

CHAPTER - I

INTRODUCTION

1.1 General Background

Nepal is an agricultural based underdeveloped country. Due to the high dependency in agricultural sector its economic status is very poor. The economic status of Nepalese people is almost the lowest in the world. Its per capita income is nearly about \$473, which is the lowest in the SAARC countries.

Before 1956, there were not any modern industries in Nepal. The establishment of the Biratanagar Jute Mill in 1956 led the foundation of modern industry in Nepal. Despite of long experience of industrialization (about 53 years), industrial status in Nepal is still very poor. Because of poor industrial status, Nepal's economic status is very much poorer than any other industrial country. It is the major reason of the Nepalese dependency on foreign grants and loan.

It is necessary to develop industries to increase the economic status of the country. Conducive environment is necessary for the expansion of the industries and government needs to provide such environment. Various incentives and subsidies should be provided to the investors. Those incentives encourage in the establishment of new industries and operation of existing industries. Income tax incentive is also a major incentive out of available incentives to attract the investors.

In modern society, Industry plays an important role in the economy of the country. The industrial development is most necessary to be called a country developed. Because the share of industry to the GDP and the development of the country are positively related. With the increment of contribution from industrial sector to GDP, the country's economic condition will be better. The international comparison of share of major sector in the national product reveals us negative correlation between the level of income and the share of non-agriculture commodity production. As the level of per capita income increases, the share of agricultural in the national product drops and that of industry rises.

Industry can be considered as a media to fulfill the gap between developed and underdeveloped country. With the development of industry, the gap will be narrow and if it is sluggish, the gap will be wide.

Industrialization is an effort in which the underdeveloped countries place a major hope of finding a solution to their problem of poverty, insecurity, and over population and ending their newly realized backwardness in the modern world. Industrialization has become a magic word of the 21st century.

Nepal has been practicing various tax incentives programs but still the industrialization process is very slow. As per previous acts, the Income Tax Act (ITA) 2058 has provided various tax incentives and facilities to industries to attract the investment. However, the numbers of new industries are very poor. Only 139 new industries in first eight months of FY 2066/2067 are approved for foreign investment. Out of them, only 35 are for the industrial production. (Industrial Statistics 2066/2067).

Although, tax planning helps to reduce the amount of tax and initiates to establish new industry to investor, it is not widely used tools. Especially in Nepal, it is difficult to find tax planner industry. In one hand, it looks like most important tools to any business organization or industry, it has lots of scope and need but in other hand it is not used practically. Likewise, it can be said that tax incentives are the root cause of tax planning. If the tax incentives are highly initiative and encouraging, tax planning goes through widening. It means more tax incentives give people more attention and more consciousness to work on it. So, tax incentives and tax planning are highly correlated. Thus, it can be said that more widening area of tax incentives means more widening adoption of tax planning.

Although, this statement is just an assumption to this period because no study has found that has studied the effect of tax planning on industrialization. These studies have not been studying on the relation of tax incentives and tax planning to Industrialization. Before understanding and considering tax planning, tax incentives, industrialization and identifying interrelation between these two terms no one can put a demarcation line on the strength and weakness of these two terms and all the remaining studies are incomplete regarding the income tax. Thus, it is necessary to

study on the issue of tax incentives and tax planning and its effect on Industrialization.

1.2 Statement of the Problem

After 1980, Nepal has followed a liberal and open market economy. Social and economic development is not sufficiently reached at target point as it has a small economy with limited resources and political instability. All of those unfavorable features lead the country backward. Economic development is the prime concern of every nation of the world. To fulfill this objective, every nation of the world is accomplishing various activities. Nevertheless, underdeveloped countries are facing serious problems in the process of economic development. Nepal is not an exception to this condition. The poverty line of the people (about 31% of the total population) and the per-capita income after adjusting the population growth is estimated to Rs. 35948 (equivalent to USD 473), (financial express.com) per person which shows the poor economic condition of country. It needs huge amount of investment in industry for economic development.

The industrial sector in Nepal's development prospects, the Tenth Plan (2002-2007) had set a target of achieving 7.8 percent annual average industrial growth rate and creation of additional 250,000 employment opportunities in the industrial sector. However, the actual growth rate turned out to be only 1.95 percent. At present, the contribution of manufacturing to GDP is 7.1 percent, a decline from 9 percent from the year 2000/2001.

Nepal's overall economic performance and particularly the manufacturing sector deteriorated enormously during the 2001-2008 period. Though there are plenty of industrial development potentialities in the country, the country is unable to tap adequate benefit from this sector due to lack of appropriate managerial skills and knowledge, no proper substantial guarantee of industrial security and no appropriate environment created for internal and external investment. Inconvenient environment caused hurdle in industrial development and lack of skilled manpower, no diversification in exportable products, no adaptation of new technology, minimum ability to adapt the technology affected to productivity increment, no implementation of industrial friendly labor policy, irregular supply of electricity, mistrust and misunderstanding between business owners and laborers are main hindrances to

industrial development. Similarly, scarcity of infrastructure in rural sector, inadequate access of micro entrepreneur to the microfinance institutions, difficulty of access to micro entrepreneur in forest-based resource, no clarity in legal provisions, unavailability of appropriate technology for qualitative product, weak forward linkages to market, lack of confidence of entrepreneurs, lack of formal recognition of micro-entrepreneurs to move forward in an organized way etc. are main problems and challenges of micro enterprise sector. In addition, difficult geographical structure, excessive competitive environment created by globalization and economic liberalization, increasing affordability in existing development of information and communication technology to make industrial products more qualitative and competitive seem great challenge. This is indeed a serious matter in a country, where more than 31 percent of people still remain in absolute poverty level and a labour force that is growing on an average of 400,000 youths per annum. Furthermore, power outages have become an unfortunate reality for industrialists in Nepal. At a time when energy demand is increasing by 10 percent annually, the supply constraints remain unaddressed. Even the existing capacity is being eroded due to the lack of appropriate repairs and maintenance. Such a situation has adversely affected the manufacturing production.

Income tax act 2058 and its related laws have mentioned various tax incentives and deduction facilities to industries while proper tax planning made, such as only 20% tax rate in compare to 25% in other trading business, tax rebates of 30%, 25%, 20% to the industries established in remote, undeveloped, and underdeveloped area. Tax deduction facilities in Pollution Control cost (PCC) and Research and Development (R&D).

However, no organization can be found which has adopted tax planning. Although, it gives more important in rural part of the country and more initiation to domestic industry but the provision is not working. Tax planning is looking most required tools to any business organization because it reduces the tax burden and provides sufficient opportunity to grow up the business. Tax planning encourages in generating maximum employment which helps to be efficient in the task. Up to now, despite of various tax incentives provision, tax planning is not widely adopted tools. So, these are various problems relating to tax planning. Thus, this study is to be carried out for the following problems.

- What types of tax incentives and facilities are provided by ITA 2058 to the industrial sector?
- What is the effect of tax planning in the industrial sector?
- Are tax incentives and facilities to industries provided by ITA sufficient?
- What are the major problems of tax planning implementation in Nepal?
- What kind of tax incentives and facilities are necessary to industries?

1.3 Objectives of the Study

The main objective of this study is to get insight into the tax incentives and facilities allowed by present tax system to industries. Thus, the effectiveness of the tax incentives and facilities can be found out and the possible measures regarding tax incentives and facilities can be suggested for further improvement. This research has not only analyzed the tax incentives and facilities to industries but also has tried to make aware about them to policy makers and industrialists.

So, the objectives of this study can be mentioned as follows:

1. To examine the tax incentives provided by ITA 2058
2. To analyze effectiveness of tax incentives and facilities to industries under ITA 2058
3. To identify the other industries that can be included in the special category.
4. To view the tax planning concept implemented by the payer.

1.4 Scope of the Study

This study has tried to cover the industrial aspect of present tax system. Its aim is to study the tax incentives and facilities to industries so as to find out its impact in industrial development that will ultimately affect to the economic development of the nation.

In brief, the scope of this study can be presented as follows

-) Role of tax incentives to industries
-) Guide to policy maker about tax incentives and facilities.
-) Guide to existing and perspective industrialist about tax incentives and facilities.

1.5 Need of the Study

There are various researches that have been completed in the various aspects of income tax and very few of them have studied the industrial aspects of income tax based on previous act but no one has studied the industrial aspects of ITA 2058. They even have not touched the industrial aspects of ITA 2058 and focused only on the contribution of income tax in the various sources of government revenue.

In one hand, the incentives and facilities provided by income tax laws to promote the industries may not be reasonable at all time and it should be reviewed from time to time and the adjustments should be done as per the requirements. In other hand, the need of industries in the country like Nepal is very much important and tax incentives are required to encourage the establishment of new industries. So, the need of this research has been increased in the prospects of the underdeveloped country like Nepal.

1.6 Limitation of the Study

The limitations of the study are as follows:

-) The study is only of partial fulfillment of master of business studies (MBS) program.
-) This study basically depends on descriptive research, therefore few samples have been selected for opinion survey.
-) The study has emphasized only on industrial aspect of the income tax.
-) Primary data have been collected from tax experts and tax payers only.
-) The respondents are from Butwal-Bhairahawa Industrial corridor areas only.
-) Only manufacturing industries is taken as sample where more employees are working(at least 25) for this study.
-) The study is confined to Nepalese laws, acts, rules, ordinance, regulation and circular to income tax.

1.7 Organization of the Study

This study is mainly related with the problems of cash management .to get objective of the study, this study will be divided into five chapters.

1.7.1 Introduction

The first chapter deals with Background of study, evolution of banking and financial institutions, focus of the study, statement of problem, objectives of the study, limitations and chapter scheme of the study.

1.7.2 Review of Literature

The second chapter deals with the review of literature relating to cash management and review of some research work, text books and thesis newspaper will included.

1.7.3 Research and Methodology

The third chapter includes introduction, research design, and sources of data, data processing procedure and tools and techniques of analysis.

1.7.4 Presentation and Analysis of Data

Fourth chapter presents the analysis of data. To the analysis of data, this chapter uses different table, and statistical and financial tools for better understanding of data and to reach towards accurate interpretations.

1.7.5 Summary, Conclusion and Recommendation

The fifth and the final chapter include the summary of the study, findings of the study, conclusion and recommendation also presented on the basic findings.

CHAPTER - II

REVIEW OF LITERATURE

2.1 Conceptual Framework

2.1.1 Tax

In simple terminology, tax is a liability to pay an amount to the government. It is compulsory contribution to the national revenue. To get specific definition of tax, it can be cleared from an example. If a person is levied on its business income by government, then it becomes tax which is to be paid by the person to the government. But if the person is charged certain amount for keeping a gun for a specified time period, then it does not become tax. It is just a special fee to the extent of his personal benefit not for national interest. When a state levies tax, it is to be collected compulsory and tax payers are compelled to pay. Taxpayer is not benefited directly. Tax is a monetary contribution paid to the government. (Kandel, 2006)

2.1.2 Tax and Efficiency

A tax except in the form of a lump sum levy reduces the consumer's welfare in two ways: directly through a transfer of resources from him to the government and indirectly through a rise in the consumer prices of taxed commodities relative to those of non-taxed ones. The former produces a (direct) income effect while the latter gives rise to both an (indirect) income effect and a substitution effect in the standard manner following a relative price change. (Lent, 1968)

The efficiency loss of a tax refers to the excess of the reduction in the consumer's welfare above and beyond that which can be accounted for by income loss due to payment of the tax. For this reason, the efficiency loss is usually referred to as the excess burden of the tax. (Poudyal, 1968)

2.1.3 Tax and Equity

Equity is one of the main issues in taxation. Equity means distribution of income, wealth and/or other variables of interest equally. A possible way to give concreteness to the meaning of equity is to interpret it only in the context of redistribution. Equity issues in taxation are generally examined under the two complementary rubrics of

horizontal equity and vertical equity. The former calls for the equal tax treatment of equal individuals while the latter calls for the unequal tax treatment of unequal individuals. (Khadka, 2001)

2.1.4 Types of Tax

Tax may be of various types. The rate and nature of tax may be different as economists have classified the tax from different angles. They have given a very long list of the types of tax. But on the basis of impact and incidence the tax may be classified into two types:

- Direct Tax
- Indirect Tax

A direct tax is really paid by the person on whom it is legally imposed. Direct taxes are levied on the income and property. The direct taxes have been used to bridge the gap of income and wealth inequality in the society. An indirect tax is imposed on one person but paid partly or wholly by another. Indirect taxes are generally imposed on consumption of goods and services. The taxes on such goods and services are integrated with their price. Selling those goods and services on higher price, the tax payers easily transfer the burden on general consumers. (Kandel 2006)

2.1.5 Income Tax

Income tax is a direct tax that is imposed on the earning of individual and corporation. Actually, tax levied on the taxable income is known as the income tax. It is charged by the government on the income of the previous year at the rate prescribed each year by the finance act. From very earlier, income tax has always been regarded as a tax based on the canon of ability. The tax could be adjusted as to exempt the lowest income groups from the operation of the tax and make the richer groups bear the burden of tax according to their income. Tax economists have a view that an income tax is a levy imposed upon the income of an individual after the exemption limit. All incomes above the tax exemption level are subjected to income tax that is based on the income tax act of the concerned country. (Pradhananga, 1993)

2.1.6 Objectives of Taxation (Kandel, 2006)

The government mobilizes its revenues through budget in development programs, daily administration, peace and security and public interests. Thus, good tax policies are considered as tools of social and economic revolution.

Therefore, the government collects tax to achieve the following objectives.

-) To raise more revenue
-) To reduce economic inequalities
-) To maintain the welfare state
-) To encourage production of essential goods
-) To check the consumption of harmful goods
-) To remove regional economic groupings
-) Rapid economic growth
-) Increasing saving and investment
-) Reduction in unemployment
-) Removal of regional disparities

In conclusion, it can be said that the establishment of peace and welfare economic state is the major objective of taxation.

2.1.7 Canons or Principles of Taxation (Agrawal, 2003)

A good tax system should have certain principles or canons. Different writers have their own opinion regarding the canons. Some major canons are presented here.

As Per Adam Smith:

-) Canon of Equity
-) Canon of Certainty
-) Canon of Convenience
-) Canon of Economy

As per Bastable:

-) Canon of Productivity
-) Canon of Simplicity
-) Canon of Flexibility
-) Canon of Diversity
-) Canon of Neutrality
-) Canon of Co-ordination

2.1.8 Tax Incentives

Tax incentives to invest arise from the relaxation in normal taxation rules, which curtail the tax burden and thus increase the profitability of a particular investment activity. Tax incentives involve cost in the form of loss of revenue to the government but at the same time it result in increase in corporate savings and investments. (Poudyal; 1998)

An income tax is a disincentive to save or invest and therefore, the incentive is to mitigate the disincentive. It may imply a partial or complete exemption from one or variety of taxes and special allowances for a certain periods to motivate the behavior of saver or investor. The main aim of tax incentive is to increase savings and to encourage and canalize the investment to the desired area of sector. (Kandel; 2006)

A tax incentive reduces the tax burden of an organization thereby reducing the effective tax rates. The result is reduction in investment risks, more attractive public issue of equity share and enhancement in the borrowing capacity. The willingness to invest depends upon the after tax profitability of investment, while the ability to invest depends upon the availability of internal and external funds.

2.1.8.1 Historical Background of Tax Incentives

Tax incentives system was introduced many decades ago as a method of mitigating the tax burden in investments. The use of depreciation many years ago is an example. Other types of investment incentives were also not introduced at once but gradually in different countries of the world. (Kandel; 2006)

The first tax incentives system was introduced by UK in the form of the depreciation in the depression period of 1880s. The incentives were added in the form of carry forward of losses in 1890, other incentives in 1944 and cash grant system in 1967. Mexico introduced the tax incentives system in 1939.

The tendency of providing tax incentives was introduced before the Second World War but it became popular after the Second World War and widely spread in the world. Tax incentives became so much popular that the competitions between the developed and developing country became intensive to attract investment.

One after another, other country also introduced the tax incentive system to attract the investment in various sector. Philippines introduced the tax incentive in the year 1946. Puerto Rico introduced in 1946, India in 1948, Malaysia in 1958, Thailand in 1960, Ghana in 1950. The greatest economic country of the world USA introduced tax incentives in the form of investment allowance in 1954. The Asian economic country Japan introduced the tax incentives system in the year 1950.

Tax incentive system become very much popular in the decade 1950s, India had even introduced committees to study the scope of tax incentives to the productive industry. (Kandel; 2006)

2.1.8.2 Tax Incentives in Nepal (Adhikari, 2003)

Tax incentives system in Nepal has introduced first time by the Industrial Enterprises Act, 1961. This act was the first Industrial Enterprises Act. The first Industrial Enterprises Act had given the following incentives to industries:

-) Ten years tax holiday to newly established industries
-) of 25% of the tax liability on the discretion of Nepal Government to the Tax rebate operating industries.
-) Full and partial rebate of the tariff for exporting goods and importing machineries, parts and raw materials etc.

The industrial enterprises act 1974 had given various incentives to industries, which are as follows:

The third Industrial Enterprises Act was enacted in the year 1981. This act had given the following incentives to industries.

-) Tax holiday up to 12 years to industries
-) Income tax rebate of up to 50% for exports
-) An allowance of 15% to the new investment
-) Levy to import of machinery, spare parts and raw materials was very nominal. It was only 1% of the imported value.

