

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Growing number of companies in the Nepalese insurance market is the indication of expanding scope. Liberalized economic policies have tempted profit oriented joint venture companies. Insurance business is likely to accelerate with the speeded economic activities. With the rise in purchase power of the people and increased in educational level, the insurance business is expected to take upward course. There has been a growth of premium by 15% in average in non-life insurance. The volume of premium has been increasing. Similarly, the agent for life insurance has increased very significantly as compared to last fiscal year. This gives a clue that there is a growth in life insurance as well. Most of the industries and business houses have been closed down and those who have been operating in the present condition taking full fledged risk are not been able to perform their daily activities and earn as they have expected to earn. So in the present context profitability return is one of the most important and challenging goal.

Importance of profit is hardly required to be explained. Company should earn profits to survive and grow over a long period of time. Profits are essential as it would be wrong to assume that every action initiated by management of a company should be at maximizing profits, irrespective of social consequences. It is unfortunate that the word profit is looked upon as a term of abuse since some firms always want to maximize profits at the interest of employees, customers and society. Except such infrequent cases it is a fact that sufficient profits must be earned to sustain the operations of the business to be able to obtain funds from investors for expansion and its growth and to contribute toward the social overhead for the welfare of the society. Profit is the difference between revenues and

expenses over a period of time. Profit is the ultimate 'output' of a company and it will have no future if it fails to make sufficient profits. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of profit. Therefore, the financial manager should continuously evaluate the efficiency of the company in terms of profit. The profitability ratios are calculated to measure the operating efficiency of the company. Besides management of the company, creditors and owners are also interested in the profitability of the firm. Creditors want to get interest and repayment of principle regularly.

Owners want to get a required rate of return on their investment. This is only possible when the company earns enough profits; profitability is an indicator of efficiency of the business organization. Profitability ratio measures the management's overall efficiency. This shows that higher the profitability higher the management efficiency and vice versa.

1.2 Introduction of Insurance

Developing modern society plays various roles in a society. They bear a major character, the inevitable uncertainty surroundings. Due to the uncertainty and competition factor the concept of insurance and its evolution was enforced and these days it is far more strengthening due to very competitive environment and many dropped down situation. Thus, the insurance seems as an auxiliary for the modern society and organized business company as well as individuals. Before familiarizing to the concept of insurance it is essential to know about risk and risk management.

Risk and Risk Management

In general, risk can be defined as the probability of the occurrence of unfavorable Out comes. However risk has different context. In the context of the insurance, it takes restricted sense and is mainly used to mean the uncertainty of the occurrence

of economic law. It eliminates the losses other than the economic loss and the uncertainty of the occurrence of loss and the subject matter will be basic requirement. So risk is the key element for making insurance desirable and possible. Insurance is not a luxury; it is a necessity especially when one's paid up assets is few. Many people think insurance is for the rich people as they can afford but it is precisely for those who are not financially secure.

Insurance business is broadly classified into two groups

1.2.1 General Insurance (Non-Life)

Name of Non Life Insurance Companies in Nepal.

1. Nepal Insurance Company Limited.
2. The Oriental Insurance Company Limited.
3. National Insurance Company Limited.
4. Himalayan General Insurance Company Limited.
5. United Insurance Company (Nepal) Limited.
6. Premier Insurance Company (Nepal) Limited.
7. Everest Insurance Company Limited.
8. Neco Insurance Company Limited.
9. Sagarmatha Insurance Company Limited.
10. Alliance Insurance Company Limited.
11. NB Insurance Company Limited.
12. Prudential Insurance Company Limited.
13. Shikhar Insurance Company Limited.
14. Lumbini General Insurance Company Limited.
15. NLG Insurance Company Limited.
16. Siddhartha Insurance Company Limited.

(Source: www.rastriybeemasamitte.com.np)

1.2.2 Life Insurance:

Name of life Insurance Companies in Nepal

1. National life Insurance Company Limited.
2. Nepal Life Insurance Company Limited.
3. Life Insurance Corporation (Nepal).
4. American Life Insurance Company Limited.
5. Asian Life Insurance Company Limited.
6. Gurans Life Insurance Company Limited.
7. Surya Life Insurance Company Limited.
8. Prime Life Insurance Company Limited.

(Source: www.rastriybeemasamitte.com.np)

1.2.3 Life and Non-life Insurance Company in Nepal

1. Rastriya Bima Samsthan.

(Source: www.rastriybeemasamitte.com.np)

There are various types of services offered by general insurance and the most important Services are:

1. Vehicle Insurance
2. Marine Insurance
3. Fire Insurance

Similarly, Life insurance is mainly focused on the life of individual. It is related to the health of individual or policy covering the unnatural death of an individual.

(Source: www.rastriybeemasamitte.com.np)

1.2.4 Introduction of Nepal Life Insurance Company

Nepal Life Insurance, established under the Company Act 2053 and Insurance Act 2049 as a public limited company on 2058/01/21 (04/05/2001). Nepal Life Insurance is the foremost life insurance company established by private investors. The promoters of the company are a group of well known businessmen and

business houses of Nepal. Within the eleven years of operation the Company has set up an excellent business record and has a strong financial position.

The company has an authorized capital of Rs. 100 Crore and Paid-up Capital of Rs 63.75 Crore. As on Magh 2070 the company has insured 5,61,005 under conventional policies worth Rs. 7,352.74 Crore and 6,60,043 Foreign Expatriate policies worth Rs. 3,300.21 Crore. Out of the total premium collected the company has invested Rs. 1653.89 Crore as per guidelines of Bima Samiti. The company has insured itself with well-know reinsurance company "Hannover Re Life Reinsurance Company", Germany for conventional policies and "SCOR Global Life", France for Term Assurance Foreign Expatriate policies.

Vision and mission

To endeavor through the noble institution of Life Insurance in making every family economically safe and secure whereby every citizen of Nepal may contribute his might in building a healthy, prosperous, strong & Vibrant Nation.

To cater to financial and Social needs of every segment of society by designing differentiated and innovative insurance instruments. To provide after sales service to customers that can be hailed as the best.

(Source: www.nepallifeinsurance.com.np)

1.3 Statement of the Problem

Nepal, like any other country has been laying emphasis on the upliftment of its Economic. The process of economic development depends upon various factors. Financial institutions are viewed as catalyst in the process of economic growth. The mobilization of domestic resources, capital formation and its proper utilization plays an important role in the economic development of a country. Every financial institution, big or small, either insurances or insurance companies play an

important role in the development of a country. In other hand, these financial sectors, banking and insurance, is regarded as a profitable sector. Insurance industry in the eyes of the layman appears as a very profitable sector. However, unlike the general perception, the industry is plagued with immense challenges to sustain it and outpace those within the industry, mainly due to rising competition and weak economic situation in the country. Basically this study has tried to review about the income tax contribution of Nepal Life Insurance Company Ltd. Moreover, it has attempted to find out the solutions & answers to the following question.

-) How much income tax is being paid by NLIC in different fiscal Year?
-) How is NLIC building up government revenue through the means of income tax?
-) What are the ways of tax planning adopted by NLIC?
-) What are the major drawbacks relating to income tax aspect?
-) What are the possible ways to eliminate consider relating to income tax under ITA 2058?
-) Is the income tax charged to insurance sector favorable or not?

1.4 Objective of the Study

Each & every study has certain objectives. Regarding this study, the main objective is to get reflection of income tax matter of Nepal Life Insurance Company Ltd. Further, it concentrates on effectiveness of income tax, practice of tax planning by NLIC & possible recommendations relating to income tax aspect. In conclusion, the objectives of the studies are listed as follows.

-) To review & analyze about income tax liability of NLIC.
-) To analysis the contribution of NLIC to total income tax revenue as well as corporate tax revenue.
-) To analysis the problem faced by Insurance sector for assessing income tax

- liability.
-) To find out which rate of Income Tax is suitable in Nepal.
 -) To provide suggestions & recommendations to foster the insurance sector on the basis of the study.

1.5 Significant of the Study

The insurance sector is regarded as crucial player to maintain progressive attainment of economic system. It supports to commence industrial sectors as well as their development & diversification. Moreover, it contributes income tax to generate government revenue. Income Tax collected from different financial as well as non financial sectors is the prime source of govt. Revenue. By the amount of this govt. Revenue, the national budgetary position of the country is determined. In the context of Nepal about three quarter of the total govt. revenue is being collected through the mean of income tax. There are strong interrelation among taxation policy, business & economic growth. That is to say, a sound taxation policy promotes business & overall economic development. There are certain income tax rules to the insurance as well as other sectors under ITA2058. Researcher believes that following institution and individual will be benefited from the study.

-) This study specially keeps the importance in regard it tax liability of insurance sectors, challenges & opportunities caused by it & possible suggestions & recommendations to foster insurance sectors under income tax payers.
-) Insurance companies whose study been made.
-) Investors, policy holders and others stakeholders, students, teachers, managers, policymaker etc.

1.6 Limitation of the Study

Each & every study has its own limitations. No study can be free from its

drawbacks & constrains. This study is also bounded by some limitations which are presented as follows.

-) This study covers the time period of last 5 years.
-) This study is partially based on secondary data collect from annual report, financial statement etc.
-) This study is concerned about NLIC contribution the income tax for govt. revenue. So, the conclusion drawn from this study may not be relevant for other Insurance companies.
-) This study examines & suggests only on the subject matter of income tax.
-) The reliability of this study is depending largely upon the reliability & validity of secondary data.
-) This study is confined to Nepalese law, act, rules, ordinance, regulation & circular to income tax.
-) This study is undertaken for the partial fulfillment of the master degree program.

1.7 Organization of Study

This thesis is organized into five major chapters.

Chapter 1: Introduction

This chapter is organized by background of the study, statement of problem, objectives of the study, signification of the study, limitation of the study & organization of the study.

Chapter 2: Conceptual Framework & Review of Literature

This chapter is developed to review of various related books, journals, other Publication as well as unpublished level dissertations.

Chapter3: Research Methodology

This chapter is about the methodology adapted in carrying out the present study. It explains the nature & sources of data, population of sample, data collection & processing technique & methods of analysis.

Chapter 4: Presentation & Analysis of data

This chapter is the major part of the study. This chapter includes presentation & major findings of the study.

Chapter 5: Summary, Conclusion & Recommendations.

This chapter is the conclusion or solution part of the study. It includes the summary & recommendation for further improvement & the conclusion.

CHAPTER II

CONCEPTUAL FRAMEWORK & REVIEW OF LITERATURE

2.1 Conceptual Foundation

2.1.1 Meaning of Tax

The government of a country requires adequate revenue to carry out developmental activity to handle day-to-day administration work, to maintain peace & security & to launch other public welfare activities. For that collection & accumulation of tax is necessary. Tax is one of the major sources of revenue collections of the government. It is a compulsory levy imposed by the government to the people & institutions of the country according to the prevailing laws. Professor, Seligman defined tax as “a compulsory contribution from a person to the government to defray expenses incurred in the common interest of all without reference to special benefit conferred”. This means those who pay tax do not get direct benefits from the government. Generally tax can be classified into two types. They are: (a)

Direct Tax: These taxes are collected directly according to income level of people or organization. Income Tax, property tax, land revenue tax etc. are the examples of direct tax.

Merits of Direct Tax

-) It is equitable.
-) It is elastic.
-) Certainty.
-) It enhances the consciousness of the citizen.

Demerits of Direct Tax

-) It gives mental pinch to the taxpayers.
-) Inconvenient to the tax payer.
-) Tax evasion.
-) Expensive for the govt. to collect tax individually.

(Source : Dhakal, Pandey Bhattari (2014))

(b) Indirect Tax: Indirect Tax is imposed on one person or persons paid partly or wholly by another or others. For example custom duty, excise duty, VAT., sales taxes etc. are indirect tax.

Merits of Indirect Tax

-) To convenient to the tax payers.
-) Mass participation
-) Less chances of tax evasion.
-) Control in the use of harmful goods.
-) Wide base

Demerits of Indirect Tax

-) It is based on ability to pay.
-) It is uncertain
-) Bad effect on economic.
-) Less consciousness of the citizens.

(Source : Dhakal, Pandey Bhattari (2014))

2.1.2 Objectives of Tax

As we know that tax is a permanent instrument of collecting revenue. The government mobilizes its revenue through the budget in development programs, daily administration, peace & security & public interest. Thus, good tax policies are considered as tools of social & economic resolution. The main objectives of tax are as follows.

-) To rise more revenue.
-) To prevent concentration of wealth in a few hands.
-) To boost of the Economic.
-) To removed the regional disparities.
-) To check the consumption of harmful goods.
-) To increase revenue for welfare state.
-) To increase employment, saving & investment.
-) To implement the govt. policy.
-) To control the production of certain goods

(Source : Dhakal, Pandey Bhattari (2014))

2.1.3 Canons of Taxation

Canon of equality

Higher earner should be imposed higher tax as compared to the low earners. Tax policy should not discriminate the person with sane income level.

Canon of certainty

Tax payer should feel certainty regarding time, place, tax amount & procedure for payments of tax.

Canon of convenience

The tax should be simple so that ordinary people can easily understand & flow it. Time of payment of tax, procedure of payment of tax, place of payment of tax should be convenient to the tax payers.

Canon of Economic

The collected amount of tax should be greater than the collect cost of tax. Imposing tax should not give more burdens to the tax payer & it should be economical to the government too.

Canon of productivity

This principle refers that the fund raised through tax should be utilized in productive sectors. So that the tax payer can see the utilization of their hard earner money paid as tax.

Canon of flexibility

The tax rate should be flexible or changeable as per the need of country. It should not be rigid. As per increase or decrease in the income or property of the tax payer the tax rate also should increase or decrease.

Canon of diversity

Suitable tax system should be based on canon diversity. Only one type of tax should not be imposed in the country because it gives burden on a specific group. For more participating of the tax payer, there should be different type of tax in the

country. It helps in collecting more tax from various groups of tax payers.

Canon of simplicity

A good tax system should be simple & understandable. It should not be complex. The tax payment procedure should not be too lengthy.

Canon of neutrality

A good tax system should not effect negatively to the production & distribution system of the country. It should be facilitates to the production & distribution system. It should mot only consider how to increase tax revenue but also considered hoe to Grow Economic of the country. (*Source : Dhakal, Pandey Bhattari (2014)*)

2.1.4 Concept of Income Tax:

Generally, income means the inflow of cash to the person or firm or Income Tax is well-known direct tax. It is considered as one of the major element of tax revenue. Income Tax is charged on person's income according to the law of the nation. It covers all the fees, additional fees fines etc. income includes all the income which is received from business, investment & employment. Income Tax is superior to other business because it is imposed on the basis of paying capacity of taxpayers. People, whose income is under the taxable income is free from the incidence of income tax. Income Tax is levied on consideration payment made for the provisions of employment income or investment income or business income. The income which is earned during the income year from employment, investment & business has to be paid in certain percentage of income to the government by every individual citizen, firm & company is called income tax.

Most of the people do not take the kind as an income. It is a best measure of economic well being of a person as well as of nation. Higher income denotes the

high living standard & lower income from rendering various types of services, selling goods & producing crops for their own use. Thus, income may be cash or kind that is received by a person for livelihood. It is an economic gain or receipt to a person during a particular period by way of wages, interest, profit & rent. The income of the people generally used for two purposes. Some part of the income is spent on consumption & some part is saved. But the Purpose of taxation, the definition of income is some how different from the aforesaid definition.

According to the Income Tax Act 1974 A.D. (2031 B.S.), “Income means the income earned or received in cash or kind from the sources mentioned in sec.5”. In this section five different heads of income were mentioned. (ITA. 1974. A.D.) They were as follows:

1. Agriculture
2. Industry, Business, Profession of Vocation.
3. Remuneration
4. House & Land Rent.
5. Other Sources.

The existing Income Tax Act, 2002A.D. (2058 B.S.), which has been enacted since 2058, Chaitra 19th (1st April, 2002 A.D.) has defined income in section 2(a) as; “Person’s income from any employment, business as calculated in accordance with this act (ITA. 2002). It includes all sorts of income received for the provision of labor of capital or both of whatever form or nature in the taxable income. Income Tax refers to the tax levied on the income of a person & profits of corporation for the specific time period, particularly one year. Income Tax is levied on the taxable income of a person or a company after deduction allowable expenses. Accounting profits may differ from taxable profits. For the computation of taxable income, generally incomes are added & expenses are subtracted & losses, which are

allowed to deduct under the provision of income tax act are also subtracted. Then, tax free incomes, allowances & common expenses are also deducted to get taxable income. After giving the exemption limit as per law, the amount at tax to be levied on this computed income is the income tax. (*Source : Dhakal, Pandey Bhattari (2014)*)

2.1.5 Evaluation of Taxation

Great Britain is the first country in the world to introduce the modern income tax. This country introduced income tax in 1799 in order to generate revenue to finance the war fought with France between 1793 A.D. & 1816 A.D., which as Napoleonic war. This income tax law was enacted on January 9, 1799. This was the first modern income tax law in the world. It came into force on April 5, 1799 A.D. Since this was levied as a war tax it was repealed on April 5, 1802 A.D. after the end of the war with France at first. However, the income tax was reinstated in 1803 after the outbreak of war again with France on May 18, 1803 A.D. The new Income Tax Act was enacted on August 1st, 1803 A.D. as a war tax. It was abolished on March 18th, 1816, after the end of the Napoleonic wars. Income tax was proposed again on March 11th, 1842 A.D., as temporary measure for three years to generate revenue to enable government to avoid budget deficits while carrying out major tariff reforms. This tax was not abolished even after the lapse of three years because of its yield accepted as a permanent tax by the 1980s. In the USA also income tax was introduced in 1862 A.D. to generate revenue to finance civil war. The federal corporation income tax was introduced in 1909 A.D. In Japan, income tax was introduced in 1887 A.D. through the enactment of the Income Tax Law on March 23rd, 1887 A.D. It was a general individual income tax & extended to the corporate income in 1899 A.D. Although the income tax had been levied in different form before the unification of Germany in 1871 A.D., income tax became an effective instrument since the Prussian Reform of 1891 A.D. In India, while income tax in its modern form was adopted in

1860 A.D., several experiments were made from 1860 to 1886 A.D. & finally the systematic income tax legislation was enacted in 1886 A.D. Income Tax was introduced in Switzerland in 1840 A.D., Austria in 1849, Italy 1864, New Zealand in 1891, Canada in 1892, and Holland in 1892-93, Australia in 1895, Denmark in 1903, France in 1909, Sri Lanka in 1932, Venezuela in 1943, South Korea in 1948, & Nepal in 1959 A.D. Similarly, this tax system was adopted by many other countries over the years & had undergone considerable changes in those countries that have already adopted it.

