

CHAPTER – I

1. INTRODUCTION

1.1 Background of the Study

There is no limitation of human needs. The necessities of human are increasing for different types of goods and services. As a result, many organizations and business houses have been opened and are competing to provide superior products and services to the customers. It is not easy to produce goods and services without capital. Among four means of production, capital is one of the four components of production. Capital formation was very difficult in those days when there were no any formal institutions established for financing money. However, in the modern age it is very easy due to establishment of many financial institutions. The first money transaction institution in the world was commercial bank that was established in Venice of Italy in 1157. Simply speaking, therefore, commercial bank is known only as a true bank to almost all people.

A commercial banking is one of our oldest industries. The first bank was organized in 1782 before the adoption of our federal constitution and many of the banks that were organized in 1800 are still in operation¹.

Commercial bank is defined in the Commercial Bank Act, 2031,B.S. as "A commercial bank is bank which deals in exchanging currency, accepting deposit, giving loans and doing commercial transactions."

Commercial banks are very important for the development of national economy. They accept public saving as deposits and advance them as loans to the persons, parties or business organizations that require capital.

¹Reed Cotter, Gill & Smith (1976) "Commercial Banking" p.1

The saver is rewarded by the payment of interest on these savings which are safe and in highly liquid form. Their pooled funds are made available to businesspersons who may use them for the expansion of their productive capacity and to consumers for such items as housing and consumer goods². Therefore, their primary functions are accepting deposits from public and firms and to extend credits to worthy borrowers.

Bank lending is very important to the economy for it makes possible the financing of agricultural, commercial and industrial activities of the nation. Bank loans through manufacturers to make possible the purchase of raw material and machinery and the employment of labor, which can produce goods demanded by industry, government and the consumer in time³. Comparative cost and national endowments have made trade imperatives within the goods without obtaining money nor buyer can remit money without receipt of goods⁴. Similarly, many big concerns have many branches in many countries of the world. That means the world is going to multinational trade. This is possible due to commercial bank's services of financing of foreign trade as issue of letter of credit, exchanging foreign currencies.

Bank is an establishment for the custody of money received from or on behalf of its customers, its essential duty is to pay their drafts on it, its profit arises from its use of the money left unemployed by them.

Thus, a bank means a financial institution established for the transaction of money. It deals with money and credit activities. It accepts deposits from public and lends money to the borrower as a loan. It also creates credit and exchanges the foreign currency.

² Ibid, p.4

³ Ibid, p.5

⁴ Dahal Sarita, and Dahal Bhuban; "A Hand Book to Banking 2056" p.7

It is established to fulfill certain objectives such as to facilitate public economic interest, to advance loans for the development of agriculture, industries and trade and to provide banking services to the public.

Banking institutions are the first organ of financial market. The history of modern banking is not so long in Nepal but we find the existence of traditional banking system from ancient days.

In Nepal, modern banking was germinated with the establishment of Nepal Bank Limited (NBL) in 1973 A.D. (1994 B.S.), the first commercial bank in the country. It provided important assistance to public and government in collecting deposit and disbursing credit. It extended its transaction in other cities of the country. Then, Nepal Rastra Bank (NRB) act was issued in 2012 B.S. After that Nepal Rastra Bank was established in 2013 B.S. After the establishment of NRB, Nepal Bank Limited, which was taking the responsibility in the form of government bank became pure commercial bank.

In order to monitor the rural areas and to bring fastest growth in the field of industry, commerce and business, Rastriya Banijya Bank, the second commercial bank was set up in 1966 A.D. (2022 B. S.) in the full ownership of government. It extended its branches all over the country. Until 1983 A. D. any two commercial banks were operating in the country. In the process of financial reform initiated in early 1980s, a policy to allow joint venture banks with external collaboration was adopted in 1984 so as to attract modern technology and management into the banking sector. As a result Nepal Arab Bank Limited the first joint venture bank was established in 1984 A. D. subsequently, the Nepal Investment Bank Limited, Nepal Standard Chartered Bank Limited were also set up in 1986 and 1987 A. D. respectively with the establishment of the Himalyan Bank Ltd, Nepal SBI Bank Limited and Nepal Bangladesh Bank limited in 1993, Everest Bank Limited, Bank

of Kathmandu Limited and Nepal Credit and Commence in 1994, 1995 and 1996 respectively.

With the establishment of the Lumbini Bank Limited Nepal Industrial and Commercial Bank Limited in 1998, Machhapuchhre Bank Limited, Kumari Bank Limited in 2001, A.D. Laxmi Bank Limited, Siddhartha Bank Limited in 2002, A.D., Global Bank Limited in 2007, A. D. , Citizen Bank International Limited , Prime Bank Limited , Sunrise Bank Limited and Bank of Asia Nepal Limited in 2007, A. D. In this way Development Credit Bank Limited, Nepal merchant bank (NMB) limited and Kist Bank Ltd. upgraded as commercial Bank from 2008/05/25, 2008/06/02 & 2009/05/07 (A.D.) respectively. Development Credit Bank up graded in commercial Bank (class A) from Development Bank (class B), Nepal Merchant Bank (NMB) Limited up freed in Commercial Bank (class A) from Finance company (class C) & Kist Bank Ltd. up freed in Commercial Bank (class A) from Finance company (class C). Thus by mid May 2009, A. D. tag number of commercial banks operating in the country reached 26.

Though the banks are increasing in number, the banking service per person is very low. Due to various problems of Banking in Nepal; banks are not able to perform activities as expected. Those problems are strong unorganized sector and red taping in banks weak position and unhealthy competition, government interference, lack of research, training and development, weaknesses of Nepal Rastra Bank, lack of coordination, lack of trained manpower fluctuating policy of NRB, centralization of banks only in urban areas, lack of reform programs etc.

Commercial banks play vital role for the economic upliftment of least developing countries (LDCs) like Nepal. It performs various activities like collection of deposit for capital formation, investment in industries, business, agriculture and consumers, investment for employment generation, work as subordinate of monetary policy etc. After 2040 B.S. joint venture banks came into

existence. Then joint venture banks are increasing in number in urban areas. The growth of commercial Banks in Nepal started from Nepal Bank Limited, Rastriya Baniya Bank, Agricultural Development Bank to Joint Venture Banks. Generally it is observed that commercial banks are doing progress not only in quantitative manner but also in qualitative front. Extension of branches and sub branches in the various parts of the country is the indication of quantitative progress whereas foreign exchange, export financing, internal payment, guarantee, management reform, computerization etc., are the indicators of qualitative progress.

Rural area covers 80% part of the country. The commercial banks are extending their branches only in urban areas but to open branches in rural areas is a very challenging part. Since last few years, security threat has been increasing in commercial banks operated in rural areas. There is still the possibility of establishment of some joint venture banks in urban areas of Nepal. Nepal Rastra Bank is making deep study to know the number of commercial banks needed in Nepal. However, the situations for controlling the number of commercial banks have not come yet because in a competitive market, those banks that cannot compete will be closed automatically. A constructive environment should be created so that the trend of opening banks only in the capital gets discouraged and banks will be established all over the country.

In Nepal, commercial banks are not able to extend their branches in comparison to the ratio of their quantitative growth. 105 branches of RBB and NBL were established until 2030 B.S., after 10 years or in 2040 B.S. they extended their branches to as many as 325. But during 2066, it is observed that commercial banks rose to 26 in number but their branches only to 619 commercial banks are not expanding their branches unlike NBL and RBB because of the various reasons such as due to low risk and high profit in urban area, security threat in rural areas, lack of inspiration to establish commercial banks in rural areas and due to narrow

commercial business and financial transaction in rural areas. The economic growth rate of the country has been adversely affected due to deteriorating situation of law and order, frequent strikes and bands in the country. Since the banking sector is one of the major components of the whole economic system, it cannot remain free from such unfavorable activities. The banking sector has been confronting big challenges to attain the expected return due to high liquidity, pressure on interest spread, continuous lack of however in the country like Nepal; it is matter of pride that banks are growing day by day. Despite various problems faced by banking their operation, they are making an enormous effort to up lift the economy of Nepal. Commercial and Joint Venture banks operating presently in Nepal are enlisted below.

Table 1.1

LIST OF LICENSED COMMERCIAL BANKS OF NEPAL

S.No.	Names	Operation Date (A.D.)	Head Office
1	Nepal Bank Limited	1937/11/15	Kathmandu
2	Rastriya Banijya Bank	1966/01/23	Kathmandu
3	Agriculture Development Bank Ltd.	1968/01/02	Kathmandu
4	NABIL Bank Limited	1984/07/16	Kathmandu
5	Nepal Investment Bank Limited	1986/02/27	Kathmandu
6	Standard Chartered Bank Nepal Limited.	1987/01/30	Kathmandu
7	Himalayan Bank Limited	1993/01/18	Kathmandu
8	Nepal SBI Bank Limited	1993/07/07	Kathmandu
9	Nepal Bangladesh Bank Limited	5/6/1994	Kathmandu
10	Everest Bank Limited	1994/10/18	Kathmandu
11	Bank of Kathmandu Limited	1995/03/12	Kathmandu
12	Nepal Credit and Commerce Bank Limited	1996/10/14	Siddharthanagar,Rupendehi

13	Lumbini Bank Limited	1998/07/17	Narayangadh,Chitawan
14	Nepal Industrial & Commercial Bank Limited	1998/07/21	Biaratnagar,Morang
15	Machhapuchhre Bank Limited	2000/10/03	Pokhara, Kaski
16	Kumari Bank Limited	2001/04/03	Kathmandu
17	Laxmi Bank Limited	2002/04/03	Birgunj, Parsa
18	Siddhartha Bank Limited	2002/12/24	Kathmandu
19	Global Bank Ltd.	2007/01/02	Birgunj, Parsa
20	Citizens Bank International Ltd.	2007/6/21	Kathmandu
21	Prime Commercial Bank Ltd	2007/9/24	Kathmandu
22	Sunrise Bank Ltd.	2007/10/12	Kathmandu
23	Bank of Asia Nepal Ltd.	2007/10/12	Kathmandu
24	Development Credit Bank Ltd.	2001/01/23	Kamaladi, Kathmandu
25	NMB Bank Ltd.	1996/11/26	Babarmahal, Kathmandu
26	Kist Bank Ltd.	2003/02/21	Anamnagar,Kathamandu

(Source:www.nrbreport)

The principal functions of commercial banks are listed below.

1. To accept deposit.
2. To provide loans and advance.
3. To provide agency functions.
4. To carry out utility functions.

Thus commercial banks perform above function. They are profit-oriented entities. They provide various services to public, business organizations and government. They must pay income tax out of their net profit. Therefore, any banks which is established under the Commercial Bank Act, 2031 and Company Act, 2053, is the corporate taxpayer to the government.

Table 1.2
Resource Gaps in Nepalese Finance. (1999/00 to 2007/08)
(In million rupees)

Fiscal Year	Total Expenditure	Total Revenue	Resource Gap	Revenue + Foreign Grant + Foreign Loan	Fiscal Gap
1999/00	56118.3	27174.4	28943.9	48.42	51.58
2000/01	59579.0	31047.7	28531.3	52.11	47.89
2001/02	66272.5	34523.3	31749.2	52.09	47.91
2002/03	79835.1	42769.2	37065.9	53.57	46.43
2003/04	80072.2	48863.9	31208.3	60.68	39.32
2004/05	84006.1	52090.5	31915.6	65.44	34.56
2005/06	89442.6	55552.1	33890.5	62.11	37.89
2006/07	102560.4	61686.4	40884.0	60.15	39.81
2007/08	110889.2	67017.8	43871.4	60.44	39.56

Sources: Economic survey 2007/08, Ministry of Finance, Government of Nepal

The total revenue of the government includes tax revenue and non-tax revenue. Both are internal sources. It shows that the government revenue heavily depends on tax revenue. The total tax revenue is the sum of the direct and indirect tax revenue. Direct tax is very low than indirect tax revenue. Income tax is a part of direct tax, which is imposed by the government upon the person (individual, firms, companies) having taxable income. It is seen that developing countries like Nepal highly depends on indirect tax than direct tax due to low income earning capacity of people. That is why the proportion of the income tax in the direct tax is too low.

Table 1.3**Tax Paid Amount by Top Heavy Taxpayer Companies in Nepal.**

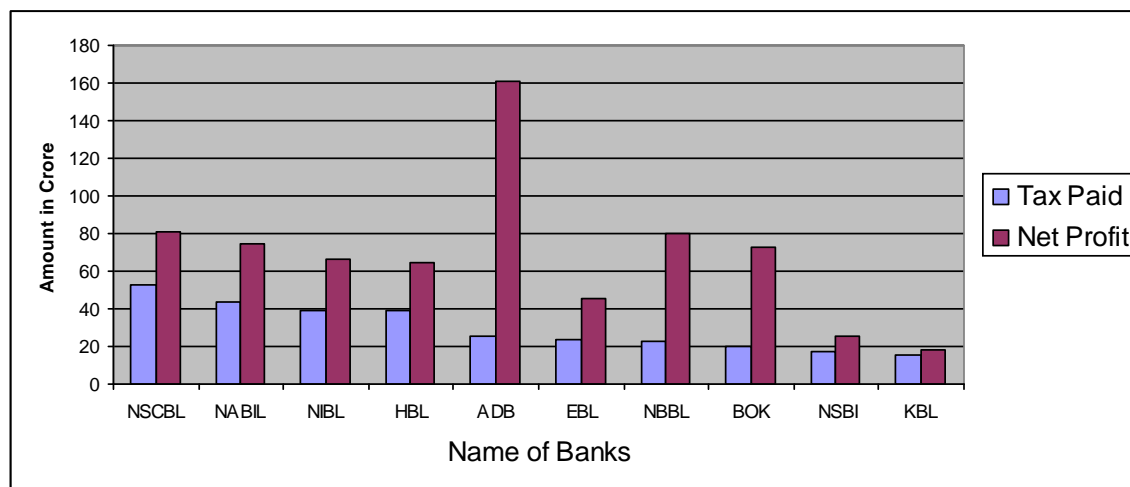
S.N.	Name of Companies	Total Tax Paid
1.	Nepal Telecom	6 billion, 38 crore, 18 lakhs
2.	Surya Nepal	1 billion, 10 crore, 74 lakhs
3.	Spice Nepal	62 crore 71 lakhs
4.	Gurkha Brewery	54 crore 16 lakhs
5.	Standard Chartered Bank	52 crore 73 lakhs
6.	Nabil Bank	43 crore, 91 lakhs
7.	Nepal Investment Bank	39 crore, 39 lakhs
8.	Himalayan Bank	39 crore, 32 lakhs
9.	Agricultural Development Bank	25 crore, 15 lakhs
10.	Nepal Civil Aviation Authority	25 crore, 10 lakhs
11.	Everest Bank	23 crore, 91 lakhs
12.	Uniliver Pvt Ltd	22 crore, 60 lakhs
13.	Nepal Bangladesh Bank	22 crore, 37 lakhs
14.	Bank of Kathmandu	20 crore, 16 lakhs
15.	Safety Trading	18 crore, 12 lakhs
16.	Nepal SBI Bank	17 crore, 23 lakhs
17	Kumari Bank	15 crore, 85 lakhs

Source: Naya Patrika Rastriya Dainik/Naya Artha, Sunday, 24th August 2008

There are 10 commercial banks in the list of 17 heavy taxpayer companies. This shows the relevance of tax planning to the Nepalese commercial banks. The net profit and total tax paid in Core during the year 2064/65 of top taxpayer commercial banks can be shown in the following graph.

Figure 1.1

Tax Paid Amount and Net Profits of Heavy Taxpayer Banks.



With the trend of heavy profit earning and heavy taxpaying, we might conclude that there must be extreme relevance of Tax Planning for the Nepalese commercial bank so that they can further increase their net profit by using tax planning tools.

1.2 Statement of the Problems

Nepal is one of the poorest countries of the world. It has trade deficit continuously from very past to present time. The balance of payment is also negative in same years. On the hand, the resource gap (shown as in table no. 1.1) is also seen each year in the government finance. The deficit of government budget is financed through loans from foreign countries and institutions. Consequently, the burden of loans to the Nepalese is increasing in each year.

Nepal is a developing country. Most of the developing countries of the world should make investments heavily on infrastructure and activities for balance social and economic development of the nation. That is why the government has made pressure to spend huge amount in education, health, physical construction, and so many areas. There seem to be three reasons contributing to strong pressure to spend. (Leaving aside general price changes): the growth of population: the emergence of strong local opinions and the emergence of strong world opinions⁵.

The resource gap (government revenue plus foreign bilateral and multilateral grants minus total government expenditure.) has been serious problem to the Nepalese government budgeting operation. The government has to incur huge amount as regular expenditure and development expenditure in each year. The required funds are raised from mainly two sources. One is the internal sources, which include tax, fees, fines, and penalties, special assessment and revenue from public enterprises, public borrowings, and government bonds and so on. The other is external source that is inflow of foreign funds as bilateral and multilateral grants and loans. Foreign capital inflow is made due to raised insufficiency of internal sources.

⁵Prest, A.R., (1985), Public Finance in Developing Countries, 3rd ed. p.7.

The developing countries like Nepal receive foreign assistance; it gets bilateral grants (aids) to meet the required funds. For financing the budget deficit, foreign loans are taken from different friendly countries (government) and international organization. Resource mobilization through foreign loans will not be favorable to any developing countries in future.

It increases government expenditure in future by repaying loans with interest. Consequently, such countries need foreign grants and loans in each subsequent year to meet the resource gap and budget deficit. For the partial solution of this problem of the country, it needs mobilizing resources through the internal resources. That means it must increase the revenue.

The income tax is a vital source of the government revenue. There is no obligation to the third parties by mobilizing resources through taxation. Therefore, it is most important and justifiable to increase tax revenue especially income tax. Two types of income taxation are applied viz. Personal income tax and corporate income tax. Creating tax liabilities to the individuals who make taxable income raises is known personal income tax. However individuals become dishonest and hide the real income. They enjoy the weakness as of tax law and escape from the tax administration. There are some corrupt staffs in Inland Revenue Department and offices, which encourage the taxpayers to evade tax liabilities. Similarly, the department cannot find out the actual number of income taxpayers.

On the other hand, the corporate tax is decided upon the profit of companies. There are some obvious arguments in favor of raising a large amount by way of corporation taxation in developing countries. The first is the ease of collection. Corporations are easily identifiable, keep accounts and cannot escape tax liabilities. In these respects, they are most administration's dream. A further point is that tax collected in this way often

appears painless⁶. Therefore; it seems that more income tax collection from corporation is possible for the economic development of the nation. But indeed, it cannot raise more income tax from corporation because of less development of industries and joint stock companies in the nation. In addition, the corporation income is often only a small part of GNP. It may raise question why tax rates of corporation cannot be pushed too high for collecting more income tax revenue. However, the tax rate should be balanced for the economic development. High company tax rates may discourage the formation of new corporations and thereby retard the growth of Joint Stock enterprise. Furthermore, the absence of the fear of competition from new corporations may very well strengthen tendencies to monopoly or oligopoly among existing entities⁷. Government of Nepal is being unable to realize the expected income tax from personal as well as corporation. Most of the personal taxpayers do not reveal their income sources even after earning significant amount. They hardly keep the accounts. Similarly, some companies have been practicing to avoid the tax liabilities by hiding incomes. As a result, the actual collection of income tax is being very low.

This problem has been stable continuously due to corruption too. It is heard that tax authorities and taxpayers practice to make low income tax liabilities for their mutual benefit time to time. The lack of tax authorities has also cause low revenue government. The discretionary power of the tax

⁶Ibid, p.41

⁷Ibid, p.42

personal and the tax assessment procedure or the income tax system of Nepal harass the taxpayer in the payment of tax and cause to reduce the income tax revenue.

Commercial banks are corporate bodies. They are profit-oriented organizations. They make profits from the financial transactions by rendering services to the public and business organizations and pay income tax to the government from their taxable income. There are also some problems in collection of income tax from commercial banks. Some commercial banks have not yet got audited their accounts for few years.