In comparison to above acts the Industrial Enterprises Act 1992 has given more tax incentives. Those incentives are as follows:

-) Maximum rate of tax to be charged to industries as 20%

-) Completely exemptions of income tax, sales tax, excise tax etc. to the cottage industries.
-) Additional depreciation facility of 33.33% to the industries.
-) Deduction of 10% of gross income for research and technology development expenses.
-) A rebate of 10% to industries not related to tobacco, alcohol, sawmill and Wooden industries using 100% of Nepalese labour and 80% or more of Nepalese raw material.
-) Investment allowances of 40% of extended fixed assets investment if the firm increased its capacity of line of production more than 25% of the original
-) Deduction of 50% of pollution control expenditure from taxable income within 2 years.
-) Sales tax and excise rebate up to 13 years to the fruit processing and fruit based wine producing industries located in remote areas.
-) A holiday of 50% to the national priority industries related to the construction of road, bridge, tunnels, ropeway, flying bridge, trolley bus and tram for the period of ten years
-) A holiday of 50% to the industries other than the above, for a period of 7 years.
-) Tax rebate of 30%, 25% and 20% to the industries established in the remote, undeveloped and underdeveloped areas specified in the appendix 3 of Industrial Enterprises Act 1992.

Some provisions related to industries under this act are curtailed down by the amendments in this act. Among these the full tax holiday, exemption on dividend income and exemption in export income etc. are some examples.

2.1.8.3 Types of Tax Incentives

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

2.1.8.3.1 Investment Allowance

Investment allowance is a facility given to encourage the investment in the industries. It provides the facility to deduct some part of investment from the taxable income of the organization.(Dhakal, 2002)

2.1.8.3.2 Investment Tax Credit

Investment tax credit is also a facility given to prospective industrialists so as to encourage investment. It provides facilities to deduct some part of investment from the tax liability.(Amatya, 2004)

2.1.8.3.3 Tax Holiday

The investment allowances may be favored by existing industries companies, whereas tax holiday is mainly concerned with new companies in the industrial sector. Such a relief on tax is applicable on profits earned from new investment and it will automatically terminate after the holiday period. (Poudyal, 1998)

Tax holiday refers to complete or partial exemption of earnings for a specified period of time especially in the beginning. It is exemption type of fiscal incentive. It may be partial or full. Especially in the later years it becomes partial. It is assumed that after the end of holiday period, the firm pays full tax and company is not allowed to transform it into a new company.

Tax holidays have certain benefits over other types of investment incentives. It becomes more beneficial to those profitable firms, which have no other forms of incomes during tax holiday period. Thus, it concentrates on new business organizations. (Kandel, 2006)

So, the tax holiday is full or partial exemption in the tax liability for the organizations (especially for new organizations) to relief the investment cost and to promote them.

2.1.8.3.4 Accelerated Depreciation

Accelerated depreciation means higher depreciation in initial years and gradual decrease in later years. It includes allowing the cost of fixed assets to be depreciated within a shorter period than its service life, whatever is the method of charging depreciation. (Kandel; 2006)

Accelerated depreciation helps to reduce the tax burden of the industries in the initial years and shifts it to the later years. This is because the expenditure of the industries

in the initial year will be more than the actual expenditure, which reduces the taxable income of the organization and ultimately the tax liability of the organization.

2.1.8.3.5 Set off and Carry Forward of Losses

If there is loss under one source and profit under another source of the same head, the former is set-off against the latter. Similarly, when incomes from different heads are aggregated, the loss under one head of incomes is set-off against the income of another head. If the aggregated amount of a year turns into net loss, this loss can be carried forward in future year(s) for set-off against the income of subsequent years. (Poudyal; 1998)

If there is income in any income year, organization has to pay income tax but if there is loss, the organization has to bear all the burden of losses without any compensation, which discourages in investment. Therefore, the income tax provides loss adjustment facility, so that the organization having losses in previous income year can relief by adjusting the losses from the income of the succeeding income year(s). Similarly, the inter-head adjustment facility also provides some relief to the loss of one income head by adjusting the losses in another head's income.

This loss adjustment facility is different in different countries. This facility can be adjusted as per the requirement of incentives. If the investment required for any industry is higher than the chances of losses in initial year will be high. So, relatively long carry forward period may be provided in these sectors.

2.1.8.3.6 Incentives for Development of Specified Areas

Various tax incentives can be provided to the development of the specified backward or rural areas. The incentives may be in the form of tax rebates, tax holidays, investment allowance, and investment tax credit etc. (Pant, 1998)

2.1.8.3.7 Incentives for Research and Development

Research and development is the backbone of economic development of any country. Without research, new invention may not be possible. But the research needs lot of amounts and is higher burden to the researcher. Therefore, a small organization could not invest in research and development due to lack of incentives. Income tax law

provides some incentives in the form of deduction facilities to this expenditure and that would help to recoup the entire investment quickly in the earlier years, which encourages the expenditure in research and development. (Tiwari, 1999)

2.1.8.3.8 Incentives to Install Pollution Control Devices

Development of economy is almost impossible without the development of industries but the industrial wastage pollutes the environment. Organization needs the pollution control devices to reduce the environmental effects but it needs higher amounts of investment. So, to use the pollution control devices certain facilities may be provided. It may be in the form of deduction facilities to this expenditure. (Kayastha, 2001)

2.1.8.3.9 Export Incentives

Some tax facilities may be provided to the organizations that export its product in abroad. The tax incentives may be in the form of tax rebate and tax concession in the income from export, market development allowance, customs and excise relief, export credit, tax exemption in the income from the export of technical know-how etc. (Poudel, 1990)

2.1.8.3.10 Amortization of Preliminary Expenses

While commencing a business, high amount may be expended in the form of preliminary expenses, which will have long-term effect in the business such as high amount of advertisement expenditure etc. Tax incentives may provide to write off this type of expenditure within a certain period of time. (Poudel, 1990)

2.1.8.3.11 Employment Incentives

Generally, underdeveloped and undeveloped countries have the problem of unemployment. so, certain tax incentives are provided to the industries that provide employment to the substantial employees. The incentives may be in the form of tax rebates and concessions. (Poudel, 1990)

2.1.9 Specimen for Calculation of Income from Industry as per ITA 2058

There is no separate format for calculation of income from industry but the same format for calculation of business income is to be used in calculation of industry.

The summary of the format for calculation of income from industry is given below.
(Kandel, 2006)

(A) Computation of Income from Business

| Particulars | Amount |
|---|--------|
| <p>Inclusions (Amounts to be included)</p> <p>Service fees (Section 7.2.a)</p> <p>Amount derives from the disposal of trading stock (Section 7.2.b)</p> <p>Net gain from the disposal of the person's business assets or liabilities (Section 7.2.c)</p> <p>Amounts treated as derived from the disposal of depreciable assets (Section 7.2.d)</p> <p>Gift received by the person in respect to the business (Section 7.2.e)</p> <p>Amounts derived as consideration for accepting a restriction on the capacity to conduct the business (Section 7.2.f)</p> <p>Amounts derived from investments that are effectively connected with the business (Section 7.2.g)</p> <p>Amounts to be included by reason of change in the accounting system (Section 22.6)</p> <p>Amounts to be included by reason of timing (Section 24.3)</p> <p>Recovered amount of bad debts deducted earlier (Section 25.1)</p> <p>Amounts to be included as per contract completion basis in case of a long term contract (Section 26.1)</p> <p>Difference of actual interest and interest as per market rate in case of a soft loan (Section 27.1.d)</p> <p>Amounts paid to third person instead of actual payee (Section 29)</p> <p>Amounts derived as compensation (Section 31)</p> <p>Others amounts to be includes in profit and gains</p> | |
| <p>(A) Total Inclusions</p> | |
| <p>Deductible Expenses:</p> <p>General deductions (Section 13)</p> <p>Interest (Section 14)</p> <p>Cost of trading stock (Section 15)</p> <p>Repair and improvement costs (Section 16)</p> | |

| | |
|---|--|
| Pollution control costs (Section 17) | |
| Research and development costs (Section 18) | |
| Depreciation (Section 19) | |
| Deductible reserve (Section 59.1) | |
| Other than mentioned above | |
| (B) Total Deductible Expenses | |
| Deductible Losses: | |
| Unrelieved losses from other business of this year | |
| Unrelieved losses from business of previous years | |
| (C) Total Deductible Losses | |
| (D) Total Deduction (B+C) | |
| Income or loss from the business (A-D)(in case there is no loss in this row, this amounts is treated as assessable income from business) | |

(B) Computation of Taxable Income

| | |
|--|--|
| Assessable income from Employment | |
| Assessable income from Business | |
| Assessable income from Investment` | |
| Total assessable income | |
| Less: Contribution to recognized retirement funds (as per tax law) | |
| Less: Donation (as per tax law) | |
| Taxable income | |

2.1.10 Tax Planning

Planning is the way of making systematic and easy of any task previously. Planning is necessary for the survival and growth of a company. Planning is an important feature of all business enterprises whether big or small, old or new, private or public. The need for having a formal planning system in a company arises from the necessity of management to conduct the operations of the company efficiently and effectively. Tax planning implies compliance with taxing provisions in such a manner that full advantage is taken of all tax exemptions, concessions, rebate and relief permissible under the Act, so that the incidence of tax is kept at lowest possible point. For

example, while selecting location for a new industrial undertaking, one should take into account various tax holiday incentives provided under Income-tax Act for reducing the incidence of tax. Tax planning reduces the outflow of cash resources by way of tax to the Government, so that the same may be effectively utilized by the assessee for his benefits. It arranges the financial affairs in such a way that, without attracting the penal provisions, full advantage is taken of all tax exemptions, deductions, concessions, rebates, allowances and other relief permissible under the Act, so that incidence of tax is reduced to minimum. (Joshi, 2003)

A planning requires intelligent and well through out strategy to reduce or postpone tax liability in the present and foreseeable future with stress on being honest responsible and trustworthy citizen. Tax planning is to be done in advance with a view to minimizing the payment of tax within the formwork of tax laws. Tax planning presupposes a through knowledge of tax laws so that the best alternative choice may be through of in order to attract least tax liability. Tax planning is the method which taxpayer makes use of all the concessions including exemptions, deductions and allowances under tax laws and pays the minimum possible tax. (Dhakal, 2002)

In the conclusion, it can be said that tax planning is a scientific planning of company operations. It is economic, legal and ethical activity; it is the use of various incentives, concessions, allowances, rebates etc. and is an activity related to future. It has the objective of

- a) Reduction of tax liabilities,
- b) Minimization of litigation,
- c) Productive investment,
- d) Healthy growth of the economy and
- e) Economic stability

2.1.10.1 Features of Tax planning

The features of tax planning are given below: (Adhikari, 2004)

- a) It is future-oriented. It is concerned with activities to be undertaken in future.
- b) It is legitimate device of minimizing tax burden. The legislative encourages using this device.

- c) It is legal, ethical and economic.
- d) It is genuine use of facilities provided in the tax law.
- e) It establishes a good relationship between government and business community. It enhances a healthy environment in the country.
- f) It is universal in nature. It means all the business organizations uses tax planning.
- g) It is a use of dignified activities.
- h) It is a use of expertise to get consciously given facilities.

2.1.10.2 Significance or Objective of Tax Planning

The important objectives of tax planning are stated as follows: (Bhattarai, 2004)

- a) Reduction of tax liability
- b) Minimization of litigation
- c) Productive investment
- d) Healthy growth of economy
- e) Economic stability

2.1.10.3 Importance of Tax Planning

The major importance's of tax planning are as follows: (Kandel, 2006)

-) 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.

The subsidiary advantages of tax planning are as follows:

-) It helps in increasing working capital.
-) It helps in analysis of risk.
-) It helps in increase of profit distribution.
-) It creates easiness in day to day work.
-) It enhances the investment opportunity.
-) It enhances competitive abilities.
-) It helps in upgrading technology.
-) It creates good business environment.
-) It helps in development of manpower.

2.1.10.4 Scope of Tax Planning Under ITA 2058

ITA 2058 has reduced the scope of tax planning to a great extent by abolishing all the tax related provisions under Industrial Enterprise Act 2049 and other respective acts. The new act has widened the tax base by bringing in all the incomes into tax bracket. Under Income Tax Act 2058, tax planning can be divided into two heads. (Joshi, 2003)

-) Strategic or long-term tax planning
-) Operational or short-term tax planning.

2.1.10.5 Tax Management

Tax management is an integral part of tax planning. It takes necessary precautions to comply with legal formalities to avail of the tax exemption/deduction, rebate or relief are contemplated in a scheme of tax planning. Tax management plays vital role in claiming allowances, deductions and tax exemptions. Tax management also protects an assessee against penalty and prosecution by discharging tax obligations in time.

Tax management is the efficient, systematic and timely handling of tax matters to save maximum amount of time, talent and treasure to avoid worry, tension, stringent penalty and prosecutions. It is maintenance of records and documents, filling of tax returns in time and performing other tax related duties. Tax management is looking as the similar to tax planning but there are differences between tax planning and tax management. (Sharma, 2002)

-) Tax planning saves tax, whereas tax management saves all the time, energy and money.
-) Tax planning is the decision making process, whereas tax management is an administrative work.
-) Tax planning needs extensive knowledge of tax laws. Tax management does not need such extensive knowledge of tax laws.
-) Experts do tax planning, whereas ordinary staff do work related to tax management.
-) Tax planning is the major work. Tax management is subsidiary to tax planning.

2.1.10.6 Tax Avoidance, Tax Evasion and Tax Planning

There are three common methods of saving taxes, viz., tax evasion, tax avoidance and tax planning. Tax planning is neither 'tax avoidance' nor 'tax evasion'. 'Tax avoidance' is a device which technically satisfies the requirement of the law but in fact its circumvents is to reduce or avoid tax burden. 'Tax avoidance' is an attempt to reduce incidence of tax by taking advantage of loopholes in tax laws. Tax avoidance is not dependable and can't be adopted as a long term device for the tax planning. Besides, it is also risk bearing because some times the law may be amended with retrospective effect. If the time limit for reopening or ratification of completed assessment has not expired by that time, they can be reopened or rectified creating additional liability for the taxpayer. Therefore, it is not advisable devise for tax planning. Tax avoidance is against the spirit of law whereas tax planning follows legislative intentions and opinions. (Poudel, 1990)

'Tax evasion' is a device to evade or reduce tax liability by fraudulent means like suppression or omission of receipts, inflammation of expenses and claiming bogus deductions/losses in fictitious transactions. It is illegal, immoral, and highly risky. A tax evader has to pay not only monetary penalty but he also bears the risk of prosecution proceedings being launched against him. Thus, tax evasion is not tax planning because tax evasion amounts to breach of law whereas tax planning is devised within the legal framework by following legislative intentions. (Poudel, 1990)

Tax planning is not only planning the basic stature of the business and industry but also the planning of various projects from time to time and its day-to-day activities so as to acquire the maximum benefits under the provisions of the existing laws of the state. Tax Planning should not be mistaken for tax avoidance and tax evasion because the latter are clearly against the law. Tax planning and its penetrating discrimination are bounded on all sides by the rigidity of the law and the effective consideration for them.

The correct approach in regard to tax planning has been formulated by Rangnath Mishra, a Supreme Court Justice of India, in the case of M.C. Dowell (Supra) in the following words: "Tax planning may be legitimate provided it is within the framework of law. Colorable devices cannot be part of tax planning and it is wrong to

encourage or entertain the belief that it is honorable to avoid the payment of tax by resorting to dubious methods. It is the obligation of every citizen to pay tax honestly without resorting to subterfuges."

Strategic or Long -Term Tax Planning

Strategic tax planning is normally for a longer period and it may not pay off immediately. As per ITA, 2058, areas for strategic or long term tax planning can be as follows: (Bhattarai, 2004)

1. Nature of Business

An investor can minimize tax burden by choosing a business of low tax rate. For examples:

-) Special industry (except liquors and tobacco) should pay tax at a flat rate of 20%.
-) Bank, finance companies, general insurance companies, etc should pay tax at a flat rate of 25%.
-) Other firms i.e., private limited, partnership firm should pay tax at a flat rate of 25%.
-) Agricultural incomes from unorganized sector are tax free.

Similarly, loss recovery period also differs as per the nature of the business. For examples:

-) Business organizations can carry losses for the coming 4 years.
-) In addition to carry forward provision, banks, financial institutions and general insurance business can carry backward of losses for the preceding five years.
-) BOT/BOOT can carry losses for coming 7 years.

An investor can minimize his tax liability by selecting a suitable business that enjoys maximum treatment of losses.

2. Form of Organization

ITA 2058 has imposed different tax rates as well as has provided different facilities to different forms of business organization. For examples:

-) Proprietorship firm can enjoy exemption facility and progressive tax rate is applied.

-) Partnership and company do not get any exemption. Tax is imposed at a flat rate.
-) The ownership of proprietorship firm is entitled to a medical tax credit up to Rs. 750.

3. Location

An investor can take benefit by the provision of location by establishing business in a suitable location. For examples:

-) Special industries established in remote, undeveloped or underdeveloped area should pay tax at 70%, 75% or 80% respectively of the rate otherwise applicable for the period of ten income year.
-) Individual working in remote area A, B, C, D, and E can get an additional exemption of Rs. 30,000, Rs. 24,000, Rs. 18,000 Rs. 12,000, Rs. 6,000 respectively.
-) Business having annual transactions upto Rs. 12,00,000 and income of Rs. 1,20,000 should pay Rs. 2000, Rs. 1,500 and Rs.1,000 as tax if established in metropolitan/sub- metropolitan cities, municipalities and anywhere else in Nepal respectively.

4. Capital Structure Decisions

ITA 2058 has made different provisions for treatment of reward given to the providers of capital. For example:

-) Interest is deductible in case of borrowed funds whereas dividend does not enjoy this benefit.
-) Expenditure incurred while borrowing loan is an allowable expenses.
-) Raising funds through equity/preference shares or retained earnings are without strings and do not involve regular outflow of cash by way of interest.

