

**PRACTICES OF TAX PLANNING TOOLS IN THE
LISTED COMPANIES OF NEPAL**

A THESIS

SUBMITTED BY

Ram Bahadur Basnet

Nepal Commerce Campus

Roll No. 1075/2067

Exam symbol No. 251090

T.UReg.No. 7-2-25-437-2006

SUBMITTED TO

Office of the Dean

Faculty of Management

Tribhuvan University

In partial Fulfillment of the requirements For the Degree of Master's of
Business Studies (MBS)

New Baneshwar, Kathmandu

November, 2014

VIVA –VOCE SHEET

We have conducted the viva –voce examination of the thesis presented by

Ram Bahadur Basnet

Entitled

PRACTICES OF TAX PLANNING TOOLS IN THE LISTED COMPANIES OF NEPAL

And found the thesis to be the original work of the student and written according to the prescribed format of Faculty of Management, Tribhuvan University. We recommend the thesis to be accepted as partial fulfillment of the requirement for *Degree of master of business Studies (M.B.S)*

Viva - Voce Committee

Chairperson (Research Department) :-

.....

Member (Thesis Supervisor) :-

.....

Member (Thesis Supervisor) :-

.....

Member (External Expert) :-

.....

Date-

RECOMMENDATION

This is to certify that the thesis
Submitted By:-

RAM BAHADURBASNET

Entitled

**PRACTICES OF TAX PLANNING TOOLS IN THE LISTED
COMPANIES OF NEPAL**

**Has been approved by this Department in the prescribed format of faculty
of management, Tribhuvan University. This thesis is forwarded for
examination.**

Jyoti Pandey
(Campus Chief)

Prof Dr.Sushil Bhakta Mathema
(Head of Research Detpartment)

Prof. Dr. Bihari Binod Pokharel
(Thesis Supervisor)(Thesis Supervisor)

Mr. Pitambar Ghimire

Date:-

DECLARATION

I hereby declare that the work, reported in this thesis entitled “ **PRACTICES OF TAX PLANNING TOOLS IN THE LISTED COMPANIES OF NEPAL**” submitted to the Office of the Dean, Faculty of Management Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Degree of Master of Business Studies (M.B.S) under the supervision of Prof. Dr. Bihari Binod Pokhrel and Lecturer Mr. Pitambar Ghimire, Nepal Commerce Campus, Tribhuvan University.

Ram Bahadur Basnet

Nepal Commerce Campus

Date:

ACKNOWLEDGEMENT

All successful research works are the result of the contributions made by a wide range of co-operative hands. This thesis is no exception either. This study is an outcome of cumulative efforts of a member of individuals and institutions. I am very indebted to all of them.

I would like to express my gratitude to my thesis supervisor Professor Dr. Bihari Binod Pokharel, Nepal Commerce Campus and Mr. Pitambar Ghimire, Lecturer of Nepal Commerce Campus for his invaluable supervision, constructive comments and suggestions which helped me to give the final shape of the research work. This work would never have appeared in its present form without their kind and invaluable guidance.

I am thankful to all the respected teachers and staffs of Nepal Commerce Campus for their sympathy and co-operation during my association with the Campus.

My thanks also go to the staffs of Securities board, Managers and staff members of the Listed Companies who helped me by filling up the questionnaire & giving correct information.

Last but not the least, I would like to share the credit of my Father Mr. Toya Bahadur Basnet and Brother Janak Basnet who struggled enough to educate me.

Any error in this report is my own responsibility and I expect sincere suggestion from the readers for further improvement.

Ram Bahadur Basnet
2014 November

ABBREVIATION USED

B.B.S	=	Bachelor in Business Study
DDC	=	District Development Committee
FY	=	Fiscal Year
GDP	=	Gross Domestic Product
GNP	=	Gross National Product
G/S	=	Goods and Services
IEA	=	Industrial Enterprises Act
IRD	=	Inland Revenue Department
ITA	=	Income Tax Act
MBS	=	Master in Business Study
NG	=	Nepal Government
VAT	=	Value Added Tax
WDR	=	World Development Report

Table of Contents

Viva-Voce Sheet	i
Recommendation	ii
Declaration	ii
i	
Acknowledgement	iv
Abbreviation used	v
Table of Contents	vi
List of Tables	ix

1.

INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.2 Statement of the problem	4
1.3 Objectives of the Study.....	5
1.4 Significance of the Study.....	5
1.5 Limitations of the Study	6
1.6 Organization of the Study	6
REVIEW OF LITERATURE.....	8
2.1 Review of the Theoretical Concept and Tax Planning.	8
2.1.1 Concept of Tax	8
2.1.2 Concept of Corporate Tax	10
2.2 Review of Historical Background of Taxation in Nepal	11
2.3 Review of Main terminologies used in Taxation.	13
2.3.1 Income Heads.....	13
2.3.2 Taxing Subjects.....	14
2.3.3 Income Year	14
2.3.4 Assessable Income	15
2.3.5 Taxable Income	15
2.3.6 Tax Rates	16
2.3.7 Exempt Amounts, Business and Other Concessions (Section –1).....	18
2.3.8 Deductions	20

2.3.9	Setoff, Carry Forward and Carry Back of Losses	20
2.3.10	Tax Accounting a and Timing	21
2.3.11	Quantification, Allocation and Characterization of Amounts.....	22
2.3.12	Capital Gain Tax.....	22
2.3.13	Special Provisions for Individuals.....	23
2.3.14	Special Provisions for Entity.....	24
2.3.15	Special Provisions for Retirement savings	24
2.3.16	International taxation	25
2.3.17	Administration and Documentation	26
2.3.18	Company	26
2.3.19	Individual.....	26
2.3.20	Entity	26
2.3.21	Resident person	27
2.3.22	Partnership (Section 2 Ka. Pa).....	28
2.3.23	Exempt Organization (Section 2 Dha).....	28
2.3.24	Retirement Fund (Section 2 Gha).....	29
2.3.25	Retirement payment (Section 2 Nga)	29
2.3.26	Retirement contribution (Section 2 Cha).....	29
2.3.27	Business (Section 2 Ka. JA)	29
2.3.28	Investment (Section 2 Ka. Kha)	29
2.3.29	Employment (Section 2 Jna).....	29
2.3.30	Casual Gain (sec 2 ka J)	29
2.3.31	Asset (Section 2 Ka. Dha)	30
2.3.32	Trading Stock (Section 2 Ka. Yna).....	30
2.3.33	Business Asset (Section 2 Ka. Ta.):.....	30
2.3.34	Non-Business Chargeable Assets (Section 2 Da):.....	30
2.3.35	Depreciable Asset	31
2.3.36	Associated persons	31
2.3.37	Long- term contract	31
2.3.38	Exempt Amounts, Concessions and Withholding Payments	31
2.3.39	Business Exemptions and Concessions	32
2.3.40	Withholding Payments.....	34
2.4	Review of Concept of Tax Planning and legal provision in Nepal.....	36
2.4.1	Tax Evasion.....	37

2.4.2	Tax Avoidance	38
2.4.3	Tax Delinquency.....	38
2.4.4	Tax Planning	38
2.5	Review of Related Studies.....	49
2.6	Research Gap	55
RESEARCH METHODOLOGY		56
3.1	Introduction	56
3.2	Research design	56
3.3	Sources of Data	56
3.4	Population and sampling	56
3.5	Sample size.....	57
3.6	Data gathering procedure.....	57
3.7	Data processing and Analyzing procedure.....	58
PRESENTATION AND ANALYSIS OF DATA.....		59
4.1	Introduction	59
4.2	Percentage Analysis of Tax Planning Practice in Nepalese Companies	60
4.3	Analysis of Executives' Response (i.e. Analysis of Open-End Opinions of Account in Chief, Finance in Chief and Managers).....	75
4.4	Major Findings of the Study.....	83
SUMMARY, CONCLUSION AND RECOMMENDATIONS.....		86
5.1	Summary	86
5.2	Conclusions	87
5.3	Recommendations	88
Bibliography		91
Appendix -		
1.....		93
Appendix-2		
.....		94

List of Table

Table 1 : Classification of Listed Companies	57
Table 2 : Practice of various Tax Planning Tools in the Nepalese Companies.....	60
Table 3 : Percentage of implementing tax planning.....	63
Table 4 : Practice of Facility provided by ITA based on Volume of Employees	67
Table 5 : Practice of considering income for "Donation Decision" as prescribed by the ITA 2058.....	68
Table 6 : Practice of Considering Income while Installing Pollution Control Device as prescribed by ITA 2058.....	69
Table 7 : Practice of leasing purchase as tax planning tool for making long term Investment Decision	70
Table 8 : Practice of Buy of fixed assets Tools for Long Term Investment Decision	71
Table 9 : Practice of Planning for Investing the Research & Development Criteria by the listed companies of Nepal.....	72
Table 10 : Practice of "Capital Structure" For Planning by the Listed Companies.....	73
Table 11 : Practice of using "Repair & Improvement cost" as a tool.....	74
Table 12 : Which is the best suitable way you have practiced to reduce the Tax Liability?.....	75
Table 13 : The rebates and concessions provided by the Act are sufficient to promote companies in "Remote and Underdeveloped area" of the Nepalese Geography?.....	76
Table 14 : The criterion provided by the act relating to Donation is reasonable?.....	77
Table 15 : What are the difficulties you have faced while decide installing the "Pollution Control Device"?.....	78
Table 16 : What are the difficulties have you faced while incurring "Research and Development Cost"?.....	79
Table 17 : In your experience, do you think that provision of "Carry forward, Backward and Setup of Loss" is effective?.....	80
Table 18 : In your opinion "Timing of Activity" facility given by ITA 2058 is effective?.....	81
Table 19 : "Self – Tax Assessment" system is Suitable in Nepal?.....	82
Table 20 : What are the difficulties have you faced while incurring "Repaired and Improvement cost?..	83

CHAPTER – I
INTRODUCTION

1.1 Background of the Study

The money needed for the government can be collected from two sources namely debt and revenue. The debt can be taken within the country or outside the country. Revenue is realized from tax and non-tax sources.

A tax is a compulsory levy and those who are taxed have to pay it without getting corresponding benefit of services or goods from the government. The taxpayer does not have any right to receive quid pro quo for the payment of tax. It can be said that tax is a liability to pay to the state .The basis for the payment is that the assessees have income from certain specified sources or that they own certain tangible or intangible property or that they carry on certain economic activities.

With the objective of making the tax system more transparent, simple and taxpayer friendly as well as bettering revenue yields through an increase in efficiency & professionalism in the administration, Nepal Government (NG) has been reforming the country's tax system since early nineties. Besides, removing sectoral inequalities, relieving tax burden through the rate rationalization and increasing elasticity, nudity symmetry, inclusiveness and tax planning are other, objectives of tax reform in the country.

For the purpose of enhancing the investment environment in the country, the government provides different types of facilities to the business organizations.

Such facilities include reduction in tax rate, providing tax holiday, investment allowance, depreciation facilities etc. Tax planning means the use of all those

facilities given by the government to reduce the tax liability. In other words, tax planning is the scientific planning of financial operation in such a way as to attract minimum liability of tax or post payment of tax liability for the subsequent period by availing of various incentives, concession, and rebates. It is not only the planning of financial activities of business and industry but also the planning of its various projects from time to time and its day to day activities so as to acquire the maximum facility as per the existing law of the country. It is the insidious use of tax incentives provided by the government. It is also defined as the exploitation of tax concessions.

The ratio of total expenditure to GDP is in increasing trend in comparison to total revenue. This is a matter of concern from the long term perspective of government, finance. Development expenditure is set in diminishing trend compared to regular expenditure over the last four years. Nepal Government therefore, is failed with the task of controlling regular expenditure, enhancing development expenditure for investment in productive sector and narrowing the deficit through increased revenue mobilization for the estimate goal of sustained economic growth and stability. In this context, enhancing revenue mobilization through administrative reform and tax planning by identifying potential areas are yet another challenge before government.

The Position of Nepal in the world according to GNP per capita income is 12th from the bottom. (World development report, 2010) This shows that Nepal still remain one of the member of poorest countries in the world. Almost six decades of planned development, the Nepalese economy is persistently suffering from general poverty and stagnation. The low income leads Nepalese people under the vicious circle of poverty GNP per capita of Nepal is below 500 US dollars a year. The number of population who's the daily per day income or purchasing power per day below 1.25 dollar is 23.8%. The average growth rate of GDP during 2000-2010 is

4%. The low-income people of Nepal were suffered from economic humiliation never before than they are suffering today and this has lead to several economic social disturbance in the country .Unfortunately problems are instead of being solved increasing dramatically.

Economic development is considered as basic need for any country to fulfill the aspiration of the people. But, Nepal is a developing country facing development challenges to improve the life standard of its 23.8% percent's of citizens living below the poverty line. There has been a big gap between policy and practice. The announcement of liberal policies was not an end itself. It was necessary to change various acts, regulations and procedures. It could not happen due to several reasons, inducing political instability in the second half of 1990s. During this period, some politicians were engaged in holding power. Bureaucracy is highly politicized, which is not only weak but also becoming weaker and weaker. The bureaucracy does not seem to have been properly oriented to face the challenges, especially in the supervision and monitoring aspect.(IIDS 1996 :)Decision making process is being slow but corruption and commission is being more open and large. As a result, procedures have not been adjusted fully according to the new liberal policies adopted in the early 1990s.

Infrastructure development as well as maintaining stability in the economy means sustainable development. For this, Nepal has been adopting deficit budgeting system where expenditure exceeds income. Sources of national income are revenue and foreign grants. But foreign grants are not so reliable sources which depend upon kindness of donors. The gap between national income (i.e. public revenue and public expenditure) is increasing day by day because of high increase in expenditure.

Under such condition, Nepal is facing a serious problem of resource gap and dependency upon foreign aids and loans. To recover from that situation, the country should have the sound economic and political situation to sustain and rapid growth of business organizations and their business activities. If so, the country becomes economically powerful, for that, the role of the government in present globalization and liberalization age is to create the sound and competitive business environment to do business activities without any barriers, not only for that purpose but also government of a country requires sufficient revenues to carryout development plans to handle day-to-day administration to maintain peace security and to launch other public welfare activities. The government collects revenues from various sources such as tax, revenues from public enterprises, special assessment, fees, fines, grants and assistance. Among them, tax is the main source of government revenue.

1.2 Statement of the problem

No organization can be far from the problem. Tax planning is important for any business organizations to meet regular demand, customers satisfaction, optimum cost, increase return enhances economic environment of the country by the genuine use of the facilities provided by the government.

Success is not a matter of chance. It is to be planned and managed. Poor performance is the outcome of poor planning, controlling and decision making.

This has raised the questions whether Nepalese managers are competent enough? Do they practice tax planning tools and techniques to carry out planning, decision-making and controlling functions?

The problems of the study are defined in the following questions.

- Whether or not Nepalese companies are practicing tax planning tools?

- Which tools of tax planning are mostly practiced?
- What are the major difficulties in the application of tax planning tools?
- In which areas of the business operations can tax planning tools be applied to improve the competitiveness of the Nepalese companies?

1.3 Objectives of the Study

The main objective of this research study is to examine and study the practice of tax planning tools in the listed companies in Nepal. The specific objectives are as follows.

1. To study and findout the areas where tax planning tools can be applied to strengthen the companies.
2. To identify and analyze the difficulties in applying tax planning tools in Nepalese companies.
3. To make recommendations to overcome the difficulties in applying tax planning tools in Nepalese companies.

1.4 Significance of the Study

This research work is the study of the practice of tax planning tools in listed companies in Nepal. This study has been significant in the following ways

- It examines the application of tax planning tools in Nepal.
- It explores the problems and potentialities of the selected companies.
- It has been useful to the potential investors, lenders, managers and policy workers in Nepalese companies.
- It provides infuriation on the application of the tools under different circumstances. Thus, it has been encouraging to use of tax planning tools in decision making to those companies which have not yet used any tools.
- It also provides the literature to the researchers who want to carry on future research in this field.