This practice must be eliminated for the more generation of income tax. On the other hands, it seems that commercial banks have appealed to revenue tribunal time to time. It shows there are some weaknesses in tax assessment of such commercial banks and vague law and regulation of income tax and finance act. These are the main concentrated problems of this study to solve as far as possible to mobilize more resources through income tax from commercial banks.

The problems towards which this study is directing to identify answer the following questions.

1. What is the present position of commercial banks to contribution of the income tax collection in the government revenue?
2. What are the major problems of income tax collection through commercial bank?
3. How the commercial bank has contributed in collection of income tax?

1.3 Objectives of the Study

The study has been carried out with some objectives. The main objective is to analyze the income (corporate) tax collection from commercial banks by the government. The other specific objectives of this study are listed below.

1. To review the income tax structure of Nepal.
2. To evaluate the contribution of income tax paid by commercial banks in the government revenue.
3. To assess the contribution of income tax paid by commercial banks on total income tax and total tax revenue of the government.
4. To point out main income tax related problems faced by commercial banks.
5. To put forward necessary suggestions and recommendations for income taxation with reference to commercial banks.

1.4 Needs or Significance of the Study

Nepal is a landlocked and developing country. It is an agricultural country, depending nearly about 91% of its people on agro production for their livelihood. For the economic development of the nation it is necessary to be industrialized .But lack of technological education, less development of infrastructure and under developed economy; the country is not able to be industrialized. For the correction and solution of these problems (limitations), the government needs huge amount outlay. But the resources are limited. In this circumstance, the government has to search for the potential resources to collect more revenue as far as possible. The income tax (part of internal resource) is one of the major sources that can be increased through proper correction in collection procedures and

identification of potential tax payers. So, it becomes necessary to analyze the different income tax payers under each head and income tax collected from each group of taxpayers time to time. Commercial banks are also income taxpayers. The problem they being faced in tax paying should be corrected so that they may contribute more income tax the national receipt. Commercial banks are such institutions, which are directly linked with most other business activities. The conditions of business, trade and industries can be visualized through the analysis of commercial banks. A tax collection analysis from commercial banks may help to locate potential new and hidden taxpayers. Besides, this analysis may be useful to make new policies for granting various facilities to the commercial banks for making more taxable income in the competitive environment and legal correction, vague section of income tax can also be rectified from such analytical study. This study is concerned with these aspects and it tries to make appropriate recommendations for the correction of problems in paying income tax by commercial banks and collecting income tax from commercial banks. Besides, this study will also be useful to the tax planner, bankers, tax authorities and many others like teachers, students and people interested on it.

1.5 Limitations of the Study

The study will be done for the partial fulfillment of master of business studies. The study will be conducted within certain limitation and constraints. Some of them are:

- This study has concentrated on the income (corporate) tax realization from commercial banks only.
- This Study basically stands on theoretical aspects.

- All the numerical data have been taken from secondary sources.
- The analytical report has been prepared based on availability of data and information received from secondary sources.

1.6 Organization of the Study

1. Chapter 1: Introduction

It deals with introduction of the main topic of the study like general background, profile of sample bank, statement of the problem, objectives and significance with limitation of the study and other introductory framework.

2. Chapter 2: Review of Literature

It deals with the review of available relevant studies. It includes the conceptual review and review of the related books, journals and the published and unpublished research works as well as thesis. It also includes the income tax collection policy of commercial bank.

3. Chapter 3: Research Methodology

It deals with methodology of the study i.e. research carried out in this size and shape. For this purpose various financial tool and statistical tool are defined which will be used for the analysis of the presented data.

4. Chapter 4: Presentation and Analysis of Data

It deals with the presentation and analysis of all the relevant collected data. Analysis is done as per described in chapter 3. This chapter is the heart of the study.

5. Chapter 5: Summary, Conclusion and Recommendations

It contains the summary of the study, conclusion, recommendation and suggestion on the basis of the study.

CHAPTER – II

2. REVIEW OF LITERATURE

Review of literature is the study of past research studies and relevant materials. It is the advancement of existing knowledge and in depth study of the subject materials. "Review of literature means reviewing research studies and other relevant proposition in the related area of the study so that all the past studies, their conclusion and deficiencies may be known and further research can be conducted. It is an integral and mandatory process in research work.

In simple terminology, tax liability to pay an amount to the government. It is a compulsory contribution on the government revenue from the taxpayers according to law.

Tax originally denoted to assess an amount to be levied; the notion of imposing such a levy is a secondary development. The word comes passing through old French 'taxer' from Latin 'taxare' a derivative of 'tangere' of English. The taxare was derived from Medieval Latin noun 'taxa' which means an allotted piece of work or task, which passed into English through Anglo-Norman 'tasque' as task.

"Taxes are general contributions of wealth levied upon persons, natural or corporate, to defray expense incurred in conferring common benefits upon the residents of the state."(Bhattraai and Koirala, 2004.A.D.)

After the great depression of 90's, the function of government has been increased considerably for smooth functioning of the government has got various sources of revenue. Among the various sources of revenue of government the most important is tax. Generally tax is defined as compulsory payment to the government. Everybody on whom it is imposed should pay tax. He is punished in case of

evasion. The taxpayer does not get liquid pro quo or equivalent benefit, from the government for paying tax. According to Seligman, tax refers "A compulsory contribution from a person to the government to defray expenses incurred in common interest of all without reference to special benefit conferred."

A tax is a liability imposed upon the tax assessee who may be an individual, a group of individuals, or other legal entity. It is a liability to pay an amount on account of the fact that the tax assessee has income of a minimum amount and from certain specified sources; they carry on certain economic activities, which have been chosen for taxation. A good tax system should run in harmony with important national objectives. The dynamism of the system is more relevant for a developing economy where the structure and rate of taxes have to be constantly reviewed. A tax system should be equitable as between different taxpayers.

"A tax has a long history. According to Manu, taxes should be laid as per the shrastras". We can get the reference of tax in shanti parba of Mahabharata where Yudhister gets education about different political activities from Bhisma. Here, Bhisma said just a person desirous of getting milk never obtains the same by cutting udders of his cow, so a kingdom inflected by improper devices or irregular practices never yield any profit for the kingdom. We find similar opinions in Pachantantra. In history, tax has caused many events that are of immense importance for the people of modern world. Whether it is a case of Corn Law imposed in England or the slogan rose as "no taxation without representation" in independence movement of USA, it is the tax that was the root item. Taxation caused the French Revolution of 1789, Boston Tea Party in USA and took the life of Charles I in England in 1748, A. D.

2.1 Meaning of Income Tax

Generally, income means the inflow of cash to the person. Most of the people do not like 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 and lower income refers to the low living standards of people. People generate income from rendering various types of services, selling goods and producing crops for their own use. Thus, income may be cash or kind that is received by a person for livelihood.

Economists define the term 'income' in a broad sense. It is an economic gain or receipt to a person during a particular period by way of wages, interest and rent. The money income of the people is used for two purposes. Part of income is spent on consumption and part is saved. This definition can be expressed in the formula as below.

$$Y = C+S$$

Where, Y = Income

C = Consumption

S = Saving

But the purpose of taxation the definition of income is somehow different from the aforesaid definition. According to income tax Act 1974 (2031) "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. They were all as follows⁸

1. Agriculture
2. Industry, Business, Profession or Vacation
3. Remuneration
4. House and Land Rent
5. Others Sources

⁸ Income Tax Act, 1974 (2031) p.5.

The new Income Tax Act, 2002 (2058) was passed implemented from 2058 Chaitra 199(B.S.) (2002A. D.)

This act has defined the term as income of any persons derived from employment, business and investment and accumulated calculating according to this act. This Act has classified the income into three different heads, they are;

1. Business
2. Employment
3. Investment

Income tax refers to the levied on the income of a person and profits of the corporation for the specific time period particularly on year. In a broad sense, income tax is a levy based upon the production or receipts or gain of the taxpayers within a definite period of time.

Tax means income tax to be paid or would be payable according to Income Tax Act or prevalent law of Nepal. According to this definition, tax includes fees, additional fees, deposits and fines⁹. The constitution of kingdom of Nepal 2047, B. S. , has prescribed that "No tax shall be levied and collected except in accordance with law." Therefore, only taxable income as calculated by the prevalent rule is subjected to tax so that the objective and principle of taxation will be fulfilled.

Different countries have different concept on income tax. In Great Britain, the original concept of tax was that of a levy on recurrent income and the tax was applied to five schedules.

⁹ Income Tax Act, 2002 (2058) p.s.

In U.S.A. as a matter of practice, recurrence is not relevant to the tax status. In India, the personal income tax is levied on the income of all individuals. Singh has defined the term income tax as the levy on the net income derived after deducting all allowable deductions. Income tax is levied on the income derives from business, agriculture, remuneration, profession, insurance, investment agencies and other sources derived in cash or kind¹⁰.

Income tax is levied on the taxable income of a company after deducting allowable expenses. According profits may differ from taxable profit. For computation of taxable income, profit as per profit and loss account is taken as a basic. All the incomes are added and expenses are subtracted and losses which are allowed to deduct under the provision of Income Tax Act, is subtracted. Then tax-free incomes are also deducted to get taxable income. The amount of tax to be paid levied on this computed income is the income tax.

2.2 Evolution of Taxation

In early days, taxes were not collected regularly but collected at the time of emergencies to finances especially during wars and for communal services. Taxes were levied on the basis of welfare of the people and they were eager to pay taxes because non-payment of tax was taken as sin in the Hindu tax system. According to Hindus' scripture, the duties of king was to serve and secure his people and maintains peace and carry out social works, for the performance of these activities, the king used to levy tax by

¹⁰ Singh S.K. (1985), Fiscal System of Nepal, p.160

collecting crops and cattle from farmers, gold and silver and other metallic goods from traders.

The Great Britain is the first country in the world to introduce the income tax in 1799 A.D. It imposed income tax in order to finance war with France. Similarly, in U.S.A. the first federal income tax was imposed in 1862 with the same objective (to finance civil war).

However, in the beginning these countries imposed income tax as temporary until 1860.

Then after, since 1931 it was accepted as permanent tax. Thus, income tax was adopted by different countries gradually, Italy started in 1864, and New Zealand adopted in 1891, Austria and Canada had followed the income tax in 1915 and 1917 respectively. After First World War, the tax revenue is an important source of income in many developed countries. By 1939, it had become the most important sources of revenue in most developed countries and had made most appearance in a number of developing countries.¹¹

In our neighbor country like India, the income taxation was started in 1860 by the British government to relieve from economic burden created due to first democratic revolution. It was then regularly collected after the publication of income tax act 1886¹². In this way, income tax has become regular source of national receipts for many developed and developing countries of the world. In the beginning, income tax was generally levied at a flat rate. The principle of progressive rate of income tax had been adopted by the United Kingdom and New Zeland since 1909. Now a day the progressive rate is commonly used rather than flat rate in all over the world.

¹¹ Agrawal, G.R. (1980), Resource Mobilization in Nepal, p.113.

¹² Dhakal, K.D., (2057 B.S.). Income Tax and House and Compound Tax; law and Practice, p.10.

2.2.1 Taxation in Ancient Nepal

Tax has been one of the major sources of national income since the ancient time in Nepal. In those days, tax was collected in the form of cash, kind and labour from the merchants, travelers and farmers, however, the nature of tax levied by the government was temporary type in the old age.

In the Lichhavi regime (known as Golden Era), taxes were the main sources of revenue. In the period, taxes were known as "Trikar" which meant three kinds of taxes viz. "Bhag ", "Bhoga" and "kara". The Bhag tax was levied on agriculture, Bhoga was on animal and Kara tax was on business income. These taxes on agriculture, Bhoga was on animal and Kara tax was on business income. These taxes were introduced as direct taxes also existed at the time of King Amsubarma in Nepal. The farmers had to pay tax on income from agriculture to the government in 1/6, 1/8 and 1/12 shares of production depending on the quality of the land possessed by them. All artists had to donate labor compulsory as the tax payment.

2.2.2 Taxation in Unified Nepal (1768/1846, A.D.)

After unification of the Kingdom of Nepal, expenses for administration, military and other occupational activities were increased gradually. During that period, the taxation had been taken as main source of revenue and different types of taxes like land tax, transit tax, market duties, forest product tax and mining tax were levied. The main objective of imposing those taxes was to maximize the national revenue. In that period taxes were collected from three levels: Royal palace, Central government and Local authorities. They collected cash or goods from taxpayers as taxes.

Royal palace had levied taxes like Walk, Gaddimubarak, Chumawan and Goddhawa. Government had levied taxes like Darshan Bhet and Salami and local authorities had levied taxes on forest and water source; commercial taxes like customs: transits and market duties; mines and mints; export product like herbs, wax, drugs, wild life, birds, elephants and judicial fines. Taxes from land and business were type of direct tax among the all taxes during that period.

'Walak' was collected from each family in national celebration or festivals. Similarly, 'Gaddimubarak' was collected in the time of coronation ceremony of new King 'Chumawan' and 'Goddhawa' were collected in the time of investiture and marriage ceremonies of Royal Princes and Princesses and 'Gadan' was levied at the time of death of reigning King to meet funeral expenses. 'Darshan Bhet' was collected from civil and military employees at time of their appointment and conformation of jobs. On the other hand, 'Salami' was collected by local authorities in the Terai region. After the unified period, land tenure system was divided into five main forms: Raikar, Birta, Guthi Sera and Kipat. The main sources of revenue from land were Birta and Kipat.

The founder of modern Nepal, King Prithwi Narayan Shah had introduced 'Pota' tax in 1772, which was regarded as revolutionary measure in the fiscal system of Nepal. It was based on flat rate system rather than progressive rate principle. It was limited on small Birta owners.

2.2.3. Taxation in Rana Regime (1846-1950, A. D.)

During the Rana regime, there was no provision of effective revenue administration. The main sources of revenue were land revenue, customs and export of wood which were collected in the lump sum contract basis during that period and the Salami was collected from government employees

as a revenue income tax. Besides, These taxes small other taxes were also collected. In those days, taxes were collected at the time of requirement because there were no formal Tax Act and finance Act.

Taxes were charged according to the will of the Rana Prime Minister. Both the incomes as well as expenditure of the government were confidential. In actual practice, no difference existed between the private purse of the ruling prime minister and the government treasury¹³.

Rana prime minister levied for meeting specific expenditure of the royal household or extraordinary expenditures necessitated by war or other crisis rather than regular mobilizing revenue in the nation. During Nepal-Tibet war (1855/56), the first Rana Prime Minister Jung Bahadur had imposed a tax on the income of selected groups. Similarly, Bir Shamsheer imposed a levy of 1% on the official value of Jagir assignment of government employees in 1891 to finance the transportation of water pipe supply in the capital. Another Rana Prime Minister Ranoddip Singh imposed a 50% tax on the income made by fishermen in Dekhuri from the sale of fish in 1882.

2.2.4 Income Tax in Modern Nepal

Actually, the modern income tax act was started in 1959 in Nepal. After the political revolution in February 1951 (2007 B.S. Falgun), the role of the government had increased. The government of Nepal had presented its first budget in 1952, B. S. (2008, A.D.) The first five-year plan was started in 1956, A. D. (2013-2018, B. S.) Thus, the changing rule of the government demanded more revenue and Nepal also felt to levy tax on income as a permanent source.

¹³ Thapa R.B., (1993)m Income Tax Assessment Producer in Nepal, T.U. Central Library.

As a result, it issued first finance ordinance in 1959 A.D. to impose tax on business profits and remuneration. In 1960 A.D. the income tax act named "Business Profit and Remuneration Act, 2017 B.S." was made with the provisions of finance ordinance 1958. This was the first income tax act, which had 22 sections. But this act was found narrow and vague. So, it was replaced by the Income Tax Act 1962, A.D. This act continued for twelve years and it was also replaced by the Income Tax Act, 1974, A. D. (2013, B.S.). This act was amended eight times in 1977, 1979, 1980, 1984, 1985, 1986, 1989 and 1992 (A.D.) respectively. That tax act was replaced by new Tax Act, 2002, A.D. (2058, B.S.). This is the fourth income tax act of Nepal.

2.3 Gradual Development of Income Tax Law in Nepal

It has already been explained that the income tax act was started in 1959 A.D. in Nepal. The fiscal year 1959/60 (B.S.) was the beginning of income tax act in Nepal. The Income Tax Act, 1974 continued for 27 years with eight amendments. According to the section 65 of Income Tax Act, 1974, A.D. His Majesty of Government had made the Income Tax Rules 1982 to implement the objectives of income tax act. Each year the finance act is passed to translate the fiscal policies and programmes in the budget speech into law. It generally prescribes the tax rate and exemption limit for tax purpose and it may abolish, add or modify the provisions contained in the income tax act. The decision of the Supreme Court also acts as precedent for income tax law purpose. The notification in Nepal Gazette or circular by Inland Revenue Department clarifies and complements the legal provisions.

The income tax act, therefore, has relations with the Constitution, Finance Act, Income Tax Rules and decisions of the Supreme Court. These make clear the provisions in income tax law. The development of income tax act in Nepal is presented below.

2.3.1 Business Profit and Remuneration Tax Act, 1960 A.D. (2017, B.S.)

The fiscal year 1956/60, A.D. (2017B.S.) was the beginning of the income tax act in Nepal. The first law relating to income tax was named "Business Profit and Remuneration Tax". The imposition of the tax was governed by the Business Profit and Remuneration Tax Act 1960 and rules made there under. This act had 22 sections. With the enactment of that act, the salary tax or personal income tax was levied upon those individuals whose personal income exceeded Rs. 6000 per year. In the first three years, the exemption was Rs. 7000. An examination of tax files in the Kathmandu district office disclosed 557 personal income tax files of individuals who had paid taxes in one or more years¹⁴.

The following were the silent features of the Act. The following were the silent features of the Act.

1. The source of income for tax purpose was limited only to business profit and remuneration. (That is the two heads of income were business profit and remuneration only.)
2. The basis of calculating the tax liability for the remuneration was the income of the current year and for business profit, it was the profit of previous year.

¹⁴Cooper, J.A., (1964), Improving Tax Administration in Nepal; short and long range recommendation, p.4

3. Deductions of expenses were not specified for calculating taxable income.
4. Tax on remuneration was deducted at source (TDS).
5. The tax officer was empowered to assess tax on best judgment estimate.
6. In case of default, fines up to Rs. 5000 were prescribed.

Profits from industries were granted a rebate of 25 percent and profits from small industries were granted a rebate of 50 percent.

The "Business Profit and Remuneration Tax Act" was too narrow and vague. It was limited to business profit and remuneration. High discretionary power in assessment of income tax was granted to the tax officers. Many loop holes for the income hiders and inadequate provisions in the act force to replace the act. As a result, the income Tax Act, 1962, A.D. (2019, B.S.) was introduced.

2.3.2 Income Tax Act, 1962, A.D. (2019, B.S.)

This act was the extension of the "Business Profit and Remuneration Tax Act" with 29 sections. It was amended in 1972, A.D. It had provision of imposition of income tax in agricultural income but this provision was abolished by the Finance Act, 1966 A.D., (2023, B.S.). The main features of the act were as follows.

1. Income was defined as all kinds of income such as profit from business, income from profession, remuneration and occupation, house and land rent, income from agriculture, insurance business, agency and any other sources.
2. The basis of tax assessment was specified on the best judgment estimate of the tax officers.

3. Provision was made for the installment payment of the tax for the first time.
4. Provision was made for reassessment of tax as well as rectification of arithmetical errors.
5. It had the provision regarding carry forward of losses for the period of two years.
6. Provision was made for the exemption of income tax for the new industries for a period of not exceeding ten years.
7. The residential status of the taxpayers for the tax purpose was defined.
8. The act granted the power to constitute the income assessment committee.
9. Deductible expenses as well as methods of calculation of taxable income were specified.

This act had also some weaknesses. The changing socio-economic environment of the nation had forced to change the income tax act. As a result, the Income Tax Act, 1974, A.D. (2031, B. S.) was made by abolishing the existing Act 1962, A. D.

2.3.3 Income Tax Act, 1974, A. D. (2031, B. S.)

The income Tax Act, 1974 can be said to be the refined form of Income tax Act, 1962.¹⁵ It had 66 sections. It contained many provisions of the old one and change and added certain new provisions. This act was amended in eight times for making more practical and eliminating confusing terms.

