaimer by the Claimant {sec.40 (3)ga}

- In case an asset is attached with a loan given by a bank or a finance company, the asset is deemed to have been disposed of when the bank or finance company has, under prevailing rules, declared the loan as bad. It is because the asset may be disposed of by the bank or finance company at any time.
- In case an asset is attached with a loan given by any party other than a bank or a finance company, the asset is deemed to have been disposed of when the loan giver has reasonable belief that the loan is irrecoverable. The above circumstance may arise when the borrower receives a notice of auction of the asset.

d) Change in Classification of an Asset {sec.40 (3)gha}

In case of an asset- that is a business asset, non-business chargeable asset, depreciable asset, or a stock in trade- it is deemed to have been disposed of immediately before the person begins to use the asset in such a way that it ceases to be an asset of the type it was prior to such use. Trucks are stock in trade for a person dealing in vehicles. In case the person puts one truck for its own use, out of the vehicles for sale, the truck is deemed to have been disposal of as and when the truck is treated as a depreciable asset from a stock in trade.

e) Change in ownership of an entity {sec.40 (3)na}

An entity is deemed to be disposal off when 50% or more of its ownership in comparison to the ownership three years previously is transferred. The entire assets and liabilities of the entity are regarded as being transferred to new owners. Section 57 imposes one more condition that either the transferor should be an owner of 1% of the ownership and it is related to a holder of 1% or more ownership.

The assets and liabilities shall be treated as disposed of when the following conditions shall be satisfied:

- Transfer of the ownership of the entity for 50% or more than 50%,
- The transferred ownership should have acquired before 3 years of the transfer,
- The transferor of the ownership is any continuing owner of the entity having 1% or more of the total ownership or any other existing owner of the entity holding less than 1% of the ownership, but he is a relative of such owner having 1% or more of the ownership.

f) Person Becomes non-resident {sec.40 (3) cha}

All the assets and liabilities except land and building situated in Nepal are deemed to be disposed of immediately once the owner becomes a non-resident.

g) Finance Lease {sec.40 (4)}

A finance lease is treated as disposal of an asset and the lessee is treated as the owner of the property for the period of lease.

h) Effect of a Deemed Disposal

1) Disclaimer by the claimant as per S 40(3) (ga) {S41}

In case of assets:

- The owner of the assets shall deem to receive an amount, at the time of deemed disposal, equal to then market value of the assets; and
- The cost of the assets (total outgoings up to the disposal) for the transferee, on the date of the deemed transfer, shall also be the amount treated as received (market value of the assets) by the transferor as per above case of assets.

In this case, the then market value of the assets shall be, for tax purpose, treated as transaction value of the assets for the deemed disposal.

In case of disposal of liability:

- The total outgoings for the liability shall be treated as the amount equal to the market value of the liability at the time of the disposal; and
- The total incomings of the transferee for the liability shall also be equal to the market value of the liability as determined above.

2) Change in classification of an asset S 40(3) (gha) {S41}

In case a person changes classification of any assets as described in Change in classification of an asset, the value of the deemed disposal shall be under:

- The owner of the assets shall deem to received an amount, at the time of deemed disposal, equal to the market value of the assets; and
- For the resale of the assets by the same owner the cost of the assets (total outgoings up to the disposal) shall also be the market value of the assets as described above.

It means the owner of the asset has to treat the difference of the market value of the assets as on the date of deemed disposal and actual cost incurred up to the disposal to acquire the assets as taxable profit and there the market value as determined above shall be treated as cost of the assets for further disposals.

3) Change in Ownership of an Entity S 40(3)(na) {S41}

i.) Taxable Gain or Loss from the Disposal

In case an ownership of an entity changes as described in Change in Ownership of an Entity, the assets and liabilities of the entity shall be treated as disposed off {S. 40 and S. 57(1)}.

As per section 57 (3) the entity is required to prepare two sets of financial statements, one for the periods before the date of deemed disposal and another for the period after it.

As per section 41 the treated value of the assets and liabilities due to the deemed transaction for income tax purpose shall be as follows:

For Assets

Each identifiable assets of the entity should be valued at market price prevailing at the time of the deemed disposal. The difference between the market value and book value of each asset shall be treated as taxable profit or loss from the asset. The cumulative total of such taxable profits from each asset falling within the classification of business assets, depreciable assets and stock in trade shall be calculated separately and shall be included in taxable profit of the entity under the proper heads as provided by the Act.

For the Liability

In case of a liability it will be deemed to dispose off the liability at the market value of it at the time of the disposal. In this case also the gain r loss from the deemed disposal of each outstanding liabilities is required to determine for calculating the taxable gain or loss from the disposal.

The carrying amount of the liability for the period after the deemed disposal shall also be the market value of the liability as determined under above paragraph.

ii) Other Limitations Imposed by Sec. 57 (2)

Under the condition of change in ownership of an entity as stated in section 57, section 57(2) has also imposed certain limitations on the entity. The limitations are as under:

Here previous period does mean period before the changes in ownership as stated in sec.57.

- The unabsorbed portion of interest carried from previous period as per sec. 14(3) is not allowed to set-off.
- Loss carried from previous period as per sec.20 is not allowed for set-off.
- Loss carry back facility is also not allowed. (The provision for carry back of loss is withdrawn and no more applicable).
- Any adjustment in amounts as per section 24(4) for such amounts incurred during the previous period is also not allowed.
- Any adjustment as provided by sec. 25(1) for the amount derived on and accrual basis, the person later disclaims an entitlement to receive the amount or, in the case where the amount constitutes a debt claim of the person, the person write-off the debt as bad, is also not allowed in case it occurs after the change in ownership.
- Unabsorbed loss from disposal of assets and liabilities during the previous period is not allowed to setoff from the profit from disposal of assets or liabilities after the period as allowed by sec. 36.
- In case where the entity accounted for a premium in terms of section 60(2) (b) (1) prior to the change and the entity after the change returns the premium to the insured, such premium is not allowed as expense.
- Carry forward of foreign income tax under section 71(3) that is paid with respect to foreign income prior to the change is also not allowed.

4) Person Becomes Non-resident {S 40(3) (cha)} {S41}

In case of assets

- The owner of the assets shall deem to receive an amount, at the time of deemed disposal, equal to then market value of the assets; and
- The cost of the assets (total outgoings up to the disposal) for the same owner, on the date of the deemed transfer, shall be the amount treated as received (market value of the assets) by the persons as per above.

In this case, the then market value of the assets shall be, for tax purpose, treated as transaction value of the deemed disposal.

In case of Disposal of Liability

- The total outgoings for the liability shall be treated as the amount equal to the market value of the liability at the time of the disposal; and
- The total incomings of the person for the liability shall also be equal to the market value of the liability as determined above.

5) Disposal by Way of Installment or Finance Lease (S 42)

In case of disposal of an asset by way of installment payment and finance lease the value of the assets shall be determined as under:

- For the person who disposes the assets, the then market value of the assets shall be treated as received.

Generally, in case of installment payment and finance lease the transaction value consists of market value of the assets plus interest for the period of amount due. Thus, as per the section the transaction price of the asset shall be the market value of the asset or the cash down price of the asset.

- For the person who acquires the asset, the market value of the asset as determined above shall be treated as the cost of the asset.

6) Divorce Settlement (Sec. 43)

In case a property is transferred due to a divorce settlement or to one's husband, wife, ex-husband, or ex-wife, and the transferee elects the application of this section, with the application of following provisions:

- The net outgoings incurred by the transferor will be treated as if they have been received from the transfer; and
- The same amount will be treated as net outgoings for the transferee.

In case they do not elect this section for application, the then market value of the property or the actual outgoings, whichever is higher, are treated as incomings for the transferor and outgoings for the transferee.

In case of the election, the transferor experiences neither a gain nor a loss from the disposal of the property.

7) On the Death of an Individual (Section 44)

In case of a transfer of an asset to its successors on the death of an individual, the deceased is supposed to have received an amount equal to the market value of the asset at the time of death. And the successors are supposed to have paid an amount equal to the same market value of the asset.

In case the market value is higher than the net outgoings of the deceased for the property, the difference will be treated as a gain.

8) Transfer between Related Person and Other Non-Market Transfers (Section 45)

In case an asset is transferred to related persons or is transferred without getting any consideration, the following provisions shall be applicable:

- The market value of the property at the time of transfer or the actual outgoings of the transferor up to the transfer, whichever is higher, is treated as an amount received from the transfer and the same amount will be recognized as net outgoings for the transferee.

In case a liability is transferred to related persons or is transferred without paying any consideration to any other person, the value of liability transferred is deemed equal to the market value of the liability at the time of transfer or actual incomings for the liability of the transferor, whichever is lower. The same amount is deemed to be the outgoings with regard to the liability for the transferee {Sec. 45(4)}.

9) Separate Treatment for Related Person and Non-Market Transfers

Section 45 (6) has given certain conditions in which a separate treatment should be given to the transfer of assets between related persons and for non-market transfers. The conditions are as follows:

i) Conditions

- The transferred assets should continue to have the same status after the transfer with regarded to business asset, depreciable asset and stock in trade as was before the transfer.

- The related transferee should recognize the transferred non-business chargeable assets or depreciable assets used for an investment as its business assets, non-business chargeable assets, or stock in trade.
- In case of a liability, the related transferee should use the liability for generation of income from a business or an investment.
- At the time of transfer, both the transferee and the transferor should be the residents and the related transferee should not be a tax-exempted person.
- The underlying ownership of the assets transferred or the underlying weight in the obligation transferred should be continued at a minimum of 50%. The provision is not clear with regard to the following:
 - Whose, the transferee's or the transferor's, underlying ownership or the underlying weight should there be?
 - What does one mean by underlying weight in an obligation?
 - Should the conditions of underlying ownership and underlying ownership or considered before or after the transfer?
 - Is the provision not applicable in case there is no underlying ownership or underlying weight in the assets or liabilities transferred?
 - Such complications, which may be a point of dispute in the future, should be clarified by IRD in time.
 - The transferor and the transferee both should give their consent to elect the treatment for the transaction in this regard.

ii) Treatment

The treatment as suggested by section 45 (2) ,(3) and (5) are as follows:

- The value received for disposed business assets, non business chargeable assets, and stock in trade by the transferor is deemed equal to the cumulative outgoings of the transferor up to the transfer. the value equal to the cumulative outgoings of the transferor is deemed to be the cost or outgoings for the transferee.
- The value receivable for disposed depreciable assets by the transferor is deemed equal to the value as shown for each block of assets as per the provision of section 4 of schedule 2 of the Act. And the same amount is deemed to be the cost or outgoings for the transferee.

- The value payable, for a disposed liability, to the related person by the transferor is deemed equal to the cumulative incomings of the transferor up to the disposal. And the same amount is deemed to be incomings or obligation for the transferee.

In simple words, the transferee takes the assets and liabilities of the transferor on the basis of the balance sheet prepared on the historical cost assertion as on the date of the transfer.

I) Involuntary Disposal of an Asset or a Liability with Replacement (sec.46)

When a person has to dispose of an asset due to order issued by government offices, it is called an involuntary disposal. Under such circumstances, whatever may be the amount received as compensation for the involuntary disposal, it is treated as incomings from the disposal. But sometimes the same government office allots certain other assets in compensation for the transferred assets with or without paying an extra amount. In case the transferor gets such assets in replacement within one year of the transfer and the transferor elects this provision to be applicable, the incomings for the transferred assets shall be the sum of the following amounts:

The cumulative outgoings for the assets up to the disposal of the assets; and

- In case an amount received from the disposal exceeds the amount paid or payable for the replaced asset, the excess of the amount.

The net outgoings for the replaced asset shall be calculated as follows:

- The cumulative outgoings for the assets up to the disposal of the asset; and
- In case an amount paid or payable for the replaced asset exceeds an amount received from the disposal, excess of the amount.

J) Disposal of an Asset and a Liability by Merger (sec.47)

In case the assets or liabilities of a person are merged with the assets and liabilities of another person, the incomings for the transferor and outgoings for the transferor and outgoings for the transferee shall be calculated as follows:

- The net outgoings of the transferor up to the day of the merger of assets and liabilities are treated as net incomings for the transferor. But as far liability is concerned, the

transferred amount should not be more than the amount actually received by the transferor up to the day of merger.

- The same amount calculated as incomings for the transferor shall be treated as outgoings for the transferee. In this case also, the transferee should merge the value of the assets and liabilities acquired from the merger at the closing balances as shown in the last balance sheet of the transferor.

According to the section where a person acquires an asset or incurs a liability and as a result another asset owned or liability owned by the person is disposed off by way of expiry or merger, the existing asset and liability before such expiry or merger is treated as disposed off.

The section further states that the provision of this section is applicable in the following conditions also:

- the exercise of an option by the person to acquire or sell an asset;
- the acquisition of an asset that is leased by the person; and
- the transfer of a liability that is guaranteed by the transferee.

K) Disposal of an Asset or a Liability by Splitting (sec.48)

In case a right or an obligation with respect to an asset owned or a liability owned by a person is transferred to another person, including by way of a lease of an asset or a part thereof, the following provisions shall be applied:

- Where the right or obligation is permanent, the person is treated as disposing of the whole or part of the asset or liability.
- Where the right or obligation is temporary or contingent, the person is not treated as disposing of the whole or part of the asset or liability.

L) Apportionment of Outgoings and Incomings

An appropriate provision has been made in section 49 for the disposal or acquisition of assets disposed off or acquired more than one asset at a time without declaring separate value for each asset. In such circumstances, the appropriation of value of each asset shall be done according to the then market values of the assets.

2.4.7 Gain or Loss from the Disposal of an Asset

2.4.7.1 Gain or Loss from the Disposal of a Non-Business Chargeable Asset (sec.37)

The formula given for the gain or loss from disposal of a non-business chargeable asset is as follows:

Cumulative incomings from the asset – cumulative outgoings for the asset = (if positive) gain or (if negative) loss.

2.4.7.2 Gain or Loss from the Disposal of a Business Asset

The formula given for the gain or loss from the disposal of a business asset is as follows:

Cumulative incomings from the asset – cumulative outgoings for the asset = (if positive) gain or (if negative) loss.

2.4.7.3 Gain or Loss from the Disposal of Depreciable Assets

Gain

According to section 4 of schedule 2 of the Act, a gain from the disposal of a depreciable asset is calculated as follows:

- **Disposal of an Individual Asset**

In case of an individual asset out of a block consisting of two or more assets of the same class or of different classes is disposal of, the gain is calculated as per the following formula:

Amount received from disposal - depreciated balance of the block at the end of previous year + absorbed addition during the year in the block .It means unless the block value after deduction of the amount received from the disposal becomes negative, there is no taxable gain from the disposal of the asset.

- **Disposal of all the Assets of a Block**

In case all the assets in a block consisting of one or more assets of the same class or of different classed are disposed of, the block is said to be dissolved. The gain from the disposal of the assets is calculated as per the following formula:

Amount received or receivable from the disposal – depreciated balance of the block at the end of the previous year + absorbed addition during the year+ unabsorbed addition during the year (for a gain result should be positive).

Loss from the Disposal of Depreciable Assets

In case all individual assets of a class and all the classes included in a block are disposed of, there are chances of a loss from the disposal. The formula for calculation of the loss is as follows:

Depreciated balance of the block at the end of the previous year + absorbed addition during the year + unabsorbed addition during the year – amount received or received from the disposal (for loss the result should be positive).

2.5 Nepal Stock Exchange (NEPSE)

Nepal Stock Exchange (NEPSE) was established to promote specialized secondary market in Nepal. Previously it was known as Securities Exchange Center Ltd. which was established in 1976. Before conversion into Stock Exchange Ltd. it was only one capital market institution undertaking the job of brokering, underwriting, managing public issue, market making for government bonds and other financial services.

Government of Nepal, under a program initiated to reform capital market converted securities exchange center into Nepal Stock Exchange Ltd. in 1993. NEPSE is operated under Securities Exchange Act, 2063. Government of Nepal (58.66%), Nepal Rastra Bank (34.60%), Nepal Industrial Development Corporation (6.12%), and Licensed Members (0.62%) are its shareholders.

NEPSE is a fully governmental corporate body, where its main objective is to play a role of creating environment of secondary market by trading of securities after primary issuance. Normally, such trading are organized at stock exchange or at over the counter market (OTC market). Although, both platforms are provided by NEPSE, the OTC market has not experienced any trading till now and all exchange of securities is performed at the floor of stock exchange.

As well as it's another important objective is to inform as well to provide important and essential information to their customers (investors). By providing secondary market's indicators like amount of share traded, NEPSE Index, Annual Turnover, Turnover to market capitalization and the GDP ratios.

According to the change of global market environmental exercise, NEPSE has also changed their traditional process into the process of automation; NEPSE started internationally compatible computerized trading system, Automated Trading System (ATS) from 24 August, 2007. this system is able to eliminate all possible human errors in the open out cut trading procedures. Several international practices are incorporated to make the system internationally applicable and modifications are also made to customize the existing rules and regulations of the country.

