

CHAPTER- I

INTRODUCTION

1.1 General Background

From the ancient time to modern age government try to fulfill its responsibility by spending a lot of amount towards its people. In the ancient time, most of the government manages its fund from the internal source and spends the huge amount of money to protect the nation form the other nation. But the time has been changed now and the nation should raise fund for the war. In the modern days every government invests its revenue for the social welfare. On the one side government is very careful and serious towards its social responsibility and on the other side people is too much concerned towards the nation's activities. People contribute some percentage of their income to the government as the tax. The government reinvest that amount for the social welfare like education, security, administration and other development. Now to fulfill the high demand of social welfare and to meet the growing public expenditure the government must have sufficient fund. The government has two alternatives to raise the fund:

- i. Internal source
- ii. External source

External sources of fund are foreign grants and loan and it is received from the foreign countries and international organizations. External sources are more important for undeveloped and underdeveloped countries. It is used for economic development, reconstruction, foreign exchange, crisis management and productive use. The main drawback of the extend source is inconvenient and uncertain and which is to be refund after a certain time. So for the healthy economic development it is better to ple-up of the fund form internal source and mobilize properly so that we should not be depended on the foreign countries and organizations (Bhattarai and Koirala, 2010).

Internal sources of fund are own sources within the nation which is certain, convenient and reduce the dependency on the foreign countries. External sources of fund reduces the liquidity and increases the inflations. So, internal sources are more

important not only for financing necessary funds but also for the mobilization of internal sources. Nepal is being unable to mobilize its internal sources properly and effectively which is reflected clearly in the today's economy.

On the other hand, sources of public revenue can be classified into two types. They are (a) tax sources and (b) non-tax sources.

Tax sources include the amounts, which is compulsory contributed by the tax payers to the government. Non-tax revenue includes fees, special assessment, gifts and grants fines and penalties etc. Government imposed the non-tax according to the necessary, so it is uncertain and inconvenient. Tax can be defined as the contribution form people and organization to the government from their income either by service or by business without taking the corresponding or direct benefit. Tax is the most important source of revenue because it occupies the very big part of total revenue.

Tax is a compulsory levy imposes by the government to the people and institutions according to the prevailing laws. Prof. Seligman says “Tax is a compulsory contribution form a person to the government to defray the expenses incurred in common interest of all without special benefit conferred.” Those who pay tax do not get direct benefits from the government.

Generally tax can be classified into two types. They are: (a) direct tax and another is (b) indirect tax. These taxes are collected according to income level or people or organization. Income, tax property tax, etc. are direct tax. Indirect tax is imposed on one person and paid partly or wholly by another. Custom duty, excise duty, VAT, sales tax, import and export tax etc. are indirect tax.

Income tax is well-known direct tax. It is considered as one of the major element of tax revenue. Income tax is charged on person's income according to the law of nation. It covers all the fees, additional fees, fines etc. Income includes all the income, which is received from business, investment and employment. Income tax is superior to other business because it is imposed on the basis of paying capacity of taxpayers. People, whose income is under the taxable income is free form the incidence of income tax.

Within the income tax system, exemption and deductions are more important to know about income tax because they are used continuously and treated differently in the different year. To make up-to-date knowledge about income tax system it should be studied. By knowing it, we can compute net income and tax liability. Income tax law of every nation has clearly mentioned about the exemption of income and deduction of expenses.

Income tax reduces concentration of wealth in a few hands by imposing high rate to those persons and organizations which have high level of income and low rate to those whose income level is lower. It also helps to increase the government revenue which can be used for public welfare to develop infrastructure, provided general services etc. People who are paying tax to the government, give more attention about the public expenditure. So the government expenses the revenue in good manner. Income tax is not only essential for collecting government revenue but also to control over consumption to promote saving and generate more employment.

First of all, income tax system was introduced in England to manage the war. Similarly to manage the civil war, USA introduced corporate income tax in 1962. In 1909 Federal Corporation income tax was organized. Now, it is expanded all over the world. Every nation is introducing income tax according to their needs.

In Nepal, the first elected government in 1959 introduced “Business Profit and Salaries, Tax Act 1960.” At that time income tax was levied only on business profits and salaries. In earlier days both individual and corporate tax was taxed on progressive rate. The government replaced the prevailing tax act by Income Tax Act 1962. “In 1974, “income tax act 2051 (1974)” was enacted. Now, Income Tax Act 2058 (2002)” is in implementation.

Income tax plays a very important role in the economic development of Nepal. It is a tool of achieving maximum social and economic objective as laid down by the constitution of Nepal. Taxation, in the modern world has been taken as the best effective tool for saving the ratio of saving of the national income. It is also recognized as a good financial tool to make narrow the inequality in income. It reduces the regional economic imbalance by providing tax concession and holidays to the business or industry, which is established in remote and backward areas. Income

tax is essential not only for collecting government revenue but also to control over consumptions, to reduce inequality of income and wealth to promote saving and investment and to accelerate economic development (Kandel, 2065).

There is no doubt that income tax is the main source of government revenue. It is also usable to balance the balanced economic development. Nobody can doubt that, the distribution of income is also possible through progressive income tax rate. The percentage of income tax in government revenue is in increasing trend, but government is unable to maximize the share of income tax to the public fund as per expectation. Income tax issued on yearly basis.

1.2 Introduction of Sample Banks

In this study ten sample banks are taken into consideration for the study on the basis of quota sampling among 31 commercial banks in Nepal. A brief introduction of the sample banks is given here to become familiar with the organizations background and their performances:

a) Everest Bank Ltd. (2051)

Catering to more than 4 lakhs customers today, Everest Bank Limited (EBL) is a name you can depend on for professionalized and efficient banking services. Founded in 1994, the bank has been one of the leading banks of the country and has been catering its services to various segments of the society since then. With clients from all walks of life, the bank has helped develop the nation corporately, agriculturally and industrially. So one can say with all earnestly that Everest Bank Limited is truly a Nepalese bank.

Joint Venture Partner

Punjab National Bank (PNB), our joint venture partner (holding 20% equity in the bank) is the largest nationalized bank in India. With its presence virtually in all the important centers at India and over 5600 ATM counters, Punjab National Bank offers a wide variety of banking services which include corporate and personal banking, industrial finance, agricultural finance, financing of trade and international banking. For its excellence in banking services, it was recently awarded the "Best Bank Award 2011" amongst all banks in India by the leading corporate magazine, Business India.

Networks

Everest Bank Limited (EBL) provides customer-friendly services through its Branch Network and all its branches are connected through Anywhere Branch Banking System (ABBS), which enables customers for operational transactions from any branches. The bank has 45 Branches, 55 ATM Counters and 21 Revenue Collection Counters across the country making it a very efficient and accessible bank for its customers, anytime, anywhere.

Pioneering achievements

Recognizing the value of offering a complete range of services, we have pioneered in extending various customer friendly products such as Home Loan, Education Loan, EBL Flexi Loan, EBL Property Plus (Future Lease Rental), Home Equity Loan, Vehicle Loan, Loan Against Share, Loan Against Life Insurance Policy and Loan for Professionals.

- EBL was one of the first bank to introduce Any Branch Banking System (ABBS) in Nepal.
- EBL has introduced Mobile Vehicle Banking system to serve the segment deprived of proper banking facilities through its Birtamod Branch, which is the first of its kind.
- EBL has introduced branchless banking system first time in Nepal to cover unbanked sector of Nepalese society.
- EBL is first bank that has launched e-ticketing system in Nepal. EBL customer can buy yeti airlines ticket through internet.

b) Nepal Credit & Commerce Bank Ltd. (NCC Bank)

NCC Bank formally registered as Nepal - Bank of Ceylon Ltd. (NBOC), commenced its operation on 14th October, 1996 as a Joint Venture with Bank of Ceylon, Sri Lanka. It was the first private sector Bank with the largest authorized capital of NRS. 1,000 million. The Head Office of the Bank is located at Siddhartha Nagar, Rupandehi, the birthplace of LORD BUDDHA, while its Corporate Office is placed at Bagbazar, Kathmandu.

The name of the Bank was changed to Nepal Credit & Commerce Bank Ltd., (NCC Bank) on 10th September, 2002, due to transfer of shares and management of the

Bank from Bank of Ceylon, an undertaking of Government of Sri Lanka to Nepalese Promoters. At present, NCC Bank provides banking facilities and services to rural and urban areas of the country through its 22 branches. The Bank has developed corresponding agency relationship with more than 150 International Banks having worldwide network.

CAPITAL STRUCTURE

Authorized Capital - Rs. 2 Billion

Issued Capital - Rs. 2 Billion

Paid up Capital - Rs. 1.4 Billion

c) Himalayan Bank Ltd. (2049)

Himalayan Bank was established in 1993 in joint venture with Habib Bank Limited of Pakistan. Despite the cut-throat competition in the Nepalese Banking sector, Himalayan Bank has been able to maintain a lead in the primary banking activities- Loans and Deposits.

Legacy of Himalayan lives on in an institution that's known throughout Nepal for its innovative approaches to merchandising and customer service. Products such as Premium Savings Account, HBL Proprietary Card and Millionaire Deposit Scheme besides services such as ATMs and Tele-banking were first introduced by HBL. Other financial institutions in the country have been following our lead by introducing similar products and services. Therefore, we stand for the innovations that we bring about in this country to help our Customers besides modernizing the banking sector. With the highest deposit base and loan portfolio amongst private sector banks and extending guarantees to correspondent banks covering exposure of other local banks under our credit standing with foreign correspondent banks, we believe we obviously lead the banking sector of Nepal. The most recent rating of HBL by Bankers' Almanac as country's number 1 Bank easily confirms our claim.

All Branches of HBL are integrated into Globus (developed by Temenos), the single Banking software where the Bank has made substantial investments. This has helped the Bank provide services like 'Any Branch Banking Facility', Internet Banking and SMS Banking. Living up to the expectations and aspirations of the Customers and other stakeholders of being innovative, HBL very recently introduced several new products and services. Millionaire Deposit Scheme, Small Business Enterprises Loan,

Pre-paid Visa Card, International Travel Quota Credit Card, Consumer Finance through Credit Card and online TOEFL, SAT, IELTS, etc. fee payment facility are some of the products and services. HBL also has a dedicated offsite 'Disaster Recovery Management System'. Looking at the number of Nepalese workers abroad and their need for formal money transfer channel; HBL has developed exclusive and proprietary online money transfer software- Himal Remit TM. By deputing our own staff with technical tie-ups with local exchange houses and banks, in the Middle East and Gulf region, HBL is the biggest inward remittance handling Bank in Nepal. All this only reflects that HBL has an outside-in rather than inside-out approach where Customers' needs and wants stand first.

d) Nepal Investment Bank Ltd. (2049), Previously Nepal-Indosuez bank Ltd.)

Nepal Investment Bank Ltd. (NIBL), previously Nepal Indosuez Bank Ltd., was established in 1986 as a joint venture between Nepalese and French partners. The French partner (holding 50% of the capital of NIBL) was Credit Agricole Indosuez, a subsidiary of one the largest banking group in the world.

With the decision of Credit Agricole Indosuez to divest, a group of companies comprising of bankers, professionals, industrialists and businessmen, had acquired on April 2002 the 50% shareholding of Credit Agricole Indosuez in Nepal Indosuez Bank Ltd.

The name of the bank has been changed to Nepal Investment Bank Ltd. upon approval of bank's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office with the following shareholding structure.

- A group of companies holding 50% of the capital
- Rashtriya Banijya Bank holding 15% of the Capital.
- Rashtriya Beema Sansthan holding the same percentage.
- The remaining 20% being held by the General Public (which means that NIBL is a Company listed on the Nepal Stock Exchange).
- We believe that NIBL, which is managed by a team of experienced bankers and professionals having proven track record, can offer you what you're looking for. We are sure that your choice of a bank will be guided among other things by its reliability and professionalism.

e) Nepal Arab Bank Ltd. (NABIL 2041 B.S.)

Nepal, the first joint venture bank of Nepal, started its operations in July, 1984 under a technical service agreement with Dubai Bank limited. Which later merged with Emirates bank Limited, Dubai composition and ownership of capital.

NB (International) limited - 50%

NIDC- 10%, Rastriya Beema Sansthan - 9.67%

Nepal stock exchange - 0.88% and General public - 30%

f) Bank of Kathmandu Ltd. (2051)

Bank of Kathmandu Limited has become a prominent name in the Nepalese banking sector. We would like to express our sincere gratitude to our customers, shareholders, employees and other stakeholders for their support and co-operation for leading the bank to the present height of achievements. We wish to reiterate here that whatever activity we undertake; we put in conscious efforts to glorify our corporate slogan, "We make your life easier".

We would also like to elucidate that Bank of Kathmandu is committed to delivering quality service to customers, generating good return to shareholders, providing attractive incentives to employees and serving the community through stronger corporate social responsibility endeavor.

Bank of Kathmandu Limited (BOK) has today become a landmark in the Nepalese banking sector by being among the few commercial banks which is entirely managed by Nepalese professionals and owned by the general public.

BOK started its operation in March 1995 with the objective to stimulate the Nepalese economy and take it to newer heights. BOK also aims to facilitate the nation's economy and to become more competitive globally.

Vision

To become a significant contributor to the economic development of Nepal by distinguishing the Bank as an efficient, competitive, safe and top-quality financial institution.

Core Values

- The Bank has defined following core values for achieving the vision and mission:

- Embrace a commitment to excellence
- Develop knowledgeable, competent and professional employees
- Deliver quality services
- Provide value to the stockholders
- Be accountable for delivering what we promise
- Demonstrate honesty and integrity in all actions
- Be balanced in customer orientation and risk consciousness
- Be efficient and technology oriented

g) Nepal State Bank of India (SBI) Ltd. (2050)

Nepal SBI Bank Limited is a major national level financial services provider engaged in various retail and commercial banking services.

We, a team of nearly 580 people, move, lend, invest and protect money of over 350,000 customers nationally and worldwide. Since its inception on July 7, 1993, Bank is continuously upgrading quality of its service delivery and customer satisfaction with the help of state-of-the-art technology.

Extending the reach to 27 districts through our 59 physical outlets including 50 branches, 6 extension counters and three administrative offices, we are among largest private banks in Nepal. In addition, we serve our valued customers through e-delivery points like Mobile Banking, Automated Teller Machines (ATMs) and Online Banking service for both corporate and retail clients.

We work as subsidiary of State Bank of India—India’s largest bank in almost any benchmark and business parameters, with over 203 years of history and expertise in banking—which has 55 percent of ownership and rest held by a local partner Employee Provident Fund (15%) and general public (30%).

In terms of the Technical Services Agreement concluded between SBI and the NSBL, SBI provides management support to the bank through its expatriate officers including Managing Director who is also the CEO of the Bank. Central Management Committee (CENMAC) consisting of the Managing Director, Chief Operating Officer, Chief Financial Officer and Chief Credit Officer oversees the overall banking operations in the Bank.

h) Kumari Bank Ltd. (2057)

Kumari Bank Limited, came into existence as the fifteenth commercial bank of Nepal by starting its banking operations from Chaitra 21, 2057 B.S (April 03, 2001) with an objective of providing competitive and modern banking services in the Nepalese financial market. The bank has paid up capital of Rs. 1,603,800,000 of which 70% is contributed from promoters and remaining from public.

Kumari Bank Ltd has been providing wide - range of modern banking services through 29 points of representations located in various urban and semi urban part of the country, 20 outside and 9 inside the valley. The bank is pioneer in providing some of the latest / lucrative banking services like E-Banking and SMS Banking services in Nepal. The bank always focus on building sound technology driven internal system to cater the changing needs of the customers that enhance high comfort and value. The adoption of modern Globus Software, developed by Temenos NV, Switzerland and arrangement of centralized data base system enables customer to make highly secured transactions in any branch regardless of having account with particular branch. Similarly the bank has been providing 365 days banking facilities, extended banking hours till 7 PM in the evening, Utility Bill Payment Services, Inward and Outward Remittance services, Online remit Services and various other banking services.

Visa Electron Debit Card, which is accessible in entire VISA linked ATMs (including 33 own ATMs) and POS (Point of Sale) terminals both in Nepal and India, has also added convenience to the customers. The bank has been able to get recognition as an innovative and fast growing institution striving to enhance customer value and satisfaction by backing transparent business practice, professional management, corporate governance and total quality management as the organizational mission.

The key focus of the bank is always center on serving unfulfilled needs of all classes of customers located in various parts of the country by offering modern and competitive banking products and services in their door step. The bank always prioritizes the priorities of the valued customers.

i) NIC Asia Bank Limited

This is the first ever merger between two commercial banks in the country's banking history. After this, the number of commercial banks comes down to 31. Speaking at the same programme, Sashin Joshi, the CEO of NIC Asia Bank Limited asked for

reduction of the corporate tax rate to 20 percent from existing 30 percent for next five years for merged banks to encourage further consolidation in the banking industry.

In the merger process, 13 branches of the banks at same locations have been amalgamated. Nine branches from outside Kathmandu Valley and four within the valley are thus amalgamated. Similarly, BoAN registered office and NIC Bank corporate office are converted into branch offices. The corporate office of the merged 'NIC Asia Bank Limited' is located at Trade Tower, Thapathali, Kathmandu. Similarly, the newly merged bank is also planning to open new branches in other areas within the next year to make up for the number of branches reduced by this amalgamation.

The two banks currently have 65 branches, 36 of NIC and 29 of BoAN. The bank has a total of 644 employees and CEO Sachin Joshi said "nobody will be laid off".

The merged entity has a paid-up capital of Rs 2.31 billion, however, its reserves will make the actual capital size exactly double of the figure. Its deposit size is Rs 39 billion and credit Rs 33 billion, making it the fifth largest commercial bank of the country.

