

CHAPTER I: INTRODUCTION

1.1 Introduction

Tax is the main source to generate income for the government. The government has to raise tax to meet the different developmental and general purpose of the nation. Government has to spend a lot of money to fulfill its responsibility towards different need of people. The responsibility may be either for security or for health or education or other developmental activities. Protection of right of common people, developing various socio-economic infrastructures and fulfilling the different national and international treaties and responsibilities with the generation of income from the tax policy of the government is only possible. The government may be imposed on person's consumption, income or wealth for the tax generation purpose. The government can raise tax under different way. Mainly the government raises tax under the indirect and direct method.

The word "Tax Planning" is made from combination of two words "Tax" and "Planning". Tax means compulsory payment to the government and planning means taking decision about the future by choosing the best from different alternatives. Every business organization uses to plan as regards to may be short term and long of medium term. If tax factor is considered while planning the business activities of an organization, it is tax planning.

Income tax is direct tax and is superior to indirect tax like sales tax, excise duty, etc. because it is imposed on the basis of paying capacity of the tax payers. People whose income is below the taxable rate are free from the incidence of income tax. Like wise income tax will also help to increase the consciousness of people, because the people who have paid the income tax will be interested on public expenditure. It is helpful for generating the concept of social responsibility towards the nation and keeps the people vigilant to see that public money may not be misused.

In Nepal income tax was introduced for the first time in 1959 by the Finance Act 1959. In 1962, the Income Tax Act 1962 replaced the Business Profit and Remuneration Tax Act 1960, which was again replaced by Income Tax Act 1974 and currently in Nepal; Income Tax Act 2002 is in practice. Income tax is as the third largest source of tax revenue in Nepal. Income tax plays a vital role in the Nepalese economy. It is a tool of achieving maximum social and economic

objectives as lay down by the constitutions of Nepal.

Income Tax Act 2002 is quite advance income tax that has ever introduced in Nepal. The main feature of this Act is all the tax related matters within one Act. The Act is independent to levy income tax. The Act has 24 chapters and 143 sections. According to the Act there are three different sources of incomes; a) Business, b) Investment, and c) Employment. Tax rates for different income groups, tax rates as per individuals and entities, depreciation and depreciation method for all five categories of depreciable assets, provisions regarding international taxation, capital gain taxation, panel provision, appeal system etc. all the matters of income taxation can find within this Act.

The source of income from business includes industry, trade, profession, vocation or isolated transaction with a business character and a past, present or prospective business. But, this source does not include employment income.

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 direct benefit from the tax paid. Due to this compulsory nature people have expressed different views in satirical ways about the taxation. Some says, "Nothing is certain in this world but death and taxes" while others say, "death means stopping to pay tax." Here it should be noted that all compulsory payments are not taxes. For example, fines and fees are also compulsory payments without having direct benefit to the payer but they are not tax because their objective is not to collect revenue but to curb certain types of offences. Secondly, tax payers can not receive any *quid pro quo* for payment of tax. The tax payer does not receive equivalent benefit from the government. A tax is not a price paid by one, for which he can claim goods and services. The charge of price for goods and services by public authority is not a tax. Thirdly, the tax is paid to the government for running it. Fourthly, in case of tax, the amount is spent for common interest of the people. The tax is collected from haves and basically, spent for the interest of have-nots in the society. Fifthly, a natural or an artificial person pays the tax.

In conclusion, it can be said that a tax is a liability to pay an amount to the state. The basis for the payment is that the assesses have income of a minimum amount from certain specified source or

that they own certain tangible or intangible property or that they carry on certain economic activities or they consume certain goods and services which have been chosen for taxation.

Planning is an important feature of all business organization. The formal planning system in a company arises from the necessity of management to conduct the operations of the company efficiently and effectively. Planning is necessary for the survival and growth of a company. Denning regards corporate planning as “ a formal and systematic managerial process organized by responsibility, time and information to ensure that operational planning, projects planning and strategic planning and carried out regularly to enable top management to direct and control the future enterprise.” Operational planning refers to the future planning of existing operations in existing markets with existing customers. Projects planning includes the generation, appraisal and working out the details of an action outside the scope of existing operations. Similarly, strategic planning is the process of formulating long run objectives. Thus, corporate tax planning includes operational planning, project planning and strategic planning.

Tax planning is the planning of both the basic structure of the business and industry and its various projects from time to time in day to day activities for the maximization of benefits under the provision of present law of the nation. On the other hand, tax planning should not be misused for the tax avoidance and tax evasion because they are clearly against the spirit of the law. In this way, we can say that 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 provided for in the tax laws. Indeed, the basic purpose of corporate tax planning is to reduce or postpone the overall tax burden in the present and foreseeable future.

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 can not be the 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*). In other words of Mishra, the legitimate device to reduce tax liability is tax planning.

Tax planning requires intelligent and well thought out strategy to reduce a postponed the tax liability in the present and foreseeable future with stress on being honest, responsible and trustworthy citizen.

To conclude, we can say that tax planning is a systematic and scientific planning of company operations. It is economic, legal and ethical activity, it is use of various incentives, concessions, allowances, rebates etc and it is an activity related to the future. There are three broad areas of corporate tax planning; they are 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: is the process of formulating long term objectives and deciding on the resources for attaining them. Strategic planning relates to the strategic decision such as a choice of business, location of the company, diversification of business, corporate restructure etc. tax planning is strategic decision not only benefits the company in minimizing tax liability, but also contributes to the accomplishment of social and economic objectives.

Project Planning: is the performance appraisal and working out of details of an action outside the scope of existing operations. When a company is considering a project or programme of any area of project planning, it is necessary to consider tax factor. Taxation law invites companies to avail of the benefits and concessions provided within the frame work of existing rules and regulations. For new investment in fixed assets; tax concession or allowances such as investment allowances depreciation allowances, rehabilitation allowances, tax holiday etc must be considered.

Operational Planning: is the future planning of existing operation. Before making the operating decisions, tax implications must be carefully studied on the different aspect of operational planning, which includes among others, expenditures to be incurred on affecting repairs and renewals of plant and machinery, product promotion, short- term borrowings, personnel remuneration etc. the operational planning, strategic planning and project planning are carried out regularly to enable top management to direct and control the future of a business. These three components of corporate tax planning are necessary for the survival as well as the growth of a

company. The basic purpose of corporate tax planning is to reduce or defer the overall tax burden in the present and foreseeable future.

1.2 Statement of the Problem

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 provide 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. Thus, all such arrangement by which the tax laws fully complied and which meant all the legal obligation are tax planning. Tax planning does not take form of "colorable devices" and has no intention to deceit the legal sprit behind the tax law

Tax planning may be legitimate provided it within the frame work of law. Colorable device cannot be a 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 method. It is the obligation of every citizen to pay taxes honestly without resorting to excuses.

Due to over influence of tax evasion and avoidance, most of the organization has ignored tax planning. People feel troublesome and they become dishonest to show all resources of income. They search different loopholes for reduction of their tax burden. On the other hand, removing tax evasion seems to be equitable in the situation of Nepal. For this purpose the honest people should be rewarded and dishonest people should be panelized.

On the other hand Nepal government is not positive as regards to planning though it is not an illegal and immoral activity. Tax administration people take tax planning as the work not permitted by the law. In some respects, Income tax Act, 2058, has made some provisions too to control tax planning. People take tax planning as equivalent to tax avoidance or tax evasion.

So, the main problem is the practice of tax planning in Nepal though the government has been various facilities of emotions for the tax payers. In addition there is not proper evaluation of taxable incomes whether by government or by the tax payers. Therefore, the proper tax administration is also essential for smooth application of tax planning in the context of Nepal. As

a result, the effective mobilization of resources would be applicable. Poor recording system of income may be nil. Some specific problems are as follows:

- a. What are the impacts of tax planning on profitability of the organization?
- b. In which position , tax planning practice followed by Nepalese companies?
- c. What are the major problems and obstacles in practice of tax planning in Nepal?
- d. Whether or not tax planning is effectively practice?

1.3 Objective of the Study

After the above identified research problem, the main objective of the study is to gain an insight into the tax planning and give appropriate suggestions to use tax planning for Nepalese companies and reduce their tax liability within the legal framework. The main focus goes to the application and obstacles of tax planning in Nepal. It would be helpful for providing the comprehensive information to the managers for strategic planning, project planning and operational planning. As a result, it reduces tax liability within the legal framework. The specific objectives of the study are:

1. To asses the impact of tax planning on profitability of the organization.
2. To examine and analyze the tax planning practices followed by Nepalese companies.
3. To find the problems and obstacles in practice of tax planning in Nepal.
4. To provide suggestions for effectiveness of tax planning practices in Nepalese companies.

1.4 Significance of the Study

Tax planning is one of the most important functions of management. It is done in order to minimize tax liability or postpone the overall tax burden in the present and foreseeable future under the area of strategic planning, project planning and operational planning. Tax planning is, thus, neither tax evasion nor tax avoidance; instead it is a device through which tax payer takes advantage of the various tax benefits, including exemptions and deductions under the provision of the existing tax laws.

- It examines the application of tax planning tools in Nepal because if tax benefit is not claimed by a company by the time of assessment, the same can not be claimed in future and the benefit would be lost for ever.

- It explores the problems and potentialities of the companies. It will be useful to the potential investors, leaders, managers and policy workers in Nepalese company.
- It provides information on the application of the tools under different circumstances. Thus it will encourage use of tax planning tools in decision making to those companies who have not yet used any tools.

1.5 Limitation of the Study

Limitation is the basic boundary at which the researcher has limited the study. According to the requirement of the study area, time, cost, objective, methodology and organization of the study, the principal limitations of the study are as follows:

- This study is based purely on aspects of the income tax Act, 2058 which grant various income tax incentives to the industrial units. The study, thus relates to the analysis of corporate income tax only. Other direct and indirect taxes such as custom duty, excise, value added tax, property tax have not been covered, though an integrated view of corporate tax planning would perhaps lead to better decision.
- Furthermore this study is mainly from the point of view of company assesses and not from the point of view of income tax authorities, though it may indirectly help the latter in formulation tax policies according to the priorities accorded by His Majesty's Government of Nepal.
- The respondent are only from Kathmandu valley and the views also represent accordingly.
- The research has been under the use of primary data only. Secondary has been used only for the added value formulating primary data.
- This study is only for the use of academic purpose to fulfill the requirement of Masters in Business Studies

1.6 Scheme of the study

Research is a scientific process which follows a scientific research format. Here the researcher has followed the basis research format under the Tribhuban University. According to this format the thesis is divided in the following chapter.

Chapter I: The first chapter comes upon with background of the study, statement of problem, objectives of the study, significance of the study, research format and limitation of study.

Chapter II: This chapter is devoted to theoretical analysis and brief review of related and pertinent literature available. It includes a discussion on the conceptual framework and review of the major studies.

Chapter III: This chapter explains the research methodology applied for the solution of the research problem. This chapter deals with research design, source of data, population and sample, data collection process, and data presentation and analysis.

Chapter IV: This chapter deals with presentation and analysis of relevant data information using various analytical tools which are essential to analyze and interpret results.

Chapter V: This chapter states summary conclusion and suggestion of the study. This chapter presents the major findings and compares them with theory and corresponding practice to the extent possible. It also offers several avenues for future research. The exhibits and bibliography are incorporated at the end of the study.

CHAPTER – II: LITERATURE REVIEW

2. Conceptual Framework

2.1 Introduction

Literature review chapter is the foundation for the study which highlights on the literature that is available relating to this study topic Tax Planning Practice in Nepal. This chapter comes upon reviewing different literatures regarding theories on the topic and the empirical evidences of previous studies. Different books, published and unpublished thesis and dissertation, magazines, journals, research papers from paper and electronic sources has been carried.

This chapter firstly describes about the theories of tax planning, secondly it has tried to review those literature carried out relating to the researcher is going to study.

2.1.1 Tax Reform in Developing Countries

In the very beginning of 1970s, number of developing countries to radically reform their tax systems, what can we learn from these experiences with tax reform? How can any lessons learned be made useful to other countries also on the road to tax reform? The World Bank has studied there questions for several years now, and found the fruits of this research. The goal of tax reform project has been to obtain a better understanding of how developing countries can improve the performance of their tax systems. As the world bank has become increasingly active in structural adjustment and other policy based lending I developing countries, growing demands have been placed on it to suggest, and countries, growing demands have been placed on it to suggest, and sometimes the experience of eight developing countries that have undergone, and in some instances are still undergoing, significant and comprehensive tax reform. Equal attention has been given to the process of tax reform, how it is implemented, and the substance or results of reform efforts. Throughout, the focus is a practical rather than theoretical aspect of tax reform.

2.1.1.1 Constraints on Tax Reform

The different constraints while reforming the tax has been seen in practice. (*Kandel; 2005*) elaborates that, while tax reform debates are frequently fueled by several normative criteria, the actual reform measures that are adopted often reflect the existence of four binding constraints on

the ability to choose new tax directions political, international, technical and institutional. Political constraints come in a variety of shapes. In most developing economies certain sectors and activities enjoy a privileged tax status from political protection that is strong enough to resist any attempt at change. In Colombia, for example, repeated efforts to include income from cattle raising in the income tax base have met with a singular lack of success. Other countries invariably have their own set of “sacred cows.”

Corporate tax design encounters different kind of tradeoffs. Unless a developing country aligns its nominal corporate tax rate with those found in industrial countries large portions of its corporate tax base may be shifted to lower tax rate jurisdictions. At the other extreme, efforts to stimulate investment by reducing nominal (and effective) tax rate may be frustrated by foreign tax credit mechanisms which translate host country tax relief into trial cash flow business tax may incur the risk of being deemed non-creditable in those capital-exporting countries that offer a foreign tax credit to their multinationals.

2.1.1.2 Process of Tax Reform

It is one thing to devise a model blueprint for tax reform, it is quite another to have it ready when the moment is ripe for reform and to apply it successfully. A number of the country studies illuminate the important steps that should guide the reform process. It is important, for example, to have the appropriate policy measures “On the shelf” before a fiscal crisis strikes in order to forestall the adoption of ill advised tax reforms. Successful tax reform efforts also require detailed knowledge of the defects on the current system, especially a sense of who pays taxes at his industry, firm, and household level as well as a feeling for how the distribution of tax burden would be effective by alternative tax measures that attempt to improve matters. Reforms are also more likely to be successfully adopted if local policy makers are actively involve in their design and implementation and reform results in the creation of the cadre of local tax exports that identify with, and assume responsibility for the success of the reform. While successful tax reforms always invest in better tax administration, in the end reformed measure most is compatible with existing tax administration capacities and tax planning (*Kandel; 2005*).

2.1.2 Different Ways of Minimizing the Tax Liability

A tax is a compulsory contribution by a person to the government without having any direct benefit for the payment. Being not shift able, direct tax is a burden to the tax payer. That means, in case of direct tax, a person paying the tax and bearing the burden of the tax is same. Income tax is one of the direct taxes. In case of income tax, the taxpayer should pay the tax amount from his income. Because, he should pay some part of his saving to the government, it is painful to the taxpayer. Due to this painfulness, some persons have compared income tax with the death or delivery of a child. Since it is painful, every one wants to reduce the tax liabilities as far as possible.

The tax executive may reduce the tax-cost burden by keeping in mind the following four axioms (*Oza, 1971*)

1. Increase the deductible expenses:

Another axiom used for minimizing taxes is to increase the amount of deductible expenses from the total computed income. Depreciation policies, inventory valuation methods, larger benefits to the employees in non-taxable forms, financial planning, research and development programmers and insurance expenditure are some of the areas where the business executives can use their knowledge and experience in tax planning.

2. Avoid the recognition of income under the frame work of the law.

The recognition of income for tax purpose is avoided by mortgaging instead of selling any disposable property. For example, if any property is exchanged subject to mortgages on it, instead of exchanging it for property plus cost, the money received in consideration for mortgaged property will not be included in total income for income tax purposes.

3. Reduce the applicable tax rates:

Applicable tax rates can be reduced by establishing multiple entities and paying out the gains in the form of capital gains instead of cash dividend to the shareholders. Similarly, the other method generally adopted for reducing the applicable. Whether tax is reduced at the company level or in the hands of shareholders, it is one and the same thing. Legally, whatever may be the position, but informally, there is no separate existence of the companies from its shareholders. The interests of the shareholders are the interests of the company.

4. Affect the timings of income and expenditure:

While choosing the financial year, due consideration should be given to the seasonal fluctuations of the business activities and accounts should be adjusted accordingly. If, there is abnormal profit in the newly created company, efforts should be made to include offsetting period in other not to distort income or loss in the first assessment. If there is possibility of extraordinary gains, either in the preceding or succeeding years, the taxable income is a reduce by spreading the income, forward or backward by shifting the transactions, either at the end of the preceding year or in the beginning of the succeeding year, as the case may be. Hence, the selection of the financial year is an important consideration from the view point of taxation. Once the period is selected, it cannot be changed without a prior permission of the income tax authorities

Similarly, the transactions of expenditure can be adjusted. If there is possibility of extra-ordinary expenditures, either in the preceding or succeeding years, the taxable income can be reduced by spreading these expenditures forward or backward, by shifting the expenditures, either at the end of the preceding year or in the beginning of the succeeding year, as the case may be. The above discussion suggests the need for the proper allocation of income and expenditure for minimizing the tax liability.

There are different ways of reducing the tax liabilities has been presented as under:

2.1.3 Tax Evasion

Tax evasion is the way of reducing tax liability by illegal means. “Action by the taxpayer which entails breaking the law and which moreover can be shown to have been taken with the intention of escaping payment of tax” is generally regarded as tax evasion. It is done through different ways: (*Kandel; 2005:300*).

- Non-reporting and Under reporting 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 a sin but tax reduction a pious duty towards the shareholders, consumers as well as the economy by which the companies are enabled to develop and complete successfully, not only in the national but also in the international markets. Under no circumstances, companies should design maligned policies to evade taxes. But, they would be shrinking from duties, if are not seeking ways to keep the tax cost at the minimum, under the frame work of national statutes. Management must consider the adoption of each and every fair method of reducing tax cost provided; these are not in conflict with the sound business practices, policies and precepts”(*Oza; 1971:83*).

Basically, the reasons of tax evasion can be divided into two – non-tax factors and tax factors. Non-tax factors include educational background, price policies of the government, government rules and regulations, public sector salaries, government’s expenditure policy and others. Tax factors include tax rate, tax base, tax structure, penalty system, probability of detection, magnitude of the strictness of penalty and possibility of applying penalty if evasion on income from legal activities, whereas non-tax factors are related with illegal activates.

Mainly, there are three types of effects of tax evasion in the economy. They are: (*Kandel; 2005:300*).

- Loss of 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 evasion is a major problem to the government in developing countries. There are several types of tax evasion:

- Unilateral (taxpayer himself),
- Bilateral (with the connivance or assistance of government official),
- Trilateral (from the collusion of tax officers, tax auditors and tax payers),
- Multilateral (all parties from government to taxpayer).

In a word 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. If we tear the mask; the face looks alike. It means, more or less, all use to evade taxes.

2.1.4 Tax Avoidance

Tax avoidance is saving taxes without actually breaking the law. It is using the loopholes of the tax law. It is not illegal but unethical. Tax avoidance is the art of dodging tax without actually breaking the law (*Srinivas; 1989:156*).

In other words, it is a transaction entered into with full legal backing. However, such activities are of those kinds that the legislature does not want to encourage. The following are the criteria used by English and Italian court to find out tax avoidance: (*Kandel; 2005:301*).

- Use of colorable devices,
- Defeating the genuine spirit of law,
- Twisting of facts,

Taking only strict spirit of law and suppressing the legislative intent. We can see following characteristics of a tax evasion:

- Basically, there is presence of an element of artificially or, to put this another way, the various arrangements involved in a scheme which do not have business or economic aims as their primary purpose;
- In some cases tax advisers sell ready-made avoidance, one term of the contract of sale being that the taxpayer keeps the facts secret for as long as possible. It is in the interest of the avoiders to keep the administration from learning about new schemes because official and public knowledge may be followed by legislation to counter that kind of avoidance;
- Tax avoidance often takes advantage of loopholes in the law or of applying legal provisions for purposes for which they were not intended (e.g. provisions designed to encourage manufacturing of equipment being used for leasing of motor vehicles).

Sec 35 of 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. This act has made the

provision against tax avoidance sec 35 of the act has given certain rights to Inland Revenue Department to maximize tax avoidance.

In conclusion, tax avoidance is the reduction of tax liability through the manipulation of existing law. It is legally permissible but unethical.

2.1.5 Tax Delinquency

Tax delinquency is also one way of reducing tax liabilities. In this case the liability is reduced in present 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 can not escape in the long term (*Kandel, 2005:305*).

2.1.6 Tax Planning

Tax planning is also one of the ways of reducing the tax amount by the taxpayer. However, in contrast to tax evasion, tax avoidance and tax delinquency, it is legal, ethical and economic.

The word tax planning is made from the combination of two words- tax and planning. Tax means compulsory payment to the government and planning means taking decisions about the future by choosing the best from different alternatives. Every business organization has to make decision while conducting its business activities. That means every business organization uses to plan as regards to its future activities. Such future activities may be of short term, medium term or long term and operational or strategic. If tax factor is considered while planning the business activities of an organization, it is tax planning.

In other words, tax planning is the scientific planning of the companies operations in such a way as to attract minimum liabilities of tax of various incentives, concessions, allowances, rebates and relieves. It is not only the planning of infrastructure of the business and industries 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. In short, it is a judicious use of tax incentives provided by the government. It is also defined as the exploitation of tax concessions in

accordance with Parliament's intention. It has objectives (*Kandel; 2005:306*) of:

- Reduction of top liabilities,
- Maximization of liabilities,
- Productive investment,
- Healthy investment,
- Healthy growth of the economy and
- Economic stability

2.1.6.1 Importance of Tax Planning

Tax is the payment of money by person to the government. Because of the involvement of money in tax paying, it is a burden to the taxpayer. So each and every taxpayer wants to reduce it. The reduced liability, on the other hand, includes the people or investor to do the extra investment work. In case of individual also, the reduction of tax liability encourages to do extra work. Due to this reason, government provides certain facilities to the public related to tax matters. It is known that the use of such facilities by the people is tax planning. Tax planning has certain implications or importance. The major among them are: (*Kandel; 2005:308*).

- 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. There are subsidiary advantages also of tax planning. They can be:
 - It helps in increasing working capital.
 - It helps in analysis of risk.
 - It helps in an increase of profit distribution.
 - It creates easiness in day to day work.
 - It enhances competitive abilities.
 - It creates good business environment.

2.1.6.2 Characteristics of Tax Planning

The features (*Bhattraï and Koirala; 2004:193*) of tax planning can be stated as follows:

- It is a designed way of reducing tax liability.
- It is related to future activities.

- It is use of expertise to get conscious by given facilities.
- It is legal, ethical and economic.
- It is the genuine use of facilities provided in the income tax law.
- It establishes a good relationship between government and business community. It enhances a healthy environment in the country.

2.1.7 Tax Management

In tax literature, there is another word named tax management that is similar to tax planning. However, there are differences between tax planning and tax management. Tax management is the efficient, systematic and timely handling of tax matters to save the maximum amount of time, talent and treasure to avoid worry, tension, stringent penalty and prosecutions. It is maintenance of records and documents, filing of tax returns in time and performing other tax related duties (*Kandel; 2005:308*).

2.1.8 Scope of Tax Planning Under Income Tax Act, 2058 B.S.

During 1950s to 1980s there was great scope of tax planning in most of the countries of the world. So many types of tax incentives provided such tax planning facilities. In this regard, developed countries provided investment allowance and accelerated depreciation, whereas developing countries provided tax holidays for the purpose of promoting the investment. Besides these, other types of tax facilities were also provided to the industrial sector in that period. In Nepal, Industrial Enterprise Act, 2018 B.S., Industrial Enterprise Act, 2031, Industrial Enterprise Act, 2038 and Industrial Enterprise Act, 2049 provided many types of tax facilities to the industrial sector. Due to these facilities provided to industrial sector in Nepal and the world at large, there was the need of expert knowledge to find out the actual facilities provided and to act as per the law. This necessity of tax expertise and tax research of that time introduced the concept of tax planning. It means there was great scope of tax planning at that time.

After 1990s the trend of tax system reversed. Now, there is fashion of reducing the tax facilities provided to the industrial sector. “Low rate, wide net” is the main slogan of the current taxation system in the world. All over the world, the scope of tax planning is reduced to some extent in these days. Nepalese government also has changed its course and abolished most of the tax

facilities provided by industrial enterprise acts. New income tax act has been brought to increase the net of taxation. The rate of taxation has been reduced to the lowest possible rate. In Nepal, the present tax rate is 20 to 30 percent in contrast to 60 to 65 percent during 1960s, 1970s, and first half of 1980s. That means, during these days, the scope of tax planning is reduced in Nepal too as in other countries of the world. However, still there are some avenues where the tax experts can make tax planning. For the purpose of easiness in discussion, such avenues can be divided into two parts:

-) Long term or strategic tax planning
-) Short term or operational tax planning

2.1.8.1 Long Term or Strategic Tax Planning

The following can be the areas of tax planning as per Income Tax Act, 2058 as regards long-term planning (*Kandel; 2005:311*).

1. Selection of the form of organization

There are three forms of business organizations- proprietorship, partnership, and company. A firm can plan the tax while selecting the form of business organization because different types of tax facilities are provided to different forms of business organizations. Proprietorship firms get exemption facility but a company and partnership do not. Progressive tax rate is applicable to proprietorship firm but fixed tax rate is applicable to a company. A company should pay double taxation to the government, i.e. one from the profit of a company and another from the dividend received by an individual, whereas a proprietorship should not pay double taxation. Individuals get medical facilities but companies do not. Individuals should follow cash basis of accounting but a company should follow accrual system. That means the companies have to face a difficult type of tax system than the individual or proprietorship. There are so many discriminations against the companies in favor of individual and proprietorship. Accordingly, Income Tax Act, 2058 favors favorably to co- operative institutions. As per the new act, the income of all the co-operatives based on rural areas and municipalities with lack of infrastructures are exempt from income tax. Agriculture and forestry related co-operatives based on their municipalities are also free from income tax liability. Saving and credit co-operatives established in develop municipality also are given tax credit of 50 percent of the tax liability.

2. Selection of location

Tax planning can be used while selecting the location of the business. The industries established in backward areas get more facilities than the industries established in developed ones. As per the Income Tax Act, 2058; Kingdom of Nepal is divided into four parts- Remote area, undeveloped area, under developed area and other areas. The tax rate applicable to the industries established in the remote area is 70% of the ordinary rate. Tax rate applicable to the industries established in undeveloped area is 75% of the ordinary rate. Accordingly, the tax rate applicable to the industries established in underdeveloped area is 80% of the ordinary rate. These facilities are provided to special industries for ten years.

There is provision of remote area allowance also to natural person according to Income Tax Act, 2058. The act provides up to Rs. 30,000 remote area allowance(A Class area- Rs.30,000, B Class area- Rs.24000, C Class area- Rs. 18000, D Class area- 12000 and E Class area- Rs 6000)

The selection of the area can also be used for the purpose of tax planning in international context. If the business is established in that country with which Kingdom of Nepal has double taxation avoidance agreement, the business house should pay tax one time only. The countries having double tax avoidance agreement area India, Pakistan, Sri- Lanka, Mauritius, Thailand, Austria, Norway, South Korea, and China. Accordingly, an investor can plan to investment in that country where the Income Tax rate is very small. Such countries in the world are Ireland, Argentina, Caribbean countries etc. Hong Kong has no income tax at all. Especially, multinational companies see the tax rates before establishing the main office.

3. Selection of business

An investor can plan to minimize the tax by selecting those areas of business activities where the tax rate is low. He can do this when he has the idea of establishing the business. As per Income Tax Act, 2058; different types of tax rates are applicable to different types of business activities. For example, agricultural activities are tax free. Business activities that are related to industrial sector except tobacco and alcohol, i.e. special industry should pay the tax at 20%. The business related to export and construction of infrastructure projects like construction of road, bridge,

tunnel, rope way, sky bridge, electricity generating and transmission etc. also should pay only 20 percent tax. Business related to insurance, finance and banking activity and petroleum industry should pay 30% tax from their income. Other business, except stated above, should pay 25% tax. This means a business organization can plan about tax before selecting the line of business.

4. Selection of the product

Tax can be planned while selecting the product to be produced. The investor which invests in hydropower generation, transmission or distribution and construction of infrastructure project like the road, bridge, tunnel, rope way, flying bridge, trolley, train etc. should pay only 20% tax. Investors investing to produce petroleum product should pay 30% tax. Industries related to tobacco and alcohol should pay tax at 25%. As regards loss recovery period also there is scope of tax planning based on selection of product. Loss recovery period for BOT (Built Operate and Transfer) and BOOT (Built, Own, Operate and Transfer) project is seven years with carrying forward provision, whereas business organizations producing other products have the facilities of carrying foreword of loss for four years. Accordingly, banking activities and long term contract get carrying backward provision, whereas other activities do not get such facilities.

5. Selection of sources of capital

There are three sources of capital viz. share capital, debentures, or loan, and retained earnings. The reward for share capital, debentures or loan and retained earnings are dividend, interest and capital gain respectively. In Nepal, the tax rates applicable to each of these sources of capital are different. In is taxed at 6 percent if loan is from natural person but dividend is taxed at 5 percent final with holding. In case of capital gain, the tax rate is 10 percent for he gain on the disposal of non-business chargeable assets related to natural person where as the profit from the disposal of other asset is taxed at normal rate of profit, i.e. 20 percent, 30 percent and 25 percent respectively for industrial firms, financial firms and other respectively. Accordingly, interest to a business organization is a deductible expense but dividend and capital gain are not. Naturally, this means favorable treatment to debenture and loan. This favorable treatment to debenture, loan, obviously, creates the scope of tax planning employing more loan than share capital or retained earnings. Since, Income Tax Act, 2058 also has favored debt, making interest deductible expense; the firm can minimize tax by engaging more loan than other forms of capital. If the

organization has to obtain the capital from borrowing, the expenditure in this respect is allowable expenditure since Income Tax Act, 2058 has not kept this type of expenditure under capital one.

6. Size of business

Size of business can also be used for the purpose of tax planning. If the business house are of those doing business of less than Rs. 12, 00,000 or has the annual income of less than Rs. 120,000, the taxpayers are within the area of presumptive taxation. According to Income Tax Act, 2058; such taxpayers should pay Rs. 2000 as taxation if the business is in metropolitan or sub-metropolitan area. They should pay Rs 1500 as tax if they are established in any municipality area and Rs. 1000 if they are established in area other than metropolitan, sub-metropolitan and municipality. Furthermore, transporters should pay income tax for the income earned by vehicles at the rate of Rs. 1500 for bus, truck minibus, mini-truck etc. Rs.1200 for microbus, car, jeep, van etc. Rs. 850 for three- wheelers, auto- rickshaw and Rs. 750 for power tiller, tractor etc.

The number of employee can also be used for the purpose of tax planning. If one industry has more than 600 Nepalese employees, it should pay only 90% of the ordinary tax rate. ($90 / 100 \times 20 = 18\%$)

7. Merging of business

There are certain techniques that help in minimizing the tax to be paid to the government by way of merger of a firm with another. One of these techniques, under merger is the inclusion on non-industrial unit into industrial unit. That means merging industrial and non- industrial unit. Non-industrial unit, in this respect, means firms that are related to trading. It is clear that according to Income Tax Act, 2058; a trading business has the liability of paying 25 percent tax, whereas an industrial unit means vertical integration of a business. Thus, by integrating non- industrial and industrial unit, a firm can save some percentage of the total tax to be paid to the government. The government has made this provision because merger helps for the liability growth of enterprise. Furthermore, merging of loss-making unit to profit- making unit is also beneficial from the point of view of tax saving since the profit of profit making unit can be adjusted to the loss 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.

2.1.8.2 Short Term or Operational Tax Planning

1. Acquisition of fixed assets

Business organizations need different types of fixed assets for running business activities. Such assets may be plant and machinery, vehicle, building etc. The organization can plan to minimize the tax liabilities while acquiring the fixed assets. There are two alternatives to get fixed assets- one is buying and another is leasing. In case of purchasing, the organization can save tax by way of depreciation, whereas in case of leasing, the tax can be saved by way of lease rent. The organization should evaluate both these alternatives while acquiring the fixed assets. If a fixed asset is purchased through borrowing, the interest on capital can be deducted as expenditure.

Dealing with land and building is another avenue where the tax can be planned. If one organization purchases building with land without attributing the value to land separately, depreciation on the whole cost is possible at the rate of 5 percent. If building is constructed after purchasing the land or there is separation of value for land and building, the depreciation for building only can be claimed.

2. Repair and improvement cost

According to Income Tax Act, 2058, the business organization is allowed to deduct the repair and improvement expenses from its income. However, there is limitation as regards such expenditure. Only 7% of the depreciation base can be deducted as repair and improvement cost in one year. If the repair and maintenance cost is greater than 7 % of the depreciation base, the excess of 7% can be capitalized and carried forward to next years. Here, note that while deriving the depreciation base, the capitalized repair and improvement expenditures can not be included as per Rule 7 of the Income Tax Rules, 2059.

The organization can see tax implication in making repair and improvement expenses also. In case of capitalized expenditure, there will be decrease in the recovery of repair and improvement cost due to inflation factor. It means present value of future recovery will be less than the present value of present recovery.

3. Pollution control device

Income Tax Act, 2058 has allowed to deduct the expenses related to purchasing or installing of pollution control device. However, there is limitation in this regard. Only 50% of the adjusted taxable profit can be deducted in one year and the remaining amount can be capitalized. Here, adjusted taxable income means income before deducting donation, pollution control expenses and research and development expenses. While making such expenditure, it would be better to keep this within 50 percent of the adjusted taxable income. Inflation factor reduces the present value of future recovery future recovery in this case also.

4. Research and development expenses

As in the case of pollution control expenditure, research and development expenses also are allowed by Income Tax Act, 2058. The limit of allowable expenditure is 50% of the adjusted taxable income. If it is more than 50% of the adjusted taxable income, it can be capitalized. Because of the capitalization, the present value of expenditure is reduced and so the tax can be planned in making this expenditure also.

5. Stock valuation system

Income Tax Act, 2058 has allowed deducting the cost for maintaining stock. For the purpose of finding out the value of closing stock, cost price or market price whichever is less is allowed. For costing purpose, two methods are allowed by Income Tax Act, 2058. In case of cash accounting system, prime cost method should be adopted, whereas in case of accrual accounting system, the absorption cost method is permitted. If the cost of stock can not be derived, FIFO or average cost method is allowed to use. In case of stock valuation also, the organization can see the tax implication. For example, FIFO method of valuation is more costly than the average cost method, if tax factor is considered. That means an organization following FIFO method should pay more tax than the organization following average cost method. So, it is better to use other methods of valuing the stock from the viewpoint of tax.

6. Donation

A taxpayer can deduct the donation made to tax- exempt organization in any income year. The

limit of such donation should be actual amount donated or Rs. 1 lacs or 5 percent of the adjusted taxable net profit. By notifying in Gazette, the Government can allow unlimited amount of donation to certain institutions. As announced in Finance Ordinance, 2060; the donations made to Lumbini Development Trust and Pashupati Area Development trust do not come within limitation of 5 percent. Up to Rs. 50 lacs can be contributed to these two trusts without counting the limit of 5% or Rs. 100000 which ever is lower. Thus, donation is also one of the avenues of tax planning of the investor.

7. Retention or distribution

Tax planning can be done while deciding to distribute the dividend or retain the money in the organization. If the distribution is made, the dividend tax rate is 5 %. If there is retention, the capital gain tax rate is 10%. Tax planning can be done while purchasing the share capital of a company. If investment is made in foreign company, the whole dividend should be added to the income. Instead, the dividend from the resident company is taxed only at 5 percent.

8. Remuneration of employee

Income tax Act, 2058 has made taxable most of the allowances that were not taxable under Income Tax Act, 2031. However, there are still some facilities given to employees by the new act under which the tax planning can be made. Such facilities are up to Rs 30000/- remote area allowance, meal and Tiffin expenses, contribution to retirement fund, medical expenses or medical insurance cost of up to Rs. 750/-, Vehicle facility of up to 0.5 percent and house rent facility of 2% of the salary of the employees. The organization can see all these facilities while restructuring the remuneration of the employees. If husband and wife of any person are employed, it will be beneficial to file separate return. But if only one person of the family is earning income, the joint return is beneficial.

2.1.9 Tax Planning for Various Types of Payments and Activities

2.1.9.1 Remuneration

Tax planning can be done while planning the remuneration of the employees. So, the corporate taxpayers should pay careful attention while planning the remuneration of the employees. The tax planning in case of employees' remuneration needs the study of the tax law from both the

point of views, i.e. from the point of view of employer and from the point of view of employees. On one side, the employer has to adopt steps to get eligible facilities to the maximum extent. On the other, the benefit that can be availed to the employee also should be evaluated so that they also do not find themselves in disadvantaged position. Income Tax Act, 2031 had so many provisions that were beneficial to the employees. Income Tax Act, 2058 has abolished most of the facilities provided by Income Tax Act, 2031. However, there are still some provisions which help to plan the tax in relation to remuneration.

The following incomes are included in the remuneration of one employee (*Kandel;2005:318*).

- Payments of wages, salary, leave pay, overtime pay, fees, commissions, prizes, gifts, bonuses, and other facilities,
- Payments of any personal allowance including any cost of living, subsistence, rent, entertainment, and transportation, allowance.
- Payments providing any discharge or reimbursement of costs incurred by the individual or an associate of the individual,
- Payments for the agreement to any conditions of the employment,
- Payments for termination or loss of service or compulsory retirements,
- Retirements contributions including those paid by the employer to a recognized retirement fund in respect of the employee, and retirement payments.
- Other payments made in respect of the employment
- Other amounts as given in chapter 6 of the act, i.e. perquisites and any gains due to change in tax accounting required to be included.
- From the view point of the employer, the following are the areas where the tax planning can be made:
 - The employer can provide facility either by providing residence to the employee or vehicle facility. However, the employer should consider that 2 percent of the employee's remuneration as Sec. 27 of the Act and Rule 13(2) of the Income Tax Rules should be included in taxable income. Accordingly, he can provide vehicle facility also to the employee by adding 0.5 percent of the remuneration of the employee to his taxable income.

- Rule 21 of the Income Tax Rules, 2059 says that the contribution limit to the retirement fund of a natural person in one financial year can be Rs. 3 lac or one third of assessable income whichever less is.
- If related to business and investment, the expenses made on training of employees except those providing degree or diploma is an allowable expense.
- Tiffin and meal expenses provided to all the employees equally by the employer irrespective of their official position are exempted from tax.
- Ten percent of the net profit before tax can be given to the employees as bonus to the employees.
- An employee can save tax through increasing the magnitude of retirement contribution. Income Tax Rules, 2059 has allowed to deduct the remuneration from taxable income. The extent of such facility as per Rule 21 of the rule is one third of assessable remuneration or Rs. 3 lac or actual whichever is less. Still now, it is the custom of the organizations that they provide only the provident fund facility where employer contributes 10 percent and employee contributes the same. Full capacity of the facility provided by the act is not utilized in this case.
- According to section 50 of the Act, resident couple can select to file return jointly by having joint request for particular. If husband and wife both earn remuneration, the organization can advise the employees to file separate return. By doing so, they can save the tax getting higher amount of exemption limit because, in such case, they both get the exemption limit of Rs. 80,000. If they file joint return, they can avail only Rs. 100,000 as exemption. In contrast, if only the husband or wife is earning income, it would be better to file joint return.
- The employer can provide the employee certain amounts of money where final with holding is made in place of regular amount of salary if the annual remuneration of the employee attracts 25 percent of the tax rate. The main reason of doing so is the less tax rate on with holding than on the regular amount of salary.

2.1.9.2 Self Employment

Self employment means conducting earning, activity without being engaged to any organized body. In being specific, self employment denotes doing business on own behalf. It can also be

categorized as the small- scale business.

There is scope of tax planning in case of self- employment also. The self- employer can be dignified citizen of the country by having the tax planning. Self – employer can save tax by availing various facilities provided by the tax law. Different ways of saving the tax by self- employer can be as follows:

- Presumptive taxation: Income Tax Act, 2058 has made a provision of presumptive tax to small taxpayers. The threshold for presumptive taxation is Rs 120,000 income or Rs 1200,000 turnover of the business. The amount of tax that should be paid by a taxpayer that comes under the presumptive limit for individuals conducting business in the Metropolitan or Sub-Metropolitans Cities is Rs 2,000 for individuals conducting business in Municipalities is Rs 1,500, and for individuals conducting business anywhere else other than stated above in Nepal is Rs 1,000. The self- employer can plan tax before establishing the business considering the above stated provisions. There is provision of presumptive taxation to those who earn income from operating vehicles also. The annual rates of income tax per vehicle are Rs. 1500 for minibus, mini truck, truck and bus; Rs. 1200 for car, jeep, van and micro bus; Rs 850 for three wheeler, auto- rickshaw and tempo, Rs. 750 for tractor and power tiller.
- Exemption limit and progressive tax rate: According to Income Tax Act 2058, proprietorship firms get exemption facility of Rs. 80,000/- if the owner is individual and Rs. 100,000/- if the owner is couple. Progressive tax rate is applicable to proprietorship but fixed tax rate is applicable to a company. Company should pay double taxation to the government, i.e. one from the profit of a company and another from the dividend received by an individual, whereas a proprietorship should not pay double taxation. Individuals get medical tax credit but companies do not. The facility of medical tax credit is Rs. 750 per year or 15 percent of approved medical expenditure or medical insurance whichever ever is less. A self- employer can use this facility to minimize the tax liability. He can establish individual firm in place of company or partnership.
- Retirement fund facility: At the time of Income Tax Act, 2031; only the employed men used to get the retirement fund facility. Income Tax Act, 2058 has abolished this

discrimination. Right now, self –employed person also can contribute up to one third of assessable income or Rs. 300,000 whichever is less for retirement fund.

2.1.9.3 Capital Structure

Basically, there are two sources of capital, namely, debt and equity. Equity source can also be divided into two parts-retention and new issues. The combined form of all these sources of capital is called capital structure. A business organization uses to have a capital from particular sources as per the need and benefit.

Within present tax system, tax authorities use to treat different sources of capital differently. A debt capital is more favorable than the equity capital. The reason is, the interest paid is a deductible expense in profit and loss account. It means interest on debt reduces the tax to be paid to the government. As per the Income Tax Act, 2058, interest on debt is a deductible expense if the debt is used in activities related to earning of profit (Sec. 14). In contrast to the facilities provided to debt financing, the cost of equity, whether it is new issue or retained earning, does not get any facility. The dividend (cost of new equity) and capital gain (cost of retention) are not the deductible expenses before paying the tax. They do not save tax. Other things remaining the same, the person using equity as the source of capital should pay more tax than the person using debt as capital. Due to this discrimination between the debt and the equity source of financing, there is scope of tax planning while thinking about raising the capital.

2.1.9.4 Depreciation System

Income Tax Act, 2058 has abolished the system of providing right to taxpayer for selecting the depreciation system. The new act has made the pool based diminishing balance method for structure, office equipment, vehicle and machinery mandatory. Accordingly, it has prescribed straight line system of depreciation for intangible assets. So, in comparison to Income Tax Act, 2031; there is limited scope of tax planning through depreciation planning. However, there is scope of reducing tax liability through proper planning of depreciation expenditure (*Kandel; 2005:334*).

- Income Tax Act, 2058 has kept certain provisions in Appendix 2 of the act as regards the depreciation. As per the law, the assets classified for depreciable purpose are five

- comprising building, structure, and similar works of a permanent nature in class ‘A’ computers, data handling equipment, fixtures, office furniture, and office equipment in class ‘B’, automobiles, buses and minibuses in class ‘C’. Likewise, the assets included in class ‘D’ are construction and earth moving equipment, capitalized amount of research a development expenses and pollution control expenses as per Sec. 17 and any depreciable asset not included in another class. Maintenance and improvement expenditure capitalized in last year is also included in depreciation base. The assets categorized for class ‘E’ purpose are intangible one.
- For the purpose of deriving the amount of depreciation per year, Income Tax Act, 2058 has prescribed a formula based on pool system. The formula, according to the law, is depreciation amount = Depreciation base x depreciation rate
 - The depreciation rates applicable to each pool are: Class A, 5 percent; Class B, 25 percent; Class C, 20 percent; Class D, 15 percent and Class E, the cost divide by the useful life of the asset in the pool calculated at the time the asset is most recently acquired by the person and rounded down to the nearest half year.
 - The Act has provided special depreciation facility to the special industries. According to the act, the additional facility provided by the act is 33.33 percent of the normal rate of depreciation.
 - If the depreciation basis of a tangible asset at the end of an income year reduced by depreciation produces an amount that is less than Rs 2,000 additional depreciation of the pool is calculated as equal to that amount.
 - Costs that are included in a person’s pool of depreciable assets are added to the depreciation basis of the relevant pool in two portions. The first portion is added at the time the asset is added to the pool or the cost is incurred, whichever is later, and the remaining portion of the cost is added during the next income year if the pool has not been dissolved. If the portion is to be added between the start of the income year and the end of Poush the whole is added; if the portion is to be added between the beginning of Magh and the end of Chaitra, 2/3 is added and if the portion is to be added between the beginning of Baisakh and the end of the income year; 1/3 is added.

2.1.9.5 Location of Industrial Setup

As per the Income Tax Act, 2058, there is scope of tax planning while selecting location of the business also. The provisions under the Income Tax Act, 2058 as regards to location of business help in tax planning. For example, in remote area, an individual can avail up to Rs. 30,000 remote area allowance. Special industries established in remote, underdeveloped and underdeveloped area should pay only 70 percent, 75 percent and 80 percent of the statutory rate (sec. 11, sub-sec. 3) for ten years.

The scope of tax planning is enhanced due to provision of applying different amounts of taxes to firms situated in different types of cities. Business having up to Rs. 12, 00,000 transactions or Rs. 120,000 income in metropolitan and sub-metropolitan city should pay only Rs. 2,000 as tax. Business of the same nature in municipalities should pay Rs. 1500 and business of the same nature in VDCs should pay Rs. 1000 (Annex 1 of the Income Tax Act, 2058).

2.1.9.6 Leasing or Buying

The assets of one organization can be purchased in two ways- lease or outright purchase. Leasing or outright purchase can be made by borrowed fund or own capital. If the assets are leased, the taxpayer can claim for the rent and management fees. If it is purchased, there is the facility of depreciation. If borrowed funds are used, the interest to be paid can also deduct. While making the decision regarding leasing or buying, the tax planning can be done by considering these factors.

2.1.9.7 Timing of Activities

It is already discussed that a business organization uses to have two types of planning- strategic and project day to day operations. There are certain activities for which governments use to provide certain tax facilities. These facilities, according to Income Tax Act, 2058 are the provision of allowing deducting the pollution control device expenditure, research and development expenditure, repair and maintenance expenditure, depreciation, donation etc. Timing activities denotes the planning of different activities in time frame in such a way as to obtain maximum tax facility from such expenditure. It includes the planning of future business expenditure in such a way under which maximum amount of tax saving can be made. In other

words, it is scheduling of future business expenditures with the objective of saving maximum amount of tax. There are certain factors which should be considered for the purpose of timing of activities. They are:

- The main thing to be considered in this respect is the saving of tax. The tax planner should maximize tax payment as far as possible.
- Loss should be recovered at first because it can be recovered only within certain duration. According to Income Tax Act, 2058; the time period to recover the loss is 4 years in ordinary case. it is infrastructure project, the loss recovery period is 7 years.
- After recovery of loss, research and development expenses and pollution control expenses should be recovered. The reason is 50% of adjusted taxable income can be recovered in the year of investment. The remaining balance also can be capitalized and recovered in next years.

2.2 Review of Previous Studies

This section presents the review of the previous studies have been done so far conducted a study and their major findings. Though there are no enough dissertations relating to the title, I have tried to collect some more information throughout the following thesis;

Prof. Oza (1971) presented an article "Corporate Tax-Planning and Managerial Decisions" which was published in "Indian Journal of Commerce" in 1971 A.D. In the article, he analyzed various aspects of corporate tax planning and managerial decisions. He showed mainly about tax evasion and how tax executive reduce the tax-cost burden. His conclusion was No business should bear tax cost more than required by the law. But, due to ignorance about and complexities of the law there are a number of companies which are paying more than the required taxes. There are many cases as discussed in this paper where the management may help the company in minimizing the tax-cost. It is, therefore, suggested that the big companies should set up their own tax department for corporate tax planning purposes. The small companies should employ tax consultants to assist the management in forming policies tax-cost oriented. The tax executive should formulate the policies in such a way that it may be adopt able to future

changes in tax payers situation and it should not expose the tax payers to the unbearable risks.

Dr. Agrawal (1984) has presented a report to Ministry of Finance entitled "Direct Tax Reforms in Nepal." In his report, he has shown resource gap in Nepal was in its increasing trend. So, the dependency on foreign aid was increasing. He has shown an urgent need to mobilize additional resources from domestic resources. He had shown that the growth rate of direct taxes had been lower than the growth rate of total revenue as well as total taxes. Registration fees have the maximum buoyancy whereas income tax has the lowest buoyancy; urban property tax has been found to be most elastic. He has strongly recommended a Revenue Service. Political and other pressures should not be subjected to tax administration. Self-assessment should be encouraged. Assessment of small tax payers should be on a door-to-door basis. Capital gain should be included in income for income tax purpose. Most of the suggestions recommended by him have been adopted in the new act.

An economic commission established by HMG on 27th Jestha, 2036 B.S., Published its preliminary report on 'Arthik Aayog ko Pratham Charan ko Pratibedan' in 1979 A.D. This report deals for the development of the tax system in Nepal is suggests reforms for the different taxes in Nepal. However, in the present context the report is irrelevant (HMG, 2036 B.S.).

After a long time in **1990; Dr. Poudyal and Mr. Timsina** published a book entitled "Income Tax in Nepal." This book is base on the B.Com syllabus and income tax act 1974. This book contained theoretical as well as practical ideas of then income tax in Nepal.

Dr. Poudyal Kshatry (1998) had published a book named "Corporate Tax Planning in Nepal." In this book, he is based purely on aspects of Income Tax Act 1974 and industrial Enterprises Act 1982 and 1992 which grant various income tax incentives to the industrial units. He was related to the analysis of corporate income tax and it's planning only. He had described corporate tax planning in respect of strategic planning, project planning and operational planning from which some Nepalese companies in general have been taking advantage of tax benefits. His book is very useful to know the idea about corporate tax planning.

Dr. Dhakal (2002) presented his revised edition of his "Aayakar Tatha Ghar-Jagga Kar Sambandi Kanun ra Lekha." This book is based on Income Tax Act, 2031 B.S. This book is

very much useful in getting knowledge about history of taxation and the practice under the previous act.

Mr. Mallik (2003) had published a book named "Nepal ko Aadhunik Aayakar Parnali." This book is very much useful to anyone who is interested in the subject of taxation. In his book, he has explained income Tax Act, 2058 B.S. with examples wherever necessary. He has presented the complex act in simple manner so that it will be easy to understand the act. He has shared his expertise in his book which is descriptive and analytical. All the provisions in the act have been clarified in simple language. He has also clarified why some of the tax exempted amounts have been brought into tax net by the new act. In some cases, he has also compared the provisions of the old act and the new act.

Dr. Kandel (2005) presented a book named "Tax law and Tax planning in Nepal". He has also explained the legal provisions relating to Income Tax Act, 2058 and value Added Tax Act 2052 with illustrative examples. On the other hand, this book tried to explain about tax planning with separate chapter by which the interested person can be learned the concept of Tax Planning.

Mr. Karki (2005) has presented a dissertation entitled 'Theory and Practice of Tax Planning in Nepal'. Main objectives of his study were: To study the concept of tax planning, to examine the applicability of tax planning in Nepal, to analyze the tax planning practices followed by Nepalese companies. His Major findings are, 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. Most of the tax payers are using tax planning knowingly or unknowingly. They use the various alternatives for minimizing tax liability. In that process, they follow both legal and illegal sources on which they become safe from fines and penalties. He found that tax planning is done by each and every company but the degree of tax planning depends upon the strategy, and plan made by the company. Large Scale Company can spend more in tax planning activities made by tax experts. In fact, tax planning has not been used properly in practice. There is not proper administration about the implementation of tax planning in Nepal. Tax planning has not been implemented according theory in practice lack of co-operation of all the responsible parties.

Tax payers could not be able to explain the exact view of tax section, sub-section, heading etc. It was found that vast analysis of language had made them confused. Similarly, negligence of tax administrators has also brought problem in the correct decision of tax planning. Tax payers have

accepted the application of tax planning in Nepal but they have not been regular for the proper utilization of tax planning. They have also accepted that tax planning reduces their tax liabilities and makes healthy growth of the economy. But they also complained of weak administration of tax officer. The trend of tax planning in Nepal is still in preliminary stage. It needs various improvements in terms of administration, training, criteria, simplicity and so on. Most of the tax payers have not been able to utilize the full phase of tax planning and he recommended that the Different tax rate for resident and non-resident companies. Tax rebates to non-industrial company setup in industrially backward areas. Provision of best judgment assessment in true spirit, Provision of interest on unpaid tax and refund, Separate tax section to be setup by companies, Tax incentives for revival of sick units are the suggestions given by him.

Mr. Koirala (2005) presented a dissertation entitled “Effectiveness of Advance Taxation on Income Tax Generation in Nepal.” The main objectives of his study are to examine the current position of Advance Taxation in Nepal and to identify the problems loopholes and potential remedial measures of income tax including advance tax management in Nepal. After his study he found some problems pertaining advance tax collection for generating maximum amount of income tax has been found. These problems are: assessment delay, undue delay in settlement of filled appeals with revenue tribunal, negative attitudes and behavior of tax authorities in the time of tax payment and clearance and vague provisions that produce disputes. These problems have been affecting to generate the high amount of income tax through advance taxation. Main source of advance tax is the corporate sector that carries more than 80% of the advance tax and the individual sector carries less than 20% of the advance tax on total advance tax collection. The contribution of the advance tax on total revenue was very poor but contribution on income tax is increasing in recent years. There are nominal numbers of taxpayer in advance tax among the overall taxpayer and he recommended that the corporate and individual sector should be encouraged to pay the advance tax by providing tax incentives. The government should give the strong attention to impose the existing laws, rules and policies. There is a situation of lawlessness remote areas. It should be controlled. Strong political and bureaucratic commitment should be needed to reform the tax administration. Advance taxation is also not far from these variables, managing the installments collection; lurching awareness program, training and development, reward management, fines and penalty establishment of separate department of tax, record management and co-ordination between other departments is organizations.

Mr. Kandel (2008): A thesis entitled practice of tax planning in Nepal a comparative study between listed manufacturing companies and non manufacturing companies has find that the capital structure, acquisition of the fixed assets and location of industrial settle are widely

practice in tax planning in Nepal. It also reveals that the major difficulties in implementation tax planning tools and lack of experience knowledge, difficult to evaluation the cost and benefits of tools and high expenses. It has recommended that tax planning is the best suitable way to reduce the tax liability. Since 100% of listed companies are practices tax planning tools to reduce tax liability. The conclusion derived from the study is Nepalese companies give less priority to tax effect with formulate capital structure even tax planning players vital role in managerial decision position of tax planning is very weak and it is similar to tax avoidance in practices in Nepal. The companies want to pay tax with in the provision of ITA 2058 and IEA 2049 but they don't want to dispute for concessions allowances incentives rebate and rewards with tax officers which the problem usually face. The study has recommended the government has to issue the liberal policy to get rid of the entrepreneur burdens. It has also recommended the company not to be overly depending upon the traditional tolls of tax planning and make necessary interaction with academicians.

2.3 Research Gap

Research is search again and again for unlimited period of time. When reviewing the different thesis, dissertation, journals, articles and other publication there seems several attempts to way out the concept of tax planning system. Most of research has been only focused on use of secondary data. Previous research had objectives about the theoretical concept of tax planning and their findings were to provide different tools and technique for tax planning, whether these research were not based on effectiveness or ineffectiveness of tools and techniques in actual behaviors. Most of the researches were conducted within the boundary of case study based on listed company, manufacturing and non manufacturing company or comparative of the two different companies. Some researches were found only the description of facilities provided by the tax act. Thus to fill up these gaps this research is conducted. This research is a purely opinion survey type study thus al the data are collected through questionnaire, interview, discussion and direct observation at working station of the different tax experts and the companies. Thus this study is only one outlet which has with the finding of whether the tax planning is effectively practiced or not in Nepalese tax payers and tax experts.

CHAPTER – III: RESEARCH METHODOLOGY

The third chapter on this study is under the research methodologies which materialize the way of solving the research problem systematically. Therefore, research methodology is used for the achievement of the objectives of the study.

This represents research design, nature of data, nature and gathering procedure of data, population and sample and data processing procedure. This study is mainly concentrated on the theory and practice of tax planning in Nepal. Research Methodology, therefore, is designed and implemented to study about the sources, causes and methods of tax planning.

3.1 Research Design

As per nature of study survey research design has followed with descriptive and analytical approach. Thus research design is the overall frame work for the achievement of the goals and objective of the research.

3.2 Source of Data

Mainly the source of primary data and information has been used in this research. Some important sources of primary data are opinion survey through questionnaire, interview and discussions, field visit and mailing information of the respondents.

3.3 Population and Sample

The companies which are in existence and head office located in Kathmandu valley and some tax experts and tax administrators are considered as the target population and sample for the study. The respondents are categorized into two groups on their nature. The tables below clearly describe target population, sample drawn below and sample percentage.

Two set of questionnaire related to the objectives of the study has been prepared for tax expert and tax payers for 60 respondents each. From the distributed questionnaires only 50 respondents have given response. Some questionnaires are sent through fax service, some through direct visit to the respondents. The researcher has also collected the information from direct observation and through interview and personal meeting with the respondents at their own desk and out the working station.

The researcher has both interesting and boring fact that more then half informants were interested to the questionnaire distributed to them but some of the respondents has been busy on their own work and reluctant with the time that I have taken to them.

3.5 Procedures of Data Presentation and Analysis

The information received in different aspects of income tax from primary data was first processed for tabulation then after descriptive analysis. Some important questions were tested through hypothesis test also.

The result of each and every question out of the questionnaire was submitted respectively. Similarly, they were ranked and planned in order by editing and coding. The views of the respondents about the questions were presented in respective order so that the analysis was fully based on the respondents. The cumulative result of each question was described in the form of respondent language. For the purpose of analysis generally simple statistical tools have been used which are as follows:

-) Tabulation Chart and Bar Diagram,
-) Simple percentage,
-) Chi-square test for hypothesis,
-) Rank Correlation

3.6 Weight of Choice

The questionnaire has been prepared either in the “Yes” or “No” format, choice format, rank format and to specify according to their perception. In the rank alternatives, the first has got the highest point and the last choice has got lowest point. The total point available to each alternative has been converted into percentage figure. The alternative with the highest percentage has been

ranked as most important and the alternative with the lowest percentage has been ranked as the least important. For example, if there are five alternatives, the most important alternative has been ranked with five points and the least important alternative ranked by the respondent has given point one. Similarly, the alternative which is not ranked has given any point for the data generation purpose.

CHAPTER –IV: DATA PRESENTATION & ANALYSIS

4.1 Data Presentation and Analysis

Data presentation and analysis is the body of research expressing in terms of systematic way to understand. Chapter IV has with the data and information collected from the primary sources i.e. questionnaire, interview and field study. This chapter is the main body of the study, which answer the research problems for obtaining the specific goals of the research. It helps for summarizing conclusion and findings of the research.

All together this chapter introduces the 50 sample units of Tax experts (including Reg. auditor, Charter account, teacher and lawyer), tax administrators and tax payers (Nepalese companies) as well as personal view attribute about the tax planning.

4.1.1. Information About the Company

Out of 50 samples, out of them, there are 10 Bank and Finance companies, 1 Insurance company, 2 construction compani,2 manufacturing companies,2 hospital and nursing home, 3 Trading companies. Most of them are private and public companies. Tax planning is the main subject matter of private companies because the government companies feel less responsibility about this matter. That's why; it is given more priority to private companies for data collection to analyze the practice of tax planning in Nepal. These all companies were located in Kathmandu and Chitwan only.

4.1.2. Information About the Respondents

The research study is with the views from 25 Tax experts and tax administrators and 25 are Tax payers. Out of 25 tax experts and tax administrator it has been subdivided in to 7 chartered accountant , 6 registered auditor, 8 tax administrator or say officer, one Lawyers and 3 respondents from teacher i.e. from teaching profession. The group B representing Tax payers are with 25 respondents too. The composition for the adequate information generation it has been classified in to 10 tax payers from Banks and finance companies, one from insurance companies, two each from construction, manufacturing and hospital and nursing home, while three from trading companies, one from College and lastly four respondents from individual tax payers i.e.

Employees. The questionnaire has been distributed to them for the views and any confusion regarding question has been clarified by the researcher. There was slightly problem in making open ended questions to tax payers rather than tax experts. In some context the question has been translated into Nepali language as well. In aggregate all the respondent has been come up with the proper views to meet the research objectives.

4.2 Understanding about Tax Planning

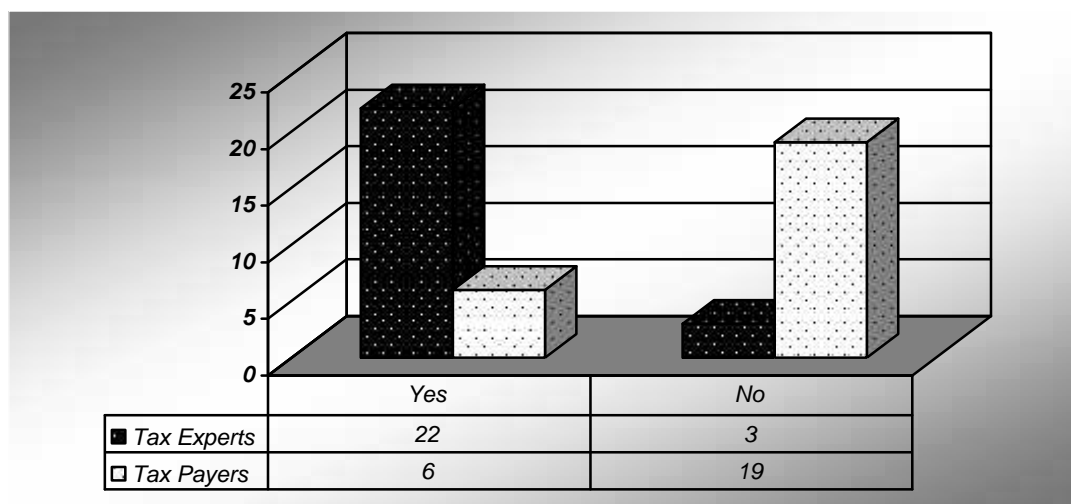
Question asked to carry the opinion regarding the familiarity of tax planning among the opinion from the respondents has been presented in the following table:

Table; 4.1: Understanding Tax Planning

Options	Respondents				Total	
	Tax Experts	%	Tax Payers	%	No.	%
Yes	22	88	6	24	28	56
No	3	12	19	76	22	44
Total	25	100	25	100	50	100

Source: opinion survey, 2009

Fig.4.1: Understanding about Tax Planning



From the table no 4.2 and fig.4.1, it is observed that 88% of tax experts and 24% of tax payers said that they have been known about the term of “Tax Planning”.

But 12% of tax experts and 80% of tax payers are unknown about tax planning.

As a whole, 56% of the total respondents have known about Tax planning whereas 44% are unknown. However they are utilizing the facilities provided by the Act knowingly or unknowingly. On the other hand, those respondents who are familiar with the concept of tax planning replied that they utilized every benefits provided by the government in terms of tax planning. Mainly, the large industries used to follow tax planning. They used to audit their statements internally and externally by the expert auditors. They compared tax liabilities at every type of taxable works regarding the facilities given by the tax law. So, they are very careful about tax planning. Though there was system of tax planning. They are not completely utilizing the tax planning in some extent because of confusing tax law and changeable government policy.

44% of the total respondents have not understood about tax planning. They were in confusion that tax planning is proper utilization of revenue by the government. They have used to take advantages of the facilities provided by current law partially lack proper knowledge about tax planning. So, they use some advantages as facilities given by the government but not as the form of tax planning. According to their view, it is found that they try to minimize tax liabilities by collecting benefits as less as possible from the customer. They have expressed their views on the favor of the customer satisfactions. Indeed, they said that they cheat the government but give benefits to the customer by charging low price.

Table 4.2: Observed frequencies

Options	Respondents		
	Tax Experts	Tax Payers	Total
Yes	22	6	28
No	3	19	22
Total	25	25	50

Source: table no. 4.1

Null Hypothesis. H₀: There is no relation between the opinions of tax experts and tax payers in the proportion of familiarities with the term ‘Tax Planning’.

Alternative Hypothesis. H₁: There is relation between the opinions of tax experts and tax payers in the proportion of familiarities with the term ‘Tax Planning’.

Under null hypothesis, the expected frequency for each cell can be obtained as follows:

$$E = \frac{RT \times CT}{N}$$

$$E_{(22)} = \frac{28 \times 25}{50} = 14, \quad E_{(6)} = \frac{28 \times 25}{50} = 14$$

$$E_{(3)} = \frac{22 \times 25}{50} = 11, \quad E_{(19)} = \frac{22 \times 25}{50} = 11,$$

Table 4.3 Computation of Chi-square (χ^2)

O	E	O-E	(O-E)²	$\frac{(O-E)^2}{E}$
22	14	8.	64	4.5714
3	11	-8	64	5.8181
6	14	- 8	64	4.5714
19	11	8	64	5.8181
$\phi O = 50$	$\phi E = 50$			$\chi^2 = \frac{\phi(O-E)^2}{E} = 20.77$

Test statistic,

$$\chi^2 = \frac{\phi(O-E)^2}{E} = 20.77$$

Where,

$$\chi^2 = \text{Chi-square}$$

RT = Row total

CT = Column total

N = Total number of observations

O = Observed frequency

E = Expected frequency

r = No. of row

c = No. of column

Degree of freedom = d. f. = (r-1) (c-1) = (2-1) (2-1) = 1.

Level of significance = α = 1% = 0.01

Critical value: the tabulated value of χ^2 at 1% level of significance for 1 degree of freedom is 6.64.

Decision: Since calculated value of χ^2 is greater than tabulated value of χ^2 , the null hypothesis (H₀) is rejected. Therefore, it can be fine that there is relation between the opinions of tax experts and tax payers in the proportion of familiarities with the term 'Tax Planning'.

4.3 Applicability of Tax Planning in Nepal.

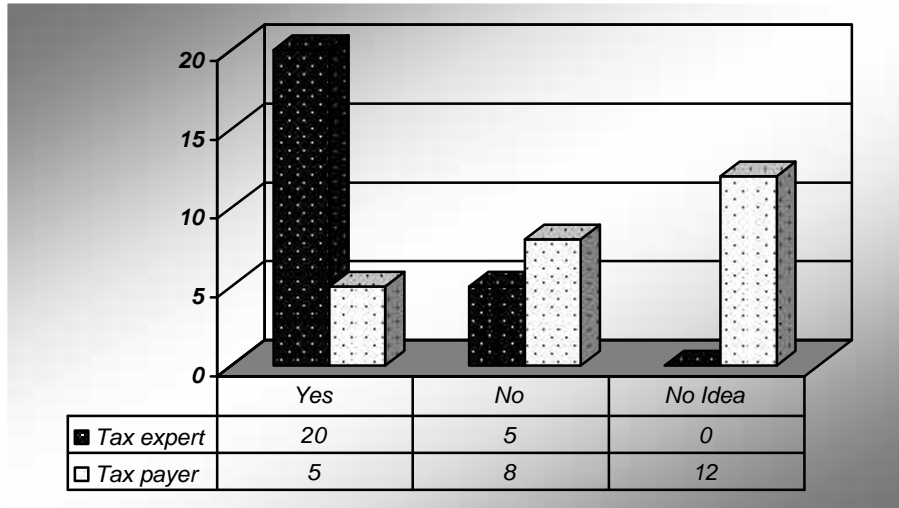
According to the selected respondents, the application of tax planning in Nepal has been presented in the following table:

Table 4.4: Applicability of Tax Planning in Nepal

Options	Respondents				Total	
	Tax Experts	%	Tax Payers	%	No.	%
Yes	20	80	5	20	25	50
No	5	20	8	32	13	26
No idea	0	0	12	48	12	24
Total	25	100	25	100	50	100

Source: opinion survey, 2009

Fig. 4.2: Applicability of Tax Planning in Nepal



From the table no4.4 and fig.4.2, it is observed that 80% of tax experts and 20% of tax payers said that tax planning is applied in Nepal. But 20% of tax experts and 32% of tax payers are said there is not applied of tax planning and none of the tax experts and 48% of tax payers have said no idea about either tax planning applicable in Nepal or not.

As a whole, 50% of the total respondents accepted that tax planning is being applicable in Nepal. Every taxpayer wants to minimize his/her tax liability by utilizing the maximum facilities of the tax law. Only the tax planning has been applicable for obtaining such purpose. So, they try to make strategic planning, project planning and operational planning by considering the facilities of tax planning. Tax planning has reduced the over burden of the taxpayers. Those who have to pay maximum tax can take advantage of tax planning. Small earner groups do not think about tax planning because their earning is equal to or less than exemption limit.

26% of the total respondents told that tax planning is not being applicable in Nepal. Most of the taxpayers have not understood about tax planning because they think it has vast concept and idea. There are various criteria that should be fulfilled for tax planning. A taxpayer cannot easily co-operate with this criteria. On the other hand, some taxpayers have habit of tax evasion and tax avoidance which they feel easy due to weak tax administration and loopholes of tax laws. For the proper application of tax planning, there should be stable, clear, reasonable and situational tax

law. In addition, there should be proper administration about self-assessment and awareness about the term "Tax Planning". Actually, there is a great deviation between theory and practice of tax planning in Nepal.

24% of the total respondents said that they are unknown about tax planning either being applicable or not in Nepal. They mean to say that tax planning may be applicable in an average. But they cannot be sure that tax planning is the solution of tax burden in Nepal. There may be various reasons about applicability and misused of tax planning in Nepal. They claimed they also feel some problem to apply tax planning because of dual meaning of some terms in take advantages of the given facilities only but never work against the motto of the tax law. They have not good knowledge about present Nepalese income tax act and rules.

Table no. 4.5 Observed frequencies

Options	Respondents		
	Tax Experts	Tax Payers	Total
Yes	20	5	25
No	5	20	25
Total	25	25	50

Source: table no. 4.4

Assumption: option of no and no idea are taken as same group

From table,

We have a hypothesis,

Null hypothesis. Ho: There is relation between the opinions of tax experts and tax payers in the proportion that tax planning is being applicable in Nepal.

Alternative hypothesis. H1: There is no relation between the opinions of tax experts and tax payers in the proportion that tax planning is being applicable in Nepal.

Under null hypothesis, the expected frequency for each cell can be obtained as follows:

$$E = \frac{RT \times CT}{N}$$

$$E_{(20)} = \frac{25 \times 25}{50} = 12.5,$$

$$E_{(5)} = \frac{25 \times 25}{50} = 12.5$$

$$E_{(5)} = \frac{25 \times 25}{50} = 12.5,$$

$$E_{(20)} = \frac{25 \times 25}{50} = 12.5$$

Table no. 4.6 Computation of Chi-Square (χ^2)

O	E	O-E	(O-E) ²	$\frac{(O-E)^2}{E}$
20	12.5	7.5	56.25	4.5
5	12.5	-7.5	56.25	4.5
5	12.5	-7.5	56.25	4.5
20	12.5	7.5	56.25	4.5
$\phi O = 50$	$\phi E = 50$			$\chi^2 = \frac{\phi(O-E)^2}{E} = 18$

Test statistic,

$$\chi^2 = \frac{\phi(O-E)^2}{E} = 18$$

Where,

$$\chi^2 = \text{Chi-square}$$

RT = Row total

CT = Column total

N = Total number of observations

O = Observed frequency

E = Expected frequency

r = No. of row

c = No. of column

Degree of freedom = d. f. = (r-1) (c-1) = (2-1) (2-1) = 1.

Level of significance = α = 1% = 0.01

Critical value: the tabulated value of χ^2 at 1% level of significance for 1 degree of freedom is 6.64.

Decision: Since calculated value of χ^2 is greater than tabulated value of χ^2 , the null hypothesis H_0 is rejected. Therefore, it can be said that there is relation between the opinions of tax experts and tax payers in the proportion that tax planning is being applicable in Nepal.

4.4 Suitability of Tax Planning for Minimizing Tax Liability

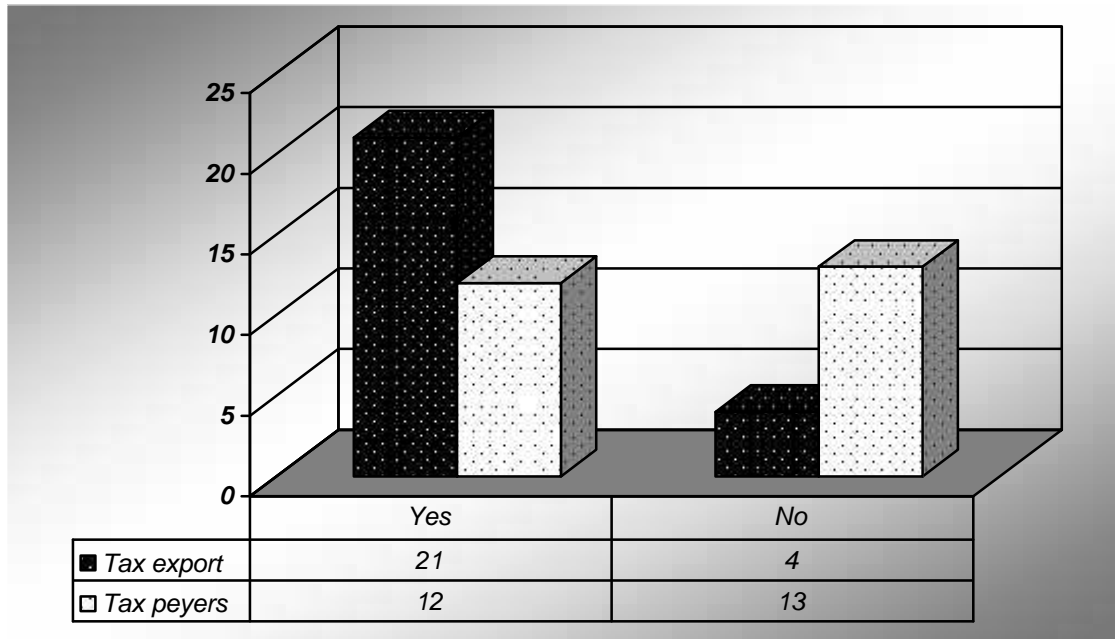
Minimizing Tax liability with the suitable tax planning view of tax expert and tax pears “suitability of tax planning for minimizing the tax liability” has been in the following presented table:

Table no. 4.7 Suitability of Tax Planning for Minimizing Tax Liability

opinion	Respondents				Total	
	Tax Experts	%	Tax Payers	%	No.	%
Yes	21	84	12	48	33	66
No	4	16	13	52	17	34
Total	25	100	25	100	50	100

Source: opinion survey

Fig 4.3: Suitability of Tax Planning for Minimizing Tax Liability



From the table no4.7 and fig. 3, it is observed that 84% of tax expert’s and48% of tax payers accept the tax planning is suitable for minimizing tax liability. But`16% of tax experts and 52% of tax payers are said it is not suitable for minimizing tax liability.

As a whole, 66% of the total respondents accepted that tax planning is suitable for minimizing tax liability. They explained that concept and principal of tax planning is good but it depends on its practice in our country.

Tax planning is the future planning of operational, strategic and project planning. Every activity in the country can be compared on the name of tax liability. The tax law provides certain concession, rebates and allowances to tax payers in order to enhance a healthy environment in the country. But there is a great problem of applicability due to lack of adequate administration, training, perception on tax planning. Thus, it is an arrangement of one's financial and economic affairs by taking complete legitimate belief of all dedications, exemptions, allowances, and rebates so that it minimizes the tax liability for the tax payers.

34% of the total respondents explained that the tax planning is not suitable for minimizing tax liability because most of the people have not understood the concept and idea of tax planning. So, they are wrongly accepting tax planning. Tax planning has provided rebates, concession and deductions for different locations; industries etc. but only such facilities could not win the motivation of the respondents. They need good training, stable facilities, securities, and special supports of the government. So, it is very vast and critical to get such facilities by the tax payers. They have not got moral support for tax planning. First of all, the government should have fair administration in tax application so that tax payer would be obliged for compulsory payment of tax. Then, they think positively about tax planning. But tax payers are taking more advantage by cheating the government or tax evasion rather than tax planning. So, the government should increase positive perception about tax planning by clear concept and developing subsidiary facilities like infrastructure, security and moral support and hunching tax educate programs.

Table no. 4.8 Observed frequencies

Options	Respondents		
	Tax Experts	Tax Payers	Total
Yes	21	12	33
No	4	13	17
Total	25	25	50

Source: table no. 4.7

From table, We have a hypothesis,

Null Hypothesis. H_0 : There is no relation between the opinions of tax experts and tax payers in the proportion that the tax planning is suitable for minimizing tax liability.

Alternative Hypothesis. H_1 : There is relation between the opinions of tax experts and tax payers in the proportion that the tax planning is suitable for minimizing tax liability.

Under null hypothesis, the expected frequency for each cell can be obtained as follows:

$$E = \frac{RT \times CT}{N}$$

$$E_{(21)} = \frac{33 \times 25}{50} = 16.5,$$

$$E_{(12)} = \frac{33 \times 25}{50} = 16.5$$

$$E_{(4)} = \frac{17 \times 25}{50} = 8.5,$$

$$E_{(13)} = \frac{17 \times 25}{50} = 8.5$$

Table no. 4.9 Computation of Chi-square (χ^2)

O	E	O-E	(O-E) ²	$\frac{(O-E)^2}{E}$
21	16.5	4.5	20.25	1.2272
12	16.5	-4.5	20.25	1.2272
4	8.5	-4.5	20.25	2.3823
13	8.5	4.5	20.25	2.3823
$\phi O = 50$	$\phi E = 50$			$\chi^2 = \frac{\phi(O-E)^2}{E}$ =7.2191

Test statistic,

$$\chi^2 = \frac{\phi(O-E)^2}{E} = 7.2191$$

Where,

χ^2 = Chi-square

RT = Row total

CT = Column total

N = Total number of observations

O = Observed frequency

E = Expected frequency

r = No. of row

c = No. of column

Degree of freedom = d. f. = (r-1) (c-1) = (2-1) (2-1) = 1.

Level of significance = α = 1% = 0.01

Critical value: the tabulated value of χ^2 at 1% level of significance for 1 degree of freedom is 6.64.

Decision: Since calculated value of χ^2 is greater than tabulated value of χ^2 , the null hypothesis H_0 is rejected. Therefore, it can be said that there is relation between the opinions of tax experts and tax payers in the proportion that the tax planning is suitable for minimizing tax liability.

4.5 Reasons for not Applying Tax Planning.

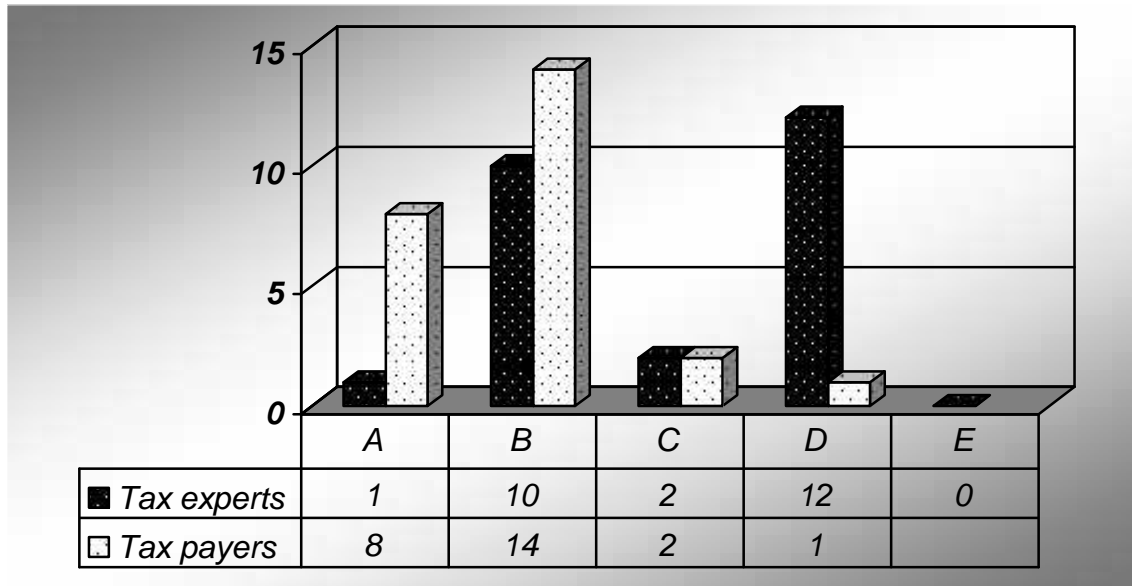
In question why their company has not applied tax planning, the reasons given by the respondents has been presented in the following table:

Table 4.10 Reason for not Applying Tax planning

S.N.	Reasons	No. of Respondents			% of Respondents
		Tax Experts	Tax Payers	Total	
A	Hard to follow the method of the tax planning	1	8	9	18
B	Idea and concept of tax planning are not clear	10	14	24	48
C.	Easy to take advantages of loopholes in tax laws	2	2	4	8
D	Lack of qualified man power	12	1	13	26
E	Others....(please specify)	0	0	0	0.00
Total		25	25	50	100

Source: opinion survey, 2009

Fig; 4.4: Reason for not Applying Tax planning



- A- Hard to follow the method of the tax planning
- B- Idea and concept of tax planning are not clear
- C- Easy to take advantage of loophole in tax law
- D- Lack of qualified manpower
- E- Others ...(if specific)

From table no. 4.10, only one tax experts agreed the reason hard to follow the method of the tax planning and easy to take advantages of loopholes in tax laws for not applying the tax planning in Nepal. But 10 of them accepted the reason idea and concept of tax planning are not clear and 2 export focus to easy to take advantage of loophole in the tax law for applying the tax planning in Nepal and 12 of them also accepted the reason lack of qualified man power. On the other hand, 8 of tax payers accepted the reason hard to follow the method of the tax planning, 14 of them agreed with idea and concept of tax planning are not clear, only 2 of them accepted with easy to take advantages of loopholes in tax laws and 1 of them accepted with lack of qualified man power.

As a whole, 18% of the total respondents said that tax planning is very hard process to use determination of deductible expenses, chargeable to current year P/L a/c, are confusing jobs. Pollution control cost, research and development cost are allowed for deduction at 50% of

adjusted taxable business income. The excess research and development cost are capitalized and depreciated under Pool 'D' from next year.

Similarly, losses from business can be carried forward up to next four income years. In addition to carry forward of losses, banking and general insurance business can carry back their losses to preceding five income years. Bank can avail this provision only if it does not maintain loan loss provision.

48% of the total respondents replied that idea and concept of tax planning are not clear. They said that depreciable assets have been defined according to Pool 'A', 'B', 'C', 'D', 'E'. But there were other assets like advertisement board, vehicles used for constructions of public nature and capital nature which have not been clearly classified into different pools groups.

There are vast rules for carry forward and carry backward, timing of activities, donation, and pollution control cost and research & development cost in the current tax law. It means that the rules for tax planning are not clear & simplicity.

In the current tax law, business assets mean an assets to the extent to which it is used in a business. However, the term does not include trading stock or a depreciable asset of a business. A piece of land used in business is an example of a business asset. The term itself suggests that only a business firm will have business assets. But it has not said about non-business asset clearly or assets used by non-business organization.

8% of the total respondents said that tax has many loophole and clever tax pears to take advantage of it. It is the art of dodging tax without actually breaking the law. Without resorting to illegal ways, they effect reduction in tax liability.

It means that there are various chances of colorable devices in the current tax law. It has made easy to defeat the genuine sprit of law, misrepresentation or twisting of facts and taking only strict interpretation of law and suppressing the legislatives intent behind it.

Loopholes in the tax law, thus, may be defined as any planning activity which is done under the legal privations but breaks the basic philosophy and sprit of the tax legislature. It is legally permissible but unethical.

26% of the total respondents showed their concern towards lacking of qualified manpower for tax planning. The reasons give by them clearly indicate that the provisions of tax law are instable or they are being changed according to government policy. Lack of clear concept and stability of tax law, the qualified manpower cannot be developed. On the other hand, there is no certain idea among the experts about tax planning which made confusing to the available manpower. As a result, they attract towards either feel tax avoidance or tax evasion and not a tax planning. In the mean time, they feel great burden for them. They felt to rescue from this burden at any cost. So, tax planning is still in practice in our country lack of stable law, clear concept and qualified manpower. None of the respondent said about other reasons for not applying tax planning in the company.

4.6 Methods for Reducing Tax Liability.

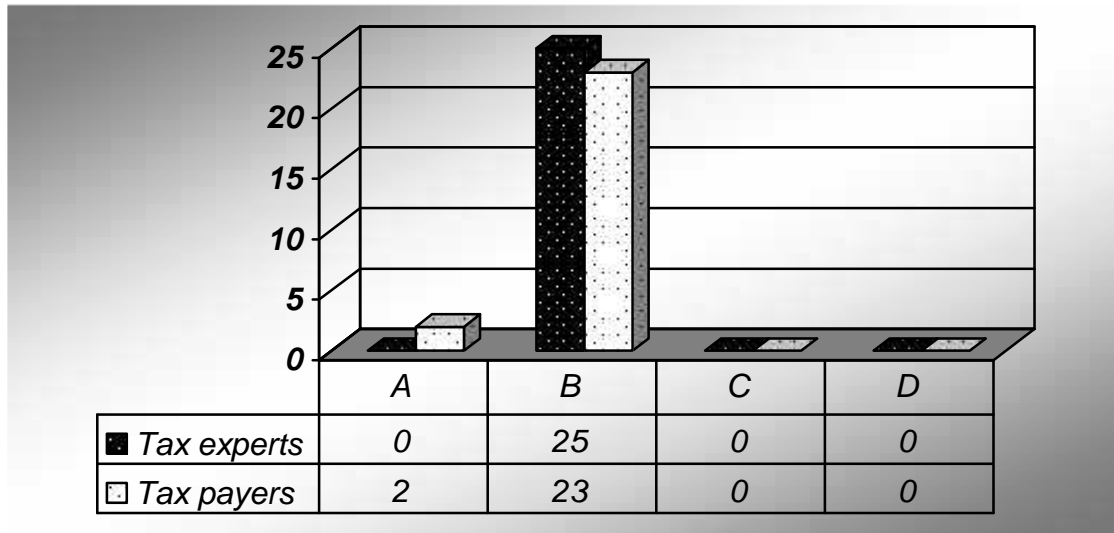
The methods for reducing tax liability among the (respondent) a question is asked with them. The result has been presented in the following table.

Table; 4.11: Methods for Reducing Tax Liability

S.N.	Methods	No. of Respondents			% of Respondents
		Tax Experts	Tax Payers	Total	
A	By taking advantage of loopholes in tax laws	0	2	2	4
B	By availing tax concessions, incentives, allowances, rebates and relief provided by existing tax law.	25	23	48	96
C	By over statement of expenses and understatement of incomes	0	0	0	0
D	If any (please specify)	0	0	0	0
Total		25	25	50	100

Source: opinion survey, 2009

Fig; 4.5: Methods for Reducing Tax Liability



- A. By taking advantage of loophole tax law
- B. By availing tax concession, incentives, allowances, rebates relief provided by tax law
- C. By over statement of expenses understatement of income
- D. If any...(give opinion)

From table no.4.11, none of the tax experts agreed the method by taking advantage of loopholes in tax laws, by over statement of expenses and understatement of incomes and other methods. But all of them accepted the method by availing tax concessions, incentives, allowances, rebates and relief provided by existing tax law. On the other hand, 2 of tax payers accepted the method by taking advantage of loopholes in tax laws, 23 of them agreed with the method by availing tax concessions, incentives, allowances, rebates and relief provided by existing tax law, none of them accepted with the reason by over statement of expenses and understatement of incomes and other methods.

As a whole, 4% of the total respondent said that by taking advantages of both loopholes and facilities provided in the tax law. They mean to say that loopholes are the weakness of the tax law which the government should avoid by proper tax administration. To take advantage of the

loopholes in the tax are not illegal. So, the taxpayers always try to do such work for reducing their tax burden. They use not only loopholes but also tax planning. Indeed, they do not search only loopholes in the tax law but in some cases where they get easily to take advantage of loopholes in the tax law. Most of the time, they use facilities provided by the tax law in their practical assessment purpose of the tax liability.

96. % of the respondents accepted that they reduce their tax liabilities by availing tax concessions, incentives, allowances, rebates and relief provided by existing tax law except two of them also added that they take advantage of loopholes in the tax law. In each step of their work, they consider the value and chances of concession, incentives, allowances, rebates and relief because these are very helpful for reducing their tax burden. They told that these facilities are very much essential for the proper utilization and mobilization of resources and development. They are liable for their duties using these facilities. These all facilities have been made for equal opportunities in each part of the country. They claimed that they do not search any weak points in the tax law to take advantage. They are always responsible for their long term duties. So they accepted to avail tax concessions, incentives, allowances, rebates and relief for reducing their tax liabilities.

None of the tax payers said that they reduce their tax liabilities by over statement of expenses and under statement of income. They said that such types of illegal and unethical work should not be accepted because they are responsible member for the government revenue. They should always pay their duties with fair statement by only taking advantage of tax planning facilities.

None of the respondents said about option no. four for other methods which can reduce tax liability. They said that they have no idea for it. As a whole, Most of the Nepalese taxpayers use loopholes of tax laws for minimizing tax burden.

4.7 Availability of the Maximum Possible Exemption, Concessions and Rebates etc in Nepalese Company.

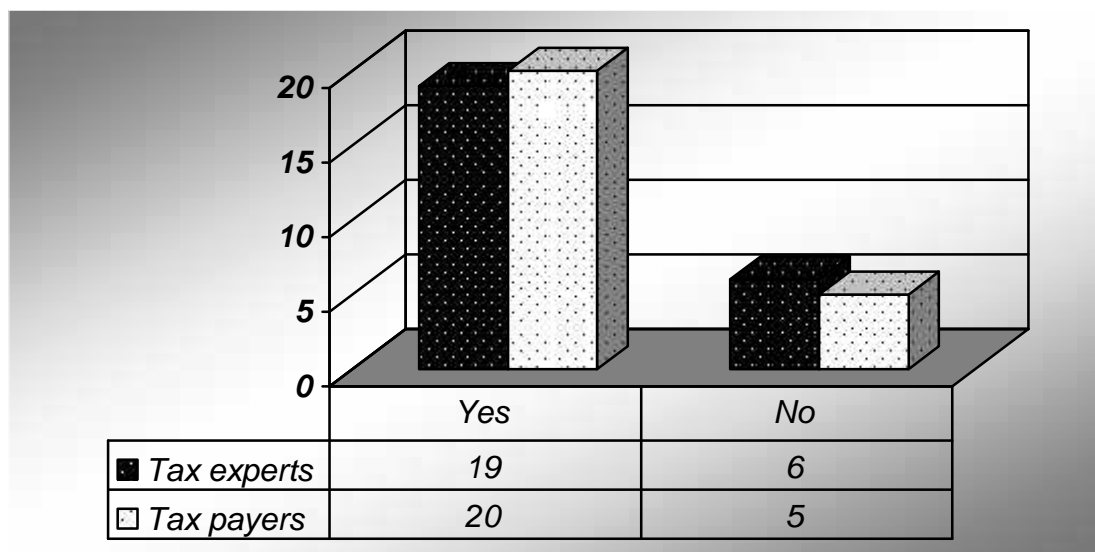
To know about the company to avail of the maximum possible exemption, concessions, rebates etc, the results have been presented in the following table:

Table; 4.12: Availability of the Maximum Possible Exemption, Concessions and Rebates etc in Nepalese Company

Options	Respondents				Total	
	Tax Experts	%	Tax Payers	%	No.	%
Yes	19	76	20	80	39	78
No	6	24	5	20	11	22
Total	25	100	25	100	50	100

Source: opinion survey, 2009

Fig;4.6: Availability of the Maximum Possible Exemption, Concessions and Rebates in Nepalese Company



From the table no 4.12 and fig.4.6, it is observed that 76% of tax experts and 80% tax payers said

that Nepalese company use maximum possible exemption, concessions and rebates etc. But 24% of tax experts and 20% tax payers are said they are not used these facilities properly.

As a whole, 78% of the total respondents said that they take advantage of the maximum possible exemptions, concessions, rabet etc. because of clear concept and idea of tax planning. They do not take this subject matter as their main concern. Only tax exemption limit, rebates are their main concern. If they know well about the concessions, they take advantages. They said that they have to fulfill various criteria to take advantage of concessions, rebates etc. So only the point where they are able to fulfill their criteria easily, they take advantage of such concessions, rebates etc. Otherwise, they do not create false environment for obtaining such facilities.

They do not search loopholes but had followed according to the current tax laws. Sometimes they have to consider about such facilities for doing any operational, strategic and project work. But they do not work only for such facilities. They always work for the betterment of the customer satisfaction. For example, make or buy decision is not only for the tax purposes but also for the customer satisfaction. Similarly, project selection is depend upon the long term benefit but not for short term rebates, concessions etc. Indeed, such facilities are compared on the long term satisfaction of the company's life. Their all the responsible works should be guided on the comparative, study of the tax. They are profit motive organizations. So, they had to select the beneficial aspect on their lives. They think that either they have chances of concession, rebates and exemptions on the particular works. On the other aspect, they have to think how they could reduce tax liability. They explained that they can save maximum only when they take advantage of such facilities.

22% of selected total respondents replied that they do not avail of the maximum possible exemptions, concessions and rebates etc. because they have lack of information about such provisions. But if they know such provisions they must use. On the other hand some of them are using this very little even they do not know about it.

Table; 4.13: Observed frequencies

Options	Respondents		
	Tax Experts	Tax Payers	Total
Yes	19	20	38
No	6	5	12
Total	25	25	50

From table no.4.12

From table,

We have a hypothesis,

Null Hypothesis. H_0 : There is no relation between the opinions of tax experts and tax payers in the proportion that the company avail of the maximum possible exemptions, concessions, and rebates etc.

Alternative Hypothesis. H_1 : There is relation between the opinions of tax experts and tax payers in the proportion that the company avails of the maximum possible exemptions, concessions, and rebates etc.

Under null hypothesis, the expected frequency for each cell can be obtained as follows:

$$E = \frac{RT \times CT}{N}$$

$$E_{(19)} = \frac{39 \times 25}{50} = 19.5, \quad E_{(20)} = \frac{39 \times 25}{50} = 19.5$$

$$E_{(6)} = \frac{11 \times 25}{50} = 5.5, \quad E_{(5)} = \frac{11 \times 25}{50} = 5.5$$

Table; 4.14:Computation of Chi-square (t²)

O	E	O-E	(O-E) ²	$\frac{(O-E)^2}{E}$
19	19.5	-0.5	.25	0.01282
20	19.5	0.50	.25	0.01282
6	5.5	05	.25	0.04545
5	5.5	-0.5	.25	0.04545
$\phi O = 50$	$\phi E = 50$			$\mathfrak{X}^2 = \frac{\phi(O-E)^2}{E} = 0.1135$

Test statistic,

$$\mathfrak{X}^2 = \frac{\phi(O-E)^2}{E} = 0.1135$$

Where,

\mathfrak{X}^2 = Chi-square

RT = Row total

CT = Column total

N = Total number of observations

O = Observed frequency

E = Expected frequency

r = No. of row

c = No. of column

Degree of freedom = d. f. = (r-1) (c-1) = (2-1) (2-1) = 1.

Level of significance = $\mathfrak{S} = 1\% = 0.01$

Critical value: the tabulated value of \mathfrak{X}^2 at 1% level of significance for 1 degree of freedom is 6.64.

Decision: Since calculated value of \mathfrak{X}^2 is less than tabulated value of \mathfrak{X}^2 , the null hypothesis H_0 is accepted. Therefore, it can be said that there is no relation between the opinions of tax experts

and tax payers in the proportion that the company avail of the maximum possible exemptions, concessions, and rebates

4.8 Appropriate Assessment for Submitting the Tax Liabilities.

The tools of assessment for submitting the tax liabilities have been presented in the following table:

Table; 4.15: Appropriate Assessment for computing the Tax Liabilities

Assessments	Respondents				Total	
	Tax Experts	%	Tax Payers	%	No.	%
Self-assessment	25	100	25	100	50	100
Jeopardy assessment	0	0	0	0	0	0
Amended assessment	0	0	0	0	0	0
Total	25	100	25	100	50	100

Source: opinion survey, 2009

From table no 4.15 all of the tax experts and tax payers have chosen self-assessment as a tool for submitting the tax liability. None of them have referred assessment procedures like jeopardy assessment, amended assessment etc.

As a whole, 100% of the total respondents accepted that they use self-assessment for submitting the tax liabilities because the Income Tax Act 2058 has focused the self assessment system. Under this Act, every assessment is treated as self assessment. When they file a return of income for an income year, an assessment is treated as made on self-assessment. They always use to submit their tax liabilities by taking advantage of concessions, rebates, relief, incentives, and allowances provided by the tax law. These are the facilities they could follow under self-assessment. There are various levels of fine and penal lies for those who violate the rules of the tax law. So, they never take advantage of self-assessment. None of the respondents said that they use jeopardy assessment for submitting the tax liabilities because this assessment is done under special circumstances according to Income Tax Act, 2058. They are:

-) When the person is about to leave Nepal indefinitely.
-) When the person becomes bankrupt, is wound-up or goes into liquidation
-) When the person is otherwise about to cease activity in Nepal or
-) When the department otherwise considers it appropriate.

Where an assessment is made under jeopardy assessment with respect to a full income year, they would not file a return of income for the year. However with respect to part of an income year, the assessed person is still required to file a return of income for the year.

None of the respondents told that they use amended assessment for submitting tax liabilities because they are regular taxpayer and never cheat to the government. So, there is not any doubt that tax officials have to make amended assessment to adjust their liabilities to tax in such a manner as, according to the department's best judgment. While amending an assessment, the department is required to grant an opportunity in writing to produce proof, if any, in own favor with respect to the assessment specifying the basis that leads to the amendment and giving time limit of 15 days.

4.9 Satisfaction Toward Different Planning

4.9.1 Satisfaction toward Tax Planning in Respect of Strategic Planning.

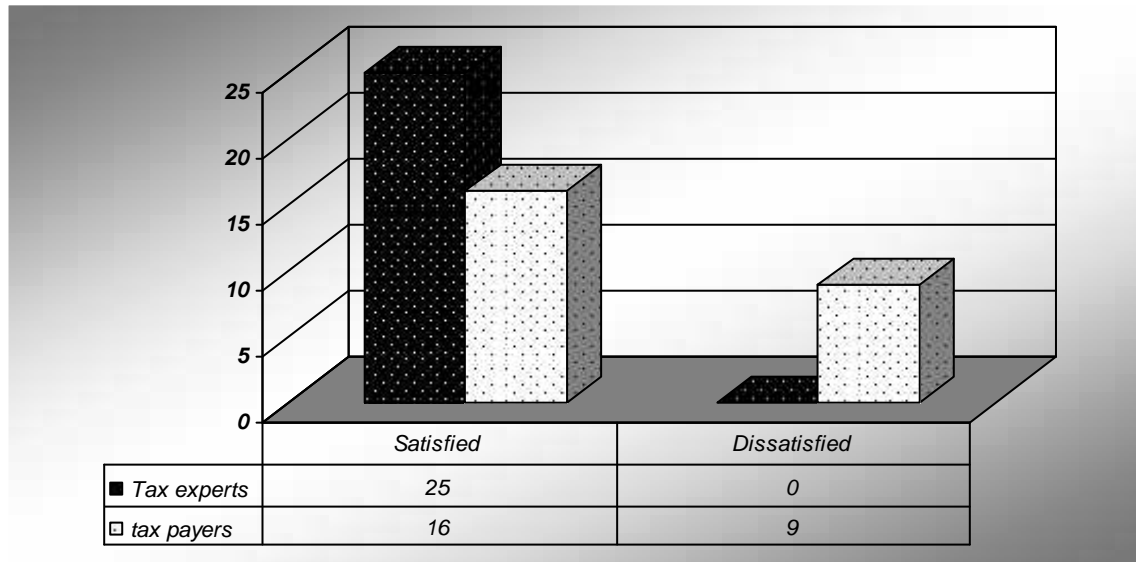
The result of satisfaction or dissatisfaction with tax planning in respect of strategic planning has been presented in the following table:

Table; 4.16 Satisfactions toward Tax Planning in Respect of Strategic Planning

Alternatives	Respondents				Total	
	Tax Experts	%	Tax Payers	%	No.	%
Satisfied	25	100	16	64	41	82
Dissatisfied	0	0	9	36	9	18
Total	25	100	25	100	0	100

Source: opinion survey 2009

Fig; 4.7: Satisfaction Toward Tax Planning in Respect of Strategic Planning



From the no. 4.16 and fig.4.7, it is absorbed that all of the tax experts and 64% of tax payers are satisfied with the tax planning in respect of strategic planning. But none of the tax experts and 36% of tax payers have not satisfied with the tax planning in respect of strategic planning.

As a whole, 82% of the total respondents said that they are satisfied with the tax planning in respect of strategic planning because they always consider about their future activities so that they can easily be successful in their attempts. At every aspect, they use to make such strategy so that they can minimize their tax liability. So, they claimed that they make strategy for the implementation of their policies and techniques that are related to reducing tax liabilities according to tax planning.

18% of the total respondents claimed that they are not satisfied with tax planning in respect of strategic planning because there are not enough facilities of tax planning in respect of strategic planning. Strategic planning is the process of determining the basic objectives of an organization and deciding the strategies and policies to achieve these objectives. It is the formulation of future direction aimed at relating the strategic advantages of a company to cope up with its environment.

4.9.2 Satisfaction Toward Tax Planning in Respect of Project Planning.

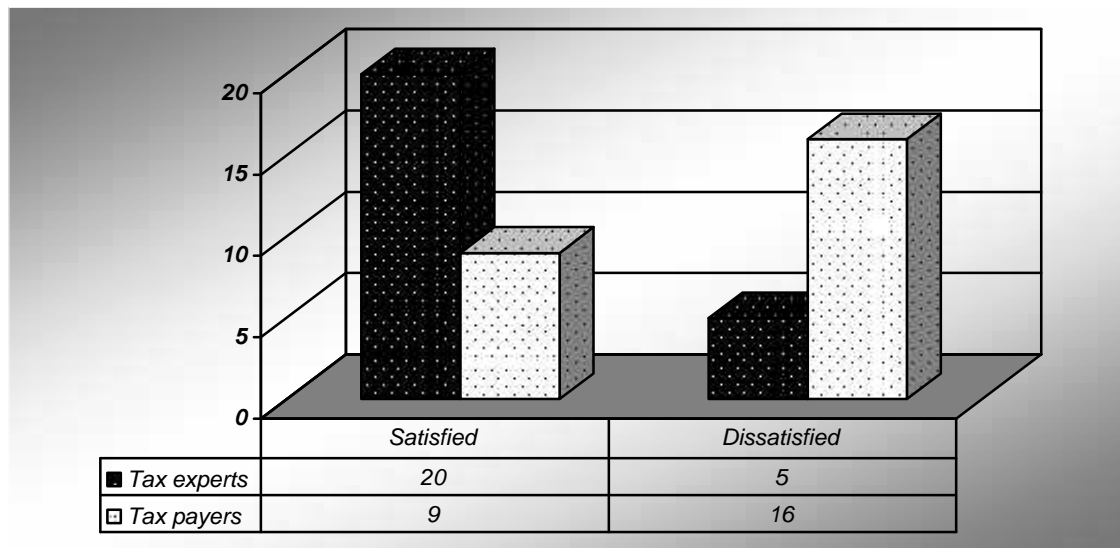
The results of satisfaction or dissatisfaction with tax planning in respect of project planning have been presented in the following table:

Table; 4.17: Satisfaction Toward the Tax Planning in Respect of Project Planning

Alternatives	Respondents				Total	
	Tax Experts	%	Tax Payers	%	No.	%
Satisfied	20	80	9	36	29	58
Dissatisfied	5	20	16	64	21	42
Total	25	100	25	100	50	100

Source: opinion survey, 2009

Fig; 4.8: Satisfaction Toward the Tax Planning in Respect of Project Planning



From the no. 4.17 and fig.4.8, it is absorbed that 80% of the tax experts and 36% of tax payers are satisfied with the tax planning in respect of project planning. But 20% of the tax experts and 64% of tax payers have not satisfied with the tax planning in respect of project planning.

As a whole, 58% of the total respondents said that they are satisfied with the tax planning in respect of project planning. Because there are facilities of tax planning in respect of expansion and diversification of business, make or by decision, acquisition of fixed assets, disposal of fixed assets, modernization, replacement, repairs and renewal of existing assets and so on. They can compare at every decisional segments of the project planning. They can utilize these facilities for reducing their tax liabilities. On the other hand, they claimed that there should be transparent facilities and recognition of tax concept and idea.

42% of the total respondents accepted that they are not satisfied with the tax planning in respect of project planning because the maximum planning facilities have been provided only to the manufacturing company and sole trading business organization. But the other company and partnership organization can not utilize or enjoy such facilities. Similarly, interest is deductible in case of funds where as dividend does not enjoy this benefits. Individual working in remote area A, B, C, D & E group has provision of remote area allowances. They mean to say that tax planning is not satisfied in respect of project planning.

4.9.3 Satisfaction toward the Tax Planning in Respect of the Operational Planning

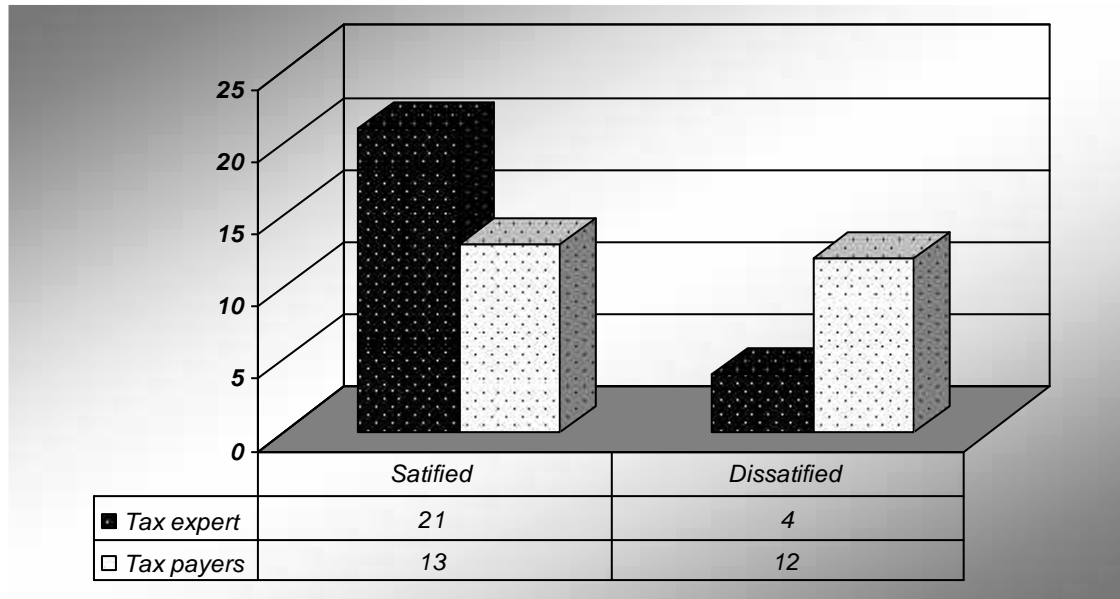
The result of satisfaction or dissatisfaction with the tax planning in respect of the operational planning has been presented in the following table:

Table; 4.18: Satisfaction toward the Tax Planning in Respect of the Operational Planning

Alternatives	Respondents				Total	
	Tax Experts	%	Tax Payers	%	No.	%
Satisfied	21	84	13	52	34	68
Dissatisfied	4	16	12	48	16	32
Total	25	100	25	100	50	100

Source: opinion survey, 2009

Fig; 4.9: Satisfaction toward the Tax Planning in Respect of the Operational Planning



From the table no.4.18 and fig.4.9, it is absorbed that 84% of the tax experts and 52% of tax payers are satisfied with the tax planning in respect of operational planning. But 16% of the tax experts and 48% of tax payers have not satisfied with the tax planning in respect of operational planning.

68% of the total respondent claimed that they are satisfied with the tax planning in respect of operational planning. Because the current tax law has provided the facilities on respect of choice of method of accounting, production decision, marketing decision, personnel revenue ration etc. The company can take such facilities as tax planning. For example, if husband and wife, in personnel remuneration, have submitted their taxable income separately to get benefit of exemption limit. The company can decide about the location segment, carry forward of losses, remote area allowances, tax rebates etc for the purpose of operational planning.

32% of the total respondents expressed that they are not satisfied with the tax planning in respect of operational planning. Because the tax under developed, undeveloped and remote area where the infrastructures are rare. So, only such facilities can not solve the problem of tax burden. Mainly in the Kathmandu Valley tax planning has not been considered as importance. They generally pay their tax with the same amount annually because they are maintaining their standard of operational planning.

4.9.4 The Result of Satisfaction toward the Tax Planning in Respect of Overall Planning.

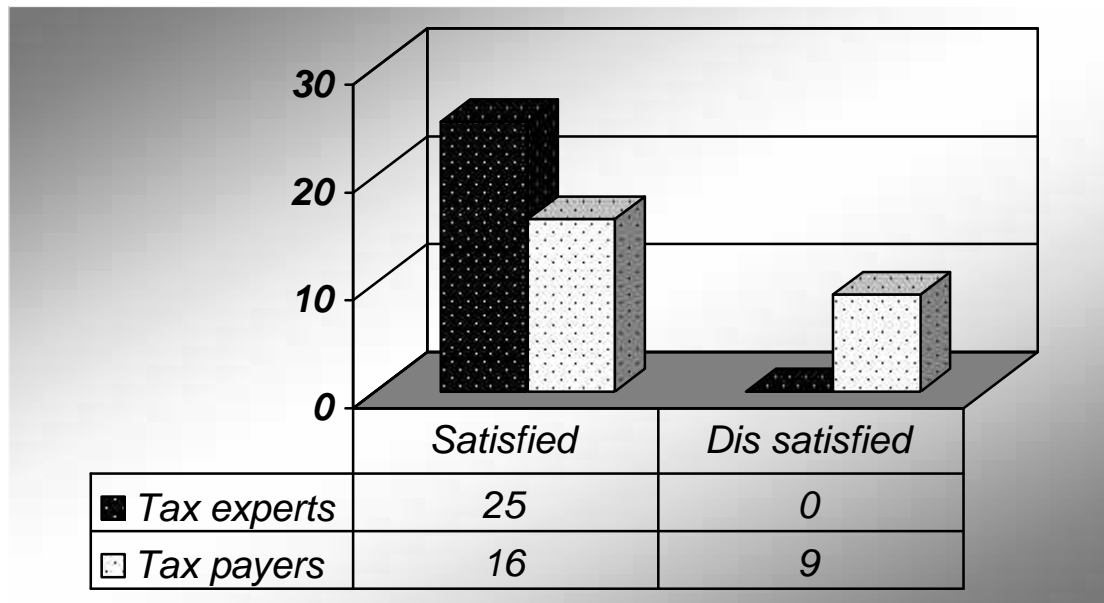
The result of satisfaction or dissatisfaction with the tax planning in respect of overall planning has been presented in the following table:

Table; 4.19: Satisfaction toward the Tax Planning in Respect of Overall Planning

Alternatives	Respondents				Total	
	Tax Experts	%	Tax Payers	%	No.	%
Satisfied	25	100	16	64	41	82
Dissatisfied	0	0	9	36	9	18
Total	25	100	25	100	50	100

Source: opinion survey, 2009

Fig; 4.10: Satisfaction towards the Tax Planning in Respect of Overall Planning



From the table 4.19 and fig.4.10, it is absorbed that all of the tax experts and 64% of tax payers are satisfied with the tax planning in respect of overall planning. But none of the tax experts and 36% of tax payers have not satisfied with the tax planning in respect of overall planning.

As a whole, 82% of the total respondents explained that they are satisfied with the tax planning in respect of overall planning. Because they can utilize these facilities of tax planning given for operational planning, project planning, and strategic planning as overall planning. They can consider about the tax concession, rebates, deductions and exemption etc. in every field of their business lives. They accepted that such facilities have reduced their tax burden to the some extent. On the other hand, tax planning facilities have encouraged the new investors and industrialists to establish new ventures.

18% of the total respondents explained that they are not satisfied with the tax planning in respect of overall planning because they have to suffer from various problems if they consider about minimizing tax liabilities under tax planning. They can not establish their reputation on the competitive age if there are weak operational planning, project planning and strategic planning on the name of minimizing tax liability. There are various facilities provided for undeveloped, underdeveloped and remote area to uplift the industries. But the reputed company can not get such facilities and can not select weaker section of the country for minimizing tax burden. They believe the more income is on higher risk.

4.10 Opinions of Respondents towards Various Aspects of Income Tax.

4.10.1 Deduction of Tax at Source by the Companies.

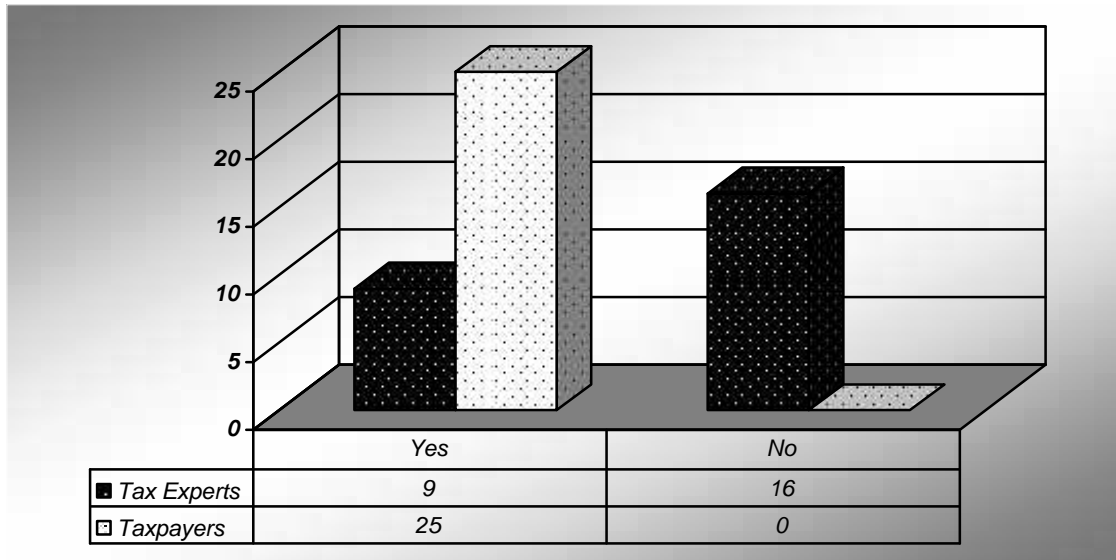
The result of tax deduction at source has been presented in the following table:

Table; 4.20 The Result of Tax Deduction at Source

Options	Respondents				Total	
	Tax Experts	%	Tax Payers	%	No.	%
Yes	9	36	25	100	34	68
No	16	64	0	0	16	32
Total	25	100	25	100	60	100

Source: opinion survey, 2009

Fig; 4.11: The Result of Tax Deduction at Source



From the no. 4.20 and fig.4.11, it is absorbed that 36% of the tax experts and 100% of tax payers are agreed with tax deduction at source. But 64% of the tax experts and none of tax payers have not agreed with tax deduction at source.

As a whole, 68% of the total respondents said that they deduct tax at source because they have to pay dividends, interest on deposit, debenture, debt certificate, payment of rent to natural person, gain on investment insurance and unapproved retirement fund. Such types of payments should be compulsorily paid after tax at source as per Income Tax Act, 2058.

32% of the total respondents explained that they do not deduct tax at source because tax at source is not required to be made on the following payment;

-) Payment of interest to a resident bank or other resident financial institution.
-) Payment made by an individual other than in conducting a business of payment of rent for the lease of a building.

4.10.2 Maintaining the Proper Books of Account

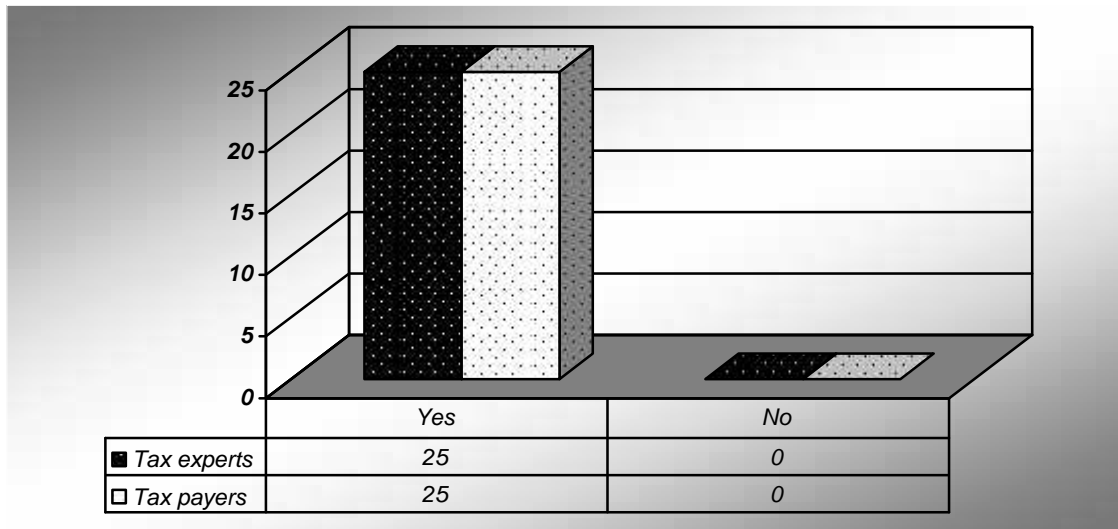
The result of maintaining the proper books of account has been presented in the following table:

Table; 4. 21 The Result of Maintaining the Proper Books of Account

Options	Respondents				Total	
	Tax Experts	%	Tax Payers	%	No.	%
Yes	25	100	25	100	50	100
No	0	0	0	0	0	0
Total	25	100	50	100	50	100

Source: opinion survey, 2009

Fig;4.12: The Result of Maintaining the Proper Books of Account



From the table no. 4.21 and fig.4.12, all the tax experts and tax payers are agreed with maintaining the proper books of account. But none of the tax experts and tax payers has agreed.

As a whole, all of the respondents accepted that they maintain proper books of account. They use to record day to day income and expenditures in the prescribed format of the tax law. They use to submit profit and loss account, balance sheet, production related statement, cash flow and income statement which are declared by Inland Revenue Department.

None of the respondents rejected the proper books of account. They suggested that there must be strict administration about maintaining proper books of account. Some organizations are used to

prepare dual accounting system for tax evasion which harms all the organization. It must be controlled by timely administration and assessment.

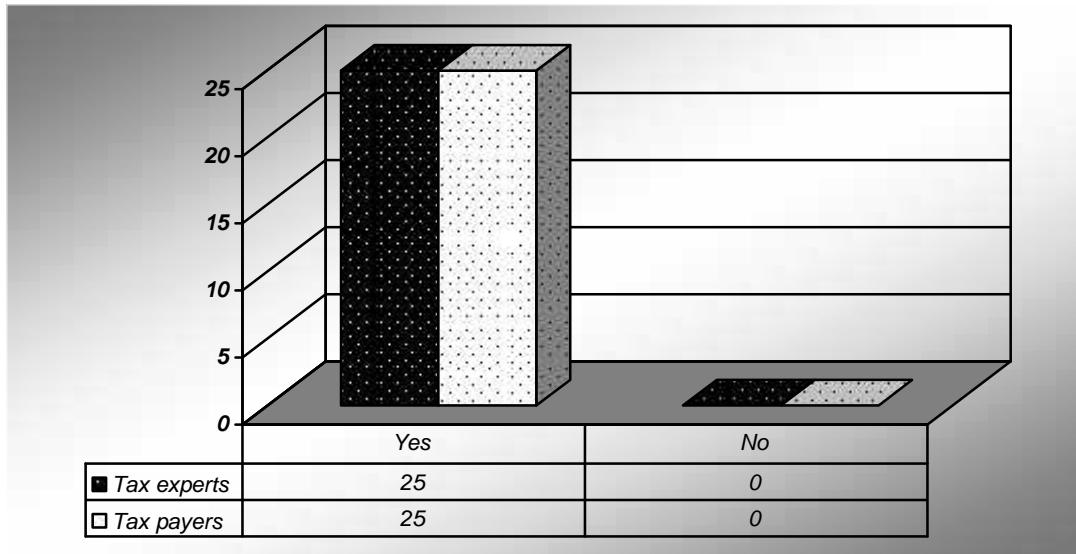
4.10.3 Income Tax is Paid within the Prescribed Time Limit by the Companies.

Table; 4.22 The Result of the Payment of Income Tax within the Prescribed Time Limit

Options	Respondents				Total	
	Tax Experts	%	Tax Payers	%	No.	%
Yes	25	100	25	100	50	100
No	0	0	0	0	0	0
Total	25	100	25	100	60	100

Source: opinion survey, 2009

Fig; 4.13: The Result of the Payment of Income Tax within the Prescribed Time Limit



From the table no. 4.22 and fig.4.13, it is absorbed that all of the tax experts and the tax payers are agreed with payment of income tax within the prescribed time limit. But none of the tax experts and tax payers has agreed with it.

As a whole, all of the respondents said that they pay income tax within the prescribed time limit. There are four installment payable by the end of Ashbin, Poush, Chaitra and Ashad.

None of the respondents said that they do not pay income tax within the prescribed time limit. The more they do late, the more burdens they have to face. Regular payment of tax liability within prescribed time limit was their duty.

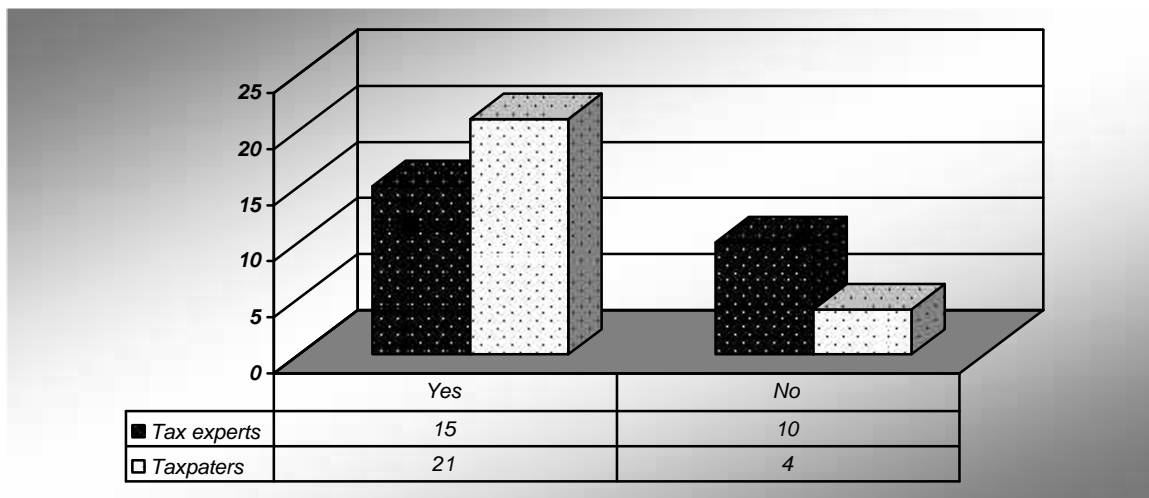
4.10.3 Adequacy of Provisions Relating to Penalties and Prosecutions.

Table; 4.23: Adequacy of Provisions Relating to Penalties and Prosecutions

Options	Respondents				Total	
	Tax Experts	%	Tax Payers	%	No.	%
Yes	15	60	21	84	36	72
No	10	40	4	16	14	28
Total	25	100	25	100	50	100

Source: opinion survey, 2009

Fig;4.14: The Result of Adequacy of Provisions Relating to Penalties and Prosecutions



From the table no. 4.23 and fig.4.14, it is absorbed that 60% of the tax experts and 84% the tax payers are agreed with provisions relating to penalties and prosecutions are adequate. But 40% of the tax experts and 16% tax payers have not agreed with this option.

As a whole, 72% of the total respondents accepted that the provisions relating to penalties and prosecutions are adequate. In fact, the tax payers should not violate their duties. In case of their

misbehavior, Income Tax Act, 2058 has made detailed penalty provisions, which are divided into two parts: (I) Interest and penalties (II) offences. For example, if any taxpayer was fail to pay tax (sec 119), he/she must pay 15% p.a. for each month and part of a month on the amount of tax outstanding. Similarly, offence imposed by the court for failure to pay tax (sec 123) was fine of Rs 5000 to Rs. 30,000 or imprisonment for one month to three months or both. Thus, they stated that the provisions relating to penalties and prosecution are adequate.

28% of the total respondents said that the provisions relating to penalties and prosecution are not adequate. They claimed that tax payers alone can not play the role of tax evasion and avoidance every time but there support of tax administrators, tax experts and other parties who were responsible to tax. So, there must be clear provision of penalties for each type of tax evasion and supporters. Due to weak tax administration, there is correct evaluation of tax assessment. On the other hand, there must be degree of penalties for every party according to amount, time, situation and forgiveness.

4.11 Misuse of Tax Planning as Tax Evasion and Tax Avoidance

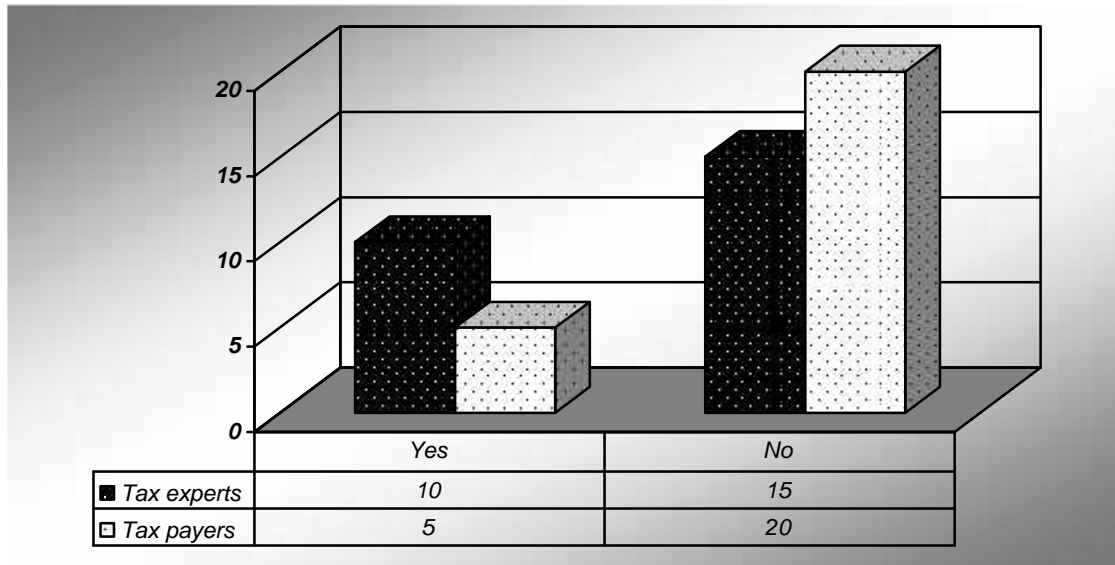
The result of misuse of tax planning as tax evasion and tax avoidance in Nepal has been presented in the following table:

Table; 4.24: Misuse of Tax Planning as Tax Evasion and Tax Avoidance

Options	Respondents				Total	
	Tax Experts	%	Tax Payers	%	No.	%
Yes	10	40	5	20	15	30
No	15	60	20	80	35	70
Total	25	100	25	100	50	100

Source: opinion survey, 2009

Fig; 4.15: Misuse of Tax Planning as Tax Evasion and Tax Avoidance



From the table no.4.24 and fig.4.15, it is absorbed that 40% of the tax experts and 20% the tax payers are agreed with misuse of tax planning as tax evasion and tax avoidance in Nepal, 60% of the tax experts and 80% tax payers have not agreed with this option.

As a whole, 30% of the total respondents said that tax planning is being misused as tax evasion and tax avoidance in Nepal. There is weak tax administration in Nepal so that tax payer can easily take advantages of the government. Most of the taxpayers always show either nil tax liability or less tax liability. There is not deep investigation about tax liability. As a result, they think about tax avoidance and tax evasion. On the other hand, Income Tax Act has encouraged self-assessment so that they can take their real liabilities easily for less tax statement. They also complained that the facilities of tax planning have to be increased with moral support of the government. Similarly, only self-assessment should not be accepted for tax assessment. There should be regular investigation on every self-assessment.

70% of the total respondents said that tax planning is not being misused as tax evasion and tax avoidance in Nepal. Tax evasion and tax avoidance are another case of reducing tax liability. Rare taxpayers follow tax evasion because of heavy punishment by the government on tax evasion. So, they can not easily encourage themselves for tax evasion. On the other hand, tax avoidance is the taking advantage of loopholes in the tax law. The government has to pay

attention on the tax avoidance and improve the taxpaying behavior of people. It can not be said that tax avoidance and tax evasion people do not follow tax planning. So, they apply tax planning and tax avoidance together because both are legal. Because of unclear concept, idea and heavy load of the tax, taxpayer try to take advantage of the loopholes and tax planning for reducing tax liability.

Table; 4.25: Observed frequencies

Options	Respondents		
	Tax Experts	Tax Payers	Total
Yes	10	5	15
No	15	20	35
Total	25	25	50

Assumption: Options, No and No idea are taken in same group (No)

From table no. 27

We have a hypothesis,

Null Hypothesis. H_0 : There is no relation between the opinions of tax experts and tax payers in the proportion that the tax planning is being misused as tax evasion and tax avoidance in Nepal.

Alternative Hypothesis. H_1 : There is relation between the opinions of tax experts and tax payers in the proportion that the tax planning is being misused as tax evasion and tax avoidance in Nepal.

Under null hypothesis, the expected frequency for each cell can be obtained as follows:

$$E = \frac{RT \times CT}{N}$$

$$E_{(10)} = \frac{15 \times 25}{50} = 6.25, \quad E_{(5)} = \frac{15 \times 25}{50} = 6.25$$

$$E_{(15)} = \frac{35 \times 25}{50} = 17.5, \quad E_{(20)} = \frac{35 \times 25}{50} = 17.5$$

Table; 4.26: Computation of Chi-square (t^2)

O	E	O-E	(O-E) ²	$\frac{(O-E)^2}{E}$
10	6.25	3.75	14.0625	2.25
5	6.25	-1.75	3.0625	0.4900
15	17.5	-2.75	14.0625	0.8035
20	17.5	2.5	6.25	0.3571
$\phi O = 50$	$\phi E = 50$			$\mathfrak{X}^2 = \frac{\phi(O-E)^2}{E} = 3.906$

Test statistic,

$$\mathfrak{X}^2 = \frac{\phi(O-E)^2}{E} = 3.9006$$

E

Where,

\mathfrak{X}^2 = Chi-square

RT = Row total

CT = Column total

N = Total number of observations

O = Observed frequency

E = Expected frequency

r = No. of row

c = No. of column

Degree of freedom = d. f. = (r-1) (c-1) = (2-1) (2-1) = 1.

Level of significance = \mathfrak{S} = 1% = 0.01

Critical value: the tabulated value of \mathfrak{X}^2 at 1% level of significance for 1 degree of freedom is 6.64.

Decision: Since calculated value of χ^2 is less than tabulated value of χ^2 , the null hypothesis H_0 is accepted. Therefore, it can be said that there is no relation between the opinions of tax experts and tax payers in the proportion that the tax planning is being misused as tax evasion and tax avoidance in Nepal.

4.12 Methods of Avoidance of Tax Evasion Behavior of Nepalese Taxpayers.

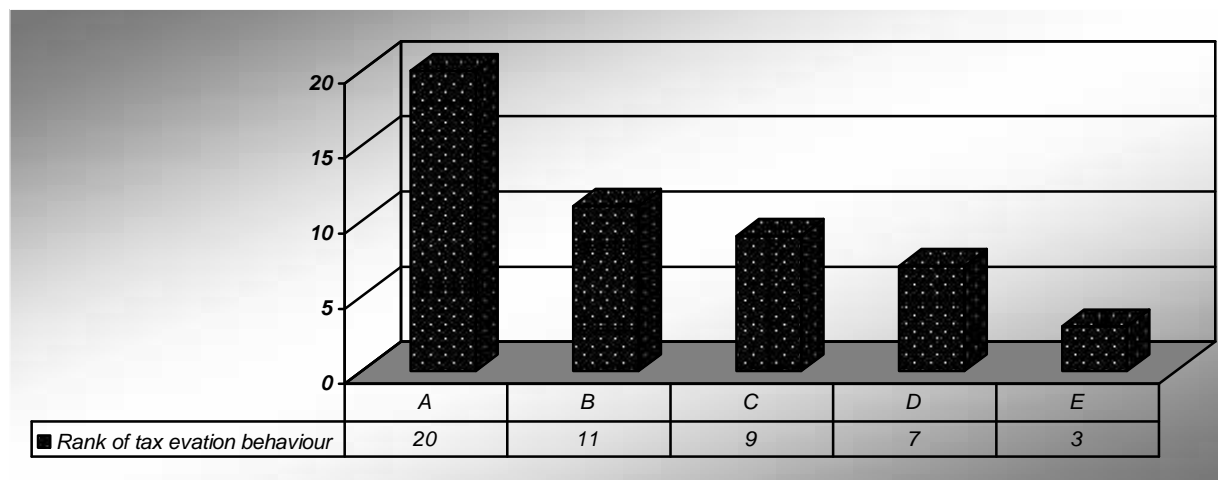
The result of ranking with the methods of avoidance of tax evasion behavior of Nepalese tax payers has presented in the following table

Table; 4.27: Methods of Avoidance of Tax Evasion Behavior of Nepalese Taxpayers

S. N.	Ways of Avoiding Tax Evasion Behavior	Tax Expert	Tax Payers	Total	Rank
A.	Educating taxpayers by training	10	10	20	[1]
B.	Simplifying tax laws in terms of language, section, sub-section etc.	4	7	11	[2]
C.	Timely assessment of taxes	6	3	9	[3]
D.	Incentives to regular tax payers	3	4	7	[4]
E.	Fines and penalties	2	1	3	[5]
	Total	25	25	50	

Source: Opinion Survey, 2009

Fig; 4.16: Methods of Avoidance of Tax Evasion Behavior of Nepalese Taxpayers



- A Educating tax payer by training
- B Simplifying tax law in term of language, section sub-section etc.
- C Timely assessment of taxes
- D Incentives to regular tax payers
- E Fines and Penalties

Table 4.28: Computation of Rank Correlation Coefficient,

S.N.	Tax Expert	Rank of Tax Expert (R ₁)	Tax Payers	Rank of Tax Payers (R ₂)	d=R ₁ -R ₂	d ²
A	10	1	10	1	0	0
B	4	3	7	2	1	1
C	6	2	3	4	-2	4
D	3	4	4	3	1	1
E	2	5	1	5	0	0
N=5						d ² = 6

Now,

$$\begin{aligned}
 \text{Rank Correlation (R)} &= 1 - \frac{\sum d^2}{n(n^2 - 1)} \\
 &= 1 - \frac{6 \times 6}{5(5^2 - 1)} \\
 &= 1 - 0.30 \\
 &= 0.70
 \end{aligned}$$

Decision: Since calculated value of Rank correlation coefficient is less than 1, thus it can be said that there is no perfect correlation between the opinions of tax expert and tax payer in the proportion that the methods of avoidance of tax evasion behavior of Nepalese taxpayers.

As a whole, the respondents explained about such rank. They have given first priority to educate taxpayers by training to avoid tax evasion behavior of them. They focused that most of the Nepalese taxpayers have lack of knowledge about Nepalese tax laws, rules, tax facilities etc. so, they are unable to practice tax planning in their organizations. Therefore, they try to use tax

evasion to minimize their tax burden. They said that “Right training in right time for taxpayer is the main tool for avoiding tax evasion behavior”. They have been given tax planning facilities by the tax law but they could not easily get knowledge about tax planning. If every taxpayer is trained by tax administrators in terms of theory and practical aspect, they will easily accept the tax norms. They also said that there must be stable tax law and training to each taxpayer so that they can avoid their tax evasion behavior. Only the format and books of tax statement provided by Inland Revenue Department can not be enough for minimizing tax liability by using the facilities of tax planning. There must be training, seminar counseling etc about tax planning and tax management to each taxpayer by the government.

Secondly, they told that tax evasion behavior of Nepalese taxpayers can be avoided by simplifying tax laws in terms of language, section, subsection etc. there is a great problem in tax law to understand about language, section, subsection etc. It can be hardly getting such section of fully independent or clear in single section, or reference. Most of the sections have been cumulatively explained saying part one of above section and sub-section etc. which made more confused to the learner. There are dual meaning words. It helps to taxpayers clarify and to follow tax planning. Sometimes one section may violate another section so that fact result can not be found. So, they complained about language and unclear section, sub-section, part etc. written in the Act. If the law is simple to understand, they try to get legal ways for minimizing tax burden.

Thirdly, they said that tax evasion behavior of Nepalese taxpayers can be avoided by timely assessment of tax. They mean to say that there must be proper evaluation about self-assessment and their accounts by the tax administrators in a right time; they submit correct statement or artificial tax which must be observed time to time. Such types of timely assessment behavior may avoid tax evasion behavior in some extent.

Similarly, tax administrators should observe the deviation of taxable income of the tax payers every year and reason of deviation. Such types of observation warn the taxpayers to submit the correct tax liability in a prescribed time limit.

Fourthly, they said that tax evasion behavior of Nepalese taxpayers could be avoided by giving incentives to the regular taxpayers. It means that the regular taxpayers feel of their great prestige

and goodwill by the incentives so that others also felt their liability and avoid such evasion behavior. Incentives encourage them to accept the tax law and submit their correct tax liabilities.

Fifthly, they said that tax evasion behavior of Nepalese tax payers can be avoided by fines and penalties in some extent. Fines and penalties warn them not to cheat about tax liability. They felt themselves to be under control so that they can submit their correct tax liability. Indeed, they give least priority to fines and penalties. Fine and penalties help taxpayers not to fraud in tax liability and to discourage tax evasion behavior but encourage tax planning

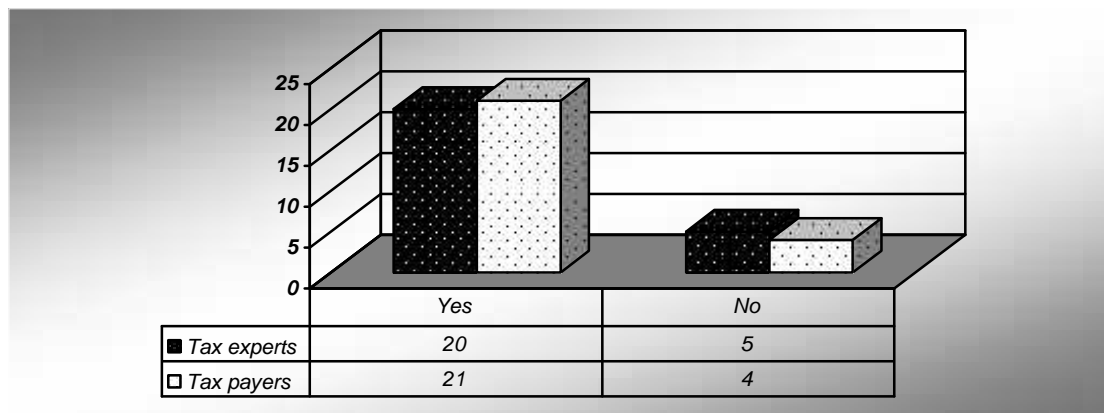
4.13 Complication for Applying of Tax Planning in Nepal

Table; 4.29 Complications for Applying of Tax Planning in the Company

Options	Respondents				Total	
	Tax Experts	%	Tax Payers	%	No.	%
Yes	20	80	21	84	41	82
No	5	20	4	16	9	18
Total	25	100	25	100	50	100

Source: opinion survey, 2009

Fig. 4.17: Complication for Applying of Tax Planning in the Company



From the table no. 4.29 and fig.4.17, it is absorbed that 80% of the tax experts and 84% the tax payers are agreed with the complication for applying of tax planning in the Nepal. But only 20%

of the tax experts and 16% of tax payers are not agreed with the complication for applying of tax planning in Nepal.

As a whole, 82% of the total respondents told that they have complications in tax planning in their companies. Because tax law is very confusing, controversies, difficult to understand, dual meaning, unclear section and sub-section which have brought a great problem in tax planning. On the other hand, most of the taxpayers try to reduce tax liabilities both legally and illegally because of such problems. They also feel such problems in the tax law and can not be easily getting advantage of tax facilities like tax rebates, concessions, incentives etc. They do tax planning in the sections where they feel easy and legal. The tax law has provided various tax facilities to the taxpayers but such facilities have not been correctly applied in their company. They did tax planning on which they found legal, fair and easy. Indeed, they can not be able to utilize the tax planning fully because of unclear idea and concepts.

18% of the total respondent explained that they do not have complications in tax planning in their companies. It means that they try to utilize the tax planning facilities in the tax law. They explain the tax planning concept according to the norms of the tax law. They adjust such facilities like rebates, subsidies, deductions, timing of activities, location selection, exemption limit into systematic way so that tax liabilities will be minimum. They proved some confusion with logic and clarification while making tax planning. Though tax idea and concept are difficult to understand, they used to study thoroughly and do the same.

Table; 4.30: Observed frequencies

Options	Respondents		
	Tax Experts	Tax Payers	Total
Yes	20	21	41
No	5	4	9
Total	25	25	50

From table no: 4.30,

we have a hypothesis,

Null Hypothesis . H₀: There is no relation between the opinions of tax experts and tax payers in the proportion that complication in tax planning in the company.

Alternative Hypothesis. H₁: There is relation between the opinions of tax experts and tax payers in the proportion that complication in tax planning in the company.

Under null hypothesis, the expected frequency for each cell can be obtained as follows:

$$E = \frac{RT \times CT}{N}$$

$$E_{(20)} = \frac{40 \times 25}{50} = 20, \quad E_{(21)} = \frac{40 \times 25}{50} = 20$$

$$E_{(5)} = \frac{10 \times 25}{50} = 5, \quad E_{(4)} = \frac{10 \times 25}{50} = 5$$

Table; 4.31: Computation of Chi-square (t²)

O	E	O-E	(O-E) ²	$\frac{(O-E)^2}{E}$
20	20	0	0	0
21	20	1	1	0.05
5	5	0	0	0
4	5	-1	1	0.2
∑O = 50	∑E = 50			$\chi^2 = \sum \frac{(O-E)^2}{E} = 0.25$

Test statistic,

$$\chi^2 = \sum \frac{(O-E)^2}{E} = 0.25.$$

E

Where,

χ^2 = Chi-square

RT = Row total

CT = Column total

N = Total number of observations

O = Observed frequency

E = Expected frequency

r = No. of row

c = No. of column

Degree of freedom = d. f. = (r-1) (c-1) = (2-1) (2-1) = 1.

Level of significance = α = 1% = 0.01

Critical value: the tabulated value of χ^2 at 1% level of significance for 1 degree of freedom is 6.64.

Decision: Since calculated value of χ^2 is less than tabulated value of χ^2 , the null hypothesis H_0 is accepted. Therefore, it can be said that there is no relation between the opinions of tax experts and tax payers in the proportion that complication in tax planning in the company.

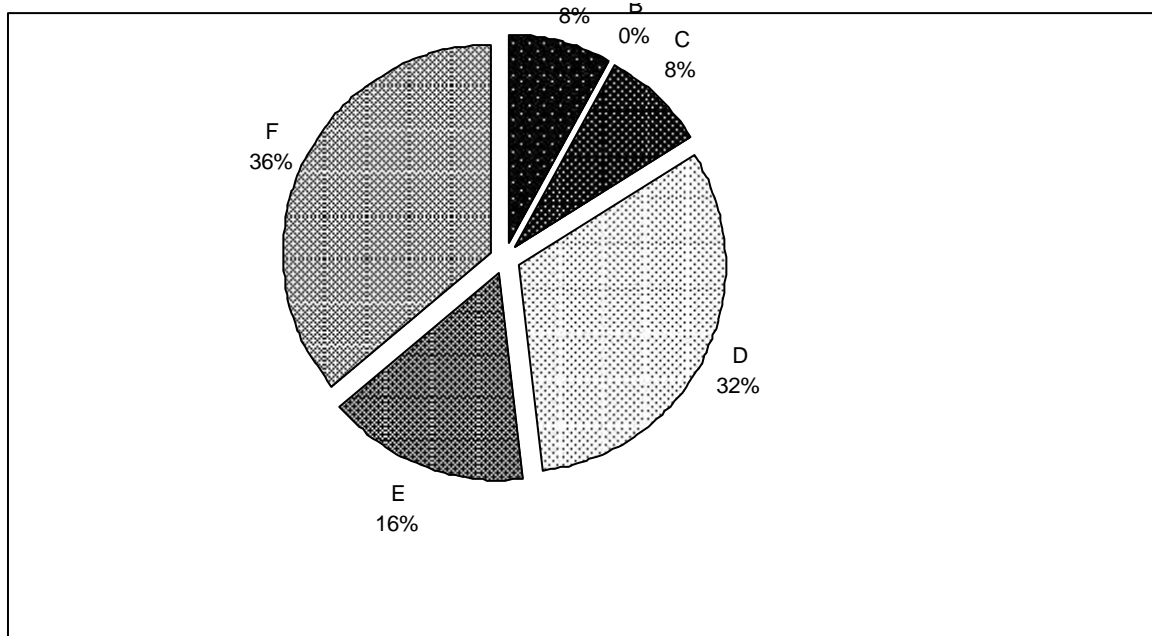
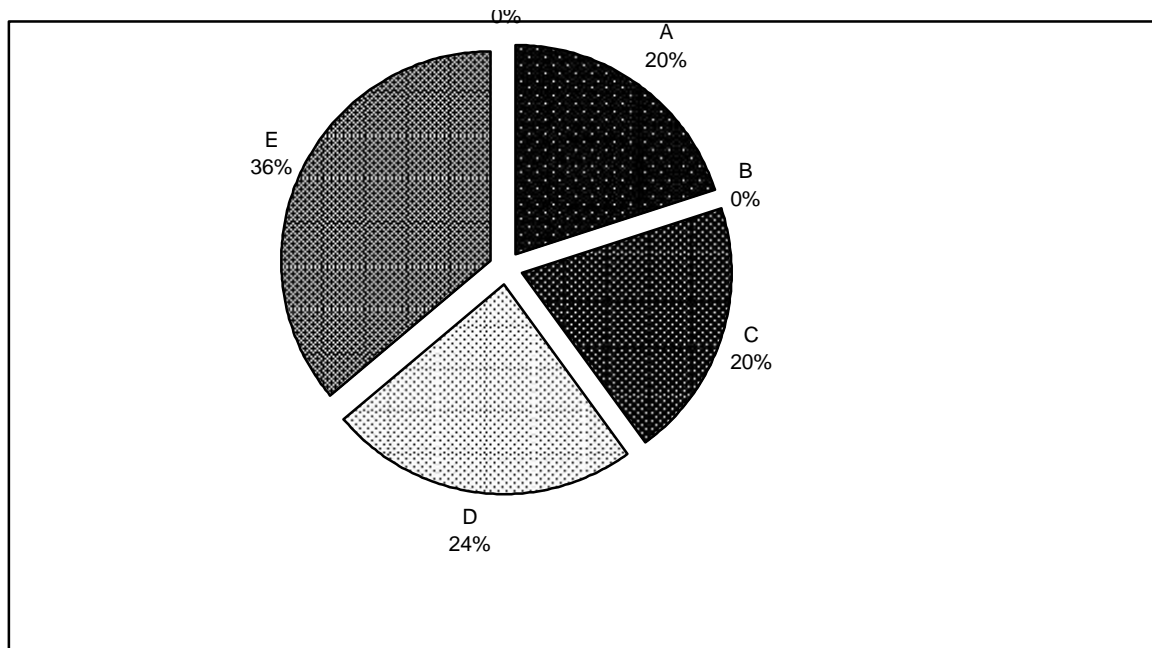
4.14 Effective Practice of Tax Planning in Nepal.

Table; 4.32: Effectiveness of Tax Planning in Nepal

Options	Respondents				Total	
	Tax Experts	%	Tax Payers	%	No.	%
Agree	5	20	2	8	7	14
Strong agree	0	0	0	0	0	0
Moderately agree	5	20	2	8	7	14
rarely agree	6	24	8	32	14	28
Disagree	9	36	4	16	13	26
Unknown	0	0	9	36	9	18
Total	25	100	25	100	50	100

Source: opinion survey, 2009

Fig; 4.18: Effective Practice of Tax Planning in Nepal



Agr

- A-** Strong agree
- B-** Moderately agree
- C-** Rarely agree
- D-** Disagree
- E-** Unknown

From the table no.4.32 and fig no.4.18; none of the tax experts and tax payer strongly agreed the effectively practiced or that planning in Nepal. 5 tax experts and 2 tax payers are agreed. None of the tax payers and 3 of the tax experts are moderately but 7 of them are rarely agreed and 12 experts are also a rarely agreed. 10 tax expert and 6 tax payers are disagree with this statement. At last none of the tax experts and 15 of the tax payers are unknown the effectiveness of tax planning. it is because they have not good implementation and evaluation procedure about tax planning.

Both tax experts and tax payer are not strongly agree 20 percent of the total tax experts and 5.71 % of the tax payer are agree about the effectively practice of tax planning in Nepal. 12% tax experts and non of the tax payer are moderately agree. Likewise, 28% of tax experts and 34.29% of tax payers are rarely agree. 40% of tax expert and 17.14 % of tax payer disagreed with the effectively practice of tax planning in Nepal. None of the tax experts and 42.86 % of Tax Payers are unknown whether the tax planning in Nepal effectively practiced or not.

As a whole none of the tax expert and tax payers are not strongly agree. only 11.66 % and 31.67% of total respondents are agreed and rarely agree respectively. 5% of total respondents are moderately agreed. In another aspect 26.67 % of total respondents are disagree although 25 % of the total respondents are totally unknown with its effectiveness. It means Tax Planning is applying unknowingly or unknowingly but government has not been monitoring strongly nor Tax payers has been developed the evaluation procedure with zest of tax planning concept.

4.15 Which Level be measure responsible for the tax planning in Nepal

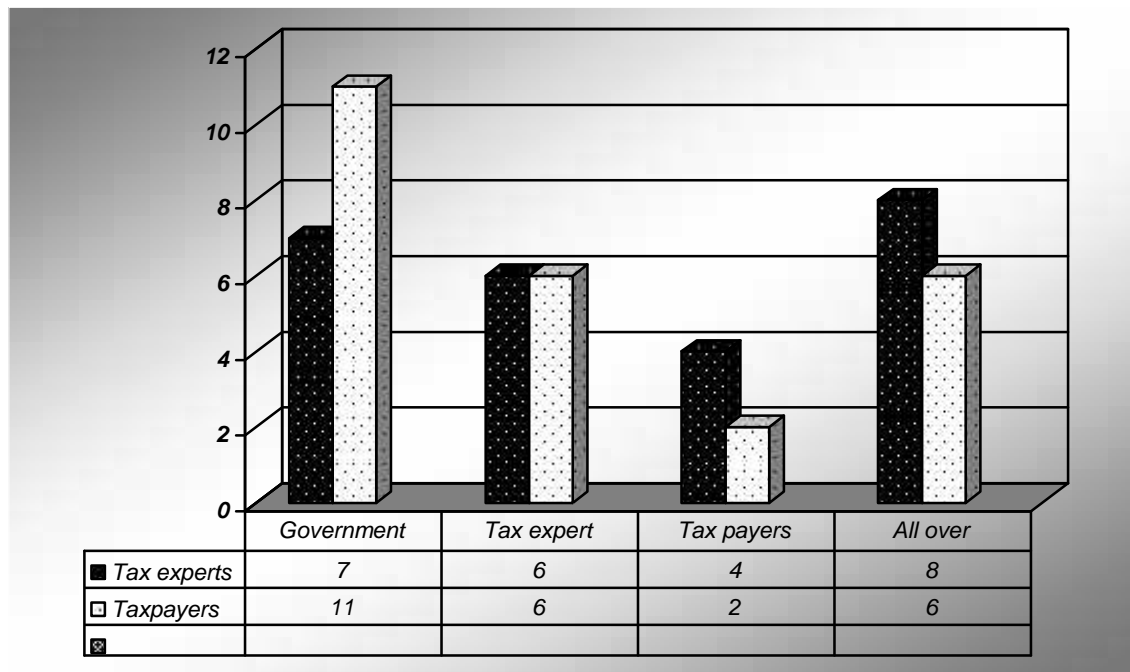
View of tax expert and tax payers “Which Level is measure responsible for the tax planning in Nepal” the results have been presented in the following table and data:

Table; 4.33: Responsible aspect for the tax planning in Nepal

Opinion	Tax experts	Tax payers	Total	%
Government	7 (28%)	11 (44%)	18	36
Tax experts	6 (24%)	6 (24%)	12	24
Tax payers	4 (16%)	2 (8%)	6	12
All the over	8 (32%)	6 (24%)	14	28
Total	25	25	50	100

Source: opinion survey, 2009

Fig; 4.19: Responsible for the tax planning in Nepal



From the table no 4.33 and fig no4.19; 28% tax expert and 44% of tax payers be agree to government is the major responsible for the tax planning in Nepal. 24% expert and tax payers accept to focus major responsible is tax expert for the tax planning effectively practiced in Nepal, like that 16% tax expert and 8% tax payers are accept that major responsible is tax payers because they paid tax, 32% expert and 24% tax payers agree to all the aspects are more important

towards the tax planning practiced in Nepal. They said, tax expert and tax payers are a system of tax planning. Whole system is affected if even one factor is ignored because tax payer is most important event of tax planning. When a tax payer pays tax he\she hopes for some facilities. Tax expert is also very important as they help the government in making tax law and advocate to government. Government wants high tax collection from people, proportional distribution to people and society that the government has major responsibility for the tax planning practice in Nepal.

4.16 Major findings of the study

-) As a whole, 56% of the total respondents have known about Tax planning whereas 44% are unknown. However they are utilizing the facilities provided by the Act knowingly or unknowingly. Still there are tax payers who are little knowledge of tax planning.
-) Taxpayers have been affecting on profitability of the organization by reducing tax liabilities through by availing tax concessions, incentives, allowances, rebates and relief provided by existing tax law and by taking advantage of loopholes of Act.
-) Tax evasion, Tax avoidance from loopholes of Act clearly shoes that Idea and concepts of tax planning are not clear in current income tax Act 2058. So in present situation, there is poor application of tax planning in Nepal.
-) Tax payers are taking tax facilities provided by existing income tax Act, however knowingly or unknowingly about tax planning.
-) Most of the tax payers are used self assessment as a tool for submitting their tax liability.
-) In respect of strategic planning, project planning, operational planning and overall planning, most of the respondents are satisfied with the tax planning.
-) The income tax has an effect that the tax payers deduct tax at source because they think it should be compulsorily paid as per income tax Act.
-) There is a positive impact that, the entire tax payer maintains the proper books of account and pays the tax within the prescribed time limit.
-) Most of the responds states that the provisions by income tax Act 2058, relating

to penalties and prosecutions are adequate.

-) There is increasing trend of tax evasion and tax avoidance behavior due to the weak tax administration and self assessment procedure.
-) The difficulties for applying tax planning in Nepal are due to the lack of skilled, qualified manpower.
-) It is also found that the tax planning practice in Nepal is under the implementation phase and the practice is not effective with the aim of tax planning under the income tax act 2058.
-) The major respondents 28% tax export and 44% of tax payers be agree to government is the major responsible for the tax planning in Nepal.
-) The tax payers from enterprise are only concern on paying tax to the government as their responsibility but they don't know the benefit of tax planning.

CHAPTER – V: SUMMARY, CONCLUSION AND RECOMMENDATION

Final and end task in research is summary, conclusion and recommendation which are from the analysis of the collected information has stated in chapter V. This chapter summarizes the study, concludes the finding and recommendations appropriate suggestions from the respondents during the research duration.

5.1 Summary

The study reveals a tremendous fact that no respondent states their weakness, because all of the respondents said that they are always on the favour of tax law. All the respondents support the norms of the tax law. Most of the respondents said that the government has provided various facilities to them on the law but the government has not been able to implement that system of the law in practical life. The government has made strict punishment for those who violates the tax law but there is less moral support and subsidies for those who respected the law.

Since, the study aims at to explore the tax planning; it has shows that most of the respondents are not familiar with tax planning. They are facing problem of incomplete tax principle, law and concepts to be familiar with the tax practices. They have been obliged to tax avoidance and evasion due to difficult ways of tax planning. So, they have not been able to utilize tax planning according to theory in practice. More support has been found that tax planning has been in application very little. They supported that tax planning has not been played effective role for reducing tax liabilities. Indeed, such facilities have been provided in remote, undeveloped and underdeveloped areas where industries are rarely in practice. They also explained that tax planning has not been misused as tax evasion and tax avoidance. Instead some taxpayers have used both tax planning and tax avoidance together because both are legal behavior. Tax evasion has rarely been applied in Nepal because there is strict punishment in the Act for those who takes part in tax evasion. All the taxpayers (from respondents) use self-assessment for submitting tax liabilities because the Act has encouraged them to submit their statement under self-assessment. There is not proper application of Jeopardy assessment Amended assessment. So the trend of tax

planning has been decreasing. They explained that the tax exemption, rebate, deductions and concession under existing tax are adequate. In fact, such facilities have promoted the small industries in remote, underdeveloped, undeveloped area in the country. There is not proper use of tax exemption, rebates, deduction and concession as tax planning. From the respondent it was identified that there is not systematic administration of tax administrators for the proper implementation of tax policies.

The expression of satisfaction with tax planning in respect of strategic planning, project planning, operational planning and overall planning is the answer of most of the respondents. They always consider tax facilities on their strategy, project, operating, and overall plan. But, some said that they are not satisfied with tax planning in respect of strategic, project, operating, and overall planning, mentioned that tax should not be linked with it because it is designed on the comparative study of the competitors. All the taxpayers said that they deduct tax at source prescribed by the Act for final with holding payment and advance tax. But tax deduct at source is not required to be made on the payments made by an individual other than in considering a business or payment of rent for the lease of a building. Similarly, payment of interest to a resident bank or other resident financial institution, payment that are exempt from tax etc. should not deduct tax at source. They keep their statement in the prescribed books of accounts for the effective and proper calculation of taxable incomes. This system helps them for tax planning. They use to pay tax regularly within the prescribed time limit. Indeed, none of them use to tell their weak point. They use to submit tax in installment, advance and final withholding basis. On the other hand, they complained that the government tries to collect tax only by various topics but does not make promotional activities for them. They also said that the provision of penalties and prosecution are adequate. Some of them who said the fines, penalties and prosecution are not adequate mentioned to be weak administration and discrimination of treatment on the behalf tax evasion and avoidance. They focused, mainly to educate taxpayers by training so that they can easily understand the concept and views of the Tax Act. Then, they pre-plan for tax planning by utilizing maximum facilities provided by the law. Similarly, they suggested simplifying the tax law in terms of language, section, sub-section etc. for the easy adjustment of tax liabilities.

Likewise, they stated timely assessment of taxes, incentive to regular taxpayers and fines and penalties to illegal taxpayer so that tax evasion behavior can be avoided.

Complication of tax planning in their respective companies is the common reply while conducting opinion survey. Most of the respondents complained that the section and sub-section of the Act are vague. The term used in the tax Act confusing and double standing language. Tax planning needs technical and critical mind. As a result, most of the taxpayers are not able to take benefit of tax planning. Some are taking advantage of tax avoidance. There is not specific definition and rules of all types of deductible expenses, final withholding payments, advance tax etc. but some of respondents accepted that they have not fixed complication of tax planning in their companies because they use idea and suggestion of tax experts giving logic for the confusion and allocation of deductions. The overall respondent's expectation is to lunch special package to provide the knowledge regarding tax planning.

5.2 Conclusion

Tax Planning refers the systematic implementation of tax rules and law in an organization. Tax planning is done by each and every company but the degree of tax planning depends upon the strategy, and plan made by the company. Large scale of company can spend more in tax planning activities made by tax exports. Similarly, tax planning has not been used properly in practice. There is not proper administration about the implementation of tax planning in Nepal. Only the rules and policies could not be enough for the collection of correct tax revenue. There should be regular support and supervision of the government so that any problem seen at the time of implementation of tax planning could be easily solved. Indeed, there should be positive support of every aspect for the proper implementation of tax planning in Nepal. Due to the proper coordination of concern stakeholder as specified above, tax planning has not been implemented as required in practices.

Concluding the overall opinion survey with personal interview, direct observation at work stations in different companies and tax experts some conclusions have been drawn which can present as below:

- There is a lack of knowledge regarding the term tax planning since it requires technical, analytical, comparative and strategic knowledge to implement in real business world.
- The performance of tax planning depends upon the skill, knowledge and experience that the human resource employed in their respective human resource.
- Taxpayers are using tax planning knowingly or unknowingly hence they are using the various alternatives for minimizing tax liability. In the process of tax planning, they follow both legal and illegal way on which they become safe from fines and penalties may levied upon them.
- Presence of various obstacles of tax law and Act most of taxpayers could not be able to explain the exact view of tax section, sub-section, heading specified under the tax policy. Use of double standing language has made them confused regarding tax planning and negligence of tax administrators has also brought problem in the correct decision of tax planning in Nepalese companies.
- Lack of skilled, trained and qualified manpower and due to limited financial strength for tax planning there is a difficulty in effective training program and to prepare comparative plan in business.
- Although the taxpayers have not been regular for the proper utilization of tax planning, tax planning is applicable in Nepal. The views of tax payers by nature try to reduce tax liabilities as much as possible applying any short of methods or way.
- Tax planning practice is under the primary stage in Nepal. Improvements in terms of administration, training, criteria, simplicity are the main are to be focused for the proper development of tax planning.
- Taxpayers feel the difficulties to complete the criteria of the tax planning. They have not been able to get moral support of the public. Although act has provided

tax planning facilities to avoid illegal and unethical behavior of the taxpayers.

- In most of the companies they follow tax planning in respect of all the field of their activities like operational planning, strategic planning and project planning. There is a trend to earn more revenue with less investment so that they could minimize tax liabilities by tax planning. Companies are relaxing facilities provided by the law with diversified nature of the company.
- Increasing habit of tax evasion in some taxpayers due to the proper monitoring from tax administrators has created barriers in effectively control such behavior of tax payers. It has also created participation of exploring benefit of such evasion and individual discrimination for tax evasion due to the negligence and having less interest about it.

5.3 Recommendation

Finally the study has come upon the recommendation on the basis of opinion survey, personal interview relevant literature review on the topic on **“Tax Planning Practice in Nepal”**. The key recommendations are presented as under.

- To make familiar with the tax planning to the tax payers the government should initiate the different tax awareness programs through Training, Seminar, and Workshop according to the changing rules and regulation of Tax.
- The language used in act should be clear and need not to use language which has double meaning and given sections should be meaningful itself. So common people can understand the tax planning under which tax facilities and incentives provided by the income tax Act can be used in practice.
- Tax planning should be used to minimize the tax liability, rather than tax evasion and tax avoidance according to the need of stakeholder.
- Favorable and trusty environment between government and taxpayers should be established for the effective assessment The government should think either it conducts the environment where taxpayer believes tax administrator vice versa or

assesses the income tax by the tax administration in accordance with account submitted by the taxpayer.

- Self-assessment of income tax is a quite convenient method of income tax assessment for the both parties' taxpayers and tax administrators. To motivate tax payers for using maximum possible exemptions, concessions, rebates, incentives allowances and relief which are provided by tax law.
- The company should focus on tax planning in respect of all the field of their activities like operational planning, strategies planning, project planning and overall planning.
- There should be a separate tax section headed by a tax executive under finance department particularly in large and medium companies to discharge all functions relating to tax management, including tax planning.
- The trend of late payment habit of Income tax paying habit should be totally ignored and improved to pay it on time or stated limit.
- The Provisions of penalties and prosecutions adopted by the government should be implemented effectively. There should be make a provision of reward to those tax payer who used tax planning and followed existing tax law in proper and systematic way.
- It is also recommended that, in order to minimize the misuse of the appeal system, which the taxpayer should pay the unpaid tax along with interest, similarly, if the refund is to be made to the taxpayer along with interest.
- The government has to lunch different motivating programs to the tax payers to use tax planning, some ideas should be useful such as tax education to tax payer, simplifying tax Act and rules, use of best judgment assessment in right perspective, tax incentives for revival of sick units, free to choice of accounting year and similar provision
- The tax payers have to change their attitude on tax evasion behavior. Various programs such as fine and penalties, incentives, top regular tax payers, timely assessment of taxes etc has to implemented on time.

Bibliography

- Adhikari, Bisho Deep (2059 B.S). *Income tax Law: Now and Then*. Kathmandu: Bhricuti Academic Publication
- Adhikari, Chandra Mani (2000 B.S). *Modern Taxation in Nepal: Theory and practice*. Kathmandu: Pairavi Prakashan.
- Agrawal, Govinda Ram.(1984 A.D). *Direct Tax Reform in Nepal*. Kathmandu: Ministry of finance.
- Agrawal, Jagdish.(2004 A.D). *Income Tax: Theory and Practice*.: Ayam Publication New Plaza Kathmandu
- Amatya, S.K, N.N Pokheral and R.K Dahal(2004 A.D).*Taxation in Nepal*. M.K.Publisher.Bhotahity Kathmandu
- Balasubramanian, R (1989 A.D). *Corporate tax Administration an overview*, The chartered Accountant, Vol.37, No.7
- Bhattarai, Ishor and Koirala Girija Prashad (2061 B.S). *Tax laws and tax planning*. Kathmandu: Dhaulagiri Books and Stationaries.
- Chander, Subhash and Om Prakash, (1984 A.D). *Tax Planning and New Business in India*. Indian Journal of Commerce, Vol. 37, No. 141.
- Dangol, Prakash Man (2004 A.D). *Statistical Methods*. Kathmandu: Buddha Academic Enterprises Pvt. Ltd.
- Dhakal, Kamal.Deep (2002). *Income tax and house & Compound Tax Law and Practice*. Kathmandu:
- Income Tax Act, 2002* NG/Nepal.
- Income Tax Rule, 2002*. NG/Nepal.
- Joshi, Puspa.Raj. (2003 A.D). *Research Methodology*. Kathmandu: Buddha Academic Enterprises Pvt. Ltd.
- Kandel, Puspa.Raj. (2003 A.D). “Are Tax Incentives Useful? If so Which One?” *Rajaswa, year, 23, Vol. 2*
- Kandel, Puspa.Raj. (2005 A.D). *Tax Laws and Tax Planning in Nepal*. Kathmandu: Buddha Academic Enterprises Pvt. Ltd.

- Kandel, Puspa.Raj. (2004 A.D). *Corporate Tax System and Investment Behavior in Nepal*. An Unpublished Ph.D. Thesis, Department of Commerce, Delhi School of Economics, University of Delhi.
- Kandel, R.R (2006 A.D) Practice of tax planning in Nepal (a comparative study between manufacturing and non-manufacturing companies) An Unpublished MBS Thesis T.U.
- Karki, Bidur (2005 A.D). *Theory and Practice of Tax Planning in Nepal*. An Unpublished Master Thesis, T.U.
- Khadka, Dr. R.B. (2001 A.D). *Taxation of Permanent Establishments*. Rajaswa, year,21, Vol.1
- Koirala, K.R. (2005 A.D). *Effectiveness of Advance Taxation on Income Tax Generation in Nepal*. An Unpublished Master Thesis, T.U.
- Lamshal, R.K. (2005 A.D). *Effectiveness of Remuneration Tax in Nepal*. An Unpublished Master Thesis, T.U.
- Lamshal, R.K. (2005 A.D). *Tax Laws and Tax Planning in Nepal*. Kathmandu: Sajilo Prakashan.
- Mallik, Bidhyadhar, (2003 A.D). *Nepal ko Aadhunik Aayakar Pranali*. Kathmandu:
- Nepal, G.B. (2002 A.D). *Tax System and its Reform*. Business Age, Vol. 4, No. 12.
- Niroula, Bhawani Shanker, (2005 A.D). *Study of Incentives and Facilities to Industries Under Income Tax Act 2058*. An Unpublished Master Thesis, T.U.
- Oza, P.R., (1972 A.D). *Corporate Tax planning and managerial Decisions*: Indian Journal of Commerce Vol. P.P 83-89
- Pandey, D.P. (1985 A.D). *Corporate Tax Planning and Effective Tax Incidence*. Indian Journal of Commerce, Vol. 38, No.141, P.P.98-106.
- Pandey, T.N.(1994 A.D). *What is the correct Approach to Tax Planning?* The Economic times, New Delhi.
- Pant, parameshwar. (1996 A.D). *A Study on Income Tax Management in Nepal*. An Unpublished Master Thesis, T.U.
- Poudyal kshatry, K.B(1998 A.D). *Corporate Tax Planning in Nepal*. Pokhera. Sita Poudyal, Simal chaur.
- Poudyal Kshatry, K.B.(1997 A.D). *Corporate Tax planning in nepal*. An unpublished Ph.D. Thesis, University of Banarashi.

- Poudyal, Santosh Raj and Prem Prasad Timsina, (1990 A.D). *Income Tax in Nepal*. Kathmandu:
- Rai, Rina (2004 A.D). *An Analytical Studyon Income Tax Act, 2058*. An Unpublished Master Thesis, T.U.
- Sharma, Sagar (2002 A.D). *Management Accounting Practices in the Listed Companies in Nepal*. An Unpublished Master Thesis, T.U.
- Srinivas, E.A. (1989 A.D). *Handbook of Corporate Tax Planning*. New Delhi: Tata McGrawhill Publishing Co. Ltd.
- Sibakoti, Dr. Gopal(2007 A.D) *Research Methodology and Thesis Writing* Pairavi prakashan, putalisadak Kathmandu.
- Sthapit, Dr. A. B., H. Gautam, P.R. Joshi and P.M. Dongol, (2004 A.D). *Statistical Methods*. Kathmandu: Buddha Academic Enterprises Pvt. Ltd.
- Timsina, Prem Prasad, (1987 A.D). *Income Tax Evasion in Nepal*. Unpublished Master Thesis, T.U.
- Tiwari, Narayan Raj, (1999 A.D). *Income Tax System in Nepal*. Kathmandu: Pairavi Prakashan. Putalisadak Kathmandu.
- Wolff, H.K. and Pant, P.R. (2002 A.D). *A Handbook for Social Science Research and Thesis Writing*. Kathmandu: Buddha Academic Enterprises Pvt. Ltd. Putalisadak Kathmandu.

Appendix-I

Questionnaire for tax experts

Dear Sir,

Would you please provide me necessary information for the following questionnaire in the partial fulfillment of Master of Business Study (MBS) to conduct research work and submit to the university as the thesis?

I also assure you that the information supplied by you will be exclusively used for academic research purpose only.

.....

Anil Raj Paudel
Researcher
Shanker Dev College

1. Have you know about the term “Tax Planning”?
a) Yes () b) No ()
2. Do you think tax planning is applicable in Nepal?
a) Yes () b) No () c) Don’t know ()
3. “Tax Planning is effectively practiced in Nepal,” How do you response?
a) Strongly agree () b) Agree () c) Moderately agree ()
d) Rarely agree () e) Disagree () f) Unknown ()
4. If Nepalese companies has not applied tax planning, please give reasons
a) Hard to follow the method of tax planning,
b) Ideas and concepts of tax planning are not clear.
c) Easy to take advantages of loopholes in tax laws.
d) No hope of meeting long term objectives through tax planning.
e) Lack of qualified manpower.
f) Any other reason (please specify).....
5. Tax liability can be minimizes from the proper “tax planning”?
a) Yes () b) No ()
6. Indicate that which methods stated below is more preferable for reducing tax liability?
a) By taking advantage of loopholes in tax laws.
b) By suppression of sales, overstatement of expenses and understatement of income
c) By availing tax concessions, incentives, allowances, rebates and relief provided by the existing tax law.
d) Any other method. (Please specify)
7. Which assessment do tax payers use for submitting the tax liabilities?

- a) Self Assessment
- b) Jeopardy Assessment
- c) Amended Assessment

8. Do Nepalese companies avail of the maximum possible exemptions, concessions and rebates etc?

- a) Yes ()
- b) No ()

9. Point out the following planning which satisfies the tax planning?

- 1. Strategic planning
- 2. Project planning
- 3. Operational planning
- 4. Overall

10. Do you agree with the following?

- a). Does Nepalese companies deducted tax at source?
Yes () No ()
- b). Does Nepalese companies maintain proper books of account?
Yes () No ()
- c). whether income tax is paid by Nepalese companies within the prescribed time limit?
Yes () No ()
- d) Whether the provision relating to penalties and prosecutions are adequate.
Yes () No ()

11. Do you believe that tax planning is being misused as tax evasion and tax avoidance?

- a) Yes ()
- b) No ()

12. How tax evasion behavior of Nepalese taxpayer can be avoided? Rank respectively in order of preference from most (1) to least (5)

- a) Educating tax payers by training ()
- b) Simplifying tax laws in terms of language, section, sub-section etc ()
- c) Timely assessment of taxes ()
- d) Incentives to regular tax payers ()
- e) Fines & penalties ()

13. Have you feel any shot of difficulties in your company regarding tax planning?

- a) Yes ()
- b) No ()

14. Which level be major responsible for the tax planning practices in Nepal?

- a. Government ()
- b. Tax Experts ()
- c. Tax Payers ()
- d. All of Above ()

Thank you for your kind cooperation

Name of Respondent: (optional)

Working Station

Appendix-II

Questionnaire for tax payers

Dear Sir,

Would you please provide me necessary information for the following questionnaire in the partial fulfillment of Master of Business Study (MBS) to conduct research work and submit to the university as the thesis?

I also assure you that the information supplied by you will be exclusively used for academic research purpose only.

.....

Anil Raj Paudel
Researcher
Shanker Dev College

1. Have you know about the term “Tax Planning”?
a) Yes () b) No ()
2. Do you think tax planning is applicable in Nepal?
a) Yes () b) No () c) Don’t know ()
3. “Tax Planning is effectively practiced in Nepal,” How do you response?
a) Strongly agree () b) Agree () c) Moderately agree ()
d) Rarely agree () e) Disagree () f) Unknown ()
4. If Nepalese companies has not applied tax planning, please give reasons
g) Hard to follow the method of tax planning,
h) Ideas and concepts of tax planning are not clear.
i) Easy to take advantages of loopholes in tax laws.
j) No hope of meeting long term objectives through tax planning.
k) Lack of qualified manpower.
l) Any other reason (please specify).....
5. Tax liability can be minimizes from the proper “tax planning”?
a) Yes () b) No ()
6. Indicate that which methods stated below is more preferable for reducing tax liability?
e) By taking advantage of loopholes in tax laws.
f) By suppression of sales, overstatement of expenses and understatement of income
g) By availing tax concessions, incentives, allowances, rebates and relief provided by the existing tax law.
h) Any other method. (Please specify)

7. Which assessment do tax payers use for submitting the tax liabilities?
a) Self Assessment () b) Jeopardy Assessment () c) Amended Assessment ()

8. Do Nepalese companies avail of the maximum possible exemptions, concessions and rebates etc?
a) Yes () b) No ()

9. Point out the following planning which satisfies the tax planning?

- 1. Strategic planning
- 2. Project planning
- 3. Operational planning
- 4. Overall

10. Do you agree with the following?

- a). Does Nepalese companies deducted tax at source?
Yes () No ()
- b). Does Nepalese companies maintain proper books of account?
Yes () No ()
- c). Whether income tax is paid by Nepalese companies within the prescribed time limit?
Yes () No ()
- e) Whether the provision relating to penalties and prosecutions are adequate.
Yes () No ()

11. Do you believe that tax planning is being misused as tax evasion and tax avoidance?

- a) Yes () b) No ()

12. How tax evasion behavior of Nepalese taxpayer can be avoided? Rank respectively in order of preference from most (1) to least (5) .

- a) Educating tax payers by training ()
- b) Simplifying tax laws in terms of language, section, sub-section etc ()
- c) Timely assessment of taxes ()
- d) Incentives to regular tax payers ()
- e) Fines & penalties ()

13. Have you feel any shot of difficulties in your company regarding tax planning?

- a) Yes () b) No ()

14. Which level be major responsible for the tax planning practices in Nepal?

- a. Government () b. Tax Experts () C. Tax Payers () d. All of Above ()

Thank you for your kind cooperation

Name of Respondent: (optional)

Working Station

Appendix-III

List of Respondents

Tax Expert:

1. L.P. Sharma (CA)
2. Janak Kalakheti(CA)
3. Parakram Sharma(CA)
4. Sanjaya Kumar Sharma(CA)
- 5 Sameer Jha (CA)
- 6 Raju Shivakoti(CA)
- 7 Sarad Gharti (CA)
- 8 Raju paudel (Reg.Auditor)
- 9 Narayan Paudel (Reg. Auditor)
- 10 Raju K.C. (Reg.Auditor)
- 11 Mayash Acharya (Reg. Auditor)
- 12 Tulsi Adhakari (Reg.Auditor)
- 13 Narayan Panta (Reg. Auditor)
- 14 Raju paudel (Reg.Auditor)
- 15 Arjun Dhakal (Tax Officer)
- 16 Ram Saran Kuwar(Tax Officer)
- 17 Dev Nanda Kafila (Tax Officer)
- 18 Surendra Ghimere (Tax Officer)
- 19 Mohan Lal G.C. (Tax Officer)
- 20 Jaya Bahadur Bhandary (Tax Officer)
- 21 Tara Devi Joshi (Tax Officer)
- 22 Krishna Prashad Adhakari (Lawyer)
- 23 Dhan raj Chalise (Lecture) Public Youth Campus
- 24 Arjun Panday (Lecture) Public Youth Campus
- 25 Shanker Panday (Lecturer) Don Basko Collage

Tax Payers:

1. Annaapurna Finance Company Ltd.
2. Kumari Bank Ltd.
3. Machhapuchre Bank Ltd
4. Lumbini Bank Ltd
5. Himchuli Saving &Co-operative
6. Siiddhartha Development Bank
7. Prime Bank Ltd
8. Sun Rise Bank Ltd.
9. IME Finance Com Ltd
10. Narayani Finance
11. Lumbini General Insurance
12. Himal Hydro Company
13. Chitwan Co-E & Company
14. Himalayan Diary
15. Dairy Development Corporation
16. Star Hospital
17. Manakamana Nursing Home
18. Salt Trading Corporation.
19. A One Export and Import Company Ltd.
20. Gauri Shanker Hardware
21. Kathmandu City Collage
22. Mangal Pashad Sapkota
23. Arun Shrestha
24. Chandra Bahadur Shrestha
25. Ram Krishna Malla