The main features of the changes in the income tax system over the years are as follows:

-) The first income tax adopted by Britain was based on the global principle. However, the 1803 A.D. version of the English income tax was based on scheduler system.
-) There has been a different practice in other countries in different times. Initially, income tax was limited to the income generated within the country but with the globalization, taxation of worldwide income came into vogue.
-) Most of the developed countries levy tax on the worldwide income of their residents while some developing countries levy tax only on income generated within the country.
-) There have been different practices regarding the taxation of individuals & companies. Some countries such as Japan initiated with the taxation of individual & brought companies into the tax net after a few years of the implementation of income tax. In some countries, such as Nepal, initially both individuals & companies were taxed in the similar way but later on they were taxed in different ways, companies with a flat rate & individuals with progressive rates.
-) There are different practices regarding the assessment of income tax. The tax is assessed under the official assessment system in some countries while

assessed by the taxpayers themselves in some other countries. Official assessment was common in the past but self-assessment has become popular in the recent times, although the concept of self-assessment already adopted in Britain in 1803 A.D.

The history of income tax is tumultuous, the situation is different now. Income Tax has an important element of the modern tax system. This tax system has been adopted by all sorts of countries levied as an important instrument to generate revenue required to finance state activities. Thus tax is also considered as a fairest tax since it can be tied with the taxable capacity of the payers. (Nagpal, 1960) Tax in Rana Regime (1846-1950 A.D.) Imposition & collection of taxes during 104 years oligarchic rule of Rana family in Nepal prior to 1951 A.D. was the prerogative of the feudal rules only those taxes, which suited the objectives, needs & whims of the ruling prime minister, were imposed. No budget was framed during the Rana regime. Taxes were collected at the time of requirement due to lack of Income Tax Act & Finance Act. The collected taxes were directly deposited in the Prime Minister's Account, custom & excise duties in the form of lump sum contracts, royalties on felling tree, royalty on supply of porters & soldiers, entertainment taxes were the major source of revenue. There was no direct tax in the country except land tax collected on a contractual basis & Salami which the government employees used to pay out of their salaries at a very small percentage. Rana Prime Minister levied axes for meeting specific expenditure of the royal household or extra ordinary expenditure necessitated by war or other crisis rather than mobilizing revenue in the nation. During the Nepal-Tibet war (1855-56 A.D.), the first Rana Prime Minister of Nepal Jung Bahadur Rana had imposed a tax on the income of selected groups. Similarly, Bir Shamsheer imposed a levy of 1% in the official value of Jagirn assignment of government employees in 1891 A.D., to finance the transportation of water pipe supply in the capital. Ranadip Shingh imposed a 50% tax in the income made by fisherman in Deukhuri from the

sale of fish in 1882 A.D. Like this taxes were collected during Rana Regime. (Khadka, 1994) (*Source : Dhakal, Pandey Bhattari (2014)*)

2.1.6 Modern Income Tax in Nepal

The modern Income Tax act was started in Nepal in the year 1959 A.D. After the political revolution in February 1951A.D. (2007 B.S. Falgun), the role of government had been increased to developmental as well as philanthropic work. The government of Nepal had presented its first budget in 1952 (2008 B.S. Magh 21). The first five year plan started in 1956 A.D. (2013B.S.). The planned activities of the government needed huge amount of sources & means. So, huge revenue was demanded & Nepalese government started to levy tax on income as permanent source. As a result, it issued first finance ordinance in 1959 A.D. (2016 B.S.) to impose tax on Business Profit & Remuneration. In 1960 A.D. (2017 B.S.), the Income Tax Act named "Business Profit & Remuneration Act, 2017 B.S." was made with the provisions of finance ordinance 1959. That was the first Income Tax Act, which had 22 sections. But that act was found narrow & vague. So, it was replaced by the Income Tax Act, 1962 A.D. (2019 B.S.). That act continued for 12 years & that was also replaced by the Income Tax Act, 1974 A.D. (2031 B.S.), which was amended for eight times & existed for a period of 28 years.

That income tax act was replaced by new Income Tax Act, 2002 A.D. (2058 B.S.) under which the present rules & regulations of income tax are exercised & carried out. This is the fourth Income Tax Act of Nepal about which brief explanation is stated in the following topic. (Khadka, 1994)

(Source : Dhakal, Pandey Bhattari (2014))

2.1.7 Income Tax Act, 2002 A.D. (2058 B.S.)

To enhance revenue mobilization through effective revenue collection procedure for the economic development of the nation, & to amend & integrate the laws

relating to income tax, the parliament of Nepal enacted Income Tax Act, 2002 A.D. (2058B.S.) since first April 2002 A.D.(19th Chaitra, 2058 B.S.). This act was enacted in Nepal to avoid the following defects of Income Tax Act, 2031. (Kandel, 2004).

I. Narrow base of tax.

II. Levying tax only on the income originated in Nepal.

III. Dispersion of tax related acts, i.e. income tax related provision were in different act.

IV. Low penalty rate to tax evader.

V. Incompatible to self-assessment, &

VI. Unsuitable to modern Economic.

The main objectives of ITA, 2058 are presented below:

-) To levy tax on all income sources & income earning transactions.
-) To impose uniform tax to all people & all sources.
-) To make income tax revenue more productive & elastic.
-) To develop the tax system by means of extended scope, clear-cut, transparent & simple procedure.
-) To make accountable & improved tax administration.
-) To reduce economic cost neutralizing income tax.
-) To emphasis statement based an accounting system.
-) To make the taxpayers responsible by introducing the process of self assessment system.
-) To integrate Nepalese tax system with the tax system of foreign countries.
-) To minimize tax avoidance & tax evasion.

Income Tax Act, 2058 has been enacted with wide a perspective. Various new concepts have been introduced in this Act as compare to Income Tax Act, 2031. Many of the concepts have been put forward in this act were not prevailing at

Nepalese tax culture. This act contains 143 sections. The key features of Income Tax Act, 2058 are:

-) All income tax related matters are confined within act by abolishing all tax related concessions, rebates & exemption provided by different acts.
-) The act has broadened the tax base. Unlike previous tax act, tax rates are spelled out in the act. The tax rates & concessions are harmonized on equity ground.
-) The act has introduced a pool system of charging depreciation. Intangible assets are also depreciated.
-) The Act has firstly introduced taxation on capital gains.
-) The Act has provided liberal set-off & carry forward / backward provisions & inter head adjustments of losses are clearly specified.
-) The act has provided a stringent fine & penalty for the defaulters.
-) The act has introduced a provision for administrative reviews to allow the tax administration to correct mistakes made by tax administration internally.
-) Global income of a resident are made taxable. Non-residents are also taxed on their income with source in Nepal.
-) List of expenses is inclusive. All expenses relating to income have been made admissible.
-) The act has made provision of international taxation. Foreign tax credit has been introduced for the first time.

The act has separated administrative & judicial responsibilities by distinguishing civil liabilities of the tax payers from criminal liabilities (Bhattarai & Koirala, 2007). (Source : *Dhakal, Pandey Bhattari (2014)*)

2.1.8 Tax Evasion, Tax Avoidance & Tax Planning

There is nothing which hurts more than payment of taxes. One question that goes through every tax payer's mind is "how can I reduce my tax liability?" reducing tax liability is not always a bad or illegal exercise. There are legitimate ways to reduce taxes through proper tax planning & such methods are always encouraged. But unfortunately, there is also a tendency to reduce tax through illegal methods. They are not accepted practice & can invite problems there are three methods which are commonly used by the taxpayers to reduce their tax liabilities Tax evasion, Tax avoidance & Tax planning.

Tax Evasion

Dishonest taxpayers try to reduce their taxes by concealing income, inflation of expenses, falsification of accounts & willful violation of the provisions of the Income-Tax Act. Such unethical practices often create problems for the tax evaders. Tax department not only imposes huge penalties but also initiate prosecution in such cases.

Tax Avoidance

Tax avoidance is minimizing the incidence of tax by adjusting the affairs in such a manner that although it is within the four corners of the laws, it is done with a purpose to defraud the revenue. It is the act of doing without directly breaking the law. For example if "A" gives gift to his wife, the income from the asset gifted will be clubbed in the hand of "A". But to avoid this clubbing provision "A" decides to give gift to "B"'s wife & "B" reciprocates it by giving gift to "A"'s wife. This is not tax planning but tax avoidance. Such practices are not acceptable. In the words of Justice Rang Nath Misra of Supreme Court in the case of McDowell & Co Limited v CTO [1985] 154 TR 148, "Tax planning may be legitimate provided it is within the framework of law. Colorable devices cannot be part of tax planning & it is wrong to encourage or entertain the belief that it is honorable to

avoid payment of tax by resorting to dubious methods.”

Tax Planning

Tax planning is arrangement of financial activities in such a way that maximum tax benefits, as provided in the income-tax act are availed of. It envisages use of certain exemption, deductions, rebates & relief provided in the act.

Features of Tax planning

The main features of tax planning are as follows.

-) It is the genuine use of the facilities provided by the government.
-) It enhance economic environment of country.
-) It reduced tax liability
-) It is universal of nature. It means all the business organizations use tax planning.
-) It is a use of dignified facilities.
-) It is use of enterprise to get consciously given facilities,
-) It is related to future activities.

Importance of Tax planning

Tax planning has certain importance. The major importance's are as follows.

-) It saves tax & increase profitability.
-) It avoids unnecessary worries, tensions & administrative hassles.
-) It helps in increasing working capital.
-) It helps in analysis of risk.
-) It helps in an increase of profit distribution.
-) It creates easiness in day to day.
-) It enhances the inventory opportunity & competitive analysis.
-) It helps up grading technology.
-) It creates good business environment.

-) It helps in development of manpower

Significance or Objective of Tax planning

The following are the objective of tax planning.

-) Reduced the tax liabilities.
-) Productive investment.
-) Healthy growth of the Economic.
-) Economic stability.
-) Minimization of litigation.

Scope of Tax planning under Income Tax Act, 2058

Under the income tax act 2058, tax planning can be divided in to heads.

- I. Strategic or long term tax planning.
- II. Operational or short term tax planning.

Strategic or Long Term Tax Planning.

Strategic tax planning is normally for a long period & it may not be immediately.

As per ITA 2058, Areas for strategic or long term tax planning can be as follows.

-) Nature of business.
-) Selection of organization.
-) Selection of product & location.
-) Selection of sources of capital.
-) Size of business.
-) Merging of business.

Operational or Short Term Tax planning.

As per ITA 2058, Areas for operational or short term tax planning can be as

follows.

-) Acquisition of fixed assets
-) Repair & improvement cost.
-) Pollution control cost.
-) Research & development cost.
-) Donation.
-) Loss recovery.
-) Remuneration of employees.
-) Stock valuation.

(Source : Dhakal, Pandey Bhattari (2014))

2.1.9 Tax Incentive

An income tax is a disincentive to save or invest & thereof, the incentive is to mitigate the disincentive. Tax incentives may imply a partial or complete exemption from one or a variety of taxes & special allowances for certain period to motive the behavior of investor. The main aim of tax incentive is to increase saving & to encourage, canalized the investment to desired area of sector. It is supposed that they encourage investment in selected manufacturing activities or improvement of product quality of utilization of domestic resource in manufacturing (Kandel.2001, 58). The incentive is becoming an integral part of the tax system for accelerating the pace of industrialization in most of the developing countries. It reduces the tax burden of an organization. The necessity for offering tax incentives is felt basically for two reasons. They are stretching the scope of tax beyond its revenue objective to achieve certain social economic ends & to mitigate the adverse impact of high taxation on corporate saving & investment activities.

(Source : Dhakal, Pandey Bhattari (2014))

2.1.10 Historical Background of Tax Incentive.

Economic theory states that tax incentives will always cause some distortions in the Economic & at the worst they can be counter productive. There has been much written on tax incentives & there are some caveats that should be considered before implementing any tax incentive policy. Tax incentives system was introduced many decades ago as method of mitigating the tax burden in investments. The use of depreciation many years ago is an example. Other types of investment incentive were also nit introduced at once but gradually in different countries of the world. (Kandel, 2001:63) The first tax incentive system was introduced by UK in the form of the depreciation in the depreciation period of 1880s. The incentives were added in the form of carry forward of losses in 1890, other incentives in 1944 & cash grant system in 1967. Mexico introduces the tax incentive system in 1939. The tendency of providing tax incentives was introduced before the Second World War but it became popular after the Second World War & widely spread in the world. Tax incentive became so much popular that the competitors between the developed & developing country became incentive to attract incentive. One after another, other country also introduced the tax incentive system to attract the investment in various sectors. Philippines introduced the tax incentive in the year 1946, India in 1948, Malaysia in 1985 & Thailand in 1960. The Asian economic country Japan introduced tax incentive in the year 1950. Tax incentive system became very much popular in the decade 1950s. (Source : Dhakal, Pandey Bhattari (2014))

2.1.11 Tax Incentive in Nepal.

Tax incentive in Nepal ha introduced first time by the industrial enterprises act. 1961. This act was the first industrial enterprises act. The first industrial enterprises act had given the incentive to industries two years tax holiday to newly establishment industries, tax rebate of 25% of the tax liability on the decision of His Majesty Nepal to the operating industries, full & partial rebate of the tariff for exporting goods & importing machineries parts & raw materials.

The industrial enterprises act 1974 had given various incentives to industries, which are tax holiday of up to 18 years to the industries established in the different parts of the countries, investment & depreciation facilities to extension & modernization of industries, relief of excise & import duty etc. The third industrial enterprises act was enacted in the year 1981. This act had given the incentive to industries are tax holiday up to 12 years to industries, income tax rebate of up to 50% for export, an allowance of 15% to new investment, only 1% levy for import of, machinery, spare parts & materials, exemption of excise duty to different types of industries, exemption of sales tax to cottage industry in important of machinery, spare parts etc. & domestically produced goods. In comparison to above act, the industrial act 1992 has given more incentive. Those incentives are maximum rate of tax to be charged to industries as 20% except those related to tobacco & alcohol, complete exemptions of income tax, sales tax, exercise tax etc. to the cottage industries, additional depreciation facility of 33% to the industries, deduction of 10% of gross income for research & technology development expenses, a rebate of 10% to industries not related to tobacco, alcohol, some mill & khadha industries using 100% of Nepalese labors & 80% more of Nepalese raw material, investment allowances of 49% of extended fixed assets investment if the firm increased its capacity of line of production more than 25% of the original, deduction of 50% of pollution control cost from the taxable income, provision of different types of sales tax excise & custom rebate to industries, sales tax exercise rebate up to 13 years to fruit processing & fruit based wine producing industries located in remote areas.

Besides these incentives amendment in the act has given the facilities to industries are ten years 50% tax holiday to the national priority industries related to the construction of roads, bridge, tunnels, rope ways, flying bridges, trolley buses & train, seven years 50% tax holiday to other national priority industries other than the above, tax rebate of 30%, 25%, & 20% to the industries established in the

remote, underdeveloped & undeveloped areas specified in the appendix 3 of industrial enterprises act 1992, no doubt taxation on raw materials used by industries. Some provisions related to industries under this act are curtailed down by the amendments in this act. Among these the full tax holiday, exemption on dividend income & exemption in export income act are same examples. (*Source : Dhakal, Pandey Bhattari (2014)*)

2.1.12 Types of Tax Incentive

There are various types of tax incentives. Among them, some of the tax incentives are briefly described below.

-) Tax holiday.
-) Accelerated depreciation.
-) Set off & carry forward of losses.
-) Investment allowance.
-) Incentive for development of specified areas.
-) Incentive for research & development.
-) Incentive for install pollution control device.
-) Expert incentives.
-) Amortization of preliminary expenses.
-) Employment incentive.

(Sources: Income Tax Act. 2058)

2.1.13 Tax Administration

Tax administration refers to the management affairs in regard to tax. A sound system of tax administration is pre requisite to assess the taxation policies of the government. It is handled by income tax authorities. Income tax is administered directly by the Inland Revenue Department. It is responsible for the implementation & administration of the act. His Majesty's Government is the highest authorities of the tax administration.

The following officers & other staff may be deputed in the department.

-) Director General.
-) Deputy Directors Generals in the numbers as may be required.
-) Chief Tax Administrators.
-) Directors.
-) Chief Tax Officers.

-) Tax Officers.
-) Other Officers &
-) Other Staff.

Income Tax ACT, 2058 had empowered HMG/Nepal as regards to the implementation of the tax laws. The rights of HMG/Nepal with respect act, 2058 are:-

-) Right to make double tax avoidance treaty with other countries to avoid the situation of double taxation.
-) Right to establish or remove tax office for the purpose of collecting tax. It has also the right to appoint tax officers & delegate power.
-) Right to allow unlimited amount of donation given to tax exempt organization by publishing a notice in Nepal Gazette.
-) Right to make rules regarding tax for fulfillment the objective of the act.
-) Right to make changes as required in schedules other then schedules.
-) Right to remit in whole or in part of any tax payable by a person if the tax cannot be collect.
-) Right to issue an order or direction to Inland Revenue Department for the purpose of making tax administration effective.