After the merger, the existing shareholders of BoAN will get additional shares of newly merged NIC Asia Bank on a 2:1 ratio.

j) Siddhartha Bank Ltd(2059)

Siddhartha Bank Limited (SBL), established in 2002 and promoted by prominent personalities of Nepal, today stands as one of the consistently growing banks in Nepal. While the promoters come from a wide range of sectors, they possess immense business acumen and share their valuable experiences towards the betterment of the Bank.

Within a short span of time, Siddhartha Bank has been able come up with a wide range of products and services that best suits its clientele. Siddhartha Bank has been posting growth in its portfolio size and profitability consistently since the beginning of its operations. The management of the Bank has been thoroughly professional.

Siddhartha Bank has been able to gain significant trust of the customers and all other stakeholders to become one of the most promising commercial banks in the country in less than 10 years of its operation. The Bank is fully committed towards customer satisfaction. The range and scope of modern banking products and services the Bank

has been providing is an example to its commitment towards customer satisfaction. It is this commitment that has helped the Bank register quantum growth every year. And the Bank is confident and hopeful that it will be able to retain this trust and move even further towards its mission of becoming one of the leading banks of the industry.

Vision

Siddhartha Bank runs with a vision to be financially sound, operationally efficient and keep abreast with technological developments.

Mission

The Bank desires to be one of the leading banks of the industry by fulfilling the interest of the stakeholders and also aims to provide total customer satisfaction by way of offering innovative products and by developing and retaining highly motivated and committed staff. It directs all its efforts to move ahead with increased profits. The following mission statement is a guide to meet the Vision of the Bank:

- Be one of the leading banks of the industry in terms of profitability, productivity and innovation.
- Aim at total customer satisfaction by rendering efficient and diversified financial services through improved technology.
- Build a highly motivated and committed team of staff by nurturing a good work culture to achieve superior individual performance aiming to enhance organizational effectiveness.
- Be the place of pride to all its stakeholders.
- Core Values of the Bank
- Customer focus
- Shareholder prosperity, Employee growth, Economic welfare

1.3 Focus of the Study

Trading on money is very risky and challenging. On one hand, commercial banks should keep plenty of liquid funds to fulfill their customer's demand and on other hand, there will be equal chance of being idle of the liquid fund. So it is a very important things to manage liquidity with balancing demand and supply. The main focus of the study is comparative analysis of managing liquidity in Nepalese commercial banks by taking 10 sample banks out of 31.

These commercial banks are providing services in the field of finance, industry, construction and so on. Therefore, there is strong need to evaluate the contribution of tax revenue collected from commercial banks in Nepal. There were 31 commercial banks.

This study is to find the income tax collection from commercial banks in Nepal and its contribution to the government revenue to the nation. It has attempted to specific the real status and contribution of income tax in National Revenue of Nepal, structure of tax in Nepal, tax administration in Nepal and the contribution of income tax from commercial banks to government revenue. Similarly tax related problems and effectiveness of income tax system in Nepal have also been tried to analyze.

1.4 Statement of problem

Commercial banks are corporate bodies. They are profit oriented organization. They make profit from the financial transaction by rendering services to the public and business organization 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 five to six year. This practice must be eliminated for the more generation of income tax. On the other hands, it is seen that commercial banks have appealed to revenue tribunal time. It shows there are some weakness in tax assessment 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.

Thirty Two Commercial banks are rendering a wide range of services in Nepal. Commercial banks have opened their branches in urban areas but most of the people live in rural areas therefore people are not getting banking service facility all over the country. The major statement of problems are:

1. How much income tax amount is being contributed by commercial banks in Nepal to total revenue?
2. How can the contribution of income tax from commercial banks be maximized?

3. Which are the major problems in relation to the taxation of commercial banks in Nepal?
4. Is present income tax system efficient?

1.5 Significance of the study

It is necessary to develop the entire sector for the economic development of the nation. To develop these sectors it needs huge amount of outlay. There is a need for mobilizing all the potential limited resources to meet the financial requirement for the development purpose. Domestic resources have more significant role than the external resources for the development programs. Among, these domestic resources plays vital role in economic development of the nation.

The significance of this study can provide guidelines for government, commercial banks, researcher and others. This study would be helpful to the government to find the serious problems which are facing on research gap and high dependency of foreign loan and grants. Commercial banks can help to fulfill the resource gap through tax as government revenue. The study evaluates the contribution of tax paid by commercial banks to government which is helpful to make better policy for commercial banks. This study would be helpful to those researchers who are looking for effectiveness tax on the government revenue.

1.6 Objectives of the study

The man objective of the study is to analyze the tax collection from commercial banks to total government revenue. The specific objectives of this study are follows:

1. To analyze the proportion of contribution of commercial banks to total tax revenue, total income tax revenue and total corporate tax revenue.
2. To examine the income tax related problems faced by commercial banks.
3. To analyze the effectiveness of income tax system in Nepal.
4. To analyze relevant opinions and views of bankers and Tax experts/tax officer regarding income tax.

1.7 Limitation of the study

As the study is being carried out in a partial fulfillment of the requirements for the Degree of Master of Business Studies, it possesses a number of limitations of its own kind. Some of the basic limitations of the study could be illustrated as follows.

1. Simple statistical techniques followed by financial models have been used in the analysis.
2. Absence of required data concerned with commercial banks limits to detail study.
3. Due to the small sample size it may not fully represent Nepal as a whole.
4. The study has covered only the data of past five years.
5. Only ten banks are taken for study purpose.
6. All numerical data have been taken from primary and secondary sources.
7. The analytical report prepared is based on availability of data and information received by the research.
8. The study lacks in time and other resources as well.

1.8 Organization of the Study

This study is divided in five chapters. Prior to the body of the thesis several pages of preliminary materials such as title page viva voce- sheet, recommendation, acknowledgement, table of contents, list of figures, list of tables, abbreviations used etc have been presented.

Chapter I: Introduction: Chapter one is the introduction that includes the background of the study brief description about Nepalese commercial banks. This chapter comprises of focus, significance, objectives of study, statement of problems, a brief description of sample commercial banks and limitation of the study.

Chapter II: Conceptual Framework and Review of Literature: The second chapter is the review of literature. This chapter views the relevant previous studies made on the taxation. This chapter includes the theoretical review, policy review and review of previous studies.

Chapter III: Research methodology: The third chapter is the research methodology. This chapter includes the detail framework of the study, such as population and sample, variables, research design, data collection, presentation and analysis tools and technique etc.

Chapter IV: Presentation and analysis of data: The fourth chapter of this research is presentation and analysis of data. In this chapter, the primary and secondary data collected from different sources are presented in systematic format, such as tables,

charts and figures. And these data have been analyzed using different statistical and financial tools. In addition to that, the major findings of the study are drawn out.

Chapter V: Summary, conclusion and recommendations: The last and the fifth chapter include summary, conclusion and recommendations. This chapter consists of summary of the major findings of this report and concludes the report with the major recommendations and suggestions to the Nepalese commercial banks, banking professionals and government. This study is expected to be a reference to the executives, students, researchers and other professionals in the field of banking management.

CHAPTER- II

CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

2.1 Concept of Income Tax

The income tax is very difficult to define precisely and clearly. Different imputed and accrued income create such difficulties in measurement. Income is to be defined as the best measure of ability in the sense of economic wellbeing of a person as well as a nation. It is the primary determinant of the level of living of any person. People generate income by rendering various types of service, selling goods and producing crops etc. Thus, income may be cash or kind received by a person for livelihood. Income is a payment received for doing work or services.

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, profits 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. Which has been developed by J.M. Keynes.

$$Y = C + S$$

Where,

Y = Income

C = Consumption

S = Saving

But for 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 follows.

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

(Income Tax Act, 2031, p. 5)

The new Income Tax Act, 2002 (2058) was passed and implemented from 2058 Chaitra 19 (1st April, 2002).

This act has defined the term as income of any person derived from employment, business and investment and accumulated income calculating according 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 tax levied on the income of a person and profits of the corporation for the specific time period particularly one 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 fines (Income Tax Act, 2058:5). The constitution of kingdom of Nepal 2047, has prescribed that "No tax shall levied and collected expect in accordance with law". Therefore, only taxable income as calculated by the prevalent rule in subject to tax so that the objective and principal 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. In USA as a matter of practice, recurrence is not relevant to the tax status. In India, the personal income tax is levied on the net 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, professions, insurance, investment agencies and other sources derived in cash of kind (Singh, 1985: 160).

Income tax is levied on the taxable income of a company after deducting allowable expenses. Accounting 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 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 finance specially 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 Hindu' scripture, the duty of king was to serve and secure his people and maintain peace and carry out social works. For the performance of these activities, the king used to levy tax by 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 introduces the income tax in 1799. It imposed income tax in order to finance war with France. Similarly in USA 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. There after, since 1913 it was accepted as permanent tax. Thus, income tax was adopted by different countries gradually. Italy started it in 1864, and New Zealand adopted in 1891, Australia and Canada had followed the income tax in 1915 and 1917 respectively. After First World War, the income tax became an important source of tax revenue in many developed countries. By 1939, it had become the most important source of revenue in most developed countries and had made appearance in a number of developing nations (Agrawal, 1994:113).

In our neighbour country India, the income taxation was started in 1860 by the British government of relief from economic burden created due to first democratic revolution. It was then regularly collected after the publication of Income Tax Act 1886 (Dhakal, 2001:10).

In this way, income tax has become the 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 principal of progressive rate of income tax had been

adopted by the United Kingdom and New Zealand since 1909. Now a days the progressive rate is commonly used rather than flat rate in all over the world.

2.3 Concept of Direct and Indirect Tax

a) Direct Taxes

If a person has to pay directly the tax liability to the government, such tax is known as direct tax. Tax liability of direct tax can not be transferred to others and must be paid by the person to whom it is legally imposed. The impact of direct tax is limited with the taxpayer who is liable to pay such tax. Income tax, house and land tax, interest tax, vehicle tax, property tax and contract tax are examples of direct tax.

b) Indirect Tax

Indirect tax is the tax that is collected from others by transferring the tax liability. It is levied on one person who does not bear it from own income. Collecting it from customers and adding it to the price of goods or services transfer the tax liability. So the government realized indirect tax from general public. Sales tax, entertainment tax, excise duty, custom duty, value added tax, hotel tax and passenger tax are the example of indirect taxes.

In Nepal, about 79% of total revenue was collected from tax revenue and rest 21% collected from non tax revenue. Among the tax revenue, 19.36% of tax revenue comes from direct source and 80.64% of tax revenue from indirect sources in average.

2.4 Corporate Tax and its Development in Nepal

a) 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 separate 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 (Kandel, 2065: 68) 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 enterprise.

The history of this tax was started from 1909 in USA when 1 percent excise was levied on corporations i.e. companies on the ground of the privilege they enjoy. 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, increase vehemently later on after First World War (1914-1918) and again started to be down turn since 1980s. (Kandel, 2065: 28). Taxation of corporate profits is so far the most common form of corporate taxation. Almost all countries of the world have adopted this system (Pant, 2004: 25).

b) 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 tax payers' 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 tax payer was eliminated in the fiscal year 1965/66.

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 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 1993/94 and partnership firms in 1995/96 (Khadka, 2001 : 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 becomes a type of guessing game (Crosses, 1963:4).

The third Income Tax Act was introduced in 1974 with some changes and new provisions than old one. The finance act of 1976 under this act introduced a separate tax for 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 enterprise. The fiscal year 1986/87 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 and cent percent in 1990/21. Compulsory self-tax assessment system for public and private limited companies was introduced in the finance Act, 1992. The additional change was made that taxpaying corporate income at flat rate to the private limited company was enacted from the financial year 1994/95. This change abolished the discrimination between private company and public company. Another major change carried out in the fiscal year 1998/99 was the inclusion of dividend of non-industrial companies within the tax net.

The initial corporate income tax rate in 1960/61 was 25%. It was increased to 60% in the fiscal year 1975/76. 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 1985/86. And declined then after to 50% and 30% for up to 1991/92 and now this rate is 20% for special industry and 25% for general industry and 30% for bank and finance companies.

c) Corporate Tax Base in Nepal

There may be various bases for taxation. For instance, these 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/tax officer (Kandel, 2065 : 23).

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/tax officer 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 tax was levied on the total income of the previous year of a company. 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.” (Pant, 2004: 25)

d) 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.

i) Parliament

No taxes levied and collected expect in accordance with law. The government can only impose any tax with deficient legal support in necessary to impose income tax too. Different types of acts and supported laws and provided by parliament in the democratic countries even though the parliament is not directly associated with day-to-day operation of income tax management. Thus, the parliament is the first and most 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.

ii) Ministry of Finance

The highest organization of total taxation management body of the country is the ministry of finance of Nepal Government. 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 treasury 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 can not 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.

iii) Inland Revenue Department (IRD)

The most important component of the tax management in Nepal is Inland Revenue Department. Its function is to fulfill the objectives and goals set by the Ministry of Finance (MOF). It launches various programmes, 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 non-tax revenue. It also organizes the structure of taxation, manages personnel, improves the systems and control the system defects and personnel as well. It constitutes law, policy, appeal, audit, investigation and review, tax exemption and static section. This department is situated at Lajimapat, Kathmandu.

iv) Inland Revenue office (IRO)

The lowest unit and fourth component of tax management of Nepal is Inland Revenue office. 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 programmes. They maintain public relations, collect information, identify taxpayers, and assess the taxpayers' 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 an important part of the tax management, which is directly involved in the ultimate function of the whole taxation system.

2.5 Some special Provision For Banking Business

Income Tax Act, 2002 has some made special provision to banking and insurance business under section- 59. For the purpose of this section banking business means a business that is approved to carryout banking transactions carryout by financial institution as per the prevailing laws for bank or financial institution. The special provision facilities, concessions and rebates provided by this Act.

a) 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.

b) Carry back of loss

The loss from banking business can be carried backward for five years. However, contingency fund is utilized to show as expenditure; the carry backward facility is not allowed.

c) Provision for Contingency Fund

As described section-59, the person running the banking business would be provided to at the most five percent of the contingency amount as expenditure. If such expenditure is shown bad debts cannot be shown in profit and loss account as expenditure. If the amount in contingency fund is capitalized or dividend is distributed, it should be shown in the year of capitalization.

d) Interest Suspense

According to direction of NRB to the banking business, no interest can be treated as income on the accrual basis. Interest suspense amount should be opened if interest is earned but not received in cash within one month. This type of Income Tax Act, 2002 by issuing the Finance ordinance 2003.

2.6 Income Tax Administration in Nepal

The body which implements the policy, rules and regulations of the government relating to taxation is tax administration. It comprises the organization, employees and

the physical facilities provided to the employees. In relation to the running of a government, tax administration has a great importance. It is so because, the administration is a permanent government, it collects revenue required to run the government and the success or failure of a political party in government depends on the performance of the administration. Due to these importance of tax administration, it is said that tax administration is tax policy in developing country.

Income tax is administrated directly by the Inland Revenue department, Ministry of Finance and other administration such as customs administrations; revenue investigation administration and training centers are also involved in the income tax administration. The revenue division of this ministry of finance is responsible for formulating tax policy and setting up appropriate administration to implement tax policy. It co-ordinate the activities of revenue departments including Inland Revenue Department. Customs administration helps in income tax administration by collecting advance leakage made by officers and tax payers for their mutual benefits. And revenue administration, training center performs training, workshops and seminars for the tax officials. Tax administration has become challenging and more complicate with the changing environment of international tax system. Inland Revenue Department has taken the responsibility of administration of income tax. Tax administration was set as the tax directorate in 1959 for first time. The internal revenue department was established in 1961/1962 and the department of taxation was set up in 1963/1964. 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, Biratnagar, Nepalgunj, Bhairawa and Janakpur. In Kathmandu there were two offices known as eastern office and western offices. The number of tax offices increased gradually. These offices were classified as zone and branch offices were converted into tax offices.

The success and failure of any tax policy depend upon the efficiency and effectiveness of the 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 term of money, time, inconvenience and mental worry.

2.7 Function of Income Tax Administration

The functions of tax administration can be broadly divided into two parts – basic functions and subsidiary functions. Major functions include the work of investigation and registration of tax payer, assessment of tax, collection of tax and auditing. The subsidiary function on the other hands covers internal management of the offices and the payer education. The function of tax administration are briefly explained in brief:

A. Registration

The first work of tax administration is the registration of tax payers in the tax offices. Registration of the tax payers also includes the investigation to about taxpayer's activities. After registration a number is given to the taxpayers which is known as Permanent Account Number (PAN) or Taxpayer Identification Number (TIN)

B. Assessment

The second work of tax administration is assessing the tax. However, tax office is authorized to assess the tax only if the taxpayer does not obey the tax law. Tax office assesses the tax only if there is mistake in the assessment made by the taxpayer. In ordinary case, it is the duty of taxpayer to make his tax assessment. The assessment made by taxpayer himself is known as self-assessment.

C. Audit

The third work is tax administration is tax audit. Here, audit means, auditing the tax assessment from submitted by the taxpayer. Tax audit can be two types- prima facie audit and detail audit. Prima facie audit means the audit made at the time of submitting tax assessment from by the taxpayer. In this audit, the tax office examines only the mathematical errors etc. made by the taxpayers. The detail audit, on the other hand, covers site visit audit and the detail examination of the documents submitted by the taxpayer. This type of audit is made on sample basis.

D. Collection, Refund and Remission

The next work of tax office is the collection of tax amount. For this purpose the tax office can be use the banks also. If over collection is made from any taxpayer, the tax

office should refund the amount. Sometimes, if it thinks that it is impossible to collect tax from certain taxpayers, the tax administration can sacrifice the due amount. Such sacrifice is called Tax Remission.

E. Taxpayer Service

The last but not least important work of the office is the taxpayer service i.e. taxpayer education and entertaining the enquiries of the taxpayer. While performing this duty, the tax administration should think that taxpayers are the customers of the tax office. He should served so that he is motivated to come to tax office in future also.