5. Size of Business

Selection of suitable size of business can also help in tax planning. For example:

-) Business firms with annual turnover up to Rs. 12 lakhs and income up to Rs. 1 lakh 20 thousands fall within presumptive taxation. They are

required to pay Rs. 2,000, Rs.1,500 and Rs. 1,000 if they are located in metropolis, municipality and other areas respectively.

-) A special industry employing 600 or more Nepalese citizens throughout each day of the year is required to pay only 90% of tax other wise applicable to its income (i.e. 90% of 20% = 18%)

6. Merging of Business

Inclusion of non industrial unit in industrial unit can also be helpful in minimizing tax. Industrial units (except liquors and tobacco) pay tax @ 20% whereas non-industrial units (i.e., trading company) pay tax @ 25%. Thus, merging of trading company in industrial company (forward integration) reduces the tax liability. Similarly, merging of loss making units to profit making unit is also helpful in tax planning. Here, the losses of loss making unit can be adjusted with the profit of profit making units. (Neupane, 2009)

OPERATIONAL OR SHORT-TERM PLANNING

As per ITA, 2058 areas for operational or short- term planning can be as follows:

1. Acquisition of Fixed Assets

There are mainly two ways of acquiring fixed assets: Leasing and Buying. (Shakya, 2004)

-) If assets are acquired through leasing, annual rental charge is allowed for depreciation.
-) If assets are purchased, depreciation as well as interest on borrowed loan is allowed for deduction.

2. Repair and Improvement Cost

ITA, 2058 has allowed repair and improvement cost up to 7% of depreciation basis. Taxpayers should plan these expenses in such a manner so that maximum deduction is possible. The unabsorbed repairs can be capitalized and depreciated from the next year. (Neupane, 2009)

3. Pollution Control Cost

ITA, 2058 has provided a deduction for pollution control cost up to 50% of adjusted taxable business income. The excess pollution control cost can be capitalized and depreciated under Block D from next year. The taxpayer should claim these expenses as much as possible to reduce the tax liability. (Neupane, 2009)

4. Research and Development Cost

Like in PCC, R and D cost is also allowed for deduction up to 50% of adjusted taxable business income. The excess R and D cost is capitalized and depreciated under block D from next year. The tax payer can minimize tax liability by spending on R and D.(Pant, 2003)

5. Donation

A donation given to tax-exempt organization is allowed for deduction up to Rs. 1,00,000 or 5% of adjusted taxable income. However, donation given to Pashupati Area Development Trust (PADT) and Lumbini Area Development Trust (LADT) is allowed for deduction up to Rs. 50,00,000. Similarly, donation given to the approved national political parties (NPP) within two months from the date of preliminary election is allowed up to Rs. 50 lakhs in the year of election. This provision is available to only profit making entity. A taxpayer can plan the amount of donation to minimize his tax burden.(Rai, 2004)

6. Loss Recovery

As per the Act, losses from business can be carried forward up to coming four income years. In addition to carry forward of losses, banking and general insurance businesses can carry back their losses from proceeding five income years. Bank can avail this provision only if it doesn't maintain loan loss provision. As per the Act, loss from investment can not be carried forward or backward. While setting of losses, priority should be given to investment losses. If it is not recouped in the year of loss, it can't be carried backward or forward. In this way, by priority, a taxpayer can adjust as much losses as possible. (Rai, 2004)

7. Stock Valuation

There are two recognized methods of valuation of market price and cost or market price whichever is less. ITA, 2058 has adopted the second method. As per the Act, business firm keeping accounts on a cash basis needs to adopt prime cost basis for valuation of its stock. However, if the business firm keeps account on an accrual basis, it can adopt either prime cost or factory cost basis. If the cost of the stock cannot be determined, stock can be valued either in FIFO or Weighted Average Method. From tax angle, Weighted Average Method is more beneficial as it produces lower profit and thereby decreases the tax liability. (Bhattarai, 2004)

2.1.11 Tax Planning and Industrialization

Although developing countries vehemently calling for industrialization, it can not be accrued easily. For the purpose of industrialization, the atmosphere of the country must be conducive for such purpose. Among many factors, tax incentive is one of the requisites for industrialization and tax planning is the method of getting tax incentives and reduce tax amount. (Kandel, 2006)

In underdeveloped country it is usually practiced to provide tax incentive facilities to newly established enterprises for the period fixed by the government. So, incentive policies need to be considered within context of a developing country's national economic policies, its strategy and plan for industrialization and the existing set of industrial policies used to achieve the objectives and targets established for the industrialization program.

Only by formulating an implementing incentive plan doesn't ensure that a country will obtain investment at the industrial sector at a sufficient level of the appropriate quality and in desired direction. Because it is not a magic formula to obtain investment. However, given a favorable climate for private investment, incentive measure can play an active role to promote investment in the industrial sector in general and as a policy instrument to achieve other specific policy objectives. (Kandel, 2006)

The principal role of incentive policy is expected to facilitate the mobilization and channeling of an adequate volume of resources (both domestic and foreign) and it will

help to remove obstacles or disincentives to new investment in the industrial sector. The incentive benefits granted were usually of short term nature. The time factor (that is the duration of the benefits offered or time limit on the period during which new investment would qualify for these benefits) was therefore an important element in the design or incentive measure.

2.2.1.1 Books

“Fundamental of Nepalese income tax: with up to date financial directives and regulation.” In their book they had described the legal provisions relating to income tax and practical aspects. They had described the income Tax Act 2020. This Act was not beneficial because of changing in tax law. They were fully based on campus level syllabus because the prime objective of this book was to meet the requirement of the university students. (Marahaththa and Khatioda; 1970)

'Direct Taxes' in which he has mainly focused with income tax, wealth tax, gift tax and tax planning. In his book, he has mainly pinpointed about different provision of tax incentives and its use in regards to tax planning. He states that the admissible depreciation has been restricted to 75% in the case of corporate assessee, to promote tourism in remote regions; the rate of deduction was increased from 30% to 50% compared to previous. Tax rate was increased from 8% to 12% and domestic companies were liable to pay such charge @15%. For the purpose of preventing tax evasion, scope of tax deduction was enlarged. To promote social and economic welfare, expenditure in eligible projects approved by National Committee was allowed to be deducted in computing taxable profits of business or profession. Publishing industry had been given a boost by providing 20% deduction in computing total income. Interest on refund was 1% per month.

He has described about tax planning by spending one chapter. Introduction and meaning of tax planning, test of successful tax planning, methods of tax planning, tax management and scope of tax management are sub-topic in his book. Scope of tax management is fully based on Indian Direct Tax Laws Act 1991. He has categorized the scope of tax management in ten points. They are under the head of salaries, under the head of profits and gains of business or profession, under the head of house property, under the head of capital gains, deduction of tax at source, advance payment

of tax, filing and return of income, review of unfavorable orders, documentation and maintenance of records and compliance with law. (Lal, 1992)

"Income tax law and accounting". Objective of this book was to providing the facilities to the students of taxation. In chapters 20, he has described the legal provision relating to income tax. He has also included examples to derive the income tax payable from the various incomes sources, which is very useful to the B. Com. Students. He has also described the development of income tax in Nepal, Finance Act, Industrial Enterprises Act, income from remuneration, Agricultural income, income from house and land rent, income from industry, business, profession, vocation, income from other sources etc. The provision related to fines and penalties, appeal, admissible and inadmissible expenses etc are also mentioned in this book. (Pradhananga; 1993)

"Income tax law and practice". This book is also based on the syllabus of B.Com. level. He has described meaning and feature of income tax, direct tax, indirect tax, brief history of income tax in Nepal, types of taxpayers etc. He has also given some suitable examples to computation of income tax from the various income sources etc. He has also described the tax incentives and facilities given to industry by the industrial enterprises act 2049. This book is descriptive in nature and not analytical one. The legal provision related to income tax authorities, power of tax officer, penalties and appeals, right and duties of taxpayers has also described in this book. (Poudyal; 1993)

"Income tax system in Nepal". He has described income tax and its concept, its system in Nepal, taxable income, industrial enterprises act 2049, computation of income tax from various sources etc. Some examples to compute the income tax from the various sources of incomes have presented in this book. The legal provisions of the income tax act 1974 have presented in detail. This book is of descriptive in nature and not the analytical one.

"Income tax and house and compound tax law and practice". This book is based on the syllabus of the BBS and MBS level of T.U. Various provisions related to the income tax under income tax act 1974 has described in this book. The incentives

given to industries by industrial enterprises act have also described in this book. Clear numerical examples have presented to derive the taxable income from the various sources of income. This book has also included the house and compound tax and value added tax. (Dhakal; 2001)

There is debate between the taxpayers whether the depreciation should be based on historical basis or on the replacement basis so, some countries have given choice to among these. But almost all of them have accepted that accelerated depreciation is one of the major tax incentives. Most of the countries have also provided the loss adjustment facilities as tax incentives but the condition of the government is misery regarding the loss adjustment facilities. Since the loss adjustment periods of the most of the countries have only 3 or 4 years, the writer has concluded the governments' partnership with business houses was lopsided giving more benefit to the government. Nepal is also very conservative in this regard. Due to the discretionary power of tax officer to recognize losses, this facility is also confined only in paper. (Kandel; 2001)

"Taxation in Nepal". This book is written for the academic syllabus of BBS level students. They has described legal provisions of the new ITA 2058, its features, the assessment procedure, computation of income tax, income heads and sources of incomes, taxable and nontaxable income, rights and duties of tax authorities and payers etc. This book has also included the house and compound tax as well as VAT. (Aryal; 2003)

"Modern taxation in Nepal". This book is also based on the new ITA 2058 and based on the academic syllabus of T. U. The legal provisions related to income tax has described in this book with numerical examples to compute the taxable income and tax liability of various income sources. This book is of descriptive in nature and has not analyzed the provisions of the new income tax act. (Adhikari; 2003)

"Income Tax; theory and practice". This book has focused on the students of chartered accountants and taxation. This book has also focused to be a practitioners' reference and handbook, rather than theoretical compilation on the subject. His book is not only based on description fact but also has interpreted the various provision of the new act. Simple and clear language has been used in this book. Sufficient theoretical concepts

with clear interpretation as well as sufficient examples are included in this book. This book has depth theoretical concept and examples. Some sections of ITA 2058 act have compared with the international accounting standard. Gain or loss adjustment of depreciated assets is an example. All terms are clearly defined with the sections under which the terms are included. (Agrawal; 2003)

"Nepalko Adhunik Kar Pranali". He has explained the various difficult languages of the ITA 2058 in simple language with suitable examples. The main objective of this book is to make clear about the provisions of the new act to the taxpayers. This book is some how analytical in nature with the descriptions of the legal provisions of the income tax act 2058. He has clarified how the new income tax act has broadened its tax base and more amounts of incomes are brought into tax net. (Mallik; 2003)"Tax Laws and Planning". This book is also designed in conformity to the MBS level students of T.U. In the same year another book entitled, "Taxation in Nepal" has been published by the same writers and this book has also covered the syllabus of BBS level. Both of the books are of descriptive in nature and presented various examples to derive the taxable income and tax liability from the various sources. In the first book, some examples regarding how the tax can be planned under ITA 2058 has been presented. (Mallik, 2003)

"Tax laws and tax planning". This book's main objective is to meet in conformity with the MBS level syllabus of T.U. He has presented the numerical examples to derive the taxable income and tax liability. Another book entitled, "Nepal Ko Bartaman Kar Byabastha" by the same writer in the same year has been published. This book is based on the course of BBS level. (Kandel; 2006)

2.2.1.2 Previous Studies

In 1968, Mr. George E. Lent has presented a report to IMF. He has critically analyzes the income tax rate structure for individual and company. He has suggested that increment in personal income tax rate at lower taxable income and reduction of rate at intermediate income bracket are desirable. He had not gone through other aspects of income tax.

"Income tax facilities provided by Industrial Enterprises Act 2049". His opinion is that the facilities provided by the industrial enterprises act 2049 are not beneficial to

the small industries. The deductions allowed to the modernization of industries such as pollution control devices, technology and product development, sales promotion expenses etc have protected the large industries only. The expenses such as advertisement, entertainment, hospitality etc have created rude in income tax, since, these facilities are given in the same manner to all kinds of industries. According to him, the industries are to be advertised highly where as others not. So, the equal treatment to industries as trading business is not favourable. The provision related to the tax exemption facilities to the reinvestment income of the industries was favorable to the industries related to alcohol, tobacco etc because they have reinvested their income and got the tax exemption facilities. (Bhattarai, 1994)

"Analytical study of income tax in Nepal". He has described the role of income tax, income tax in Nepal's tax structure, human resource aspects of income tax department, legal aspects of ITA 2031, and problems of income tax administration in Nepal. His identification is that the income tax has played major role in economic growth, equitable distribution of income and stabilization of economic growth. He has found out that the share of income tax to total tax revenue was 1.9% in 1962/63 and 9.8% in 1985/86 and the contribution of income tax to the public revenue of Nepal was 1.5% in 962/63 and 7.9% in 1985/86. He has also found out that the income tax departments have not well-trained and expert personnel. The personnel of the department have not got any opportunities of training and development. He has found out the problems of ITA 2031. According to him, the major problems were complicated language used in tax laws, high use of best judgment assessment method for the assessment of tax, lack of compulsion in maintaining the books of accounts, lack of compulsion of auditing of accounts of all type of business, assessment delays, ineffective use of fines and penalties etc.

His suggestions and recommendations are to make income tax act honest, efficient and effective, establishment of research unit, up to date information of existing and potential tax payers, reduction in time of assessment, use of scientific equipments in tax offices, training and counseling of the persons in the department. He has not given any suggestion to the industries. (Siwakoti, 2000)

"Direct Tax Reforms in Nepal". In his report, he has shown the maximum dependency of Nepal in foreign aid and loan. The increasing trend of foreign aid is not good symptom to this country. Growth rate of the direct tax has been slowed than the growth rate of total revenue and total taxes. He has recommended to reduce the dependency upon foreign aid and to emphasize on proper tax administration. Self-assessment is the important measure to increase the tax collection. He has also recommended levying tax on capital gain. (ITA 2058 has levied tax in capital gain.) (Agrawal, 2003)

"Problems and Prospects of Resource Mobilization through Direct Taxation in Nepal". He has shown the Nepalese taxation structure. The dependency of Nepalese Government revenue is high on indirect tax and non-tax revenue. He has pointed out the collection process suffers from leakages and loopholes which is also because of discretionary powers and authorities as well as low salary structure of government against high social obligation and high cost of living index.

He has showed the urgency of widening the tax base to increase in the government revenue. He has suggested improving the tax administration by using following measures: (Kayastha, 2001)

- Train and develop the staffs of tax administration
- Collect the necessary information and keep well records.
- Audit the accounting records in time
- Monitor the industries and trade.
- Reform in tax rates, rules, regulation and budget.
- Widen the tax base.

Income tax system in Nepal and some potential areas for reforms". He has studied the structure of government revenue of Nepal, its administration, evasion, tax assessment procedure and income tax facilities to industries and efficiency of income tax system. His major suggestion related to industries is to define the industries as employment oriented industries, which invest Rs 5,00,000 or more in the industries. He has further suggested making a prize system, which may be in the form of tax incentives or tax holidays to the taxpayer. According to him, the tax holiday should be extended for industries, which utilize Nepalese raw materials and produces handicraft. The period of tax holiday should be extended to 10, 8 and 5 years instead of the period of 7, 5 and 2 years respectively. He has also suggested adding incentives and deduction facilities

to industries. His suggestions regarding the deduction of expenses to the remuneration incomes are to give exemption of Rs. 10,000 per annum as children education allowance, house rent allowance of Rs. 12,000 per annum. His dissertation seems to be lightly focused in the industrial aspect of income tax act. (Tripathee, 2004)

"Revenue collection from income tax in Nepal, problems and prospects". Her study has been surrounded on the tax structure, tax administration and legal provision of the tax system. There was domination of income tax in the government revenue of Nepal. About 80.46% of the total revenue is contributed by the tax revenue in the government in 1984/85 and reduced to 77.19% in 1998/99. The contribution of tax in GDP is in increasing trend. It is 6.81% in the income year 1984/85 and 9.36% in the income year. The contribution of indirect tax is higher in the tax revenue of Nepal; it is about 82.24% in the income year 1984/85 and decreased to 73.86% in the income tax year 1998/99. Among the various taxpayers the contribution of individual taxpayers is the highest one. The major problems of income tax system are narrow coverage of tax, mass poverty of public, lack of consciousness in the taxpayers, evasion and avoidance, unscientific tax assessment procedure, inefficient administration, instability in government policy. She has suggested widening the tax coverage, making consciousness to tax payers, minimizing the problems and weaknesses of the tax system, reform the tax assessment procedure and tax administration procedure. Her study has not been related to the tax incentives and facilities.