1.5 Limitations of the Study

Although efforts have been made to make this study more realistic, Practicable, and informational, for all the people, the study is suffering from the number of limitation as follows.

- The study is focused on the listed companies only. Thus the findings might not be applicable to non-listed companies in Nepal.
- The study has paid attraction to the practice of the tax planning tools only.
- The research is based on primary date. Only random sampling method with proportionate allocation of percentage is followed to draw the sample wherever is necessary.

1.6 Organization of the Study

The whole study has organized into the following five chapters

1. Introduction:

This chapter covers the focus of the study, statement of the problem, research objectives and significance of the study and limitations of the study.

2. Review of literature:

This chapter deal with conceptual framework and past research literature of tax planning.

3. Research Methodology:

This chapter is about research methodology adopted for the study consisting research design, sources of data, data gathering procedure, population and sample, research variables and data processing procedure.

4. Data Presentation and Analysis

This chapter is mostly concerned with systematic presentation, analysis and interpretation of data where various financial and statistical tools and techniques

have been used. This chapter has also focused on open-end opinions and major findings of the study.

5. Summary. Conclusion and recommendations

The final chapter includes summary conclusion and recommendations which are based on the data analysis and major findings of the whole stud.

At last, appendix, bibliography and other supported documentary also are included.

CHAPTER – II

REVIEW OF LITERATURE

Review of literature is an essential part of all studies. It establishes a point of departure for future research. The purpose of reviewing the literature is to develop some expertise in one's area to see what new contribution can be made and to receive some ideas for developing a research design. Thus, the previous studies have been consulted. Their relevant issues, arguments and suggestions have given a glimpse and guideline to go further in depth of the study. In other words, there has to be continuity in research. This continuity in research is ensured by linking the present study with the past research studies. For this research study, the related literature review has been done in following ways.

- 2.1 Review of Theoretical Concept of Tax.
- 2.2 Review of Historical Background of Taxation in Nepal.
- 2.3 Review of main terminologies used in Taxation.
- 2.4 Review of Concept of Tax Planning and legal provision in Nepal.
- 2.5 Review of Related Thesis Reports.
- 2.6 Research gap (difference between the current and previous research).

2.1 Review of the Theoretical Concept and Tax Planning.

2.1.1 Concept of Tax

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

“Taxes are general contributions of wealth levied upon persons, natural or corporate, to defray expenses incurred in conferring common benefits upon the residents of the state.” (Plehn)

After the great depression of 1930's, the function of government has been increased considerably. The government has got various sources of revenue. Among the various sources of government revenue the most important is tax. Generally, tax is defined as compulsory payment to the government. Everybody on whom it is imposed should pay tax. He/she is punished in case of evasion. The taxpayer does not get quid pro quo or equivalent benefit from the government for paying tax. According to *Seligman*, tax refers "***A compulsory contribution from a person to the government to defray expenses incurred in common interest of all without reference to special benefit conferred.***" (Seligman, 1969:22)

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

"A tax has a long history. According to Manu, taxes should be laid as per the shrastras.(Jha 1990:25)

We can get the reference of tax in Shanti Parva of Mahabharat where Yudhister got education about different political activities from Bhishma. Bhishma said that a person desirous of getting milk never obtained the same by cutting udders of his cow. So a Nation inflicted by improper devices or irregular practices never yields any profit. We find similar opinions in Pachatantra. In history, tax has caused many events that are of immense importance for the people of modern world. Whether it is the case of Corn Law imposed in England or the slogan raised as "no taxation without representation" in independence movement of USA. It is the tax

that was the root item. Taxation causes the French Revolution of 1789, Boston Tea Party in USA and took the life of Charles I in England in 1748.

2.1.2 Concept of Corporate Tax

Nepal currently levies different types of income taxes. They are individual income tax, corporate income tax, capital gain tax, vehicle tax house rent tax and interest tax. Of these taxes, corporate tax is levied on a corporate body. A corporation is a separate entity from its shareholders on both legal and economic grounds. It is a separate legal entity from its shareholders since it can sue and be sued in its own name. Furthermore, it holds properties in its own name and its shareholders have limited liability in respect of its debts."(Report of the taxation Inquiry Commission, Govt of India, 1953-54:152) the corporation is also a separate economic entity. It has authority to take decision on various matters including the distribution of profits to its shareholders who exercise only a remote control over the earning of corporate income since corporation is a separate entity from its shareholders, the profit obtained by the former is different from the income of the latter. Accordingly, it is standard international practice to levy tax on corporate profit. Corporate income tax is also justified on the following grounds.

- Easy to collect.
- Dominant role of corporations in business life.
- Ownership and control rest on different persons, particularly, in the case of large companies.
- The Burden of corporate income tax is borne not by the owners of the company but by the suppliers, consumers or employees of the company depending upon market conditions(Stoup,1959:116).

Nepal levies corporate income tax on government corporations, public and private limited companies.

A corporate body is a legal organization that is voluntarily created, organized or chartered under law. It is an artificial person which can own property, execute

contacts, raise debts and generate profits (Margill1997:280) Therefore a corporate tax is a tax levied on corporate unincorporated enterprise (Mead, 1978:227). It is the tax on capital income that accrues in the form of profit and originates in the corporate sector (Mussgrave&Mussgrave 1984:384). The corporate tax is the branch of the income tax introduced in 1797 in one Dutch Batavian Republic and in 1799 in England. Although Nepal has a long history of taxation corporate tax was introduced only in 1960 when the Business Profit and Remuneration Tax Act, 1960 was enacted. In the beginning it was not differentiated from personal income tax. The Finance Acts of 1960 to 1964 prescribed the same progressive tax rates and exemption limit to all companies, private firms, individuals and families. From the financial year 1965/66, the tax exemption given to companies was withdrawn.

The rate of corporate tax was very low when it was introduced. It was increased during the great world wars when the state imposed higher tax rates because of its easiness in taping the revenues (Goode, 1951:2). Although, corporate tax has been an inseparable factor of the modern world of taxation, there is no unanimous view about its existence. Different economists, tax experts and businessperson have different opinions regarding its theory of existence, base of taxing, shifting and incidence and methods of taxation. They differ in their opinion related to the impact of corporate taxation of investment. In these days, different issues have been raised in relation to the impact of inflation on business community due to corporate tax. Besides this, debates have been continuing regarding the usefulness of different types of tax incentives, rate of tax, treatment of risk and past accumulated losses, inventory valuation technique and capital gain taxation (Kandel, 2012:4).

2.2 Review of Historical Background of Taxation in Nepal

In early days, tribe rulers, community heads tec., collected taxes. For communal services rendered and as a contribution to communal resources for times of

emergencies. The taxes were in the forms of cattle, food grains, animals skin and labors etc. the ancient Hindu tax system was based on the theory like such as the water of the earth goes in the sky from the heat of the sun and latter it rains again on the earth. Law had fixed taxes and scales had been embodied in the scared common law. The consequences that, whatever the form of government, the matter of taxation was not an object of ruler's caprice (Jayaswal: 1995: 237-238). In those days, the people were eager to pay tax because they thought not paying the tax was great sin. Even those practicing authorities in the forest as living by gearing corn from the fields pay one sixth of it to the king. It is the share of him who protects them.

Ancient Athens used to derive its revenue from taxes like customs, sales and poll tax on aliens and slaves. One who was taxed and failed to pay was guilty of a capital offense. Emperor Augustus introduced land and inheritance tax. Julius Caesar was the first ruler to collect tax through government institutions. At the time of Julius Caesar he levied one percent sales tax (Encyclopedia Int, gradic: 1975).

In ancient Nepal, land tax was the main source of revenue. In 'Lichchhavi period, there was three type of taxes levied on the people, 'Bhaga' (tax on agriculture) in that period(Bhatta 1981:12) There was tax for purification of caste by priest and even cremation tax, which was extracted in gold by the ruler of Bajhang, in far western Nepal(Agrawal:1969:4). In ancient Nepal, tax was collected in goods and services. Anyway, in those says there was tax system.

After the unification of Nepal, the main sources of revenue were land tax, customs export of wood materials, birds, animals etc and fines. Taxed amount was allocated to royal palace expenses, for peace, security and construction works, for the salary and allowances of the local employees; the tax was collected on the basis of 'Istihar' and 'SanadSawal'.

There was no hard and fast rule relating to taxation in the age of Rana Regime. People of those days were familiar merely with the primitive type of taxation like SarvaChandrayani (Six Paisa per house payable annually to the BadaGuruji i.e. chief spiritual teacher), GodaDhuwaChuwawom (Twenty Five Paisa payable per head by government employees to His Majesty's Treasure in times of marriage and coming of age ceremony of members of the royal Family), DarshanBhet (Three percent of annual pay of employees, above the rank of junior clerk payable to government treasury annually but not exceeding Rs. 50 and Rs 55 from officers having Rs. 500 or above as annual pay respectively), a royalty (Rs. One per government employee payable to His Highness Shree Tin Maharaja and the Commander-in-chief after Pajani i.e. general screening of the years). Besides other duties and service charges like customs duties, excise duties, royalties and other charges on forest products as well as land tax(Shrestha:vol.4: 27).

2.3 Review of Main terminologies used in Taxation.

2.3.1 Income Heads

The income Tax Act imposes tax on those activities contributing toward the creation of wealth. Wealth is created with the help of labour, capital and capital-labor mix activities that generate income from employment, investment and business. The Act makes broad classification of income encompassing almost all income earning activities. They are:

- A. Employment (an individual's remuneration income from an employment for an income year)
- B. Investment (profits and gains of a person from conducting an investment for an income year)
- C. Business (profits and gains of a person from conducting a business for an income year)

D. Income and gains are ascertained only after deducting the corresponding expenses. The income from each business and investment needs to be calculated separately.

2.3.2 Taxing Subjects

-) The taxpayers on whom income tax is imposed are persons. A person can be a natural person who is an individual or a couple but includes also a proprietorship, or it can be an artificial person, i.e. (an entity). An entity means a partnership, trust, company foreign permanent establishment or government body.
-) The Act distinguishes between resident and non-resident persons. A resident person is an individual whose normal place of abode is in Nepal and who is present at any time of the year, or who is present in Nepal for 183 days or more, or who is an employee of Nepal Government posted abroad at any time during the year.
-) A trust is a resident person if it is established in Nepal, or has a resident person as a trustee, or is controlled by a resident person. A company residing in Nepal and if it is incorporated under the laws of Nepal or has its effective management in Nepal. Partnerships are always resident persons. Permanent establishments are places where a person carries on a business and are subject to tax if they belong to a non-resident person and are situated in Nepal.

2.3.3 Income Year

For every person the tax is imposed and calculated for an income year. The income year corresponds with Government's Fiscal Year, i.e. the period from the start of Shrawan of a year to the end of Ashad of the following year (mid-July to mid-july).

2.3.4 Assessable Income

-) The assessable income of a person for an income-year from any employment, business, or investment is:
- A. in the case of a resident person, the person's income from the employment, business, or investment of the year irrespective of location of the source of income and
 - B. In the case of a non-resident person, the person's income from the employment, business, or investment of the year but only to the extent the income has a source in Nepal.
-) The assessable income does not include any income exempt under sections 11 or 64 of the Act (such as income from non-business agriculture and agriculture business conducted in the land of the type that is mentioned in clauses (d) and (e) of section 12 of the Land Act, 2021; income of cooperative society from business mainly based on agriculture and forest products and cooperative saving and credit scheme based on rural community; and income of approved retirement fund)

2.3.5 Taxable Income

The taxable income of a person for an income-year is equal to the amount as calculated by subtracting reduction, if any, claimed for the year under section 12 (gifts to an exempt organizations) or 63 (retirement contribution to an approved retirement fund) from the person's assessable income for the year from each of the following income heads

Business

Employment

Investment

Casual Gain

2.3.6 Tax Rates

-) The taxable income of a resident individual for an income-year will be taxed at the following rates -1%tax rate is imposed on the employment(remuneration)income only
- Up to Rs 2,50,000 @1 %
 - From Rs 2,50,000 up to 3,50,000 maximum upto 250000 Rs2500& Above 250000 @ 15%
 - Above Rs. 3,50,000 Maximum Up to 350000 Rs17500& Above Rs. 350000@ 25%
 - Above Rs. 25, 00,000 @35% (25%+40% of25%)
-) The taxable income of a couple, if they chose to be treated as a couple will be taxed at the following rates:
- Up to Rs. 3,00,000 – @1 %
 - From Rs 3,00,000 up to4,00,000 – Maximum up to3,00,000Rs3000& Above Rs. 3,00,000 @15%
 - Above Rs. 4,00,000 up to 4,00,000 Rs. 17500 & above 4,00,000@25%
 - Above Rs. 25,00,000@@35% (25%+40% of 25%)
-) Any individual or couple having pension income can enjoy 25 percent of the normal exemption limit as an additional basic exemption.
-) Any individual working in prescribed remote area is entitled to deduct prescribed amount as remote area allowance from taxable income.
-) Any individual is entitled to deduct the following amount from taxable amount, if he is having investment insurance policy: Rs20,000 or the actual premium paid, whichever is less.

-) For the purposes of the Act, net gains from the disposal of non-business chargeable assets is taxed at the rate of 10 percent.
-) The taxable income of a non-resident individual is taxed at the rate of 25 percent.
-) The taxable income of an entity taxed at the rate of 25 percent unless prescribed otherwise.
-) The taxable income of a bank or financial institution, or general insurance business, or an entity conducting petroleum work under Petroleum Act, 2040 for an income year is taxed at the rate of 30 percent.
-) Gain from lump sum retirement payment made by an approved retirement fund or Nepal government is taxed at the rate of 6 percent as a final withholding tax. Gain is calculated by deducting 50 percent of the payment or Rs. 500000 whichever is higher from the total lump sum payment.
-) The taxable income derived by an individual from special industry or export business is taxed at the rate of 20 percent.
-) The taxable income derived by an entity engaged in industrial enterprise or export business or derived from operating any road, bridge, tunnel, ropeway, or flying bridge construction business or any trolley bus or tram manufacturing business is taxed at the rate of 20 percent.
-) The taxable income of an entity engaged in power generation, transmission or distribution is taxed at the rate of 20 percent.
-) The taxable income of an estate of a deceased resident individual or trust of an incapacitated resident individual will be taxed at the normal tax rate as though the estate or trust was a resident individual.

- J The repatriated income of a foreign permanent establishment of a non-resident person situated in Nepal will be taxed at the percent of 10 percent.
- J The taxable income of a non-resident person deriving income from providing shipping, air transport or telecommunication services in Nepal will be taxed at the rate of 5 percent.
- J The taxable income of an entity wholly engaged in the projects conducted by any entity so as to build public infrastructure, own operate and transfer it to Nepal government in power generation, transmission, or distribution for an income-year shall be taxed at the rate of 20 percent.

2.3.7 Exempt Amounts, Business and Other Concessions (Section –1)

The following amounts are exempt from tax.

- A. Amounts derived by a person entitled to privileges under a bilateral or a multilateral treaty concluded between Government and a foreign country or an international organization;
- B. Amounts derived by an individual from employment in the public service of the government of a foreign country, provided that, the individual is a resident person solely by reason of performing the employment or is a non-resident person; and the amounts are payable from the public funds or the country;
- C. Amounts derived from public fund of the foreign country by an individual who is not a citizen of Nepal or by a member of the immediate family of the individual.
- D. Amounts derived by an individual who is not a citizen of Nepal from employment by Government on terms of a tax exemption;
- E. Allowances paid by Government to widows, elder citizens or disabled individuals;

- F. Amounts derived by way of gift, bequest, inheritance or scholarship, except as required to be included in calculating income under this Act;
 - G. Amounts derived by an exempt organization by way of gift; or other contributions that directly relate to the organization's function, whether or not the contribution is made in return for consideration provided by the organizational, and
 - H. Pension received by a Nepali citizen retired from the army or police service of a foreign country provided the amounts are payable from the public fund of that country.
-) An agricultural income derived from sources in Nepal during an income-year by a person, other than the income from an agriculture business derived by a registered firm, or company, or partnership, or a corporate body, or through the land above the landholding ceiling as prescribed in the Land Act, 2021, is exempt from income tax.
-) Incomes derived by cooperative societies, registered under Cooperative Act, 2048 (1991), from business mainly based on agriculture and forest products such as sericulture and silk production, horticulture and fruit processing, animal husbandry, diary industries, poultry farming, fishery, tea gardening and processing, coffee farming and processing, horticulture and herb processing, vegetable seeds farming, bee-keeping, honey production, rubber farming, floriculture and production and forestry related business such as lease-hold forestry, agro-forestry, cold storage established for the storage of vegetables and business of agricultural seeds, insecticide, fertilizer and agricultural tools (other than machine operated) and rural community based saving & credit cooperatives are exempt from tax. Dividends distributed by such societies are also exempt from tax.