2.8 Methods of Income Tax Assessment

Generally, the term ‘assessment‘ means the process of determining the tax liability of the assessee. Income Tax Act,2058 has defined the term “assessment” as an assessment of tax to be paid under this Act and it includes an assessment of interest and penalty made under this Act. However, the term does not include an assessment that has been replaced with an amended assessment.

Income Tax Act, 2058 has specified three types of assessment viz; self – assessment, jeopardy assessment and amended assessment. The types of tax assessment are as follows: (Bhattarai and Koirala, 2010: 244).

A. Self- Assessment

In self- assessment, a taxpayer himself assesses his tax liability. Income Tax Act, 2058 focuses on the self- assessment system. Under this Act, every assessment will be treated as self- assessment. Where a person files a return of income for an income year, an assessment is treated as made on the due date for filing the return of

- the tax payable by the person for the year and in the amount shown in the return
- the amount of the tax still to be paid for the year being the amount shown in the return

Income Tax Act, 2058 has treated every assessment as self- assessment. Even if a person fails to file a return by the due date, the person is treated to have made an assessment on the due date for filing the return and his assessed tax for the year will

be equal to the sum of tax withheld and tax paid in installment. The Department may, then, proceed for an amended assessment.

B. Jeopardy Assessment

The section 100 of Income Tax Act, 2058 also makes provisions for the jeopardy assessment under such special circumstances as when

- a) The person about bankrupt, is wound-up, or goes into liquidation.
- b) The person about to leave Nepal indefinitely.
- c) The person is otherwise about cease activity in Nepal or
- d) The Departments otherwise considers it appropriate.

Where an assessment is made under jeopardy assessment with respect to a full-income year, the assessed person will not file or return of income for the year. However with respect to part of an income year, the assessed person is still required to file or return of income for the year. The Department is required to grant an opportunity to produce proof, if any, in own favor while making a jeopardy assessment (Bhattarai and Koirala, 2010: 245).

C. Amended Assessment

The section 101 of Income Tax Act, 2058 also empowers tax officials to make amended assessment to adjust the assessed person's liability to tax in such manner as, according to the department's best judgment, is consistent with the intention of this Act. The department may amend an assessment according to its best judgment for as many times as it thinks appropriate with in a period of four years.

In case the assessment is inaccurate by reason of fraud, the Department may amend an assessment at any time(the period of 4 years is not applicable). But the assessment must be done within one year on receipt of information. However, the department may not amend an assessment if the assessment has been amended or reduced pursuant to an order of the Revenue Tribunal of a court of competent jurisdiction except where the order is reopened.

While amending an assessment, the Department is required to grant an opportunity in writing to produce proof, if any, in own favor with respect to the assessment,

specifying the basis that led to the amendment and giving a time limit of 15 days (Bhattarai and Koirala, 2010: 246).

2.9 Problems in Tax Administration in Nepal

The estimated expenditure exceeds over expected revenue, that arises 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: (Kandel, 2065: 254).

Failure to Maintain Proper Accounts and Records

Accounts and financial statements of the taxpayers are the base of effective and efficient tax administration. The profit or surplus shown in the account is the 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 number of private business entities submit false income statement for tax purpose even though they maintain accounts of their business transactions. They make two sets or 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.

- I. Ineffective use of sanction: The ineffective use of sanctions provides in the law against those taxpayers who fail to comply with the accounting and

reporting and report requirements of law has encourage non- maintenance of accounts.

- II. 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 assessment of tax liabilities is made by the committee method in Nepal. However, more than 12% of 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 conclusion between them for financial benefit. This increase dishonest taxpayers as well as corrupt tax officers. Thus tax assessment by committee or best judgment methods have been discouraging maintains of proper accounts by taxpayers that is harmful to the tax administration.
- III. Attitude of tax officers: The attitude of the tax officers is responsible for the failure to maintain proper accounts and records. Generally, tax officers reject the account submitted by taxpayer 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 are not conducive to the development of the habit of maintaining account by the taxpayers.
- IV. Lack of intermediaries: Professional accounts, tax lawyers 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 record in

proper way. However, such intermediaries have not received adequate encouragement and support from the tax administration (Kandel, 2065: 256).

2.10 Failure to Locate New Taxpayers

The problems related to the location of new tax payer 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. 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. But the target has not been fulfilled. The major problem is the location of new tax as payers in the case of non-citizen person who are really outside the income tax net. This is due to open border with India. Similarly, self -employed person as professionals and skilled persons have also remained outside the effective react of incomes tax net, broker, speculators, foreign goods dealer, supplied in big hotels, tourist guides, insurance agents and persons representing international companions are the other potential taxpayer who are also remaining outside the income tax net. Administration deficiency, poor taxpayer morality and compliance about the income tax payment are the major responsible factor for problem of failure to locate the new tax payers (Agrawal, 1994:109).

2.11 Collection Problem

The main measurable factor for performance of tax administration is collection of tax revenue. From this point of view, it is seem that the performance of tax administration is not satisfactory because of low collection of income tax. Notwithstanding, the Income Tax Act has prescribed stiff fines and penalties for nonpayment 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 officers; Many tax payers 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 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 firms. 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 data.
- 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 fielding five vouchers. This is very rigorous to the taxpayers and it has adversely, affected in revenue collection.
- f. Undue 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. Failure of public sector enterprises to pay the taxes.
- iv. Tax holiday granted to new industries.
- v. Defective accounting system in Inland Revenue offices (Agrawal, 1994: 111).

2.12 Assessment Delays

Tax assessment is the computation of taxable income and tax liability of a tax payer 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 tax payers.
- 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.

2.13 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 reactively low in the developing countries in comparison with developed countries. To increase the contribution of income tax to 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 programmers' 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 tax paying 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 procedure.
- d. Lack of taxpayer's education.
- e. Weakness in enforcement of fines and penalties.

- f. Lack of research in tax matters.

2.14 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 business persons do such practices. They are advised by corrupt tax personnel and tax consultant to evade or avoidance 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 the reduction or elimination of tax liability to hide or make less tax liability culminating 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 make by taxpayer, consciously evade tax payment due. Thus, tax evasion in illegal and immoral attempt. It may arise from weak enforcement of punishment to non- payment of tax legally due, taxpayer's immorality in paying income tax and inadequate tools of tax administration. Evasion practice is increased or encourage by some reasons that are listed below.

- a. Corruption by tax officials
- b. Illegal business activities
- c. Reluctance of taxpayer to maintain accounts
- d. Difficulties in locating taxpayer
- e. Ineffective use of fines and penalties
- f. Poor development of corporate sector

Besides these causes, other are also responsible for 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 developments of intermediaries

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

2.15 Review of Literature

2.15.1 Review of Books

Khadka (2001) had published a book named "*Nepalese taxation Path for Reform.*" He has described Nepalese Economic Policy, CAT as a long term tax source (revenue source) for Nepal, income tax from a rough to refined system, property tax as the main source of internal revenue, improving tax administration, strategy for reform and so on. He had presented the composition of tax revenue from the Fiscal year 1950/51 to 1991/92.

About the income tax he had described the introduction, development, existing structure, main problems and possible directions of reform. His book was presented as an analytical study of income tax. He had identified the major problems of income tax like narrow coverage unscientific tax assessment deviation from basic principal of income taxation, defectiveness for the perspectives of international taxation. He had also recommended the possible direction for reform, extension of withholding tax, inflation adjustment, introduction of current year payment basis and tax treaties with major trading countries of Nepal.

He had also identified the major problems associated with Nepalese tax administration, which were weak administration, inadequate training to tax officers, posts, inadequate physical and other facilities debatable scope of revenue investigation department, lack of adequate information system and lack of coherent tax policy. He had suggested to administrative reform to expansion, develop and integrated information system and research on taxation.

His book was very useful to gain various knowledge about income tax, But he had not presented any numerical illustration and legal provisions relations to income tax . His book was more analytical rather than descriptive.

Dhakal (2001) study on *“Income tax administration in Nepal: Areas for reform”* analyzed historical perspective on income tax in Nepal, tax structure in Nepal, administrative aspects of income tax in Nepal, the ways and means for increasing tax consciousness in the public, and he has conducted an empirical investigation regarding the problems on various aspects of income tax administration system of Nepal. His study emphasized on drawing a clear sketch of income tax administration in Nepal and its problems. He also gave recommendation for the improvement of income tax administration in Nepal. According to him the tax administration in Nepal is facing the following problem.

- i. Failure to locate new taxpayers
- ii. Poor- record keeping system of taxpayers
- iii. Weak tax administration
- iv. Poor training opportunities
- v. Lack of motivation in tax personnel.

K.C (2007) published a book entitled *“Tax laws and Tax Planning Theory and practice.”* The book has exclusively designed for the subject “Taxation in Nepal” as per the syllabus prescribe by the faculty of management, Tribhuvan University unlike other books available on this subject, this book makes as in depth approach to the study of income tax, value added tax and tax planning in order to meet three specific requirements of those students who are studying taxation. This book is equally valuable for BBS and MBS levels students as well as for the teachers. This book is very useful to understand legal provision of Income Tax Act 2058. Theoretical aspects as well as numerical problems of income tax and value added tax are presented in this book.

Bhattarai and Koirala (2010) had published a book entitled *“Taxation in Nepal.”* He had described the classification of tax, relation of capital and income, base of income or expenditure tax, base of tax in Nepal, procedure of computing income, weakness of traditional accounting system, classification of tax rate index, index of income tax in

Nepal, contribution of income tax to national revenue, errors of past provisions, verification of tax improvements, some steps of administrative improvement etc. He found that income tax was only 7% of total revenue that was very low as compare to neighboring countries. For this, he had identified the following causes no taxation agriculture income, narrow base of income of retail business, high exemption limit on remuneration income, etc. He had also identified some errors of provisions relating to income tax. They were progressive tax had not played an effective role for equal distribution of income , unproductive tax concession holidays and rebate, provisions of low additional fee as compare to market interest rate, deduction given to record keeping tax payers and timely paying taxpayers had not played an effective role, etc. He had accounted the improvements made or income tax like, expansion of corporate tax on private limited company by 5% on flat rate, maximum 40% rate of individual income tax, provision of tax collection at source, provision of self assessment, increase in additional fee to remove tax evasion, etc. He also accounted the some steps of administrative improvement. They were provision of income assessment committee, flat rate of tax to small taxpayers establishment of tax offices etc.

Revenue consultation committee of Ministry of Finance had published a report 2010. This committee had studied the overall taxation situation of Nepal in depth. This report had suggested to widen the income tax base by including all kinds of taxpayers and income. It had also suggested to find out the taxpayers and income. It had also suggested to find out the taxpayer of new sector. For this, the report suggested to make the act more transparent and clear on order to attract foreign and domestic investors. For income taxation self- assessment was fully recommended. The report had suggested to increase exemption limit and adjustment of exemption limit according to the purchasing power and inflation. The report had certified Rs. 160,000 for an individual and Rs. 200,000 for a couple and family as exemption limit. This report had suggested to implement account based VAT more effectively. For small taxpayers having up to Rs. 2 million, tax collection should be used on the basis of their sales and purchase description.

2.15.2 Review of Articles

Adhikari (2001) presented an article entitled "*Issues and Reforms in Nepalese Income Tax Administrator*" explained the need of tax policy that can play significant

role in the Nepalese economy. According to him, a little attention on tax administration can minimize the role of tax policy, Nepalese income tax waiting for a comprehensive and integrated taxation plan and significant implementation of the same of reforms. Furthermore, he has stated Nepalese tax system has three types of gaps. They are:

1. Investigation and identification gap:
2. Return filling gap and
3. Assessment and collection gap.

He suggested that the tax administration should be considered as an important component of tax policy to achieve the goal of revenue minimization through income taxation.

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

Kandel (2004) presented an article entitled, “*Are Tax Incentives Useful? If so, which one?*” published in Journal of Finance and Development. In this article Kandel tried to seek the answer from the survey of various empirical studies earlier done in Nepal, India, Pakistan and other investment countries. Kandel found that the tax incentives are still the controversial matter whether they promote the investment or not. But Kandel argued the most of the developed countries used tax incentives.

As per the studies done in various countries the conclusion is that among different types of tax incentives, investment allowance or investment tax credit and accelerated depreciation are superior to other types of tax incentives. Tax holiday is the most inferior type of tax incentive which causes revenue loss without enhancing the investment environment. Meanwhile most of the researchers have opposed the tax holiday system both within Nepal and outside Nepal.

Kandel further added the survey of the studies indicate the accelerated depreciation system has positive impact on investment. The work of reducing tax rate specially followed after 1990s to such lowest rate was not a proper decision. That's why if Nepal wants to go to tax incentives again, investment allowance or investment tax credit, not the full holiday in future should be adopted in future.

Regmi (2007) in his article entitled "*Income tax evasion as a crime in Nepalese Legislation*" has explained that the current trend of collection of income tax and the contribution of it in the national revenue is far from satisfaction. This study has also suggested tax law with practical solution and well set up mechanism.

2.15.3 Review of Thesis

Acharya (2004), had presented a thesis named, "*A comparative Analysis of Income Tax from Joint Venture and non joint venture commercial Banks to Total Revenue*", TU. From the study following conclusion had been drawn out.

- More than three fourth portion of Nepalese government revenue is collected from tax sources and only about one fourth portion is collected from non- tax sources.
- Direct tax is collected 17.08% of total revenue in average per year and it contributes average 21.81% amount to total revenue.
- From the income tax structure analysis, it is noted that Nepalese income tax structure is a composition of corporate income tax, individual income tax, house and compound tax and interest tax. Corporate tax contributes more than 50% amount to total income tax per year. It is become a highest contributing source of income tax revenue.
- Corporate tax occupies a considerable portion of total revenue. In average 8.83% of total revenue is collected from corporate taxes.

- Corporate tax collection from each sector will be maximized by providing additional facilities and incentives to the commercial banking sector. Rate of income tax should be differentiated according to the nature of business. Problems facing by CBs while paying corporate tax are vague provision of tax laws and order of tax assessment by tax authorities. To collect more government revenue, taxpayers should be motivate taxpayers. Persons are conscious about tax planning and they pay tax by hoping that tax amount which is paid by them through their income should be utilized in a better job.

Sharma (2005), had prepared a master degree thesis entitled “*An analysis if fines and penalties regarding Income Tax System in Nepal.*” He has described about tax structure of Nepal, analyze the provision of fines and penalties under income tax law, examined the taxpayer’s knowledge and tax officers views about fines and penalties, tried to find out the role of fines and penalties to increase tax paying habit of Nepalese people and provided suggestions about fines and penalties regarding to income tax system.

Adhikari (2006), had presented a thesis named, “*Contribution of income tax and value added tax on total revenue in Nepal*”, TU. From the study he had found that the total tax revenue of Nepal is the composition of direct tax revenue and indirect tax revenue. There is always a dominant role of indirect tax revenue in the total tax revenue. Income tax and value added tax can be taken as a better source of government revenue to develop the economic condition of Nepal. Due to poor investment, less productivity and less income generation activities taxable amount is not increasing in Nepal. So, income- based tax has a minimum role in the tax structure or the contribution of direct tax in total tax revenue is not satisfactory. The contribution of custom duties to indirect tax is in increasing trend. In fiscal year 2002/03 it has contributed 14236.4 million. VAT and income tax contributed 23.94% and 1.26% in fiscal year 2002/03.

Koirala (2007), had presented a thesis named, “*Contribution of income tax collection from commercial banks to total revenue in Nepal*”, TU. From this study he had found that about 77% of total revenue comes from tax revenue and rest 23% of total revenue comes from non- tax revenue in fiscal year 2005/06 and 8.99% of average contribution of corporate tax to total revenue. Among the sampled commercial banks,

income tax contribution made by NABIL is higher and it has lowest CV too, which indicates that the corporate tax payment of NABIL was very close to average payment. The ratio of corporate tax contribution from sampled CBs to GDP was remained in between 0.78% to 1.52%. from the analysis of tax payer corporate bodies it is found that no. of private corporate bodies are more than public ltd companies. From the income tax structure analysis, it is seen that Nepalese income tax structure is a composition of corporate income tax, individual income tax, house and compound tax and interest tax. From the analysis of ratio of corporate tax total revenue it is depicted that corporate tax occupies a significant portion of total revenue. In average 9.03% of total revenue is collected from corporate taxes.

Gautam (2009), had conducted a thesis on “*Contribution of Value Added Tax and Income Tax to Total Government Revenue in Nepal*” submitted to faculty of management Tribhuwan University has following objectives and findings:

Objectives

- i. To sketch historical background of VAT and Income Tax in general.
- ii. To assess implementation status of Value Added Tax Act 2052 and Income Tax Act 2058 in Nepal.
- iii. To present revenue collection after application of VAT and new Income Tax Act in Nepal
- iv. To assess contribution of Value Added Tax and income tax on total revenue and total tax revenue in Nepal
- v. To put forward suggestion regarding VAT and income tax system in Nepal.

Major Findings

- i. The study shows that the contribution of tax revenue was 79.12% and that of non tax was 20.88% in FY 2007/08. Its shows that attention has been major sources of government revenue. But the contribution of total revenue was not more formulated trend. Its contribution was 79.49% in FY 2000/.1.
- ii. The corporate tax rates have been revised for several times in the history of corporate. Now a days, private and public companies are taxed at flat rate of 20%, 25% and 30% respectively which are the lowest rate of more than one decade.

- iii. Nepal has been practicing book profit or corporate profit as tax base for the corporate taxation ITA, 2058 has clarified about the format for calculation different head of income.
- iv. The contribution of CITR to total revenue was 9.92% of maximum in FY 2000/01 and 4.42% of minimum in FY 2002/03.