Therefore, NEPSE is a well platform to all level of investors to gain a profit by investing their capital. As well as after the implementation of Automated Trading System (ATS), since August 24,2007 and extension of trading hour, trading volume as well as number of transactions increased significantly during the fiscal year as compared to the previous years.

2.6 Monetary Policy of Nepal

Following the Nepal Rastra Bank (NRB) Act, 2002, the NRB has been formulating the annual monetary policy and making it public since 2002/03. The bank had released the monetary policy statement of 2007/08 on July 23, 2007 and its midterm review on March 14, 2008.

As per the NRB Act 2002, the bank has been releasing the monetary policy statement consisting of brief review of economic and financial situation, appraisal of the monetary policy adopted in the previous year followed by the relevance and assessment of current year's monetary policy and financial sector programs. It is the seventh monetary policy in the series of the annual monetary policy announced by the NRB.

Monetary Policy of the Central Bank has a profound influence on the performance of the securities market. The conduct of Monetary Policy comes under Target and Goal Setting of Central Bank that covers various objectives such as price stability, interest rate stability, high employment, financial market stability and stock market is an integral part of it, stability in foreign exchange and ultimately economic stability and growth. At present, monetary policy cannot be separated from stock market although the effects of monetary policy are guided by the broader consideration of macro-economic variables in two ways: i) Relationship between economic development and contribution of stock market to its sound and steady growth and ii) Cyclical pattern generated from the changes in monetary policy and underlying upward

and downward paths creating movements in stock prices. Apart from these basic influences, monetary policy plays a decisive controlling function to avoid artificial rigging in stock prices to save investors from the hands of gambling-tendency speculators. The monetary policy structure acts as a powerful tool to foster and encourage the activities of the positive-driven strategy. Monetary policy creates overall linkage to guide the stock market to take right kind of direction and change proving vital to endure fair trading practice and compliance of the guidelines and regulatory provisions to protect the common interest of the investors.

2.7 Review of Literature

Different types of books, journals, reports, articles and dissertations are being reviewed before beginning the research. All books are designed for campus level syllabus. These all books are directed to theoretically and practically. They only described law but not try to find appropriate provision for taxpayer. All dissertations are trying to find the specific objectives and solution of their related problem. Journals, reports and articles are related with this study, because this materials are related with stock market and its norms.

2.7.1 Review of Related Books

A book entitled "*Income Tax Theory and Practice*" has published. This book is based on overall act but not a campus syllabus. It is useful to all tax practitioners, student and other interested people. It describes whole income tax according to section wise. Agrawal is trying to compare ITA 2058 with international accounting standard. This book later on revised in 2006. He is defining clearly about the capital gains tax of the Nepal (Jagdish Agrawal, 2004).

Two books has been published; the first one is for the BBS 3rd year named "*Taxation in Nepal*" the second one is for the MBS 2nd year named "*Tax Laws and Tax Planning*". Both books have shown how taxable incomes have computed unclear employment business and investment sources. where about the capital gains tax has given clearly (Koiral and Bhattari, 2003).

Two books has been published; named "*Tax laws and Tax Planning*" and second one "*Nepal ko Bartaman Kar Byabastha*". This book has been designed to the syllabus of BBS 3rd year. Theoretical as well as practical aspects of taxation have put in his book (Kadel, 2003).

A book named "*Income tax law: Then and Now*" has published. In this book, it is clearly presented historical aspects and development of income tax in Nepal. Similarly, we can find explaining about legal provision of the newly implemented "Income tax act 2002" in very simple words. As an advocate and legal advisor, Adhikari has presented both positive and negative aspect of new income tax system very clearly, which has helped a lot for conducting this research study (Adhikari, 2003).

A revised edition of book named "*Income tax and house and compound tax law and practice with VAT*" has published. It is described about historical aspects of income tax and legal provisions relating to income tax with numerical examples. This book was folly based on the syllabus of BBS third year and BBS second year. This book was published before coming new income 55 tax Act 2058 and it is very useful to know the general information and legal provision of income tax act 1974. His book was informative rather than analytical (Dhakal, 1998).

A book entitled "*Modern Taxation in Nepal: Theory and Practice*" has published. This book is based on Income Tax Act 2058 (Adhikari, 2003).

A book entitled "*Income Tax in Nepal*" has published. This book has been writing on the Income Tax Act, 2031. This book was mainly written of the course requirement of bachelor's level in management. This book is not relevant today but some description, analysis and historical aspects can be drawn for the study in this book. Poudel and Timalisina have give a detailed computation of income from various sources and also described other theoretical income form various sources and also described other theoretical aspects of income taxation (Pudel and Timalisina, 1990).

A book entitled "*Income Tax Law and Accounting*" has published. In this book, a writer has illustrated the process, provision and methods to assess the income tax from income from various source is the provision under Income Tax Act, 2031. This book is only the legal aspect of income tax but he has not analyzed the defects, problem and role of income tax to the nation economic development. He has only explained the provision relating to income tax of Nepal in this book (Pradhananga, 1990).

A book entitled “*Income Tax Law and Practice*” has been published. This book has been divided in nine chapters. In his book a writer has described the meaning of income tax law, direct and indirect tax, brief history of income tax in Nepal, types of taxpayers, industrials, Enterprises, Act, 2049, income from remuneration. The book is based on B.Com. Syllabus. Many practical problems have been solved in accordance with practices followed by tax office. It is only for concept and practical ideas of income tax to the students of Bachelor’s level; it does not provided complete information of legal provision of taxation system in Nepal (Poudel, 1993).

2.7.2 Review of Reports and Articles

an article entitled “*Historical Perspective on Income Tax in Nepal*” this article has describe previous income tax act and shown main fatigue of income tax act 2058 are as follows:

- Provision of set and carry forward of losses.
- Classification and pooling of depreciable Assets.
- Tax on capital gain
- International taxation
- Medical tax credit
- With holding payment and quantification allocation and characterization of the amounts (Dhakal, 2008).

An article entitled “*Problems in Tax Administration and Their Remedies*” and it is published in journal of finance and development 'Rajaswa' as Volume 1. He has explained about the problems and their remedies related with tax revenue and major types of practical problems & challenges in tax administration. He has mentioned in his article by showing limited amount of transaction, commercial trend, lack of co-operation in tax auditing, legal ambiguity and complexity in implementation and lack of co-ordination between Inland Revenue Department and Revenue Investigation Unit.

Meanwhile, he has been recommended some valuable suggestions to solve the problem and to maintain overcome challenges. And such recommendations are statistical and information system should be properly managed, co-ordination between Inland Revenue Department with various entities of Government Revenue Investigation Department should be good understandable as well as its related unit should play an important role for the good result in the future (Pant, 2004).

An article entitled “*Draft of Income Tax Act, 2002: Critical Analysis*” in Rajaswa. He has criticized the Income Tax Act, 2002 in different aspects, exemption of agriculture income from income tax, expert duties levied income (i.e. tax on interest, dividend and capital gain), withdrawal of the provisions of exemption on exports goods and services, inequity between different capital gain suddenly and no tax adjustment for inflation are the major issues he raised in his article (Kandel, 2001).

An article entitled “*Tax System and its Performs in Nepal*” as a descriptive way. He has described the features, causes, system and areas of reform of tax. He has characterized the tax system as high rates, multiple objectives of tax scheduler rather global approach to income taxation, complicated and ambiguous tax laws (Thapa, 2004).

2.7.3 Review of Previous Research Works

Lamsal (2001), had concluded a thesis on the topic “*A study on Contribution of Income Tax on Government Revenue*”.

His Main Objectives:

- To analysis the impact of income tax evasion government revenue of Nepal,
- To identify the way and cause of income tax evasion,
- To estimate the volume and tendency of income tax evasion in small trade sector, and
- To examine the role of income tax initializing the resources in Nepal.

His Major Findings:

- Widespread evasion of income tax in Nepal.
- Income tax in Nepal and income tax is a suitable means for raising domestic resources.

His Major Recommendations:

- He recommended for controlling tax evasion by controlling illegal business activities increasing penalties and fines to tax evades,
- Compulsion maintained of accounts.

Neupane (2008), has conducted a research, on the topic “*A Comparative Study on Contribution of Direct Tax and Indirect Tax to National Revenue of Nepal*”.

His Main Objectives:

- To find the contribution of direct tax and indirect tax to national revenue in Nepal.
- To analyze the structure of direct and indirect tax.
- To analyze the contribution of corporate tax to national revenue of Nepal.
- To find out the most important factors for effectiveness of income tax in Nepal.
- Provide suggestions for effective collection of direct and indirect tax in Nepal.

His Major Findings:

- The resource gap has been fluctuated. It was Rs. 22328 million in F/Y 1998/99 and which was increased to Rs. 30941.2 million in F/Y 2000/01 and average % of resource gap to Government expenditure was 34.79%.
- The corporate tax rates have been revised for several times in the history of corporate. Now a days, private and public companies are taxed at a flat rate of 20.25 and 30 percent respectively which are the lowest rate in the history of more than one decade.
- Tax education is most necessary in Nepal to increase the tax consciousness of tax payers.
- Income tax evasion is the major problem of Nepal for income tax generation and it's main reason is defective tax administration, unwilling of tax payers to pay tax and corruption in tax authority.
- Lack of trend and competent tax personal, complicated tax laws and undue delay in making assessment are the most important cause of ineffectiveness of Nepalese tax administration.
- Honest tax officer and clear act, rules and regulations are the most important tractors for the effectiveness of income tax in Nepal.

His Major Recommendations:

- The target of government to increase tax collection from VAT, income tax and excise duty; the government should encourage the entrepreneurs to join in VAT, taking PAN and should systematic the custom and boarder etc.
- Government should make a clear cut distinction between the role of public and private sector. It should take and endeavor to motive, facilitate and regulate to accelerate the private sectors.

- Government should reduce resource gap by increasing internal revenue and subsidies likewise, government should only take the foreign loan for productive sector or purpose which has high revenue generating possibility.
- Income tax policy should be formulated according to the economy policy of the country. Income tax policy should be revisiting timely.
- Separate income tax department should be established so that the specialization could be achieved in matter of income tax.

Nyaupane (2009), has conducted the research on the topic “*A study on income tax system in Nepal*”.

His Main Objectives:

- To analyze the contribution of income tax of national revenue of Nepal.
- To examine the effectiveness of income tax revenue collection in Nepal.
- To examine the views of the taxpayers, tax experts and tax officer about various aspects of present income tax.

His Major Findings:

- Nepalese tax revenue is the compositions of direct and indirect tax there is dominated role of indirect tax revenue. Where in FY 2007/08, 27.11% and 72% , portion of direct tax and indirect tax respectively.
- The tax GDP ratio of Nepal is not found satisfactory compare to other developing countries.
- Public awareness program is necessary to increase tax consciousness and raising the government revenue.
- Exemption and deduction should be increases to promote the special industry and export.
- Clear act, rules and regulation effective tax administration are the most important instruments for effectiveness of income taxation in Nepal.
- Mass poverty and low-income level, increasing habit of tax evasion, ineffective income tax administrations etc. are the major reason for the low contribution of income tax to national revenue.

His Major Recommendations:

- The terms objectives of income taxation should be growth redistribution and stabilization the income tax policy should be properly formulated on the basis of critical analysis of existing situation.
- Tax ratio should be increase gradually on long run basis to meet the deficit in budget. For this the tax base should be widened.
- The assessment and tax collection provisions should be clear and simple so that tax payers would be encourage to pay income tax.
- A research and intelligence center should be established in each tax office for proper planning and to collect the information in regard to income tax evaders, potential new taxpayers and non residents who have conducted business without registration.
- Effective public participation is necessary to minimize the income tax evasion. Continuous effort should be done by tax authority in order to develop the taxpayers' positive attitude towards taxation.
- Proper tax education should be provided to tax officials as well as tax payers regularly.

Panday (2009), has conducted a research on the topic of “*A study on Provision of Special Facilities to an Individual Taxpayer under Income tax Act, 2058*”.

His Main Objectives:

- To review and analyze the provision of special facility to an individual taxpayer which are provided by the Income Tax Act 205.
- To identify the other provisions to be included in the special category of individual taxpayer.
- To know the awareness of the individual taxpayer towards the provision of special facility.
- To provide possible suggestions and recommendations for making the Provisions of special facility to an individual taxpayer, which may be higher effective and efficient in Nepal.

His Major Findings:

- Special provisions to Individuals provided by ITA 2058, is not sufficient and more provisions should be provided.

- The flat rate of 25% to non-resident individual is not appropriate.
- The provisions of foreign tax credit is satisfactory, but provisions of Medical tax credit is not satisfactory.
- The provisions about Life Insurance Premium in respect to individual is appropriate.
- The provision of excess exemption limit of 50% to disable person is appropriate.

His Major Recommendations:

- Provision of special facility to individual taxpayer is effective to increase revenue and encourage to individual but there are some provision which are not satisfied to individual taxpayer. Provision regarding individual taxpayer should be revised and review time to time to meet change environment and change income level of people.
- The provision of deduction facility of Retirement contribution is not sufficient and it should be wholly exempted.
- Exemption limit is required to Non-Resident Individual.
- There is lack of awareness with current provision of special facility to individual and clear cut information to individual taxpayer regarding the special provision. There is requirement of awareness program to individual taxpayer.
- The flat rate for Non-resident individual is not appropriate and it should be revised.

Subedi (2009), has conducted a thesis on the topic “*Tax Payer's Attitude Towards Exemptions and Deductions Under Income Tax Act 2058*”.

His Main Objectives:

- To analyze of the contribution of income tax of national revenue of Nepal,
- To examine of deductions facilities provided by the Income Tax Act 2058,
- To evaluate of the exempt limit under the Income Tax Act 2058,
- To examine the views of the tax experts, tax officers and tax payers about the exemptions and deduction facilities provided in the present Income Tax Act.
- To provide suggestions and recommendations about Income Tax Administration and Income Tax Law.

His Major Findings:

- Income tax administration in Nepal is ineffectiveness.

- Weakness in government's policy, less public participation, defective Income Tax Act, lack of trained employee, faulty organization structure of tax administration, shortage of income tax experts/professional in tax administration are the main causes for the creation of ineffective tax administration.
- Provisions made under the Nepalese Income Tax Act 2058 are insufficient in all respect.
- Income tax is the important source of internal revenue of Government.
- The tax-GDP ratio of Nepal is not found satisfactory compare to other countries. Tax-GDP ratio was 10.14 percent in 2003/04, which was in an increasing trend and non-tax revenue was 2.98 percent in 2003/04.

His Major Recommendations:

- Dividend received from private residential company is final withholding payment and it can be included in income form investment, after deducting all the expenses regarding with the dividend.
- Clear provisions should be made in the case of deduction in that act. All the items of deductions should be clearly defined in the act.
- To promote export, more deduction should be provided.
- The provision of tax deduction at source and advance payment of tax should be extended to different sources of income as far as possible.
- Special provisions should be made in the act for research and development.
- The provision of rewards, prize, and incentive should be introduced in the act to encourage the taxpayers to pay tax voluntarily rather than coercive measures.

Dahal (2008), has conducted a thesis on the topic *“Implementation Problem of Income Tax Act 20528”*.

His Main Objectives:

- To analyze the contribution of income tax on national revenue.
- To find out the implementation problems of Income Tax Act 2058.
- To provide the suggestions for the better implementation of the Act 2058.

His Major Findings:

- The role of tax revenue is very important in revenue mobilization of Nepal to meet the government expenditure.
- Revenue collection increased by 3.08% in FY 2006/07 totaling Rs. 87718.1 million compared to FY 2005/06.
- There is problem in the implementations of Income Tax Act, 2058 in Nepal. 87.78% of the respondents thought that there is problem in the implementation of Income Tax Act, 2058 in Nepal.
- It has found that rebates and facilities provided by Income Tax Act is medium.
- It has also found that revenue administrative and revenue tribunals are not effective to give the correct decision to the payers. Where 59 respondents (65.56%) are against the effectiveness, out of 90 respondents.
- In the opinion of the respondents, political effect is the most powerful reason behind the ineffectiveness service of tax administration of the tax payers and other related people after introducing the new Income Tax Act, 2058 in Nepal. Similarly, it is also found that lack of training and carrier development, lack of motivation, lack of reward & penalties, lack of sufficient field offices, lack of sufficient budget and lack of physical facilities etc. are the major reasons of ineffectiveness service of tax administration to the tax payers and other related people after introducing the new act, 2058 in Nepal respectively.
- It has been clarify that political uncertainties have increased day by day is the most powerful reason behind the ineffectiveness of the Income Tax Act, 2058 in the following years. Similarly, increasing tax evasion and avoidance, lack of tax consciousness as people and the Act itself is not effective etc. are also the major reason behind the ineffectiveness of the Income Tax Act, 2058 in the following years respectively.