2.3.8 Deductions

-) Basically, all actual costs to the extent incurred in generating income from the business or investment are deducted while calculating a person's income. This generalization, however, is taken into consideration in conjunction with the special provisions made in the Act. For example, interests paid by exempt controlled entity to the parent in the course of conducting a business or investment, are deductible with some limitations. Other costs such as cost of trading stock, repair and improvement cost of owned and used depreciable asset, pollution control, research and development are also deductible with some limitations.
-) Depreciation allowances are granted for depreciable assets, which are categorized in 5 classes. The classes are based upon the average useful life of the assets belonging to one class. The assets of each class are placed in a pool and a depreciation rate applies to each pool.
-) Allowable limit for repair and improvement cost of owned and used depreciable asset is raised to 7% of depreciation base.
-) No deductions are granted for the expenses that are of a domestic personal nature, income tax, government penalties costs in deriving exempt amounts or final withholding payment, dividends distributed by an entity, costs of a capital nature and cash payment above Rs50,000 under prescribed conditions.

2.3.9 Setoff, Carry Forward and Carry Back of Losses

-) Losses are deductible but are treated differently depending on whether they result from conducting a business or an investment and whether they are of domestic or foreign nature. Losses from a domestic business can be offset against all types and sources of income, whereas losses from a domestic investment can be offset only against any type of investment income.

Foreign losses can be offset only against foreign income. Foreign business losses can be offset against foreign business income or investment. Losses from foreign investment can only be offset against foreign investment income.

-) Unrelieved business losses of previous 7 years are allowed to carry forward.
-) In case of electricity projects involving in building power station, generating and transmitting electricity and the projects conducted by any entity so as to build public infrastructure, own, operate and transfer to the Government any unrelieved loss of the previous twelve years are allowed to carry forward.
-) If a person incurs a loss for an income-year from any banking and general insurance business, the person may carry back the loss and deduct it in calculating the income from the business for any of the five preceding income-years.
-) Special provisions exist in the Act on how to deal with losses incurred in conducting a business of global long-term contract.

2.3.10 Tax Accounting a and Timing

-) For tax purposes, a individual is required to maintain his accounts on a cash basis in calculating the individual's income from an employment or investment and a company is required to maintain its accounts on an accrual basis within the basic framework of generally accepted accounting principle (GAAP).
-) Bad debts are allowed to be written off if a debt claim of a bank or financial institution has become bad debt as determined in accordance with the prescribed standards.

-) Inclusions and deductions under a long-term contract are calculated according to the percentage of the contract completed during the year.

2.3.11 Quantification, Allocation and Characterization of Amounts

-) Cash payments are quantified as equivalent to the amount of transferred money or market value of the asset. In case of a kind payment, it is equivalent to the value of the benefit of the payment. Compensations, including payments under insurance for income and losses are to be included in the calculation of income from employment, business or investment.
-) Payments under an annuity, an installment sale or a finance lease are aggregated and the total is divided into a capital portion and an interest portion calculated according to the Act.
-) Finance lease has been defined either as an agreement with the transfer of ownership at the end of the agreement or the option of the lessee to purchase the leased asset for a fixed price, or a contract with a lease term exceeding 75 percent of the asset's useful life.
-) The Inland revenue Department is given the right to correct and re-characterize arrangements targeted at minimizing the taxable income or payable tax. This refers to indirect payments, transfer pricing and other arrangements between associates if the agreement has not been conducted at arm's length, cases where persons attempt to split income with other persons, arrangements carried out as part of a tax avoidance scheme or without any substantial economic effect or of which the form of the arrangement does not reflect its substance.

2.3. 12Capital Gain Tax

-) The Act has introduced capital gain. However, the Act does not cover all such gains i.e. only those gains, which are received from the disposal of

business assets or liabilities and those from the disposal of non-business assets of an investment of a person, which are regarded as chargeable and will be taxed accordingly.

- J Business assets comprise assets to the extent to which they are used in a business. Non-business chargeable assets mean securities or an interest in an entity as well as land and buildings. Both definitions exclude depreciable assets or trading stock. Not included in non-business chargeable assets are also private residences of an individual owned and lived in continuously for 3 years or more if they are not disposed of for more than Rs.10 million. Since profits and gains are different bases of taxations they need to be calculated separately.
- J The tax is imposed on the net gains, which are the total gains minus the total losses including unrelieved losses for the current income year and those from a previous income year, which can be carried forward forever. Gain or loss is defined as the difference between incoming and outgoing for the asset or liability.

2.3.13 Special Provisions for Individuals

- J A resident natural person and a resident spouse of the person may, by notice in writing, elect to be treated as a single individual for a particular income-year.
- J Each spouse of a couple making an election as above with respect to an income-year. is jointly and separately liable with the other spouse for any tax payable by the couple for the year.
- J A resident individual may claim a medical tax credit for an income-year not exceeding Rs. 750 for any approved medical costs paid by the individual him/herself or through others during the year in respect of the individual. Tax credit limit of Rs. 750/- is calculated by multiplying the total approved

medical cost by 15%. Any unrelieved medical costs are carried forward. Medical Tax Credit facility is equally applicable to all individual taxpayers.

2.3.14 Special Provisions for Entity

- J An entity is liable to tax separately from its beneficiary who is defined as any person having an interest in an entity. Unless stated otherwise in the Act, transactions between an entity and its managers and beneficiaries are recognized.
- J The profit of entities can either be retained or distributed to its beneficiaries such as shareholders. The entity can also repay capital or grant collateral benefits to them. Collateral benefit, which can be characterized as a kind of hidden distribution of profit. Distributions of profits and collateral benefits are dividends representing a return of interest in capital, and need to be distinguished from repayment of capital, which is the return of the capital itself. For that the Act provides a profit first rule saying that a distribution is a return of capital to the extent that it is not a distribution of profits. If the entity repays capital it is free of tax.
- J Dividends of a resident company are taxed to the company's shareholders in the form of a final withholding tax. The re-distribution of such taxed dividend is tax free. Dividends of a non-resident entity, which are distributed to a resident beneficiary, are taxed by inclusion in calculating the income of the beneficiary.
- J Besides these general provisions the Act contains detailed provisions for liquidations of entities, for dealings between an entity and a beneficiary, for changes in control of an entity and for dividend stripping.

2.3.15 Special Provisions for Retirement savings

- J The Act distinguishes between the treatment of approved and unapproved retirement fund. In case where a resident person files an application with

the Department intending to get approval for establishing a retirement fund, the Department shall pronounce the approval as prescribed.

-) An individual who is a beneficiary of an approved retirement fund may claim a reduction of retirement contributions made to the fund for an income-year. The limit of the claim is the lower of Rs300,000 or one third of his assessable income for the year. Contributions to an unapproved retirement fund are not deductible. The income of an approved retirement fund is free of tax where as an unapproved fund it-self is subject to full income tax.

2.3.16 International taxation

-) For taxation purposes, all payments and gains need to be considered on the basis of the source country. Details of the circumstances under which the source rules are defined are given in the Act.
-) Tax is imposed on the repatriated income of a foreign permanent establishment of a nonresident person situated in Nepal.
-) A non-resident person carrying on a business of chartered or air transport operator are taxed at a flat rate on their amounts derived from carriage of passengers, mail or goods which embark in Nepal. The provision is also applied to nonresident persons who transmit messages by any technical means if the apparatus is established in Nepal.
-) A tax credit may be claimed for any foreign income tax paid with respect to foreign source income. The tax credits are calculated separately for assessable foreign income sourced in each country and will not exceed the average rate of Nepal income tax applied to the assessable foreign income.

2.3.17 Administration and Documentation

The Department is charged with the responsibilities of administering the Act and the provisions thereto. The government is empowered to enact Rules. Accordingly, the Department may also issue public circulars serving the purpose to achieve consistency in the administration of the Act and to provide guidance to persons affected by the Act.

2.3.18 Company

Company means a company established under the company laws for the time being in force. Besides, the following institutions are also treated as company for tax purpose:

- a. *Corporate body* established under the laws for the time being in force.
- b. Any unincorporated association, committee, institution, society or group of persons other than a partnership or a proprietorship firm (whether or not registered) or a trust.
- c. A partnership firm (whether or not registered under the laws for the time being in force) that has 20 or more partners, a retirement fund, a co-operative, a unit trust, or a joint venture.
- d. Foreign company: and
- e. Any foreign institution prescribed by the Director General.

2.3.19 Individual

Individual means a natural person and proprietorship firm (whether registered or unregistered owned by the person) if any, and a couple making an election as single natural person under section 50.

2.3.20 Entity

Entity means the following institutions or organizations

- a. A partnership, trust, or company
- b. A V.D.C., Municipality or D.D.C.

- c. Government of Nepal.
- d. A foreign government or a political subdivision of the foreign government, or a public international organization established under treaty and
- e. A permanent establishment of an individual or an entity that is not situated in the country in which the individual or entity is resident.

2.3.21 Resident person

Resident person means

A. An individual

- i. whose normal place of abode is in Nepal;
- ii. who is present in Nepal for 183 days or more in any period of 365 consecutive days; or
- iii. Who is an employee or an official of Nepal Government Posted abroad at any time during the income year.

B. Any partnership.

C. In the case of trust, a trust that

- i. is established in Nepal;
- ii. has trustee that is a resident person for the income year or
- iii. Is controlled directly or through one or more interpose entities by a person or persons one of whom is a resident person for the income year.

D. In case of a company, a company that-

- i. is incorporated or formed under the laws of Nepal or
- ii. has its effective management in Nepal during the income year,

E. V.D.C. Municipality or D.D.C.

F. In case of a foreign government or a political subdivision of the foreign government, such an entity-

- i. if it is established under the laws of Nepal or
 - ii. Has its effective management in Nepal during the income year.
- G. Any institution or entity established under treat; and
- H. A foreign permanent establishment of a non resident person situated in Nepal.

A person who is not a resident person is considered as a non-resident

2.3.22 Partnership (Section 2 Ka. Pa)

Partnership means a firm (whether or not registered) that has fewer than 20 partners. However, the term does not include a proprietorship firm (Whether or not registered) or a joint venture.

2.3.23 Exempt Organization (Section 2 Dha)

Exempt organization means the following entities

- a. Following entities registered with IRD as tax-exempt entity
 - i. A social, religious, educational, or charitable organization of public character registered without having a profit motive.
 - ii. An amateur sporting association formed for the purpose of promoting social or sporting amenities not involving the acquisition of gain.
- b. A political party registered with the Election Commission.
- c. A V.D.C. Municipality or D.D.C.
- d. Nepal Rastra Bank.
- e. Government of Nepal.

However, any benefit acquired by any person out of assets of an amount derived by the entity except in pursuit of the entity's function or as payment for assets or services rendered to the entity by the person is not exempt from tax.

2.3.24 Retirement Fund (Section 2 Gha)

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

2.3.25 Retirement payment (Section 2 Nga)

Retirement payment means a payment to

- a. an individual in the event of the individual's retirement, or
- b. a dependent of an individual in the event of the individual's death.

2.3.26 Retirement contribution (Section 2 Cha)

Retirement contribution means a payment made to a retirement fund for the provision or future provision of retirement payments.

2.3.27 Business (Section 2 Ka. JA)

Business means an industry, a trade, a profession or the like isolated transaction with a business character and includes a past, present, or prospective business. However, the term does not include employment.

2.3.28 Investment (Section 2 Ka. Kha)

Investment means an act of possessing or investing one or more assets. But the term excludes act of holding assets for personal use by the person owning the asset and employment and business. However, the act of holding non-business chargeable assets is considered as an investment.

2.3.29 Employment (Section 2 Jna)

Employment includes a past present or prospective employment. It is the return for the provision of labour.

2.3.30 Casual Gain (sec 2 ka J)

2.3.31 Asset (Section 2 Ka. Dha)

Asset means a tangible or intangible asset. It includes currency, goodwill, know-how property and an owner's interest or ownership in foreign branch, a right to receive income whether present or future and part of such asset.

2.3.32 Trading Stock (Section 2 Ka. Yna)

Trading stock means assets owned by a person that are intended to be sold in the ordinary course of a business conducted by the person, work-in-progress on such assets, and inventories of materials to be incorporated into such assets. However, the term does not include a foreign currency asset. Motor cars of an automobile dealer are trading stocks, for example.

2.3.33 Business Asset (Section 2 Ka. Ta.):

Business asset means an asset to the extent to which it is used in a business. However, It excludes trading stock and a depreciable asset of business. A piece of land used in business is an example of a business asset.

2.3.34 Non-Business Chargeable Assets (Section 2 Da):

Non-business chargeable asset means securities or an interest in an entity as well as land and buildings However, it excludes the following assets:

- a. Business assets, depreciable assets or trading stock.
- b. A private residential house of an individual that has been owned continuously for at least three years and resident for a total period of at last three years either continuously or intermittently.
- c. Interest in a retirement fund of a beneficiary.
- d. A private residential house and land of an individual that is disposed in less than one crore rupees. or,
- e. Non-business assets of an individual that is disposed of by way of any type of transfer other than sales and purchase made within three generations.

2.3.35 Depreciable Asset

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

2.3.36 Associated persons

Associated person means two or more persons where one may reasonably be expected to act in accordance with the intentions of the other. It includes:

- a. An individual and relative of the individual or an individual and a partner of the individual.
- b. a foreign permanent establishment and its owner and
- c. an entity and a person who, either along or together either an associate or associates controls or may benefit from so percent or more of the rights to income, capital, or voting power of the entity, as the case required, either directly or through one or more interposed entities: or a person who is an associate of such person.

However, the term does not include employee and persons prescribed by the Department as not being associate persons.

2.3.37 Long- term contract

Long- term contract means such contract, the term of which exceeds 12 months.

2.3.38 Exempt Amounts, Concessions and Withholding Payments

Tax Exempt Amounts

The following amounts are exempt from tax as per section 10

- a. Amount derived by a person entitled to privileges under a bilateral or a multilateral treaty concluded between Nepal Government and a foreign country or an international organization.

- b. Amount derived by an individual from employment in the public service of the government of a foreign country provided that:
 - i. The individual is a resident person solely by reason of performing the employment or is a non- resident person; and
 - ii. The amounts are payable from the public funds of the country.
- c. Amounts derived from public fund of the foreign country by an individual who is not a citizen of a Nepal or by a member of the immediate family if the individual.
- d. Amounts derived by an individual who is not citizen of Nepal from employment by Nepal Government on terms of a tax exemption.
- e. Allowances paid by Nepal Government to widows, elder citizens or disabled individuals.
- f. Amounts derived by way of gift, bequest, inheritance, or scholarship except as required to be included in calculating income from business, employment or investment.
- g. Amount derived by an exempt organization by way of:
 - iii. Gifts (donation), or
 - iv. Other contributions that directly relate to the exempt organization. For example, subscription fee received by a club is exempt from tax.
 - v. Amount derived by Nepal Rastra Bank as per its objectives.
- h. Pension received by as Nepali citizen retired from the army or police service of a foreign country provided the amounts are payable from the public fund of that country.