Acharya (2010), had conducted a thesis on “*A Study on Contribution of Direct Tax and Indirect Tax to National Revenue of Nepal*” submitted to faculty of management Tribhuwan University has following objectives and findings:

Objectives

- i. To find the contribution of direct and indirect tax to national revenue in Nepal
- ii. To analyze the structure of direct and indirect tax
- iii. To analyze the contribution of corporate tax to national revenue of Nepal
- iv. To find out the most important factors for effectiveness of income tax in Nepal
- v. Provide suggestions for effective collection of direct and indirect tax
- vi. To provide suggestion for effective collection of direct and indirect tax in Nepal on the basis of the study findings.

Major Findings

- i. The study shows that the contribution of tax revenue was 79.12% and that of non-tax was 20.88% in FY 2007/08. It shows that attention has been major sources of government revenue. But the contribution of total revenue was not more formulated trend. Its contribution was 79.49% in FY 2000/01.
- ii. Income tax has been considered as suitable sources for mobilization internal resources. It can be used as a positive instrument to boot Government revenue collection, to develop the economic condition of Nepalese people and promote distributive justice and to cure resource gab problem
- iii. Contribution of direct tax to GDP was 2.46% in FY 2000/01 which reached to 2.81% in FY 2007/08. It was fluctuate so this ratio is not satisfactory.
- iv. The income tax to total revenue ratio in FY 2000/01 was 18.64% which fluctuated to reach 15.13% it was decreasing trend.

Timilsina (2011), had conducted a thesis entitled “*A study on contribution of Employment Tax to the Government Revenue.*” In this dissertation, he has examined the collection of the employment tax and its contribution to the government revenue of Nepal. He has stated that actual revenue collection in Nepal is lower than the target set out. For this, he has point out some responsible factor like poor taxpaying habit of Nepalese taxpayer. Poor tax administrative system, widespread income tax evasion, etc. He has also studied the income tax structure, trend of income tax collection and the share of contribution of employment income tax to the development of Nepalese economy. He has put forward some suggestion to overcome those problems such as improving tax administrative system, checking income tax evasion, etc.

Objectives

- a. To study and analyze the contribution of income tax to the government revenue.
- b. To examine the effectiveness of employment tax in revenue collection.
- c. To evaluate the trend of tax collection and examine the Nepalese tax structure.
- d. To provide suggestion to the concern an organization on the basis of study findings.

Major Findings

Followings findings have been drawn out from the secondary data analysis and conducted with tax expert and tax administrator and tax payers are as under.

- a. 56% of the responded that people are not well informed about tax system and only 44% of the respondents accepted that people are well informed about tax system.
- b. Tax payers view that the provision of expectation for medical tax credit provided by Income Tax Act 2058 in adequate. But most of the Tax experts/tax officer view the provision to be adequate.
- c. People of Nepal are not well informed about tax system and the more appropriate method for assessing income tax is self assessment.
- d. In Nepal major problem that employees faced while paying income tax is procedural complication.

Pandit (2012), had conducted a thesis on “*A Study on Contribution of Income Tax To Nepalese Government with Special Reference to NTC*” submitted to faculty of management Tribhuwan University has following objectives and findings:

Objectives

- i. To study and evaluate the status of income tax as a major source of Government revenue.
- ii. To examine the Nepalese income tax structure.
- iii. To review and analyze the trend of income tax collection and tax revenue.
- iv. To analyze the contribution of income tax from NTC to Government revenue.
- v. To provide valuable suggestions and recommend action for efficient implementation and improvement of tax in Nepal with reference to NTC.

Major Findings

- i. Consumption is increasing even amidst low economic growth rate thereby causing contraction in domestic saving. Therefore another challenge of the economy is to create increasing environment for saving.
- ii. Contribution of remittance almost 21% of GDP. The large chunk of such remittance. However, is spent in consumption of imported consumer goods and real- estate purchase. As such then in world remittance could not be mobilized as financial savings.
- iii. The country has enormous potential for raising GDP through maximum utilization of opportunity available in areas of agro- processing and high value herbs processing industries, tourism and hydropower and education and health mobilization of domestic and foreign investment becomes very much necessary for enhancing in the use of available exclusive natural wealth.
- iv. Nepalese revenue structure consist of tax and non- tax revenue. Tax on consumption and product of goods and services has occupied first place regarding its contribution to total revenue of Nepal.
- v. Nepalese income tax structure is formed by contribution of income tax from public enterprises, private corporate bodies, and individual and employment tax. Contribution of private corporate bodies occupied the first position in income tax revenues.

- vi. There are problem in tax in Nepal. Due to the complexity in Income Tax Act, rules and regulation, lack of consciousness of taxpayers, inefficient income tax administrations inadequate economic policy and increasing habit of tax evasion.

Research Gap

From the above review of literature, it is found that there are many researches conducted in income tax collection. However, such special study related to income tax collection from commercial banks and its contribution to total income tax has been limited. In this study, the researcher has attempted to evaluate the contribution of income tax collection from selected commercial banks to the government revenue and public awareness regarding income tax by conducting field survey, in order to know somehow about the practical experience of income tax collection. So this study will be fruitful to those interested persons, students, scholars ,stakeholder ,civil Society, teachers, businessmen and government for academically as well as policy perspective.

CHAPTER- III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is a systematic way to find out the probable solution. It is a method used to meet the specified objectives. It refers to the various sequential to be adopted by a researcher in studying the problem with certain objectives in view. Thus the overall study methods are presented in this chapter. This chapter contains the research design, variables, sample size, sample selection procedure, data collection and processing techniques.

3.2 Research Design

The research design is a plan, structure and strategy of investigation conceived so as to obtain answer to research question and to control variance. This research study is concerned with past phenomena both numerical as well as opinions. This study is both descriptive and analytical. The collected data and information are described and analyzed by using simple ratio and some statistical tools. To identify the quantitative factors affecting corporate tax, descriptive and analytical research design is adopted with a non descriptive as well as analytical research design.

3.3 Variable

Variable are the symbols to which numerical or values are assigned, so the variables are taken on values. This research intends to identify that vary the income tax payment capacity of joint venture and non-joint venture commercial banks in Nepal. Thus, corporate tax is a variable that is affected by many other variables, the entire factors that affect the income tax collection from commercial banks are high level of non- performing assets (NAP), rule and regulations of NRB, policy govern by IRD, etc. these all factors are the independent variable where as income tax is a depended variable.

3.4 Population and sample

In general, the population refers to the organization of the same nature on its services and products. This research study intends to the factors that affect the income tax collection from commercial banks in Nepal, so the population of the study is all

commercial banks in Nepal. The samples of the Ten commercial banks are taken as follows:

Everest Bank Ltd.	Nepal Credit & Commerce Bank Ltd.
Himalayan Bank Ltd.	Nepal Investment Bank Ltd.
NABIL Bank Ltd.	Bank of Kathmandu Ltd.
Nepal State Bank of India	Kumari Bank Ltd
NIC Asia Bank Ltd.	Siddhartha Bank

The sample is taken on the basis of quota as well as convenience sampling from two different types of banks i.e. joint venture and non-joint venture banks on the basis of investment point of view.

For the analysis of primary data, research questionnaire is prepared and opinion is collect by filling questionnaire under the direct supervision of the researcher. Then, in order to meet the research objectives, banking professionals and tax expert's opinion has been collected. The sample respondents are taken by assuming that it represents all population within the targeted group.

List of No. of Respondents

Respondents	No.
Banking professional	30
Tax experts/tax officer	30
Professor	30
General public	15

3.5 Nature and Sources of Data

This research study is based on secondary data as well as primary data. Secondary data are used to analyze the simple ratios and trend values. The primary data are used to analyze the qualitative factors affecting income tax collection from Nepalese commercial banks. In relation with corporate tax to other variables described in Annex-iii is analyzed by using primary data, collection by filling questionnaire with the respondents. The respondents of primary data are Tax experts/tax officer, tax officials, general public, tax executives and banking professionals. The income tax collection from commercial banks in Nepal.

Source of secondary data are AGM reports of commercial banks annual reports of IRD, quarterly economic bulletin of NRB, websites of IRD, NRB and CBs bulletins and publications of authorities, researcher, journals, unpublished thesis report, news papers etc.

3.6 Data Collection Procedure

This research study consists of both primary as well as secondary data. Since the nature of these primary and secondary data is different, collection procedure is also varies. These source and data collection procedure is explained below:

a) Secondary Data

To collect the secondary data, published materials are collected from various spots. Books published by different authors, unpublished thesis reports, journals magazines, websites, annual report of IRD, AGM report of commercial banks bulletins of NRB, economic survey and budget speech of various year taken as main resources. To collect these secondary data, the researcher has visited T.U central Library, NCC campus Library, SEBON Library and NRB Library.

b) Primary Data

Primary data were collected through scheduled questionnaire (Appendix iii). For opinion survey, total 105 sample respondents were taken consisting 30 banking professional, 30 Tax experts/tax officer, 30 professors and 15 general public. Observation and the personal meeting with the learners and practitioners of CBs, obtaining during the personal meeting with the respondents directly was made. Opinions obtained during the personal meeting with the respondents have been incorporated in this research study which is not included into the scheduled questionnaire.

3.7 Presentation and Analysis of Data

The collected data (both from primary and secondary sources) are tabulated and presented to make those data clear and more informative. Such data have been presented figure like bar diagram, trend line and pie-chart, whichever is relevant to explain the data effectively, on the basis of the nature of data. After presenting, these data are analyzed by using various statistical and mathematical tools and techniques.

3.8 Statistical Tools

The primary and secondary data collected from various sources lead to the logical conclusion, only if the appropriate tools and technique are to analyze them. To analyze collected data some statistical tools are used. Statistical tools are the instruments to analyze the data. In statistical, there are numerous statistical tools to analyze the data of various natures. For making analysis and interpretation of collected data from primary source as well as secondary sources, table charts and

diagrams are used along with simple percentage as demanded by subject matters. The following statistical tools are used to analyze these data.

i) Mean (Average)

The average is a simple value related from a group of values, which is supposed to stand for whole group of which it is a part, a typical all the values in the group. There are various types of average. The most popular and widely used measure representing the entire data one value is AM. The value of AM is obtained by adding together all the items and dividing the sum by the member of observations.

Mathematically, Arithmetic mean is given by,

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

Where,

\bar{X} = Arithmetic Mean

$\sum x$ = Sum of all values of variable

n = No. of observation

ii) Standard Deviation

The standard deviation measure the absolute dispersion. Greater the standard deviation, greater will be the magnitude of the deviation of values from their mean. A small standard deviation means a high degree of uniformity of values from mean. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of series and vice verse.

Mathematically, Standard Deviation (δ) = $\sqrt{\frac{1}{n} \sum (x - \bar{x})^2}$

iii) Co-efficient of Variation

The standard deviation is absolute measure of dispersion, where as the C.V. is a relative measure of dispersion. To compare the variability between two or more series C.V is more appropriate statistical tools.

Mathematically, Coefficient of Variation (C.V.) = $\frac{\sigma}{x} \times 100$

CHAPTER- IV

PRESENTATION AND ANALYSIS OF DATA

4.1. Presentation and Analysis of Secondary Data

This chapter includes the presentation and analysis of secondary data. It is the main analytical part of this research work.

4.1.1 Structure of Nepalese Government Revenue

Every Government requires sufficient revenue to launch development programs, handle daily administration, maintain peace and security and launch many other public welfare programs. The Government collects the required revenue from different sources.

The principal sources of Nepalese Government revenue are classified into two sources, namely tax revenue and non-tax revenue. Revenues collected by the Government from various sources are also known as national revenue, national receipts and public revenue. The revenues are collected from different tax pays and spent for the welfare of all people.

The Nepalese Government revenue structure is a composition of tax and non-tax revenues. Tax revenue includes direct taxes as well as indirect taxes.

Direct tax includes income tax, house and land registration fees, property tax other miscellaneous direct taxes, which are directly paid by the persons to whom they are legally imposed. Similarly, indirect tax includes customs, tariff and value added tax, excise duties, vehicle tax and other miscellaneous indirect taxes. Non-tax revenue is a part of Government revenue, which is not related to tax, it includes various receipts from Government entities such as duties and fees, fines, forfeiture, dividend, interest, royalty, sale of Government properties principal repayments and other sundry receipts.

Customs duty is realized from exports imports, Indian excise refunds, agricultural reforms duties and other miscellaneous receipts are included into the indirect tax

revenues and it is imposed on production, imports, selling, distribution and other services. Excise duty is an indirect tax that is realized from the business of cigarettes, biddies, liquor, beer, other industrial production and excise on imports.

Direct tax is the tax which is payable by the person to whom it is legally imposed Income tax. Corporate tax and property tax are the example of direct taxes. Income tax is a direct tax that includes corporate income tax, remuneration income tax, investment income tax and on other incomes. Income taxes directly imposed on the gain or net profit of individual and on other incomes. Income taxes directly imposed on the gain or net profit of individual and organizations. Income tax is also a composition of tax on profit or income of public enterprises, semi-public enterprises, private corporate bodies are remuneration of individuals. The structure of Government revenue in Nepal is presented in table 4.1

Table 4.1
Structure of Government Revenue

(Rupees in million)

Revenue head	FY 2006/07		2007/08		2008/09		2009/10		2010/11	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Customs	16707.6	19.05	21062.4	19.57	26792.9	18.67	35150.8	19.53	35711.6	17.87
Excise	9343.2	10.65	11189.6	10.40	16220.9	11.30	24306.1	13.51	26542.9	13.28
Sales Tax/VAT	26095.6	29.75	29815.7	27.70	39700.9	27.67	54920.9	30.52	61663.6	30.86
House and Land tax	2253.50	2.57	2940.7	2.73	5223.3	3.64	5511.1	3.06	3572.5	1.79
Property tax	995	1.13	1069.2	0.993	1850	1.29	2417.9	1.34	3022.6	1.51
Income tax	15731.8	17.94	19077.9	17.73	27247.4	18.99	33821	18.80	42059.9	21.05
Others	0	0	0	-	16.5	0.011	167.1	0.093	204.5	0.11
Total Tax Revenue (A)	71126.7	81.09	85155.5	79.12	117051.9	81.58	156294.9	86.86	172777.6	86.47
Non- Tax Revenue (B)	16585.4	18.91	22467	20.88	26422.6	18.42	23650.9	13.14	27041.1	13.53
Total Govt. Revenue (A+B)	87712.10	100	107622.5	100	143474.5	100	179945.8	100	199818.7	100

Source: Economy survey, 2069/70, MOF.

Table 4.1 shows the composition of Nepalese Government revenue from 2006/07 to the fiscal year 2010/11. In the fiscal year 2006/07, the share of custom duty to the total Government revenue was 19.05%. Custom duty had taken moderate ratio of Government revenue at that time. In the fiscal year 2007/08 it was increased to 19.57% the trend of realization of custom duty is increasing trend. The percentage of custom duty is increasing trend. The percentage of custom duty for the fiscal year 2008/09 and 2009/10 is 18.67% and 19.53% respectively. But in fiscal year 2010/11 it is decreased to 17.87% which is 1.66% less than fiscal year 2009/10.

Excise is also a source of Government revenue. In fiscal year 2006/07, the ratio of excise to total Government revenue was 10.65% and it was decreased to 10.40% in fiscal year 2007/08. In fiscal year 2008/09 the contribution of excise in the total revenue of Government of Nepal was 11.30%, the percentage of excise for the fiscal year 2008/09 and 2009/10 & 2010/11 are 13.51% and 13.28% respectively. So it is known that the realization of excise duty is increasing trend.

The value added tax, previously called as a sales tax has been slightly fluctuating over the study period. In fiscal year 2006/07, VAT has contributed 29.75% to the total revenue of Nepalese Government. It had taken second position in beginning but now a days it take first position in contribution in total revenue of Government. The percentage of VAT for fiscal year 2007/08 and 2008/09 are 27.70% and 27.67% respectively. After the period the trend was increased. In fiscal year 2009/10 it was 30.52% which was increase by 2.85% compare them the fiscal year 2008/09. But fiscal year 2010/11 it was increased to 30.86%.

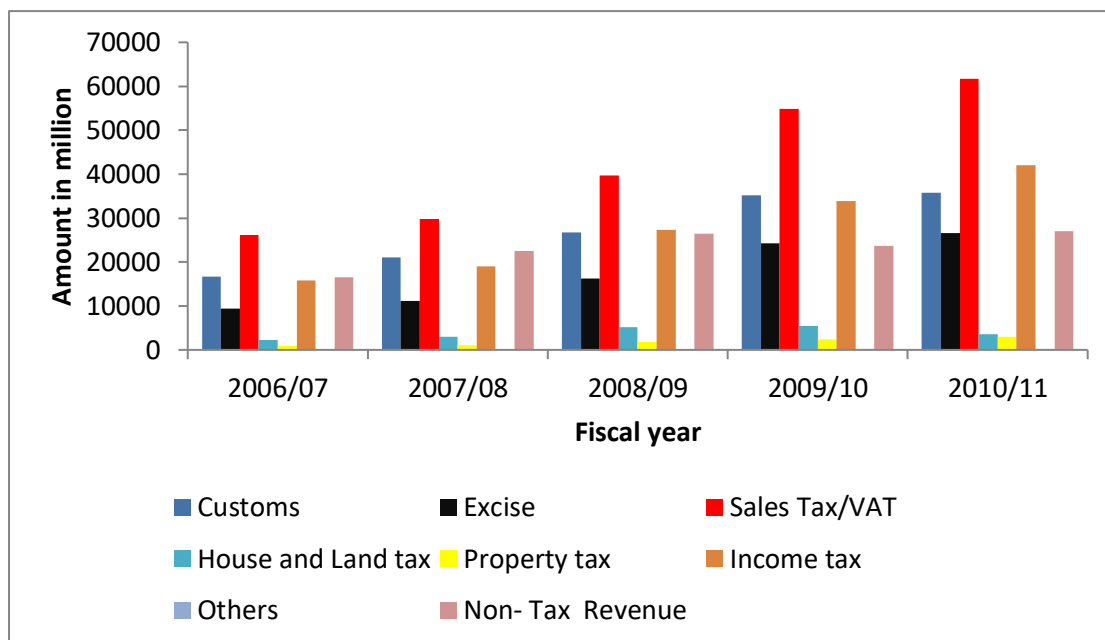
House and land registration tax is also a source of government revenue which is a direct tax. It includes house or rent fees. House and rent fees have also been constant over the study period. The share of this tax was 2.57% in the fiscal year 2006/07, which was constant to 2.73% in fiscal year 2007/08, and it was 3.64% in 2008/09. The contribution of house and land tax in the total revenue of government are 3.06% and 1.79% for the fiscal year 2009/10 and 2010/11 respectively, so it is slightly fluctuating over study period.