His Major Recommendations:

- To solve the problems in implementation of Income Tax Act, 2058 following recommendations are made.
 - Political problem is the most powerful reason behind the problem in implementations of Income Tax Act, 2058 so that there should be stable in political environment.
 - It is necessary to control illegal business activities.
 - The tax evasion and tax avoidance reduce tax liability of the government by unethical so tax evasion and tax avoidance should be minimize by effective implementation of fines and penalties provision of the act, 2058.
 - It should strict punishment to those who evade and avoid tax.
 - It is necessary to provide effective training to personnel about new tax system.
- Recommendations to the tax administration for effective service to the tax payers and other people under the act, 2058.
 - Political problem should be solved as soon as possible.
 - Training and carrier development should be provided to the tax personnel time to time.
 - Tax officer should be motivate by the rewards and should be punish, according their working attitude / behaviour.
 - Human resource management should be made more effective.
- Following suggestions are made to minimize the corruption.
 - Political scenario of the country should be effective.
 - Dishonest tax personnel and tax payers should be punish.
 - Consciousness should be developed to hate the corrupt workers.

2.8 Research Gap

There is gap between this research and the previous research most of the previous researches have focused the contribution of various income in the government revenues, structure of the government revenue and the income tax from various sources, tax structure as well as study of VAT and studies of direct and indirect tax etc. they have found that the contribution of income tax in government revenue is significant and it should be mobilized to economic development of Nepal. Almost all of them have indicated that the tax administration is inefficient and there is high level of tax evasion. Most of the researchers have suggested,

improvement of the tax administration could increase in the contribution of income tax in resource mobilization and widening the tax coverage.

But this study is based on, provisions of capital gain tax and its impact on Nepalese Stock Market. It is completely quite different than other research; we can get information and knowledge about the contribution of capital gain tax on national revenue, providing some information about stock market of Nepal, influences of Monetary Policy and its efficiency, and current provisions of Capital Gains tax & analysis of major provisions that are not been introduced in the Nepalese tax Provisions. Analyzing trading behaviour of Nepalese stock for various fiscal years. And to identify the important and positive supportive role of government for the development and promoting of stock market. These are some major objectives research of this study.

CHAPTER - III

RESEARCH METHODOLOGY

Research methodology will be devoted, applied in the study for the achievement of desired objectives. Primary as well as secondary data are used for the study opinion survey technique will be adopted to collect the primary about the different aspect of capital gain tax. While conducting opinion survey, questionnaires are distributed to different groups who will be related to capital gain tax. They are income tax administrators, Brokers, individual investors, tax experts, Entities investors, etc. Different statistical tools are used to analyze the data. In this study simple average, percentage, and chi-square test for hypothesis have been used to analyze the collected data.

So, this study is undertaken to analyze the provisions of capital gain tax and its scope and importance in the Nepalese economy. The main concentration of this study is based on the revenue from the capital gain tax and its contribution in the governmental revenue. To achieve certain objectives a methodology is designed at the six parts such as;

- Research design,
- Population and sampling,
- Nature and sources of data collection,
- Procedure of data collection and
- Data Processing and Analysis Procedures

3.1 Research design

It is the plan structure and strategy of investigation. Generally, research design means definite procedure and technique, which guide to study and propounds ways for research viability.

Thus, the research study is focused on analyzing the provisions of capital gain tax and finding out its effectiveness onto the Nepalese stock market as well as its implication in the Nepalese economy. Most of the materials and information of this study are concerned with present tax act and available primary and secondary sources. And under this study different research design are selected to analyze and to find out the solutions such as descriptive research, analytical research and empirical research. Beside this some of the data and information are concerned with the past phenomena.

3.1.1 Types of Research Design

a) Descriptive Design

Descriptive research includes surveys and fact-finding inquiries of different kinds. The main purpose of descriptive research is description of the state of affairs as it exists at present.

b) Analytical Design

In analytical research, researcher has to use facts or information already available and analyze these to make a critical evaluation of the material.

c) Empirical Design

Empirical investigation relies on experience or observation alone, often without due regard for system and theory. It is data-based research, coming up with conclusions which are capable of being verified by observation or experiment.

To achieve the stated objectives of the study, opinion of 50 respondents are collected. Respondents are classified into Brokers, tax experts, income tax administrator, individual investors and entities investors. Questionnaires are sent to the respondents. The study has attempted to collect information regarding the provision of capital gain tax and its contribution to income tax revenue as well as effectiveness towards the Nepalese stock market.

3.2 Population and Sampling

In order to benefit this study, 50 sample sizes from Katmandu valley is selected. Persons included in the sample are carefully selected by consultation with the tax experts, professors and lecturers of Tribhuvan University and judgment of the researcher. The respondents have been divided in to five groups. The following table shows the groups of respondents and the size of samples.

Table: 3.1

Groups of Respondents and Size of Samples for Each Group

S.N.	Groups of Respondents	Sample Size
1	Income tax administrators	15
2	Brokers	5
3	Individuals Investors	20
4	Entities Investors	5

5	Tax expertise	5
	Total	50

3.3 Nature and Sources of Data Collection

In order to achieve the real and accurate result in this research, both primary as well as secondary data have been collected but most of the data and information used in this study are based on secondary sources.

3.3.1 Primary Sources of Data

The primary data have been collected from the responses of persons relating to income tax representing from the various sector of Katmandu valley. For this purpose, structured questionnaire are distributed to the selected respondents along with the field visit. The questionnaire has included the question relating to specific objectives of capital gain tax in Nepal, major problems of capital gain tax system, remedy to minimize tax evasion existed in Nepalese income tax administration, cases of ineffectiveness of the income tax administration, the most important factor for effectiveness of income tax system including necessary suggestions for achieving effectiveness of income tax in Nepal.

3.3.2 Secondary Sources of Data

The secondary sources of data are the information received from books, journals, newspaper, reports and dissertations etc.

The major sources of secondary data are as follows:

- Economic survey and budget speeches of ministry of finance of N/G
- Reports and records of Inland Revenue Department, Ministry of Finance of N/G.
- Published documents of National Planning Commission and Nepal Rastra Bank; monetary policy and other documents that are related while preparing thesis.
- Reports of Auditor Generals' office, Ktm.
- Rajaswa, Revenue Administration Training Centre, Ktm.
- Thesis related with income tax, capital gain tax, etc.
- National Newspapers, Journals, News Magazines and Economic Newspapers and Magazines are also the secondary sources of this thesis.
- Different publication of Central Bureau of Statistics.

- Other published and unpublished reports, journals and articles on the concerned subject etc.
- 1 Annual reports from Nepal Stock Exchange (NEPSE).

3.4 Procedure of Data Collection

Data and information are used in this study has collected from the primary and secondary sources. In primary sources, a total 50 sets of questionnaire are developed and distributed to the selected respondents. Distribution is done personally through field visits rather than sending by any means to get accurate and actual information in time. The questionnaires are administered in personal meeting with the respondents and additional information is also collected from interview with the respondents.

For the other needed information are collected through library of chamber of commerce, annual report of IRD, Economy Survey 2009/10 of MoF, various journals, national newspaper are also reviewed. Respected parties are consulted while analyzing the research questions.

3.5 Data Processing and Analysis Procedures

The useful data and information are collected from various reliable sources. These data and information are firstly processed for tabulation and analysis purpose. Available data are tabulated into separate tables and format as per requirements of the subject matter. Tabulated data are analyzed by using simple statistical tool such as average, percentage etc. And they have been presented and analyzed in descriptive way. Graphs, Charts and Diagrams are also presented to interpret visually the findings of the study. Analysis of time series has been done to predict the future trend of capital gain tax and its components.

Time series is defined as the functional relationship

$$Y = F(t),$$

Where,

Y is the value of the variable consideration in time. The time t' may be yearly in this analysis. Among the various methods of analysis time series, the least square method is chosen as the best method in showing trend and prediction in this research.

Under the least square method, a trend line is fitted to data satisfying

$\Sigma(Y-Y_c) = 0$ and $\Sigma(Y-Y_c)^2$ is least where, Y is the actual value and Y_c the computed value of Y.

From that, the line obtained by this method is the line of best fit.

Trend line, $Y = a + bx$

$$a = \frac{\Sigma x^2 \Sigma y - \Sigma x \Sigma xy}{N \Sigma x^2 - (\Sigma x)^2}$$

$$b = \frac{N \Sigma xy - \Sigma x \Sigma y}{N \Sigma x^2 - (\Sigma x)^2}$$

Where,

Y= Dependent variable

X= Independent variable

a= Y intercept or value of Y when X=0

b= Slope of the trend line of amount change that comes in Y for a unit change in X.

CHAPTER - IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Background

The presentation and analysis of the data is also one of major chapter of the study, which helps to present the data and analysis the data under the related circumstances. As well it makes easy to study for the analyzer as well as to the students. So, in this chapter has 16 sub-headings and they have been arranged in this order;

Revenue Structure of the Nepal, Structure of Tax Revenue, Capital gain tax and its significant, Trading behaviour of Nepalese Stock Market, and at end of this study has Empirical study/Investigation based on opinion survey has been presented with relevant subtopics and major findings are also included in the last of this chapter.

4.2 Revenue Structure of Nepal

Every government is responsible to perform numerous as well as welfares activities for the betterment of the people and for the purpose of developing country. So, for that reasons government needs huge amount of fund to fulfill various types of expenditure. For the purpose of gathering a huge amount of fund, government collects revenue from many different sources, such as from, grants, administrative income, business income and taxation.

Generally, the government collecting revenues are classified into two categories;

- Tax Revenue, and
- Non-Tax Revenue.

These both sources are subject to non-repayment and their sum constitutes the government or public revenue. And beside these sources, government has other sources which are subject to repayment such as loans and however grants are not compulsory repaid these sources are desirable only to meet these fiscal defects.

Nepalese economy is characterized by a low revenue performance in contrast to the growing public expenditure. The trends and composition of tax revenue and non-tax revenue of Nepalese government is presented in a table from, from the fiscal year 1998/99 to the fiscal year 2008/09 at a table given below. In the fiscal year 1998/99 the total revenue has collected

Rs. 3725.10 (in ten million); in contrast, the part of tax revenue is Rs. 2875.29 (in ten million) & it is 77.18% and non-tax revenue is Rs. 849.81 (in ten million) & it is 22.82%. Then, the total revenue shares of tax revenue and non-tax revenue in the fiscal year 2008/09 stood at 81.6 percent and 18.4 percent respectively. Such shares in the previous year remained at 79.1 percent and 20.9 percent respectively Tax revenue grew by 37.5 percent in the fiscal year 2008/09 compared to that of the previous fiscal year 2007/08 compared to its preceding fiscal year.

In such a way, Non-Tax revenue increased by 17.9 percent to Rs. 26422.6 million in the fiscal year 2008/09 compared to that of the fiscal year 2007/08.

Table: 4.1
Contribution of Tax Revenue and Non-Tax Revenue in
Total Revenue from Fiscal Year 1998/99 to 2008/09

(Rs. in Million)

Fiscal Year	Total Revenue	Tax Revenue		Non-Tax Revenue	
		Amount	% compare with the Total Revenue	Amount	% compare with the Total Revenue
1998/99	37251	28752.9	77.18	8498.1	22.82
1999/00	42893.9	33152.2	77.29	9741.6	22.71
2000/01	48893.9	38865.1	79.49	10028.8	20.51
2001/02	50446.6	39330.6	77.96	11116	22.04
2002/03	56229.7	42586.9	75.74	13642.8	24.26
2003/04	62331.0	48173.0	77.29	14158.0	22.71
2004/05	70122.7	54104.7	77.16	16018.0	22.84
2005/06	72282.0	57430.4	79.45	14851.6	20.55
2006/07	87712.2	71126.7	81.09	16585.5	18.91
2007/08	107622.5	85155.5	79.12	22467.0	20.88
2008/09	143474.5	117051.9	81.58	26422.6	18.42

Source: Economy Survey, Fiscal Year 2009/10

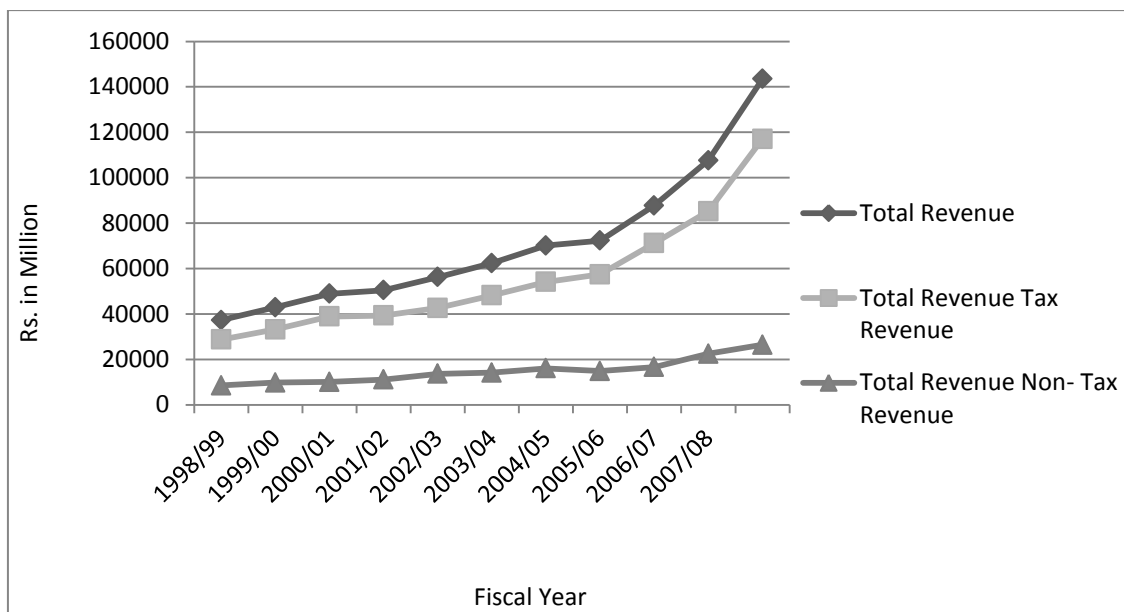
The above table reflects that the tax revenue is gradually increasing in every year since 1998/99 amounting Rs. 28752.9 million to Rs. 117051.9 million in the year 2008/09. Since the fiscal year 1998/99 the percentage contribution of tax revenue to total revenue has found at same rate till; F/Y 2004/05 but from the F/Y 2005/06 is increased to the F/Y 2008/09 continuously. Among them, the contribution of tax revenue to total revenue is 81.58%

maximum in F/Y 2008/09 during the study period and the average contribution is 78.67 percent in different years.

The non-tax revenue collection is also in the increasing trend in 11 year i.e. Rs. 8498.1 million in FY 1998/99 to Rs. 26422.6 in FY 2008/09. In FY 2005/06 is 14851.6, it is less than other. Then after, it is in the increasing trend. The tax revenue collection is seen to be in the gradually increasing trend, but the contribution portion of non-tax revenue to total revenue is fluctuating during the study period. In portion of amount collection every year are increasing but at low rate. In FY 2005/06 only Rs.14851.6 collected and decreased to 20.55% and increased up to 24.26% in FY 2002/03. Its average contribution is 21.51% during the study period. The contribution of tax and non-tax revenue on total tax revenue is shown in the following trend line.

Figure: 4.1

Trend Line Showing Revenue to Tax and Non-Tax Revenue



4.3 Structure of Tax Revenue in the Nepal

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 duty, value added tax, entertainment tax, hotel tax, air flight tax and road and bridge maintenance tax are included in indirect tax and income tax, land tax, vehicle tax, wealth tax and other taxes are included in direct tax.

The structure of Nepalese tax revenue is presented in given below table, in terms of direct tax revenue and indirect tax revenue form the fiscal year 2001/02 to 2008/09. From the table below, it is clear that the whole Nepalese tax structure is dominated by indirect tax revenue.

Table: 4.2

Tax Revenue Structure of Nepal

(Rs. in Million)

Fiscal Year	Total Tax Revenue	Direct Tax		Indirect Tax	
		Amount	% Compare with total tax Revenue	Amount	% compare with total tax revenue
1998/99	28752.90	7516.00	26.14	21236.90	73.85
1999/00	33152.10	8951.50	27.00	24200.60	72.99
2000/01	38865.10	10159.40	26.14	28705.70	73.85
2001/02	39330.60	10597.50	26.94	28733.10	73.06
2002/03	42586.90	10105.80	23.73	32481.10	76.27
2003/04	48173.00	11912.60	24.73	36260.40	75.27
2004/05	54104.70	13071.80	24.16	41032.90	75.84
2005/06	57430.40	13968.10	24.32	43462.30	75.68
2006/07	71126.70	18980.30	26.69	52146.40	73.31
2007/08	85155.50	23087.70	27.11	62067.80	72.89
2008/09	117051.90	34320.70	29.32	82731.20	70.68

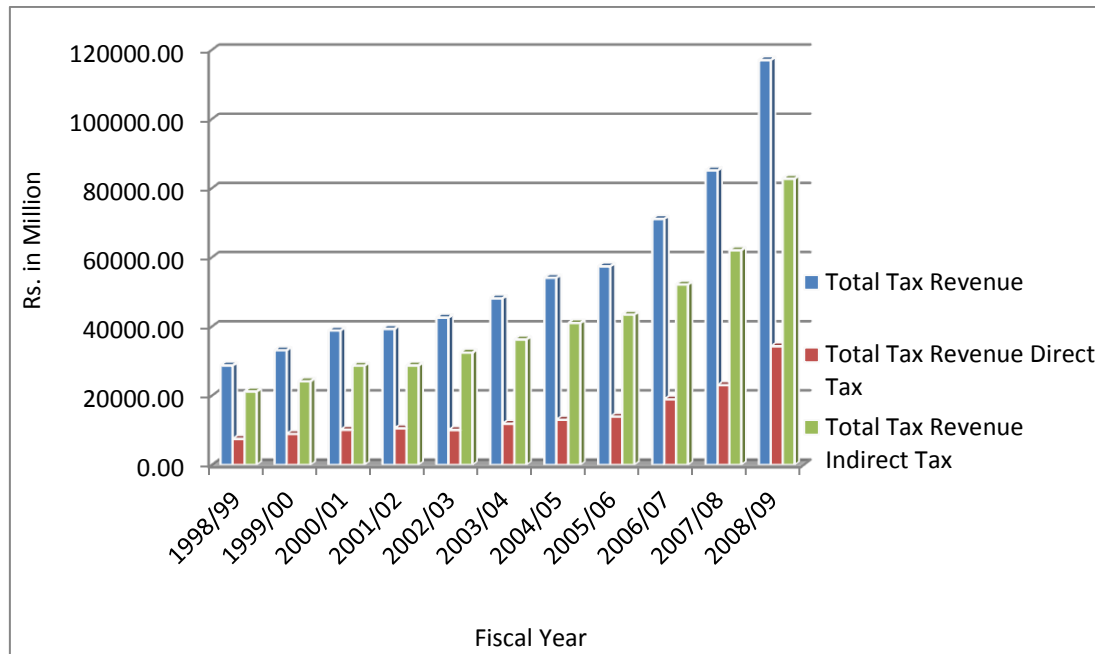
Source: Economic Survey, Fiscal Year 2009/10,

From the above table, it clarify that the completely Nepalese tax is dominated by indirect tax revenue during this study period, the share of direct tax in total tax is increasing simultaneously from 1998/99 to 2001/02 but in fiscal year 2002/03, direct tax has decreased by 11.92% than previous fiscal year because of instability of govt. and political conflict in the country. from fiscal year 2005/06 to 2008/09, revenue from direct tax is at increasing rate. The high rate share of direct tax into the total revenue during the fiscal year 2008/09 remained at 29.32% (i.e. Rs.34320.7 million). Similarly, share of indirect tax is tremendous but also it is not good result of the country. In fiscal year 2002/03, share of indirect tax is 76.27 % which high rate of contribution on the basis of study period available; during the fiscal year 2008/09, share of indirect tax has decreased to 70.68 %.

Therefore, on the basis of available data for the study, contribution of direct tax is on increasing trend year to year and contribution of indirect tax is on decreasing trend form the

fiscal year 2003/04 to 2008/09. These seem that government is trying to create good status of country among other country.

Figure: 4.2
Composition of Tax Revenue



From the above Figure, it is clarify that the completely Nepalese tax structure is dominated by indirect tax revenue on comparison with direct tax. Indirect taxation with a dominant role in tax structure, it is not good symptom of economic development because in the developed country direct tax would be highest portion than indirect tax. It is not happening for few years but every year, indirect tax is always one step front than direct tax. In the fiscal year 2008/09 the share of direct tax is Rs. 34320.7 million and of indirect tax is Rs. 82731.2; which is 29.32% and 70.68 % respectively shared of the total tax revenue. Similarly, in the fiscal year 2001/02 the share of direct tax revenue is Rs.16597.5 million, which is 26.94% of total tax revenue and the share of indirect tax revenue is Rs. 28733.1 million, which is 73.06% of the total tax revenue.

4.4 Direct Tax Revenue

Direct tax is actually paid by the person on whom it is imposed legally. By definition, direct tax is a change imposed by government authority up to property, individual or transaction to raise money for public purpose direct tax is levy by the government on the income and wealth received by hour host and business enterprise in order to raise revenue and as an instrument

of fiscal policy direct tax is progressive as far as the amount paid varies significantly according the income and wealth of tax payers.

With very limited tax base and narrow coverage direct tax in Nepal seems to less effective to mobilize the domestic resource. Altogether it is and inevitable instrument of the fiscal policy and hence it must be deigned and properly practice. In general, revenue productivity of the direct tax goes in increasing as the economy of the country grows over time. If the economic growth increases per capital income per annum of that country will automatically raise. In depth it means that he possesses the ability to pay direct tax. Thus, the magnitude of direct tax goes up and substitutes in the place of indirect tax's magnitude in compost lower the share of direct tax indicates to the less developed or developing country and hence country needs to accelerate the growth path to substitute the share of direct tax is less then developing economies like Bangladesh and Pakistan etc. thus, it lies a minor source of tax revenue source of Nepal. Direct tax in Nepalese economic it composed of diffract taxes namely Land Revenue and wealth tax, Land Revenue and Registration, Tax on Property, profit and Income, vehicle Tax, Tax on Interest and other Taxes.

4.4.1 Magnitude of direct tax Revenue

The compositions of direct tax are land revenue and registration and tax on property, profit and Income.

Table: 4.3
Magnitude of Direct Tax Revenue
(Rs. in Million)

Fiscal Year	Direct Tax	Land Revenue and Registration		Tax on Property, Profit and Income	
		Amount	Percent %	Amount	Percent %
1998/99	7516.1	1003.2	13.35	6512.9	86.65
1999/00	8951.5	1015.9	11.35	7935.6	88.65
2000/01	10159.4	612.9	6.03	9546.5	93.97
2001/02	10597.5	1131.8	10.68	9465.7	89.32
2002/03	10105.8	1414.3	13.99	8691.5	86.01
2003/04	11912.6	1697.5	14.25	10215.1	85.75
2004/05	13071.8	1799.2	13.76	11272.6	86.24
2005/06	13968.1	2181.1	15.61	11787.0	84.39
2006/07	18981.3	2253.5	11.87	16727.8	88.13
2007/08	23087.7	2940.7	12.74	20147.0	87.26
2008/09	34320.7	5223.3	15.22	29097.4	84.78

Source: Economic survey, Fiscal Year 2009/010

In fiscal year 1998/99 the contribution of land revenue and registration, and tax on property, profit and income to direct tax are 13.35% (Rs. 1003.2 million) and 86.65% (Rs.6512.9 Million) respectively. And in fiscal year 2000/01 the contribution of Land Revenue and Registration has decreased to 6.03% (Rs. 612.9 million) but of Tax on property, have increased to 93.97% (Rs. 9546.5 million). Then in fiscal year 2005/06, revenue from direct tax have been increased to Rs. 13968.1 Million than previous fiscal year. Similarly, contribution of Land revenue and registration have been increased to 15.61% (Rs.2181.1 million) and of Tax on property, profit have limited to 84.39% (Rs. 11787.0 million); the portion of revenue from Land revenue and registration to direct during the fiscal year increased at high rate than previous and after. As well as portion of Tax on property, profit at low rate of contribution to direct tax than previous and after, fiscal year. In the fiscal year 2008/09, the portion of Land revenue and registration to direct tax is 15.22% (Rs. 5223.3 million) and of Tax on property and profit and income to direct tax to direct tax is 84.78% (Rs.29097.4 million). Collection revenue of land revenue and registration is on fluctuate mode and collection revenue of tax on property, profit and income is almost steady and high rate of contribution to the direct tax.

4.5 Capital Gains Tax

4.5.1 Meaning of Capital Gains

Capital gain (loss) is defined as a gain (loss) realized from the disposal of capital assets by a taxpayer. It is the difference between the purchase price (outgoings) and selling price (incoming) of capital assets. Earlier, income tax law had not made any specific provision regarding taxation of capital gains (losses). As a result, items of similar nature were treated differently. Capital gains except from disposal of business assets of and individual were not brought into tax bracket. In case of other taxpayer, capital gains were included under the heading of other source income. On the other hand, capital losses of similar nature were not allowed for deduction. Such diverse treatments has arisen confusion .Income Tax Act 2058 has avoided these to much confusion. However the act does not provide the definition of capital gains.

The act has treated depreciable assets, business assets and non-business chargeable assets as capital assets and gains realized from disposal of such assets as capital gains.

4.5.2 Types of Capital Gains Tax

Income Tax Act, 2058 has classified assets into five categories.

They are as follows:

- Trading stock,
- Depreciation Assets,
- Business assets,
- Non-business chargeable assets, and
- Other Assets/ Non-taxable assets.

Basically, there are two types of rates used in different countries of the world for taxing the capital gain. Some favor taxing capital gain at special tax rate, whereas others favor ordinary treatment. Note that ordinary treatment means taxing the capital gain at normal rate.

In Nepal, capital gain tax was introduced only from the budget of 2058/59 (i.e. 2001/02). The capital gain tax rate is charged 10 % as per the act. Chapter 8 of this act has made detailed

1. Trading Stock

Trading stock means assets owned by a person, that are intended to be sold in the ordinary course of a business conducted by the person, work-in-progress on such assets, and inventories of materials to be incorporated into such assets.

2. Depreciable Assets

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

3. Business Assets

Business asset means an asset to the extent to which it is used in a business. However, the term does not include trading stock or a depreciable asset of a business. A piece of land used in business is an example of a business asset. The term itself suggest that only a business firm will have business assets.

4. Non-Business Chargeable Assets

Section 2 (da) has defined non-business chargeable assets as land, building, interest in an entity, and securities. So the inclusive list of non-business-chargeable assets covers land and building, shares of a company, ownership of an entity, debenture, bonds, and other securities. It is clear from the definition that personal vehicle, ornaments, furniture, kitchen equipment, etc. owned by an individual do not come under non-business-chargeable assets, and so net profit from the disposal of these assets is beyond the purview of income tax.

Non-business-chargeable assets' is a combination of two compounds: non-business-chargeable assets and chargeable assets. Some of the non-business-chargeable assets, gains from the disposal of those assets are not chargeable to income tax. So, non-business-chargeable assets (mean those non-business-assets when disposal of gains from the disposal) are subject to income tax.

An individual or an entity may own non-business- chargeable assets. An assets held by an entity not for its business use in a non-business-chargeable asset for it. Suppose a bank has acquired a land and a building in settlement of a loan given to a company. Of the bank puts the property in its use either by opening its office or by letting it out, the land is classified as business asset and the building is classified as depreciable asset. But if the land and building are not in use of the bank and it has a plan to sell them, the property is classified as non-business-chargeable asset, and in the terminology of banking business, such property is called, 'Non-Business-chargeable Assets' (NBA).

Business assets and depreciable assets are excluded from the definition of non-business-chargeable assets owned by an individual or an entity.

For an entity all the non-business assets are non-business chargeable assets. But in the case of an individual, the following assets are also excluded from the definition of non-business-chargeable assets:

- A private residence owned continuously for three years or more; and lived in continuously or intermittently for a total period of three years or more.
- An interest of a beneficiary in a retirement fund.
- A private building and a piece of land which is disposed of for less than Rs. Ten millions.

- Assets that are disposal of by way of any type of transfer other than sales and purchases made within three generations.

An income from the disposal of an asset, which is not included in the definition of non-business-chargeable assets, business assets or depreciable assets, is free from income tax.

5. Non-taxable Assets

Assets other than above are non-taxable assets and include private properties such as vehicles, jewelries, precious and non-precious metal, stones, gain on foreign exchange, household goods, and personal assets. Gain from such assets is exempt from tax.

It is clear from the above explanation that

- Trading stock and business assets are concerned with business only,
- Non-business chargeable assets are concerned with investment only, &
- Depreciable assets may be of business or investment.

4.5.3 Capital Gains Tax's Rate According to the Income Tax Act 2058

Tax Deducted at Source on Payment of Capital Gain on Security Transaction (Section 89 ka) Finance Act, 2007/08 had introduced this section in order to collect TDS from the payment of capital gain from security transaction.

This section is applicable on the security transaction by licensed dealer in securities (license obtained from Security Board). The provision is as follows:

- **Capital Gain on Listed Securities**

This sub-section is applicable on capital gain from the securities listed in stock exchange. The capital gain on which the amount of TDS is to be calculated shall be determined by applying the provisions of section 37 of the act. When one person sales any of the listed securities, the Stock Exchange has to calculate the gain from the sales applying the provision set by section 37. In this case, the stock exchange has to deduct TDS from the gain as per rate given hereunder.

In case the security so sold is not a listed security, the resident entity who has issued the security has to deduct TDS as per the prescribed rate on the gain derived by the seller applying section 37 of the act.

4.5.3.1 Rate of TDS Applicable

Gain on disposal of Interests in any resident entity (both listed and unlisted) exchange. (Taxable amount is gain calculated under section 37).

Table: 4.4

Tax Rate of TDS Applicable of Different Fiscal Year

Fiscal Year	Tax Rate			Remark
	Resident	Non-Resident	Corporate	
2003/04	10%	15%	15%	Favorable
2004/05	10%	15%	15%	Favorable
2005/06	10%	15%	15%	Favorable
2006/07	10%	15%	15%	Favorable
2007/08	10%	15%	15%	Favorable
2008/09	15%	15%	15%	Unfavorable

Source: Annual Report, Fiscal Year 2008/09

From above table it could be concluded that in every fiscal year's tax rate is unchangeable at all area but in fiscal year 2008/09, taxes rate tax rate has been changed to 15% at the resident sector and same rate to other sectors. The tax rate increased at residential sector is almost increases by 50% than previous fiscal year 2007/08. Therefore, it seems unfavorable to the residential investors.

4.5.4 Structure of Capital Gains Tax

Capital gains tax is defined as gain realized from disposal of capital assets by a tax payer. It is the difference between the purchase price (outgoing) and selling price (incomings) of capital assets. Income tax act, 2058 has treated depreciable assets, business assets and non-business chargeable assets as capital assets and gains realized from disposal of such assets as capital gains.

Below, the revenue deposited under the heading of capital gain tax from the stock market collection is given from the fiscal year 2004/05 to the fiscal year 2008/09.

4.5.4.1 Structure of Capital Gains Tax of Nepal

Capital gains tax revenue which collects from the disposing Non-business chargeable assets; through transactions of securities. Capital gain tax revenue has insignificant role to the revenue collection of Nepal but it has significant and versatile role in the economical growth. It seems that when the stock market would be at ascend trend then the economical performances will be at ascent trend too. So, stock market and economical activities have inter-relation. Below in the table, revenue collection of capital gains tax is given:

Table: 4.5
Structure of Capital Gains Tax of Nepal
(Rs. in thousand)

Fiscal Year	Collected Revenue Amount	% Changed Yearly
2004/05	7030	
2005/06	657	-90.65
2006/07	1127	71.54
2007/08	803492	71194.76
2008/09	761617	-5.21

Source: Annual Report, Fiscal year 2008/09

In the up-given table of structure of capital gains tax revenue collection of Nepal, shows that stock market in the past few year is on infancy position. There could be many different reasons but major reason; people are unaware about the securities behavior. Due to of low transaction of securities, revenue in the head of capital gain tax is at minimum level. Since fiscal year 2004/05 to fiscal year 2008/09, has collected revenue Rs 7030 thousand to Rs. 761617 thousand respectively. So, we can predict that the capital gains tax is going to contribute extremely good in the future, base on the revenue collection during the five fiscal years. During the FY 2005/06; Rs. 657 thousand is low amount of revenue collection as compare with other years' revenue collection. And in FY 2007/08; Rs. 803492 thousand of revenue has collected from trading of securities and as well it is the huge amount of revenue collected among than other year's collection. While analyzing after the FY 2004/05, the revenue at decline movement to till 2006/07. But in FY 2007/08, the revenue increases by 71194.76% which is tremendously well moment. But, in FY 2008/09 the revenue decreased to Rs. 761617 thousand by 5.21% than previous fiscal year 2008/09.

4.6 Contribution of Capital Gains Tax Revenue in Total Revenue Collection of Nepal

Total revenue is a composition of total tax revenue and total non-tax revenue. Capital gain tax is revenue collect under the subheading of tax revenue.

Capital gain tax revenue is revenue that collects from the disposable of Non- business chargeable assets. According to the figure of capital gain tax revenue, the revenue is at descending order in past years, but after FY 2006/07 to till FY 2007/08 is being fluctuating. In FY 2008/09, slight has been decreased to Rs. 761617 thousand.

Table: 4.6
Contribution of Capital Gains Tax Revenue in
Total Revenue Collection of Nepal

(Rs. in thousand)

Fiscal Year	Total Revenue	Capital Gain Tax	% Contributed
2004/05	70122700	7030	0.010
2005/06	71733127	657	0.001
2006/07	87711208	1127	0.002
2007/08	107622480	803492	0.750
2008/09	143474489	761617	0.530

Source: Annual Report and Economy Survey, Fiscal Year 2008/09

Above table reflects that, even 1 percent could not contribute on the total revenue collection; since FY 2004/05 to FY 2008/09. Which overcomes an insignificant role of contributing into total revenue collection. In Fiscal Year 2004/05 only 0.01% of ratio has contributed. As well, in FY 2005/06 contribution has decreased to 0.001%, which is 90% decreased as compare with previous year's contribution. In FY 2007/08 capital gain tax revenue has contributed almost 0.75 percent; tremendously highest contribution than of others year. In Fiscal Year 2008/09 only 0.53% is the contribution ratio; decreased by approximately 30% as compare with previous year.

Therefore, there is no any encouraging level of contribution on total revenue by capital gain tax revenue.

4.7 Contribution of Capital Gains Tax Revenue to Total Tax Revenue

Total tax revenue is a composition of direct tax revenue and indirect tax revenue. Capital gain tax is revenue that comes from dispose of Non-business chargeable assets; comes under the

subheading of direct tax revenue. Below the table we have the contribution at capital gain tax on total tax revenue from the Fiscal Year 2004/05 to Fiscal Year 2008/09 is given:

Table: 4.7

Contribution of Capital Gains Tax Revenue to Total Tax Revenue

(Rs. in thousand)

Fiscal Year	Tax Revenue	Capital Gains Tax	% Contributed
2004/05	54104700	7030	0.013
2005/06	57430400	657	0.001
2006/07	71127000	1127	0.002
2007/08	85155457	803492	0.944
2008/09	117051906	761617	0.651

Source: Annual Report and Economy Survey, Fiscal Year 2008/09

Above given table shows that contribution of capital gain tax on total tax revenue is not very much significant as it must to be because even of 1 percent of contribution has not contributed at a period of five years. Contribution ratio, since 2004/05 to FY 2008/09 is 0.013% and 0.651% respectively. Though, during the FY 2007/08 has contributed 0.944%; is highest contribution ratio among the different contributed ratios. As well as increased more than 471 times as compare with previous year's ratio. In FY 2005/06, 0.001% contributed and it is lowest contribution ratio as compare with other given years ratios. In FY 2008/09 contribution ratio has been decreased to 0.651%, it is declined by 31% as compare with previous year.

Therefore, contribution of capital gain tax on total tax revenue have insignificant role in present condition.

4.8 Contribution of Capital Gain Tax Revenue to Direct Tax Revenue

Direct tax revenue is a composition of income tax, Land and Registration tax, Vehicle tax, Tax on other Property. Capital gain tax is also a part of direct tax revenue, which includes under the subheading of income tax; according to ITA 2058 Act.

Below the table it shows the contribution of capital gain tax revenue on direct tax revenue collection; of five years, since FY 2004/05 to FY 2008/09.

Table: 4.8

Contribution of Capital Gain Tax Revenue to Direct Tax Revenue

(Rs. in thousand)

Fiscal Year	Direct Tax Revenue	Capital Gains Tax	% Contributed
2004/05	13071800	7030	0.050
2005/06	13968100	657	0.005
2006/07	18980300	1127	0.006
2007/08	23087700	803492	3.480
2008/09	34320739	761617	2.220

Source: Annual Report and Economy Survey, Fiscal Year 2008/09

The above table overcomes fluctuating trend of capital gain tax on contributing direct tax revenue. Since FY 2004/05 to FY 2008/09 the contribution ratio is 0.05% to 2.22% respectively. In FY 2007/08 contribution ratio is 3.48% and it is more than almost 600 times as compare with previous year. But in FY 2008/09 the contribution ratio is decreased to 2.22%.

At last, capital gain tax has contributed more than 3% towards collecting direct tax revenue during the FY 2007/08. It determines that capital gain tax is also one important aspect to contribute in collecting revenue of nation.

4.9 Contribution of Capital Gain Tax Revenue on Income Tax of Nepal

Income tax is a main source of government revenue collection; which contribute in developing the national infrastructures. The compositions of Income tax are Corporate Income tax, income from Investment, Individual, etc.

Below, the table represents the contribution of Capital gain tax revenue on Income tax revenue collection; from the fiscal year 2004/05 to fiscal year 2008/09.

Table: 4.9

**Contribution of Capital Gains Tax Revenue on Income Tax
Revenue Collection from Fiscal Year 2004/05 to 2008/09**

(Rs. in thousand)

Fiscal Year	Income Tax	Capital Gain Tax	% Contribution
2004/05	10466226	7030	0.07
2005/06	10933520	657	0.006
2006/07	15731804	1127	0.007
2007/08	19077813	803492	4.21
2008/09	27246432	761617	2.80

Source: Annual Report and Economy Survey, Fiscal Year 2008/09

In the above given table shows that, in fiscal year 2004/05, contribution of capital gains tax to Income tax is 0.07% and then, it reduced to 0.006% but in Fiscal year 2007/08 it increased by tremendous to 4.21%. Then, in fiscal year 2008/09 remain at 2.80%. So, after having the data and information, we can conclude that capital gains tax is also another new source of generating income of government. Therefore, favorable and efficient policy and provisions should be made for the well generating income in future. And then contribution of capital gains tax could be high and could be helpful in the development and economic growth of the nation too.

4.10 Nepalese Stock Market

Nepalese stock Exchange Ltd. is a monopoly stock market of the country. Where, capital market is mobilizing through trading many different listed companies' securities at transactional day. So, NEPSE was established to promote specialized secondary market in Nepal, previously it was known as Securities Exchange Center Ltd. which was established in 1976. Later on, Securities Exchange Center converted into Nepal Stock Exchange Ltd. in 1993. Due to emerging trends of globalization aspect, NEPSE started internationally

compatible computerized trading system, Automated Trading System (ATS), from 24 August, 2007.

4.11 Trading Behavior of Nepal Stock Market in NEPSE

4.11.1 Group Wise Distribution

The listed companies at NEPSE has been distributed in nine sectors namely Commercial Banks, Development Banks, Finance Companies, Hydro Power Companies, Hotels, Trading Companies, Manufacturing and Processing Companies, Insurance Companies and Other Companies.

Table: 4.10

Group wise Distribution of Companies during the Fiscal Year 2065-66

S.N.	Companies	Number of Companies
1	Commercial Banks	21
2	Manufacturing and Processing	18
3	Hotels	4
4	Others	2
5	Hydro power	3
6	Trading	4
7	Insurance	17
8	Finance	61
9	Development Bank	29
	Total	159

Source: Annual Trading Report, Fiscal Year 2008/09

Companies which are enlisted under group wise distribution, is only the significant companies doing the Nepalese stock market continuing the transaction at every trading day. As usual the Commercial Bank has the highest stake of the total trading volume. Similarly, the group of finance company and development banks etc. plays the important role in trading each and every a day.

4.11.2 Trading of Mutual Fund Share

Trading of mutual fund share is being carried out through NCM mutual fund, the only company enlisted at NEPSE for the purpose.

4.11.3 Trading of Preference Share

Only one preference share of Everest Bank Ltd. is enlisted with NEPSE which has a convertible feature.

4.11.4 Trading of Promoter Share

Since 31st march 2008, NEPSE has started a different mechanism for the trading of promoter's share of the listed banks and financial institution. Since then the trend of trading promoter share is very encouraging as the amount and number of transactions of promoter shares are increasing.

4.11.5 Trading of Bond

Although one more government bond and additional 5 corporate bonds were listed in NEPSE during the fiscal year 2008/09, no bond transaction has been recorded during the period. The trading volume of bond was nil in the previous year, also low number of individual investors and differential income tax on interest for individuals and corporate companies are the major reasons for such situation in the transaction of bond.

4.12 Classifications of Listed Companies

NEPSE has classified 71 companies under the 'A' category on 8 February 2008 while there were 66 companies under this category last year. Nine new companies comprising Nepal Insurance Company, Annapurna Finance Company, Everest Finance Company, Prudential Bittiya Snasthan, Bhajuratna Finance and Saving Company, Chimek Vikas Bank, Business Development Bank, Sanima Vikas Bank and Sahayogi Viksa Bank have been upgraded from category 'B' to 'A' and four companies namely Paschimanchal Development Bank, Prudential Insurance Company, Union Finance and Fewa Finance have been demoted to 'B' category owing to their poor performance. Companies earning profit consecutively for three years with at least 1000 shareholders and the paid-up capital of Rs. 20 million are listed under category 'A'. Companies classified under the 'A' category occupied 55.8 percent of the total paid-up capital, 50.9 percent of the total listed shares and 79.4 percent of market capitalization.

4.13 Comparative Summary Sheet of Transactions with Previous Years

Transactions of securities traded under the Nepalese stock market is presented summary wise; since the fiscal year 2003/04 to Fiscal Year 2008/09, below the table. Description of every fiscal year's turnover of share in quantity and amount is given below. The listed companies at NEPSE has been distributed in Nine sectors namely, Commercial Banks, Development Bank, Finance Companies, Hydro Power Companies, Hotels, Trading Companies, Manufacturing and Processing Companies, Insurance Companies and Other Companies. Until during the FY 2008/09 total 159 numbers of companies are enlisted at NEPSE.

During the review period Rs.21681.14 million volume of securities and 30547.17 thousand units of shares are been traded and it is decreased by 4.99 percent as compare with previous year, as usual the volume of trading amount from the commercial banks group has the highest stake on the total trading volume. Excluding the trading of promoter shares, commercial bank group trading volume is Rs. 12406.45 million; 57.22% of total trading of equity shares during the review period. But as compare with the previous year's turnover volume of commercial bank group, it has been decreased by 10.24 percent ahead. Similarly, development bank group and finance group remain at second and third position. But contribution of manufacturing and processing group, hotel group, trading group and insurance group are insignificant as these contributed less than one percent in total turnover.

Contrast, transaction of other company group has ascent by 170379% as compare with previous year's transaction and manufacturing and processing group's transaction is declined by 92.41 percent as compare with previous year's transaction.

Table: 4.11
Comparative Summary Sheet of Transactions with Previous Years
from the Fiscal Year 2003/04 to 2008/09

SN	Particulars	FY2003/04		FY2004/05			FY2005/06			FY2006/07			FY2007/08			FY2008/09		
		Amount Rs. In Million	Share Units ('000)	Amount Rs. In Million	Change in %	Amount Rs. In Million	Change in %	Share Units ('000)	Amount Rs. In Million	Change in %	Share Units ('000)	Amount Rs. In Million	Change in %	Share Units ('000)	Amount Rs. In Million	Change in %		
A	Commercial Banks	2737.52	863.41	6416.57	4021.83	365.81	5534.72	2696.27	-32.96	9090.95	5855.77	117.18	11241.41	13822.14	136.04	13301.43	12406.45	-10.24
B	Finance	1202.27	165.09	1443.34	216.37	31.06	1957.49	305.84	41.35	2343.46	642.64	110.12	3094.26	2307.53	259.07	3552.01	2615.40	13.34
C	Hotel	61.04	2.84	98.17	4.48	57.75	392.65	19.76	341.07	81.70	7.07	-64.22	158.07	27.67	291.37	95.89	18.69	-32.45
D	Manufacturing & Processing	1977.82	1031.62	7602.89	114.90	-88.86	59.80	17.19	-85.04	82.92	24.12	40.31	1655.08	343.44	1323.88	95.12	26.08	-92.41
E	Other	11.72	0.29	2398.42	52.48	17996.55	0.47	0.02	-99.96	14.24	0.54	2600.00	7.70	0.29	-46.30	630.82	494.39	170379.31
F	Hydro Power	0.00	0.00	0.00	0.00	0.00	473.61	152.01	0.00	4460.27	1258.01	727.58	7251.21	3199.94	154.37	3612.12	890.30	-72.18
G	Trading	8.64	11.83	10.41	7.99	-32.46	15.22	15.80	97.75	11.47	10.42	-34.05	14.97	33.65	222.94	14.65	33.49	-0.48
H	Insurance	256.37	36.86	328.13	67.62	83.45	574.93	129.90	92.10	627.61	204.97	57.79	433.26	264.86	29.22	418.49	212.80	-19.66
I	Development Banks	212.80	32.33	135.62	22.01	-31.92	386.44	82.76	276.01	1360.53	355.73	329.83	2534.88	1981.05	456.90	3631.81	2740.36	38.33
J	Mutual Fund	0.00	0.00	0.00	0.00	0.00	2826.60	31.88	0.00	74.10	0.80	-97.49	319.10	6.09	661.25	758.50	22.40	267.82
K	Preferred Stock	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	101.42	81.15	0.00	74.43	74.05	-8.75
L	Promoter Share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1788.41	752.95	0.00	4361.90	2146.73	185.11
Total Turnover		6468.18	2144.27	18433.55	4507.68	110.22	12221.93	3451.43	-23.43	18147.25	8360.07	142.22	28599.77	22820.76	172.97	30547.17	21681.14	-4.99

Source: Annual Trading Report, Nepal Stock Exchange (NEPSE) Fiscal Year 2008/09

In above table of securities transaction summary sheet since fiscal year 2003/04 till Fiscal Year 2008/09, we can have notice that Commercial Bank group has the highest stake on the total trading volume from FY 2003/04 to FY 2008/09 and its trading amount is Rs.863.41 million to Rs. 12406.45 million respectively. It is at ascending order from FY 2003/04 to FY 2008/09 continuously. As well, percent in change column shows that each and every year trading volume is at incline trend of position. Similarly, in FY 2004/05 the trading volume has increased by 365.81 percent, as being highest stake on the total trading volume but it is decreased to Rs. 2696.27 million and it is 32.96 percent decreased as compare with previous year. In fiscal year 2008/09, total trading volume of commercial group has decreased to Rs. 12406.45; it is highest traded volume of amount at review period but, 10.24 percent is less than pervious year. This shows that commercial bank group is a elite group among the other groups. Each and every year it contributed over 50 percent of total trading of equity shares.

Finance group has also an importance to boost-up the total trading volume, since FY 2003/04 to 2008/09. Its trading amount is Rs. 165.09 million in FY 2003/04 and Rs. 2615.40 million in FY 2008/09; trading amount is at fluctuating movement. Rs. 2615.40 million traded amount during the FY 2008/09 is the highest volume traded amount of financial group, than other years. This group has been contributed approximately 11 percent average per year on the traded volume. Consequently, at column of change in percentage shows that from FY 2004/05 to FY 2008/09, is increasing year by year continuously. In Fiscal Year 2005/06, 341.07 percent is increased at traded volume as compare with previous year.

Hotel group has played insignificant role from the FY 2003/04 to till FY 2008/09. Trading volume of this group from the FY 2003/04 to FY 2008/09 is Rs. 2.84 million to Rs. 18.69 million respectively. In FY 2007/08, Rs.27.67 million is traded and it is highest volume of trading than other years traded volume. Transactions of this group have contributed only 0.10 percent average yearly. In a column of change in percent, we can have notice that its transactional trend is almost negative. Though, in FY 2007/08, 291.37 percent is increased than compare with other years increasing rate. Manufacturing and processing group's total traded volume is Rs.1031.62 million in FY 2003/04 and Rs.26.08 million in FY 2008/09. It seems that its contribution is

towards the descend trend. In FY 2003/04, Rs.1031.62 million is the highest traded volume than other years traded amount volume. This group contributed approximately 0.75 percent average per year on the total traded volume. Though, in FY 2007/08, 1323.88 percent is increasing rate on traded volume as well as high increasing rate than other groups, during the fiscal year.

Other group also has insignificant role on the contribution of maximizing total trading volume. Trading volume since FY 2003/04 to FY 2008/09 is Rs. 0.29 million to Rs. 494.39 million volume of equity shares are traded. Contribution of this group on annual total traded volume is approximately 1 percent average per year. Though, in FY 2004/05, 17996.55 percent is the highest increasing rate among other year rates.

Hydro power group is another significant group of equity shares trading after commercial bank group. In fiscal year 2005/06, Rs. 152.01 and in fiscal year 2008/09, Rs.890.30 million volume of equity shares are traded. In between them, in FY 2007/08, Rs.3199.94 million is highest volume of equity shares are traded and it is 14 percent contribution on the total volume of share traded during the FY. Approximately 10.11 percent average per year is the contribution on the total trading volume.

Since, trading its volume of trading amount is increasing continuously till FY 2007/08. In fiscal year 2008/09 its trading volume is declined by 72.18 percent as compare with previous year. But in FY 2006/07, 727.58 percent is the highest increasing rate of this group than other years increasing rates.

Trading group is also another group of listed companies at NEPSE. In fiscal year 2003/04, Rs 11.83 million and in fiscal year 2008/09, Rs. 33.49 million volumes of equity shares are traded. In FY 2007/08, Rs 33.65 million is highest traded volume of this group than other fiscal years' turnover. 0.11 percent average per year is a contribution on the total volume of traded shares. So, 222.94 percent is highest increasing rate than other years' rate.

Insurance group, in FY 2003/04 to FY 2008/09 total volumes of shares are traded Rs. 36.86 million to Rs. 212.80 million respectively. In FY 2007/08, Rs. 264.80 million

amounts of shares traded is the highest turnover amount than other years' turnover volume of this group. In FY 2008/09, turnover of this group is decreased to Rs.212.80 million and it is decreased by 19.66 percent as compare with previous year. This group contributed 1.30 percent average per year on the total volume of shares trading every year.

Development banking group; in FY 2003/04, Rs. 32.33 million to FY 2008/09, Rs. 2740.36 million volume of equity shares are traded. Where except FY 2004/05 in all years trading amounts are gradually increasing till FY 2008/09. In FY 2008/09, Rs. 2740.36 million volumes of equity shares are traded and it is highest amount traded among other year traded volume. The contribution of this group on total volume of shares traded annually is approximately 10 percent at average per year.

In fiscal year 2004/05, 31.92 percent has decreased than previous year and after a period trading volume is at fluctuating movement. In this group 456.90 percent is the highest increasing rate than other years.

Mutual fund is also contributing to total volume of equity shares trading since the fiscal year 2005/06. In FY 2005/06, Rs. 31.88 million and in FY 2008/09, Rs. 22.40 million of funds are traded. Rs.31.88 million is highest amount of funds are traded than compare with other years.

Preferred stock:- Only one preference share of Everest Bank Ltd. is listed with NEPSE which has a convertible feature. From FY 2007/08, its trading activities took place, Rs 81.15 million volume of shares are traded and in FY 2008/09 it reached to Rs.74.05 million, decreased by 8.75 percent as compare with previous year.

Promoter share:- Since 31st march 2008, NEPSE has started a different mechanism for the trading of promoters' share of the listed banks and financial institution. Since then the trend of trading promoter shares is very encouraging as the amount and number of transactions at promoter shares are increasing. In FY 2007/08, Rs.752.95 million volumes of shares are traded and in FY 2008/09, Rs2146.73 million volumes of shares are traded. The amount has increased of 185.11 percent as compared to the previous year.

Review: Transaction and Behaviour of Secondary Market for the Fiscal Year 2008/09

Secondary market is the main component of capital market; it experienced a bearish trend during the fiscal year 2008/09. The continuous increasing trend since last few years and the impressive growth in last fiscal year has stopped this year. Almost all indicators in the secondary market have decreased as compare to the previous year. However, capital mobilization through primary market has been increased by 68.82% than as compare to the previous year. Though, Market capitalization of security for the fiscal year 2008/09 is Rs. 512,939.0 Million, which is increased by 40.05% than previous fiscal year.

Controversy, increase of capital gain tax by 50% effective from Ashoj 2065 B.S. till the end of the fiscal year and other tax rates as well as income source policies adopted by the government have contributed for such decreasing trend. Furthermore, the signaling effect of global financial crisis is also a cause in decline the secondary market. So, increasing trend of secondary market since last year has stopped this year. Because, during the fiscal year 2008/09, the total trading volume has slightly been decreased by 4.99% amounted to Rs. 21.68 (in Billion) but increased to Rs. 22.82 billion last year. Likewise, the number of shares traded during the review period is Rs. 30.54 billion, which is 33.86% increased as compare to previous year. Therefore, due to increase in number of shares traded and decreased in the trading volume of amount, shows that price per share has decreased in the review market. Then, due to the decreasing price per share in the review market, it affect at NEPSE Index by decreased 22.24% as compared to previous year. In fiscal year the NEPSE Index is 749.1 point, but previous year's the NEPSE Index remained on 963.36 point.

On the way, NEPSE has collected capital gain tax from share transactions is Rs.761.617 million, which is decreased by 5.21% as compared with previous year's capital gain tax. The last year's capital gain tax collection is Rs. 803.492 million.

4.14 Empirical Investigation

An empirical investigation has been conducted in order to find out various aspects of capital gains tax in Nepal. This chapter analyses information collected from primary sources i.e. through questionnaire. So, questionnaire has been developed and a set of

50 questionnaires are to be distributed to various respondents. Respondents have classified into four groups. They are; Income Tax Administrators, Brokers, Individual Investors, NEPSE Administrators and Tax Expertise. The responses received from various respondents have been arranged in a particular sequence, tabulated and analyzed in order to facilitate the descriptive analysis of the study. (See the format of questionnaire and the list of respondents in appendix A and B respectively.)

The questionnaire has been asked for either yes or no responses or choice alternatives or ranking of the alternatives. In the alternative, the first choice has the most important and the last choice has the least important. The choices among the ranking have assigned weights according to the number of alternatives. If the number of alternatives has, five the first choice has five points and the last preferred choice has one point. Any alternatives, which has no ranked, got no points. The total points available to each choice have converted into percentages with references to the total points available for the choices. The choice with the highest score has ranked as the most important choice and the one with lowest percentage score has ranked as the last choice.

The following table shows the group of respondents.

Table: 4.12

Denominations of Respondents Code Used

S.N.	Group of Respondents	Sample Size	Code Used
1	Income Tax Administrators	15	A
2	Brokers	5	B
3	Individuals Investors	20	C
4	Entities Investors	5	D
5	Tax Expertise	5	E
	Total	50	

4.14.1 Increasing Capital Gain Tax, Contribute to increase Government Fund

In Fiscal Year 2007/08, Capital Gain tax from stock market has been contributed approximately 1% on total tax revenue of Nepal but later on it has decreased; when capital gain tax rate has been increased by 50% than last Fiscal Year.

To know the fact, the question has been asked to respondent “Does increasing capital gain tax, could contribute to increase government fund?” Opinion result is presented in the table as below:

Table: 4.13

Capital Gain Tax and its Effect on Government Fund

Responses/ Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	15	100	0	0	15	100
B	5	100	0	0	5	100
C	5	25	15	75	20	100
D	2	40	3	60	5	100
E	0	0	5	100	5	100
Total	27	53	23	47	50	100

Source: Opinion Survey

From the above table, it is clearly stated that 53% of the respondents argue the increasing capital gain tax could contribute towards government fund and 47% of the respondents argue that only increasing capital gain tax, could not contribute to increase government fund. In which respondents A and B are on the side of increment

but respondents E are against it. As well as respondents C's 75% are on against the argument and respondents D's 60% are on against the argument.

So, it can be said that respondents who do not involve in investment are at the side of increasing tax but who involve in investment, they are against the increasing tax rate.

In conclusion, it can be said that before increasing the tax rate, policy maker should consult with investor and tax expertise. (i.e. individual investors, entities/institutional investors, tax expertise)

4.14.2 Effective and Favorable Policy to Benefit Investors

Entities investors, Individual investors, etc. are the investors who invest their collected funds into the capital market, for the objectives of having high return. So, such favorable and effective policies are very much important to influence them, as well as for the boost up the capital market.

To know the fact, the question has been asked to respondent "Are there any favorable policy to benefit investors?" Opinion result is presented in the table as below:

Table: 4.14

Effective and Favorable Policy to Benefit Investors

Responses/ Respondents	Yes		No		Total	
	NO.	%	No.	%	No.	%
A	15	100	0	0	15	100
B	1	20	4	80	5	100
C	3	15	17	85	20	100
D	0	0	5	100	5	100
E	5	100	0	0	5	100
Total	24	48	26	52	50	100

Source: Opinion Survey

From the above table, it can be stated that; instead of 100% only 48% have been approved but 52% have been ignored that there is effective and favorable policy to benefit investors. Shortly, it can be concluded that, there are no any adequate effective and favorable policy that could attract the investors to invest their capital into the capital market safely and frequently.

4.14.3 People Involvement in Stock Market is Increasing day by day

To know whether the involvement of people in Stock Market (for different purposes) is increasing terrifically day by day or not, the question has been asked to respondents “Are the people involvement in Stock Market is increasing day by day?” Respondents’ responses are tabulated as follows:

Table: 4.15

People Involvement in Stock Market is Increasing day by day

Responses/ Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	8	53	7	47	15	100
B	3	60	2	40	5	100
C	0	0	20	100	20	100
D	0	0	5	100	5	100
E	0	0	5	100	5	100
Total	11	22	39	78	50	100

Source: Opinion Survey

From the above table, it has been clearly defined that involvement of people in stock market at current days’ is not increasing day by day. Where only 22% have declared that involvement is increasing but 78% have stated that involvement of people in stock market is not increasing day by day or it is not satisfactory. In conclusion, due to of high risk in current market investment as well as many other reasons; people are not showing their willing for involvement in stock market.

In order to know the reasons of the people involvement in stock market, the question has been asked “Are the people involvement in stock market is increasing day by day? Why?”

The responses received from the respondents listed below:

Some appropriate reasons related in the terms of favour of the question are,

- People are getting related investment opportunity and to earn certain return ad profit from it. As well as they are having awareness about the investment and return too.

- Different policies are brought by the stock exchange and security board of Nepal, to secure investors' capital and for other different purposes too. As well as people are highly educated and full of eager for practicing such activities.
- After 2005/06 movement there was the great hope of Nepalese citizen about the long run peace and expecting economic development in the country.
- People are being motivated to involve into stock market with high degree of desire because they are getting information and notifying about stock behaviour or capital market through newspaper and other informational tools.
- Because of increasing awareness among Nepalese regarding an opportunity to invest their wealth; so as to mobilize their illiquid money into the market.

Reasons related in the terms of unfavour of the question,

- Because of not having clear provisions, decreasing industrialization activities and unconstitutional of political situation.
- Day by day changing capital market/stock related rules & regulations and liquidity crisis in the bank and finance etc. are the main causes of decreasing involvement of people in securities transaction.
- Unstable political condition and decline of economic growth of the country are also the reason of not paying any attention in the securities trade.
- Adequate current policy is not favourable in the terms of benefiting investors and to other; who are directly or indirectly close with it.
- Unfriendly and unfavourable governmental policy is also a reason.
- Investors are not involving in the transaction and other behavior; at present investors are decreasing day by day due to continuous fall of the market's return.
- NEPSE index is declining day by day and the policy maker\regulator of the government and other concerned bodies are not in favour of the investors.
- Due to unconstitutional movement did not create good environment in our stock market.

4.14.4 Objectives to Involve of Investors into Stock Market

People to people, the objectives could be different; some want to earn Short-term profit or Long-term profit as well as some desire to have both of them.

To understand their point of view about the return from their investment fund into stock market, the question has been asked to respondents “Do you think that, people who invest their money into stock market, does they invest to earn Short-term profit or Long-term profit?” The respondents’ responses are tabulated below:

Table: 4.16

Objectives to Involve of Investors into Stock Market

Responses/ Respondents	Short-Term Gain		Long-Term Gain		Total		Remark (Both- Gain)	
	No.	%	No.	%	No.	%	No.	%
A	15	100	0	0	15	100	0	0
B	3	60	2	40	5	100	0	0
C	14	70	3	15	20	100	3(Both)	15
D	0	0	0	0	5	100	5(Both)	100
E	2	40	3	60	5	100	0	0
Total	34	68	8	16	50	100	8	16

Source: Opinion Survey

[Note: - At questions do not included <Both profit> as an option between short-term and long-term profit respectively] From the above table, it could be clarify that 68% of the respondents shows the enthusiasm to earn Short-term Gain from the investment, as well 16% has shown their desire to earn Long-term Gain but there was no any option for both; but the respondents made the option and ticked it on. So, altogether 16% want Both-Gain (i.e. short-term gain and long-term gain). It shows that people who are involve in stock market directly or indirectly they are well known about the international provisions and very much sincere towards their job. In conclusion, people have their own objectives to investment such as short-term gain, long-term gain and other has both-gain, objectives respectively. But also, people want to get return from the market as soon as possible. So, respondents responses to earn Short-term gain than other.

4.14.5 Different Foreign Governments are Allowing the Provisions of Long-term Gain and Short-term Gains, Tax rate

In order to know the reasons and understanding the view of identified above provisions, for the implement in Nepal; question has been asked, “Do you know, in many different foreign countries, government allow the provisions of long-term gains

and short-term gains, tax rate? Why?” The responses received from the respondents listed below:

- Yes, to encourage investors to hold their security in long term as well as in both term and to give the benefit of inflation effect in the future.
- This, long term and short-term provision help to initiate investors to invest their saving fund and for the betterment of the stock market's boundary.
- Each and every country want to develop their own rules and regulation that would benefit their citizen and push up economic growth.
- This provision could encourage the investor to invest into the stock market and it helps to reduce risk at present and in future as well.
- It promote for encouraging investment balance.
- Long-term and Short-term capital gains tax provision is prior to investor, for the purpose of making safe and secure their investment.
- Yes, this helps to promote capital infrastructure and could provide strong way to boost up or rebuild the industrial and commercial sector in the country.
- Because, this step could bring the good co-operation and co-ordination between government and entire stock holders as well as with stakeholders.
- This provision helps to encourage investors to flow their fund into the market.
- To encourage for the investment because it would be charged under the balance method and which effect positive for strength in holding capacity and vice-versa.
- Such policies are formulated as per the need and demand of investors enthusiasm and to contribute their portfolio too.

To know whether the provisions that the foreign countries are accomplishing; Short-term gains and Long-term gains, capital gains tax rate should implement in Nepal, the question has been asked to respondents “ Do you wish that, this provision should implement in Nepal?” The respondents’ responses are tabulated below:

Table: 4.17

Certain Provisions Should Implement in Nepal

Responses/ Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	15	100	0	0	15	100
B	5	100	0	0	5	100
C	20	100	0	0	20	100
D	5	100	0	0	5	100
E	5	100	0	0	5	100
Total	50	100	0	0	50	100

Source: Opinion Survey

From the above table, it has been stated that 100% respondents response that Long-term gain, and Short-term gain, tax rate provision should be implement in Nepal. In conclusion, all investors and other personnel are waiting for the implementation of the provision by the government bodies into the stock market.

4.14.6 Possibility of Establishing Another Stock Market in Future

Nepal Stock Exchange is only one stock market in Nepal, which is covering overall capital market. So, to know whether the establishment of another stock market has any possibility in future, the question has asked to the respondents “ In Nepal, is there any possibility of establishing another stock market in future?” The respondents’ responses are tabulated below as follows:

Table: 4.18

Possibility of Establishing Another Stock Market in Future

Responses/ Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	15	100	0	0	15	100
B	3	60	2	40	5	100
C	10	50	10	50	20	100
D	5	100	0	0	5	100
E	5	100	0	0	5	100
Total	38	76	12	24	50	100

Source: Opinion Survey

From the above table, it has clearly present that 76% of the total respondents agreed that another stock market is very much essential in current days, similarly 24% of the total respondents thought that it does not have necessary because market is low and

involvement of people is not satisfactory. Then, in conclusion it can be say that in future it might be have possibility of establishing another stock market.

4.14.7 Benefit to all Investor of Nepal, Decentralizing its Work Area by 23 Stock Brokers

To know whether the investors of Nepal has benefited by decentralizing brokers work place by opening branches in different urban areas, the question has been asked “Altogether there are almost 23 stock brokers in Nepal; before 4-5 months ago it has being decentralized by opening branches in different urban areas. Does it benefit to all investor of Nepal?” The respondents’ responses are tabulated below:

Table: 4.19

Benefit to all Investor of Nepal, Decentralizing its Work Area by 23 Stock Brokers

Responses/ Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	8	53	7	47	15	100
B	3	60	2	40	5	100
C	20	100	0	0	20	100
D	5	100	0	0	5	100
E	5	100	0	0	5	100
Total	41	82	9	18	50	100

Source: Opinion Survey

Above table clearly stated that, by opening branches in different urban areas as decentralizing its work place by 23 stock brokers; have benefit to all investor of Nepal. They can do buy & sell and can get easily information of market and companies that they are holding, easily and without any cost. So, from total 50 respondents 41 respondents (i.e. 82%) has been confirm that, they are beneficial and only 9 respondents (i.e.18%) are disagree with the statement.

But also, overall it can be concluded that, decentralization of stock brokers area have been helped to people who are far from the Kathmandu and vise-verse.

4.14.8 Government of Nepal; Co-operating with Investors' Will

(such as to safe their capital, making free from political issues and norms, providing way to involve for NRN in investing etc.)

Governmental co-operation plays very much essential role into the share market because government is the formation and regulator of policies respectively. Therefore, government should have co-operate and understand the investors' desire and voices too. Then, only it helps to boost up the economical and capital growth respectively.

To know whether governmental of Nepal is co-operating with investors' will, the question has been asked "Government of Nepal, does co-operating with investors' will?"

(Such as to safe their capital, making free from political issues, norms, not providing way/environment to involve for NRN in investing, foreign investors etc.)

The respondents' responses are tabulated below as follows:

Table: 4.20
Government of Nepal; Co-operating with Investors' Will

Responses/ Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	7	47	8	53	15	100
B	0	0	5	100	5	100
C	0	0	20	100	20	100
D	0	0	5	0	5	100
E	4	80	1	20	5	100
Total	11	22	39	78	50	100

Source: Opinion Survey

Altogether 39 (i.e.78%) respondents responses that government does not co-operating with the investors will and only 11 respondents responses (i.e. 22%) that government is co-operating with the investors. But if we look carefully on the above table, then we can state that respondents group C (individual investors) 100%, group B (brokers) 100, group D (entities investors) 100 respectively argue that government of Nepal are not co-operating the investors' will and not supporting theirs' voices too. These groups are the main head for promoting the capital market and paying revenue as capital gains tax.

4.14.9 Decreasing Capital Gain Tax; the Transactions of Share and Market per Share will Increase

To know whether decreasing capital gains tax rate could increase the transactions of share and market per share, the question has been asked “Do you think that by decreasing capital gains tax rate, does the transactions of share and market per share will increases?” The respondents’ responses are tabulated below:

Table: 4.21

Decreasing Capital Gain Tax; the Transactions of Share and Market per Share will Increase

Responses/ Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	8	53	7	47	15	100
B	3	60	2	40	5	100
C	20	100	0	0	20	100
D	5	100	0	0	5	100
E	2	40	3	60	5	100
Total	38	76	12	24	50	100

Source: Opinion Survey

From above table it can be represent that, if the rate of capital gains tax on stock turnover will decrease then the stock turnover and rate per share would be increase. Therefore, altogether total 38 respondents (76%) are on the side of 'Yes' and 12 respondents (24%) are on the side of 'No'. Individual investors are suffering huge losses due to the market crisis, so they want of decreasing tax rate for some limited time period and institutional investors are also supporting this point by 100% respectively. This is essential only for temporary purpose because it could be some relief to investors.

At the time of field visit many of individual investors are advices that in this crisis government must give facilities of exempt from the tax; by introducing some certain criteria or provisions.

4.14.10 Causes of Declining Stock Market’s Transactional Behaviour

In order to know the causes of decreasing transaction of share in units and in amount in fiscal year 2008/09 than previous year, a question has been asked, “In fiscal year 2008/09, turnover of total shares in unit have increased by 6.81% but amount has

decreased by 4.99% than compare as with previous fiscal year. So, what could be a reason?"

Respondents are requested to rank their answer from 1 to 8 lists Respondents' responses are tabulated below:

Table: 4.22
Causes of Declining Stock Market Transactional Behaviour

S.N.	Major Causes	Group					Total Points	%	Rank
		A	B	C	D	E			
1	Increasing Capital Gains tax rate	101	26	135	28	32	322	18	2
2	Political crisis, during the fiscal year	108	38	145	39	37	367	20	1
3	Due to of scarcity of money in market/liquity crisis,	82	31	115	32	25	285	16	3
4	Decreasing the transaction of commercial banks and other financial institutions	50	19	72	17	19	177	10	6
5	Cause of Global Market crisis	28	12	40	8	15	103	6	7
6	Not providing loan to investors by banks and other financial institutions	69	22	91	21	21	224	12	5
7	Due to modification of monetary policy	81	23	97	30	23	254	14	4
8	Unknown	21	9	25	5	8	68	4	8
	Total	540	180	720	180	180	1800	100	8

Source: Opinion Survey

Causes of declining stock market transactional behaviour is ranked according to the respondents as follows:

1. Political crisis, during the fiscal year
2. Increasing capital gains tax rated
3. Due to of scarcity of money flow in market/liquidity crisis
4. Due to modification of monetary policy
5. Not providing loan to investors by banks and financial institutions
6. Decreasing transaction of commercial banks and other financial institutions
7. Cause of Global Market Crisis
8. Unknown (Other reason)

Subsequently, it can be concluded that the political crisis, during the fiscal year, increasing capital gains tax rate, scarcity of money flow in market/liquidity crisis full supported to be the causes of declining the stock market transactional behaviour.

Therefore, political crisis is not only creating negative influence into stock market transaction but it has been directly impact on the economic growth of the country. So, without the political stability in our country there will no be activities of development and economic growth of the country. And this is the voice of all Nepali citizen.

4.14.11 Efficient and Qualitative Monetary Policy Affect the Stock Market's Behavior

Monetary policy plays vital role in the fluctuating the stock market behavior. So, to know whether the monetary policy affect the stock market's behavior, the question has asked "Does monetary policy affect the stock market's behavior?" The respondents' responses are tabulated below:

Table: 4.23

Efficient and Qualitative, Monetary Policy Affect the Stock Market's Behavior

Responses/ Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
A	1	100	0	0	15	100
B	5	100	0	0	5	100
C	20	100	0	0	20	100
D	5	100	0	0	5	100
E	5	100	0	0	5	100
Total	50	100	0	0	50	100

Source: Opinion Survey

From the above table, it could be concluded that efficient and qualitative monetary policy affect the stock market's behavior because 100% has been agreed with the statement.

Subsequently, it has been asked that "And what do you think about current's monetary policy." and requested to fill up the reasons for the respondents. The respondents' responses are given below;

- Firstly, financial policy of government is not concentrated to save national industries; secondly, monetary policy is not focused to an improving capital market.
- Current monetary policy of Nepal does not have any influential elements that motivate investor to investment into Nepalese stock market.

- Current monetary policy is not fair. Due to of increment of interest rate and share loan amount providing to the investor is very low, so the government at present should provide the high amount of money at the reasonable rate to the investors than before.
- Current monetary policy is not flexible for good investors.
- Current monetary policy is not a good one because it is directly helping to move toward stock market crisis.
- Present monetary policy which came into existence recently has to some extent to boost the morale of the investors. In overall, it is not satisfactory.
- Lack of good knowledge on the policy maker.
- Current monetary policy of Nepal does not helps to create favourable environment condition to investors for investment into the stock market.
- Current monetary policy is very liberal policy and effective also.
- This policy is not encouragable towards increasing investment and it frequently helps to initiate on creating liquidity crisis.
- Current monetary policy is not favourable to the stock market.

4.14.12 Causes of Governmental Inefficient and Negligence towards the Development of Nepalese Stock Market

Government has the essential and vital role on the development of stock market but government of Nepal has not shown any intention to build up the capital market. So, people could not found any secure to invest their saving fund into the capital market. Therefore, regarding role of government for the development of stock market, respondents are requested to rank their response on 1 (most important) and 4 (least important). The question has been asked “Why government of Nepal is not giving even some minor priority towards the stock market of Nepal on the development of its area?” similarly respondents’ responses are tabulated below:

Table: 4.24
Causes of Government Inefficiency and Negligence towards the
Development of Nepalese Stock Market

SN	Major Causes	Group					Total Points	%	Rank
		A	B	C	D	E			
1	Revenue from Capital gains tax is not huge amount	19	10	71	10	8	118	23.6	3
2	Unknown	31	5	37	20	18	111	22.2	4
3	Other important or major public issues are on the movement	52	15	27	15	10	119	23.8	2
4	Theirs' main job is only to collect revenue	48	20	65	5	14	152	30.4	1
	Total	150	50	200	50	50	500	100	4

Source: Opinion Survey

The causes of governmental inefficiency and negligence towards the development of Nepalese stock market are ranked in order of the preference the respondents are as follows:

1. Theirs' main job is only to collect revenue
2. Other important or major public issues are on the movement
3. Revenue from capital gains tax is not huge amount,
4. Unknown (Other Reason)

There are many other reasons but also some common reasons are mentioned to know the view of different persons/respondents. Then, according to the above ranking it can be concluded that the main job of government is only to collect the revenue from the investors, other important or major public issues are on the movement are the most important causes of inefficiency and negligence towards the development of Nepalese stock market.

4.15 Major Findings

4.15.1 Major Findings on the Basis of Secondary Data Analysis

On the basis of data presentation and analysis in above mention sub chapter some important finding of the study are summarized below:

- Indirect tax revenue is the composition of custom duty, vat, excise duty and other tax. The contribution of custom duty, VAT excise duty and other taxes, the custom duty has occupied the first position and VAT has second position.
- Direct tax revenue is the composition of tax and property, profit and income and land revenue registration.
- There are two sources of collecting revenue by government. They are tax revenue and non-tax revenue. In FY 2008/09, total revenue collected Rs. 143474.5 million; which is increased by 33% than compare with previous FY 2007/08. Similarly, in FY 2008/09, the share of tax revenue is 81.58% and of non-tax revenue is 18.42%, out of the total revenue collection.
- The major source of the government revenue is income tax. It many enhance the revenue of the justice and encourage private sector investment. The compositions of income tax revenue of Nepal are Income tax from Public Enterprises, Semi-Public Enterprises, Private Corporate Bodies, Individuals, Remunerations, Income from Investment, Profit tax and other.
- In fiscal year 2008/09, tax rate of capital gains tax is increased to 15%, which is increased by 50% than compare with previous year.
- Capital gains tax is a sub-composition of income tax and it comes under the composition of Income from Investment. It does not have satisfactory contribution to the income tax but it has the emerging trend on the contribution. In FY 2004/05, contribution of capital gains tax to income tax remained at 0.07%, and in FY 2008/09, 2.80% respectively contributed to income tax. Consequently, the low contribution of capital gains tax occurred in FY 2005/06 and high contribution in FY 2007/08, 0.006% and 4.21% are the contributed rate of respective Fiscal Year.
- Capital gains tax does not have effective contribution on the revenue but also it has the possibilities and capabilities on developing capital market and initiating on economic growth of Nepal; which is very much essential for developing country like Nepal. According to the available data from the FY 2004/05 to FY

2008/09, we can notice that it have the possibility of satisfactory contribution to revenue in future. So, in FY 2005/06, Rs. 657 thousand and in FY 2007/08, Rs. 8003492 thousand & it is increased by 99.86% than previous FY 2006/07, the lowest and highest revenue collection in the respective Fiscal Year. Contrast, in FY 2008/09 the revenue collected Rs 761617 thousand and it is decreased by 5.498% than compare with previous FY.

- In FY 2004/05, Capital gains tax has contributed 0.010% to total revenue, similarly in FY 2007/08, 0.75% has contributed & it is highest contribution than before and after and in FY 2008/09, only 0.53% have been contributed to total revenue collection and it is low contribution rate than previous FY.
- In fiscal year 2008/09, trading amount of Nepalese stock market is Rs. 21681.14 million and it is decreased by 4.99% than compare with previous year. But the transaction of share is on increasing trend than compare with previous year.

4.15.2 Major Findings from Empirical Investigation

An empirical investigation has been conducted in order to find out various aspects of Capital gains tax and its impact on Nepalese stock market for the purpose of getting actual information from the related field. For this, questionnaire has developed and responses are collected from the respondents. Respondents are classified into five groups: Income Tax Administrators, Brokers, Individual Investors, Entities Investors and Tax Expertise. Finding from the opinion survey, through questionnaire and informal interviews with them have been presented below:

- In fiscal year 2007/08, Capital gains tax from stock market has been contributed approximately 1% on total tax revenue of Nepal but, in fiscal year 2008/09 it has been limited to 0.651%. Similarly, according to the opinion of the respondents, it is found that capital gains tax has the emerging trend on contributing to increase government revenue. Almost 53% have thought that capital gains tax is another source of contributing government revenue.
- According to the respondents opinion, it is found that in current condition there is no any favorable policy to benefit investors (i.e. especially individual investors and entities investors). Altogether, 52% have thought that there is not any effective and favorable policy that could benefit investors and rest of them thinks that there is some favourable policy that is benefiting investors.

- In Nepalese stock market there is no any provisions of short-term profit and long-term profit, capital gains tax system. But in many different country such as in, India, USA, UK, Germany, Sri Lanka etc. are accepting such provisions. According to the respondent's survey, it is found that 100% of the respondents are enthusiastic to regulate such provisions in Nepal. And from the respondents' responses it can be clearly stated that the people are like to earn short-term profit than long-term profit; where 68% desired to earn short-term gain.
- In Nepal another stock exchange is required because, total market capitalization has increased by 40.05% and reached to Rs. 512.94 billion at the end of the period, FY 2008/09. which is huge amount in the contest of Nepalese market. As well as, 159 total listed companies are registered for trading at NEPSE. Therefore, 76% respondents thought that there is the possibility of establishing another stock market in future because many different financial institution & other company are willing to establish and issue the share in future.
- For the economical development of country, capital formation and development is very much essential. But government is not giving even some minor priority for the development and not regulating any initiative procedures towards capital market reform. Therefore, it is creating hesitation in the investing environment of investors. Although, 78% of the total respondents responses that, government of Nepal is not co-operating the investors' will and supporting theirs' voices too.
- For the purpose of re-establishment of stock market, the government should modify on the tax rate of capital gains tax. Such as by reducing the tax rate, tax exemption etc. criteria should be regulate for the short-term purpose. Similarly, 76% respondent desired that for the increasing; trading amount of stock and market per share, the rate of Capital gains tax should be decrease.
- The main reason of declining stock market transactional behavior has found that, political unstable and crisis during the fiscal year 2008/09. Where trading amount decreased to Rs.21681.14 million and reduced by 4.99% than previous fiscal year 2007/08.
- Effective and qualitative monetary policy affect the stock market behavior, directly as well as frequently. But, current monetary policy on the behalf of stock market is not encouraging towards increasing investment and it frequently helps to initiate on creating liquidity crisis.

- The study find out that the main reason of governmental inefficient and negligence towards the development of Nepalese stock market is that, they thought that theirs' main job is only to collect revenue. But they should not forget that stock market development helps country's economic growth in many ways.
- From the study it shows that, opening branches by 23 stock brokers in different urban town of country, it seems that it is benefiting to the general investors who are scattered at different part of country. Therefore, 82% belief that this programme is benefiting to the investors and stakeholders too.

CHAPTER - V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

Nepal is one of the emerging trends in developing country. The huge sources of human resource and natural resources are available in our country; where by proper utilization of such resources we can build-up our country at high speed. In contrast, the governmental bodies are not showing any aggressive movement toward it. So, such resources are being to be wasteful.

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

To solve this problem, income tax is the most important source for collecting internal revenue in which development of stock market of Nepal could be fruitful because it helps country's economic growth in many ways. By development of stock market, it does not only increase the revenue of government (Capital Gains Tax) but also plays the role that is usually ascribed to them- attracting foreign investment, boosting domestic saving in the country. Regarding this fact, this study attempts to the Capital gains tax and its impact on Nepalese stock market.

In second chapter, the literature review has observed through the study of various books, journals, articles, dissertations and other reference materials. The overall, various concepts, importance, types of taxation has been discussed in this study. meet the objectives of this study, the literature review has presented the concepts and provisions of Capital gains tax, as well as general information of Nepal Stock

Exchange (NEPSE) and due to direct influence of Monetary Policy into the Stock transaction; Monetary Policy has been review in this chapter of the study.

In third chapter, it has been discussed about various aspect of research methodology. Descriptive, analytical, empirical research design has been used to to research the study on the topic. Total 50 respondents are selected to fulfill the objectives of this study and total respondents are divided into five group; Income tax administrator, Brokers, Individual Investors, Entities Investors and Tax Expertise are the population of this study and 15,5,20,5,5 respectively are the sample size of the population for the study. Secondary sources of data are the major source of studying purpose and primary data also collected by using survey method for the course of Nature and sources of data collection. The procedure of data collection for the purpose of research have been clearly identified into this chapter. Similarly, analytical tools such as table percentage, different charts, diagrams percentage, trend lines, times series, average etc are used for the purpose of data processing and analytical procedures.

The fourth chapter of this study is presentation and analysis of data, it is consists of both primary as well as secondary data which has been analyzed to give the actual and meaningful result. Economic surveys, Budget speeches, Annual reports of Inland Revenue Department, Annual report of Nepal Stock Exchange, Annual Monetary Policy of Nepal and websites of NRB, MOF, IRD, etc. are the major sources of collecting secondary data that are related with stock market of Nepal . Primary data have been collected by opinion survey technique. From the five group of respondents; Income Tax Administrators, Brokers, Individual Investors, Entities Investors and Tax Expertise, the empirical investigation has been responded.

Secondary analysis has been done by presenting the relevant data into tables and figures consisting Eleven years period, i.e. from fiscal year 1998/1999 to 2008/09. But due to unavailable data of capital gains tax, only of five year has been presented i.e. 2004/05 to 2008/09. The comparative analysis for different years done in the analysis part of the study. Major findings of the secondary data analysis have been putted at the end of the chapter. Data obtained from opinion survey with the respondents are tabulated and analyzed to achieve desired end result.

On the base of study period every F/Y's total revenue is on increasing movement. In FY 2008/09 total revenue is increased to Rs. 143474.5 million and it increased by 33.31% than previous FY. Similarly, tax revenue has contributing more than 75% every FY and Non-tax revenue has contributing more than 20% every FY. But in FY 2008/2009, tax revenue collected Rs. 117051.9 million and it is increased by 37.46% than previous FY and non-tax revenue collected Rs. 26422.6 million and it is decreased by 17.61% than previous FY.

Due to the unavailable data of revenue from capital gains tax only of five year has been given. So, in FY 2004/05, total capital gains tax collected Rs. 7030 thousand and in following FY, total capital gains tax collection decreased to Rs. 657 thousand & it is decreased by 90.65% than compare with previous FY. In FY 2007/08, total capital gains tax collected Rs. 803492 thousand & it is increased by 71194.76% than previous FY. And it is high amount of collection than ever before and after. Although, in FY 2008/09, capital gains tax collected Rs. 761617 thousand and it is decreased by 5.21% than previous FY.

Similarly, the contribution of revenue form capital gains tax to total revenue in the F/Y 2004/05, remained at 0.10% and in FY 2007/08, at 0.75%; it is high rate of contribution made to total revenue than ever before. And in FY 2005/06, only 0.001% of contributed to total revenue collection. Although, in F/Y 2008/09, 0.53% contributed by capital gains tax to total revenue collection of Nepalese government & the contribution rate is on decreasing trend than previous F/Y's contribution to total revenue collection.

The securities transaction from the fiscal year 2003/04 to 2008/09 has been presented and comparing with previous year's transactions. In fiscal year 2004/05, total Rs. 4507.68 (million) amount of securities are traded and it is increased by 110.22% than previous year. Similarly, in fiscal year 2007/08, total Rs. 22820.76 (million) amount of securities are traded and it is increased by 172.97% than previous year; as well as this total amount of securities trade is high than other years' total amount of traded. But in fiscal year 2008/09, total amount of securities trade is decreased by 4.99% than previous fiscal year and total amount Rs. 21681.14 (million) is being traded during the fiscal year 2008/09.

On the basis of empirical investigation we can found that, the main reason of declining stock market transaction and revenue form capital gains tax is political unstable and crisis during the FY 2008/09. 78% respondents responses that government of Nepal is not co-operating the investor's will and not supporting their voices too. So, the investors are getting highly frustrate and hesitating to invest their fund into the capital market. Effective and qualitative, monetary policy affect the stock market behavior directly and frequently but also there is no favorable policy that could benefit investors in current condition. In many different developing as well as developed country, are regulating the provisions of short-term and long-term profit gains tax system, but in Nepal there is no still on progress. For that 100% are enthusiastic to be regulate such provision in our country very soon as possible as well as 68% desired to earn short-term profit than long-term profit. Similarly, at the time of opinion survey, some respondents advices that, there should be effective and qualitative monetary policy that could promote the stock market efficiently and government should give attention for the development of this market's area & should be made rid form the political issues to this organization. The concept of Mutual fund, entry of foreign investors (NRN) and institutional investors into the capital market is very much essential for the development of stock market; so government of Nepal should initiative into the action. Other wise investors' investment could be spoil and government have to loss the investment into the country. And some of the respondents advice that for the quick recovery of the stock market of Nepal, government of Nepal should implement the provisions of tax exempt or deduction of capital gains tax for the short time period. Therefore, it is to be said that development of stock market do promote long term growth of national economy.

5.2 Conclusions

Nepalese economy is suffering from ineffective and effortless plan, program and policy of development and is also fighting against whatever bottlenecks identified before the starting of planned period. Now a day, prime concern of every nation of world is rapid economic development and Nepal is no exception to this ever continuing process. Nepal aims for self- reliant economic system to upgrade its living standard of people. Thus a lot of money has to be spent to achieve maximum national objectives.

In mean time, Nepal has been suffering from capital shortage to accelerate the economic growth and national deficit is increasing year to year. So, to manage fund for the operation of development programme of country, government are gathering funds from, foreign loans, grants, external borrowing etc. but external sources are uncertain, inconvenient and not good for long run development purposes of nation. Therefore, internal sources are better to mobilize and preferable for sustainable economic development for the long run.

Tax revenue is the important source of government revenue. Taxation is regarded as effective economic activities in a country. Governments collect revenue for economic development and economic stability. Taxation is the stability sources of government revenue since it occupies the most important place is in the government treasury. Therefore, there are many sources of collecting revenue under government head but also Capital gains tax has its own importance and contribution in the governmental circumstances. Similarly, in fiscal year 2008/09, revenue collection from capital gains tax is Rs. 761617 thousand and contribution into total revenue collection remained at 0.53% but previous year's contribution to total revenue collection occurred 0.75%. This seems terrific contribution in the future.

Although, capital gains tax has a emerging trend in future. If the provisions of Capital gains tax would modify and introduces new policies as well as law must be transparent and strengthen; it could attract many new investors such as institutional investors, foreign investors and new domestic investors into the stock market. Due to the involvement of many investors with different objectives would create situation of high turnover of stock quantity. Therefore, on the base of increasing stock turnover revenue from capital gains could be increase.

There are some facts that have seen after the study. They are given below as follows:

- In the provision of present capital gain tax, tax is imposed on capital gains from the trading of securities but there is no clarity regarding the write off of capital losses incurred and there is also a problem of establishing net gains in the trading of securities. So the provision of capital gain tax should be rationalized in view of present initial stage of securities market development. Therefore, the

policy maker should introduce it by clearly that all could understand and helps to create confidence for investors.

- Monetary Policy of the Central Bank has a profound influence on the performance of the securities market. But, due to changes of policy regularly and unexpectedly, it became as unfavorable to investors; investors are not confidence towards investment. So, policy maker should consider the policy that could be stable for the long run and policy should focus the investors' voices which create great enthusiasm of investment into the share market.
- The future of Nepalese stock market largely depends on the positive role of the government. Government of Nepal without debate should have supportive role in the development of stock market like in other developed markets. It can support in amending and revising securities act.
- Government of Nepal has to be well aware on the role and significance of stock market in terms of the effective mobilization of funds, and it should give high priority in its reform and development. Government should have to rationalize the tax provisions relating to stock market and stock investment as well; and government should set fiscal policy favourable to stock market growth and development. It is to be say that the development of stock market helps to contributes for the short-term economic growth and long-term economic development as well as.
- Only increasing the capital gains tax does not be sufficient to increase government revenue but promoting is very much successful and essential for today's world. So, political and economic stability and growth-oriented policies as pre-conditions is important for the overall structure development of country.
- Lack of appropriate and standard legal framework has been the major reason for not improving efficiency of regulation.
- The decreasing of stock turnover; the main reason of decreasing stock turnover consist political crisis and second is to be regard, increasing of capital gains tax during the fiscal year 2008/09.
- These are the conclusion of this research study. On the basis of these conclusions some recommendation have been done.

5.3 Recommendations

After doing the research about the provisions of Capital gains tax and its impact on Nepalese stock market, following recommendations and suggestions are made to improve the current provision of capital gains tax related with stock market. And some important recommendations are made for the development of stock market in Nepal for the economic growth-oriented.

- Provisions of Capital gains tax are not sufficient as well as it is not meeting the current global standard circumstances. Such as short-term and long term gains tax rate and other provisions that are missing onto the provision of Capital gains tax under the Income Tax Act 2058. This would be beneficial to both party (i.e. to government and to investors); new provisions would be attract investors' eager to invest fund into the stock market. And increment of stock transaction, government revenue from Capital gains tax could be increase. So these provisions should be included by modifying current provisions as well as other more provisions should be introduced by the related bodies.
- Provisions of Capital gains tax should give high attention to individual investors because they invest their saving fund to get some return from the market. Similarly, government should not forget that from the establishment of stock market to till individual investors are only one investors who are playing the role of spirit to sustain stock market and providing contribution to government revenue.
- Provisions of Capital gains tax related with the trading of securities and has its own importance. But there is no clarity regarding the write off of Capital losses incurred and there is also a problem of establishing nets gains in the trading of securities. So, the provisions of Capital gains tax should be rationalized in view of present initial stage of securities market development.
- Capital gains tax rate should be decreased for the purpose of providing some relief to investors as well is could helps to maximize the participation of the investors. So, the trading amount of stock could be increased.
- The development of stock market helps to develop and economic growth of the country. So, the role of government is very much important for the development of stock market and some recommendations are given as follows:

- Nepalese stock market largely depends on the positive role of the government; government of Nepal without debate should have supportive role in the development of stock market like in other developed markets.
- Government can support in amending and revising securities act.
- Government should not take unnecessary long time to approve amendment in Securities Act.
- Government of Nepal has to be well aware on the role and significance of stock market in terms of the effective mobilization of funds, and it should give high priority in its reform and development.
- Government should have to rationalize the tax provisions relating to stock market and stock investment as well; and government should set fiscal policy favourable to stock market growth and development.
- Government can play a significant role to bring the institutional investors like Employees' Provident Fund, Citizen Investment Trust, Retirement and Pension funds, and Insurance Companies into stock market with suitable policy and guidelines of investment.
- The necessary policy guidelines and co-ordination of responsible agencies including government and central bank can attract for Non-resident Nepalese and foreign institutional investors into the secondary market of Nepal.
- NEPSE is full ownership of government. So, it does not have appropriate job on stock market development. Therefore, government should provide permission and facilities to open new stock exchange, which helps in developing stock market and helps to contribute in collecting revenue as a Capital gains tax at high amount than as usually contributed.
- Monetary Policy of the Central Bank has a profound influence on the performance of the securities market. But due to the changes of policy every year or even twice a year, it is creating negative impact towards the investors' ; physically as well as psychologically. Therefore, policy should be introduced and implemented for the long-term purposes and after implementation it should not be changed again and again.
- Law makers must be understandable of the technique nature of market and the regulator must have sufficient capability to convince the lawmaker then only the enactment of law will be at time and effective one.

- As visualized by the Act, many rules and regulation have to be developed for implementation of the Act.
- Legal and regulator gaps in this respect should be duly addressed.
- Weak regulatory mechanism, inefficient and limited services, insufficient basic market infrastructures, lack of professionalism in the service providers, etc. are the other critical issues of the securities market, which also need to be addressed.
- For the effective and efficient regulation of the market, the regulator should have adequate capability. The capability of the regulator highly depends on the availability of resources. It should have sufficient resource to develop and maintain that expertise.
- There is lack of accounting and auditing system that meets the demand of whole corporate sector of the country. So, these standards are to yet to effectively implemented by empowering the regulators and creating required awareness in the corporate sector.
- Only increasing the tax rate is not favourable for the increment of government revenue. Before taking some step, responsible authority should study and evaluate the conditions and available of infrastructures and facilities of the related field.
- There should be good and stable political condition, because it helps to collect high rate of capital gains tax by huge transaction of securities in the market. But also, it contribute to whole country by having the stage of development and growth performance in the country.

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ANNXURE

Questionnaire

Annex I

“Provisions of Capital Gain Tax and its Impact on Nepalese Stock Market”

Subject:- Questionnaire

Name:-

Designation:-

Office:-

(Please tick your answer in the following options as well as rank in order of preference from one to last number, if there are four or more alternatives. And I want to request to fill up the reason's blank area; according to the given questions.)

Questions for Questionnaire

1) Does increasing capital gain tax, could contribute to increase government fund?

a. Yes

b. No

2) Are there any favorable policy to benefit investors?

a. Yes

b. No

3) Are the people involvement in Stock Market is increasing day by day? Why?

a. Yes

b. No

Reasons-

.....
.....
.....

4) Do you think that, people who invest their money into stock market, does they invest to earn short-term profit or long-term profit?

a. Short term profit

b. Long term profit

5) Do you know, in many different foreign countries, government allow the provisions of long-term gains and shot-term gains, tax rate? Why?

Reasons-

.....
.....
.....

Do you wish that, this provision should implement in Nepal?

a. Yes

b. No

6) In Nepal, is there any possibility of establishing another stock market in future?

a. Yes

b. No

7) Altogether there are almost 23 stock brokers in Nepal; before 4-5 months ago it has being decentralized by opening branches in different urban areas. Does it benefit to all investor of Nepal?

a. Yes

b. No

8) Government of Nepal, does co-operating with investors' will?

(Such as to safe their capital, making free from political issues, norms, not providing way to involve for NRN in investment etc.)

a. Yes

b. No

9) Do you think that, by decreasing capital gains tax rate, does the transaction of share and market per share will increase?

a. Yes

b. No

10) In fiscal year 2065/66, turnover of total shares in units have increased by 6.81% but amount has decreased by 4.99% than compare as with previous fiscal year. So, what could be a reason?

a. Increasing capital gains tax rate,

b. Political crisis, during the fiscal year,

c. Due to of scarcity of money flow in market/liquidity crisis,

d. Decreasing the transaction of commercial bank's and other financial institutions,

e. Cause of Global Market Crisis,

f. Not providing loan to investors by banks and financial institutions,

g. Due to modification of monetary policy,

h. Unknown.

11) Does monetary policy affect the stock market's behavior?

a. Yes

b. No

And what do you think about current's monetary policy.

Reasons-

.....
.....
.....

12) Why government of Nepal is not giving even some minor priority towards the stock market of Nepal on the development of its area?

- a. Revenue from capital gains tax is not huge amount,
- b. Unknown,
- c. Other important or major public issues are on the movement,
- d. Theirs' main job is only to collect revenue.

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Thanks for your kind cooperation and suggestion for project assignment purpose>

Annex II

Nepal Stock Exchange Limited									
Comparative Summary Sheet of Transactions with Previous Years									
16 July 2008- 15 July 2009									
F/Y 2065/66									
SN	Particulars	FY 2006/07 (2063/64)		FY 2007/08 (2064/65)		Change	FY 2008/09 (2065/66)		Change
		Share units	Amount	Share units	Amount	in	Share units	Amount	in
		('000)	Rs. in million	('000)	Rs. in million	%	('000)	Rs. in million	%
1	Turnover	18147.25	8360.07	28599.77	22820.76	172.97	30547.16	21681.14	-4.99
A	Commercial Banks	9090.95	5855.77	11241.41	13822.14	136.04	13301.43	12406.45	-10.24
B	Finance	2343.46	642.64	3094.26	2307.53	259.07	3552.01	2615.40	13.34
C	Hotel	81.70	7.07	158.07	27.67	291.37	95.89	18.69	-32.45
D	Manufacturing & Processing	82.92	24.12	1655.08	343.44	1323.88	95.12	26.08	-92.41
E	Other	14.24	0.54	7.70	0.29	-46	630.82	494.39	170379
F	Hydro Power	4460.27	1258.01	7251.21	3199.94	154.37	3612.12	890.30	-72.18
G	Trading	11.47	10.42	14.97	33.65	222.94	14.65	33.49	-0.48
H	Insurance	627.61	204.97	433.26	264.86	29.22	418.49	212.80	-19.66
I	Development Banking	1360.53	355.73	2534.88	1981.05	456.90	3631.81	2740.36	38.33
J	Mutual Fund	74.10	0.80	319.10	6.09	661.25	758.50	22.40	267.82
K	Preferred Stock	-	-	101.42	81.15		74.43	74.05	-8.75
L	Pramotor Share	-	-	1788.41	752.95		4361.90	2146.73	185.11
2	Market days	232		235		1.29	234		-0.43
3	Average daily turnover	78.22	36.03	121.70	97.11	169.49	130.54	92.65	-4.59
4	Number of transactions	120510		150800		25.13	209091		38.65
5	Number of Scrips Traded	116		136		17.24	170		25.00
6	Number of Companies Listed	135		142		5.19	149		4.93
7	Number of Delisted Companies	12		5			0		
8	Total Paid Up Value of Listed Share		21746		29465	35.50		61140	107.50
9	Number of Listed Securities	243504		321131		31.88	637868		98.63
10	Market Capitalization		186301.28		366247.56	96.59		512939.07	40.05
11	NEPSE Index at the end of Year								
-	High		683.95		1064.09	55.58		1175.38	10.46
-	Low		355.60		677.98	90.66		609.46	-10.11
-	Closing		683.95		963.36	40.85		749.10	-22.24
12	Market Capitalization of Group -A		150664.76		306228.21			341841.16	11.63
13	Total Paid Up capital of Group -A		11816		17885	51.36		27860	55.77
14	Number of Listed Securities Group -A	10517		179037		1602.36	27840		-84.45
15	Sensitive Index								
-	High		175.08		275.21			302.65	9.97
-	Low		98.21		172.19			157.51	-8.53
-	Closing		175.08		253.72			198.77	-21.66
16	NEPSE Float Index								
	High		-		-			95.71	
	Low		-		-			59.83	
	Closing		-		-			70.85	
17	Bond Market (Listed)								
i	Government Bond	33000.00	3300.00	61000.00	6100.00	84.85	151500.00	15150.00	148.36