(Source : Dhakal, Pandey Bhattari (2014))

2.1.14 Special Provision on Insurance Business under Income Tax Act. 2058

General Insurance Business

1. In computing the income or loss made by any person carrying on a general insurance business from that business In any income year, it shall be separately computed as if the insurance business were a business distinct from any other business carried on by that person.

2. while computing the income of any person carrying on the insurance business in any income year, it shall be done as follows:-
 - (a) In income, in addition to any other amounts required to be included, the following amount, as well, have to be included:-
 - (1) Amounts for premium of insurance including premium for reinsurance received by that person from that business in that year, and
 - (2) Amounts received in that year from payment referred to in sub-clause (1) Of clause (b) for any contract of reinsurance, security, guarantee or compensation.
 - (b) In expenses, in addition to the amounts that can be deducted, the following amounts, as well, may be deducted:-
 - (1) The payments made by that person as an insurer in operating that business in that year, and
 - (2) The premiums included pursuant to sub-clause (1) of clause (a) in computing the income earned from that business in that year or last year and returned to the insured in that year.
3. If any person suffers loss from the registered general insurance business in any income year, that person may subtract such loss, as prescribed, from the incomes of that business earned in last five income year.
4. In subtracting the loss pursuant to sub-section (3), the following shall apply:-
 - (a) It shall not exceed any income earned from that business in the past income year,
 - (b) It shall not exceed the total sum of loss,
 - (c) The amount of loss that could not be deducted for purposes of section 20 shall be lessened.

Explanation: For purposes of this section, “registered general insurance business” means an insurance business registered in Nepal pursuant to the law in force and carrying on general business transactions. (*Source: Income Tax Act. 2058*)

Investment insurance business

1. In computing the income or loss made by any person carrying on an investment insurance business from that business in any income year, it shall be separately computed as if the investment insurance business were a business distinct from business carried on by that person.
2. It shall be as follows in computing the income of any person carrying on the investment insurance business in any income year, it shall be as follows:-
 - (a) Except the following amounts, others amounts that can be included pursuant to this act have to be included:
 - (1) Amounts reinsurance for premium of insurance including premium received by that person in operating that business in that income year, and
 - (2) Amounts received in that year from payments referred to in sub-clause (1) of clause (b) for any contract of reinsurance, security, guarantee or compensation.
 - (b) Except the following amounts, other amounts, others amounts that can be deducted pursuant to this Act have to be deducted:
 - (1) The payments made by any person as an insurer in operating the business, and
 - (2) The premium returned to the insured referred to sub-clause (1) of clause (a).
3. The amounts referred to in sub-clauses (1) and (2) of clause (a) of subsection (2) and sub-clauses (1) and (2) of clause (b) have to be included in the incomes and expenses for the property or liability of that person.

4. The investment insurance agreement of investment insurance business of any person shall not be deemed as the property and liability of person.
(Source: *Income Tax Act. 2058*)

Amount received from insurance

1. For purposes of computing the income of any person, the provisions contained in section shall apply in respect of the amount received by that person from insurance.
2. Notwithstanding anything contained sub-section (1), the following provisions shall apply in respect of the profits made from investment insurance:-
 - (a) In cases where a resident person makes payment of such amounts, tax shall be imposed on the insured through final tax deduction, and
 - (b) In case where a non-resident person makes payment of such amount, it shall be computed by including that amount in the income of the insured.

Explanation: For purposes of this section, “profit made from investment insurance” means the excess sums of payment received by any person for investment insurance in respect of that insurance over the premiums paid by that person. (Source: *Income Tax Act. 2058*)

2.1.15 Rights of Director General (DG)

Director's General subject to direction by HMG can.

-) Exercise any power granted to the department under the act.
-) Delegate the exercise of any of the power to another officer.
-) Where there is no tax office, assign any of the officers in the civil service to exercise all or any of the powers other then other.
-) To issue the public circular under section 75.

-) To prescribe documents under section 77.
-) To stay or otherwise affect a review able decision under section 115.5.
-) To allow or disallow the objection by any person in whole or part under section 115.7.
-) To compound an offence under section 129.
-) To authorize any officer under section 82.

(Source : Dhakal, Pandey Bhattari (2014))

2.1.16 Right of Assesses / Taxpayer

A taxpayer means a person (An individual or entity) whom the tax is imposed on & realized from as per income tax act, 2058. As per section 74 of the act, the payer with respect of paying tax is entitled to enjoy the following rights.

-) Rights to get respectful behavior.
-) Right to receive tax related information as per prevailing law.
-) Right to get the opportunity of submitting proof in own favor in respect of tax matters.
-) Right to appoint lawyers or auditors for defense.
-) Right to secrecy in respect of tax matters & keeps it inviolable.
-) Besides these, the taxpayer can enjoy the following rights.
-) Right to obtain clarification on personal advance rulings.
-) Rights to get refund of excess tax paid.
-) Right to receive public circulars.
-) Right to appeal to review the decision
-) Right to extend time to file return.

(Source : Dhakal, Pandey Bhattari (2014))

2.1.17 Duties of Assesses / Taxpayer

The act has not categorically specified the duties of taxpayers. However, to enjoy the rights as per the act, the taxpayer is required to fulfill following duties in accordance with the act.

-) To register & get permanent account number (PAN)
-) To follow/adapt accounting method prescribed HMG
-) To maintained books of account & other documents properly
-) To pay tax in installments or deduct tax at source.
-) To file returns within stipulated time.
-) To attend tax office, if file is order to do so.
-) To accept evidence issued by tax office as notification of tax payable.
-) Not to oppose tax officials in performing their duties.

(Source : Dhakal, Pandey Bhattari (2014))

2.1.18 Review of Previous Study

Since the period of introduction of income tax system in Nepal, many individuals as well as some institutions have made efforts on study of taxation the ways for the improvement of income tax system in Nepal in every aspect of income tax. Many books, research report & articles have been published in this respect. While doing researches & preparing the thesis some books, thesis & some articles concerning with income taxation have been consulted. Some of them are presented below in brief.

2.1.18.1 Review of Books

Paudyal, S.R. and Timilsina, P.P. (1990), presented a book of income tax named “*Income Tax in Nepal.*” They described the theoretical as well as practical aspects of income tax. The book was fully based on T.U. syllabus prescribed for B.Com. They did not describe the problems of income tax system and structure of Nepal. The book was descriptive rather than analytical.

Tiwari, N.R. (2050), published a book named *“Income Tax System in Nepal.”* He described the legal provisions relating to income. He also described the process, provisions and methods to assess the income with numerical examples. The book was based on T.U. syllabus. Tiwari did not describe the role of income tax in economic development of Nepal and problems of income tax system. His book was descriptive of legal provisions rather than analytical.

Dhakal, K.D. (2001) published a book named *“Income Tax and House and Compound Tax Law and Practice with VAT Act, 2052 ”* Dhakal described the legal provisions relating to income tax with numerical examples. This book is very useful to know about legal provisions of Income Tax Act, 2031 B.S. The book was fully based on T.U. syllabus. His book was informative rather than analytical. He did not mention the role of income tax and structure of income tax.

Adhikari, B.D. (2002), published a book named *“Income Tax Law: Then and now.”* Adhikari described the legal provision of new Income Tax Act, 2058. Adhikari also described the decisions made by Supreme Court about income tax. Adhikari described the legal provisions with critical analysis. His book is analytical rather than informative. Writer has not included administrative aspect, role and structure of income tax in his book. The book has only focused on the legal aspect of income tax. Agreement and protocol relating to avoidance of double taxation and the prevention of fiscals evasions with respect to taxes on income between different countries had also included in his books.

Bhattacharai, I. and Koirala, G.P. (2004), published a book named *“Income Taxation in Nepal with Tax Planning and VAT.”* This book was published second and third time in 2061 and 2064 B.S respectively. The book has described the legal provisions with critical analysis. The book has enough theoretical and practical

problems. The book also had added Income Tax Act, 2058 and Value Added Tax Act, 2052. The book also has described brief study about the tax planning. This book is very useful to know the New Income Tax Act with Tax Planning and VAT but not described the Role of Income Tax and Tax Structure.

2.1.18.2 Review of Research Reports and Articles

Agrawal, G.R. (1980), had submitted a Report entitled “*Resources mobilization in Nepal.*” published by CEDA. The report had been divided into eight chapters; the first chapter deals with special reference to Nepal. The second chapter deals with fiscal policies in developing nation and Nepal and third chapter looks at income tax in Nepal from the historical perspective, the fourth chapter deals with structure of Nepalese taxation. In this chapter, writer had concluded the predominant role of indirect taxes in Nepalese tax structure. More than 60% of tax revenue was derived from foreign trade alone. However, the role of income tax had been increasing since 1974/75 A.D. Agrawal had made an empirical study taking tax policy makers, tax experts, tax administrator, tax lawyers, accountants and tax payers of different parts of Nepal. From the study, he had concluded that Nepalese tax payers were favorably disposed to income tax. However, the major constrains in the effective functioning of tax system seems to be administrative deficiencies, poor taxpaying habits, lack of tax payer’s education, complicated procedures and defective tax information system.

United Nations Organization (1997), published a journal on public finance entitled, “*Guidelines for Improving Tax Administration in Developing Countries*”. The study was divided into four separate parts. Among them reforming the structural organization of the tax administration are explained in two separate sub topics i.e. guidelines for appropriate initiatives & underlying consideration & explanatory commentary. Functions of tax administration are identification & registration of tax payers, tax payer’s education, information provider & assistance

etc. The study had detail explained their functions & recommended some valuable suggestion to the developing countries.

Kandel, P. (2001), published “*A Draft of Income Tax Act 2058: A Critical Analysis.*” Kandel criticized the Income Tax Act 2058 on several grounds such as exemption of agriculture incomes from income tax export duties levied on export, inequality between different capital earned income, withdrawal of exemption & adjustment for inflation. Kandel further criticized the act for the provision of income tax.

Pant, D.B. (2004), presented an article entitled, “*Problems in Tax Administration & Their Remedies.*” published in journal of finance & development. Pant comprehensively explained about the problems & their remedies related with tax revenue. The major types of practical problems & challenges in tax administration has been mentioned in his article showing limited amount of transaction, showing low selling price, lack of issuing & taking bills, lack of showing the real factory cost, commercial fraud, lack of cooperation in tax auditing legal ambiguity & complexity is in implementation & lack of coordination between Inland Revenue Depart. Mean while Pant has recommended some valuable suggestions to solve the problems & to overcome the challenges. They are; statistical & information system should be managed properly, fixed norms & standards should be used to assess selling price & factory cost, the billing system should be made compulsorily, coordination between Inland Revenue Office with various entities, revenue investigation department & its related units should play the important role & auditing of tax should be widened etc.

Kandel, P.R. (2004), presented an article entitled, “*Are Tax Incentives Useful? If so, Which One?*” published in journal of finance & development. In this article Kandel tried to seek the answer from the survey of various empirical studies earlier

done in Nepal, India, Pakistan & other investment countries. Kandel found that tax incentives are still the controversial matter whether they promote the investment or not but Kandel argued the most of the developed countries used tax incentives. As per the studies done in various countries, the conclusion is that among different types of tax incentives, investment allowance or investment tax credit & accelerated depreciation are superior to other types of tax incentives. Tax holiday is the most inferior type of tax incentive which causes revenue loss without enhancing the investment environment. Mean while most of the researchers have opposed the tax holiday system both with in Nepal & outside Nepal. Kandel further added the survey of studies indicate the accelerated depreciation system has positive impact on investment. The work of reducing tax rate specially followed after 1990s to such lowest rate was not a proper decision. That's why if Nepal wants to go to tax incentives system again, investment allowance or investment tax credit, not the full holiday in future should be adopted in future.

Neupane, L.B. (2007), had published an article in economic bulletin 'Rajaswa', "*Contribution of Income Tax to Total Tax Revenue*" which shows the contribution of income tax to total tax revenue, has decreased from 23.93% to 20.83% in the FY.056/057 to 061/62. It may be due to the collection of the property tax by municipalities. But it is not only the cause. Emphasis should be given to the income tax collection. To facilitate tax collection, Inland Revenue Department has implemented E-TDS, E-Pan & E-Filing for the better tax compliance. There is provision of tax plate also. But the frequent change in the act decreases tax compliance which is a major drawback on instable political condition.

2.1.18.3 Review of Dissertations and Thesis

Khatiwada, A.K. (2004), conducted a research entitled, "*Structure of Income Tax System in Nepal, A Managerial Study*," T.U. Khatiwada aimed to evaluate the structure of income tax system & managerial study. Khatiwada accepted that ITA,

2058 & provisions are difficult to understand, language is vague & unclear, narrow base i.e. agricultural income has not been included in tax net, provision of double taxation in dividend, insufficient provisions related to capital gains. Khatiwada also analyzed the income tax management system in Nepal is not effective & efficient due to ineffective management system, inadequate government policy & defective income tax laws objectives. He also mentioned the objectives & major constraints of effective & efficient income tax management system are:

Objectives

-) Lack of motivated & trained human resources.
-) Inadequate experts in tax management, non-maintenance of books & accounts, time consuming process of income assessment i.e. not scientific assessment.
-) Misuse of power by tax administrators.
-) Less consciousness of taxpayers.

The Major Findings

-) Income tax assessment procedure is not sound & effective.
-) High level of evasion found in income tax.
-) Income tax administration a high degree of corruption has been found.

Niraula, B.S. (2005), did a research study named, “*Study of Incentives & Facilities to Industry under Income Tax Act, 2058,*” T.U. This study aimed to examine & analyze the effectiveness of tax incentives & facilities to industries conducted that:

Objectives

-) Income Tax incentives & facilities do not play the major role in the establishment of industries but other factors such as political stability industrial environment, administrative efficiency & availability of market, raw materials, labours, infrastructures etc. play key role in establishment of industries. If these facilities are available, the incentives & facilities

- provided by the ITA might play major role in the establishment of industries.
-) Investment tax credit & investment allowance play vital role in the establishment of new industries.
 -) A flat rate of 20% income tax to all industries seems to be little bit higher to small industries.
 -) A deduction facility of PCC & R&D had been tremendous effect to achieve its objectives & industries are exploiting these facilities.
 -) Tax rebate of 25% & 30% to the undeveloped & underdeveloped areas not sufficient.

The Major Findings

-) Investment tax credit & investment allowances should be provided to new industries.
-) The rate of 20% to the export industry is higher & it should be minimized.
-) Contradiction between the Income Tax Act & Industrial Enterprises Act should be eliminated.
-) To make aware about the tax incentives & facilities to current taxpayers & potential investors in time to time.

Baidawal, K.B. (2009), has submitted a MBS thesis entitled, “*Effectiveness of Income Tax System in Nepal.*” The study had described the conceptual framework, legal provision, composition of total revenue in Nepal, problem of resources gap in Nepal & public awareness toward income tax system in Nepal. He undertook the research work to find out the problem regarding to revenue & expenditure.

Objectives

-) To analyze the effectiveness of income tax system in Nepal.
-) To evaluate the contribution of income in national revenue.
-) To evaluate present income tax administration.
-) Income Tax can be used as positive collection to develop the

economic condition of Nepalese people.

The Major Findings

-) Tax payers should be highly literate by conducting seminar, workshop and interaction.
-) The income tax assessment procedure must be improved by reducing assessment delay.
-) Reducing delay on the best judgment to taxpayers and
-) Creating the confidence between taxpayers and tax officers.

Giri, Mohan R. (2010), has submitted a MBS thesis entitled, “*Study on contribution income tax form commercials banks and finance companies to the government revenue of Nepal.*” The study has primarily focused on the tax collection and practice adopted by the sample bank and finance companies with a view to provide valuable suggestions which may be helpful to the formulation of optimal income tax collection and contribution of tax paid by bank and finance company to the government revenue for development.

Objectives

-) To study the existing sources of taxable income in Nepal.
-) To evaluate the contribution of income tax by commercial bank and finance company to the government revenue.
-) To identify the strength and weakness of income tax system.
-) To provide suggestions and recommendations of the basis of above study.

The Major Finding

-) The income tax system of Nepal is efficient because of application method of tax assessment for Nepali. Tax system is sufficient because of following reason such as sufficient exemption limit application method of tax assessment sufficient collection of revenue & provision of carry forward of losses etc.

-) The present system of taxation for the small taxpayers is good.
-) Income tax revenue is in the also increasing trend.
-) There is highly fluctuation in contribution of corporate tax.
-) There is less contribution of tax collection from commercial bank and finance companies on government revenue.

Pradhan, Ava (2012), has submitted a MBS thesis entitled, “*Tax Administration and Income tax system in Nepal.*” In order to find out the problems in the income tax administration a set of questionnaires were distributed among tax administrators, tax experts and tax payers on the opinion survey empirical investigation has found the weakness but also point out some suggestion to make effective tax administration system in Nepal.

Objectives

-) To examine the administrative aspects and system of income tax in Nepal.
-) To examine the tax system in Nepal.
-) To identify major problems related to tax administration in Nepal.
-) To provide appropriate suggestions and recommendations.

The Major Finding

-) Nepalese total revenue is composed of both tax revenue and non-tax revenue. The average contribution of tax revenue and non-tax revenue was 79.64% and 20.36% respectively.
-) The average contribution of direct tax & indirect tax to total revenue was 26% and 74% respectively.

-) 68.33% of total respondents believe that people are not well informed about income tax system in Nepal. 68.33% of the total respondents are favor of income tax as a suitable means of raising government revenue. Only 31.66% of respondent don't recognize it. [Primary Data]

Tharu, Nagendra (2013), has submitted a MBS thesis entitled “*The role of income tax in national Economic and income tax management in Nepal.*” Income tax system of Nepal must be reviewed and immediately correction should be made. The major element of income tax system are income tax law, above income tax management is the most importance one because the application and three element of income tax system, the realization part is totally played by its management.