Its basic framework had been derived from the Income Tax Act, 1962A.D. It retained or amended certain provisions of the old act and added certain new provisions.¹⁶

¹⁵Dhakal, K.D., (2057 B.S.), op.cit, p.11.

¹⁶Tiwari, N.R., (1991, Income Tax System in Nepal, p.3

Some of the points of the act with amendment are as follows.

1. This act had clarified the definitions about income tax, taxpayer. Year of income personal status of taxpayer, non-resident taxpayer, net income and so on.
2. Five heads of income source were specified *viz.* a) Agriculture, b) industry, c) Business, Profession or Vocation, c) Remuneration, d) House and Land Rent, e) Other Sources.
3. Methods of computing the taxable income from each head had been specified with deductions allowable.
4. The act had made it obligatory for taxpayers to register their industries, business, profession or vocation in the tax office and any changes should be notified.
5. Carry forward of losses is allowed within subsequent three years.
6. Provision was made for self-assessment of tax for the first time in Nepal.
7. Provision was made relating to deduction for life insurance premium and contribution made for philanthropic purpose.
8. Taxpayer was required to keep accounts and records of the income and to be preserved for six years.
9. Provision was made to make agreement for avoidance of double taxation with foreign governments.
10. Provision was made relating to reassessment or additional assessment of tax.
11. Procedure was streamlined for assessment, collection, payment and refund of tax. Powers for search and seizure also was specified.

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

The draft Income Tax Act, 2002, A. D. (2058, B. S.) also propose to bring all sources of income including capital gains into the tax net.¹⁷ This forth income tax act of Nepal has been made to minimize the weakness of previous act and for more collection of national receipt (revenue) for the economic development by improving collection procedure of revenue. It is also necessary to amend and integrate according to modern age with international taxation system. It is essential to make new income tax act corresponding with extended income tax scope and changing form of tax administration. Thus the new Income Tax Act, 2002 (2048) was passed. It was issued and implemented from 1st April, 2002, A. D. (19 Chaitra 2058, B. S.) with government seal. This act has made some amendments two times by the financial ordinance of 24th Ashadh and 22th Paush of 2059 B.S. The main objectives of Income Tax Act, 2002 are pointed below.

1. To levy tax on all income sources and income earning transactions.
2. To impose uniform tax to all people and all sources.
3. To make income tax revenue more productive and elastic.
4. To develop the tax system by means of extended scope, clear-cut, transparent and simple procedure.
5. To make accountable and improvement tax administration.
6. To reduce economic cost neutralizing income tax.
7. To emphasize statement bases on accounting system.
8. To make responsible to income taxpayers emphasizing procedure of self-assessment system.¹⁸

¹⁷ Khadka, Rup, (2001) Income Taxation in Nepal: Retrospect and Prospect, p.5.

¹⁸Mallik, B.D., (2003), Nepalko Aapalko Aadhunik Aayakar Pranali, p.26

This act is broad, scientific and international standard level. The differences of this act with previous act are made clearly by its salient features, which are given below.

1. This act has included all the provisions relating to income tax. It is a law of income tax code.
2. It has included all the financial transactions of the taxpayers considering present and future earnings.
3. Provision has made to impose tax to all income sources uniformly.
4. Provision has made for the deduction of all expenses relating to income earnings.
5. Provision has been made to deduct all expenses relating to each income in accumulation from taxpayer's income.
6. Carry forward of losses is allowed for the period for subsequent years. This limit is extended up to five years for banking and insurance business.
7. Provision of tax incentives has continued for infrastructure instructions, electricity projects and special industries.
8. It has accepted self-assessment system absolutely; Provision has also made to accept the statement submitted by taxpayer as tax assessment. And in case of non submission of the statement, the advance tax payment made by taxpayer is taken as assessed tax amount.
9. It has clearly included the rights and duties of taxpayers.

10. It includes general anti-avoidance rule, control of transfer pricing, control of thin capitalization and control of dividend stripping to control tax evasion measure.
11. Provisions have been made to claim for deduction of pollution control device and research and development expenses.
12. It has classified the taxpayers into natural person and entity. Entity includes company, partnership, and trust so on.

2.3.5 Special provision for banking and business

Income Tax Act, 2002, A. D. has made special provision for banking business (section 59). According to this section, provisions given to that sector are as follows.

1. Prime introduction: Banking business refers to the banking transactions of affiliated bank and financial institution in accordance with prevailing law according to Income Tax Act, 2002, A.D.
2. Banking transaction refers accepting deposits for making loan and investment paying back it at the time of demand by saver according to Commercial Bank Act, 1974, A. D. (2031, B. S.).
3. Provision for risk bearing fund: Any provision debited in the profit and loss account is not deductible according to the income Tax Act, 2002, A. D. . However, the financial ordinance 2059 has amended it and provision has been made to claim for deduction of risk bearing fund up to 5% of outstanding loans that was only 3% according to Income Tax Act, 1974A. D.
4. Written off loan loss: Loan loss of banks can be written off in compliance with NRB guidelines and it can be treated in the debit side of profit and loss

account as expenditure for carry back of losses but it is not allowed if this amount has already deducted from income as risk bearing fund.

5. Carry back of loss: Loss of any year from banking business can be carried back to the past five years for deduction of it from incomes of those years.
6. Interest suspense: As per direction by NRB to the banking, no interest can be treated as income on the accrual basis. Interest suspense account should be opened if the interest earned but not received in cash within one month. This type of income is given tax exemption by the Income Tax Act, 1974, A. D. and it is continued by this act issuing the finance ordinance 2059, B. S. .

2.4 Corporate Tax and Its Development in Nepal.

2.4.1 Concept

A corporate body or company is an artificial person created by law. A company is a legal person just as much as individual. It is separated and distinct from its individual members. A company like a natural person can do everything.

It can conduct a lawful business and enter into contracts with others in its own name.¹⁹ corporate bodies conduct businesses and make profits. Tax levied on corporate profit is known corporate tax. Therefore, corporate tax is a tax levied on companies or corporate bodies in contrast to unincorporated enterprises. The history of this tax was started from 1909, A. D. in USA when Procedure was streamlined for assessment, collection, payment and refund of tax. Powers for search and seizure also was specified.

Provision was made relating to departmental action in case of negligence and the penalties were increased. Percent excise was levied on corporations i.e. companies on the ground of the privilege they enjoy.

¹⁹Juneja, C.M., Chawla, R.C. and Sekscna, K.K., (1991), Double Entry Book-Keeping, p.68

Since then corporate tax is contributing a substantial amount of revenue to the state treasury of most of the developed and developing countries.

The statutory rate percent, however, was very low in its initial period, increased vehemently later on after First World War (1914-1918), A. D. and again started to be down turn since 1980s.²⁰ Taxation of corporate profits is so far the most common form of corporate taxation. Almost all countries of the world have adopted this system²¹.

2.4.2 Development of Corporate Tax in Nepal

The history of corporate tax in Nepal was not so far long. This tax was introduced only in 1960 with enactment of the Business Profit and Remuneration Tax Act, 1960 at the first time. At the initiation, it was not differentiated from personal income tax. All the taxpayers: persons, companies and private firms were imposed at the same rate with progressive and exemption limit prescribed by Finance Act 1960. The tax exemption limit given to companies same as to personal taxpayer was eliminated in the fiscal year 1956/66.²²

Nepal originally combined corporate income tax with individual income tax. The same rate structure was designed for corporate income and other incomes for many years. In 1986/87, A.D. A flat rate corporate tax was introduced for government corporations and public limited corporations listed with the security exchange center. Corporate tax was extended to private limited companies in 1993/94A..D. and partnership firms in 1995/96 A. D.

²⁰ Kandel, P.R., (2000), Corporate Tax System and Investment Behaviours in Nepal, p.28.

²¹ Poudyal, K.B., (1997), Corporate Tax Planning in Nepal, p.25

²² Khadka, Rup, op. cit., p.5

The business tax is based upon net income after various deductions and exclusions from gross income, Merchants either claim not to have records or are beginning to maintain two sets of records – one for tax authorities, the other for personal purposes. Since the tax is based upon gross income less certain deductions, if the gross amount is under stated, the net taxable income because a type of guessing game.²³

The third income tax act was introduced in 1974, A. D. with some changes and new provisions than old one. The finance act of 1976, A. D. under this act introduced a separate to companies. Similarly, The Finance Act, 1985 made a provision of giving 5% tax rebate from highest marginal rate of 55% to listed public companies and government enterprises. The fiscal year 1986/87A.D. changed the nature of tax rate to the corporate bodies (companies) from progressive tax rate to flat tax rate. In this time the tax rate was 40% flat rate to all listed companies. The same finance act imposed tax on dividend also to be deducted at source at rate of 20%. But the dividend tax system was changed exempting dividend to a level of 85% in 1987/88, A. D. and cent percent in 1990/91, A. D. . Compulsory self-tax assessment system for public and private limited companies was introduced in the Finance Act, 1992, A. D. The additional change was made that taxing corporate income at flat rate to the private limited company was enacted from the financial year 1994/95, A. D. This change abolished the discrimination between private company and public company. Other major changes carried out the fiscal year 1998/99, A. D. was the inclusion of dividend of non-industrial companies within the tax net.

²³ Cooper, J.A., op. cit., p.4.

The initial corporate income tax rate in 1960/61 was 25%. It was increased to 60% in the fiscal year 1975/76, A.D. It was dropped to 50% in 1979/80 and continued to 1981/82. Once again, the rate increased up to 55% in 1982/83 and was stable for 3 years i.e. up to 1986. And declined then after to 40% and 30% for up to 1991/92, now this rate is 20% for special industry and 25% for general industry and 30% for bank and finance companies.

2.5 Corporate Tax Base in Nepal

There may be various bases for taxation. For instance, there bases may be income, cash flow, turnover, total assets and added value etc. Among them, income and cash flow bases are mostly considered by the tax experts.²⁴

It is called income based or net profit basis when income is taken as the base of taxation, under the basis the computation rule of tax is adding up all the taxable incomes and deducting expenses incurred in earning the revenue or allowed expenses by income tax act. This is also known as profit-based tax. However, due to some difficulties in finding out taxable income under this basis the economists and tax experts are in favor of replacing it with alternative of the cash flow base. It denotes taxing of net cash flow received from business activities without discriminating the income or capital.

Nepal has been using the income as a base of taxation from the beginning of formal tax act 1960. "Under the Income Tax Act, 1974,A.D. tax was levied on the total income of the previous year of a company.

²⁴

Kandel, P.R. op. cit., p.32

The total income falls mainly under two heads of income *viz.* 'profits and gains' of business net income and 'other sources' of income. The word profit means net income i.e. total revenue less total cost.²⁵

2.6 Tax Incentives

Tax incentives are concessions facilities and rebates granted to corporate bodies. These incentives reduce the tax burden of an organization. It may imply a partial or full exemption from one or a variety of taxes and special allowances for a certain period to motivate the new as well as existing organizations for balanced regional development, production of primary goods and the development of the corporate bodies. It increases the habit of saving and encourages the investment by means of equity shares purchasing of an organization. Thus tax incentives are a phenomenon developed specially to accelerate the slow rate of investment in most of the developing countries.

The necessity for offering tax incentives is felt basically for two reasons. Stretching the scope of tax beyond its revenue objective to achieve certain socio-economic ends and to mitigate the adverse impact of high taxation on corporate saving and investment activities.²⁶

The increase in corporate investment is the sign of economic development of the nation. Development countries like Nepal have to encourage to invest in corporations and investors are interested to invest only in such a case when the after tax profitability becomes high. The desire of investors is partially fulfilled by the tax incentives even though the government revenue becomes less in the same time.

²⁵ Poudyal, K.B., op. cit., p.25

²⁶ *Ibid.*, p.38.

The most popular tax incentives provided to various types of activities in different countries of the world are tax holiday, investment allowance or tax credit, accelerated depreciation rate, tax rate reduction and carry forward of losses. Tax holiday is the holiday from tax for a certain period. Any industry, which has granted such type to incentive, needs not to pay tax for certain period from the commencement of its business activities.

On the other hand, investment allowance or tax credit is the incentive provided for capital investment. It is granted in the first year of investment on assets. This type of incentive is beneficial for the large enterprises but not for small one. So it discriminates them. But it has some advantages such as it can be specific for a particular investment, it can focus on new investment etc. Accelerated depreciation is the other system of tax incentive that means the higher depreciation in the initial years and gradual decrease in later year on the fixed assets of an organization. It decreases the taxable income due to large amount of depreciation deduction. For this acceleration depreciation, sum of the year's digits (SYD) and double declining methods are used. This incentive provides more benefits to the big concerns only than to small concern.

The fourth technique of providing incentive is tax reduction. In other words, it means making the tax rate lower. This type of tax incentive is equitable to all type of corporations whether large or small, new or old, short life or long life, capital incentive or labor incentive and located in urban or rural areas. Its main defect is the reduction of government revenue. Another technique of tax incentive is set off and carry forward of losses. In this technique, the losses of the previous year's can be deducted from the subsequent year's profit. This facility of set off and carry forward of losses exists in many countries but the same varies in terms of scope, condition and

time. Most of the countries allow to deduct losses or carry forward of losses for subsequent 5 years. In Nepal, as per Income Tax Act, 1974, losses were allowed to be carried forward and set off in the following three years, which was only two years allowed by income tax Act 1962. Now new Income Tax Act, 2002 has increased this period up to 4 years for general business and 5 years for bank and insurance.

Among these types of investment incentives, investment allowance is mostly used by British Commonwealth nations like Coast and Central Africa, Sri Lanka, Canada, Australia etc. Besides these, Belgium, Germany, Japan, United Kingdom, Brazil, Malaysia, China, Singapore, Taiwan, South Korea and Egypt are also using this method to augment their investment.²⁷

In some developing countries like, Philippines, Mexico etc. the incentive is mainly in the form of tax holiday. A combination of tax holiday with investment allowance and other rebate is also common in many countries.

Foresaid tax incentives have always been the important parts of corporate tax system because they are important instruments in accelerating the pace of economic growth through mobilizing saving and investment. The type, size and magnitude vary according to the needs and aspirations of the people of different countries.²⁸

2.6.1 Tax Incentives in Nepal

Nepal had experienced four industrial enterprise acts brought to make incentive to the investment in the corporate sector. They are industrial Enterprise Act, 1967, 1974, 1981, and 1992(A.D.).

²⁷Kandel P.R., op. cit., p.61.

²⁸Poudyal, K.B., op. cit., p.40

The first Industrial Enterprise Act had granted 10 years tax holiday for a new industries; tax rebate up to 25% of tax liability, Similarly, Industrial Enterprise Act, 1974 provided investment allowance, depreciation facility to extension and modernization and up to 18 years tax holiday to different industries established in different parts of the country. Accordingly, Industrial Enterprise Act, 1981, A.D. had made tax relief provisions including up to 12 years tax holiday, income tax rebate up to 50% for exports, 15% investment allowance to additional investment and only 1% levy for import of machinery, spare parts and raw materials.

The tax holiday is granted to newly established industries considering such as level of capital investment, number of people employed, nature of the product and the use of local raw material under sec 15 of the Industrial Enterprise Act, 1992. The rate of tax holiday period is 5 to 14 years depending on previously mentioned criteria.

Besides these, the Industrial Enterprises Act 1992,A.D. has provided a number of facilities and concessions to the industries. They are listed below:

1. The government will not impose any sales tax, excise duty and income tax on the cottage industries sec 15 (a)
2. No income tax will be levied on the profits earned through exports. Sec 15(t)
3. No income tax will be imposed on the earning derived from agriculture except registered agriculture firms
4. Income derived from such industries which are registered under co-operative act 2048 B.S. is completely, tax exempted. In addition, dividend received from such industries is tax-free.
5. Fruit based and fruit processing industries and cider wine industries with a fixed assets up to twenty five hundred rupees and established in remote area

shall be entitled to an excise duty and sales tax exemption for a period of 10 years.

6. Any national priority industry constructing and operating road, bridge, flying bridge, tunnel, ropeway and manufacturing and operating trolley bus and train shall be granted a rebate of 50% of the income tax for a period of ten years. Other industries are granted a rebate of 50% of income tax for 7 years.
7. Except for cigarette, bidi, cigar, chewing, tobacco, khaini industries and industries producing other goods of a similar nature utilizing tobacco as their basic raw material and industries producing alcohol or beer, saw mill, catechu industries and any other industries using 80% or more than 80% of indigenous raw materials in its products and applying all its manpower from among Nepali citizens shall be granted a rebate at the rate of 10% of income tax.
8. If any industry provides direct employment to six hundred or more than six hundred Nepali citizens round the year, it will be, in addition to the other facilities. Granted an extra rebate of 10% of income tax for that year.
9. Industries donating up to 5% of its income or Rs. one lakh to any institution, which is, acknowledge tax-free institution by Inland Revenue Department may get such amounts deducted from its taxable income.
10. Industry investing its money on process or equipment for the purpose of controlling industrial pollution or having effect on environment may be permitted to deduct 50% of investment in computation of taxable income in same years or with 3 years and remaining is permitted to be capitalized. Later the finance act granted the deduction of 50% whole expenditure in two years equal intervals.
11. No industry will be imposed more than 20% tax on its income. The provision, however, is not applicable to the industries producing cigarette,

bidi, cigar, chewing tobacco, khaini and other goods of a similar nature utilizing tobacco as their basic raw material and those industries producing alcohol and beer.

12. 10% of gross profit can be deducted in case of expenses made in technology and product development and efficiency increase after industry operation.
13. 40% of additional asset (investment) can be deducted from net income in case, an industry diversities or increase its capacity by 25% or more, of modernizes its technology or develops subsidiary industries. This deduction is allowed at lump sum in the same year or within three years.
14. No income tax is imposed on the dividend received from investment in an industry.
15. An industry can deduct the expenses spent for residence, life insurance, health facilities, education, training and long term benefits of labors and workers.
16. An industry can deduct 5% of gross income for distribution extension, service promotion, advertisement, hospitality and similar expenses.

2.7 Income Tax Management

In the modern age, income taxation has been become one of the most important source of the national revenue. It is a good instrument for resource mobilization in the country. It must be mobilized properly for the achievement of goal of development. For the economical and social development of the country, it requires huge amount. Many development activities should be undertaken each year to give minimum requirements of people. These are only possible if the resources can be mobilized through internal resources. But proper management is required to collect the targeted revenue. Therefore, income tax management also should be sound for the

planning, directing and collecting of income tax, (Either personal income tax or corporate tax). Collection of income tax is a difficult task. It is imposed with the purpose of collecting maximum revenue for the development to solve the problem of inequality of incomes of different classes of people, have a balanced regional development and promote investment in private sectors.

Management refers to the process of defining goals and implementing activities to attain those goals by efficient use of personnel, material and capital resources.²⁹ The objective of income tax management attempts to obtain its goal; to impose income tax on people and corporate bodies for maximum revenue realization without making it burdensome to the taxpayers for the balanced regional economic development reducing economic imbalance among the people.

Planning, organizing, directing and controlling are the functions of management to achieve the goal of the organization. Planning of future activities, organizing of facts and information, directing of the planned policy for implementation and controlling the short coming of policy implements make near the targeted objective of any job. Income tax management also needs to recognize its taxpayers, and their net income, it needs to plan and anticipate the income tax collection in future, needs to make implement the Policy formulated by the tax department and needs to control the defects of policy formed for correction.

The first job of the management process is identification of objectives and goals. With this view, the income tax management must determine the objectives and goals of income tax answering why is it going to be imposed

²⁹Welsch, G.A., Hilton, R.W. and Gordon, P.N., (2000), Budgeting: profit Planning and Control, p.1.

to whom? For what purpose? Without the objective of income taxation, the system of income taxation is not able to perform its job.

The second job is policy making which provides the guideline for achieving the desired goal. Policy regarding income tax directs to make tax imposition specifying to whom, how, when and where the tax must be imposed.