"Contribution of income tax from public enterprises to public revenue of Nepal (with reference to Nepal Telecommunication Corporation). She has found that the contribution of tax revenue in government revenue is 77% in the income year 1998/99 and the contribution of indirect tax revenue in total tax revenue is 74% in the income year 1998/99. The contribution of tax revenue in GDP is 2.37%, which is the lowest contribution in the SAARC countries except in Bangladesh. Share of Nepal Telecommunication Corporation (at present 'Nepal Telecom') in income tax is 11.1% in the income year. Her suggestions regarding income tax system are to reward the efficient and honest persons, to give education about income tax to the taxpayers and tax officers, to motivate the persons, to take strict action to the corrupted persons, to increase the public participation in tax matters, to reduce the time period of the tax

assessment and to settlement of tax commission. She has not given any suggestion regarding the tax incentives and facilities of the Nepal Telecom. (Pradhan, 2005)

"A study on application of best judgement on income tax assessment with reference to income tax act 1974". His study has totally focused the best judgement assessment procedure, its advantages and disadvantages, its problem and prospects, its use in income tax, the conditions required for the best judgment, legal remedies of best judgment assessment etc. His finding is that a committee assessed the major of the income tax. The role of best judgment assessment is in second position i.e. its contribution is 18.36% in 1997/98, which is increased to the 23.98% in the income year. According to him, the best method of the assessment is the best judgement assessment but that method is found rarely in Nepal. According to him, the Nepalese income tax administration system is very poor due to lack of trained persons, lack of scientific equipment, lack of coordination between the concerned departments, lack of adequate efficiency and knowledge in tax personnel, lack of motivation to employers, increased nepotism and favoritism in tax offices, lack of principles for the use of best judgement assessment. He has suggested to assess the income on the basis of accounts, to form a supervisory committee to review the tax assessment, to train the persons in the income tax administration, to make compulsion the submission of income tax statement, to reduce down the assessment time from one year to three months, to made compulsion the auditing of the accounts, to reward and punish the reasonable persons and strictly implement the income tax procedure. He has not studied the tax incentives and facilities. (Shingh, 2006)

"Income tax in Nepal: A study of exemption and deductions". His findings are that the deduction facilities provided by the ITA 2058 have myopic vision. The government is not liberal enough to give the sufficient deduction facilities which are important for the well-being of the nation such as pollution control cost, research and development cost, repair and improvement cost etc. and some cost like depreciation allowance are far from the realities. The loss adjustment procedure is not sufficient enough to attract the industries. He has further found that the incentives and facilities given to encourage the establishment of industries in certain areas are not effective. They have vanished or changed names, ownership or place of the business when the tax concession facility expired. In case of income tax administration his findings are that the problems regarding the tax administrations are lack of trained employees, shortage

of income tax experts, lack of public participation, defective income tax, faulty organization etc. His suggestions regarding the industries are that the incentives should have been increased because they are not sufficient to attract industries in the remote areas. The incentives may be in the form of investment allowance of 25% per annum on the depreciable asset on straight-line basis or accelerated depreciation and a special package for the remote areas should be introduced.

Research and development expenses should be wholly exempted because research is the backbone of industrial development. Interest of the tax-exempt control entity should be wholly allowed to deduct. (Palimagar, 2007)

"Tax Incentives and Industrialization". His study is based on empirical investigations. Separate questionnaires have been developed for both the industrialist and policy maker. The coverage of the questionnaire is limited. Only 5 questions are there in each group and 12 respondents have responded in each group. He has not done any secondary investigation.

He has suggested the policy makers to know the view of the industrialists in respect of the 3 years extra holiday provision of the act and take a corrective action to attract them in the areas. But he has not recommended how they can be attracted to those areas. His view is that both the policy makers and the industrialists should go side by side to overcome this problem. He has mentioned that labours are not only the assets on industries but also the assets of this country so; they should be provided incentives for their training. To utilize the labour incentive, awareness in labour is necessary. So, labour awareness program should be provided that could pressurize the industrialists to utilize the tax credit facilities. Otherwise, they do not utilize the tax credit facilities because they think that skilled labour turnover is high. He has pointed out the need of the monitoring system to know the impact of the tax incentives to the industries, which could find out the causes of the inefficiency of the tax incentives to take the corrective actions required. (Koirala, 2007)

"Contribution of employment income to income tax revenue of Nepal". He has studied the contribution of the remuneration income in various revenue of Nepal. Both the primary and secondary data have been used in his study and found that the

contribution of employment sector is average of 0.90%, 1.15%, 4.93% and 6.28% in the total revenue, tax revenue, direct tax revenue and income tax revenue respectively in the 15 years period (from fiscal year 1987/88 to 2001/02) of his study. According to him, the contribution is satisfactory.

He has recommended increasing the direct tax revenue so as to direct the economy in the channel of development. His suggestions are that to mobilize the resources through direct tax. He has further recommended to increase the exemption level of couple and to adjust with the inflationary level of the economy. According to him, the revenue collection made internally is only sufficient to the daily administration expenses and not enough available to developmental activities. That is why; Nepal is dependent upon the foreign loans and grants. He has pointed out that the TDS system is very much effective. (Koirala, 2007)

"A study on income tax act 2001". He has studied the income tax act as a whole however; he has not studied the tax incentives and facilities to industry. His major findings are that the income tax is the suitable means of government revenue and its contribution is in third place, for economic development and it should have been mobilized. Income tax has composed by six types of taxes and the share of individuals is half of the total income tax revenue.

He has suggested to effective implementation of income tax act, to give tax education, to compulsion the auditing, to plugging the loopholes existed in the tax act, to provide incentives to the tax administrators, to allow the PCC cost wholly etc. (Shakya, 2007)

"Tax Administration In Nepal : Problems and Prospects." His findings are that the GDP ratio of Nepal is not at satisfactory level. The over all contribution of non tax revenue to the total revenue of government was less than 25 percent. Low rate of tax system directly affects the concepts of equal distribution of wealth while high rate reduces saving so much required for investment. And also there is no positive impact of income tax to reduce the gap between rich and poor because of lack of tax consciousness, small no. of tax payers, wide speared evasion of taxes and defective tax rates.

His recommendation to the government are a system has to be built to discover illegal trade and under-invoicing as well as making customs valuation system more objective and initiating systematic changes and administrative improvements. Computerization and effective exchange of information is necessary to keep up-to date records of income tax and tax payers should be allowed to pay tax to any bank, not on any specified government owned bank only. (Neupane, 2008)

"Contribution of income tax to national revenue of Nepal". He has studied the contribution of various taxes in the government revenue, tax revenue, GDP. According to him the contribution of tax revenue in the government revenue is 85.2% in the income year 1982/83 and decreased to 78.0% in the income year 2001/02. He has not studied the industrial aspect of the income tax.

His suggestions are that the objective of taxation should be growth, redistribution and stabilization of economy. So, the income tax policy should be properly formulated on the basis of critical analysis of existing situation. (Gautam, 2009)

"Income taxation in Nepal, a study of its structure and productivity". Her study has focused the structure of income tax its elasticity and buoyancy, and role of income tax administration in Nepal. She has found that the contribution of income tax in the GDP is lowest in the SAARC countries, which has shown the poor condition of Nepalese income tax system. The share of indirect tax revenue in the tax revenue is more than the double of the direct tax revenue. She has blamed that income tax procedure of Nepal is based on the traditional system and it should be modernized. She has furthered suggested to broaden the income tax base, reform the tax administration, and implement the VAT, establishment of the standardized accounting system. She also, has not studied the tax incentives and facilities to industries. (Pandey, 2009)

"Income tax in Nepal, a study of its structure, productivity and problem". He has studied the structure of income tax, its productivity and problems. His major findings related to industries are: depreciation allowance of fifteen percent to the corporate taxpayers is very low, one and two percent of deduction of the total income from trade, industry, profession and vocation for advertisement and guest hospitality respectively is seemed very low. (The limitation of the latter one has avoided in the

new ITA 2058.) He has also found out the allowances related to specific industries provided by the act is not sufficient. The specific industries are Tourism industries, co-operative organizations etc. He has also suggested not giving special allowance for export industries related to carpet and garment industries because these businesses have only for high-class investors and the small investors could not invest in these industries. (Acharya, 2009)

2.3 Research Gap

There is gap between this research and the previous research. Most of the previous researchers have focused the contribution of various income in the different government revenue, structure of the government revenue and the contribution of income tax from various sources, tax structure etc. They have found that the contribution of income tax in government revenue is significant and it should be mobilized to economic development of Nepal. Almost all of them have indicated that tax administration is inefficient and there is high level of tax evasion. Most of the researchers have suggested improving the tax administration, increasing the contribution of income tax in resource mobilization, and widening the tax coverage. But they have not study the industrial aspect of income tax.

Industries are the backbone of the economy and its growth play major role in the growth of the economy of Nepal. But, no one has studied the incentives and the facilities to industries provided by the ITA. So, the need of this research has been increased.

CHAPTER – III

RESEARCH METHODOLOGY

This chapter is related to the methodology applied in the study period of this research. Both the primary and secondary sources of data have been used in this study but the secondary data is too little. The main source of primary data is opinion survey. The respondents of the opinion survey have divided into two groups. The first group is of tax experts and consists of professors, officers of IRD, tax policy makers, officers of different ministry, chartered accountants, lawyers etc. second group is of tax payers and consists of finance officers, account officers and tax officers of different industries. The main source of secondary data is economic survey of different years. Various statistical tools are used to analyze these data. The main statistical tools used in this study are simple average, percentage and chi-square test for the hypothesis developed.

3.1 Research Design

This study is mainly based on the primary data and the legal provision of incentives and facilities to industries provided by ITA 2058.

In the analytical research the researcher has evaluated the primary data and the incentives and facilities provided by the ITA 2058 to various industries. This research has tried to analyze the tax incentives and facilities to industries on the basis of the research study, personal experience, and personal interview with tax experts and the taxpayers.

The descriptive research has tried to find out the facts and opinion about the tax incentives and facilities to industries on the basis of opinion surveys and the facts and information available to the researcher. An investigation has been done to find the facts and related data about the tax incentives and facilities provided by the ITA 2058. Descriptive research is related to this investigation and has described the facts and data.

An empirical investigation has been conducted so as to know the view of different respondents about the tax incentives and deduction facilities provided by the income tax act 2058 to industries and its application in the different sectors.

A set of questionnaire was developed and distributed to the different respondents. The respondents are divided in to two groups viz. tax experts and taxpayers and their views regarding the tax incentives and facilities as well as the suggestions and recommendations have been collected in this investigation.

Only manufacturing companies has been taken of the Butwal-Bhairahawa Industrial Corridor where more employees are working (at least 25) as tax payers and has been taken as tax experts from the different institutions who has been working at tax related for this study .

3.2 Populations of Samples

All the tax experts and the taxpayers available in Nepal are considered as population but in this study population of samples, the tax experts and taxpayers available in Butwal -Bhairahawa Industrial Corridor are considered as the targeted population. There are in total 197 manufacturing companies in the Butwal-Bhairahawa Industrial Corridor are consideration to be the total population. In this study, tax experts means Out of the targeted population, samples of 60 people have been taken randomly into consideration. Sample population is 16% of the total population of Butal Bhairahawa industrial corridor. Among them there are 30 manufacturing companies where more employees are working (atleast 25) are considered to be the sample of this study and 30 people have been taken into consideration as tax experts from the different institutions who has been working at tax related .

A set of questionnaire (Appendix no. I) has been developed and distributed to the 60 respondents and received their opinion from all respondents. The respondents are selected judgmentally from the various sectors. They are divided into two groups viz. tax experts and taxpayers. The first group includes the experts form various sectors such as chartered accountants, registered auditors, lawyers, professors, policy makers etc. and taxpayers includes the finance officers, tax officers, account officers, internal auditors etc of the manufacturing industries. Each group of respondents consists of 30 respondents. The following table shows the different denominations, number and percentages of the respondents.

The number and type of the samples are presented below.

Table: 3.1
Group of Respondents and Sample Size

| S.N. | Denominations | Total Sample | | Response Receives | |
|-------|---------------|--------------|-----|-------------------|-----|
| | | No. | % | No. | % |
| 1. | Tax Experts | 30 | 50 | 30 | 50 |
| 2. | Tax Payers | 30 | 50 | 30 | 50 |
| Total | | 60 | 100 | 60 | 100 |

The following manufacturing companies are taken as sample to fulfil the purpose of this study:

- 1 Butwal Aluminium Industries
- 2 Butwal Flour Mills Pvt. Ltd.
- 3 Nepal Everest Food and Snacks Pvt. Ltd.
- 4 Shree Mohini Hygiene Products
- 5 Mahalaxmi Mathc Industries
- 6 Gyani polytank Industries
- 7 Shrestha Plastic Products
- 8 Butwal Rubber Udhyog
- 9 Narayan Soap and Chemicals
- 10 Shiva Shakti Soap Industries
- 11 Mahakali Olio Chemicals
- 12 Honey Foods Products
- 13 Tirupati Industries Pvt. Ltd.
- 14 Tex Yarn Recycling Mills Pvt. Ltd.
- 15 Everest Rolling Industries Pvt. Ltd.
- 16 Asian Pharmaceuticals Pvt. Ltd.
- 17 Reliance paper Mills Pvt. Ltd.
- 18 Panchakanya Plastic Industries Pvt. LTD.
- 19 Paschim Himalayan Chiya Udhyog
- 20 Jagadamba Cement Industries Pvt. Ltd.
- 21 Siddhababa Distillery Pvt. Ltd.
- 22 Rainbow Distillery Pvt. Ltd.
- 23 G B Textile
- 24 Goenka Cement Industries Pvt. Ltd.
- 25 Goekna Steel Industries pvt. Ltd.
- 26 Reliance Spining Mills Pvt. Ltd.
- 27 Metal Cast Pvt. Ltd.
- 28 Nava Nepal Plastic Industries Pvt. Ltd.
- 29 Himalayan Snacks Pvt. Ltd.
- 30 Arun Foods Pvt. Ltd.

The following tax experts are taken as sample to fulfil the purpose of this study:

- 1 Kedar Nath Sharma (Tax Officer IRD Butwal)
- 2 Hari Bashyal (Tax Officer IRD Butwal)
- 3 Shiva Kumar Rai (Tax Officer IRD Butwal)
- 4 Dhanishwor Aryal (Tax Officer IRD Butwal)
- 5 Heramba Sharma Poudel(Tax Officer IRD Butwal)
- 6 Netra Prasad Gyawali (RA)
- 7 D R Sharma (RA)
- 8 Rupesh Kumar Maheshwori (CA)
- 9 Hari Man Singh Shrestha (RA)
- 10 Bhoj Raj Bhandari (RA)
- 11 Pom Narayan Gyaali (RA)
- 12 Suk Dev Gyawali
- 13 Ram Prakesh Parajuli (RA)
- 14 Rajesh Giri (CA)
- 15 Tej Prasad Subedi (CA)
- 16 Krishna Raj Adhikari (CA)
- 17 Tara Prasad Upadhya (Lecture)
- 18 Dipak Pandey (Lecture)
- 19 Binod Ghimire (RA)
- 20 Ishwori Ghimire (RA)
- 21 Achut Gyawali (Bank Manager)
- 22 Bishnu Prasad Gyawali (Bank Manager)
- 23 Bishnu Bashyal (RA)
- 24 Sheo Hari Sharma (CA)
- 25 Rabi Lal Pandey (RA)
- 26 Ram Chandra Panthi (RA)
- 27 Gunanidhi Pandey (RA)
- 28 Hem Lal Neupane (RA)
- 29 Ram Prasad Bhandari (RA)
- 30 Krishna Prasad Sharma (RA)

3.3 Nature and Sources of Data:

Both the primary and the secondary data have been used in this study. In the present study mainly primary data are used because this is descriptive research. Very few of secondary data have been used in this study. Unavailability of related secondary data is the main cause of minimum use. The secondary data are collected from the economic survey, published books, unpublished articles, news papers and annual

reports and the primary data have been collected from the opinion survey of the tax experts and the taxpayers of Butwal-Bhairahawa Industrial corridor.

3.4 Data Collection Procedure

A set of questionnaire was developed and distributed to the selected respondents. The questionnaire was distributed to various respondents personally. Additional information also has been collected from the respondents by personal interview at the time of opinion survey.

3.5 Procedure for Processing and Analysis of Data

First of all, the information and the data received from the various sources are systematically tabulated in separate table and then the statistical tools are used to achieve the desired objectives. The various statistical tools used are: simple average, percentages and chi-square for hypothesis test. Some descriptive data are analyzed on the basis of his personal experience, on the basis of study and personal interview.

The hypothesis has been test to check whether there is significant difference between the view of tax experts and taxpayers. The main tool used is chi-square test.

CHAPTER – IV

PRESENTATION AND ANALYSIS OF DATA

Presentation and analysis data is one of the most important stages of the study. In this chapter, all data or information collected from primary sources (i.e. interview, questionnaire etc.) as well as secondary sources (economic survey, internet search, annual reports etc.) are arranged, tabulated, presented, in figure and analyzed.

4.1 Legal Provision and Analysis

This chapter is devoted to the analysis of legal provision related to the tax incentives and facilities under ITA 2058. The various incentives and facilities provided by the new ITA 2058 to the industries are analyzed in this chapter so as to conclude whether the tax incentives and facilities are sufficient enough to promote industries or not.

4.1.1 An analysis of tax incentives and facilities

ITA 2058 has provided various tax incentives and facilities to industries. These incentives and facilities are analyzed below.

4.1.1.1 Tax Concessions Available to Certain Special Industries

As per the clarification clauses of Section 11, a special industry is an industry categorized under Section 3 of Industrial Enterprises Act, 1992. These industries are the manufacturing industries other than cigarettes, bidi, cigar, chewing tobacco, khaini industries and industries producing goods of similar nature utilizing tobacco as the basis raw material and alcohol or beer producing industries.

As per Section 3, the manufacturing industries are those which produce goods by utilizing or processing raw material, semi-processed materials, by products or waste products or any other goods.

The tax rate applicable to these industries is 20% in flat rate, which seems to be nominal to the larger industries but it is not suitable to small industries and export industries. To encourage the investment in small as well as the export industries, the tax rate should be minimized. It should be in progressive rate rather than flat rate.

4.1.1.2 Tax Concession to a Special Industry Having Six Hundred or More Employees {Section 11(3) (a)}

Tax concession is available to a person running a special industry, which provides direct employment to six hundreds or more Nepali citizens during the whole income year.