Objectives

-) To find out the share of income tax to the government revenue.
-) To examine the Nepalese income tax structure.
-) To review the trend of income collection and tax revenue as well.
-) To identify the factors to increase tax paying habit income tax payer.
-) To suggest an appropriate mechanism for income tax management.

The Major Finding

-) Income tax is a suitable source of mobilization internal resources. The major objectives of income tax are to meet the revenue requirement of the government promote distributive justice and promote private sectors investment.
-) Income tax system in Nepal is not efficient due to inefficient tax management inadequate government policy and defective income tax act.

2.1.19 Research Gap

All the research studies mentioned above are concerned with the study of the

taxation system, income tax contribution to revenue collection, taxation knowledge by the taxpayers etc. During the research study, the researcher viewed, various books, reports & articles were found to be study on the similar topic. That is why; the chosen topic "**Contribution to the Income Tax Revenue from Nepalese Insurance Company with Special Reference to Nepal Life Insurance Company Ltd.**" Is very new & interesting. The previous studies were found to be studied by using the old data. So, they could not meet the requirement of the present context. But, this study is based on latest data. The data taken in this study for five years begins from fiscal year 2007/2008. The previous researches were found to have studied on income tax mater of different manufacturing companies, non manufacturing company, & financial institution other than Nepal Life Insurance Company Ltd. But, this study is based on Income tax Revenue aspect to Nepal Life Insurance Company Ltd. This study is trying to review Income tax liability of NLIC, evaluate the effectiveness of Income tax in regard to build up government revenue, study on practices of tax planning executed by

NLIC & assign suggestion & recommendations to foster Insurance sector on the basis of the study. This study differs from other studies due to having new topic & new objective which was not studied previously. Moreover, the way of analyzing & presenting the data is also unique as compared to the previous studies. So, this research is quite new & interesting research program & hope that it will be useful for students, researchers & investors as will as business organization related to the insurance to collect the related information from it.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

This chapter is concerned with detail discussion of the methodology used in this study by covering the procedure of getting research problems answers as per the

objectives. In other words, research methodology describes the methods & processes applied in the entire aspects of the study. Research methodology is process of systematic & depth study or search any particular topic, subject, or area of investigation back by collection presentation & interpretation of the relevant details of data. Research is a systematic & organized effort to investigation a specific problems that needs solution. This process of investigation involves a series of well throughout activities of gathering, recording, analyzing, & interpreting the data with the purpose of finding answers the problem. The chapter is divided into six parts as Research Design, Population & Sample, Nature & Sources of Data, Data & Information Gathering Procedure, Data Processing Analysis Procedures, & Weight of Choice.

3.1.2 Research Design.

Research design is a plan, structure & strategy of investigation so as to answer to research study questions. The research study attempts to analyze the present condition of this study includes an outline of what the investigator will do from writing the hypothesis & their operational implementation to the final analysis of data. The structure of the research is more specific, it is the outline, the scheme, & the standard of the operation of the variables. When we draw diagrams that outline the variables & their relation is justification, we build structure schemes for accomplishing operational research purposes strategy, as used here, is also more specific than plan. In other word strategy implies how the research objective will be reached & how the problem encountered in the research will be tracked. The method & definite technique, which guides to study & give ways to perform research work is known as research design. It is most necessary to complete the research & fulfill the objective of the research. First of all information & data are collected. The important information & data are select. Then data is arranged in useful manner. After that, data are analyzed by using tools. In analysis part, interpretation & comments are also made wherever necessary. Result & conclusion

are given after analysis of data, recommendation & suggestion is also given, the thesis has been adopted from previous research works. Previous thesis styles & format have been follows. Contribution to the Income Tax Revenue from Nepalese Insurance companies with Special Reference to Nepal Life Insurance Company Ltd. is concerned with past phenomena as well as opinions. The collected data & information are described & analyzed by using different statistical tools. That is why the study has followed the descriptive as well as research design.

3.1.3 Nature & Sources of Data.

This study is partially based on secondary data, which are collected from their respective annual reports, especially from Profit & Loss A/C, Balance Sheet & other publications made by the Nepal life insurance company Ltd. Similarly, some other related information are gathered from related agency like Rastriya Beema Samiti Ministry of Finance, National Planning Commission, Auditors General Reports & Various related Journals in Management & other publications.

3.1.4 Population & Sample.

At the present context there are 25 Insurance companies & many other different financial institutions. Due to time & resource constraints, it is not possible to study all of them. So, to make easier one insurance company is selected out of many financial institution which is Nepal Life Insurance Company Ltd. Moreover, for obtaining openings in regard to income tax aspects of different personnel, opinion survey is conducted by using primary data collection procedure. For that, a questionnaire is made & distributed to different group of people. Particularly, they are tax administrators, tax experts & insurances. The selected tax administrators are associated with different Inland Revenue Department. Similarly, tax experts have been chosen from different chartered accountants, lectures, section officers of ministry of finance, economists & auditors. Finally, Insurance has been taken from different Life insurances. The total numbers of responders taken as sample for

opinion survey is 75. Out of them, 25 respondents are income tax administrators, 25 respondents are income tax experts & the rest of 25 insurances.

3.1.5 Data & Information Gathering Procedure.

The data used in this study is partially based on secondary data. The study is based on secondary data provided by Nepal life insurance company Ltd. as well as other relevant sources. Similarly some other related information is gathered from related agency such as Rastriy Beema Samitee. Nepal Stock Exchange, Ministry of Finance, T.U., Central Library, National Planning Commission, and Auditors General Reports & Various related Journals in Management & other publications.

3.1.6 Tools & Techniques of Data Analysis.

The data from primary & secondary sources are tabulated initially into distinct format. For the analysis, all collected data & information of various aspects of income tax were arranged in order & processed. Then, the descriptive tools & statistical tools such as simple percentage, rank, simple graphs, charts, bar diagrams, table & trend line, figures etc. according to the subject in order have been applied in the way of analysis so that the findings could be presented & interpreted precisely & properly in order.

Statistical Tools

In the present study, certain statistical tools have been used to compare the figure & draw one meaningful conclusion there from. The statistical tools have been description presented here.

1. Mean (\bar{X})

The most popular & widely used measure of representing the entire data by one variable is the arithmetic mean. All items number obtained are added together at first & then divided by number remaining is mean value. Mean values of the

different represent s the average value for the study period.

$$\text{I.e. Mean } \overline{(X)} = \frac{\sum(X)}{N}$$

2. Karl Person's Correlation Coefficient

In simple correlation given the relations between two variables. In other words, correlation is defined as the relationship (or association) between (among) the one dependent variable or factor & other (or more than one) independent variable (S) or factor (S). Thus, correlation is a statistical tool which determines the degree (extent) & direction of correlation. It helps in studying the variance of two or more variables. There is several method of analyzing the correlation between the two variables such as Graphic Method, Least Squared Method & so on. Among them Karl Person's Correlation Coefficient is most widely used in order to establish the relationship between the returns of NLIC. Karl Person's Correlation Coefficient measures the degree of association between the two variables, says X & Y, & is denoted by.

$$r = \frac{N \overline{Xy} - \sum x \sum y}{\sqrt{N \sum x^2 - (\sum x)^2} \sqrt{N \sum y^2 - (\sum y)^2}}$$

Where,

r = Coefficient of correlation between X & Y

$\sum xy$ = Summation of multiple of variables X & Y

$\sum x^2$ = Summation of square of variables X

$\sum Y^2$ = Summation of square of variable Y

N = Number of observations.

3. Trend Analysis

Trend analysis is one quantitative used to determine patterns in data collection overtime. It is also known as time series analysis. It is used to detect patterns of change in statistical information over regular intervals of time. In our study, two method of least square & graphic method are used for determining trend.

6. Probability Error (P.E)

P.E. interprets the value of correlation co-efficient. It helps to determine applicability for the measurement of reliability of computed value of the correlation coefficient 'r'. It can be calculated as:

$$P.E. = \frac{0.6745 \times (1-r^2)}{N}$$

Where,

r= Correlation coefficient.

N= Number of pairs of observations.

If the value of r is less than 6 times of probable error there is no evidence of correlation, i.e. the value of r is not significant. If the value of r is more than 6 times of probable error the coefficient of correlation is practically certain, i.e. the value of r is significant.

CHAPTER-IV

PRESENTATION & ANALYSIS OF DATA

4.1 Introduction

This chapter entitled as presentation & analysis of data constitutes the most crucial part of the study. It provides a mechanism for meeting the basic objectives started earlier in the first chapter in the research. In this chapter, collected data have been analyzed & presented mathematically the main objective of this study is to analyze about contribution of income tax from Nepal Life Insurance Company Ltd. Likewise, other objectives are to evaluate effectiveness of income tax, study on tax planning executed by NLIC & to assign possible suggestions & recommendations on the basis of the study for obtaining these above objective, different statistical tools are being used to analyze historical data. More over opinion surveys are being exercised to make the study realistic, realistic & being useful.

4.1.2 Structure of Nepalese Government Revenue

The government of any country needs adequate budget for the development activities, operation of administration, maintaining peace & security & for other public welfare activities. The required budget is allocated from the various sources. Generally, the revenue collected by the government from various source is known as public or national revenue. Regarding the context of Nepal, national revenue can be collected from different sources. It is simply classified as tax revenue & non tax revenue.

Tax revenue includes direct taxes as well as indirect taxes. A direct tax includes

income tax, property tax, interest tax, contract tax, vehicle tax, expenditure tax, land revenue & others taxes. An indirect tax comprised the customs, excise, sales tax, Entertainment tax, vat & others. On the other hand non tax revenue is the composition of various kinds of receipts from foreign governments & international entities. The government revenue is therefore the combination of tax revenue & non tax revenue consisting of various sources. Major sources of income tax of the government are custom duty, excise duty & sales tax or vat under indirect tax group. Custom duties consist of export duty, import duty as well as excise, refund fund from government of India & other miscellaneous income. So, the excise duty is the imposition of tax on the country's production which consists of liquor, tobacco, & other industrial products. The other indirect taxes which contribute a significant share in government revenues are contract tax, hotel tax, entertainment tax & air flight tax. Land revenue is the type of direct tax which includes development & land tax. The income tax directly imposed upon the individuals & organizations' income profit, income tax, is the composition of direct tax revenue that is levied upon net income or profit earned by the public enterprises, semi public enterprises, private corporate bodies, self employed, individuals & employed persons. The house & land registration is also the part of direct tax. Non tax revenue of the government includes various registration fees, income received from sale of government services & products, dividend received, royalties, principal & interest received & miscellaneous incomes. The registration fees include firm registration, vehicle registration & license registration etc. Water charges, telephone charges, post service charges, revenue received from education institution, income from agricultural product, Income from supply of product & incomes generate from transportation services are the major source of revenue.

Government services divided from financial institution; trading company, industrial enterprises & service oriented organizations by the government under special public enterprises act similarly royalty from mine is also the non tax

revenue of the government.

4.1.3 Contribute of Tax Revenue to Total Revenue

National revenue is the composition of tax revenue & non tax revenue. Tax revenue has direct & indirect. Customs, excise duty, sales tax, vat & other miscellaneous incomes are the main revenue items of indirect tax revenue. Direct tax however is the composition of income tax, land tax, property tax, interest tax & other direct taxes. Non tax revenue of the government is also important revenue source that includes different type fees, charges, dividend, royalty & sales of fixed assets are also Component of non tax revenue. The following table shows the comparison between tax revenue & non tax revenue collection.

Table 4.1
Comparison between Tax Revenue & Non Tax Revenue

(Rs. in millions)

Fiscal Year	Total revenue	Tax revenue	Non tax revenue	% of tax revenue	% of non tax revenue
2007/008	104940	85155.46	19784.54	81.15	18.85
2008/009	139944	117052	22892.00	83.64	16.36
2009/010	177992	159785	18207.00	89.77	10.23
2010/011	198376	177227	21149.00	89.34	10.66
2011/012	244374	211723	32651.00	86.64	13.36
Average				86.20	13.80

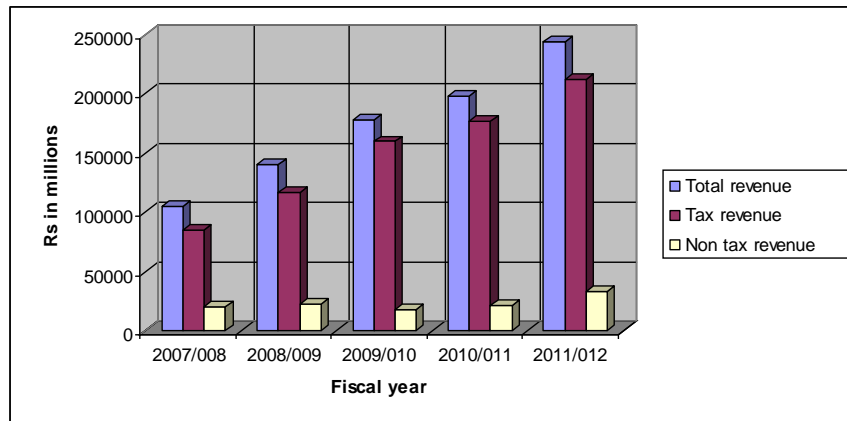
(Source: Ministry of finance, Economic Survey 2011/12)

The above table has shown the combination of tax revenue & non tax revenue in different years. The percentage of tax revenue are, 81.15, 83.64, 89.77, 89.34 & 86.64, in the year 2007/008, 2008/009, 2009/010, 2010/011, & 2011/012 respectively. In the same way the non tax percentage of non tax revenues are

18.85, 16.36, 10.23, 10.66 & 13.36 respectively. The average percentage of tax revenue in five years is 86.20. It shows that there is no greater variability of percentage of tax revenue in different years. Similarly the average percentage of non tax revenue in five years is 13.80. It shows that his variability of percentage of non tax revenue is greater than that of tax revenue in different years.

Figure 4.1

Contribution of Tax Revenue to Total revenue



The above figure relates to contribute of tax & non tax revenue to the total revenue. It shows that the total revenue is being increased as compared to previous years. The total revenue has been increased from 104940 million to 244374 million from the year 2007/2008 to last year 2011/2012. Likewise, the tax revenue has been increased from 85155.46 million to 177227.16 million from the first to last years.

4.1.4 Role of Corporate Tax in Nepal

Corporate tax is the collected from corporate bodies. It is very important in the context of developing countries due to having less income earner individuals. In developing countries income tax from corporate bodies' plays vital role for resources mobilization of the nation. Moreover, it is easily identifiable & proper

account can be found.

Table 4.2
Role of Corporate Tax in Nepal

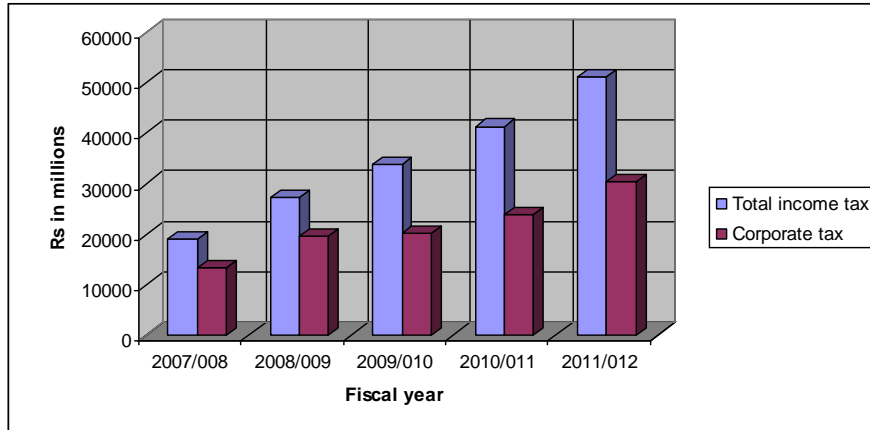
(Rs. in millions)

Fiscal year	Total income tax	Corporate tax	% Corporate tax on Total income tax
2007/008	19078.00	13268.76	69.55
2008/009	27247.40	19624.77	72.02
2009/010	33821.34	20206.13	59.74
2010/011	41350.41	23931.16	57.86
2011/012	51303.23	30494.44	59.49
Average			63.73

(Source: Ministry of finance, Economic Survey 2011/12)

Role of corporate tax in Nepal has presented in above table. As per this table, the percentage of corporate tax on total income tax are 69.55, 72.02, 59.74, 57.87, & 59.87 in the fiscal year 2007/008, 2008/009, 2009/010, 2010/011, & 2011/012 Respectively. The average percentage of corporate tax on total income tax is 63.73. This includes that the percentage of corporate tax on total income tax is fluctuated over the study period

Figure 4.2
Role of Corporate Tax in Nepal



The above figure shows the contribute of corporate tax out of total income tax in five years started from the year 2007/008 it increasing as compared to the previous year. In the year 2007/008, the corporate tax was 13268.76 million out of 19077.81 million total income tax revenue. It has increase & reached up to 30494.44 million out of 51303.23 million total tax revenue in the year 2011/012.

4.1.5 Corporate Tax on Total Revenue

Corporate bodies create significance role to build up government revenue. Corporate tax, the part of income structure is also very important resource of revenue of resource of revenue in developing countries like Nepal. Corporate bodies cannot escape from tax liability in general. They maintain the books of account in accepted formats, audits their accounts & pay taxes in due date. Unfortunately, in Nepal most of government enterprises are manipulating accounts. They are standing with bad & poor financial performance. Similarly family managed private companies are practicing tax evasion. These are the main drawbacks. The following table shows the relationship between corporate tax & government revenue.