2.3.39 Business Exemptions and Concessions

ITA 2058 has provided business exemptions and concessions in section 11.

- a. Any agriculture income derived from sources in Nepal by a person other than the following is exempt from tax.

- i. Income from an agriculture business derived by as registered firm, company, partnership or corporate body.
 - ii. Income through the land above the holding ceiling as prescribed in section 12 of Land Act 2021.
- b. Income derived by co-operative societies registered under Co-operative Act 2048 for business mainly based on agriculture and forest products and dividend distributed by such societies are exempted from tax.
- c. Any person operating special industry and It industry during the whole income year will be taxed as under:
 - i. If the industry is providing direct employment to 300 or more Nepalese citizens throughout the whole year, 90 % of the applicable tax rate (20 %) is applied for the year.
 - ii. The industry (special industry and IT industry) operating in remote, undeveloped, and underdeveloped area will have to pay 10%, 20%, and 30% of the applicable tax rate (20%) respectively up to ten income years commencing from and including the year in which the operation commences.
 - iii. If both exemptions are available to the same special industry for same income, only one exemption is available as per the selection made by the industry.
 - iv. if the assets used by the special industry were used previously by another person operating the similar type of special industry the ten year for the latter will be counted from the period of such use by the another person previously.
 - v. The incomes received under business exemptions and concessions should be calculated separately assuming that these incomes are received by separate person. That is, incomes received under business exemptions and concessions should be separated from other general business and investment incomes.

2.3.40 Withholding Payments

a. Withholding by Employers (Sec. 87)

Every resident employer is required to withhold tax at normal rate from a payment with a source in Nepal that is to be included in calculating income of an employee from the employment.

The obligation of an employer to withhold tax will not be reduced or extinguished because of the following.

- right or an obligation of the employer to deduct and withhold any other amount from the payment, or
- Any other law that provides that an employee's income from employment will not be reduced.

b. Withholding from Investment Returns and service fees(Sec. 88)

Where a resident person pays interest, natural resources payment, rent, royalty, service fees and retirement payment with a source in Nepal the person will withhold tax on the gross amount of the payment at the rate of 15 %

In case of retirement payment made by Nepal Government or approved retirement fund, gain calculated under Sec. 65.1(Kha) will be withheld tax @ 6%.

Where a resident person pays the following payments which has a source in Nepal, the person will withhold tax as follows:

- for dividend payment, 5 % of the payment amount
- For payment of gain from investment insurance, 5% of such gain.

- For payment of gain from unapproved retirement fund 10 % of such gain.

Where a resident bank, financial institution, other entity issuing debenture, or company listed under prevailing Act pays the following interest or any amount having a nature of interest to an individual with respect to deposit debenture, debt certificate and government bond will be required to withhold tax on the gross amount of the payment at the rate of 6 %.

- payment which as a source in Nepal; and
- Payment which is not received by the individual in the course of conducting a business.

c. Withholding from Contract Payments (Sec. 89)

A resident person who makes a payment under a contract including insurance premiums paid for general insurance that exceeds Rs.50, 000 will withhold tax on the gross amount of the payment at the rate of 1.5%

However, a resident person will be required to withhold tax from a payment to a nonresident person under a contract as follows:

- in the case where the Tax Department has notified the resident person in writing at the rate specified in the notice: or
- In any other case, 1.5 % on the gross amount of payment.

d. Final Withholding Payments (Sec. 92)

The following payments will be treated as final withholding payments:

- i. Dividends paid by a resident company.
- ii. Rent for the lease of land or a building and associated fittings and fixtures, having a source in Nepal, and that is received by an individual other than in conducting a business.
- iii. Payment made by resident person for gains from investment insurance.

- iv. Gain from unapproved retirement fund paid by a resident person.
- v. interest paid by a resident bank, financial institution, other entity issuing debenture or company listed under prevailing Act to the following ;
 - o that has source in Nepal and that is not received by the individual in the course of conducting a business
 - o Tax exempt entity.
- vi. Payments made to non-resident persons that are subject to withholding tax under section 87, 88, or 89.
- vii. retirement payments paid by Nepal Government or approved retirement fund,
- viii. Meeting allowance, payment for teaching not on regular basis.

2.4 Review of Concept of Tax Planning and legal provision in Nepal.

Planning is an important feature of all business enterprises whether big or small, old or new, private or public. The need for having a formal planning system in a company arises from the necessity of management to conduct the operations of the company efficiently and effectively. Corporate planning is necessary for the survival and growth of a company. Penning regards corporate planning as "A formal and systematic managerial process organized by responsibility, time and information to ensure that operational planning, project planning and strategic planning are carried out regularly to future of an enterprise"(Denning,1971).

Operational planning refers to the future planning of existing operations in existing market with existing customers. Project planning includes the general appraisal and working out the details of an action (Project) outside the scope of existing operations. Strategic planning is the process of formulating long-run objectives and deciding on the resources for achieving them. Corporate planning, thus, includes operational planning, project planning and strategic planning.

Basically, there are four ways of minimizing the tax liability, viz. tax evasion, tax avoidance, tax delinquency and tax planning.

2.4.1 Tax Evasion

Tax evasion involves hiding income illegally or concealing the particulars of income or a particular source or sources of income or manipulating the accounts to overstate expenditures and other outgoings and understate incomes with a view to reducing profit and thus the taxable income. Tax evasion is, therefore, illegal, unethical, and uneconomic as well."(Poudyal: 1998)

Tax evasion means reduction of tax through illegal means. It is done through different ways like non-reporting income, underreporting of income, making fraudulent changes in account books, maintaining multiple sets of accounts, operating business transactions under different names, opening bank account in dummy name, over-reporting of expenses, fragmentation of income, transfer pricing etc. tax evasion is unethical, illegal and uneconomic activity also. It is unethical because the activity of not paying tax is against moral ethics. It is illegal because the law does not permit to evade the tax. In the same way, it is uneconomic because it promotes black money i.e. underground economy in a country. Such types of activities do not promote healthy economic system in the country.

Basically, there are three types of effects of tax evasion in the economy, i.e. less or revenue to the state, redistribution of income which affects the efficiency of resource allocation in the economy and creating wrong statistics leading to errors in government policies. Tax factors include tax rate, tax base, tax structure, penalty and possibility of applying penalty if evasion is detected. Mainly, tax factors are more concerned with the tax evasion on income from legal activities. There are several types of tax evasion- unilateral (tax payer himself), bilateral (with the connivance or assistance of government official), trilateral (from the collusion of tax officers, tax auditors and tax payer) and multilateral (all parties

from government to taxpayer). In a work of tax evasion, it is very difficult to choose between businessmen, professional, a person in service, or a politician who is not a tax evader. (Kandel:2003: 148-149).

2.4.2 Tax Avoidance

As regards tax avoidance, GSA Wheat craft says" Tax avoidance is the art of dodging tax without actually breaking the law" it is a method of reducing tax liability by taking advantages of certain loopholes in the tax laws. Wheat craft analyses tax avoidance as a transaction, which would not be adopted if the tax saving elements were absent. Therefore, tax avoidance involves (a) a transaction entered into avoid tax and with full legal backing, and (b) a transaction which the legislature would not intend to encourage (Srinivas: 1989:2). The following are the criteria used by English and Indian court to find out tax avoidance.

- Use of colorable devices.
- Twisting of facts.
- Taking only strict spirit of law and suppressing the legislative intend.

Tax avoidance is the reduction of tax liability through the manipulation of existing law. It is legally permissible but unethical. Sec. 35 of the Income Tax Act 2058 has defined tax avoidance as any means or arrangement, one of the main purposes of which is the avoidance or reduction of tax liability.

2.4.3 Tax Delinquency

Tax delinquency is also one way of reducing tax liabilities. In this case, the liability is reduced in respect value by deferring the payment. Although tax delinquency means the failure to pay tax due to lack of sufficient fund, it also covers non-payment at the time of having fund. It is a temporary deceiving of tax by the taxpayer although he cannot escape in the long-term (Kandel: 2012:376).

2.4.4 Tax Planning

Tax planning is the art and science of planning the company's operations in such a way as to attract the minimum liability to tax with the help of various concessions,

allowances and relief's provided for in the tax laws. As such, the basic purpose of corporate tax planning is to reduce or postpone the overall tax burden in the present and foreseeable future. Tax planning is a discipline and an attitude towards solving the corporate problems in a methodical way from a long-run point of view (paudyal: 1998:2).

The correct approach in regard to tax planning has been formulated by Rangnath Mishra, a supreme court Justice of India, in the case of M. C. Dowell (Supra) in the following words; tax planning may be legitimate provided it is within the framework of law. Colorable devices cannot be part of tax planning and it is wrong to encourage or entertain the belief that it is honorable to avoid the payment of tax by resorting to dubious methods. It is the obligation of every citizen to pay tax honestly without resorting to subterfuges"(Pandey: 1994:).

Tax planning requires intelligent and well thought out strategy to reduce or postpone tax liability in the present and foreseeable future with stress on being honest, responsible and trustworthy citizen (Ibid).Indian Supreme Court judge RangaNath Mishra on the case Mc Dowell and company Vs CTO says, "Tax planning may be legitimate provided it is within framework of law. Colorable devices cannot be part of tax planning and it is wrong to encourage or entertain the belief that it is honorable to avoid payment of tax by resorting to dubious method"(Kandel: 2012:376-377).

Tax planning is a scientific planning of company operations. It is economic, legal and ethical activity, it is the use of various incentives, concessions, allowances rebates etc. and it is an activity related to future. It has the objectives of (a) reduction of tax liabilities, (b) minimization of litigation (c) productive investment (d) healthy growth of the economy and (e) economic stability.

Features and Important of Tax Planning

Features:

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

Importance:

- Tax planning saves tax and increases profitability.
- It avoids unnecessary worries. Tensions and administrative hassles.
- It helps in using the facilities provided by the government.
- It helps in increasing working capital.
- It helps in analysis of risk.
- It creates easiness in day-to-day work.
- It creates good business environment.
- It helps in development of manpower (Kandel: 2012:379).
- There are three broad areas of corporate planning viz. strategic planning, project planning and operational planning. Tax consideration is required to be given in each of these planning areas in order to minimize tax liability.
A brief description of these planning areas is as under.

Strategic Planning

Strategic planning is the process of formulating long-term objectives and deciding on the resources for attaining them. Determination of corporate objectives and goals is the starting point of the process. The objective may represent a set of goals

to be achieved and the task for which a company exists. Formulation of strategies and policies aims at attaining the corporate objectives and goals. A company cannot and should not set for itself a goal of maximizing profits in utter disregard of tax concessions, companies not only reduce their tax liability, but also maximize profit after tax. Strategic planning relates to the strategic decisions such as choice of business, location of company, selection of organizational form, selection of product, merger, selection of sources of capital, selection of the method of production, etc. special tax benefits available under the Income Tax Act and Industrial Enterprises Act for the business falling under 'priority Industrially backward areas, or amalgamating a good unit into a bad unit cannot and should not be overlooked. Tax planning in strategic decisions not only benefits the company in minimizing its tax liability, but it also contributes to the accomplishment of social and economic objectives behind forming of such tax provisions by the government.

Project Planning

Project planning is the performance, appraisal and working out of details of an action outside the scope of existing operations. Such an action is capable of an independent analysis and control, e.g. new investment in plant and machinery for making additions, modernization or renovation. Various ongoing project of a business are directly or indirectly related with the corporate objectives, goals and strategic. When a company is considering project/ programmers of any area of project planning, it becomes necessary to consider tax factor. Taxation law invites companies to avail of the benefits and concessions provided within the framework of existing rules and regulations. For instance, while deciding about projects involving new investment in fixed assets, tax concessions/ allowances such as investment allowance, depreciation allowance, rehabilitation allowance, tax holiday, etc, must be considered.

Scope of Tax Planning under Income Tax Act, 2058

Businessperson performs two types of activities related to investment. One affects for the long time and other affects for the short time only. The first type is related to strategic planning and the second one to operational planning. Both of these activities have implications on tax related matters. Some of the provisions of the income Tax Act 2002 which can be considered as the avenues of tax planning in both the long run Planning are as follows:

i. Selection of Business type as Per the ITA-2058

The rate of corporate income tax for manufacturing sector is 20 percent, for financial sector 30 and for other sectors 25 percent. This means, there are differences in tax rates applicable to different sectors of the economy. The difference are created to promote the manufacturing sector of the economy and thus to create employment to the people. But equally important is the fact that this difference induces tax planning. Other things remaining the same, an investor selects manufacturing sector because the tax rate applicable to this sector is low. In the same way, as per the sec. 11 of the Act, the agriculture business conducted individually is out of tax net, the cooperatives situated in rural areas are tax-free. Even the dividend distributed by such organizations is out of the scope of taxation. That means, an investor can save money by investing in above stated agriculture sector or cooperative business. Such saving of tax is neither illegal nor unethical. It was found from one survey that 90 percent of the business firms consider tax factor while selecting the line of business (Corporate Tax Planning in Nepal, Karna B. Paudyal, 1998) as per the section 15 of the Industrial Enterprise Act 2049, there is a provision to return to the taxpayer the value added tax paid by the units that export their products or sell them to export promotion houses, by the units earning foreign exchange. Logically, investors select these types of enterprises.

ii. Nature of the business as per the ITA 2058:

Certain business is preferentially treated as regards to income tax rates. For example, firms related to hydropower, road, bridge, tunnel, ropeway, flying bridge, trolley bus should pay 20 percent tax where as firms in petroleum industry and financial business should pay 30 percent tax. There are differences also in loss recovery period. It covers seven years for build, operate and transfer (BOT) projects and four years for others. Furthermore, carry back facility is also given to banking and insurance business. Thus, from the point of view of tax rates and loss recovery periods, certain types of business are given special facility giving the inducement for tax planning.

iii. Planning of Organizational Structure

Proprietorship firms get exemption facility of Rs. 2, 00,000 if the owner is an individual and Rs. 2,50,000 if the owner has a family. But a company or a partnership organization does not get this exemption. Progressive tax rate is applicable to proprietorship firm but a fixed tax rate is applicable to a company. A company's profits are taxed twice (i.e. once from the profit of the company and then from the dividend received by the individual shareholder) whereas proprietorship does not have to pay such double taxation. In addition, individual owners of vehicles that are for the hire have to pay a nominal income tax (Rs. 1,500 for truck/bus, Rs 1,200 for car/jeep etc. per year) which is full and final irrespective of the actual income. All these discriminations encourage selection of proprietorship form of business organization.

iv. Physical Location Planning :

The provisions under the Income Tax Act 2058 and Industrial Enterprise Act 2049 as regards to location of business help in tax planning. For example, in remote area, an individual can avail of remote area allowance of up to Rs. 50,000. Business established in remote, undeveloped and under developed area should pay only 70 percent, 75 percent and 80 percent of the normally applicable tax rate. The scope of planning is enhanced due to provision of applying different amounts of

taxes to firms situated on different types of cities also. Business having up to Rs. 2 million as annual transaction or Rs. 200000 as income should pay only Rs. 3500 as tax if situated in a metropolitan city or sub metropolitan city. Business of the same nature in municipality should pay Rs. 2000 and other place Rs. 1500 .

v. Merger:

There are certain techniques that help in minimizing the tax by way of merger of a firm with another. Due to the scope of tax planning through merger, the businesspersons consider status of the firm before merging. One of the techniques is merging of a non-manufacturing unit into a manufacturing (e.g. a firm related to trading) unit. According to Income Tax Act, 2058, trading business has the liability of paying 25 percent as corporate tax whereas a manufacturing firm should pay only 20 percent. Thus, by integrating non-industrial and industrial units, a firm can save some furthermore, merging of loss-making unit. The provision of loss recovery period given by the new Income Tax Act can be helpful in minimizing the tax liability of such firm.

vi. Capital Structure Planning:

We know there are three sources of capital, viz. share capital, debenture or loan and retained earnings. The rewards for share capital, debenture or loan and retained earnings are dividend, interest and capital gain respectively. In Nepal, the tax rates applicable to return on each of these sources of capital are different. Interest is taxed at 6 percent but dividend is taxed at 5 percent. In case capital gain, the tax rate is 10 percent for gain on the sale of non-business chargeable assets whereas the profit from the sale of other assets is taxed at normal rate i.e. 20 percent, 30 percent and 25 percent for manufacturing firms, financial firms and others respectively. This means, tax rates on the return on new capital and loan are lower than the tax rate on retention. Accordingly, interest to a business organization is a deductible expense (Sec. 14) but dividend and capital gain are not. Naturally, this means more favorable treatment to debenture or loan than to

the new capital and retained earnings. This obviously, creates the scope of tax planning employing more loan than new share capital and retained earnings. Since income tax act, 2002 also has favored debt; making interest a tax-deductible expense, the firm can plan tax by utilizing more debenture or loan than other forms of capital. In Nepali context, it was found that 76% of the executive preferred increase in debt in the capital structure with every increase in the tax rate (Poudyal, 1998), through from another survey conducted by the author of this article, it was found that the average debt equity ratio in Nepali business is only 40:60. Normally the discount provided while issuing share capital is capital expenditure and it can be written off only as depreciation. This also induces firms to resort to loan or debenture route to save on the tax.

vii. Employment Decision

The number of employees can be used for the purpose of tax planning. In special industry and Information Technology (IT) industry providing direct employment to 300 or more Nepalese citizen throughout the income year are taxed at 90% of the applicable tax rate on that year's income. In case special industry providing direct employment to 1200 or more Nepalese citizen throughout the income year are taxed at 80% of the applicable tax rate on that year's income. In case special industry providing direct employment to more than 100 Nepalese citizens including at least 33% women, downtrodden (Dalit), or the handicapped (Apanga) throughout the income year are taxed at 80% of the applicable tax rate on that year's income.

viii. Planning for Make or Buy Decision:

There are two methods of acquiring fixed assets of a firm: leasing and buying. If assets are purchase, the firm gets depreciation facility as per the Income Tax Act as it is taken as capital expenditure. If the asset is leased, the rent is taken as revenue expenditure and is allowed to deduct as expense. If fixed asset is purchased through borrowing, the interest on capital can be deducted as

expenditure. While 100 percent of the rent on the leased asset is allowed in each year as expenditure, this is not so in case of the outlay made the procurement of a machine, in which case only depreciation is allowed. Therefore, leasing is beneficial than buying machine. But in case of building, buying is more advantages than the construction if depreciation is allowed for the combined cost (i.e. both for land and building). In construction, depreciation is allowed only on building not on land. Accordingly, between constructing a building and leasing it, the latter is more beneficial option because it will make the firm able to claim the entire rent of land and building as expenditure. If a road or hospital is to be constructed by a company, it would be better to donate the fund to central or local government and make them construct the road or hospital since this entire amount can be written off as expenditure under donation head itself in the year of donation remaining within the limit of donation. If the firm itself constructs the road, it can be deducted by way of depreciation, which writes off only one part of the expenditure in a year. It means decrease in the present value.

ix. Repair & Improvement Planning (Sec. 16):

There are two types of expenditures, i.e., capital expenditure and revenue expenditure. Capital expenditure is taken as fixed assets creation and is authorized to have depreciation claim only in future. The expenditure that increases the longevity, capacity or price of the asset is included within capital expenditure. On the other hand, revenue expenditure is treated as current expenditure and is allowed to be debited in profit and loss account in the current year. Contrary to this universally accepted principle, Income Tax Act, 2058 has treated all the repair expenditure (Whether capital or revenue) uniformly. As per the Act, if the repair expenditure is not more than seven percent of the depreciation base of the concerned pool of assets, it is allowed as expenditure in the year of occurrence. If the amount spent on repair is more than seven percent of the depreciation base of

the concerned pool of assets. Considering this provision given in the Act. The taxpayer can plan his expenditure on repair and maintenance.

x. Loss Recovery:

Loss from foreign source investment can be recovered from gain from foreign source investment.

1. Loss related to nontaxable source can be recovered from income from nontaxable source.
2. Loss from foreign source business can be recovered from foreign gain from investment and business.
3. Loss from investment in Nepal can be recovered from gain on investment in Nepal and foreign country.
4. Loss from the business in Nepal can be covered from gain on business and investment in Nepal and foreign source.
5. Loss can be recovered from the profit of the next four years but it is 7 years for infrastructure project.

Carry back to insurance and banking business up to 5 years is also the provision of the prevailing tax act. All these mean that the investor can plan to recover the losses by minimizing the tax liability as far as possible.

xi. Planning for Pollution Control cost(Sec. 17):

Pollution control expenditure is another area where management can legally save tax. Here, it should be noted that as per the income Tax Act, 2002 up to fifty percent of the taxable income before deducting pollution control device expense; research and development expenses and donation expenses could be claimed as expenditure. That means, pollution control expense in excess of 50 percent of

adjusted taxable income can be capitalized and written off as depreciation in future.

xii. Planning for R&D cost (Sec. 18):

Research is very important to a firm to sustain in the market. That is why tax law treats research and development expenses as allowable expenditure. Income Tax Act, 2058 too has made this provision but in somewhat miserly way. Only up to 50% of adjusted taxable income can be taken as regular expenditure on R & D of the investment year. The remaining amount should be carried forward and written off in future as depreciation related to research and development expenditure.

xiii. Planning for Donation (Sec. 12 and Sec. 12 ka):

A taxpayer can deduct the donation made to tax-exempt organization in any income year. Approved by Inland Revenue Department, is allowed for reduction from taxable income. Reductions allowed to an individual or an entity will not exceed Rs 100000 or 5% of adjusted taxable income. However, the government of Nepal may prescribe, publishing a notice in the Nepal Gazette, as to allow full or partial deduction of expenses incurred for special purpose at the time of assessing income.

Expenses incurred by a company for the protection and promotion of ancient, religious and cultural heritage located in Nepal and for building public physical infrastructure of sports are allowed for reduction with a pre-approval of Inland Revenue Department up to 10 lakhs or 10% of assessable income or actual, whichever is lowest.

xiv. Others:

Besides those stated above, there are other provisions in the tax law, which also help in minimizing tax liability of a person. For example, in case of individual, there are provisions of remote area allowance, meal and Tiffin expenses, contribution to retirement fund in case of remote area retirement fund, medical tax

credit, prerequisites like residence facility and vehicle facility etc. which can be managed to reduce the tax liability(Kandel:2003).

2.5 Review of Related Studies

Under this section various theses related to this study have been reviewed. These are as follows:

- ***Mr. Karna Beer PoudyalKshatry(1998) has studied entitled with "Corporate Tax Planning in Nepal"*** in his PhD. research. From his study he found that Tax incentives in the form of tax concessions, exemptions and deductions have been an important feature of the Nepalese corporate tax system. These incentives have been introduced from time to time to promote economic growth by mobilizing savings and their investment according to plan priorities of Nepal Government. Like other developing nations, Income Tax Act and Industrial Enterprises Act of Nepal also offer certain common incentives like tax holiday, extra-shift and initial depreciation allowance, and tax exemption on income from export business, tax concessions to companies located in industrially backward areas and so on.

Nepalese companies in general consider tax factor while making strategic decisions such as capital structure, selection of the line nature of business, location of the company, form of business organization, amalgamation/mergers etc. his foregoing discussion shows that the majority of the companies did consider tax factor.

The amount of corporate tax also increased with the increase in new capital formation. This is true particularly in small and Medium Sized Companies. But in large companies, there existed negative correlation between the additional capital formation and the amount of corporate tax. This was soon accounting of declining profitability of large companies rather than on

account of efficient tax planning. Similarly, while the amount of corporate tax increased with the increase in new capital formation in the private sector, the opposite of this was true in the case of public sector companies. Here, the profitability of the public sector companies was the main cause of decline in corporate tax as percentage of fixed assets rather than efficient tax planning. What discouraging is that there are some companies which did not consider tax factor in project planning.

Operation planning is no less important than strategic planning and project planning. It is related to the short-term objectives and policies and it is concerned with the routine business operation. It is concerned with the routine business operations and decisions such as depreciation, marketing decision and maintenance of proper books of accounts etc. all of which are directly or indirectly influenced by tax consideration. However, there were still some companies, which had not considered tax factor in one or more areas of operational planning.

- ***Puspa Raj Kandel(2000),has studied on "Corporate Tax system and Investment Behavior in Nepal"***, in PHD. research. He found that the effective tax rates for debt financed project are almost negative whereas the same for equity financed projects are positive and for more higher than the debt financed one. In aggregate, the effective tax rates are 17% for debt financed project, 27% for equity financed project and 19% for 40:60 debt equity ratio projects in terms of Gross of tax rate of return to the investor. In terms of total return, they are -7%, 1.6% and 3.2% respectively for debt finance, mix finance and equity finance. The effective corporate tax rate goes on increasing whenever the corporate body moves from debt financing to equity financing. In contrast, the effective personal tax rate increases with the move of the firm from equity financing to debt financing. The main reasons of happening so are the interest and dividend. For corporate

sector, interest is deductible expense but the dividend is not. That is why, the effective corporate tax rate goes on increasing with the decrease in the ratio of debt in total capital structure for personal sector and interest taxed at 6% in Nepal but dividend of industrial sector is not. This means, there is lower effective personal tax rate whenever the ratio of debt in total capital structure decreases.

Corporate tax burden –whether positive or negative according to current tax related laws on marginal investment is of taxpaying corporate bodies in Nepal is not much high or low under all financing options-debt, mix and equity. Statutory rate of tax at present is not much decorative. However there is room for improvement regarding selection of depreciation rates, stock valuation method, treatment of inflation, treatment of preliminary expenses, developing economic life of assets, selection of incentive system and so forth to make the Nepalese tax system sound. He further added the analysis of the responses of corporate bodies also shows majority of the investors do not want to invest in present situation in Nepal. The main reasons for this are the non-availability of market, inflicting behavior of tax administrators, their discretionary power and the defective tax laws.

Pokhrel (2007), has written thesis entitled “Evaluation of existing tax incentive plan for Industrial Sector under Income Tax Act,2058”. From the study following objectives and major findings has been drawn out.

Objectives:

-) To examine and analyze the tax incentives provided by ITA 2058.
-) To view the tax planning implementation in Nepal.
-) To examine and analyze the effectiveness of tax incentives and facilities to industries.

Major Findings:

-) Tax planning is a tool of reducing financial burden. The industrialist can understand the term tax planning and they imagine that tax planning minimizes the tax amount or tax burden to be paid to government. It also signifies that various industrial organization have planned tax.
-) Tax incentives and tax planning are closely related each other and they have positive correlation because tax incentive encourages tax planning.
-) Additional tax incentives are required to increase the scope of tax planning to encourage export industries, to highlight the agro based industries, to stabilize the tourism industries, further incentive are needed.
-) The industries, which have contributed significantly in respect of economic growth, employment and income distribution, should be rewarded e.g. tax rebate, tax holidays, financial reward, loan facilities etc.
-) 10 years tax rebate i.e. tax holidays to industries established in various region of the country. Tax rebate and rate of depreciation should be increased.

Khanal (2008), in his thesis entitled “ A Study on the Applicability of Tax Planning in Nepal” , He describes about the existing tax planning system in Nepal. From this study following objectives and major findings of the study had been drawn out.

Objectives:

-) To study the concept of Tax planning.
-) To examine the use of tax planning in Nepalese organization.
-) To provide suggestion to Nepalese orgation to use tax planning.

Major findings:

-) Tax planning has been most essential alternative of reduce tax liability for tax payers and most essential alternative of tax evasion, tax avoidance and tax delinquency for the government.

-) Most of the businessman and respondents are lacked with the concept of the tax planning. They are facing problems of how to reduce tax liability in legal way.
-) The concept of tax planning is technical, analytical, comparative and strategic to use in practical lives. So, the performance of tax planning depends on the skill, knowledge and experience of the manpower.
-) Existing nature of taxable revenue in Nepal has been still been in poor enough revenue according to the plan made on theory.
-) 30% respondents said that tax planning is being misused as tax evasion and tax avoidance, 50% of them said is not being misused as evasion and avoidance , 20% of them answered that they have no idea and experience about tax planning being misused as tax evasion and avoidance in Nepal.

Adhikari (2011) conducted a study entitled “ A Study on Corporation Income Tax in Nepal”. The objectives of his study were:

-) To study and evaluate the status of income tax as major source of revenue.
-) To examine the Nepalese income tax structure.
-) To review and analyze the trend of income tax collection and tax revenue.
-) To identify the factors to increase the paying habit of income tax payer.
-) To evaluate the problems of income tax management and provide suggestions to the concerned on the basis of study findings.

He has found that:

-) The share of tax revenue has always been greater than the share of non tax revenue.
-) The contribution of indirect tax has been always greater than direct tax revenue during the study period from 2000/01 to 2010/11
-) Income tax is and important sources of direct tax.

Shrestha (2012), in this thesis “ An Analysis of tax incentives and its effect on Tax Planning For Industrial sector Under Income tax Act,2058” has highlighted some problems in implementation of income tax act 2002, His objectives for the research and findings of the research is given below.

Objectives:

-) To analyze and examine the tax incentives provided by ITA 2058 to industries.
-) To analyze the tax planning practices and its problems in industrial sector of Nepal
-) To examine the effect of tax incentives on tax planning in industrial sector of Nepal

Major Findings:

-) The tax incentives & facilities provided by ITA 2058 seems to be sufficient, however, further incentives and scientific dealings are still required.
-) Tax incentives and tax planning are positively correlated. That means tax incentives encourage the tax planning.
-) The main reasons that the tax planning is not widely used in Nepal are tax administration is not cooperative, tax planning is lengthy and costly, and people are not aware about tax planning.
-) There is no clear provision in ITA 2058 regarding tax planning
-) Tax concession of 25% ,30% and 50% granted to the industries established in the underdeveloped, undeveloped and remote areas respectively Is not enough and it should be increased.
-) Tax holidays to industries established in various region of the country or tax rebate and rate of depreciation should be increased.

2.6 Research Gap

There is the gap between the present research and the previous researches conducted on tax planning. They were either a case study of a particular sector, Focused on the contribution of various income in the different government revenue structure of government revenue and the contribution of income tax in government revenue or a comparative study of two different companies. The findings of the previous researches were mostly based on the secondary data. The previous researches did not disclose which of the tax planning tools are mostly practiced and which are not and why? Thus, to fill up these gaps the current research is conducted. This research is a survey type of research. It is completely based on the primary sources of data. It examines the current practice of tax planning tools in the listed companies of Nepal, it has disclosed the reason about the tools which are not practicing by the companies and has suggested applying new tools. Market survey in managerial activities of planning, controlling & decision making probably this might be the first research study carried on this topic in Nepal.

CHAPTER - III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the way to solve systematically about the research problem (Kothari: 1990:39). This is a procedure of planned framework for the research study dealing with the research design, nature of the data, data gathering procedure, population and sample and data processing procedures.

3.2 Research design

“Research design is the plan structure, and strategy of investigation conceived so as to obtain answers to research questions and to control variance”(Kerlinger:1986: 215).

As per the nature of the study, survey research design has been followed with descriptive and analytical approach.

3.3 Sources of Data

Data has been mainly collected from the primary sources which are collected through questionnaire, interview and discussion method. Side by side a few secondary data collected from books, Journals and research reports.

3.4 Population and sampling

All the companies listed in the stock exchange were considered has the total population (N). Out of them, the companies which where in existence and head office located in Kathmandu valley is consider as the target population far the study.

Out of the target population, sample has been taken for the convenience of the study.

3.5 Sample size

Sample size has been covered at least one and minimum 10 percent from each categories of listed companies only.