Direct employment mean employment by the person but it does not include the contract labour, casual labour, of part time labour.

Tax concession of 10% available to the industry, which employ 600 or more employees throughout an income year.

| Types of person | General rate applicable to a special industry | Concession rate available under this Section |
|-------------------------------|---|--|
| Entity | 20% | 18% |
| Natural person (Couple) | | |
| First Rs. 2,00,000 | 1% | 1% |
| Next Rs. 2,00,000 to 3,00,000 | 15% | 13.5% |
| Rest | 20% | 18% |
| Natural Person(Individual) | | |
| First Rs. 1,60,000 | 1% | 1% |
| Next Rs. 1,60,000 to 2,00,000 | 15% | 13.5% |
| Rest | 20% | 18% |

Source: www.ird.gov.np

Note: The concession for an industrial unit run by a natural person is available from the income year 2066-67.

Note 2. The business person who have registered own Proprietary firm should not pay above 1 (one)% tax.

One of the major problems of Nepal is unemployment and the tax concession provided to the employment oriented industries by income tax act is very much lower i.e. 10% only. Unemployment is very common in Nepal and to reduce the unemployment, industries employing more employees should be encouraged. More

tax incentives should be provided to these industries. So, the 10% rebate to the industry, which employs 600 or more, should be increased to 25%.

4.1.2 Tax Concession to Special Industries Established in Different areas

Income tax act has provided tax concession to industries established in various areas, which are presented below.

4.1.2.1 Tax Concession in Remote Area {Section 11(3) (b)}

If a person has a special industry, which has been established in an area declared as 'Remote Area' by HMG, can avail the concession of 30% of a rate applicable to a Special industry.

These districts of Nepal are declared as remote area:

- | | | | |
|---------------|-------------------|----------------|----------|
| 1. Darchula | 2. Bajhang | 3. Bajura | 4. Humla |
| 5. Jumla | 6. Mugu | 7. Kalikot | 8. Dolpa |
| 9. Mustang | 10. Manang | 11. Solukhumbu | |
| 12. Ramechhap | 13. Khotang | 14. Bhojpur | |
| 15. Achham | 16. Dailekha | 17. Jajarkot | |
| 18. Rukum | 19. Okhaldhunga | 20. Myangdi | |
| 21. Terathum | 22. Sankhuwasabha | | |

The chart of concessions available is given below:

| Types of person | General rate applicable to a special industry | Concession rate available under this Section |
|-------------------------------|---|--|
| Entity | 20% | 14% |
| Natural person (Couple) | | |
| First Rs. 2,00,000 | 1% | 1% |
| Next Rs. 2,00,000 to 3,00,000 | 15% | 10.5% |
| Rest | 20% | 14% |
| Natural Person(Individual) | | |
| First Rs. 1,60,000 | 1% | 1% |
| Next Rs. 1,60,000 to 2,00,000 | 15% | 10.5% |
| Rest | 20% | 14% |

Source: www.ird.gov.np

Note 1. The concession for an industrial unit run by a natural person is available from the income year 2066-67.

Note 2. The tax concession is available to the person only up to the tenth year of its establishment of the special industry. In case somebody else has previously used the assets of the industry, the period of use by the previous person shall also be counted as part of the ten years.

Note 3. The business person who have registered own Proprietary firm should not pay above 1 (one)% tax.

If industries are operated in remote areas, the economic activities as well as the income of the poor people increase through employment. It will consume the local productions as raw material and also help in the equal distribution of income. So, promotion of industries in remote areas is necessary but the income tax concession is very nominal i.e. 30%. Therefore, the tax concession should be increased to near about 75% to the industries established in remote areas.

4.1.2.2 Tax Concession in Undeveloped Area {Section 11(3)(b)}

If a person has a special industry, which has been established at any area declared as 'Undeveloped Area' by HMG, the person can avail a concession of 25% of a rate applicable to a special industry.

These districts of Nepal are declared as undeveloped area:

- | | | | |
|--------------|--------------------|----------------|------------|
| 1. Taplejung | 2. Rolpa | 3. Baitadi | 4. Rasuwa |
| 5. Gulmi | 6. Parbat | 7. Dadeldhura | 8. Pyuthan |
| 9. Doti | 10. Salyan | 11. Panchathar | |
| 12. Baglung | 13. Sindhupalchowk | | |

The chart of concessions available is given below:

| Types of person | General rate applicable to a special industry | Concession rate available under this Section |
|-------------------------------|---|--|
| Entity | 20% | 15% |
| Natural person (Couple) | | |
| First Rs. 2,00,000 | 1% | 1% |
| Next Rs. 2,00,000 to 3,00,000 | 15% | 11.25% |
| Rest | 20% | 15% |
| Natural Person(Individual) | | |
| First Rs. 1,60,000 | 1% | 1% |
| Next Rs. 1,60,000 to 2,00,000 | 15% | 11.25% |
| Rest | 20% | 15% |

Source: www.ird.gov.np

Note1. The concession for an industrial unit run by a natural person is available from the income year 2066/67.

Note 2.The tax concession is available to the person only up to the tenth year of its establishment of the special industry. In case somebody else has previously used the assets of the industry, the period of use by the previous person shall also be counted as part of the ten years.

Note 3. The business person who have registered own Proprietary firm should not pay above 1 (one)% tax.

As in remote areas, in undeveloped areas contribution of industries will be more beneficial but the tax concession is only 25%. Therefore, it should be increased to 50%.

4.1.2.3 Tax Concessions in Underdeveloped Area {Section 11(3)(b)}

If a person has special industry, which is established at any area declared as 'Underdeveloped Area' by HMG, the person can avail a concession of 20% of rate applicable to a special industry.

These districts of Nepal are declared as underdeveloped area:

- | | |
|------------|-----------------|
| 1. Kailali | 2. Arghakhanchi |
| 3. Surkhet | 4. Palpa |
| 5. Syangja | 6. Dhading |
| 7. Lamjung | 8. Tanahu |

- | | |
|---------------------|----------------|
| 9. Gorkha | 10. Sindhuli |
| 11. Udayapur | 12. Dhankuta |
| 13. Ilam | 14. Kanchanpur |
| 15. Bardia | 16. Dang |
| 17. Nuwakot | 18. Dolakha |
| 19. Kavrepalanchowk | |

The chart of concessions available is given below:

| Types of person | General rate applicable to a special industry | Concession rate available under this Section |
|-------------------------------|---|--|
| Entity | 20% | 16% |
| Natural person (Couple) | | |
| First Rs. 2,00,000 | 1% | 1% |
| Next Rs. 2,00,000 to 3,00,000 | 15% | 12% |
| Rest | 20% | 16% |
| Natural Person(Individual) | | |
| First Rs. 1,60,000 | 1% | 1% |
| Next Rs. 1,60,000 to 2,00,000 | 15% | 12% |
| Rest | 20% | 16% |

Source: www.ird.gov.np

Note 1. The concession for an industrial unit run by a natural person is available from the income year 2066/67.

Note 2. The tax concession is available to the person only up to the tenth year of its establishment of the special industry. In case somebody else has previously used the assets of the industry, the period of use by the previous person shall also be counted as part of the ten years.

Note 3. The business person who have registered own Proprietary firm should not pay above 1 (one)% tax.

Since, the economic activities of these areas are not as poor as in remote and undeveloped areas the tax concession of 20% to the industries established in underdeveloped areas seems to be sufficient.

Note: 1. Any industry, which has entitled to get both the tax concessions under sections 11(3) (a) and 11(3)(b) should choose either of them but not both of them.

2. The tax concession under section 11(3) (b) is only for 10 income years.

The tax concession period of 10 years to the new industries established in different areas seems to be insufficient because almost all of the new industries will be in loss in the initial years and when they pass to the stage of profit the tax concession period expires. So, the tax concession period of 10 years is not sufficient and it should be increased. It should be 15 years to the industries established in underdeveloped areas and 20 years to the industries established in the remote areas.

4.1.3 Accelerated Depreciation Facilities Available to Certain Special Industries

{Section 19, Schedule - 2}

Depreciation is the reduction in the original value of a depreciable asset due to use or obsolescence over the expected life of the asset. Depreciation is an important factor for reduction of tax liability of a person because depreciation is a deductible expense. For the purpose of calculating a person's income for an income year from any business or investment, the person is allowed to deduct the depreciation of depreciable assets owned and used by the person during the year in the production of income from the business or investment. (Amatya; 2004)

Income tax act 2058 has categorized the depreciable assets into five classes and each class includes different pools (groups). The act has also specified the rate and procedure of computing depreciation for each class. The treatment with regard to the disposal of the depreciation for each class and depreciation rate for the concerned class is as follows.

| Class | Assets Included in each class | Depreciation rate in Percentage |
|-------|---|---------------------------------|
| A | Buildings, structure and similar works of a permanent nature | 5 |
| B | Computers, data handling equipment, fixtures, office furniture and office equipment | 25 |
| C | Automobiles, buses and minibuses | 20 |
| D | Construction and earth-moving equipment, any depreciable asset not included in another class, capitalized PCC and | 15 |
| E | R&D. Intangible Assets | $\frac{1}{\text{usefullife}}$ |

ITA 2058 has provided a facility to charge additional depreciation to the special industries, entity engaged in building public infrastructure etc. This additional depreciation seems to be sufficient to industries. If the additional depreciation is more than 1/3, industry would be in higher loss in initial year, which may not be recovered in 4 years whereas the taxable income will be very high in the succeeding years due low amount of depreciation chargeable.

4.1.4 Pollution Control Cost {Section 17}

ITA 2058 has allowed deducting the expenditure made on installing the pollution control cost but it should not exceed the 50% of the adjusted taxable income. Here, the adjusted taxable income means the taxable income before deducting the pollution control cost, research and development cost and donation. The excess amount of cost or part there of, for which deduction is not allowed shall be capitalized in the block 'D' of depreciable assets and depreciated at the rate applicable to this block.

This deduction facility has two types of impact. In one hand, if the whole amount is not allowed to deduct industry may be discouraged to install pollution control device. In other hand, if whole amount allowed to deduct the industry may purchase and install this device at the income year in which the taxable income is high so as to reduce the tax liability. The excess amount can be allowed to capitalize and depreciate. Therefore, the deduction facilities given by this ITA seems to be sufficient.

4.1.5 Research and Development Cost {Section 18}

ITA 2058 has allowed deducting the expenditure made on research and development cost but it should not exceed the 50% of the adjusted taxable income. Here, the adjusted taxable income means the taxable income before deducting the pollution control cost, research and development cost and donation. The excess amount of cost or part thereof, for which deduction is not allowed shall be capitalized in the block 'D' of depreciable assets and depreciated at the rate applicable to this block.

ITA has given similar deduction facilities to pollution control cost and research and development cost. Therefore, it should be like pollution control cost.

4.1.6 Carry Forward and Set off of Industrial Losses {section 20}

ITA 2058 has allowed the business losses from the investment losses but the tax rate should be same. This facility seems to be unusual to the industry because the tax rate applicable to industry is 20% and the tax rate of investment income is 25%. So, the industry cannot set off and carry forward its losses from investment income.

On the other hand, the carry forward facility to industry and normal business is same, which seems to be inequitable. Industries need higher amount of investment and have more risk in investment than any trading business but the carry forward and set off facilities of industrial losses is similar to industries and trading business. So, the loss adjustment facility should be more liberal and it should not be less than seven years.

Unemployment is one of the major problems of developing country like Nepal. To reduce unemployment problem industrialization is one of the major tools and tax concession helps an industrialist to take more employ but it seems very much lower 10% only. To reduce unemployment, Industries should be encouraged to take more employees and tax concession should be not less than 25%. Unequal distribution of income is another major problem of Nepal. To make equal a distribution of income industries should be establish in remote part of the country and tax planning should help them by providing tax concession to the industries.

4.2 Empirical Investigation

4.2.1. Introduction

An empirical investigation has been conducted in order to find out various aspects of industrial incentives and facilities. For which, questionnaire has been developed and responses collected from the respondents. A set of 60 questionnaires has been received from the respondents out of the 75 questionnaires distributed to various respondents. Respondents have been classified into two group viz. tax experts and taxpayers. The responses received from various respondents have been arranged in a particular sequence, tabulated and analyzed in order to facilitate the descriptive analysis of this study. (See the format of questionnaire and the list of respondents in appendix A and B respectively.)

The questionnaire has been asked either for a yes/no response or choice alternatives. The following table shows the groups of respondents.

Table: 4.2.1
Groups of the Respondents

| S.N. | Groups of Respondents | Sample Size |
|------|-----------------------|-------------|
| 1. | Tax experts | 30 |
| 2. | Tax payers | 30 |
| | Total | 60 |

4.2.2 Opinion towards the Sufficiency of Tax incentives Under ITA 2058 to Attract New Industries.

To know the opinion towards the sufficiency of the tax incentives to industry under ITA 2058, a second question, "**Do you think the tax incentives provided to industries under ITA 2058 are sufficient to attract new industries?**" has been asked. The responses of the various respondents have been presented in the following table.

Table: 4.2.2**Sufficiency of tax incentives to industries under ITA 2058**

| Respondents | Yes | | No | | Total | |
|-------------|------|----|------|----|-------|-----|
| | Nos. | % | Nos. | % | Nos. | % |
| Tax Experts | 13 | 43 | 17 | 57 | 30 | 100 |
| Tax Payers | 5 | 17 | 25 | 83 | 30 | 100 |
| Total | 18 | 30 | 42 | 70 | 60 | 100 |

Source: Opinion Survey.

From the above table, it is clear that about 30 percentages of the respondents only have accepted that the tax incentives given by the ITA 2058 are sufficient to attract the new industries. It means the tax incentives provided by the new ITA 2058 to attract new industries is not sufficient enough. 70 percentages of the respondents have not accepted that the tax incentives are sufficient to attract new industries.

Test of Hypothesis: Chi-square (χ^2) test

| Respondents | Yes | No | Row Total |
|--------------|-----|----|-----------|
| Tax Experts | 13 | 17 | 30 |
| Tax Payers | 5 | 25 | 30 |
| Column Total | 18 | 42 | 60 |

Source: Table 4.2.2

Null Hypothesis, H_0 : There is no significant difference of the view between tax experts and taxpayers, regarding the sufficiency of tax incentives to industries under ITA 2058.

Alternative Hypothesis, H_1 : There is significance difference of the view between tax experts and taxpayers, regarding the sufficiency of tax incentives to industries under ITA 2058.

Test statistics: Under H_0 , the test statistic is

$$\chi^2 = \frac{(fo - fe)^2}{fe}$$

Where, f_o =Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{RowTotal} \times \text{columnTotal}}{\text{GrandTotal}}$$

Test of Hypothesis:

Calculation of χ^2 :

| (Row,Column) | f_0 | f_e | f_0-f_e | $(f_0-f_e)^2$ | $\frac{(f_0 - f_e)^2}{f_e}$ |
|--------------|-------|--------------------------------|-----------|---------------|-------------------------------------|
| (1,1) | 13 | $\frac{30 \times 18}{60} = 9$ | 4 | 16 | 1.778 |
| (1,2) | 17 | $\frac{30 \times 42}{60} = 21$ | -4 | 16 | .762 |
| (2,1) | 5 | $\frac{30 \times 18}{60} = 9$ | -4 | 16 | .1778 |
| (2,2) | 25 | $\frac{30 \times 42}{60} = 21$ | 4 | 16 | .762 |
| | | | | | $\frac{(f_0 - f_e)^2}{f_e} = 5.084$ |

Calculated $\chi^2 = \frac{(f_0 - f_e)^2}{f_e} = 5.084$

Degree of freedom = $(r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$

Level of significance, $\alpha = 5\% = 0.05$

Tabulated $\chi^2_{0.05(1)} = 3.841$

Since calculated $\chi^2 >$ tabulated χ^2 , the null hypothesis is rejected and the alternative hypothesis is accepted. Therefore, there is significant difference between the view of tax experts and the taxpayers regarding the sufficiency of tax incentives to attract new industries.

Hence, it can be concluded that the incentives given by the ITA 2058 to attract new industries is not sufficient enough and more incentives should be provided.

4.2.3 Role of Tax Incentives to Attract the Foreign Investment

To know the respondents' opinion about the role of tax incentives to attract the foreign investment in the country, a question "Is the provisions of tax incentives in the ITA 2058 are helpful to attract the foreign investment?" has been asked. The responses received from the various respondents have been tabulated as follows.

Table: 4.2.3
Sufficiency of tax incentives to attract the foreign investment

| Respondents | Yes | | NO | | Total | |
|-------------|------|----|------|----|-------|-----|
| | Nos. | % | Nos. | % | Nos. | % |
| Tax Experts | 21 | 70 | 9 | 30 | 30 | 100 |
| Tax Payers | 19 | 63 | 11 | 37 | 30 | 100 |
| Total | 40 | 67 | 20 | 33 | 60 | 100 |

Source: Opinion Survey.

From the above table, it is clear that 67 percentages of the respondents have approved that tax incentives in the present ITA 2058 helpful to attract the foreign investment and remaining 33 percentage respondents have not approved that the tax incentives are important to attract the foreign investment.

Test of Hypothesis: Chi-square (χ^2) test

| Respondents | Yes | No | Row Total |
|--------------|-----|----|-----------|
| Tax Experts | 21 | 9 | 30 |
| Tax Payers | 19 | 11 | 30 |
| Column Total | 40 | 20 | 60 |

Source: Table 4.2.3

Null Hypothesis, H_0 : There is no significant difference of the view between tax experts and taxpayers, regarding the sufficiency of tax incentives to industries under ITA 2058.