Table 4.3

Role of Corporate Tax on Total Revenue

(Rs. in millions)

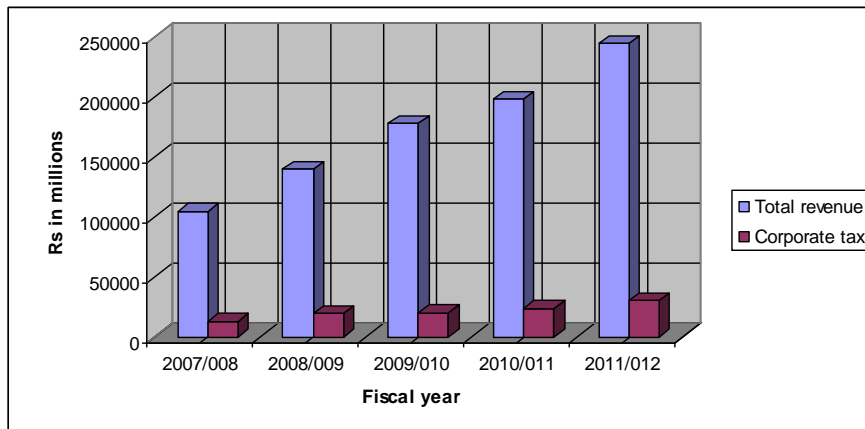
Fiscal year	Corporate tax	Total revenue	% of corporate tax on Government Revenue
2007/008	13268.76	104940	12.64
2008/009	19624.77	139944	14.02
2009/010	20206.13	177992	11.35
2010/011	23931.16	198376	12.06
2011/012	30494.44	244374	12.48
Average			12.51

(Source: Ministry of finance, Economic Survey 2011/12)

The above figure is related with the role of corporate tax on government revenue. In the fiscal year 2007/008, 2008/009, 2009/010, 2010/011, & 2011/012 percentage of corporate tax on government revenue are 12.64, 14.02, 11.35, 12.06, & 12.48 respectively. Likewise the average percentage of corporate tax on government revenue is 12.51. This includes that it is comparatively higher which states the more fluctuation of percentage over this study period.

Figure 4.3

Role of Corporate Tax on Total Revenue



Of corporate tax on government revenue has presented in above figure. As per this figure, the amount of corporate tax & total revenue are 13268.76 & 104940 million the fiscal year 2007/008, these amount has increased & reached

up to 30494.44 million out of 244374 million in the year 2011/012.

4.1.6 Income Tax from Insurance Companies to Total Government Revenue & Total Tax Revenue

The number of insurance companies is being increased now a day. Obviously, the insurances companies are activating to create government revenue in the form of income tax. They have strictly bounded by high rate of income tax. The corporate tax collected from the insurance companies also increase per years due to the increment in the number of them. They are assisting the government by different ways such as by contributing revenue, enlarging employment opportunities, empowering economic development etc. The role of insurances to total government revenue & total tax revenue has shown in the following table.

Table 4.4
Role of Insurance Companies to Total Government Revenue & Total Tax Revenue

(Rs in millions)					
Fiscal year	Total revenue	Tax revenue	Corporate tax collection from I.C	% on total revenue	% on total tax revenue
2007/008	104940	85155.46	381.9	0.36	0.45
2008/009	139944	117052	468.84	0.34	0.40
2009/010	177992	159785	577.22	0.32	0.36
2010/011	198376	177227	668.42	0.34	0.38
2011/012	244374	211723	1311.33	0.53	0.62
Average				0.38	0.44

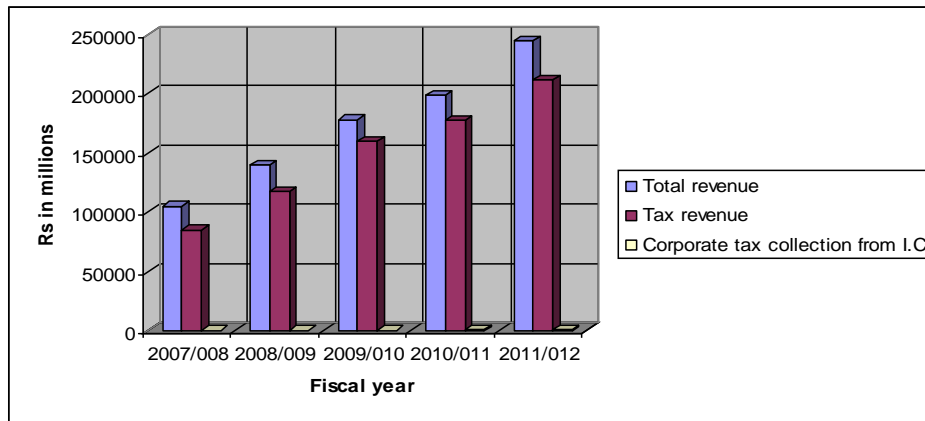
(Source: Ministry of finance, Economic survey & Insurances Annual reports)

As per above table it is clear that the percentage of tax collection from Insurances on total revenue are 0.36, 0.34, 0.32, 0.34, & 0.53 in the fiscal year started from 2007/008 to 2011/012. In the similarly way, the percentage of tax collection from insurances on total tax revenue are 0.45, 0.40, 0.36, 0.38, & 0.62 the average

percentage of income tax collection from insurances on total revenue 0.38. It indicates that the percentage over the years have fluctuated more which is describable. On the other hand the average percentage of tax collection from I.C. on total revenue is 0.44.

Figure 4.4

Role of Insurance Companies to Total Government Revenue & Total Tax Revenue



The above figure shows the amount of corporate tax collected from I.C. Together with total revenue & total tax revenue. The corporate tax collection from I.C total tax Revenue & total revenue are 381.9, 85155.46 & 104940 million in the fiscal year 2007/008 & have reached to 1311.33, 211722.60, & 244374 million in the fiscal year 2011/012.

4.1.7 Income Tax from NLIC to Total Government Revenue

Nepal Life insurances company Ltd. has contributing income tax to the government regularly. It has been playing significant role to the corporate tax collection from insurances. The following table clarifies the income tax paid by NLIC in different years.

Table 4.5
Income Tax from NLIC to Total Government Revenue

(Rs. in millions)

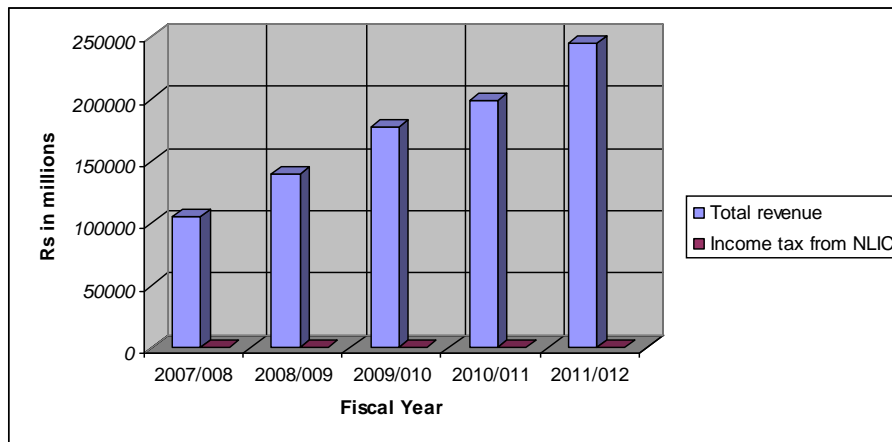
Fiscal year	Total revenue	Income tax from NLIC	% of income tax revenue from NLIC to total revenue
2007/008	104940	21.393	0.0204
2008/009	139944	49.531	0.0354
2009/010	177992	31.196	0.0175
2010/011	198376	4.96	0.0025
2011/012	244374	43.95	0.0188
Average			0.0188

(Source: Ministry of finance, Economic survey & NLIC Annual reports)

According to the above table, the contribution of income tax from NLIC are 21.393, 49.531, 31.196, 109.08 & 43.95 million in the fiscal year 2007/008, 2008/009, 2009/010, 2010/011, & 2011/012 respectively. The income tax percent from NLIC to total government revenues are 0.0204, 0.0354, 0.0175, 0.0025, & 0.0188 respectively. The average percentage of income tax is 0.0188.

Figure 4.5

Income Tax from NLIC to Total Government Revenue



The above figure the trends study in regard to percentage of income tax from

NLIC to total govt. revenue in different years. It is following increasing trend from the fiscal

Year 2007/008 & is decrease in the year 2011/012

4.1.8 Share Income Tax from NLIC to Total Tax Revenue

As insurance, NLIC has been contributing the government by the means of income tax. The total tax revenue is being is influenced by the contribution of income tax from the following table shows the share of income tax from NLIC to total tax revenue in different years.

Table 4.6
Share Income Tax from NLIC to Total Tax Revenue

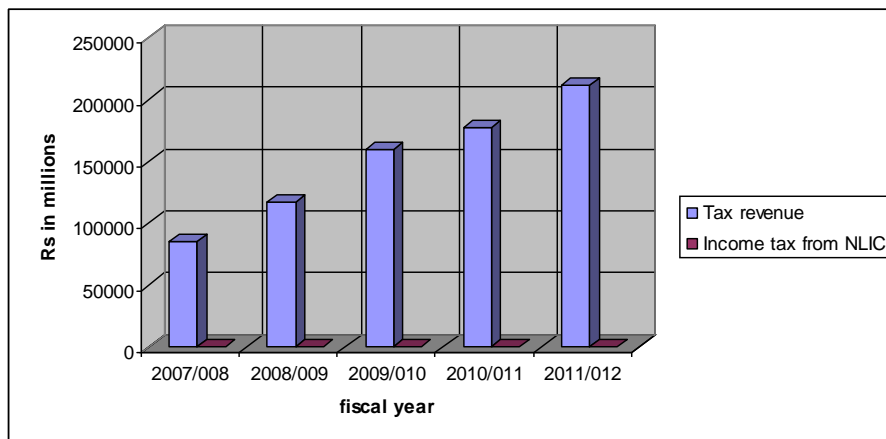
(Rs. in millions)

Fiscal year	Tax revenue	Income tax from NLIC	% of income tax from NLIC to total tax revenue
2007/008	85155.46	21.393	0.025
2008/009	117052	49.531	0.042
2009/010	159785	31.196	0.0195
2010/011	177227	4.96	0.0028
2011/012	211723	43.95	0.0207
Average			0.12

(Source: Ministry of finance, Economic survey & NLIC Annual reports)

As per above table, the percentage of income tax from NLIC to total tax revenue can be elaborated. It shows that the percentage of income tax from NLIC are 0.025, 0.042, 0.0195, 0.0028, & 0.0207 fiscal year 2007/008, 2008/009, 2009/010 2010/011, & 2011/012, respectively. In the study period, the average percentage of income tax from NLIC to total tax is 0.12.

Figure 4.6
Share Income Tax from NLIC to Total Tax Revenue



The above figure the trends study relating to percentage of income tax from NLIC to total tax revenue. It has been following increasing trend in all fiscal rather than that of the year 2011/012.

4.1.9 Share of Income Tax from NLIC to Income Tax Revenue

The income tax revenue is a part of direct tax revenue. The share of income tax from NLIC to income tax revenue is presented as follows.

Table 4.7

Share of Income Tax from NLIC to Income Tax Revenue

(In Rs. millions)

Fiscal year	Total income tax	Income tax from NLIC	% of income tax from NLIC to total income tax revenue
2007/008	19078	21.393	0.112

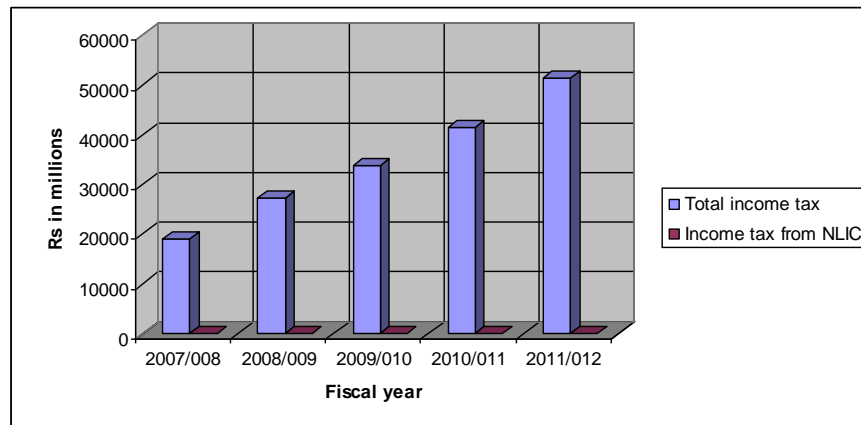
2008/009	27247.4	49.531	0.182
2009/010	33821.34	31.196	0.092
2010/011	41350.41	4.96	0.012
2011/012	51303.23	43.95	0.0857
Average			0.097

(Source: Ministry of finance, Economic survey & NLIC Annual reports)

As per above presented figure, the percentages of income tax from NLIC to total tax revenue are 0.112, 0.182, 0.092, 0.012, & 0.0857 in the fiscal year 2007/008, 2008/009, 2009/010, 2010/011, & 2011/012 respectively. The average percentage of income tax in total tax revenue is 0.097.

Figure 4.7

Share of Income Tax from NLIC to Income Tax Revenue



The above presented figure shows the trends study of percentage of income tax from NLIC to total tax revenue. It is following increasing trend in all fiscal years then that Year 2011/012.

4.1.10 Share of Income Tax from NLIC to Corporate Income Tax

Corporate income tax collected from corporate bodies. As a corporate body NLIC has contributed the income tax which has presented in the following table.

Table 4.8

Share of Income Tax from NLIC to Corporate Income Tax

(Rs. in millions)

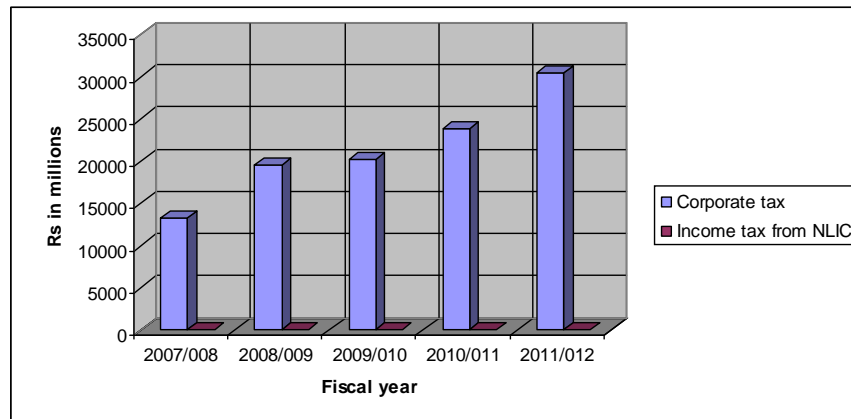
Fiscal year	Corporate tax	Income tax from NLIC	% of income tax from NLIC to corporate tax
2007/008	13268.76	21.393	0.161
2008/009	19624.77	49.531	0.25
2009/010	20206.13	31.196	0.154
2010/011	23931.16	4.96	0.021
2011/012	30494.44	43.95	0.144
Average			0.1465

(Source: Ministry of finance & NLIC Annual reports)

The above table is related to the percentage of income tax from NLIC, to corporate tax income. In the fiscal year 2007/008, 2008/009, 2009/010, 2010/011, & 2011/012 percentage of income tax from NLIC to corporate tax are 0.161, 0.25, 0.154, 0.021 & 0.144 respectively. Likewise the average percentage of corporate tax is 0.1465.

Figure 4.8

Share of Income Tax from NLIC to Corporate Income Tax



Share of the income tax from NLIC to corporate tax has presented in above figure.

The train shows that there is increasing trend in all the year except the

fiscal year 2011/012.

4.1.11 Share of Income Tax from NLIC to Corporate Tax Collection from I.C

Insurance are the component of corporate boded. As insurance, the portion of income tax paid by NLIC to tax collection from I.C. is presented as follows.

Table 4.9

Share of Income Tax from NLIC to Corporate Tax Collection from I.C

(Rs. in Millions)

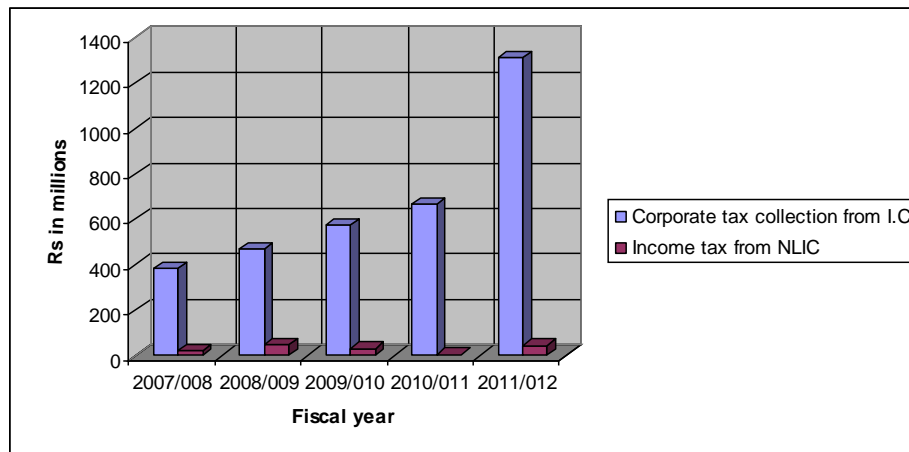
Fiscal year	Corporate tax collection from I.C	Income tax from NLIC	% of income tax from NLIC tax collection from I.C
2007/008	381.9	21.393	5.602
2008/009	468.84	49.531	10.432
2009/010	577.22	31.196	5.405
2010/011	668.42	4.96	0.75
2011/012	1311.33	43.95	3.35
Average			5.465

(Source: Ministry of finance, Economic survey, NLIC & insurances Annual reports)

As per above table, the percentage of income tax NLIC to tax collection from insurances are 5.602, 10.432, 5.405, 0.75 & 5.138 in the fiscal year 2007/008, 2008/009, 2009/010, 2010/011, & 2011/012 respectively. The average percentage of income collection is 5.465.