Classification of Listed companies

Table 1 : Classification of Listed Companies

S.N.	Categories	Total No. of Companies	No. of Sample	%
1	Commercial Banks	30	4	13.00
2	Development Banks	87	6	6.89
3	Financial Companies	76	8	10.52
4	Insurance Companies	25	2	8.00
5	Hotels	10	2	20.00
6	Mfg. , Processing and Hydropower Companies.	68	7	10.29
7	Trading Companies	4	1	25.00
8	Others	6	1	16.67
Total		306	31	10.13

Sources: Annual Report 2013/14, Securities Board of Nepal

3.6 Data gathering procedure

As mentioned above, the study is based on primary data only the information were collected by developing a scheduled questionnaire and distributing it to managers as well as finance chief. For the purpose some of the objective types (tick marks) and some of the open-end questions were included in the questionnaire.

To get more reliable information some unstructured questionnaire also use with the managers and finance chief, like wise discussion method is also conduct.

3.7 Data processing and Analyzing procedure

Data collected from questionnaire was in raw form. Firstly, they has been classified in to related cauterized then after it has been tabulated, re-tabulated and presented in to graph in the required format.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction

The basic objective of the study is to examine the present practice of Tax Planning tools in the Nepalese listed companies and to identify the area where Tax Planning tools could be applied to strengthen the company. This chapter presents the analysis and interpretation of the data.

To meet the objectives, all the listed companies having head office or contact office in Kathmandu valley who were in operation were taken as target population. The companies are categorized into eight groups as done by the stock exchange which is used as strata for the study. Stratified sampling with proportionate allocation of 10.13% (i.e. 31 companies) was made for the study.

Questionnaires are distributed to more than 40 companies out of which responses could be received from 31 companies. Besides questionnaires, discussions are also made with General Managers, Finance Chief and Account Chief of the companies to get more information about the present practice of Tax Planning Tools. Views of managers, accountants, and Finance Chiefs are also included in this chapter.

Raw data are properly processed, tabulated and analyzed. They are presented into 18 tables. Tables are developed based on question asked; open-ended questions are arranged in a descriptive way.

4.2 Percentage Analysis of Tax Planning Practice in Nepalese Companies

Table 2 : Practice of various Tax Planning Tools in the Nepalese Companies

S.N.	Tools Companies	Capital Structure Decision			Acquisition of Fixed Assets			Repair & Improvement Cost		
		No. of Sample	No. of Practitioner	%	No. of Sample	No. of Practitioner	%	No. of Sample	No. of Practitioner	%
1	Commercial Banks	4	4	100.00	4	3	75.00	4	2	50.00
2	Development Banks	6	6	100.00	6	3	50.00	6	2	33.33
3	Financial Companies	8	8	100.00	8	5	62.50	8	2	25.00
4	Insurance Companies	2	2	100.00	2	1	50.00	2	1	50.00
5	Hotels	2	2	100.00	2	2	100.00	2	0	00.00
6	Mfg. , Processing and Hydropower Companies	7	4	57.14.	7	7	100.00	7	4	50.00
7	Trading Companies	1	0	00.00	1	1	100.00	1	0	00.00
8	Others	1	1	100.00	1	1	100.00	1	0	00.00
Total		31	27	87.09	31	23	74.19	31	11	35.48

Source: field study 2013/14

S. N.	Tools Companies	Pollution Control Decision			Research and Development Decision			Donation Decision		
		No. of Sample	No. of Practitioner	%	No. of Sample	No. of Practitioner	%	No. of Sample	No. of Practitioner	%
1	Commercial Banks	4	0	0.00	4	3	75.00	4	1	25.00
2	Development Banks	6	0	0.00	6	3	50.00	6	2	33.33
3	Financial Companies	8	0	0.00	8	3	37.50	8	2	25.00
4	Insurance Companies	2	0	0.00	2	1	50.00	2	1	50.00
5	Hotels	2	2	100.00	2	2	100.00	2	0	0.00
6	Mfg. , Processing and Hydropower Companies	7	4	57.14	7	7	100.00	7	0	0.00
7	Trading Companies	1	0	0.00	1	1	100.00	1	0	0.00
8	Others	1	0	0.00	1	1	100.00	1	0	0.00
Total		31	6	19.35	31	21	67.74	31	6	19.35

Source: field study 2013/14

S. N.	Tools Companies	Employment Decision			Location of Industrial Setup			Timing of Activity		
		No. of Sample	No. of Practitioner	%	No. of Sample	No. of Practitioner	%	No. of Sample	No. of Practitioner	%
1	Commercial Banks	4	4	100.00	4	1	25.00	4	3	75.00
2	Development Banks	6	3	50.00	6	2	33.33	6	2	33.33
3	Financial Companies	8	3	37,5	8	2	25.00	8	4	50.00
4	Insurance Companies	2	1	50.00	2	1	50.00	2	0	0.00
5	Hotels	2	2	100.00	1	1	100.00	2	2	100.00
6	Mfg. , Processing and Hydropower Companies	7	0	0.00	7	7	100.00	7	7	100.00
7	Trading Companies	1	0	0.00	1	0	0.00	1	0	0.00
8	Others	1	0	0.00	1	0	0.00	1	0	0.00
Total		31	13	41.94	31	14	45.16	31	18	58.06

Source: field study 2013/14

Table 3 : Percentage of implementing tax planning

S.N	Tools	Percentage
1	Capital Structure Decision	87.09
2	Acquisition of Fixed Assets	74.19
3	Repair & Improvement Cost	35.48
4	Pollution Control Decision	19.35
5	Research and Development Decision	67.74
6	Donation Decision	19.35
7	Employment Decision	41.94
8	Location of Industrial Setup	45.16
9	Timing of Activities	58.06

Source : Table 2

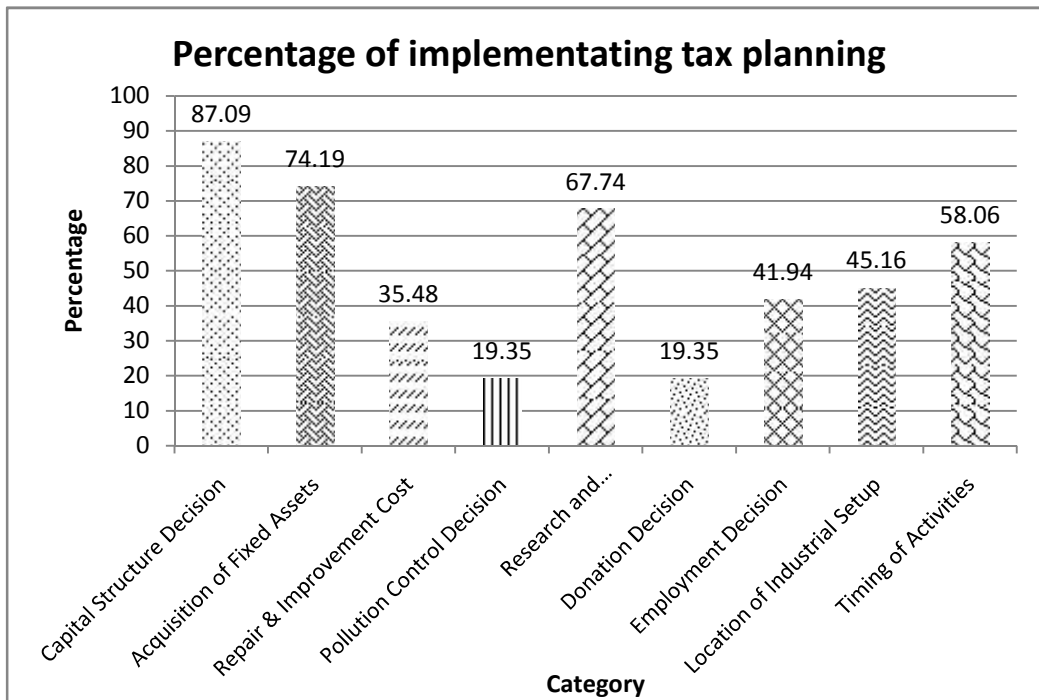


Figure 1 : Percentage of implementing tax planning

The above table 2 and 3 shows that the implementation of tax planning in the Nepalese listed companies. Tools of Tax planning practiced by different companies have been expressed in percentage.

From the above table, in the case of commercial banking companies it is observed that 100 % of the companies are implementing the tools of Capital Structure and Employment Decision, 75% of the companies are found practicing the tools of acquisition Fixed Assets, Research and Development and Timing of Activity, 50% of the companies are found practicing the tool Repair and Improvement, likewise 25% of Donation and Location of Industrial Setup, and none of the companies are practicing the tool of pollution control.

Similarly, in the case of Development Banking Companies, 100% of the sampled companies are implementing the tools like Capital Structure, 50% of the companies implementing the tools like Acquisition of Fixed Assets ,Research and Development and Employment Decision, 33.33% of the companies are practicing the tools like Repair and Improvement, Donation Decision, Location of Industrial Setup and Timing of Activity. None of the companies are planning the Pollution Control cost.

Regarding to Financial Companies, 100% of the sampled companies are implementing the tool Capital Structure Decision, 62.50% of the companies are implementing Acquisition of Fixed Assets.50% of the companies are implementing Timing of Activity. 37.50% of the companies are implementing Research and Development and Employment decision, 25% of the companies are implementing the tool Repair & Improvement, Donation, and Location of Industrial Setup and none of the companies are planning the Pollution Control tool.

Likewise among Insurance Companies, 100% of the sampled companies are practicing the tool Capital Structure, 50 % of the companies are practicing the tools like Acquiring Fixed Assets, Repair and Improvement, Research & Development, Donation Decision, Employment Decision and Location of Industrial Setup. And none of the companies are practicing the tool Pollution Control Cost and Timing of Activities.

In the Case of Hotel Companies, 100% of the sampled companies are implementing the tools like Capital Structure, Acquiring Fixed Assets, Pollution Control, Research & Development, Employment Decision, Location of Industrial Setup, & Timing of Activities and none of the companies are practicing the tool Repair & Improvement Cost and Donation Decision.

In the case of Manufacturing and Processing Companies, 100% of the Companies are implementing the tools Acquisition of Fixed Assets, Research & Development, Location of Industrial Setup & Timing of Activities, 57.14% of the companies are practicing the tools like Capital Structure Decision, Repair & Improvement, and Pollution Control. None of the companies are practicing the tool Donation Decision and Employment Decision.

In Trading Companies, 100% of the sampled companies are practicing the tools acquiring the Fixed Assets, Research & Development. None of the companies are practiced the tool, Capital Structure, Repair & Improvement, Pollution Control, Donation Decision, Employment Decision , Location of Industrial Setup and Timing of Activities.

In the case of Other Companies, 100% of the companies are practicing the tools like Capital Structure Decision, Acquisition of Fixed Assets and Research & Development. None of the companies are practicing the tools like Repair & Improvement, Pollution Control, Donation Decision and Employment Decision, Location of Industrial Setup & Timing of Activities

Similarly, out of the sampled Companies, 87.09 % of the companies are implementing Capital Structure planning, 74.19% companies are implementing Acquisition of Fixed Assets, 67.74% companies are implementing 'Research and Development Decision',58.06% companies are implementing timing of activity, 45.16% of the companies are practicing the tool Location of Industrial Setup 41.94% of the companies are practicing the tool Employment Decision, 35.48% companies are implementing 'Repair and Improvement, 19.35 % companies are implementing Donation Decision and Pollution Control Tool.

Among sampled companies under study, the capital structure decisions most practiced tool as tax planning. From the observed data percentage of using this tool are commercial bank 100%, development bank 100%, financial companies100%, insurance company 100%, hotel companies 100%, other companies 100%, manufacturing and processing companies 57.14% and trading companies 0%.

Similarly, Pollution control cost is the lowest using tool of tax planning practiced by Nepalese companies. Which are hotel companies 100%, manufacturing and processing companies 57.14% and Rest of the companies is 0%.

The reasons of not practicing the tools are found as follows;

- Lack of the Expertise Knowledge and resources.
- High cost/quite expensive.
- Having no knowledge about the tool/technique of tax planning.

Table 4 : Practice of Facility provided by ITA based on Volume of Employees

S.N.	Companies	No. of Sample	No. of Practitioners	%
1	Commercial Banks	4	4	100.00
2	Development Banks	6	3	50.00
3	Financial Companies	8	3	37.50
4	Insurance Companies	2	1	50.00
5	Hotels	2	2	0.00
6	Mfg. , Processing and Hydropower Companies	7	0	0.00
7	Trading Companies	1	0	0.00
8	Others	1	0	0.00
Total		31	13	41.94

Source: Table 2

The above table 4 shows the present practice of facility provided by ITA based on Volume of Employees tool in the Nepalese companies.

Out of the 31 sampled companies, on the category Commercial banking companies have found 100% which have followed this technique, 57.14% by Development Banks, 37.50% by Financial companies, 50% by insurance companies, and 0% by rest of the companies are found practicing the volume of employment as tax planning tools.

From the above analysis it is obvious that Commercial Banks and Development banks are utilized the facilities employment exceeds 300 throughout the year and enjoy the concession provided by the act then the other companies. From the discussion has made with the managers it could be concluded that the reasons for not practicing the above tool are; such technique to reduce tax burden is applicable to the manufacturing companies only, so this tool is irrelevant to the non-manufacturing companies. Some of the managers of the manufacturing companies having no knowledge about the rebate which is provided by the act.

Table 5 : Practice of considering income for "Donation Decision" as prescribed by the ITA 2058

S.N.	Tools Companies	No. of Sample	No. of Practitioners	%
1	Commercial Banks	4	1	25.00
2	Development Banks	6	2	33.33
3	Financial Companies	8	2	25.00
4	Insurance Companies	2	1	50.00
5	Hotels	2	0	0.00
6	Mfg. , Processing and Hydropower Companies	7	0	0.00
7	Trading Companies	1	0	0.00
8	Others	1	0	0.00
Total		31	6	19.35

Source :Table 2

The above table 5 shows the present practice of granting "*Donation Decision*" as a tool to reduce tax liabilities by the Nepalese companies.

From the table it is found that out of 31 sampled companies, Insurance Companies(50%) and Commercial Banks (25%) are the prominent companies who have followed donation as a tax planning tool to reduce tax liabilities likewise , 25% of Financial companies, 33.33% of Development Banks, are followed donation as a tax planning tool to reduce tax liabilities and Rest of the companies have not donate to tax exempt organization and they have not used donation as a tax planning tool to reduce tax liability.

Thus, it could be concluded that, only 19.35% of the Nepalese companies are practicing the tool "Donation Decision" as a tax planning tools in their respective companies.

The economic condition of Nepal is pitiable because of the unstable politics. At this stage, industries are compelled to save their existence. It is the reason that the companies are not able to divert their activities in to the philanthropic activities.

Table 6 : Practice of Considering Income while Installing Pollution Control Device as prescribed by ITA 2058

S.N.	Tools Companies	No. of Sample	No. of Practitioners	%
1	Commercial Banks	4	0	0.00
2	Development Banks	6	0	0.00
3	Financial Companies	8	0	0.00
4	Insurance Companies	2	0	0.00
5	Hotels	2	2	100.00
6	Mfg. , Processing and Hydropower Companies	7	4	57.14
7	Trading Companies	1	0	0.00
8	Others	1	0	0.00
Total		31	6	19.35

Source: Table 2

The above table 6 shows the present practice of companies considering Pollution Control Device as a Tax Planning tool.

From the table it is obvious that out of 31 sampled companies, 57.14 % of the Manufacturing and Processing Companies and 100% if the hotel companies are practicing pollution control device as a tax planning tool. Likewise development banks, insurance companies, trading companies and other companies are not practicing the pollution control device as a tax planning tool. Out of the total sampled companies, only 19.35% of the companies have used this tool for reducing tax liability.

The reasons given by the managers of the companies for not practicing the above tool are;

- Difficulties to evaluate the need of cost and benefit.
- Lack of proper expertise knowledge.