Alternative Hypothesis, H_1 : There is significance difference of the view between tax experts and taxpayers, regarding the sufficiency of tax incentives to industries under ITA 2058.

Test statistics: Under H_0 , the test statistic is

$$\chi^2 = \frac{(f_o - f_e)^2}{f_e}$$

Where, f_o =Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{column Total}}{\text{Grand Total}}$$

Test of Hypothesis:

Calculation of χ^2 :

| (Row, Column) | f_0 | f_e | $f_0 - f_e$ | $(f_0 - f_e)^2$ | $\frac{(f_0 - f_e)^2}{f_e}$ |
|---------------|-------|--------------------------------|-------------|-----------------|------------------------------------|
| (1,1) | 21 | $\frac{30 \times 40}{60} = 20$ | 1 | 1 | 0.05 |
| (1,2) | 9 | $\frac{30 \times 20}{60} = 10$ | -1 | 1 | 0.10 |
| (2,1) | 19 | $\frac{30 \times 40}{60} = 20$ | -1 | 1 | 0.05 |
| (2,2) | 11 | $\frac{30 \times 20}{60} = 10$ | 1 | 1 | 0.10 |
| | | | | | $\frac{(f_0 - f_e)^2}{f_e} = 0.30$ |

Calculated $\chi^2 = \frac{(f_0 - f_e)^2}{f_e} = 0.30$

Degree of freedom = $(r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$

Level of significance, $\alpha = 5\% = 0.05$

Tabulated $\chi^2_{0.05(1)} = 3.841$

Since calculated $\chi^2 < \text{tabulated } \chi^2$, therefore the null hypothesis is accepted. So, there is not significant difference between the view of tax experts and the taxpayers regarding the sufficiency of tax incentives to attract foreign investment.

Thus, the conclusion can be that the tax incentives given by the ITA 2058 to attract the foreign investment are sufficient enough.

4.2.4 Opinion Regarding Whether Sufficient Scope of Tax Planning Provided by Present ITA or Not

In order to know the respondents opinion about whether the scope of tax planning is sufficient or not, third question "Do you think the present ITA has provided sufficient scope in tax planning?" has been asked. The responses received from the various respondents have been tabulated as follows:

Table: 4.2.4
Sufficient scope of tax planning in industrial organizations

| Respondents | Yes | | No | | Total | |
|-------------|------|----|------|----|-------|-----|
| | Nos. | % | Nos. | % | Nos. | % |
| Tax Experts | 11 | 37 | 19 | 63 | 30 | 100 |
| Tax Payers | 3 | 10 | 27 | 90 | 30 | 100 |
| Total | 14 | 23 | 46 | 77 | 60 | 100 |

Source: Opinion Survey

From the above table, it is understood that about 23 percentages of the respondents have accepted that sufficient scope of tax planning is provided by Present ITA. Seventy seven percentages of the respondents have not agreed that the sufficient scope of tax planning is not provided by Present ITA.

Test of Hypothesis: Chi-square (χ^2) test

| Respondents | Yes | No | Row Total |
|--------------|-----|----|-----------|
| Tax Experts | 11 | 19 | 30 |
| Tax Payers | 3 | 27 | 30 |
| Column Total | 14 | 46 | 60 |

Source: Table 4.2.4

Null Hypothesis, H_0 : There is no significant difference of the view between tax experts and taxpayers'; regarding sufficient scope of tax planning that is provided by Present ITA

Alternative Hypothesis, H_1 : There is significance difference of the view between tax experts and taxpayers'; sufficient scope of tax planning that is provided by Present ITA

Test statistics: Under H_0 , the test statistic is

$$\chi^2 = \frac{(f_o - f_e)^2}{f_e}$$

Where, f_o =Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{column Total}}{\text{Grand Total}}$$

Test of Hypothesis:

Calculation of χ^2 :

| (Row,Column) | f_0 | f_e | f_0-f_e | $(f_0-f_e)^2$ | $\frac{(f_0-f_e)^2}{f_e}$ |
|--------------|-------|--------------------------------|-----------|---------------|----------------------------------|
| (1,1) | 11 | $\frac{30 \times 14}{60} = 7$ | 4 | 16 | 2.29 |
| (1,2) | 19 | $\frac{30 \times 46}{60} = 23$ | -4 | 16 | 0.7 |
| (2,1) | 3 | $\frac{30 \times 14}{60} = 7$ | -4 | 16 | 2.29 |
| (2,2) | 27 | $\frac{30 \times 46}{60} = 23$ | 4 | 16 | 0.7 |
| | | | | | $\frac{(f_0-f_e)^2}{f_e} = 5.98$ |

Calculated $\chi^2 = \frac{(f_0-f_e)^2}{f_e} = 5.98$

Degree of freedom = $(r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$

Level of significance, $\alpha = 5\% = 0.05$

Tabulated $\chi^2_{0.05(1)} = 3.841$

Since calculated $\chi^2 >$ tabulated χ^2 , the null hypothesis is rejected. Therefore, there is significant difference between the view of tax experts and the taxpayers regarding sufficient scope of tax planning that is provided by Present ITA.

Thus, the scope of tax planning under ITA 2058 is insufficient so there should be increase the scope of tax planning.

4.2.5 Relation between tax incentives and tax planning

To find out the respondents opinion about the relation between tax incentives and tax planning a question, "**Tax incentives and tax planning are interrelated**". Or "**More tax incentives more tax planning**". Do you agree with this statement?" has been asked. The responses received from the various respondents have been tabulated in the following table.

Table: 4.2.5

Positive relation between tax planning and tax incentives

| Respondents | Yes | | No | | Total | |
|-------------|------|----|------|----|-------|-----|
| | Nos. | % | Nos. | % | Nos. | % |
| Tax Experts | 14 | 47 | 16 | 53 | 30 | 100 |
| Tax Payers | 20 | 67 | 10 | 33 | 30 | 100 |
| Total | 34 | 57 | 26 | 43 | 60 | 100 |

Source: Opinion Survey

From the above table, it can be said that most of the respondents agree that tax incentives are closely related with tax planning. It is seen that the 47% of the tax experts and 67% of the tax payers are satisfied with the argument. In total 57% of the respondents think that tax incentives and tax planning are closely related each other and they are interrelated.

Test of Hypothesis: Chi-square (χ^2) test

| Respondents | Yes | No | Row Total |
|--------------|-----|----|-----------|
| Tax Experts | 14 | 16 | 30 |
| Tax Payers | 20 | 10 | 30 |
| Column Total | 34 | 26 | 60 |

Source: Table 4.2.5

Null Hypothesis, H_0 : There is no significant difference of the view between tax experts and taxpayers, regarding the relation of tax incentives and tax planning.

Alternative Hypothesis, H_1 : There is significance difference of the view between tax experts and taxpayers regarding the relation of tax incentives and tax planning Test statistics: Under H_0 , the test statistic is

$$\chi^2 = \frac{(fo - fe)^2}{fe}$$

Where, f_o =Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{column Total}}{\text{Grand Total}}$$

Calculation of χ^2 :

| (Row, Column) | f_0 | f_e | $f_0 - f_e$ | $(f_0 - f_e)^2$ | $\frac{(f_0 - f_e)^2}{f_e}$ |
|---------------|-------|--------------------------------|-------------|-----------------|-------------------------------------|
| (1,1) | 14 | $\frac{30 \times 34}{60} = 17$ | - 3 | 9 | 0.529 |
| (1,2) | 16 | $\frac{30 \times 26}{60} = 13$ | 3 | 9 | 0.692 |
| (2,1) | 20 | $\frac{30 \times 34}{60} = 17$ | 3 | 9 | 0.529 |
| (2,2) | 10 | $\frac{30 \times 26}{60} = 13$ | - 3 | 9 | 0.692 |
| | | | | | $\frac{(f_0 - f_e)^2}{f_e} = 2.442$ |

Calculated $\chi^2 = \frac{(f_0 - f_e)^2}{f_e} = 2.442$

Degree of freedom = $(r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$

Level of significance, $\alpha = 5\% = 0.05$

Tabulated $\chi^2_{0.05(1)} = 3.841$

Since, calculated $\chi^2 < \text{tabulated } \chi^2$. The null hypothesis is accepted i.e. alternative hypothesis is rejected. So, there is no significant difference between the views of tax experts and the taxpayers regarding the relation of tax incentives and tax planning.

So, it can be concluded that the opinion towards the relation of tax incentives and tax planning is same. Both tax experts and tax payers accept that tax incentive is a prime factor to influence the tax planning and off course they have positive relation.

Another supplementary question has been asked to know the respondents view to specify the causes, "If yes/no, why? Please specify". Some of the respondents, both responding yes/no, have presented some views and some of them are given below:

Responding Yes

Tax incentive increases tax planning because

-) Tax incentive encourages tax planning.
-) Tax incentive reduces tax burden if tax planned.
-) Tax incentive widens the scope of tax planning.

-) Tax incentive is itself a cause of tax planning.
-) Tax incentive increases the number investor and welcomes the new industrialist
-) Tax incentive increases the capacity of any industry.

Responding No

Tax incentives doesn't affect tax planning because

-) Main problem is not about more tax incentives but about the practice and the awareness of tax planning.
-) Tax incentives doesn't only determine the tax planning but attitude of tax payers, cooperative tax administration and tax procedures are also the causes of tax planning.
-) Tax evasion and tax avoidance are main constraints that should be minimized.
-) There are no big industries to plan tax.

4.2.6 Opinion towards the Tax Concession of 20%, 25% and 30% to the Industries Established in Underdeveloped, Undeveloped and Remote Areas

In order to know the respondents' opinion about the tax concession of 20%, 25% and 30% provided by the ITA 2058 to the industries established underdeveloped, undeveloped and remote areas respectively; a question "Is the tax concession of 20%, 25% and 30% given to new industries in underdeveloped, undeveloped and remote areas sufficient enough to diversify the investment?" has been asked. The responses received from the various respondents have been tabulated in the following table.

Table: 4.2.6

Sufficiency of tax concession of 20%, 25% and 30% to the industries established in underdeveloped, undeveloped and remote areas

| Respondents | Yes | | No | | Total | |
|-------------|------|----|------|----|-------|-----|
| | Nos. | % | Nos. | % | Nos. | % |
| Tax Experts | 20 | 67 | 10 | 33 | 30 | 100 |
| Tax Payers | 9 | 30 | 21 | 70 | 30 | 100 |
| Total | 29 | 48 | 31 | 52 | 60 | 100 |

Source: Opinion Survey

From the above table, it is clear that the about 67% of the tax experts are satisfied with the tax concession where as only 30% of the tax payers are satisfied with the tax

concession available to industries established in the various areas. As a whole, about half of the respondents have satisfied and the other half not.

Test of Hypothesis: Chi-square (χ^2) test

| Respondents | Yes | No | Row Total |
|--------------|-----|----|-----------|
| Tax Experts | 20 | 10 | 30 |
| Tax Payers | 9 | 21 | 30 |
| Column Total | 29 | 31 | 60 |

Source: Table 4.2.6

Null Hypothesis, H_0 : There is no significant difference of the view between tax experts and taxpayers, regarding the sufficiency of tax concession to industries established in different areas.

Alternative Hypothesis, H_1 : There is significance difference of the view between tax experts and taxpayers, regarding the sufficiency of tax concession to industries established in different areas.

Test statistics: Under H_0 , the test statistic is

$$\chi^2 = \frac{(f_o - f_e)^2}{f_e}$$

Where, f_o =Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{column Total}}{\text{Grand Total}}$$

Calculation of χ^2 :

| (Row, Column) | f ₀ | f _e | f ₀ -f _e | (f ₀ -f _e) ² | $\frac{(f_0 - f_e)^2}{f_e}$ |
|------------------|----------------|----------------------------------|--------------------------------|--|------------------------------------|
| (1,1) | 20 | $\frac{30 \times 29}{60} = 14.5$ | 5.5 | 30.25 | 2.086 |
| (1,2) | 10 | $\frac{30 \times 31}{60} = 15.5$ | -5.5 | 30.25 | 1.952 |
| (2,1) | 9 | $\frac{30 \times 29}{60} = 14.5$ | -5.5 | 30.25 | 2.086 |
| (2,2) | 21 | $\frac{30 \times 31}{60} = 15.5$ | 5.5 | 30.25 | 1.952 |
| | | | | | $\frac{(f_0 - f_e)^2}{f_e} = 8.07$ |

$$\text{Calculated } \chi^2 = \frac{(f_0 - f_e)^2}{f_e} = 8.07$$

$$\text{Degree of freedom} = (r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$$

$$\text{Level of significance, } \alpha = 5\% = 0.05$$

$$\text{Tabulated } \chi^2_{0.05(1)} = 3.841$$

Since, calculated $\chi^2 >$ tabulated χ^2 , the null hypothesis is rejected and alternative hypothesis is accepted. So, there is significant difference between the views of tax experts and the taxpayers regarding the tax concession to be provided to the industries established in the underdeveloped, undeveloped and remote areas.

So, it can be concluded that the opinion towards the tax concession to different areas is contradictory. Tax experts are satisfied and taxpayers are not satisfied.

4.2.7 Opinion towards the Concession Rate to be provided to Underdeveloped, Undeveloped and Remote Areas

A supplementary question to the respondents who have not satisfied with the concession has been asked. An open question, "if no, what should it be?" has been asked. Respondents have to specify the tax concessions to underdeveloped, undeveloped and remote areas. The major responses have been presented below.

Tax concession to be provided to underdeveloped areas:

Various respondents have responded that the industry established in underdeveloped area should get the exemption between the ranges of 20% to 35% but major of them have responded that tax rebate should be 30%.

Tax concession to be provided to undeveloped areas:

Various respondents have responded that the industries established in the undeveloped areas should get exemption between the ranges of 30% to 50% but the major of them have specified that the tax rate should be 50%.

Tax concessions to be provided to remote areas:

Various respondents have responded that the industries established in the remote areas should get exemption between the ranges of 50% to 100% but the major of them have specified that the tax rate should be 100%.

Conclusion: From the responses of the various respondents it can be concluded that the tax concession of 20% provided to the industries established in the underdeveloped area is almost sufficient but the tax concession of 25% and 30% to the industries established in the undeveloped and remote areas is not sufficient and it should be 50% and 100% respectively.

4.2.8 Opinion towards the Tax Rate of 20% to the Industries

To know the opinion of the different respondents about the tax rate of 20% to the industries a question "**Is 20% appropriate tax rate to industry?**" has been asked. Responses of the various respondents have been presented in the table below.

Table: 4.2.7

Appropriateness of tax rate of 20% to the industries

| Respondents | Yes | No | Total |
|-------------|-----|----|-------|
| | | | |

| | Nos. | % | Nos. | % | Nos. | % |
|-------------|------|----|------|----|------|-----|
| Tax Experts | 25 | 83 | 5 | 17 | 30 | 100 |
| Tax Payers | 19 | 63 | 11 | 3 | 30 | 100 |
| Total | 44 | 73 | 16 | 27 | 60 | 100 |

Source: Opinion Survey

Above table shows that 83% of the tax experts and 63% of the taxpayers are satisfied with the tax rate of 20%. In overall, 73% of the respondents have satisfied and remaining 27% are not satisfied.

Test of Hypothesis: Chi-square (χ^2) test

| Respondents | Yes | No | Row Total |
|--------------|-----|----|-----------|
| Tax Experts | 25 | 5 | 30 |
| Tax Payers | 19 | 11 | 30 |
| Column Total | 44 | 16 | 60 |

Source: Table 4.2.7

Null Hypothesis, H_0 : There is no significant difference of the view between tax experts and taxpayers, regarding the tax rate of 20% to the industries.

Alternative Hypothesis, H_1 : There is significance difference of the view between tax experts and taxpayers, regarding the tax rate of 20% to the industries.

Test statistics: Under H_0 , the test statistic is

$$\chi^2 = \frac{(f_o - f_e)^2}{f_e}$$

Where, f_o =Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{column Total}}{\text{Grand Total}}$$

Calculation of χ^2 :

| (Row, Column) | f_o | f_e | $f_o - f_e$ | $(f_o - f_e)^2$ | $\frac{(f_o - f_e)^2}{f_e}$ |
|---------------|-------|-------|-------------|-----------------|-----------------------------|
| | | | | | |

| | | | | | |
|-------|----|--------------------------------|----|---|--|
| (1,1) | 25 | $\frac{30 \times 44}{60} = 22$ | 3 | 9 | 0.409 |
| (1,2) | 5 | $\frac{30 \times 16}{60} = 8$ | -3 | 9 | 1.125 |
| (2,1) | 19 | $\frac{30 \times 44}{60} = 22$ | -3 | 9 | 0.409 |
| (2,2) | 11 | $\frac{30 \times 16}{60} = 8$ | 3 | 9 | 1.125 |
| | | | | | $\frac{(fo - Z \cdot fe)^2}{fe} = 3.068$ |

Calculated $\chi^2 = \frac{(fo - Z \cdot fe)^2}{fe} = 3.068$

Degree of freedom = (r-1) (c-1) = (2-1)(2-1) = 1x1 = 1

Level of significance, $\alpha = 5\% = 0.05$

Tabulated $\chi^2_{0.05(1)} = 3.841$

Since calculated $\chi^2 < \text{tabulated } \chi^2$, the null hypothesis is accepted. Therefore, there is not significant difference of the view between tax experts and taxpayers regarding the tax rate of 20% to the industries.

So, it can be concluded that tax rate of 20% to industries is appropriate.

4.2.9 Opinion towards the Tax Rebate of 10% to the Industries which has Employed 600 or More Employees

In order to know the opinion of the various respondents towards the tax rebate of 10% to the industries, which have employed 600 or more employees throughout the income year, a question "**Do you think the rebate of 10% to the industries, which have employed 600, or more is sufficient?**" has been asked. The respondents have to choose from the two alternatives 'Yes' of 'No'. The responses of various respondents have been presented in the following table.