In fiscal year 2006/07, 81.09% of total revenue was collected from various sources to tax revenue. It was decrease to 79.12% in the fiscal year 2007/08. But it was increase

to 81.58% in the fiscal year 2008/09, again it was increase to 86.86% in next fiscal year. The ratio of tax revenue to total revenue was decreased to 86.47% in fiscal year 2010/11.

Figure: 4.1

Multi-Bar diagram of structure of government revenue in Nepal



From the above analysis and figure, it was seems that 83.024% of total government revenue is collected from tax revenues and 16.976% of total government revenue is collected from non-tax revenue in average. Tax revenue is major source of Nepalese government revenue and non-tax revenue has also contributing a considerable amount as compared to other individual tax revenue items. It takes second to third position if all individual comparison is made. Among all the individual revenue heads sales taxes (VAT) has been contributing comparatively more amount and other indirect taxes have been contributing comparatively least amount to Nepalese Government revenue.

4.1.2 Ratio of Tax Revenue to Total Revenue

Nepalese government revenue is collected from two sources, which are tax and non-tax sources. It is already analyzed that government revenue is a mix up of tax and non-tax revenue. Revenue collected from tax and non-tax sources are presented separately in the table 4.2 below.

Table 4.2
Contribution of Tax Revenue and Non-Tax Revenue to Total Revenue
(Rupees in million)

Fiscal year	Total Revenue	Tax Revenue	% of Tax Revenue to Total Revenue	Non -Tax Revenue	% of Non -Tax Revenue to Total Revenue
2006/07	87712.10	71126.7	81.09	16585.4	18.91
2007/08	107622.50	85155.5	79.12	22467	20.88
2008/09	143474.50	117051.9	81.58	26422.6	18.42
2009/10	179945.80	156294.9	86.86	23650.9	13.14
2010/11	199818.70	172778	86.47	27041.10	13.53
Average collection			83.024		16.976

Source: Economy survey, 2069/70, MOF.

The above table shows the contribution made by tax revenue and non-tax revenue to total revenue. In the fiscal year 2006/07, tax revenue was realized 81.09% of total revenue. It was decreased to 79.12% in fiscal year 2007/08. It was increased to 81.58% in the fiscal year 2008/09. In fiscal year 2009/10, tax revenue was realized 86.86% which is highest realization ratio as compared to another fiscal year till 2010/11, which was 0.39% point higher than the fiscal year 2010/11.

Tax revenue and non-tax revenue realization rate has an inverse relation. That means when highest ratio of tax revenue released, ratio of non-tax revenue decreased. In the fiscal year 2006/07 the ratio of non-tax revenue to total revenue was 18.91% and it was increased to 20.88% in fiscal year 2007/08. The realization rate decreased to 18.42% in fiscal year 2008/09. In fiscal year 2009/10 the contribution of non-tax revenue was slightly decreased by 5.28% and reach to 13.14%. Total non-tax realized in fiscal year 2010/11 was 13.53%. The data are presented by a multi-bar diagrams below in figure 4.2 and trend line in Figure 4.3.

Figure 4.2
Multiple-Bar Diagram of Contribution of Tax Revenue and Non-Tax Revenue to Total Revenue

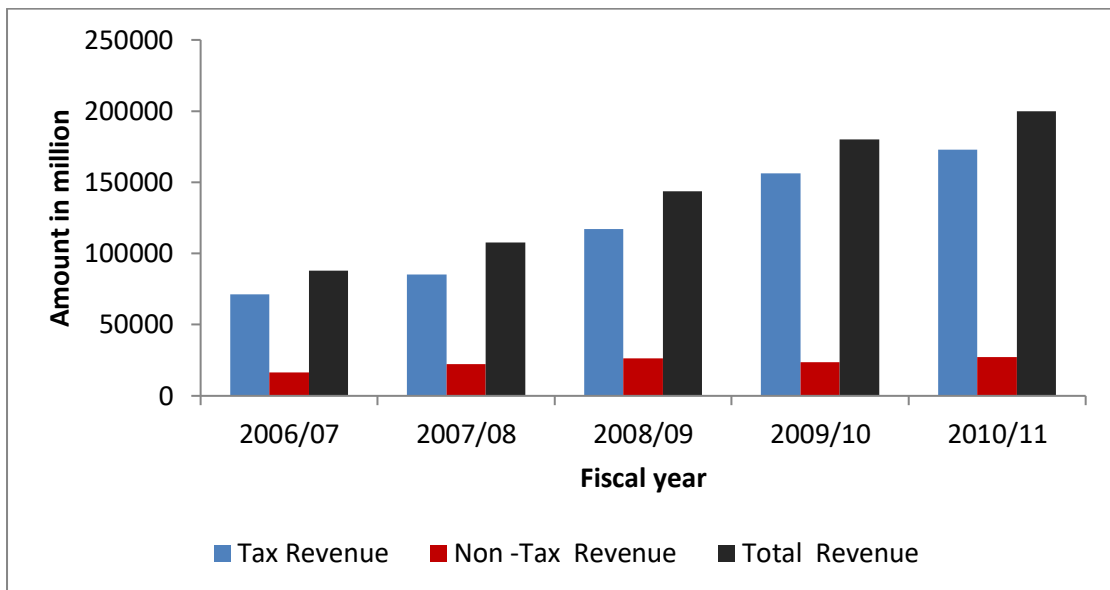
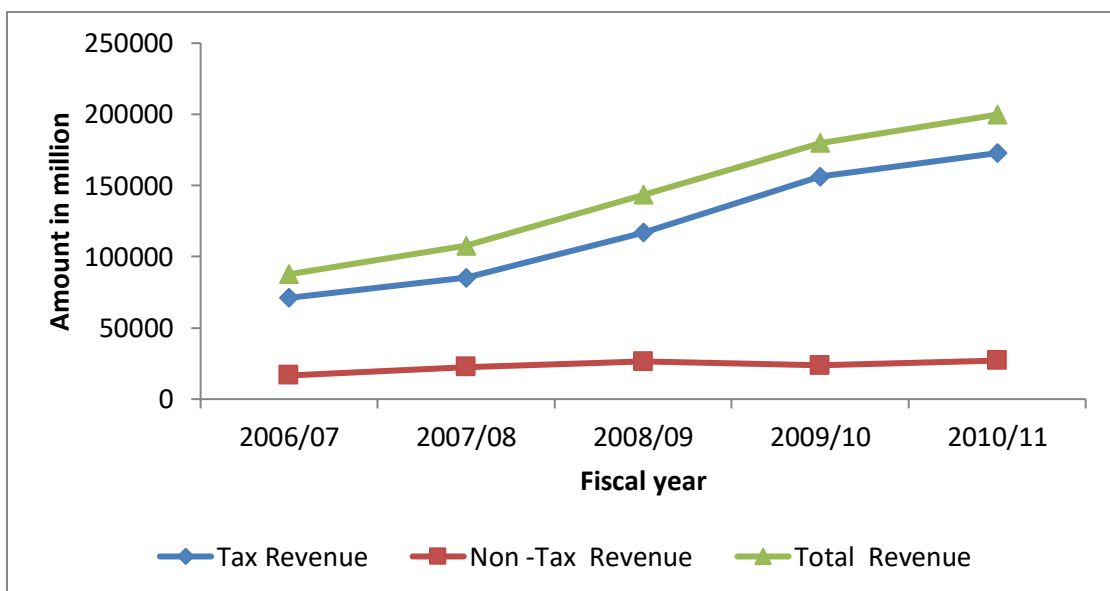


Figure 4.3
Trend Line of Contribution of Tax Revenue and Non-Tax Revenue to Total Revenue



The above analysis shows that major part of Nepalese Government revenue is collected from tax revenue. It occupies 83.024% of total revenue in average. Tax revenue is slightly fluctuating from the beginning to till now. It's trend is a little bit volatile. When Non-tax revenue ratios increase, tax revenue ratio decrease and vice-

versa. In average non-tax revenue has contributed 16.976% to total revenue. Non-tax revenue has a slightly volatile trend over the study period.

4.1.3 Share of Direct Tax on Total Tax Revenue and Total Revenue

Tax revenue is a composition of direct tax revenue and indirect tax revenue. Amount contributed by direct taxes to total government revenue and total tax revenue are presented in table 4.3 below.

Table 4.3
Share of Direct Tax on Total Revenue and Total Tax Revenue
(Rupees in million)

Fiscal year	Total Revenue	Total Tax Revenue	Direct Tax	% of Direct Tax to Total Revenue	% of Direct Tax to Total Tax Revenue
2006/07	87712.10	71126.7	18980.3	21.63	26.68
2007/08	107622.80	85155.5	23087.7	21.45	27.11
2008/09	143474.5	117051.9	34320.7	23.92	29.32
2009/10	179945.8	156294.9	41750	23.20	26.71
2010/11	199818.70	172777.6	48655.10	24.35	28.16
Average collection				22.91	27.60

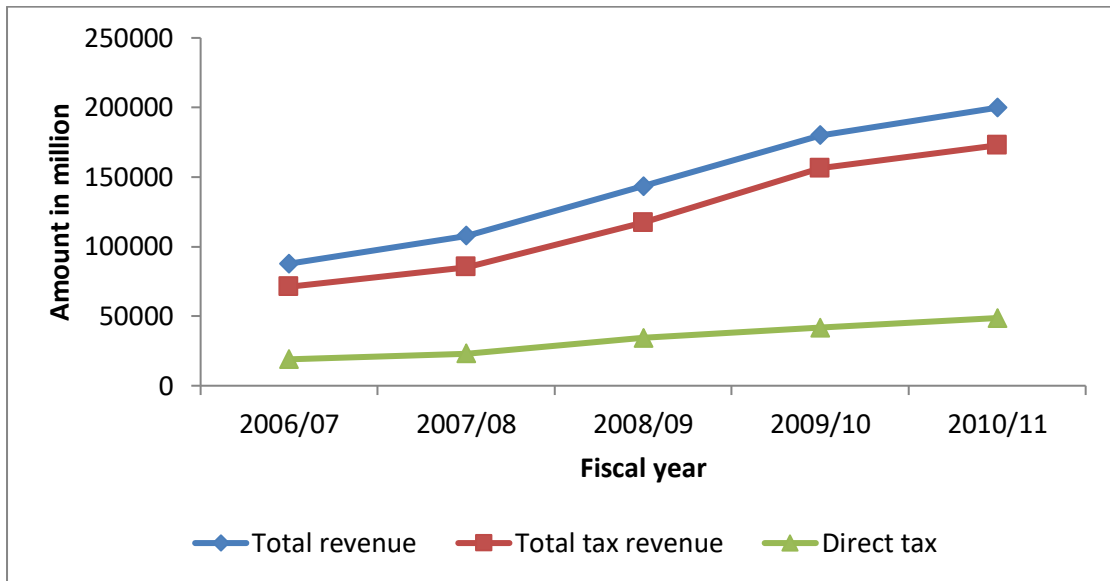
Source: Economy survey, 2009/10, MOF.

The data reveal the ratio of direct tax to total revenue from the fiscal year 2006/07 to fiscal year 2010/11. In the fiscal year 2006/07, the ratio of direct tax to total revenue was 21.63% and the ratio to total tax revenue was 26.68%. The ratio of direct tax to total revenue was decreased to 21.45% and the ratio of direct tax to total tax revenue was increased to 27.11% in fiscal year 2007/08.

The tax realization rate of direct tax was in fluctuating trend during the study period. This ratio was 21.63% on the direct tax to total revenue and 26.68% on direct tax to total tax revenue in fiscal year 2006/07.

The above data are clearly presented with the help of the following figure:

Figure 4.4
Trend Line of Contribution of Direct Tax to Total Revenue and Total Tax Revenue



From the above analysis, it is concluded that ratio of direct tax to total revenue has a increasing trend and the ratio of direct tax to total tax revenue has also following the same trend line. These two ratios have a positive relation. It means, when amount of direct tax increased the percentage contribution to total revenue and total tax revenue have also been increase and vice-versa.

4.1.4 Structure of Income Tax Revenue in Nepal

Income tax is levied on profit or net income of organization and individuals. Income tax is a composition of corporate tax individual income tax, house and compound tax and interest tax. Corporate tax includes tax paid by corporation sector, Government enterprise, public limited companies and private limited companies. Individual income tax includes income from remuneration or employment, industries, trade and profession of individuals. Besides, house and compound rent tax and interest tax are also included in income tax. Income tax structure of Nepalese tax revenue is presented in the table and diagram in the below.

Table 4.4
Structure of Income Tax Revenue in Nepal

(Rupees in million)

FY Particular	2006/07		2007/08		2008/09		2009/10		2010/11	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
Tax from public enterprise	1019.7	6.48	204.6	1.07	959.10	3.52	1131.8	3.35	1281.8	3.04
Private corporate bodies	5717.1	36.34	7186.5	37.67	9425.10	34.60	12234.4	36.18	13965.5	33.20
Tax from individual	5234.40	33.27	6381.2	33.44	9877.5	36.25	11039.9	32.64	13627.4	32.40
Remuneration tax	2007.9	12.76	2451.0	12.85	3195.6	11.73	4413.1	13.04	5863.3	13.94
Interest tax	1054.9	6.7	1087.9	5.7	1685.10	6.18	2466.4	7.3	4130.5	9.82
Other tax	697.8	4.45	1766.6	9.27	2105.0	7.72	2535.4	7.49	3191.6	7.6
Total income tax	15731.8	100	19077.9	100	27247.4	100	33821	100	42060	100

Source: Economy survey, 2069/70, MOF.

The above table shows the trend of income tax realization from various sources for last five years. The data reveals that the total income tax realized in the fiscal year 2006/07 was amounting to Rs. 15731.8 millions out of which 6.48% was realized from public limited and 36.341% was realized from private limited companies. In the same fiscal year 33.40% of income was realized from individual tax and 12.76% from remuneration income. The contribution of interest was 6.7% in fiscal year 2006/07.

In fiscal year 2007/08, the contribution of Government enterprises has decreased to 1.07%. And it was increased 3.52% in next fiscal year 2008/09. The percentage of Government enterprise has decreased 3.35% in fiscal year 2009/10. It has contributed 3.04% of the total tax income in fiscal year 2010/11.

Private limited companies are also a corporate tax payer of Nepal. The corporate tax paid by private limited companies was 36.34% in fiscal year 2006/07. In fiscal year 2007/08 the tax realized by private limited companies are increased to 37.67%. In fiscal year 2008/09 the contribution of private limited companies are increased to 34.60% and the ratio was decreased to 33.20% in fiscal year 2010/11.

Remuneration income is also a source of income tax payer in Nepal. The contribution of remuneration in fiscal year 2006/07 was 12.76% which is slightly decreased than previous year. In fiscal year 2007/08 the share of remuneration was increased to

12.85%, which was decreased to 11.73% in fiscal year 2008/09. Again the contribution of remuneration was increased to 13.04% in fiscal year 2009/10 and in fiscal year 2010/11 it was 13.94% which was slightly more than previous year.

Individual are also major source of income to Nepal Government. In fiscal year 2006/07 the contribution of individual was 33.27%. The contribution of individual was increased to 33.44% in fiscal year 2007/08. The share of individually was slightly increased to 36.25% in fiscal year 2008/09. Again the tax realization of individual was decreased to 32.64% in fiscal year 2009/10. And it was slightly decreased and reached to 32.40% in fiscal year 2010/11.

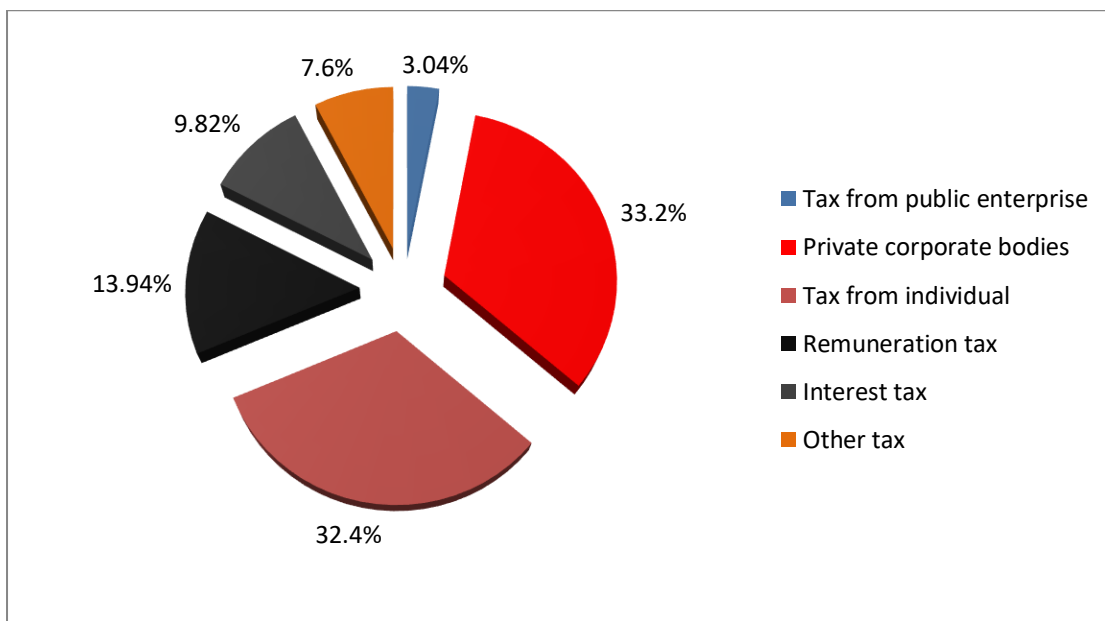
Interest tax also includes in income tax. It has contributed 5% to 10% amount to the total income tax within the whole study periods. The least amount 5.7% was realized in fiscal year 2007/08 and the highest 9.82% was realized in fiscal year 2010/11.