- High expensive.
- Prefer the tool like employment decision, managers of the non-manufacturing companies referred that the practice is appropriate to the manufacturing companies only, so this tool is irrelevant to the non-manufacturing companies

Table 7 : Practice of leasing purchase as tax planning tool for making long term Investment Decision

S. N.	Companies	Tools	No. of Sample	No. of Practitioners	%
1	Commercial Banks		4	0	0.00
2	Development Banks		6	0	0.00
3	Financial Companies		8	0	0.00
4	Insurance Companies		2	0	0.00
5	Hotels		2	2	100.00
6	Mfg. , Processing and Hydropower Companies		7	4	57.14
7	Trading Companies		1	0	0.00
8	Others		1	0	0.00
Total			31	6	19.35

Source:Table2

The above table 7 shows the present practice of long term investment decision through lease purchase in Nepalese companies.

Among the sampled companies, Hotel companies used 100% this tool as a tax planning purpose and manufacturing & processing companies are using 57.14%. Similarly, Commercial Banks, development banks, Financial Company, insurance companies, Trading Companies and Other companies are not practicing this tool. In overall companies, only 19.35% of the companies have used leased purchase as a tax planning tool for acquiring their needed fixed assets.

The reasons for not practicing this tool are;

- The assets or the machinery is not available easily when required.
- Problem for incurring if repair and improvement cost is required.

Table 8 : Practice of Buy of fixed assets Tools for Long Term Investment Decision

S.N.	Tools Companies	No. of Sample	No. of Practitioners	%
1	Commercial Banks	4	3	75.00
2	Development Banks	6	3	50.00
3	Financial Companies	8	5	62.50
4	Insurance Companies	2	1	50.00
5	Hotels	2	2	100.00
6	Mfg. , Processing and Hydropower Companies	7	7	100.00
7	Trading Companies	1	1	50.00
8	Others	1	1	50.00
Total		31	23	74.19

Source: Table 2

The above table 8 shows the present practice of 'Buying' tool for acquiring the Fixed Assets among the Nepalese companies.

From the table it is clear that out of 31 sampled companies, which use 'buy' of fixed assets as a tool of tax planning hotel companies and Mfg. , Processing and Hydropower Companies (100% practitioners) are the highest over rest companies. Besides these company, Commercial Banks 75%, Financial companies are 62.50%, Development Banks, Insurance companies trading companies and other are 50% use 'buy' as tax planning tools.

Among sampled companies of Nepal, 74.19% of the companies use 'buy' or acquiring their fixed assets as a tax planning tools in their respective companies. From the discussion made with the managers it is found that the main reason of not practicing 'buy' as a tax planning tool they replied that the required machinery

or assets are available easily on hire, therefore there is no necessary to invest large amount on purchase of such assets.

Table 9 : Practice of Planning for Investing the Research & Development Criteria by the listed companies of Nepal.

S.N.	Tools Companies	No. of Sample	No. of Practitioners	%
1	Commercial Banks	4	3	75.00
2	Development Banks	6	3	50.00
3	Financial Companies	8	3	37.5
4	Insurance Companies	2	1	50.00
5	Hotels	2	2	100.00
6	Mfg. , Processing and Hydropower Companies	7	7	100.00
7	Trading Companies	1	1	100.00
8	Others	1	1	100.00
Total		31	21	67.74

Source: Table 2

The above table 9 shows the present practice of planning for investing in research and development as a tax planning tool by the listed companies of Nepal.

From the table it is clearly shows that out of 31 sampled listed companies, 75% of commercial banks have practiced the research and development as a tax planning tool to reduce tax liabilities. Likewise, 50% of Development Banks and Insurance Companies are followed this tool. Similarly 100% of hotel, Mfg. & Processing, trading and other companies are also practicing research and development as a tax planning tool. At last, 37.5 % of financial companies have also practicing this tool. Out of the total listed companies of Nepal, only 67.74% of the companies are found as a practitioner of this tool.

From the discussion with the managers of the concerned organizations it is found that the reasons for not using this tool research and development expenditure criteria for tax reduction they replied that;

- difficulties to evaluate the cost & benefit of research & development.
- difficulties to evaluate the need of the research and development.
- high expensive to invest in research and development.

Table 10 : Practice of "Capital Structure" For Planning by the Listed Companies.

S N	Tools Companies	Equity Only			Debt Only			Both (Debt + Equity)		
		No. of Sample	No. of Practition ers	%	No. of Sample	No. of Practition ers	%	No. of Sample	No. of Pract itione rs	%
1	Commercial Banks	4	0	0	3	0	0	4	4	100.0
2	Development Banks	6	0	0	4	0	0	6	6	100.0
3	Financial Companies	8	0	0	7	0	0	8	8	100.0
4	Insurance Companies	2	0	0	2	0	0	2	2	100.0
5	Hotels	2	0	0	1	0	0	2	2	100.0
6	Mfg. , Processing and Hydropower Companies	7	0	0	2	0	0	7	4	57.14
7	Trading Companies	1	0	0	1	0	0	1	0	00.00
8	Others	1	0	0	1	0	0	1	1	100.0
Total		31	0	0	31	0	0	31	27	87.09

Source : Table 2

The above table 10 shows the present practice of Capital Structure for the Tax - Planning purpose by the Listed Companies of Nepal

Out of the total 31 sampled companies, 87.09% of the companies have used both debt plus equity and none of the companies have used debt and equity separately for tax planning.

Table 11 : Practice of using "Repair & Improvement cost" as a tool

S.N.	Tools Companies	No. of Sample	No. of Practitioners	%
1	Commercial Banks	4	2	50.00
2	Development Banks	6	2	33.33
3	Financial Companies	8	2	25.00
4	Insurance Companies	2	1	50.00
5	Hotels	2	0	00.00
6	Mfg. , Processing and Hydropower Companies	7	4	57.14
7	Trading Companies	1	0	00.00
8	Others	1	0	00.00
Total		31	11	35.48

Source: Table 2

The above table 11 shows the numbers of companies which are considered repair & improvement on capital assets as a tool to reduce tax liabilities.

From the table out of 31 sampled companies it is obvious that, 50% of Insurance

Companies, Commercial Banks and 57.14% of manufacturing & processing

Companies are the major practitioners of this technique. Followed by Financial

Companies 25% and Development Banks 33.33 practicing the tool. Overall listed

Companies of Nepal, 35.48% of the companies have practiced this technique for

Tax planning purpose. From the discussion with the managers it is found that

The reasons for not practicing the above technique are;

- lack of proper knowledge about the criterion provided by the act and such technique is not so far applicable in the non-manufacturing companies.

4.3 Analysis of Executives' Response (i.e. Analysis of Open-End Opinions of Account in Chief, Finance in Chief and Managers)

For the study the researcher had done opinion survey through different questions under the study to take their opinions to identify the difficulties in applying Tax Planning tools and such suggestions for the application of such tools. Some important questionnaires are presented here which were asked to executives of sampled listed companies relating to tax planning. Their response to those questions has been presented below.

Table 12 : Which is the best suitable way you have practiced to reduce the Tax Liability?

S. N.	Tools Companies	No. of Sample	Saying Tax Avoidance	Saying Tax Evasion	Saying Tax Planning
1	Commercial Banks	4	0	0	4
2	Development Banks	6	0	0	6
3	Financial Companies	8	0	0	8
4	Insurance Companies	2	0	0	2
5	Hotels	2	0	0	2
6	Mfg. , Processing and Hydropower Companies	7	0	0	7
7	Trading Companies	1	0	0	1
8	Others	1	0	0	1
Total		31	0	0	31

Source: Field Survey, 2013/014

The above table reveals that all the companies taken in to consideration have known the tax planning but they do not have any separate tax department. They do not have tax experts too. Their account and finance section looks the tax matter. Although they know what tax is planning, they do not want to disclose how they are doing. According to them, they are accused of avoiding or evading tax in the name of tax planning by tax administration. In this study, the researcher has found that in tax practice many of them have thought to reduce tax is tax planning whether the means of reducing is tax avoidance or tax evasion.

This table shows the 100% of the Nepalese Listed Companies are practicing 'Planning' tool to reduce the tax liability.

Table 13 : The rebates and concessions provided by the Act are sufficient to promote companies in "Remote and Underdeveloped area" of the Nepalese Geography?

S.N.	Tools Companies	No.of sample	Saying Yes	Saying No	NoResponse
1	Commercial Banks	4	2	0	2
2	Development Banks	6	2	1	3
3	Financial Companies	8	3	2	3
4	Insurance Companies	2	1	0	1
5	Hotels	2	2	0	0
6	Mfg. , Processing and Hydropower Companies	7	7	0	0
7	Trading Companies	1	0	1	0
8	Others	1	0	1	0
Total		31	17	5	9

Source: Field Survey 2013/014

From the discussion with the account in chief, finance in chief, and managers of the sampled listed companies they all have the knowledge about the rebate and

concessions provided by the ITA relating to location of industrial setup, but they have the different view relating to the concession and rebates which is provided by the act. The views of the chiefs are tabulated in the above table - 4.12. From the table it is obvious that 31 companies are taken in to consideration as a sample, out of them 9 company's chief having no response about the questions and 17 company says the concessions and the rebates are sufficient to promote the companies in to the remote and underdeveloped area besides this the managers, account in chief and finance in chief of 5 companies are said it is not reasonable and not sufficient.

With the discussion of the managers the researcher found that some of the managers have unknown about the rebates and concessions provided by the act so during the discussion period they are not responding about the tool.

Table 14 : The criterion provided by the act relating to Donation is reasonable?

S. N.	Tools Companies	No. of Sample	Saying Yes	Saying No	No Response
1	Commercial Banks	4	2	0	2
2	Development Banks	6	4	1	1
3	Financial Companies	8	5	2	1
4	Insurance Companies	2	2	0	0
5	Hotels	2	1	0	1
6	Mfg. , Processing and Hydropower Companies	7	5	2	0
7	Trading Companies	1	0	1	0
8	Others	1	0	1	0
	Total	31	19	7	5

Source: Field Survey 2013/014

Income tax act 2058 has provided deduction facilities as donation to promote the commercial institutions in the philanthropic activities. But the study has found this facility is incomplete.

The above table - 14 shows the out of 31 sampled Nepalese listed companies only 19 company says the criteria provided by the act is reasonable, 7 companies says this facilities is incomplete and not reasonable but 5 companies having no response about the question.

During the discussion period with the Nepalese managers, they said that the present criteria of donation take barriers to promote the companies in the philanthropic activities.

Table 15 : What are the difficulties you have faced while decide installing the "Pollution Control Device"?

S.N.	Tools Companies	No. of Sample	High Expansive	Lack of expertise knowledge	No need
1	Commercial Banks	4	0	0	4
2	Development Banks	6	0	0	6
3	Financial Companies	8	0	0	8
4	Insurance Companies	2	0	0	2
5	Hotels	2	2	0	0
6	Mfg. , Processing and Hydropower Companies	7	6	1	0
7	Trading Companies	1	0	1	0
8	Others	1	0	1	0
	Total	31	8	3	20

Source: Field Survey 2013/014

Income Tax Act 2058 has provided the deduction facilities as pollution control cost. Especially this facility is concerned with the manufacturing companies but for the study the questions is asked all other non-manufacturing companies also.

The above table - 4.14 shows the executives response regarding to the pollution control cost. Out of 31 companies are taken into consideration as sample, 8 companies says installing the pollution control devices is high expensive, 3 company says having lack of the expertise knowledge and 20 company's executives says no need about the tool.

Table 16 : What are the difficulties have you faced while incurring "Research and Development Cost"?

S.N.	Tools Companies	No. of Sample	Difficulties to evaluate cost & benefit	Lack of expertise knowledge	High Expensive	No Response
1	Commercial Banks	4	0	2	0	2
2	Development Banks	6	3	0	2	1
3	Financial Companies	8	3	2	3	0
4	Insurance Companies	2	1	0	0	1
5	Hotels	2	2	0	0	0
6	Mfg. , Processing and Hydropower Companies	7	0	6	1	0
7	Trading Companies	1	0	0	0	1
8	Others	1	0	0	0	1
	Total	31	9	10	6	6

Source: Field Survey 2013/014

This table – 16 shows the executive response regarding the implementing difficulties of research and development cost.

From the table it is clearly shows that out of 31 sampled listed companies of Nepal 9 executives says difficulties to evaluate cost and benefit of the research and

development, 10 companies executives says they have faced expertise knowledge relating to research and development, 6 companies executives says it have high expensive and another 6 executives having no response.

During the discussion period with the managers, most of the managers are afraid of legal tension, so they are no responding.

Table 17 : In your experience, do you think that provision of "Carry forward, Backward and Setup of Loss" is effective?

S.N.	Tools Companies	No. of Sample	Highly Effective	Fairly Effective	Not Effective	No Response
1	Commercial Banks	4	2	1	1	0
2	Development Banks	6	2	2	2	0
3	Financial Companies	8	4	3	1	0
4	Insurance Companies	2	1	1	0	0
5	Hotels	2	0	1	1	0
6	Mfg. , Processing and Hydropower Companies	7	0	4	3	0
7	Trading Companies	1	0	1	0	0
8	Others	1	0	1	0	0
	Total	31	9	14	8	0

Source

: Field Survey 2013/014

The table 17 shows the executive response regarding to the effectiveness of the facilities relating to carry forward, backward and setup of losses provided by the Income Tax Act. 2058.

From the table we can concluded that out of the total 31companies taken in to the study as sample, out of them 9 companies says that the facilities provided by the

act is highly effective, 14 companies executives has said this facilities is fairly effective, 8 companies says this facilities is not effective..

The reasons of saying not effective is the duration of the carry forward of losses facilities which is provided by the act is very short period, the managers are said this facilities should be provided carry forward for forever.

Table 18 : - In your opinion "Timing of Activity" facility given by ITA 2058 is effective?

S.N	Tools Companies	No. of Sample	Highly Effective	Fairly Effective	Promotes cheating habit	No Response
1	Commercial Banks	4	0	4	0	0
2	Development Banks	6	3	0	1	2
3	Financial Companies	8	0	4	2	2
4	Insurance Companies	2	0	0	1	1
5	Hotels	2	0	1	1	0
6	Mfg. , Processing and Hydropower Companies	7	0	3	2	2
7	Trading Companies	1	0	1	0	0
8	Others	1	0	1	0	0
	Total	31	3	14	7	7

Source: Field Survey 2013/014

The table – 4.17 shows the executives' response regarding effectiveness of the facility provided by the ITA 2058 relating to Timing of Activities.

From the table it is clearly shows that out of the 31 sampled listed companies of Nepal, only 3 company says that the facility is highly effective, 14 companies says fairly effective, 7 companies are said this facility promotes the cheating habit and 7 companies having no response.

Table 19 : "Self – Tax Assessment" system is Suitable in Nepal?

S.N.	Tools Companies	No. of Sample	Saying Yes	Saying No	No Response
1	Commercial Banks	4	3	1	0
2	Development Banks	6	3	3	0
3	Financial Companies	8	4	3	1
4	Insurance Companies	4	1	3	0
5	Hotels	2	1	1	0
6	Mfg. , Processing and Hydropower Companies	7	1	2	4
7	Trading Companies	1	0	1	0
8	Others	1	0	1	0
	Total	31	13	13	5

Field Survey: 2013/014

During the discussion period with the managers, most of the managers are afraid of legal tension, so they are no responding and some of the managers have said this facility promotes the cheating habits.

Table 20 : What are the difficulties have you faced while incurring "Repaired and Improvement cost?"

S.N.	Tools Companies	No. of Sample	Difficulties to evaluate	Lack of expertise Knowledge	No Response
1	Commercial Banks	4	2	2	0
2	Development Banks	6	3	3	0
3	Financial Companies	8	3	3	2
4	Insurance Companies	2	1	1	0
5	Hotels	2	1	0	1
6	Mfg.& Processing Companies	7	4	1	2
7	Trading Companies	1	0	1	0
8	Others	1	0	1	0
	Total	31	14	12	5

Field Survey : 2013/014

The above table 20 shows the implementing difficulties relating to repair and improvement facility provided by the ITA 2058, from the table it is shows that out of 31 sampled listed companies of Nepal, 14 companies says difficulties to evaluate, 12 companies says lack of expertise knowledge, 5 companies having silent about the tool.