Table: 4.2.8

Sufficiency of the tax rebate of 10% to the industries employed 600 or more employees

| Respondents | Yes | No | Total |
|-------------|-----|----|-------|
|-------------|-----|----|-------|

| | Nos. | % | Nos. | % | Nos. | % |
|-------------|------|----|------|----|------|-----|
| Tax Experts | 24 | 80 | 6 | 20 | 30 | 100 |
| Tax payers | 11 | 37 | 19 | 63 | 30 | 100 |
| Total | 35 | 58 | 25 | 42 | 60 | 100 |

Source: Opinion Survey.

From the above table, it is clear that 80% of the tax experts are satisfied and only 37% of the taxpayers are satisfied with the tax rebate of 10% to the industries, which employs 600, or more throughout an income year. In overall, 58% of the respondents are satisfied and remaining 42% are not satisfied.

4.2.10 Opinion towards the Accelerated Depreciation

In order to know the opinion of the respondents about the additional 1/3 depreciation chargeable by the industries; a question: "**Is additional 1/3 depreciation chargeable by the industries sufficient enough to industries?**" has been asked. The respondents have to select either 'Yes' or 'No'. The responses of the various respondents have been presented in the following table.

Table: 4.2.9

Sufficiency of additional 1/3 depreciation chargeable by the industries

| Respondents | Yes | | No | | Total | |
|-------------|------|----|------|----|-------|-----|
| | Nos. | % | Nos. | % | Nos. | % |
| Tax Experts | 27 | 90 | 3 | 10 | 30 | 100 |
| Tax Payers | 21 | 70 | 9 | 30 | 30 | 100 |
| Total | 48 | 80 | 12 | 20 | 60 | 100 |

Source: Opinion Survey

From the above table, it is clear that 90 percentages of the tax experts and 70% of taxpayers have satisfied with the additional depreciation chargeable by industries. As a whole, 80% of the respondents have satisfied and remaining 20% only have dissatisfied.

Test of Hypothesis: Chi-square (χ^2) test

| Respondents | Yes | No | Row Total |
|-------------|-----|----|-----------|
| Tax Experts | 27 | 3 | 30 |
| Tax Payers | 21 | 9 | 30 |

| | | | |
|--------------|----|----|----|
| Column Total | 48 | 12 | 60 |
|--------------|----|----|----|

Source: Table 4.2.9

Null Hypothesis, H₀: There is no significant difference view between tax experts and taxpayers, regarding the additional depreciation chargeable by the industries.

Alternative Hypothesis, H₁: There is a significance difference between tax experts and taxpayers, regarding the additional depreciation chargeable by industries.

Test statistics: Under H₀, the test statistic is

$$\chi^2 = \frac{(f_o - f_e)^2}{f_e}$$

Where, f_o = Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{column Total}}{\text{Grand Total}}$$

Calculation of χ^2 :

| (Row, Column) | F ₀ | f _e | f ₀ -f _e | (f ₀ -f _e) ² | $\frac{(f_o - f_e)^2}{f_e}$ |
|---------------|----------------|--------------------------------|--------------------------------|--|------------------------------------|
| (1,1) | 27 | $\frac{30 \times 48}{60} = 24$ | 3 | 9 | 0.375 |
| (1,2) | 3 | $\frac{30 \times 12}{60} = 6$ | -3 | 9 | 1.50 |
| (2,1) | 21 | $\frac{30 \times 48}{60} = 24$ | -3 | 9 | 0.375 |
| (2,2) | 9 | $\frac{30 \times 12}{60} = 6$ | 3 | 9 | 1.50 |
| | | | | | $\frac{(f_o - f_e)^2}{f_e} = 3.75$ |

$$\text{Calculated } \chi^2 = \frac{(f_o - f_e)^2}{f_e} = 3.75$$

$$\text{Degree of freedom} = (r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$$

Level of significance, $\alpha = 5\% = 0.05$

$$\text{Tabulated } \chi^2_{0.05(1)} = 3.841$$

Since, calculated $\chi^2 <$ tabulated χ^2 , the null hypothesis is accepted. Therefore, there is no significant difference view between tax experts and the taxpayers regarding the additional 1/3 depreciation chargeable by industries.

So, it can be concluded the additional 1/3 depreciation chargeable by industries is sufficient enough.

4.2.11 Additional requirement of tax incentives

To know the opinion of the different respondents about the additional requirement of tax incentives to increase the scope of tax planning, a question, **"Is there any other incentive required in ITA 2058 which increases the scope of tax planning?"** Different responses given by the various respondents have been presented in the table below.

Table: 4.2.10
Additional requirement of tax incentives

| Respondents | Yes | | No | | Total | |
|-------------|------|----|------|----|-------|-----|
| | Nos. | % | Nos. | % | Nos. | % |
| Tax Experts | 17 | 57 | 13 | 43 | 30 | 100 |
| Tax Payers | 27 | 90 | 3 | 10 | 30 | 100 |
| Total | 44 | 73 | 16 | 27 | 60 | 100 |

Source: Opinion Survey

In above table, it can be seen that 73% of the respondent have viewed that additional tax incentives is required to increase the scope of tax planning. However, only 57% of the tax experts imagine that additional tax incentives are needed. But 90% of the respondents' positive response shows that they are highly expecting the further incentives.

Test of Hypothesis: Chi-square (χ^2) test

| Respondents | Yes | No | Row Total |
|--------------|-----|----|-----------|
| Tax Experts | 17 | 13 | 30 |
| Tax Payers | 27 | 3 | 30 |
| Column Total | 44 | 16 | 60 |

Source: Table 4.2.10

Null Hypothesis, H₀: There is not significant difference of the view between tax experts and taxpayers, regarding the requirement of additional tax incentives to increase the scope of tax planning.

Alternative Hypothesis, H₁: There is a significance difference of the view between tax experts and taxpayers, regarding the requirement of additional tax incentives to increase the scope of tax planning.

Test statistics: Under H₀, the test statistic is

$$\chi^2 = \frac{(f_o - f_e)^2}{f_e}$$

Where, f_o = Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{Row Total} \times \text{column Total}}{\text{Grand Total}}$$

Calculation of χ^2 :

| (Row, Column) | f _o | f _e | f _o -f _e | (f _o -f _e) ² | $\frac{(f_o - f_e)^2}{f_e}$ |
|---------------|----------------|--------------------------------|--------------------------------|--|------------------------------------|
| (1,1) | 17 | $\frac{30 \times 44}{60} = 22$ | - 5 | 25 | 1.14 |
| (1,2) | 13 | $\frac{30 \times 16}{60} = 8$ | 5 | 25 | 3.13 |
| (2,1) | 27 | $\frac{30 \times 44}{60} = 22$ | 5 | 25 | 1.14 |
| (2,2) | 3 | $\frac{30 \times 16}{60} = 8$ | - 5 | 25 | 3.13 |
| | | | | | $\frac{(f_o - f_e)^2}{f_e} = 8.54$ |

$$\text{Calculated } \chi^2 = \frac{(f_o - f_e)^2}{f_e} = 8.54$$

$$\text{Degree of freedom} = (r-1)(c-1) = (2-1)(2-1) = 1 \times 1 = 1$$

$$\text{Level of significance, } \alpha = 5\% = 0.05$$

$$\text{Tabulated } \chi^2_{0.05(1)} = 3.841$$

Since calculated $\chi^2 >$ tabulated χ^2 . The null hypothesis is rejected. Therefore, there is significant difference view between tax experts and taxpayers regarding the requirement of additional tax incentives to increase the scope of tax planning.

So, it can be concluded that the opinion of tax experts and tax payers towards requirement of tax incentives is same. Both of them desire for the additional tax incentives.

The comments that are provided by the respondents are as follows:-

-) Sufficient export incentives should be provided to the export industries.
-) Incentives should be provided on the basis of the contribution of the industries in the government revenue.
-) As equal as industrialist, incentives should be provided to the traders who export the Nepalese products on abroad.
-) Tax rate to industry should be 10% only.
-) More incentives and facilities should be provided to the Agro based industry.
-) The industries, which have contributed significantly in respect of economic growth, employment and income distribution, should be rewarded, e.g. tax rebate, tax holidays, financial reward, loan facilities, etc.
-) Tax rate of banking and financial should be reduced to normal rate. The economic development of any country is ensured when there is developed financial sector but in Nepal the financial sector is still not developed so much, what it should be.
-) Tourism industries may be the major earner of the foreign exchange and the industries related to the tourism should be provided more incentives and facilities.

Various respondents have responded about other tax incentives requirement in such a manner the tax incentives should be increased in those industries which the respondents belongs to. For instance, the banker said that the tax incentives to banking sector should be increased; exporter said the tax incentives to exports should be increased.

4.2.12 Opinion Regarding the Other Industries which are not included in Special Category

In order to know the opinion of the various respondents that whether they know any industry, which is not, categorized as special industry but should be included in the category; a question, **"Do you know any industry that should be included in special industry but is not included yet?"** have been asked. Besides five, all of the respondents showed their unknowns regarding the industries, which is not included in the special category. Out of the five, four have mentioned the tourism and its related industries should be included in the special category. Remaining one has mentioned that the liquor and cigarettes industries should be included in the special category because they have higher contribution in the employment and revenue generation of the nation.

So, it can be concluded that the tourism and its related industries may be included in the special category.

4.2.13 Opinion towards the Industries which have Tremendous Impact in Economic Development and specially to be promoted by ITA

In order to know the opinion of the different respondents about any industry that have tremendous impact in economic development of the country and should be specially promoted by the current ITA; a question, **"In your opinion, is there any industry that has tremendous impact in economic development and should be specially promoted by the income tax act?"** has been asked. The responses of the various respondents have been presented in the following table.

Table: 4.2.11
Opinion toward any industry, which has tremendous impact in economic development of this country

| Respondents | Yes | | No | | Total | |
|-------------|------|----|------|----|-------|-----|
| | Nos. | % | Nos. | % | Nos. | % |
| Tax Experts | 15 | 50 | 15 | 50 | 30 | 100 |
| Tax Payers | 15 | 50 | 15 | 50 | 30 | 100 |

| | | | | | | |
|-------|----|----|----|----|----|-----|
| Total | 30 | 50 | 30 | 50 | 60 | 100 |
|-------|----|----|----|----|----|-----|

Source: Opinion Survey.

From the above table, it is clear that 50% of both of the respondents have suggested that there is no any industry that have tremendous impact in economy of the country and no need to be specially promoted. But the remaining 50% of the respondents view is that there are some industries, which have tremendous impact in the economic development and should be specially promoted by ITA.

4.2.14 Opinion towards difficulties to plan tax because of complicated or impractical tax incentives

To know the opinion of the different respondents about the difficulties to plan tax because of complicated or impractical tax incentives a question, " **Do you know any types of difficulties to plan tax because of complicated or impractical tax incentives?**" has been asked. Different responses given by the various respondents have been presented in the table below.

Table: 4.2.12

Difficulties to plan tax because of complicated or impractical tax incentives

| Respondents | Yes | | No | | Total | |
|-------------|------|----|------|----|-------|-----|
| | Nos. | % | Nos. | % | Nos. | % |
| Tax Experts | 17 | 57 | 13 | 43 | 30 | 100 |
| Tax Payers | 20 | 67 | 10 | 33 | 30 | 100 |
| Total | 37 | 62 | 23 | 38 | 60 | 100 |

Source: Opinion Survey

In above table, it can be seen that 62% of the respondent have viewed that there are lot of difficulties to plan tax because of complicated or impractical tax incentives. However, 43% of the tax experts and 33% of the tax payers have viewed that there is not any difficulty to plan tax because of complicated or impractical tax incentives provided by ITA 2058.

Test of Hypothesis: Chi-square (χ^2) test

| Respondents | Yes | No | Row Total |
|-------------|-----|----|-----------|
|-------------|-----|----|-----------|

| | | | |
|--------------|----|----|----|
| Tax Experts | 17 | 13 | 30 |
| Tax Payers | 20 | 10 | 30 |
| Column Total | 37 | 23 | 60 |

Source: Table 4.2.12

Null Hypothesis, H₀: There is not significant difference view between tax experts and taxpayers, regarding the difficulties to plan tax because of complicated or impractical tax incentives.

Alternative Hypothesis, H₁: There is a significance difference view between tax experts and taxpayers, regarding difficulties to plan tax because of complicated or impractical tax incentives.

Test statistics: Under H₀, the test statistic is

$$\chi^2 = \frac{(f_o - f_e)^2}{f_e}$$

Where, f_o=Observed frequency

$$f_e = \text{Expected frequency} = \frac{\text{RowTotal} \times \text{columnTotal}}{\text{GrandTotal}}$$

Calculation of χ^2 :

| (Row,Column) | F _o | f _e | f _o -f _e | (f _o -f _e) ² | $\frac{(f_o - f_e)^2}{f_e}$ |
|--------------|----------------|----------------------------------|--------------------------------|--|-----------------------------|
| (1,1) | 17 | $\frac{30 \times 37}{60} = 18.5$ | - 1.5 | 2.25 | 0.12 |
| (1,2) | 13 | $\frac{30 \times 23}{60} = 11.5$ | 1.5 | 2.25 | 0.2 |
| (2,1) | 20 | $\frac{30 \times 37}{60} = 18.5$ | 1.5 | 2.25 | 0.12 |

| | | | | | |
|-------|----|----------------------------------|-------|------|----------------------------------|
| (2,2) | 10 | $\frac{30 \times 23}{60} = 11.5$ | - 1.5 | 2.25 | 0.2 |
| | | | | | $\frac{(fo Z, fe)^2}{fe} = 0.64$ |

Calculated $\chi^2 = \frac{(fo Z, fe)^2}{fe} = 0.64$

Degree of freedom = (r-1) (c-1) = (2-1)(2-1) = 1x1 = 1

Level of significance, $\alpha = 5\% = 0.05$

Tabulated $\chi^2_{0.05(1)} = 3.841$

Since calculated $\chi^2 < \text{tabulated } \chi^2$. The null hypothesis is accepted. Therefore, there is no significant difference view between tax experts and taxpayers regarding difficulties to plan tax because of complicated or impractical tax incentives.

So, it can be concluded that the opinion of tax exports and tax payers towards requirement of tax incentives is same and both of them think that there are certain difficulties to plan tax because of complicated or impractical tax incentives.

A supplementary question to the respondents who have given their response in positive, positive respondents have to specify the areas where the difficulties occur because of complicated or impractical tax incentives. The major responses have been presented below:

-) To derive actual deductible pollution control cost, R & D cost is difficulty. Complexity in calculation has made it impractical.
-) The rebate period of 10 years is seems to be impractical because the actual benefit from the short rebate period is less than the opportunity cost
-) ITA 2058 has no clear provision regarding tax planning
-) Tax planner feels impractical tax benefits, tax concessions, etc
-) Two word –meaning words are used in Income Tax Act.
-) Tax management and administration.

4.2.15 Opinion about the Tax Incentives to Industries under ITA 2058 as a Whole

In order to know the respondents opinion about the tax incentives to industries given by ITA 2058 as a whole, a question, "**Are the incentives and facilities to the under ITA 2058 are sufficient in all respect?**" has been asked. The opinions of various respondents have been presented in the following table.

Table: 4.2.13
Sufficiency of tax incentives and facilities of ITA 2058 as a whole

| Respondents | Yes | | No | | Total | |
|-------------|------|----|------|----|-------|-----|
| | Nos. | % | Nos. | % | Nos. | % |
| Tax Experts | 26 | 87 | 4 | 13 | 30 | 100 |
| Tax Payers | 15 | 50 | 15 | 50 | 30 | 100 |
| Total | 41 | 68 | 19 | 32 | 60 | 100 |

Source: Opinion Survey.

From the above table, it is clear that in overall the incentives and facilities provided by the ITA to industry is sufficient because 87% of the tax experts and 50% of the taxpayers are satisfied with the ITA 2058 in respect of incentives and facilities to industries. As a whole, 68% view is that the tax incentives and facilities to industries are sufficient and the remaining 32% view is against.

The respondents who have not satisfied with the tax incentives to industries provided by the ITA 2058. The responses of the various respondents have been listed below.
More incentives and facilities should be provided to the agro based industries.
Incentives should be provided on the basis of contribution of the industries in the government revenue.

As equal as industrialist, incentives should be provided to the traders who exports the Nepalese product on the aboard.

From time to time incentives and facilities should be reviewed.

Tax rate to industries 20% is very high; it should be 10% only.

The industries, which have contributed significantly in respect of economic growth, employment and income distribution, should be rewarded.

Sufficient export incentives should be provided to the export industries.

Government should help to make infrastructure in remote area.

Tourism Industries may be the major earner of foreign currency and the industries related to tourism should be provided more incentives and facilities.

4.2.16 Opinion about the Effect of Pollution Control Cost and Research and Development Cost to Industries

In order to know the respondents opinion regarding the effect of the tax deduction of Pollution Control Cost and Research and Development cost by the industries; a question, "**Do you think the Pollution Control Cost and Research and Development Cost have tremendous effect in the industries?**" has been asked. The responses of the various respondents have been presented in the following table.

Table: 4.2.14
Effectiveness of PCC and R&D expenses

| Respondents | Yes | | No | | Total | |
|-------------|------|----|------|----|-------|-----|
| | Nos. | % | Nos. | % | Nos. | % |
| Tax Experts | 27 | 90 | 3 | 10 | 30 | 100 |
| Tax Payers | 26 | 87 | 4 | 13 | 30 | 100 |
| Total | 53 | 88 | 7 | 12 | 60 | 100 |

Source: Opinion Survey.