Other tax also contributes to income tax and other tax contribution are 4.45%, 9.27%, 7.72%, 7.49% and 7.6% in fiscal year 2006/07 to 2010/11 respectively.

The Nepalese income tax structure for the year 2010/11 is presented below by a pie chart.

Figure 4.5

Pie- Chart of Income Tax Structure for the Year 2010/11



The above analysis shows that income tax has been collected from various sources. Some of them have shown slightly up and down. Corporation was the highest

contributor to the total revenue. Individual tax payer has contributed second highest contribution.

4.1.5 Corporate Tax in Nepal

Tax paid by corporate bodies on their corporate profit is known as corporate tax. Corporation, Government enterprise, public limited companies and private companies are the main source of corporate tax in Nepal.

4.1.5.1 Ratio of Corporate Tax on Total Income Tax

Corporate tax is a direct tax, which is paid by the government enterprise, public limited companies and private limited companies & corporation. It is one of vital source of national revenue that can be mobilized in the country to get the fruit of development. It is justifiable to increase the internal resource mobilization due to its nature. Increment of tax rate on indirect tax make heavy burden to local public because all the indirect taxes are being shifted to the customers indirectly. But, direct tax rate can be increased to minimize the effect which arise in case of indirect taxes. Direct tax is levied on the income generator without transferring tax liability to others people will be motivated to work hard and increase their economic status.

Table 4.5 shows the amount contributed by corporate tax to total income tax for the last five years.

Table 4.5
Ratio of Corporate tax on Total Income Tax

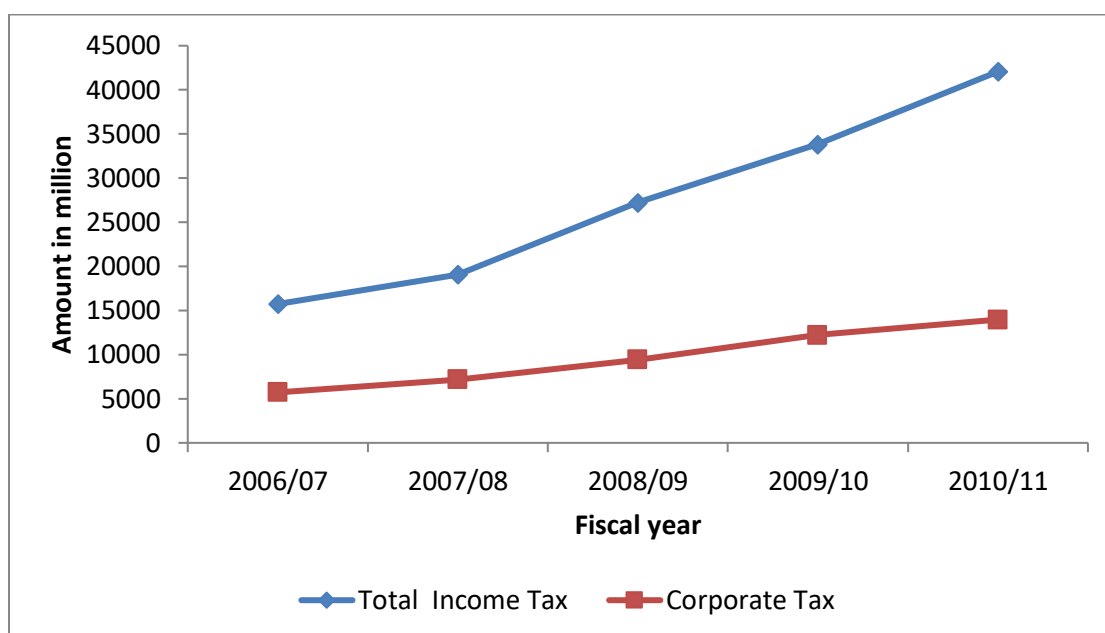
(Rupees in Million)

Fiscal year	Total Income Tax	Corporate Tax	% of Corporate Tax on Total Income Tax
2006/07	15731.8	5717.10	36.34
2007/08	19077.9	7186.50	37.67
2008/09	27247.4	9425.10	34.60
2009/10	33821	12234.4	36.17
2010/11	42060	13965.50	33.20

Source: Economy survey, 2069/70, MOF.

This table is presented by a trend Line below in figure 4.6.

Figure 4.6
Trend Line of Ratio of Corporate Tax on Total Income Tax



The data reveals that, in fiscal year 2006/07, income tax was realized Rs.15731.8 millions and about this Rs.5717.10 millions was realized from corporate taxes. In other word, 36.34% on total income tax was realized from corporate tax in fiscal year 2006/07. In fiscal year 2007/08 the realization ratio was increased to 37.67%, which was 1.33% greater than previous year. The ratio of corporate tax to total income tax was decreased to 34.60% in fiscal year 2008/09, which was 3.07%. The ratio of corporate tax to total income tax was increased to 36.17% in fiscal year 2009/10 and decreased to 33.20% in fiscal year 2010/11 respectively.

4.1.5.2 Ratio of Corporate Tax on Total Revenue

As already defined, Nepalese Government revenue is a composition of tax and non-tax revenue income.

Tax falls under the tax revenue and corporate tax is a main part of tax revenue as well as total revenue. Contribution made by corporate tax to total revenue is presented in table.

Table 4.6
Ratio of Corporate Tax on Total Revenue

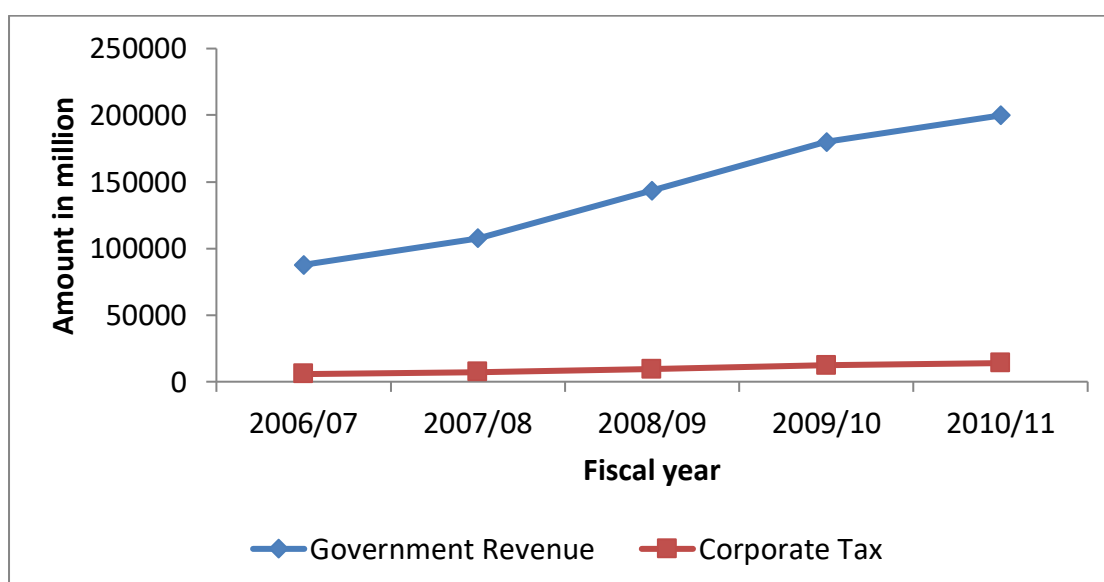
(Rupees in million)

Fiscal year	Government Revenue	Corporate Tax	Corporate Tax as % of Government Revenue
2006/07	87712.10	5717.10	6.52
2007/08	107622.50	7186.50	6.68
2008/09	143474.80	9425.10	6.57
2009/10	179945.80	12234.4	6.80
2010/11	199818.70	13965.50	7
Average Contribution			6.714

Source: Economy survey, 2069/70, MOF and Annual reports of Selected CBs.

The data reveals the ratio of corporate tax to total Government revenue for the past five years. Ratio of corporate tax to total revenue for the fiscal year 2006/07 was 6.52% which was increased to 6.68% in fiscal year 2007/08, which was 0.16% greater than previous fiscal year. And it was decreased to 6.57% in fiscal year 2008/09 and which was increased to 6.80% in fiscal year 2009/10. The growth rate was increased to 7% in fiscal year 2010/11 which was 0.20% higher than previous year. In average, it has contributing 6.714% of total Government revenue. It is clearly presented by the figure below.

Figure 4.7
Trend Line of Ratio of Corporate Tax on Total Revenue



4.1.5.3 Corporate Tax Collection from Selected Commercial Banks

Commercial banks are public limited companies. They pay tax on their corporate profit. For the purpose of the study out of 31 Commercial Banks, 10 banks are taken as sample and they are joint venture and non-joint venture banks. They are EBL, NIC Asia, SBI, NIBL, NCC, HBL, NABIL, BOK, KBL and SBL banks respectively.

The table 4.7 shows the data in details.

Table 4.7
Corporate Tax Collection from Selected Commercial Banks
(Rupees in million)

FY Banks	2006/07		2007/08		2008/09		2009/10		2010/11	
	Rs.	%	Rs.	%	Rs.	%	Rs.	%	Rs.	%
EBL	140.55	9.96	191.05	11.51	297.47	13.45	378.67	14.45	400.05	14.15
NIC Asia	70.40	4.99	100.00	6.03	140.97	6.37	172.81	6.59	242.82	8.59
SBI	89.68	6.36	100.26	6.04	90.54	4.09	157.32	6.01	188.00	6.65
NIBL	231.00	16.37	297.50	17.93	375.36	16.97	543.36	20.73	537.55	19.02
NCC	89.70	6.36	68.90	4.15	120.13	5.43	97.79	3.37	-	-
HBL	197.81	14.02	299.31	18.04	352.97	15.96	275.17	10.50	390.81	13.83
NABIL	355.69	25.21	303.74	18.30	430.16	19.45	528.98	20.18	549.52	19.44
BOK	117.60	8.34	150.50	9.07	197.47	8.93	222.00	8.47	264.25	9.35
KBL	78.29	5.55	82.50	4.97	108.42	4.90	140.94	5.38	122.50	4.33
SBL	40.03	2.84	65.77	3.96	98.65	4.45	103.69	3.96	129.95	4.59
Grand Total	1410.75	100	1659.53	100	2212.14	100	2620.73	100	2825.45	100

Source: Annual Report of Commercial Banks

The above table 4.7 shows the corporate tax collection from sample commercial banks. The table shows individual contribution of each sample Commercial Bank.

In fiscal year 2006/07, EBL's contribution was 9.96% total corporate tax. It was increased to 11.51% in fiscal year 2007/08. It was increased by 1.94% in fiscal year 2008/09. It was increased to 14.45% in fiscal year 2009/10. And it was decreased to

14.15% in fiscal year 2010/11. In this scenario EBL's corporate tax collection has increasing trend.

NIC Asia Bank's contribution was 4.99% in fiscal year 2006/07, which was increased to 6.03% in fiscal year 2007/08 which was slightly increased than previous fiscal year. Again it was increased to 6.37% in fiscal year 2008/09 which was 0.34% more than previous year. The contribution was increased to 6.59% in fiscal year 2009/10. The contribution of NIC Asia bank was increased to 8.59% in fiscal year 2010/11.

NSBI's contribution was 6.36% in fiscal year 2006/07, which was decreased to 6.04% in fiscal year 2007/08. Again it was decreased to 4.09% in fiscal year 2008/09 and the contribution was 6.01% in fiscal year 2009/10. It was slightly increased to 6.65% in fiscal year 2010/11.

NIBL's contribution was 16.37% in fiscal year 2006/07 which was slightly increased to 17.93% in fiscal year 2007/08. The realization was 16.97% in fiscal year 2008/09 which was 0.96% less than previous year. Which was increased to 20.73% in fiscal year 2009/10. It was decreased to 19.02% in fiscal year 2010/11 which was second highest corporate tax collection in following five years.

NCC bank's contribution was 6.36% in fiscal year 2006/07 which is decreased to 4.15% in fiscal year 2007/08. The realization was increased by 1.28% in fiscal year 2008/09 and reach to 5.43%. And it was decreased to 3.73% in fiscal year 2009/10 which was 1.7% less than previous year.

The contribution of HBL was 14.02% in fiscal year 2006/07 which is the second highest contribution of corporate tax collection from commercial banks. The contribution was increase to 18.04% on fiscal year 2007/08. It was decreased to 15.96% in fiscal year 2008/09 which is 2.08% less than previous year. The contribution was made in fiscal year 2009/10 by 10.50% and it was increase to 13.83% which is second lowest contribution in following five years.

The contribution of NABIL was slightly fluctuated in the study period. The contribution was 25.21% in fiscal year 2006/07. It was decreased by 6.91% in fiscal year 2007/08, which was reached to 18.30%. And it was increased to 19.45% in

fiscal year 2008/09. It was slightly increased to 20.18% in fiscal year 2009/10. And the contribution was decreased to 19.44% in fiscal year 2010/11.

BOK had 8.34% contribution in fiscal year 2006/07. It was slightly increased to 9.07% in fiscal year 2007/08. The contribution was decreased to 8.93% in fiscal year 2008/09. Again the contribution was decreased by 0.46% and reach to 8.47% in fiscal year 2009/10. The contribution was 9.35% for fiscal year 2010/11.

The contribution of Kumari Bank was slightly fluctuating trend within the study period. In fiscal year 2006/07 the realization was 5.55%. It was slightly decreased to 4.97% in fiscal year 2007/08. The contribution was decreased to 4.90% in fiscal year 2008/09 which was decreased by 0.07% in fiscal year 2008/09. The contribution for fiscal year 2009/10 was 5.38% which was increased by 0.48% more than previous year. The contribution for fiscal year 2010/11 was 4.33%.

The contribution of SBL was increasing trend within the study period. In fiscal year 2006/07 the contribution was 2.84%. It was slightly increased to 3.96% in fiscal year 2007/08. This was increased to 4.45% in fiscal year 2008/09. And it was slightly decreased to 3.96% in fiscal year 2009/10. And it was increased to 4.59% in fiscal year 2010/11.

In conclusion the highest contribution was made by NABIL at beginning and NIBL bank too.

If sampled banks were divided into two categories, NABIL, NIBL, Everest, HBL have come to the highest contributor's bank. NIC Asia, SBI, NCC, BOK, KBL and SBL are lowest contributor.

4.1.5.4 Average Corporate Tax Collection from Selected Commercial Banks with Mean, Standard Deviation and Co-efficient of Variation

Table 4.8 shows the average corporate tax payment made by commercial banks with standard deviation and co-efficient of variation of tax payment. The detail is presented below.

Table 4.8**Mean, Standard Deviation and Co-efficient of Variation for Selected CBs**

Name of Bank	Mean payment of Corporate Tax (\bar{x})	Standard Deviation of Payment (S.D)	Coefficient of Variation (CV)
EBL	281.558	109.51	38.89%
NIC Asia	145.4	59.91	41.20%
SBI	125.16	40.15	32.08%
NIBL	396.954	125.78	31.69%
NCC	75.304	23.51	31.22%
HBL	303.214	66.42	21.91%
NABIL	433.618	95.37	21.99%
BOK	190.364	51.76	27.19%
KBL	106.53	23.74	22.28%
SBL	87.618	31.35	35.78%

Source: Appendix 1

The above table shows that among the sampled commercial banks, HBL has lowest co-efficient of variation i.e. 21.91%. The lowest CV indicates that corporate tax payment of HBL was very close to average payment than others. NABIL has CV of 21.99% which was slightly greater than HBL. Among these sampled commercial banks, NIC Asia, EBL, and SBL have highest CV which was 41.20%, 38.89% and 35.78% respectively, that means corporate tax payment of these banks have high volatile than other commercial banks.

In conclusion, average tax payment of NABIL is higher than other sampled commercial banks. HBL has lower CV which represent that HBL's corporate tax payment was very close to the average than other commercial banks.

4.1.5.5 Corporate Tax Contribution from Selected Commercial Banks to Total Revenue

Table 4.9 Corporate Tax contribution from commercial banks to Government Revenue for the last five years. This table shows that the contribution made by sampled commercial banks to total revenue was 1.61% in fiscal year 2006/07 which was decreased to 1.55% in fiscal year 2007/08 which was 0.39% less than previous fiscal year. The contribution was realized 1.54% & 1.46% for the fiscal year 2008/09

& 2009/10 respectively. The contribution was decreased to 1.41% in fiscal year 2010/11.

Table 4.9

**Corporate Tax Contribution from Selected Commercial Banks to Total Revenue
(Rupees in million)**

F.Y	Government Revenue	Corporate Tax from CBS	% on Total Revenue
2006/07	87712.10	1410.75	1.61
2007/08	107622.50	1659.53	1.55
2008/09	143474.50	2212.14	1.54
2009/10	179945.80	2620.73	1.46
2010/11	199818.70	2825.45	1.41

Source: Economy survey 2069/70, MOF, Table 4.1 and 4.7.

In the whole study period, the contribution made by commercial banks to total revenue was remained highly fluctuating within the whole study period. The highest contribution made by sampled commercial banks to the total revenue was remained 1.61% in fiscal year 2006/07. The lowest contribution was only 1.41% in fiscal year 2010/11.

4.1.5.6 Corporate Tax contribution from Selected Commercial Banks to Total Tax Revenue

Table 4.10 shows the ratio of corporate tax contribution from commercial banks to total tax revenue for the last five years. This table shows that contribution made by commercial banks was 2.19% to 2.73% within the study period.

Table 4.10

Corporate tax Contribution from Selected Commercial Banks to Total Tax Revenue

(Rupees in Million)

F.Y	Total Tax Revenue	Corporate Tax from CBS	% on Total Tax Revenue
2006/07	71126.7	1410.75	1.98
2007/08	85155.50	1659.53	1.95
2008/09	117051.9	2212.14	1.89
2009/10	156294.9	2620.73	1.68
2010/11	172777.6	2825.45	1.63

Source: Economy survey 2069/70, MOF, Table 4.7.

The data reveals the same output, which was found the table 4.7. In fiscal year 2006/07 commercial banks contribution was 1.98% to total tax revenue. In fiscal year 2007/08 commercial banks contribution was decreased to 1.95%. In fiscal year 2008/09 and 2009/10, CBs contribution was 1.89% and 1.68% respectively. In fiscal year 2010/11, the contribution was decreased to 1.63%.

As per the finding obtained by the sample, the highest contribution made by commercial banks was 1.98% in fiscal year 2006/07 and the lowest contribution was 1.63% in fiscal year 2010/11. The realization ratio was remained slightly fluctuating within the five years study.

4.1.5.7 Contribution of Corporate Tax from Selected Commercial Banks to Income Tax

The ratio of corporate tax contribution from commercial banks to total income tax is presented below in Table 4.11.

Table 4.11
Contribution of Corporate Tax from Selected Commercial Banks to Income Tax
(Rupees in Million)

F.Y	Total Income Tax	Corporate Tax from CBs	% on Total Income Tax
2006/07	15731.8	1410.75	8.9
2007/08	19077.9	1659.53	8.70
2008/09	27247.4	2212.14	8.1
2009/10	33821	2620.73	7.75
2010/11	42060	2825.45	6.71

Source: Source: Economy survey 2069/70, MOF, Table 4.4 and 4.7.

The data reveals that in the fiscal year 2006/07 about Rs.15731.8 million income tax was collected, which 1410.75 million was collected from sampled commercial Banks and which was about 8.9% of total income tax revenue. In fiscal year 2007/08, 8.7% of income tax was collected from CBs. The contribution was slightly decreased in fiscal year 2008/09 and only 8.10% of total income was collected from CBs. Which was third highest contribution in the study period. The contribution in fiscal year 2009/10 and 2010/11 was 7.75% and 6.71% respectively.

4.1.5.8 Ratio of Corporate Tax from Selected Commercial Banks to Total Corporate Tax

Table 4.12 shows the ratio of corporate tax from commercial banks to total corporate tax for the last five years. This table shows that commercial banks contribution was:

Table 4.12
Ratio of Corporate Tax from Selected Commercial Banks to Total Corporate Tax

(Rupees in million)

F.Y	Total Corporate Tax Revenue	Corporate Tax from CBs	% on Total Corporate Tax Revenue
2006/07	5717.10	1410.75	24.67
2007/08	7186.50	1659.53	23.09
2008/09	9425.10	2212.14	23.47
2009/10	12234.4	2620.73	21.42
2010/11	13965.50	2825.45	20.23

Source: Economy survey 2069/70, MOF, Table 4.7.

The data reveals that, in fiscal year 2006/07 about Rs.5717.10 million amounts of corporate tax was collected, from which Rs. 1410.75 million was collected from CBs. Percentage contribution from slightly decreased to 23.09% in fiscal year 2007/08. In the fiscal year 2008/09, the ratio of contribution was slightly increased and reached to 23.47%. The contribution for fiscal year 2009/10 and 2010/11 was 21.42% and 20.23% respectively.

This table shows the same output which was obtained in table 4.7. It means that the highest contribution was made by commercial bank was 24.67% in fiscal year 2006/07 and lowest contribution was 20.23% in fiscal year 2010/11. The realization ratio was remained fluctuating within the whole study period.

4.2 Analysis of Primary Data

For the fulfillment of this study, primary information was also collected through a schedule questionnaire and personal visit, tax expert, banking professionals, professors and general public who have adequate knowledge and practice of taxation had taken as respondents.

Summary of respondents responses for each of the identified factors are presented in this section independently. All the necessary information and calculation are presented in appendices.

4.2.1 Effectiveness of Income Tax Act 2058

Income tax Act 2058 is developed from Income Tax Act 2031. At present Income Tax Act 2058 is adopted in Nepal. To know the effectiveness of income tax Act 2058 than Income Tax Act 2031, the question is asked, “Do you think the present Income tax Act 2058 is more effective than Income Tax Act 2031? Yes/No.” The respondents were request to tick the responses of the respondents are presented follows:

Table 4.13
Effectiveness of Income Tax Act 2058

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Banking professionals	25	83	5	17	30	100
Tax experts/tax officer	23	75	7	25	30	100
Professors	7	25	23	75	30	100
General public	-	-	15	100	15	100
Total	55	60	50	40	105	100

Source Field Survey 2013

From the above table, it is clear that majority, that is 60% of the respondents felt that present Income Tax Act 2058 effective only 40% felt that it is not effective. 60 percent of the respondents expressed their views that the present Income Tax Act 2058 is more effective. Thus they are satisfied with present tax policy. Only 40% of the respondents are not satisfied with present tax policy. 83% of from banking professionals, 75% from Tax experts/tax officer and 25% from professors felt that present tax policy is effective.

4.2.2 views on adequate administrative and legal opportunities for redressing tax payers grievances

Nepalese tax administration has been suffered since many years. The legal provision is closely related to tax administration. Now the tax act and rule / regulation have not covered the all type of organization. So, the respondents are requested for giving their opinion about adequate administrative and legal opportunities for redressing their grievances. That is given in following table.

Table 4.14**Views on adequate administrative and legal opportunities for redressing tax payers grievances**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Banking professionals	5	17	25	83	30	100
Tax experts/tax officer	8	25	22	75	30	100
Professors	15	50	15	50	30	100
General public	-	-	15	100	15	100
Total	28	27	77	73	105	100

Source: Field Survey 2013

According to field review 75% of the respondents were given their opinion that there has been inadequate opportunities for redressing their grievances. It does not, however, mean that there is no provision for appeal system as such. It takes a long time to given decisions on appeals sometimes even decades to settle appeals filled with the revenue tribunal. Moreover, when a tax payers files an appeal in the revenue tribunal, he must deposit half the amount of tax due in cash. Since the appeals are not expeditiously settled. The amount deposited in such case remains blocked for a long period of time furthermore, since there is not statutory time limit for the finalization of case filed before the revenue tribunal, those who appeal have to preserve their records for an inordinate time which cause them inconvenience and costs.

4.2.3 Views on the profit of organization affected by present income tax.

To know the profit of their organization affected by present income tax policy, the question is asked, “To what extent the profit of your organization is affected by present income tax policy?” The respondents were request to tick mark the given option. The responses of the respondents are presented as follows.

Table 4.15**Views on the profit of organization affected by present income tax**

Respondents	High		Neutral		Low		Total	
	No.	%	No.	%	No.	%	No.	%
Banking professionals	15	50	10	33	5	17	30	100
Tax experts/tax officer	22	75	8	25	-	-	30	100
Professors	15	50	15	50	-	-	30	100
General public	15	100	-	-	-	-	15	100
Total	67	60	33	33	5	7	105	100

Source: Field survey 2013

From the above table, it is cleared that majority of the respondents i.e. 60% felt that present income tax policy highly affected on their operation profit. 33% felt that affected neutrally and 7% felt that it is affected lowly. 50% of respondents from banking professionals felt that present income tax policy affected highly whereas 75% from Tax experts/tax officer, 50% from professors and 100% from general public , 25% from Tax experts/tax officer, 50 % from professors felt that affected neutral on their profit. Lastly, only 17% from banking professionals felt that it affected low on their profit.

4.2.4 Views on widespread discretionary powers of tax officers.

It is know that tax officers have some powers for implementation of tax. The field survey has been conducted to know the views of different respondents to explore the discretionary powers of tax officers in Nepal. The view of various respondents on this aspect is presented in the table below.

Table 4.16

Views on widespread discretionary powers of tax officers

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Banking professionals	30	100	-	-	30	100
Tax experts/tax officer	30	100	-	-	30	100
Professors	30	100	-	-	30	100
General public	15	100	-	-	15	100
Total	105	100	-	-	105	100

Source: Field survey, 2013.

The 100% of the respondents believed that tax officers in Nepal have widespread discretionary powers in Nepal this is one of the main reasons for inefficient tax administration in Nepal.

4.2.5 Views on VAT in creation of complication in maintaining proper book system

VAT system of Nepal has been blamed that it is not efficient. To know the opinion of the respondents about the VAT creates complication in maintaining proper book keeping system, a question was asked, “ Do you think VAT is creating complications in maintaining proper book keeping ?” The respondents were request to tick mark on Yes or No. opinions of the respondents are presented as follows:

Table 4.17**Views on VAT in creation of complication in maintaining proper book system**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Banking professionals	-	-	30	100	30	100
Tax experts/tax officer	-	-	30	100	30	100
Professors	-	-	30	100	30	100
General public	-	-	15	100	15	100
Total	-	-	100	100	105	100

Source: Field survey, 2013.

Not a single respondent believed that VAT is creating complication in maintaining proper book keeping system. According to them, VAT creates complications for those who try to evade tax in fact, VAT enforces them to maintain proper accounting system.

4.2.6 Views on penalties and fines imposed to the tax payers

To know the present rate of penalties and fines imposed to the tax payers in Nepal, the question is asked, “Is the present rate of penalties and fines imposed to the tax payers is very high?”

The responses of the respondents are presented as follows.

Table 4.18**Views on penalties and fines imposed to the tax payers**

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Banking professionals	30	100	-	-	30	100
Tax experts/tax officer	30	100	-	-	30	100
Professors	30	100	-	-	30	100
General public	15	100	-	-	15	100
Total	105	100	-	-	105	100

Source: Field survey, 2013.

From the above table and other discussion with respondents 100% of the respondents agreed that present rate of penalties and fines imposed to the tax payers is very high nobody is in favour of present rate. All they demanded to reduce the present rate of

penalties and fines. 100% from all respondents felt that present rate of penalties and fines are too much high.

4.2.7 Views on effectiveness of tax administration in Nepal

Nepalese tax system is very complicated. The system has not been more sufficient. To know the effectiveness of tax administration in Nepal the question is asked, “Do you think that tax administration in Nepal is efficient ?” The respondents were request to point out the given causes (their answer) from 1 to 5 and asked to specify other if any things. The responses of the respondents are presented as follows:

Table 4.19

Views on effectiveness of tax administration in Nepal

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Banking professionals	10	33	20	67	30	100
Tax experts/tax officer	8	25	22	75	30	100
Professors	8	25	22	75	30	100
General public	-	-	15	100	15	100
Total	26	27	79	73	105	100

Source: Field survey, 2013.

It is cleared from above table that majority of the respondents are dissatisfied with the present efficiency of tax administration. On the other hand only 27% are in favour of tax administration of Nepal. 73% of the respondents are against the present efficiency of tax administration they felt that present tax administration is inefficient. 67% from banking professionals, 75% from metal and professors and 100% from general public felt that present tax administration are ineffective.

4.2.8 Views on effectiveness of present tax system

To know the effectiveness of the present tax system of Nepal, the question is asked, “Do you think the present tax system of Nepal is effective ? please rank”. The respondents were request to rank the given causes 1 to 3 and ask to specify specified if any things. But some respondents ranked and some made tick mark. The responses of the respondents are presented as follows.

Table 4.20
Views on effectiveness of present tax system

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Banking professionals	15	50	15	50	30	100
Tax experts/tax officer	22	75	8	25	30	100
Professors	22	75	8	25	30	100
General public	-	-	15	100	15	100
Total	59	60	46	40	105	100

Source: Field survey, 2013.

According to field survey 60% of the total respondents provided their view regarding effectiveness of present tax system. 40% of total respondents provided their view regarding ineffectiveness of present tax system. 50% of respondent from banking professionals 75% respondent from Tax experts/tax officer felt that present tax system is effective. Similarly 50% from banking professionals, 25% from Tax experts/tax officer, 25% from professors and 100% from general public felt that present tax system is ineffective.

4.2.9 Views an existing income tax rates

Income Tax Act provided the different tax rates to different sector. To know the opinion about existing income tax rate, respondents were request to selected one among the three alternatives (High, Low and Neutral) the question was asked, “ what do you think about the existing income tax rates ?” The responses received from respondents are tabulated below.

Table 4.21
Views an existing income tax rates

Respondent	High		Neutral		Low		Total	
	No.	%	No.	%	No.	%	No.	%
Banking professionals	20	67	5	17	5	16	30	100
Tax experts/tax officer	22	75	8	25	-	-	30	100
Professors	22	75	8	25	-	-	30	100
General public	15	100	-	-	-	-	15	100
Total	79	73	21	20	5	7	105	100

Source: Field Survey, 2013

From the above table 73% of the respondents thinks existing income tax rate is high. Only 7% respondents is favors of existing rate and 20% think it is neutral. 67% from banking professionals, 75% from Tax experts/tax officer, 75% from professors and 100% from general public present their view that existing rate is high.

4.2.10 Views on necessity of rebates to regular tax payer

To know the opinion about rebates provided to regular tax payer, respondents were request to selected one among the three alternatives (Yes , No and I don't know) the question was asked, "Do you think rebates should be provided to regular tax payer ?". The responses received from respondents are tabulated below.

Table 4.22
Views on necessity of rebates to regular tax payer

Respondent	Yes		No		I don't know		Total	
	No.	%	No.	%	No.	%	No.	%
Banking professionals	5	17	10	33	15	50	30	100
Tax experts/tax officer	7	25	15	50	8	25	30	100
Professors	-	-	8	25	22	75	30	100
General public	-	-	-	-	15	100	15	100
Total	12	13	33	33	60	54	105	100

Source: Field survey 2013.

From the above table it is clear that most of the respondents about 54% don't know that rebate should be provided to regular tax payers. 33% of the respondents feel that rebates should not provided to regular tax payers. 50% respondent from banking professionals, 25% respondents from Tax experts/tax officer, 75% respondents from professors and 100% respondents from general public having no idea about that provision.

4.2.11 Views on complication faced in paying tax

To know the facing complication a question was asked, "Have you faced any complication in paying tax?" The responses of respondent are as follows.

Table 4.23

Views on complication faced in paying tax

Respondents	Yes		No		Total	
	No.	%	No.	%	No.	%
Banking professionals	15	50	15	50	30	100
Tax experts/tax officer	22	75	8	25	30	100
Professors	15	50	15	50	30	100
General public	15	100	-	-	15	100
Total	67	60	38	40	105	100

Source: Field survey, 2013.

From the above table, it is cleared that 60% of respondents face complication in paying income tax whereas 40% of respondents so not face complication.

To know the cause of facing complication a question was attached with this if yes please rank the following reason according to your priority in order to know the reason, the respondents were provided three reasons and were requested to rank them.

4.2.12 Self Tax Assessment Procedure is Preferable for the Tax payers

The response of the respondents for this question were found as shown in table 4.24.

Table 4.24

Self-tax assessment procedures is preferable for the Tax payer

S.N.	Response	No. of Respondent	cum. No.	Percentage	cum %
1	Strongly agree	15	57	14.29	54.29
2	Relatively agree	19		18.09	
3	Agree	23		21.91	
4	Disagree	13	48	12.38	45.71
5	Relatively disagree	17		16.19	
6	Strongly disagree	18		17.14	
Total		105	105	100	100

Source: Opinion Survey 2013.

From the primary response, it is identified that 54.29% of the respondents were agreed that the self-tax assessment procedure is preferable for the taxpayers. Only minority respondents, that's 45.71% of the respondents were found disagree with this statement. Thus from this revealed that self-tax assessment procedure is preferable for the taxpayers.

4.2.13 Self Assessment is superior to Raise Government Revenue

The response of the respondent for this question were found as shown in table 4.25.

Table 4.25

Self Tax Assessment is superior to raise Government Revenue

S.N.	Response	No. of Respondent	cum. No.	Percentage	cum %
1	Strongly agree	19	68	18.09	64.76
2	Relatively agree	39		37.14	
3	Agree	10		14.71	
4	Disagree	7	37	6.67	35.24
5	Relatively disagree	25		23.81	
6	Strongly disagree	5		4.76	
	Total	105	105	100	100

Source: Opinion Survey 2013.

By analyzing primary response of the respondents, it is found that 64.76% of the respondents were agreed with the statement that self-tax assessment is better option to raise the government revenue. Only 35.24% of the total respondents were found disagree with this statement. So, this data reveals that self-tax assessment is better to increase the government revenue. The statement is focused on self-motivation of taxpayers.

4.2.14 Tax Payment Procedure should be simple to Encourage Tax Payers

The response of respondents for this question were found as shown in table 4.26.

Table 4.26

Tax payment procedure should be simple to Encourage Taxpayers

S.N.	Response	No. of Respondent	cum. No.	Percentage	cum %
1	Strongly agree	45	91	42.86	86.67
2	Relatively agree	33		31.43	
3	Agree	13		12.38	
4	Disagree	5	14	4.76	13.33
5	Relatively disagree	7		6.67	
6	Strongly disagree	2		1.91	
	Total	105	105	100	100

Source: Opinion Survey 2013.

By observing the primary response of the respondents, it is found that 86.67% of the respondents were agreed with the statement that tax payment procedure should be simple to encourage tax payers. Only 13.33% of respondents were found disagreed

with this statement. The data reveals the fact that the tax payment procedure should be simple to encourage tax payers.