Figure 4.9

Share of Income Tax from NLIC to Corporate Tax Collection from I.C



The above figure shows the trend study share of income tax from NLIC to corporate tax collection from I.C. It is moving fluctuation in all the year as compared to previous year. But, it is moving downward in the fiscal year 2010/011 as compared to the fiscal year 2011/012.

4.1.12 Correlation Analysis

Correlation analysis is a statistical relation between two or more variables such that systematic changes in the one variable are accompanied by systematic changes in the other. In order words correlation is the statistical tool that we can use to describe the Degree to which on variable is linearly related to another. The coefficient of correlation measure the degree of relationship between two sets of figures. It is denoted by small letter 'r'. The result of coefficient of correlation is always between +1 & -1 when 'r' is equal to +1, it means there is perfect relationship between two variables & vice versa. When 'r' is zero, it means there is no relationship between two variables. Therefore, correlation a reciprocal relation between two or more things. The following correlation coefficients are presented here.

) Income tax paid & earnings before interest & tax.

) Income tax liabilities & total liabilities.

4.1.13 Coefficient of Correlation between Income Tax paid & Earnings before Interest & Tax of NLIC

To find out the relationship between EBIT & income tax paid by NLIC, income tax is taken as dependent variable & EBIT is taken as independent variable. The following table shows the coefficient of correlation between income tax & EBDIT of NLIC i.e. 'r', 'PEr', '6PEr' of Nepal Life Insurance Ltd.

Table 4.10

Coefficient of Correlation between Income Tax paid & EBIT of NLIC

Name of the insurance	Correlation (r)	PEr	6PEr
NLIC	+0.0003965	0.3015	1.8091

(Source: Appendix-5)

From the above table, we can find that the coefficient of correlation between income tax paid & EBIT of NLIC is +0.0003965. It shows that the relationship between these two variables. By considering the probable error, since of 'r' is more than six times of Per then we can say that the value of 'r' is highly significant & vice versa. In case of NLIC, the value of 'r' is greater than that of 6PEr. So there is significant relationship between income tax paid & EBIT of NLIC.

4.2 Analysis of Empirical Study

The survey result has been conducted to find out the various aspects of income tax. The structured questionnaire was prepared & distributed for this purpose. The opinion of the various 75 respondents associated with distinct sectors such as income tax administrator, tax expert & the persons engaged in insurance & financial institutions. The questionnaire was mainly concerned with the income tax

aspect. Likewise, major drawback relating to income tax, problem facing by tax payer, influence of income tax on insurance scenario, the most factors for the effectiveness of income tax especially in the context of Nepal etc. The respondents were asked either to response yes or no of alternatives where first choice was the most important & last choice was least important. Number of respondents in each denomination is equal 25 persons. Information received from the respondents are tabulated & analyzed in the proper way. The following table shows the group & number of respondents.

Table 4.11
Group of Respondents

S.N	Group of respondents	Number
1	Tax administrators	25
2	Tax experts	25
3	Insurance	25
Total		75

(Source: Appendix-6)

4.2.1 Opinion towards Satisfactory Contribution of Income Tax Revenue

Income Tax is supposed as a powerful means for the revenue collection. Nevertheless, in the context of Nepal, It is not so satisfactory. That is, the actual collection of income tax is low. To know this fact, a question was asked to respondents ' In your opinion, is contribution of income tax to national revenue of Nepal satisfactory?' The opinions result is presented in the following.

Table 4.12

Opinion towards Satisfactory Contribution of Income Tax Revenue

Response Respondent	Yes		No.		Total	
	No	%	No.	%	No.	%
Tax	5	20	20	80	25	100

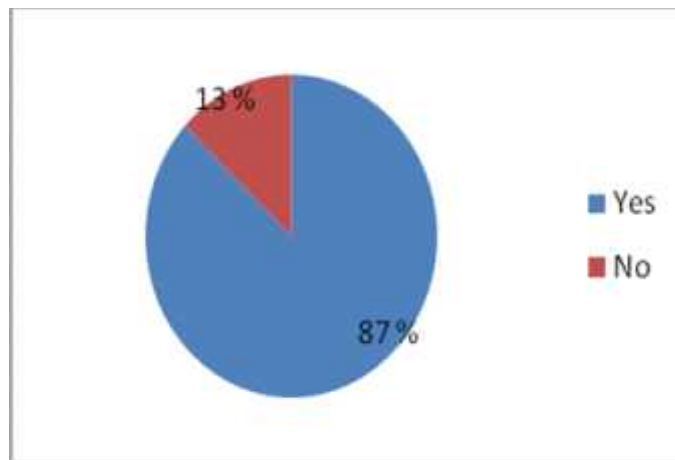
administrators						
Tax experts	3	12	22	88	25	100
Insurances	2	8	23	92	25	100
Total	10	13.33	65	86.67	75	100

(Source: Appendix-6)

In the above table, it is observed that only 20% of tax administrators, 12% of tax Experts & 8% of insurance's are agreed to the fact that the contribution of income tax revenue of Nepal satisfactory. But, 80% of tax administrators, 88% of tax experts & 92% of insurance's are not satisfied to this aspect. In totality, 13.33% of the respondents are satisfied & the rest 86.67% of the respondents are dissatisfied to this fact. The following figure shows about the opinion of the respondents towards contribution of income tax revenue.

Figure 4.10

Opinion towards Satisfactory Contribution of Income Tax Revenue



4.2.2 Opinion towards Reason for Low Contribution of Income Tax

Obviously, the contribution of income tax is not so satisfactory in the context of Nepal. That is, the actual collection of income tax is less than that of expected one. There are different causes behind that really. Especially, tax evasion, tax avoidance, not availability of powerful punishment system etc. are the main causes.

To identify the reason for low contribution of income tax, a question was asked, what are the major reasons for low contribution of income tax to national revenue? The five options are given to response that question. The options were to be ranked from 1 to 5, the most important option 1 & so on. The response is tabulated in the following table

Table 4.13
Opinion towards Reason for Low Contribution of Income Tax

S.N	Method	Total point received					Rank
		Tax Adm.	Tax experts	Insurances	Total	%	
1	Defective of income tax	100	75	85	260	13.9	4
2	Mass poverty & low income level	75	100	115	290	15.5	3
3	Increasing habit of income	250	225	200	675	36	1
4	Inefficient income tax adm.	125	150	125	400	21.3	2
5	In appropriate income tax	75	75	100	250	13.3	5

(Source: Appendix-6)

In the above table, it is concerned with the reason for low contribution of income tax. In really there may be different reasons behind that aspect. But, only five options are given to that fact. The respondents are required to rank from 1 to 5 as per their preference. The most preferred option is stood as rank 1 & so on the points granted to rank 1,2,3,4 & 5 are 25, 20, 15, 10 & 5 respectively. Out of given five alternatives, 36% of other response is about the option increasing habit of tax evasion, likewise 21.33%, 15.47%, 13.87% & 13.33% of response are about the option inefficient income tax administration, defective of income tax. Mass poverty

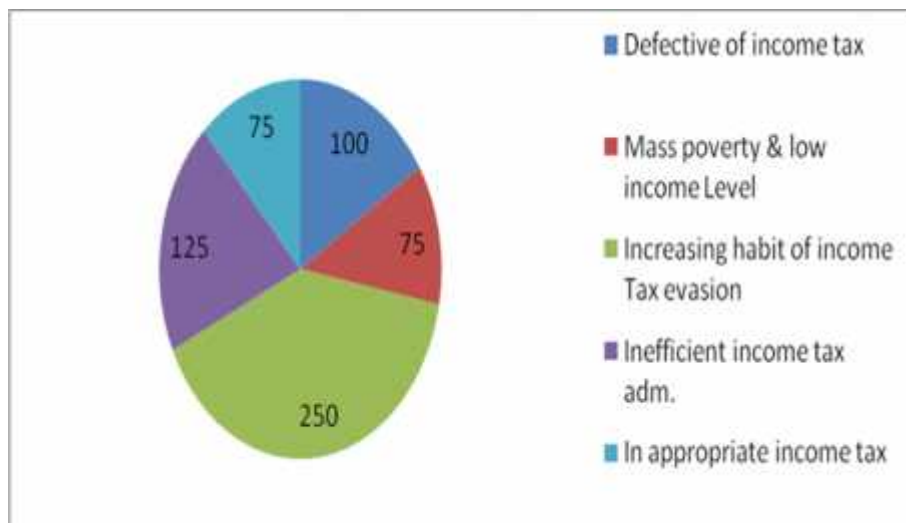
& low income level & inappropriate rate & exemption limit respectively. So, the ranking according as the preference of the respondents is as follows.

-) Increasing habit of tax evasion.
-) Inefficient income tax administration.
-) Mass poverty & low income level.
-) Defective of income tax.
-) Inappropriate rate & exemption limit.

The above table classifies about the ranking to the different given options by the respect respondents.

Figure 4.11

Opinion towards Reason for Low Contribution of Income Tax



4.2.3 Opinion towards Suitable Tax Rate System in Nepal

In order to find out the suitable income tax rate system in Nepal, respondents were requested to select any one among the three alternatives. The question was 'In your opinion, which income tax is suitable for Nepal' The response is tabulated in the following table.

Table 4.14

Opinion towards Suitable Tax Rate System in Nepal

Method	Tax administrators	Tax experts	Insurances	Total	%
Progressive	21	25	20	66	88
Proportional	4	0	5	9	12
Regressive	0	0	0	0	0
Total	25	25	25	75	100

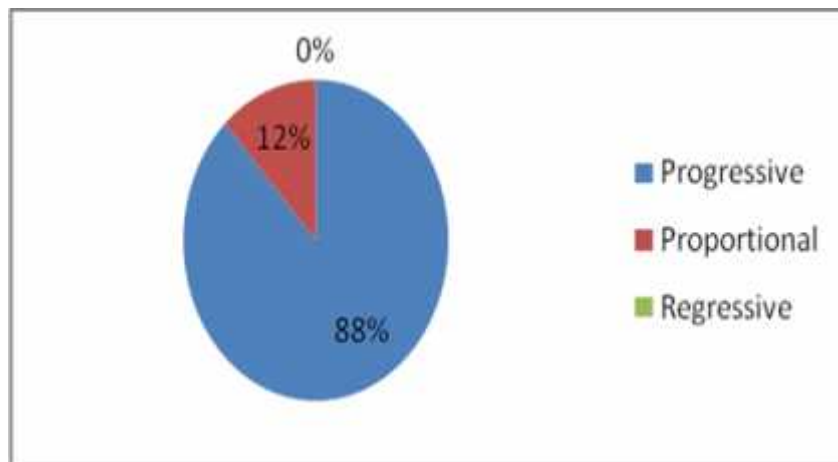
(Source: Appendix-6)

In the above table relates to the opinion towards suitable tax tare in Nepal. Especially, there are three methods of tax rate particularly progressive, proportional & regressive.

As per above table it is observed that 21 tax administrators, 25 tax experts & 20 insurances are in favor of progressive method of tax rate. Similarly, 4 tax administrator, o tax experts & 5 insurances are favor of proportional tax rate system. Moreover, none of the respondents are favor of regressive tax rate method. Aggregately, 88% of tax respondents & 12% of respondents are in favor of progressive & proportional tax rate system & on respondents are in favor of regressive tax rate method. The following figure reflects about the opinion towards suitable tax rate system in Nepal.

Figure 4.12

Opinion towards Suitable Tax Rate System in Nepal



4.2.4 Opinion towards Income Tax as Suitable Means Rising of Government Revenue

To identify the view regarding income tax as suitable means of rising government revenue a question was asked. The question was "Do you consider that the income tax as a suitable means of rising govt. revenue" The opinions expressed by the respondents are as follows.

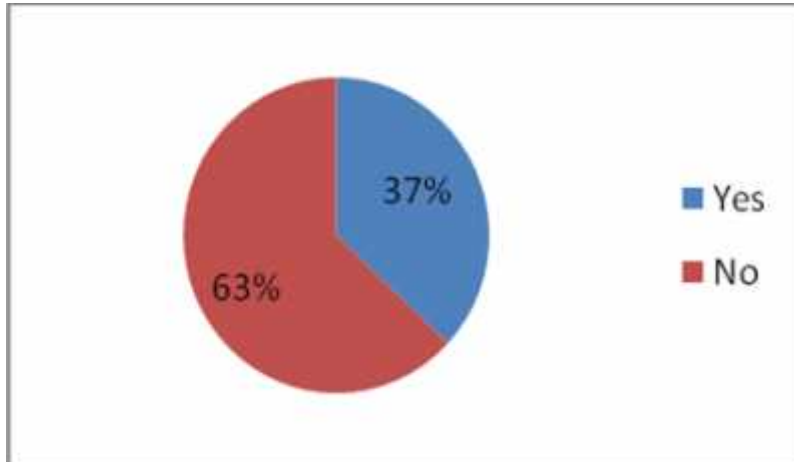
Table 4.15
Opinion towards Income Tax as Suitable Means Rising of Government Revenue

Response	Yes		No.		Total	
	No	%	No.	%	No.	%
Tax administrators	25	100	0	0	25	100
Tax experts	24	96	1	4	25	100
Insurances	21	84	4	16	25	100
Total	70	93.33	5	6.67	75	100

(Source: Appendix-6)

In the above table concerned with opinion towards income tax as suitable means of rising government revenue. As per this table it is observed that 100% of tax administrators, 96% of tax experts & 84% of insurances are satisfied towards income tax as suitable means rising govt. revenue. Likewise 4% of tax experts & 16% of insurances are not satisfied to this aspect. In totality, 93.33% of respondents are in opposing to this fact. The following figure shows the opinion towards income tax as suitable means of raising government revenue.

Figure 4.13
Opinions towards Income Tax as Suitable Means Rising of Government Revenue



4.2.5 Opinion towards Role of Insurance Sector to Build up Government Revenue

Nowadays, the number of insurance & financial institutions is increasing. They are contributing their income tax for the formulation of government revenue. To identify the effectiveness of income tax contributed by insurance sector a question was asked among the respondents. That is "In your view, is the income tax contributed by insurance sector effective to build up government revenue?" The response given by the respondents is tabulated in the following table.

Table 4.16

Opinion towards Role of Insurance Sector to Build up Government Revenue

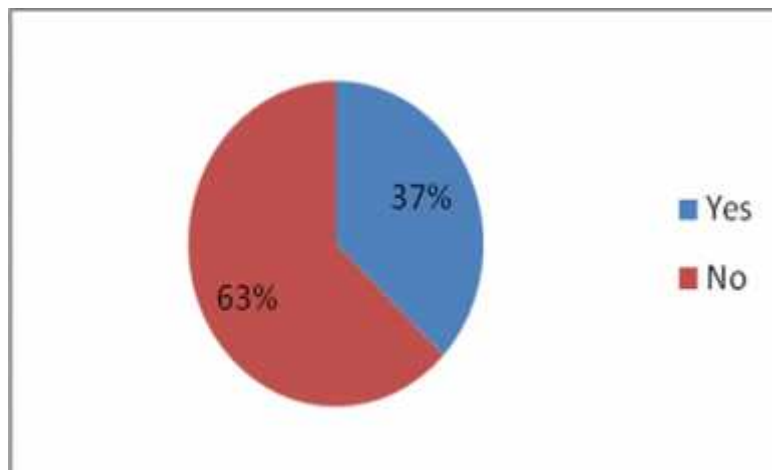
Response	Yes		No.		Total	
	No	%	No.	%	No.	%
Respondent						
Tax administrators	13	52	12	48	25	100
Tax experts	16	64	9	36	25	100
Insurances	15	60	10	40	25	100
Total	44	58.67	31	41.33	75	100

(Source: Appendix-6)

Opinion towards role of insurance sector to built up government. revenue in above table. As per this table it can be observed hat 52% of tax administrators, 64% of tax experts & 15% of the insurances are in favor of the effectiveness of insurance sector to build up govt. revenue. Likewise, 48% of tax administrator, 36% of tax experts & 40% of insurances are not satisfied about to this the effectiveness of insurance sector to built of govt. revenue in overall, 58.67% of tax respondents are in favor of this aspect & rest 41.33% of the respondents are in opposing to this aspect. The following figure shows about the opinion towards rile of insurance sector to build up govt. revenue.

Figure 4.14

Opinion towards Role of Insurance sector to build up Government Revenue



4.2.6 Opinion towards Evaluation of Facilities & Incentives Granted to Insurance Sectors

ITA 2058 has provided different facilities & incentives to different sectors. Particularly, the insurance sector is also benefited by these facilities & incentives. To identify the facilities & incentives favorable or not a question "In your opinion, is facilities & incentives granted to insurance sectors effective under ITA 2058" was asked. The answers given by the respondents are tabulated in the following table.

Table 4.17

Opinion towards Evaluation of Facilities & Incentives Granted to Insurance Sectors

Response	Yes		No.		Total	
	No	%	No.	%	No.	%
Tax administrators	10	40	15	60	25	100
Tax experts	11	44	14	56	25	100
Insurances	7	28	18	72	25	100
Total	28	37.33	47	62.67	75	100

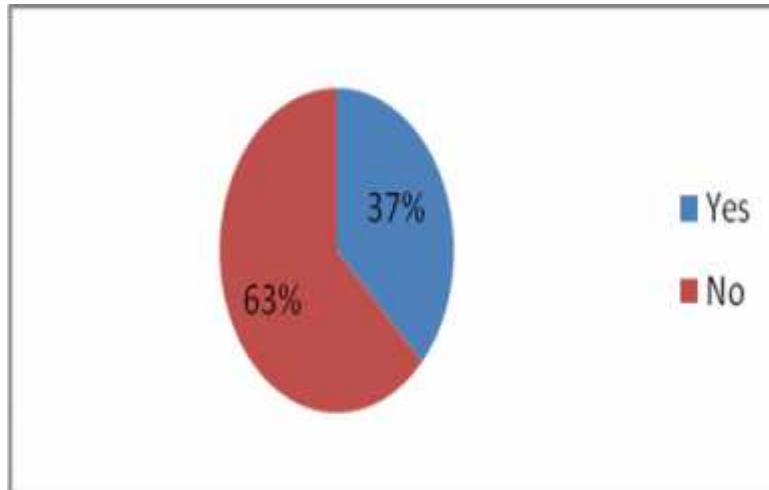
(Source: Appendix-6)

The above presented table has shown about the opinion towards evaluation of facilities & incentives provided to insurance sector. As per this table it is observed that 40% of tax administrators, 44% of tax experts & 28% of the insurances agreed to the effectiveness of facilities & incentives granted to insurance sectors. Likewise, 60% of tax administrator, 72% of tax experts & 56% of insurances are disagreed to the effectiveness of facilities & incentive granted to insurance sector. In overall, 37.33% of tax respondents are in favor & rest 62.67% of the respondents are in against this aspect. The following figure shows about the opinion towards effectiveness of facilities & incentives provided to insurance

sectors.

Figure 4.15

Opinion towards Evaluation of Facilities & Incentives Granted to Insurance Sectors



4.1.14 Major Finding of Study

The major findings obtained from the study are as follows.

4.1.15 Findings from the Study of Secondary Data

-) The percentage of tax revenue are, 81.15, 83.64, 89.77, 89.34 & 86.64 in the year 2007/008, 2008/009, 2009/010, 2010/011, & 2011/012 respectively. In the same way the non tax percentage of non tax revenues are 18.85, 16.36, 10.23, 10.66 & 13.36 respectively. The average percentage of Tax revenue in five years is 86.20%. Similarly the average percentage of non tax revenue in five years is 13.80% for study period.
-) The percentages of corporate tax on total income tax are 69.55, 72.02, 59.74, 57.87, & 59.49 in the fiscal year 2007/008, 2008/009, 2009/010, 2010/011 & 2011/012 respectively. The average percentage of corporate tax on total income tax is 69.73% over the study period.
-) The corporate tax on government revenue. In the fiscal year 2007/008, 2008/009, 2009/010, & 2010/011 & 2011/012 percentage of corporate tax on government revenue are 12.64, 14.02, 11.35, 12.06, & 12.48

respectively. The average percentage of corporate tax on government revenue is 12.51% over the study period.

- J The percentage of tax collected from insurance Companies on total revenue is 0.36, 0.34, 0.32, 0.34, & 0.53 in the fiscal year 2007/008, 2008/009, 2009/010, 2010/011 & 2011/012 respectively. The average percentage is 0.38%, similarly the percentage of tax collection from insurance companies on total tax revenue are 0.45, 0.40, 0.36, 0.38, & 0.62. In the respective fiscal year. The average percentage is 0.44% over the study period.
- J The percentages of income tax from NLIC to total govt. revenue are 0.0204, 0.0354, 0.0175, 0.025 & 0.0188 in the fiscal year 2007/008, 2008/009, 2009/010, 2010/011 & 2011/012 respectively. The average percentage of income tax is 0.0188%. The trend of percentage of income tax collection from NLIC to total govt. revenue in the fluctuation way in all the years except the fiscal year 2011/012.
- J The percentage of income tax from NLIC to total tax revenues are 0.025, 0.042, 0.0194, 0.0028, & 0.0207 in the fiscal year 2007/008, 2008/009, 2009/010, 2010/011 & 2011/012 respectively. The average percentage is 0.022%. By studying trend analysis, it can be observed that it has been following fluctuation trend in all the years except the fiscal year 2011/012.
- J The percentages of income tax from NLIC, to corporate tax are 0.161, 0.25, 0.145, 0.021 & 0.144 in the fiscal year 2007/008, 2008/009, 2009/010, 2010/011 & 2011/012 respectively. The average percentage of corporate tax is 0.1465. By observing the trend analysis it can be out line outlined that it has been following fluctuation trend in all except the fiscal year 2011/012.
- J The percentage of income tax NLIC to tax collection from insurance companies are 5.602, 10.437, 5.405, 0.75 & 3.35 in the fiscal year 2007/008, 2008/009, 2009/010, 2010/011 & 2011/012 respectively. The average percentage of income collection is 5.465% over the study period.

The coefficient of relationship between EBIT & income tax paid is +0.0003965.

-) Reflects that there is positive relationship between tax paid & EBIT of NLIC. By observing probable error it can be outlined that there is significant relationship between income tax paid & EBIT of NLIC

4.1.16 Findings from Empirical Study

The opinion survey plays crucial role for the betterment of present act, provision & procedures of income tax. It also suggests towards the government tax polices & other aspects. The study has included the tax administrator's tax experts' & insurances' view about the current rules, regulations & procedures of Nepalese Government. As per this study, an opinion survey has been conducted so as to find out NLIC contribute the income tax for govt. & its status on govt. Revenue from the opinion survey with tax administrators,' tax experts' & insurances' the following findings can be outlined.

-) The collection of income tax is not so satisfactory even if is regarded as the Suitable means of rising govt. Revenue in the context of Nepal.
-) The collection of direct tax to national revenue is not so effective.
-) Increasing habit of tax evasion, ineffective income tax administration & mass Poverty & low Income level are the major reasons behind low contribution of income tax.
-) The exemption & deduction granted by act are not appropriate & should be adjusted.
-) The current income tax administration is not activating significantly & is not effective.
-) Income Tax system of Nepal has not been reached at the satisfactory level yet.
-) Conscious & honest tax payers; moral & honest tax officer & effective tax

- administration are needed for the effectiveness of income tax in Nepal.
-) Progressive income tax is necessary to increase tax consciousness & raising the Govt. revenue.
 -) The fine & penalty under the Nepalese tax system are not reasonable & should be increase to discourage tax evader & illegal activities.
 -) Vague provision in income tax law, expectation of illegal incentive by the tax personnel & lack of co-operation by the tax administrator are the major Problems faced by the taxpayer while paying income tax.
 -) Income Tax contributed by insurance sectors is satisfactory but not effective significantly.
 -) The income charged to insurance sector is suitable.
 -) The insurances are executing the concept of tax planning a bit.
 -) It is necessary to be adopted effective rules & regulations; to be strictly monitored & taking actions by RBS & to be extended the incentives & facilities provided to insurance sectors primarily to foster the insurance.

CHAPTER–V

SUMMARY, CONCLUSION & RECOMMENDATIONS

This is the concluding chapter of the study. The chapter is divided into three sections. Summary, conclusions & recommendation, in this chapter, we summarize the study in brief. In the last section of this chapter, some recommendation have given, which are useful to stakeholders & to concerned companies as well. They can use these recommendations to take some correlation actions to take decision.

5.1 SUMMARY

Nepal is a small developing countries having low economic status. Due to mass Poverty, weak industrial status, geographical complexities, technological backwardness, the economic development of this country is not so desirable. Even if having many attractive natural resources, they are not used fully & properly.

Today is an insurance era. The number of insurance & financial institutions is increasing now days. There is high & intense competition among these institutions in the market. They should be perfect & complete to compute with other. They are competing in a limited market area by attracting the customers with their products & services. However, they are assisting the govt. by various ways such as contributing income tax, revenue, providing employment opportunities, facilitating economic development etc. That is why, financial institutions are regarded as backbone & yardstick for the overall development of society & ultimately for the country. The govt. revenue is becoming enlarged by the increment of number of insurance & financial institutions.

The govt. of a country requires sufficient fund to fulfill its responsibilities towards its people & nation. The basic needs like food, health, education, securities are to

be fulfilled & other needs like administration, social welfare & foreign trade are to be considered by the nation. Nepal is very much conscious about the poverty, unemployment, heavy dependence on agriculture, low income level & educational problems. So it is the prime concern towards the rapid economic growth & Nepal is not self-controlled economic system to upgrade into living standard of the people. The government has to spend a lot of money to achieve the maximum national objectives.

From the ancient time to modern age government tried to fulfill its responsibilities by spending a lot of amount towards its people. In the ancient time, the government used to manage its fund from the internal sources & spent the huge amount of money to protect the nation from other nations. But the time has been changed now & the nation should raise fund for the war. In the modern days every government invests its revenue for the social welfare. On the one side the government is very careful & serious towards its social responsibilities & on the other side people are too much concerned towards the nation's activities. People contribute some percentage of their income to the government as the tax. The government reinvests that amount for the social welfare like education, security, administration & other development.

Now to fulfill the high demand of social welfare & to meet the growing public expenditure, the government must have sufficient fund. The government has two alternatives to raise the fund. They are: External sources & internal sources. External sources of fund are foreign grants & loan & it is received from the foreign countries & international organizations. External sources are more important for undeveloped & underdeveloped countries. It is used for economic development, reconstruction, foreign exchange, crisis management & productive use. The main drawback of the external source is inconvenient & uncertain & which is to be refund after a certain time. So for the healthy economic development it is better to

accumulate the fund from internal sources & mobilize properly so that we should not be depended on the foreign countries & organizations. Internal sources of fund are own sources within the nation which is certain, convenient & reduce the dependency on the foreign countries. External sources of fund reduce the liquidity & increase the inflations. So, internal sources are more important not only for financing necessary funds but also for the mobilization of internal revenues. Nepal is being unable to mobilize its internal sources properly & effectively which is reflected clearly in the today's Economic. On the other hand, sources of public revenue can be classified into two types. They are: (a) Tax sources & (b) Non- tax sources. Tax sources include the amounts, which is compulsorily contributed by the tax payers to the government. Non-tax revenue includes fees, special assessment, gifts & grants, fines & penalties etc. collected by the government. Government imposes the non-tax income according to the necessary. So it is uncertain & inconvenient. Income Tax can be defined as the contribution from people & business organization to the government from their Income either by service or from business without taking the corresponding or direct benefit. Tax is the most important source of revenue because it occupies the very big part of total revenue & income tax.

Tax evasion is the way of reducing tax liabilities by illegal means. Similarly, the tax evasion is the process of saving taxes without breaking the law. It is art of doing tax without actually breaking the law. Finally, tax planning is the planning of future activities that affect tax with an objective of reducing tax liability. It is a legal practice of making scheme whereby the tax payer uses all concessions provided to him/her under tax law. The incentives are as the motivating factor for the improvement of the organization. It is a kind of financial assistance & becoming an integral part of tax system for accelerating the peace of industrialization especially in developing countries. Tax incentive related to the management affairs in regard to tax. Income Tax is an administered directly by

Inland Revenue Department. A sound system of the administration is prerequisite to access the taxation policies of the govt. Even if the insurance & financial institutions are growing rapidly, they are not contributing income tax significantly. In case of commercial insurance, less than 1% to the income tax is occupied by them. By this fact, it can be realized that the insurance sectors have poorly contributing income tax due to having insufficient amount of earned profit.

The insurance sectors should be fostered & need to make strengthen for the sake of obtaining sufficient amount of income tax from them. For this, the facilities & incentive provided to them should be enlarged to maintain their quality improvement & stability. The quality improvement in insurance sectors is essential for the sound & proper economic development of a country. They assist & ensure the different economic prospects & prosperity. Therefore, without any doubt the powerful of insurances & financial institutions & their development are preferred. In Nepalese scenario, it is necessary to be adopted effective rules & regulations, to be strictly monitored & taking actions by RBS, to be extended the incentive & facilities provided to insurance sectors so as to foster insurance sectors.

5.2 Conclusion

The research has concerned subjected to Contribution to the Income Tax Revenue from Nepalese Insurance Company with Special Reference to Nepal Life Insurance Company Ltd. & its status on government revenue. Income Tax is regarded as the important source of govt. revenue. It is the most imperative instrument for the internal resources mobilization of the country. The research has conducted with the major objective of highlighting revenue & analyzes about the income tax liability of NLIC. Similarly, evaluate the effectiveness of income tax in regard to build up govt. revenue & assign suggestions & recommendations to foster the insurance sectors are other objectives too. The research has carried out by using different statistical data, opinion survey & different tools. This research has carried the five

years of study period.

The following data are the main conclusions drawn from this study.

- J The percentage of tax revenue on total government revenue are 81.15, 83.64, 89.77, 89.34 & 86.64, in the year 2007/008, 2008/009, 2009/010, 2010/011 & 2011/012 respectively. The average percentage over the study period is 86.20.
- J The percentages of corporate tax on total income tax are 63.73, 72.02, 59.74, 57.87, & 59.49 in the fiscal year 2007/008, 2008/009, 2009/010, 2010/011 & 2011/012 respectively. The average percentage of corporate tax on total income tax is 63.73% over the study period.
- J The corporate tax on government revenue. In the fiscal year 2007/008, 2008/009, 2009/010, 2010/011 & 2011/012 percentage of corporate tax on government revenue are 12.64, 14.02, 11.35, 12.06 & 12.48 respectively. The average percentage of corporate tax on government revenue is 12.5% over the study period.
- J The percentage of corporate tax collected from insurance companies on total govt. revenue are 0.36, 0.34, 0.32, 0.34, & 0.53 in the fiscal year 2007/008, 2008/009, 2009/010, 2010/011 & 2011/12 respectively. The average percentage is 0.38%, similarly the percentage of corporate tax collection from insurances on total tax revenue are 0.45, 0.40, 0.36, 0.38 & 0.88 in the respective fiscal year. The average percentage is 0.44% over the study period.
- J The percentages of income tax collection from NLIC to total revenue are 0.0204, 0.0354, 0.0175, 0.0025 & 0.0188 in the fiscal year 2007/008, 2008/009, 2009/010, 2010/011 & 2011/012 respectively. The average percentage of income tax is 0.0188%. The trend of percentages of income

- tax collection from NLIC to total govt. revenue in the fluctuation way in all the years except the fiscal year 2011/012.
- J The percentages of income tax from NLIC to total tax revenue are 0.025, 0.042, 0.0195, 0.0028, & 0.0207 in the fiscal year 2007/008, 2008/009, 2009/010, 2010/011 & 2011/012 respectively. The average percentage is 0.022%. By studying trend analysis, it can be observed that it has been following fluctuation trend in all the years except the fiscal year 2011/012.
 - J The percentages of income tax from NLIC to total income tax revenue are 0.112, 0.182, 0.092, 0.12, & 0.0857 in the fiscal year 2007/008, 2008/009, 2009/010, 2010/011 & 2011/012 respectively. The average percentage of income tax in total tax revenue is 0.097. By observing the trend study it can be found that it has been following fluctuation trend in all except the fiscal year 2011/012.
 - J The percentages of income tax from NLIC, to corporate tax are 0.161, 0.25, 0.154, 0.021 & 0.144 in the fiscal year 2007/008, 2008/009, 2009/010, 2010/011 & 2011/012 respectively. The average percentage of corporate tax is 0.1465. By observing the trend analysis it can be out line outlined that it has been following fluctuation trend in all except the fiscal year 2011/012.
 - J The percentage of income tax from NLIC to tax collection from insurance companies are 5.602, 10.437, 5.405, 0.75 & 3.35 in the fiscal year 2007/008, 2008/009, 2009/010, 2010/011 & 2011/012 respectively. The average percentage of income collection is 5.465% over the study period.
 - J The coefficient of relationship between EBIT of NLIC is + 0.0003965. It reflects that there is positive relationship between tax paid & EBIT of NLIC. By observing probable error it can be outlined that there is significant relationship between income tax paid & EBIT of NLIC.
 - J The collection of income tax is not so satisfactory even if is regarded as the suitable means of rising govt. revenue in the context of Nepal.

-) Increasing habit of tax evasion, ineffective income tax administration & mass poverty & low income level are the major reasons behind low contribution of income tax.
-) The exemption & deduction granted by act are not appropriate & should be adjusted.
-) The current income tax administration is not activating significantly & is not effective.
-) Income Tax system of Nepal has not been reached at the satisfactory level yet.
-) Conscious & honest tax payers; moral & honest tax officer & effective tax administration are needed for the effectiveness of Income tax in Nepal.
-) Progressive income tax is necessary to increase tax consciousness & raising the govt. revenue.
-) The fine & penalty under the Nepalese tax system are not reasonable & should be increase to discourage tax evader & illegal activities.
-) Vague provision in income tax law, expectation of illegal incentive by the tax personnel & lack of co-operation by the tax administrator are the major problems faced by the taxpayer while paying income tax.
-) Income Tax contributed by insurance sectors is satisfactory but not effective significantly.
-) The income charged to insurance sector is suitable.
-) The insurances are executing the concept of tax planning a bit.
-) It is necessary to be adopted effective rules & regulations; to be strictly monitored & taking actions by RBS & to be extended the incentives & facilities provided to insurance sectors primarily to foster the insurance sector in Nepalese scenario.

5.3 Recommendations.

Based on the major findings of this study, some recommendations have been made so as to overcome some shortfalls regarding income tax aspects. Definitely contribution of income tax plays significant role to national revenue of a country. But, in the context of Nepal, contribution of income tax is not significant. Primarily, increasing habit of tax evasion, inefficient income tax administration & mass poverty are the main caused behind this fact. That is why the following methods should be strongly adopted to make income tax effective.

-) The public should make responsive with supportive awareness program through different media & face interaction.
-) The income tax administration should make transparent, efficient & effective & need to be reformed to active promptness in work.
-) The reward & punishment system should be strongly implemented by launching effective income tax laws & act so that nobody can avoid tax & tax evasion activities.
-) The govt. of Nepal should be centralized to reduce mass poverty by commencing different programs.
-) The appropriate tax rate should be charged & maintain proper exemption & deduction limit as per the charge requirements. The level of effectiveness of income tax in Nepalese scenario is low. To maintain sound & appropriate effectiveness of income tax, the following tasks should be undertaken.
-) The taxpayer should make him/her self conscious & honest.
-) Not only tax payers but also tax officers should be morally fit & honest him/herself. They should not be excepted illegal incentives by taxpayers.
-) Clear act, rules & regulation should be adopted.
-) The tax administrators should be absolutely cooperative & helpful towards tax Payers.
-) The process of paying tax should make prompt with the removal of

unnecessary time. Unquestionably, the advancement in the insurance sectors is essential for the sound economic development. So, asking sectors are regarded as backbone of economic prospects. On the other hand, the insurance sectors are contributing income tax to the government which is comparatively highest among tax are charged to others. That is why to promote & foster the insurance sectors, the following recommendation are suggested to the basis of this study.

- J The incentives & facilities provided to insurance sectors are to be enlarged so as to assure their development & extend their approach in all areas.
- J The merging process should be implemented in the insurance sectors in a wide Basis to make them well-built in the form of capital, comparativeness, market Coverage, strategic planning etc.
- J The effective monitoring & prompt auctioning system should be executed by RBS to all insurances & financial institutions for the aim of maintaining balance environment in the insurance sectors.
- J The effective rules & regulation are needed to implement by the govt. so that it can be make insurance sectors dynamic & fruitful. In case of NLIC, the following recommendations are suggested.
- J The percentage of income tax contributed by NLIC has been decreased in the Year 2011/012. It shows that the necessary of improving overall operating efficiency. In deed improvement in overall mechanism ensures more profit & having high level of Income tax to the government.
- J The slogan "Our business is to understand your business" has been carrying by NLIC that is why, it has to conduct its business in a wide basis by providing distinct product schemes with the coverage to huge market.
- J The area of NLIC is limited in city area only. So, it needs to remote & urban areas where it can take potential business ability.
- J The taxpayers should be highly literate which helps him/her to understand

the tax law & act. The taxpayer should not try to deceit the tax.

- J Income Tax management has its lengthy process of income tax assessment. Tax payers never want the lengthy & time consuming of assessment. That is why the management has tried to make it faster & short process of income tax assessment.
- J Tax system should be simple, fair, equitable, efficient & effective tax administration has to motivate the taxpayers to pay tax so that they have to give knowledge about tax to the public.
- J For the convenience of taxpayer the existing exemption limit should be adjusted according to inflationary situation of the country.
- J Tax personnel should be encouraged, punished & transferred on the basis of their work & experience. Regular & effective training system, reward, prize & punishment system should be established for the effective personnel management.
- J Effective public participation is necessary to minimize the income tax evasion. Tax authority should do continuous effort in order to develop the taxpayer' positive attitude towards taxation.
- J Clear provision should be made in case of deduction. All the item of deductions should be clearly defined in the act.
- J Income Tax policy should be formulated according to the economic policy of the country. Income Tax policy should be revised timely.

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Appendices

Appendix-1

CASH FLOW STATEMENT

(In Rupees)

Particulars	2007/008	2008/009	2009/010	2010/011	2011/012
Cash flow from operating activities:					
Premium Income	962,937,885	1,348,078,251	1,974,466,181	2,320,696,993	3,201,160,522
Late Fee Income	7,662,344	10,541,782	14,202,484	18,571,727	23,649,737
Re-insurance Income	-	-	-	-	-
Re-insurance Commission Income	-	3,129,548	3,469,185	5,820,016	4,648,622
Other Direct Income	-	-	-	-	-
Claimed recovery from Re-insurer	-	188,967	6,004,901	27,172,243	28,012,350
Re-insurance Premium Paid	-6,511,248	-4,582,366	(43,789,817)	(78,118,034)	(100,319,227)
Re-insurance commission payment	-	-	-	-	-
Agent commission payment	-119,525,061	-177,735,092	-246,710,521	(268,660,844)	(287,554,356)
Medical examination fee payment	-2,444,864	-5,405,328	6,266,382	(3,760,710)	(5,264,824)
Death claim payment	-15,449,711	-19,597,006	-30,332,549	(66,666,120)	(100,794,322)
Maturity claim payment	-2,653,114	-5,667,645	-4,585,072	(16,311,533)	(99,765,714)
Partial-maturity claim payment	-42,798,997	-52,437,568	-31,307,930	(41,262,796)	(71,497,663)
Surrender value claim payment	-28,874,939	-40,429,473	-51,209,077	(73,070,815)	(91,814,750)
Other claim payment	-14,000	-10,000	-865,062	(1,777,978)	(1,656,263)
Service fee payment	-9,616,115	-13,372,634	-12,849,998	(19,744,662)	(21,999,903)
Other direct expenses				-	-
Management expenditure payment	-75,976,493	-124,349,429	-216,461,753	(263,913,723)	(353,783,578)
Staff Bonus Expenses				-	-
Income Tax Paid	-21,392,703	-49,530,857	-31,195,616	(4,960,138)	(43,947,516)
(increase)/decrease in current assets	-61,783,698	-3,645,515	-57,588,128	(102,989,494)	5,501,543
(increase)/decrease in current liabilities	64,761,937	59,820,542	29,765,190	33,471,464	(56,881,383)
Net Cash Flow from Operating activities (A)	648,321,223	924,996,177	1,294,746,036	1,464,495,596	2,027,693,275
Cash flow from Investing Activities:					
(increase) Decrease in fixed assets	-50,684,972	-92,066,050	(112,332,463)	(10,609,248)	(18,264,666)
(Increase) Decrease in investment in government guaranteed securities.	-35,928,730	5,693,644	2,126,963	(1,966,350,814)	(182,875,464)
(increase)Decrease in investment in fixed deposit of bank and financial institutions.	-459,875,000	-1,010,200,000	(1,547,525,000)	(1,122,300,000)	(1,190,500,000)
(increase) Decrease in investment in other deposit of bank and financial institution.	185,918,937	5,792,752	108,077,430	(59,888,257)	(674,027,745)
(Increase)/Decrease in Equity Share Investments	-108,732,793	11,432,243	(69,106,423)	(44,134,596)	(23,064,500)
(increase) Decrease in investment in preference share/debenture	-24,170,000	-59,847,923	-	26,740,000	(47,310,000)
(increase)Decrease in other investment(Premium On Investment)	1,750,000	-1,000,000	(8,998,440)	9,590,080	(7,108,640)
(increase)Decrease in loans against insurance Policy	-56,844,259	-73,969,505	(96,532,884)	(168,393,272)	(239,041,845)
(increase) Decrease in other loans and advances	-	-5,305,263	(12,569,273)	(16,099,678)	(45,926,993)
Interest Income From Investment	137,988,022	204,456,019	342,524,900	623,884,065	862,978,817
Dividend Received	236,128	306,317	932,013	9,025,059	8,228,230
Rental income	-	-	27,948,560	41,480,691	54,676,209
Interest On Policy Loan	6,788,199	29,308,751	16,339,222	25,595,511	39,796,461
Others Indirect income	7,275,786	79,079,124	358,821	251,496	333,591
Net Cash Flow from Investing Activities (B)	-396,278,682	-906,319,891	(1,348,756,574)	(2,651,208,963)	(1,462,106,545)

Cash flow from Financing Activities					
Amount received from Shares	-	-	79,035,695	-	-
(increase) Decrease in outstanding debt.	-	-	-	-	-
Increase/Decrease in short term debt	-234,600,000	-	-	1,166,264,046	(316,264,046)
Interest Paid on Loan and Debt	-3,712,465	-	-	(21,148,013)	(46,660,140)
Dividend paid	-	-2,631,580	-	-	-
Net cash flow from Financing Activities (C)	-238,312,465	-2,631,580	79,035,695	1,145,116,033	(362,924,186)
Net cash flow from overall activities of this year = (A+B+C)	13,730,076	16,044,706	25,025,157	(41,597,334)	202,662,544
Opening Balance of Cash & Bank Balance	69,997,526	83,727,602	99,772,308	146,592,007	104,994,673
Closing Balance of Cash & Bank Balance	83,727,602	99,772,308	146,592,007	104,994,673	25,0483,275

Appendix-2

REVENUE INCOME

(In Rupees)

Particulars	2007/008	2008/009	2009/010	2010/011	2011/012
Income :					
Net Premium	956,426,637	1,343,495,886	1,911,955,764	2,255,305,684	3,080,489,121
Re-insurance commission Income	-	3,129,548	3,469,185	5,820,016	4,648,622
Investment loan and other income	131,186,193	260,864,917	368,988,400	650,922,649	929,979,856
Income from policy loan	5,724,913	28,048,692	27,275,060	41,747,063	63,555,559
Other direct income	7,662,344	10,541,782	14,202,484	18,571,727	23,649,737
Provision for outstanding claims at the beginning year	13,419,182	19,378,363	17,705,201	43,720,921	483,792,258
Provision for unexpired risk to be paid at the beg. year	-	-	-	-	100,638,155
Total Income (A)	1,115,049,269	1,665,459,188	2,343,596,094	3,073,745,916	4,250,740,308
Expenditure :					
Claim payment (Net)	83,831,580	119,625,887	138,028,010	175,122,558	345,896,352
Agent Commission	119,525,061	177,735,092	259,692,057	278,943,525	345,987,459
Medical fee	2,444,864	5,405,328	6,266,382	3,760,710	5,264,824
Re-insurance commission expenses	-	-	-	-	-
Service charges (Net)	9,616,115	13,372,634	19,113,877	22,552,317	30,804,546
Others Direct Expenses	-	-	-	-	-
Management expenses	71,300,967	110,945,626	226,758,668	287,062,240	389,864,317
Income Tax (Index 1)	19,224,617	46,805,281	1,090,791	4,959,608	43,947,516
Provision for outstanding claim to be paid at end of year	19,378,363	17,705,201	46,439,686	48,379,258	56,509,249
Provision for unexpected risk to be paid at the end of year	-	-	57,657,855	1,000,381	232,066,314
Total Expenditure (B)	325,321,567	491,595,049	755,047,326	920,818,372	1,424,588,395
Surplus transferred to life fund (A-B) [EBIT]	789,727,702	1,173,864,139	1,588,548,768	2,128,048,695	2,743,184,387
Surplus / (Deficit) transferred to P/L A/C	-	-	(4,533,477)	24,878,850	82,967,226

(Source: www.nlic.com.np)

Appendix-3

BALANCE SHEET

Capital and Liabilities	2007/008	2008/009	2009/010	2010/011	2011/012
1.Paid Up Capital	250,000,000	300,000,000	375000000	375000000	3750,000,000
2. Reserve & Surplus	60,900,936	16432266	34827639	36854186	359740609
3. Life Insurance Fund	2,761,483,246	3932237462	5525319707	7653368702	9782510185
4. Catastrophe Reserve					
5. Long Term loan & Borrowing					
Sources	3,072,384,182	4248669728	5935147346	8065222588	10517250794
Uses					
6.Fixed Assets (Net)	235,052,699	327118749	403402868	380065468	365591278
7. Long term Investment	2,427,730,041	3481646849	2029430870	6275400386	7869906526
8. Policy Loan	137,295,385	211264890	307797774	476191046	715232891
9. Other long term loan	18687926	23993189	36562462	52528217	86476270
Current Assets, Loans and advances:					
10. Cash and Bank Balance	83,727,602	99772308	146592007	104994673	250483275
11. Short term Investment	170,954,562	165161810	3119024380	2122161527	2541725382
12. Other short term investment	841,213	1276425	1388544	1522467	13501407

13. Other Assets	88,871,779	92205482	211404844	341179837	492281038
Total (A) (10+11+12+13)	192,128,520	358416025	3478409775	2569858504	3297991102
Current Liabilities & Provisions:	-	-	-	-	-
14. Current Liabilities:	105,532,867	167026572	231288470	1432380416	1193153639
15. Provision for Unexpired Risk	-	-	57657855-	100038155	206314132
16. Claims Payable	19,378,363	17705200	46439686	48379258	56509254
17. Other provision			20892246	116007525	404332648
Total (B) (14+15+16+17)	124,911,230	184731772	356278257	1696805354	1860309673
18. Net Current Assets C = (A-B)	219,483,927	173684253	3122131518	873053150	1437681429
Particulars	2007/008	2008/009	2009/010	2010/011	2011/012
Provisional Expenses (Extent not written off)	34,134,205	30,961,798	27,785,906	31,546,046	42,362,400
Income tax on this year	21,392,703	49,535,358	-	4,960,138	43,947,516
20. Loss Transferred from Profit and Loss Account	-	-	8035948	76438275	-
Income tax from previous year	-	550,218	1,090,791	-	-
Total :	3,072,384,182	4,248,669,728	5,935,147,346	8,065,222,588	10,517,250,794

(Source: www.nlic.com.np)

3. For allocates of income tax total (1+2)	21,392,703	49,530,857	1,090,791	4,960,138	43,947,516
Income tax adjustment	-	2,725,576	30,104,825	(2,026,547)	(1,781,235)
Allocations:					
4. From Profit & loss account (A+B)	2,168,086	2,725,576	30,104,825	(2,026,547)	(1,781,235)
A. input income tax from allocate	-	-	-	530	-
B. Income tax adjustment	-	-	30,104,825	(2,026,017)	(1,781,235)
5. Sawadhik Jeewan Beema	16,812,147	41,214,038	979,933	4,139,671	35,377,730
6. Aghrim Vuktani	2,412,470	5,349,788	110,858	486,287	3,575,693
7. Jeewan Sahara	-	237,777	-	331,640	4,958,055
8. Jeewan Sarathi	-	-	-	2,010	36,038
9. Samanay Maydhi	-	3,678	-	-	-
Total (4+5+6+7+8+9)	21,392,703	49,530,857	31,195,616	4,960,138	43,947,516

Appendix-4

CALCULATION OF TOTAL INCOME TAX

(In Rupees)

(Source: www.nlic.com.np)

Appendix-5

Balance Sheet and Income Statement

Calculation of correlation coefficient between EBIT & Tax paid by NLIC

(Rs. in

millions)

Fiscal Year	EBIT (X)	Income Tax (Y)	XY	X ²	Y ²
2007/008	789.728	21.393	16894.6511	623670.314	457.660449
2008/009	1173.864	49.431	58025.27138	1377956.69	2443.423761
2009/010	1588.548	31.2	49562.6976	2523484.748	973.44
2010/011	2128.048	4.961	10557.24613	4528588.29	24.611521

2011/012	2743.184	43.948	120557.4504	7525058.458	1931.426704
Total	8423.372	150.933	255597.3166	16578758.5	5830.562435

We know that

$$r = \frac{N \sum xy - \sum x \sum y}{\sqrt{N \sum x^2 - (\sum x)^2} \sqrt{N \sum y^2 - (\sum y)^2}}$$

Particulars	2007/008	2008/009	2009/010	2010/011	2011/012
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$$= \frac{5 \times 255597.3166 - 8423.372 \times 150.933}{\sqrt{5 \times 16578758.5 - (8423.372)^2} \sqrt{5 \times 5830.562435 - (150.933)^2}}$$

$$= \frac{191618984.125863}{483268319496.4347}$$

$$= 0.0003965$$

$$\text{Again, P.E.} = \frac{0.6745 \times (1-r^2)}{N}$$

$$= 0.6745 \times (1-0.0003965) / 5$$

$$\text{PEr} = 0.3015$$

$$\text{Again, } 6 \times \text{PEr} = 6 \times 0.3015$$

$$= 1.8091$$

1. Income tax of this year	21,392,703	49,535,358	-	4,960,138	43,947,516
2. Income tax from previous year	-	559,218	1,090,791	-	-
3. For allocates of income tax total (1+2)	21,392,703	49,530,857	1,090,791	4,960,138	43,947,516
Income tax adjustment	-	2,725,576	30,104,825	(2,026,547)	(1,781,235)
Allocations:					
4. From Profit & loss account (A+B)	2,168,086	2,725,576	30,104,825	(2,026,547)	(1,781,235)
A. input income tax from allocate	-	-	-	530	-
B. Income tax adjustment	-	-	30,104,825	(2,026,017)	(1,781,235)
5. Sawadhik Jeewan Beema	16,812,147	41,214,038	979,933	4,139,671	35,377,730
6. Aghrim Vuktani	2,412,470	5,349,788	110,858	486,287	3,575,693
7. Jeewan Sahara	-	237,777	-	331,640	4,958,055
8. Jeewan Sarathi	-	-	-	2,010	36,038
9. Samanay Maydhi	-	3,678	-	-	-
Total (4+5+6+7+8+9)	21,392,703	49,530,857	31,195,616	4,960,138	43,947,516

Appendix-6
Questionnaire

Name:

Occupation:

Designation / position:

Office/Organization:

Q.N. 1 In your opinion, is satisfactory contribution of income tax to national revenue of Nepal?

a. Yes []

b. No []

Q.N. 2 What are the major reasons for low contribution of income tax to national revenue?

- Defective income tax.
- Mass poverty & low income.
- Increasing habit of tax evasion.
- Inefficient income tax administration.
- In appropriate income tax

Q.N 3 In your opinion, which income tax rate is suitable for Nepal?

- a. Progressive
- b. Proportional
- c. Regressive.

Q.N 4 Do you agree that Nepalese tax administration is effective to raising govt. revenue?

a. Yes []

b. No []

Q.N. 5 In your view, is income tax contributed by insurance sectors effective to build up govt. revenue.

a. Yes []

b. No []

Q.N. 6 In your opinion, is facilities & incentive granted to insurance sectors effective under ITA 2058?

a. Yes []

b. No []

Thank you