After these two functions of tax management, planning of income tax resource starts. For this, various programmers are scheduled and incorporated with the goals and policies. Then planned activities are implemented from the various levels of personnel. Top management identifies goals and objectives, formulates policy and the income tax officer's (actually field officers) Implement them. The management must monitor the implementation to know whether the programmers are performing well. If the programmer is not performing well, the interim correction action should be taken. Finally, the feedback through implementation should be made to evaluate the past performance for further development of objectives, policies and programmers so that the shortcomings in the past performance can be eliminated for easy achievement of goal in future. Unfortunately, income tax management in Nepal has not yet fully applied the scientific management.

2.7.1 Components of Income Tax Management.

In the income tax management of Nepal, four components are involved. They are very important in the management process of income tax system. They are performing their respective jobs for the fulfillment of desired goals in well manner. These four components are described below.

1. Parliament: No taxes are levied and collected except in accordance with law. The government can only impose any tax with sufficient legal support. Legal support is necessary to impose income tax too. Different types of acts and supported laws are provided by parliament in the democratic countries even though the parliament is not directly associated with day-to-day operation to income tax management. Thus the parliament is the first important component of the income tax management in Nepal because constitution has banned to levy the income tax on the income of any person or entity without legal acts.
2. Ministry of Finance (MOF): The highest organization of total taxation management body of the country is the ministry of finance of HMG/N. It concerns with the total revenue and expenditure of the government, manages to borrow internal as well as external (foreign) debts as demanded by budget. It is thus treasure of the government. It concerns also with planning and formulating various macro level economic policies of the government for mobilizing resources in the country. The finance ministry is apex, which administers the income tax including all other taxes. But it is true that all of the managerial works towards income tax as well as other taxes cannot be furnished by finance ministry itself. This is the reason; the Inland Revenue Department (previously department of taxation) has been established under the ministry of finance for the smooth and continuous operation of the Inland Revenue Department. The government appoints the director General of taxation and other tax officers. It also delegates powers to them for performing daily works related to income tax and other revenue collection.

3. **Inland Revenue Department (IRD):** The most important component of the tax management in Nepal is Inland Revenue Department. It functions to fulfill the objectives and goals set by ministry of finance (MOF). It lunches various programmers, plans and policies related with the implementation of income tax as well as other tax management. It looks over not only income tax but also various taxes: direct and indirect taxes and all other non-tax revenue. Although, it is the organization of taxation, it is not directly associated with assessment and collection of taxes. It manages personnel and implements various policies relating to income taxes and other taxes as well as not-tax revenue. It also organizes the structure of taxation, manage personnel improves the systems and controls the systems defectives and personnel as well. It constitutes law, policy, appeal, audit, investigation and review, tax exemption and static section. This Department is situated at Lazimpat, Kathmandu.
4. **Inland Revenue Offices (IRO):** The lowest unit and fourth component of tax management of Nepal is Inland Revenue Offices. There are twenty-one Inland Revenue Offices in the country performing various jobs under the Inland Revenue Department. These offices are really and directly performing implementation of income tax and other tax policies and programmer. They maintain public relations, collect information, identify taxpayers, and assess the taxpayer's income and income tax. Due to public relation, they provide feedback to the upper levels (IRD and MOF) for the correction of policies and programmes. This is also important part of the tax management, which is directly, involved in the ultimate function of whole taxation system.

2.8 Income Tax Administration in Nepal

Only tax policies and programmers are not successful devices for achieving ultimate goal of an organization. For the achievement of targeted goals, the policies and plans must be implemented in efficient and effective manner. Tax administration is an important system of taxation system, which is needed for successful implementation of tax policies and laws. Policy making is relatively easy but more difficult to administer. Policies are formulated by top level while the lower level of tax offices implements it.

The success and failure of any tax policy depend upon the efficiency and effectiveness of the tax administration. The main objectives of tax administration should be the efficient assessment, collection and enforcement of taxes legally due without undue cost and harassment to the government or taxpayer in terms of money, time, inconvenience and mental worry.³⁰ Income tax is administered directly by the Inland Revenue Department, ministry of finance, and other administrations such as customs administration: revenue investigation administration and revenue administration and training centers are also involved in the income tax administration. The revenue division of the ministry of finance is responsible for formulating tax policy and setting up appropriate administration to implement tax policy. It co-ordinates the activities of revenue departments including Inland Revenue Department. Customs administration helps in income tax administration by collecting advance income tax on import. The revenue investigation administration investigates the revenue leakage made by officers and taxpayers for their mutual benefits. And revenue administration training centre performs training, workshops and seminars for

³⁰Thapa R.B. op. cit. p.28

the tax officials.

Tax administration has become challenging and more complicated with the changing environment of international tax system. Inland Revenue Department has taken the responsibility of administration of income tax. Tax administration was set up as the Tax Directorate in 1959 for the first time.

The Internal Revenue Department was established in 1961/62 and the Department of Taxation was set up in 1963/61. Tax officers were recruited under this department for the collection of tax revenue. In 1964 there were tax offices in six places i.e. Kathmandu, Birgung, Biratnagar Nepalgunj, Bhairahawa and Janakpur. In Kathmandu there were two offices known as eastern offices and western offices. The number of tax offices increased gradually. These offices were classified as zone offices and branch offices under these zone offices until 1977/78. In 1978/79(A.D.) zone and branch offices were converted into tax offices.³¹

Inland Revenue Department was established at first in Baishak, 2058, B. S. (,2001, A.D.) merging Tax Department and value Added tax Department. 40 tax offices under tax department and 17 offices under value added tax department were also merged.

Now there are 21 Inland Revenue Offices all over the Kingdom. Out of 21 Inland Revenue offices 4 are handled by gazette first class officers and rest by gazette second-class officers.³²

2.8.1 Personnel System of Inland Revenue Department

Director General, a gazette 1st class officer, heads Inland, Revenue

³¹Khadka, Rup, op. cit. p.100

³²Annul Report, Inland Revenue Department (MOF). p.2

Department the apex of tax administration. Other two Deputy Director General assist to the Director General and one liquor specialist is engaged in the assistance. They all are gazette 1st class officers. 20 gazette 2nd class officers, including chartered accountant and economist and 43 Gazette 3rd class officers directly assist to the Director General. Besides them, 71 non-gazette personnel of various ranks including drivers, peons and sweepers are involved in the total tax administration. Thus, the total 138 are employed in the Inland Revenue Department. The table no. 2.1 shows the detail of personnel system.

Table No. 2.1

Total Personnel Engaged in Inland Revenue Department with Position and Grade.

S. No.	Position	Grade	Total No.
01	Director General	G.I	1
02	Deputy D.G	G.I	2
03	Liquor Specialist	G.I	1
04	Chartered Accountant	G.II	4
05	Directors	G.II	12
06	Information Technical Director	G.II	1
07	Deputy Attorney	G.II	1
08	Economist	G.II	1
09	Liquor Specialist	G.II	1
10	Section Officer	G.III	1
11	Section Officer	G.III	36
12	Chemist	G.III	1

13	Account Officer	G.III	1
14	Legal Officer	G.III	1
15	District Attorney	G.III	1
16	Computer Engineer	G.III	2
17	D.E.S.	NG-I	12
18	Accountant	NG-I	3
19	Nayab Subba	NG-I	20
20	Kharidar	NG-II	11
21	A.D.E.S	NG-II	3
22	Divers		6
23	Peon		15
24	Sweeper		1
	Total		138

Source: Rup Khadka (2001), "Income Taxation in Nepal, Retrospect and Prospect:

Training to the staff should be undertaken time to time for the development of their skill of doing specific task. Training administration is also most important part of income tax administration. The Revenue Administration Training Center imparts training Workshops and seminars for tax officials. Internal as well as foreign training programmers have been conducted time to time. In the fiscal year 1961/62, (A.D.) there were 123 Personnel engaged in the operation of tax administration. Of the total staff, six officers had received special training in India, the United States, the United Kingdom and the Philippines. The period of training was varied in each case from four to twelve month in duration beginning with fiscal year 1961/62(A.D.). Since

the establishment of the Tax Department as the separate entity in 2016 (1959,A.D.), HMG/N has undertaken steps to strengthen the organization through training. In addition to the participant Training programmers listed above, local training has been given some consideration on March 15-22, 1964,A D. and local taxation seminar was conducted in Kathmandu for district tax official in which approximately 30 official's attended.³³

The same kinds of internal training as well as external training have been under taken by the IRD for the achievement of targeted goals, with the amendment and change in tax laws, merging Tax Department. It is required to emphasize on the training programmer to educate tax officials. 2543 and 22 personal were trained during the fiscal year 2000/01 by the Tax project. Similarly, 446 and 22 participants were trained in different subjects during fiscal year 2001/02.

Table No. 2.2

Number of personnel attained in Internal and Foreign training programs

Fiscal Year	Internal training	Foreign training	Total
2000/01	253	22	275
2001/02	446	22	468
Total	699	44	743

source: Annual reports of IRD, 2000/01 and 2001/02

³³Cooper, J.A., op. cit. p.2

The Revenue Division of the Ministry of Finance is responsible for the formulation of tax policy and setting up appropriate tax administration to implement the tax policy. However, the tax officers employed in the field offices carry on the actual job of tax assessment and collection. Field tax officers are the backbone of tax administration. They perform the following functions.

1. To obey specific instructions made by income tax act.
2. To find out new taxpayers and maintain a list of potential taxpayers.
3. To collect information about taxpayers in their areas of jurisdiction and maintain records.
4. To collect the statement of income from taxpayers and conduct scrutiny on such records.
5. To assess the tax in accordance with the provision of income tax act.
6. To send monthly statement to the Inland Revenue Department with appropriate suggestions.
7. To file appeals and to arrange defense of appeals as filed by taxpayers.

2.8.2 Income Tax Law and Tax Administration

The new Income Tax Act, 2002 has made detailed provision regarding the tax administration. Under this law, the Inland Revenue Department is responsible for the implementation and administration of this act. HMG has established Inland Revenue offices affiliated to Inland Revenue department to help the department with their jurisdiction by notifying in the Nepal Gazette. Such offices are considered as part of the department.³⁴

³⁴Mallik, B.D., op. cit. p.238.

The tax administration has a Director General, Deputy Generals, tax administrators, directors, chief tax offices, tax offices, tax officers, other officers and other staffs. The Director General subject to direction by HMG may exercise any power granted to the department under the Income Tax Act, 2002. He can appoint other persons as required and delegate powers to other persons for the operation except the following.

- a. Appoint other persons.
- b. Issue public circulars.
- c. Prescribe form of documentation.
- d. Stay or otherwise affect a reviewable decision or an objection decision and
- e. Compound and offence.

In the same manner, subject to direction by HMG or the Director General a Deputy Director General, chief tax administrator, director, chief tax officer or other officers appointed as a chief of a tax office may exercise any powers granted to the department under the Income Tax Act 2002 other than the powers which cannot be delegated by Director General to them and delegate the exercise of any such powers to another tax officer. An officer may exercise any power granted to the Department that has been delegated to him but may not delegate any power delegated to him. Officer or other officers appointed as a chief of a tax office may exercise any powers granted to the department under the Income Tax Act 2002 other than the powers which cannot be delegated by Director General to them and delegate the exercise of any such powers to another tax officer.

2.8.3 Problems Associated with Tax Administration in Nepal

The contribution of income tax (from Individual as well as corporate) on the total revenue of the government has been minimum from the beginning of income tax imposition. The Government needs huge amounts for the expenses to be made in developing and operating. Each year the estimated expenditure exceeds over expected

Revenue that arise revenue gap and it needs to borrow foreign loans. The income tax is only justifiable to increase the resource mobilization in the nation internally. However, due to poor earning capacity of people, it is difficult to raise the contribution ratio of income tax in the total revenue. On the other hand, most of people who are earning significant amount are beyond the income tax net.

This problem can be solved if we correct the problems seen in the tax administration gradually. The income tax system in Nepal has been facing many problems. Inefficiency of income tax administration is one of the main reasons. Tax administration is a complex and difficult technical matter. Even though forty-four years passed, the tax administration has same problems. These problems are explained in brief below;

2.8.3.1 Failure to locate New Taxpayers

Agrawal(1978,A.D) has pointed out the problems related to the location of new taxpayers in his book “Resource mobilization in Nepal” as “tax administration in Nepal lacks an up to date roll of existing as well as potential tax payers.”³⁵

Tax administration set up target to collect income tax in certain percentage of GDP each year, and makes policy to extend the scope of taxation.

³⁵Agrawal, G.R., op. cit. p. 109

But the target has not been fulfilled. The major problem is the location of new taxpayers in the case of non-resident and non-citizen persons who are really outside the income tax net. This is due to open border with India. Similarly, self-employed persons as professionals and skilled persons have also remained outside the effective reach on income tax net. Broker, speculators, foreign goods dealers, suppliers in big hotels, tourist guide, insurance agents and persons representing international companies are the other potential taxpayer who are also remaining outside the income tax net. Administration deficiency, poor taxpayer's morality and compliance about the income tax payment are major responsible factors for problem of failure to locate the new taxpayers.

2.8.3.2 Failure to maintain Proper Accounts and Records

Accounts and financial statements of the taxpayers are the base of effective and efficient tax administration. The profits or surpluses shown in the account are base for Computation of tax liability of taxpayer. A tax officer is supposed to assess income tax liability by cross verification in scrutiny and investigation of tax returns.

Most of taxpayers in Nepal do not maintain accounts in proper way for the income tax purpose. They show hesitation in submission of accounts and tax returns in the Inland Revenue offices.

On the other hand, large numbers of private business entities submit false income statement for tax purpose even though they maintain accounts of their business transactions. They make two types of accounts and hide the real statement. That is a reason why the income tax officers fail to find out

the true and fair view of the financial state of affairs of taxpayers. There are many reasons, which encourage making false accounts for tax purpose. Some reasons are stated below.

- a) Attitude of the tax officers: The attitude of the tax officers is responsible for failure to maintain proper accounts and records. Generally, tax officers reject the accounts submitted by taxpayers on the plea that they are not acceptable. They are reluctant to verify the accounts in depth investigation. The reasons are: Some tax officers are lazy and most of tax officers have no competency of inspecting accounts because they are from other subject faculty. They also reject accounts for the collusion with taxpayers to mutual benefit. Anyway, this type of negative attitude of tax officers is not conducive to the development of the habit of maintaining account by the taxpayers.
- b) Ineffective use of sanctions: The ineffective use of sanctions provided in the law against those taxpayers who fail to comply with the accounting and reporting requirements of law has encouraged non-maintenance of accounts.
- c) Lack of intermediaries: Professional accountants, tax lawyer and tax consultants are the intermediaries and they make valuable assistance in the maintenance of accounts. They provide professional services to the taxpayers for the consultation of tax provision and maintenance of accounts and records in proper way. However, such intermediaries have not received adequate encouragement and support from the tax administration.
- d) Assessment by committee and best judgment: income tax is assessed under different methods in Nepal viz. committee assessment, Best

judgment assessment, account assessment and self-assessment system. Self-assessment system was started from fiscal year 1992/93 in practice. Mostly the committee assessment and best judgment assessment have been applied commonly. More than 60% of assessments of tax liabilities are made by committee method in Nepal. However, more than 12% of the tax assessment is made by the best judgment system. The account method of assessment is applied in low percentage say below 8% Thus mostly committee and Best judgment methods are in use. Indeed, most of taxpayers seem to prefer these methods because there is no limit as to the amount of income, which can be assessed under these methods. The tax officers also enjoy discretionary powers while making assessment under the best judgment methods. This method encourages both taxpayers as well as tax officers to make collusion between them for financial benefit.

- e) These increases dishonest taxpayers as well as corrupt tax officer. Tax assessment by committee or best judgment method has been discouraging to maintain proper accounts by taxpayers that are harmful to the tax administration.

2.8.3.3 Assessment delays

Tax assessment is the Computation of taxable income and tax liability of a taxpayer for certain period by application of governing rates. Assessment procedure starts with the submission of tax returns. It is scrutinized, verified and audited for checking accuracy and reliability of contained information about income and expenditure. Assessment of tax liability is very time consuming in Nepal. This is a serious problem in the

tax administration of Nepal. The major reasons for assessment delays are listed below.

- a. Defective assessment procedure.
- b. Delays in filing of income tax returns.
- c. Non-Maintenance of accounts by taxpayers.
- d. Poor recording and filing system in Inland Revenue department.
- e. Unclear tax provisions.
- f. Irregularities and negligence of tax personnel.

These reasons all are equally responsible for assessment delays in tax administration.

2.8.3.4 Collection Problems

The main measurable factor for performance of tax administration is collection of tax revenue. From this point of view, it seems that the performance of tax administration is not satisfactory because of low collection of income tax. Notwithstanding, the income tax act had prescribed stiff fines and penalties for non-payment of tax; the collection situation has been worsening. The collection problem has been continued from the beginnings of income tax administration due to various reasons which are given below.

- a) Undue delays in assessment: The traditional habit of undue delay in assessment has been serious obstacle in the collection revenue in Nepal. There are many income statements in the Inland Revenue offices remaining to assess since 4 to 5 years.

- b) Non-compliance by tax officer: Many taxpayers do not submit or pay income tax in due date. Reluctance to use fines and penalties encourages them keeping a defaulting in payment of tax.
 - c) Changes in the taxpayer's identity: The identities of firms and their proprietor have changed frequently in Nepal. This has been constrained in collection of taxes. Some dishonest taxpayers change their business names and appear with newly registered firm. This is also reason for collection delinquency.
 - d) Weakness in making fines and penalties: Although the income tax act has made provision of stiff fine and Penalties for non-payment of tax, Inland revenue offices have been reluctant in making fines and penalties to them who do not submit or pay income tax in due date.
 - e) Lengthy procedure in payments: There are lengthy procedures of completing work in all the government offices. Same reason exists in the payment of income tax. Taxpayers should deposit tax amounts in NRB by filing five vouchers. This is very rigorous to the taxpayers to the taxpayers and it has adversely, affected in revenue collection.
 - f) Under delay in settlement of appeals: Appeals filled by taxpayers are not settled in time in Nepal. This freezes the tax amount in a deposit account.
- Besides aforesaid reasons of collections problem, some other are listed below.
- i. Lack of collection responsibility.
 - ii. Untimely deposit of tax collection at source.
 - iii. Defective accounting system in Inland Revenue offices.
 - iv. Failure of public sector enterprises to pay the taxes.
 - v. Tax holiday granted to new industries.

2.8.3.5 Poor taxpaying habit of People

Traditionally, Nepalese people have no consciousness of income tax. They have been paying indirect tax and land tax without hesitation because of unfeeling of payment. Many people still perceive that income tax is a burden and an unnecessary payment. They do not feel that the payment of income tax is the contribution to the nation for development. Voluntary compliance the corner stone of effective tax administration is poor in Nepal. Most of people who earn considerable amounts hide the income and do not pay the tax.

In the developed countries, people involve in voluntary compliance for tax payment. They feel that not payment of income tax is a social crime. But in developing countries like Nepal, tax liability is hidden and this type of practice is taken as a brilliant work. On the other hand, the government is trying to extract compulsory payment out of income of taxpayers through income tax law. The contribution of income tax to the national receipt is relatively low in the developing countries in comparison with developed countries. To increase the contribution of income tax to the national revenue for the economic and socio development, taxpayers need to be persuaded and influenced to meet their tax obligations in a co- operative spirit. This requires integrated programmes and taxpayer education. However, lack of education of taxation to the taxpayers has been increasing non-voluntary compliance in tax. On the other hand, tax administration experts think that any taxpayers are compelled to pay income tax by the law. This is not correct thought because habits of people need to be improved through good education system rather than by making force. The major responsible factors that make poor taxpaying habits of people in Nepal can be listed as follows:

- a) Negative attitudes of tax personnel.

- b) Vague and Complicated laws of taxation.
- c) Lengthy assessment procedures.
- d) Lack of taxpayer's education.
- e) Weakness in enforcement of fines and penalties.
- f) Lack of research in tax matters.

2.8.3.6 Tax Evasion and Avoidance

Both tax evasion and avoidance are major causes to make low income tax collection. Thus, these practices are the major problems of income tax administration. Rich people and businesspersons do such practices. They are advised by corrupt tax personnel and tax consultant to evade or avoid taxes. Evasion and avoidance of tax eliminate or minimize the tax liability of taxpayers and it affects in tax collection negatively. Hence, tax revenue of government becomes less. From this point of view, both are same but they are different in legal definition.

Tax evasion refers to reduction or elimination of tax liability through means contrary to law. In other words, it denotes fraudulent, illegal deliberate act of taxpayer to hide or make less tax liability culmination in the violation of the provision of the laws. It implies manipulation and includes activities of deceit, misrepresentation of facts, concealment falsification of accounts and downright fraud made by tax payment due. Thus, tax evasion is an illegal and immoral attempt. It may arise from weak enforcement of punishment to non-payment of tax legally due to taxpayer's immorality in paying income tax and inadequate tools of tax administration. Evasion practice is increased or encouraged by some reasons that are listed below:

- a) Corruption by tax officials: Habit of making collusion with tax payers for the mutual benefit of tax officials rather than national receipts have been increasing tax evasion practice in Nepal.
- b) Illegal business activities: Such business activities are not access of tax personnel, which are engaging in illegal business activities. The businesspersons, who conducting illegal business, do not also present the facts and information about their business. They always evade tax payments.
- c) Reluctance of taxpayer to maintain accounts: Most of the taxpayer in Nepal does not maintain accounts of their business activities in the accepted form. Tax officers also discourage to maintain accounts because they use mostly best judgment and committee assessment methods in tax assessment. Thus, tax evasion is made easily.
- d) Ineffective use of fines and penalties. Tax officials are generally, reluctant to impose fines and penalties for non-payment of tax in Nepal. This leads to increase the tax evasion rate.
- e) Poor development of corporate sector. It is obvious that the growth rate of corporations in the private sector is minimal. Private organizations in operations are also family owned and managed. They also do not maintain accounts in proper way. As a result, evasion is easily conducted.
- f) Difficulties in locating Taxpayers: Tax administration has been unable to record up to date information of taxpayers that is why; tax evasion practice cannot be detected in Nepal. Most of the professionals, traders engaging in foreign trade and skilled persons are out of tax net.

Besides these cause, other are responsible equally in tax evasion in Nepal as:

- I. Higher marginal tax rates.
- II. Inadequate auditing and investigation.
- III. Lack of support of public.
- IV. Poor development of intermediaries.

Tax avoidance: Other device for tax reduction is tax avoidance. It is a systematic tax planning without contrary to legal aspect. It is not illegal practice even though it reduces the taxable incomes. A taxpayer is entitled to so arrange his financial affair to take the maximum advantage of the law and its weakness to reduce or prevent his tax liability. Hence, tax avoidance is known as the skillful and brilliant work of taxpayer in reduction or prevention of tax liability through legal means. It means making good use of legal loopholes and taking advantages of the means allowed by the law or at least not contrary to law.

2.9 Brief Review of Some Studies in Taxation

The researcher had consulted books, there are some articles concerning with income taxation during the thesis writing. Some of them are presented in brief below.

Since the period of introduction of income tax system in Nepal, many individual as well as some institutions have made efforts on study of taxation for finding the ways for the improvement of income tax system in Nepal in each aspect on income taxation. Many books, research reports and articles have been written and published in this respect.

Govinda Ram Agrawal presented the research report entitled “Resource Mobilization for Development: The reform of income tax in Nepal” which was published by the CEDA Kathmandu in July, 1978. This research work was the first comprehensive study on the income tax in Nepal. In research work, he analyzed various aspect of income tax and administrative aspect of

taxation in Nepal. He showed the causes of problems facing the tax authorities in the tax administration in his report. As per his study, the main causes of administrative problems were undue delay in tax assessment, failure to maintain proper records by tax offices, unfriendly behavior of tax officials to the taxpayers, assessment under the best judgment basis etc. He also showed the main reasons of assessment delays in Nepal. As mentioned by him, delays in filing of returns of income, delay in settlement of appeal defective assessment procedure, lack of proper taxpayer information and failure to maintain the proper accounts and records by taxpayer/tax offices. He also found the buoyancy of income tax with respect to GDP for the period 1967/68 to 1975/76 and elasticity of income tax. He showed about 2.18 buoyancy and 2.01 elasticity of income tax.

The other book named “Income Tax System in Nepal” written by Narayan Raj Tiwari published in 1978 described the income tax in general. This book consisted the historical background of income tax in Nepal. This book therefore was useful to understand the theoretical aspect of income tax law only because it failed to give the fact about the role and numerical information of income tax in Nepal in an analytical way.

“Income Tax Assessment in Nepal” unpublished dissertation submitted by Ram Bahadur Thapa in 1993 tried to show the main problems of income tax administration. His report mentioned that failure to locate new tax payer, non-maintaining proper records and defective personnel management were the main causes of existing problems in income tax administration in Nepal. According to the report, the tax administration was unable to enhance the taxpayer’s compliance because of the complicated

laws and procedure of income tax, undue delay in tax assessment procedure, rough behavior of tax personnel etc. He recommended accepting self-assessment system. His report also showed the fiscal deficit of Nepal from fiscal year 1908/81, to 1990/91 (A.D.) and its increment by 7.66 times more.

Shiva Narayan Shahu also presented a thesis report entitled “Contribution of Income Tax in National Revenue of Nepal” in 1995 A.D. . According to his report only 0.35% of total population came under the categories of taxpayers in Nepal during the period of his research work. He showed that the contribution of income tax to total tax revenue and total revenue was 9.95% and 7.94% respectively. During his study period the trend of income tax, collection was in increasing order except for the fiscal year 1990/91 and 1991/92(A.D.). He also showed that the income tax revenue was in fourth in the Nepalese tax structure.

In 1997, Paudyal chhetri submitted a Ph. D. thesis entitled “Corporate Tax Planning in Nepal”. This thesis report was aimed to examine the implications of tax factors in strategic planning, project and operational planning in Nepalese companies. He found that the majority (90%) of the companies (sample size of study) considered tax factors while selecting the line of business. He also found the positive correlation (+0.8) between tax rate and the debt equity ratio because of interest paid on debt is a tax-deductible item. Similarly, the correlation coefficient between average fixed assets and corporate tax was (+0.7) in small companies and (+1.2) in medium size companies. As against this, in large companies, there was a negative correlation (-.02), which showed that increased in fixed assets in large companies resulted in decreases in the corporate tax. He addressed that

the tax planning should be considered while making corporate planning and so companies should set up separate tax section to get maximum benefit of provisions provided by tax law. However, tax section should get maximum benefit of provisions provided by tax law. However, tax assessment under the best judgment blocked the application of tax planning in corporate planning. He recommended that tax incentives should be given to non-industrial companies too, and tax rate should be differential for resident and non-resident companies.

Kandel (2000) also presented the Ph. D. thesis entitled “Corporate Tax System Investment Behavior in Nepal”. He undertook the research work to find out the problems relating to corporate tax, which blocks the development of private investments. The main objectives of his study were to evaluate the corporate tax system in general, to examine the sensitivity of certain policy like inflation, capital gain tax, dividend tax and interest tax etc. based on their impact on tax rate (AETR), marginal effective tax rate (METR) and tax incentives in Nepal. He found that the METRs for debt-financed project are almost negative (i.e. -1.7%) and positive for equity financed project and debt-equity ratio project by 27% and 19% respectively. He had also found the impact of inflation to the METR. According to him, the statutory tax rate deduction had impact private investments by 60% to 20%. In this regard, he had showed the adjusted R^2 value 0.87 at 5% level of significance options: debt, mix and equity i.e. it was not much distortive. The relationship between inflation rate and effective tax burden in Nepal was negative.

In 2002, Miss Jayanti Poudel conducted a research on “Income Taxation in Nepal”. Her study was emphasized the structure and productivity of income tax. She has described income tax in its historical prospective, income tax

structure, elasticity and voluntary disclosure of income scheme and the role of income tax administration of Nepal. She has more stressed on income tax structure of Nepal. She found the contribution of indirect tax is about twice than direct tax, income tax occupied the first rank among the direct tax, the working procedure of tax administrators are still traditional and cost of administration has not been brought to the satisfactory level. She has suggested making broad the income tax base, reform of tax administration and establishment of standard accounting system.

In 2003, Mr. Dan Bahadur Palli Magar conducted a research work on “Income Tax in Nepal”. He focused his study on exemption and deduction aspects of income tax act. The provision of exemption and deduction under income tax act 2002, A.D. were studied. He has explained problems and weakness of income tax system, contribution of income tax to government revenue and suggested possible areas of improvements.

Serchan (2003, A.D.), has presented a dissertation named “An Analysis of Fines and Penalties Regarding to Income Tax System of Nepal”. The objectives of this study were to analyze tax structure of Nepal, to find out the share of income tax to government revenue, to analyze the provision of fines and penalties under income tax law, to know the taxpayer’s knowledge and tax officers views about fines and penalties and to show the role of fines and penalties to increase the tax paying habit of Nepalese people. In this study he has found that fines and penalties not only effective methods of reducing tax evasion but also be provided tax education to the taxpayers to increase tax consciousness.

Some books have been written and published on new Income Tax Act, 2002(2058, A. D.). “Income Tax Law: then and now” has been written

in Nepali by Adhikari in 2002, A.D. and “Nepalko Aadhunik Aayakar Pranali” has been written in Nepali by Bidhyadhar Mallik in 2003. These books are useful to understand the laws and provision of new Income Tax Act, 2002. In these books, the respective authors have tried to describe the laws and provision in descriptive manner with examples. Numerical examples are also given to understand the treatment of special provisions in tax assessment process. These books have also included the evolution of income tax system in Nepal.

Mr Amatya, Dr. Pokharel and Dahal(2003, A. D.) published a book named “Taxation in Nepal”. They described the theoretical as well as practical aspect of taxation. The book has found fully based on prescribed syllabus of T.U. The book is descriptive in nature.

Thus, there are many studies relating to income tax of Nepal undertaken by various individuals and some institution. They all are concerned mostly on the administrative, legal and historical aspect of income taxation. Most of dissertation presented by previous postgraduate students has focused about the trend of income tax collection and buoyancy of income tax with GDP. The trend of income tax current and to anticipate further tax collection from specific group of taxpayer and to correct the problems associated with income tax facing by them. But there are very limited numbers of research studies carried out specifying taxpayer group. To fulfill this gap, this study has concentrated on analysis of income tax collection from commercial banks and problems faced by them in tax by them. Thus, this study is little different from other research study.

CHAPTER – III

3. RESEARCH METHODOLOGY

Research is essentially a systematic inquiry seeking facts through objectives verifiable methods in order to discover the relationship among them and deduce from them broad principles or laws. It is a method of defining and refining problems, formulating hypothesis or suggested solution, collecting, organizing and evaluating data, making decision and making conclusions. "Research is the process of a systematic and in-depth study or search of any particular topic, subject, or area of investigation backed by the collection, compilation, presentation, and interpretation of relevant details or data. It is a careful search or inquiry into any subject matter, which is an endeavor to discover or find out valuable facts which will be useful for further application or utilization." (Joshi, 2004)

Research methodology depends on the various aspects of the research project. The size of the project, the objectives of the project, importance of the project, time frame of the project, impact of the project in the various aspects of the human life etc. are the variables that determines the research methodology of the particulars project.

"Research methodology refers to the various sequential steps to adopt by a researcher in studying a problem with certain objectives in view." (Kothari, 1989)

In other words, Research Methodology describes the methods and proves applied in the entire aspect of the study.

It is necessary to increase the increasing internal revenue in order to operate nation and develop the economy and to decrease the dependency on foreign assistance. Income tax (corporate tax in case of corporate bodies) is the best and reasonable source of national revenue in Nepal. The trend of income tax realization and associated problems should be studied from time to time to find out the ways for proper solution and to collect maximum tax revenue. Commercial banks are also the corporate taxpayers to the nation. The study of banking in respect to tax payment may be base for investigation of potential tax sources. As a result, the nation can widen the scope of tax net having positive impact on income tax collection.

This study was carried out to analyze the tax contribution of commercial banks in the national receipts and problems relating to income tax payment. To achieve these stated objectives, the researcher had conducted the research methodology containing research design, data sources, data collection procedure, tools for analysis and methods used in the report presentation.

3.1 Research Design

The research entitled “A Study on Income Tax Collection from Commercial Bank” was concerned with past phenomena both numerical as well as opinions. Therefore, this is the type of historical research design. The collected data and information were described and analyzed using some statistical tools. Thus, this study had followed the descriptive as well as analytical research design.

3.2 Nature and Sources of Data and Collection Procedure

The data used in this thesis are collected from secondary sources.. Numerical data and other information related to tax laws, development of taxation, administrative aspect and other tax figures were collected from secondary sources. The main sources of the secondary data were as follows.

- i. Published documents and annual reports of Nepal Rastra Bank.
- ii. Published reports and seminar papers of CEDA, Central Library.
- iii. Published books, articles, unpublished thesis, and dissertations on the concern subject area.
- iv. Annual reports and statistical abstracts of Inland Revenue Department.
- v. Some publications of Central Bureau of statistics.
- vi. Publications of HMG; Ministry of Finance i.e. Budget Speeches and Economic Surveys.
- vii. Annual reports of commercial banks from fiscal year 2002/03 to 2007/08.

3.3 Data Presentation and Analysis

The data and information collected through secondary sources are initially presented on separate table according to the objective and nature. Then simple analysis has been done by using simple percentage, simple average, graphs, diagram etc.

3.4 Statistical Tools Used

For making analysis and interpretation of collected data from primary sources as well as secondary sources, the tabulation, diagrams were used along with simple percentage as demanded by subject matter. From these tabulated data, interpretations were made by using simple arithmetic mean and ratios wherever necessary. Similarly, standard deviation and co-efficient of variation were also used to show the dispersion of tax paying from commercial banks.

CHAPTER: IV

4. PRESENTATION AND ANALYSIS OF DATA

4.1 Revenue Structure of Nepal

The income of the government through all sources like taxes, fees, fines and penalties, grant, gift, donation etc are called public revenue. In general public revenue are divided into two main headings namely tax revenue and non-tax revenue. Tax revenue contributes about three quarter of total revenue while non-tax revenue represents about one quarter of total revenue at the central level. The trend and composition of tax revenue and non-tax revenue in the recent years are given in table

Table 4.1
Composition of Tax and Non Tax Revenue of Nepal
From Fiscal Year 1996/97 to 2007/08

Rs. in Million

Fiscal Year	Total Revenue		Tax Revenue		Non Tax Revenue	
	Amount	In %	Amount	In %	Amount	In %
1996/97	30373.5	100	24424.3	80.41	5949.2	19.59
1997/98	32937.9	100	25939.8	78.75	6998.1	21.25
1998/99	37251.0	100	28752.9	77.19	8498.1	22.81
1999/00	42893.7	100	33152.1	77.29	9741.6	22.71
2000/01	48893.7	100	38865.1	79.49	10028.8	20.51
2001/02	50445.6	100	39330.6	77.97	11115.0	22.03
2002/03	56229.8	100	42587.0	75.74	13642.7	24.27
2003/04	62331.0	100	48173.0	77.29	14158.0	22.71
2004/05	70122.7	100	54104.7	77.16	16018.0	22.84
2005/06	72282.0	100	57430.4	78.45	14851.6	20.54
2006/07	87712.2	100	71126.7	81.09	16585.5	18.91
2007/08	107622.9	100	85155.5	79.12	22467.40	20.87
Average				77.92		22.08

Source: Economic survey 2007/08, Ministry of Finance, Government of Nepal

Total revenue of Nepal consists of tax revenue and non-tax revenue. Tax revenue comprises of customs, excise, sales tax, income tax, land revenue and registration and miscellaneous taxes. Table 4.1 shows the composition of tax and non tax revenues in Nepalese revenue structure for latest nine years i.e. from fiscal years 1996/97 to 2007/08. In Nepalese revenue structure, tax revenue has always been greater than three times of non tax revenue. This means there is heavy contribution of tax revenue in total revenue of Nepal. Tax revenue in amount has always been increasing per year than the previous years. Its percentage contribution has always been fluctuating with in the lower limit of about 75.74% to the upper limit of about 81.09%. But non-tax revenue has lowest contribution as compared to tax revenue. Its contribution to total revenue has remained below 25%.

The average share of tax revenue and non-tax revenue has been 77.92% and 22.08% respectively. This indicates that the role of tax revenue is very much important in revenue mobilization of Nepal and to meet the increasing expenditure of government. So, tax revenue has been placed as a major source of government revenue in Nepal.

In 1996/97, out of total revenue of Rs. 30373.5 million, 80.41% i.e. Rs. 24424.3 millions has been contributed by tax revenue and in 2007/08, 79.12% i.e. Rs. 85155.50 millions of total revenue has been collected as tax revenue. Similarly, in 1996/97, out of total revenue 19.59% i.e. Rs. 5946.2 millions and in 2007/08, out of total revenue of Rs. 107622.94 millions 20.87% i.e. Rs. 22467.40 millions has been contributed from non-tax revenue. Although the contribution of both tax and non-tax revenue to total revenue seems to be increasing simultaneously, the dominant role is that of tax revenue.

4.1.1 Tax Revenue Structure of Nepal

Tax revenue is consists of direct tax and indirect tax revenue. The tax on income and capital is known as direct tax whereas, tax on consumption is known as indirect tax. Direct tax includes income tax, land revenue and registration, house and land tax, property tax, vehicle tax etc. and indirect tax includes sales tax, custom duties, excise duties, entertainment tax, contract tax hotel tax, air flight tax etc. Tax revenue one of the principle source of the government revenue, is a compulsory contribution imposed by a public authority. It covers the following heads such as persons, organizations, business firms and even foreigners who are doing business of consuming goods or service in Nepal. The magnitude to total tax revenue as the sum of direct and indirect tax is presented in table 4.2.

Table 4.2
Contribution of Direct and Indirect Tax in Total Tax revenue of Nepal
From Fiscal Year 1996/97 to 2007/08

Fiscal Year	Total Tax Revenue		Direct Tax Revenue		Indirect Tax Revenue	
			Amount	In %	Amount	In %
	1996/97	24424.3	100	5340.0	21.86	19084.3
1997/98	25939.8	100	6187.9	23.85	19751.9	76.15
1998/99	28752.9	100	7516.1	26.14	21236.8	73.86
1999/00	33152.1	100	8951.5	27.00	24200.6	73.00
2000/01	38865.1	100	10159.4	26.14	28705.7	73.86
2001/02	39330.6	100	10597.5	26.94	28733.1	73.06
2002/03	42587.0	100	10105.8	23.73	32481.2	76.27
2003/04	48173.0	100	11912.6	24.73	36260.4	75.27
2004/05	54104.7	100	13071.8	24.16	41032.9	75.84
2005/06	57430.4	100	13968.1	24.32	43462.3	75.67
2006/07	71126.7	100	18980.3	26.68	53146.4	73.32
2007/08	85155.5	100	23087.76	27.11	62067.82	72.99
Average				24.95		75.05

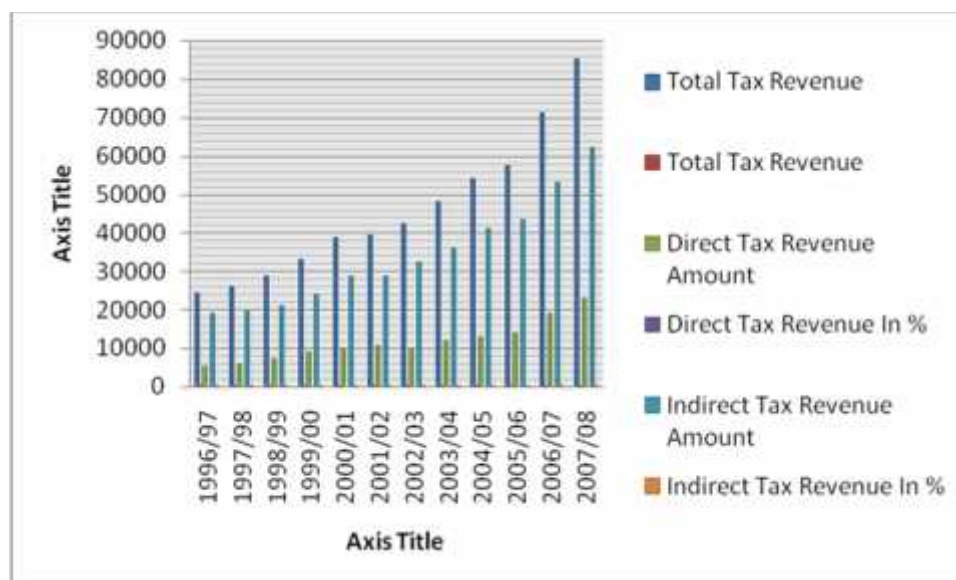
Source: Economic survey 2007/08, Ministry of Finance, Government of Nepal

From the above table and below figure, it is clear that the whole Nepalese tax structure is dominated by indirect tax revenue. In 1996/97, out of total tax revenue of Rs. 24424.3 millions, Rs. 5340.0 millions and Rs. 19084.3 millions have been contributed by direct tax and indirect tax revenue have been contributed by direct and indirect tax revenue respectively. In 2007/08, Rs. 23087.76 millions and Rs. 62067.82 millions out of total tax revenue have been collected as direct and indirect tax revenue respectively. That is, 27.11% and 72.99% of total tax revenue have been collected from direct tax and indirect tax revenue respectively.

The average share of direct tax revenue in total tax revenue for the period from 1996/97 to 2007/08 is 24.95% and the share of indirect tax revenue is 75.05%. Comparison of direct tax and indirect tax revenue shows that Nepalese economy is heavily relied up on indirect taxation. But in development countries like USA, UK etc, direct tax plays a leading role for internal resource mobilization whereas in developing countries like Nepal, indirect tax play pioneering role by domination direct tax. To divert the channel of development, it is necessary to increase the share of direct tax, ultimately decreasing the share of indirect tax. So, attention should be focused on the sufficient resources mobilization through direct taxation.

Figure 4.1

Trend of Direct and Indirect Tax Revenue



4.1.2 Trend and composition of Direct tax in Nepal

The structure of direct tax is the composition of income tax revenue, land revenue and registration and miscellaneous taxes. Income taxes include income tax from public enterprises, semi public enterprises, private corporate bodies, individuals, remuneration and interest. Land revenue and house and land registration fees are including in land revenue and registration. And miscellaneous taxes include urban house and land tax, vehicle tax and other taxes. The following table and figure shows the trend and composition of direct tax in Nepal.

Table 4.3
Composition of Direct tax Revenue

Rs. in Million

Fiscal Year	Total Direct Tax	In %	Income Tax	In %	Land Revenue & Registration	In%	Miscellaneous Taxes	In%
1996/97	5340.0	100	4123.4	77.22	1015.4	19.01	201.2	3.77
1997/98	6187.9	100	4898.1	79.16	1004.2	16.23	285.6	4.62
1998/99	7516.1	100	6170.2	82.09	1003.2	13.35	342.7	4.56
1999/00	8951.5	100	7420.6	82.90	1015.9	11.35	515.0	5.75
2000/01	10159.4	100	9114.0	89.71	612.9	6.03	432.5	4.26
2001/02	10597.5	100	8903.7	84.02	1131.8	10.68	562.0	5.30
2002/03	10105.8	100	7966.2	78.83	1414.3	13.99	725.3	7.18
2003/04	11912.6	100	9245.9	77.61	1697.5	14.25	969.2	8.14
2004/05	13071.8	100	10159.4	77.72	1799.2	13.76	1113.2	8.52
2005/06	13968.1	100	10373.7	74.26	2181.10	15.6	1413.3	10.12
2006/07	18980.3	100	15035	79.21	2253.50	11.87	1692.8	18.91
2007/08	23087.76	100	17311.22	74.98	2940.74	12.73	2835.8	12.28
<i>Average</i>				<i>81.03</i>		<i>13.18</i>		<i>5.79</i>

Source: Economic Survey 2007/08, Ministry of Finance, Government of Nepal.

From the above table it is clear that income tax occupies the highest rank among various taxes in direct tax revenue. As compared to the previous years, the share of income tax revenue has been increasing trend. In 1996/97, out of total direct tax revenue of Rs. 5340.0 millions, Rs. 4123.4 millions has been contributed by income tax revenue. This is about 77.22% contribution of income tax revenue in total direct tax revenue. In 2007/08, out of total direct tax revenue of Rs. 23087.76millions, Rs. 17311.22millions has been contributed by income tax revenue. The average contribution of

income tax revenue in total direct tax revenue is 81.03% from the fiscal year 1996/97 to 2007/08.

Land revenue and registration occupies the second place among direct tax revenues. The trend of land revenue and registration is fluctuating. In 1996/97, out of total direct tax revenue of Rs. 5340.0 millions, Rs. 1015.4 millions was contributed by land revenue and registration. It is 19.01% of total direct tax revenue. In 2007/08, out of total direct tax revenue of Rs. 23087.76 millions, Rs. 2940.74 millions has been contributed by land revenue and registration of land revenue and registration comes to be 13.18% of total direct tax revenue.

Miscellaneous taxes occupy third and last position among various taxes. The trend of miscellaneous taxes has been fluctuating. In 1996/97, Rs 201.2 millions and in 2007/08, Rs. 2835.8millions have been collected as miscellaneous taxes, out of total direct tax Rs. 5340.0 and 23087.76millions respectively. The average contribution of miscellaneous taxes on direct tax revenue of Nepal has been 5.79%.

4.1.3 Contribution of Income Tax in Total Revenue, Tax Revenue and Direct Tax Revenue of Nepal

Nepal is a developing country facing a serious problem of resource gap. The dependency on foreign aid was increasing. So, need for mobilizing additional financial resources from domestic source through taxation has been urgent. The base for levying taxes may be consumption, income and capital. Taxes on income and capital are known as direct taxes whereas taxes

on consumption are known as indirect taxes. Income tax is a major element of direct tax and it is playing a vital role to generate government revenue for the development of national economy. Contribution of income tax in total revenue, tax revenue and direct tax revenue of Nepal has been presented in table in the following table and figure.

Table 4.4
Contribution of Income Tax in Total Revenue, Total Tax Revenue and Direct Tax Revenue of Nepal form Fiscal Year 1996/97 to 2007/08

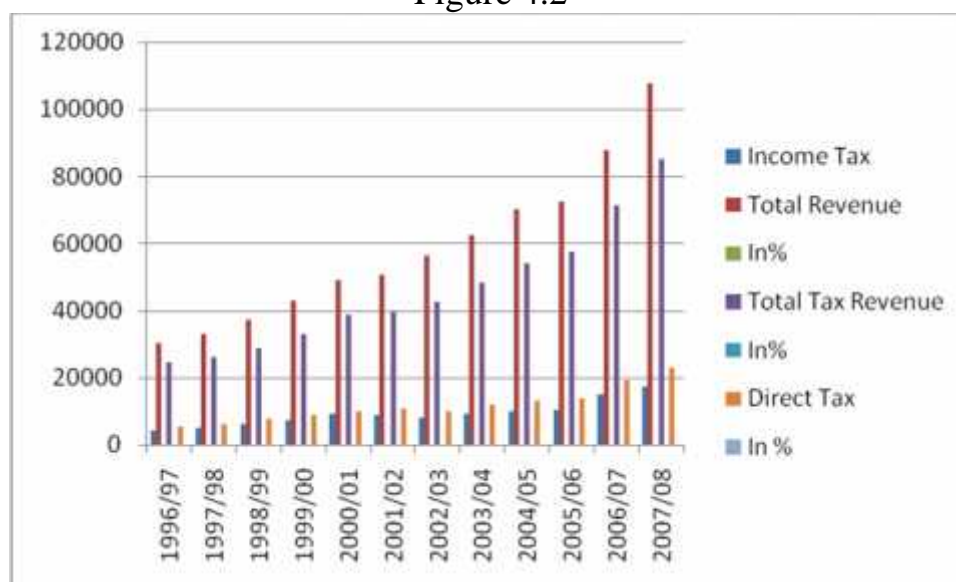
Rs. in Million

Fiscal Year	Income Tax	Total Revenue	In%	Total Tax Revenue	In%	Direct Tax	In %
1996/97	4123.4	30373.5	13.58	24424.3	16.88	5340.0	77.22
1997/98	4898.1	32937.9	14.87	25939.8	18.88	6187.9	79.16
1998/99	6170.2	37251.0	16.56	28752.9	21.46	7516.1	82.09
1999/00	7420.6	42893.7	17.30	33152.1	22.38	8951.5	82.90
2000/01	9114.0	48893.7	18.64	38865.1	23.45	10159.4	89.71
2001/02	8903.7	50445.6	17.65	39330.6	22.64	10597.5	84.02
2002/03	7966.2	56229.8	14.18	42587.0	18.70	10105.8	78.83
2003/04	9245.9	62331.0	14.83	48173.0	19.19	11912.6	77.61
2004/05	10159.4	70122.7	14.49	54104.7	18.78	13071.8	77.72
2005/06	10373.7	72282.0	14.35	57430.4	25.74	13968.1	74.26
2006/07	15035	87712.2	17.14	71126.7	20.79	18980.3	79.21
2007/08	17311	107622.58	16.08	85155.54	15.02	23087.76	74.98
Average			15.79		20.26		81.03

Source: Economic Survey 2007/08, Ministry of Finance, Government of Nepal

Contribution of Income Tax in Total Revenue, Total Tax Revenue & Direct Tax Revenue of Nepal from FY 1996/97 to 2007/08

Figure 4.2



Income Tax in Total Revenue of Nepal

The percentage contribution of income tax in total revenue of Nepal has been presented in table 4.4. Its contribution on total revenue has fluctuating trend. In 1996/97, out of total revenue of Rs 30373.5 millions, Rs 4123.4 millions has been contributed by income tax revenue. It is 13.58% of total revenue. In 2007/08, out of total revenue of Rs 107622.58 millions, Rs 17311 millions has been contributed by income tax revenue. It is about 16.08% of total revenue. The average contribution of income tax revenue on total revenue is 15.79% from the fiscal year 1996/97 to 2007/08.

Income Tax in Direct Tax Revenue of Nepal

The percentage contribution of income tax revenue in direct tax revenue is presented in table 4.4. In 1996/97, out of total direct tax revenue

of Rs. 5340.0 millions, Rs 4123.4 millions has been contributed by income tax revenue. It is 77.22% of direct tax revenue. In 2007/08, out of total direct tax revenue of Rs 23087.76 millions, Rs. 17311 millions has been contributed by income tax revenue. It is 74.98% of total direct tax revenue. The average contribution of income on direct tax revenue has been 81.03%.

4.1.4 Tax and Non Tax Revenue in GDP

In order to understand the growth pattern of taxation property, it would be desirable to examine the share of tax and non-tax revenue in GDP. Following table presents and account of the tax and non-tax revenue as percentage of GDP.

Table 4.5
Tax and Non Tax Revenue as Percentage of GDP

Rs. in Million

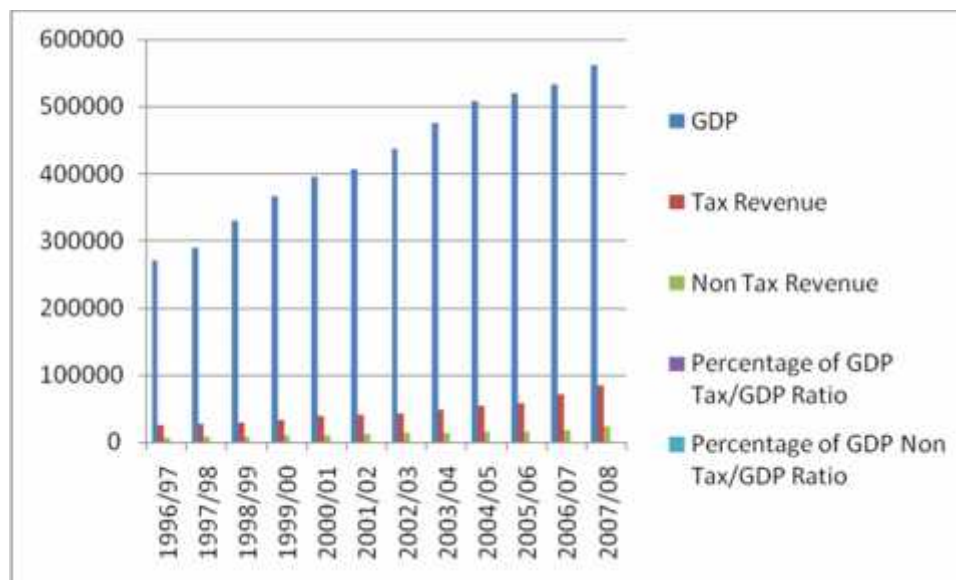
Fiscal Year	GDP	Tax Revenue	Non Tax Revenue	Percentage of GDP	
				Tax/GDP Ratio	Non Tax/GDP Ratio
1996/97	269570	24424.3	5949.2	9.06	2.21
1997/98	289798	25939.8	6998.1	8.95	2.41
1998/99	330018	28752.9	8498.1	8.71	2.58
1999/00	366251	33152.1	9741.6	9.05	2.66
2000/01	394052	38865.1	10028.8	9.86	2.55
2001/02	406138	39330.6	11115.0	9.68	2.74
2002/03	437546	42587.0	13642.7	9.73	3.12
2003/04	474919	48173.0	14158.0	10.14	2.98
2004/05	508651	54104.7	16018.0	10.64	3.15
2005/06	518824.2	57430.4	14851.6	11.63	2.86
2006/07	532313.44	71126.7	16585.5	13.36	3.11
2007/08	562122.95	85155.54	22467.04	15.14	3.9

Source: Economic Survey 2007/08

Note: GDP at factor cost before deducting of bank service charges.

Tax and Non Tax Revenue as Percentage of GDP

Figure 4.3



The relationship between tax and GDP is known as tax/GDP ratio. This is an indicator of the utilization of taxable capacity. Above table and figure represent an account of tax and non-tax revenue as percentage of GDP. In GDP, the tax revenue was been increasing much higher than the non tax revenue from fiscal year 1996/97 to 2007/08. The share of tax revenue increased from 9.06% of the GDP in fiscal year 1996/97 to 15.14% in fiscal year 2007/08. The non-tax revenue barely increases from 2.21% in the fiscal year 1996/97 to 3.9% in fiscal year 2007/08.

4.1.5 Direct and Indirect Tax Revenue as Percentage of GDP

To know the contribution of direct and indirect tax revenue, it would be desirable to examine the share of direct tax revenue in GDP. The following table indicates the share of direct and indirect tax revenue in GDP.

Table 4.6
Direct and Indirect Tax Revenue as Percentage of GDP

Rs. in million

Fiscal Year	GDP	Direct Tax Revenue	Indirect Tax Revenue	Percentage of GDP	
				Direct Tax/GDP Ratio	Indirect Tax/GDP Ratio
1996/97	269570	5340.0	19084.3	1.98	7.08
1997/98	289798	6187.9	19751.9	2.14	6.82
1998/99	330018	7516.1	21236.8	2.28	6.44
1999/00	366251	8951.5	24200.6	2.44	6.61
2000/01	394052	10159.4	28705.7	2.58	7.28
2001/02	406138	10597.5	28733.1	2.61	7.07
2002/03	437546	10105.8	32481.2	2.31	7.42
2003/04	474919	11912.6	36260.4	2.51	7.64
2004/05	508651	13071.8	41032.9	2.57	8.07
2005/06	528824.2	13968.1	43462.3	2.6	8.21
2006/07	532313.44	18980.3	52146.4	3.44	9.79
2007/08	562122.95	23087.76	62067.82	4.1	11.04

Sources: Economic Survey 2007/08, Ministry of Finance, Government of Nepal

Note: GDP at factor cost before deducting of bank service charges.

Tax as % of GDP

Figure 4.4

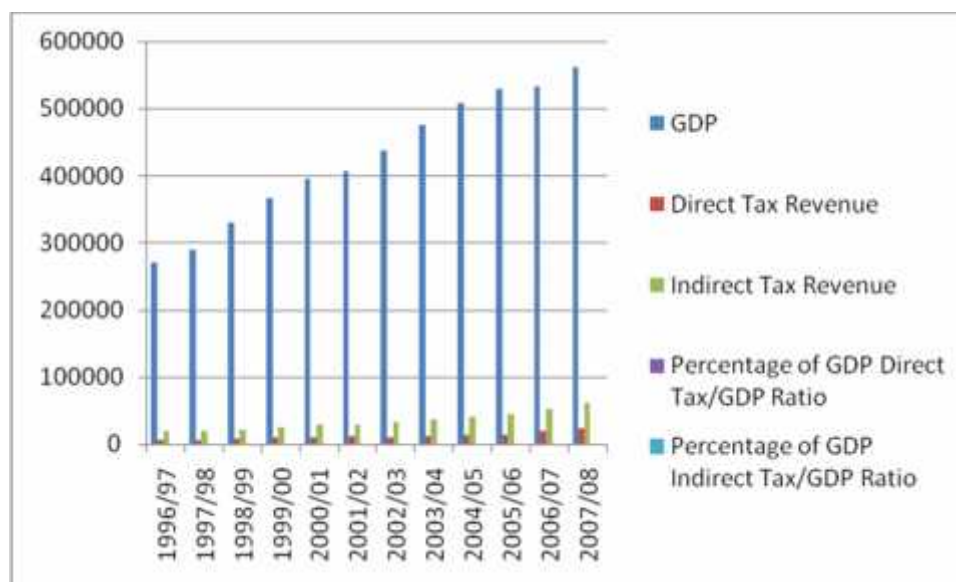


Table no.: 4.6 indicate the share of direct and indirect tax revenue in GDP. In terms of GDP, the share of direct tax revenue increased from 1.98% in fiscal year 1996/97 to 4.1% in fiscal year 2007/08 whereas the share of indirect tax revenue increased 7.08% from fiscal years 1996/97 to 11.04% in fiscal year 2007/08. From the above table and figure, it is clear that, the percentage contribution of direct tax in GDP is very low.

4.1.6 Contribution of Income Tax Revenue in GDP of Nepal

Nepal is one of the lowest taxed economies in the world. The tax/GDP ratio ranged from 15 to 18% in other developing countries (World Bank 1991). But Nepal it is obvious from the fact that tax/GDP ratio never exceeded 12% from the year 1996/97 to 2007/08. Income tax/GDP ratio of Nepal has not exceeded 3.07% since 1996/97 to 2007/08. Income tax/GDP

ratio in 1996/97 was 1.53%, whereas it was 3.07% in 2007/08. The average contribution of income tax to GDP of Nepal since 1996/97 to 2007/08 was about 2.10%. The tax/GDP ratio of Nepal has not been found satisfactory as compared to other countries.

Table 4.7
Contribution of income Tax Revenue in GDP of Nepal
From Fiscal Year 1996/97 to 2007/08

Rs in million

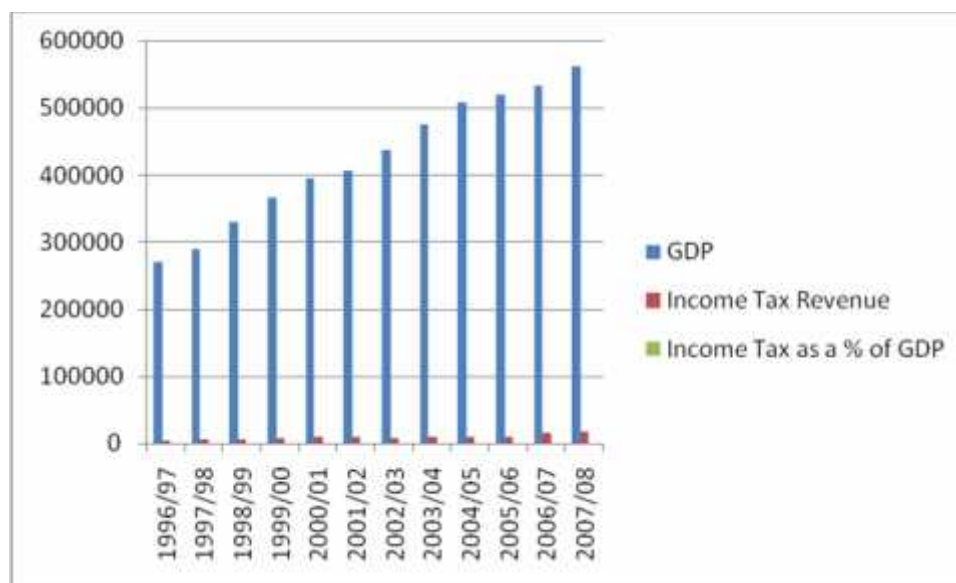
Fiscal Year	GDP	Income Tax Revenue	Income Tax as a % of GDP
1996/97	269570	4123.4	1.53
1997/98	289798	4898.1	1.69
1998/99	330018	6170.2	1.87
1999/00	366251	7420.6	2.03
2000/01	394052	9114.0	2.31
2001/02	406138	8903.7	2.19
2002/03	437546	7966.2	1.82
2003/04	474919	9245.9	1.95
2004/05	508651	10159.4	2.00
2005/06	518824.2	10373.7	1.99
2006/07	532313.44	15035	2.8
2007/08	562122.95	17311	3.07
Average			2.10

Source: Economic Survey 2007/08, Ministry of Finance, Government of Nepal

Note: GDP at factor cost before deducting of bank service charges.

Income tax Revenue as % of GDP

Figure 4.5



4.1.7 Corporate Tax Collection from Commercial Banks in Nepal

Commercial banks are public limited companies which are established under commercial bank act. Before 1983 AD, there were only two commercial banks. Nepal Bank Ltd. and Rastriya Banijya Bank Ltd in the country. The first joint venture bank named Nepal Arab Bank Ltd. was established in 1984. Then after many joint venture banks were established and now there are 26 commercial banks in operation in the nation. They deal monetary and credit activities accept deposits and lend loan, create credit and exchange the foreign currencies and provide many other services. By performing these activities, they make profits. Since they are profit-oriented organization, they pay taxes from profit according to income tax act. The table 4.8 is the list of corporate tax paid by various commercial banks for the last seven years (i.e.2001/2002-2007/08). According to this table, Standard Chartered Bank Ltd. and NABIL Bank Ltd. are high corporate tax paying commercial banks.

The average taxes paid these banks are 266.53 million and 208.50 million respectively, which covered 19.28% and 15.08% of total corporate tax collection from that sector.

Most of commercial banks listed in the table have been paying corporate tax in increasing order. In the beginning year i.e. 2001/02 about Rs. 572.87 million taxes was collected from commercial banks. In that year Standard

Chartered Bank Ltd was in the first position and NABIL Bank Ltd. was stood in the second position. Standard Chartered Bank Ltd. was first position in corporate tax paying from the fiscal year 2001/2002 to 2007/08. It had contributed 14.48% of total corporate tax from commercial banks in the fiscal year 2001/02 which was the highest corporate tax collection year from that sector about 2612.26 million.

Table 4.8
Corporate Tax Collection from Commercial Banks

(Rs in Million)

S N	Fiscal years	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
	Banks							
1	Nepal Bank Ltd.	0	0	0	0	0	0	0
2	Rastriya Banijya Bank Ltd.	0	0	0	0	0	0	0
3	NABIL Bank Ltd.	137.95	199.76	201.76	0	260.32	315.56	344.2
4	Nepal Investment Bank Ltd.	21.01	53.33	78.8	101.52	161.57	228.55	321.16
5	Standard Chartered Bank Ltd.	184.23	208.22	235.79	258.94	275.58	324	379
6	Himalayan Bank Ltd.	114.02	147.89	157.52	213.69	216.24	237.25	300.92
7	Nepal SBI Bank Ltd.	16.02	20.30	48.68	67.80	67.41	112.96	104.42
8	Nepal Bangladesh Bank Ltd.	35	120	97	100	123.91	184.19	187.26
9	Everest Bank Ltd	38.43	41.71	67.55	81.91	113.38	154.3	206.99
10	Bank of Kathmandu Ltd.	17.59	40.01	57.17	64.76	96.07	116.93	164.10
11	NCC Bank Ltd.	0	3.47	2.63	15.88	13.06	41.54	72.73
12	Lumbini Bank Ltd.	0	0	21.76	35.19	0	32.63	53.15
13	NIC Bank Ltd.	1.66	16.39	28.53	50.97	40.35	74.18	117.08
14	Machhapuchhre Bank Ltd.	0	0	0	30.94	53.11	26.64	58.78
15	Kumari Bank Ltd.	6.96	8.87	20.43	42.76	47.63	80.63	82.94
16	Laxmi Bank Ltd.	0	0	2.63	0	16.08	30.12	55.53
17	Siddhartha Bank Ltd.	0	0	8.03	17.08	28.21	45.1	72.24
18	Agriculture Development Bank	0	0	0	0	0	0	0
19	Global Bank Ltd.	0	0	0	0	0	0	6
20	Citizen Bank International Ltd.	0	0	0	0	0	0	16.17
21	Prime Bank Ltd.	0	0	0	0	0	0	10.91
22	Bank of Asia Nepal Ltd.	0	0	0	0	0	0	2.05
23	Sunrise Bank Ltd.	0	0	0	0	0	0	0
24	Development Credit Bank Ltd.	0	0	0	0	0	0	27.01
25	Nepal Merchant Bank Ltd.	0	0	0	0	0	0	33.62
26	Kist Bank Ltd.	0	0	0	0	0	0	0
	Total for each year	572.87	859.95	1028.28	1081.44	1512.92	2004.58	2616.26

Source: annual report of relevant commercial banks (2001/02 to 2007/08)

Note: tax amount = tax provision from P/L account

As the mean indicate the average value of income tax paid by commercial banks from fiscal year 2001/02 to 2007/08. The Standard Chartered Bank Ltd. having the mean of 266.53, which is highest among all other bank represents pays highest amount of tax among the other banks. Similarly Bank of Asia having mean 0.29 pays least amount of tax compared to other commercial banks.

The co-efficient of variation expresses the standard deviation as a percentage of the sample mean and has advantage that the co-efficient is independent of the units of observation and is a useful statistic for comparing the degree of variation from one data series to another, even if the means drastically different from each other. Here the co-efficient of variation filter is used to measure the consistency of the bank that is under our evaluation. It tells that the Standard Chartered Bank having C.V. 29.48% shows higher consistency among other banks while Bank of Asia having C.V. 2462.06% has more in consistency signifying more variability of paying tax amount.

Standard deviation shows how much variation there is from the mean. A low standard deviation indicates that the data points tend to be much closed to the mean whereas higher standard deviation indicates that the data are spread out over a large range of values.

Table 4.9 shows the average corporate tax payments made by commercial banks with standard deviation and coefficient of variation of tax payment. As shown by this table Standard Chartered bank Ltd., NABIL Bank Ltd, and Himalayan Bank Ltd are the top three corporate taxpayers in commercial banking. The coefficient of variation demonstrates the variation of paying of corporate tax from the central tendency i.e. mean payment. As per the same table, the Standard Chartered Bank Ltd. has less C.V. i.e. 23.38 percentage. It means that its corporate tax paying was very close to the average payment than others. In another word the co-efficient of variation of Standard Chartered Bank is less than other commercial banks, so standard Chartered Bank is consistence tax payer and less the C.V. more will be the uniformity, consistency and more the C.V. less will be the uniformity, consistency etc.

Table 4.9

Average Corporate Tax Collection from Commercial Banks with Standard Deviation and Coefficient of Variation from Fiscal Year 2001/02 to 2007/08

(Rs in million)

SN	Name of Commercial Banks	Mean payment of corporate tax	Standard deviation of payment	Coefficient of variation
1	Nepal Bank Ltd.	-	-	-
2	Rastriya Banijya Bank Ltd.	-	-	-
3	NABIL Bank Ltd.	208.41	107.66	51.65%
4	Nepal Investment Bank Ltd.	137.99	98.55	71.41%
5	Standard Chartered Bank Ltd.	266.53	62.34	23.38%
6	Himalayan Bank Ltd.	198.21	58.44	29.48%
7	Nepal SBI Bank Ltd.	62.51	34.82	55.70%
8	Nepal Bangladesh Bank Ltd.	121.05	48.99	40.47%
9	Everest Bank Ltd	100.61	57.49	57.10%
10	Bank of Kathmandu Ltd.	79.51	46.19	58.09%
11	NCC Bank Ltd.	21.33	24.70	115.96%
12	Lumbini Bank Ltd.	20.39	19.68	96.51%
13	NIC Bank Ltd.	47.02	35.94	76.43%
14	Machhapuchhre Bank Ltd.	24.21	23.42	96.73%
15	Kumari Bank Ltd.	41.46	29.25	70.54%
16	Laxmi Bank Ltd.	14.90	19.64	131.81%
17	Siddhartha Bank Ltd.	24.38	24.62	100.98%
18	Agriculture Development Bank	-	-	-
19	Global Bank Ltd.	0.85	2.09	245.88%
20	Citizen Bank International Ltd.	2.31	5.65	244.58%
21	Prime Bank Ltd.	1.55	3.81	245.80%
22	Bank of Asia Nepal Ltd.	0.29	7.14	2462.06%
23	Sunrise Bank Ltd.	-	-	-
24	Development Credit Bank Ltd.	3.85	9.45	245.45%
25	Nepal Merchant Bank Ltd.	4.80	11.76	245%
26	Kist Bank Ltd.	-	-	-

Source: Appendix ii of this report

In conclusion the tax collection from commercial banks is also in the increasing order. The Standard Chartered Bank Ltd. has been contribution higher tax.

4.1.8 Contribution of Corporate Tax Collection from commercial Banks to Total Tax Revenue and revenue of Government

The table 4.10 presented below shows the contribution ratio of corporate tax collected from commercial banks in total tax revenue and in total government revenue for the last seven years. According to the table, the contribution of tax collected from commercial banks was between 1.13% to 2.43% and 1.46% to 3.08% on total revenue and total tax revenue respectively. The realization of tax from commercial banks in fiscal year 2007/08 about Rs, 2616.26 million, which contributed 2.43% in the total revenue. In the same year its contribution on total tax revenue was 3.08% which was also highest than in other years.

Table 4.10
Contribution Ratio of Income Tax Paid by Commercial Banks to Total Govt. Revenue & Total Tax Revenue

(In million)

Fiscal year	Total tax revenue	Corporate tax collected from C.B.	% on total revenue	% on total tax revenue	Total govt. revenue
2001/02	39330.6	572.87	1.13	1.46	50445.6
2002/03	42587.0	859.95	1.53	2.02	56229.8
2003/04	48173.0	1028.28	1.65	2.13	62331.0
2004/05	54104.7	1081.44	1.54	2.00	70122.7
2005/06	57430.4	1512.92	2.09	2.63	72282.0
2006/07	71126.7	2004.58	2.29	2.81	87712.2
2007/08	85155.5	2616.26	2.43	3.08	107622.9

Source: 1. Economic survey (2001/02 and 2007/08)

2. Annual report of commercial banks (2001/02 to 2007/08)

From the above table it can be said that the contribution ratio of tax payment made by commercial banks has been increasing. It was 1.13% in the total revenue and 1.46% in total tax revenue in the beginning (i.e. fiscal year 2001/02) and continuously increased up to 1.65% and 2.13% in the same bases in fiscal year 2003/04, but it decrease to 1.54% from 1.65% and to 2.00% from 2.13 in fiscal year 2004/05. the reason behind the increasing contribution of banking sector to tax were increasing loans advances and

overdraft of commercial banks, more profits, and branch extension in the kingdom of Nepal. However in the fiscal year 2004/05 the economic situation was adversely affected due to political instability. That is the reason the commercial banks paid low corporate tax than preceding years.

4.1.9 Problem Facing by Commercial Banks in paying Corporate Tax

One of the objectives of the research is to point out the main problems facing by commercial banks in paying corporate tax. For knowing, the problems related to corporate tax, the researcher has collected necessary data and information through questionnaires. According to responses of bankers, the researcher has some found problems in the payment of corporate tax. They are briefly explained below.

- a. As per responses of research questionnaires, it is seen that due to assessment delays, the income tax law has made provision for the self –assessment since the early 1900s. All the commercial banks have been assessing their tax liabilities under this system. But the assessment made under this system was not fully accepted by tax officers. They assess the return again and take long time in completing assessment provided by tax law. This affects to the bank negatively. They need making provision for additional tax liability until the completion of tax assessment. Consequently, the after tax profitability ratio of bank becomes low. Self assessment system is also lengthy process and demands many documents.

- b. It is also seen that most of commercial banks have disputed the claims of additional tax raised by tax authorities and have challenged the said orders by filing appeals with the Revenue Tribunal. The causes of disputes are basically vague provisions of tax law, use of discretionary power in tax

assessment by the tax authorities and order of tax assessment and contradiction between provision of tax law and related finance act. These causes force to make appeals with Revenue Tribunal. However, the settlement of so filed appeals also long time because these files remain pending with tax authorities for a long time. This is absolutely under delay that makes compliance cost to the banks being changes in the rates of fines and penalties they have to pay in case they defeat.

- c. Negative attitude and unfriendly behavior of tax authorities to the tax payers are also the problem to the bankers. According to the responses bankers, tax authorities show different behaviors than the discretionary rights given to them by tax laws. They are not seen like civil servants. They do not allowed to deduct some expenses even tax law has made provision of deductions. They do not accept easily self-assessed returns; they do not behave same behavior to all taxpayers and make delays in implementation of self-tax assessment system, voluntary tax compliance of taxpayers and tax clearance.

Besides these problems, bankers have made grievances such as the corporate tax rate should be reduced by 5%, the loan loss provision should be fully allowable to deduct & so on.

4.1.10 Major Findings of the Study

- Nepalese revenue consists of tax and non tax revenues. Tax revenue is composed of both direct and indirect tax revenue. There is dominant role of indirect tax revenue in Nepalese tax structure.

- Contribution of income tax from commercial bank has increasing trend in recent period.
- Among the total commercial banks in Nepal Standard Chartered bank has paid more income tax than others during the study period.
- Resource mobilization is the main challenge in the developing countries. Nepalese economy is facing a serious problem of resource and fiscal gap from early period. The gap has been widening every year.
- The banking per person is very low due to various problem of banking in Nepal.
- Rural area cover 80% part of the country so the banking service per person is very low because of commercial banks is extending their branches only in urban area.
- In Nepal, commercial banks are not able to extend their branches in comparison to the ratio of their qualitative growth.
- The tax/GDP ratio of Nepal has not been found satisfactory as compared to other countries.
- Security threat has been increasing in commercial banks opened in rural areas so the banking service per person is very low.
- The actual collection of income tax is being very low because of practicing to avoid the tax liabilities by hiding incomes.
- There are some weaknesses in tax assessment of such commercial banks & vague law and regulation of income tax and finance act so the commercial banks have appalled to revenue tribunal time to time.
- A tax collection analysis from commercial banks may help to locate potential new & hidden taxpayers because commercial banks are directly linked with most other business activities.

- The government revenue heavily depends on tax revenue.
- Income tax is the best & reasonable sources of national revenue in Nepal.
- Commercial banks play a vital role for the economic upliftment of least developing countries like Nepal.
- The economic growth rate of the country has been adversely affected due to deteriorating situation of law & order, frequent strikes & bands in the country.

CHAPTER - V

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary:

Nepal is one of the least developed countries with very low per capita income. Being a poor country, Nepalese economy is facing serious resource and fiscal gap problems. Revenue collected internally is sufficient to meet the cost of day to day administration of the country but the revenue surplus is not adequate to undertake development activities sufficiently in the country. So Nepal has been dependent on foreign aids and loans to fulfill the need for development activities which is not beneficial in the long run interest of the country.

The present study entitled “A Study on Income Tax Collection from Commercial Banks” is related to the income tax collection through commercial banks. The specific objectives of the study are to review the income tax structure of Nepal, to evaluate the contribution of income tax paid by the commercial banks in the government revenue, to assess the contribution of income tax paid by commercial banks on total income tax and total tax revenue of the government, to point out main income tax related problems faced by commercial banks, and recommendations for income taxation with reference to commercial banks. This study covers the role of income tax in Nepal, role of income tax collection from commercial banks.

Various books, articles, dissertations and other reference material are studied during the course of this study. Almost dissertations have been found written on various aspect of income taxation. Various concept of taxation have been discussed in this study. Meaning of income tax, evolution of taxation and income tax act, special provision for banking and business, corporate tax and its development, tax incentives in Nepal, income tax management, income tax administration and law, problems associated with tax administration in Nepal have been discussed in conceptual framework of this study.

Primary & Secondary data are used in this study. Economic survey has been used as the major secondary data. Secondary analysis has been done by presenting the relevant data into table and figures. Percentages and averages have been computed. Major finding of the secondary data are put at the end of the chapter.

5.2 Conclusion:

The following conclusions have been presented based on the findings of the study are as follows:

- Nepalese revenue structure is composed of tax and non- tax revenue. Tax revenue has the largest share of contribution on total revenue.
- Tax revenue consists of direct and indirect tax revenues. Tax revenue has heavily dominated by indirect tax revenue.
- Tax/ GDP ratio of Nepal has been satisfactory as compared to other developing countries.

- Nepalese economy is suffering from serious resource gap and fiscal gap problems. The gap has been made wider in the recent years as compared to the past years.
- Income tax collection from commercial bank is one of the best sources of income tax revenue in Nepal. Contribution of income tax collection from commercial bank has been increasing in the recent years.
- Private sector commercial banks have paid more income tax than government sector commercial bank.
- Standard Chartered Bank has paid more income tax than other commercial banks.
- Lack of regulation & supervision of NRB, lack of coordination, lack of trained manpower, fluctuating policy of NRB, centralization of banks in urban areas, lack of reform programs are the major problems of commercial banks in Nepal.
- Extension of branches in the various part of the country is the indication of the quantitative progress whereas foreign exchange, export financing, internal payment, guarantee, management reform, Computerization etc. are the indicators of qualitative progress.
- RBB, NBL & ADB were extended their branches in rural areas also to comparison other commercial banks but other commercial banks are not expanding their branch in rural area because of various reasons such as due to high risk & low profit in rural area and due to narrow commercial business & financial transaction in rural area.
- Nepal is highly depends on indirect tax then direct tax due to low income earning capacity of people.

- The deficits of government budget are financial through loans from foreign countries & institutions so the burden of loans to the Nepalese is increasing in each year.
- Income tax is a major element of direct tax & it is playing a vital role to generate government revenue for the development of national economy.
- In Conclusion, internal revenue mobilization play vital role in the poor and developing country like Nepal to develop socio and economic environment of the nation. Income tax is a best and promising instrument of resource mobilization in Nepal. Sound tax administration and simple tax laws assist in maximizing the tax revenue. Beside these tax educations, tax morality also plays important roles in tax revenue collection. The trend of income tax collection is increasing trend which is very good.

Recommendations:

On the basis of this study the following recommendations are made in order to increase the contribution of income tax from commercial bank in revenue collection of Nepal.

- The contribution of income tax from commercial bank has been increasing the recent year as compared to previous years. To generate more contribution from income tax from commercial bank high earners should be made to pay higher income tax.
- To increase income tax revenue from commercial bank more services have to be provided to the customer as far as possible.
- The income tax rules and regulation should be clear, simple for all the bankers.

- Regular and effective monitoring should be done through NRB for effective management of income tax.
- Income tax policy should be formulated according to the economic policy of the country and it should revise timely. The members involved in formulating income tax policy must have deep knowledge about income tax.
- Resource mobilization through foreign loans will not be favorable to any developing countries in future.
- With the trend of heavy profit earning and heavy taxpaying, we might conclude that there must be extreme relevance of Tax Planning for the Nepalese commercial bank so that they can further increase their net profit by using tax planning tools.
- To increase income tax revenue from commercial banks more services have to be provided in rural area also.
- To divert the channel of development it is necessary to increase the share of direct tax ultimately decreasing the share of indirect tax. So attention should be focused on the sufficient resources mobilization through direct taxation.
- Private investment from domestic as well as foreign countries should be encouraged so that economic transaction in the national economy would be boosted up. When private institutions invest in different sectors, the banking transactions will also be increased and they make higher profits. As a result, corporate tax collections from those sectors as well as from other new corporate sectors will be increased. For this, the government has to show the flexibility in making various laws relating to trade, industries and banking to make incentives in order to form new corporations.
- The corporate tax rate for industrial enterprises as well as non industrial business organization should be same. Now banking sector is levied at the rate of 30 percentage tax whereas general industrial sectors are levied 25

percentages. Banking sector is also very important sector as other industries because banks are providing various financial services to industrials and other sectors for the smooth operation of their businesses. Therefore, it is appreciable to make the same corporate tax for both 30% and 25%. From the view point of maximization income tax realization 30% corporate tax is appropriate at present.

- Tax personnel are the main actors of the tax administration. They are responsible for implementation the policies formulated by ministry of finance and Inland Revenue department to get the setting goals. They should be well known with each provision included in the tax law for the smooth implementation of tax administration. Maximum income tax collection is only possible when the tax personnel are acquainted with income tax act as well as because detailed knowledge of income tax act makes them fast to take quick decision about tax problem when there exists contradiction with taxpayers. They therefore must be education with tax laws and other related laws.
- Tax personnel also should improve their behavior towards the taxpayers. Unfriendly behaviors is the main factor of discouragement and harassment that causes reducing voluntary compliance of tax, showing hesitation in taxpaying feeling that income tax as a burden. Tax authorities must accept self assessed returns from taxpayers except in especial cases and doubt. They must give tax clearance certificates in time without distressing them. They should think all the taxpayers are equal and should behave them equally.
- Undue delays in the settlement of income tax appeals with revenue tribunal is also responsible for minimum tax collection because the tax from such pending cases should be deposited as fixed till it's settlement that block's in

resource mobilization. Another drawback of delay is the harassment in taxpaying because taxpayers need to make contingency provision for pending appeals and to pay fines at increasing rate due to passage of time. Therefore, to increase tax collection, the settlements of tax appeals from taxpayers should be quick with right decision.

- In the modern age, automation plays vital role in operating the organizations. Computers have become very useful and economic devices. All the revenue collection sections under Inland Revenue Department and Inland Revenue Officers need to install computers to record data about taxpayers, their income and tax collection for quick service. This is beneficial to both tax personnel as well as taxpayers because it makes low the compliance cost and storage cost and completes work within very short time period. In other words, manual system should be eliminated as far as possible.
- Finally, tax administration, tax law and provision need to be very simple and clear. New income tax act has been implemented but most of the provisions are found vague and complex to understand even they are philologically good. It causes contradiction between tax authorities and taxpayers. So unclear and some contradictorily provisions need to be removed as early as possible.

APPENDIX-1
Questionnaire Sheet

A. Questionnaire to the Bankers:

1. Do you have found any differences between income tax Act, 1974 and 2002?
Do you want to criticize about income tax Act, 2002? Yes or No.
If yes, please point out them.
2. Is the corporate tax rate reasonable? Yes or No.
If not, how much should it be?
3. Do you think this (Self –assessment) income tax assessment procedures are simple? Yes or No. If not what are the problem existing?
4. What types of problems have you been in receiving tax clearance certificate?
5. Do you want to comment about fines and penalties imposed by Inland Revenue Department? Yes or No. If yes, please point out them.
6. Do you satisfy with the tax authority's behaviors? Yes or No. If not, what types of behaviors do you think bad?
7. Have you ever gone to the Revenue Tribunal for filing appeals? Yes or No. If yes, what were the main reasons to go there?
8. Have you any comments about the settlement of appeals? Yes or No. If yes, please point out them.
9. What types of facilities should the government give to the banks for generating more income tax?
10. If you have other problems relating to income tax payment, please point out them.

B. Questionnaires to the tax officials

1. Do you accept that you make delay in tax assessment? Yes or No. If yes, what may be the reasons?
 - i. Delays in filing returns.
 - ii. The assessment procedure itself takes long time.
 - iii. Inefficiency of tax authorities.
 - iv. Others (Please Specify)

2. Do you accept that you do accept self-assessment tax returns easily?

3. What types of complains do commercial banks? Please, keep tick mark and Write the reason in brief.
 - i. About tax assessment
 - ii. About behavior of tax personnel
 - iii. About fines and penalties
 - iv. About tax incentives
 - v. Others (Please specify)

4. What may be the reasons for filing appeals by commercial banks to Revenue Tribunal?
 - i. Vague provisions of tax law
 - ii. Use of discretion by tax authorities
 - iii. Order of tax assessment by tax authorities
 - iv. Tax evasion
 - v. Others (please specify)

5. What types of tax concession facilities incentives to be given to the commercial bank?
 - i. Tax holiday
 - ii. Investment credit
 - iii. Carry forward of losses
 - iv. Accelerated depreciation
 - v. Other (please specify)

6. Please point out them additional suggestions regarding the tax rate, assessment procedure and the aspects of income tax loans.

APPENDIX – II

Calculatoin of Mean, Standared deviation of NABIL BANK LTD.

Year	Income Tax Paid (x)	$x - \bar{X}$	$(x - \bar{X})^2$
2001/02	137.95	-70.47	4966.021
2002/03	199.14	-9.28	86.1184
2003/04	201.76	-6.66	44.3556
2004/05	0	-208.42	43438.9
2005/06	260.32	51.9	2693.61
2006/07	315.56	107.14	11478.98
2007/08	344.2	135.78	18436.21
Total	1458.93		81144.19

$$\begin{aligned} \bar{X} &= X/n \\ &= 208.41 \end{aligned}$$

$$\begin{aligned} &= (x - \bar{X})^2 / n \\ &= 107.66 \end{aligned}$$

$$\begin{aligned} \text{C.V.} &= / \bar{X} * 100\% \\ &= 51.65\% \end{aligned}$$

Calculatoin of Mean, Standared deviation of Nepal Investment Bank LTD.

Year	Income Tax Paid (x)	$x - \bar{X}$	$(x - \bar{X})^2$
2001/02	21.01	-116.9814286	13684.65
2002/03	53.33	-84.66142857	7167.557
2003/04	78.8	-59.19142857	3503.625
2004/05	101.52	-36.47142857	1330.165
2005/06	161.57	23.57857143	555.949
2006/07	228.55	90.55857143	8200.855
2007/08	321.16	183.1685714	33550.73
Total	965.94		67993.53

$$\begin{aligned} \bar{X} &= X/n \\ &= 137.99 \end{aligned}$$

$$\begin{aligned} &= (x - \bar{X})^2 / n \\ &= 98.55 \end{aligned}$$

$$\begin{aligned} \text{C.V.} &= / \bar{X} * 100\% \\ &= 71.41\% \end{aligned}$$

Calculatoin of Mean, Standared deviation of Standared Charted Bank Nepal LTD.

Year	Income Tax Paid (x)	$x-\bar{X}$	$(x-\bar{X})^2$
2001/02	184.23	-82.30714286	6774.466
2002/03	208.22	-58.31714286	3400.889
2003/04	235.79	-30.74714286	945.3868
2004/05	258.94	-7.597142857	57.71658
2005/06	275.58	9.042857143	81.77327
2006/07	324	57.46285714	3301.98
2007/08	379	112.4628571	12647.89
Total	1865.76		27210.11

$$\bar{X} = \frac{X}{n}$$

$$= 266.53$$

$$= \frac{(x-\bar{X})^2}{n}$$

$$= 62.34$$

$$C.V. = \frac{\sigma}{\bar{X}} * 100\%$$

$$= 23.38\%$$

Calculatoin of Mean, Standared deviation of Himalayan Bank LTD.

Year	Income Tax Paid (x)	$x-\bar{X}$	$(x-\bar{X})^2$
2001/02	114.02	-84.19857143	7089.399
2002/03	147.89	-50.32857143	2532.965
2003/04	157.52	-40.69857143	1656.374
2004/05	213.69	15.47142857	239.3651
2005/06	216.24	18.02142857	324.7719
2006/07	237.25	39.03142857	1523.452
2007/08	300.92	102.7014286	10547.58
Total	1387.53		23913.91

$$\bar{X} = \frac{X}{n}$$

$$= 198.21$$

$$= \frac{(x-\bar{X})^2}{n}$$

$$= 58.44$$

$$C.V. = \frac{\sigma}{\bar{X}} * 100\%$$

$$= 29.48\%$$

Calculatoin of Mean, Standared deviation of NB BANK LTD.

Year	Income Tax Paid (x)	$x-\bar{X}$	$(x-\bar{X})^2$
2001/02	35	-86.05142857	7404.848
2002/03	120	-1.051428571	1.105502
2003/04	97	-24.05142857	578.4712
2004/05	100	-21.05142857	443.1626
2005/06	123.91	2.858571429	8.171431
2006/07	184.19	63.13857143	3986.479
2007/08	187.26	66.20857143	4383.575
Total	847.36		16805.81

$$\bar{X} = X/n$$

$$= 121.05$$

$$= (x-\bar{X})^2/n$$

$$= 48.99$$

$$C.V. = / \bar{X} * 100\%$$

$$= 40.47\%$$

Calculatoin of Mean, Standared deviation of SBI Bank LTD.

Year	Income Tax Paid (x)	$x-\bar{X}$	$(x-\bar{X})^2$
2001/02	16.02	-46.49285714	2161.586
2002/03	20.3	-42.21285714	1781.925
2003/04	48.68	-13.83285714	191.3479
2004/05	67.8	5.287142857	27.95388
2005/06	67.41	4.897142857	23.98201
2006/07	112.96	50.44714286	2544.914
2007/08	104.42	41.90714286	1756.209
Total	437.59		8487.918

$$\bar{X} = X/n$$

$$= 62.51$$

$$= (x-\bar{X})^2/n$$

$$= 34.82$$

$$C.V. = / \bar{X} * 100\%$$

$$= 55.70$$

Calculatoin of Mean, Standared deviation of Everest Bank LTD.

Year	Income Tax Paid (x)	$x-\bar{X}$	$(x-\bar{X})^2$
2001/02	38.43	-62.18	3866.352
2002/03	41.71	-58.9	3469.21
2003/04	67.55	-33.06	1092.964
2004/05	81.91	-18.7	349.69
2005/06	113.38	12.77	163.0729
2006/07	154.3	53.69	2882.616
2007/08	206.99	106.38	11316.7
Total	704.27		23140.61

$$\bar{X} = \frac{X}{n} = \frac{704.27}{12} = 57.49 \quad \text{C.V.} = \frac{57.49}{100.61} * 100\% = 57.10\%$$

Calculatoin of Mean, Standared deviation of BOK LTD.

Year	Income Tax Paid (x)	$x-\bar{X}$	$(x-\bar{X})^2$
2001/02	17.59	-61.92857143	3835.148
2002/03	40.01	-39.50857143	1560.927
2003/04	57.17	-22.34857143	499.4586
2004/05	64.76	-14.75857143	217.8154
2005/06	96.07	16.55142857	273.9498
2006/07	116.93	37.41142857	1399.615
2007/08	164.1	84.58142857	7154.018
Total	556.63		14940.93

$$\bar{X} = \frac{X}{n} = \frac{556.63}{7} = 79.51 \quad \text{C.V.} = \frac{46.19}{79.51} * 100\% = 58.09\%$$

Calculatoin of Mean, Standared deviation of NCC Bank LTD.

Year	Income Tax Paid (x)	$x-\bar{X}$	$(x-\bar{X})^2$
2001/02	0	-21.33	454.9689
2002/03	3.47	-17.86	318.9796
2003/04	2.63	-18.7	349.69
2004/05	15.88	-5.45	29.7025
2005/06	13.06	-8.27	68.3929
2006/07	41.54	20.21	408.4441
2007/08	72.73	51.4	2641.96
Total	149.31		4272.138

$$\bar{X} = X/n$$

$$= 21.33$$

$$= (x-\bar{X})^2/n$$

$$= 24.70$$

$$C.V. = / \bar{X} * 100\%$$

$$= 115.96\%$$

Calculatoin of Mean, Standared deviation of Lumbini Bank LTD.

Year	Income Tax Paid (x)	$x-\bar{X}$	$(x-\bar{X})^2$
2001/02	0	-20.39	415.7521
2002/03	0	-20.39	415.7521
2003/04	21.76	1.37	1.8769
2004/05	35.19	14.8	219.04
2005/06	0	-20.39	415.7521
2006/07	32.63	12.24	149.8176
2007/08	53.15	32.76	1073.218
Total	142.73		2691.208

$$\bar{X} = X/n$$

$$= 20.39$$

$$= (x-\bar{X})^2/n$$

$$= 19.68$$

$$C.V. = / \bar{X} * 100\%$$

$$= 96.51\%$$

Calculatoin of Mean, Standared deviation of NIC Bank LTD.

Year	Income Tax Paid (x)	$x-\bar{X}$	$(x-\bar{X})^2$
2001/02	1.66	-45.36285714	2057.789
2002/03	16.39	-30.63285714	938.3719
2003/04	28.53	-18.49285714	341.9858
2004/05	50.97	3.947142857	15.57994
2005/06	40.35	-6.672857143	44.52702
2006/07	74.18	27.15714286	737.5104
2007/08	117.08	70.05714286	4908.003
Total	329.16		9043.767

$$\bar{X} = X/n$$

$$= 47.02$$

$$= (x-\bar{X})^2/n$$

$$= 35.94$$

$$C.V. = / \bar{X} * 100\%$$

$$= 76.43\%$$

Calculatoin of Mean, Standared deviation of Machhapuchhre Bank LTD.

Year	Income Tax Paid (x)	$x-\bar{X}$	$(x-\bar{X})^2$
2001/02	0	-24.21	586.1241
2002/03	0	-24.21	586.1241
2003/04	0	-24.21	586.1241
2004/05	30.94	6.73	45.2929
2005/06	53.11	28.9	835.21
2006/07	26.64	2.43	5.9049
2007/08	58.78	34.57	1195.085
Total	169.47		3839.865

$$\bar{X} = X/n$$

$$= 24.21$$

$$= (x-\bar{X})^2/n$$

$$= 23.42$$

$$C.V. = / \bar{X} * 100\%$$

$$= 96.73\%$$

Calculation of Mean, Standard deviation of Kumari Bank LTD.

Year	Income Tax Paid (x)	$x - \bar{X}$	$(x - \bar{X})^2$
2001/02	6.96	-34.5	1190.25
2002/03	8.87	-32.59	1062.108
2003/04	20.43	-21.03	442.2609
2004/05	42.76	1.3	1.69
2005/06	47.63	6.17	38.0689
2006/07	80.63	39.17	1534.289
2007/08	82.94	41.48	1720.59
Total	290.22		5989.257

$$\bar{X} = \frac{\sum X}{n}$$

$$= 41.46$$

$$= \frac{\sum (x - \bar{X})^2}{n}$$

$$= 29.25$$

$$C.V. = \frac{\sigma}{\bar{X}} * 100\%$$

$$= 70.54\%$$

Calculation of Mean, Standard deviation of Laxmi Bank LTD.

Year	Income Tax Paid (x)	$x - \bar{X}$	$(x - \bar{X})^2$
2001/02	0	-14.90857143	222.2655
2002/03	0	-14.90857143	222.2655
2003/04	2.63	-12.27857143	150.7633
2004/05	0	-14.90857143	222.2655
2005/06	16.08	1.171428571	1.372245
2006/07	30.12	15.21142857	231.3876
2007/08	55.53	40.62142857	1650.1
Total	104.36		2700.42

$$\bar{X} = \frac{\sum X}{n}$$

$$= 14.90$$

$$= \frac{\sum (x - \bar{X})^2}{n}$$

$$= 19.64$$

$$C.V. = \frac{\sigma}{\bar{X}} * 100\%$$

$$= 131.81\%$$

Calculatoin of Mean, Standared deviation of Siddhrtha Bank LTD.

Year	Income Tax Paid (x)	$x-\bar{X}$	$(x-\bar{X})^2$
2001/02	0	-24.38	594.3844
2002/03	0	-24.38	594.3844
2003/04	8.03	-16.35	267.3225
2004/05	17.08	-7.3	53.29
2005/06	28.21	3.83	14.6689
2006/07	45.1	20.72	429.3184
2007/08	72.24	47.86	2290.58
Total	170.66		4243.948

$$\begin{aligned}\bar{X} &= X/n \\ &= 24.38\end{aligned}$$

$$\begin{aligned}&= (x-\bar{X})^2/n \\ &= 24.62\end{aligned}$$

$$\begin{aligned}\text{C.V.} &= / \bar{X} * 100\% \\ &= 100.98\%\end{aligned}$$

Calculatoin of Mean, Standared deviation of Global Bank.LTD.

Year	Income Tax Paid (x)	$x-\bar{X}$	$(x-\bar{X})^2$
2001/02	0	-0.857142857	0.734694
2002/03	0	-0.857142857	0.734694
2003/04	0	-0.857142857	0.734694
2004/05	0	-0.857142857	0.734694
2005/06	0	-0.857142857	0.734694
2006/07	0	-0.857142857	0.734694
2007/08	6	5.142857143	26.44898
Total	6		30.85714

$$\begin{aligned}\bar{X} &= X/n \\ &= 0.85\end{aligned}$$

$$\begin{aligned}&= (x-\bar{X})^2/n \\ &= 2.09\end{aligned}$$

$$\begin{aligned}\text{C.V.} &= / \bar{X} * 100\% \\ &= 245.88\%\end{aligned}$$

Calculatoin of Mean, Standared deviation of Citizen Bank International .LTD.

Year	Income Tax Paid (x)	$x-\bar{X}$	$(x-\bar{X})^2$
2001/02	0	-2.31	5.3361
2002/03	0	-2.31	5.3361
2003/04	0	-2.31	5.3361
2004/05	0	-2.31	5.3361
2005/06	0	-2.31	5.3361
2006/07	0	-2.31	5.3361
2007/08	16.17	13.86	192.0996
Total	16.17		224.1162

$$\bar{X} = X/n$$

$$= 2.31$$

$$= (x-\bar{X})^2/n$$

$$= 5.65$$

$$C.V. = / \bar{X} * 100\%$$

$$= 244.58\%$$

Calculatoin of Mean, Standared deviation of Bank Of Asia.LTD.

Year	Income Tax Paid (x)	$x-\bar{X}$	$(x-\bar{X})^2$
2001/02	0	-0.292857143	0.085765
2002/03	0	-0.292857143	0.085765
2003/04	0	-0.292857143	0.085765
2004/05	0	-0.292857143	0.085765
2005/06	0	-0.292857143	0.085765
2006/07	0	-0.292857143	0.085765
2007/08	2.05	1.757142857	3.087551
Total	2.05		3.602143

$$\bar{X} = X/n$$

$$= 0.29$$

$$= (x-\bar{X})^2/n$$

$$= 7.14$$

$$C.V. = / \bar{X} * 100\%$$

$$= 2462.06\%$$

Calculation of Mean, Standard deviation of Development Credit Bank (DCBL) Ltd.

Year	Income Tax Paid (x)	$x - \bar{X}$	$(x - \bar{X})^2$
2001/02	0	-3.858571429	14.88857
2002/03	0	-3.858571429	14.88857
2003/04	0	-3.858571429	14.88857
2004/05	0	-3.858571429	14.88857
2005/06	0	-3.858571429	14.88857
2006/07	0	-3.858571429	14.88857
2007/08	27.01	23.15142857	535.9886
Total	27.01		625.3201

$$\bar{X} = \frac{\sum X}{n}$$

$$= 3.85$$

$$= \frac{\sum (x - \bar{X})^2}{n}$$

$$= 9.45$$

$$C.V. = \frac{\sigma}{\bar{X}} * 100\%$$

$$= 245.45\%$$

Calculation of Mean, Standard deviation of NMB Bank Ltd.

Year	Income Tax Paid (x)	$x - \bar{X}$	$(x - \bar{X})^2$
2001/02	0	-4.802857143	23.06744
2002/03	0	-4.802857143	23.06744
2003/04	0	-4.802857143	23.06744
2004/05	0	-4.802857143	23.06744
2005/06	0	-4.802857143	23.06744
2006/07	0	-4.802857143	23.06744
2007/08	33.62	28.81714286	830.4277
Total	33.62		968.8323

$$\bar{X} = \frac{\sum X}{n}$$

$$= 4.80$$

$$= \frac{\sum (x - \bar{X})^2}{n}$$

$$= 11.76$$

$$C.V. = \frac{\sigma}{\bar{X}} * 100\%$$

$$= 245\%$$