Like other tools, managers are afraid of legal tension, not only this most of the Nepalese managers who are leading industries are not responsible to the students of research while collecting data. They hesitate the researchers showing their boastful nature.

4.4 Major Findings of the Study

On the basis of comparative and comprehensive analysis of the data, the study has revealed the following findings based on the objectives of the research.

- Based on the above analysis, it is observed that out of the sample Listed Companies, 87.09 % of the companies are practicing the tool Capital Structure, 74.19% companies are practicing the tool Acquisition of Fixed Assets, 35.48% companies are practicing the tool like 'Repair and Improvement Cost', 19.35 % companies are practicing Pollution Control Tool, 67.74% companies are practicing the tools 'Research and Development Decision' , 19.35% companies are practicing Donation Decision Tools, 41.94% of the companies are practicing the tool Employment Decision, 45.16 % of the listed companies are practicing the tool Location of Industrial Setup and 58.06 % companies are practicing the tools Timing of Activities.
- While examining the tools practiced in the listed companies of Nepal for planning, controlling, and decision making it was found that "*Capital Structure*", "*Acquisition of Fixed Assets*" and "Research and Development Decision “ are widely practiced tax planning tools.
- Out of the 31 sampled companies, on the category Commercial banking companies have found 100% which have followed this technique, 57.14% by Development Banks, 37.50% by Financial companies, 50% by insurance companies, and 0% by rest of the companies are found practicing the volume of employment as tax planning tools.
- out of 31 sampled companies, Insurance Companies(50%) and Commercial Banks (25%) are the prominent companies who have followed donation as a tax planning tool to reduce tax liabilities likewise , 25% of Financial companies, 33.33% of Development Banks, are followed donation as a tax planning tool to reduce tax liabilities and Rest of the companies have not donate to tax exempt organization and they have not used donation as a tax planning tool to reduce tax liability

- out of 31 sampled companies, 57.14 % of the Manufacturing and Processing Companies and 100% if the hotel companies are practicing pollution control device as a tax planning tool. Likewise development banks, insurance companies, trading companies and other companies are not practicing the pollution control device as a tax planning tool. Out of the total sampled companies, only 19.35% of the companies have used this tool for reducing tax liability.
- Among the sampled companies, Hotel companies used 100% this tool as a tax planning purpose and manufacturing & processing companies are using 57.14%. Similarly, Commercial Banks, development banks, Financial Company, insurance companies, Trading Companies and Other companies are not practicing this tool.
- Out of the total 31 sampled companies, 87.09% of the companies have used both debt plus equity and none of the companies have used debt and equity separately for tax planning.
- From the open-end analysis, it is found that the major difficulties for application of tax planning tools are;
 - Lack of expertise and qualified manpower with long term visions for strategic tax planning.
 - Income tax Act, 2058 has no clear provision regarding strategic tax planning.
 - Due to small size of business, the businessperson cannot take advantages of the incentives, concessions and rebates available to large size business.
 - Difficulties to evaluate the cost and benefit of the tool.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Management effectively achieves organizational objectives through the efficient use of scarce resources in a changing environment. Future is uncertain. It creates risk and sometimes opportunities also. To reduce risk, and grape the opportunities, only one most powerful and reliable weapon is good management.

Corporate firms that carryout the economic activities are the backbone of the economy. Their activities impact the economy in one-way or the other. Every organization has limited resources, to utilize the limited resources in a better way, different tools and techniques have been developed. Among the various tools and techniques, Tax Planning tools have proved beneficial in different aspect of managerial activities. The main objective of tax planning is to help managers in overall managerial activities by proving information and helping in planning, controlling and decision making. This acts as a strategic business partner in support of management role in decision making.

The main objective of the present research is to examine the present practice of tax planning tools in the Nepalese company and to identify the area where tax planning tools can be applied to strengthen the companies.

As per the nature of the study, survey type research design is followed with descriptive and analytical approach. Surveys of different companies are made. Questionnaires are distributed and table-talks are made together information. Information is tabulated as per the requirement of the study.

From the analysis it is found that tax planning tools such as capital structure decision, acquisition of fixed Assets, location of industrial setup, research & development and timing of activities are mostly practiced tools where as practice

of tool like pollution control decision on the category development bank, financial companies and insurance companies is almost nil in the Nepalese listed companies. Lack of the expertise Knowledge and resources, High cost are the main reason behind not practicing such tools.

5.2 Conclusions

Different types of tax planning tools, which are taught in the colleges, are not found applied by the listed companies of Nepal. It shows gap between the theory and practice. Tools like Capital Structure Decision, Acquisition of Fixed Assets are in practice but application of tools like Pollution control, Donation Decision, Repair and Improvement Cost are not in practice sufficiently.

In Nepalese listed companies, practice of hiring outside expert for carrying out different activities is almost nil. Thus it can be concluded that Nepalese listed companies are in infant stage in practicing of Tax Planning tools. Any companies haven't found tax planning experts. They are with the concept that tax planning is similar to financial planning. New tools and techniques have been developed around the globe but practice of it in Nepalese listed companies are almost nil. Lack of information and cognizance about tax planning tools are the main factors causing problem in the application of such tools.

1. Most of the companies want to obtain their capital structure from debt + equity. Even, borrowed fund as its interest is deductible expense. In fact, they don't want risk in present situation of country.
2. They give less priority to tax effect while formulating capital structure. It means they do not applied tax planning in capital formation.
3. Even tax planning plays vital role in managerial decision, position of corporate tax planning is very weak and it is similar to tax avoidance in practice in Nepal.

4. The companies want to pay tax within the provision of ITA 2058 and IEA 2067. But they do not want to dispute for concessions, allowances incentives, rebates and relives with tax officer which the problem they usually face.
5. The companies feel little bit uneasy about the government rules, regulation and procedures. They think it is more formal rather than practical and is not easy to implement in full fledge.
6. Due to lack of trust between taxpayer and tax officer, their relationship is not so good. Thus, dispute usually arises between them on the period of final settlement.
7. Most of the Nepalese managers who are leading industries are not responsible to the students of research while collecting data. They hesitate the researchers showing their boastful nature

5.3 Recommendations

As we know Nepal has already taken the membership of WTO. In this global environment Nepalese companies should fit with the global environment. Best-fit managerial strategies should be developed. Managers should think in a global perspective. Information should be updated. For better utilization of the limited resources and achieving goal through cutthroat competition, application of advance tax planning tools can be of great help. Thus the following recommendations based on the findings of the research study are:

1. To strengthen the competitiveness of the Nepalese companies and carryout managerial activities, the use of tax planning tools are recommended. For planning activities, tools like timing of activities, location of industrial setup, capital structure decision, research and development can be used. Like wise to get the public support Nepalese companies should concerned their activities like pollution control and philanthropic activities. While implementing any tools of tax planning, it is recommended to analyze cost and benefit of the tools.

2. Most of the companies want to obtain their capital structure from equity. Even, borrowed fund as its interest is deductible expense. In fact, they don't want risk in present situation of country.
3. They give less priority to tax effect while formulating capital structure. It means they do not applied tax planning in capital formation.
4. Even tax planning plays vital role in managerial decision, position of corporate tax planning is very weak and it is similar to tax avoidance in practice in Nepal.
5. The companies want to pay tax within the provision of ITA 2058 and IEA 2067. But they do not want to dispute for concessions, allowances incentives, rebates and relives with tax officer which the problem they usually face.
6. The companies feel little bit uneasy about the government rules, regulation and procedures. They think it is more formal rather than practical and is not easy to implement in full fledge.
7. Due to lack of trust between taxpayer and tax officer, their relationship is not so good. Thus, dispute usually arises between them on the period of final settlement.
8. To implement the tools congenial environment is a must. For this sake, a separate tax planning department should be established within an organization. Tax planning experts should be haired. Those companies who cannot manage to establish separate department, can manage under their existing accounting, financing, or planning department. If the company cannot hire outside experts, it can send its existing employee for short term tax planning training. If this also is not feasible for them, they can manage it by taking service of fee based consultant.
9. Applications of Tax Planning tools need internal and external information. So companies are recommended to keep Tax Planning information system so that they can be informative throughout the time about every aspects of planning.

Skill should be updated with the every changes taking place around the external environment Skill can be developed through training.

10. Interaction between academician and companies is a must. It is recommended that companies should create an environment of interaction between the academician and the companies. Companies can benefit from their knowledge about new tools and techniques of tax planning.
11. Company's activities should not overly depend upon the traditional tools of tax planning. For the smooth operation of the activities, they should be motivated toward the application of new advance and modern tax planning tools.
12. To root out the problem of tax, the government has to issue liberal polices to get rid of the entrepreneurs barrenness.
13. Nepalese tax officers lack the transparency, when we are (the research) visits tax office for collecting some information, we are not properly cooperated by the tax officers, the tax officer' were unwilling to disclose any information and they were not motivated towards their job, because some of them were not in their cabin while many visitors and tax payers are waiting for their arrival so, it is suggested to the government to make the tax related matter clear and transparent.

Bibliography

- Agrawal, Jagdish, Income Tax: Theory and practice, Buddha Academic Enterprises, Katmandu, 2006
- Kandel Puspa R., (2012) Tax Laws & Tax Planning in Nepal, Kathmandu, Benchmark Education Support Pvt .Ltd
- Kandel Puspa R., (2001) Corporate Taxation: Issues in Neplease Perspectives, Bhawana Prakashan, Kathmandu
- Kerlinger, F.N (1986) Foundation of Behavioral Research, Rimehart and Winston, New York
- Kothari, C.R., (1990) Research Methodology, Methods and Techniques, Wishwa Prakashan, New Delhi.
- Khadka Rup (2001), Income Tax in Nepal: Restropect and Prospect, Kathmandu, Ratnapustak Bhandar
- Lipsey, Richard G. and Harbury, colin (1999), First Principles of Economics, Oxford University Press, New York
- Mallik, Bidhydhar (2060) Modern Income Tax System of Nepal, Anita Mallik, Kathmandu
- Musgrave, Richard A. and Peggy B. Musgrave, Public finance In Theory and Practice, Asian Student Edition, sinapur, 1983
- Nepal Government Ministry of finance, Budget speech for FY (2070/71), Kathmandu 2070

Poudyal, K.B (1998) Corporate Tax Planning in Nepal ,PokharaSitaPoudyal

Pradhanang, N.B (2049),Income Tax Law and Accounting, RatnaPustakBhandar
Kathmandu

Seligman,ERA., The Shifting and Incidence of Taxation,Essays in Taxation, Columbia
University Press Columbia

Simond, James and N. Kristopher (1998), The Economics of Taxation: Principle, Policy
and Practice,Prentice Hall India

Singhania, V and Singhania, M(2003-2004) Direct Taxes Law & Practice (Income Tax)
Taxman Publication Pvt. Ltd. New Delhi, India

www.google.com.np

www.nepalstock.com.np

www.npc.gov.np (retrieved date : 2014 Oct. 8)

www.nrb.org.np

<http://www.mofa.gov.np> (retrieved date : 2014 Sep. 5)

www.ird.gov.np (retrieved date :2014 Sep.5)

Appendix-1

List of listed companies taken as sample :

Commercial Banks

-) Citizen Bank International Limited
-) Everest Bank Limited
-) Nepal SBI Bank Limited
-) Nepal SBI Bank Ltd.

Insurance Companies

-) Asian Life Insurance Co. Limited
-) National Life Insurance Co. Ltd

Development Banks

-) Alpine Development Bank Limited
-) Clean Energy Development Bank Ltd.
-) Bagmati Development Bank Limited
-) Business Universal Development Bank Ltd
-) Ace Development Bank Ltd.
-) Kasthamandap Development Bank Limited

Finance Companies

-) ICFC Finance co ltd
-) NIDC Capital Markets Ltd
-) Multipurpose Finance Co. Ltd.
-) Hama Merchant & Finance Ltd.
-) Kathmandu Finance Ltd.
-) Prudential Finance Co. Ltd
-) Synergy Finance ltd
-) United Finance Ltd

Hotels

-) Oriental Hotel Ltd
-) Solti Hotel Ltd

Mfg. Processing and Hydropower Companies:

-) Uniliver Nepal Ltd
-) Bottlers Nepal Limited
-) Butwal Power co. Ltd
-) Chilime Hydropower co. ltd
-) Himalayan Distillery Limited
-) Nepal KhadyaUdhyog Limited
-) Sanimamai Hydropower co. ltd

Trading Companies

-) Bishal Bazar co. Ltd

Others

Nepal Doorsanchar Co Ltd.

Appendix-2

QUESTIONNAIRE

Dear sir/madam

This questionnaire is concerned with the research on "Practices of Tax Planning tools in the listed companies of Nepal ". It would be very much appreciated if u could spend some of your valuable time for filling this questionnaire. Please either tick your answer or put in order of preference by ranking the options given from most to least if there are option more than four.

1. Do you believe that Tax planning is being practised in Nepal

(A) Yes () (B) No ()

2. Are you considering the term tax planning to reduce your liability?

(A) Yes () (B) No ()

3. Do you think Tax planning in nepal is done through illegal ways only?

(A) Yes () (B) No ()

4. If yes, what are the causes do you think are responsible?

- (A) Higher income tax rate ()
- (B) Tax administrative inefficiency ()
- (C) Widespread illegal business ()
- (D) High corruption in Nepal ()
- (E) Poor tax paying habit ()
- (F) Complicated income tax law ()
- (G) political indiscipline ()

5. saving your earnings by reducing tax liability under the term tax planning

- (A) By changing the nature of the business ()
- (B) By changing the form of organization ()
- (c) By changing the location ()

- (D) By making changes in the capital structure ()
- (E) By changing the size of the business ()
- (F) By merging the business ()

6. In what ways are you saving your earnings by reducing tax liability under the term tax planning?

- (A) by taking care of everything while acquisition of assets ()
- (B) By taking care while deducting repair and improvement cost ()
- (C) By considering pollution control cost ()
- (D) By considering research and development cost ()
- (E) By deducting donation ()
- (F) By taking good care while making loss recovery ()
- (G) By Capital Structure Decision ()

7. Is exiting rebate provided by Income Act , 2058 satisfactory?

- (A) It is ok
- (B) It should be reduced more
- (C) It should be increased a little
- (D) Don't know

8. What do you think about charging less tax to the industries situated in remote areas?

- (A) It is encouraging
- (B) it is worthless
- (C) Nobody is conscious towards that

9. Do you think that the tax payers are enjoying the loopholes of the Act?

- (A) Yes ()
- (B) No ()

10. If yes, which of the following methods are used?

- (A) Diverging income or assets to lower taxable entities ()
- (B) Paying salaries, benefits and interest to family members ()
- (C) Transferring income to wife or minor child ()

- (D) Forming trust and other philanthropic institution and taking unnecessary advantage ()
- (E) Transferring income and assets to non- resident ()

11. Do you think tax planning helps in productive investment/

- (A) Yes ()
- (B) No ()

12. What is your opinion on , “ Healthy growth of economy through Tax planning ”?

- (A) It is possible
- (B) It is impossible
- (C) It can help to some extent

13. What is your opinion on providing tax rebate to industries situated in remote areas?

- (A) It is fair enough
- (B) It is not fair every industries should get rebate

14. Do you think that there are problems in tax planning practice in Nepal?

- (A) Yes, a lot
- (B) No, there is not
- (C) Need to be changed/ revivethe policies a little

15. In your opinion what should be done to make the tax planning more effective?

- (A) Increase the rebate rate a bit more ()
- (B) Rebate should also be given to industries located in municipality areas ()
- (C) To provide knowledgeto the people about Tax planning ()
- (D) To encourage the tax payers to pay regular taxes ()
- (E) Building awareness about tax planning ()

Name of the respondent:

Name of the company/office/firm:

Position: