

A STUDY ON TAX PLANNING PRACTICES IN NEPAL

Submitted By

BHIM SUBBA

Central Department of Management

Roll No. 490/2065/067

T.U. Reg. No. 7-1-202-362-20003

Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

**In partial fulfillment of the requirement for the Degree of the Master
of Business Studies (MBS)**

Kathmandu, Nepal

March, 2013

RECOMMENDATION

This is to certify that the Thesis

Submitted By

BHIM SUBBA

Entitled

A STUDY ON TAX PLANNING PRACTICES IN NEPAL

It has been prepared as approved by this Department in the prescribed format of the Faculty of Management. This Thesis is forwarded for examination.

Dr. Gopi Nath Regmi

(Thesis Supervisor)

Prof. Dr. Bal KrisShrestha

(Head, Research Department and
Central Department of Management)

Date: -----

VIVA –VOCE SHEET

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

By

BHIM SUBBA

Entitled

A STUDY ON TAX PLANNING PRACITCES IN NEPAL

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

Master’s Degree in Business Studies (MBS)

Viva-Voce Committee

Head, Research Department

Member (Thesis Supervisor)

Member (External Expert)

Member of Central Department of Management

Date:.....

DECLARATION

I hereby declare that the work reported in this thesis entitled “**A STUDY ON TAX PLANNING PRACTICES IN NEPAL**” submitted to Central Department of Management, Faculty of Management, Tribhuvan University is my original work. It is done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Studies (MBS) under the supervision of **Mr. Gopi Nath Regmi**.

.....

Bhim subba

Researcher

Roll No: 490/2067

T. U Reg. No: 7-1-202-362-2002

Central Department of Management

Date:.....

ACKNOWLEDGEMENT

This thesis "**A Study on Tax Planning Practices In Nepal.**" is prepared in Partial Fulfillment of the Master's Degree in Business Studies. Many grateful hands were needed to complete this study. I express great thankful to all those who have helped me by sharing valuable time, efforts, views inspection etc in course of completing this work.

First of all, I would like to pay sincere thanks to my respected teacher **Dr. Gopi Nath Regmi** who had supervisor my work.

I would also like to acknowledge the inspiration and support of respected Head of The Department and chairman of Research Committee **Prof. Dr. Balkrishna Shrestha**. I am grateful to Lecturers of the Central Department of Management who helped me for making it possible to bring out this thesis at successful completion. Likewise, I would like to extend my thanks especially Central Department of Management who provide me idea about this research topic and also thanks to **Mr. Rishi Raj Dawadi** and **Mr. Mukunda Rimal**, who always encourage prepare this Thesis.

Before I finish, I devote my appreciation to my family members Mr. Abichandra Limbu hembiya (father), Mrs. Chandra Maya Limbu khimding (Mother), Mr. Hem kumar & Hasta Kumar limbu (Brothers) and Mrs. Shova & Harimaya (Sisters) who always encourage learning and supported on every steps.

I am also grateful to my colleagues especially Indra Shrestha, Mahesh Adhikari, jaya Budathoki, Santosh Tamang and all friends for their great contribution and co-operation to provide all the required data and information to conduct this study.

Finally, I am heartily indebted to the Central Library of Tribhuvan University Kirtipur, Library of Department for providing me the research materials during my study.

Bhim Subba

Date:.....

TABLE OF CONTENT

Page No.

Recommendation

Viva-Voce Sheet

Declaration

Acknowledgement

Table of content

List of Table

List of Figures

List of Abbreviations

CHAPTER ONE: INTRODUCTION 1-5

1.1 General Background 1

1.2 Statement of Problem 3

1.3 Objectives of the Study 4

1.4 Significance of the Study 4

1.5 Limitation of Study 5

1.6 Organization of Study 5

CHAPTER TWO: REVIEW OF LITERATURE 6-28

2.1 Conceptual Framework 6

2.1.1 Tax Evasion 6

2.1.2 Tax Avoidance 7

2.1.3 Tax Delinquency 8

2.1.4 Tax Planning 8

2.1.5 Features of Tax Planning 9

2.1.6 Methods of Tax Planning 9

2.1.7	Importance of Tax Planning	9
2.1.8	Tax Management	10
2.1.9	Scope of Tax Planning Under Income Tax Act, 2002	10
2.1.10	Tax Reform in Developing Countries	17
2.1.11	process of Tax Reform	18
2.2	Review of literature	18
2.2.1	Review of Articles	19
2.2.2	Review of Related Thesis	21
CHAPTER THREE: RESEARCH METHODOLOGY		29-31
3.1	Introduction	29
3.2	Research Design	29
3.2	Nature and Sources of Data	30
3.4	Population and Sample	30
3.5	Procedure of Data Collection	31
3.6	Procedures of Data Presentation and Analysis	31
CHAPTER FOUR: PRESENTATION AND ANALYSIS OF DATA		32-83
4.1	Introduction	32
4.2	Implementation Scenario of Tax Planning in Nepal	32
4.3	Sample Analysis of Measurement	32
4.4	Information about the Organization	32
4.5	Knowledge about Tax Planning	33
4.6	Reasons for not Familiarities with Concept of Tax Planning	34
4.7	What Factors should be considered to make Tax Planning Practicable?	35
4.8	Application of Tax Planning	37

4.9	Do you think that Tax Evasion and Tax Avoidance Practices Are The Root Cause of not Applying Tax Planning?	38
4.10	Suitability of Tax Planning for Minimizes Tax Liability	40
4.11	Misuse of Tax Planning as Tax Evasion and Tax Avoidance	41
4.12	Methods used by tax payers for the assessments of tax	43
4.13	Following are the Important Area of Strategic Planning	44
4.14	Following are the Important Areas of Project Planning	47
4.15	Following are the Importance of Operational Planning.	52
4.16	What factors responsible for poor tax planning habit of Nepalese People?	57
4.17	In your Experience does a Taxpayer Feel Difficulties in the Process of Income Tax Assessment?	59
4.18	What types of difficulties were felt by tax payers while assessing income and making tax plan?	60
4.19	Where the tax concessions, rebates, relief, incentives granted to the tax payer under the existing tax law adequate?	62
4.20	Does your Company Maintain Proper Books of Accounts?	63
4.21	What are the Reasons of Widespread Income Tax Evasion in Nepal?	64
4.22	How Tax Evasion Behavior of Nepalese Tax Payers can be avoided?	67
4.23	What are the Major Problems of Tax Administration to Support and Reform Tax Planning in Nepal?	70
4.24	What are the essential factors for making tax administration and tax planning effective?	72

4.25	Do you think, income tax Act 2002 B.S is sufficient to support tax planning?	75
4.26	What are the major demerits of income tax Act 2002 A.D. regarding the scope of tax planning?	76
4.27	In your opinion, what are the areas of tax planning reform in Nepal?	79
4.28	Major Findings	81

CHAPTER FIVE: SUMMARY, CONCLUSION AND

RECOMMENDATION

86-89

5.1	Summary	84
5.2	Conclusion	86
5.3	Recommendation	91

BIBLIOGRAPHY

APPENDIX

ABBREVIATIONS

AD	:	Anno Domini
BOOT	:	Built own operate and transfer
CEDA	:	Central for Economic Development and Administration
CO.	:	Company
CBS	:	Central Bureau of Statics
Ltd.	:	Limited
MOF	:	Ministry Of Finance
NGO	:	Non Government Organization
MBS	:	Masters of Business Studies
Ph. D.	:	Doctor of Philosophy
Pvt.	:	Private
VAT	:	Value Added Tax
IRD	:	Inland Revenue Department
ITA	:	Income Tax Act.
Ktm	:	Kathmandu
e.g.	:	Example
etc.	:	et cetera
i.e.	:	That is
GDP	:	Gross domestic production
GAAP	:	Generally Accepted Accounting Principle
FY	:	Fiscal year
Reg.	:	Registration
SEZ	:	Special Economic Zone
BTA	:	Best Judgment Assessment