Above table shows that 90% of the tax experts and 87% accept that the deduction facilities given to the industries for pollution control cost and research and development cost have tremendous effect in the industries. In overall, 88% of the respondents have accepted and remaining 12 percent only have not accepted.

Supplementary alternatives have been given to the respondents who have positively responded in the above question. Either they have to choose Pollution Control Cost and Research and Development Cost or both of them. The choices of the various respondents have been presented in the following table.

Table: 4.2.15
Opinion about the effect of PCC and R & D expenses

| Alternatives | Tax Experts | | Tax Payers | | Total | |
|--------------|-------------|---|------------|---|-------|---|
| | Nos. | % | Nos. | % | Nos. | % |

| | | | | | | |
|--------------------|----|-----|----|-----|----|-----|
| PCC | 0 | 0 | 0 | 0 | 0 | 0 |
| R & D | 6 | 21 | 3 | 11 | 9 | 16 |
| Both PCC and R & D | 22 | 79 | 24 | 89 | 46 | 84 |
| Total | 28 | 100 | 27 | 100 | 55 | 100 |

Source: Opinion Survey.

From the above table, it is clear that both the PCC and R & D have tremendous impact to the industries. About 84% of the respondents among the positive respondents have supported that both the PCC and R & D positive impact and remaining 16 have supported the R & D cost only have impact.

Hence, For the industry both PCC and R&D are major things so both should be treated as a major components.

4.2.17 Opinion related to present tax incentive which has helped to plan tax in industrial sector

To know the view of the respondents about present tax incentives which has helped to plan tax in industrial sector a question, "**To what extant the present tax incentive has helped to plan tax in industrial sector?**" has been asked. Four options were provided and were requested to tick upon one option. The responses from various respondents are presented below:

Table 4.2.16

Opinion related to Tax Incentives and its support to Industrial Sector

| Alternatives | No. of respondent | % |
|---------------|-------------------|-----|
| a) Very much | 5 | 8 |
| b) Sufficient | 19 | 32 |
| c) Somehow | 34 | 57 |
| d) Not at all | 2 | 3 |
| Total | 60 | 100 |

The above table clearly shows that most of the respondents are not satisfied with the argument related to present tax incentive which has helped to plan tax in industrial

sector. 57% of the respondent think that current tax incentives has helped somehow to plan tax and only 32% of the respondents argue that the current tax incentives is sufficient. One respondent is very pessimistic and four respondents are very optimistic who feel that the present tax incentives are very much helpful to plan tax.

Thus, it can be concluded that although, there are many provisions for tax planning current tax incentive is not enough helpful to plan tax. Due to lack of knowledge of tax planning, lack of specialist it is not well implemented.

4.2.18 Major Findings

Followings are the major findings of the opinion survey conducted with the tax experts and the taxpayers of the industrialist.

1. The tax rebate of 20% to the industries established in the underdeveloped regions is sufficient enough whereas the rebate of 25% and 30% to the undeveloped and remote area is not sufficient and it should be increased to 50% and 100% respectively.
2. The tax rate of 20% to industries is sufficient enough and not necessary to be minimized.
3. There is contradictory view regarding the rebate of 10% to the industries, which employ 600 more employees. About half of the respondents are satisfied and other half is not satisfied. Major of the second half has viewed that the rebate should be 25%.
4. The tax incentives provided by the act to attract new investment in industries is not sufficient enough because 70% respondents have not accepted.
5. To attract the new investment in the industries, investment tax credit should be provided and tax rate should be minimized.
6. The tax incentives provided by ITA 2058 to attract foreign investment is sufficient enough because 67% respondents have accepted.
7. 77% respondents have not agreed that the Sufficient scope of tax planning is not provided by present ITA 2058.
8. 57% of the respondents think that Tax incentives and Tax planning are closely related to each other and they have positive correlation because tax incentives encourage tax planning.
9. Current tax incentives is not enough helpful for tax planning.

10. Both the deduction of pollution control cost and the research and development cost have positive impact to the industries. The additional 1/3 depreciation is sufficient enough to the industries and should not be increased.
11. Additional tax incentives are required to increase the scope of tax planning. To encourage export industries, to highlight the agro based industries, to stabilize the tourism industries, further incentives are needed.
12. Tourism and its related industries, communication network business, hydro power sector, agro based industries, professional and technical educational service industries and alcohol and beer industries (exports the product abroad) should be included in special industries.
13. Carpet and Garment industries have tremendous impact to the national economy and should be especially promoted by the ITA.
14. There are lots of difficulties to plan tax because of complicated or impractical tax incentives. They are:-
 -) ITA 2058 has no clear provision regarding tax planning.
 -) To derive actual deductible pollution control cost, R & D cost is difficulty. Complexity in calculation has made it impractical.
 -) The rebate period of 10 year seems to be impractical because the actual benefit from the short rebate period is less than the opportunity cost.
 -) Tax management and administration.
 -) Tax planner feels impractical tax benefits, tax concessions, etc.
15. Income tax incentives could not play major role in the establishment of industries but other factors such as availability of infrastructure, raw material, labour and industrial environment became same in everywhere then Tax Planning plays major role to establish new business.
16. The tax policy and the industrial policies should be stable and industrial environment should be made to promote industries.
17. In overall the tax incentives and facilities provided to industries by the ITA 2058 is sufficient.

CHAPTER – V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

Nepal is still taking its first step towards industrialization. The word industrialization in Nepal likes the hope for meeting the inherent needs of our country because of many reasons. Therefore, our different plans have been giving considerable attention to industrial growth. But industrial growth does not take place in vacuum. Besides many interrelated obstacles associated with it along with different stages of development of the country, tax incentives are important for the growth of industries that increase the economic status of the country. Therefore, for the development of industries, the nation must give incentives. It has analyzed the tax incentives provided by Income

Tax Act 2058 to know the impact to the industries, its sufficiency and other requirements.

Various books, articles, dissertations and other reference materials are reviewed in the course of this study. Almost all of the books are of descriptive in nature and fully based of the course of various level of syllabus. No one has studied in the industrial development with respect to tax planning of new ITA 2058. So, the researcher has selected the unique topic to study.

Various incentives and provisions of the income tax to industries have been studied to find out the impact of these incentives to new as well as the current industries. Meaning of tax, classification of taxes, merits and demerits of both direct and indirect tax, heads of incomes, content of business, professions, Taxation and industries, concept of tax incentives and facilities have been studied in conceptual framework of this study.

Mostly this study is based on primary data and vary few of secondary data has been used. Minimum use of secondary data is due to the unavailability of related material in secondary sources. The primary data is based on opinion survey of various two groups viz. tax experts and tax payers. Tax experts consists of Chartered Accountants, Lawyers policy makers at ministry of Finance and professors and Readers of University. Tax payers include finance officers, accountant, managers, and tax officers of various industries. A set of questionnaire has been developed and 60 questionnaires have been distributed to various respondents. Among them, 30 from the group of exports and 30 from the group of tax payers has been collected. Statistical tools like simple average, percentage, correlation and chi-square test for hypothesis have been used in this study to analyze and interpreted the various data collected.

Summary and conclusions regarding this study have been presented in this chapter. Some useful recommendations have been given in the last chapter, which are very much useful to the tax policy makers, industrialists, and general public too.

Finally, this study has been completed with the achievement of various objectives stated above.

5.2 Conclusion

After analyzing various components, some conclusions have been drawn on the basis of opinion survey, personal interview and other studies. These are presented as below.

-) The income tax incentives and facilities does not play major role in the establishment of industries but other factors such as political stability, industrial environment, administrative efficiency and availability of market, raw materials, labour, infrastructure etc. play key role in the establishment of new industries. If these facilities are available, the incentives and facilities provided by ITA may play major role in establishment of industries.
-) Investment Tax credit and investment allowance play vital role in the establishment of new industries.
-) Tax incentives to attract foreign investment are sufficient enough.
-) Tax planning is a tool of reducing financial tax avoidance and tax evasion.
-) However, sufficient tax incentives are available at present. However, Additional tax incentives are required to increase the scale of tax planning. To encourage export industries, highlight the agro based industries and stabilize the tourism industries further incentives are needed.

-) Tax concession of 25% and 30% in the underdeveloped and undeveloped area is not sufficient.
-) Tax planning is in the practice in Nepalese industries but it simply means to reduce tax amount to be paid to government.
-) 20% is appropriate tax rate to the industries but government should provided suitable environment to industry for operation.
-) The deduction facility of pollution control cost and research and development cost has been tremendous effect to achieve its objectives and industries are exploiting these facilities.
-) Due to lack of tax experts and unawareness about tax planning to industrialists, only limited industries have implemented tax planning.

-) Tax planning is not clear and is hard to understand. Two word-meaning words are in ITA 2058. Due to this reason, it is difficult for implementation.
-) Tax payers are unaware about tax incentives to industries provided by ITA 2058.
-) In overall context, the tax incentives and facilities provided by ITA 2058 are sufficient and Industrialist should be aware to implementation of tax planning.

5.3 Suggestion and Recommendation

On the basis of opinion survey, personal interview at the time of opinion survey and other studies, some measures regarding tax planning and its impact on industrial sector of Nepal under Income Tax Act 2058 have been suggested and recommended as follows:

Suggestions:

In order to know the suggestions of the various respondents regarding the tax incentives and facilities to the industries an open question has been asked. The responses received have been listed below.

-) Tax incentives are helpful for investment but major considerations are stable government policy and creation of industrial environment. If these requirements are fulfilled, whatever incentives and facilities provided by ITA 2058 seems sufficient.
-) Income tax incentives does not play vital role in establishing and/or flourishing industries. Other factors such as easily access market and raw material, market size, availability of infrastructure, availability of labour, hassle free government process, industrial environment etc. play vital role in establishing new industries. Income tax incentives only will be attractive if above mentioned factors are supportive to industries.
-) Minimize the tax rate and widen the coverage of tax.
-) Tax incentives should be given to those industries, which have greater contribution in the national income not only in percentage but also equal distribution of income.
-) A trade and/or export promotion center should be established to facilitate the industries in export.

-) Tax incentives are sufficient in the current context. ITA may bring the changes as per the policy of the government. Most of the industrialists do not come across the facilities given by the Act. This is because of unawareness about the provision of the incentives in the Act.
-) It should be studied and continuously reviewed.
-) Investment allowance or investment tax credit should be provided to new industries.
-) Incentives should be provided as per the industrial enterprise act 1992 and should not be contradiction between the income tax act and industrial enterprise act.
-) There should not be any contradiction between acts such as section-15 ka. Of industrial enterprise act and ITA.
-) Government should provide extra facility to establish industry in remote area.

Recommendation

-) Tax incentives and facilities should be provided in the new areas of Nepalese economy like Tourism sector, export based industries, Agro-based industries etc.
-) Investment tax credit and investment allowance should be provided to new industries.
-) To maximize the scope of tax planning, tax personnel and tax payers should be honest, government should encourage the tax planning schemes, because these are the facilities extended by the law to the assesses.
-) Tax rebate to industries established in remote and underdeveloped area should be increased to 100% and 50% respectively.
-) The flat rate of 20% to all industries is not equitable, so progressive rate (but not on the basis of slab, it should be on the basis of income) should be levied on the basis of income of the industries. It should be 5% to the income up to Rs. 1,00,000, 10% up to Rs 5,00,000, 15% up to Rs. 15,00,000 and 20% to more than 15,00,000 as well as tax rate 20% to export industries is high and it should be minimized. The rate should be on progressive way. It should be revised from time to time.

-) Tax concession to the industry, which employed 600 or more should not be less than 25%. But Tax Office should monitor about the nature of the Industry.
-) Pollution Control Cost and research and development cost both have tremendous effect in the industries so it should be continued
-) Tax planning is not a new term for the industrialist of Nepal but due to lack of knowledge and unhealthy practice of avoidance and evasion, it is not in well practice as desired. So effective guidelines orientations training and cooperation should be provided by concern authorities.
-) Extra incentives and facilities to be provided to agro based industries, tourism industries, software development business and import substituting business, technical and vocational training centre to develop the nation.
-) Industrial sickness is one of the serious problems of the nation. Government had done very little work for the revival of sick units. But it need more work to be done on it for the revival of sick units and extra financial incentives are required to implement this properly.
-) We found, during the course of investigation that not even in a single industry there is a separate tax section or even a tax executive. In all sample companies, matters relating to tax were looked after by a financial officer, Account officer along with his other financial and accounting functions. Considering the importance of tax planning, it is recommended that there should be a separate tax section headed by tax executive under finance department particularly in large and medium companies to discharge all function relating to tax management, including tax planning.
-) The language should be simple and clear in spite of vague meaningful words, clear-cut provisions should be made.
-) Under the existing provisions of Income Tax Act, both resident and nonresident companies in Nepal are required to pay tax at the same flat rate. Thus, no distinction is made between domestic company and foreign company so far as the tax is concerned. A domestic company pays tax on worldwide income, while a foreign company is required to pay tax on income earned in Nepal only. Therefore, the former should be taxed at lower rate than the later.
-) The contradiction between the Income Tax Act and Industrial Enterprises Act should be eliminated.

-) Tax awareness program should be conducted from time to time to make aware about the tax planning and tax management to current tax payers and potential investors.
-) In one way, tax planning is a way of maximum utilizing the tax incentives and tax facilities provided by ITA and reducing tax burden. By another way, it is an element to empower industrial practice. So, tax incentives should be recommended to increase and also recommended to raise the tax planning practice.

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APPENDIX - I

Dear Sir,

I am a student of Lumbini Baniija Campus, T.U. studying in the final year of M.B.S.

As you know, the students of this level have to write a dissertation on the subject of their specialization. Being a student of accountancy stream, I have determined to present a dissertation on taxation. The topic approved for me by Lumbini

Banijya Campus Tribhuvan University is 'A Study of AN ANALYSIS ON TAX INCENTIVE AND ITS EFFECT ON TAX PLANNING IN THE INDUSTRIAL SECTOR IN THE PERSPECTIVE OF INCOME TAX ACT 2058.'

I have enclosed a questionnaire with this cover letter. I request you to fill up the questionnaire as per the instruction given on the top of the questionnaire. It would be a matter of great pleasure for me if you kindly respond me back in spite of your busy and valuable time schedule. Your responses will be of great important to my study.

I assure you that your responses will be kept confidential.

I am looking forward to your kind cooperation and support in this study.

Thank You.

Yours Sincerely,

Ruk Bahadur Tandan
Lumbini Banijya Campus
Tribhuvan University
T.U. Regd. No. . 7-1-49-911-97

QUESTIONNAIRES

Name of the respondent:

Position:

Department:

Office/Organization:

Please put tick mark () for your answer

1. Do you think the tax incentives provided by ITA 2058 to industries are sufficient to attract new industries?

Yes [] No []

2. Is the provisions of tax incentives in the Income Tax Act 2058 are helpful to attract the foreign investment.
Yes [] No []
3. Do you think the present income tax act has provided sufficient scope in tax planning?
Yes [] No []
4. Tax incentives and tax planning are interrelated." Or "More tax incentives more tax planning". Do you agree this statement?
Yes [] No []
5. Is the tax concession of 20%, 25%, and 30% given to new industries in underdeveloped, undeveloped and remote area sufficient enough to diversify the investment?
Yes [] No []
6. Is 20% is appropriate tax rate to industry?
Yes [] No []
7. Do you think the rebate of 10% to the industries, which have employed 600, or more is sufficient?
Yes [] No []
8. Is additional 1/3 depreciation chargeable by the industries sufficient enough to industries?
Yes [] No []
9. Is there any other incentive required in Income Tax Act which increases the scope of the tax planning?
Yes [] No []
10. Do you know any industries that had to be included as special industry but are not included yet?
Yes [] No []

11. In your opinion, is there any industry that has tremendous impact in economic development and should be specifically promoted by the Income Tax Act?

Yes [] No []

12. Do you know any difficulties to plan tax because complicated or impractical tax incentives?

Yes [] No []

13. Are the incentives and facilities to the industries under ITA 2058 are sufficient in all respect?

Yes [] No []

14. Do you think the **PCC** and **R & D** have tremendous effect in the industries?

Yes [] No []

if yes, what is it?

a) **PCC** []

b) **R & D** []

c) both **PCC** and **R & D** []

15. To what extent the present tax incentive has helped to plan tax in industrial sector?

Please, tick.

a) Very Much b) Sufficient c) Somehow d) Not at all

16. Do you have any suggestion regarding tax incentives and facilities to industries?

if have, please specify in the following.

.....
.....

.....
.....
Thank You

CURRICULM VITAE

A. PERSONAL DETAILS

Name : Ruk Bahadur Tandan
Permanent Address : Butwal - 13, Rupandehi
Contact No. : 9847036223
Date of Birth : 2038/05/18 B.S.
Nationality : Nepali

Religion : Hindu
Marital status : Married

B. EDUCATIONAL QUALIFICATION

| S.N. | Board/Institution | Level | Passed Year | Division/ Percentage | Major Subject |
|-------------|---|--------------|--------------------|-----------------------------|---|
| 1 | HMG Board (Shree Shringa Janata Sec. School, Gulmi) | S.L.C | 2053 | 2 nd (57.28) | History, Geography, Science |
| 2 | T.U. (Tribhuvan Multiple Campus, Palpa) | PCL | 1999 | 2 nd (48.70) | Account, Economics, Marketing |
| 3 | T.U. (People's Campus, Kathmandu) | BBS | 2004 | 2 nd (45.21) | Account, Taxation, Marketing, Economics |
| 4 | T.U. (Lumbini Banijya Campus, Butwal) | M.B.S. | 2064 | - | Account & Taxation |

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