4.2.15 Installment Tax payment System is Favorable to the Tax payer.

The response of the respondents for the question were found as shown in table 4.27.

Table 4.27

Installment Tax payment System is Favorable to the Tax payer

S.N.	Response	No. of Respondent	cum. No.	Percentage	cum %
1	Strongly agree	21	67	20	63.81
2	Relatively agree	33		31.42	
3	Agree	13		12.38	
4	Disagree	9	38	8.57	36.19
5	Relatively disagree	21		20	
6	Strongly disagree	8		7.62	
	Total	105	105	100	100

Source: Opinion Survey 2013.

By the response of the respondents, it is found that 63.81% of the respondents were agreed that the installment tax payment system is favorable to taxpayers. Only 36.19% of respondents were found disagree with this statement. Therefore, it is revealed the fact that installment tax payment system is favorable to the tax payers.

4.2.16 Banking Sector Requires Tax Rebate facilities as Other Industries

The Responses of the respondents for this question were found as shown in table 4.28.

Table 4.28

Banking Sector Requires Tax Rebate Facilities as Other Industries

S.N.	Response	No. of Respondent	cum. No.	Percentage	cum %
1	Strongly agree	24	68	22.86	64.67
2	Relatively agree	26		24.76	
3	Agree	18		17.14	
4	Disagree	19	37	18.10	35.24
5	Relatively disagree	11		10.48	
6	Strongly disagree	7		6.67	
	Total	105	105	100	100

Source: Opinion Survey 2013.

From the primary responses, it is found that 64.76% of the respondents were agreed that banking sector requires tax rebate facilities as other industries. It shows that only 35.24% of respondents were found as disagree with this statement. It shows that only

less than average respondents were satisfied with the tax facilities and rebate provided to commercial banking sector.

4.2.17 Tax Rate should be Identical to Banks and Other company

The respondents response for this question were found as shown in table 4.29.

Table 4.29

Tax Rate should be Identical to the Banks and Other Company

S.N.	Response	No. of Respondent	cum. No.	Percentage	cum %
1	Strongly agree	11	38	10.48	36.19
2	Relatively agree	19		18.10	
3	Agree	8		7.62	
4	Disagree	27	67	25.71	63.81
5	Relatively disagree	23		21.91	
6	Strongly disagree	17		16.19	
	Total	105	105	100	100

Source: Opinion Survey 2013.

From the response of the respondents it is found that only 36.19% of respondent were agreed that the tax rate should be identical to the banking business and other business. The majority respondents that are 63.81% respondents were against to this statement. The data shows the fact that the tax rate should be different as per the nature of business.

4.2.18 Commercial Banks are Bigger Tax payer to the Total Revenue.

The responses of the respondents for this question were found as shown in table 4.30.

Table 4.30

Commercial Banks are Bigger Tax Payers to The Total Revenue

S.N.	Response	No. of Respondent	cum. No.	Percentage	cum %
1	Strongly agree	28	68	26.67	64.76
2	Relatively agree	25		23.81	
3	Agree	15		14.29	
4	Disagree	17	37	16.19	35.24
5	Relatively disagree	9		8.57	
6	Strongly disagree	11		10.48	
	Total	105	105	100	100

Source: Opinion Survey 2013.

From the primary responses, it is revealed that 64.76% of the respondents were agreed that commercial banks are bigger tax payer to the total revenue. It shows that only 35.24% of respondents were found as disagree with this statement. It shows that only

less than average respondents were satisfied with the commercial banks are bigger tax payers to total revenue.

4.2.19 Commercial Banks are Loyal to Tax Payment.

The responses of the respondents for this question were found as shown in table 4.31.

Table 4.31

Commercial Banks are Loyal to Tax Payment

S.N.	Response	No. of Respondent	cum. No.	Percentage	cum %
1	Strongly agree	26	68	24.76	64.76
2	Relatively agree	29		27.62	
3	Agree	13		12.38	
4	Disagree	16	37	15.24	35.24
5	Relatively disagree	12		11.43	
6	Strongly disagree	9		8.57	
	Total	105	105	100	100

Source: Opinion Survey 2013.

By the primary response, it is found that 64.76% of the respondents were agreed that commercial banks are loyal to tax payment. It reveals that only 35.24% of respondents were found as disagree with this statement. It shows the fact that commercial banks are loyal to tax payment.

4.2.20 What Type of Tax Concession Facilities and Incentives to be given to the Commercial Banks ?

This question was asked to give suggestion and recommendation to the Government for providing additional facilities to the commercial banks.

Table 4.32

What type of tax concession facilities and incentives to be given to the commercial banks?

S.N.	Response	No. of Respondent	Percentage
1	Investment tax credit	46	43.81
2	Carry forward/backward of losses	13	12.38
3	Tax holidays	11	10.48
4	Accelerated depreciation	9	8.57
5	Tax rate deduction	26	24.76
Total		105	100

Source: Opinion Survey 2013.

From the above table it is found that 43.81% of respondents were focused that additional investment tax credit facility should be provided to the commercial banks. The ratio 12.38% of respondents were agreed that additional carry forward/backward

of losses facility should be provided 10.48% of respondents were focused on tax holiday, 8.57% of respondents were agreed accelerated depreciation facility should be given and rest 24.76% of respondents were referred the tax rate deduction facility.

By analyzing the data, the fact is revealed that the most common addition facility needed for commercial bank is additional tax credit.

4.3 Finding of Study

Finding is the summary of data presentation and analysis. Finding appeared both from secondary data and primary data analysis is presented separately.

4.3.1 Finding from Secondary Data Analysis

All the secondary data has been presented and analyzed by using financial and statistical tools. The major finding drawn from the secondary data presentation and analysis of sampled commercial banks are represented below.

- a) To fulfill the objective of this research study. Nepalese government revenue structure has been analyzed. From this analysis, it is found that about 83.024% of Total Revenue comes from tax revenue and rest 16.976% of total revenue comes from non-tax revenue in average. Among the heads of tax revenue, sale tax/VAT has contributed highest amount of tax and other indirect taxes have contributed the lowest tax amount.
- b) From the ratio analysis of direct tax to total revenue, it is found that direct taxes contribute a considerable amount of total revenue and total tax revenue. In average 22.91% of total revenue and 27.60% of total tax revenue were collected from direct taxes within the whole study period. Highest contribution made by direct tax to total revenue and total tax revenue was 24.35% in fiscal year 2010/11 and 29.32% in fiscal year 2008/09 respectively. The realization rate of direct tax was remained fluctuating over the study period.
- c) Income tax revenue consist of corporate tax, individual income tax, house and rent tax and interest tax. Among these four sources, corporate income tax is a highly contributing source to total income tax.
- d) The average contribution made by corporate tax to total revenue is 6.714%. It has contributed from 6.52% to 7.0% amount to total revenue within the five years study period.
- e) Among the sampled commercial banks, income tax contribution made by NABIL is a higher than others and among the sampled joint venture and non-joint venture commercial banks, NIBL is the second one. The lowest

contributors among these are SBL,NCC and KBL respectively. HBL and Everest have made a moderate contribution. NABIL bank is seemed as a highest corporate tax payer among all the sampled commercial banks.

- f) HBL has the lowest CV of 21.91% which indicates that the corporate tax payment of HBL was very close to average payment. Average tax payment of NCC was very low and it has higher CV too. It indicates that NCC has contributed the lowest amount of tax and payment has a high volatility than others.
- g) From the corporate ratio analysis of corporate tax from commercial banks to total revenue, income tax revenue and corporate tax, it is found that better amount has contributed by commercial banks as compare to other sector.

4.3.2 Findings from Primary Data Analysis

The primary data analysis regarding comparative study on income tax collection from commercial banks the following major findings are drawn out.

- a) Majority of the respondents i.e. 60% of the respondents felt that present Income Tax Act 2058 effective only 40% felt that it is not effective. 60 percent of the respondents expressed their views that the present Income Tax Act 2058 is more effective. Thus they are satisfied with present tax policy.
- b) Majority of the respondents i.e. 60% felt that present income tax policy highly affected on their operation profit. 33% felt that affected neutrally and 7% felt that it is affected lowly.
- c) 100% of the respondents agreed that present rate of penalties and fines imposed to the tax payers is very high nobody is in favour of present rate.
- d) Only 27% are in favour of tax administration of Nepal. 73% of the respondents are against the present efficiency of tax administration they felt that present tax administration is inefficient. 67% from banking professionals, 75% from Tax experts/tax officer and professors each and 100% from general public felt that present tax administration are ineffective.
- e) 60% of the total respondents provided their view regarding effectiveness of present tax system. 40% of total respondents provided their view regarding ineffectiveness of present tax system.
- f) 73% of the respondents thinks existing income tax rate is high. Only 7% respondents is favors of existing rate and 20% think it is neutral. 67% from

banking professionals, 75% from Tax experts/tax officer, 75% from professors and 100% from general public present their view that existing rate is high.

- g) Most of the respondents about 54% don't know that rebate should be provided to regular tax payers. 33% of the respondents feel that rebates should not be provided to regular tax payers. 50% respondent from banking professionals, 25% respondents from Tax experts/ tax officer, 75% respondents from professors and 100% respondents from general public having no idea about that provision.
- h) 60% of respondents face complication in paying income tax whereas 40% of respondents do not face complication.
- i) In order to get rid of the discrimination between domestic and foreign investment, the prevailing identical tax rate system for commercial banks is favorable.
- j) Other industries get more tax rebates and facilities as compared to banking business. In order to promote the banking business and to create a competitive environment, banking sector also requires tax incentives, rebates and facilities as other sector.
- k) Taxpayers determine their tax liability themselves under self tax assessment procedure. It motivates taxpayers to pay tax amount in time and it will be helpful to increase government revenue.
- l) To improve the profitability ratio of each commercial banking sector, they need tax concession facilities and incentives such as investment tax credit. Carry forward of losses and carry back ward of losses facility, tax holidays, reduction of tax rate facility and accelerated depreciation facility.
- m) To collect more Government revenue and to motivate tax payers to pay tax, tax payment procedure should be simple. Installment tax payment system is favorable for taxpayers and it is.

CHAPTER- V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

This research study has focused on the comparative study on income tax collection from commercial banks in Nepal. In order to this study ten commercial banks were taken as sample.

EBL, NIC Asia, SBI, NIBL, NCC, HBL, NABIL, BOK, KBL and SBL. Analysis is made comparatively on income tax contribution made by them for the past five years period. The main objective of this study is to make comparative analysis on income tax collection specific objectives. The following supporting objectives were formulated which are as follows:

- To analyze the proportion are contribution of commercial banks to total tax revenue, total income tax and total corporate tax.
- To point out main tax related problems faced by commercial banks.
- To provide necessary suggestions and recommendation about income tax collection with special references to commercial banks.

For all achievement of these objectives, this research study is divided into five chapters specifically introduction, review of literature, research methodology, data presentation and analysis and summary, conclusion and recommendations.

The first chapter is about introduction, this includes a brief introduction of commercial banks, statement of problems, objective, significance, organizations under study, scheme of the study and limitation acquaintances with this research report are presented.

In the second chapter, theoretical review has been made. Introduction of income, introduction of income tax, development and evolution of income tax, special provisions regarding banking business, methods of income tax assessment, penal provisions, income tax management, tax administration and review of some related studies are presented.

Related previous studies, websites, reports and dissertation are viewed and meeting has been made with professionals for necessary qualitative and quantitative analysis. It also incorporates some related study, which has been done by the further researchers.

Research design, population sample, variable, data collection procedure, presentation and analysis tools are described in third chapter. The frame-work of data presentation and analysis is determined by research methodologies.

The fourth chapter, which is recognized as body of the research study, includes various data presentation and analysis. Both secondary and primary data are presented and analyzed by using appropriate financial and statistical tools to make the data presentation and analysis effective. Ratio analysis, mean, standard deviation and coefficient of variation has been calculated as per the nature and needs of data analysis and presentation.

In the fifth chapter summary, conclusion and recommendations are drawn out. Summary and conclusion of the study are presented and necessary suggestion and recommendations are provided to the concerned tax authorities like commercial banks, IRD, Government and NRB for the further betterment.

This research study is not far away from different limitations. It has considered only ten sample banks from different sectors. Time and resource are the constraints of the study. Therefore, the study may not be generalized in all cases. Accuracy depends upon the collected and provided data from various organizations and respondents.

5.2. Conclusion

From the data presentation and Analysis, the following conclusions have been drawn out.

- a) From the study of structure of Nepalese Government revenue it revealed that Nepalese Government revenue is a composition of tax and non-tax revenue. Only about one fourth portion is collected from non-tax source.
- b) More than three fourth portion of Nepalese Government revenue is collected from Tax sources. Tax revenue consists of both direct and indirect taxes. Direct tax is collected 22.91% of total revenue in average per year and it contributes average 27.60% amount to total tax revenue.

- c) From the income tax structure analysis, it is seen that Nepalese Income Tax Structure is a composition of corporate income Tax, Individual Income Tax, House and compound tax and Interest Tax. Corporate tax contributes more than 33% amount to total income tax per year and it is become a highest contributing source of income tax revenue. From the analysis of ratio of corporate tax to total revenue it is depicted that corporate tax occupies a significant portion of total revenue. In average 35.596% of total Government revenue is collected from corporate taxes.
- d) From the average or mean analysis it is found that:
- Mean payment of NABIL bank is highest among all sampled commercial banks.
 - NIBL has second position and HBL has a third position in corporate tax payment.
 - Among the sampled commercial bank NCC has a lowest mean.
 - SBL has a second lowest mean among sampled commercial banks it denotes the lowest contribution.

To find out the uniformity of corporate tax payment CV is calculated on the basis of mean and standard deviation. From the analysis it is found that.

- a) HBL has a lowest CV among sampled commercial banks. NABIL, BOK and KBL have a moderate CV, which is slightly greater than CV of HBL. NIC Asia, EBL & SBL have highest CV among sampled banks. Lowest CV indicates the annual corporate tax payment is average payment. Which means it is stable.
- b) Highest CV indicates that average corporate tax payment is high fluctuating. Corporate tax collection from each sector will be maximized by providing additional facilities and incentives to the commercial banking sector. Rate of income tax should be differentiated according the nature of business problems facing by commercial banks while paying corporate tax vague provision of tax laws and order of tax assessment by tax authorities. To collect more Government revenue, tax payer should be motivate tax-payers. Persons are conscious about tax planning and they pay tax by hoping that tax amount which is paid by them through their income should be utilized in a better job.

From the primary data analysis regarding comparative study on income tax collection from commercial banks, the following conclusions are drawn out.

- A) Maximum percentage of the respondents i.e. 73.33% were facing problems in claim tax refund in VAT whereas remaining were not facing. All the respondents were agreed that VAT is creating problems while maintaining proper book system.
- B) 60% of the respondents were agreed on effectiveness of Income Tax Act 2058 whereas remaining 40% were not agreed. Maximum respondents i.e. 73% were dissatisfied to present tax administration in Nepal whereas 27% were satisfied with tax administration.
- C) In order to overcome the discrimination between domestic and foreign investment. The prevailing identical tax rate system for commercial bank is favorable. Other industries (hydropower, manufacturing company etc) may get more tax rebate and other facilities as compare to banking business. In order to promote the banking business and to create competitive environment, banking sector also requires tax incentives, rebate and facilities as other sector.
- D) To collect more Government revenue and to motivate tax payers to pay tax, tax payment procedure should be simple. Installment tax payment system is favorable for tax payers and it is proficient to minimize the tax burden Tax payers determine their tax liability oneself under self tax assessment procedure. It motivates tax payers to pay tax amount in time and it will be helpful to increase Government revenue.

5.3 Recommendations

The researcher discovered so many weaknesses in all area and overall system of Government tax collection policy, the role of commercial banks on the behalf of tax contribution. Recommendation is the output of the whole study. It helps to take the constructive action in their future activities. So, the researcher desires to give some advice to concern authorities i.e., commercial bank, Nepal Rastra Bank and also Inland Revenue Department.

To Commercial Bank

The following points are recommended to the commercial banks.

- i) Level of non-performing assets should be controlled.
- ii) Quality service should be provided to attract the customers.
- iii) Invest only one secure sector or taking more and profitable securities.
- iv) Market expansion strategy be followed to introduce the fame.

- v) All level customers should be covered to retain at comparative position in market.
- vi) Rule and regulation of NRB should be followed.
- vii) Ratio of corporate tax payment to Total Revenue, Total Tax Revenue, Total Income Tax, Corporate Tax should be maximized.
- viii) Launch effective and competitive programs to get market coverage.
- ix) Invest on the development of the nation and to develop infrastructure in the country.

To Nepal Rastra Bank

NRB is the regulatory body of all commercial banks, which makes rules, regulations, and direct to commercial banks for their effective implementations as a central bank and bank of banks. NRB is recommended the following points.

- Regular monitoring and evaluation should be made for the effective profitability management of commercial banks.
- As a regulatory body, NRB should direct to arrange the AGM and sent the record to NRB in time.
- Giving licenses to new commercial banks should be stopped.
- Find out strength and weakness of commercial banks and suggest them to follow corrective action in their further activities.
- For the non-managed banks, facilities and incentives should be deducted.
- To provide easy procedure for accessing to merge finance company and banks.

To Inland Revenue Department

The government is a responsible body of country. Nation is influenced by the policies, programs, rules and regulation compliance by Government. Government is also connected to the income tax collection. As a responsible body the following points are suggest to the Government.

- Economic and political stability should be made.
- Necessary rules and regulation should be implemented and hock decisions, rules and regulations should be discouraged.
- Facilities and incentives should provide to the commercial banks in order to improve the service quality and to create competitive environment.
- Provide new or separate desk to the commercial banks to pay tax.

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